



ONTARIO  
SECURITIES  
COMMISSION

FOR FISCAL 2017-2018

**OSC STATEMENT OF PRIORITIES**

# REPORT CARD



ONTARIO  
SECURITIES  
COMMISSION

Each year, the OSC publishes a **Statement of Priorities** that sets out the OSC's strategic goals, priorities and specific initiatives for the year.

Our 2017–2018 goals:

1

DELIVER STRONG INVESTOR PROTECTION

2

DELIVER EFFECTIVE COMPLIANCE, SUPERVISION AND ENFORCEMENT

3

DELIVER RESPONSIVE REGULATION

4

PROMOTE FINANCIAL STABILITY THROUGH EFFECTIVE OVERSIGHT

5

BE AN INNOVATIVE, ACCOUNTABLE AND EFFICIENT ORGANIZATION

This document reports on the OSC's performance against the priorities set out in the 2017-2018 Statement of Priorities. Each of the "Success measures" has been ranked as either:

● Completed

▲ On track, in progress or near completion

■ Not completed

# EXECUTIVE SUMMARY

The 2017–2018 Statement of Priorities set out the OSC’s strategic goals and the specific initiatives that the OSC would pursue in support of each of these goals. This document reports on the OSC’s performance against the priorities set out in the 2017–2018 Statement of Priorities.

Highlights and accomplishments for each of the priorities are presented in table format. Progress against each of the Success measures reflects the estimated level of completion, performance and ability to meet its objectives.

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

### Deliver strong investor protection

- Conducted focused consultations on a proposed regulatory best interest standard as a guiding principle
- Published CSA Staff Notice 33-319 *Status Report on CSA Consultation Paper (CP) 33-404 Proposals to Enhance the Obligations of Advisers, Dealers, and Representatives Toward Their Clients*, which confirmed the OSC’s intention to continue consulting on both a best interest standard and targeted reforms
- Conducted roundtables to facilitate further stakeholder input on CP 81-408 *Consultation on the Option of Discontinuing Embedded Commissions*
- Delivered 72 OSC in the Community presentations and five teletownhalls on fraud and tips for working with an advisor, many of which engaged seniors and vulnerable investors
- Published OSC Staff Notice 11-778 *Behavioural Insights: Key Concepts, Applications and Regulatory Considerations*
- Published OSC Staff Notice 11-779 *Seniors Strategy*, outlining new initiatives to respond to the needs of older investors

- Published Staff Notice 31-351 *Complying with requirements regarding the Ombudsman for Banking Services and Investments (OBSI)*
- Published CSA Staff Notice 31-353 *OBSI Joint Regulators Committee Annual Report for 2017* noting the status of consideration of options for strengthening OBSI’s abilities to secure redress for investors

### Deliver effective compliance, supervision and enforcement

- Multilateral Instrument 91-102 *Prohibition of Binary Option* rule was published to protect investors from fraudulent selling of binary options
- Managed more than 185 whistleblower tips
- Examined 30 registrants to assess the use of restrictive agreements to preclude or purport to preclude whistleblowing
- Implemented a two-year pilot collections project with a specialty law firm

### Deliver responsive regulation

- Published CSA CP 51-404 *Considerations for Reducing Regulatory Burden for Non-Investment Fund Reporting Issuers*
- Published CSA Staff Notice 51-353 *Update on CSA CP 51-404 Considerations for Reducing Regulatory Burden for Non-Investment Fund Reporting Issuers* to the Commission

- Published CSA Staff Notice 46-307 *Cryptocurrency Offerings*, which outlined securities law requirements that may apply to cryptocurrency offerings
- The CSA Regulatory Sandbox Committee reviewed 25 business models, including coin/token offerings, cryptocurrency investment funds and online advice service providers
- Completed cooperative arrangements concerning innovative Fintech businesses with Abu Dhabi FSRA and France AMF
- Established a new Fintech Advisory Committee
- Published CSA Multilateral Staff Notice 58-309 *Staff Review of Women on Boards and in Executive Officer Positions - Compliance with National Instrument (NI) 58-101 Disclosure of Corporate Governance Practices* (CSA Staff Notice 58-309)
- Published OSC Staff Notice 45-715 2017 *Ontario Exempt Market Report*, which provides a snapshot of the current state of Ontario's exempt market and a preliminary assessment of recent regulatory reforms
- Amendments to NI 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* and NI 33-109 *Registration Information* came into force
- Published CSA Staff Notice 51-354 *Report on Climate-Change Related Disclosure Project*
- Published proposed amendments to NI 45-106 *Prospectus Exemptions*; and NI 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* for comment
- NI 94-102 *Derivatives: Customer Clearing and Protection of Customer Collateral and Positions and Related Companion Policy* came into force July 3, 2017
- Published for comment a proposed rule for registration of derivatives dealers (NI 93-102 *Derivatives: Registration*)
- Established a new CSA cybersecurity working group, co-led by the OSC and AMF
- Published a CSA Notice that outlined securities law requirements that may apply to cryptocurrency offerings

### **Be an innovative, accountable and efficient organization**

- Established a multi-year Data Management Program to improve data management, data governance and analytics and reporting
- An employee engagement survey was completed

### **Promote financial stability through effective oversight**

- OTC derivative trade reporting compliance reviews of two large OTC derivatives dealers were completed, two are nearing completion and a Staff Notice in draft form is under review for final publication
- NI 94-101 *Mandatory Central Counterparty Clearing of Derivatives* and related Companion Policy came into force on April 4, 2017

# 1

## DELIVER STRONG INVESTOR PROTECTION

The OSC will champion investor protection, especially for retail investors

This year, the OSC completed consultations on important investor topics including a regulatory best interest standard as a guiding principle and examining embedded fees in mutual funds. Additionally, the OSC was fully committed to working with the CSA to address the issues identified in the client-registrant relationship and raising the bar on what is required of registrants. These are significant investor protection initiatives that can improve the client-registrant relationship. We also worked to better understand investor issues and needs across various investor demographics, including seniors, millennials and new Canadians, and we continue to build the OSC's understanding and capacity in the behavioural insights area. The OSC improved its investor education resources. For example, *GetSmarterAboutMoney.ca*, an OSC retail investor website, was revamped by streamlining information, updating the design and making it mobile-friendly.

### Priority

**Publish regulatory reforms to define a best interest standard and targeted reforms to improve the advisor/client relationship**

### Why it's important

We work to make Ontario an attractive place for people to invest. When our rules are clear, fair and better align the advisors' interests with their clients, our capital markets can appeal to a wide range of investors.

### Success measures

- Focused consultations on a proposed best interest standard and guidance completed
- ▲ Rule proposals setting out regulatory provisions to create a best interest standard published for comment
- ▲ Regulatory reforms required to improve the advisor/client relationship published for comment

### Actions

Continue to obtain input to inform regulatory proposals from stakeholders

Publish policy direction on regulatory reforms required to improve the advisor/client relationship

### Progress

**Summer / Fall 2017:** The OSC and the New Brunswick Financial and Consumer Services Commission continued their work to articulate a regulatory best interest standard and carried out extensive consultations with the self-regulatory organizations (SRO) and certain industry associations.

**May 2017:** Published CSA Staff Notice 33-319 *Status Report on CSA Consultation Paper 33-404 Proposals to Enhance the Obligations of Advisers, Dealers, and Representatives Toward Their Clients*, which confirmed the OSC's intention to work with the CSA on addressing the issues identified with the client-registrant relationship and raise the bar on what is required of registrants through focusing on certain reforms in each of the targeted reform areas. The CSA was unanimous on implementing change and significantly strengthening the standard of conduct to make the client-registrant relationship more centered on the interests of the client.

## Actions

Publish rule proposals for comment:

- Regulatory provisions to create a best interest standard
- Targeted regulatory reforms and/or guidance under NI 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* to improve the advisor/client relationship

Conduct a regulatory impact analysis of proposed regulatory provisions to create a best interest standard and targeted regulatory reforms and/or guidance under NI 31-103 to improve the advisor/client relationship

## Progress

**In progress:** Extensive work was completed to develop rule proposals in the identified core regulatory reform areas of conflicts of interest, know your client, know your product, suitability, relationship disclosure, and titles and designations. Proposed amendments to NI 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (Client Focused Reforms) will be published for comment in June 2018.

**In progress:** An impact analysis of the proposed amendments in each of the identified reform areas will be published by the OSC at the same time as the Client Focused Reforms.

## Priority

### Define regulatory action needed to address embedded commissions

### Why it's important

Research indicates that embedded fees incent advisors to recommend funds that benefit the advisor over the investor. We want to level the playing field for investors by changing this model, but do so in a way that avoids unintended consequences, such as a reduction of access to services, that may come with regulatory action.

### Success measures

- Stakeholder roundtable focused on examining the impacts of discontinuing embedded commissions completed
- ▲ Issues identified, assessed and recommendations finalized

## Actions

Conduct a stakeholder roundtable to:

- Examine the potential impacts of discontinuing embedded commissions in Canada
- Identify appropriate transition measures

Present policy options and recommendations to the Commission and CSA Chairs

## Progress

**September 2017:** CSA members conducted roundtables to facilitate further stakeholder input on Consultation Paper (CP) 81-408 *Consultation on the Option of Discontinuing Embedded Commissions*.

**In progress:** OSC staff is working to present a recommendation to the Commission regarding a proposed rule on embedded commissions. This is expected to be published in June 2018.

## Priority

### Advance retail investor protection, engagement and education through the OSC's Investor Office

#### Why it's important

Canadians are being called upon to make complex financial decisions, sometimes later in life with higher stakes than may have been the case for previous generations. As such, we are committed to improving outcomes for retail investors through policy, research, education and outreach initiatives led by the Investor Office.

#### Success measures

- OSC Seniors Strategy provides roadmap to provide targeted approaches to address seniors' issues
- Investors make better investment choices due to expanded education and outreach efforts
- ▲ Pilot projects for behavioural insights testing developed and key learnings integrated into OSC activities

#### Actions

Publish an OSC Seniors Strategy

#### Progress

**March 2018:** Published OSC Staff Notice 11-779 *Seniors Strategy*, outlining new initiatives to respond to the needs of older investors.

Support older investors through education and outreach

**Ongoing:** The Investor Office delivered 72 OSC in the Community presentations and five teletownhalls on fraud and tips for working with an advisor, many of which engaged seniors and vulnerable investors.

Publish a behavioural insights research report

**In progress:** Published OSC Staff Notice 11-778 *Behavioural Insights: Key Concepts, Applications and Regulatory Considerations*. Pilot projects for behavioural insights testing are largely completed and integration of key learnings is underway.

## Priority

### Address independent evaluator's recommendation that OBSI be better empowered to secure redress for investors

#### Why it's important

A fair and effective independent dispute resolution service is important for investor protection in Canada and is vital to the integrity and confidence of the capital markets.

#### Success measures

- Response to OBSI independent evaluator's recommendations published

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## Actions

With the OBSI Joint Regulators Committee (JRC), develop a regulatory response to the recommendations in the independent evaluator's report, particularly the recommendation for binding decisions

## Progress

**December 2017:** Published Staff Notice 31-351 *Complying with requirements regarding the Ombudsman for Banking Services and Investments (OBSI)*. The Notice sets out regulatory expectations for participation in the OBSI's dispute resolution services and potential regulatory responses where firms refuse to compensate clients in accordance with OBSI recommendations.

**March 2018:** Published CSA Staff Notice 31-353 *OBSI Joint Regulators Committee Annual Report for 2017*, which was a joint response with the OBSI Joint Regulators Committee, noting that work continues in considering options for strengthening OBSI's abilities to secure redress for investors, including considering developing recommendations for implementing binding authority.

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# 2

## DELIVER EFFECTIVE COMPLIANCE, SUPERVISION AND ENFORCEMENT

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

Rules and requirements are only effective when they are followed and when any compliance issues are addressed swiftly. This year, the OSC worked closely with industry to ensure requirements were understood and provided guidance where needed. More than 10,000 market participants have now attended OSC compliance seminars since the OSC established the Registrant Outreach Program in 2013. Additionally, ongoing compliance reviews have helped to identify high-risk firms and issues early on, helping to direct OSC resources in an efficient manner. When serious compliance issues, or instances of misconduct have been found, the OSC enforcement program deploys a range of tools to address matters in ways that protect investors and help keep the markets secure.

### Priority

Protect investors and foster confidence in our markets by upholding strong standards of compliance with our regulatory framework

### Why it's important

Strong compliance practices allow us to spot trends, clarify expectations, improve guidance for market participants, correct compliance issues early, and stop misconduct before it causes further harm. All of these activities benefit investors and enhance the integrity of our markets.

### Success measures

- Complete reviews of high-risk firms and continue the “Registration as a First Compliance Review” program
- Continue focused reviews targeting issues relevant to seniors and suitability, the expanded exempt market rules, online dealer platforms, derivative trade repositories, fund expenses and funds with large holdings in illiquid securities
- Publish *Annual Summary Report for Dealers, Advisers and Investment Fund Managers* that includes key findings and trends from compliance reviews

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### Actions

Maintain effective oversight of registrants by focusing on new registrants, higher risk firms and emerging risks

### Progress

**Ongoing:** Compliance and Registrant Regulation (CRR) completed reviews of registrants through various compliance initiatives including a CRM2 desk review, a seniors sweep, registration as a first compliance review, high risk reviews, random reviews and for-cause reviews.

**May 2017:** The CSA expressed serious concerns and issued warnings about the growth in the number of websites promoting offshore binary options trading platforms, none of which are currently registered or authorized to market or sell binary options in Canada, and many of which have led to significant losses for investors. OSC efforts have included CSA discussions and bilateral staff discussions with regulators outside of Canada where concerns were expressed regarding offshore binary options platforms.

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## Actions

## Progress

**July 2017:** Published the *Annual Summary Report for Dealers, Advisers and Investment Fund Managers*. Two sets of Registrant Outreach sessions (September 2017 - Portfolio Managers and November 2017 - Exempt Market Dealers) were held to discuss findings from the report.

**December 2017:** Published Multilateral Instrument 91-102 *Prohibition of Binary Options* to protect investors from fraudulent selling of binary options.

## Priority

**Actively pursue timely and impactful enforcement cases involving serious securities laws violations**

## Why it's important

Misconduct doesn't just hurt the investors who lose money – it hurts all of us by threatening the trust people have in our markets. Fraud and misconduct will not be tolerated, and we will continue to take action against firms and individuals who do not comply with Ontario securities law.

## Success measures

- Enhanced OSC Whistleblower program profile results in measurable increases in the number of credible tips and cases initiated
- Increased deterrence of misconduct in areas targeted for priority enforcement actions
- ▲ Enhanced market analytics capability will generate more timely, accurate and actionable information and improved enforcement outcomes
- Greater alignment between cases and OSC strategic priorities, including better focus on cases that pose the greatest risks to Ontario capital markets and investors

## Actions

## Progress

Raise awareness of the OSC Whistleblower Program including:

- Promoting better understanding of the anti-retaliation protections for whistleblowers
- Developing a more proactive outreach program to reach potential high-value whistleblowers

**Ongoing:** The Office of the Whistleblower participated in 20 outreach activities, reaching more than 1,200 stakeholders. More than 185 whistleblower tips have been received since inception.

**Winter 2018:** The OSC launched an awareness campaign, which included search engine marketing, digital ads in key Canadian financial media websites and elevator ads.

**Spring 2018:** OSC staff examined 30 registrants to assess compliance with section 121.5 of the *Securities Act* (Ontario) through their use of restrictive agreements to preclude or purport to preclude whistleblowing. Deficiency reports were issued to 22 of the 30 registrants where inappropriate language was identified in employee agreements.

## Actions

Improve the efficiency and effectiveness of our enforcement efforts through greater use of technology, including working with the CSA to develop a new market analytics platform for investigations

Reduce enforcement timelines by streamlining investigative and prosecution processes

## Progress

**In progress:** A contract with a vendor to develop a new market analytics platform (MAP) is being finalized and work is expected to begin shortly.

**March 2018:** The Enforcement Branch was restructured to enhance efficient decision making and management of the scope and timelines of investigations. Improved processes and templates were developed, along with best practices for conducting investigations.

**March 2018:** Key Performance Indicators (KPIs) were developed for all investigations, outlining timelines based on the nature of a case, amount of evidence to be collected and resources required to investigate the matter. KPIs are also being developed for litigation.

## Priority

**Increase deterrent impact of OSC enforcement actions and sanctions through a more visible and active collection strategy**

## Why it's important

Ontarians need to be assured that misconduct doesn't pay. While collecting against sanctions can be inherently difficult, we are doing everything in our power to protect investors and to recover funds that were improperly obtained, including engaging with experts and applying new strategies.

## Success measures

- Improved collection strategy increases the deterrent impact of OSC enforcement actions
- Results of collections pilot published

## Actions

Assess collection alternatives and pilot an improved collection approach

Publish results of new collection process

## Progress

**June 2017:** The OSC implemented a two-year pilot project with a law firm specializing in collections. Since then, 20 files with 58 respondents have been sent to the firm, and more than \$300,000 has been collected through the pilot.

**Delayed:** The OSC will publish the results after the pilot collections project has been operating for a full year.

# 3

## DELIVER RESPONSIVE REGULATION

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

As the regulator of an ever-changing market, it is critical that the OSC stays on top of emerging issues, whether they are brought on by technology, investor demands, legislation or other factors. Fintech, crypto assets, as well as other new areas of investor interest, such as the cannabis industry, have required the OSC to act both quickly and cautiously, with greater consultation, collaboration and leadership. In addition, the OSC has responded to increasing investor concerns about environmental, social and governance (ESG) issues ranging from climate change disclosure to greater diversity on boards. The OSC is committed to reviewing its framework to see where regulatory burdens can be lifted, with the aim of keeping market operations streamlined, modern and competitive.

### Priority

Identify opportunities to reduce regulatory burden while maintaining appropriate investor protections

### Why it's important

Home-grown innovation, jobs and healthy businesses are good for Ontarians and our economy. We can help to encourage these by keeping securities regulation to the appropriate level. By finding opportunities to reduce regulatory costs and unnecessary red tape, businesses are more likely to see Ontario as a great place to launch, compete and expand.

### Success measures

- Consultation paper on options for regulatory burden reductions published, comments reviewed and an update on next steps published

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### Actions

Identify opportunities to reduce or eliminate redundant or unnecessary non-investment fund reporting issuer disclosure or other requirements where current requirements are not achieving desired regulatory outcomes:

- With the CSA, publish a consultation paper
- Review comments on the consultation paper
- Publish recommendations

### Progress

**April 2017:** Published CP 51-404 *Considerations for Reducing Regulatory Burden for Non-Investment Fund Reporting Issuers*. The CP identified options and sought feedback on reducing potential areas of undue regulatory burden on non-investment fund reporting issuers, without compromising investor protection.

**March 2018:** Published CSA Staff Notice 51-353 *Update on CSA CP 51-404 Considerations for Reducing Regulatory Burden for Non-Investment Fund Reporting Issuers* which updated the status of consultations and outlined the CSA policy initiatives underway, including next steps. Six options for regulatory burden reduction were identified:

- removing or modifying the criteria to file a business acquisition report
  - facilitating at-the-market offerings
  - revisiting the primary business requirements
  - considering a potential alternative prospectus model
  - reducing or streamlining certain continuous disclosure requirements
  - enhancing electronic delivery of documents
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## Actions

Together with the CSA review investment fund regulation to:

- Review options for streamlined disclosure and determine potential impacts on affected stakeholders, including investors, dealers and their SROs, and regulators and their informational requirements
- Recommend options for disclosure reductions

## Progress

**March 2018:** Phase 1 of the Rationalization of Investment Fund Disclosure project was completed. The CSA developed proposals to reduce regulatory burden for investment funds while maintaining investor protection and market efficiency. CSA staff is investigating the proposals further and, where appropriate, will propose rule amendments to implement the proposals on a priority basis based on time to implement and the cost/saving impact on stakeholders. The CSA anticipates publishing for comment the first set of proposed rule amendments by March 2019.

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## Priority

**Work with fintech businesses to support innovation and promote capital formation and regulatory compliance**

### Why it's important

Innovation is transforming financial services, and regulation needs to keep in step with digital innovation. We are engaging with novel businesses to understand what's emerging and develop ways for firms to bring their ideas to market in a way that investor protections can still be fulfilled. The fundamentals of investor protection are not changing, however, the opportunity with fintech is that we can evolve how those requirements are satisfied. We're improving the regulatory experience for businesses that offer innovative services, products and applications of benefit to investors.

### Success measures

- Time-to-market of novel businesses reduced, by taking a flexible, risk-based approach to the regulation of novel fintech businesses, while maintaining appropriate investor safeguards
- Capital formation and innovation supported through OSC LaunchPad
- CSA Regulatory Sandbox provides expedited registration and exemptive relief processes for emerging firms

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## Actions

Support fintech innovation through OSC LaunchPad by:

- Engaging with the fintech community to identify and understand any regulatory barriers, trends and gaps
- Offering direct support to eligible businesses in navigating the regulatory environment
- Integrating learnings into the regulation of similar business models going forward

## Progress

**Ongoing:** OSC LaunchPad hosted or attended more than 50 events, including Information Days for businesses and professionals in the fintech space, industry conferences and law firm seminars. Staff also attended close to 150 meetings with external stakeholders, including Canadian and global regulators, accelerator/incubator programs and service providers. The OSC remained active in an IOSCO information sharing network on initial coin offerings (ICOs), improving its understanding of how these products are evolving across borders and enabling the OSC to better coordinate its response with other regulators.

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## Actions

## Progress

Participate in the recently announced CSA Regulatory Sandbox that is designed to allow firms to test novel products and services without full regulatory approval in a way that also provides investor protection

Collaborate with the Fintech Advisory Committee, as well as the CSA and other regulators including, the Australian Securities and Investments Commission and the Financial Conduct Authority in the UK, to obtain insight and input regarding fintech innovation and support these businesses in Canada and globally

**Ongoing:** OSC LaunchPad received 115 requests for support from fintech businesses and provided guidance to businesses ranging from alternative lending/crowdfunding platforms to crypto asset businesses. The OSC worked with the CSA to provide exemptive relief to two initial coin/token offerings, approved four cryptocurrency investment funds and applied conditions of registration on the investment fund manager.

Based on learnings from the various engagements and direct support processes, the OSC published/issued the following:

- **August 2017:** CSA Staff Notice 46-307 *Cryptocurrency Offerings*, which outlined securities law requirements that may apply to cryptocurrency offerings.
- **December 2017:** The OSC reminded registrants to report changes in their business activities, including with respect to cryptocurrency investment funds.
- **December 2017:** The CSA published a news release alerting investors to the inherent risks associated with cryptocurrency futures contracts. In the same month, the OSC's Investor Office published *Ontarians and Cryptocurrencies: A First Look* to assist Ontarians in making informed investment decisions in the fintech space.

**Ongoing:** OSC LaunchPad worked with the CSA Regulatory Sandbox Committee to approve novel fintech businesses seeking to operate across Canada. The Committee reviewed 25 business models, including coin/token offerings, private cryptocurrency investment funds and online advice service providers.

**Fall / Winter 2017:** The OSC completed cooperation arrangements concerning innovative fintech businesses with Abu Dhabi FSRA (October) and France AMF (December). The MOUs support Ontario's emerging fintech start-ups' ability to expand their businesses to other global financial centres through new referral mechanisms under these arrangements.

**January 2018:** The OSC established a new Fintech Advisory Committee with membership made up of individuals from a broad spectrum of the fintech community, from innovation hubs to start-ups to financial institutions.

## Priority

**Actively monitor and assess impacts of recently implemented regulatory initiatives**

## Why it's important

In the past few years, we have implemented a number of regulatory initiatives, and it is important that we assess whether they are achieving their expected outcomes, or if further responses are needed.

## Success measures

- Staff notice on women on boards and in executive officer positions published that sets out:
  - Results of the targeted review
  - An update on any potential need for further disclosure requirements
  - The relevant disclosure data of issuers with financial years ending December 31, 2016 to March 31, 2017
- Staff notice published summarizing capital raising activity in the exempt market, including use of recently introduced capital raising prospectus exemptions

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## Actions

Conduct targeted review of disclosure provided by issuers with financial years ending from December 31, 2016 to March 31, 2017

Assess the effectiveness of the disclosure and consider whether other regulatory action is needed

## Progress

**October 2017:** Published CSA Multilateral Staff Notice 58-309 *Staff Review of Women on Boards and in Executive Officer Positions – Compliance with NI 58-101 Disclosure of Corporate Governance Practices*, reporting the findings of the third review of disclosure regarding women on boards and in executive officer positions. In year three, women occupied 14% of total board seats, an increase of 2% over the previous year. In November 2017, the underlying data was published.

**Winter / Spring 2018:** The OSC completed 44 consultations (147 individuals from 59 organizations) to obtain feedback on the effectiveness of the NI 58-101 disclosure requirements.

**In progress:** The CSA is considering if any further regulatory action in this area is appropriate, including whether changes to the disclosure requirements and / or strengthening the existing “comply or explain” model with guidelines regarding corporate governance practices are warranted.

**June 2017:** Published OSC Staff Notice 45-715 2017 *Ontario Exempt Market Report*, which provides a snapshot of the current state of Ontario’s exempt market and a preliminary assessment of recent regulatory reforms. The report summarizes capital raising activity by corporate (non-investment fund) issuers in Ontario’s exempt market during 2015 and 2016. Additionally, the report examines capital formation by small Canadian issuers in Ontario’s exempt market, and the impact of recently introduced prospectus exemptions.

**October 2017:** Amendments to NI 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* and NI 33-109 *Registration Information Requirements* came into force. The amendments include proposals to enhance custody requirements for certain registrants, clarify activities that may be conducted by exempt market dealers and incorporate relief from certain Client Relationship Model Phase 2 (CRM2) requirements into NI 31-103.

The proposed custody amendments are intended to address potential intermediary risks, enhance the protection of client assets and codify existing custodial best practices.

**In progress:** In April 2018, the CSA will publish CSA Staff Notice 51-354 *Report on Climate-Change Related Disclosure Project*. The Notice will summarize the findings of the project completed in 2017, which was focused on climate change-related risks and opportunities that impact an issuer, and will set out the CSA’s plans for further work in this area.

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## Priority

### Implement the orderly transfer of syndicated mortgage investments to OSC oversight

## Why it's important

By amending the syndicated mortgage framework, we aim to address, improve and harmonize investor protections.

## Success measures

- Transition plan for the transfer of syndicated mortgages to OSC oversight developed. Proposed rule amendments published for comment

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## Actions

Work with the Ontario government and FSCO to plan and implement an orderly transfer of the oversight of syndicated mortgage products to the OSC

## Progress

**March 2018:** The CSA published for comment proposed changes to substantially harmonize the regulatory framework for syndicated mortgages in Canada. The changes reflected in the proposed amendments to NI 45-106 *Prospectus Exemptions* and NI 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* would remove syndicated mortgages from specific prospectus and registration exemptions. New disclosure and appraisal requirements to better protect retail investors were also proposed for the offering memorandum exemption.

Work with the Ontario government and FSCO to plan and implement an orderly transfer of the oversight of syndicated mortgage products to the OSC

**March 2018:** Working with the Financial Services Commission of Ontario, staff assisted the Ministry of Finance in its review of syndicated mortgages and the development of investor protection-focused amendments (including investment limits, and enhanced disclosure and suitability requirements) to the current mortgage broker regulations for syndicated mortgages. The Ministry considered these proposals and the government subsequently introduced amendments with an effective date of July 1, 2018.

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# 4

## PROMOTE FINANCIAL STABILITY THROUGH EFFECTIVE OVERSIGHT

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

The addition of promoting financial stability and addressing systemic risk to the OSC's official mandate emphasizes its importance in today's marketplace. The OSC recognizes the need to enhance domestic and international frameworks and work to improve these through increased collaboration, information sharing and risk monitoring. The OSC's ongoing efforts have included a proposal to enhance oversight of the OTC derivatives market, align it with new global standards, and continue engagement with worldwide leaders through organizations like IOSCO.

### Priority

Enhance OSC systemic risk oversight

### Why it's important

Because technology, business models and investment flows are increasingly interconnected, what happens in a market across the globe has the potential to impact financial stability at home. Businesses, investors and the market depend on us to see the big picture and address potential areas of systemic risk.

### Success measures

- Enhanced systemic risk data collection and analysis supports effective oversight and supervision of OTC derivatives markets
- More accurate trade reports support better analysis of systemic risk
- Registration and conduct rules reduce risk and promote responsible market conduct in the OTC derivatives markets
- Key risk areas identified and communicated to market participants including registrants

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### Actions

Providing strong leadership within IOSCO and supporting activities to promote sound international regulatory standards and guidelines that are aligned with key areas of risk

### Progress

**Ongoing:** The OSC plays a central role within IOSCO, across its task forces, policy committees and the Board. The OSC Chair leads a sub-group of the IOSCO Board responsible for negotiating with European data protection authorities to ensure unimpeded transfer of personal data for enforcement and supervisory purposes under new EU laws. The OSC Chair also led the MMoU Monitoring Group (until May 2018), which oversees compliance on cross-border enforcement cooperation. In addition, OSC staff chair IOSCO committees on emerging risks and on secondary markets regulation. Through these actions, the OSC influences IOSCO priorities and the resulting international standards.

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## Actions

Enhance OTC derivatives oversight and systemic risk monitoring and operationalize the regulatory framework that has been implemented by:

- Continuing collection and analysis of trade data
- Publishing a Staff Notice on key trade reporting compliance review findings and areas for improvement
- Developing a framework for monitoring systemic risk in the OTC derivatives markets

Enhance OTC derivatives regulatory regime by:

- Implementing data analysis for systemic risk monitoring and market conduct purposes, including the development of trade reporting analytical tools
- Conducting audits on a sample of derivatives dealers and publishing Staff Notices on the findings and areas for improvement
- Implementing rules for clearing, segregation and portability of cleared OTC derivatives
- Publishing proposed rules for market conduct and registration of derivatives dealers, completing consultations, reviewing comments, revising proposed rules and conducting a roundtable
- Publishing a margin for uncleared derivatives rule and reviewing comments

Continued development of internal capabilities to identify and monitor market trends and risks, including increased access to data and analytical resources as well as gathering views of stakeholders

## Progress

**In progress:** Two trade reporting compliance reviews of large OTC derivatives dealers were completed. OSC Derivatives and CRR staff will complete two additional reviews by July 2018 and will publish a Staff Notice containing a summary of those findings shortly thereafter. Through the reviews, OSC Derivatives staff plan to address any inaccurate OTC derivative trade reporting with the goal of improving the quality of the submitted data.

**In progress:** The plan for developing a new derivatives database is complete and Phase 3 database construction started in January 2018.

**April 2017:** NI 94-101 *Mandatory Central Counterparty Clearing of Derivatives and Related Companion Policy* came into force.

**July 2017:** NI 94-102 *Derivatives: Customer Clearing and Protection of Customer Collateral and Positions* and Related Companion Policy came into force.

**March 2018:** Systemic risk analytical tools were developed, including dashboard prototypes that describe OTC derivatives markets in Ontario and a network analysis prototype and framework for monitoring interconnectedness in Ontario credit markets.

**In progress:** OTC derivative trade reporting compliance reviews of two large OTC derivatives dealers were completed and two are nearing completion.

A Staff Notice summarizing the findings from the OTC derivative trade reporting compliance reviews is expected to be published in Summer 2018.

**In progress:** Three rule proposals related to OTC derivatives are in development. A proposed rule for registration of derivatives dealers (NI 93-102) will be published in April 2018. A proposed rule for business conduct (NI 93-101) is on schedule to be published in June 2018, and a proposed rule for margin for uncleared derivatives (NI 95-101) is expected to be published in September 2018. All proposals will be seeking comments.

**March 2018:** The plan for developing a new derivatives database is complete and resources have been assembled to commence work. Systemic risk analytical tools have been developed.

## Priority

### Promote cybersecurity resilience through greater collaboration with market participants and other regulators on risk preparedness and responsiveness

#### Why it's important

Increased reliance on technology poses risks such as data breaches and exposure to disruptions. The number and sophistication of cyber-attacks poses a growing risk for market participants and regulators and can ultimately undermine investor confidence. We have a responsibility to address cybersecurity and prepare robust response plans in the event breaches occur.

#### Success measures

- Improved cybersecurity awareness through ongoing oversight of risk preparedness and resilience

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#### Actions

Continue to assess the level of market participant cybersecurity resilience and monitor cyber readiness

Follow up on recommendations from cybersecurity roundtable

Review results of the registrant cybersecurity survey and determine next steps

#### Progress

**Ongoing:** CRR includes questions relating to cybersecurity preparedness as part of all normal course compliance reviews.

**In progress:** A new CSA cybersecurity working group, co-led by the OSC and AMF, was established. Work commenced towards a more formal coordination process and protocol to manage a market disruption, including those caused by a large scale cybersecurity incident.

**October 2017:** Published CSA Staff Notice 33-321 *Cyber Security and Social Media*, which reported the results of a CSA-led survey that gathered information from a large sample of registrants about their cybersecurity preparedness. The Notice also set out the CSA's cyber security expectations for registered firms.

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# 5

## BE AN INNOVATIVE, ACCOUNTABLE AND EFFICIENT ORGANIZATION

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

To deliver on the OSC's mandate, the OSC worked to encourage and expand its internal skills and talents, and ensure its systems are modernized and strategies are sound. This year, the OSC explored behavioural insights research, developed our data management and analytic capabilities, invested in technology, and supported workforce training and recruitment. The OSC has also taken steps toward integration with a cooperative regulatory body by working closely with the Capital Markets Authority Implementation Organization (CMAIO).

### Priority

Enhance OSC business capabilities

### Why it's important

Our organizational tools, systems and workforce need to continually adapt so that we can rise to the challenge of delivering on our mandate. Improved data and research, along with updated technology and new skill sets, are critically important.

### Success measures

- ▲ New CSA national systems will improve ease of use, security and adaptability to new business requirements and technology
- Use of research and risk analysis reflected consistently in OSC policy initiatives and OSC publications
- New skill gaps identified and addressed, and staff turnover and retention within target ranges

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### Actions

Work with the CSA to renew CSA national systems to improve usability and address new regulatory requirements

### Progress

**In progress:** The National Systems Renewal Program (NSRP) is a project to replace and integrate the stand-alone CSA national systems (SEDAR, SEDI, NRD, Cease Trade Order (CTO), plus others) into a single secure filing system. Project scope and timing were revisited and it was decided to extend the timelines and conduct the rollout in phases. Phase 1, which focuses on the release of SEDAR, the CTO Database and the Disciplined List, is expected to be operationalized by April 2020.

Develop a comprehensive data management strategy that will provide the foundation for increased reliance on data management and analytics to support risk and evidence-based decision making

**In progress:** The OSC has established a multi-year Data Management Program (DMP) with the goal of improved data management, data governance and analytics, and reporting. The DMP includes the implementation of a new data management IT platform, data governance framework and a new workflow system for regulatory business operations. Significant work has been undertaken and completed in each program area, including:

- Core implementation of the OSC data management IT platform.
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## Actions

## Progress

- Establishment of an OSC data governance framework. A number of data elements relating to the organizations and individuals the OSC interacts with, and the associated regulatory activities, have been brought under governance.
- Migration of several OSC regulatory business applications to the new workflow system with improved reporting and analytics.

**May 2017:** The 2014 and 2016 Risk Assessment Questionnaire (RAQ) data were merged and loaded into a new RAQ data mart that is being used by branch staff for reporting and analytics.

**Ongoing:** The current derivatives system is operating and the business is running regular data loads. Work on the new system continues with a focus on automation, data quality and an improved data platform.

Foster a dynamic, supportive and attractive workplace

**May 2017:** An employee engagement survey was conducted. Participation rate was 90% and the employee engagement score was 71 out of 100. Detailed results were communicated to all employees. Opportunities for addressing important aspects of the workplace, as identified by employees, were considered for implementation. A process for engaging employees to develop and implement solutions in 2018-2019 was established.

Actively recruit new skills required to improve our regulatory capacity to meet current and future challenges

**Ongoing:** Staff turnover remained within the acceptable threshold (10% or less) throughout the year, with a vacancy rate of 8.2% at year end. 139 positions were filled through a recruitment process in fiscal 2017-2018; 112 external hires into permanent, contract, or student positions; there were 100 employee moves (including secondments, acting, lateral and promotional moves).

## Priority

**Work with the Capital Markets Regulatory Authority (CMRA) partners on the transition of the OSC to the CMRA**

### Why it's important

The CMRA is intended to give Canadians a straightforward and uniform approach to capital markets regulation. The participating jurisdictions are putting in the time and effort to get it right.

### Success measures

- The OSC is ready and able to transition into the new CMRA organization

## Actions

## Progress

Continue to work with participating jurisdictions and Capital Markets Authority Implementation Organization

**In progress:** The OSC continues to support the CMRA project and staff is working on various workstreams to prepare for CMRA implementation.