2012 **OSC Annual Report**

OSC

ONTARIO
SECURITIES
COMMISSION

Table of Contents

Chair's Message 1

Executive Director's Letter 4

The Commission 7

Strong Investor Protection 11

OSC Year In Review 14

- OSC Strategic Direction 14
- Emerging Markets Issuer Review 15
- Proactive Enforcement 16
- Culture of Compliance 19
- Maple Group Application for TMX Group 21
- Evolving Market Oversight 22
- Shareholder Democracy 24
- International Co-operation 25

Quality Capital Markets 27

Management's Discussion and Analysis 31

- Financial Statements 44

The Ontario Securities Commission (OSC) administers and enforces securities legislation in the province of Ontario. The OSC's statutory mandate 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.

Chair's Message

What does it mean to be a 21st century securities regulator? This is a simple question, but the answer is anything but simple. The global capital markets have experienced more change in the first part of this century than during any previous period and securities regulators, to fulfill their mandates, must respond appropriately while avoiding over-regulation. This is why, in 2011-12, the Ontario Securities Commission challenged itself, as an organization, to become a more agile and strategic regulator. We have adopted a greater sense of urgency in all aspects of our work to ensure that investors are treated fairly and markets are orderly and efficient.

Interconnected Markets, Evolving Regulation

Capital markets have become increasingly interconnected by technology, business models, investment flows and human interactions. The breadth and volume of market activity is expanding in step with rapid technological innovations, including high-frequency trading, and the proliferation of new products, such as exchange-traded funds. Capital travels faster within multiple marketplaces that span jurisdictional borders, relying on advanced infrastructure platforms and trading systems. Emerging market countries have a growing influence on international capital flows and are leveraging technology to open new marketplaces. The efficiency and integrity of our capital markets play a growing role in supporting the growth and development of our economy.

Securities regulators around the world must come to grips with this new reality as it presents challenges to certain traditional approaches to regulation, especially the need to understand and regulate complex trading strategies and products as well as cross-border matters in compliance and enforcement. The interconnectedness of markets also creates systemic risk within the wider financial framework, and securities regulators have assumed a key role in maintaining its stability.

One response to the evolving global regulatory regime has been the commitment by prudential and securities regulators to work with central banks to extend oversight and implement reforms, in areas such as the regulation of over-the-counter (OTC) derivatives, to reduce the likelihood of another financial crisis. G20 nations have increased their coordination to drive significant regulatory reforms at the international level while Canada and other countries such as the United States, United Kingdom, Japan, Brazil and members of the European Union have launched domestic reform initiatives. Indeed, reforms are being adopted at such a pace that regulators need to mitigate possible unintended consequences from implementing new rules. This requires a strong focus among regulators on the consistent implementation and monitoring of international standards in local jurisdictions, where appropriate.

In Canada, the OSC works with the Canadian Securities Administrators (CSA) to sustain a more efficient national system that supports the Canada-wide interests of investors, market participants and the economy. As a CSA member, the OSC co-operates with its provincial and territorial counterparts on numerous national initiatives to harmonize the regulation of Canada's capital markets. We endeavour to sustain a strong securities regulatory framework that fosters safe and competitive capital markets for all Canadians.

This is the environment in which the OSC regulates the capital markets of Ontario. We are mandated to provide protection to investors and foster confidence in the fairness and efficiency of markets while operating in the context of fast moving changes to market structures, technology, investment products and the global regulatory regime.

Our Strategic Direction

The OSC has embraced the challenge to be a leading regulator that is more focused, proactive and efficient. Our new strategic direction is fundamentally about leadership. The OSC regulates the largest share of Canada's capital markets and, understandably, investors and market participants expect leadership from us. The OSC is ensuring that it has the appropriate institutional capacity, expertise and skills to deal with the issues and challenges facing securities regulators.

A 21st century securities regulator is informed by analysis of evolving markets, rigorous risk management and a good understanding of investor perspectives, all of which contribute to disciplined policy-making. A better informed regulator is, in turn, more effective in anticipating and responding to market trends and developments, especially when there is the potential for harm to investors.

The OSC continues to challenge itself to deliver effective regulation on behalf of investors. The essence of investor protection is fairness, which has traditionally relied on disclosure requirements but now regulators are motivated to intervene earlier to prevent unsuitable products from entering the marketplace and being sold to investors. In enforcement, we are more proactive in using protective orders, outreach initiatives and other actions to protect investors. Quality, safe capital markets, with rules that investors are confident are fair and enforced, encourage investment, innovation and economic growth. The core of our strategic approach to fulfilling the OSC's mandate is to better protect investors while working to foster orderly and competitive capital markets in Canada.

Momentum for Progress

This Annual Report provides details about many of the OSC's outcomes and activities and here I want to highlight certain initiatives that particularly demonstrate momentum in pursuing our mandate:

1. Our commitment to bring more cases before the Ontario Court of Justice resulted in a record number of jail sentences in 2011-12. In total, the OSC secured jail sentences for eight individuals who breached Commission orders or other violations of the *Securities Act* (Ontario). Enforcement staff have also taken on complex international cases that pose unique challenges related to geography, language, culture and access to records.
2. Our Emerging Markets Issuer Review assessed the quality and adequacy of the disclosure and corporate governance practices of 24 emerging markets issuers, and examined the manner in which they accessed Ontario's markets. The review raised significant concerns relating to governance, auditing and listing practices and we are working with other regulators and gatekeepers to address these concerns in order to protect investors.
3. We are considering whether to introduce more targeted prospectus exemptions to facilitate capital-raising for business enterprises in Ontario, while protecting the interests of investors in small- and medium-sized companies. The venture market is a dynamic sector of the provincial economy and proportionate regulation of small- and medium-sized issuers will promote compliance as well as cost-effective capital formation.
4. We have conducted an extensive review of the proposed Maple Group application to acquire TMX Group, which would fundamentally change Canada's financial market infrastructure, and published proposed recognition orders that are subject to terms and conditions to protect the public interest.[†]
5. Our work with the Bank of Canada, federal Department of Finance, Office of the Superintendent of Financial Institutions and the CSA has kept Canada on schedule to meet its G20 commitments to mitigate systemic risk, in particular, by developing regulatory regimes for OTC derivatives. This has involved the CSA working to establish a comprehensive harmonised framework for OTC derivatives regulation which balances the need to meet international commitments with the needs of individual market participants in Canada. The OSC's contributions also include the introduction of a regulatory framework for the OTC derivatives market in Ontario, as well as initiatives to improve the regulation of shadow-banking entities.

† On July 4, 2012, the Commission published final orders that recognized Maple Group Acquisition Corporation, TMX Group Inc., TSX Inc., Alpha Trading Systems Limited Partnership and Alpha Exchange Inc. as exchanges, and also recognized Canadian Depository for Securities Ltd. and CDS Clearing and Depository Services Inc. as clearing agencies. Both orders are subject to terms and conditions.

International Engagement

Increasingly, the OSC must deal with regulatory matters that are international, not only provincial or national, in their scope, such as the oversight of emerging markets issuers and the regulation of OTC derivatives. The OSC and authorities in other countries often face similar challenges that require collaborative, not individual, policy responses. More so than ever before, the OSC regulates within the context of a global marketplace, which underlines the imperative of engaging with our international counterparts, especially through the International Organization of Securities Commissions (IOSCO), to deliver proactive regulation. We contribute directly to the multinational reform agenda on matters that affect investors and market participants across this country.

Right Regulation for 21st Century Markets

Our 2012 Annual Report details many of the OSC's accomplishments but we are mindful that we have more work to do. We will always strive to make the necessary strategic improvements to securities regulation in Ontario and to influence the development of macro policy and standards at the international level. We will succeed at being a more strategic regulator by taking on major challenges and doing what is right to protect investors, foster fair and efficient capital markets and promote confidence in those markets.

I want to thank the members of the Commission, Vice-Chairs James Turner and Mary Condon, Executive Director Maureen Jensen, management and all of the staff of the OSC for their hard work and support for our new strategic direction. The OSC has a focused and dedicated team that is strengthening the organization as a 21st century securities regulator and delivering results on behalf of investors and market participants.

Howard I. Wetston, Q.C.
Chair and Chief Executive Officer

Executive Director's Letter

At the end of my first year as Executive Director, I am pleased to report that the OSC is moving in an exciting direction. In today's dynamic operating environment, the OSC has committed itself to being an increasingly strategic regulator and a more outcomes-based organization. We have strengthened how we work to better deliver on our priorities and goals, and we have become more accessible and accountable to our stakeholders and the public. We accomplished a great deal in the 2011-12 fiscal year and our momentum is continuing into 2012-13.

Launch of OSC Strategic Plan

Our new Strategic Plan, published on February 29, 2012, is our road map for becoming a proactive, agile and effective securities regulator. Staff across the OSC were engaged in the planning process and made valuable contributions to the Strategic Plan. The Strategic Plan is now influencing programs throughout the organization and strengthening the OSC's operations and core functions.

Investor Focus: The creation of a new Office of the Investor within the OSC was one of the first priorities in our Strategic Plan. The Office will be launched in July 2012 and work with the OSC's Investor Advisory Panel, the Investor Education Fund, other regulators, advocacy groups and our own staff to deepen our understanding of investor concerns and help us prioritize issues. A stronger focus on engaging investors will allow us to incorporate their perspectives more directly into our policy agenda.

Expanded Research and Analysis: We have also created a new Research and Analysis Group within the OSC to increase our understanding of activity, trends and risks in the markets and the issues facing investors. Staff are involved in a number of research projects, including:

- An analysis of the cost of market data in Canada;
- Research on how many Canadians qualify for the current Accredited Investor thresholds (as part of the Canadian Securities Administrators' (CSA) review of prospectus exemptions);
- A review of exempt market activity to better understand how the exempt market is used to raise capital;
- An evaluation of the impact of equity market developments on the quality of our secondary markets;
- A project to gauge the extent of broker internalisation of order flows in Canada; and
- Research into how to better inform investors about the potential risk associated with mutual fund investments.

A stronger commitment to research and analysis will produce the qualitative and quantitative evidence required to inform us in developing an increasingly focused and disciplined policy agenda.

Improved risk identification and management: We are forming an Emerging Risk Committee to develop and implement a framework for the identification and analysis of risks. This committee will work with the Research and Analysis Group and other staff to identify, analyze and mitigate emerging risks.

Emerging Markets Issuer Review

In 2011-12, we conducted an eight-month review to assess the quality and adequacy of the disclosure, board and audit committee practices of 24 Ontario reporting issuers that were listed on Canadian exchanges and had significant business operations in emerging markets. Our Emerging Markets Issuer Review (EMIR) identified significant concerns about compliance with applicable standards for disclosure, issuer governance, board oversight, audit practices and due diligence practices. The emerging market issuers, their auditors and underwriters, and the exchanges are expected to address our concerns, which were set out in a report released on March 20, 2012. At the same time, we are working with other regulators, the TMX Group, Canadian Public Accountability Board and gatekeepers to make necessary improvements in order to protect investors. We are also integrating the findings of the review into our broader policy and operational activities.

Enforcement That Gets Results

Our intensified enforcement program produced solid results in 2011-12, including a record number of jail sentences in cases before the Ontario Court of Justice, greater use of protective orders and proactive investor outreach, such as warnings about activities that may pose risks to investors. The Enforcement Branch is increasing its expertise in conducting multi-jurisdictional investigations, which present challenges related to geography, access to records and inter-agency co-operation. In the face of complex international investigations and changing markets, we know we need to enhance our efficiency and effectiveness. We have also engaged stakeholders in a discussion about several enforcement policy proposals designed to resolve matters more efficiently and to enhance our enforcement outcomes.

Fostering Compliance Through Outreach

OSC staff are expanding their outreach to registrants and reporting issuers as part of our approach to foster a culture of compliance. By working with registrants and issuers, we strive to prevent non-compliance by providing guidance, outreach and communications. Examples of educational outreach programs in 2011-12 include our seminars on the transition to adopting International Financial Reporting Standards by smaller issuers and assistance for mining companies to help them understand the requirements for technical and environmental disclosure. Staff have also issued guidance on numerous topics such as concerns about the sale of exempt securities to non-accredited investors.

In 2012-13, we plan to continue taking a more preventative approach to compliance oversight, especially in response to significant investor issues and market developments. The OSC expects all registrants and reporting issuers to comply with disclosure requirements and adopt good governance practices to set the appropriate "tone at the top". In the event of serious non-compliance, staff will take appropriate action, which can include imposing terms and conditions on a registration, suspending a registrant, requiring an issuer to restate or re-file financial statements, recommending a cease trade order, refusing to issue a receipt for a prospectus, or by referring the issue to the Enforcement Branch.

Leadership on Policy Development

OSC staff are playing a leading role to help shape the development of global standards and national rules that will benefit Ontario's investors and markets. The OSC is co-operating with the CSA and its international counterparts on numerous policy initiatives, including:

- Proposals for cost disclosure and performance reporting by dealers and advisers in Canada would enhance the transparency of information provided to investors;
- The first phase in modernizing the regulation of publicly-offered investment funds with the CSA in order to make the framework more effective in an increasingly innovative marketplace;
- A new regime for the oversight of credit rating organizations in Canada that requires adherence to compliance and filing requirements and rules concerning conflicts of interest, governance and conduct;
- Consideration of several policy initiatives to facilitate expanded engagement and empowerment of shareholders; and
- A new regulatory framework for dark liquidity that encourages healthy price discovery was published jointly by the CSA and Investment Industry Regulatory Organization of Canada (IIROC).

Consultative Committees and OSC Dialogue

In 2011, the OSC renewed its commitment to an active dialogue with all stakeholders. We created two new advisory committees, the Investment Funds Product Advisory Committee and the Market Structure Advisory Committee, and recruited new members for some of our other committees, including the Small and Medium Enterprises Committee. Each of the eight existing OSC advisory committees serves as a forum for staff and stakeholders to discuss issues associated with their respective areas of regulation. The committee membership offers a wealth of experience and knowledge to the consultations, which result in valuable contributions to policy and rule-making initiatives. We also continue to support the Investor Advisory Panel in its work to engage the views of investors to provide input on OSC policy initiatives.

This past year, we reinstated our annual conference as part of our commitment to be open and accessible. On November 1, 2011, OSC Dialogue attracted more than 300 delegates to hear discussions on important issues related to securities law enforcement, market infrastructure, mergers and acquisitions, and investor protection. We see OSC Dialogue as an important forum to update and consult stakeholders and our next conference is scheduled for October 30, 2012.

Enhanced Transparency on Collections of Monetary Sanctions

In January 2012, we began posting on our website a list of respondents who are delinquent in the payment of monetary sanctions that the Commission imposed for violations of Ontario securities law or for conduct that is contrary to the public interest. The delinquent respondents list is being updated on a quarterly basis. The Management's Discussion and Analysis (MD&A) section of this Annual Report includes additional details about the collection of monetary sanctions by the OSC.

Attractive, Modern, High-Performing Workplace

The OSC continues to modernize its processes, strengthen its leadership capacity, engage our staff about OSC regulatory and work environments, and align our resources to our priorities and strategic direction. Examples include:

- Engaging employees in the implementation of our Strategic Plan and putting processes in place to align individual employee goals with the OSC's strategic direction and goals;
- Introducing expectations for leadership at all levels and supporting implementation through a new leadership development program;
- Increasing the use of internal secondments to build increased organizational capability and promote organizational integration;
- Developing performance measures to track and report on the outcomes of OSC activities against its goals and priorities; and
- Integrating IT tools to assist in the gathering, monitoring and analyzing of data and automating areas of work that are now manually intensive.

Supporting the development of management and staff will improve the efficiency and effectiveness of the OSC as it endeavours to fulfill its mandate and achieve its organizational goals.

The Year in Review section of this Annual Report contains more details of the accomplishments of the OSC.

Focused Regulation, Modern Organization

In 2012-13, we will continue to work smarter and more efficiently in the interests of investors, market participants and other stakeholders. We will also continue to work to align Ontario's regulatory regime with appropriate national and international reforms, anticipating emerging issues in the marketplace and integrating a focus on investor protection into everything that we do. To get the job done, the OSC is relying on its greatest strength: the team of people here who work so hard to achieve the OSC's objectives and fulfill its mandate. I want to thank Chair Howard Wetston, the Commission, management and all of the staff of the OSC for their service to investors and market participants. I am delighted to be part of a team that is so capable and dedicated to investor protection and to fostering fair, efficient and competitive capital markets.

Maureen Jensen

Maureen Jensen
Executive Director and Chief Administrative Officer

The Commission

The Commission is responsible for regulating the capital markets in Ontario and its statutory mandate is to provide protection to investors and to foster fair and efficient capital markets and confidence in those markets. As a securities regulator, the Commission administers and enforces securities and commodity futures laws in Ontario, including the *Securities Act* and *Commodity Futures Act*. The Members of the Commission, acting as its board of directors, oversee the management of the OSC's governance, financial and other affairs. This section of the OSC Annual Report features highlights of the Commission's activities in 2011-12.

OSC Strategic Plan

The Board was actively involved in the development and approval of the OSC's new strategic direction, in keeping with the Board's responsibility to oversee the organization's strategic objectives and operating plans and budgets. The Board has worked closely with the executive team, management and staff on how to make the OSC an increasingly efficient, accountable and high-performing regulator.

Policy Initiatives

In its regulatory role, the Commission is actively involved in major regulatory and policy initiatives, including:

- The Commission held a two-day public policy hearing from December 1-2, 2011, to hear oral submissions on Maple Group Acquisition Corporation's application to acquire TMX Group Inc. The submissions assisted the OSC's extensive regulatory review of the application, including the development of proposed recognition orders that were published for comment on May 3, 2012. Those proposed orders are subject to terms and conditions that the Commission considers to be in the public interest.[†]
- On October 21, 2011, the OSC announced four policy proposals designed to enhance the OSC's enforcement regime for the benefit of investors and the capital markets, including enhancements to the credit for co-operation program and a new no-contest settlement program. The proposals were published for public consultation and the Commission intends to conduct a hearing in 2012 to seek additional feedback.
- The Commission is also involved in a range of policy initiatives that are at various stages of development, including requirements for cost disclosure and performance reporting for dealers and advisers, implementation of point of sale disclosure for mutual funds (Fund Facts) and reviews of the proxy voting system and exempt market prospectus exemptions.

[†] On July 4, 2012, the Commission published final orders that recognized Maple Group Acquisition Corporation, TMX Group Inc., TSX Inc., Alpha Trading Systems Limited Partnership and Alpha Exchange Inc. as exchanges, and also recognized Canadian Depository for Securities Ltd. and CDS Clearing and Depository Services Inc. as clearing agencies. Both orders are subject to terms and conditions.

ABCP Settlement Funds

The Commission approved a plan developed by staff of the OSC and the Investment Industry Regulatory Organization of Canada (IIROC) for the distribution of funds to eligible investors who purchased third-party asset backed commercial paper (ABCP) from six banks and investment dealers. The distribution will involve approximately $59.9 million in monies collected in enforcement settlements agreed to by the banks and dealers in 2009 following the ABCP market freeze. On April 12, 2012, the OSC and IIROC announced the appointment of Ernst & Young Inc. to administer the distribution, which is to be done in a timely and transparent manner.

Investor Advisory Panel

The Investor Advisory Panel (IAP) was appointed by the Commission in August 2010 to represent the views of investors and provide input on the Commission's policy initiatives, including proposed rules and policies, the annual *Statement of Priorities*, concept papers and other issues. The seven-member IAP, which is the first advisory panel of its kind in Canada, has been an active contributor to the OSC's policy- and rule-making process. In 2011-12, the IAP provided valuable input to the Commission on numerous issues and initiatives that have the greatest impact on retail investors, including:

- Point-of-sale disclosure for mutual funds;
- Cost disclosure and performance reporting for investors;

- OSC enforcement policy proposals;
- The role of the Ombudsman for Banking Services and Investments; and
- Shareholder democracy.

The IAP's outreach and consultations with retail investors and industry experts generated substantial feedback on the regulation of capital markets from the perspective of investors. One of the IAP's priorities for 2012 is to develop innovative ways to engage Ontario investors and communicate with the public.

Leadership Development

The Commission supports leadership development throughout the OSC, not only during the performance management process but also by creating opportunities for professional development. For example, a special training series, OSC Academy, was launched for staff in September 2011 in partnership with the Osgoode Hall Law School Professional Development Centre. Sessions have covered topics such as ethics, financial market infrastructure and enforcement. While sessions can count toward continuing professional development requirements for OSC lawyers and accountants, all staff are encouraged to attend and participate.

Guide to Enforcement Proceedings

In 2011-12, the Commission published a Guide to Enforcement Proceedings and Frequently Asked Questions about Hearings to assist parties appearing before adjudicative panels. The guide explains how Enforcement staff conduct enforcement investigations and how adjudicative proceedings are conducted before tribunals of the Commission, including:

- How a proceeding is commenced;
- Settling with Enforcement staff;
- Preparing for a hearing on the merits;
- How cases are presented at hearings;
- How decisions are made; and
- How sanctions are imposed.

The guide and FAQs are intended to assist respondents in Enforcement proceedings but may also be useful for witnesses and others who may be involved in an investigation or proceeding.

Litigation Assistance Program

The Commission believes that facilitating greater access by respondents to expert legal services will advance the Commission's objective of fostering the fair, impartial and efficient operation of adjudicative proceedings. The OSC is participating in a one-year pilot Litigation Assistance Program (LAP) that is intended to provide volunteer legal counsel to unrepresented Respondents appearing in enforcement proceedings before the Commission (other than hearings on the merits). The LAP began operations in October 2011 and any unrepresented respondent may apply for legal advice on a first-come, first-serve basis subject to the availability of volunteer counsel. These counsel are drawn from the legal counsel at five participating law firms. The Commission appreciates the co-operation demonstrated by the Bar and OSC Enforcement staff in conducting this pilot project, which is being monitored and assessed throughout its initial year.

Adjudicative Matters before the Commission

Members of the Commission, except the Chair, preside over the OSC's administrative proceedings, acting as independent adjudicators. The Commission continues to improve the efficiency of its case management processes and has had success in reducing the amount of time devoted to procedural matters. The Commission conducted its first electronic hearing in 2011, with the objective of using such hearings to increase the efficient management of hearings and related documents. In 2011-12, OSC staff commenced 24 proceedings before the Commission, alleging wrongdoing by a total of 103 respondents. The Commission concluded a total of 39 settlement and contested hearings, involving a total of 125 respondents, in the fiscal year.

Adjudicative Activities of the Commission

Type of adjudicative proceeding		
	Number of sitting days per fiscal year*	
	2010–11	**2011–12**
Contested hearings on the merits (Includes sanctions hearings and hearings in writing)	136	**128**
Settlement hearings	25	**41**
Hearings on temporary cease trade orders	29	**30**
Motions and other interlocutory matters	16	**14**
Applications Includes applications for review, applications relating to take-over bids and applications under section 17 (disclosure), section 144 (revocations or variations of decisions), and section 127(10) (inter-jurisdictional enforcement) of the *Securities Act*.	8	**18**
All other matters (Includes pre-hearing conferences, appearances, etc.)	57	**49**
Total	271	**280**

* More than one sitting day can occur in one calendar day as a result of multiple proceedings.

Appointments to the Commission

Three new appointments were made to the Commission in 2011-12, in accordance with the procedures of the provincial government's Public Appointments Secretariat. Sarah Kavanagh and Judith Robertson were appointed Members of the Commission and Mary Condon was appointed a Vice-Chair. These appointments, each for a term of two years, enhanced the collective expertise and skills of the Commission, particularly in the areas of securities law, market infrastructure and investment banking.

More information about the Members of the Commission is available on the OSC website (www.osc.gov.on.ca).

Terms of Members of the Commission		
(As at March 31, 2012)	Appointed	Current term expires
Sinan O. Akdeniz	September/09	September/12
James D. Carnwath	August/09	August/12
Mary G. Condon	June/11	June/13
Margot C. Howard	December/06	December/12
Sarah B. Kavanagh	June/11	June/13
Kevin J. Kelly*	December/06	December/12
Paulette L. Kennedy	April/08	March/13
Edward P. Kerwin	January/11	January/13
Vern Krishna	October/10	October/12
Christopher Portner	December/10	December/12
Lawrence E. Ritchie**	February/07	February/14
Judith N. Robertson	June/11	June/13
C. Wesley M. Scott	September/09	September/12
James E. A. Turner	February/07	February/15
Howard I. Wetston	November/10	November/15

* Kevin Kelly is the Lead Director of the Commission.
** Vice-Chair Lawrence Ritchie has been seconded to the Canadian Securities Transition Office.

Committees of the Commission

(As at March 31, 2012)

Audit and Finance Committee	
Margot C. Howard, Chair	Paulette L. Kennedy
Sinan O. Akdeniz	Vern Krishna
Sarah B. Kavanagh	
Governance and Nominating Committee	
C. Wesley M. Scott, Chair	Judith N. Robertson
James D. Carnwath	Howard I. Wetston *Ex officio member*
Christopher Portner	
Human Resources and Compensation Committee	
Paulette L. Kennedy, Chair	Margot C. Howard
Sinan O. Akdeniz	Edward P. Kerwin
Adjudicative Committee*	
James D. Carnwath, Chair	Vern Krishna
James E. A. Turner	Christopher Portner
Mary G. Condon	John P. Stevenson *Ex officio member*
Edward P. Kerwin	

*The Adjudicative Committee is a standing policy committee of the Commission.

The mandates of the committees and of the Lead Director are available at www.osc.gov.on.ca.

Strong Investor Protection

The OSC is strengthening efforts to provide protection to investors in everything it does, as reflected in its Strategic Plan, organizational goals and *Statement of Priorities*. The OSC's new Office of the Investor will lead the effort to elevate investor engagement to better identify and address relevant issues and concerns, and will coordinate initiatives with investors, advocacy groups, other regulators and OSC staff. In addition, more resources are being devoted to identifying and understanding emerging risks, capital market trends and new products that may affect investors, especially retail investors, so that the OSC can take preventative action to protect investors from possible harmful activity.

Engaging with Investors

The OSC has made a commitment to engage with investors more effectively and then better integrate their perspectives and concerns into policy and operational activities.

Office of the Investor: The Office of the Investor will act as the central point for all investor-related initiatives at the OSC, bringing together diverse stakeholders and viewpoints, including:

- Supporting effective internal policy coordination and priority-setting by bringing investor perspectives more directly into the OSC policy agenda;
- Fostering investor-related research and outreach with the Investor Education Fund (IEF) and OSC Investor Advisory Panel (IAP);
- Collaborating with the OSC Inquiries and Contact Centre in responding to questions and concerns from investors; and
- Enhancing the OSC's education and awareness resources for investors.

Investor Advisory Panel: The IAP is an active contributor to the policy- and rule-making process. In 2011-12, the seven-member panel provided valuable input to the Commission on numerous issues affecting retail investors, including:

- Point-of-sale disclosure for mutual funds;
- Cost disclosure and performance reporting for investors;
- OSC enforcement policy proposals; and
- Shareholder democracy.

More information on IAP activities in 2011-12 is available in The Commission section on page 7.

Investor Education: The OSC provides ongoing support for the IEF to improve the level of financial literacy among retail investors. IEF is a non-profit organization dedicated to helping consumers make better financial and investment decisions, and is funded by settlements and fines from OSC enforcement proceedings. Its programs include working with Ontario's education system to integrate financial literacy in the classroom, funding of community organizations for financial literacy projects in Ontario and its educational website, GetSmarterAboutMoney.ca. The IEF attracted 1.6 million visitors to its online content in 2011-12, a 15 per cent increase over the previous year.

In addition, the IEF provided training for some 770 teachers, mostly in secondary schools, and reached more than 150,000 students in elementary and secondary schools with its programs. IEF staff also worked with the OSC to define the objectives for the research study, *Investor behaviour and beliefs: Advisor relationships and investor decision-making*, which revealed insights into Canadian investors' trust in their financial advisors and confusion about the terms of their advisory relationships. The research will be used to help inform investor-focused initiatives at both the IEF and OSC.

Effective Regulation on Behalf of Investors

The OSC is rising to the challenge to deliver effective regulation for investors by better anticipating risks to investors, enhancing the current disclosure regime and through disciplined policy development. The OSC plays an active role in significant investor-related policy initiatives of the Canadian Securities Administrators (CSA), including:

Cost Disclosure and Performance Reporting: The OSC is working with the CSA on revised proposals that would require investors to be provided with clear and meaningful information on the costs and performance of their investments. This important investor protection initiative will enable investors to better assess progress toward their investing goals and the value of the professional advice that they receive. The revised proposals were published for a second comment period in June 2012, with final requirements targeted to be phased in starting in 2013.

Point of Sale Disclosure: OSC staff have monitored the first stage of the implementation of the CSA's point of sale disclosure initiative for mutual funds, which is intended to provide investors with more meaningful and effective disclosure. The CSA initiative introduced a requirement to prepare, file and post to a mutual fund or mutual fund manager's website a Fund Facts document for every class or series of a mutual fund. Fund Facts is a short, easy-to-read document that sets out the key features of a mutual fund. In 2012, the CSA will propose further amendments to enhance the presentation of risk disclosure in Fund Facts to assist investors in better understanding the risks of mutual fund products before then proceeding with the next stage of implementation, which will allow the Fund Facts document to be delivered in lieu of the prospectus.

Scholarship Plans: The OSC is leading a CSA initiative to enhance the disclosure requirements related to scholarship plans as a way to help investors make more informed investment decisions while saving for their children's education. In November 2011, the CSA published for comment a Prospectus Form that would provide investors with a simpler and clearer understanding of the potential benefits, risks and costs of investing in scholarship plans. The CSA is currently finalizing these changes.

Compliance Oversight

The OSC oversees compliance by market participants with regulatory requirements, such as providing accurate and timely disclosure to investors and meeting specific conduct obligations, to achieve the outcome of treating investors consistently and fairly. OSC staff are taking a more preventative approach to compliance by conducting in-depth enquiries into registration applications, prospectus and continuous disclosure reviews in areas of risk, as well as assessing the impact and risks of product innovation. When problematic activity is uncovered, staff will take appropriate action, including imposing terms and conditions on a registration, suspending registrants, requiring an issuer to restate or refile financial statements, recommending a cease trade order, refusing to issue a receipt for a prospectus, or by referring the case to the OSC Enforcement Branch.

More information on 2011-12 compliance outcomes is available in Culture of Compliance on page 19.

Proactive Enforcement

The OSC Enforcement Branch continues to intensify its efforts to investigate and litigate alleged non-compliance with Ontario securities laws and other serious misconduct that harms investors. Enforcement staff are being more proactive in the use of protective orders to safeguard investors, and pursuing more cases before the Ontario Court of Justice, especially matters involving allegations of fraud.

The OSC is also making more use of social media, including Twitter and Facebook, to communicate with investors directly about areas of potential harm. The OSC issued six Investor Alerts in 2011-12 to warn the public about firms and individuals who had their registration to sell securities suspended as well as an apparent advance fee scheme. In addition, the OSC's Investor Warning List notifies the public about activities that may pose a risk to investors. In 2011-12, 24 individuals and companies were added to the List, which contains approximately 90 individuals and companies.

More information on 2011-12 enforcement outcomes is available in Proactive Enforcement on page 16.

Assistance for Investors in 2011-12	
Total contacts from investors to the OSC Inquiries & Contact Centre	5,099
Most common areas of contact with investors in 2011-12	
Information about public companies and investment offerings	**19%**
Information about hearings, proceedings, and orders	**15%**
Checking advisor registration and disciplinary record	**12%**
Trading without registration, prospectus, or exemption	**10%**
Abusive Trading or Market Manipulation	**6%**
Inadequate or misleading disclosure	**6%**
How, where to complain	**5%**
Registrant misconduct	**5%**

OSC Year in Review

OSC STRATEGIC DIRECTION

The OSC is implementing an integrated Strategic Plan to improve its capacity and expertise to regulate Ontario's markets within a complex environment of global market developments, rapid product and technological innovation and rising investor expectations. The OSC is focused on strengthening in six key areas: investor engagement, research and analysis, risk management, policy coordination, organizational accountability and operational excellence. This new strategic direction is influencing how staff work throughout the OSC and is helping the organization develop a stronger understanding of investor concerns and how markets are evolving.

THE OSC'S STRATEGIC DIRECTION

1. Expand the OSC's research and analytical capability
2. Engage investors more effectively
3. Improve internal policy coordination and priority-setting
4. Align all operations and programs with defined OSC goals and priorities and develop and report on key performance indicators
5. Improve risk identification and management
6. Deliver excellence in the execution of OSC operations

The OSC Strategic Plan, published on February 29, 2012, supports the OSC's commitment to high-quality execution, robust processes and collaboration. The OSC is pursuing six major initiatives to reposition itself as a more agile and efficient securities regulator.

1. Expand the OSC's research and analytical capability

The OSC is strengthening its research and analysis capabilities to better inform policy making and decisions, whether it involves research by the OSC itself, projects in connection with the CSA or third-party research. The OSC has created a dedicated Research and Analysis Group to spearhead this work. OSC policy development is relying more heavily on qualitative and quantitative evidence, including research on investors.

In 2012-13, the OSC is conducting research and analysis in several new areas, including:

- The cost of ownership of mutual funds in Canada, while identifying issues for investor protection and the public interest;
- Issues associated with market data in a multi-marketplace environment; and
- The adviser's duty to clients, in consultation with the CSA.

2. Engage investors more effectively

An Office of the Investor is being created in 2012 to strengthen the OSC's engagement with investors and ensure that investor concerns are always at the forefront in policy and operational activities. The Office will support the OSC Investor Advisory Panel, work closely with the Investor Education Fund and act as a focal point for investor contact. The new Director of the Office will develop and implement a set of programs and processes that focus on investor interests and work to ensure those interests are appropriately considered in all OSC policy making and operations programs.

3. Improve internal policy coordination and priority-setting

A Policy Review Committee is being formed in 2012 to prioritize and coordinate policy development, and align and prioritize all policy initiatives with the goals of the OSC. The committee will be comprised of representatives from OSC policy Branches, Office of the Investor, Office of Domestic and International Affairs and the Research and Analysis Group. The Committee will complete a review of current policy initiatives to appropriately prioritize projects and aligned them with OSC goals.

4. Align all operations and programs with defined OSC goals and priorities and develop and report on key performance indicators

Policy and operational activities are being more closely aligned, where appropriate, with OSC goals and priorities. The OSC has five organizational goals for 2012-13, including a new goal to "support and promote financial stability", and its priorities were published in the *Statement of Priorities* in June 2012. Staff are developing key performance measures to track the outcomes of OSC policy and operational activities, and the organization is committed to report on its progress in achieving outcomes on a regular basis.

5. Improve risk identification and management

An Emerging Risk Committee will be established within the OSC to further develop a comprehensive framework for identifying and analysing risk. The committee will use research to identify and analyze risks and to develop ways to mitigate risks, especially those that emerge from marketplaces and products, to strengthen the OSC's capabilities as it co-operates with international regulators and agencies to promote financial stability.

6. Deliver excellence in execution of OSC operations

The OSC continues to improve its efficiency and effectiveness as an organization, in particular, in the areas of employee development, information technology and operational efficiency, including:

- Implementation of a Leadership Competency Model throughout the organization;
- Increased use of internal secondments to enhance organizational integration and capability;
- Developing performance measures to track and report on the outcomes of OSC activities against its goals and priorities;
- Improved human resource management processes to increase efficiency, reliability and accountability;
- Information technology will assist in increasing the efficiency of gathering, monitoring and analyzing data;
- More analytical tools will be incorporated to improve the efficiency, quality and timeliness of investigations; and
- Conducting more electronic hearings during the adjudicative process will facilitate more efficient management of hearings and related documents.

The Chair's Message on page 1 contains more on the OSC's strategic direction.

EMERGING MARKETS ISSUER REVIEW

The OSC Emerging Markets Issuer Review (EMIR) demonstrates the OSC's increased focus on acting on identified risks and responding in a timely manner to address investor concerns. An OSC Staff Notice that summarized the review outlined concrete recommendations for improving the practices of emerging markets issuers, their advisors, and exchanges to effectively discharge their responsibilities to the investors and capital markets of Ontario. The review will lead to improvements to disclosure and governance practices, due diligence requirements, audits and listing processes, all of which will support investor protection and market integrity without impairing the accessibility of Ontario's capital markets to issuers seeking capital investment.

In 2011-12, the OSC conducted a targeted review of 24 emerging market issuers that are listed on Canadian exchanges and have significant business operations in emerging markets. The "mind and management" of all of the selected reporting issuers are largely outside of Canada and their principal active operations are in emerging markets. The review focused on the adequacy of issuer disclosure and corporate governance practices, as well as the important roles played by auditors, underwriters and exchanges in bringing these issuers to market.

On March 20, 2012, the OSC published 24 recommendations flowing from the EMIR which set out where the OSC expects to see concerted action taken by issuers, auditors, underwriters and exchanges in order to protect investors and uphold the integrity of the capital markets. One of the OSC's primary concerns was the apparent "form over substance" approach to compliance with applicable standards for disclosure, issuer governance, board oversight, audit practices and due diligence practices. The level of rigor and independent-mindedness applied by boards, auditors and underwriters in performing important duties – such as management oversight and due diligence on offerings – should have been more thorough.

OSC staff are now working with other regulators, issuers and their advisors, exchanges, the Investment Industry Regulatory Organization of Canada and Canadian Public Accountability Board (CPAB) to address the recommendations, including developing and enhancing guidance and practices for issuers, their boards, underwriters, auditors, and examining listing requirements applicable to emerging market issuers.

The OSC is leveraging the research and analysis conducted for the EMIR to enhance how it oversees emerging market issuers that raise capital in the province. Staff are responding to the findings, particularly in matters related to disclosure:

- During reviews of prospectuses and initial public offerings (IPOs), staff are probing more deeply into board oversight of management, understanding company risks, investors' rights and the due diligence by underwriters;
- OSC staff are requesting that issuers provide more detailed risk disclosure so that investors have the opportunity to gain a greater understanding of the risks of investing in emerging market companies; and
- The OSC plans to conduct focused continuous disclosure (CD) reviews in areas deemed to warrant closer regulatory scrutiny, such as ongoing risk disclosure.

Emerging Markets Issuers listed in Canada

Exchange	Number of issuers	Market capitalization (CAD $millions)
TSX	50	$ 37,108
TSX Venture	55	$ 3,228
CNSX	3	$ 33
Total	108	$ 40,369

Source: All data as at April 2011, as supplied by TMX Group and Canadian National Stock Exchange (CNSX).

PROACTIVE ENFORCEMENT

A strong enforcement presence is one of the cornerstones of protecting investors and fostering confidence in the integrity of Ontario's capital markets. In 2011-12, the OSC continued to intensify enforcement activity and is building momentum in targeting priority areas, including illegal distributions, fraud and illegal insider trading. The OSC will continue to pursue more cases, especially those involving fraud, before the courts, where it can seek jail sentences for violations of the *Securities Act* (Ontario) or breaches of Commission orders. Staff will also be proactive in expanding the use of communications strategies to warn investors about potential harm, strengthening the OSC's relationships with other regulators and law enforcement agencies and developing policies to increase the OSC's overall effectiveness in enforcing securities law in Ontario.

Proceedings Before the Courts

The OSC believes that court-imposed sanctions, including jail sentences, send a strong deterrence message. Enforcement staff have made it a priority to, where appropriate, pursue cases before the Ontario Court of Justice, especially against individuals who show a pattern of recidivist behaviour in ignoring securities laws. In 2011-12, OSC staff secured ten jail sentences in which the Court handed down a total of more than 16 years in jail for breaches of Commission orders or violations of the *Securities Act* (Ontario). Staff also commenced five prosecutions, involving a total of six defendants, before the courts in the fiscal year.

Proceedings Before the Commission

The OSC deals with a broad range of misconduct in the capital markets, including illegal distributions, misconduct by registrants and market manipulation. OSC staff commenced 24 proceedings, related to a total of 103 respondents, before administrative tribunals of the Commission in 2011-12. The Enforcement Branch is investigating cases faster and strives to continue to reduce timelines for initiating proceedings, whether before the courts or before the Commission.

Thirty-nine settlement and contested hearings, involving a total of 125 respondents, were concluded before the Commission in the fiscal year. The Commission imposed a total of $39 million in administrative penalties, disgorgement orders and settlement amounts in those concluded matters. Other sanctions imposed by the Commission included registration restrictions and bans on future activity, such as trading in securities (cease trade orders), acting as a director or officer of a public company, and acting as or becoming a registrant.

Outreach to Investors

In 2011-12, the OSC issued six Investor Alerts to warn the public about an apparent advance fee scheme and about firms and individuals who had their registration to sell securities suspended. Similarly, 24 individuals and companies were added to the OSC's Investor Warning List, which notifies investors about activities that may pose a risk to investors. The List contains approximately 90 individuals and companies.

The OSC is also increasing its use of social media, including Twitter and Facebook, to reach investors directly about possible harmful activity in progress.

For more about the OSC's investor-related activities, go to Strong Investor Protection on page 11.

International Enforcement Expertise

OSC Enforcement staff devoted considerable resources to pursuing significant international cases in 2011-12. As a result, staff have developed more expertise in addressing challenges in conducting multi-jurisdictional investigations, including those in emerging market jurisdictions, and will continue to adapt to the increasing international scope of enforcement files. In addition, staff are expanding their use of technology to improve the efficiency and quality of investigations. For example, Enforcement and IT staff are implementing a system that will specifically assist with translating foreign language documents. Enhancements are also being made to electronic document-management systems in order to streamline the disclosure process.

Collaborative Enforcement

Co-operation among regulators contributes to preventing, detecting and deterring wrongdoing in the capital markets. OSC Enforcement staff work closely with other securities regulators, self-regulatory organizations and law-enforcement agencies to share information, when appropriate, on enforcement matters. The OSC has entered into memoranda of understanding with other Canadian and foreign jurisdictions to facilitate this sharing. In 2011-12, the OSC had 55 requests for assistance from domestic and international regulators and agencies.

On May 22, 2012, OSC staff issued allegations of fraud against Sino-Forest Corporation and five individuals. Staff allege that Sino-Forest and members of its overseas management engaged in numerous deceitful and dishonest courses of conduct connected with the purported purchase and sale of timber in the People's Republic of China.

The OSC is also a partner with the RCMP in the Joint Securities Intelligence Unit (JSIU). The JSIU seeks to gather information, develop intelligence on fraudulent securities related activity and share with other law enforcement and regulatory agencies. In 2011-12, the JSIU received over 17,700 information requests from Canadian regulators, foreign regulators and law enforcement agencies.

More information on the OSC's international activities in 2011-12 is available in International Co-operation on page 25.

Tools to Enhance Effectiveness

In 2011, staff engaged the public on new enforcement initiatives aimed at resolving enforcement matters more quickly and effectively:

- A program for explicit "no-enforcement action agreements";
- The introduction of no-contest settlements;
- A clarified process of self-reporting under the current credit for cooperation program; and
- Enhanced public disclosure of the credit granted for co-operation with the OSC.

Staff are reviewing the public comments received on these proposals, which were published in October 2011, and the Commission also plans to hold a public policy hearing on them in the summer of 2012.

Enforcement Activity and Concluded Hearings

OSC Enforcement Branch: Intake			
Fiscal Year	2009–10	2010–11	**2011–12**
Number of matters assessed	467	348	**210**
Number transferred for investigation	33	25	**21**

Note: The tables in this section contain numbers that may vary from year to year, depending on the size and scope of individual cases and other factors.

OSC Enforcement Branch: Investigations			
Fiscal Year	2009–10	2010–11	**2011–12**
Number of completed investigations	46	56	**39**
Number transferred for litigation	26	35	**29**

Temporary Cease Trade Orders			
The OSC uses temporary cease trade orders (TCTOs) to halt trading activity during regulatory investigations.			
Fiscal Year	2009–10	2010–11	**2011–12**
Actions before the Commission	12	11	**10**
Number of respondents	53	71	**45**

In addition, in fiscal 2011-2012 one freeze order was obtained by the OSC, freezing $45,540.

OSC Enforcement Branch: Litigation			
Fiscal Year	2009–10	2010–11	**2011–12**
Proceedings Commenced			
> Actions before the Commission	24	32	**24**
Number of respondents	92	170	**103**
> Actions before the Courts	4	3	**5**
Number of defendants	7	4	**6**
Enforcement Timelines			
Average number of months from intake to commencement of a proceeding	17.2	21.8	**20.6**

Concluded Settlement and Contested Hearings before the Commission			
Fiscal Year	2009–10	2010–11	**2011–12**
Number of Proceedings	16	36	**39**
Number of Respondents	32	109	**125**
Sanctions include:			
Cease trade orders	18	82	**110**
Exemptions removed	17	88	**108**
Director and Officer bans	18	56	**81**
Registration restrictions	6	45	**50**
Administrative penalties, disgorgement orders, settlement amounts	$ 35,967,173	$ 81,407,662*	**$ 38,986,471**
Costs ordered	$ 951,500	$ 1,633,193	**$ 2,287,165**

Reciprocal Orders	
Fiscal Year	**2011–12**
Number of proceedings commenced	**4**
Respondents	**12**
Number of orders	**3**
Respondents	**12**
Sanctions include:	
Cease trade orders	**11**
Exemptions removed	**12**
Director and Officer bans	**4**
Registration Restrictions	**5**

Concluded Matters before the Ontario Court of Justice			
Fiscal Year	2009–10	2010–11	**2011–12**
Number of matters	2	2	**9**
Total number of defendants	3	2	**14**

* The amount differs from the 2011 Annual Report because on November 10, 2011, the Ontario Superior Court of Justice (Divisional Court) made an order overturning the findings and sanctions of the OSC against Rene Pardo in the September 7, 2010 and January 26, 2011 decisions and orders of the OSC.

CULTURE OF COMPLIANCE

Robust compliance by registrants and reporting issuers in Ontario supports the OSC's efforts to prevent harm to investors and promote confidence in the capital markets. To maintain a vigorous compliance presence, OSC staff conduct risk-based compliance reviews and publish guidance and develop outreach programs to help registrants and reporting issuers understand their regulatory obligations and thereby foster a culture of compliance. In the event of significant non-compliance by a registrant or issuer, the OSC moves swiftly to address breaches, using various regulatory tools, such as imposing terms and conditions on a registration, requiring an issuer to restate and refile financial statements, or referring a case to the Enforcement Branch.

Educational Outreach

Outreach initiatives are designed to assist registrants, issuers and their advisors with avoiding potential regulatory issues, before they undertake transactions or make regulatory filings. Examples of OSC outreach in 2011-12 include:

- OSC Staff Notice 33-735 *Sale of Exempt Securities to Non-accredited Investors* was published to alert industry to the OSC's concern that some issuers and registrants are selling exempt securities to individual investors who do not meet the definition of an accredited investor.
- OSC Staff Notice 33-736 *2011 Annual Summary Report for Dealers, Advisers and Investment Fund Managers* served as a self-assessment tool for registrants in Ontario, to assist them in strengthening their compliance with Ontario securities law and improving their systems of control and supervision.
- Staff periodically publish the OSC Investment Funds Practitioner to assist investment fund managers and their staff or advisors who regularly prepare public disclosure documents and applications on behalf of investment funds. This online document addresses issues that OSC staff have raised in connection with their reviews of documents filed with the OSC and how these issues were resolved.
- CSA Staff Notice 31-325 *Marketing Practices of Portfolio Managers* was published to summarize findings from the focused compliance reviews of the marketing practices of portfolio managers, and to provide guidance to assist portfolio managers in meeting their obligations under securities law, including the obligation to deal fairly, honestly and in good faith with their clients.

- OSC staff offered free seminars to issuers about complying with new and existing requirements, including those related to corporate governance, International Financial Reporting Standards (IFRS) and technical requirements for public mining companies resulting from the new version of National Instrument 43-101 *Standard of Disclosure for Mineral Projects*.
- OSC and TSX staff facilitated the inaugural TSX Environmental and Social Workshop to assist reporting issuers and their advisors in understanding what information about environmental and social matters must be disclosed in documents filed with securities regulators, as highlighted in CSA Staff Notice 51-333 *Environmental Reporting Guidance*, and how issuers can enhance that disclosure to address the interests of their security holders.

Outreach in Response to Market Developments

OSC staff also respond to specific market events with proactive outreach. In light of a number of debt downgrades in 2011, the OSC conducted a high-level review of investment fund holdings to assess the exposure of Canadian fixed income funds to European sovereign (non-U.K.) and bank debt, and ensure risk profiles were consistent with what investors were told they were buying. The review found that, as a whole, Canadian fixed income funds do not have significant exposure to European debt and globally-focussed fixed income funds hold European debt that is consistent with the stated investment objectives and strategies of these funds.

Preventative Approach to Oversight

OSC staff are taking an increasingly preventative approach to compliance oversight by conducting more in-depth enquiries into registration applications, prospectus and CD reviews in areas of risk, including going concern disclosures as highlighted in OSC Staff Notice 52-719 *Going Concern Disclosure Review,* as well as assessing the impact and risks of product innovation. Also, in the wake of the OSC Emerging Markets Issuer Review, staff are asking detailed questions around board oversight of management, the company's risks and the rights of investors during prospectus reviews.

More than 500 people attended OSC presentations in 2011–12 on key changes to disclosure requirements for mining issuers (National Instrument 43-101 *Standards of Disclosure for Mineral Projects*)

78 firms were either suspended, referred to Enforcement, had terms and conditions imposed on their registration or surrendered their registration in 2011–12

The OSC expects all registrants and reporting issuers to comply with disclosure requirements and adopt good governance practices to set the appropriate "tone at the top" within the marketplace. In the event of serious non-compliance, staff take action, including imposing terms and conditions on a registration, suspending registrants, requiring an issuer to restate or refile financial statements, recommending a cease trade order, refusing to issue a receipt for a prospectus, or by referring the case to the Enforcement Branch.

Where the OSC has significant concerns about the continued fitness of a registered firm or individual, it can impose terms and conditions or suspend the registration. In 2011-12, 78 firms were either suspended, referred to Enforcement, had terms and conditions imposed on their registration or surrendered their registration. The types of terms and conditions included, among other things:

- The replacement of the Chief Compliance Officer;
- The hiring of compliance advisory firms to help strengthen compliance structures;
- The suspension of redemptions and ultimate wind-up of an investment fund; and
- The repayment of related-party loans.

The OSC imposed terms and conditions on 182 individuals due to detrimental financial circumstances, competency or integrity issues, or outside business activities that posed a conflict of interest or created undue influence over clients. Individuals and firms have the right to be heard before the OSC refuses to issue a receipt for a prospectus, refuses an application for registration, or reinstates, amends or imposes terms and conditions on a registration. The OSC was involved in 19 "opportunities to be heard" (OTBH) proceedings in 2011-2012 because of integrity, solvency or proficiency concerns, which resulted in the suspension of six firms and eight individuals, the refusal to issue a receipt for one prospectus and the refusal of registration of one firm and three individuals.

	2009–10	2010–11	**2011–12**
Public companies in Ontario	1,429	1,339	**1,362**
Investment fund issuers in Ontario	3,159	3,303	**3,594**
Registered firms in Ontario	1,424	1,249	**1,290**
Registered individuals in Ontario	64,637	64,628	**65,975**

Assistance for Market Participants in 2011–12	
Total contacts from market participants to the OSC Inquiries & Contact Centre	**14,713**
Most common areas of contact with market participants in 2011-12	
Registration requirements and related information	**29%**
System for Electronic Disclosure by Insiders (SEDI) filing, reports, information	**23%**
Information about reporting issuers' obligations	**14%**
Fees	**11%**
Exemptions, exempt distributions	**4%**
Hearings, proceedings, orders	**4%**
Checking registration	**3%**

MAPLE GROUP APPLICATION FOR TMX GROUP

16 OSC received 16 comment letters following publication of the Notice and Application on October 7, 2011

12 Twelve commenters, including representatives of Maple, appeared at the OSC policy hearing on December 1-2, 2011

Regulatory supervision of exchanges and trading systems safeguards that the integrity of trading is maintained through fair and equitable rules that strike an appropriate balance between the demands of different market participants. Throughout 2011–12, the Commission conducted an extensive review of Maple Group Acquisition Corporation's application to acquire TMX Group Inc. before issuing proposed recognition orders, subject to terms and conditions to protect the public interest. The Maple application raises complex and novel issues for Canada's capital markets and the OSC has proposed an enhanced regulatory framework to provide effective oversight of the new entity in a global environment of interconnected markets, changing infrastructure models and technological innovation.

Maple Group is a consortium of Canadian investment dealers, pension funds and other financial institutions which applied to the Commission for certain orders in connection with its proposed acquisition of TMX Group, its wholly-owned subsidiary, TSX Inc., Alpha Trading Systems Limited Partnership and Alpha Trading Systems Inc. and The Canadian Depository for Securities Limited (CDS). Maple's proposal to create an integrated group of businesses that provide trading, clearing, settlement and depository services for a range of financial instruments traded in Canada raised significant public policy issues that would impact investors, market participants and the existing regulatory model.

The complexity of the transaction required the OSC to examine all of the regulatory issues involved so that any changes to the existing exchange and clearing structures continue to maintain confidence in the integrity of Ontario's capital markets. The Commission consulted with the public on matters such as governance, fee models, fair access to services, potential conflicts related to ownership and changes to the existing infrastructure model, and identified measures to mitigate those concerns.

The OSC's review of the application included a number of key steps:

- The OSC published a Notice for public comment in October 2011 on the Maple application to assist with the evaluation of the proposal;
- An OSC policy hearing was convened in December 2011 to consult with the public on the application and consider submissions; and
- In May 2012, the OSC published for a 30-day comment period proposed orders that would recognize Maple Group Acquisition Corporation, TMX Group Inc., and TSX Inc. as exchanges, and also recognize CDS as a clearing agency. Both orders were subject to terms and conditions that would affirm that the business of each recognized entity must be conducted in a manner that is consistent with the public interest.

In response to comments from the public process, at the policy hearing and from discussions with OSC staff, Maple substantially revised key aspects of the proposal, including the corporate governance of the proposed entity. The Commission will consider public comments, submissions and staff recommendations before any decision is made whether to issue final orders recognizing Maple, TMX Group, and TSX as exchanges and recognizing CDS as a clearing agency, subject to terms and conditions specific to each entity.[†]

[†] On July 4, 2012, the Commission published final orders that recognized Maple Group Acquisition Corporation, TMX Group Inc., TSX Inc., Alpha Trading Systems Limited Partnership and Alpha Exchange Inc. as exchanges, and also recognized Canadian Depository for Securities Ltd. and CDS Clearing and Depository Services Inc. as clearing agencies. Both orders are subject to terms and conditions.

EVOLVING MARKET OVERSIGHT

Ontario's capital markets have rapidly developed into a multiple marketplace environment that is closely interconnected with the global markets by technology, products, business models and investment strategies. Effective regulation of the capital markets requires regulators to continually update their regulatory regimes to ensure that their requirements are clear and keep pace with evolving behaviour that could constitute abuse. The OSC continues to identify and address the priority issues in regulating marketplaces and is responding appropriately through policy development and an open dialogue with other regulators and market participants.

The number of equity marketplaces operating in Ontario has increased from four in 2002 to 11 in 2012, including both exchanges and alternative trading systems. Trading on marketplaces is faster and innovative investment products are proliferating. The OSC continues to build the necessary tools, expertise and flexibility to regulate a rapidly changing market landscape. As securities regulators in other jurisdictions face similar challenges, co-operation is crucial to address potential regulatory arbitrage, identify regulatory gaps and implement effective policy approaches.

In addition, the OSC's consultations with market participants assist in formulating policy that promotes investor protection and fair and efficient capital markets. OSC staff have contributed to significant initiatives of the Canadian Securities Administrators (CSA) to enhance Canada's regulatory framework for marketplaces.

Dark Pools and Dark Liquidity

On April 13, 2012, the CSA and Investment Industry Regulatory Organization of Canada (IIROC) jointly announced a new regulatory framework for the use of orders entered without pre-trade transparency (dark orders). The framework recognizes the increasing use of dark liquidity and the value of dark marketplaces while protecting transparent markets and the price discovery process. The new rules are designed to enable institutional traders to continue to execute large orders with minimal market impact, while ensuring that investors with smaller orders receive meaningful price improvement when they trade with dark orders.

Short Sales and Failed Trades

The CSA and IIROC published a Notice on March 2, 2012, seeking public feedback on the appropriate disclosure and transparency measures related to short sales and failed trades. The two regulatory organizations proposed a range of regulatory options, including enhanced disclosure of short sales and some public disclosure of failed trades, designed to strengthen Canada's regulatory regime.

Electronic Trading

CSA and IIROC are finalizing a rule that would require dealers and exchanges to take an active role in managing the risks of electronic trading to investors and the maintenance of fair and orderly markets. National Instrument 23-103 *Electronic Trading* would mandate dealers to manage risks associated with various methods of electronic trading, including the use of algorithms and high frequency trading. These requirements are consistent with international developments for managing these risks and maintaining investor confidence in the capital markets.

Credit Rating Agencies

A regulatory framework for the oversight of credit rating organizations was introduced in Canada on January 27, 2012. The regulation imposes requirements on credit rating organizations wishing to have their credit ratings eligible for use under securities laws. The CSA framework includes requirements for rating organizations to apply to become a "designated rating organization" and adhere to rules concerning conflicts of interest, governance, conduct, a compliance function and required filings. In April 2012, DBRS Limited; Fitch, Inc.; Moody's Canada Inc.; and Standard & Poor's Rating Services (Canada) became Designated Rating Organizations under applicable Canadian securities laws.

20 Total number of securities marketplaces operating in Ontario for the trading of equities, debt and derivatives in **2012**

4 Total number of securities marketplaces operating in Ontario for the trading of equities in **2002**

11 Total number of securities marketplaces operating in Ontario for the trading of equities in **2012**

International Co-operation on Policy Approaches

The OSC works with its international counterparts to help regulators understand the impact of the changing markets on structures and participants. For example, OSC staff helped draft a consultation paper from the International Organization of Securities Commissions (IOSCO) which identified issues associated with the impact of technological change on market integrity and efficiency. That paper, published in November 2011, includes recommendations to mitigate risks posed to the financial system by the latest technological developments.

More information on the OSC's international activities in 2011-12 is available in International Co-operation on page 25.

Market Capitalization of Ontario-based public companies on the Toronto Stock Exchange and the TSX Venture Exchange

($ millions for years ending March 31)	2009–10	2010–11	**2011–12**
Toronto Stock Exchange			
Listed public companies	$ 1,845,505	$ 2,318,844	**$ 2,123,624**
Domestic public companies	$ 1,765,099	$ 2,140,250	**$ 1,933,296**
Ontario-based listed issuers	$ 806,618	$ 913,762	**$ 843,652**
TSX Venture Exchange*			
Listed public companies	$ 39,914	$ 76,915	**$ 51,952**
Domestic public companies	$ 36,295	$ 70,043	**$ 47,880**
Ontario-based listed issuers	$ 5,937	$ 10,911	**$ 9,066**

Source: Toronto Stock Exchange
*TSX Venture Exchange does not include NEX

SHAREHOLDER DEMOCRACY

Shareholder democracy is the ability of shareholders to influence a board of directors through the exercise of voting rights associated with share ownership. The scope of shareholder voting rights and how they can be exercised has a significant impact on confidence in the capital markets. The OSC is taking steps to help increase shareholder engagement by strengthening shareholders' rights and facilitating the effective exercise of voting rights.

A growing number of shareholders want the OSC to facilitate shareholder empowerment concerning significant decisions about governance, compensation and transactional matters involving reporting issuers. The OSC is examining various shareholder democracy issues and is considering specific policy initiatives that would strengthen the role of shareholders in uncontested director elections and is also examining concerns about the effectiveness of the proxy voting system.

Uncontested Director Elections

The OSC considers the process by which directors are elected, even when unopposed, as a significant governance issue that supports the legitimacy and accountability of boards of directors. Reporting issuers are encouraged to adopt majority-voting policies so that the board of directors is representative of the voting preferences of the majority of its shareholders.

The OSC supports the TSX initiative to address concerns about the director-election process and the transparency of voting results. In September 2011, the TSX proposed that:

- Directors of listed issuers be elected individually and not by slate;
- Listed issuers disclose whether they have adopted a majority-voting policy for the election of directors; and
- Issuers disclose the underlying voting results of shareholders meetings even if the vote was done by hand rather than by ballot.

The OSC believes these proposals will provide greater transparency to shareholder meetings and increased accountability of directors to shareholders. The OSC and the TSX are discussing what further steps need to be taken to ensure that all TSX-listed issuers adopt majority-voting policies within a reasonable time frame.

Proxy Voting System

The proxy voting system is the mechanism by which shareholders exercise their voting rights, starting with the solicitation of their votes in connection with a shareholders meeting and ending with the tabulation of submitted votes. It is important that market participants, including issuers and investors, have confidence that the outcome of shareholders meetings reflects the voting preferences of shareholders who have exercised their voting rights.

The OSC is currently investigating concerns raised by market participants about the transparency, efficiency and accountability of the proxy voting system. Since publishing proposals to address certain shareholder democracy issues in 2011, the OSC has been actively involved in stakeholder discussions addressing concerns about the proxy system and has encouraged market participants' attempts to address these concerns. However, the OSC now believes there is a need for greater regulatory involvement in the review of the proxy voting system so as to identify specific concerns and potential solutions that may require regulatory action. The OSC intends to work with its colleagues in the Canadian Securities Administrators (CSA) and market participants on this analysis and address the concerns identified.

INTERNATIONAL CO-OPERATION

The growing interconnectedness of the world's capital markets means that securities regulatory initiatives are increasingly international in scope, and require collaborative policy responses from securities and other regulators. The OSC is making significant contributions to the global reform agenda in a number of areas, including developing processes aimed at monitoring risks to financial stability and developing a comprehensive oversight framework for derivatives markets. Enhanced co-operation between the OSC and all of its regulatory partners has become increasingly important in delivering on the OSC's commitment to protect investors, promote financial stability and foster the efficiency and integrity of capital markets.

Meeting G20 Commitments

The Group of 20 (G20) nations, including Canada, are committed to strengthening the regulation, supervision and infrastructure of the global financial system. The G20 commitments include mitigating systemic risk, particularly in the area of over-the-counter (OTC) derivatives. The OSC is collaborating with the Bank of Canada, prudential regulators and other securities regulators to deliver on Canada's commitment to regulate OTC derivatives:

- The OSC is working with the Bank of Canada, federal Department of Finance, Office of the Superintendent of Financial Institutions (OSFI) and other members of the Canadian Securities Administrators (CSA) to develop a comprehensive regulatory regime for OTC derivatives in Canada.
- The OSC is a co-chair of the Task Force on OTC Derivatives Regulation of the International Organization of Securities Commissions (IOSCO), which is coordinating efforts to develop supervisory and oversight structures related to OTC derivatives markets.
- On May 1, 2012, the OSC chaired a meeting of senior leaders of key OTC derivatives regulators from around the world to discuss issues related to the implementation of new regulatory standards for OTC derivatives. The meeting in Toronto promoted greater understanding of the respective regimes and reaffirmed the importance of coordinating implementation efforts.
- The OSC is developing new rules for the OTC derivatives market in Ontario as part of its contributions toward meeting Canada's G20 commitments along with its CSA partners. These include rules that will address requirements for, among others, trading, clearing, and reporting on derivatives transactions.

With numerous reform initiatives well underway, regulators and other agencies are shifting additional focus to monitoring the extent to which new standards are being implemented. The Financial Stability Board recently published a framework for the implementation of G20 reforms and priority areas, including OTC derivatives regulation, which will undergo intensive monitoring and reporting on a country-by-country basis.

Promoting Internationally Acceptable Standards

IOSCO and other international forums help shape market conduct standards and regulations on a broad scale. The OSC is an active participant and, in 2011-12, it worked with other IOSCO members to develop new global standards that will benefit the investors, market participants and markets of Ontario, including:

- Market integrity and efficiency: Developing tools to address technological challenges to market surveillance that complement IOSCO's work on electronic trading, dark pools and high frequency trading.
- Financial market infrastructure: Updating principles for systemically-important financial market infrastructures, such as clearing and settlement and payment systems, and developing appropriate safeguards to support a global approach to clearing.
- Securitization: Developing principles for oversight of securitization regimes, including approaches for risk retention, transparency and standardization of securitized products.

Cross-Border Co-operation

The OSC also supports efforts to enhance the supervision of internationally active regulated entities, and continues to strengthen its co-operative relationships with its foreign counterparts. In 2011-12, the OSC signed two Memoranda of Understanding (MOU) to enhance regulatory supervision of regulated entities that operate across borders:

15

The OSC has signed 15 international Memoranda of Understanding (MOU) to co-operate and share information with other regulators toward providing protection to investors and fostering fair and efficient capital markets. The MOUs include agreements with authorities in the United States, China, Hong Kong, France and Italy.

- In February 2012, the Australian Securities and Investments Commission (ASIC) entered into an MOU with the OSC and the securities regulators of Quebec, Alberta and British Columbia to facilitate the supervision of regulated entities that operate both in Australia and Canada. The MOU sets the terms and conditions for consultation, co-operation and the sharing of information regarding regulated entities.
- The OSC signed an MOU with the U.S. Financial Industry Regulatory Authority (FINRA) in November 2011 to facilitate the exchange of information with respect to regulated firms and individuals that operate across the U.S.-Canada border, support collaboration on investigations and enforcement matters, and provide a more complete view of market activity.

More information on the OSC's international activities in 2011-12 is available in Evolving Market Oversight on page 22.

Quality Capital Markets

Ontario's Financial Wealth

Deep Pool of Capital

Ontarians hold approximately 44% of all financial wealth in Canada ($1.3 trillion)[1] and Ontario is home to 37 of the top 100 employer pension funds in Canada.[2] In aggregate, Ontarians hold 52.6% of pension fund assets nationally.[1]

Professional Advice

Much of Ontarians' wealth ($332 billion) is professionally managed through full service brokers. Ontario is home to 41.4% of full service financial advisors nationally (4,219).[3]

Managed Money

Ontario households own more assets in investment funds ($76,136) than the average household nationally ($62,361). Ontarians' holdings of long-term investment fund assets account for 47% of the national total.[1]

High Income Individuals

Ontario residents account for 42.2% of Canadians with incomes of $100,000 per year and above, and 44.6% of individuals with incomes above $250,000 per year.[4]

[1] 2011 Investor Economics Household Balance Sheet. Note: Financial wealth does not include non-discretionary items such as contributions to CPP, QPP and DB Plans

[2] Benefits Canada, Top 100 Pension Funds Report 2010

[3] Investor Economics Retail brokerage and Distribution Advisory Service, Winter 2012

[4] Statistics Canada, Annual Estimates for Census Families and Individuals

Ontario's Robust Markets

Market Magnet

There are 20 separate securities marketplaces in Ontario for the trading of equities, debt and derivatives. Of the new marketplaces that have begun operations in Canada since 2002, all are headquartered in Ontario.

98%

75% of the total volume (189.2 billion shares) and 98% of the total value ($2.3 trillion) traded on Canadian equity marketplaces was traded on an Ontario-based marketplace. Volume traded in Ontario continues to show strong growth, up 11% in 2011 from the previous year.[5]

International Resource Hub

The TSX lists 128 foreign international mining, oil and gas companies from 18 countries with a combined market capitalization of $85.1 billion dollars on the exchange.

Global Financial Center

Toronto ranks tenth globally as a financial centre,[6] and the TSX is the eighth largest equity exchange in the world by market capitalization, at $1.9 trillion.[7] More than 350,000 people are employed in the financial services sector in Ontario, accounting for 47% of financial services employment nationally.[8]

[5] Investment Industry Regulatory Organization of Canada (January to December 2011)

[6] Z/Yen Group (March 2012)

[7] World Federation of Exchanges (December 2011)

[8] Statistics Canada, Labour Force Survey

Derivatives Market in Ontario

Canada's Derivatives Market

Entities in Canada have a total of $644.5 billion in gross market value of outstanding derivatives exposure. Of this amount, companies with operational head offices in Ontario account for $609.9 billion.[9]

$17.4 Trillion

More than $17.4 trillion of the OTC derivative notional amounts outstanding in 2011 was held by banks with operational head offices in Ontario.[10]

Responsive Regulation

Internationally, the OSC co-chairs the IOSCO Task Force on OTC Derivatives Regulation. In Canada, the OSC is working with other agencies to deliver on Canada's G20 commitment to regulate OTC derivatives. This includes the introduction of a regulatory framework for Ontario's OTC derivatives market.

[9] Capital IQ data based on 2011 annual reports of TSX-listed companies, does not account for double counting.

[10] Notional amount outstanding as reported by TD Canada Trust, Royal Bank, Canadian Imperial Bank of Commerce, Bank of Nova Scotia and Bank of Montreal in their 2011 annual reports.

Investment Funds: Focus on ETFs

Financial Centre for Investment Funds

Ontario represents approximately 80 per cent of Canadian investment fund industry assets under management ($680 billion).[11]

Canadian Innovation

Exchange-traded funds (ETFs), which had their genesis on the TSX in 1990, have become a global industry with $1.5 trillion in assets under management.[12]

$49 billion

ETF assets under management on the TSX have increased from approximately $5.4 billion in 2000 to approximately $49 billion in 2012. ETFs listed on the TSX have grown from 3 in 2000 to 244 by March 31, 2012.[13] In 2011 alone, 69 new ETFs were launched in Ontario.[14]

Regulatory Response

In 2011, the OSC created an Investment Funds Product Advisory Committee to advise OSC staff on emerging products, including ETFs, and innovations occurring in the investment fund industry.

[11] http://www.toronto.ca/invest-in-toronto/finance.htm#2

[12] BlackRock ETP Landscape

[13] OSC Investment Funds Branch

[14] TMX Group, Dec 2011 MiG Report

Exempt Market: Efficient Capital Raising

Exempt Investment Activity

A total of $86.5 billion was raised in Ontario in 2011 through reported exemptions.[15]

$72.8 billion

In 2011, $72.8 billion was raised under the accredited investor exemption in Ontario through 4,575 distributions, an increase of 5% over the dollar amount raised in 2010.[15]

Growth Capital

$21.1 billion of the capital raised in Ontario through the exempt market was channelled to non-reporting, non-investment fund private companies, with a median distribution size of $1.2 million.[15]

Tailored Regulation

The OSC is considering whether to introduce alternative prospectus exemptions that may facilitate capital-raising for business enterprises in Ontario while protecting the interests of investors.

[15] OSC Filings

Dynamic Small Business Sector

SME Proliferation

Approximately 36% of Canadian small and medium sized enterprises (SMEs) are based in Ontario, accounting for 97% of Ontario-based businesses.[16]

Industrial Strength

Ontario-based issuers account for the largest provincial share of market capitalization in non-extractive companies listed on the TSX Venture Exchange at 33%. Ontario has the second most listed companies on the TSXV in the extractive sectors.[17]

Innovative Businesses

Companies headquartered in Ontario account for 36% of the value of life sciences companies, 40% of the value in technology companies, and 82% of the value of financial services companies listed on the TSXV.[17]

Consulting with SMEs

In 2012, the OSC created a Small and Medium Enterprises Committee to advise staff on the regulation of SMEs, including the challenges they face in raising capital. Proportionate regulation of SMEs will promote compliance as well as cost-effective capital formation.

[16] Industry Canada, SME Financing Data Initiative, 2007

[17] TMX Group, Dec 2011

Management's Discussion and Analysis Financial Statements

Contents

Management's Discussion and Analysis 31
Management's Responsibility and Certification 42
Auditor's Report 43
Statement of Financial Position... 44
Statement of Comprehensive Income.................................... 45
Statement of Changes in Surplus.. 45
Statement of Cash Flows.. 46
Notes to the Financial Statements... 47

This document was prepared as of May 22, 2012 and is provided to assist readers in understanding the key financial events and actions and how they have influenced the OSC's operations during the past year. An outlook on OSC 2012-2013 plans is also provided. Additional details on 2012-2013 plans are set out in the OSC Statement of Priorities and the OSC Strategic Plan which are available at www.osc.gov.on.ca.

Certain statements included in this document are forward looking and are subject to risks and uncertainties. The financial performance or events forecast in these statements may differ materially from actual financial performance or events. Factors which could cause financial performance or events to differ from current expectations are described in the risks and uncertainties section. The words "believe", "plan", "intend", "estimate", "expect" or "anticipate" and similar expressions, as well as future or conditional verbs such as "will", "should", "would" and "could" often identify forward-looking statements. The OSC has based these forward-looking statements on its current views with respect to future events and financial performance. Readers should note that any assumptions, although reasonable at the time of publication, are not guarantees of future performance.

This document should be read in conjunction with the financial statements. The financial statements present the OSC's financial performance with 2011 comparatives as at March 31, 2012, March 31, 2011, April 01, 2010 and accompanying notes. Unless otherwise specified, references to a year, for example 2012, refers to the fiscal year of the OSC ended March 31 of that year. The factors which affected the OSC's operations during 2012, as well as the factors that reasonably may be expected to affect future operations and financial performance, are set out in this document.

This is the first year the OSC has prepared its financial statements in accordance with International Financial Reporting Standards (IFRS). IFRS requires that management make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the financial statements, as well as the reported amounts of revenues and expenditures for the period. An accounting estimate is considered critical if the estimate requires us to make assumptions about matters that are highly uncertain at the time the estimate is made; or we could have reasonably used different estimates in the current period, or changes in the estimate are reasonably likely to occur from period to period, that would have a material impact on our financial condition, our changes in financial condition or our results of operations. Actual amounts can differ from these estimates to the extent future outcomes differ significantly from management's forecast expectations. Estimates and underlying assumptions are reviewed on an ongoing basis. The transition date to IFRS for the OSC was April 01, 2010.

Overview

The OSC is a Crown corporation without share capital and is the body responsible for regulating Ontario's capital markets. Its work in protecting investors and fostering fair and efficient capital markets in Ontario involves striking an appropriate balance between facilitating timely access to the material information needed by investors to make informed investment decisions without imposing undue regulatory burdens on market participants. As a member of the Canadian Securities Administrators (CSA), the OSC works with other Canadian securities regulators to improve, co-ordinate and harmonize the regulation of Canada's capital markets.

The OSC achieves its objectives through a variety of regulatory tools, including:

- imposing requirements through rules and other regulatory instruments
- providing guidance to market participants
- assessing compliance and directing corrective action
- taking enforcement action

The OSC is also an administrative tribunal with quasi-judicial powers. Panels of Commissioners hear enforcement proceedings and contested applications and consider applications for discretionary exemptions from the requirements of Ontario securities laws. Certain authorities are delegated by statute to OSC Directors and other staff as designated under the *Securities Act* and the *Commodity Futures Act*.

Selected Three-Year Annual Information

(Thousands)	**2012***	2011*	2010**
Revenues	**$ 85,638**	$ 72,955	$ 61,466
Expenses	**91,163**	84,584	80,320
Deficiency of Revenue over Expenses (before recoveries)	**(5,526)**	(11,629)	(18,854)
Recoveries of enforcement costs	**1,139**	703	870
Deficiency of Revenue over Expenses	**(4,387)**	(10,926)	(17,984)
General Surplus	**13,485**	17,872	28,767
Capital Expenditures	**1,877**	1,321	1,373

*as per IFRS **as per Canadian Generally Accepted Accounting Principles

Certain financial statement amounts have been rounded for discussion purposes, however, percentages are calculated from the financial statement amounts. As a result, small differences in calculations may arise. Where these occur, they are not considered to be material.

The fiscal year ended March 31, 2012 represents our first annual reporting period under IFRS. Previous annual financial statements were prepared under Canadian GAAP. Comparative figures as at March 31, 2011 and April 01, 2010 have been restated to comply with IFRS. For a summary of the impact of adoption of IFRS on our financial statements, see the Note 21 – Transition to IFRS.

Analysis of Financial Performance

Revenues increased by $12.7 million or 17.4% due to higher participation fee revenues. Expenses were $6.6 million or 7.8% higher. Key drivers of the increase in expenses were costs for salaries and benefits ($3.4 million) and professional services ($3.3 million). Employee compensation and occupancy costs account for 83.3% (2011 – 85.8%) of expenses (before recoveries).

Consistent with its plan to reduce its surplus, the OSC had a net deficiency of revenues over expenses of $4.4 million in 2012 (2011 – $10.9 million). The deficiency was $6.0 million less than budgeted because revenues were $5.4 million higher than planned and spending was $681,000 under budget. The OSC's deficiency of revenues over expenses was reduced by the recovery of $1.1 million in enforcement costs through settlements and orders. Recoveries were $436,000 higher than 2011.

The premises and equipment balance was essentially unchanged.

OSC Fee Structure

Securities market participants fund our operations through the fees they pay. The current fee structure under the *Securities Act* (Ontario) and the *Commodity Futures Act* was established in 2003. When the OSC implemented the fee structure, it committed to re-evaluating its fee levels every three years. The OSC fee rules were last amended April 2010. The fee structure is intended to recover OSC costs of operation in fulfilling its mandate while allowing it to remain financially stable. The fee rule requires the payment of "activity fees" and "participation fees".

Activity fees are set at a level to reflect an estimate of the direct cost of OSC staff resources used in undertaking those activities requested of staff by market participants. Activity fees are charged at flat rates based on the OSC's average cost to provide the service.

Participation fees are based on the cost of a broad range of regulatory services that cannot be practically or easily attributed to individual activities or entities and are intended to serve as a proxy for the market participant's use of the Ontario capital markets. Participation fee levels are set using a tiered structure. Fees for issuers are based on average market capitalization across their fiscal year; fees for registrants are based on their revenues. As a market participant grows, it moves through various tiers which have increasingly higher fees.

The OSC is currently developing a revised fee rule which is expected to be in force in April 2013. The new fee rule will be designed to:

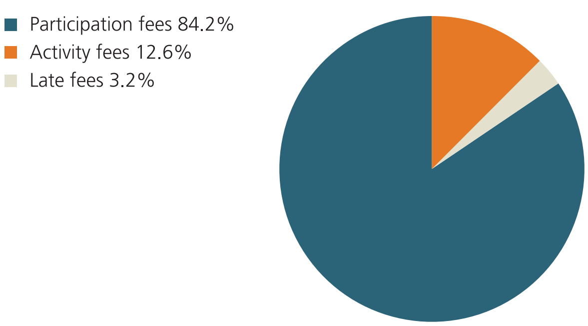
- improve the predictability of OSC fee revenues;
- improve the matching of fees to costs so that, where practical, the sectors that are generating costs to the OSC bear appropriate fees;
- generate fees that allow the OSC to adapt to market changes and invest in staff or infrastructure to address them, and
- expand the range of both activity and participation fees to provide a fairer allocation of costs to all market participants and better reflect the range of activities undertaken by the OSC.

Detailed Analysis of Fiscal 2012 Financial Performance

Revenues					
(Thousands)	% of Total 2012	**2012**	2011	Change	% Change
Participation fees	84.2	**$ 71,694**	$ 58,404	$ 13,290	22.8
Activity fees	12.6	**10,728**	11,777	(1,049)	(8.9)
Late fees	3.2	**2,760**	2,386	374	15.7
Total fees	100.0	**85,182**	72,567	12,615	17.4
Investment income		**344**	298	46	15.4
Miscellaneous		**112**	90	22	24.4
Total revenues		**85,638**	72,955	12,683	17.4

Figure 1 shows the sources of the OSC's fee revenues:

Figure 1 – OSC Fees by Type



The impact of stronger than expected market performance in conjunction with higher fee rates had a positive impact on OSC revenues. Revenues for the year were $85.6 million, up from $73.0 million in 2011. The variance is explained below.

Participation fees were higher by $13.3 million or 22.8%. In 2012, participation fee rates rose by 9% for registrants and 17% for issuers. The difference in fee increases for issuers and registrants is intended to better align revenues generated from each group with its level of participation in the Ontario capital markets.

Issuer participation fee revenues were higher by $5.9 million due to year over year increases in the market capitalizations of issuers coupled with higher fee rates. Registrant participation fee revenues were higher by $7.4 million due to a year over year increase in registrants' revenues coupled with the higher fee rates.

Activity fees fell by $1.0 million or 8.9%. The decline was due to lower issuer activity fee revenues as lower market activity resulted in decreased numbers of preliminary short form prospectuses, applications for relief, and exempt distributions filings. Registrant activity fees were virtually unchanged.

Late filing fees were $374,000 or 15.7% higher than last year due to an increase in late filings of annual and interim financial statements and insider reports. This is likely related to the reduction in the insider filing deadline from ten to five days which occurred midway through 2011.

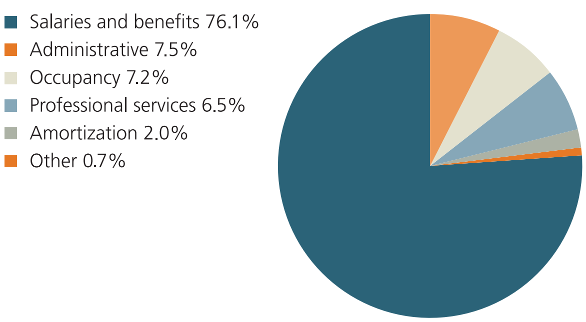
Investment income rose by $46,000 or 15.4%, due to higher interest rates on slightly higher than expected cash balances. The average rate of return on cash balances and investments was 1.2% (2011 – 0.9%) and was 33% higher than 2011.

Expenses (Thousands)	% of 2012 Expenses	**2012**	2011	Change	% Change
Salaries and benefits	76.1	**$ 69,415**	$ 66,044	$ 3,371	5.1
Administrative	7.5	**6,818**	6,195	623	10.1
Occupancy	7.2	**6,544**	6,526	18	0.3
Professional services	6.5	**5,920**	2,649	3,271	123.5
Depreciation	2.0	**1,844**	2,729	(885)	(32.4)
Other	0.7	**623**	441	182	41.3
Total Expenses	100.0	**91,163**	84,584	6,579	7.8
Recoveries		**1,139**	703	436	62.0
Total Expenses (net of recoveries)		**90,025**	83,881	6,144	7.3

Total expenses (net of recoveries) for 2012 increased 7.3% to $90.0 million (2011 – $83.9 million).

The key contributors to the expenditure increase were as follows:

Figure 2 – OSC Expenses by Type



Salaries and Benefits costs increased by 5.1% to $69.4 million (2011 – $66.0 million) and accounted for 76.1% (2011 – 78.1%) of total expenses. The full-year cost of staff hired during 2011, as well as the costs for new staff were key sources of the increase. Staff was added to support and coordinate operation of the OSC Investor Advisory Panel and to improve the timeliness of OSC adjudicative processes. Other staff was added across various branches to address operational priorities.

The OSC operates in a competitive market for required skills and expertise. Compensation under its performance-based variable pay program increased by $394,000. Salary increases put in place at the beginning of the fiscal year complied with Government guidelines averaging 1.9%. The increases totalled $887,000 (2011 – $614,000). These increases were partially offset by savings of $873,000 on salaries and benefits that were recovered for staff seconded to the CSTO. Severance costs were $1.1 million, $346,000 lower than 2011.

Administrative costs increased by 10.1% to $6.8 million (2011 – $6.2 million) and accounted for 7.5% (2011 – 7.3%) of total expenses. Training costs were $275,000 higher reflecting increased management training across the organization. Other key contributors to the increase included a $147,000 rise in information technology maintenance and support costs and higher Commission costs ($89,000).

Occupancy costs, which accounted for 7.2% (2011 – 7.7%) of the OSC's total expenses, were essentially flat.

Professional Services spending increased 123.5% from $2.6 million to $5.9 million and accounted for 6.5% (2011 – 3.1%) of the OSC's total expenses. Additional spending on enforcement matters related to emerging markets accounted for more than two thirds of this increase. The other main cost contributor was the OSC's strategic planning initiative which accounted for about 20% of the increase.

The OSC is a member of the CSA, which is a forum of Canadian securities regulators. Professional services include costs to operate CSA offices (allocated on a formula basis) as well as the OSC's portion of professional services costs incurred on joint CSA projects. Total CSA spending on shared projects in 2012 was higher at $3.0 million (2011 – $2.7 million) of which the OSC contributed $1.1 million (2011 – $1.1 million). OSC staff time spent on CSA projects is not included in these totals. All CSA projects, including the development of harmonized securities policies and rules, are co-ordinated through a central secretariat. The CSA's business relationships with third-party technology providers are managed through the CSA systems office. In 2012, the OSC contributed $250,000 (2011 – $242,000) to the cost of the CSA Secretariat and $470,000 (2011 – $405,000) to the cost of the Systems Office.

Depreciation costs decreased to $1.8 million (2011 – $2.7 million) and accounted for 2.0% (2011 – 3.2%) of the OSC's total expenses. Depreciation expenses declined reflecting a lower capital base than last year, the impact of the change in depreciation method as a result of the transition to IFRS and the change in estimates of the useful lives of the computer hardware and related applications.

Other expenses, which are travel and related expenses, increased by $182,000 or 41.3% to $623,000 (2011 – $441,000) and accounted for 0.7% (2011 – 0.5%) of the OSC's total expenses. In 2012, travel expenses rose mainly due to an increase in number of trips, especially trips related to ongoing investigations of emerging markets issues by enforcement staff. More travel related to our international work with IOSCO and other international regulatory bodies also was a key factor.

Liquidity and Financial Position

Financial Instruments

Financial instruments used by the OSC consist of Cash, Funds held pursuant to designated settlements and orders, Funds held for CSA systems redevelopment, and Reserve fund assets, all of which are recorded at fair value. Trade and other receivables, trade and other payables and accrued liabilities are recorded at cost which approximates fair value given their short-term maturities. Cash, Funds held pursuant to designated settlements and orders and Funds held for CSA systems redevelopment and Reserve fund assets are held in a Canadian deposit account with a Schedule 1 bank, earning interest at 1.75% below the prime rate.

It is management's opinion that the OSC is not exposed to significant interest rate, currency or liquidity risks arising from its investments due to their short-term nature and because virtually all transactions occur in Canadian dollars. The OSC's concentrations of credit risk with respect to trade and other receivables are limited as they are made up of a large number of debtors owing individually immaterial balances, and amounts receivable from the Government of Canada for the recovery of the Harmonized Sales Tax (HST) paid during the year and from the Canadian Securities Transition Office for staff seconded to that office.

Liquidity

As at March 31, 2012, the OSC held $23.1 million (2011 – $26.5 million) in cash, had current assets of $26.8 million (2011 – $29.4 million) and current liabilities of $15.2 million (2011 – $13.5 million) for a current ratio of 1.8:1 (2011 – 2.2:1). The OSC holds cash and marketable securities to ensure that sufficient liquidity is available to meet forecasted cash requirements.

In setting fees for the three years ending March 2013, the OSC planned to operate at a deficiency in each year so as to eliminate the surplus by the end of the period. In 2012, the OSC had an operating deficiency of $4.4 million and the year-end surplus was reduced to $13.5 million. As a result of its planned deficiency of revenues over expenses, the OSC's cash position decreased by $3.4 million or 13.0% in 2012. Cash flows from operating activities continued to be negative with an outflow of $1.5 million (2011 – $7.7 million). Purchases of premises and equipment used $1.9 million (2011 – $1.3 million).

In 2013, the OSC is expecting an operating deficiency of $6.5 million. In March 2013, the cash balance is projected to decrease to approximately $7.8 million and the general surplus is projected to be $7.0 million.

The OSC faces significant cash flow challenges each year due to a mismatch between the timing of its revenues and expenditures. Since more than 75% of the OSC's annual revenues are received in the last quarter of each fiscal year, and expenses are incurred relatively evenly throughout the year, this results in negative cash balances that peak in

December of each year. Prior to 2012, the OSC managed this issue by using its accumulated surplus. With the planned reduction in this surplus, the OSC needed to fully use its $20 million reserve in 2012. The OSC also used its credit line for the first time in December 2011. In January 2012, when the majority of registrant fees were received, the credit line was repaid and the $20 million reserve was restored.

Currently, the OSC has approval for a $7.5 million revolving line of credit which expires on June 30, 2012. The OSC is currently seeking approval for a 2 year, $35 million revolving line of credit to address anticipated short-term cash deficiencies for the period July 01, 2012 to June 30, 2014. The OSC expects that drawings on the line of credit will be required beginning in September 2012 and rising to about $20 million by December 2012. The credit line will be repaid in January 2013.

With the general surplus and the expected re-establishment of its credit facility, the OSC expects to have sufficient liquidity to finance its operations and purchases of premises and equipment.

Revenues

Revenue generation remains a source of risk as all the OSC's revenues are correlated to market activity. The degree to which the OSC's revenues vary along with market fluctuations is greater than was anticipated when its fee structure was developed. Additional discussion is provided under "Financial Risk" later in the document.

Reserves

Since 2001, the OSC has had a $20.0 million general reserve as an operating contingency for revenue shortfalls or unexpected expenses. The prime investment consideration for the reserve is the protection of capital and liquidity. The OSC records income generated by the reserve in general operations.

Trade and other receivables

Trade and other receivables increased 25.4% to $2.7 million (2011 – $2.2 million). The key driver of the increase is the amount owing from the Government of Canada for the recovery of HST ($704,000) (2011 – $437,000).

Funds held pursuant to designated settlements and orders

The OSC has a number of settlement agreements and orders arising from enforcement proceedings where monies from these settlements and orders are to be set aside and allocated to such third parties as the OSC may determine. Funds that are not so designated at the time that settlements are approved or orders are made are to be paid to the Consolidated Revenue Fund of the Government of Ontario and may not be used to fund OSC operations. Amendments to the *Securities Act* in December 2004 removed the requirement for Ministerial approval of allocations of designated funds. With regard to monetary sanctions imposed, a fair and appropriate use for these monies will be determined in accordance with applicable laws, court orders and in the public interest.

In 2012, the OSC collected $2.8 million (2011 – $4.5 million) through designated settlements and orders. As authorized by the Board, the OSC paid $4.4 million to the Investor Education Fund (2011 – $3.0 million). At March 31, 2012, the OSC holds $47.2 million (2011 – $43.6 million) pursuant to designated settlements and orders. The OSC and IIROC recently appointed Ernst & Young Inc. to administer the distribution of funds that were collected through enforcement settlements to eligible investors who purchased third-party Asset-Backed Commercial Paper (ABCP). The OSC has committed to pay $27.6 million as part of this process. The intent is to distribute the funds directly to eligible investors by September 2012. Subsequent to year-end, on April 24, 2012, the OSC Board authorized a further $3.9 million to be paid to the Investor Education Fund to provide funding for the 2013 fiscal year.

The OSC has the power to impose monetary sanctions for breaches of Ontario securities law and has exercised this authority since 2005. The OSC continues to face challenges in collecting sanctions as respondents often have limited assets, poor credit, or have left Ontario. Although the OSC pursues outstanding amounts vigorously, only $112.2 million (46.3%) has been collected of $242.3 million sanctioned since 2005. Of the $130.2 million outstanding, $5.4 million is likely collectible and accrued in the OSC's financial statements. About 41% ($54 million) of the $130.2 million outstanding relates to two cases.

Funds held for CSA systems redevelopment

To March 31, 2012, the OSC has received $79.2 million (2011 – $62.6 million) from the operator of the System for Electronic Document Analysis and Retrieval (SEDAR), the National Registration Database (NRD) and the System for Electronic Disclosure by Insiders (SEDI), representing the accumulated surplus from the operations of SEDAR, NRD and SEDI from their inception. Interest earned on these funds to 2012 was $3.8 million (2011 – $2.9 million) which is included in the funds held for CSA systems redevelopment balance.

As described in Note 7 of the financial statements, these funds may be used to enhance the systems, reduce systems fees or offset shortfalls in revenue in SEDAR, SEDI, and NRD. In 2012, there were no SEDAR deficits. As at March 31, 2012, $28.2 million (2011 – $25.8 million) of the total funds held for CSA systems redevelopment is available for SEDAR, $15.3 million (2011 – $10.9 million) is available for SEDI, and $37.0 million (2011 – $28.1 million) is available for NRD. The OSC has committed to paying its share of annual shortfalls resulting from the operations of SEDAR (45.1%), SEDI (25%) and NRD (36.07%), should they occur and accumulated surpluses are unavailable.

During the year, work started to develop a request for proposals (RFP) for a new service provider to operate the CSA IT systems. In addition groundwork was completed on preliminary requirements for the redevelopment of these systems. As at March 31, 2012, total accumulated payments related to this redevelopment project totalled $2.5 million. Redevelopment work will be funded by the amount held in trust.

Premises and equipment

Expenditures on premises and equipment rose 42.1% to $1.9 million (2011 – $1.3 million). This increase related to spending to refresh our laptops.

(Thousands)	**2012**	2011	% Change
Furniture and equipment	**$ 55**	$ 40	38
PCs, laptops and other IT equipment	**1,751**	1,134	54
Leaseholds and other capital items	**71**	147	(52)
Total	**1,877**	1,321	42

Liabilities

Trade and other payables increased 13.9% to $15.2 million (2011 – $13.4 million). Key contributors to the increase were higher accruals for bonuses ($389,000) and payroll ($502,000).

The accrued pension liability of $2.0 million (2011 – $2.0 million) represents future obligations relating to supplementary pension plans for the current and former Chairs and Vice-Chairs. The unfunded supplemental pension plans' defined benefit obligation at March 31, 2012, was $2.4 million (2011 – $2.0 million). The recognized pension liability was $2.0 million (2011 – $2.0 million). The OSC's related expense for the year was $117,000 (2011 – $307,000) and is included in salaries and benefits. The decrease was mainly related to the amortization of past service costs on transition to IFRS.

The OSC is committed to lease payments as outlined in Note 11 to the financial statements.

Internal Control Over Financial Reporting (ICFR)

During the year, the OSC's ICFR processes were reviewed and documentation updated where necessary. Operating effectiveness was tested using the framework and criteria established in "Internal Control –Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Staff performed an evaluation, under the supervision and with the participation of management, of the effectiveness of the OSC's ICFR as at March 31, 2012. Based on this evaluation, the OSC has concluded that the ICFR was operating effectively and that there are no material weaknesses.

There have been no changes that occurred during the most recent year ended March 31, 2012, that have materially affected, or are reasonably likely to materially affect, the OSC's ICFR. The Chair and the Controller certify the design and effectiveness of ICFR in the Statement of Management's Responsibility and Certification.

Critical Accounting Estimates

The preparation of financial statements in accordance with IFRS requires that management make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the financial statements, as well as the reported amounts of revenues and expenditures for the period. An accounting estimate is considered critical if the estimate requires us to make assumptions about matters that are highly uncertain at the time the estimate is made; or we could have reasonably used different estimates in the current period, or changes in the estimate are reasonably likely to occur from period to period, that would have a material impact on our financial condition, our changes in financial condition or our results of operations. Actual amounts can differ from these estimates to the extent future outcomes differ significantly from management's forecast expectations. To address this, the OSC uses various estimating techniques and assumptions to prepare the financial statements. Estimates were used in the following accounts: collectability of trade and other receivables, valuation of pension liabilities, estimated useful life of premises and equipment, total trade and other payables and collectability of designated settlements and orders. Judgment was used to decide whether to consolidate the Investor Education Fund. Where appropriate, such as for pension matters, the OSC obtains independent professional expertise to assist in the calculation of these estimates. It is management's opinion that none of the estimates as described in Note 2 of the 2012 financial statements requires the OSC to make assumptions about matters that are highly uncertain. For these reasons, none of the estimates is considered a "critical accounting estimate".

Risks and Uncertainties

The range of risks the OSC must manage continues to grow due to the pace of change and the continuing globalization of financial entities and their operations:

- *Developments in the overall investment marketplace*: These changes may be product based, market structure based or relate to transactions or the activities of market intermediaries.
- *Developments in the domestic and international regulatory arena*: As economies and markets have become more globally linked so has the need to consider changes to the way many aspects of financial services regulation are viewed.
- *Developments in stakeholder perceptions of regulatory effectiveness*: Despite extensive efforts and resource expenditures of regulators, there remains a gap between the expectations of the public and its perceptions of regulatory effectiveness.

Improving risk identification and management was identified as a key goal during the OSC's recently completed strategic planning exercise. Understanding those we regulate is necessary to allow us to respond to emerging risks in a more timely and appropriate manner. A strong focus on risk to ensure that we both identify and mitigate risk effectively is necessary. The OSC will establish an emerging risk committee to work with our added research and analysis capability to develop a comprehensive framework for the identification and analysis of risks for the OSC. It will ensure that this program is rolled out across the organization and updated on an ongoing basis. The OSC will use the increased understanding gained through these activities to refine its regulatory approaches.

Operational Risk

Operational risk can be defined as the risk of direct or indirect loss resulting from the organizational environment or external events, or from inadequate internal processes, staff resources, or supporting systems. Management is responsible for the day-to-day control of operational risk by ensuring that appropriate procedures, internal controls and processes or other actions and compliance with such programs are established to reduce operational risk.

Specialist support groups, such as Human Resources, Corporate Services and the Office of the General Counsel, assist operational management by maintaining oversight in areas such as corporate data security, staff conduct requirements, technology stability and reliability, financial controls, corporate insurance and legal compliance, among others. The OSC has established policies and processes to identify, manage and control operational risk. Key components include:

- regular reviews of systems security measures to monitor controls and identify potential vulnerabilities to external parties accessing OSC data;
- mitigation of risk to assets through insurance where practical and appropriate; and
- separation of duties across key functions.

Operational risk can include risk to the OSC's reputation. Reputational risk is addressed at the OSC by its Code of Conduct and governance practices established by its Board of Directors (additional details available at www.osc.gov.on.ca) as well as other specific risk management programs, policies, procedures and training.

The OSC, from time to time, is involved in various legal actions arising from the ordinary course and conduct of business. Settlements, if any, concerning these contingencies will be accounted for in the period in which the settlement occurs. The outcome and ultimate disposition of these actions are not determinable at this time; however, OSC management does not expect the outcome of any of these proceedings, individually or in aggregate, to have a material impact on its financial position.

Disruption to the operation of any of the major systems applications (SEDAR, NRD and SEDI) operated by CDS INC. (CDS) on behalf of the CSA (including the OSC) is a potential source of risk. CDS recovers its costs to operate these systems through the application of user fees to filers. In 2012, 92.9% (2011 – 91.1%) of total regulatory fee revenue at the OSC was collected through these national applications (SEDAR 38.6% and NRD 54.3%). No material change is expected in the volume of fees collected through these systems. The current operating agreement with CDS for these systems has been extended until October 2013. A strategy for redevelopment of the systems has been created by the CSA IT Systems Office and an implementation plan has been agreed to. In addition, it has been agreed to competitively tender operation of the current systems in parallel with the development of replacement systems.

The CSA requires CDS to provide an annual third-party audit report (CSAE 3416) that provides a review of the design of the internal controls for each system. In addition, CDS is required to have an operating disaster recovery site for these systems that is annually tested.

Financial Risk

The OSC maintains a strong internal control environment, including management oversight to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The majority of OSC revenue is generated through participation fees. The OSC fee model uses a tiered structure to moderate the impact of market fluctuations in an effort to provide revenue stability. While the fee model has achieved this objective across multi-year periods, in any given year, the predictability of OSC revenues is less certain as participation fees are still subject to market fluctuations. The OSC's 2013 revenue forecast reflects a 5% market growth projection. Should this growth rate not be achieved, revenues could be materially lower than forecast but would not be expected to impair OSC operations.

Business Continuity

In the event of an external disruption, the OSC maintains a robust Business Continuity Plan to ensure the continuation of critical regulatory services. Detailed business continuity plans are in place for each priority business function. Each functional plan includes documented recovery procedures including manual workarounds and other mitigation strategies. Offsite recovery services and facilities have been contracted and were successfully tested during 2012. Remote access capability exists to enable staff to access all critical OSC systems. The OSC plan is continually reviewed and refined to include strategies to recover data and functionality and to resume operations under various disruption scenarios. Another key element of the OSC plan addresses its interfaces with self-regulatory organizations and other key market participants and includes strategies to effectively address various market disruption scenarios.

2013 Outlook

The 2012/2013 OSC Statement of Priorities sets out the Commission's priorities and proposed initiatives for the upcoming year. The document is available at www.osc.gov.on.ca. The OSC has identified five broad priorities for 2013:

1. Deliver Responsive Regulation
2. Deliver Effective Enforcement and Compliance
3. Deliver Strong Investor Protection
4. Run a Modern, Accountable and Efficient Organization
5. Support and Promote Financial Stability

Details on planned initiatives toward achievement of these priorities are set out earlier in the Annual Report.

OSC Revenues and Surplus

Overall, the OSC is forecasting revenues in 2012–2013 to increase by 9.2% from 2011–2012 actual revenues. This forecast reflects the fee increases in place for the coming year and a market growth assumption of 5%. When the OSC reset fee rates for three years in April 2010, fees were set at levels to generate revenues that would be below expected costs. The intent was to eliminate the surplus that had been accumulated in the prior three year period. Based on the projected revenues and proposed 2012–2013 OSC Budget, the OSC expects to operate at a deficit in 2012–2013. As a result, the OSC surplus is projected to be about $7.0 million as at March 31, 2013.

2012–2013 Budget Approach

The prevailing financial environment poses challenges for those that the OSC regulates and the OSC itself. Despite improving global economic conditions, uncertainties remain around the possible outcomes for the economy and financial market volatility persists. The main environmental factors affecting the OSC's work are set out earlier in the Annual Report.

The OSC's job continues to expand. The OSC requires new tools and resources with specialized skills to meet the evolving demands that it faces. Consultation both domestically and abroad is becoming a more integral element of its operations. The OSC also faces the challenge to try to remain aligned to the Government's fiscal objectives. During the past year the OSC redeployed significant existing internal resources to address priorities related to emerging markets. As the OSC moves to meet its ever-changing challenges it will need to continue to aggressively pursue process efficiencies and ways to reduce its costs and to do more within its existing resources.

The 2012–2013 OSC Budget is focused on investment in the key strategies identified in its recently completed three-year OSC Strategic Plan. While these initiatives will be staffed in part through redeployment of existing resources, the scope of the initiatives is such that more resources are needed.

The budget reflects a projected increase of $10.0 million or 11.1% over 2011–2012 spending and 10.2% above the 2011–2012 budget. Salaries and benefits, which comprise $74.8 million or 74.8% of the budget, reflect an increase of $5.4 million or 7.7% over 2011–2012 spending. The increase in salaries and benefits cost reflects:

- new positions approved to achieve the strategic initiatives;
- full-year costs for vacancies and staff hired throughout 2011–2012, and
- higher projected restructuring costs due to realignment with OSC Strategic Plan priorities.

The 2012–2013 budget includes funding for new staff focused in the following areas to:

• address market structure issues that are increasing both in number and complexity;

• establish and staff a new Office of the Investor;

• set up the OSC's new CA Training Office accredited by the Institute of Chartered Accountants of Ontario, and

• provide analytical and research support to allow the OSC to undertake a more fact based approach.

These initiatives will support the regulatory results the OSC is seeking. The OSC is committed to becoming a 21st century regulator and needs to attract, retain and motivate staff with the required skills and experience. The OSC believes that becoming a leading employer will help it attract skilled staff. Therefore, resources have been allocated to various human resources initiatives with the goal to create the appropriate organizational structure and development environment.

				2012-13 Budget to 2011-12 Budget		2012-13 Budget to 2011-12 Actual	
(Thousands)	2011-12 Budget	2011-12 Actual	2012-13 Budget	Change	**% Change**	Change	**% Change**
Revenues	$ 80,287	$ 85,638	$ 93,524	$ 13,237	**16.5**	$ 7,886	**9.2**
Expenses	90,706	90,025	99,986	9,280	**10.2**	9,961	**11.1**
Deficiency of Revenue compared with Expenses	$ (10,419)	$ (4,387)	$ (6,462)	$ 3,957			
Capital Expenditures	$ 2,396	$ 1,877	$ 8,057	$ 5,661			

The significant increase in the capital budget primarily reflects the build-out of recently acquired additional space as well as the realignment and refurbishment of the OSC's existing space. The budget also includes considerable investments to support upgrading and expansion of OSC information technology which will help to facilitate excellence in the execution of the OSC's operations.

Management's Responsibility and Certification

Management is responsible for the integrity, consistency and reliability of the financial statements and other information presented in the annual report. The financial statements have been prepared by Management in accordance with International Financial Reporting Standards.

We certify that we have reviewed the financial statements and other information contained in the annual report, and, based on our knowledge, they do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the statements and the annual report.

Based on our knowledge, the financial statements together with other financial information included in the annual report fairly present in all material respects the financial condition, results of operations and cash flows of the Ontario Securities Commission (the "OSC") as of the dates and for the periods presented. The preparation of financial statements involves transactions affecting the current period which cannot be finalized with certainty until future periods. Estimates and assumptions are based on historical experience and current conditions, and are believed to be reasonable.

We are responsible for establishing and maintaining internal control over financial reporting for the OSC. We have designed such internal control over financial reporting, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards.

We evaluated, or caused to be evaluated under our supervision, the effectiveness of the OSC's internal control over financial reporting at the financial year end and the OSC has disclosed in its annual MD&A our conclusion about the effectiveness of internal control over financial reporting at the financial year end based on that evaluation.

We have also disclosed in the MD&A any change in our internal control over financial reporting that occurred during the year that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

The Board of Directors ensures that management fulfills its responsibility for financial reporting and internal control. The financial statements have been reviewed by the Audit and Finance Committee and approved by the Board of Directors. The Auditor General's Report, which follows, outlines the scope of the Auditor's examination and opinion on the financial statements.

Howard I. Wetston, Q.C.
Chair and Chief Executive Officer

Frank Panzetta, CGA
Controller

May 22, 2012

Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

Independent Auditor's Report

To the Ontario Securities Commission

I have audited the accompanying financial statements of the Ontario Securities Commission, which comprises the statements of financial position as at March 31, 2012, March 31, 2011 and April 1, 2010, and the statements of comprehensive income, the statements of changes in surplus and the statements of cash flows for the years ended March 31, 2012 and March 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained in my audits is sufficient and appropriate to provide a basis for my opinion.

Opinion

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Ontario Securities Commission as at March 31, 2012, March 31, 2011 and April 1, 2010, and its financial performance and its cash flows for the years ended March 31, 2012 and March 31, 2011 in accordance with International Financial Reporting Standards.

Jim McCarter, FCA
Auditor General
Licensed Public Accountant

Toronto, Ontario
May 22, 2012

STATEMENT OF FINANCIAL POSITION

In Canadian dollars

	Notes	March 31, 2012	March 31, 2011	April 01, 2010
ASSETS				
CURRENT				
Cash		**$ 23,061,703**	$ 26,503,743	$ 35,592,848
Trade and other receivables	5	**2,699,510**	2,151,928	1,046,029
Prepayments		**1,025,843**	765,481	505,472
TOTAL CURRENT		**$ 26,787,056**	$ 29,421,152	$ 37,144,349
NON-CURRENT				
Funds held pursuant to designated settlements and orders	6	**$ 47,194,738**	$ 43,603,984	$ 43,495,838
Funds held for CSA systems redevelopment	7	**80,521,903**	64,880,151	49,135,268
Reserve fund assets	8	**20,000,000**	20,000,000	20,000,000
Property, plant & equipment	9	**3,943,729**	3,910,758	5,318,889
TOTAL NON-CURRENT		**$ 151,660,370**	$ 132,394,893	$ 117,949,995
TOTAL ASSETS		**$ 178,447,426**	$ 161,816,045	$ 155,094,344
LIABILITIES				
CURRENT				
Trade and other payables	10	**$ 15,228,177**	$ 13,374,631	$ 11,686,270
Obligation under finance leases	11b	**1,631**	78,778	107,899
TOTAL CURRENT		**$ 15,229,808**	$ 13,453,409	$ 11,794,169
NON-CURRENT				
Obligation under finance leases	11b	**–**	1,631	88,522
Pension liabilities	12	**2,016,341**	2,005,194	1,782,872
Funds held pursuant to designated settlements and orders	6	**47,194,738**	43,603,984	43,495,838
Funds held for CSA systems redevelopment	7, 18	**80,521,903**	64,880,151	49,135,268
TOTAL NON-CURRENT		**$ 129,732,982**	$ 110,490,960	$ 94,502,500
TOTAL LIABILITIES		**$ 144,962,790**	$ 123,944,369	$ 106,296,669
SURPLUS				
OPERATING				
General	14	**$ 13,484,636**	$ 17,871,676	$ 28,797,675
Reserve	8, 13	**20,000,000**	20,000,000	20,000,000
		$ 33,484,636	$ 37,871,676	$ 48,797,675
TOTAL LIABILITIES AND SURPLUS		**$ 178,447,426**	$ 161,816,045	$ 155,094,344

The related notes are an integral part of these financial statements.

ON BEHALF OF THE BOARD OF THE COMMISSION

Howard I. Wetston, Q.C.
Chair

Margot C. Howard
Chair, Audit and Finance Committee

STATEMENT OF COMPREHENSIVE INCOME

In Canadian dollars

	Notes		**Year ended March 31, 2012**		Year ended March 31, 2011
REVENUES					
Fees	14	**$**	**85,182,382**	$	72,566,666
Interest income			**343,740**		298,018
Miscellaneous			**111,768**		90,128
		$	**85,637,890**	$	72,954,812
EXPENSES					
Salaries and benefits	15	**$**	**69,414,747**	$	66,044,367
Administrative	16		**6,818,005**		6,195,206
Occupancy			**6,544,194**		6,525,669
Professional Services			**5,919,595**		2,648,338
Depreciation	9		**1,843,700**		2,729,026
Other			**623,189**		441,086
		$	**91,163,430**	$	84,583,692
Recoveries of enforcement costs	17		**(1,138,500)**		(702,881)
		$	**90,024,930**	$	83,880,811
DEFICIENCY		**$**	**(4,387,040)**	$	(10,925,999)

The related notes are an integral part of these financial statements.

STATEMENT OF CHANGES IN SURPLUS

In Canadian dollars

	Notes		**March 31, 2012**		March 31, 2011
OPERATING SURPLUS, BEGINNING OF YEAR		**$**	**37,871,676**	$	48,797,675
DEFICIENCY			**(4,387,040)**		(10,925,999)
OPERATING SURPLUS, END OF YEAR		**$**	**33,484,636**	$	37,871,676
Represented by:					
General	14	**$**	**13,484,636**	$	17,871,676
Reserve	8, 13		**20,000,000**		20,000,000
		$	**33,484,636**	$	37,871,676

The related notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

In Canadian dollars

	Notes		**Year ended March 31, 2012**		Year ended March 31, 2011
CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES					
Deficiency of revenues over expenses		**$**	**(4,387,040)**	$	(10,925,999)
Adjusted for					
Interest received			**327,008**		257,904
Interest income			**(343,740)**		(298,018)
Pension liabilities			**11,147**		222,322
Loss on disposal of property, plant and equipment			**132**		–
Depreciation			**1,843,700**		2,729,026
		$	**(2,548,793)**	$	(8,014,765)
Changes in non-cash working capital:					
Trade and other receivables		**$**	**(530,850)**	$	(1,065,785)
Prepayments			**(260,362)**		(260,009)
Trade and other payables			**1,853,546**		1,688,361
		$	**1,062,334**	$	362,567
Net cash flows used in operating activities		**$**	**(1,486,459)**	$	(7,652,198)
Cash flows used in investing activities					
Purchase of property, plant and equipment	9	**$**	**(1,876,803)**	$	(1,320,895)
Net cash flows used in investing activities		**$**	**(1,876,803)**	$	(1,320,895)
Cash flows used in financing activities					
Repayment of obligation under finance leases		**$**	**(78,778)**	$	(116,012)
Net cash flows used in financing activities		**$**	**(78,778)**	$	(116,012)
NET DECREASE IN CASH		**$**	**(3,442,040)**	$	(9,089,105)
CASH POSITION, BEGINNING OF YEAR			**26,503,743**		35,592,848
CASH POSITION, END OF YEAR		**$**	**23,061,703**	$	26,503,743

The related notes are an integral part of these financial statements.

1. Reporting Entity

The Ontario Securities Commission (the "OSC") is a corporation domiciled in Canada. The address of the OSC's registered office is 20 Queen Street West, Toronto ON M5H 3S8. The OSC is a corporation without share capital and is the regulatory body responsible for regulating the province's capital markets. As a Crown corporation, the OSC is exempt from income taxes.

2. Basis of Presentation

a. Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). These are the OSC's first financial statements prepared in accordance with IFRS and IFRS 1 *First-time Adoption of International Financial Reporting Standards* (IFRS 1) has been applied. An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the OSC is provided in Note 21. These financial statements for the year ended March 31, 2012 (including comparatives) were authorized for issue by the Board of Directors on May 22, 2012.

b. Basis of measurement

The financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value and pension liabilities that are measured net of actuarial gain and losses, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

c. Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the OSC's functional currency, which have been rounded to the nearest dollar.

d. Use of judgments and estimates

The preparation of financial statements in accordance with IFRS requires that management make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the financial statements, as well as the reported amounts of revenues and expenditures for the period. Actual amounts can differ from these estimates to the extent future outcomes differ significantly from management's forecast expectations.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Judgments

The following are the judgments in applying accounting policies apart from those involving estimates that have the most significant effect on the amounts recognized in the financial statements.

Consolidation of Investor Education Fund (IEF or the "Fund")

The IEF is a non-profit organization funded by settlements and fines from enforcement proceedings of the OSC. There are a number of areas where significant judgment is exercised to establish whether the Fund needs to be consolidated with the OSC. Key areas of judgment include: legal relationship, contractual terms, board and management representation, power to govern, benefits, and materiality. The exercise of judgment in these areas determines whether the fund is consolidated with the OSC. Details related to the IEF are set out in Note 20.

Estimates

The following are the key assumptions and other major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year.

Designated settlements and orders and recovery of enforcement costs

Designated settlements and orders and recovery of enforcement costs are recognized when it is virtually certain that the amount related to the sanction imposed on respondents is collectible. Significant judgment is exercised to determine the recognition of designated settlements and orders and recovery of enforcement costs. Key areas of judgment include: the ability of the respondent to pay the sanction amount, the residency of the respondent and whether the respondent owns any assets. A change in any of the above areas can have a material impact on the OSC's financial statements. Assets and liabilities related to designated settlements and orders will increase and expenses will decrease related to the recoveries of enforcement costs. Details of designated settlements and orders and recovery of enforcement costs are set out in Note 6 and 17 respectively.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and in preparing the opening IFRS statement of financial position at April 01, 2010 for the purposes of the transition to IFRS. The OSC has applied certain accounting policies and exemptions upon transition to IFRS. The exemptions applied by the OSC and the effects of the transition to IFRS are presented in Note 21.

a. Financial Instruments

Financial assets and financial liabilities are recognized when the OSC becomes a party to the contractual provisions of the instrument.

Financial instruments are classified into one of the following categories: financial assets at fair value through profit or loss, loans and receivables, and other liabilities.

Financial assets and financial liabilities are measured initially at fair value plus transactions costs, except for financial assets carried at fair value through profit or loss, which are measured initially at fair value.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

The OSC has adopted the following classifications for financial assets and financial liabilities:

Loans and receivables
Trade and other receivables and receivables from designated settlements and orders are classified as loans and receivables and are measured at amortized cost, less any impairment loss. Impairment provisions are recognized when there is objective evidence (such as significant financial difficulties on the part of a market participant, or default or significant delay in payment) that the OSC will be unable to collect all of the amounts due under the terms of the amount receivable.

Financial assets at fair value through profit or loss
Cash, Funds held pursuant to designated settlements and orders, Funds held for the Canadian Securities Administrators (CSA) systems redevelopment and Reserve fund assets are classified as held-for-trading and recorded at fair value.

Other liabilities
Trade and other payables are classified as other liabilities and measured at amortized cost.

b. Property, Plant and Equipment

Items of property, plant and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Depreciation is recognized in profit and loss and calculated on a straight-line basis over the estimated useful lives of the assets less its residual value, as follows:

Office furniture and equipment	5 to 10 years
Computer hardware and related applications	3 years
Leasehold improvements	over term of the lease

The estimated useful lives, residual values and depreciation method are reviewed at the end of each year, with the effect of any changes in estimates accounted for on a prospective basis.

Computer hardware and related applications held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, when shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the net disposal proceeds and the carrying amount of the asset and is recognized in profit or loss.

Items of property, plant and equipment are reviewed for impairment at each reporting date to determine whether there is any indication of impairment. If such indication exists, then the asset's recoverable amount is estimated. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

c. Revenue Recognition

Fees are recognized when services are rendered, which is normally upon receipt.

Participation fees

Participation fees are recognized when received because these fees cannot be measured reliably as market capitalization of issuers or the specified Ontario revenue of registrants, on which their participation fees are based, is not determinable prior to receipt. These fees represent the payment for the right to participate in the Ontario capital markets and are deemed to be earned upon receipt.

Activity fees

Activity fees represent the direct cost of OSC staff resources expended in undertaking certain activities requested of staff by market participants. Because the activities undertaken are normally completed in a relatively short period of time, activity fees are recognized when received.

Late filing fees

Late filing fees in respect of insider trading reports are recognized on the 15th and at the end of each month and include fees related to all insider trading reports filed late in the preceding 15-day period.

Recoveries of enforcement costs

Recoveries of enforcement costs are recorded as offsets to total expenses on the date a settlement is approved or an order issued by the OSC, unless management determines there is significant doubt as to ultimate collection, in which case recovery is recognized when cash is received.

d. Funds Held Pursuant to Designated Settlements and Orders

Funds held pursuant to designated settlements and orders are recorded when settlements are approved or orders made by the Commission, unless management determines there is significant doubt as to ultimate collection, in which case they are recognized when cash is received.

e. Employee Benefits

Ontario's Public Service Pension Plan

The OSC provides pension benefits to its full-time employees through participation in Ontario's Public Service Pension Plan, which is a multi-employer defined benefit pension plan. This plan is accounted for as a defined contribution plan, as sufficient information is not available to apply defined benefit plan accounting to this pension plan. The Province of Ontario is the sole sponsor of the Public Service Pension Plan. As the sponsor is responsible for ensuring that the pension funds are financially viable, any surpluses or unfunded liabilities arising from statutory actuarial funding valuations are not assets or obligations of the OSC. Payments made to the above plan are recognized as an expense when employees have rendered service entitling them to the contributions.

Supplemental Pension Plan

The OSC also maintains unfunded supplemental pension plans for certain full-time Commission members as described in Note 12b. The liability recognised in the statement of financial position for the supplemental pension plans is the present value of the defined benefit obligation at the reporting date together with adjustments for unrecognised actuarial gains or losses and past service costs. The actuarial liability and the current service cost are determined by independent actuaries using the projected benefit method prorated on services and management's best estimate assumptions.

The OSC recognizes all actuarial gains and loses arising from the supplemental pension plans in profit and loss using the corridor method.

Other post-employment obligations

The costs of non-pension benefits for eligible pensioners are paid by the Government of Ontario and are not included in the Statement of Comprehensive Income as described in Note 19(c).

Termination benefits

Termination benefits are generally payable when employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The OSC recognizes termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without a realistic possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

Short-term benefits

Short term employee benefits, such as salaries, pension contributions, paid annual leaves and bonuses, are measured on an undiscounted basis and are expensed as the related service is provided.

f. Leases

Leases of property, plant and equipment are classified as finance leases when the OSC obtains substantially all the risks and rewards of ownership of the underlying assets. At the inception of the lease, the OSC records an asset together with a corresponding long-term liability at the lower of the fair value of the leased asset or the present value of the minimum lease payments. Any initial direct costs are added to the amount recognized as an asset. Thereafter, the asset is amortized over the shorter of its useful life and the lease term. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

All other leases are classified as operating leases. Lease payments are expensed on a straight-line basis over the term of the lease.

In the event that lease incentives are received to enter into operating leases, the aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

g. Provisions

Legal

A provision is recognized when a present legal or constructive obligation results from past events, it is probable that an outflow of resources will be required to settle the obligation and when a reliable estimate of the amount of the obligation can be made.

4. Financial Instruments Risks

The OSC is exposed to various risks in relation to financial instruments. The OSC's objective is to maintain a minimal risk. The OSC's financial assets and liabilities by category are summarised in Note 3. The main types of risks related to the OSC's financial instruments are currency risk, interest rate risk, credit risk and liquidity risk. This note presents information about the OSC's exposure to these risks and the OSC's objectives, policies and processes for measuring and managing these risks.

Currency Risk

The OSC's exposure to currency risk is minimal as only a small number of transactions are in currencies other than Canadian dollars.

Interest Rate Risk

The OSC's financial assets and liabilities are not exposed to significant interest rate risk due to their short-term nature. The OSC's Cash, Funds held pursuant to designated settlements and orders, Funds held for CSA systems redevelopment and Reserve fund assets are held by a Schedule 1 bank. The bank balances earn interest at a rate of 1.75% (2011 – 1.75%) below the prime rate, the average for the year was 1.25% (2011 – 1.01%). The Reserve fund earned interest at an average rate of 1.34% (2011- 0.80%).

A 25 basis points change in the interest rate would impact the OSC's operating surplus as follows:

	Impact on operating surplus	
	25 basis point increase in rates	25 basis point decrease in rates
Reserve fund assets	$ 34,445	$ (34,445)
Cash balance	40,685	(40,685)
	$ 75,130	$ (75,130)

Credit Risk

The OSC is exposed to minimal credit risk related to Cash, Funds held pursuant to designated settlements and orders, Funds held for CSA systems redevelopment, Reserve fund assets and trade and other receivables.

The Schedule 1 bank holds approximately 99% of the OSC's financial assets; however, given the nature of this counterparty, it is management's opinion that exposure to concentration of credit risk is minimal.

The OSC's trade and other receivables balance consists of a large number of debtors with individually immaterial outstanding balances, and amounts receivable from the Government of Canada for the recovery of the Harmonized Sales Tax (HST) paid during the year and from the Canadian Securities Transition Office (CSTO) for staff seconded to that office. Therefore, the OSC's exposure to concentration of credit risk is minimal. The OSC maintains an allowance for doubtful accounts. Therefore, the carrying amount of trade and other receivables generally represents the maximum credit exposure. Based on historical information about debtors default rates management considers the credit quality of trade receivables that are not past due or impaired to be good. Collection efforts continue for trade and other receivables balances, including those that are captured in the allowance for doubtful accounts.

The aging of trade and other receivables is as follows:

		March 31, 2012		March 31, 2011
Current	**$**	**1,702,917**	$	1,260,248
Past due 31 to 60 days		**707,645**		726,266
Past due 61 to 90 days		**38,913**		76,178
Past due greater than 90 days		**1,208,869**		954,746
	$	**3,658,344**	$	3,017,438

Reconciliation of allowance for doubtful accounts:

	Note		March 31, 2012		March 31, 2011
Opening balance		**$**	**865,510**	$	796,080
Current year provision			**117,629**		86,265
Written-off during the year			**(24,305)**		(16,835)
Closing balance	5	**$**	**958,834**	$	865,510

Liquidity Risk

The OSC's exposure to liquidity risk is minimal as the OSC has a sufficient cash balance and reserve funds to settle all current liabilities. As at March 31, 2012, the OSC had a cash balance of $23,061,703 to settle current liabilities of $15,229,808.

The OSC has put in place a $7,500,000 credit facility to address any short-term cash deficiencies. As at March 31, 2012, there is no amount outstanding on the credit facility.

The overall exposure to the above noted risk remains unchanged from 2011.

5. Trade and Other Receivables

	Note		March 31, 2012		March 31, 2011
Trade receivables		**$**	**1,498,637**	$	1,351,241
Allowance for doubtful accounts	4		**(958,834)**		(865,510)
		$	**539,803**	$	485,731
Other receivables			**1,177,589**		972,398
Interest receivable			**42,723**		95,599
Due from IEF	20		**235,617**		160,928
HST recoverable			**703,778**		437,272
		$	**2,699,510**	$	2,151,928

6. Funds Held Pursuant To Designated Settlements And Orders

The OSC has a number of settlement agreements and orders arising from enforcement proceedings where monies from these settlements and orders are to be set aside and allocated to such third parties as the OSC may determine. The accumulated funds are held in a segregated bank account and earn interest at the monthly average bank prime rate less 1.75%. A fair and appropriate use for these funds will be determined in accordance with applicable laws, court orders and in the public interest.

As at March 31, 2012, the accumulated balance is determined as follows:

	Note		March 31, 2012		March 31, 2011
Opening balance		**$**	**43,603,984**	$	43,495,838
Settlements and orders			**7,484,906**		4,527,223
Interest			**530,848**		449,785
Payments:					
IEF	20		**(4,420,000)**		(2,968,862)
Ministry of Finance – Financial Literacy			**–**		(1,900,000)
Others			**(5,000)**		–
Closing balance		**$**	**47,194,738**	$	43,603,984
Represented by:					
Cash		**$**	**41,786,979**	$	42,860,235
Receivable			**5,407,759**		743,749
		$	**47,194,738**	$	43,603,984

The opening balance at March 31, 2011 included a settlement for $1,900,000, the allocation of which was subject to the approval of the responsible Minister as required under the provision of the *Securities Act* in effect at the time the settlement was approved. During 2011, the Minister approved an allocation of $1,900,000 to the Ministry of Finance for financial literacy.

The $7,484,906 (2011 – $4,527,223) identified as settlements and orders reflects the portion of $39,986,471 (2011 – $81,407,662) in settlements and orders that were assessed during the year for which payment was either received or has been deemed collectible. As at March 31, 2012, $5,407,759 (2011 – $743,749) is considered receivable because staff has assessed the likelihood of collecting these amounts as virtually certain.

The ending balance at March 31, 2012 includes $27,625,000 received in fiscal 2010 from respondents for settlement orders related to the Asset Backed Commercial Paper (ABCP) investigation. The Commission has announced that it will distribute these funds to eligible investors who purchased third-party ABCP from the respondents. The Commission has appointed a third party to administer the distribution of these funds, which is scheduled to take place in September 2012, after the allocation has been determined.

7. Funds Held for CSA Systems Redevelopment

The OSC is in receipt of payments from the operator of the System for Electronic Data Analysis and Retrieval (SEDAR), the National Registration Database (NRD), and the System for Electronic Disclosure by Insiders (SEDI) representing the accumulated surplus from the operations of SEDAR, NRD, and SEDI. During the year, the OSC received payments totaling $16,596,429 (2011 – $15,737,452), earned interest of $879,526 (2011 – $563,280) and made payments totaling $1,834,263 (2011- $555,825). The total accumulated funds as at March 31, 2012 are calculated as follows:

		March 31, 2012		March 31, 2011
Total payment received to date	**$**	**79,241,047**	$	62,644,618
Interest earned to date		**3,753,068**		2,873,542
Less: Payments made to date		**(2,472,212)**		(638,009)
Total accumulated funds	**$**	**80,521,903**	$	64,880,151

These funds are held in trust by the OSC in accordance with agreements amongst the OSC, the Alberta Securities Commission, the British Columbia Securities Commission, and L'Autorité des marchés financiers. In the case of NRD, the Investment Industry Regulatory Organization of Canada is also a party to the applicable agreement. These funds shall be used to offset any shortfall in revenues from the systems, to develop or enhance the systems and to reduce fees charged to users of the systems. These funds are held in segregated bank accounts and earn interest at the monthly average bank prime rate less 1.75%.

The CSA plan to redevelop these systems in a multi-year phased approach. Funding for this redevelopment program will come from the accumulated surplus amounts. As at March 31, 2012, accumulated payments totaling $2,472,212 (2011 – $638,009) related to the development or enhancement of the systems were made for the following purposes:

		March 31, 2012
To provide procurement and information technology law advice	$	**782,306**
To provide information technology and business process outsourcing advice		**567,637**
To design an Enterprise Architecture for the CSA National Systems		**555,825**
To provide data architecture services and support		**302,022**
Staff support for the CSA National Systems development		**165,138**
To provide a vision for the Enterprise Architecture		**82,184**
To design web user interface		**17,100**
Total	$	**2,472,212**

8. Reserve Fund Assets

As part of the approval of its self-funded status, the OSC was allowed to establish a $20,000,000 reserve to be used as an operating contingency against revenue shortfalls or unanticipated expenditures.

The prime investment consideration for the reserve is the protection of principal and the appropriate liquidity to meet cash flow needs. Interest earned on investments is credited to the operations of the OSC. The accumulated funds, at March 31, 2012, are held in a segregated bank account and earn interest at the monthly average bank prime rate less 1.75%.

9. Property, Plant and Equipment

	Office furniture	Office equipment	Computer hardware and related applications	Computer hardware and related applications held under finance leases	Leasehold improvements	Total
Gross carrying amount						
Balance as at April 1, 2011	$ 4,123,859	$ 581,182	$ 15,664,187	$ 421,593	$ 9,957,151	$ 30,747,972
Additions	54,359	–	1,751,516	–	70,928	1,876,803
Disposals	(14,466)	–	(517,860)	(25,765)	–	(558,091)
Balance at March 31, 2012	$ 4,163,752	$ 581,182	$ 16,897,843	$ 395,828	$ 10,028,079	$ 32,066,684
Depreciation						
Balance as at April 1, 2011	$ (3,658,696)	$ (423,309)	$ (14,074,112)	$ (250,091)	$ (8,431,006)	$ (26,837,214)
Depreciation for the year	(170,280)	(7,357)	(748,160)	(42)	(917,861)	(1,843,700)
Disposals	14,466	–	517,728	25,765	–	557,959
Balance at March 31, 2012	$ (3,814,510)	$ (430,666)	$ (14,304,544)	$ (224,368)	$ (9,348,867)	$ (28,122,955)
Carrying amount at March 31, 2012	$ 349,242	$ 150,516	$ 2,593,299	$ 171,460	$ 679,212	$ 3,943,729
Gross carrying amount						
Balance as at April 1, 2010	$ 4,084,489	$ 581,182	$ 14,640,137	$ 592,465	$ 9,809,765	$ 29,708,038
Additions	40,136	–	1,133,373	–	147,386	1,320,895
Disposals	(766)	–	(109,323)	(170,872)	–	(280,961)
Balance at March 31, 2011	$ 4,123,859	$ 581,182	$ 15,664,187	$ 421,593	$ 9,957,151	$ 30,747,972
Depreciation						
Balance as at April 1, 2010	$ (3,472,989)	$ (403,264)	$ (12,694,435)	$ (374,463)	$ (7,443,998)	$ (24,389,149)
Depreciation for the year	(186,473)	(20,045)	(1,489,000)	(46,500)	(987,008)	(2,729,026)
Disposals	766	–	109,323	170,872	–	280,961
Balance at March 31, 2011	$ (3,658,696)	$ (423,309)	$ (14,074,112)	$ (250,091)	$ (8,431,006)	$ (26,837,214)
Carrying amount at March 31, 2011	$ 465,163	$ 157,873	$ 1,590,075	$ 171,502	$ 1,526,145	$ 3,910,758

Effective April 01, 2011, the OSC changed its estimates of the useful lives of the computer hardware and related applications. The useful lives of these assets were previously estimated to be two years, and now been changed to three years. The OSC made these changes to better reflect the estimated periods during which such assets will remain in service. The effect of these changes on depreciation expense in the current and future years is as follows:

	2012	2013	2014
(Decrease) increase in depreciation expense	**$ (515,965)**	$ 65,436	$ 395,942

10. Trade and Other Payables

	March 31, 2012	March 31, 2011
Trade payables	**$ 1,971,359**	$ 749,476
Payroll accruals	**12,221,197**	11,402,052
Other accrued expenses	**1,035,621**	1,223,103
	$ 15,228,177	$ 13,374,631

11. Lease Commitments

a) Operating leases

The OSC has entered into operating lease agreements for equipment and office space and is committed to operating lease payments as follows:

	March 31, 2012	March 31, 2011
Less than one year	**$ 6,977,370**	$ 6,085,247
Between one and five years	**25,199,130**	2,541,941
More than five years	**–**	–
	$ 32,176,500	$ 8,627,188

Lease expense recognised during the period amounted to $6,296,593 (2011 – $6,232,178). This amount consists of minimum lease payments. A small portion of the OSC'S office space is sublet to the IEF which is recorded as miscellaneous revenue. Sublease payments of $42,730 are expected to be received during the next year.

The lease on OSC premises was renewed for an additional five years beginning August 30, 2012 and expiring on August 31, 2017. The OSC has two consecutive options to extend the term beyond August 31, 2017, each for a period of five years. The OSC operating lease agreements do not contain any contingent rent clauses.

b) Finance leases

The OSC has entered into finance lease agreements for computer hardware and related applications. The total interest expense recorded on the lease obligation for the year ended March 31, 2012 is $2,110 (2011 – $7,053). The following is a schedule of future minimum lease payments for the finance leases, which expire on or before April 30, 2012:

	Minimum lease payments		Present value of minimum lease payments	
	March 31, 2012	March 31, 2011	**March 31, 2012**	March 31, 2011
Less than one year	**$ 1,631**	$ 80,577	**$ 1,631**	$ 79,011
Between one and five years	**–**	1,638	–	1,590
More than five years	**–**	–	**–**	–
	$ 1,631	$ 82,215	**$ 1,631**	$ 80,601
Less: future finance charges	**–**	1,806	**–**	1,787
Total	**$ 1,631**	$ 80,409	**$ 1,631**	$ 78,814

The total obligation under finance leases of $1,631 consists of a current portion of $1,631 (2011 – $78,778) and a non-current portion of $0 (2011 – $1,631).

12. Pension Plans

a) Ontario Public Service Pension Plan

All eligible OSC employees must, and members may, participate in the Ontario Public Service Pension Plan. The OSC's contribution to the Public Service Pension Plan for the year ended March 31, 2012 was $4,164,416 (2011 – $3,881,224), which is included under salaries and benefits in the Statement of Comprehensive Income.

b) Supplemental pension plans

The OSC also has unfunded supplemental defined benefit pension plans for the OSC's current and former Chairs and Vice-Chairs. These supplemental pension plans have no plan assets.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	March 31, 2012	March 31, 2011
Discount rate(s)	**3.8%**	5.0%
Inflation	**2.5%**	2.5%
Expected rate(s) of salary increase	**0%**	2.1%
CPP YMPE increase	**3.0%**	3.0%
Increase in CRA limit	**$ 2,646.67**	$ 2,552.22

Amount recognized in profit or loss as follows:

	March 31, 2012	March 31, 2011
Service cost with interest	**$ 83,329**	$ 147,064
Interest cost on defined obligation	**101,563**	98,431
Amortization of past service cost	**–**	94,158
Amortization of net actuarial losses/(gains)	**(25,978)**	–
Recovery from the CSTO	**(41,936)**	(32,546)
	$ 116,978	$ 307,107

The expense for the year is included in the salaries and benefits expense in the statement of comprehensive income.

The amount included in the statement of financial position arising from the OSC's obligation in respect to its supplemental benefits plans is as follows:

	March 31, 2012	March 31, 2011
Defined benefit obligation	**$ 2,377,608**	$ 2,021,767
Fair value of the assets	**–**	–
Funded status	**(2,377,608)**	(2,021,767)
Unamortized net actuarial loss	**361,267**	16,573
Recognized pension liabilities	**$ (2,016,341)**	$ (2,005,194)

Movements in the present value of the defined benefit obligations in the current year were as follows:

	March 31, 2012	March 31, 2011
Opening defined benefit obligations	**$ 2,021,767**	$ 1,782,872
Current service cost	**83,329**	147,064
Interest cost	**101,563**	98,431
Benefit payment	**(147,767)**	(117,331)
Plan amendment	**–**	94,158
Actuarial losses	**318,716**	16,573
Closing defined benefit obligation	**$ 2,377,608**	$ 2,021,767

The development of the OSC's supplemental plans may be summarized as follows (amount before the date of transition are not shown as the OSC applies the exemption in IFRS 1):

	March 31, 2012	March 31, 2011
Present value of the defined benefit obligation	**$ 2,377,608**	$ 2,021,767
Fair value of plan assets	**–**	–
Deficit in the plan	**$ (2,377,608)**	$ (2,021,767)
Experience adjustments:		
Plan liabilities	**$ 24,268**	$ 48,585

The OSC expects to incur $145,500 in benefit payments from the supplemental pension plan during next fiscal year.

13. Capital Management

The OSC has established a $20,000,000 reserve fund as described in Note 8(a), which it considers as capital. The primary objective of maintaining this capital is to fund the OSC's operations in the event of revenue shortfalls or unanticipated expenditures. The OSC's overall strategy remains unchanged from 2011.

The OSC maintains an investment policy whereby reserve funds are restricted to direct and guaranteed obligations of the Government of Canada and its provinces and to instruments issued by Canadian Schedule 1 banks to protect the principal.

The OSC has put in place a $7,500,000 credit facility to address any short-term cash deficiencies.

The OSC is not subject to any externally imposed capital requirements.

14. Fees

The OSC's fee structure is designed to generate fees that recover the OSC's cost of providing services to market participants. The fee structure is based on the concept of "participation fees" and "activity fees". Participation fees are based on the cost of a broad range of regulatory services that cannot be practically or easily attributed to individual activities or entities and are intended to serve as a proxy for the market participant's use of the Ontario capital markets. Activity fees represent the direct cost of OSC staff resources expended in undertaking certain activities requested of staff by market participants. Any general operating surpluses generated are normally returned to market participants by way of fees that are lower than otherwise required to recover costs, or direct refunds. The Commission revised its participation fees and activity fees effective April 05, 2010, with participation fees being subsequently adjusted at the beginning of fiscal years 2012 and 2013. The forecasted General Operating Surplus at March 31, 2010 was used to establish the revised participation fees rates.

Details of fees received for the year ended March 31, 2012 are as follows:

	March 31, 2012	March 31, 2011
Participation fees	**$ 71,694,825**	$ 58,403,578
Activity fees	**10,727,761**	11,777,063
Late filing fees	**2,759,796**	2,386,025
	$ 85,182,382	$ 72,566,666

15. Salaries and Benefits

	March 31, 2012	March 31, 2011
Salaries	**$ 58,052,798**	$ 54,895,869
Benefits	**5,938,444**	5,472,362
Pension expense	**4,281,394**	4,188,331
Severance/termination payments	**1,142,111**	1,487,805
	$ 69,414,747	$ 66,044,367

16. Administrative

	March 31, 2012	March 31, 2011
Commission expense	**$ 1,622,531**	$ 1,534,326
Communications & publications	**1,319,783**	1,298,902
Maintenance & support	**1,442,961**	1,296,242
Supplies	**899,023**	869,946
Other expenses	**682,305**	619,795
Training	**851,402**	575,995
	$ 6,818,005	$ 6,195,206

17. Recoveries of Enforcement Costs

	March 31, 2012	March 31, 2011
Total recoveries of enforcement cost	**$ 1,138,500**	$ 702,881
Consist of:		
External resources	**$ 715,500**	$ 405,000
Internal resources	**423,000**	297,881

18. Contingent Liabilities and Contractual Commitments

a) The OSC has committed to paying its share of annual shortfalls resulting from the operations of the following, should they occur and accumulated surpluses are unavailable, as follows:

	March 31, 2012
SEDAR	**45.10%**
NRD	**36.07%**
SEDI	**25.00%**

The systems are operated by an external agency on behalf of the CSA under agreements dated as of August 01, 2004 for SEDAR, October 26, 2001 for SEDI and June 13, 2003 for NRD. The Alberta Securities Commission, the British Columbia Securities Commission, L'Autorité des marchés financiers, and the Investment Industry Regulatory Organization of Canada (in the case of NRD only) have also committed to paying specified percentages of any annual deficit in the systems.

In the current year, there were no deficits. As described in Note 7, the OSC is holding funds in trust that may be used to offset shortfalls in revenue in SEDAR, SEDI, and NRD.

	March 31, 2012	March 31, 2011
Total accumulated funds	**$ 80,521,903**	$ 64,880,151
Available for:		
SEDAR	**$ 28,190,836**	$ 25,825,385
NRD	**37,011,477**	28,118,685
SEDI	**15,319,590**	10,936,081
	$ 80,521,903	$ 64,880,151

b) The OSC is involved in various legal actions arising from the ordinary course and conduct of business. The outcome and ultimate disposition of these actions cannot be measured with sufficient reliability at this time; however, management does not expect the outcome of any of these proceedings, individually or in aggregate, to have a material impact on the OSC's financial position. Settlements, if any, concerning these contingencies will be accounted for in the period in which the settlement occurs.

19. Related Party Transactions

Transactions with the Province of Ontario

In the course of normal operations, the OSC entered into transactions with the Province of Ontario as follows:

a. The *Securities Act* states that when ordered to do so by the responsible Minister, the OSC shall remit to the Province of Ontario such surplus funds as determined by the Minister. In light of the fee model as described in Note 14 and the OSC's practice of setting fees periodically, the OSC is not required to make remittances of its surplus to the Consolidated Revenue Fund. Surpluses retained by the OSC are subject to appropriate terms and conditions to be agreed with the Ministry.

b. The OSC has a tri-party agreement with the Ontario Financing Authority to facilitate banking arrangements with a Schedule 1 bank.

c. Costs of non-pension benefits for eligible pensioners are paid by the Government of Ontario and are not included in the statement of comprehensive income.

Compensation to Key Management Personnel

Key management of the OSC are members of the board of directors, Chair, Vice chairs and Executive Director. Key management personnel remuneration includes the following expenses:

	March 31, 2012	March 31, 2011
Short-term employee benefits	**$ 3,097,318**	$ 2,474,831
Post-employment benefits	**235,722**	258,911
Termination benefits	**–**	473,379
Total compensation	**$ 3,333,040**	$ 3,207,121

20. Investor Education Fund

a) The IEF was incorporated by letters patent of Ontario dated August 03, 2000 as a non-profit corporation without share capital. The Fund is managed by a separate Board of Directors and its purpose is to increase knowledge and awareness among investors and potential investors and to support research and develop programs and partnerships which promote investor and financial education in schools and among adult learners.

The OSC is the sole voting member of the Fund. However, the OSC has determined, based on an evaluation of the terms and conditions of the arrangement, that investors in the capital market, rather than the OSC, obtain the benefit or rewards from the IEF. As such the OSC does not control the Fund, and the Fund has not been consolidated in the OSC's financial statements as discussed in Note 2(d). The Fund is exempt from income taxes.

Financial statements of the Fund are available on request. The information below is not required by IFRS. Financial summaries of this unconsolidated entity as at March 31, 2012 and 2011 and for the two years ended March 31, 2012 are as follows:

	March 31, 2012	March 31, 2011
Financial Position		
Total assets	**$ 2,592,668**	$ 2,408,961
Less: Total liabilities	**836,193**	482,465
Total net assets	**$ 1,756,475**	$ 1,926,496
Less: Invested in premises and equipment	**583,909**	142,905
Available for Fund purposes	**$ 1,172,566**	$ 1,783,591
Results of Operations		
Total contributions and interest income	**$ 4,444,792**	$ 2,988,996
Total expense	**4,614,813**	3,028,780
Deficiency of revenue over expenses	**$ (170,021)**	$ (39,784)
Cash Flows		
Cash flows from operating activities		
Cash receipts from the OSC	**$ 4,420,000**	$ 2,968,862
Cash receipts from third party	**237,671**	178,106
Interest income received	**24,831**	19,133
Cash paid for initiatives and expenses	**(4,725,342)**	(3,339,727)
Cash paid for premises and equipment	**(528,480)**	(23,134)
Net decrease in cash position	**$ (571,320)**	$ (196,760)
Cash position, beginning of period	**2,031,813**	2,228,573
Cash position, end of period	**$ 1,460,493**	$ 2,031,813

b) During the year, the OSC entered into transactions with the Fund as follows:

i) The OSC paid $4,420,000 to the Fund (2011 – $2,968,862). These payments were from Funds held pursuant to designated settlements and orders as described in Note 6.

ii) The OSC has a Management Services agreement with the Fund for the provision of administrative and management services, at cost. For the period ended March 31, 2012, the OSC incurred costs totalling $905,438 (2011 – $764,092) for services related to the Fund. The total cost of these services has been charged to the Fund and, of this amount, $235,617 is owing to the OSC as of March 31, 2012 (2011 – $160,928).

iii) Subsequent to year end, the Commission approved funding totalling $3,900,000 for the IEF for the 2013 fiscal year.

21. Transition to IFRS

As stated in Note 2, these financial statements for the year ending March 31, 2012 are the OSC's first financial statements prepared in accordance with IFRS.

The accounting policies set out in Note 3 have been applied in preparing the financial statements for the year ended March 31, 2012, the comparative information presented in these financial statements for the year ended March 31, 2011 and in the preparation of an opening IFRS statement of financial position at April 01, 2010 (the OSC's date of transition).

In preparing its opening IFRS statement of financial position, the OSC has adjusted amounts reported previously in financial statements prepared in accordance with pre-changeover Canadian GAAP. The overall impact of the transition from pre-changeover GAAP to IFRS is not material to the OSC's financial position, financial performance and cash flows. Below is the explanation of how the transition from pre-changeover Canadian GAAP to IFRS has affected the OSC.

Reconciliation of Pre-Changeover Canadian GAAP to IFRS

Reconciliation of Operating Surplus

		March 31, 2011	April 1, 2010
OPERATING SURPLUS UNDER PRE-CHANGEOVER CANADIAN GAAP		**$ 37,675,597**	$ 48,767,478
Differences increasing (decreasing) reported Operating Surplus:			
Employee Benefits	a	**(121,748)**	(35,682)
Property, Plant & Equipment	b	**219,583**	(32,365)
Other	c	**98,244**	98,244
OPERATING SURPLUS UNDER IFRS		**$ 37,871,676**	$ 48,797,675

Reconciliation of Deficiency in Statement of Comprehensive Income

		March 31, 2011
DEFICIENCY UNDER PRE-CHANGEOVER CANADIAN GAAP		**$ (11,091,881)**
Differences increasing (decreasing) reported Deficiency:		
Employee Benefits	a	**(86,066)**
Property, Plant & Equipment	b	**251,948**
DEFICIENCY UNDER IFRS		**$ (10,925,999)**

Reconciliation of the Statement of Cash Flows

There were no material changes to the statement of cash flows on adoption of IFRS.

Explanatory Notes

a. *Employee Benefits*

In accordance with IAS 19, *Employee Benefits*, an entity may elect to use a "corridor" approach that requires, as a minimum, only a specified portion of actuarial gains and losses to be recognized in a given year. Retrospective application of this approach requires an entity to split the cumulative actuarial gains and losses from the inception of the plan until the date of transition to IFRS into a recognized portion and an unrecognized portion. However, IFRS 1 permits a first-time adopter to elect to recognize all cumulative actuarial gains and losses at the date of transition to IFRS even if it uses the corridor approach for later actuarial gains and losses. If a first-time adopter uses this election, it will apply it to all plans.

The OSC elected to charge all cumulative actuarial gains and losses from the inception of the supplemental pension plans to the date of transition to IFRS to the opening operating surplus. At the date of transition, the opening operating surplus is decreased by $35,682, offset by a corresponding increase in the pension liability. At March 31, 2011, the operating surplus is decreased by $86,066, offset by a corresponding increase in the pension liability.

IFRS 1 also provides an optional exemption with respect to IAS 19 disclosures. Among the prescribed disclosures of IAS 19, an entity is required to disclose for the current and previous four annual periods related to the present value of the defined benefit obligation, the surplus or deficit in the plan, and experience adjustments arising on the plan liabilities. The IFRS 1 exemption allows a first-time adopter to disclose these amounts prospectively from the date of transition to IFRS. The OSC has elected this exemption and provides disclosure prospectively from the date of transition.

b. *Property, Plant & Equipment*

IAS 16 requires the depreciation of an asset to begin when it is available for use. The OSC previous accounting policy was to commence the depreciation of an asset in the beginning of the fiscal year following the acquisition. To reflect this change in accounting policy, at the date of transition to IFRS, the opening operating surplus is decreased by $32,365, offset by a corresponding decrease in PP&E. At March 31, 2011, the operating surplus is increased by $251,948, offset by a corresponding increase in PP&E.

c. *Other*

The OSC's statement of financial position includes a balance of $98,244 in contributed surplus. This amount represents the value of the assets transferred to the OSC by the Government of Ontario when the OSC became a self-funded organization. IFRS does not specifically address contributed surplus. IAS 8 requires that management use its judgment and ensure that the accounting policy applied is consistent with the IFRS Framework. As a result, the OSC has opted to transfer the amount in contributed surplus to the general operating surplus, creating an increase in opening operating surplus of $98,244 as at April 01, 2010.

22. Accounting Pronouncements

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended March 31, 2012, and have not been applied in preparing these financial statements. None of these is expected to have a material impact on the financial statements of the OSC.

IFRS 9, *Financial instruments*

In October 2010, the IASB released IFRS 9, *Financial instruments*, which is the first part of a three-part project to replace IAS 39, *Financial instruments: Recognition and Measurement*. This first part only covers classification and measurement of financial assets and financial liabilities, with impairment of financial assets and hedge accounting being addressed in the other two parts.

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9. However, requirements for measuring a financial liability at fair value have changed, as the portion of the changes in fair value related to the entity's own credit risk must be presented in OCI rather than in the statement of income. IFRS 9 will be effective for fiscal years beginning on January 01, 2015, with earlier application permitted. The OSC has not yet assessed the impact of the adoption of this standard on its financial statements.

IFRS 10, *Consolidated Financial Statements*

In May 2011, the IASB issued IFRS 10 *Consolidated Financial Statements* to replace IAS 27 *Consolidated and Separate Financial Statements* and SIC 12 *Consolidation – Special Purpose Entities*. The new standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. IFRS 10 must be applied starting January 01, 2013 with early adoption permitted. The OSC does not expect IFRS 10 to have a material impact on the financial statements.

IFRS 12, *Disclosure of Interests in Other Entities*

In May 2011, the IASB released IFRS 12, *Disclosure of Interests in Other Entities*. IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles. The standard requires an entity to disclose information regarding the nature and risks associated with its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. IFRS 12 will be effective for fiscal years beginning on or after January 01, 2013, with earlier application permitted. The OSC does not expect IFRS 10 to have a material impact on the financial statements.

IFRS 13, *Fair value measurement*

In May 2011, the IASB released IFRS 13, *Fair value measurement*. IFRS 13 will improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The standard will be effective for fiscal years beginning on January 01, 2013, with earlier application permitted. The OSC does not expect IFRS 10 to have a material impact on the financial statements.

IAS 19, *Employee Benefits*

In June 2011, the IASB amended IAS 19, *Employee Benefits* ("IAS 19"). This amendment eliminated the use of the 'corridor' approach and mandates that all remeasurement impacts be recognized in OCI. It also enhances the disclosure requirements, providing better information about the characteristics of defined benefit plans and the risk that entities are exposed to through participation in those plans. This amendment clarifies when a company should recognize a liability and an expense for termination benefits. The amendment to IAS 19 will be effective for fiscal years beginning on January 01, 2013, with earlier application permitted. The OSC does not expect IAS 19 to have a material impact on the financial statements.

OSC

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The OSC Inquiries & Contact Centre operates from 8:30 a.m. to 5:00 p.m. Eastern Time, Monday to Friday, and can be reached at the Contact Us page of www.osc.gov.on.ca.

VT INCEPIT FIDELIS SIC PERMANET

Ontario

As the regulatory body responsible for overseeing the capital markets in Ontario, the Ontario Securities Commission administers and enforces the provincial *Securities Act*, the provincial *Commodity Futures Act* and administers certain provisions of the provincial *Business Corporations Act*. The OSC is a self-funded Crown corporation accountable to the Ontario Legislature through the Minister of Finance.