



ONTARIO
SECURITIES
COMMISSION

Report Card on Statement
of Priorities



For fiscal 2012-2013

The primary objective of the 2012-2013 Statement of Priorities was to communicate a series of specific priorities and projects that the OSC would address in fiscal 2012-13 and that were focused on achieving progress against each of the OSC's five strategic goals. For each of these goals the OSC identified a series of initiatives, some multiyear, in support of achieving each particular goal. This document reports on the OSC's performance against the priorities set out in the 2012-2013 Statement of Priorities. Detailed accomplishments and highlights for each goal and the current status for each of the specific 2012-13 priorities are presented in table format. A broader discussion of OSC accomplishments during the past year is contained in the 2012-13 OSC Annual Report available at www.osc.gov.on.ca.

Key Accomplishments and Highlights

The OSC identified 36 priorities in its 2012-2013 Statement of Priorities. The majority (33) of the priorities were completed or substantially completed. Three priorities which were not completed for the reasons set out below:

- *Compliance reviews of website and marketing disclosures* – This priority wasn't completed as the resources were re-allocated to the Emerging Market Issuer Review.
- *Reducing timelines for completing investigation and initiating regulatory proceedings* – The OSC was not able to reduce the timelines because resources had to be re-allocated to address high priority international cases.
- *Application under s.128 of the Securities Act (Ontario) to compensate investors* – The OSC did not make an application with respect to s.128 during 2012-2013. However, the OSC did take steps to compensate investors by distributing a total of \$28.6 million, plus net interest earned funds, to eligible investors who had purchased certain Asset-Backed Commercial Paper.

The OSC remains focused on providing responsive regulation that provides protection to investors and fosters confidence in the capital markets. Some of the key OSC accomplishments achieved towards this objective during 2012-13, are highlighted below:

Strong Investor Focus and outreach

One of the first priorities in our Strategic Plan was to create an Office of the Investor. During the year, Office of the Investor was created to increase engagement with investors and ensure investor issues are considered in policy and operational activities. Office of the Investor is working with the OSC's Investor Advisory Panel, the Investor Education Fund (IEF), other regulators and advocacy groups to ensure investors perspectives are considered and addressed in policy and operational activities.

To increase visibility and awareness of the OSC among key stakeholders across Ontario, the OSC launched an outreach program under the banner of "OSC in the Community". The program includes educational seminars for investors (with staff speakers from Enforcement, Office of the Investor, IEF and Operating Branches), and meetings with local officials, law enforcement and community organizations, such as chambers of commerce.

Effective Enforcement & Compliance

Robust and effective enforcement is essential to investor protection and to foster confidence in our capital markets. In 2012-13, the OSC focused on protecting investors by addressing the most serious harms, including fraudulent activity and the failure to provide investors with full and complete information, both of which have a significant impact on investors. Staff commenced a total of 26 proceedings before the

Commission and the Courts involving 113 individual and corporate respondents, compared to a total of 29 proceedings against 109 respondents in 2011-12. In addition, proceedings were concluded before the Commission and the Courts against a total of 149 individual and corporate respondents in fiscal 2012-13, compared to 139 the year before.

For many investors, their main point of contact with the securities industry is through registered advisers or dealers, who are expected to comply with the high standards of conduct and disclosure in Ontario. The OSC increased its focus on registrant compliance with Know Your Product (KYP) and Know Your Client (KYC) requirements and other suitability obligations in 2012. In addition, staff in the Compliance and Registrant Regulation Branch referred four scholarship plan dealers to the Enforcement Branch after identifying serious concerns with sales and other practices during compliance reviews. The OSC placed temporary terms and conditions on the registration of the dealers, including a requirement for each dealer to retain a compliance consultant to develop and implement a compliance plan to strengthen its compliance system, and monitor to review specified transactions to ensure the sales of these scholarship plans are suitable.

Responsive Regulation

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 needs to continue to align its standards with the global changes while being mindful of emerging Canadian requirements. The OSC consults and collaborates with international regulators through its membership and participation in international organizations that work to improve the regulation of financial markets throughout the world. These organizations include the International Organization of Securities Commissions (IOSCO), the International Joint Forum, the North American Securities Administrators Association (NASAA) and the Council of Securities Regulators of the Americas (COSRA).

Additionally, the OSC has taken a leadership role at the IOSCO. In March, 2013 OSC Chair Howard Wetston was appointed Vice-Chair of the IOSCO Board. This appointment reflects Mr. Wetston's strong commitment to international regulatory co-operation and the strategic importance of the OSC being at the table with regulators from other countries.

During the year, OSC staff worked on a number of important initiatives, including:

- Finalized a framework for electronic trading to ensure that marketplaces and market participants are managing the risks of electronic trading, including requirements for dealers to have pre-trade controls
- Worked toward creation of a regime to regulate OTC derivatives participants in Ontario. The OSC is a major contributor to the CSA Derivatives Committee that is releasing a series of policy papers on issues relating to derivatives regulation in Canada.
- Published a new regulatory framework for dark liquidity to improve price discovery
- Published for comment proposed amendments to NI 81-102 *Mutual Funds* to introduce core operational requirements for publicly offered non-redeemable investment funds, other than scholarship plans.

The OSC continued to respond to evolving market structures in Ontario's capital markets. The OSC completed its review and approval of the application by Maple Group Acquisition Corporation (Maple) for recognition as an exchange, part of Maple's proposal to acquire TMX Group Inc., together with Alpha Trading Systems LP and the Canadian Depository for Securities Ltd.

The OSC continued to consider capital raising prospectus exemptions. As part of this work, the OSC published OSC Staff Notice 45-707 *OSC Broadening Scope of Review of Prospectus Exemptions* as well as OSC Staff Consultation Paper 45-710 *Considerations for New Capital Raising Prospectus Exemptions*. The OSC actively sought feedback in this area through public town halls and targeted consultations.

The OSC increased its efforts to provide timely guidance to market participants so they are better informed. For example, the OSC conducted education seminars for Small and Medium Enterprises, published issues of Investor Funds Practitioner, an online newsletter and issued OSC Staff Notice 51- 720 *Issuer Guide for Companies Operating in Emerging Markets* as a follow up to OSC staff's emerging market issuer review recommendations.

Accountability, Efficiency and Transparency

The OSC has continued to increase its reliance on industry to gather input on securities regulation issues and industry trends. In addition to the Investor Advisory Panel, the OSC now has nine advisory committees with more than 100 market participant members. These committees serve one or more of the following OSC purposes:

- to seek a broad range of ideas and expertise as new policy initiatives are developed
- to understand how a specific, recently implemented policy is affecting capital market participants; and
- to improve our understanding of the concerns and issues faced by a particular stakeholder group on an ongoing basis.

These committees demonstrate the OSC's commitment to greater accountability and transparency. The members of these committees should be commended as their input has had a significant positive impact on OSC policy development.

The OSC continues to pursue its mandate and efforts to improve the efficiency and effectiveness of its operational and policy work. In its efforts to become a more performance-based and accountable organization, the OSC expanded its research and analysis capabilities through additional resources for its Research and Analysis Group, created a Policy Review Committee to improve internal policy coordination and priority setting, and established a Risk Management Committee to support the Board and Chair with risk management oversight.

The OSC published a proposed fee rule for comment in August 2012. During the comment period the OSC met with interested parties to hear their concerns. The OSC demonstrated responsiveness to the feedback received by making a number of revisions to the rule including reducing the proposed rate of increases. The revised fee model became effective April 1, 2013.

Goal 1: Deliver Responsive Regulation	
Specific priorities in support of this goal:	Status
<p>1. Facilitate shareholder empowerment in director elections by advocating for the elimination of slate voting, the adoption of majority voting policies for director elections and enhancing disclosure of voting results for shareholder meetings</p>	<p>The OSC facilitated shareholder empowerment in director elections by supporting initiatives undertaken by the Toronto Stock Exchange (TSX). The OSC supported and approved amendments to the TSX Company Manual that require TSX-listed issuers to elect directors individually (including requiring that issuers promptly issue a news release providing detailed disclosure of the voting results for each director) and make specified disclosures concerning majority voting for the election of directors. The amendments became effective December 31, 2012.</p> <p>On November 4, 2012, the TSX published for comment proposed amendments to its Company Manual that would require TSX-listed issuers to have majority voting for director elections at uncontested shareholder meetings. TSX staff has reviewed the comment letters received and OSC staff are currently working with TSX staff to consider the application of majority voting to controlled companies and inter-listed foreign issuers. The proposed amendments will be effective at the end of 2013.</p>
<p>2. Improve the proxy voting system by:</p> <ul style="list-style-type: none"> i. conducting an empirical analysis to review concerns raised about the accountability, transparency and efficiency of the voting system ii. facilitating discussions amongst market participants on improving the functioning of the proxy system, taking into account the needs and concerns of retail investors, and iii. working with the CSA to review the role of proxy advisers in our capital markets by soliciting feedback from issuers, investors and other market participants 	<p>In fiscal 2012, the OSC conducted an analysis of the proxy voting system. Based on that analysis, the OSC identified specific issues that in its view warrant further review as well as principles to inform their identification and analysis of these issues. The OSC and other members of the CSA plan to publish a concept paper in Summer 2013 to seek public comment on these criteria and the issues.</p> <p>On June 21, 2012, the OSC, along with the CSA, published CSA Consultation Paper 25-401: <i>Potential Regulation of Proxy Advisory Firms</i>. The paper provided a forum for discussion of issues and concerns raised by proxy advisory firms and their potential impact on Canadian capital markets and to determine if and how these concerns should be addressed by securities regulators. Extensive public comment was received and OSC staff is reviewing this input.</p>
<p>3. Develop and publish a consultation paper addressing issues associated with market data in a multi-marketplace environment</p>	<p>In November 2012, the OSC, along with the CSA, published for comment CSA Staff Consultation Paper 21-401 <i>Real time Market Data Fees</i>. The purpose of the consultation paper was to present our assessment of real-time market data in Canada, discuss potential issues related to the cost of real-time market data in Canada and gather industry's feedback on whether the options proposed in the paper will address these issues. The paper focused on the data fees</p>

	<p>charged by Canadian marketplaces to professional users. The comment period for the paper ended on February 8, 2013 and staff are currently reviewing comments received to determine next steps.</p>
<p>4. Undertake comparative research on capital raising regimes in other jurisdictions, including gathering economic data focussing specifically on approaches to raising capital for start-up and small businesses. This work will include consultation with issuers, investors, dealers, academics and others</p>	<p>On November 10, 2011, the OSC, along with the CSA, published CSA Staff Consultation Note 45-401 <i>Review of Minimum Amount and Accredited Investor exemptions</i>. The comment period closed on February 29, 2012. As part of the consultation process, staff met with over 300 individuals and several interested stakeholder groups, including investor representatives, industry members, registrants, other regulators and legal and other advisors. Staff also consulted its advisory committees and held four public consultation sessions in February 2012.</p> <p>On June 7, 2012, OSC staff, along with the CSA, published CSA Staff Notice 45-310 <i>Update on CSA Staff Consultation Note 45-401 Review of Minimum Amount and Accredited Investor Exemptions</i>, which provided a high level summary of the feedback received.</p> <p>Please see item #5 for a discussion of the OSC's broader exempt market review.</p>
<p>5. Consider and consult on alternate capital raising exemptions in Ontario in addition to the accredited investor and \$150,000 exemption</p>	<p>On June 7, 2012, the OSC published OSC Staff Notice 45-707 <i>OSC Broadening Scope of Review of Prospectus Exemptions</i>. Staff indicated that the OSC were broadening the scope of its review to consider whether the OSC should introduce any new prospectus exemptions that would assist capital raising for business enterprises while protecting the interests of investors.</p> <p>On December 14, 2012, the OSC published OSC Staff Consultation Paper 45-710 <i>Considerations for New Capital Raising Prospectus Exemptions</i> exploring four concept ideas for possible new capital raising prospectus exemptions. In developing the consultation paper, staff considered the experience of the other CSA jurisdictions with prospectus exemptions not currently available in Ontario, the exempt market regime in foreign jurisdictions and developments relevant to capital raising in the exempt market, including the <i>Jumpstart Our Business Startups Act</i> (the JOBS Act). The comment period closed on March 8, 2013 and staff received approximately 100 comment letters.</p> <p>As part of the consultation process, the OSC hosted four public town halls, participated in town halls organized by two other organizations and conducted over 40 targeted industry groups, advisory committees and academics.</p> <p>The also OSC arranged for an online survey of</p>

	<p>approximately 1,500 adult Canadians to be conducted to learn more about their needs and preferences, and gauge their interest in greater access to investment opportunities in the exempt market generally and in small business in particular.</p> <p>OSC staff is reviewing the feedback received and plan to publish a progress report on its review later this year.</p>
<p>6. Conduct research and analysis, and publish a discussion paper on the cost of ownership of mutual funds in Canada, identifying investor protection and public interest issues</p>	<p>In December 2012, the OSC, along with the CSA, published Discussion Paper and Request for Comment 81-407 <i>Mutual Fund Fees</i> for a 120-day comment period which ended on April 12, 2013. The paper examines the mutual fund fee structure in Canada and identifies potential investor protection and fairness issues arising from that structure. Over 90 comment letters have been received to date. The paper is the first step in the CSA's public consultation on this topic. The OSC will be holding a roundtable in June 2013 to further explore and discuss the issues identified in the discussion paper. OSC staff intends to consult extensively with investors and industry participants to determine what, if any, regulatory responses to the issues identified in the paper might be appropriate.</p>
<p>7. Re-evaluate the regulatory and operational requirements associated with closed-end funds (non-redeemable investment funds) by assessing the rationale for rules that differ from the rules governing the more common open-end mutual funds. This work will include consultations with issuers and investors with a view to publishing new rules for comment.</p>	<p>In March 2013, the OSC, along with the CSA, published rule amendments introducing core operational requirements on non-redeemable investment funds. The publication also proposed enhancements to the disclosure requirements relating to securities lending, repurchases and reverse repurchases by investment funds, as well as a proposal to create a more comprehensive alternative investment funds framework to provide more flexibility for investment funds to invest in assets or use investment strategies. The comment period ends on June 25, 2013. OSC staff anticipates that the CSA will be able to finalize some aspects of the proposals for non-redeemable investment funds in advance of others. These include the proposed conflicts of interest provisions, securityholder and regulatory approval requirements, and custodianship requirements.</p>
<p>8. Undertake research and analysis of increasingly complex financial products and investment strategies and collaborate closely with other regulators and exchanges to ensure regulatory approaches towards investment products are consistent and opportunities for regulatory arbitrage minimized.</p>	<p>OSC staff continued to collaborate with other regulators to assess and respond to product developments and innovations with a view to promoting investor protection and assessing the sufficiency and consistency of regulatory treatment of different types of investment products.</p>

Goal 2: Deliver Effective Enforcement and Compliance	
Specific priorities in support of this goal:	Status
<p>1. Work with other regulators, oversight bodies, exchanges, emerging markets issuers, auditors, underwriters and investors to address the principal concerns identified in the Emerging Markets Issuer Review (EMIR) completed in 2011 – 2012, as outlined in the <i>OSC Staff Notice 51-719</i> dated March 20, 2012. This work will include:</p> <ul style="list-style-type: none"> i. developing and/or enhancing guidance and practices for boards, auditors and underwriters to address the principal concerns described in the Staff Notice ii. examining listing requirements applicable to Emerging Market issuers 	<p>As part of its follow-up work on EMIR, OSC staff published OSC Staff Notice 51-720 <i>Issuer Guide for Companies Operating in Emerging Markets</i> on November 9, 2012. The Guide is primarily directed towards management and boards of emerging market issuers and outlines areas of risk to be considered in complying with securities law.</p> <p>During fiscal 2012, OSC staff worked with the Investment Industry Regulatory Organization of Canada in its review of underwriting due diligence standards with a view to promoting industry best practices and standards in this area. Work continues in this area.</p> <p>Staff also worked with the TSX and Toronto Venture Exchange (TSXV) in considering exchange specific responses to address risks associated with emerging market issuers. On December 20, 2012, the TSX and TSXV published a joint consultation paper on emerging market issuers. The Exchanges solicited comments to assess whether to implement new guidance or requirements for listing emerging market issuers as well as comments specific to sponsorship. The comment period expired on February 28, 2013.</p> <p>The OSC is working closely with the Canadian Public Accountability Board (CPAB) on issues of common interest, and anticipate completing a communication MOU with CPAB in the near future. OSC staff held discussions with the audit community, CPAB and international securities regulators to address concerns about the use, access and reliance on foreign component auditors' work products. The OSC will also be examining the need for changes for some of the other audit related concerns as part of the National Instrument 52-108 Amendments Project.</p>
<p>2. Conduct more targeted compliance reviews (i.e. “sweeps”) and desk reviews of registrants by focussing on high risk areas, know your client and suitability obligations, new registrants and on major issues of concern that have been identified through compliance reviews</p>	<p>OSC staff reviewed 87 portfolio managers (PM) and exempt market dealers (EMD) to confirm their compliance with suitability, know your client (KYC), and know your product (KYP) obligations. Of the firms that were targeted as part of this risk-based review, 62% of the firms had over 30% significant deficiencies. Following the reviews, OSC staff surveyed the sweep participants; 75% of the firms felt that the sweep was helpful in improving their compliance with securities law, and 80% felt that the reports issued to them subsequent to the review were clear, concise and timely. OSC staff issued a report summarizing the findings from the sweep in May 2013. OSC staff also contacted over 200 investors to verify investor’s KYC information and plan to</p>

	<p>continue this practice for future reviews.</p> <p>OSC staff continued to conduct focused reviews of PMs, EMDs and Investment Funds Managers that were identified as high risk through a risk assessment questionnaire. As a result of this initiative, 13% of these firms will have follow up reviews due to preliminary significant issues identified, 6% had terms and conditions imposed on their registration and one firm was suspended.</p> <p>OSC staff conducted desk reviews of registrants for issues related to relationship disclosure, ongoing capital requirements, financial statement filings and participation fees. OSC staff plan to publish further guidance to registrants on the issues found in these reviews. OSC staff also completed 15 on-site reviews of new registrants and as a result, imposed terms and conditions on one firm.</p>
<p>3. Conduct compliance reviews of website and marketing disclosures by smaller issuers</p>	<p>Compliance reviews of marketing materials are considered in conjunction with prospectus reviews. Work will continue in this area, and may take more prominence when the planned pre-marketing and marketing amendments to the prospectus rules come into force.</p>
<p>4. Promote vigorous and timely enforcement action by reducing timelines for completing investigations and initiating regulatory proceedings</p>	<p>During 2012-13, the OSC assessed a total of 238 matters for evidence of potential breaches, 18 of which were transferred for further investigation. In addition, 36 investigations were completed, 25 of which were transferred for litigation. During the course of these investigations, the Commission issued five temporary cease trade orders and four temporary orders imposing terms and conditions on registration only against a total of 25 respondents. Two directions were obtained to freeze approximately \$1 million in assets.</p> <p>A total of 21 proceedings were commenced before the Commission, involving 102 respondents. Five proceedings were commenced before the Courts involving a total of 11 defendants.</p> <p>The timeline from file opening to the commencement of proceedings remained constant at an average of 20.3 months.</p> <p>Eleven Director's Decisions were published on the OSC website under "Dealers, Advisors and Investment Fund Managers" involving sixteen registrants and resulting in either the imposition of terms and conditions on registration, or refusals or suspensions of registration.</p>
<p>5. Continue to work with national and international enforcement regulators to develop a comprehensive response to emerging market issues</p>	<p>The OSC continued to gather and share information on fraudulent securities related activity, where appropriate, through membership in several external intelligence committees and joint consultative groups and agencies, as</p>

	<p>well as internally through the Joint Securities Intelligence Unit.</p> <p>In June 2012, the OSC hosted a meeting of the <i>Securities Fraud and Economic Crime Prosecutors Affiliation</i>, an organization of representatives from prosecutorial authorities across Canada. The organization was formed to improve the effectiveness of enforcement activities, and to review and recommend the best way to investigate and prosecute large economic crime cases. Representatives from the RCMP, Ontario Ministry of the Attorney General, Public Prosecution Services of Canada, and the Quebec, Alberta, and B.C. securities commissions attended the meeting.</p> <p>OSC staff attended the IOSCO Emerging Markets Committee public conference on November 21, 2012 in Santiago, Chile to speak on a panel that discussed SME financing and highlighted other SME initiatives.</p>
<p>6. Increase the use of stronger enforcement mechanisms and increase quasi-criminal prosecutions</p>	<p>A total of 42 adjudicative proceedings were concluded before the Commission, involving a total of 147 respondents. These proceedings resulted in administrative penalties, disgorgement orders, and settlement amounts totalling over \$80 million. This amount is double the total amount of monetary sanctions imposed in 2011-12. The proceedings also resulted in 139 cease trade orders, 60 director and officer bans, and 63 registration restrictions.</p> <p>OSC staff continues to pursue cases before the Courts. Two proceedings involving two defendants were concluded. One of those proceedings was a quasi-criminal matter that resulted in a two-year jail sentence.</p>
<p>7. Further develop and implement a more effective, risk-based and proactive approach to both issuer regulation and compliance oversight</p>	<p>The OSC continued to intensify efforts to pursue compliance-enforcement proceedings involving other branches and SROs in order to deliver efficient regulatory action, reduce investor harm and modify market behaviour. In 2012-13 a total of 20 matters were open to assist other Commission branches, and five matters were open to conduct litigation flowing from the review of SRO decisions.</p> <p>Staff of the Corporate Finance Branch continued to consider the methodology on how to review issuers' continuous disclosure. The OSC enhanced its risk-based approach in monitoring and identifying issuers for review by creating industry specialized review teams.</p> <p>The OSC completed compliance reviews of all five Scholarship Plan Dealers (SPDs) registered in Ontario. At four of the five SPDs, OSC staff identified persistent</p>

	<p>significant deficiencies from prior compliance field reviews. As a result, terms and conditions have been imposed. OSC staff have approved two of the four SPDs' independent consultant plans to strengthen their compliance systems, and is working with the other two towards finalising their plans. Through the enforcement process, the Commission has varied the terms and conditions to reflect that certain milestones have been met.</p> <p>As a direct result of oversight activities of the Compliance and Registrant Regulation branch, 83 firms were issued warning letters, suspended, referred to Enforcement or had terms and conditions imposed on their registration. Types of terms and conditions include, among other things, restricting activities, the hiring of advisory compliance firms to help strengthen compliance structures, the ultimate wind up of an investment fund, repayment of related party loans and monthly filing of financial information. Also as a result of our oversight activities, 320 individuals were suspended, refused registration or had terms and conditions imposed on their registration. The terms and conditions imposed related to issues involving financial circumstances of the individual, integrity, conflicts of interest, and proficiency.</p>
<p>8. Conduct educational seminars and publish a variety of practice directives and guidance to small and medium enterprises to provide direction on understanding our expectations regarding filings, and to alert them to issues we are focussing on in our review programs.</p>	<p>In July 2012, the OSC launched the OSC small and medium enterprises (SME) Institute, to provide a series of free tailored educational seminars geared toward SMEs. Seminar topics included securities regulatory requirements, capital raising in Ontario's capital market, industry specific issues, as well as tips on working with the OSC. Staff held ten seminars during the fiscal year. The seminars were widely attended and well received.</p> <p>The OSC took steps to improve compliance with the reporting requirements for activity in the exempt market by publishing CSA Staff Notice 45-308 <i>Guidance for Preparing and Filing Reports of Exempt Distribution under National Instrument 45-106 Prospectus and Registration Exemptions</i> (April 26, 2012) and OSC Staff Notice 45-709 <i>Tips for Filing Reports of Exempt Distribution</i> (June 21, 2012).</p> <p>The OSC are reviewing its registrant outreach program, and have commenced by surveying 112 industry stakeholders on their needs regarding content, format and frequency of effective outreach initiatives to registrants.</p> <p>The OSC published CSA Staff Notice 31-332 – <i>Relevant Investment Management Experience for Advising Representatives and Associate Advising Representatives of Portfolio Managers</i> to provide guidance to registrants. We</p>

	<p>have received feedback that the guidance is helpful and being used by registrants when making hiring decisions.</p> <p>OSC staff continued to publish the Investment Funds Practitioner, an online newsletter providing investment fund managers and their counsel with topical issues arising from applications for discretionary relief, prospectuses and continuous disclosure documents filed with the OSC. It is intended to assist issuers in the preparation of public disclosure documents and make investment fund managers and their counsel aware of some of the issues raised by OSC staff.</p>
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Goal 3: Deliver Strong Investor Protection

Specific priorities in support of this goal:	Status
<p>1. The OSC will create an Office of the Investor to establish a stronger investor focus and understanding. This Office will:</p> <ul style="list-style-type: none"> i. deepen the OSC’s understanding of investor issues ii. act as the focus for investor concerns and ensure investor issues are considered in policy and operational activities within the OSC iii. work with the OSC Research and Data Analysis Group to conduct specific research into investor issues and the implications for regulatory responses iv. work with investor advocacy groups and regulators to enhance OSC understanding of investor issues v. work with the Investor Advisory Panel to support its mandate, and vi. work with the Investor Education Fund (IEF) to support its efforts 	<p>The OSC created an Office of the Investor (OI) to increase engagement with investors and ensure investor issues are considered in policy and operational activities.</p> <p>Investor outreach such as OSC in the Community, which was launched in the winter of 2013, deepens the OSC’s understanding of investors wants, needs, how they invest and how their concerns should be reflected in policy and operational activities. OI also consulted with FAIR and other investor advocates on investor initiatives. Creation of OI email address emphasizes two-way dialogue allowing investors to provide views on requests for comment without submitting a formal comment letter.</p> <p>OI engaged in influencing policy development and brought investor perspectives more directly into the OSC policy agenda, focusing on key investor initiatives such as the Client Relationship Model (CRM2), Fund Facts, Fiduciary Duty/ Best Interest Standard consultation, dispute resolution and the exempt market. Investor research and engagement was used to support OI positions.</p> <p>OI supported the IAP in its mandate, including providing funding and support for their investor research project – Strengthening Investor Protection in Ontario- Speaking with Ontarians. The OSC would like to thank the members of the IAP for their positive contributions toward improving investor protection in Ontario.</p> <p>OI worked with the IEF to support their investor education efforts, which include getsmarteraboutmoney.ca (Canada’s most popular financial education site), inspirefinanciallearning.ca (an interactive website for teachers) and Mind Over Money (a suite of classroom-ready financial literacy lessons).</p>

	<p>The OSC allocated money collected from enforcement settlements and monetary sanctions to the Investor Education Fund and to FAIR Canada to support their ongoing work in investor education and advocacy.</p>
<p>2. Re-evaluate the adviser-client relationship to consider whether an explicit statutory fiduciary duty or other standards should apply to all advisers and dealers in Ontario. The research underway will be completed, and a paper on the adviser's duty to clients will be prepared and published in consultation with the CSA</p>	<p>In consultation with the CSA, the OSC published a consultation paper exploring the appropriateness of a statutory best interest duty to retail clients. OSC staff are analyzing the comments received to-date, plan further consultations and will continue to monitor the best interest standard debate and related policy developments internationally.</p>
<p>3. Where appropriate the OSC will make application under s.128 of the <i>Securities Act</i> (Ontario) to compensate investors.</p>	<p>The OSC has explored bringing applications under section 128 of the <i>Securities Act</i> in order to obtain monetary remedies. To date, an examination of pending cases has led to the conclusion that none have been suitable for this sort of section 128 application. Enforcement staff continue to assess new matters as they arise and consider whether such matters are amenable to the process prescribed by section 128 in order to obtain financial sanctions. As part of our investor protection efforts, Enforcement also focused on mitigating investor losses through other means during the year, such as freezing assets where possible.</p>
<p>4. The OSC will help investors get the necessary information to enable them to make better investment decisions by:</p> <p>i. applying high standards of disclosure through robust prospectus and continuous disclosure reviews</p>	<p>OSC staff use a risk-based approach for both continuous disclosure and prospectus reviews. This fiscal year, the Corporate Finance Branch created industry specialized review teams which enhanced staff's ability to respond to market condition changes and identify and focus on areas of risk.</p> <p>In August, 2012, OSC staff published OSC Staff Notice 81-717 <i>Report on Staff's Continuous Disclosure Review of Portfolio Holdings by Investment Funds</i>, which set out the results of a targeted review of the portfolio disclosure of investment funds in the fund's statement of investment portfolio, management reports of fund performance and Fund Facts documents.</p> <p>OSC staff commenced a targeted review of advertising and marketing materials of investment funds. These reviews covered conventional mutual funds, closed-end funds, exchange-traded funds, commodity pools and labor sponsored investment funds. Staff plans to publish guidance arising out of this review by Summer 2013.</p>

<p>ii. developing alternative, tailored disclosure documents – such as: re-examining risk disclosure in the ‘Fund Facts’ as part of the Point of Sale initiative, and developing similar disclosure documents for other types of investment funds and scholarship plans</p>	<p>OSC staff undertook a review of a sample of exchange-traded funds (ETFs) to identify best practices related to portfolio holding disclosure of ETFs, to assess the adequacy of the current regulatory regime.</p> <p>In June 2012, the OSC, along with the CSA, published for second comment changes to the Fund Facts document, primarily focused on the presentation of risk, in advance of finalizing proposals to allow the Fund Facts document to be delivered to satisfy the current prospectus delivery requirements to deliver a prospectus within two days of buying a mutual fund.</p> <p>The Fund Facts document is designed to make it easier for mutual fund investors to find and use key information. It is in plain language, no more than two pages double-sided and highlights key information important to investors, including past performance, risks and the costs of investing in a mutual fund. During Fall 2012, the OSC, with the CSA, engaged Allen Research Corporation of Toronto, Ontario, to conduct investor testing of the proposed changes to the Fund Facts document published in June 2012.</p> <p>OSC staff, along with the CSA, plan to publish final amendments implementing delivery of the Fund Facts to satisfy prospectus delivery for mutual funds by Summer, 2013. Concurrent with this work, the OSC, with the CSA, continued to work on a CSA risk rating methodology. The CSA expect to consult on this methodology and to publish it for comment on a separate timeframe.</p> <p>In January 2013, the OSC, along with the CSA, published final amendments to NI 41-101 <i>General Prospectus Requirements</i> which introduced a new prospectus disclosure form tailored for scholarship plans. Subject to ministerial approvals, the form comes into force on May 31, 2013. A key component of the new prospectus form is the Plan Summary document. Similar to Fund Facts for mutual funds, it is in plain language, will be no more than four pages, and highlights the potential risks and costs of investing in a scholarship plan. It will form part of the prospectus, but will be bound separately.</p>
<p>iii. publishing rules that ensure investors receive from their dealers/advisers reports on the ongoing costs and performance of their investments</p>	<p>In March 2013, the OSC published the new investor reporting requirements involving cost disclosure and performance reporting by way of amendments to NI 31-103 and its companion policy. Subject to Ministerial approval, they will come into effect in July 2013 with a phased-in implementation through to July 2016.</p>

<p>5. Continue to work with OBSI and the CSA to support a sustainable and robust system of informal dispute resolution for investors.</p>	<p>The OSC and the CSA continued to work with OBSI on its processes and OBSI made changes to its governance structure in September 2012. In November 2012, the OSC, along with the CSA, published a notice and request for comment on rules changes proposed to mandate OBSI as the common dispute resolution service provider for all registered dealers and advisers. The OSC, along with the CSA, are analysing the comments received.</p>
<p>6. Examine the exempt market to obtain a better understanding of how and why individual investors participate not only in terms of direct investment in issuers, but also through structured investments sold through exempt market dealers</p>	<p>Refer to Goal #1 (initiatives #4 and #5) above for further information</p>
<p>7. Re-consider the current regulatory requirements governing shareholders' rights plans to reflect recent market and governance developments.</p>	<p>In March 2013, following extensive consideration, the OSC, along with the CSA, published for comment a proposed new rule for shareholder rights plans (or "poison pills"), a type of defensive tactic against unsolicited take-over bids. The proposed rule would allow boards of directors of Canadian public companies to adopt and maintain a shareholder rights plan provided that shareholders approve the plan within specified times. The comment period on the proposal is open until June 12, 2013.</p>
<p>Goal 4: Run a Modern, Accountable and Efficient Organization</p>	
<p>Specific priorities in support of this goal:</p>	<p>Status</p>
<p>1. Prioritize and coordinate policy development. A dedicated committee will be established for the control and prioritization of policy initiatives, to ensure they are aligned with the goals and objectives of the organization and that investors' concerns and operational issues are considered early in the policy process. Greater emphasis will be placed on assessing the implications of policies, testing implementation of regulations and on collaboration with other domestic and international regulators</p>	<p>In 2012-13 the OSC established a Policy Review Committee (PRC) to apply a structured approach to the selection, prioritization and monitoring of policy projects. During the year, all existing policy initiatives were assessed and ranked using defined criteria, and on an ongoing basis they were reviewed and monitored using OSC project management processes and standards. New policy projects were submitted to the PRC and assessed and ranked using the same criteria.</p> <p>Project rankings were used to manage the allocation of resources to projects. Higher ranked projects were given the priority for resources over lower ranked projects.</p>
<p>2. Establish an Emerging Risk Committee that will develop a framework for the identification and analysis of risk</p>	<p>The OSC adopted a refreshed Risk Management Framework to improve risk identification and management. The updated framework establishes a consistent approach to risk identification and risk management on an OSC-wide basis and includes quarterly reporting to the Board.</p> <p>The objectives of the framework are:</p> <ul style="list-style-type: none"> • Promoting a risk awareness culture within the OSC • Aligning the OSC risk appetite with its strategic direction • Identifying and managing enterprise wide risks (reputational, financial, operational and people)

	<ul style="list-style-type: none"> ▪ Providing an important contribution to the setting of the OSC's strategic direction and business planning ▪ Allowing proactive management of risk, performance measures, stakeholder disclosure, prioritization of initiatives and allocation of resources <p>An integral element of the risk management framework is the establishment of a senior staff Emerging Risk Committee. This committee met four times through the year and is intended to create a forum to identify, analyse and consider options to address emerging risks. Although this committee is in its early stages, it has already helped inform the OSC's identification of risks in its most recent business planning process and its ongoing operational priorities.</p>
<p>3. Expand its research and data analysis capabilities to adopt a data-based approach to identifying issues, decision making and policy development. A dedicated group will be created to further enhance the research and analytical functions to bring about a more disciplined approach to policy development, a better understanding of investor behaviour and needs, and improved and timely identification of risks and issues in order to react faster</p>	<p>The Research and Analysis Group was expanded to enhance the influence of research and analysis within the OSC. The group has researchers or economists who are focused on providing high quality analysis in support of the OSC's priorities and goals. This group is involved in all priority initiatives of the OSC. By way of example, this group has contributed to the work on mutual fund fees, profiling the exempt market and describing market data fees.</p>
<p>4. Build an attractive, modern, high-performing workplace where every manager is a great talent manager and every employee is fully engaged</p>	<p>The OSC completed several organizational and people initiatives in support of this goal. Key highlights are as follows:</p> <ul style="list-style-type: none"> ▪ For the first time, the OSC competed for Top Employer status in 2013 and was recognized as one of Greater Toronto's Top Employers. This Award is external validation of the quality and importance of the work which the OSC performs, as well as the quality and attractiveness of its workplace. Securing this Award is assisting OSC in its recruitment efforts and challenges the OSC to continue to make improvements to its workplace. ▪ To support leaders in their development as great talent managers, the OSC completed delivery of its competency-based Leader Development Program, provided special training and support for managing performance, completed leadership competency assessments at the director level and began these assessments at the manager level, supported by just-in-time coaching to improve competency levels and deal with challenging situations. ▪ In June, an employee engagement survey indicated a strong level of overall employee engagement and pointed to opportunities to improve aspects of enablement and relationships. Several actions have been taken to address

	<p>some of the issues including a sharper focus on priorities, improved business and resource planning, better information from research and a refreshed workspace. Employees were consulted on root-causes and possible solutions and improvement initiatives will continue.</p> <ul style="list-style-type: none"> ▪ OSC continued to improve the alignment of individual performance goals with OSC and branch goals to ensure clarity of expectations and to promote overall high level of OSC performance. A new on-line Performance Management System simplified this linkage for managers and employees, ensured individual year-end results were documented and provided a basis for differentiating between individual levels of performance. ▪ A new Flexwork policy clarified the various and diverse arrangements which the OSC supports to get work done most effectively while continuing to be an attractive employer with a modern workplace.
<p>5. Incorporate more sophisticated analytical tools to improve the efficiency, quality and timeliness of investigation efforts. Expand the use of technology and <i>e-discovery</i> tools to assist in insider trading investigations</p>	<p>Enforcement staff successfully integrated its specialized software in its investigation process, which has had a significant impact on the effectiveness of reviewing large volumes of e-mails and other electronic records. Efforts continued to focus on installing and testing new features and enhancements such as audio transcription.</p> <p>Enforcement staff continued to explore new tools and technologies for modernizing various aspects of the investigative and litigation processes. Efforts continued to streamline computer forensic services, either internally or through relationships with other government Ministries.</p>
<p>6. Improve the adjudicative process by moving to electronic hearings. This will facilitate more efficient management of the increased numbers of hearings and related documents</p>	<p>Enforcement staff continued to move forward with presenting evidence in Commission proceedings in an electronic format. A pilot electronic hearing was successfully completed in the 4th Quarter. Currently 13 cases are scheduled for electronic hearings. The ongoing renovations will result in three OSC hearing rooms equipped for such hearings.</p>
<p>7. Develop IT tools to assist in gathering, monitoring and analyzing data, automating areas of work that are now manually intensive and not efficient - e.g. creating online information submission (<i>eForms</i>) to capture submissions electronically to reduce data entry and errors, expedite analysis, and improve the quality of information submitted through initial validation</p>	<p>Data on exempt market activity is necessary to inform decisions about regulatory changes to the exempt market. In June 2012, the OSC launched an electronic version of Form 45-106F1 <i>Report of Exempt Distribution</i>, which can be filed through the OSC's website. Our goal in providing an e-form is to both make it easier for filers to prepare and file the report and also to facilitate the OSC's ability to more efficiently review the data contained in the report.</p> <p>The OSC also launched Form 21-101F3 <i>Quarterly Report of Alternative Trading System Activities</i> allowing market places to report via electronic means.</p>

<p>8. Review the existing OSC fee model and propose a new Fee Rule for implementation in April 2013</p>	<p>The OSC amended the OSC fee rules <i>13-502 (Securities Act) and 13-503 (Commodities Futures Act)</i> and their companion policies, which set the OSC's funding model for the next three fiscal years. The new fee model better aligns the fees paid by market participants with the resources employed by the OSC in regulating their activities.</p> <p>The OSC published a proposed fee rule for comment in August 2012. During the comment period the OSC met with interested parties to hear their concerns. The OSC demonstrated responsiveness to the feedback received by making a number of revisions to the rule including reducing the proposed rate of increases. The revised fee model became effective April 1, 2013.</p>
<p>9. Further develop key performance measures to track the outcomes of OSC activities to be implemented by fiscal year end</p>	<p>The performance measures initiative has progressed significantly in the fiscal year. The foundation for the creation of improved performance measures for the OSC was established by assessing the current inventory of measures already used by the OSC and completing a comparative assessment of performance measures used by other securities regulators.</p> <p>One OSC Branch has commenced a pilot project to create and implement a selection of enhanced measures starting in 2013/2014.</p> <p>The 2013/2014 Statement of Priorities contains, for the first time, specific success measures for each initiative and a commitment to report against those measures at the conclusion of the year.</p>
<p>10. Improve internal work processes – such as: a more effective approach to issuer regulation by continuing to improve screening and review protocols for prospectuses and compliance oversight; plus enhancing the risk-based approach to licensing registrants.</p>	<p>The OSC continues to improve its internal work processes. The OSC enhanced its risk based screening process this fiscal year by creating industry specialized review teams which enables staff to focus on industry specific areas of risk and respond to market condition changes.</p> <p>The OSC also refined its risk-based approach to assessing registration applications. The approach is applied to certain categories of registration for individuals who are to be registered with a currently registered firm. This approach is creating operational efficiencies by focusing on application deficiencies and background information that may have an effect on the registration decision.</p>

Goal 5: Support and Promote Financial Stability	
Specific priorities in support of this goal:	Status
<p>1. Continue the work on the creation of a framework to regulate OTC derivatives participants in order to meet the G20 requirements:</p> <ul style="list-style-type: none"> i. complete and publish various concept papers in consultation with the CSA ii. roll-out proposed rules regarding oversight of trade repositories and a requirement to report all derivative trades to an approved trade repository, and iii. publish rules for comment in late 2012 	<p>The OSC continues to work on the creation of a regime to regulate OTC derivatives participants in Ontario. We are a major contributor to the CSA Derivatives Committee that is releasing a series of policy papers on issues relating to derivatives regulation in Canada.</p> <p>CSA Staff Consultation Paper 91-301 <i>Model Provincial Rules – Derivatives: Product Determination and Trade Repositories and Derivatives Data Reporting</i> was released on December 6, 2012 along with Notice and Explanatory Guidance. Modifications to the Model Rules are underway based on comments received. Staff drafted Companion Policies and related Notice for the two rules. Draft Provincial Rules are scheduled for release in early June.</p>
<p>2. Increase cooperation by developing more formal and regular working relationships with the CSA and other financial service regulators in Canada and internationally</p>	<p>The OSC has taken a new leadership role at the International Organization of Securities Commissions (IOSCO). In March 2013, Howard Wetston was elected Vice Chair of the IOSCO Board.</p> <p>The OSC is engaged in discussions with the UK Financial Conduct Authority and the US Commodity Futures Trading Commission regarding supervisory cooperation MOUs. These MOUs would facilitate information sharing and cooperation relating to the oversight of cross-border regulated entities, thereby strengthening the Commission's ability to protect investors and promote financial stability.</p> <p>The OSC is also engaged in discussions between the CSA and the European Securities and Markets Authority regarding bilateral MOUs with EU authorities, as required under the <i>Alternative Investment Fund Managers Directive</i>, to permit Canadian alternative investment fund managers (such as hedge fund, private equity and real estate fund managers) to manage or market funds in the EU.</p> <p>OSC staff also contributed to the CSA Systemic Risk Committee and were involved in inter-agency discussions with staff from the Bank of Canada, OSFI and the Federal Department of Finance on several systemic risk issues, including monitoring of certain markets segments (hedge funds and ETFs), shortages of high quality securities for use as collateral and global developments regarding money market mutual funds and shadow banking.</p>

	<p>The OSC continued its involvement with IOSCO’s Standing Committee on Risk and Research which focused on the development of a risk dashboard that could be used to better inform IOSCO Board discussions of emerging risks.</p> <p>Participation on these committees has contributed to the OSC’s identification of relevant emerging and systemic risks and therefore has assisted in the OSC’s business planning and priority setting. Risks identified and discussed in these committees can then be flagged for internal OSC consideration.</p>
<p>3. Work with IOSCO and the CSA Systemic Risk Committee to implement IOSCO Principle 6 regarding systemic risk, and Principle 7 regarding perimeter of regulation.</p>	<p>The OSC, in partnership with other CSA members, is participating in the IOSCO Thematic Review on the implementation of IOSCO Principle 6 regarding systemic risk and Principle 7 regarding the perimeter of regulation. The OSC is also participating in the IMF Financial Sector Assessment Program (FSAP), which is evaluating the CSA’s implementation of the IOSCO Objectives and Principles of Securities Regulation, including Principles 6 and 7. The OSC, working with the CSA Systemic Risk Committee, helped draft the responses to Principles 6 and 7 in the CSA Self-Assessment prepared for the FSAP.</p> <p>OSC staff contributed to the IOSCO consultation paper published in April 2012, which provided an analysis of the systemic risks posed by money market funds and outlined potential reform options for their regulation. IOSCO finalized its recommendations to the FSB and published them in October 2012. In November 2012, the FSB endorsed the recommendations as an effective framework for strengthening the resilience of money market funds to risks.</p>