2011 OSC Annual Report

ONTARIO
SECURITIES
COMMISSION

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The Ontario Securities Commission (OSC) administers and enforces securities legislation in the province of Ontario. The OSC's statutory mandate is to provide protection to investors from unfair, improper or fraudulent practices and to foster fair and efficient capital markets and confidence in capital markets.

Chair's Message

The fiscal year 2010–11 was a year of transition for the Ontario Securities Commission. Halfway through the year, I became Chair and CEO, returning to the OSC after previously serving as Vice-Chair from 1999 to 2003.

The shared goal of the OSC is to strengthen the role of regulation to protect investors, enhance the fairness and efficiency of Ontario's capital markets, and improve confidence in those capital markets.

Enforcement a Top Priority

Enforcement remains a top priority for the OSC, and we are focusing on bringing more proceedings before the Ontario Court of Justice, where possible sanctions include jail terms. Since general anti-fraud and anti-misrepresentation provisions were added to the Securities Act (Ontario) (the Act) in 2006, we have more flexible tools to detect, disrupt and prosecute illegal distributions of securities. A significant milestone was reached in April 2011, when the Court made its first finding of guilt for fraud in quasi-criminal proceedings brought by the OSC. We have also commenced a review with respect to expanding our enforcement tools in order to more effectively enforce securities law.

Addressing the Needs of Investors

The OSC has worked hard to assist and protect retail investors by improving the quality of information provided to them through disclosure documents. In February 2011, the OSC provided close to $2 million from enforcement settlements to help advance financial literacy in Ontario schools. The money will be used to integrate financial literacy into the curriculum for Grade 4 to 12 students across Ontario, starting this September. We also continue to support financial literacy through the Investor Education Fund.

Promoting Financial Stability

Since the financial crisis of 2007–08, financial stability has become the focus of governments around the world. Systemic risk, traditionally a priority for financial stability regulators, is now also a priority for securities regulators. The use of over-the-counter derivatives and securitized products contributed to the crisis, and the oversight of these products and the marketplaces they trade on is now considered to be an important aspect of maintaining stability in the financial markets.

This reality has been reflected at the OSC. We are engaged internationally with the International Organization of Securities Commissions, and nationally with the Bank of Canada, the Office of the Superintendent of Financial Institutions and colleagues at the Canadian Securities Administrators in a broad-based discussion of the issues and the steps required to develop the tools needed to meet the challenges of today's financial markets. This includes meeting commitments of the G20 countries relating to the clearing and trading of derivatives.

With the passage of Bill 135 in December 2010, the Ontario Government authorized amendments to the Act, which establish a regulatory framework for trading in derivatives in Ontario and give power to the OSC to regulate credit rating organizations. These provisions help address factors that contributed to the financial crisis and enhance our ability to maintain fair, orderly and efficient markets and protect Ontario's investors.

Responding to Emerging Issues and Trends

Transformation of the capital markets is occurring at a rapid pace, driven by a variety of factors, including globalization and technology. It is our responsibility to assess how these changes affect the principles that have traditionally underpinned securities regulation and to respond appropriately.

With the February announcement of the proposed transaction between TMX Group Inc., which operates the Toronto and Montreal exchanges, and the London Stock Exchange, the OSC will be reviewing significant regulatory issues in its role as lead regulator. We will review all aspects of this and any other applications to ensure that we are satisfied that any changes to Canada's major exchanges are in the public interest.

We are committed to improving securities regulation in Ontario by proactively responding to emerging issues and trends. We are mindful of the need to communicate, consult and listen to our stakeholders to ensure that our capital markets continue to meet the needs of investors, market participants and the economy as a whole. We have several advisory committees in place that focus on emerging issues in the marketplace and we will continue to look for ways to engage our stakeholders.

Within the context of today's capital markets, we continue to believe that a national securities regulator will enhance investor protection, strengthen market competitiveness and solidify Canada's international reputation for regulating its financial system, and we remain supportive of the Ontario Government's position.

Our Leadership Team

I am delighted to welcome two new members to the OSC's leadership team. Mary Condon was appointed as Vice-Chair in June 2011, after serving as a Commissioner since 2008. I also want to welcome Maureen Jensen as our new Executive Director and Chief Administrative Officer. Maureen brings excellent leadership skills and extensive experience in capital markets regulation to the OSC.

I would like to extend my appreciation to David Wilson, who served as Chair from November 2005 to October 2010. Under David's leadership, the OSC played a significant role in a number of important policy initiatives: a dramatic overhaul of Canada's framework for the registration of firms and individuals, new equity trading rules, and reform of disclosure rules for mutual funds, to name just a few. I would also like to thank Peggy Dowdall-Logie, who served as Executive Director from June 2006 to February 2011.

Our Commissioners, Vice-Chairs and staff continue to demonstrate their high level of expertise and commitment to securities regulation on behalf of the people of Ontario. I look forward to working with them in the years ahead.

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

The Commission

The Commission serves the public interest by providing protection to investors and fostering fair and efficient capital markets and confidence in their integrity. Investor protection is at the core of the Commission's mandate. As a regulatory body, the Commission is responsible for administering and enforcing the *Securities Act* and the *Commodity Futures Act*. The Commission strives to fulfill its mandate and responsibilities by providing strong and effective regulation of the capital markets of Ontario.

Proposed Exchange Consolidation

The Commission's responsibility for regulating Ontario's capital markets received additional public attention in 2011 after the announcements of proposals concerning the ownership of TMX Group and the TSX. As the lead regulator of both the TMX Group and the TSX, the OSC will review all securities regulatory aspects of any application related to the consolidation of stock exchanges in Ontario.

The Commission regulates both TSX, the operating exchange, and its parent company, TMX Group, as exchanges in Ontario. Furthermore, TSX and TMX Group operate under a recognition order granted by the Commission. That recognition order includes terms and conditions that require TMX Group to allocate sufficient financial and other resources to TSX to ensure that it can carry out its functions as an exchange in a manner consistent with the public interest. The Commission will give full consideration to all of the regulatory issues with respect to any applications that concern exchange restructurings or mergers in Ontario. Appropriate regulatory oversight of the TSX is critical in maintaining the integrity of both the exchange operations and the broader market and to provide protection to investors.

A Changing Commission

A number of new Commissioners were recently appointed as part of an ongoing process to enhance the expertise and experience of the Commission as a whole. Howard Wetston, Q.C., was appointed the new Chair and CEO of the OSC in November 2010, replacing David Wilson, whose five-year term expired in October 2010. Howard Wetston has welcomed the appointments of Vern Krishna, Christopher Portner, Edward Kerwin, Sarah Kavanagh and Judith Robertson as Members of the Commission. Appointments to the Commission are made in accordance with the procedures of the provincial government's Public Appointments Secretariat.

The new appointments will serve the Commission well in carrying out its regulatory, adjudicative and operational responsibilities. Commissioners Krishna, Portner, Kerwin, Kavanagh and Robertson have joined a group of part-time Members who bring a significant range of experience and expertise to their regulatory and adjudicative roles. The Commission regularly reviews the qualifications and experience of its Members so that they, individually and collectively, have the expertise necessary to exercise their responsibilities effectively. The Commission also considers whether developments in the capital markets require either additional training of some or all of the incumbent Members or the appointment of a new Member with specialized knowledge or experience.

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

Adjudicative Matters Before the Commission

In 2010–11, OSC staff commenced 32 adjudicative proceedings before the Commission, involving a total of 170 respondents. The number of proceedings commenced and the number of respondents were both significantly higher than the previous year. As the adjudicative caseload continues to increase, the Commission has made it a priority to improve the efficiency of its case management.

For example, progress has been achieved in identifying and resolving issues at the preliminary stages of proceedings which would otherwise delay and protract the proceedings. A greater emphasis on pre-hearing case management has helped reduce the time panels must devote to procedural matters such as applications and motions. This enhanced efficiency has enabled panels to commit more time to adjudicate contested hearings on the merits and settlement hearings.

In 2010–11, the Commission continued to improve the efficiency of the management of cases before adjudicative panels. For example:

- The amount of time required for panels to hear motions and other interlocutory matters decreased from 66 sitting days in 2009–10 to 16 in 2010–11.
- Panels heard more contested matters in less time than the previous fiscal year. In 2010–11, panels heard a total of 86 contested matters over 136 sitting days, whereas the year before, 79 matters were heard over a total of 169 sitting days.
- Adjudicative panels were able to spend more time on settlement hearings in 2010–11 and this resulted in a significant increase in the number of settlements before the Commission. Settlements increased from 15 in 2009–10 to 29.

Investor Advisory Panel

The Commission created the Investor Advisory Panel (IAP) to provide it with advice on investor perspectives. Funding for the IAP is provided from the OSC budget. The seven-member Panel commenced operations in 2010–11 and functions independently as an advisory committee to the Commission. The IAP has a mandate to represent the views of investors by providing the Commission with written comments on proposed rules and policies, the OSC Statement of Priorities, concept papers and specific issues at the Commission's request.

Former Chair Wilson, two Commissioners Retire

After five years of service, David Wilson stepped down as Chair and CEO of the OSC on October 31, 2010. During his term, David's extensive capital markets experience was invaluable to Commissioners and staff with initiatives concerning developments in the markets, including the OSC's response to the 2008 credit crisis and ensuing market volatility. The terms of office of Commissioners Carol Perry and Patrick LeSage also expired in 2010–11. The Commission extends its thanks to David Wilson, Patrick LeSage and Carol Perry for their dedication and contributions to the OSC and wishes them all the best in the future.

Adjudicative Activities of the Commission

Type of adjudicative proceeding	Number of fiscal sitting days per year* 2009–10	**2010–11**
Contested hearings on the merits (Includes sanctions hearings and hearings in writing)	169	**136**
Settlement hearings	8	**25**
Hearings on temporary cease trade orders	45	**29**
Motions and other interlocutory matters	66	**16**
Applications (Includes applications for review, applications relating to take-over bids and applications under section 17 (disclosure), section 144 (revocations or variations of decisions), section 127(10) (inter-jurisdictional enforcement) of the *Securities Act*.	6	**8**
All other matters (Includes pre-hearing conferences, appearances, etc.)	11	**57**
Total	305	**271**

* More than one sitting day can occur in one calendar day.

Terms of Members of the Commission

(As at June 7, 2011)	Appointed	Current term expires
Sinan O. Akdeniz	September/09	September/11
James D. Carnwath	August/09	August/11
Mary G. Condon	June/11	June/13
Margot C. Howard	December/06	December/11
Sarah B. Kavanagh	June/11	June/13
Kevin J. Kelly *	December/06	December/11
Paulette L. Kennedy	April/08	March/13
Edward P. Kerwin	January/11	January/13
Vern Krishna	October/10	October/12
Christopher Portner	December/10	December/12
Lawrence E. Ritchie**	February/07	February/12
Judith N. Robertson	June/11	June/13
C. Wesley M. Scott	September/09	September/11
James E. A. Turner	February/07	February/12
Howard I. Wetston	November/10	November/13

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

The terms of office of Chair W. David Wilson and Commissioners Carol S. Perry and Patrick J. LeSage expired in 2010–11. The Commission extends its appreciation to Chair Wilson and Commissioners Perry and LeSage for their service and contributions.

Committees of the Commission

(As at June 7, 2011)

Audit and Finance Committee

Margot C. Howard, Chair
Sinan O. Akdeniz
Sarah B. Kavanagh
Paulette L. Kennedy
Vern Krishna

Governance and Nominating Committee

C. Wesley M. Scott, Chair
James D. Carnwath
Christopher Portner
Judith N. Robertson
Howard I. Wetston *Ex officio member*

Human Resources and Compensation Committee

Paulette L. Kennedy, Chair
Sinan O. Akdeniz
Margot C. Howard
Edward P. Kerwin

Adjudicative Committee*

James D. Carnwath, Chair
James E. A. Turner
Mary G. Condon
Edward P. Kerwin
Vern Krishna
Christopher Portner
John P. Stevenson *Ex officio member*

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

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

Proactive Regulation

Ontario's capital markets have changed dramatically in response to evolving market structures, new trading technology and the rapid proliferation of products. The proposed transaction between TMX Group and the London Stock Exchange Group reflects the global trend of market consolidation. The OSC is responding to the changing environment by modernizing Ontario's regulatory system, where appropriate, to reflect the realities of the marketplace. Staff are moving forward with an important policy reform agenda and working with other provincial securities regulators, self-regulatory organizations (SROs) and international regulators so that Ontario's regulatory regime remains consistent with global standards. The OSC is committed to maintaining a regulatory framework that discourages regulatory arbitrage, fosters market confidence and safeguards investors.

Evolving Market Structures

Within the last five years, multiple marketplaces that trade the same securities have emerged in Ontario. Exchanges now compete with other equity marketplaces and, specifically, alternative trading systems (ATSs). New technology is increasing the speed and complexity of orders and trading functions. In this environment, the OSC is modernizing and strengthening Ontario's regulatory regime.

Electronic Trading

Proposed rules dealing with electronic trading were published for comment in April 2011. The proposals of the Canadian Securities Administrators (CSA) include requirements for dealers and marketplaces to address risks associated with various methods of electronic trading, including high frequency trading. The proposed framework is consistent with international developments in the regulation of electronic trading and public comments will be considered in the preparation of a final rule.

Dark Pools

Two marketplaces that offer no pre-trade transparency, known as Dark Pools, now operate in Ontario. Dark Pools also operate in other jurisdictions. Generally, Dark Pools were introduced to enable investors to place large anonymous orders (Dark Orders) without displaying them to the public. The objective of this anonymity was to minimize the market impact costs associated with placing large orders in a visible marketplace. However, the use of Dark Orders has broadened to include orders of all sizes.

The OSC is coordinating with other Canadian regulators to create a more robust regulatory framework for Dark Pools to promote the integrity of the price-discovery process. On November 19, 2010, the OSC, together with the CSA and Investment Industry Regulatory Organization of Canada (IIROC), published for comment a joint position paper about the regulation of Dark Pools and Dark Orders. The paper proposed, among other things, that only orders of a minimum size threshold be exempt from the pre-trade transparency requirements imposed on marketplaces and that there should be price improvement for the execution of small orders and a minimum increment of price improvement. The minimum size threshold has been included in a package of amendments to the Marketplace Rules published for comment in March 2011. The OSC and the other regulators are considering the public comments submitted on the paper and determining next steps.

OTC Derivatives

The effective oversight of over-the-counter (OTC) derivatives is a key component of Canada's international commitments to improve its oversight of the financial markets. The OSC is playing a major role in the development of regulation for OTC derivatives in Canada, including the central clearing of OTC derivatives and the mandating of derivatives trade reporting:

- The OSC participates on the CSA Derivatives Committee which issued a consultation paper on OTC derivatives regulation. The Committee will release a series of papers on OTC derivatives regulation in 2011.
- The OSC is an active member of the federal-provincial OTC Derivatives Working Group, which is an inter-agency group chaired by the Bank of Canada and also includes representatives from the Office of the Superintendent of Financial Institutions, federal Department of Finance and securities regulators from Quebec and Alberta.

In December 2010, the Ontario legislature passed amendments to the Securities Act that created a framework for the regulation of OTC derivatives in Ontario. Ontario's legislative framework is consistent with the ongoing work of both the CSA Derivatives Committee and the OTC Derivatives Working Group. The framework will be implemented by the OSC through rules that will be developed in a coordinated effort with domestic committees and will take into account the work of international committees.

Credit Rating Agencies

The OSC is working with other securities regulators to develop a regulatory framework to oversee credit rating agencies (CRAs) in Canada. The framework is one of the initiatives launched by Canadian securities regulators in the aftermath of the financial crisis.

A revised framework, published for comment in March 2011, would require CRAs to apply to become a designated rating organization (DRO) before their ratings can be used for various purposes within securities law. A DRO would be required to establish, maintain and comply with a code of conduct that includes provisions developed in accordance with international standards. The OSC believes that compliance with the proposed framework would address issues associated with the quality and integrity of the rating process. In turn, this would provide a significant benefit to investors, issuers and the capital markets as a whole.

Product Regulation

In a time of rapid and sophisticated product innovation, investors need to know more about the securities they buy and sell. The OSC also recognizes that certain types of products sold in the exempt market may be inappropriate for investors that are currently eligible to purchase them. In response, the OSC is adapting its approaches to product review and regulation, including the requirements for disclosure of product information to investors.

Enhancing Mutual Fund Disclosure

Effective January 1, 2011, mutual fund companies are required to produce a concise, easy-to-read document, called Fund Facts, for each of their mutual funds. Fund Facts highlights key information for investors, including the fund's performance, its risks and the costs of buying into the fund. The new document is designed to help investors understand the basic features of a mutual fund and allow them to compare different funds that they may be considering. This completes the first stage of implementation of the point-of-sale disclosure project for mutual funds. As implementation proceeds, the OSC intends to consider point-of-sale delivery and documents similar to Fund Facts for other types of investment funds.

Modernizing Investment Fund Regulation

The OSC also intends to move forward with other proposals aimed at ensuring the regulatory framework for investment funds is consistent across all types of funds, including non-conventional products. Given the current proliferation of non-conventional funds, particularly exchange-traded funds (ETFs), the OSC has been reassessing what changes may be needed to current regulatory rules and review processes to enhance investor protection.

Oversight of Securitized Products

In April 2011, the OSC and other CSA members published a proposed framework for the regulation of securitized products in Canada. The proposed requirements are intended to improve investor protection and reduce systemic risk in the financial system by enhancing the transparency and disclosure requirements for securitized products issued by reporting issuers and imposing certain disclosure requirements for products distributed in the exempt market. These proposed new disclosure obligations have been designed to be consistent with international requirements.

The proposed framework also includes new rules that would limit the investors who can buy securitized products in the exempt market to a smaller, more sophisticated group than permitted for other exempt securities. This is intended to help investors avoid products that are issued in the exempt market and may be difficult to assess without the more fulsome disclosure provided in the public markets.

Shareholder Democracy

The OSC recognizes the importance of shareholder democracy in making issuers and their management more accountable to both retail and institutional investors. Indeed, shareholder rights have attracted considerable public attention in Canada and other countries. The OSC is conducting its own review of issues related to shareholder democracy in Ontario.

In January 2011, the OSC issued a staff notice to update market participants on its review of shareholder democracy issues and engage the public in a dialogue on enhancing shareholder rights in Ontario and improving the proxy voting system that allows these rights to be exercised. The staff notice identified certain shareholder democracy issues on which the OSC is seeking specific comment prior to making any regulatory proposals, including:

- Slate voting and majority voting for director elections;
- Shareholder advisory votes on executive compensation; and
- The effectiveness of the proxy voting system.

The comment period for responding to the staff notice ended on March 31, 2011, and a broad range of submissions were received, including from retail investors, institutional investors, proxy voting intermediaries and issuers. OSC staff are reviewing the comments to ensure that the input of stakeholders is considered in developing the right approach for Ontario's investors and capital markets.

Mitigating Systemic Risk

In the wake of the global financial crisis, the Group of 20 nations, including Canada, made commitments to mitigate systemic risk to the financial system and improve market integrity. Given their focus on transparency and business conduct regulation, the OSC and other securities regulators have an important role to play in the broader effort to mitigate systemic risk.

Systemic risk is a consideration in a number of current policy initiatives involving the OSC. Examples of such initiatives include proposals to create an oversight regime for both credit rating agencies (CRAs) and over-the-counter (OTC) derivatives in Canada and proposed rules relating to electronic trading and enhanced disclosure for purchasers of securitized products, including asset-backed securities. The OSC is also a major contributor to the CSA Systemic Risk Committee, which prepared a report on potential systemic risks. The report makes recommendations on how securities regulators can improve their ability to identify systemic risks and the potential steps available to mitigate those risks.

In 2010, the International Organization of Securities Commissions (IOSCO) adopted two new principles for securities regulators to contribute to the management of systemic risks. IOSCO then created a Working Group on Systemic Risk that was co-chaired by the OSC. The OSC is engaged in discussions with other CSA members about addressing systemic risk in Canada's capital markets.

In addition, the OSC is an active participant in working with other Canadian regulators and agencies and IOSCO toward establishing principles for hedge fund regulation and on assessing systemic risks that hedge funds may pose both globally and in the Canadian context.

Enforcement and Compliance

The OSC is intensifying its efforts to detect, prevent and disrupt abuse that harms investors, especially fraud, illegal distributions of securities and illegal insider trading. Enforcement staff are commencing more proceedings before adjudicative panels of the Commission, especially in matters related to fraud. The Enforcement Branch's goal is to bring cases forward more quickly. In 2010–11, staff launched three times the number of enforcement proceedings compared to the number in 2007–08. Enforcement staff are also committed to making more use of the OSC's authority to pursue cases before the Ontario Court of Justice and seek court-imposed sanctions for breaches of securities law. In addition, OSC staff continue to vigorously uphold high standards of compliance by market participants with regulatory requirements and obligations, which is an important part of the OSC's regulatory oversight.

Proceedings Before the Court

Enforcement staff are focused on commencing more quasi-criminal proceedings before the Ontario Court of Justice in order to seek court-imposed sanctions, including jail terms, where appropriate. Investigators will specifically target individuals and corporations suspected of repeat offences.

Under the *Securities Act*, the OSC has the authority to lay quasi-criminal charges against individuals or companies in the Ontario Court of Justice for alleged violations of the Act. Quasi-criminal charges are pursued in court as opposed to before the Commission and, unlike proceedings before the Commission, may lead to a jail term where a defendant is convicted for violating the Act. The Court can impose a jail term of not more than five years less a day or a maximum fine of $5 million for each conviction, or both. In 2010–11, Enforcement staff commenced three proceedings, in relation to a total of four defendants, before the Ontario Court of Justice.

"Our goal is to bring forward meaningful cases that have a strong deterrent impact in order to protect investors and the markets," said OSC Chair Howard Wetston, in a speech delivered on February 23, 2011.

Jail sentences for violations of securities law send a strong message of deterrence to those who would try to harm investors. In fiscal 2010–11, the Court imposed jail sentences on two individuals in separate proceedings commenced by the OSC in connection with violations of the terms of cease trade orders. Cease trade orders by the OSC prohibit individuals or companies from trading in securities. The two court cases indicate how seriously the OSC treats violations of their terms:

1. On September 1, 2010, Abel Da Silva was sentenced to 75 days in jail and two years of probation for violating the terms of an OSC cease trade order made against him in 2006.
2. On February 18, 2011, Peter Robinson was sentenced to 30 days in jail, 240 hours of community work service and two years of probation for violating the terms of an OSC cease trade order made against him in 2009.

Another notable case involved the first finding of guilt for fraud in a quasi-criminal proceeding brought by the OSC before the Court. On April 4, 2011, Vadim Tsatskin pleaded guilty to one count of fraud contrary to the Securities Act. OSC staff have requested that the Court impose a three and a half year term of imprisonment. Sentencing in this matter is scheduled to take place in 2011.

Allegations of criminal conduct in the capital markets are prosecuted through the criminal justice system, typically by the provincial or federal Attorneys General.

Proceedings Before the Commission

By proactively investigating those suspected of violating securities law and then commencing administrative proceedings, OSC staff help protect investors and seek to deter misconduct in the capital markets.

In 2010–11, Enforcement Branch staff completed investigations in a total of 56 cases and commenced litigation in 35 of these matters. Thirty-two actions were commenced before adjudicative panels of the Commission, involving a total of 170 respondents. The other three cases, in relation to a total of four defendants, were commenced before the Ontario Court of Justice.

Concluded Proceedings

The Commission concluded a total of 36 administrative proceedings in 2010–11. The concluded proceedings involved a total of 109 respondents and resulted in administrative penalties, disgorgement orders and settlement amounts totalling in excess of $82.3 million. The sanctions imposed by adjudicative panels of the Commission also included 56 director and officer bans and 45 registration restrictions.

For details, see Concluded Settlements and Contested Hearings data on page 16.

Combating Fraud

The illegal distribution of securities is the largest category of misconduct investigated by the OSC. Enforcement staff are targeting fraudulent securities offerings with vigour, using anti-fraud and anti-misrepresentation provisions in the Securities Act. Most of the cases involving illegal sales of securities now include both an allegation of an illegal distribution and an allegation of fraud against the respondent(s). In 2010, adjudicative panels of the Commission rendered decisions on the first four proceedings concluded under the anti-fraud provision of the Act: Al-tar Energy Corp., Chartcandle Investments Corp., Global Partners Capital and Lehman Cohort Global Group Inc. In their decisions, the panels found that acts constituting fraud included the use of investor funds for personal expenses, non-disclosure of important facts in offering memoranda and unauthorized diversion of funds.

Enforcement Tools

The OSC is considering new enforcement policy initiatives that would further increase its effectiveness in protecting the public interest. The policy tools would support the OSC's focus on combating misconduct that causes direct harm to investors.

The policy initiatives under consideration would assist Enforcement staff in obtaining information that might support an investigation, or might not otherwise be available during the course of an investigation. For example, the Enforcement Branch is clarifying its current credit for co-operation program for those who volunteer information to investigators. Also under review are the use of immunity agreements and a potential whistle-blower program tailored to Ontario's capital markets. At the litigation stage, Enforcement staff are exploring the use of settlement agreements that do not require admissions of fact. These agreements would allow the OSC to seek sanctions against individuals and companies to protect the public interest in a timely way while allowing for regulatory neutrality. Policy measures such as these could result in an overall reduction in investigative costs and improved efficiencies during adjudicative proceedings.

Collaborative Enforcement

The OSC actively supports co-operation among securities regulators and other agencies toward the common goal of preventing, detecting and deterring wrongdoing in the capital markets both in Canada and abroad.

To foster co-operation and information sharing on enforcement matters, the OSC has entered into memoranda of understanding with other Canadian and foreign jurisdictions. As of March 31, 2011, the OSC was acting on 13 requests for assistance from other Canadian securities regulators, including self-regulatory organizations (SROs), and on 33 requests from international regulators.

The OSC is also a partner with the RCMP in the Joint Securities Intelligence Unit (JSIU). The mandate of the JSIU is to protect and enhance confidence and efficiency in the Canadian capital markets. This is accomplished by gathering information and developing intelligence on fraudulent securities related activity, sharing intelligence and information with other law enforcement or regulatory agencies, and using intelligence, where and as appropriate, to pre-empt planned fraudulent securities related activity. In 2010–11, the JSIU responded to 15,714 information requests from Canadian regulators, foreign regulators and law enforcement agencies, as well as 60,237 requests from OSC Branches.

To strengthen investor protection and enforcement coordination across Canada, jurisdictions of the Canadian Securities Administrators (CSA) may issue reciprocal orders. A reciprocal order is meant to prohibit individuals and companies that have been sanctioned in one CSA jurisdiction from carrying on inappropriate conduct in the reciprocating jurisdiction. In 2010–11, the OSC issued three reciprocal orders involving a total of six individuals and four companies. The original sanctions against the respondents include six director and officer bans, six registration restrictions and 10 cease trade orders.

OSC Compliance Oversight

Compliance by issuers, registrants and other market participants with applicable regulatory rules and requirements supports investor protection and fosters confidence in the capital markets. The OSC takes a proactive approach to monitoring and overseeing the compliance with Ontario securities law by more than 1,300 public companies, 3,300 investment fund issuers, 1,200 registered firms and almost 65,000 registered individuals. OSC staff review the prospectus and continuous disclosure filings of reporting issuers and the conduct and practices of dealers, advisers and investment fund managers. OSC staff also monitor and enforce compliance with securities law governing mergers and acquisitions (M&A). Through the range of its compliance programs, the OSC strives to improve the disclosure provided to investors by issuers, foster robust compliance with capital, proficiency and integrity requirements by registrants and identify potential areas of risk in the marketplace.

OSC Compliance Reviews

The OSC strives to achieve enhanced compliance by conducting formal reviews of market participants selected according to risk-based criteria. Specifically, the OSC reviews compliance by:

- Registered firms and individuals (registrants), including investment fund managers, advisers and dealers that are not members of a self-regulatory organization (SRO); and
- Public companies and investment funds that are reporting issuers in Ontario.

The OSC uses risk-based criteria to determine the registrants and issuers that will be reviewed for compliance with Ontario securities law and the level of review required. In general, compliance reviews of registrants focus on their conduct, practices and capital adequacy, while issuers are assessed as to whether they are complying with their disclosure obligations. This risk-based approach is intended to identify the registrants and issuers that are most likely to have material issues that require reviews or that present serious risks from their non-compliance.

For details, see Results of OSC Compliance Reviews data on pages 17–19.

The OSC has the authority to take remedial action against market participants that do not comply with securities law, including:

- suspending a registrant's registration;
- imposing terms and conditions on a registrant;
- requiring an issuer to restate or refile its financial statements; or
- referring the matter to the OSC Enforcement Branch.

OSC staff are vigilant for evidence of potential registrant misconduct or fraud as demonstrated by the fact that about 10% of the reviews of registered firms in each of the last two fiscal years resulted in referrals to the Enforcement Branch. In addition, the Compliance and Registrant Regulation Branch has formed a new specialized team, which includes former Enforcement staff, to develop timely responses to registrant misconduct, where appropriate, such as warning letters, terms and conditions on registration and suspensions of registration.

On September 22, 2010, the OSC's Compliance and Registrant Regulation Branch suspended the registration of a registered firm, Carter Securities Inc., as a result of a compliance review. This was the first time a registered firm's registration was suspended under powers granted under amendments to the *Securities Act*, which came into force on September 28, 2009. The suspended firm has requested that the Commission review the decision.

Related Reviews

OSC staff also participate in specific compliance-oriented reviews in connection with policy initiatives of the Canadian Securities Administrators (CSA). Here are some examples of such reviews in 2010–11:

- Corporate Governance Disclosure Compliance Review: The OSC and other members of the CSA published a notice with the results of a Corporate Governance Disclosure Compliance Review of 72 public companies. The review found, among other things, that 55 per cent of the reporting issuers were required to make prospective enhancements to their corporate governance disclosure, up from 36 per cent in a similar review in 2007. The notice also provided further guidance to issuers on complying with existing requirements.
- Independent Review Committee (IRC) Disclosure Compliance Review: The OSC published the results of its focused reviews of IRC-related disclosure by a sample of 141 investment funds managed by 41 different fund managers. The funds included conventional mutual funds, exchange-traded funds (ETFs), flow through limited partnerships, labour-sponsored investment funds and scholarship plans. Overall, a high level of compliance with the disclosure requirements related to CSA National Instrument 81–107 *Independent Review Committee for Investment Funds* was noted. During the reviews, staff also assessed key concerns about the rule which were expressed earlier by members of the fund industry, specifically that IRCs would be expensive, retaining IRC members would be difficult and IRCs would undermine the fund manager's ability to manage its funds. These concerns proved to be unfounded.
- Environmental Reporting Guidance: CSA Staff Notice 51–333 Environmental Reporting Guidance addressed issues related to public companies meeting their existing environmental disclosure requirements. The Notice was intended to assist public companies in assessing what information must be disclosed on material environmental matters.
- IFRS Transition Disclosure Review: CSA Staff Notice 52–326 IFRS Transition Disclosure Review revealed an improvement in the quality of disclosure by reporting issuers with respect to their transition to adopt International Financial Reporting Standards (IFRS), as provided in their 2009 annual Management's Discussion & Analysis. This disclosure was intended to assist investors in evaluating the readiness of a reporting issuer to make the transition and in assessing the impact that IFRS adoption may have on the issuer's business activities and financial reporting. IFRS came into effect in Canada for public companies and registrants in 2011.

The OSC's Corporate Finance, Investment Funds and Compliance and Registrant Regulation Branches provide further details about their compliance activities on the OSC website.

Mergers and Acquisitions

OSC staff review and monitor compliance with securities law relating to M&A transactions, including transactions that raise significant conflict of interest concerns. A specialized team administers the regulations applicable to take-over bids, issuer bids, business combinations, related party transactions and early warning reporting. Staff identify potential non-compliance or public interest concerns through staff circular reviews, monitoring of publicly disclosed transactions, third-party complaints and self-reporting.

Staff can begin an administrative proceeding before the Commission to address alleged violations of securities law requirements or conduct contrary to the public interest in connection with M&A activity. They also participate in proceedings initiated by parties to an M&A transaction who make allegations of non-compliance with securities law or conduct contrary to the public interest. In addition, staff may participate in appeals of Toronto Stock Exchange decisions made to the Commission on M&A matters. In 2010–11, OSC staff were involved in two public interest hearings concerning M&A transactions: Magna International Inc. and Baffinland Iron Mines Corporation.

New Regime for Registrants

Staff have been focused on assessing the adherence by registered firms with the capital, proficiency, and conduct and practices requirements and other ongoing obligations that came into force in September 2009 through National Instrument 31–103 and related rules and amendments to the *Securities Act*. The work by staff includes ensuring that investment fund managers and exempt market dealers are appropriately registered in their new categories and that registered individuals meet their new proficiency requirements. The OSC, in co-operation with other CSA members, implemented the registration reforms to harmonize, streamline and modernize the regulatory requirements for registered firms and individuals across Canada. Given the impact of the new regime and the changes to ongoing obligations for registrants, OSC staff work to assist registrants with understanding the requirements so that they develop appropriate procedures for compliance.

Compliance Outreach

OSC staff engage in outreach activities to assist issuers and registrants in understanding their obligations in order to provide robust compliance with securities law. Outreach activities include regular communications with market participants about matters such as proposed new regulations, existing requirements and major industry developments. For example, in 2010, the OSC was proactive in offering guidance and free training to smaller issuers to assist them with their preparations to adopt International Financial Reporting Standards (IFRS) in 2011. Approximately 200 small issuers and advisers attended OSC seminars on the transition to IFRS.

Enforcement Activity and Concluded Hearings

OSC Enforcement Branch: Intake			
Fiscal Year	2008–09	2009–10	**2010–11**
Number of matters assessed	446	467	**348**
Number transferred for investigation	49	33	**25**

OSC Enforcement Branch: Investigations			
Fiscal Year	2008–09	2009–10	**2010–11**
Number of completed investigations	59	46	**56**
Number transferred for litigation	18	26	**35**

Temporary Cease Trade Orders			
The OSC uses temporary cease trade orders (TCTOs) to halt trading activity during regulatory investigations.			
Fiscal year	2008–09	2009–10	**2010–11**
Actions before the Commission	18	12	**11**
Number of respondents (Parties to the proceedings)	139	53	**71**

In addition, in fiscal 2010–2011 nine freeze orders were obtained by the OSC, freezing in excess of $7.8 million.

OSC Enforcement Branch: Litigation			
Fiscal Year	2008–09	2009–10	**2010–11**
Proceedings Commenced			
> Actions before the Commission	21	24	**32**
Number of respondents	120	92	**170**
> Actions before the Courts	2	4	**3**
Number of defendants	5	7	**4**
Enforcement Timelines			
Average number of months from intake to commencement of a proceeding	12.4	17.2	**21.8**

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

Concluded Settlement and Contested Hearings before the Commission

Fiscal Year		2008–09		2009–10		**2010–11**
Number of Proceedings		21		16		**36**
Number of Respondents		46		32		**109**
Sanctions include:						
Cease trade orders		23		18		**82**
Exemptions removed		18		17		**88**
Director and Officer bans		29		18		**56**
Registration restrictions		12		6		**45**
Administrative penalties, disgorgement orders, settlement amounts	$	17,709,868 *	$	35,967,17	**$**	**82,307,662**
Costs ordered	$	3,103,191	$	951,500	**$**	**1,633,193**

* In addition, three individuals agreed in 2008–09 to pay $68,100,000 to Research In Motion Ltd. as part of a settlement agreement with the Commission.

Concluded Matters before the Ontario Court of Justice

Fiscal Year	2009–10	**2010–11**
Number of matters	2	**2**
Total number of defendants	3	**2**

Two matters were concluded before the Ontario Court of Justice in the 2010–2011 fiscal year. Both matters involved individuals who breached the terms of OSC cease trade orders. Abel Da Silva was sentenced to seventy-five days in jail and two years of probation and Peter Robinson was sentenced to thirty days in jail, two years of probation and 240 hours of community work service.

Results of OSC Compliance Reviews

Reviews of Registrants

The OSC regularly conducts compliance reviews of selected registered portfolio managers, exempt market dealers, scholarship plan dealers and investment fund managers. Compliance reviews usually lead to enhanced compliance at firms, as indicated in the results of OSC field reviews in 2010–11.

Results of OSC Field Reviews of Registrants in 2010–11	
Significantly enhanced compliance	57%
Enhanced compliance	31%
Referral to the Enforcement Branch	9%
Terms and conditions on registration	3%

The OSC continues to enhance its risk-based approach to perform on-site reviews of selected registered firms to assess their compliance with Ontario securities law, including their compliance systems, internal controls, risk management, management of conflicts and capital requirements. For example, staff will send an updated risk assessment questionnaire to registered firms in the summer of 2011, and will use the information obtained to focus our resources on higher-risk firms. In 2010–11, the compliance field reviews resulted in:

- **Enhanced compliance:** At the end of a review, staff usually issue a report to the firm identifying areas of non-compliance that require corrective action. Staff work with the firm to facilitate the appropriate resolution of deficiencies. Compliance field reviews generally result in enhanced compliance at these firms following their actions to address the identified matters and to improve their compliance systems, internal controls, or policies and procedures. In 2010–11, 31% of field reviews resulted in enhanced compliance by the registrant.

- **Significantly enhanced compliance:** When the seriousness of the deficiencies identified during a review warrant it, in addition to the steps taken in the enhanced compliance outcome, staff increase their monitoring of the registrant. The increased monitoring and the registrant's actions generally result in significantly enhanced compliance by the firm. In 2010–11, 57% of field reviews resulted in significantly enhanced compliance by registrants.

- **Terms and conditions on registration:** Staff may impose terms and conditions on a firm's registration to more actively monitor how a registrant is complying with securities law. In 2010–11, 3% of field reviews resulted in the imposition of terms and conditions on the registration of registrants.

- **Referral to the Enforcement Branch:** If staff identify a serious breach of securities law, they may also discuss the findings with the Enforcement Branch, and together determine an appropriate course of action. In 2010–11, 9% of field reviews resulted in referrals to the Enforcement Branch.

Reviews of Public Companies

The OSC promotes compliance with securities regulatory requirements by public companies through prospectus reviews and a continuous disclosure (CD) review program.

Results of OSC Continuous Disclosure Reviews of Public Companies in 2010–11	
Prospective disclosure enhancements	50%
Issuer outreach about specific disclosure risks	28%
Refilings	20%
Other regulatory actions	2%

The OSC uses a risk-based approach to select public companies for continuous disclosure (CD) reviews and to determine the area of focus of those reviews. OSC staff monitor outcomes from CD reviews each year to assess overall compliance and to identify areas to focus on in future reviews. More than one result can be associated with a particular CD review. In 2010–11, the CD reviews resulted in:

- **Prospective disclosure enhancements:** 50% of the outcomes were commitments by public companies to make changes to disclosure in an upcoming CD filing. Most of these changes involve correcting deficiencies in Management's Discussion and Analysis.
- **Issuer outreach about specific disclosure risks:** 28% of the outcomes this year consisted of identifying issuers at risk of a specific disclosure issue and contacting them about our concern before they made their next CD filing. Issuer outreach was mainly focused around International Financial Reporting Standards this year.
- **Refilings:** 20% of the outcomes involved the identification of significant deficiencies that led to a refiling of a CD document.

Results of OSC Prospectus Reviews of Public Companies in 2010–11	
Prospectus Changes	49%
Continuous Disclosure Review Related Outcomes	18%
Imposed Legal Requirement	13%
Refiled Personal Information Forms	13%
Structure of Offering Changed Due to OSC Review	5%
Issuer outreach	2%

The OSC's disclosure compliance program for public companies includes reviews of offering documents. When issuers seek to raise capital, before proceeding they are required to meet a number of disclosure requirements considered important to assist investors in making informed investment decisions. More than one result can be associated with a particular review of a prospectus. In 2010–11, prospectus reviews resulted in:

- **Prospectus changes:** 49% of the outcomes consisted of changes made to the disclosure in the prospectus. Common changes included enhancements to disclosure regarding the use of proceeds, plan of distribution and risk factors, as well to the documents included in or incorporated by reference into the prospectus.
- **Continuous disclosure related outcomes:** 18% of the outcomes related to enhancements to financial statements, Management's Discussion and Analysis or technical reports on a prospective basis.
- **Imposed legal requirement:** 13% of the outcomes related to requiring issuers to file material documents, or undertake particular actions.

- **Refiled personal information forms (PIFs):** 13% of the outcomes involved requests for refiled personal information forms from directors, executive officers and promoters due to incorrect or incomplete information.
- **Structure of offering changed:** 5% of the outcomes related to a change in the structure of the offering. The most common change was the imposition of a minimum subscription to an offering in order to be able to achieve the stated purpose of the prospectus.

Reviews of Investment Fund Issuers

The OSC promotes compliance with securities regulatory requirements by investment funds that are reporting issuers in Ontario through integrated reviews of both prospectus and CD filings. Prospectus reviews focus on compliance with disclosure requirements related to the investment fund's key attributes, such as its investment objective, strategies and risks, determining the relevant criteria for future CD reviews of the investment fund.

Results of OSC Prospectus and Continuous Disclosure Reviews of Investment Funds in 2010–11	
Improved form compliance	37%
Refilings and disclosure changes	33%
No significant changes required	20%
Review of new fund product or feature	10%

The OSC applies risk-based selection criteria, including fund type and complexity, to select investment fund filings for review. Staff monitor outcomes from prospectus and continuous disclosure (CD) reviews to identify trends and areas of focus for future reviews. More than one outcome can be derived from each review. In 2010–11, the prospectus and CD reviews resulted in:

- **Refilings and disclosure changes:** 33% of the investment funds reviewed made changes to their current fund disclosure or agreed to make modifications to future disclosure.
- **Improved form compliance:** 37% of investment fund issuers improved their compliance with the form and content requirements for prospectuses and management reports of fund performance. Generally, compliance with form requirements improved from the previous fiscal year.
- **New fund product or feature:** In 10% of reviews, OSC staff identified novel or unusual features of funds which led to significant discussions with fund managers to resolve various issues. These matters were either operational issues to be addressed before a new product could be sold to investors, or compliance/disclosure issues related to certain fund transactions.

Assistance for Market Participants in 2010–11	
Total contacts from market participants to the OSC Inquiries & Contact Centre	19,002
Most common areas of contact with market participants in 2010–11	
Information about registration requirements	39 %
System for Electronic Disclosure by Insiders (SEDI)	17%
National Registration Database (NRD)	15 %
Information about issuers' obligations	10 %
Fees	8 %
Exemptions and exempt distributions	3 %

Investor Protection

The primary focus of the OSC is to protect the interests of the investors and capital markets of Ontario. The public interest is at the core of everything the OSC does, including the enforcement of securities laws, product regulation and the oversight of registered firms and individuals. Strong and effective securities regulation fosters investor confidence in the capital markets, which make a significant contribution to Ontario's overall economy.

Alerting Investors

The OSC uses different channels to communicate to investors about suspicious activity in the capital markets, including possible fraud. Helping investors build their awareness about fraud and other types of misconduct can assist them in protecting themselves against misconduct.

Investor Alerts are sent to the media, posted on the OSC website and distributed via Twitter to reach investors who may be affected. In 2010–11, the OSC issued six Investor Alerts, most of which involved suspected "advance fee" schemes. In a typical advance fee scheme, victims are persuaded to pay for an offer of securities on the promise of significantly higher returns. However, victims never hear from the promoter of the scheme and their money is lost.

Investors can use the online OSC Warning List to learn about individuals and companies suspected of engaging in unregistered activities that may pose risks to investors. In 2010–11, 29 companies were added to the Warning List as part of the OSC's preventative enforcement strategy. These warnings are also posted on the Investor Alert portal of the International Organization of Securities Commissions (IOSCO).

The Disciplined Persons List on the Canadian Securities Administrators (CSA) website informs investors about individuals who have been sanctioned by the OSC, other provincial securities regulators and government agencies. This list includes the names of all individuals disciplined by the OSC since 1997 and is intended to assist the public and the securities industry in conducting due diligence. The CSA also has an Investor Education Committee comprised of representatives from provincial and territorial securities regulators. The OSC is an active contributor to the committee's work to help investors avoid and report fraudulent investments.

The Investor section of the OSC website provides tools and resources to help investors protect themselves and to learn more about investing. These resources include a newsletter for investors, OSC Investor News, that features articles about how to avoid scams and frauds plus updates on regulatory initiatives.

Cost Disclosure and Performance Reporting

The OSC believes that investors want and need better information about the cost of their investments and the performance of their portfolios. The OSC is leading a CSA investor-protection initiative, in co-operation with the self-regulatory organizations (SROs), that involves new cost disclosure and performance reporting requirements for dealers and advisers.

Research conducted for this project shows that investors want:

- Disclosure of all charges associated with products and services they may receive; and
- Meaningful reporting on the performance of their investments.

In June 2011, the CSA published proposals for public comment, including proposals for enhanced disclosure of all charges related to investments, as well as performance information presented in a clear and accessible manner. Dealers and advisers would be required to provide clients with information about costs:

- At account opening – a general discussion of the costs of investing which is intended to help shape expectations;
- Before a transaction – specific disclosure of the actual charges applicable to a purchase or sale of a security at the relevant time; and
- In a new annual report – a summary of the costs of investing over the past year.

Dealers and advisers would also be required to deliver key information about the performance of investments, including the net amount invested, change in value and percentage returns of an investor's accounts.

The proposals aim to assist in raising the awareness of investors about how much their investments actually cost, while holding registrants accountable for the value of the services they provide.

Investor Advisory Panel

The Investor Advisory Panel (IAP) was formed in August 2010 to represent investor concerns and perspectives in the OSC's rule- and policy-making process. The IAP provides input from Ontario investors into the development of OSC rules and policies. Members were selected based on their experience with investor issues and public policy and with a view to obtaining a broad representation of investor perspectives.

On December 1, 2010, the IAP issued its first request for public comment on various regulatory initiatives. In response, the IAP has received comments on topics such as mutual fund disclosure, fiduciary standards for financial services professionals and credit rating agencies. The IAP is also conducting direct consultations through focus groups with retail investors and roundtables with securities industry experts.

The initial submissions to the Commission from the IAP concerned the following:

- The draft OSC Statement of Priorities for the 2011–12 fiscal year;
- CSA Consultation Paper 91–401 on Over the Counter Derivatives Regulation; and
- CSA National Instrument 25–101 *Designated Rating Organizations*.

The Panel will deliver its first annual report to the Commission later in 2011. More information about the activities of the IAP is available on the OSC website.

Financial Literacy

The OSC promoted and is supporting efforts by the Ministry of Education to introduce a financial literacy program for students in Grades 4 to 12 across Ontario, starting in September 2011. An allocation of settlement money from OSC enforcement proceedings is being used to assist the Ministry of Education in integrating its new financial literacy program into the curriculum. The objective is to help Ontario students learn how to make informed decisions about their finances.

On February 28, 2011, the OSC announced that it had allocated close to $2 million in settlement money from enforcement proceedings in support of the provincial financial literacy program. The program will provide teachers with new resources to teach basic financial skills about saving, spending and investing money to help students learn to make informed decisions about managing money.

"Financial literacy is an important part of investor protection and the OSC supports educational efforts to help Ontarians develop the skills and knowledge needed to succeed in an increasingly complex financial world," says Howard Wetston, Q.C., Chair of the OSC.

The OSC funding is in addition to the ongoing funding from enforcement proceedings which the OSC provides to the Investor Education Fund (IEF). The IEF is a non-profit organization established in 2000 by the OSC to develop and promote independent financial information, programs and tools to help consumers make better financial and investing decisions. The OSC supports the work of the IEF in providing and expanding outreach initiatives to Ontario schools and investors and strengthening the financial literacy of Ontarians.

Assistance for Investors in 2010–11	
Total contacts from investors to the OSC Inquiries & Contact Centre	4,877
Most common areas of contact with investors in 2010–11	
Information about public companies and investment offerings	35%
Information about the registration of dealers and advisers, disciplinary actions	30%
Information about marketplace rules and shareholder rights	16%
Educational materials and resources for retail investors	5%
How and where to file a complaint	5%

Ontario's Capital Markets

	2008–09	2009–10	**2010–11**
Public companies in Ontario	1,482	1,429	**1,339***
Investment fund issuers in Ontario	3,169	3,159	**3,303**
Registered firms in Ontario	1,721	1,424 **	**1,249****
Registered individuals in Ontario	70,057	64,637**	**64,628**

* The total number of non-investment fund reporting issuers for whom Ontario is the principal regulator at March 31, 2011, according to the OSC Corporate Finance Branch Reporting Issuer Database.

** A key reason for the decline in the number of registered firms and/or individuals is the continuing implementation of registration reforms by the Canadian Securities Administrators, which were introduced in September 2009.

Marketplaces operating in Ontario

As of March 31, 2011, the following securities marketplaces operated in Ontario for the trading of equities, debt and/or derivatives:

TSX Inc.
TSX Venture Exchange Inc.
The Canadian National Stock Exchange and Pure Trading, an alternative trading facility, which are both operated by CNSX Markets Inc.
Alpha ATS L.P.
Chi-X Canada ATS Ltd.
Omega Securities Inc.
MatchNow which is operated by TriAct Canada Marketplace LP
LiquidNet Canada Inc.
Bloomberg Tradebook Canada Company
EquiLend Canada Inc.
CBID Markets Inc.
CanDeal.ca Inc.
MarketAxess Canada Limited
Bourse de Montreal Inc.
ICE Futures Canada Inc.
ICE Futures Europe
ICE Futures U.S. Inc.
Natural Gas Exchange Inc.

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

($ millions for years ending March 31)	2008–09	2009–10	**2010–11**
Toronto Stock Exchange			
Listed public companies	$ 1,265, 957	$ 1,845,505	**$ 2,318,844**
Domestic public companies	1,207, 434	1,765,099	**2,140,250**
Ontario-based listed issuers	543,891	806,618	**913,762**
TSX Venture Exchange*			
Listed public companies	$ 20,702	$ 39,914	**$ 76,915**
Domestic public companies	19,240	36,295	**70,043**
Ontario-based listed issuers	2,965	5,937	**10,911**

Source: Toronto Stock Exchange

*TSX Venture Exchange does not include NEX

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Overview

This document sets out the key financial events and actions and how they have influenced the OSC's operations during the past year and provides an outlook on its 2011–12 plans. The environment and challenges that the OSC faces and details on the key elements that were considered in developing the plans are also set out. Additional details on 2011–12 plans are set out in the OSC Statement of Priorities, which is available at www.osc.gov.on.ca.

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

This document should be read in conjunction with the financial statements. The financial statements present the OSC's results for the year ended March 31, 2011, with 2010 comparatives and accompanying notes. Unless otherwise specified, references to years (for example, 2011) refer to the fiscal years of the OSC ended March 31 of that year. The factors that affected the OSC's operations during 2011, as well as the factors that reasonably may be expected to affect future operations and financial results, are set out in the document.

The preparation of financial statements that conform with Canadian generally accepted accounting principles (GAAP) requires estimates and assumptions to be made that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are calculated based on historical experience, current trends and other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

OSC Responsibilities

The OSC plays a major role in securities regulation in Canada. The OSC is accountable to the Ontario Government. As a self-funded agency, the OSC is wholly dependent on fees from market participants. Its work affects investors, market participants and marketplaces:

Investors

- Both retail and institutional, who seek to invest in fair and efficient markets. Ontario residents hold about 42% of the financial assets held by individual Canadians and approximately 83% of investment fund assets are held by fund companies based in Ontario.

Market Participants and Marketplaces

- Issuers – public and private companies that rely on the capital markets to fund growth and diversification. Approximately 32% of Canadian-listed corporate issuers are based in Ontario, accounting for 40% of Canada's equity market value.
- Intermediary firms – registered to provide investment services to both users and suppliers of capital. There are 1,249 registrant firms (out of 1,465 in Canada) and 64,628 individuals (out of 118,993 in Canada) registered in Ontario.
- Marketplaces – There are currently 18 marketplaces (e.g. TSX, Pure Trading, Alpha ATS etc.) operating within Ontario.

As a member of the Canadian Securities Administrators (CSA), the OSC works with other Canadian securities regulators to improve, coordinate and harmonize the regulation of Canada's capital markets.

OSC Approach

The OSC is a Crown corporation without share capital and is the body responsible for regulating Ontario's capital markets. Protecting investors and fostering fair and efficient capital markets in Ontario involve striking an appropriate balance between facilitating timely access to the material information needed by investors to make informed investment decisions without imposing undue regulatory burdens on market participants.

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

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

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

Financial oversight and accountability are achieved by:

- preparing an annual budget, which is reviewed by the Audit and Finance Committee and approved by the Board and the responsible Minister;
- providing summary financial information to the Board each month;
- reporting actual versus budget performance and updated full-year forecasts every quarter to the Audit and Finance Committee and the Board;
- requiring Board approval of significant unbudgeted expenses or re-allocations; and
- certifying the design and effectiveness of Internal Control over Financial Reporting (ICFR) by the Chair and the Director of Corporate Services.

Current Environment and Issues

The prevailing financial environment continues to pose challenges for those that the OSC regulates and the OSC itself. Despite improving global economic conditions uncertainties remain about the possible outcomes for the economy and financial market volatility persists. The main environmental factors affecting the OSC's work are set out below.

Market Developments/Evolution

The rapid pace of product and market innovation includes many developments, including the proliferation of complex exchange-traded funds (ETFs) and structured products, dark pools and algorithmic trading, portfolio account services that provide retail investors with access to the exempt market, a rise in importance of new trading platforms and developments surrounding new order types, the need for a securities regulatory regime for credit rating agencies that is consistent with evolving international standards, and emerging regulatory requirements for the clearing and reporting of over-the-counter (OTC) derivatives trades. The OSC continues to assess the impact of these developments on market transparency, stability, investor access and fairness in order to determine what changes need to be made to the regulatory environment to uphold its mandate and maintain consistency with global standards. (For more, see Proactive Regulation)

TMX Group and London Stock Exchange

The OSC, in its capacity as the lead regulator of the TSX and TMX, is required to review the proposed transaction between the TMX Group and London Stock Exchange that was announced in February. As it pursues this review in 2012, the Commission's goal will be to ensure a transparent and comprehensive public consultation process and confirm that any changes associated with the transaction are in the public interest.

Systemic Risk

Domestic and international policy agendas will continue to be driven by the G20 and Financial Stability Board initiatives, including continued focus in the areas of OTC and commodity derivatives, market integrity and systemic risk. The pace of reforms, as well as the state of implementation of reforms to date, will continue to dominate international discussions. During 2011, the OSC was actively engaged at the international level. The OSC was co-chair of the IOSCO's Working Group on Systemic Risk, which was set up to enhance the understanding of sources of potential instability and bolster the financial system's resilience to future shocks. The OSC worked domestically through the CSA Systemic Risk Committee to develop processes to identify, analyze and monitor systemic risks within the Canadian capital markets. Further work with other Heads of Agencies members (OSFI, Bank of Canada, Department of Finance) on some of these issues is planned for 2012. During 2011 the OSC increased its focus on derivatives by resourcing a new program area responsible for considering and addressing related regulatory issues. Given the breadth of these issues, more resources are planned for this area in 2012.

Working With Retail Investors

The OSC is continuing its efforts to try to ensure that the voice of the retail investor is heard just as clearly as the voice of the more formally organized market participants. In addition to the outreach efforts undertaken by various OSC branches, in August, the OSC set up the Investor Advisory Panel as a forum to hear the concerns of retail investors and gain better insight into investor issues. To date, the panel has held several meetings to gather feedback from investors and provided comments on a number of proposed OSC rules.

During the year, the OSC undertook a variety of actions to better inform investors, including publishing Disciplined Persons lists and providing Investor Alerts and Investor Warnings about suspicious activity in the capital markets, such as potential frauds. To address future investors at the grassroots level, the OSC provided $1.9 million to the Ministry of Education to assist in the development and introduction of a financial literacy programs in Grades 4 to 12 across Ontario. (For more, see Investor Protection)

OSC Enforcement

Our primary focus is on protecting the interests of Ontario's investors and capital markets. To effectively protect the public interest, our enforcement and compliance regime must be vigorous, effective and fair - and must be seen as such. The OSC will need to continue to adapt its regulatory system to reflect the realities of the global marketplace. The OSC continues to adopt new approaches and tools to improve its enforcement and compliance programs. Details on the enforcement initiatives undertaken in 2011 are highlighted in the **OSC Enforcement Activity Report** on the OSC website.

OSC Revenues and Surplus

Securities market participants fund our operations through fees they pay. The current fee structure under the Securities Act (Ontario) and the Commodity Futures Act was established in 2003. The fee model is intended to recover our costs of operation in fulfilling our mandate while allowing us to remain financially stable. When we implemented the fee model, we committed to re-evaluate fee levels every three years. Our fees were last amended on April 5, 2010.

On March 31, 2010, the balance of the general surplus was $28.8 million. In setting fees for the three years ending March 2013, we planned to operate at a deficit in each year so as to eliminate the surplus by the end of the period. In 2011, the OSC had an operating deficit of $11.1 million, and the year-end surplus was reduced to $17.7 million. In 2012, the OSC is expecting an operating deficit of $10.4 million, and the general surplus is projected to further decline to $7.3 million at the end of 2012.

Credit Facility

Achieving an appropriate financial balance can be challenging for the OSC because most costs are relatively fixed and revenues are seasonal. Since a large portion of revenues are normally received in the last quarter of the fiscal year and expenses are incurred relatively evenly throughout the year, cash balances decrease through the first three quarters. This results in a cash shortfall in the third quarter, which, prior to 2011, has been covered by the accumulated surplus.

With the planned reduction in the surplus, the OSC needed to draw $13 million from its $20 million reserve for the first time in 2011. In January 2011, when the majority of registrant fees were received, the $20 million reserve was restored.

Due to the timing of its cash flows, the OSC will again need to draw upon its Reserve fund assets during 2012 to manage its cash requirements. In instances where the OSC reserve has been fully drawn down, the OSC will need to cover any additional cash flow shortfall with a credit facility. Although the OSC expects its reserve to be adequate to fund its operations in 2012, discussions have been held with the OSC's banks, the Minister of Finance (who must approve any borrowing) and the Ontario Financing Authority on setting up a credit facility to deal with cash shortfalls. We plan to have the facility approved and in place this summer.

International Financial Reporting Standards (IFRS)

Consistent with the discussion in the MD&A for the past two years, the OSC sought and obtained approval from the Provincial Controller's Office to adopt IFRS. The OSC views IFRS as a continuation of financial reporting that is transparent and accountable to the market participants that fund the OSC. Internationally, the Financial Services Authority, which regulates the securities industry in the United Kingdom, prepares its financial statements in accordance with IFRS. In Canada, federal agencies such as OSFI and the Bank of Canada have expressed their intention to transition to IFRS as well. Additional details on the OSC's IFRS changeover plan are set out in Appendix A.

Internal Control Over Financial Reporting (ICFR)

During the year, the OSC's ICFR processes were reviewed and documentation updated where necessary. Operating effectiveness was tested using the framework and criteria established in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Staff performed an evaluation, under the supervision and with the participation of management, of the effectiveness of the OSC's ICFR as at March 31, 2011. Based on this evaluation, the OSC has concluded that the ICFR was operating effectively and that there are no material weaknesses.

There have been no changes that occurred during the most recent year ended March 31, 2011, that have materially affected, or are reasonably likely to materially affect, the OSC's ICFR. The Chair and the Director of Corporate Services certify the design and effectiveness of ICFR in the Statement of Management's Responsibility and Certification.

Canadian Securities Transition Office (CSTO)

The evolution of the capital markets reinforces the OSC's ongoing support for the creation of a national securities regulator for Canada. The OSC will continue to support the Ontario Government, the Canadian Securities Transition Office (CSTO) and participating provincial securities regulators to make the implementation of a national securities regulator a reality and will continue to provide OSC resources to support this initiative as it proceeds. (For more, see the Chair's Message)

Selected Three-Year Annual Information

($ Thousands)	**2011**	2010	2009
Revenues	**72,955**	61,466	68,562
Expenses	**84,750**	80,320	81,053
Deficiency of Revenue over Expenses (before recoveries)	**(11,795)**	(18,854)	(12,491)
Recoveries of enforcement costs	**703**	870	2,831
Deficiency of Revenue over Expenses	**(11,092)**	(17,984)	(9,660)
General Surplus	**17,676**	28,767	46,752
Capital Expenditures	**1,321**	1,373	5,297

Analysis of Operating Results

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

Overview

Consistent with its plan to reduce its surplus, as noted above, the OSC had a net deficit of $11.1 million in 2011 ($18.0 million – 2010). The deficit was $6.2 million less than budgeted because revenues were $3.5 million higher than expected and spending was $2.7 million under budget.

Revenues increased by $11.5 million or 18.7% mainly due to higher participation and activity fee revenues.

Expenses were $4.4 million or 5.5% higher. Key drivers of the increase were costs for salaries and benefits related to additional staff in key areas ($4.3 million), amortization ($276,000) and professional services ($183,000). Employee compensation and occupancy costs account for 85.5% (2010 – 84.8%) of expenses (before recoveries).

The OSC's deficiency of revenues over expenses was reduced by the recovery of $703,000 in enforcement costs through settlements and orders. Recoveries were down $167,000 from 2010.

The premises and equipment balance decreased by $1.7 million or 31.0% because amortization exceeded capital additions.

Detailed Analysis of Fiscal 2011 Operating Results

The OSC fee structure is designed to generate fees that reflect the OSC's cost of providing services to market participants. The fee schedule requires the payment of activity fees and participation fees.

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

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

Revenues

(Thousands)	% of Total 2011	**2011**	2010	Change	% Change
Participation fees	80.5	**$ 58,404**	$ 49,068	$ 9,336	19.0
Activity fees	16.2	**11,777**	9,828	1,949	19.8
Late fees	3.3	**2,386**	2,032	354	17.4
Total fees	100.0	**72,567**	60,928	11,639	19.1
Investment income		**298**	460	(162)	(35.2)
Miscellaneous		**90**	77	13	16.9
Total revenues		**72,955**	61,466	11,490	18.7

Figure 1 – OSC Fees by Type

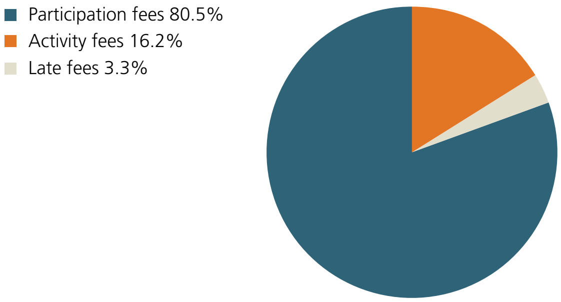


Figure 1 shows the sources of the OSC's fee revenues.

When fee rates were last changed April 5, 2010, most of the activity fees were unchanged from the rates set in 2006, and participation fee rates were raised by 9% per year for registrants and 17% per year for issuers. The difference in fee increases for issuers and registrants is intended to better align revenues generated from each group with its level of participation in the Ontario capital markets.

The impact of stronger than expected market performance in conjunction with higher fee rates had a positive impact on OSC revenues. Revenues for the year were $73.0 million, up from $61.5 million in 2010. The variance is explained below.

Participation fees were higher by $9.3 million or 19.0%. About two-thirds of the overall increase or $6.2 million resulted from the higher fee rates. For issuers, increased market capitalization levels and a net increase in the number of issuers were the other key fee drivers. For registrants, a slight net decrease in the number of registrants was more than offset by the impact of strong market growth on their revenues.

Activity fees rose by $1.9 million or 19.8% as market activity improved, resulting in increased numbers of prospectus and private placement filings and due to higher fee rates.

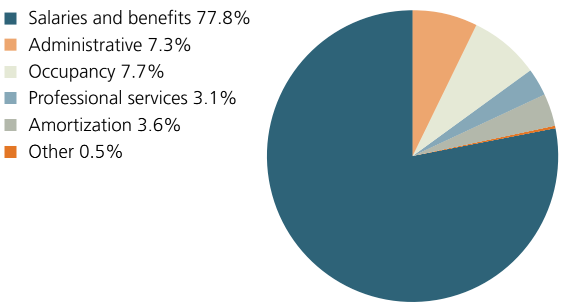
Late fees were $354,000 or 17.4% higher than last year. While fewer participants are now required to file insider trade reports, there was an increase in late filings of these reports. This is likely related to the reduction in the insider filing deadline from ten to five days.

Investment income fell $162,000 or 35.2%, reflecting continued low rates of interest on reduced cash balances due to the drawdown of the general surplus. The average rate of return on cash balances and investments was 0.9% (2010 – 0.9%) and was unchanged from 2010.

Expenses (Thousands)	% of Total 2011	**2011**	2010	Change	% Change
Salaries and benefits	77.8	**$ 65,958**	$ 61,673	$ 4,285	6.9
Occupancy	7.7	**6,526**	6,445	81	1.3
Administrative	7.3	**6,195**	6,567	(372)	(5.7)
Amortization	3.6	**2,981**	2,705	276	10.2
Professional services	3.1	**2,649**	2,466	183	7.4
Other	0.5	**441**	464	(23)	(5.0)
Total Expenses	100.0	**84,750**	80,320	4,430	5.5
Recoveries		**703**	870	(167)	(19.2)
Total Expenses (net of recoveries)		**84,047**	79,450	4,597	5.8

Total expenses (net of recoveries) for 2011 increased 5.8% to $84.0 million (2010 – $79.5 million).

Figure 2 – OSC Expenses by Type



The key contributors to the expenditure increase were as follows:

Salaries and Benefits costs increased by 6.9% to $66.0 million (2010 – $61.7 million) and accounted for 77.8% (2010 – 76.8%) of total expenses. Salary increases put in place at the beginning of the fiscal year averaged 1.6%, totalling approximately $614,000 (2010 – $620,000). The 2011 expenses included the full-year cost impact of staff hired during 2010, as well as the costs for new staff – two in Registrant Regulation and Compliance and one each in Enforcement and Investment Funds. Two staff were added in the Corporate Secretary's Office to support and coordinate operation of the OSC Investor Advisory Panel and to improve the timeliness of OSC adjudicative processes. A new Derivatives Branch was created with three new staff. Total staff increased to 478. Temporary staff use increased by $76,000. Other key contributors to the increase were bonus payments that increased by $1.3 million and severance costs that were $640,000 higher. These increases were partially offset by savings of $556,000 on salaries and benefits that were recovered for staff seconded to the CSTO.

Administrative costs decreased by 5.7% to $6.2 million (2010 – $6.6 million) and accounted for 7.3% (2010 – 8.2%) of total expenses. The key contributors to the decrease were office supply costs, which were down $120,000, a $126,000 decrease in cellphone costs and a $102,000 decrease in witness and court reporting costs.

Occupancy costs accounted for 7.7% (2010 – 8.0%) of the OSC's total expenses. Expenditures on occupancy increased $81,000 or 1.3% to $6.5 million.

Professional Services spending increased 7.4% from $2.5 million to $2.6 million and accounted for 3.1% (2010 – 3.1%) of the OSC's total expenses. Key projects contributing to the increase were real estate support related to the pending lease expiry ($140,000) enterprise risk management ($140,000) and economics/market research ($87,000). Enforcement-related professional services costs increased by $74,000. These increases were partially offset by reduced litigation costs related to actions against the OSC, which were lower by $269,000.

The OSC is a member of the CSA, which is a forum of Canadian securities regulators. Professional services include costs to operate CSA offices (allocated on a formula basis), as well as the OSC's portion of professional services costs incurred on joint CSA projects. Total CSA spending on shared projects in 2011 was slightly higher at $2.7 million (2010 – $2.5 million); the OSC contributed $1.1 million (2010 – $952,000). OSC staff time spent on CSA projects is not included in these totals. All CSA projects, including the development of harmonized securities policies and rules, are coordinated through a central secretariat. The CSA's business relationships with third-party technology providers are managed through the CSA systems office. In 2011, the OSC contributed $337,000 (2010 – $306,000) to the cost of the CSA Secretariat and $242,000 (2010 – $195,000) to the cost of the systems office.

Amortization costs increased to $3.0 million (2010 – $2.7 million) and accounted for about 3.6% (2010 – 3.4%) of the OSC's total expenses. Amortization expenses rose, reflecting increases to the OSC capital base related to expenditures on computer applications systems (e.g., Autonomy) and computer hardware and software.

Other expenses, which are travel and related expenses, decreased by $23,000 or 5.0% to $441,000 (2010 – $464,000) and accounted for 0.5% (2010 – 0.6%) of the OSC's total expenses. In 2010, travel expenses fell by over 40% as a significant amount of travel was deferred pending finalization of government travel directives. Travel in 2011 was slightly lower than 2010 due to lower levels of enforcement-related travel, which was partially offset by more travel related to our international work with IOSCO.

Liquidity and Financial Position

Financial Instruments

Financial instruments used by the OSC consist of Cash, Funds held pursuant to designated settlements and orders, Funds in trust, and Reserve fund assets, all of which are recorded at fair value. Accounts receivable and accounts payable and accrued liabilities are recorded at cost, which approximates fair value given their short-term maturities. Cash, Funds held pursuant to designated settlements and orders and Funds in trust are held in a Canadian deposit account with a Schedule 1 bank, earning interest at 1.75% below the prime rate. Reserve fund assets are invested with the Ontario Financing Authority in highly liquid Government of Ontario treasury bills with maturities of one year or less. The carrying values of the OSC's financial instruments approximate their fair values because of their short-term nature.

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

Liquidity

The OSC holds cash and marketable securities to ensure that sufficient liquidity is available to meet forecasted cash requirements. With the general surplus and the steps being taken to establish a credit facility, the OSC expects to have sufficient liquidity to finance its operations and purchases of premises and equipment. The OSC's general surplus decreased by $11.1 million, reflecting the anticipated deficit of revenues over expenses. As a result, the OSC's cash position decreased by $9.1 million or 25.5% in 2011. Cash flows from operating activities are an outflow of $8.0 million. Purchases of premises and equipment used $1.3 million.

As at March 31, 2011, the OSC held $26.5 million (2010 – $35.6 million) in cash and had current assets of $29.4 million (2010 – $37.1 million) and current liabilities of $13.5 million (2010 – $11.8 million) for a current ratio of 2.2:1 (2010 – 3.2:1).

Details on expected deficits, their expected impact on the general surpluses and OSC cash balances have been provided earlier in the document. In 2012, the OSC is expecting an operating deficit of $10.4 million. In March 2012, the cash balance is projected to decrease to approximately $15.8 million, and the general surplus is projected to be $7.3 million.

Revenues

Revenue generation remains a source of risk since all the OSC's revenues are correlated to market activity. The degree to which the OSC's revenues vary along with market fluctuations is greater than was anticipated when its fee structure was developed. In September 2008, the OSC released a proposal for a new fee model for public comment that would have reduced the uncertainty of OSC revenues, based on research on other regulators in Canada and overseas. Due to the significant market upheaval at that time, the OSC did not proceed with the proposal; however, the OSC plans to reconsider this approach in the next review of its fees. This may be affected by the timing of a potential national regulator. Additional discussion is provided under "Financial Risk" later in the document.

Reserves

Since 2001, the OSC has had a $20.0 million general reserve as an operating contingency for revenue shortfalls or unexpected expenses. The prime investment consideration for the reserve is the protection of capital and liquidity. The rate of return on investments is low since funds are invested in Government of Ontario treasury bills. The OSC records income generated by the reserve in general operations.

Accounts Receivable

Accounts receivable increased 105.7% to $2.2 million (2010 – $1.0 million). Outstanding late fees, which accounted for 21.2% of accounts receivable, increased 20.4% to $456,000 (2010 – $379,000), and the allowance for doubtful accounts increased by $69,000. Other key increases in receivables are HST recovery ($437,000), recoveries of costs from the CSTO ($565,000) and higher interest receivable ($35,000).

Funds Held Pursuant to Designated Settlements and Orders

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

Amendments to the *Securities Act* in December 2004 removed the requirement for Ministerial approval of allocations of designated funds. The Minister retained the right to establish guidelines for the allocation of the funds collected prior to December 2004. During 2011, the OSC received Ministerial approval to allocate the remaining $1.9 million of these funds to the Ministry of Education to promote the development of a financial literacy component for inclusion in the school curriculum.

In 2011, the OSC received $4.5 million (2010 – $29.8 million) through designated settlements and orders. As authorized by the Board, the OSC paid $2.97 million to the Investor Education Fund (2010 – $3.37 million) as part of a two-year commitment. At March 31, 2011, the OSC holds $43.6 million (2010 – $43.5 million) pursuant to designated settlements and orders.

Funds in Trust

To March 31, 2011, the OSC received $62.6 million (2010 – $46.9 million) from the operator of the System for Electronic Document Analysis and Retrieval (SEDAR), the National Registration Database (NRD) and the System for Electronic Disclosure by Insiders (SEDI), representing the accumulated surplus from the operations of SEDAR, NRD and SEDI from their inception. Interest earned on these funds to 2011 was $2.9 million (2010 – $2.3 million), which is included in the funds in trust balance.

As described in Note 6 of the financial statements, these funds may be used to enhance the systems, reduce systems fees or offset shortfalls in revenue in SEDAR, SEDI and NRD. In 2011, there were no SEDAR deficits. As at March 31, 2011, $25.8 million (2010 – $22.4 million) of the total funds held in trust is available for SEDAR, $10.4 million (2010 – $7.5 million) is available for SEDI and $28.1 million (2010 – $19.2 million) is available for NRD. The OSC has committed to paying its share of annual shortfalls resulting from the operations of S EDAR (45.1%), SEDI (25%) and NRD (36.07%) should they occur and accumulated surpluses are unavailable.

During the year, work continued on the redevelopment of these systems. As at March 31, 2011, payments related to this redevelopment project totalled $638,000. The CSA has also entered into a contract totalling $500,000 for procurement and technology advice related to these systems. Redevelopment work will be funded by the amount held in trust.

Premises and Equipment

Expenditures on premises and equipment during 2011 were:

(Thousands)	2011	2010	% Change
Furniture and equipment	$ 40	$ 11	264
PCs, laptops and other IT equipment	1,134	1,306	-13
Leaseholds and other capital items	147	56	163
Total	1,321	1,373	-4

Expenditures on premises and equipment remained fairly consistent at $1.3 million (2010 – $1.4 million). Higher expenditures on leaseholds and other capital items were offset by lower spending on technology-related purchases.

The OSC premises lease expires in August 2012. The OSC must notify the landlord of its leasing intentions by August 2011. A request for proposal has been issued to solicit offers for space; at this time the outcome of this process is unknown. Should a decision be taken to move to new premises, the OSC could incur material costs for leasehold improvements.

Liabilities

Accounts payable and accrued liabilities increased 14.4% to $13.4 million (2010 – $11.7 million) primarily due to higher charges and accruals for bonuses of $1.1 million and severance by $773,000.

The accrued pension liability of $1.9 million (2010 – $1.7 million) represents future obligations relating to supplementary pension plans for the current and former Chairs and Vice-Chairs. The unfunded supplemental pension plans' accrued benefit obligation at March 31, 2011, was $2 million (2010 – $1.8 million). The OSC's related expense for the year was $221,000 (2010 – $198,000) and is included in salaries and benefits.

The OSC is committed to lease payments as outlined in Note 13 to the financial statements.

Critical Accounting Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the financial statements, as well as the reported amounts of revenues and expenditures for the period. Actual amounts can differ from these estimates to the extent future outcomes differ significantly from management's forecast expectations. To address this, the OSC uses various estimating techniques and assumptions to prepare the financial statements. Estimates were used in the following accounts: collectibility of accounts receivable, valuation of pension liabilities, estimated useful life of premises and equipment, total accrued liabilities and collectibility of designated settlements and orders. Where appropriate, such as for pension matters, the OSC obtains independent professional expertise to assist in the calculation of these estimates. It is management's opinion that none of the estimates as described in Note 2 of the 2011 financial statements requires the OSC to make assumptions about matters that are highly uncertain. For these reasons, none of the estimates is considered a critical accounting estimate.

Risks and Uncertainties

The OSC Board of Directors is responsible for sound corporate governance and oversight of risk. The range of risks the OSC must manage continues to grow due to the pace of change and the continuing globalization of financial entities and their operations.

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

Against this background, the importance of identifying and understanding the nature of specific risks the OSC must manage continues to grow.

Enterprise Risk Management

The enhancement of risk management programs in the OSC's day-to-day operations has been identified as a key business priority for 2012 and beyond. The OSC is improving its ability to identify, assess and report on risks affecting its operations by:

- developing a consistent understanding of risk within the OSC;
- establishing clear accountability for its management; and
- setting out a framework for the ongoing monitoring and reporting on specific risk management activities across the organization.

In 2011, the OSC used consultants to assist in the ongoing development of an appropriate enterprise risk management framework. The scope of the project included a comprehensive review and assessment of current risk management approaches employed by the OSC, assessment of their effectiveness, benchmarking and identification and recommendations for improvement. Work on the risk management initiative is proceeding together with other strategy-related work that is central to the achievement of the OSC's business objectives. As part of this process, the OSC will review its progress in managing its identified risks. The OSC will use the increased understanding gained through enterprise risk management processes to refine its regulatory approaches.

Operational Risk

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

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

- A strong internal control environment, including management oversight that includes reviewing the design of internal control over financial reporting and testing operating effectiveness of key controls, as discussed earlier;
- Regular reviews of systems security measures to monitor controls and identify potential vulnerabilities to external parties accessing OSC data;
- Mitigation of risk to assets through insurance where practical and appropriate; and
- Separation of duties across key functions.

Operational risk can extend to risk to the OSC's reputation as can the risk of not meeting its mandate or regulatory requirements. Reputational risk is addressed at the OSC by its Code of Conduct and governance practices established by its Board of Directors (additional details available at www.osc.gov.on.ca) as well as other specific risk management programs, policies, procedures and training.

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

The implications of the ongoing Federal initiative, supported by both the Ontario Government and the OSC, to establish a common securities regulator in Canada are a source of uncertainty and could have a material impact on OSC operations. As this initiative becomes more defined, the OSC may encounter more difficulty attracting or retaining staff. Although no evidence has been seen to date, the OSC will continue to monitor staffing and will develop strategies to address issues should they arise.

Key supplier dependency is another potential source of risk. A number of major applications (SEDAR, NRD and SEDI) are operated by CDS INC. (CDS) on behalf of the CSA, which includes the OSC. CDS recovers its costs to operate these systems through the application of user fees to filers. In 2011, 91.1% (2010 – 91.8%) of total regulatory fee revenue at the OSC was collected through these national applications (SEDAR 37.5% and NRD 53.6%) No material change is expected in the volume of fees collected through these systems. The current operating agreement with CDS for these systems has been extended until October 2012. A strategy for redevelopment of the systems has been created by the CSA IT Systems Office, and an implementation plan has been agreed to. In addition, it has been agreed to competitively tender operation of the current systems in parallel with the development of replacement systems.

The CSA requires CDS to provide an annual third-party audit report (CICA 5970) that confirms the operational and environmental controls for each system. In addition, CDS is required to have an operating disaster recovery site for these systems that is tested annually.

Financial Risk

The majority of OSC revenue is generated through participation fees. The OSC fee model uses a tiered structure to moderate the impact of market fluctuations in an effort to provide revenue stability. While the fee model has achieved this objective across multi-year periods, in any given year, the predictability of OSC revenues is less certain as participation fees are still subject to market fluctuations.

When setting the current fees, the OSC assumed a 10% annual market growth in developing its fee rates and revenue forecast. In 2011, revenues exceeded projections due to stronger than expected market performance for reporting issuers. The market growth projection in our 2012 revenue forecast was reduced to 5%, reflecting our assessment that the rate of growth will not be as strong as previously projected, based on a survey of market economists. The 2011 revenue surplus offsets the lower projections for 2012. Should this growth rate not be achieved, revenues could be materially lower than forecast, and further revisions to the fee rule could then be required ahead of plan.

Business Continuity

In the event of an external disruption, the OSC maintains a robust Business Continuity Plan to ensure the continuation of critical regulatory services. Detailed business continuity plans are in place for each priority business function. Each functional plan includes documented recovery procedures including manual workarounds and other mitigation strategies. Off-site recovery services and facilities have been contracted and were successfully tested during 2011. Remote access capability exists to enable staff to access all critical OSC systems. The OSC plan is continually reviewed and refined to include strategies to recover data and functionality and to resume operations under various disruption scenarios. Another key element of the OSC plan addresses its interfaces with SROs and other key market participants and includes strategies to effectively address various market disruption scenarios.

During 2011, the OSC implemented its Business Continuity Plan to ensure continuity of OSC operations in the period leading up to and during the G20 Summit in Toronto. This event provided a live opportunity to test our work-at-home capacity and to identify opportunities to improve our overall preparedness. Service levels were safely maintained at all client access points, and all critical program functions and processes were executed in a timely manner.

2012 Outlook

The 2011/2012 OSC Statement of Priorities sets out the Commission's priorities and proposed initiatives for the upcoming year. The document is available at www.osc.gov.on.ca. The OSC has identified five broad priorities for 2012:

1. Better Demonstrate our Commitment to Investor Protection
2. Intensify Operational, Compliance and Enforcement Efforts
3. Modernize our Regulatory Systems and Approaches
4. Pursue a Coordinated Approach to Securities Regulation
5. Demonstrate Accountability for our Performance as a Leading Securities Regulator in Canada

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

OSC Revenues and Surplus

Overall, the OSC is forecasting revenues to increase by 10.1% from 2011 actual revenues, primarily due to the higher fee rates noted earlier. Even with these fee increases and consistent with its plan to reduce its surplus (as outlined earlier), the OSC expects to operate at a deficit in 2012.

2012 Budget Approach

In developing the 2012 budget, we have continued to balance the need for restraint with our need to move forward on initiatives that are necessary to achieve our mandate of providing protection to investors and fostering fair and efficient capital markets.

				2012 Budget to 2011 Budget		2012 Budget to 2011 Actual	
(Thousands)	2011 Budget	**2011 Actual**	2012 Budget	Change	% Change	Change	% Change
Revenues	$ 69,496	**$ 72,955**	$ 80,287	$ 10,791	15.5	$ 7,332	10.1
Expenses	86,740	**84,047**	90,706	3,966	4.6	6,659	7.9
Deficiency of Revenue compared with Expenses	(17,244)	**(11,092)**	(10,419)	6,825		673	
Capital Expenditures	$ 1,401	**$ 1,321**	$ 2,396	$ 995	71.0	$ 1,075	81.4

The 2012 budget increase includes investments in a number of new strategic initiatives. While these initiatives will be staffed in part by a reallocation of existing resources, the scope of the initiatives is such that incremental resources will be needed and are reflected in the budget.

The 2012 budget includes resources for new staff and consulting resources to deal with market structure issues that are increasing both in number and complexity. Additional funding is also allocated to build out the new group focused on the regulation of OTC derivatives. These initiatives are consistent with the regulatory outcomes the OSC is seeking.

The OSC is committed to becoming a 21st-century regulator. As a first step, consulting resources have been committed to complete a comprehensive strategic plan. The plan will provide a road map for future operational priorities and investments. To be a 21st-century regulator, the OSC also needs to attract, retain and motivate staff with the range of skills and experience required. Skilled staff, including specialists in market and product research and analysis, have become increasingly important resources. The OSC believes that becoming a leading employer will lead to greater success in attracting these types of resources. Toward this outcome, resources have been targeted to develop a talent strategy and to create the appropriate organizational structure and development environment.
(For more, see the Chair's Message)

The budget reflects a projected increase of $6.6 million or 7.9% over 2011 spending and 4.6% above the 2011 budget. The level of the proposed increase is consistent with those being sought by regulators in other jurisdictions. Salaries and benefits, which comprise $69.9 million or 77.1% of the budget, reflect an increase of $4.0 million or 5.6% over 2011 spending. The average annual increase for staff was 1.9%. The increase in salaries and benefits cost reflects the full-year costs for staff hired during 2010–11 and higher health benefit costs. Eleven new positions were approved focused on the strategic initiatives set out above. More resources were targeted to support OSC Commissioners and improve the timeliness of our adjudicative processes. Staffing was also added to support our new directions and approaches to enforcement and compliance. Our goal is to bring forward meaningful cases that have a strong deterrent impact in order to protect investors and the markets.

The significant increase in the capital budget reflects the replacement of personal computers and laptops because the bulk of the OSC's computer leases end in 2012 and must be replaced.

The OSC's current premises lease ends August 31, 2012. If a decision is made to move, there will be leasehold improvements in 2012. No provision has been made at this time, pending a decision on location and the terms of the new leasing deal.

Appendix A
Adoption of International Financial Reporting Standards (IFRS)

In 2008, the Canadian Accounting Standards Board confirmed that Canadian GAAP for publicly accountable enterprises will be IFRS, for interim and annual reporting purposes, for financial years beginning on or after January 1, 2011.

In October 2009, the Public Sector Accounting Board (PSAB) approved an amendment to the Introduction to the PSA Handbook that allows an "Other Government Organization," such as the OSC, to determine, by assessing its mandate, considering its purpose, objectives and limitations, and the users' needs, the appropriate accounting standards it wishes to apply.

An Addendum to the 2010 Ontario Budget expressed concerns with the range of accounting standards in use across the Ontario public sector. It states that amendments will be proposed to the *Financial Administration Act* and other statutes "to clarify the government's authority to direct the organizations that are included in the Province's consolidated accounts on which accounting policies are to be applied in the preparation of their financial statements."

Earlier this fiscal year, OSC staff met with staff from each of the Ministry of Finance, the Provincial Controller's Office, and the Auditor General's Office to explain why we believed that application of IFRS was the most appropriate basis of accounting for the OSC. Following discussion and follow-up analysis to demonstrate that the potential impact of the OSC adopting IFRS rather than PSAB principles was not material to the OSC, the Provincial Controller's Office agreed with the OSC's position and concluded that IFRS is the most appropriate basis of accounting for the OSC and that IFRS financial statements can meet both the province's and the OSC's users' needs.

The date of transition for the OSC is April 1, 2010. The first set of IFRS financial statements is for the year ending March 31, 2012. As required by IFRS in the year of transition, amounts reported by the OSC for its year ending March 31, 2011, will be restated to IFRS along with the presentation of the opening statement of financial position as at April 1, 2010.

Status Update of Our Changeover Plan

IFRS uses a conceptual framework similar to Canadian GAAP. However, there are differences in recognition and measurement of assets and liabilities, and related presentation and disclosures. The OSC has developed an IFRS changeover plan to prepare the organization for this transition. This plan is comprised of three related phases: Scope and Planning, Design and Build, and Implement and Review.

The changeover plan is currently on track. We are currently in the Implement and Review phase. In this phase we are finalizing:

- IFRS conversion impacts;
- approval and implementation of accounting policies, including decisions on retrospective or prospective adoption;
- implementation and testing of new processes, systems and controls;
- IFRS training for staff and Audit Committee members; and
- preparation of the opening IFRS statement of financial position.

To date, the OSC has completed its detailed assessment of differences between Canadian GAAP and IFRS, including accounting and disclosure differences upon transition to IFRS. We have identified and assessed all areas affected by the changeover to IFRS. The table below illustrates key elements of our changeover plan, our major milestones and current status.

PHASES AND KEY ACTIVITIES	MILESTONES (*expected time frame*)	STATUS AND COMMENTS
Phase 1 – Scope and planning – 2010		
Develop an initial project plan. Initial assessment of all accounts to identify measurement accounting and disclosure differences between current accounting policies and IFRS. Identify IFRS 1 exemptions to be elected. Assess impact of IFRS on internal control over financial reporting (ICFR) and information systems.	Identification of IFRS differences, IFRS 1 exemptions to be elected and impact on controls and systems.	Developed the detailed project plan. Completed the identification of IFRS differences, IFRS 1 exemptions that are applicable and impact on controls and systems.
Staff participates in OSC training programs.		IFRS training is ongoing.
Phase 2 – Design and build – 2011		
Staff to propose IFRS accounting policy choices, including IFRS 1 exemptions to be elected. Engage in discussion with Audit and Finance Committee on policy choices and alternatives.	OSC's Audit and Finance Committee sign-off on policy recommendations and IFRS 1 exemptions to be elected.	Detailed assessment of key IFRS standards, including the determination of policy choices and quantification of the impact along with the assessment and determination of key changes to ICFR and information systems were completed.
Design and develop any required changes to ICFR and information systems.	ICFR and information systems changes to be completed and draft IFRS financial statement content to be developed.	Audit and Finance Committee approval was obtained for the policy recommendations and IFRS 1 exemptions.
Develop draft IFRS financial statement content.		Drafted the preliminary financial statements format.
IFRS training, including training for Audit and Finance Committee members.		A training session was organized for Audit and Finance Committee members and other members of the OSC Board. The OSC's staff training is ongoing.
Phase 3 – Implement and review – 2012		
Address impact of IFRS conversion on financial performance, the balance sheet, opening retained earnings, and MD&A disclosure.	Disclose quantitative impact of IFRS conversion, if available, in 2011 MD&A.	Evaluation and selection of accounting policies are complete. Quantification of significant effects on the opening balance sheet has been completed and presented in this MD&A.
Engage in discussion with Audit and Finance Committee on the approval of draft statements.	OSC's Audit Committee approval of financial statement format. Approval of 2012 final IFRS statements.	The remaining activities in Phase 3 are in progress and expected to be completed on schedule.
Test new processes, systems and controls. Prepare the draft format of 2011 comparative financial statements, including note disclosures. Prepare IFRS comparative financial statements including note disclosure as at March 31, 2012. Monitor ongoing development of IFRS standards and determine any impact on OSC's financial statements.	Updated processes tested.	Approval of 2012 IFRS statements in Q1 2013.

Summary of Key Expected Changes

Based on our analysis of the expected differences between IFRS and the current accounting treatment under Canadian GAAP, with the exception of the items discussed below, the impact on our financial statements upon adoption of IFRS does not appear to be material. Further, we do not expect that the initial adoption of IFRS will have a significant impact on existing accounting policies, information systems and business and control processes.

Impact of IFRS 1: First-Time Adoption of International Financial Reporting Standards ("IFRS 1")

a. Deemed Cost

IFRS 1 allows a first-time adopter to measure Property, Plant and Equipment (PP&E) at the date of transition to IFRS at fair value as deemed cost (or, under certain circumstances, to use a previous GAAP revaluation) as opposed to full retrospective application of the cost model under IFRS. Under this option, fair value as deemed cost will become the new cost amount for qualifying assets at transition.

The majority of the OSC's capital assets are computer hardware and related applications and leasehold improvements. These are assets that are unlikely to appreciate in value, and assessing the fair values could be time-consuming and/or costly to obtain. It is unlikely that moving to fair value would provide either materially different or improved disclosure for the OSC.

The OSC does not expect to elect the IFRS 1 exemption to restate PP&E to fair value as deemed cost under IFRS. The OSC expects to use the historical cost under Canadian GAAP as cost under IFRS at the date of transition.

b. Employee Benefits

All eligible OSC employees are members of the Ontario Public Service Pension Plan, which is a multi-employer defined benefit plan. The OSC accounts for this plan as a defined contribution plan because the OSC has insufficient information to apply defined benefit accounting to this plan. The transition to IFRS is not expected to affect the accounting treatment.

The OSC also maintains unfunded supplemental pension plans for the current and former Chairs and Vice-Chairs.

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

Under IAS 19, the opening Accrued Benefit Obligation related to the supplementary pension plans that the OSC administers would remain the same as under Canadian GAAP. However, the accrued benefit liability would increase by the amount of the cumulative actuarial loss recorded as at the transition date. We expect the impact of the change at April 1, 2010, will be to decrease opening operating surplus by $35,000, offset by a corresponding increase in the pension liability.

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

Impact of Property Plant & Equipment (IAS 16)

IAS 16 permits the use of the cost model or the revaluation model for these assets. Under the cost model, assets are carried at cost less any accumulated depreciation and any accumulated impairment losses. Under the revaluation model, assets whose fair value can be reliably measured can be carried at the revalue amount. The OSC expects to apply the cost model for PP&E.

IAS 16 also requires the depreciation of an asset to begin when it is available for use. The OSC commences the depreciation of an asset in the beginning of the fiscal year following the acquisition. Per the requirements of IFRS 1, this adjustment will be recorded in opening operating surplus upon transition to IFRS. We expect the impact of the change at April 1, 2010, will be to decrease opening operating surplus by approximately $32,000, offset by a corresponding decrease in PP&E.

Impact of Other Accounting Policy Choices

The OSC's balance sheet includes a balance of $98,244 in contributed surplus. This amount represents the value of the assets transferred to the OSC by the Government of Ontario when the OSC became a self-funded organization. IFRS does not specifically address contributed surplus. IAS 8 requires that management use its judgment and ensure that the accounting policy appliedzis consistent with the IFRS Framework. As a result, the OSC has opted to transfer the amount in contributed surplus to the general operating surplus, creating an increase in opening operating surplus of $98,244 as at April 1, 2010.

Business Activities

The OSC has considered the impact of IFRS conversion on all areas of the business and determined that the adoption of IFRS will not have a significant impact on its business activities.

ICFR

At this point, the OSC has determined that ICFR applicable to its current reporting processes under Canadian GAAP is fundamentally the same as that which will be required in an IFRS reporting environment. Changeover to IFRS will not significantly affect ICFR.

Information Systems and Processes

Based on the work performed to date, the OSC does not expect that adoption of IFRS will have a pervasive impact on its information systems and processes. Due to the limited nature of the differences identified in the conversion process, the OSC believes that the current information system and processes can support the preparation of IFRS-compliant financial statements.

Financial Reporting Expertise

The OSC has implemented a detailed staff training plan, led by the OSC's Office of the Chief Accountant, addressing all aspects of the IFRS conversion project. A number of training sessions related to specific standards and customized training sessions related to the IFRS conversion were provided to relevant staff, including those with financial reporting responsibilities. Audit and Finance Committee members have received IFRS training to assist them in fulfilling their oversight role.

Audit and Finance Committee Involvement

As discussed in the changeover plan, the OSC's Audit and Finance Committee has been updated on the progress of the IFRS conversion plan, including the review of timelines for implementation, the implication of IFRS standards to the Commission and an overview of the impact on the financial statements. The Committee has discussed and approved all accounting policy choices (and selected policies).

Changes to IFRS

Staff are monitoring proposed changes to IFRS. Staff will continue to evaluate whether any of the proposed changes affect the OSC and whether the OSC should early-adopt any of the new IFRS.

Management's Responsibility and Certification

Management is responsible for the integrity, consistency and reliability of the financial statements and other information presented in the annual report. The financial statements have been prepared by Management in accordance with Canadian generally accepted accounting principles.

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

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

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

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

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

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

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

A. Kenneth Gibson, CA
Director, Corporate Services

May 24, 2011

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

Independent Auditor's Report

To the Ontario Securities Commission

I have audited the accompanying financial statements of the Ontario Securities Commission, which comprise the balance sheet as at March 31, 2011, and the statements of operations and operating surplus and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Ontario Securities Commission as at March 31, 2011 and the results of its operations, and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
May 24, 2011

Jim McCarter, FCA
Auditor General
Licensed Public Accountant

BALANCE SHEET
as at March 31

		2011		2010
ASSETS				
CURRENT				
Cash	$	26,503,743	$	35,592,848
Accounts receivable		2,151,928		1,046,029
Prepaid expenses		765,481		505,472
		29,421,152		37,144,349
FUNDS HELD PURSUANT TO DESIGNATED SETTLEMENTS AND ORDERS (Note 5)		43,603,984		43,495,838
FUNDS IN TRUST (Note 6)		64,880,151		49,135,268
RESERVE FUND ASSETS (Note 7)		20,000,000		20,000,000
PREMISES AND EQUIPMENT (Note 8)		3,691,175		5,351,254
	$	161,596,462	$	155,126,709
LIABILITIES				
CURRENT				
Accounts payable and accrued liabilities	$	13,374,631	$	11,686,270
Current portion of obligation under capital leases (Note 13(b))		78,778		107,899
		13,453,409		11,794,169
NON-CURRENT				
Obligation under capital leases (Note 13(b))		1,631		88,522
Pension liabilities (Note 9(b))		1,883,446		1,747,190
		15,338,486		13,629,881
FUNDS HELD PURSUANT TO DESIGNATED SETTLEMENTS AND ORDERS (Note 5)		43,603,984		43,495,838
FUNDS IN TRUST (Note 6)		64,880,151		49,135,268
SURPLUS				
OPERATING				
General (Note 10)		17,675,597		28,767,478
Reserve (Note 7)		20,000,000		20,000,000
		37,675,597		48,767,478
CONTRIBUTED		98,244		98,244
		37,773,841		48,865,722
	$	161,596,462	$	155,126,709

Investor Education Fund (Note 15)
Commitments and Contingencies (Notes 11,13)
See accompanying Notes to Financial Statements.

ON BEHALF OF THE BOARD OF THE COMMISSION

Howard I. Wetston, Q.C.
Chair

Margot C. Howard
Chair, Audit and Finance Committee

May 24, 2011

STATEMENT OF OPERATIONS AND OPERATING SURPLUS

For the year ended March 31

		2011		2010
REVENUES				
Fees (Note 10)	**$**	**72,566,666**	$	60,928,330
Investment income		**298,018**		460,044
Miscellaneous		**90,128**		77,243
		72,954,812		61,465,617
EXPENSES				
Salaries and benefits (Note 14(d))		**65,958,301**		61,673,500
Occupancy (Note 13(a))		**6,525,669**		6,444,891
Administrative		**6,195,206**		6,567,220
Amortization		**2,980,974**		2,705,055
Professional services		**2,648,338**		2,465,416
Other		**441,086**		464,207
		84,749,574		80,320,289
Recoveries of enforcement costs (Note 12)		**(702,881)**		(870,397)
		84,046,693		79,449,892
DEFICIENCY OF REVENUES OVER EXPENSES		**(11,091,881)**		(17,984,275)
OPERATING SURPLUS, BEGINNING OF YEAR		**48,767,478**		78,751,753
LESS: Distribution to Province of Ontario (Note 14(b))		**–**		12,000,000
OPERATING SURPLUS, END OF YEAR	**$**	**37,675,597**	$	48,767,478
Represented by:				
General	**$**	**17,675,597**	$	28,767,478
Reserve		**20,000,000**		20,000,000
	$	**37,675,597**	$	48,767,478

See accompanying Notes to Financial Statements.

STATEMENT OF CASH FLOWS
For the year ended March 31

	2011	2010
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
Cash flows from operating activities		
Deficiency of revenues over expenses	**$ (11,091,881)**	$ (17,984,275)
Items not affecting cash		
Increase in pension liabilities	**136,256**	100,622
Loss on disposal of premises and equipment	**–**	1,683
Amortization	**2,980,974**	2,705,055
	(7,974,651)	(15,176,915)
Changes in non-cash working capital:		
Accounts receivable	**(1,105,899)**	458,845
Prepaid expenses	**(260,009)**	332,028
Accounts payable and accrued liabilities	**1,688,361**	(490,656)
	322,453	300,217
	(7,652,198)	(14,876,698)
Cash flows from financing activities		
Repayment of obligations under capital leases	**(116,012)**	(149,860)
	(116,012)	(149,860)
Cash flows from investing activities		
Purchase of premises and equipment (Note 8)	**(1,320,895)**	(1,372,927)
	(1,320,895)	(1,372,927)
NET DECREASE IN CASH POSITION	**(9,089,105)**	(16,399,485)
CASH POSITION, BEGINNING OF YEAR	**35,592,848**	51,992,333
CASH POSITION, END OF YEAR	**$ 26,503,743**	$ 35,592,848

See accompanying Notes to Financial Statements.

1. Nature of the Corporation

The Ontario Securities Commission (the "OSC") is a corporation without share capital and is the regulatory body responsible for regulating the province's capital markets. As a Crown corporation, the OSC is exempt from income taxes.

2. Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. These require that management make estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenditures for the period. Actual amounts could differ from these estimates. Significant accounting policies followed in the preparation of these financial statements are:

a) Financial Instruments

Under Canadian generally accepted accounting principles, financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities.

Under this standard, all financial instruments are required to be measured at fair value upon initial recognition except for financial assets classified as held-to-maturity, loans and receivables, and other financial liabilities which are measured at cost or amortized cost using the effective interest method, and certain related-party transactions. After initial recognition, financial assets initially measured at fair value continue to be recognized at fair value, with gains and losses recognized in net income in the period in which they arise.

The fair value of financial instruments is the amount of consideration that would be agreed upon between knowledgeable, willing parties who are under no compulsion to act.

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

Held-for-trading

Cash, Funds held pursuant to designated settlements and orders, Funds in trust and Reserve fund assets are classified as held-for-trading and recorded at fair value.

Loans and receivables

Accounts receivable are classified as loans and receivables and are valued at cost, which approximates fair value given their short-term maturities.

Other financial liabilities

Accounts payable and accrued liabilities are classified as other financial liabilities and are valued at cost, which approximates fair value given their short-term maturities.

b) Premises and Equipment

Premises and equipment are recorded at cost less accumulated amortization. Amortization is calculated on a straight-line basis over the estimated useful lives of the assets, beginning in the fiscal year following acquisition, as follows:

Office furniture and equipment	5 to 10 years
Computer hardware and related applications	2 years
Leasehold improvements	over term of lease

c) **Revenues**

Fees are recognized when earned, which is normally upon receipt.

Participation fees are recognized when received because these fees represent the payment for the right to participate in the Ontario capital markets and are deemed to be earned upon receipt.

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

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

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

d) **Funds Held Pursuant To Designated Settlements and Orders**

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

e) **Employee Benefit Plans**

The OSC provides pension benefits to its full-time employees through participation in Ontario's Public Service Pension Plan, which is a multi-employer defined benefit pension plan. This plan is accounted for as a defined contribution plan, as the OSC has insufficient information to apply defined benefit plan accounting to this pension plan.

The OSC also maintains unfunded supplemental pension plans for certain full-time Commission members as described in Note 9(b). The OSC accrues its obligations and the related costs under these unfunded supplemental pension plans. The transitional obligation and actuarial gains or losses are being amortized over the average remaining service period of active members, or over the life expectancy of inactive members, expected to receive benefits under these plans. The actuarial liability and the current service cost are determined by independent actuaries using the projected benefit method prorated on services and management's best estimate assumptions.

The costs of non-pension benefits for eligible pensioners are paid by the Government of Ontario and are not included in the Statement of Operations and Operating Surplus as described in Note 14(d).

3. Financial Instruments

Currency Risk:

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

Interest Rate Risk:

The OSC's financial assets and liabilities are not exposed to significant interest rate risk due to their short-term nature. Cash balances earn interest at a rate of 1.75% below the prime rate (average for the year was 1.01%) and the Reserve fund earned interest at an average rate of 0.80%.

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

	Impact on operating surplus	
	25 basis point increase in rates	25 basis point decrease in rates
Cash balance	$ 40,176	$ (40,176)
Reserve Fund balance	43,468	(43,468)
	$ 83,644	$ (83,644)

Credit Risk:
The OSC is exposed to minimal credit risk related to Cash, Funds held pursuant to designated settlements and orders, Funds in trust, Reserve fund assets and accounts receivable.

The OSC's Cash, Funds held pursuant to designated settlements and orders, and Funds in trust are held in a Schedule 1 bank and Reserve fund assets are invested with the Ontario Financing Authority, an agency of the Government of Ontario. Together, these two counterparties hold approximately 99% of the OSC's financial assets; however, given the nature of these counterparties, it is management's opinion that exposure to concentration of credit risk is minimal.

The OSC's accounts receivable balance consists of a large number of debtors with individually immaterial outstanding balances, and amounts receivable from the Government of Canada for the recovery of the Harmonized Sales Tax paid during the year and from the Canadian Securities Transition Office for staff seconded to that office. Therefore, the OSC's exposure to concentration of credit risk is minimal. The OSC maintains an allowance for doubtful accounts. Therefore, the carrying amount of accounts receivable generally represents the maximum credit exposure. Collection efforts continue for accounts receivable balances, including those that are captured in the allowance for doubtful accounts.

The aging of accounts receivable from outstanding invoices issued is as follows:

		2011		2010
Current	**$**	**1,260,248**	$	578,632
Past due 31 to 60 days		**726,266**		296,124
Past due 61 to 90 days		**76,178**		69,940
Past due greater than 90 days		**954,746**		897,413
	$	**3,017,438**	$	1,842,109

Reconciliation of allowance for doubtful accounts:

		2011		2010
Opening balance	**$**	**796,080**	$	817,366
Current year provision		**86,265**		19,869
Write-off during the year		**(16,835)**		(41,155)
Closing balance	**$**	**865,510**	$	796,080

The accounts receivable balance of $2,151,928 is the sum of the total receivable of $3,017,438 less the allowance for doubtful accounts of $865,510.

Liquidity Risk:
The OSC's exposure to liquidity risk is minimal as the OSC has a sufficient cash balance and reserve funds to settle all current liabilities. As at March 31, 2011, the OSC had a cash balance of $26,503,743 to settle current liabilities of $13,453,409.

4. Capital Disclosure

The OSC has established a $20,000,000 reserve fund as described in Note 7(a), which it considers as capital. The primary objective of maintaining this capital is to fund OSC's operations in the event of revenue shortfalls or unanticipated expenditures.

The OSC maintains an investment policy whereby reserve funds are restricted to direct and guaranteed obligations of Canada and its provinces to protect the principal.

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

5. Funds Held Pursuant to Designated Settlements and Orders

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

The balance at March 31, 2010 included a settlement for $1,900,000, the allocation of which was subject to the approval of the responsible Minister as required under the provision of the *Securities Act* in effect at the time the settlement was approved. During the year, the Minister approved an allocation to the Ministry of Finance for financial literacy.

As at March 31, 2011, the accumulated balance is determined as follows:

		2011		2010
Opening balance	**$**	**43,495,838**	$	17,180,263
Settlements and Orders		**4,527,223**		29,842,804
Interest		**449,785**		125,771
Payments				
Investor Education Fund (Note 15(b)(i))		**(2,968,862)**		(3,370,000)
Ministry of Finance – Financial Literacy		**(1,900,000)**		–
Others		**–**		(283,000)
Closing balance	**$**	**43,603,984**	$	43,495,838
Represented by:				
Cash	**$**	**42,860,235**	$	43,392,254
Receivables		**743,749**		103,584
	$	**43,603,984**	$	43,495,838

6. Funds in Trust

The OSC is in receipt of payments from the operator of the System for Electronic Data Analysis and Retrieval (SEDAR), the National Registration Database (NRD), and the System for Electronic Disclosure by Insiders (SEDI) representing the accumulated surplus from the operations of SEDAR, NRD, and SEDI. The total accumulated funds as at March 31, 2011 were $64,880,151 (2010 – $49,135,268), representing total payments received to date of $62,644,618 (2010 – $46,907,190) and interest earned to date of $2,873,542 (2010 – $2,310,262), less payments issued to date totalling $638,009 (2010 – $82,184). These funds are held in trust by the OSC in accordance with agreements amongst the OSC, the Alberta Securities Commission, the British Columbia Securities Commission, and L'Autorité des marchés financiers. In the case of NRD, the Investment Industry Regulatory Organization of Canada is also a party to the applicable agreement. These funds shall be used to offset any shortfall in revenues from the systems, to develop or enhance the systems and to reduce fees charged to users of the systems. These funds are held in segregated bank accounts and earn interest at the monthly average bank prime rate less 1.75%.

The Canadian Securities Administrators (CSA) plan to redevelop these systems in a multi-year phased approach. Funding for this redevelopment program will come from accumulated surplus amounts. As at March 31, 2011, accumulated payments, related to the development or enhancement of the systems, totalled $638,009 (2010 – $82,184).

7. Reserve Fund Assets

a) As part of the approval of its self-funded status, the OSC was allowed to establish a $20.0 million reserve to be used as an operating contingency against revenue shortfalls or unanticipated expenditures.

b) The prime investment consideration for the reserve is the protection of principal and the appropriate liquidity to meet cash flow needs. Interest earned on investments is credited to the operations of the OSC. The accumulated funds, at March 31, 2011, have been invested in Government of Ontario treasury bills with the Ontario Financing Authority, with maturity dates no later than October 19, 2011.

8. Premises and Equipment

	Cost	Accumulated Amortization	**2011 Net Book Value**	2010 Net Book Value
Office furniture	$ 4,123,859	$ 3,660,545	**$ 463,314**	$ 654,518
Office equipment	581,182	557,088	**24,094**	62,821
Computer hardware and related applications	15,664,187	13,998,391	**1,665,796**	2,080,565
Computer hardware and related applications held under capital leases	421,594	421,468	**126**	155,010
Leasehold improvements	9,957,150	8,419,305	**1,537,845**	2,398,340
	$ 30,747,972	$ 27,056,797	**$ 3,691,175**	$ 5,351,254

During the year, premises and equipment were acquired at an aggregate cost of $1,320,895 (2010 – $1,372,927), none of which were acquired by means of capital leases (2010 – $0).

9. Pension Plans

a) All eligible OSC employees must, and members may, participate in the Ontario Public Service Pension Plan. The OSC's contribution to the Public Service Pension Plan for the year ended March 31, 2011 was $3,881,224 (2010 – $3,713,737), which is included in salaries and benefits. The Province of Ontario is the sole sponsor of the Public Service Pension Plan. As the sponsor is responsible for ensuring that the pension funds are financially viable, any surpluses or unfunded liabilities arising from statutory actuarial funding valuations are not assets or obligations of the OSC.

b) The OSC also has unfunded supplemental pension plans for the OSC's current and former Chairs and Vice-Chairs. They had an accrued benefit obligation (ABO) of $2,021,767 at March 31, 2011 (2010 – $1,782,872) and an accrued benefit liability (ABL) of $1,883,446 (2010 – $1,747,190). The difference between the ABO and the ABL represents the unamortized net actuarial loss of $56,030 (2010 – $35,682) and the amount of unamortized past service costs of $82,291 (2010 – $0). The OSC's expense related to the supplemental pension plans for the year was $221,041 (2010 – $197,519) and is included in salaries and benefits. Benefits totalling $117,331 were paid during the year (2010 – $96,897). The average remaining service lifetime of the active members covered by these plans ranges from 0.17 to 1.89 years at March 31, 2010 (2009 – 1.0 to 2.89 years); the 2010 figures were used for amortization purposes in fiscal 2011. The average life expectancy of the non-active members ranges from 15.16 to 31.40 years at March 31, 2010 (2009 – 15.90 to 32.35 years). The significant actuarial assumptions adopted at March 31, 2011 include a discount rate of 5% (2010 – 5.25%) on the ABO, 5.25% (2010 – 6.5%) on the benefit cost and a rate of compensation increase ranging from 0% to 2.1%, as applicable (2010 – 2.0% to 2.1%).

10. Fees

The OSC's fee structure is designed to generate fees that recover the OSC's cost of providing services to market participants. The fee structure is based on the concept of "participation fees" and "activity fees". Participation fees are based on the cost of a broad range of regulatory services that cannot be practically or easily attributed to individual activities or entities and are intended to serve as a proxy for the market participant's use of the Ontario capital markets. Activity fees represent the direct cost of OSC staff resources expended in undertaking certain activities requested of staff by market participants. Any general operating surpluses generated are normally returned to market participants by way of fees that are lower than otherwise required to recover costs, or direct refunds. The Commission revised its participation fees and activity fees effective April 5, 2010. The forecasted General Operating Surplus at March 31, 2010 was used to establish the revised participation fees rates.

Details of fees received for the year ended March 31, 2011 are as follows:

		2011		2010
Participation fees	**$**	**58,403,578**	$	49,068,114
Activity fees		**11,777,063**		9,828,324
Late filing fees		**2,386,025**		2,031,892
Total	**$**	**72,566,666**	$	60,928,330

11. Commitments and Contingencies

a) The OSC has committed to paying its share of annual shortfalls resulting from the operations of SEDAR (45.1%), SEDI (25%) and NRD (36.07%), should they occur and accumulated surpluses are unavailable. The systems are operated by an external agency on behalf of the CSA under agreements dated as of August 1, 2004 for SEDAR, October 26, 2001 for SEDI and June 13, 2003 for NRD. The Alberta Securities Commission, the British Columbia Securities Commission, L'Autorité des marchés financiers, and the Investment Industry Regulatory Organization of Canada (in the case of NRD only) have also committed to paying specified percentages of any annual deficit in the systems.

   In the current year, there were no deficits. As described in Note 6, the OSC is holding funds in trust that may be used to offset shortfalls in revenue in SEDAR, SEDI, and NRD. As at March 31, 2011, $25,825,385 (2010 – $22,394,935) of the total funds held in trust is available for SEDAR, $10,396,081 (2010 – $7,495,057) is available for SEDI, and $28,118,685 (2010 – $19,245,276) is available for NRD.

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

12. Recoveries of Enforcement Costs

In 2011, the OSC recorded $702,881 (2010 – $870,397) in recoveries of enforcement costs of which $297,881 (2010 – $741,198) was for internal resources and $405,000 (2010 – $129,199) was for external resources.

13. Lease Commitments

a) Operating Leases

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

2012	$	6,085,247
2013	$	2,538,141
2014	$	3,800

There are currently no lease commitments beyond 2014. The OSC premises lease expires in August 2012. The OSC must notify the landlord of its leasing intentions by August 2011.

b) Capital Leases

The OSC has entered into capital lease agreements for computer hardware and related applications. Leases that transfer substantially all of the benefits and risks of ownership of property to the OSC, or otherwise meet the criteria for capitalizing a lease under Canadian generally accepted accounting principles, are accounted for as capital leases. An asset is recorded at the time the capital lease is entered into, together with its related obligation to reflect its purchase and financing. The total interest expense recorded on the lease obligations for the year ended March 31, 2011 is $7,053 (2010 – $17,764). The following is a schedule of future minimum lease payments for the capital leases, which expire on or before April 30, 2012:

Year Ending March 31		
2012	$	80,577
2013		1,638
Total minimum lease payments		82,215
Less: Amount representing interest at 5%		1,806
Balance of the obligation	$	80,409

The total obligation under capital leases of $80,409 consists of a current portion of $78,778 and a non-current portion of $1,631.

14. Transactions With The Province Of Ontario

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

a) The *Securities Act* states that when ordered to do so by the responsible Minister, the OSC shall remit to the Province of Ontario such surplus funds as determined by the Minister. In light of the fee model as described in Note 10 and the OSC's practice of setting fees periodically, the OSC is not required to make remittances of its surplus to the Consolidated Revenue Fund. Surpluses retained by the OSC are subject to appropriate terms and conditions to be agreed with the Ministry.

b) During 2010, the OSC remitted $12.0 million to the Ministry of Finance, representing the amount that was retained for the proposed merger with the Financial Services Commission of Ontario which has not proceeded.

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

d) Costs of non-pension benefits for eligible pensioners are paid by the Government of Ontario and are not included in the Statement of Operations and Operating Surplus.

15. Investor Education Fund

a) The Investor Education Fund (the "Fund") was incorporated by letters patent of Ontario dated August 3, 2000 as a non-profit corporation without share capital. The Fund is managed by an independent Board of Directors and its purpose is to increase knowledge and awareness among investors and potential investors and to support research and develop programs and partnerships which promote investor and financial education in schools and among adult learners. The OSC is the sole voting member of the Fund. The Fund is exempt from income taxes.

The Fund is not considered to be a subsidiary of the OSC and therefore has not been consolidated in the OSC's financial statements. Financial statements of the Fund are available on request.

Financial summaries of this unconsolidated entity as at March 31, 2011 and 2010 and for the two years ended March 31, 2011 are as follows:

		2011		2010
Financial Position				
Total assets	**$**	**2,408,961**	$	2,498,362
Less: Total liabilities		**482,465**		532,082
Total net assets		**1,926,496**		1,966,280
Less: Invested in premises and equipment		**142,904**		249,746
Available for Fund purposes	**$**	**1,783,592**	$	1,716,534
Results of Operations				
Total contributions and interest income	**$**	**2,988,996**	$	3,378,477
Total expenses		**3,028,780**		3,051,414
Excess/(Deficiency) of revenue over expenses	**$**	**(39,784)**	$	327,063
Cash flows				
Cash flows from operating activities				
Cash receipts from the OSC	**$**	**2,968,862**	$	3,370,000
Cash receipts from third parties		**178,106**		202,422
Interest income received		**19,133**		8,812
Cash paid for initiatives and expenses		**(3,339,727)**		(2,725,925)
Cash paid for premises and equipment		**(23,134)**		(178,596)
Net increase (decrease) in cash position		**(196,760)**		676,713
Cash position, beginning of period		**2,228,573**		1,551,860
Cash position, end of period	**$**	**2,031,813**	$	2,228,573

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

i) The OSC paid $2,968,862 to the Fund (2010 – $3,370,000). These payments were from Funds held pursuant to designated settlements and orders, as described in Note 5.

ii) The OSC has a Management Services agreement with the Fund for the provision of administrative and management services, at cost.

For the period ended March 31, 2011, the OSC incurred costs totalling $764,092 (2010 – $703,456) for services related to the Fund. The total cost of these services has been charged to the Fund and, of this amount, $160,928 is owing to the OSC as of March 31, 2011 (2010 – $171,050).

16. Accounting Pronouncements

In 2008, the Canadian Accounting Standards Board confirmed that generally accepted accounting principles for publicly accountable enterprises will be international financial reporting standards (IFRS). The first year of implementation is to be the fiscal year commencing on or after January 1, 2011, but comparative figures will be required in the financial statements for the prior fiscal year. In October 2009, the Canadian Institute of Chartered Accountant's (CICA) Public Sector Accounting Board approved an amendment that would require government organizations, such as the OSC, to consider the needs of the users of their financial statements in determining whether standards in the CICA Public Sector Accounting Handbook or IFRS are the most appropriate basis of accounting to adopt. The OSC has chosen to adopt IFRS. The OSC's first annual IFRS financial statements will be for the year ending March 31, 2012 and will include the comparative period of 2011.

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

Ontario

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