

Ontario Securities Commission

2015-2017
OSC Strategic Outlook

Message from the OSC Chair

It is our pleasure to present the OSC's Strategic Outlook for 2015-2017. This Strategic Outlook articulates our vision for meeting the challenges and seizing the opportunities confronting us over the next two years as we seek to effectively regulate Ontario's dynamic and evolving capital markets in the best interests of investors and market participants.

We have concluded our most recent three-year strategic plan and we are pleased with the progress we have made toward achieving our strategic goals under that plan. The course we set in 2012 is the path we should continue to follow over the next two years, with adaptations that reflect changes in the capital markets and in the domestic and global regulatory environment that have occurred since 2012.

Our Strategic Outlook will inform how we achieve the OSC's goals to deliver responsive regulation, effective compliance and enforcement, strong investor protection and to be an innovative, accountable and efficient organization. Our focus is on six specific objectives to achieve our goals.

One of our most important objectives in the next two years is to work with the Ontario Government and other participating jurisdictions to transition smoothly to the Capital Markets Regulatory Authority (CMRA). We will contribute the resources required to ensure a seamless transition for market participants and other stakeholders to CMRA. It is very important for us to have a seamless transition to the CMRA and to keep stakeholders informed and engaged throughout the transition period. We will remain committed to working with the non-participating CSA jurisdictions in the delivery of effective securities regulation across Canada by maintaining an effective and cooperative interface with the CSA.

While we work towards transitioning to the CMRA, we will remain dedicated to the important job of being Ontario's capital markets regulator. We will continue to regulate effectively through the advancement of our important policy agenda and through the delivery of our core regulatory work of compliance and enforcement.

We will tackle the big issues and important policy work across the regulatory spectrum. We will take a proactive approach through research and risk management which will allow us to respond quickly where appropriate. Engaging investors and stakeholders through outreach and consultation will be a key focus for us to help us further our mandate. We have a strong commitment to deliver excellence in the execution of OSC operations by setting and applying the right priorities, skills, capabilities, resources and tools.

We thank the staff and Commissioners of the OSC for their hard work and dedication for helping to make the OSC the best securities regulator it can be.

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

The OSC's Strategic Outlook for 2015-2017

The Ontario Securities Commission (OSC) is the regulatory body responsible for overseeing Ontario's capital markets, which includes equities, fixed-income and derivatives. The OSC is a self-funded Crown corporation accountable to the Ontario Legislature through the Minister of Finance.

The OSC administers and enforces the provincial *Securities Act* and the *Commodity Futures Act*, and administers certain provisions of the *Business Corporations Act*. This legislation sets out the OSC's authority to develop and enforce rules that help safeguard investors, deter misconduct and regulate participants involved in capital markets in Ontario.

OSC Vision

To be an effective and responsive securities regulator – fostering a culture of integrity and compliance and instilling investor confidence in the capital markets.

OSC Mandate

To provide protection to investors from unfair, improper or fraudulent practices and to foster fair and efficient capital markets and confidence in capital markets.

2015-2017 OSC Organizational Goals

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

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

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

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

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

OSC's 2012-2015 Strategic Plan

In 2011 the OSC engaged in an extensive strategic review to identify the priorities, objectives and expected outcomes that would define our future direction. As part of this review, the OSC benchmarked how it measures against other financial services regulators globally along several key dimensions of its regulatory work. The OSC also consulted extensively with external stakeholders and staff to get their views on how to build a stronger, more innovative and adaptable OSC.

This review culminated in the publication of the OSC 2012-2015 Strategic Plan which included six key strategies to reposition the OSC as a more proactive, agile and effective securities regulator and to foster the integrity and quality of Ontario's capital markets. The six strategies were to:

1. Expand the OSC's research and analytical capability to be able to respond to and keep pace with market developments and investor concerns and to support policy-making
2. Engage investors more effectively
3. Improve internal policy coordination and priority-setting
4. Align all operations and programmes with defined OSC goals and priorities and develop and report on key performance indicators
5. Improve risk identification and management
6. Deliver excellence in the execution of OSC operations

Achievements

The OSC has actively pursued its strategic plan over the past three years by focusing on greater investor engagement, research, policy coordination, risk management, performance reporting and operational excellence.

An investment in research and evidence-based policy making, through the expansion of the OSC Research and Analysis Group, has enhanced its capacity to support the right regulation for complex capital markets. The OSC has a team of economists and research analysts who support the broader use of research for policy formulation. Critical policy work in areas such as exempt market, best interest duty, mutual fund fees, systemic risk, financial benchmarks and fixed income have all been supported by research and analysis through this dedicated team.

The OSC created the Office of the Investor to strengthen the OSC's investor engagement. This office has added an important voice and perspective to the OSC to help understand the concerns and needs of investors in our markets. The OSC in the Community programme is a good example of the kind of personal connection the OSC has been striving to make with investors by going into their communities, meeting with them face to face, hearing their stories and answering their questions. The office has also liaised extensively with investor advocacy groups and the OSC Investor Advisory Panel to explore how it can advance the interests of investors more productively through outreach, regulatory action and education.

The OSC established an internal Policy Coordination Committee to identify, prioritize and communicate a clear policy agenda to stakeholders. It has applied a more rigorous approach to selection, prioritization and monitoring of policy projects by requiring a regulatory impact analysis to be completed for new initiatives or significant new stages of multi-phased initiatives. The OSC continually reinforces the alignment of its policy agenda to the OSC's strategic goals and to the annual OSC Statement of Priorities.

Improvements were made in aligning the operations of the OSC with its goals and strategies, as well as defining and reporting on its performance. In this area, important changes were made setting annual priorities and developing business plans and budgets to meet those priorities. The OSC has focused on setting targeted priorities and being accountable to meeting those priorities through more specific success measures. Annually, the OSC reports on its progress against its priorities in a public report card. It has also published a service commitment that sets out the standards of service stakeholders can expect when it delivers core regulatory services, such as reviewing prospectuses, exemptive relief applications, registration requests, inquiries and complaints, and records requests. The OSC will publish the results of how it performed against its service commitments.

The OSC developed and implemented an enterprise risk management framework. Taking a more structured and formalized approach to risk management has enhanced risk awareness within the OSC. The use of more robust risk assessment processes and a greater appreciation of the tools that can be used to mitigate risks have informed how the OSC does its core regulatory work. These improvements to risk management have also helped the OSC to prioritize its work.

Making investments in the people, tools and technology were critical areas the OSC pursued under its strategic plan. The OSC was recognized in 2013 and 2014 as one of Toronto's Top Employers, recognizing its workplace programmes and policies that address staff concerns and demonstrate innovative business practices and stakeholder outreach programmes.

Factors impacting our strategic outlook

There are many environmental factors that impact the OSC's strategic outlook. Important themes emerge around globalization, technology, the changing investor population and economic conditions that impact how the OSC does its work.

Globalization

Capital markets are not constrained by borders and globalization of the markets continues to be a dominant theme that must be accommodated. Capital is mobile, and we must recognize that to maintain strong capital markets in Ontario and remain competitive with other markets, we must do everything we can to instill confidence and demand the highest degree of integrity in our markets. Although our markets represent a small percentage of the global capital markets universe, we must nevertheless always remain vigilant that our regulatory approaches align with global standards.

Changing demographics, featuring a growing proportion of seniors

Demographics indicate that the proportion of individuals aged 65 or over is expected to grow from 14.6% in 2012 to 24% by 2031. The changing needs of investors as they enter retirement will drive changes in the investment products offered, the types of advice sought and the methods through which investors interact with the financial markets. More than ever, investors are facing complex investment choices and assuming greater responsibility for their investments and retirement savings. The OSC knows that it must work hard to understand the needs of investors through outreach, strive to educate investors about important areas such as fraud prevention, and to incorporate investor needs into our work.

Harmonization and cooperation with other regulators

The regulatory environment we operate in creates complex jurisdictional and operational challenges for regulators and market participants. We will work with the members of the CSA to deliver effective securities regulation across Canada by maintaining an effective and cooperative interface. Regulatory cooperation is also essential to achieving success in investigations and actions involving activity beyond Ontario's borders. Continuing to play an active role in international organizations such as IOSCO is key to help influence and promote changes to international securities regulation that are most beneficial to Ontario markets and participants.

Concurrently, the OSC is working with the Ontario Government and other participating jurisdictions to launch the CMRA that will deliver more effective regulation of the Canadian capital markets and enhanced oversight of sources of systemic risk in our markets.

Technological innovation

The effects of rapidly evolving technology are being felt everywhere in the markets, especially on the trading side and throughout the infrastructure that supports the markets, but also in the way that market participants are offering fundamental services to investors, for example, through automated advice platforms. The degree to which technology permeates the operation of the capital markets will fundamentally impact how we are able to regulate them. It is important to understand these impacts and evolve our approaches accordingly. Cyber-security is an area we will need to be increasingly vigilant because our markets must remain resilient in the face of the increased persistence and sophistication of the threats they face. The use of social media to do financial transactions and communicate to the market and investors means we need to adjust how we look at disclosure and compliance.

The compliance and enforcement toolkit

Compliance and enforcement activities continue to play a central role in maintaining and enhancing trust in Ontario's capital markets. In addition to using a multitude of compliance tools with effective registration and compliance oversight regimes to help deter misconduct and non-compliance by registrants and market participants, we have also developed new tools and will continue to experiment to find ones that are effective, such as whistleblower and mystery shops.

Economic environment

Looking ahead the next few years, we can expect to see a growing divergence in economic conditions across countries. Given the importance of commodity industries, the Canadian economy will continue to be impacted by growth predictions in other parts of the world. This is expected to mean that Canadian economic growth will be somewhat less than in other regions, particularly the U.S.

For the OSC, this means we can expect to see fewer offerings by issuers and less capital raising by resource (especially oil) firms over the coming year. Activity at certain boutique dealers and advisory firms focused on the resource sector will also be under strain.

Canadian interest rates are anticipated to continue at or near the current low levels for some time to come. Households and firms will continue to benefit from low borrowing costs but may be unprepared for the eventual increase in rates given the length of time that rates have been at historic lows.

Challenges will also continue with respect to finding sources of adequate investment returns. Investors may be tempted to gain additional return through the use of leveraged investing, structured products or additional credit risk.

Moving Forward

Building on the foundations we have laid since adopting our 2012-2015 Strategic Plan and bearing in mind what has changed since then, our strategic outlook for the next two years is set out as follows. The direction we are defining for ourselves is grounded in the OSC's five strategic goals:

1. **Deliver strong investor protection**
2. **Deliver responsive regulation**
3. **Deliver effective compliance, supervision and enforcement**
4. **Promote financial stability through effective oversight**
5. **Be an innovative, accountable and efficient organization**

Deliver Strong Investor Protection

New Office of Investor Policy, Education and Outreach

The OSC has strengthened its education, outreach and advocacy programmes for investors by integrating the Investor Education Fund with the OSC Office of the Investor to create a new Office of Investor Policy, Education and Outreach, effective April 1, 2015.

This new expanded Office will concentrate expertise and resources to conduct research, support and influence investor-related policy development that reflects the different needs and experiences of various investor segments. The OSC will lead an investor education strategy that allows it to reach out to more investors. These activities will enable the OSC to improve its understanding of, and responses to, investor issues.

Compliance and enforcement activities in support of investor protection

The OSC's fundamental work of monitoring compliance and pursuing enforcement with securities laws will reflect its commitment to identify and address areas that are most crucial to upholding strong investor protection. In doing this work, we focus on disclosure but also the expected standards of conduct of market participants. The OSC will continue to emphasize the suitability of advice (Know-Your-Client (KYC), Know-Your-Product (KYP), management of conflicts) in its oversight of registrants. In its reviews of retail investment product disclosure, the OSC will carefully monitor product innovations and the reviews will focus on asset classes that may be susceptible to liquidity issues, as well as fee structures, sales practices and marketing and distribution models. For corporate issuers, the focus will be on reviews that can improve the quality of disclosure in prospectuses and financial statements. The OSC will monitor industry trends and innovations that may impact on retail investors. It will also be crucial to continue identifying potential scams and frauds and alerting investors about them.

Policy agenda focused on investors

A significant portion of the OSC's policy agenda will be focused on initiatives that put the interests of investors first. The OSC will develop and evaluate regulatory provisions to create a best interest duty for advisors, along with regulatory reforms under National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (NI 31-103) aimed at improving the adviser/client relationship. The OSC will complete research on the impact of mutual fund compensation models on adviser behaviour and make recommendations about embedded commissions and other types of compensation arrangements.

The OSC will continue to interact with and seek input from advisory bodies and other organizations focused on investor protection, advocacy and education in order to share information to achieve mutual objectives.

Deliver Responsive Regulation

Capital raising in Ontario

Capital raising will be transformed in Ontario through the expansion of the ‘exempt’ market. The OSC will improve access to capital by introducing a suite of changes to the securities regulatory framework that will offer greater opportunity for companies to raise capital without a prospectus and for investors to make investments in those companies (for example, through offering memorandum and crowdfunding exemptions). The OSC will support the transformation of the exempt market in several ways including, for example, by facilitating the registration of crowdfunding portals and the filing of offering memoranda and reports of exempt distributions by issuers who have raised capital in reliance on those exemptions.

Through its ongoing analysis of exempt market data and supervision of the conduct of dealers, the OSC will assess whether the changes introduced are having the desired impact of giving businesses more options through which to raise capital and giving investors for whom they might be suitable greater access to more diverse investment opportunities.

Deliver Effective Compliance, Supervision and Enforcement

Strong and visible enforcement presence

Our enforcement activities will increasingly centre on delivering credible deterrence through the use of various detection tools, information and actions. The OSC Joint Serious Offence Team (JSOT) will use the broader array of tools available to it to respond faster and more effectively to serious securities-related misconduct with better outcomes for investors and the capital markets. The use of electronic data gathering and e-hearings will add to this efficiency.

The OSC will continue to pursue the establishment of an Office of the Whistleblower to augment the information available to detect and deter impactful cases of misconduct and serious breaches of securities laws. These actions should result in the OSC bringing forward to the courts more cases involving fraudulent activity that harms investors and affects the integrity of the capital markets, and seeking penalties commensurate with those activities, including jail terms.

Promote Financial Stability through Effective Oversight

Financial stability and derivatives reform

Ontario's capital markets must remain resilient in the face of challenges posed by the global interconnectedness of markets. These challenges pose risks to the capital markets which need to be recognized and managed. In Ontario, a critical contribution the OSC can make to the resilience of our markets is to complete the establishment of a regulatory framework for Over-the-Counter (OTC) derivatives and to effectively oversee activity in that market. These are transformative changes. So far, the OSC has implemented elements of the regulatory framework to regulate OTC derivatives through the creation of a trade reporting system and the designation of trade repositories. The OSC will work to complete the regulatory framework and build the infrastructure and commit the necessary resources to effectively oversee and supervise activities in the OTC derivatives markets.

Debt market reform

The OSC recently completed and published a report of its review of the fixed income market, in which we observed that this market is a large and important source of market-based financing in Canada, and that it is a negotiated market where there is a trade-off between market transparency and liquidity. The OSC also observed that data on the fixed income market are limited which hinders the ability to assess market efficiency, particularly when it comes to pricing in the retail market.

The OSC will pursue enhancements to fixed income regulation by increasing transparency, improving market integrity and evaluating access. In particular, the OSC will publish a plan to pursue ways to improve post-trade transparency in the market.

Be an Innovative, Accountable and Efficient Organization

The OSC will enhance its work processes and tools and pursue operational excellence to demonstrate that it is an efficient and effective regulatory agency. The OSC will develop systems to capture, analyze and disseminate information for more timely identification of compliance issues and trends. It will implement electronic solutions to facilitate submission of data for market participants, continue to apply enhanced research, data and risk management approaches, and utilize new electronic tools that will enable the OSC to detect misconduct and achieve resolution of matters faster.

Data

The OSC's data collection, management and analysis mechanisms will be improved so that it can better identify and respond to issues and keep pace with market developments and investor concerns. Access to a broader array of data (for example, derivatives trade reporting data, equity trading data, fixed income data), and more sophisticated methods of analyzing it, will allow the OSC to gain knowledge, insights and different perspectives regarding market trends and emerging issues to better inform policy development, detect misconduct and resolve matters faster and more effectively.

Risk

Going forward, the OSC risk management framework will be applied to help identify and assess risks early and respond quickly where appropriate. An enhanced risk-based approach will be utilized to identify registrants and issuers whose operations or structures may pose risks to retail investors. A focus on risk will contribute to the OSC's understanding and response to emerging market, product and systemic risks in a timely manner.

Accountability

All policy initiatives will be aligned with OSC goals and risk assessments. Greater rigor will continue to be imposed on the completion of regulatory impact and data analyses to support informed decision making and prioritization of initiatives.

The OSC is committed to being accountable and will report on how it is progressing against its strategic plan and goals. It will use performance indicators to measure the success and effectiveness of its work and demonstrate its accountability to deliver against its mandate and goals.

Investment in people

The OSC will also continue to focus on attracting and retaining top talent. It will also make investments in training and tools for staff to help them do their work, become leaders and sustain the OSC's high level of commitment to being a 21st century regulator.

Contribute to a smooth transition to the Capital Markets Regulatory Authority

The OSC is contributing to developing a harmonized regulatory approach, integrating operations and driving toward a seamless transition to the Capital Markets Regulatory Authority (CMRA) for market participants and other stakeholders.

The OSC will work with the Ontario Government and other participating jurisdictions to transition smoothly to the CMRA. The OSC will advise the Ontario Government on legislation/regulations and work with the CMRA participating jurisdictions to develop recommendations to participating governments on transition and integration.

While engaging in the considerable work required to transition to the CMRA, the OSC will maintain an engaged and effective regulatory presence. The OSC will remain committed to working with the jurisdictions in the delivery of effective securities regulation across Canada by maintaining an effective and cooperative interface with the CSA.

This schematic highlights the OSC strategic goals and some of our key accomplishments to achieve those goals as outlined in our 2012-2015 OSC Strategic Plan, as well as the various Statements of Priorities that have been issued since 2012. It also depicts some of the initiatives captured in the current 2015-2017 OSC Strategic Outlook. The key accomplishments are sorted by the OSC goals and calendar years. It is not intended to capture all of our projects and policy initiatives. For further details about the work the OSC has completed refer to the OSC Annual Reports and the annual Report Card on the Statement of Priorities for the years reflected below.

	Our Key Accomplishments at a Glance				Moving Forward	
	2012	2013	2014	2015	2016	2017
Deliver Strong Investor Protection	Launched Office of the Investor			Integrated the Investor Education Fund with the OSC Office of the Investor	Improve understanding of investor issues by conducting research and lead an investor education strategy	
	Started 'OSC in the Community' outreach programme					
		Expanded 'OSC in the Community' outreach programme				
		Started Mystery Shop Programme				
	Started CRM2 Phase 1		Completed Mystery Shop and published report			
		Introduced Amendments to CRM2 and Published CRM2 Guidance		Follow-up on results from the Mystery Shops		
	Published Consultation Paper on Best Interest Duty Review		Published Final Point of Sale Disclosure Rules			
	Introduced Scholarship Plan disclosure requirements	Published results of Best Interest Consultations		Develop a proposal for Best Interest Duty for Advisors		
	Published Consultation Paper on Mutual Fund Fees Review	Published results of consultations regarding Mutual Fund Fees		Evaluated options and developed recommendations for Advisor Compensation		
				Complete research on Mutual Fund Fees		
				Develop regulatory response addressing issues raised regarding Mutual Fund Fees		
Deliver Responsive Regulation		Commenced Proxy Plumbing Review	Published Proxy Plumbing Progress Review	Follow-up on Proxy Plumbing Review		
	Published Proposals to expand Exempt Market		Published Exempt Market Rule Amendments	Expansion of the Exempt Market through offering memorandum and other exemptions		
	Published proposed new Rule for Shareholder Rights Plan		CMRA Transition			
		Reviewed Order Protection Rule and Published proposed amendments to Order Protection Rule			Implement Order Protection Rule changes	
Deliver Effective Compliance, Supervision and Enforcement	Compliance Sweep - Suitability of EMD and PM	Drafted and Published results of EMD and PM Compliance Sweep – Suitability				
		Launched JSOT		Establish Office of the Whistleblower		
	Issued broad range of proactive guidance to market participants	Improved Enforcement Timelines		Improve efficiency by using more electronic data gathering		
		Review of Scholarship Plans	Completed Risk Assessment Questionnaire and Compliance Reviews		Faster and more effective response by JSOT	
		Introduced Evidence Management Tracking System	Increased use of Criminal Code tools in JSOT investigations			
			Completed review of issuers related to direct involvement with medicinal marijuana		Enforcement activities will centre on delivering credible deterrence through the use of various detection tools, information and actions	
		Reviewed Junior mining issuers' MD&A disclosure				
Promote Financial Stability through Effective Oversight	Established Derivatives Branch	Published initial Rules for Derivative Regulation Framework		Complete establishment of regulatory framework for OTC derivatives		
	Elected Howard Wetston Vice Chair of IOSCO Board	Elevated OSC international profile		Build infrastructure to effectively oversee and supervise OTC derivatives activities		
		Derivatives oversight programme underway				
		Reviewed Fixed Income Market		Publish Proposal on Regulation of Fixed Income Market	Implement Fixed Income Market Regulatory changes	
				Continue to pursue a leadership role internationally to influence the development of global securities regulation		
				Appointed Howard Wetston Chair, OTC Derivatives Regulators Group (ODRG)		
Be an Innovative, Accountable and Efficient Organization	Established Policy Review Committee	Recognized as Top GTA Employer	Recognized as Top GTA Employer	Enhance work processes & tools; develop systems to capture, analyze & disseminate information more effectively & timely basis		
	Expanded Research and Analysis Group	Completed OSC Service Commitment	Moved CSA National Systems to CGI	Redevelopment of CSA National Systems		
	Amended OSC Fee Rule	Developed Electronic Case Management System	Fully implemented Electronic Case Management System	Implement electronic solutions to ease submission of data for market participants		
	Started e-filings			OSC Fee Rule amendments become effective		
	Introduced new enforcement technology tools	Offered fee relief to smaller market participants				
		Improved efficiency of Tribunal adjudicative hearing and deliberation processes				
	Introduced OSC Performance Management System					