ONTARIO SECURITIES COMMISSION

2008 ANNUAL REPORT

Protect market integrity | Prevent market misconduct

The Ontario Securities Commission (OSC) is the regulatory body responsible for regulating the province's capital markets, according to a mandate established in the *Securities Act* and the *Commodity Futures Act*. The Commission is a self-funded Crown corporation, accountable to the Legislature through the Minister of Finance.

Our vision

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

Our 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.

Our goals

Identify the important issues and deal with them in a timely way.

Deliver fair, vigorous and timely enforcement and compliance programs.

Champion investor protection, especially for retail investors.

Support and promote a more flexible, efficient and accountable organization.

2007–08 Highlights

OSC Boiler Room Unit

The OSC launched a specialized Boiler Room Unit to disrupt and prevent the distribution of unregistered securities to investors by unregistered salespeople. The Boiler Room Unit consists of staff with market, regulatory and law enforcement expertise. The Unit works with law enforcement agencies and other regulators in Canada and the U.S. to disrupt and prevent illegal distributions before they reach investors.

READ MORE

Point-of-sale disclosure

As a member of the Joint Forum of Financial Market Regulators, we published a proposed point-of-sale framework for comment in June 2007. The framework's objective is to provide investors with meaningful information when they need it most – before they make a decision to purchase a mutual fund or a segregated fund.

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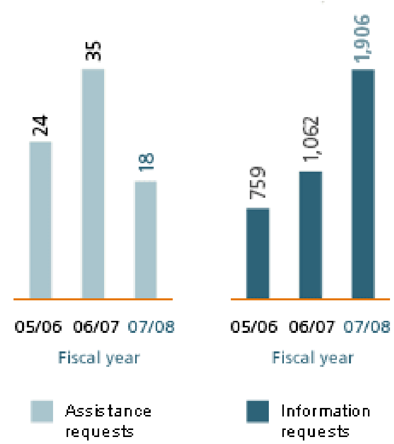
Assistance and information requests from international regulators and agencies



Registration reform

The OSC has led the development of a revised draft of proposed National Instrument 31-103 *Registration Requirements*, which would harmonize, streamline and modernize the current registration requirements across the jurisdictions of the Canadian Securities Administrators (CSA). The amendments made to the proposed rule address many of the issues and questions raised by stakeholders about the original proposed rule that was published for comment

Options-timing practices

The OSC conducted comprehensive reviews of options-timing practices by public companies in Ontario as part of a continuous disclosure review program. Issuers that appeared to display indications of options-timing practices were identified for review. The program resulted in a number of investigations by the Enforcement Branch.

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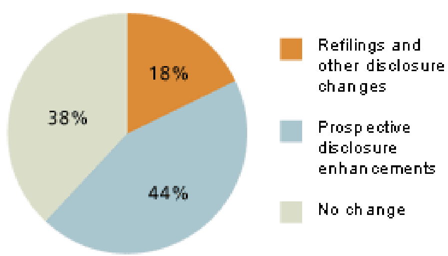
Results of OSC prospectus and continuous disclosure reviews of public companies in 2007–08



in 2007.

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Environmental reporting disclosure

The OSC published Staff Notice 51-716 *Environmental Reporting* following a targeted review of compliance with environmental reporting requirements by reporting issuers. The Notice provides guidance that reporting issuers should consider when discussing environmental matters in their continuous disclosure documents to ensure their disclosure is in compliance with securities legislation.

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Alternative trading system rules

In a Joint Notice with Market Regulation Services Inc. (RS), securities regulators proposed amendments to National Instrument 21-101 *Marketplace Operation* and National Instrument 23-101 *Trading Rules* (the ATS Rules) relating to best execution and direct market access. The Notice also proposed a framework for trade-through protection.

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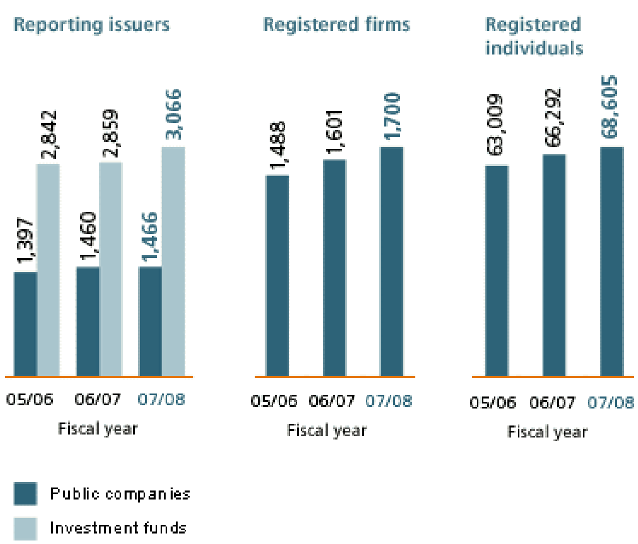
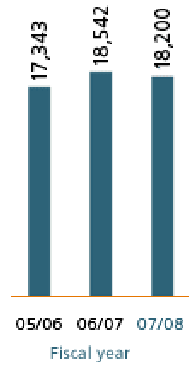
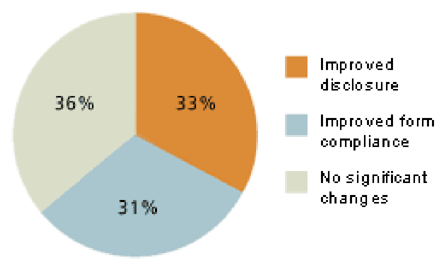
Ontario's reporting issuers and registrants



Total direct audience: OSC investor communications public outreach programs



Results of OSC prospectus reviews of investment funds in 2007–08



ONTARIO SECURITIES COMMISSION

Letter from the Chair

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

OSC VISION STATEMENT

David Wilson
CHAIR, ONTARIO SECURITIES COMMISSION

Public confidence is integral to the efficiency of the capital markets of Ontario and the health of our overall economy. The vision of the Ontario Securities Commission is to be an effective and responsive securities regulator that fosters a culture of integrity and compliance among market participants and instils investor confidence in the capital markets. An effective and responsive securities regulatory regime promotes confidence by preventing misconduct and maintaining market integrity. This, in turn, provides protection to investors.

The Commission's vision was developed to articulate the OSC's commitment to the important work of regulating the capital markets. It is intended to reflect the values and the aspirations of the organization. Our 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. To fulfill this mandate, Commissioners and OSC staff have devoted their energy and determination to achieving the Commission's four strategic goals. This annual report is organized around these four goals. We have made progress against our goals but recognize there is still plenty of work to do.

FROM LEFT TO RIGHT :

David Wilson
Chair

Lawrence Ritchie
Vice-Chair

Peggy Dowdall-Logie
Executive Director

James Turner
Vice-Chair

Over the 2007-08 fiscal year, OSC staff worked on a number of significant developments in the evolving marketplace, including two important mergers. TSX Group Inc. and Bourse de Montreal Inc. agreed to combine their exchange operations. The Investment Dealers Association of Canada and Market Regulation Services Inc. agreed to merge their activities into a single self-regulatory organization (SRO). The OSC reviewed and approved specific documentation related to the transactions as part of its oversight of exchanges and SROs in Ontario.

OSC staff have conducted targeted reviews of continuous disclosure filings by those reporting issuers identified as holders of non-bank-sponsored asset-backed commercial paper (ABCP). The reviews focused on the reasonableness of assessments of the fair value of non-bank-sponsored ABCP holdings as well as proper disclosure and presentation in financial statements and management's discussion and analysis. This work is part of an initiative by the Canadian Securities Administrators (CSA) to respond to developments in the global credit markets. Furthermore, we will continue to co-operate with the International Organization of Securities Commissions (IOSCO) to contribute to a consistent regulatory response to the international liquidity crisis.

In addition, the OSC and its partners in the CSA have engaged in constructive discussions with the U.S. Securities and Exchange Commission in respect of mutual recognition. Under a mutual recognition agreement, Canadian exchanges, and possibly investment dealers, could be exempt from the requirement to register in the U.S. by being registered in Canada.

The OSC recognizes that it has a responsibility to show leadership as well as to co-operate effectively within the current regulatory framework. To the maximum extent possible, management and staff have worked effectively with the other members of the CSA and the SROs to modernize and harmonize securities regulation across Canada. Moreover, the OSC has played a leadership role in its contribution to the initiatives of IOSCO to promote high standards of regulation in order to maintain fair and efficient global markets.

This annual report describes some of the activities and initiatives undertaken by the Commission in the 2007-08 fiscal year. It also provides the Commission's audited financial statements for the fiscal year ended March 31, 2008.

The conclusion of the 2007-08 fiscal year coincided with a transition of two Commission positions at the OSC. Commissioner Robert Shirriff, who served as the Lead Director of the Commission since 2005, stepped down after his term of office expired in March 2008. On behalf of my fellow Commissioners, I wish to thank Mr. Shirriff for his leadership and exemplary service to the Commission and its stakeholders. I look forward to working with our new Lead Director, Commissioner David Knight, as the Commission addresses new challenges ahead.

I also wish to express the Commission's appreciation and thanks to Commissioner Harold Hands, whose term of office expired in April 2008. Mr. Hands had served the Commission since 2002, providing valuable counsel and insight.

"We remain steadfast in our **determination to protect the integrity** of Ontario's capital markets and minimize misconduct in those markets. In this manner, we are serving those investors who put their capital to work in our economy."

OSC CHAIR
David Wilson

OSC 2008–09 goals

The OSC's Statement of Priorities for 2008–09 identifies the following four

Looking to the year ahead, the Commission is indeed fortunate to welcome two new Commissioners who were appointed in April 2008. Both Mary Condon and Paulette Kennedy have extensive relevant experience to bring to the Commission table. I welcome the opportunity to work with them in 2008-09.

In closing, I want to thank all of the Commissioners, management and staff of the OSC for their integrity and professionalism in working to achieve the Commission's mandate. Together, we are responding to the challenges created by the rapidly evolving capital markets with dedication and energy. We remain steadfast in our determination to protect the integrity of Ontario's capital markets and to minimize misconduct in those markets. In this manner, we are serving those investors who put their capital to work in our economy.

Yours very truly,

David Wilson
CHAIR AND CHIEF EXECUTIVE OFFICER,
ONTARIO SECURITIES COMMISSION

goals for fulfilling the mandate of the Commission:

- Identify the important issues and deal with them in a timely way.
- Deliver fair, vigorous and timely enforcement and compliance programs.
- Champion investor protection, especially for retail investors.
- Support and promote a more flexible, efficient and accountable organization.

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OSC ONTARIO SECURITIES COMMISSION

2008 ANNUAL REPORT

The Commission

The Ontario Securities Commission is the statutory body responsible for regulating the province's capital markets, according to a mandate established in the *Securities Act* and the *Commodity Futures Act*. The Commission's 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. The Commission is a self-funded Crown corporation, accountable to the Legislature through the Minister of Finance.

As a regulatory body, the Commission is responsible for administering and enforcing the *Securities Act* and the *Commodity Futures Act* and performing the duties assigned to it under those Acts and certain other legislation. The *Securities Act* requires that every five years the Commission and the Minister shall enter into a memorandum of understanding (MOU) that describes the respective roles and responsibilities of the Minister and of the Chair and Board of Directors of the Commission. The MOU also sets out the accountability relationship between the Commission and the Minister.

To enhance transparency in its governance practices, the Commission released its first *Statement of Governance Practices* in June 2007, along with its 2007 Annual Report and 2007-08 Statement of Priorities.

FROM LEFT TO RIGHT:

Lawrence Ritchie Vice-Chair, **David Wilson** Chair, **James Turner** Vice-Chair, **David Knight** Lead Director,
Paul Bates, Robert Shirriff, Suresh Thakrar, Wendell Wigle, Harold Hands, Patrick LeSage, Carol Perry, Margot Howard, Kevin Kelly

"The Commission believes that the integrity, effectiveness and commitment of its Members and staff are vital to the discharge of the Commission's statutory mandate and to achieving its goals. On behalf of the people of Ontario, the Commission is dedicated to protecting market integrity and preventing misconduct."

David L. Knight
LEAD DIRECTOR

The *Statement of Governance Practices* includes the Commission's Charter of Corporate Governance Roles and Responsibilities, desired member profile and committee mandates. The Statement also describes the two independent, but related, roles of the Commission: its regulatory role and its role as the Board of Directors.

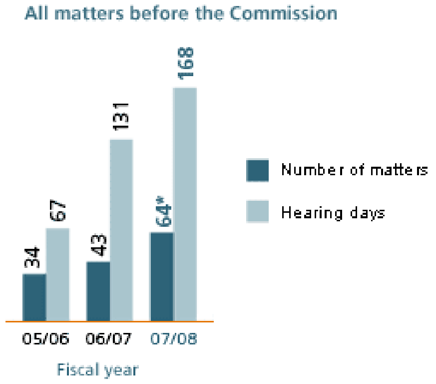
Role as a Regulator

As a securities regulator, the Commission performs both a policy and rule-making function and an adjudicative function. The Commission makes rules that have the force of law and adopts policies that influence the activities of market participants. In general, market participants include anyone who sells securities in Ontario or gives advice about investing in securities, as well as public issuers of securities. A statutory process provides opportunities for the public to comment on proposed rules and policies during their development. All proposed rules must be delivered to the Minister for his consideration.

Members of the Commission meet every two weeks as a regulatory body to consider regulatory and policy initiatives. In 2007-08, the Commission held 24 regular meetings and two special meetings.

In their adjudicative role, the Commissioners act as independent adjudicators on panels presiding over proceedings on enforcement matters and regulatory policy issues, reviews of adjudicative decisions of self-regulatory organizations and reviews of decisions made by OSC staff. The Chair of the Commission oversees operational decisions related to enforcement and does not sit on adjudicative panels. The Commission, through its Adjudicative Committee, oversees adjudicative policies, procedures and practices to ensure they are independent, effective and fair. The Commission heard a total of 64 matters over 168 hearing days during the 2007-08 fiscal year. Generally, Commission hearings are open to the public.

In May 2007, the Commission published for comment new *Rules of Procedure* that will replace the *Rules of Practice*. The new rules will apply to all adjudicative proceedings before the Commission where it is required by law to hold a hearing. The rules are designed to promote the fair resolution of Commission proceedings in the most expeditious and cost-effective manner. The new rules are expected to be implemented in 2008 and will be available on the OSC website.



*The 64 matters include all hearings on the merits, as well as interlocutory and preliminary matters, in 21 new enforcement proceedings, 24 continuing enforcement proceedings that had previously commenced, two sanctions hearings, 11 settlement agreement hearings, two reviews of decisions by a Director, two reviews of decisions by a self-regulatory organization and two mergers and acquisitions applications.

Click here for the Effective Compliance and Enforcement section for specifics of the concluded settlement and contested hearings before the Commission, which are included in the numbers above.

Meetings of the Commission in 2007–08

Meetings	Regular	Special
Commission	24	2
Board	4	8
Audit and Finance Committee	6	5
Governance and Nominating Committee	4	6
Human Resources and Compensation Committee	3	-
Adjudicative Committee	4	1

In fiscal year 2007–08, attendance by Members at meetings of the Commission, the Board and the various committees was 93%

Adjudicative activities of the Commission

Effective adjudication and disposition of matters before the Commission require that proceedings be brought without unnecessary delay. This is particularly important

In addition, on April 1, 2008, the Commission approved adjudicative guidelines that provide guidance to Members on the standards expected of them in the exercise of their adjudicative responsibilities. The purpose of the guidelines is to ensure that the adjudicative process is, and is seen to be, conducted with impartiality, integrity and effectiveness.

Role as a Board

Members also serve as the Board of Directors with responsibilities for the overall stewardship of the Commission. The Board's duties include overseeing the management of the OSC's financial affairs and approving the Commission's annual strategic and operating plans. The Chair of the Commission is both Chair of the Board and the Chief Executive Officer, as set out under the *Securities Act*.

The Commission strives to conform, where appropriate for a regulatory body, to the best practices of corporate governance advocated for public companies, as those practices evolve. For example, a part-time Member is appointed by the part-time Members of the Board to act as Lead Director to enhance the Board's capacity for independent oversight. The Lead Director oversees the operations of the Board to ensure that it carries out its responsibilities effectively and consults the Chair and the Chairs of Board Committees in this leadership role.

Members also serve on the Committees of the Board. There are three standing committees - Audit and Finance, Governance and Nominating, and Human Resources and Compensation.

In 2007, the Commission retained an independent consultant to conduct its first evaluation of the effectiveness of its Board and committee process. The review addressed the Commission's Board and committee operations, the adequacy of information provided to Members, as well as Board and committee structure, agenda planning and strategic direction. Following the review, the Commission identified various governance initiatives for the following year, such as enhancing the Board's role in identifying and managing risk.

Appointments

Every appointment to the Commission is made according to the procedures of the Public Appointments Secretariat of the Government of Ontario. Each Member is appointed to the Commission for a fixed term by the Lieutenant Governor in Council. The Commission maintains a member profile that it developed to identify the areas of expertise, skills and qualifications needed by the Commission collectively to fulfill its duties.

as matters become more complex and hearings more lengthy. In 2007–08, adjudicative panels sat on 168 days - a 36% increase in the number of hearing days from 2006–07.

In order to ensure the timely disposition of matters before the Commission, adjudicative panels were actively engaged in case manage-ment, devoting 92 days to hearing preliminary matters including formal procedural and constitutional motions and cease trade orders and for pre-hearing conferences.

In 2007–08, adjudicative panels issued decisions on a number of significant issues. In *Sterling Centrecorp*, the Commission addressed support agreements, lockup agreements and the “joint actor” rule. In *AiT Advanced Information Technologies*, the Commission considered disclosure obligations of target corporations in the course of negotiating a merger and acquisition transaction. In *Northern Securities*, the Commission addressed its oversight role over self-regulatory organizations, and discussed the jurisdiction of the Market Regulation Services Inc. panel to deal with matters relating to the validity of the Universal Market Integrity Rules.

A discussion of the Commission's adjudicative activities is included in the *2007–08 Statement of Governance Practices* on the OSC website.

The Commission supports and promotes accountability, transparency and ethical conduct at the OSC. Members must adhere to the Commission's Code of Conduct and by-laws as they discharge their responsibilities under the *Securities Act* and *Commodity Futures Act*.

The Commission

AS AT APRIL 15, 2008

Audit and Finance Committee	Human Resources and Compensation Committee	Governance and Nominating Committee	Adjudicative Committee	Lead Director
Suresh G. Thakrar, Chair	**Margot C. Howard**, Chair	**Carol S. Perry**, Chair	**Patrick J. LeSage**, Chair	**David L. Knight**
Margot C. Howard	**Paul K. Bates**	**Paul K. Bates**	**Mary G. Condon**	
Kevin J. Kelly	**Kevin J. Kelly**	**David L. Knight**	**Lawrence E. Ritchie**	
Paulette L. Kennedy	**Patrick J. LeSage**	**Wendell S. Wigle**	**Suresh G. Thakrar**	
Carol S. Perry		**W. David Wilson**	**James E. A. Turner**	
		Ex-officio member	**Wendell S. Wigle**	
			John P. Stevenson	
			Ex-officio member	

* The mandate of each committee and of the Lead Director are available at www.osc.gov.on.ca.

Terms of Commissioners

AS AT MARCH 31, 2008

Name	Appointed	Current term expires	Name	Appointed	Current term expires
Paul K. Bates*	June/03	June/09	**Lawrence E. Ritchie**	February/07	February/12
Harold P. Hands	April/02	April/08	**Robert L. Shirriff**	March/02	March/08
Margot C. Howard	December/06	December/08	**Suresh G. Thakrar**	June/03	June/09
Kevin J. Kelly	December/06	December/08	**James E. A. Turner**	February/07	February/12
David L. Knight	August/04	June/10	**Wendell S. Wigle**	May/03	May/09
Patrick J. LeSage	December/05	December/08	**W. David Wilson**	November/05	November/10
Carol S. Perry	February/05	February/11			

* Paul K. Bates also serves as Chair of the Investor Education Fund.

The term of office of Commissioner Robert Shirriff expired on March 20, 2008 and the term of Commissioner Harold Hands expired on April 3, 2008. The Commission extends its appreciation to Mr. Shirriff and Mr. Hands for their service and contributions. Two new Commissioners, Mary Condon and Paulette Kennedy, were appointed to the Commission for two-year terms, effective April 9, 2008.

Message from the Executive Director

Delivering on our commitment

"Throughout the 2007-08 fiscal year, the OSC continuously monitored and improved the efficiency and effectiveness of its operations."

Peggy Dowdall-Logie
EXECUTIVE DIRECTOR

The OSC strives to conduct itself as an efficient and accountable regulator of the capital markets in Ontario.We work to deliver regulatory services in a businesslike manner to our stakeholders, who include investors, issuers of securities and intermediaries. We endeavor to be responsive to the dynamic nature of the securities markets.

The Commission has set out four strategic goals for the organization to achieve in order to meet its statutory mandate. Management and staff have been diligent in working to achieve those goals throughout the 2007-08 fiscal year. Many of the results of that effort are discussed in this Annual Report.

Throughout the 2007-08 fiscal year, the OSC continuously monitored and improved the efficiency and effectiveness of its operations. This commitment to operational excellence requires management and staff to communicate effectively with stakeholders, demonstrate financial efficiency and accountability, and conduct themselves with professionalism and integrity. We co-operate with other securities regulators, both in Canada and internationally; we work with other financial market standards setters, law enforcement agencies and governments; and we make the best use of our resources.

During 2007-08, the OSC experienced a number of positive changes to its Executive Management Team, which enhanced the organization's collective expertise and experience. Former Investment Funds Branch Director Susan Silma was appointed Director of the new Compliance and Registrant Regulation Branch and Brigitte Geisler joined the OSC as Director of the new Market Regulation Branch. Both bring impressive experience to those roles.

Leslie Byberg, who has been involved in a number of high-profile policy projects as manager of the Investment Funds Branch, was named Acting Director of the Investment Funds Branch. Gayle Fisher has joined the Commission as the new Chief Human Resources Officer and Director.

A new senior advisory position was created to work with the Chair and Executive Director on enforcement and ethics. James "Sasha" Angus was appointed Special Advisor to the Chair and Executive Director, effective January 7, 2008.

These changes have contributed to our overall effort to improve the efficiency and effectiveness of the OSC. The Executive Management Team is better positioned to work with staff to deliver on our commitment to operational excellence.

I want to express my thanks and appreciation to the OSC staff for their dedication to fulfilling the mandate of the Commission. They have worked hard to achieve the Commission's goals on behalf of our various stakeholders. The OSC's achievements in 2007-08 demonstrate that we have a great team that is providing effective regulation of the capital markets of Ontario.

Sincerely,

Peggy Dowdall-Logie
EXECUTIVE DIRECTOR AND CHIEF ADMINISTRATIVE OFFICER,
ONTARIO SECURITIES COMMISSION

The organizational structure of the OSC

The OSC is comprised of 13 Branches and Offices that have various responsibilities as part of the collective effort to achieve the Commission's mandate. Certain Branches administer or enforce the regulation of the capital markets in Ontario. Other Branches and Offices provide support to the Commission across a range of regulatory activities, policy initiatives and organizational functions.

The Executive Director is the senior staff member and reports to the Chair. In turn, the OSC relies on a matrix reporting structure for its Executive Management Team. This structure is meant to optimize the respective skills of Directors on the management team and more clearly reflect their individual responsibilities and accountabilities. Under this structure, certain Directors have dual reporting lines - to the Chair and to the Executive Director (see organizational chart, page 26). Other Directors report to the Executive Director, while the Secretary to the Commission reports to the Chair.

The Corporate Finance, Compliance and Registrant Regulation, Investment Funds and Market Regulation Branches administer the regulatory framework for public companies, intermediaries, investment funds, and markets and self-regulatory organizations, respectively. The Enforcement Branch is responsible for upholding Ontario securities law through surveillance, case assessment, investigations and litigation.

The Economic Analysis, Strategy & Project Planning Branch, General Counsel's Office, Office of the Chief Accountant, Communications & Public Affairs Branch and Office of Domestic & International Affairs provide advice and support in their respective areas to the Commission, executives and staff. The Corporate Services Branch maintains the OSC's internal systems and infrastructure, while Human Resources provides service in employee relations and related matters.

The Office of the Secretary is responsible for ensuring the fair and efficient operation of the Commission's administrative proceedings, reviews and appeals. Staff also administer the Commission's policy agenda and request-for-comments procedures.

The development of the OSC's organizational structure is a vital element in making progress toward fulfilling the Commission's mandate to provide protection to investors and to foster fair and efficient capital markets and confidence in those markets.

OSC ONTARIO SECURITIES COMMISSION

GOAL 1 Responsive regulation

Identify the important issues and deal with them in a timely way

The dynamism of the capital markets is always creating fresh challenges for securities regulators. For the OSC to provide protection to investors and foster fair and efficient markets, these challenges mean that we have to be able to identify the important emerging issues and trends and set appropriate priorities. Then, we must follow with an appropriate, timely response.

OSC staff identify and develop responses that foster fair and efficient markets in Ontario. A range of regulatory tools - including rules, policies and staff notices - is available to achieve the OSC's mandate. In addition, OSC staff work co-operatively with the Canadian Securities Administrators (CSA), other regulators and self-regulatory organizations on regulatory initiatives.

Registration reform

One of the most significant rule-making initiatives underway involves reforms to the registration requirements for firms and individuals who sell securities, offer investment advice or manage investment funds. The CSA published proposed National Instrument 31-103 *Registration Requirements* for public comment in February 2007, and it attracted approximately 260 comment letters from a variety of stakeholders. CSA members carefully considered the comments, responded by making a number of changes, and in February 2008 published a revised proposed rule for a 90-day comment period. This reform initiative depends on amendments to the *Securities Act* which were published for comment by the Ministry of Finance in April 2008.

Many of the issues raised by stakeholders are addressed in the changes to the proposed rule. For example, the CSA changed the requirements for the new category of exempt market dealers in order to recognize the differences among the business models used by exempt market dealers.

The proposed rule would harmonize and streamline requirements that currently exist in various acts, rules, regulations, notices and practices across CSA jurisdictions. It would improve regulatory efficiencies and reduce the regulatory burden for some 2,000 firms and 130,000 individuals currently registered under securities legislation. This more harmonized system would also enhance proficiency requirements for registered individuals and know-your-client requirements for dealers, and mandate complaint-handling and dispute-resolution procedures. The proposed regime also

Target in 2007–08 → 90%

Actual in 2007–08 → 89%

Percentage of priority **rule-making** initiatives tracking according to plan

Applications to National Registration System (NRS) by registrants

The NRS allows an individual to file an application for registration with multiple Canadian securities regulators and deal with only one regulator - the principal regulator (PR). The PR is the only contact for the applicant and is responsible for ensuring that the applicant meets the PR's "fit and proper" standards.

In 2007-08, PRs received 5,517 NRS applications, up by 7% from the previous year. If these applications had been made outside the NRS, there would have been 23,043 applications filed and reviewed independently by the jurisdictions where registration was sought. The registrants would have been in contact with many different regulators about the same application. As a result of the NRS, the registrants had about 75% fewer contacts with the regulators across the country, resulting in a decreased regulatory burden for them.

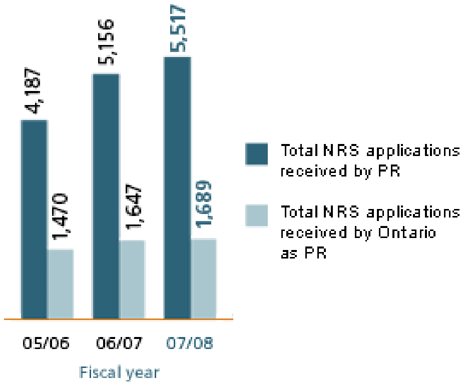
During the last fiscal year, the OSC was the PR on 1,689 applications, an increase of 3% over the previous year. This number of applications represents more than 30% of the total NRS applications received in 2007-08.

requires, for the first time, registration of investment fund managers, which would make them subject to direct regulatory oversight. All of these requirements are expected to enhance investor protection and confidence.

Executive compensation disclosure

As executive compensation practices constantly evolve, improving disclosure will allow investors to assess how compensation decisions are made. The OSC's objective, as a CSA member, is to bring greater clarity and consistency to executive compensation disclosure.

In February 2008, the CSA sought further comment on the proposed repeal and substitution of Form 51-102F6 *Statement of Executive Compensation*. This form was revised to reflect the significant public feedback, particularly in the areas of equity awards, received after the proposals were first published for comment in March 2007. The proposed form would require public companies to disclose all compensation awarded to certain executive officers and directors.



Monitoring environmental reporting disclosure

The OSC is increasingly focused on the adequacy of the disclosure of environmental matters in continuous disclosure (CD) documents. Investors are asking for improved environmental disclosure and appear to be increasingly taking this into consideration when making investment decisions.

After a targeted review of the disclosures by a sample of 35 Ontario-based public companies, the OSC released Staff Notice 51-716 *Environmental Reporting* in February 2008. The sample included companies in the mining, energy and industrial products industries. The Notice summarizes the results of the targeted review.

Staff reviewed the CD documents of each issuer chosen for review, examining disclosure about matters such as financial liabilities related to the environment, asset-retirement obligations and the financial and operational effects of environmental protection requirements. Each issuer's website was checked for the consistency of the environmental disclosure with the CD documents.

Overall, several areas of deficient disclosure were identified, including the disclosure of environmental liabilities and

Internal control for reporting issuers

After considering comments on proposed National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, the CSA announced in November 2007 its intention to make significant revisions to aspects of the proposed requirements relating to CEO and CFO certification of internal control over financial reporting. These revisions include exempting venture issuers from all requirements to certify internal control over financial reporting and disclosure controls and procedures and delaying the originally proposed effective date of June 30, 2008. Following publication of the proposed rule for a further 60-day comment period, the goal is to have it in effect for calendar 2008 year-ends.

Financial reporting standards

In light of the Canadian Accounting Standards Board's decision to adopt a globally accepted, single financial reporting standard - International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) - the CSA released Concept Paper 52-402 in February 2008. This paper sought comments on issues relating to possible rule changes concerning acceptable accounting principles for reporting issuers and other market participants. The main issues raised for discussion included whether to permit the use of IFRS by domestic issuers before the planned changeover date of January 1, 2011; whether to continue to permit domestic issuers that are SEC registrants to use U.S. generally accepted accounting principles; and whether to amend CSA rules to require financial statements to comply with "IFRS as issued by the IASB." The comments were received and are under review.

Options timing

OSC staff have conducted comprehensive reviews of options timing practices by public companies in Ontario as part of their continuous disclosure review program. To improve the selection of issuers for review, a risk-based model was developed in 2007-08 to identify issuers that appeared to display indications of options-timing issues. The reviews resulted in a number of referrals to the Enforcement Branch for further investigation.

Market structure

As the structure of the Canadian capital markets evolves due to the introduction of multiple marketplaces, the OSC and CSA have been examining several issues that were discussed in a Joint Notice with Market Regulation Services Inc. (RS), published for comment in April 2007. In the Notice, the CSA proposed amendments to National Instrument 21-101 *Marketplace*

risks. The disclosure provided was often boilerplate that did not provide meaningful information to investors.

The Notice provides guidance that reporting issuers should consider when discussing environmental matters in their CD documents to ensure the disclosure is in compliance with securities laws. The OSC continues to monitor the disclosure of environmental matters as part of ongoing CD reviews.

*Includes exchanges that are recognized or exempted from recognition and a lternative trading systems.

Looking ahead

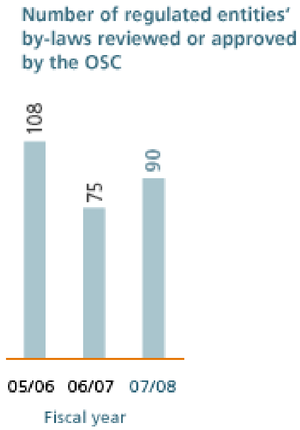
- We will work with the CSA to develop a response to the issues related to asset-backed commercial paper (ABCP) which fall within the jurisdiction of securities regulators. Also, we will continue to work closely with the international community, including the International Organization of Securities Commissions, to contribute to a consistent regulatory response to the global liquidity crisis.
- Staff will continue to engage in constructive discussions with the CSA and the U.S. Securities and Exchange Commission in respect of mutual recognition.
- We will publish final amendments to National

Operation and National Instrument 23•101 *Trading Rules* (the ATS Rules) relating to best execution and direct market access, and proposed a framework for ensuring that better priced orders are executed ahead of inferior priced orders (i.e. trade-through protection). The OSC and the CSA will continue to work on finalizing amendments to the ATS Rules to address these issues.

The OSC also contributes to policy-making initiatives at the international level. During the past year, the OSC chaired the International Organization of Securities Commissions (IOSCO) Task Force on Corporate Governance and contributed to the IOSCO Credit Rating Agencies and Subprime Task Forces.

Instrument 81-106 *Investment Fund Continuous Disclosure* to provide guidance on fair-value principles.

These are just some examples of how the OSC has delivered appropriate regulatory responses to developments within the capital markets. Guided by consultations with stakeholders and others, the OSC has worked effectively with the CSA to strengthen Canada's securities regulatory system.



This graph provides an indication of the OSC's oversight activity with respect to regulated entities, which include recognized self-regulatory organizations, recognized/exempt exchanges and recognized clearing agencies. "By-laws" include all regulatory instruments of a regulated entity.

Details about the rules, policies, papers, forms and guidance mentioned in this section are available at www.osc.gov.on.ca.

GOAL 2 Effective compliance and enforcement

Deliver fair, vigorous and timely enforcement and compliance programs

To effectively administer and enforce securities laws in Ontario, the OSC strives to deliver compliance and enforcement programs that are robust, consistent and fair. This challenge involves providing protection to investors from fraudulent or improper activity and fostering confidence in the marketplace. Compliance is at one end of the continuum of work that the OSC does, while enforcement is at the other end. This means that there is a full range of tools available to the OSC to fulfill its mandate.

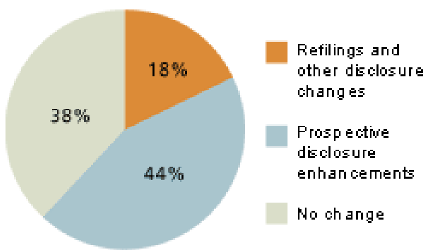
OSC compliance programs are focused on public companies, investment funds, market participants and intermediaries not regulated by a self-regulatory organization. Risk-based criteria are used to select reporting issuers, market participants and intermediaries for reviews of their disclosure documents or activities. This approach allows staff to concentrate on areas where regulatory issues are most likely to appear.

Public company issuers

For public companies, the OSC's compliance priority is improving the level of disclosure to the marketplace by conducting continuous disclosure (CD) reviews. In 2007-08, Corporate Finance Branch staff conducted prospectus and CD reviews of selected public companies across various industries. Examples of areas of focus during CD reviews included options-timing practices, the application of the new financial instruments accounting standards and environmental reporting disclosure (see page 12). The Branch also has a specialized team that monitors compliance in take-over bids and other mergers and acquisitions activity.

Issuers that restate and refile continuous disclosure documents as a result of a regulatory review are included on the OSC's *Refilings and Errors List* located on the Commission's website (www.osc.gov.on.ca)

Results of OSC prospectus and continuous disclosure reviews of public companies in 2007–08



Investment fund issuers

For Ontario-based investment funds, OSC staff conduct selective reviews of prospectuses and CD filings. These reviews are a major priority because much of Ontario's investment fund industry, which represents a significant share of the Canadian market, relies on ongoing distributions.

The investment funds CD review program was expanded in 2007-08 following its launch the previous fiscal year. Staff increased the number of CD reviews to gauge how investment funds are complying with National Instrument 81-106 *Investment Fund Continuous Disclosure*. OSC Notice 81-709 *Report on Staff's Continuous Disclosure Review of Investment Funds*, published in spring 2008, identifies areas where compliance can improve and provides guidance for enhancing the quality and presentation of the management discussion about financial statements.

Oversight of market participants

The Compliance and Registrant Regulation Branch oversees market participants in a number of ways, including targeted reviews, which examine a specific issue or area of concern. For example, the Branch conducted a targeted review of portfolio managers' marketing practices, which is an area of concern because of the influence of marketing materials on investors' decision-making.

In November 2007, OSC Staff Notice 33-729 *Marketing Practices of Investment Counsel/Portfolio Managers* provided guidance on matters such as the use of performance data. Among other things, the Notice provides guidance that portfolio managers should ensure that performance data are based on actual returns, not hypothetical figures, and be calculated using a consistent methodology. Overall, the Notice was designed to assist intermediaries in meeting their obligations to clients.

CD reviews and ABCP

In December 2007, the Canadian Securities Administrators announced that it had initiated CD reviews of reporting issuers identified as holders of non-bank-sponsored asset-backed commercial paper (ABCP). The OSC's Corporate Finance, Investment Funds and Compliance and Registrant Regulation Branches are participating in this co-ordinated response to developments in the ABCP marketplace.

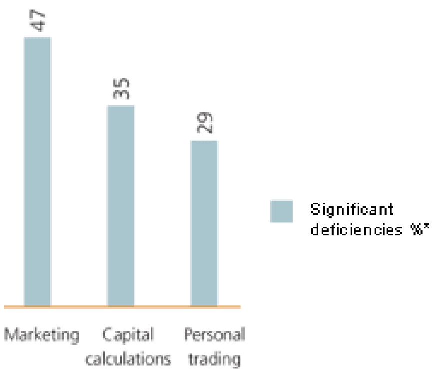
If staff concerns are not resolved appropriately following a compliance review, various regulatory tools are available. These may involve imposing terms and conditions on registration, requiring an issuer to restate and refile financial statements, or referring a case to the Enforcement Branch.

Enforcement of securities laws

While the focus of compliance is on prevention and remediation, enforcement focuses on protection and deterrence. The provincial legislature has given the Commission the responsibility and the powers to enforce the *Securities Act* and to foster fair and efficient markets. Those powers include the administrative authority to sanction wrong-doers.

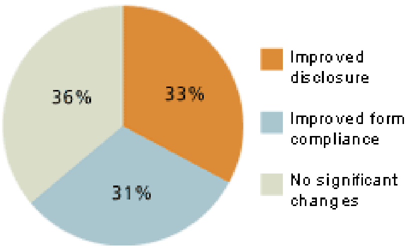
Adjudicative panels of the Commission can ban individuals from leadership roles in public companies or certain corporate market participants - temporarily or permanently. They can also impose fines and order individuals or firms to disgorge ill-gotten gains,

Compliance reviews of portfolio managers in 2007–08



* The following chart shows the top three significant deficiencies identified during compliance field reviews of portfolio managers. Marketing deficiencies relate to the use of misleading marketing materials. Capital calculation deficiencies result when firms do not prepare and monitor their capital requirements on a monthly basis. Personal trading deficiencies occur when a firm does not have an adequate process to monitor the personal trading activities of its employees. The percentages are calculated based on the number of portfolio managers reviewed and do not represent the whole population.

Results of OSC prospectus reviews of investment funds in 2007-08



Fighting boiler rooms and other scams

In mid-2007, the OSC launched its specialized Boiler Room Unit to prevent and disrupt the illegal distribution of securities to investors by unregistered salespeople, who often target senior citizens. Examples of illegal distributions include telemarketing promotions of fraudulent mining, pharmaceutical and Internet-related

among other sanctions. In certain cases, the OSC will go to the Ontario courts and seek jail sentences to punish accused wrong-doers and send a strong message of deterrence.

Enforcement Branch staff also co-operate with domestic and international securities regulators and law enforcement agencies and participate in international fraud investigations. The OSC supports the effort to close gaps in regulation and fosters co-operation among securities regulators. In 2007-08, the Enforcement Branch received almost 2,000 information requests from international regulators and agencies.

Increasingly, the Enforcement Branch has deployed real-time methods to better meet its investor-protection mandate.When necessary, the OSC has obtained court orders appointing a receiver to take control of any assets of firms under investigation. Receivers can be authorized to conduct investigations as appropriate and respond to clients' questions and claims.

The Enforcement Branch is also giving specific priority to stopping illegal distributions that target seniors. The OSC Boiler Room Unit has had particular success in protecting investors in 2007-08. The Unit can respond quickly and has obtained temporary cease trade orders or taken other court proceedings to disrupt several boiler rooms (click here).

The OSC believes that timely and appropriate compliance and enforcement programs are crucial to fostering confidence in the capital markets. Enforcement and compliance staff are closely linked in a continuum of oversight provided by the OSC as it strives to protect market integrity and prevent misconduct.

Enforcement: Concluded settlement and contested hearings before the Commission*

Some proceedings have more than one respondent.

Fiscal year	05–06	06–07	07–08
Number of proceedings	30	22	**13**
Individual respondents	36	26	**12**
Corporate respondents	16	5	**4**
Sanctions include:**			
Cease trade orders	17	18	**10**
Exemptions removed	11	14	**7**
Director and Officer bans	21	12	**8**
Registration restrictions	11	5	**4**

*As at March 31, 2008, there were 29 proceedings before the Commission that had been commenced but were not concluded. In addition, there were 29 cases in the courts within the fiscal year. These cases include prosecutions under Section 122 of the *Securities Act*, applications to continue freeze directions, to appoint receivers, or for other relief and appeals or motions for leave to appeal in any proceeding before the Commission.
**There were administrative penalties, disgorgement orders, settlement amounts and costs

stocks.

The Boiler Room Unit is responsible for both investigating and prosecuting cases assigned to it. Its staff includes dedicated legal counsel and individuals with market, regulatory and law enforcement expertise. When suspicious activity is detected, staff can act quickly and use the investigative powers available to provide protection to investors. Search warrants are used increasingly to gather evidence. Temporary cease trade orders (CTOs) and freeze orders are sought to halt or disrupt suspicious offerings while our investigations continue.

The OSC pursues as many persons as possible connected to a boiler room, with the goal of taking them out of the marketplace while their offerings are investigated. This approach has sped up the process of shutting down boiler rooms and assisted in preventing more losses by investors. The Boiler Room Unit has been successful in identifying and closing down several boiler rooms by securing CTOs against dozens of individuals and fraudulent companies. At March 31, 2008, Enforcement Branch staff, including the Boiler Room Unit, had obtained freeze orders in respect of more than $16 million – funds believed to be derived from boiler room type activities.

Boiler Room Unit staff also co-operate with other regulators and law enforcement agencies in Canada, including the RCMP and Joint Securities Intelligence Unit, and the United States. In a global capital market, the fight against fraud requires a collective effort to protect the interests of investors and prevent misconduct.

totalling $5,149,282 imposed during the fiscal year.

Enforcement timelines

The number of matters under review by the Intake and Investigations units of the Enforcement Branch increased by 18% in 2007–08

Fiscal year	05–06	06–07	07–08
Intake units			
Number of files/cases assessed			
Transferred to Investigations	51	50	**58**
Referred to another agency	34	43	**28**
Closed*	315	328	**413**
Total	400	421	**499**
Average number of months	2.4	2.0	**2.4**
Investigation units			
Number of files			
Transferred to Litigation	20	16	**16**
Closed	12	25	**32**
Total	32	41	**48**
Average number of months	9.8	9.5	**10.4**

*Intake units conduct initial analyses on all matters referred to the Branch. The criteria to determine which enforcement matters are pursued through full investigations are set out in OSC Staff Notice 11-719 *A Risk-based Approach for More Effective Regulation*. Factors considered include whether there is evidence that securities laws were breached and the losses involved. Files that are not investigated are either referred to the appropriate investigative agency or closed.

Enforcement investigations by category

As at March 31, 2008, the Enforcement Branch had 53 matters in Investigations, as follows:

Investigation type	
Abusive trading practices	**3**
Inadequate or misleading disclosure	**7**
Illegal insider trading	**12**
Non-compliance with an order of the Commission	**1**
Registrant misconduct	**5**
Trading without registration and/or prospectus	**25**
Total	**53**

Looking ahead

- We will expand our specialized Boiler Room Unit dedicated to investigating breaches of the *Securities Act*.
- We will develop a new approach to insider trading investigations, including tools aimed at allowing us to target recidivist insider traders who have organized their affairs to improperly use undisclosed material information.

OSC ONTARIO SECURITIES COMMISSION

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GOAL 3 Strong investor protection

Champion investor protection, especially for retail investors

Effective securities regulation provides protection from unfair, improper or fraudulent practices and reduces harm to investors. Investor protection is a core element of the OSC's dual mandate. The OSC seeks to achieve this through administering and enforcing the *Securities Act* and the *Commodity Futures Act*.

OSC staff investigate numerous complaints about potential breaches of Ontario securities law such as illegal insider trading, misleading disclosure and untimely disclosure. The Commission has the authority to impose sanctions on individuals and companies. These sanctions may include fines, reprimands and suspensions from the industry. (For more on enforcement, click here.)

In Ontario, anyone who sells securities or offers investment advice to investors, including securities firms and their representatives, must register under the *Securities Act*, unless they have an exemption. The conduct of registered dealers and advisers is regulated either directly by the OSC or through a self-regulatory organization (SRO), which can set and enforce requirements for its members' operations, standards of practice and business conduct. These requirements must meet or surpass requirements under Ontario securities law. The OSC oversees three SROs: the Investment Dealers Association of Canada (IDA), the Mutual Fund Dealers Association of Canada (MFDA) and Market Regulation Services Inc. (RS). The OSC relies on these SROs as the front-line regulators for dealers and has also delegated certain registration functions to the IDA. The OSC monitors the activities of the three SROs through a comprehensive oversight program.

Enhanced investor protection has also been a central objective of several significant regulatory initiatives involving the OSC. These include the development of a proposed rule to reform the registration requirements for market participants, a proposed framework to provide mutual fund and segregated fund investors with improved point-of-sale disclosure, and the proposed transition to a new electronic format for public companies to file financial statements.

Visits to the consumer section of OSC website

Fiscal year	Visits
2006–07	52,209
2007–08	**51,883**

Contacts with the OSC

Fiscal year	05–06	06–07	07–08
Written complaints	1,206	1,086	**845**
Inquiries			
Telephone	30,535	26,595	**24,073**
E-mail	6,121	6,173	**5,736**
Total inquiries	36,656	32,768	**29,809**
Total contacts	37,862	33,854	**30,654***

* In the current fiscal year, the total number of contacts slightly exceeded the previous seven years' average of 29,600. Contacts spiked above average in the two previous fiscal years. The number of contacts are driven by inquiries from market participants, particularly reporting issuers, in response to the Commission's rule-making activities. Investor contacts largely reflect recent market conditions and enforcement activities.

Registration reform

The OSC has led the development of a proposed rule (National Instrument 31-103 Registration Requirements) that when implemented would harmonize, streamline and modernize the current registration requirements across the Canadian Securities Administrators (CSA) jurisdictions. The planned reforms to the regime for registering dealers, advisers and investment fund managers will benefit investors. The reforms would require the registration of investment fund managers, set out higher proficiency requirements for registrants and introduce requirements relating to complaint handling and dispute resolution. (For more details, click here.)

Point-of-sale disclosure

The OSC has been working with other securities regulators as well as insurance regulators in Canada to improve disclosure for mutual fund and segregated fund investors. As part of the Joint Forum of Financial Market Regulators, the OSC published a proposed point-of-sale framework for comment in June 2007. The framework's objective is to provide investors with meaningful information when they need it most – before they make a decision to purchase a fund. The Joint Forum wants investors to understand the potential benefits, risks and costs of investing in a fund, and to be able to meaningfully compare funds. (For more details, see sidebar at right.)

Most common contacts from investors

Represents 66% of the total investor contacts for 2007–08

Fiscal year	07–08
Reporting issuer matters	1,243
Proceedings, hearings and investigations*	679
Customer service issues**	525
Complaint process and status of complaints submitted	450
Alleged scams and frauds	377

*Issues related to proceedings, administrative hearings and investigations.
**Issues related to service in the financial markets, such as fee levels, response times, account transfers etc.

Most common contacts from market participants

Represents 68% of the total market participant contacts for 2007–08

Fiscal year	07–08
General inquiries and questions	10,575
Registration matters	3,517
Assistance with electronic disclosure by insiders	1,686
Proceedings, hearings and investigations	890
Reporting issuer matters	834

Enhancing disclosure at the point of sale

When investors consider buying a mutual fund, the OSC wants them to have meaningful information when they are making their investment decision - at the point of sale.

Investors need information to be able to understand the potential benefits, risks and costs of investing in a fund, and to be able to make meaningful comparisons between funds. The OSC has collaborated with the Joint Forum of Financial Market Regulators,

XBRL filing

The OSC is leading a CSA project that allows reporting issuers to file financial information in eXtensible Business Reporting Language (XBRL) on a voluntary basis. XBRL is a business reporting language that makes it easier for investors and analysts to quickly access and analyze financial information. With XBRL, the financial information can be analyzed by XBRL-enabled software, allowing both investors and analysts to quickly access key ratios and perform comparisons across multiple issuers. The CSA's XBRL voluntary filing program was launched in May 2007. This was an important first Step to begin educating investors, reporting issuers and decision-makers about the advantages of a technology that is being adopted around the world. The voluntary program will help the CSA test and assess the usefulness of XBRL as it considers whether to make filing in the XBRL format mandatory.

Working with other organizations

The OSC is also co-operating with the IDA, the MFDA and the Ombudsman for Banking Services and Investments (OBSI) to address other needs and concerns of investors. For example, the four organizations took steps to help investors better understand how to navigate through the complaint process, including providing improved communications materials for investors in print and online. These materials include a plain language guide on where investors can go for help about a complaint.

The Investor Forum held in Toronto on October 24, 2007, is another example of a co-ordinated initiative by the OSC, IDA, MFDA and OBSI as a means of outreach to investors. Sponsored by the four organizations, the Investor Forum was an opportunity to offer education sessions on topics such as understanding investment products and risks. It was also a forum for investors to share their views and concerns.

The OSC, IDA, MFDA, and OBSI are committed to working together to continue to help investors make informed decisions. The two-year term of the OSC Investor Advisory Committee, created to enhance consultation with investors, ended in 2007-08. The committee provided valuable input and the OSC thanks the members for their efforts. A new Joint Standing Committee on Retail Investor Issues, with representation from the SROs, the OBSI and the OSC, will co-ordinate work on investor initiatives and engage retail investors in the regulatory policy process.

The success of the capital markets depends on investors having confidence in the fairness and efficiency of those markets. Regulatory co-operation and investor education are crucial elements in fostering and maintaining that confidence. By

which includes representatives of insurance, securities and pension regulators, to develop a proposed point-of-sale framework for mutual funds and segregated funds.

On June 15, 2007, the Joint Forum published its proposed point-of-sale framework (*Proposed Framework 81-406 Point of Sale Disclosure for Mutual Funds and Segregated Funds*) for public comment. A two-page document called Fund Facts is a significant element of the framework. Using plain language, the Fund Facts highlights critical information for investors, including fund performance, risks and costs. Under the framework, investors would receive the Fund Facts before or at the time they are making their decision to buy a mutual or segregated fund.

After considering all of the comments received, the Joint Forum will develop a final framework and the CSA will subsequently publish for comment a rule proposal.

This important disclosure initiative is one of the ways in which the OSC is meeting its goal to champion protection for retail investors.

OSC staff participated in seminars and trade shows in 30 communities across Ontario in 2007-08 to raise awareness of the importance of being an informed investor providing effective regulation and continuing their dialogue with investors, the OSC and the SROs can also provide effective protection to investors in Ontario and across Canada.

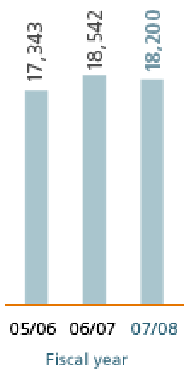
Average time to respond to complaints

Complaints are allegations about possible violations of securities law or other improper conduct involving a public company, investment product, salesperson, firm or individual. These numbers represent the number of days taken to complete the research, analysis and response to written complaints to the OSC.

Fiscal Year	Average number of days*
2005–06	26
2006–07	22
2007–08	18

* All complaints are acknowledged upon reciept.

Total direct audience: OSC investor communications public outreach programs



The OSC participated in 29 trade shows and 33 seminars in 2007-08 and distributed 50,128 brochures to investors across Ontario.

The OSC offers resources and information for investors in the "For the Consumer" section of www.osc.gov.on.ca.

Disposition of complaints to the OSC

2007–08	
28%	were referred for further regulatory review within the Commission
64%	were handled by staff providing information or an explanation to the complainant
8%	were handled by referring the complainant to the appropriate agency

Looking ahead

- We will work with the Joint Forum of Financial Market Regulators to publish a final framework for point-of-sale disclosure for investors in mutual and segregated funds.
- Staff will work with the Investor Education Committee of the Canadian Securities Administrators and produce online and print information for investors that is consistent, accurate and timely.
- We will develop proposals to modernize securities regulation of scholarship plans.

GOAL 4 The way we work

Support and promote a more flexible, efficient and accountable organization

Organizational efficiency and accountability are fundamental to achieving the other three goals of the Commission (click here). The OSC constantly strives to advance its business competence and effectiveness by making the best use of its staff and resources, including technology and research.

The success of any organization depends on its people. The OSC fosters a culture of integrity as a crucial part of the overall effort to fulfill its mandate as a securities regulator. Commissioners and staff are required to maintain the highest standards of conduct and personal integrity. In their dealings with stakeholders, Commissioners and staff must be open and fair.

The OSC has robust standards of ethics and accountability, and these were strengthened in 2007-08, consistent with the implementation of the *Public Service of Ontario Act, 2006* (PSOA). The PSOA was proclaimed into law in August 2007 and is part of the Government of Ontario's commitment to strengthen accountability and transparency in the public service, which includes the OSC. The OSC's Code of Conduct was revised, in part, to ensure that the OSC's conflict of interest rules comply with the rules applicable to the provincial public service. Additional revisions were made to the Code of Conduct to further enhance the OSC's existing vigorous accountability regime (click here).

Average years of service among OSC staff
→ 7.4 years

Legal and accounting expertise
→ 24% of staff are lawyers
→ 17% are accountants

The OSC employs a highly professional workforce with over 40% of employees having either legal or accounting expertise. Other professional staff include geologists, information technology specialists, economists, communications specialists and human resources professionals.

As an organization, the OSC continually monitors and improves the efficiency of its operations. This approach enables staff to be flexible and responsive to the needs of stakeholders, including investors, public companies and intermediaries. The OSC website is an important interface with the public and the OSC has commenced a redevelopment of the site to enhance its value to all stakeholders. To increase our responsiveness to the needs of retail investors, the OSC established an Investor Assistance section within its Inquiries & Contact Centre. This section will focus on investor contacts received by written correspondence, telephone and e-mail.

Proportionate regulation

Ontario's market participants must compete in an increasingly competitive global marketplace. The OSC faces the challenge of having to administer and enforce securities laws without unduly restricting competition through excessive regulatory burdens or costs of compliance. As a result, the OSC continues to develop expertise and rigour in the conduct of cost-benefit analyses for proposed regulation, which can further support the development of balanced, cost-effective regulation.

OSC staff conduct an analysis of the costs and other potential impacts of policy initiatives to assist in evaluating regulatory alternatives and ensuring the outcome is reasonably proportionate to the costs. In 2007-08, for example, the OSC completed a cost-benefit analysis for proposed amendments to National Instrument 21-101 *Marketplace Operation* and National Instrument 23-101 *Trading Rules*. This and other cost benefit analyses are available on the OSC website.

Technology strategy

To more effectively leverage information technology (IT) to support the OSC, a new IT strategic plan was completed in 2007-08. The IT plan addresses the business needs of the Commission and identifies new technology opportunities to further improve the timeliness and efficiency of current and future securities regulation.

Effective data, information and knowledge management is the foundation of the IT strategic plan. A multi-year series of initiatives has been defined to create an integrated technology framework that supports responsive regulation through fast and secure access to OSC and third-party information. Such a framework will improve both the agility and productivity of OSC operations, and interactions with market participants and the public. The key elements of this IT initiative include knowledge-sharing balanced with information security, and enterprise content management.

Human resources

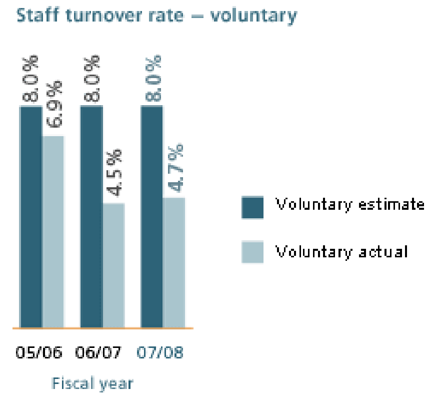
In its HR strategy, the OSC works to ensure that it will have the right staff at the right time to meet its goals and future needs. In 2007-08, the OSC refined its HR strategic plan to focus on the priorities of attracting and retaining staff, a total compensation framework and a succession planning approach.

OSC staff have a broad range of skills, education and expertise to apply to fulfilling the mandate of the organization. The professional profile of the OSC includes securities lawyers, litigation counsel, accountants, geologists and economists. In 2007-08, the OSC hired a Chief Human Resources Officer and improved its process for promoting employment opportunities through the OSC website.

International Monetary Fund assessment

In February 2008, the International Monetary Fund (IMF)

The OSC's voluntary turnover remains relatively low



Strengthening accountability

The OSC supports the Government of Ontario in its commitment to strengthen accountability and transparency in the public service. Accordingly, the OSC is ensuring that its rigorous policies and procedures for ethical conduct adhere to the requirements of the new *Public Service of Ontario Act*, *2006* (PSOA).

The PSOA was proclaimed on August 20, 2007. Specifically, the OSC is subject to those parts of the PSOA that establish:

- a conflict-of-interest framework;
- rules governing permitted, restricted or prohibited political activity; and
- guidelines for disclosures of wrongdoing in the public service, including the creation of a statutory mechanism by which such disclosures may be made to an independent third party outside of the OSC.

The OSC's revised Code of Conduct will require Commissioners and employees to adhere to the highest ethical standards set published an assessment of the stability of Canada's financial sector. The OSC submitted a detailed self-assessment for the purposes of this independent review. The IMF's final report noted that the Canadian financial sector is among the world's most highly developed and offers many examples of best practices. It also asserted, generally, that Canada has a robust regulatory framework for issuers of securities, market intermediaries, secondary markets and self-regulatory organizations. The OSC, working with the Canadian Securities Administrators, is monitoring the progress made on the IMF's recommended action plan and will report back on further developments.

The OSC continuously monitors its operations with a view to improving its efficiency. Increased efficiency and productivity of the organization support the goal of effective and responsive securities regulation, in further fulfillment of the OSC's mandate to provide protection to investors and foster confidence in the integrity of the capital markets in Ontario.

Response times to contacts in 2007–08

Average response timelines by staff in the OSC Inquiries & Contact Centre

Type of contact	Average response time
Wait time to speak by telephone with an Inquiries Officer	27 seconds
E-mail contacts	1.1 business days
Complaints	18.0 business days*

*All complaints are acknowledged upon receipt

As part of its commitment to enhancing efficiency, the OSC has reduced the time it takes to respond to written complaints by 31%since fiscal year 2005-06

The OSC Statement of Priorities for the 2008–09 fiscal year is available at www.osc.gov.on.ca.

for public servants. In part, the revisions are intended to ensure that the OSC's conflict-of-interest regime is no less stringent than the regime applicable to public servants as required under the PSOA.

The PSOA also requires the OSC to have a formally designated Ethics Executive. Beginning August 20, 2007, Chair and CEO David Wilson assumed the role of the Ethics Executive. He is responsible for, among other things, dealing with inquiries regarding actual or potential conflicts of interest and making determinations on such inquiries.

The Commission approved the revised Code in principle on February 12, 2008, with a proposed effective date of August 20, 2008, subject to the provincial Conflict of Interest Commissioner approving the Code's conflict-related provisions.

Looking ahead

- We will implement updated conflict-of-interest policies that will appropriately strengthen the Commission's standards of ethics, integrity and accountability consistent with the new *Public Service of Ontario Act*.
- Staff will complete a redevelopment of the OSC website to better respond to the needs of all stakeholders.
- We will implement improved internal knowledge-management initiatives across the OSC.

OSC ONTARIO SECURITIES COMMISSION

2008 ANNUAL REPORT

The Commission organizational chart

Embedded Secure Document

The file *http://www.osc.gov.on.ca/About/AnnualRpt/2008/pdf/OSC_2008_MDA.pdf* is a secure document that has been embedded in this document. Double click the pushpin to view.

OSC ONTARIO SECURITIES COMMISSION

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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 have 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.

W. David Wilson
CHAIR AND CHIEF EXECUTIVE OFFICER
MAY 9, 2008

A. Kenneth Gibson, CA
DIRECTOR, CORPORATE SERVICES

Auditors report

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

Auditor's report

To the Ontario Securities Commission

I have audited the balance sheet of the Ontario Securities Commission (the "OSC") as at March 31, 2008 and the statements of operations and operating surplus and cash flows for the year then ended. These financial statements are the responsibility of the OSC's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the OSC as at March 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Jim McCarter, CA
AUDITOR GENERAL

TORONTO, ONTARIO
MAY 9, 2008

LICENSED PUBLIC ACCOUNTANT

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