

**1.1.3 Statement of Priorities for the Financial Year to
End March 31, 2005**

NOTICE OF STATEMENT OF PRIORITIES

FOR FINANCIAL YEAR TO END MARCH 31, 2005

The *Securities Act* requires the Commission to deliver to the Minister by June 30th of each year a statement of the Commission setting out its priorities for its current financial year in connection with the administration of the Act, the regulations and rules, together with a summary of the reasons for the adoption of the priorities. The first such statement was delivered for the year ended March 31, 1995 (18 OSCB 2962).

In the notice published by the Commission on April 16, 2004 (27 OSCB 4033), the Commission set out its proposed Statement of Priorities and invited public input in advance of finalizing and publishing the 2004/2005 Statement of Priorities. As of June 15, 2004, eleven responses had been received. The Commission wants to thank all the parties who have provided comments.

Most of the suggestions were supportive and focused on specific action steps that could be taken to achieve the identified priorities. There continues to be strong support for initiatives that would improve the efficiency of our markets through harmonization of regulatory requirements. The approaches preferred by respondents to improve the regulatory system ranged from the development of a single, harmonized regulatory regime to implementation of a single, national regulator model. In response to the comments received related to the Fair Dealing Model initiative, the wording for this initiative has been revised. The 2004/2005 Financial Outlook was also revised to reflect our finalized budget.

June 24, 2004.

For further information contact:

Robert Day
Manager, Business Planning
Ontario Securities Commission
20 Queen St. West
Suite 800, Box 55
Toronto, Ontario
M5H 3S8
(416) 593-8179



THE ONTARIO SECURITIES COMMISSION

STATEMENT OF PRIORITIES

FOR

FISCAL 2004/2005

June 2004

The *Securities Act* requires the Ontario Securities Commission (OSC) to deliver to the Minister, and to publish in its Bulletin by June 30 of each year, a statement by the Chair setting out the proposed priorities for the Commission for its current financial year. The OSC remains committed to delivering its regulatory services in a businesslike manner and to working closely with its CSA colleagues and market participants to ensure that the regulatory system remains relevant to the changing marketplace. The Statement of Priorities articulates the business strategy and priorities the OSC has set for 2004/2005 to accomplish these goals.

- | | |
|---------------------|--|
| Our Vision | Canadian financial markets that are attractive to domestic and international investors, issuers and intermediaries because they are cost efficient and have integrity. |
| Our Mandate | To provide protection to investors from unfair, improper or fraudulent practices and to foster fair and efficient capital markets and confidence in their integrity. |
| Our Approach | We will be: <ul style="list-style-type: none">• Proactive, innovative and cost effective in carrying out our mandate,• Fair and rigorous in applying the rules to the marketplace, and• Timely, flexible and sensible in applying our regulatory powers to a rapidly changing marketplace. |

Key challenges

The OSC recognizes that we must address a number of key trends and changes affecting our business

environment, capital markets, market participants and the global regulatory framework.

Enhancing public confidence in capital markets

The need to promote public confidence in our capital market continues. In March 2004, the OSC finalized three rules as part of its investor confidence initiative. We need to ensure that we actively monitor compliance with these new requirements. The *Securities Act* has been amended to include provisions that strengthen the regulatory framework and enhance investor confidence. The OSC will also need to ensure that we apply and administer these powers in an appropriate and balanced fashion.

Streamlining the securities regulatory process

The costs and complexities associated with doing business with as many as 35 different regulators with differing rules and regulations across Canada are generating increasing dissatisfaction with the structure of financial services regulation, and in particular, securities regulation, in Canada. This fragmented regulatory environment is cumbersome, costly and frustrating for stakeholders. It negatively impacts the competitiveness of our capital market and ultimately the ability of our market participants to raise capital on a cost effective basis.

Global integration of markets and market participants

Financial markets are global. Borders no longer serve as barriers to capital flows. Those seeking to invest and those seeking capital go where they see the opportunity for the best returns for the risks assumed. As capital flows become global, so do the market intermediaries and infrastructure servicing the business. Many of the largest intermediaries are global conglomerates combining banking, insurance and securities services in one entity.

Changing investor demographics

The past decade has seen significant growth in the investor community in Canada. Institutional investors are becoming larger and more sophisticated, while investment in the markets by retail investors has grown significantly - both directly and through the purchase of investment funds. Both groups need to have confidence in the integrity of the capital market, but their informational and educational needs may be very different.

Rapid pace of innovation

Competition is driving market innovation both in terms of radical changes to the form, risk profile and presentation of traditional products as well as in the creation of ever more sophisticated financial products, trading techniques and strategies. Technology facilitates these changes, making innovative products and services easier and cheaper to design, market and deliver to the consumer. The functions of intermediaries are changing. Trades can be executed directly from any location. The emergence of direct links into existing trading platforms, bypassing investment dealers, and the proliferation of alternative marketplaces

have fundamentally altered the structure of the financial environment.

What this means for the OSC

For Canadian financial markets to be attractive to all market participants, they must be and be seen to be fair and efficient while still protecting investors. Given the trends and challenges outlined above, we need to find creative and innovative solutions to new issues, be willing to re-evaluate existing practices in light of changing circumstances and to make decisions at the pace at which our markets are changing. We need to operate in a transparent and accountable manner and to enforce clear rules in a consistent and visible manner.

To meet the challenges facing our capital market, we will focus on:

- ❑ Maintaining a globally competitive regulatory regime that effectively addresses investor protection,
- ❑ Developing and distributing targeted, understandable and relevant public education programs and resources designed to help investors with financial decision making so they can protect themselves,
- ❑ Insisting that investors have access to understandable, accurate and complete disclosure they need to make informed investment decisions,
- ❑ Preventing, detecting and deterring abuses in our capital market,
- ❑ Ensuring that our reliance on self regulatory organizations (SRO's) is providing appropriate results for market participants,
- ❑ Fostering cohesive regulation to minimize the burden on market participants,
- ❑ Facilitating the fair and efficient operation of exchanges, clearing and settlement functions and other elements of the market infrastructure,
- ❑ Building on our relationships in the regulatory community, both domestic and international, making use of the best lessons from each and relying on their expertise when practical.

The identified trends and challenges also underscore the ongoing need for us to ensure that our operations are efficient and effective and to continuously work to improve our client service delivery. As part of this process we will work to develop appropriate responses to the issues identified in the Report of the Five Year Review Committee, the Insider Trading Task Force Report and the Regulatory Burden Task Force Report.

Our goals

The OSC is committed to achieving our vision. To do so, we have developed a four-year strategic plan. In implementing it, we will at all times act consistently with our mandate.

Fundamentally, the OSC will focus on making our capital market safer, more efficient and easier to access and use for market participants. Our plan calls for stepping up our efforts in the following areas:

- ❑ Promoting harmonization of regulatory systems both domestically and internationally, including pursuing a single securities regulator administering a Canada-wide securities code,
- ❑ Undertaking prevention-oriented activities, including proactive public education,
- ❑ Taking a risk-based approach to regulation, and
- ❑ Being less prescriptive and more flexible in our regulatory approach wherever practical.

Across the planning horizon we will strive to achieve the following outcomes:

1. Ontario's capital market and financial services regulatory system will be fully consolidated, harmonized nationally, and coordinated internationally.

We will achieve this outcome by:

- a) Engaging regulators, governments and industry participants in moving towards a single securities regulator or a more effective national securities regulatory system with a uniform securities code,
- b) Participating actively in the International Organization of Securities Commissions (IOSCO), the Council of Securities Regulators of the Americas (COSRA) and the national and international Joint Forum of Financial Regulators and, where appropriate, providing leadership on initiatives. Fostering inter-jurisdictional co-operation to reduce impediments to information sharing and enforcement support.
- c) Providing an effective enforcement deterrent through increased coordination with other enforcement agencies and regulators, including participation with the RCMP on Integrated Market Enforcement Teams (IMETs) designed to respond to major capital markets fraud and market-related crimes.
- d) Continuing to improve the national electronic information systems (e.g. SEDI, SEDAR, NRD) and to lever these investments to facilitate the activities of market participants, and

- e) Pursuing measures to strengthen the Canadian securities clearing and settlement system, including leading CSA initiatives to support implementation of a Uniform Securities Transfer Act and regulatory measures to facilitate the implementation of fully electronic, straight-through processing of securities by June 2005.

We will measure success in achieving this outcome by the following:

- ❑ Market participants will use fewer points to access the market conduct regulatory system in Canada
- ❑ As impediments to investigation and enforcement initiatives created by international boundaries are reduced, we will re-focus resources on other initiatives.
- ❑ Harmonized measures developed internationally will be implemented domestically.

2. Market participants and investors will have confidence in the integrity of Ontario's capital market.

We will achieve this outcome by:

- a) Working with the provincial government and our CSA colleagues to respond to the Report of the Five Year Review Committee and to develop legislative initiatives to strengthen our regulatory system and improve investor confidence.
- b) Appropriately applying the new powers arising from changes to the *Securities Act*,
- c) Actively monitoring compliance with new rules and placing increased resources into their enforcement,
- d) Adopting project management techniques to increase the efficiency of the investigation process,
- e) Working with our regulatory partners to respond to the recommendations of the Insider Trading Task Force by March 2007,
- f) Developing and proposing a revised framework for regulating mutual funds and their managers that relies on independent oversight as a means to address conflicts of interest,
- g) Examining the "best execution" issue, including assessment of the impact of "soft dollars", market structure, and market fragmentation and developing strategies to address the findings.
- h) Developing a revised regulatory approach to address the emergence of alternative investment products, and

- i) Working with our CSA colleagues and the SRO's to put in place by 2006 the four pillars of a Fair Dealing Model which are:
- Clarity of relationship (on both sides)
 - Transparency of compensation and conflict
 - Transparency of performance against promise, and
 - Simplified, harmonized and streamlined approach to registration.

We will measure success in achieving this outcome by the following:

- ❑ Public surveys of market participants will show an increase in confidence.
- ❑ The revised framework for regulating mutual funds will significantly update and simplify product regulation for mutual funds in the area of conflicts of interest and result in fewer requests for exemptions.
- ❑ Implementation of a revised and re-focused national regulatory regime for securities intermediaries.

3. Regulatory interventions in Ontario will be balanced and merit-based.

We will achieve this outcome by:

- a) Making appropriate changes to our practices as a result of the recommendations of the Regulatory Burden Task Force,
- b) Consistently applying risk-based criteria in enforcement cases to ensure matters pursued by staff give appropriate consideration to Commission priorities, and
- c) Improving accountability through the use of rigorous cost benefit analysis, impact analysis and risk based assessments for all proposed initiatives.

We will measure success in achieving this outcome by the following:

- ❑ It will be clear to investors, issuers and intermediaries that the benefits of regulation measurably and significantly outweigh the costs of regulation.
- ❑ We will be a leader in fostering and implementing non-regulatory alternatives where such action is supported by a better cost/benefit relationship than new regulation.

- ❑ The effective cost and burden of regulation will be competitive with our peers, without undermining investor protection and confidence.

4. Our stakeholders will be confident that the OSC is a fair and effective regulator with superior and transparent governance and accountability mechanisms and strong investor education programs.

We will achieve this outcome by:

- a) Continuing to promote a customer focused approach to our communications and service delivery,
- b) Expanding the use of partnerships to deliver investor education products to target groups,
- c) Continuing to enhance the transparency of OSC corporate governance practices, adjudicative policies and accountability mechanisms,
- d) Continuing to tailor the form and method of access to OSC communications to the needs of OSC constituents, including implementing predominantly electronic-based communications vehicles, and
- e) Completing the re-design of the OSC website in 2004.

We will measure success in achieving this outcome by the following:

- ❑ Investors, issuers and other market participants who use the Ontario capital market will be afforded access, protection, education and information at levels similar or superior to those of the best of our peer group.
- ❑ OSC governance practices and policies meet or exceed disclosure requirements for public issuers
- ❑ Public surveys of market participants will sustain positive ratings for OSC customer service.
- ❑ 100% of OSC communications will be accessible electronically by 2005.

2004/2005 Financial Outlook

In 2003/2004, \$76.6 million was collected under the *Securities Act* and the *Commodity Futures Act*. The new OSC fee structure, which became effective March 31, 2003, was designed to reduce the potential for significant fluctuations in revenues arising from market volatility. The revised fee structure has generated surpluses for the following reasons:

- fee levels were set to generate a small surplus given the newness of the fee model and because a significant number of variables had to be estimated;
- incomplete data resulted in conservative estimates for certain fee revenues;
- a year over year timing difference occurred due to early receipt of fees; and
- the level of fees from late filings was difficult to forecast.

The OSC revenue forecast for 2004/2005 is \$67.3 million, 12.1% lower than actual 2003/2004 revenues. The forecast was reduced due to the timing difference noted above and reflects our experience with the new fee structure. The forecast does not anticipate a material change in the level of market activity.

Before the introduction of the new fee rule, the OSC had a \$7.0 million surplus. For the three year period ending March 2006, the OSC is forecasting a \$22.2 million surplus for a total projected surplus of \$29.2 million. The introduction of CD Rule 51-102, which accelerated filing and fee payment dates, explains \$15.4 million of this surplus. The OSC remains committed to ensuring that our market participants pay fees equivalent to the costs of regulation. Before setting fees for the three year period ending March 2009, we will review each service activity and its related cost. Activity fees will be set based on the cost to provide the service. Participation fees will be set at levels to generate a cumulative deficit equal to the surplus collected from market participants as at March 2006. Fee levels will also reflect our goal to ensure that the fees paid by issuers and registrants reflect the projected costs to regulate each group. The Commission will review its financial position at the end of 2004 to assess the potential to implement fee revisions earlier than March 2006 in order to accelerate the return of any surplus to stakeholders.

The OSC has budgeted total 2004/2005 net operating expenditures of \$61.1million, a 5.7% increase over the 2003/2004 budget. The key budget components are salaries and benefits costs, which are projected to rise by 8.7% to \$44.2 million. This increase reflects the annualized cost impact of previous hiring as well as new staff in enforcement and the investment funds area. Total staffing is projected to increase by nine.

Report on 2003/2004 organizational priorities

A summary of our performance in meeting the goals and priorities identified in the 2003/2004 Statement of Priorities is provided below.

1. Ontario's capital market and financial services regulatory system will be fully consolidated, harmonized nationally and coordinated internationally.

2003/2004 Initiatives

- a) Complete the CSA project to propose Uniform Securities Laws,
- b) Work with regulators, governments and industry participants in moving towards a more effective national securities regulatory system,
- c) Participate actively in International Organization of Securities Commissions (IOSCO) and Council of Securities Regulators of the Americas (COSRA) initiatives and, where appropriate, provide leadership,
- d) Continue to work with the Financial Services Commission of Ontario (FSCO) on initiatives to coordinate our regulatory activities and on the proposed creation of a new regulatory structure,
- e) Initiate and foster initiatives which reduce the use of off shore trading to circumvent securities laws,
- f) Reduce inter-jurisdictional impediments to information sharing and enforcement support,
- g) With the Joint Forum of Financial Regulators, develop and implement harmonized financial services regulatory solutions,
- h) Continue development of national electronic information systems to facilitate the activities of market participants,
- i) In accord with the plan made in 2002, continue to work with industry through the Bond Market Transparency Committee to ensure implementation of ATS Rules with respect to application to fixed income markets that achieves effective regulation and also supports innovation and efficiency in the bond markets, and
- j) In accord with the plan for completion by 2004, develop a model to permit flexibility in the business models that registrants can use.

During 2003/2004 the OSC will focus resources on restructuring the registration system. As part of this process, the OSC will continue work towards harmonizing categories of registration and conditions of registration across Canada and to creating a passport system permitting a registrant in one province to trade or advise in another. The OSC will also work to effectively manage the starting-up of the National Registration Database.

2003/2004 Results

In December 2003, the CSA published for comment consultation drafts of a Uniform Securities Act and a Model Administration Act. The Act would also permit regulators across Canada to implement "one stop access" for registrants and issuers through mechanisms of legal delegation and mutual recognition. Consultations on the Uniform Securities legislation (USL) proposals were held in February 2004. Market participants are generally supportive of the USL initiative as a significant improvement to our current securities regulatory regime.

The Wise Persons' Committee released their report in December 2003 recommending a single securities regulator built on a joint federal-provincial model. The report concluded that there is broad industry support across Canada for a single regulator and a single code for securities legislation. The OSC made a submission to the Committee outlining concerns with the current securities regulatory structure and supporting a single regulator. The Ontario government has also signaled its support and is pursuing actively with other governments the creation of a single regulator.

OSC staff participated actively on IOSCO Standing Committee 2 (Regulation of Secondary Markets) and provided input to a paper focused on a Corporate Bond Transparency mandate. The OSC now chairs Standing Committee 3 (Regulation of Market Intermediaries) which produced a paper on factors to consider for firms conducting cross-border activities.

Staff continue to work with the Financial Services Commission of Ontario (FSCO) on initiatives of common concern through the Joint Forum of Financial Market Regulators. Progress on joint initiatives included the development of principles and practices for the sale of products and services in the financial sector; point of sale disclosure for segregated funds and mutual funds; and guidelines for capital accumulation plans. The next steps are for the constituent groups of the Joint Forum to propose implementation of these initiatives.

Substantial work has been done through IOSCO to reduce the abusive use of offshore havens to perpetrate capital market offences. The ongoing development of the IOSCO Memorandum of Understanding (MOU) will provide a list of jurisdictions that are able to cooperate with international investigations. We have worked with IOSCO, and informally with many jurisdictions which historically have been uncooperative, to improve processes for information sharing. These processes include developing protocols for the provision of assistance by conducting investigations on behalf of regulators from foreign jurisdictions.

Our staff worked with the Investment Dealers Association (IDA) to identify rule changes and better practices that will reduce the use of brokerage firms by insider traders in their illegal conduct. The IDA has proposed rules (IDA Regulation 1300 - Beneficial ownership of institutional accounts) that reflect certain recommendations of the Financial Action Task Force on Money Laundering, and the

Insider Trading Task Force. Staff are working closely with the IDA and CSA to ensure that the appropriate recommendations are taken into account.

In recent investigations into insider trading activity significant success was achieved in piercing the secrecy provisions of several jurisdictions. Lessons learned from those processes will assist future investigations. The OSC has also partnered with the RCMP to form investigative units to strengthen enforcement action and to target those who use privileged information in illegal insider trading.

During the year, the MFDA has made a number of changes to its governance structure and has strengthened its enforcement and disciplinary process. Specifically, the MFDA amended its corporate governance structure to ensure that the public and different MFDA members are properly represented on its board. It has also clarified the functions of its regional councils with respect to enforcement and policy matters. The composition of these councils and hearing panels are amended to ensure their effectiveness in the conduct of enforcement proceedings. These amendments were effected by changes in the MFDA By-laws, which were approved by the Commission. The Commission has also amended and restated its order that recognizes the MFDA as a self-regulatory organization to reflect these developments.

The System for Electronic Disclosure by Insiders (SEDI) was launched in June, 2003. SEDI is an electronic insider reporting system that replaces paper-based reporting for most issuers. SEDI requires insiders to file insider reports electronically using the SEDI website. The public can search and view insider reporting information over the same website.

The National Registration Database (NRD) was implemented in April. There has been good feedback from the industry relating to the ease of use of the NRD. An Operational Procedures and Policy Committee, comprised of representatives from Ontario, Manitoba, Alberta, British Columbia, New Brunswick and the IDA, has been established. The Committee is chaired by the OSC and is responsible for making decisions relating to harmonized registration processes, information recording and interpretations of the NRD forms.

In Fall 2003, a Registration Advisory Committee was established. The committee is comprised of representatives from the bank owned dealers, large and small investment dealers, mutual fund dealers, and advisers, as well as representatives from the IDA, the Mutual Funds Dealers Association, and the Canadian Depository for Securities (CDS). The committee meets each month to discuss and recommend solutions to registration related issues. Members of the CSA join by conference call on quarterly basis to discuss national issues.

The National Registration System (NRS) proposal was approved by all jurisdictions and was published for comment in January 2004. It is expected that the NRS will be approved June 2004. A two-stage implementation may

be required to facilitate changes to the NRD. This will allow individual registrations to continue to be completely electronic while firms will be able to submit applications in paper format.

Industry committees were established to reconsider data consolidation and market integration requirements for equity markets and fixed income issues. Amendments to ATS rules were implemented to reflect the work of these advisory committees.

The non-employment relationships project, which will establish a flexible business model for mutual fund sales representatives, was deferred this year because of staff commitments to the USL project. Work on the project will resume in 2004/2005.

2. **Market participants and investors will have confidence in the integrity of Ontario's capital market.**

2003/2004 Initiatives

- a) Work with the provincial government and our CSA colleagues on legislative initiatives to strengthen our regulatory system and improve investor confidence:
 - in response to the Report of the Five Year Review Committee, and
 - in response to U.S. initiatives (e.g., Sarbanes-Oxley and the new NYSE listing standards),
- b) Respond to the introduction of Keeping the Promise for a Strong Economy Act (Budget Measures), 2002 including developing and proposing any necessary rules and enforcement protocols,
- c) Work with our CSA and SRO colleagues to develop and implement strategies to reduce unlawful insider trading in Canada,
- d) Coordinate with foreign regulators to identify and close "gaps" in regulation between jurisdictions that may be used to support illegal market conduct,
- e) Develop and propose a revised framework for regulating mutual funds and their managers that relies on independent oversight as a means to address conflicts of interest and focuses on the responsibilities of the fund manager in managing mutual funds, and
- f) Complete development of a Fair Dealing Model proposal.

During 2003/2004 the OSC plans to publish draft rules for comment to address the following issues:

- Auditor Oversight
- CEO/CFO Certification of Financial Information
- Composition and Responsibilities of Audit Committees

The OSC will also examine potential approaches to address issues related to Board independence including guidelines for committees (nominating, compensation etc.).

2003/2004 Results

Three new rules were implemented in March 2004 to respond to the U.S. investor confidence initiatives. National Instrument 52-108 requires financial statements of reporting issuers to be audited by a public accounting firm that participates in the oversight program of the Canadian Public Accountability Board. Multilateral Instrument 52-109 requires chief executive officers and chief financial officers (or persons performing similar functions) of all reporting issuers (other than investment funds) to certify their issuers' annual and interim filings. Multilateral Instrument 52-110 prescribes the composition, responsibilities and reporting obligations for audit committees of reporting issuers (other than investment funds). In order to raise awareness about the instruments, staff delivered a series of speeches and participated in a webcast that is available through the Commission website.

In addition, proposed Multilateral Policy 58-201 *Effective Corporate Governance* and Multilateral Instrument 58-101 *Disclosure of Corporate Governance Practices* were published for comment on January 16, 2004. The purpose of the proposed policy is to confirm as best practice certain governance standards and guidelines that have evolved through legislative and regulatory reforms and the initiatives of other capital market participants. The purpose of the proposed instrument is to provide greater transparency for the marketplace regarding the nature and adequacy of issuers' corporate governance practices. The comment period expires on May 31, 2004.

Operationally, we have restructured the Corporate Finance Branch to better reflect the continually increasing emphasis on continuous disclosure. Under the revised structure, all three teams in the Branch carry out a mix of prospectus and continuous disclosure related work. Previously, the continuous disclosure review function was the responsibility of only one team. In addition, each team manager is now supported by an assistant manager in order to facilitate an effective, efficient and consistent review process throughout the Branch.

The OSC Chief Economist (OCE) participated in the policy development and completed cost-benefit analyses for each of these rules. The OCE also contributed a paper on the empirical impact of insider trading and consulted with the Insider Trading Task Force to inform policy on insider trading and as part of the OSC submission to the Federal Government on Bill C-13.

OSC staff has overseen the publication by the Investment Dealers Association of new standards to reduce or eliminate analysts' conflicts of interest.

OSC staff also worked with the Canadian Institute of Chartered Accountants to promulgate new rules governing auditor independence.

Staff developed and published Staff Notice 21-702, a framework for dealing with foreign exchanges. The notice addresses investor protection, market integrity and regulatory efficiency issues.

The Five Year Review Committee made many recommendations with respect to the securities regulatory framework. Through the USL process, enforcement staff did a considerable amount of work on enforcement related initiatives. The draft USL provisions not only incorporate recommendations of the Committee, they also incorporate best legislation from across CSA jurisdictions, as well as new provisions that would further strengthen enforcement and enhance inter-jurisdictional cooperation and support.

The Insider Trading Task Force, which was comprised of staff of several Commissions and Self Regulatory Organizations (SRO), produced thirty-two recommendations for preventing, detecting and deterring insider trading in Canada. The OSC is taking the lead in working with other Canadian Securities Administrator (CSA) jurisdictions in the analysis and, where appropriate, development and implementation of those recommendations.

OSC enforcement staff is organizing an international conference to be held in Toronto in September 2004, which would bring together offshore jurisdictions with North American regulators and enforcement officials to discuss ways of identifying and preventing market abuses.

With the goal of reaffirming investor confidence in the mutual fund industry, the OSC initiated a three stage probe of mutual fund firms in Ontario in order to determine whether illegal and improper trading practices such as late trading and market timing are occurring in mutual funds sold in Ontario. An initial questionnaire was sent to 105 mutual fund managers in November 2003. Based on the responses received and a sampling of the industry, 32 fund managers were selected in February 2004 to provide specified trading data. Following statistical analysis of this data, certain fund managers will be subject to an on-site review by OSC staff. The findings of the third phase of our probe will assist us in determining what corrective measures, if any, the OSC needs to take.

A concept paper for independent oversight of mutual funds was released in January 2004 along with preliminary results of the cost-benefit analysis.

The proposed Fair Dealing Model (FDM) was released in stages over the year. Industry feedback was received through the use of an innovative interactive website. A concept paper which included an analysis of the results of the website survey, and further developed the ideas of how

the FDM would work in practice, was published for comment. The release of the concept paper attracted very favourable media attention. Seven industry working groups have been established to provide feedback on implementation issues and data for a cost benefit analysis. The next phase of the project will build on the results of the working groups and comment process, and will also provide more detail on the single service provider license concept, proficiency requirements, and the role of industry governance bodies, including SROs, and accreditation bodies. A series of FDM round table industry discussions in CSA jurisdictions led by senior OSC officials has been arranged with the CSA.

3. Regulatory interventions in Ontario will be balanced and merit based.

2003/2004 Initiatives

- a) Make appropriate changes to our practices as a result of the recommendations of the Regulatory Burden Task Force,
- b) Assess the impact of "soft dollars" on market efficiency, analyst bias and competitiveness,
- c) Improve accountability through the use of rigorous Cost Benefit Analysis and risk-based assessments for all proposed initiatives,
- d) Monitor changes in the regulation of the structure of investment banks and research units in other countries to determine the need (if any) for change in Canada.

2003/2004 Results

Changes to our practices as a result of the recommendations of the Regulatory Burden Task Force will be presented in our 2003 Annual Report.

A decision was made to combine soft dollar analysis with a study of best execution under the leadership of the Capital Markets branch. A preliminary quantitative report on the cost of execution in Canada relative to other jurisdictions will be completed by April 2004. Through industry conferences and research, the OCE has monitored regulatory developments in primarily the US and UK and the potential impact of those developments has been used to inform the policy development process.

The OCE developed a series of Risk Criteria for Earnings Manipulation which is being used by Corporate Finance as a basis for Continuous Disclosure Review. These statistical criteria will be refined based on further research by the OCE and feedback from Corporate Finance.

The Compliance team implemented a risk-based approach to compliance field reviews of non-SRO members in April 2003. A "sweep" was performed of all market participants identified as high risk in Spring 2003. The approach to Compliance field reviews has been amended so that

resources are focused on higher risk market participants and the higher risk areas of their operations.

4. The OSC will have superior and transparent governance and accountability mechanisms.

2003/2004 Initiatives

- a) Adopt a more customer focused approach to our communications and service delivery,
- b) Improve the transparency of OSC corporate governance practices and accountability mechanisms, and
- c) Tailor the form and method of access to OSC communications to the needs of OSC constituents, including implementing predominantly electronic-based communications vehicles and redesigning the OSC Website.

2003/2004 Results

The OSC Investor Communications team continued to implement community outreach and public awareness initiatives, with success measured by feedback from exit surveys and retention data gleaned from follow-up telephone calls. During the past year the OSC fulfilled requests for more than 59,000 printed brochures and Investor Kits and directly reached more than 12,000 Ontario investors through events and trade shows including the following programs:

- *Protect Your Money*, a joint project with the Ontario Senior Secretariat on fraud awareness for senior investors which is delivered by senior volunteers from the Volunteer Centre of Toronto. Twenty-nine "Protect Your Money" presentations were hosted by Members of Provincial Parliament across Ontario during the fiscal year
- OSCAR (Ontario Securities Commission Agent Representative) an investor education outreach program designed to engage community leaders who, on behalf of the OSC, speak to audiences in their community on fraud awareness and investor protection. The OSC ran fifty-five OSCAR sessions in communities across Ontario during the fiscal year.
- Staff Ambassadors, a program to train OSC staff to deliver messages on investor protection, fraud awareness and regulatory issues, to high school students and community and industry groups across Ontario. Since the Staff Ambassadors launch in November 2003, the OSC has expanded outreach capabilities by training 56 Ambassadors and delivering 9 presentations.

A new, powerful search engine was installed on the OSC website in September 2003. The engine will be integrated into the second generation web-site, which is in the final

stages of development. User testing is planned for April 2004, with launch in early June 2004.

The OSC has enhanced the transparency of its corporate governance practices and accountability mechanisms through greater public disclosure including the introduction of a revised corporate governance disclosure section on the OSC website. The OSC has reviewed and updated the mandates of each Board committee and has appointed a Part-time Commissioner as the Lead Director with responsibility for enhancing the Board's capacity for independent oversight of the Commission's corporate and business operations. A new Adjudicative Committee was established to monitor the Commission's adjudicative procedures and practices and to recommend improvements in the Commission's adjudicative functions.

The OSC currently solicits advice from sixteen advisory committees made up of accomplished professionals in the marketplace from a broad range of backgrounds and disciplines who actively represent the views of various stakeholders.

A survey of key stakeholder satisfaction was conducted in late 2003/2004. The survey indicated that the strengths of the OSC are its key competencies, regulation and enforcement. New initiatives, such as the mutual fund probe and investor confidence rules, were reviewed positively. Areas for continued improvement were the rule-making process and communicating with the public. There was also strong support among key stakeholders for a single, national securities regulator.