

Ontario Securities Commission

2016 – 2017

# OSC Statement of Priorities

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## Report Card

# Executive Summary

*The 2016 – 2017 Statement of Priorities set out the OSC's strategic goals and the specific initiatives that the OSC would pursue in support of each of these goals in 2016 – 2017. This document reports on the OSC's performance against the priorities set out in the 2016 – 2017 Statement of Priorities.*

*Highlights and accomplishments for each of the 2016 – 2017 priorities are presented in table format. Each of the 'Measures of Success' has been ranked as either completed (green), work in progress (yellow) or as not completed (red). Annex A – OSC Service Commitment Summary outlines how the OSC operating branches performed against the target service levels, such as: responding to inquiries and requests for information, reviewing offering documents, applications and other filings. Annex B summarizes survey results from various consultation and outreach sessions held during the year.*

*A broader discussion of OSC accomplishments will be available in the 2017 OSC Annual Report, to be published on the OSC website ([www.osc.gov.on.ca](http://www.osc.gov.on.ca)).*

The following is a summary highlighting the OSC achievements for this past fiscal year. These are specific initiatives that the OSC completed in support of each of the OSC goals.

## Deliver strong investor protection

- Published Consultation Paper (CP) 33-404 *Proposals to Enhance the Obligations of Advisers, Dealers and Representatives Toward their Clients*
- Completed consultations and developed and presented high-level recommendations on targeted reforms, proposed regulatory best interest standard and proposed work plan to the Commission
- Finalized analysis of advisor compensation practices
- Published Consultation Paper 81-408 *Consultation on the Option of Discontinuing Embedded Commissions*
- Published Rules implementing a CSA risk classification methodology and a summary disclosure document for ETFs
- Completed risk-based review of Exempt Market Dealers (EMD) using new capital-raising exemptions and identified and addressed EMD levels of compliance
- Published Staff Notice 11-778 *Behavioural Insights: Key Concepts, Applications and Regulatory Considerations*, reviews how application of behavioural finance can achieve better investor outcomes
- Published Staff Notice 11-776 *Investor Office Activity Report 2015-2016* providing status update on OSC's seniors strategy
- Published a report on the Investor Office / Investor Advisory Panel Roundtable on risk profiling
- Improved outreach and education activities focused on

Seniors and enhanced and expanded educational tools and resources to improve investor engagement

## Deliver responsive regulation

- Commenced post-implementation analysis of the impact of the Client Relationship Model – Phase 2 and Point of Sale amendments
- Published CSA Multilateral Staff Notice 58-308 *Staff Review of Women on Boards and in Executive Officer Positions*
- Published amendments to National Instrument 23-101 – *Trading Rules*
- Supported Task Force on Market Conduct in drafting a supervision of a market conduct toolkit
- Ensured alignment between domestic regulatory framework and new international standards

## Deliver effective compliance, supervision and enforcement

- Published Staff Notice 33-747 *Annual Summary Report for Dealers, Advisers and Investment Fund Managers*
- Issued Risk Assessment Questionnaire completed reviews of selected firms, registrant non-compliance remediated
- Completed joint SRO compliance review on sales incentives and related conflicts of interest
- Launched the Office of the Whistleblower and implemented an Enhanced Multilateral Memorandum of Understanding
- JSOT initiated eight quasi-criminal and criminal proceedings, and concluded eight matters

## Promote financial stability through effective oversight

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- IIROC began acting as information processor and publishing corporate debt post trade data
- Completed a review of dealers' allocation practices for new debt issues
- Enhanced OSC systemic risk oversight by developing market data analytics capabilities and participating on international and domestic risk oversight committees
- Published NI 94-101 *Mandatory Central Counterparty Clearing of Derivatives* and NI 94-102 *Derivatives: Customer Clearing and Protection of Customer Collateral and Positions*
- Published Proposed NI 93-101 *Derivatives: Business Conduct* for comment, drafting of Proposed NI 93-102

*Derivatives Registration – Requirements, Exemptions and Ongoing Obligations* underway

- Assessed trade reporting data to identify market trends/risks
- Published Staff Notice 11-332 *Cyber Security*, Staff Notice 51-347 *Disclosure of cyber security risks and incident*, and Staff Notice 11-336 *Summary of CSA Roundtable on Response to Cyber Security Incidents*

## Be an innovative, accountable and efficient organization

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- Completed research and analysis of the adoption of new prospectus exemptions
- Established a Data Management Steering Committee and developed a Data Governance Framework

# Deliver strong investor protection

*The OSC will champion investor protection, especially for retail investors*

The OSC achieved important investor protection milestones and undertook a range of actions to improve advisor's interactions with investors. The Investor Office developed innovative tools and enhanced its existing educational resources to better promote investor awareness and drive visits to the OSC's online websites. The establishment of a Seniors Expert Advisory Committee (SEAC) will provide key insights on policy issues impacting older investors while research such as the *Behavioural Insights* report will help improve

outcomes for investors and market participants. The OSC and Canadian Securities Administrators (CSA) published a consultation paper with proposed regulatory action aimed at enhancing the obligations of advisers, dealers and representatives towards their clients through regulatory amendments to NI 31-103 (Targeted Reforms), a proposed regulatory best interest standard, and another consultation paper with options for discontinuing embedded commissions.

## Putting the Interests of Investors First

### Measures of Success:

|  |  |
|--|--|
| Consultations on provisions for creating a best interest standard completed  |  |
| Consultations on proposed targeted reforms and/or guidance to NI 31-103 completed  |  |
| Recommendation presented to Commission on the regulatory reforms required to improve the advisor/client relationship. Implementation plan included |  |
| Staff Notice summarizing compensation review findings, including expectations for compliance and best practices, published                         |  |

| Action Plan  | Progress against Action Plan   |
|--|--|
| Publish and conduct consultations on proposed regulatory provisions to create a best interest standard   | On April 28, the CSA published Consultation Paper (CP) 33-404 <i>Proposals to Enhance the Obligations of Advisers, Dealers and Representatives Toward their Clients</i> . CP 33-404 includes a set of proposed reforms to NI 31-103 <i>Registration Requirements, Exemptions and Ongoing Registrant Obligations</i> , and a proposed regulatory best interest standard and related potential guidance. The comment period closed on September 30   |
| Publish and conduct consultations on targeted regulatory reforms and/or guidance under NI 31-103 to improve the advisor/client relationship                                      | The CSA Committee completed multiple consultations with stakeholders, both locally and CSA-wide, over the fiscal year. Roundtables to discuss CP 33-404 were held in Ontario, Alberta, British Columbia, Nova Scotia and Quebec  |
| Following stakeholder consultations, develop recommendations to the Commission on regulatory reforms to improve the advisor/client relationship including an implementation plan | The CSA Committee analyzed stakeholder feedback (over 120 comment letters), formulated high-level recommendations on each of the targeted reforms areas and the proposed regulatory best interest standard and presented recommendations and a proposed work plan to the CSA Chairs in April, 2017   |
| Finalize analysis of advisor compensation practices and identify those practices that appear inconsistent with current regulatory objectives                                     | On December 16, 2016, the Committee published CSA Staff Notice 33-318 <i>Review of Practices Firms Use to Compensate and Provide Incentives to their Representatives</i> . The Staff Notice outlines the results of a 2014 survey that identifies the incentive practices used by retail representatives at large financial institutions that serve clients in the MFDA and IIROC channels and high net worth clients in the portfolio manager channel, and sets out potential conflicts of interest that could arise if not properly controlled |

| Action Plan | Progress against Action Plan  |
|-------------|---|
|             | <b>Expectations for compliance and best practices were not published.</b> In the publication of CSA Staff Notice 33-318, the CSA had indicated it “may issue further guidance and/or proposed regulation related to compensation arrangements and incentive practices in light of its ongoing work to enhance the client-registrant relationship.” Ongoing work on this issue continues as part of the targeted reforms project |

| Addressing compensation arrangements in mutual funds and empowering investors through better disclosure                                |  |
|--|--|
| Measures of Success:   |  |
| Publication of a consultation paper including a recommendation about embedded commissions and other types of compensation arrangements |  |
| Rules implementing a CSA risk classification methodology finalized   |  |
| Rules implementing a summary disclosure document for ETFs finalized  |  |

| Action Plan  | Progress against Action Plan   |
|--|--|
| Communicate a policy direction on embedded commissions and other types of compensation arrangements                              | On June 29, 2016 CSA Staff Notice 81-327 <i>Next Steps in the CSA’s Examination of Mutual Fund Fees</i> was published. The Notice communicated that the CSA found that embedded commissions raise a number of investor protection and market efficiency issues and will consult on the option of discontinuing embedded commissions and transitioning to direct pay arrangements   |
| Develop regulatory proposals that address conflicts of interest created by compensation arrangements related to investment funds | CSA Consultation Paper 81-408 <i>Consultation on the Option of Discontinuing Embedded Commissions</i> was published on January 10, 2017. The CSA will review and evaluate stakeholder feedback received through both the written comment process and in-person consultations, and expects to make a recommendation on the appropriate response in the Spring 2018  |
| Finalize a summary disclosure document for ETFs that can be delivered to investors   | Final rule amendments introducing a summary disclosure document for ETFs (ETF Facts), along with a corresponding delivery obligation, were published on December 8, 2016. The Amendments will take effect in stages: <ul style="list-style-type: none"> <li>▪ Requirements related to the production and filing of the ETF Facts will come into effect in September 2017, and</li> <li>▪ Requirements related to delivery of the ETF Facts (the Delivery Requirements) will come into effect in December 2018. The Delivery Requirements will allow for post-sale delivery of the ETF Facts</li> </ul> |
| Finalize a mandated CSA risk classification methodology to improve the comparability of risk ratings of mutual funds             | Final rule amendments mandating the use of a CSA risk classification methodology were published on December 8, 2016. The amendments take effect September 2017 when fund managers must use the methodology to determine the investment risk level of conventional mutual funds and ETFs  |

## Increased oversight of the exempt market

### Measures of Success:

Risk-based supervision program for registrants, issuers and portals using the new capital-raising exemptions developed; questions included in 2016 Risk Assessment Questionnaire to gather information on the use of the new exemptions

Emerging trends and levels of compliance identified and addressed and report on exempt market status published

| Action Plan   | Progress against Action Plan   |
|---|--|
| Oversee market participants relying on the expanded capital raising exemptions in Ontario through a risk based supervision program for issuers, registrants and portals | <p>Staff completed a desk review of Exempt Market Dealer (EMD) firms who have distributed securities in reliance on the family, friends and business associate (FF&amp;BA) and/or offering memorandum (OM) prospectus exemptions. Where staff identified deficiencies, a compliance deficiency report was sent to the dealer and in most cases the firm was required to submit a written response to the deficiencies.</p> <p>Staff concluded that additional guidance in understanding and applying the provisions of the prospectus exemption may be required. Staff expect to finalize the guidance in Q1 2017-2018 and publish it in the 2017 Compliance and Registrant Regulation (CRR) Annual Report</p> |
| Collect and analyze data on the use of capital raising exemptions in Ontario to assess how the exemptions are being used to further capital formation                   | Staff have used the new exempt distribution form to collect enhanced data and monitor and analyze the use of the new capital raising exemptions and will publish a report in Q1, 2017-2018   |

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

### Measures of Success:

Publication of research that identifies opportunities to achieve better investor outcomes through the application of behavioural finance

Status update on the OSC's activities related to its seniors strategy published

Status update on the OSC's work with the Investor Advisory Panel to improve the risk profiling used in the retail investment advice process published

| Action Plan   | Progress against Action Plan   |
|---|--|
| Improve outreach and education focused on senior and vulnerable investors and work with the Investor Advisory Panel (IAP) to identify further opportunities to advance investors' interests | <p>In June, the OSC launched a Seniors Expert Advisory Committee (SEAC) with 15 members from law, academia, industry, medicine and seniors' advocacy organizations. SEAC will advise staff on policy issues impacting older investors and help develop solutions</p> <p>In November, the OSC published Staff Notice 11-776 <i>Investor Office Activity Report 2015-2016</i> which provides an update on Investor Office initiatives and outlines the projects to be advanced. One of the key areas of focus will be to publish the OSC's overall seniors strategy</p> <p>The Investor Office raised awareness of OSC initiatives and resources through speaking engagements at the Older Adult Centres of Ontario (OACAO) conference, the Ontario Society of Senior Citizens Organizations (OCSCO) conference and United Senior Citizens of Ontario (USCO) annual conference which represents over 200,000 seniors and over 1,000 seniors clubs</p> <p>The Investor Office, as part of the CSA Investor Education Committee (IEC), developed and launched a national binary options campaign and introduced a new informational web page, BinaryOptionsFraud.ca</p> <p>46 <i>OSC in the Community</i> events were held, with 2,026 participants representing a 25% increase in year-over-year attendance. Five teletownhalls were held with approximately 2,400 participants</p> |

| Action Plan   | Progress against Action Plan   |
|---|--|
| <p>Improve our understanding of investor issues and needs through targeted research, seminars and roundtables</p>   | <p>The Investor Office jointly organized a roundtable with the IAP to explore the findings of the independent research commissioned by the IAP: <i>Current Practices for Risk Profiling in Canada and Review of Global Best Practices</i>. Led by an independent facilitator, the roundtable included 26 participants from the financial services industry, academia, law, government, regulatory and investor advocacy organizations. The independent facilitator’s report on the risk profiling roundtable was released in January, 2017</p> <p>The Investor Office published OSC Staff Notice 11-778 <i>Behavioural Insights: Key Concepts, Applications and Regulatory Considerations</i>. The report examined how leading practitioners and regulators around the world use behavioural insights to address issues in capital markets and improve outcomes for investors and market participants</p>  |
| <p>Enhance, expand and develop innovative tools and resources to improve OSC investor engagement and develop a framework to measure the impacts and outcomes achieved</p> | <p>The Investor Office’s online education resources, including <i>GetSmarterAboutMoney.ca</i>, received over 4.8 million visits in 2016-2017. New content for <i>GetSmarterAboutMoney.ca</i> was developed and updated for:</p> <ul style="list-style-type: none"> <li>▪ The OSC’s new Exempt Market page including the exempt market explained, types of prospectus exemptions and eight risks of equity crowdfunding</li> <li>▪ Registered Retirement Savings Plans (RRSPs), Registered Retirement Income Funds (RRIFs), Registered Education Savings Plan (RESPs) and Registered Disability Savings Plans (RDSPs), and</li> <li>▪ Topics including international diversification, inflation, online investment advisors and mutual fund series and syndicated mortgages</li> </ul> <p>The Investor Office expanded resources available in languages other than English and French by launching <i>InvestingIntroduction.ca</i>, which provides unbiased information on investing topics in 22 different languages</p> <p>The Investor Office launched <i>InvestmentReporting.ca</i>, a new website to help investors understand the new annual performance and charges reports that advisors are providing to their clients as part of the CSA’s Client Relationship Model – Phase 2 (CRM2) initiative</p> <p>Investor Office staff also led the development of a new framework for designing evaluations of investor education activities. The framework includes guidelines and criteria that may be referred to when designing an evaluation</p> |

# Deliver responsive regulation

*The OSC will identify important issues and deal with them in a timely way*

The OSC took important steps to promote market efficiencies and keep pace with innovations in market structure. The Order Protection Rule (OPR) regulatory framework was finalized with the publication of amendments to National Instrument 23-101 – *Trading Rules*.

The OSC continued to actively engage with its international counterparts as a means to obtain insights and understanding of regulatory issues and also ensure that international standards are aligned with the needs of our capital markets. The OSC chaired the IOSCO (International Organization of Securities Commissions)

Committee on Secondary Markets (C2) and the Committee on Emerging Risks, co-chaired the Task Force on OTC Derivatives and participated in Financial Stability Board (FSB) work groups.

The OSC hosted a regulatory hackathon and OSC Dialogue 2016. The regulatory hackathon brought together more than 130 innovators, strategists and developers to work together over 48 hours to find possible solutions to four shared challenges in the regulatory environment. OSC Dialogue 2016 focused on disruptive forces in the capital markets and the implications for market participants, investors and regulators.

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

### Measures of Success:

Post-implementation analysis of CRM2 and POS conducted

Review of all TSX-listed issuers to assess compliance with disclosure requirements for Women on Boards completed.

Public focus on corporate governance changes related to this disclosure is maintained

| Action Plan  | Progress against Action Plan   |
|--|--|
| Commence post-implementation analysis of the impact of the Client Relationship Model – Phase 2 (CRM2) and Point of Sale (POS) amendments   | <p>OSC staff participated on a project committee led by the British Columbia Securities Commission (BCSC) with three research streams:</p> <ul style="list-style-type: none"> <li>▪ Investor surveys (seven rounds)</li> <li>▪ Registrant surveys regarding firm compensation (three rounds), and</li> <li>▪ An analysis on fund fees and product offerings</li> </ul> <p>Staff completed two rounds of investor surveys and one round of registrant surveys. A report on the first round of the investor survey was completed and submitted to the CSA on January 30, 2017</p> <p>The project committee is working with the Investment Funds Institute of Canada (IFIC) to access Simfund data through Investor Economics to advance the fund fees and product offerings stream of research</p> |
| Conduct targeted disclosure reviews to monitor the progress on corporate governance changes related to disclosure requirements for Women on Boards and in executive officer positions and determine the impact of those changes in our markets | In September, CSA Multilateral Staff Notice 58-308 was published highlighting the findings from the second review. The underlying data for the review was published in March 2017  |

## Monitor and support market structure evolution

### Measures of Success:

Final Order Protection Rule framework published

| Action Plan   | Progress against Action Plan  |
|---|---|
| Finalize the Order Protection Rule regulatory framework with the CSA including establishing a market share threshold, trading fee caps, market data methodology and speed bumps | <p>National Instrument 23-101 - <i>Trading Rules</i> was published April 7 and became effective on July 6. Provisions regarding market share threshold became effective October 1, 2016</p> <p>On January 26, 2017, the OSC published a Notice of Approval for amendments to National Instrument 23-101 - <i>Trading Rules</i> that establish a lower trading fee cap for active orders in securities not inter-listed on a national securities exchange in the United States. The amendments became effective April 10, 2017</p> |

## Improve alignment with international standard setting

### Measures of Success:

Our domestic regulatory framework and priorities are aligned with new international standards

Participate in the Task Force on Market Conduct (TFMC) to publish a report outlining tools that regulators can use to promote appropriate conduct by market professionals

| Action Plan  | Progress against Action Plan  |
|--|---|
| Actively participate in IOSCO and other regulatory authorities globally to promote the development of new international standards and regulatory responses to areas including cyber resilience, resolution and recovery of central clearing counterparties (CCPs), vulnerabilities in the asset management sector, the protection of client assets, and the ability of regulators to exchange information in compliance and enforcement situations | <p>The OSC ensured its domestic regulatory framework and priorities were aligned with new international standards through its engagement in a number of task forces, committees and working groups. The OSC:</p> <ul style="list-style-type: none"> <li>▪ Supported the TFMC in drafting its interim report, which was delivered to the Financial Stability Board (FSB) in July 2016. Staff continue to provide input on the drafting of the final report and recommendations which will provide a toolkit on the supervision of market conduct across TFMC jurisdictions</li> <li>▪ Chaired the IOSCO Committee on Secondary Markets (C2), which examines the effectiveness and integrity of global capital markets and financial market infrastructures, and the Committee on Emerging Risk (CER), which provides regulators with tools, data and information to identify, monitor and mitigate risks in their jurisdictions. The CER continued to conduct outreach and consultation discussions with market participants with the aim of identifying potential risks</li> <li>▪ Co-chaired the IOSCO Task Force on OTC Derivatives where staff researched and drafted a report exploring credit default swaps (CDS), International Swaps and Derivatives Association's (ISDA) determinations committees and the auction process by which CDS are settled</li> <li>▪ Led the IOSCO sub-Group on Data Protection and implemented recommendations to ensure that regulators continue to have access to information for enforcement investigations</li> <li>▪ Advanced work on customer collateral and positions as the sole Canadian representative on the FSB Group on Unique Transaction Identifier (UTI)/ Universal Product Identifier (UPI) Governance ("GUUG"). The GUUG finalized its first consultation paper on proposed governance arrangements for the UTI</li> <li>▪ Participated on the IOSCO - Committee Payments and Market Infrastructures (CPMI) OTC Derivative Data Harmonization Working Group (as co-chair of the Critical Data Elements group) and Policy Standing Group (PSG) Work Program on Central Counter Party (CCP) Resilience and Recovery</li> </ul> |

# Deliver effective compliance, supervision and enforcement

*The OSC will deliver effective compliance oversight and pursue fair, vigorous and timely enforcement*

The OSC continues to evolve its enforcement approaches by introducing new tools to deter misconduct and foster trust and confidence in our capital markets. The OSC launched the Office of the Whistleblower, the first paid whistleblower program by a securities regulator in Canada. The Office of the Whistleblower began receiving tips on July 14, 2016. The Commission approved three no-

contest settlements with large market participants, where each had self-reported the charging of excess fees for investment management services. As part of the settlements, over \$143 million was returned to investors, which represented the excess fees charged and the lost opportunity cost on these fees.

## Enhance Compliance through Effective Inspections, Supervision and Oversight

### Measures of Success:

2016 OSC Risk Assessment Questionnaire issued and findings assessed

Annual Summary Report for Dealers, Advisers and Investment Fund Managers published

Review of large domestic derivatives dealers completed and analysis of key findings and trends identified

Reviews finished and analysis of data completed

| Action Plan   | Progress against Action Plan  |
|---|---|
| Continue effective oversight of registrants focusing on high risk and new registrants   | <p>The OSC published Staff Notice 33-747 <i>Annual Summary Report for Dealers, Advisers and Investment Fund Managers</i>. The annual summary report describes initiatives undertaken by the Compliance and Registrant Regulation (CRR) Branch in the 2015-2016 fiscal year, including registration and compliance activities, policy initiatives and new programs</p> <p>Staff completed reviews of Ontario-based firms that were selected, in part, from their answers to the 2016 Risk Assessment Questionnaire (RAQ) issued in May, 2016. Where necessary, regulatory action is taken by staff to remediate the identified non-compliance by registrants</p> |
| Assess compliance with OSC Rule 91-507 <i>Trade Repositories and Derivatives Data Reporting</i>   | <p><b>The multi-year initiative to review large domestic derivatives dealers has commenced but reviews and analysis of all such dealers are not yet completed.</b></p> <p>OSC staff along with members of the Office of the Superintendent of Financial Institutions (OSFI) Capital Markets Risk Assessment Services Department and the Autorité des Marchés Financiers (AMF) completed a compliance review of one large domestic derivatives dealer. Final observations relating to rule compliance were agreed to and finalized with a second dealer. Reviews of three other large domestic derivatives dealers will be completed in the coming year</p>      |
| Work closely with self-regulatory organizations (SROs) to coordinate compliance efforts on issues in common, such as sales incentives and related conflicts of interest | <p>The OSC's work on sales incentives and related conflicts of interest was part of a larger coordinated initiative with the SROs and was completed in three phases. The OSC's initiative resulted in varying degrees of regulatory action being taken based on the compliance deficiencies identified</p>  |

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

### Measures of Success:

JSOT investigates fraud and recidivist cases and lays quasi-criminal and criminal charges. Results will be published in the annual enforcement report

Investor protection improved through increased public awareness of fraud and other serious securities laws violations

| Action Plan  | Progress against Action Plan  |
|--|---|
| Based on feedback and consultations, implement OSC Whistleblower Program, assess information received and establish effective protocols and processes to begin to use this input to pursue potential cases | The Office of the Whistleblower (OWB) was launched July 2016. The Program combines robust whistleblower protections with compensation of up to \$5 million to individuals who report possible violations of Ontario securities law that lead to enforcement action. In addition, the OWB operates the Whistleblower Hotline to help answer questions from the general public and prospective whistleblowers |
| Conduct collaborative investigations of fraud and recidivist cases through Joint Serious Offences Team (JSOT) using the provisions of the <i>Securities Act</i> or the Criminal Code                       | JSOT initiated eight quasi-criminal and criminal proceedings, and eight matters were concluded. The concluded matters resulted in a total of 102 months of jail sentences, 12 months of conditional sentences, almost \$50,000 in fines, and \$6.7 million in restitution. As at March 2017, JSOT has 19 quasi-criminal and criminal matters before the Courts  |
| Complete the Enhanced Multilateral Memorandum of Understanding (“EMMoU”) to facilitate information sharing and cross-border enforcement activities   | As part of IOSCO’s Screening Group, OSC staff participated in the drafting of the EMMoU, and the development of the implementation procedures. The EMMoU has been implemented, and regulators will be applying to become signatories  |

# Promote financial stability through effective oversight

*The OSC will identify, address and mitigate systemic risk and promote stability*

The OSC continued its efforts on enhancing the transparency of fixed income market and implementing the regulatory regime for OTC derivatives. In July, IIROC became the information processor for corporate debt and began disseminating corporate debt trade data. In the first nine months as the information processor, IIROC published more than 500,000 trades covering over 1,200 bonds. In January the CSA published and adopted two National Instruments (NI) affecting over-the-counter

(OTC) derivatives trading: *Mandatory Central Counterparty Clearing of Derivatives and Customer Clearing and Protection of Customer Collateral and Positions*. OSC staff continue to engage in oversight activities on the various IOSCO, OTC Derivatives Regulators' Forum (ODRF) and CSA risk committees. Other oversight activities include participation in the CSA Cyber Security Working Group for which the OSC hosted a consultative roundtable in February.

## Enhance Oversight of the Fixed Income Market

### Measures of Success:

Increased corporate debt post trade information available for all investors

IIROC acting as the information processor

Review of dealers' allocation practices completed

| Action Plan  | Progress against Action Plan   |
|--|--|
| Implement public transparency of fixed income trading data, specifically for corporate debt, with IIROC acting as the information processor for corporate debt | IIROC became the information processor on July 4, 2016 and started disseminating corporate debt trade data on July 6, 2016. The IIROC IP Fee model was approved by all CSA jurisdictions and implemented as of April 1, 2017. The second phase will commence on July 1, 2017, when trading in all corporate bonds will be publicly available |
| Monitor fixed income trading data to assess the impact of transparency   | Staff finalized a preliminary analysis of changes in corporate bond market trading for corporate debt securities. Staff will continue to monitor the impact of an enhanced transparency regime for corporate bonds on market liquidity after the implementation of transparency for all corporate bonds                                      |
| Conduct a comprehensive review of dealers' allocation practices for new debt issues  | Staff have reviewed responses to a survey on dealers' policies and procedures for allocating new debt issues and expect to issue a staff notice outlining the findings in Q1 2017-2018   |

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

### Measures of Success:

Enhance OSC systemic risk oversight

- Market data analytics capabilities related to systemic risk monitoring developed
- Participation on international and domestic committees where emerging systemic risk topics and tools are discussed and developed

Continue development and implementation of OTC derivatives regulation

- Rules to introduce mandatory, centralized clearing for certain OTC derivatives finalized
- Draft rule setting out a registrant regulation framework for derivatives market participants published for comment
- OTC trade reporting compliance confirmed through on-site inspections; and problems and trends identified

### Action Plan

Enhance OSC systemic risk oversight – Work with other regulatory agencies to monitor trends and risks across various market segments and participants including: equities, fixed income, OTC derivatives, clearing agencies, derivatives dealers

### Progress against Action Plan

The OSC continued to advance its systemic risk oversight regime through its participation on committees dedicated to monitoring and discussing emerging risks. OSC staff:

- Commenced a two-year term as IOSCO Committee Chair on Emerging Risks
- Chaired the Technical Working Group (TWG) of the OTC Derivatives Regulators' Forum (ODRF) whose mandate is to discuss the ability of regulators to use OTC derivatives data for regulatory purposes and issues in data quality. The group completed use case analyses on market concentration and clearing, and is currently working on use cases for market interconnectedness and market liquidity. The use case analyses provide insight into how regulators use Trade Reporting data to recognize instances of market concentration and decreased liquidity and thereby identify potential sources of systemic risk
- Participated in the CSA Systemic Risk Committee which monitors identified systemic risks or related knowledge gaps in the Canadian capital markets and works to build and share knowledge of systemic risk within the CSA and with other domestic regulators or agencies. The committee conducted fact gathering exercise around syndicated mortgage market in Canada to determine whether it posed a systemic risk
- Completed, along with members of OSFI and the AMF, an on-site OTC trade reporting compliance review of one large domestic derivatives dealer

Continue development and implementation of OTC derivatives regulation – Introduce mandatory, centralized clearing for certain OTC derivatives

On January 19, 2017 the CSA published and adopted two National Instruments (NI) affecting over-the-counter (OTC) derivatives trading:

- NI 94-101 *Mandatory Central Counterparty Clearing of Derivatives* requiring certain counterparties to clear certain standardized OTC derivatives through a central counterparty clearing agency, and
- NI 94-102 *Derivatives: Customer Clearing and Protection of Customer Collateral and Positions* designed to protect a local customer's positions and collateral when clearing OTC derivatives and to improve clearing agencies' resilience to default by a clearing intermediary.

NI 94-101 came into force on April 4, 2017 and NI 94-102 comes into force on July 3, 2017

Propose a registrant regulation framework for derivatives market participants

On April 4, 2017 the CSA published for a 150-day public comment period Proposed NI 93-101 *Derivatives: Business Conduct*, an independent business conduct rule that will apply to all dealers including those who are exempt from registration under the *Securities Act*

OSC staff continued to work with the CSA Derivatives Committee to draft Proposed NI 93-102 *Derivatives Registration – Requirements, Exemptions and Ongoing Obligations*, a proposed registration regime for derivatives dealers,

| Action Plan  | Progress against Action Plan  |
|--|---|
|  | derivatives advisers and potentially other derivatives market participants  |
| Assess trade reporting data to identify markets trends/risks | <p>Staff have utilized data obtained via OSC Rule 91-507 <i>Trade Repositories and Derivatives Data Reporting</i> to enhance the OSCs market data analytics capabilities related to monitoring systemic risk</p> <p>Staff use trade reporting data to track the number and notional amount of OTC derivative transactions outstanding by asset class over time and create dashboards that can identify changes in market trends for participants, product composition and the size of asset types. This enables staff to better understand the OTC derivatives market, identify trends and assess emerging systemic risks</p> |

| Enhance oversight of industry cyber security preparedness   |  |
|---|--|
| <b>Measures of Success:</b>   |  |
| Notice published that sets out current OSC market participant and infrastructure oversight activities   |  |
| Protocols/thresholds for reporting and sharing information developed  |  |
| Targeted reviews of market participants to confirm their level of cyber security resilience, including measures for protection of personal investor data, completed |  |
| Roundtable conducted with SRO's and industry representatives to develop opportunities for greater collaboration and improved communication on cyber security issues |  |

| Action Plan  | Progress against Action Plan  |
|--|---|
| Improve market participants' understanding of OSC cyber security oversight activities, including providing guidance on expectations for market participants' cyber security preparedness | On September 26, 2016 the CSA published Staff Notice 11-332 <i>Cyber Security</i> , which references existing standards and work published, identifies high level expectations of market participants and informs stakeholders about cyber security initiatives undertaken by the CSA   |
| Assess the level of market participant cyber security resilience, including measures for protection of personal investor data  | On January 19, 2017 the CSA published Staff Notice 51-347 <i>Disclosure of cyber security risks and incidents</i> , which reports on the findings of a targeted review of the disclosure by larger reporting issuers. The review focused on whether and how issuers had addressed cyber security issues in their risk factor disclosure, and provides disclosure expectations based on those findings   |
| Improve collaboration and communication with market participants on cyber security issues  | <p>The CSA Cyber Security Working Group (CSWG) held a consultative roundtable in Toronto on February 27, 2017. The roundtable brought together market participants, regulators and the SROs to discuss cyber security awareness, preparedness and resilience, and the need for coordination and information sharing. On April 6, 2017, the working group issued CSA Staff Notice 11-336 <i>Summary of CSA Roundtable on Response to Cyber Security Incidents</i>, which summarized the roundtable and provided an overview of the themes discussed</p> <p>The roundtable was an important input into developing protocols with respect to response and information sharing in the event of a large-scale cyber incident. Regulated entities are required to report security breaches, however, <b>protocols/thresholds for sharing information have not yet been developed</b>. Staff will continue to work towards a more formal coordination process for responding to and sharing information during large-scale incidents</p> |

# Be an innovative, accountable and efficient organization

*The OSC will be an innovative, efficient and accountable organization through excellence in the execution of its operations*

In September, the Chair announced the commencement of a one-year pilot project called “LaunchPad”, designed to help Fintech and start-up companies navigate the current regulatory environment and launch their new businesses quickly. The OSC subsequently signed a cooperation agreement with the Australian Securities and Investments Commission (ASIC) that would allow for information sharing and other cooperation with respect to Fintech regulation.

The OSC continued its efforts to identify opportunities to use and more effectively integrate data into operations. For example, work progressed on creating a data mart based on RAQ data for analysis and reporting as did a project to enhance derivatives Trade Repository data loads to populate an OTC Derivatives data mart.

## Support successful organization change and continuity

### Measures of Success:

Use of research reflected consistently in OSC policy initiatives and OSC publications

Research and analysis of the adoption of new prospectus exemptions completed

Retention and turnover levels maintained within target ranges

| Action Plan  | Progress against Action Plan   |
|--|--|
| Continue to develop data collection, management and assessment practices   | The OSC established a Data Management Steering Committee and developed a Data Governance Framework along with training materials and an initial set of data standards. The Data Management Steering Committee continues to assess future builds and assist with data management  |
| Continue to integrate economic analysis, research and data analysis within the OSC, and specifically in the policy development process   | Staff completed an analysis of exempt market activity with a focus on capital raising by Small and Medium Enterprises (SMEs) and the use of the recently added prospectus exemptions. Staff will publish the analysis in Q1, 2017-2018. Staff supported policy development in projects such as mutual fund fees, Exchange Traded Fund (ETF) fund facts, and the Point of Sale (POS) risk methodology by conducting research and impact assessments of potential policy changes |
| Improve regulatory capacity through the development of people and expertise; employees are provided with access to information, tools and resources to enable them to carry out their accountabilities effectively during organizational change and transition | Employee expertise and engagement was enhanced through the provision of training, the introduction of a learning portal and an increased focus on secondment and development opportunities for staff   |

# Annex A – OSC Service Commitment Summary

## Standards and Timelines

As part of its focus on accountability and transparency, the OSC published “OSC Service Commitment - Our Service Standards and Timelines”. The document outlines what stakeholders can expect when dealing with the OSC by summarizing target timelines for answering questions, responding to requests for information and submitting offering documents, applications and other filings for review.

The following tables outline how the OSC has performed against its target timelines during the 2016-2017 fiscal year. The status section displays a green box where the targets have been met for the entire year, and a yellow box where the target has not been met through the entire year. The notes section provides an explanation where a target has not been met.

### Corporate Finance

| Activity                                | Target                          | 2016-2017 |      |      |      | Status | Notes |
|---|---------------------------------|-----------|------|------|------|--------|-------|
|   |                                 | Q1        | Q2   | Q3   | Q4   |        |       |
| Prospectus Comment Letters (Long Form)  | 80% within 10 business days     | 100%      | 100% | 100% | 100% |        |       |
| Prospectus Comment Letters (Short Form) | 80% within 3 business days      | 100%      | 100% | 100% | 97%  |        |       |
| Prospectus Receipts                     | 80% within 40 business days     | 100%      | 100% | 100% | 100% |        |       |
| Exemption Applications                  | 80% within 40 business days     | 100%      | 100% | 100% | 100% |        |       |
| Final prospectus receipts               | 100% of materials filed by noon | 100%      | 100% | 100% | 100% |        |       |
| Amendments - Comment Letters            | 80% within 3 business days      | 100%      | 100% | 100% | 90%  |        |       |
| Amendments - Receipts                   | 80% within 40 business days     | 100%      | 100% | 100% | 100% |        |       |

### Compliance and Registrant Regulation

| Activity   | Target                      | 2016-2017 |      |      |      | Status | Notes  |
|--|-----------------------------|-----------|------|------|------|--------|--|
|  |                             | Q1        | Q2   | Q3   | Q4   |        |  |
| New Business Applications - acknowledge receipt              | 95% within 5 business days  | 88%       | 100% | 90%  | 79%  |        | Minor delays in acknowledging receipt of applications occurred due to training issues. Procedures have been adjusted to ensure staff training includes policies for acknowledgements of incomplete or non-routine applications |
| New Business Applications - evaluate application             | 80% within 90 business days | 80%       | 100% | 100% | 100% |        |  |
| New individuals - dealing reps - evaluate application        | 80% within 5 business days  | 96%       | 96%  | 97%  | 100% |        |  |
| New individuals - advising reps & CCO - evaluate application | 80% within 20 business days | 90%       | 96%  | 96%  | 96%  |        |  |
| Notice of Employment Termination                             | 95% within 5 business days  | 100%      | 100% | 100% | 100% |        |  |
| Applications for exemptive relief                            | 80% within 40 business days | 100%      | 100% | 100% | 86%  |        |  |

### Investment Funds and Structured Products

| Activity                        | Target                      | 2016-2017 |      |      |     | Status | Notes |
|---------------------------------|-----------------------------|-----------|------|------|-----|--------|-------|
|                                 |                             | Q1        | Q2   | Q3   | Q4  |        |       |
| Prospectus Comment Letters - PR | 80% within 10 business days | 92%       | 92%  | 95%  | 93% |        |       |
| Prospectus Receipts             | 80% within 40 business days | 95%       | 95%  | 98%  | 91% |        |       |
| Exemption Applications          | 80% within 40 business days | 100%      | 100% | 100% | 96% |        |       |
| Amendments - Comment Letters    | 80% within 3 business days  | 98%       | 96%  | 95%  | 94% |        |       |
| Amendments - Receipts           | 80% within 40 business days | 99%       | 100% | 100% | 95% |        |       |

### Records and Information Management

| Activity                                    | Target                             | 2016-2017 |      |      |      | Status | Notes  |
|---|------------------------------------|-----------|------|------|------|--------|--|
|   |                                    | Q1        | Q2   | Q3   | Q4   |        |  |
| OSC record request acknowledgement          | Issued by end of next business day | 100%      | 98%  | 100% | 100% |        | Q2: Delay in acknowledgement of one record request   |
| OSC record request fulfillment              | Within 5 business days             | 100%      | 98%  | 100% | 100% |        | Q2: Delay due to a review by business area to determine if record can be released as a public document     |
| Registration record request acknowledgement | Issued by end of next business day | 100%      | 100% | 100% | 100% |        |  |
| Registration record request fulfillment     | Within 5 business days             | 100%      | 100% | 83%  | 100% |        | Q3: One large request was fulfilled by an external vendor (due to size) and did not meet service timelines |

### Inquiries and Contact Centre

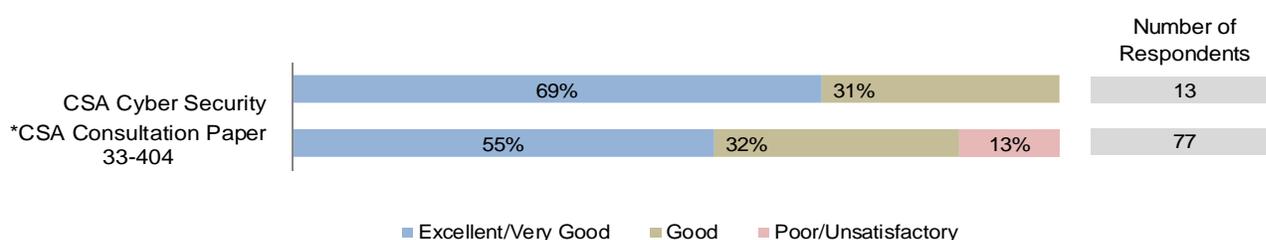
| Activity                   | Target                       | 2016-2017 |     |     |      | Status | Notes  |
|----------------------------|------------------------------|-----------|-----|-----|------|--------|--|
|                            |                              | Q1        | Q2  | Q3  | Q4   |        |  |
| Telephone inquiries        | 100% on contact              | 91%       | 97% | 97% | 98%  |        | While service standards remain below targets, various operational enhancements were implemented that resulted in an 8% improvement across all categories. With the introduction of these enhancements, staff expect to meet these standards in 2017-2018 |
| Mail and e-mail inquiries  | 100% within 3 business days  | 71%       | 91% | 96% | 95%  |        |  |
| Mail and e-mail complaints | 100% within 10 business days | 98%       | 99% | 99% | 100% |        |  |

# Annex B – Summary Survey Results from Roundtables Discussions, Outreach Events and Investor Seminars

## *Policy related roundtable discussions and registrant outreach events*

The OSC organized a number of roundtable discussions and registrant outreach events throughout the year. Some sessions were policy related consultations with stakeholders and others were educational outreach events. Attendees were surveyed after each event to gauge the effectiveness of the session. All surveys requested feedback on content, delivery, and the perceived usefulness of the discussions in the form of quantitative ratings and qualitative comments.

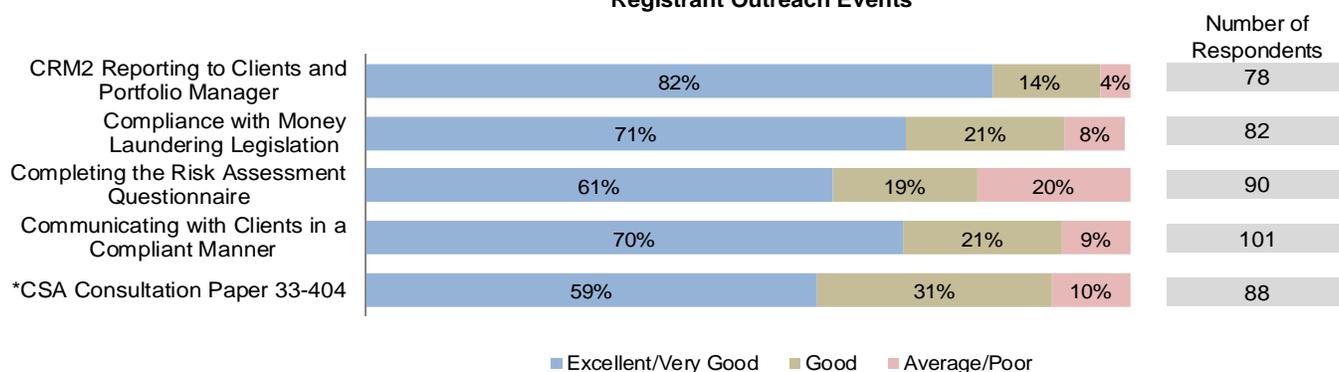
**Overall Rating of Roundtables**



With respect to the roundtable held for CSA Consultation Paper (CP) 33-404, respondents who rated the session “Poor/Unsatisfactory” were dissatisfied with the composition of the two panels at the roundtable in that they did not include representation from a variety of registrants or panelists with dissenting views, and, given the format of the roundtable, questions from participants were not adequately addressed.

The OSC hosted a Proxy Voting Infrastructure roundtable on November 8, 2016 but a survey was not conducted.

**Overall Rating of Registrant Outreach Events**

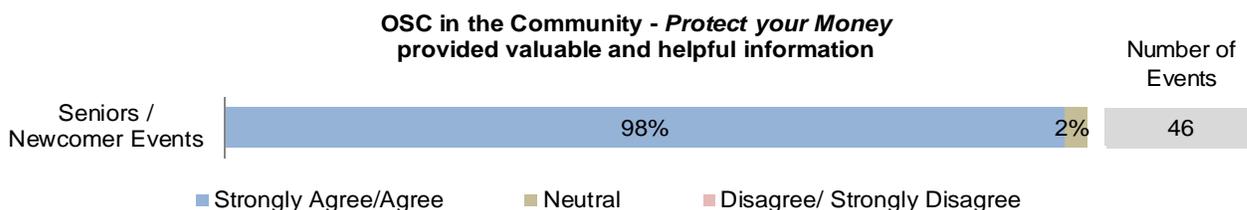


With respect to the Registrant Outreach session pertaining to the Risk Assessment Questionnaire, respondents who rated the session “Average/Poor” noted that the webinar audio did not work well, the question period felt rushed, and the session/presenters moved too fast.

\* The OSC conducted a Roundtable discussion and a Registrant Outreach session for CSA CP 33-404 - *Proposals to Enhance the Obligations of Advisers, Dealers, and Representatives Toward Their Clients*. The Outreach session was targeted to Dealers and advisers interested in gaining an awareness of the background and content of the Consultation Paper.

## OSC in the Community Events

The OSC continues to increase its visibility and awareness among key stakeholders across Ontario through the outreach program *OSC in the Community (OSC ITC)*. In 2016-2017, 46 of these events were held in over 20 jurisdictions including Sudbury, Cambridge, Owen Sound, Thunder Bay, St. Catharines, Aberfoyle, Belleville as well as venues throughout Toronto. OSC ITC events feature investor seminars such as “*Protect Your Money*” which covers topics such as fraud prevention, the client-advisor relationship and how to make more informed investing decisions. The majority of respondents thought the sessions were valuable and helpful.



The OSC's Investor Office also introduced a new “teletownhall” outreach and consultation format that allows the OSC to reach and connect with thousands of Ontarians at a time. Similar in format to a call-in radio show, staff provide information, answer questions and conduct live polls over the course of one hour. One teletownhall, held as part of Financial Literacy Month, included special guests from the Investment Industry Regulatory Organization of Canada (IIROC) and the Mutual Fund Dealers Association of Canada (MFDA).

