



THE ONTARIO SECURITIES COMMISSION

REPORT ON STATEMENT OF PRIORITIES FOR FISCAL 2007-2008

June 2008

The OSC'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 those markets. In 2007 the Commission identified four strategic goals that it would pursue over the five-year period ending in 2012 to meet this mandate. They are:

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

The Statement of Priorities is an annual document required under the Securities Act that sets out the specific priorities and projects to be pursued by the OSC in a given year to achieve its strategic goals. In this progress report on the Statement of Priorities, we present a summary of accomplishments and highlights that were achieved during 2007-2008 for each goal. Following each summary narrative, we present in table format, detailed accomplishments and the current status for each of the specific 2007-2008 priorities.

GOAL 1 – Identify the important issues and deal with them in a timely way.

Our goal is to deal with today's concerns, while anticipating tomorrow's challenges. We want to be a strategic leader in fulfilling our mandate to Ontario investors and the Ontario marketplace. We will:

- Consult and collaborate with investors, issuers, intermediaries, other industry participants and academics;
- Identify trends and emerging issues, and develop solutions to address them in a risk-based framework;
- Work with the Government of Ontario, other securities regulators and market participants to strengthen the Canadian securities regulatory system. We will work to further harmonize, streamline and modernize securities laws and eliminate obsolete and redundant requirements to ease the regulatory burden on market participants;
- Continue to examine alternative securities regulatory approaches, such as principles-based regulation, and adopt best regulatory practices from other Canadian and international jurisdictions to support Ontario markets and investors. We will work to enhance the global competitiveness of our capital markets as well as foster co-operative relationships with other securities regulators and standards setters;

- **Use the full range of tools available to achieve our mandate, and assign priorities to all our work based on our strategic goals; and**
- **Ensure our priorities are communicated in a timely and effective manner.**

Key Accomplishments and Highlights

The OSC led the project that developed proposed National Instrument 31-103 Registration Requirements, which, when implemented, will harmonize, streamline and modernize the current registration requirements across Canada. The planned reforms to the regime for registering dealers, portfolio managers and investment fund managers will benefit investors as well as other market participants. The reforms will require the registration of investment fund managers, set higher proficiency requirements for registrants and prescribe improved complaint handling and dispute resolution requirements.

Evolving executive compensation practices necessitate enhanced disclosure to allow investors to assess how compensation decisions are made. The OSC's objective is to bring greater clarity and consistency to executive compensation disclosure. In February 2008, the Canadian Securities Administrators (CSA) sought additional 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.

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 deferring the originally proposed effective date.. Following publication of the proposed rule for an additional 60-day comment period, the goal is to have it in effect for calendar 2008 year-ends.

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 invited comments on issues relating to possible rule changes concerning acceptable accounting principles for reporting issuers. The main issues raised for discussion include whether to permit the use of IFRS by domestic reporting issuers before the planned changeover date of January 1, 2011; whether to continue to permit domestic reporting 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." Comments have been received and are currently being reviewed.

As the structure of the Canadian capital markets evolves in response 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 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 continues to contribute 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. These are just some examples of how the OSC works to deliver appropriate regulatory responses to developments within the capital markets. In addition to IOSCO, the OSC is also active in the Council of Securities Regulators of the Americas, the North American Securities Administrators Association, and other international regulatory and standard-setting organizations.

In the past year OSC staff worked on 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 conditions related to the transactions as part of its oversight of exchanges and SROs in Ontario.

The OSC recognizes that it has a responsibility to provide leadership as well as to co-operate effectively within the current regulatory framework. Management and staff have worked effectively with the other members of the CSA and the SROs to modernize and harmonize securities regulation across Canada. 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 of our respective regulatory regimes. Under a mutual recognition agreement, Canadian exchanges, and possibly investment dealers, that comply with Canadian requirements would be exempt from the requirement to register in the U.S.

In February 2008, the International Monetary Fund (IMF) published an assessment of the stability of Canada's financial sector. The OSC submitted a detailed self-assessment as part 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 concluded, 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 CSA, is monitoring the progress made on the IMF's recommended action plan and will report back on further developments.

Goal 1	
Initiative	Status
1. Achieve progress in strengthening the registration regime by harmonizing, streamlining and modernizing current registration requirements;	Draft National Instrument 31-103 Registration Requirements was published for comment. The rule was revised to address issues raised in the first comment period and republished for comment. The comment period ends on May 29, 2008.
2. Improve disclosure of executive compensation by proposing amendments to National Instrument 51-102 Continuous Disclosure Obligations ;	Draft amendments to National Instrument 51-102 F6 Statement of Executive Compensation were published for comment on March 20, 2007. The draft form was revised to address comments received and was republished for further comment on October 12, 2007. The comment period will expire on April 22.
3. Harmonize and modernize prospectus requirements by proposing updates to National Instrument 41-101 General Prospectus Requirements ;	On December 21, 2007 National Instrument 41-101 General Prospectus Requirements was published, including a new long form prospectus form for non-conventional investment funds such as closed-end funds, ETFs, limited partnerships, labour-sponsored investment funds and scholarship plans. The rule became effective on March 17, 2008. Investment Funds staff will review the prospectus disclosure for non-conventional investment funds to assess compliance with the new prospectus form. We plan to compile issues from these reviews for possible one-year amendments.
4. Complete and implement the revised National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings to bring greater transparency to the state of internal control over financial reporting by reporting issuers;	Roundtable discussions were held to seek input on practical implementation issues for smaller issuers. A revised rule will be published in April 2008. The proposed instrument and related materials contain significant amendments in response to the input received during 2007. The most significant change from the original proposal was to exclude TSX Venture Issuers from the requirements to certify that they have designed and evaluated the effectiveness of their Internal Control over Financial Reporting disclosure controls and procedures. A new form of Venture Issuer Basic Certificate was added. The revised instrument is expected to be effective for December 15, 2008 and subsequent year ends.
5. Re-assess the impact of National Instrument 54-101 Communication with Beneficial Owners of Securities of a Reporting Issuer ;	OSC staff completed a preliminary assessment of the economic issues regarding shareholder communication. In order to solicit additional feedback over the current proxy season, the conclusion of our stakeholder consultations was deferred until June 2008. Further discussions with stakeholders are scheduled for June 2008.
6. Identify the appropriate means to	The OSC completed an extensive legal analysis of PPNs and recommended that: (i) the CSA

address investor protection concerns arising from the sale and distribution of Principal Protected Notes (PPN's);	rely on the pending federal PPNs regulations (ii) the CSA work with the Mutual Fund Dealers Association of Canada (MFDA) to revise MFDA rules. CSA Staff Notice 46-304 - <i>Update on Principal Protected Notes</i>, published in July 2007, outlined various staff concerns with these products. Federal PPN regulations are expected to come into force on July 1, 2008. The CSA continue to work with the MFDA to ensure that know-your-client and suitability obligations with respect to these products are fulfilled.
7. Monitor the implementation of National Instrument 81-107 Independent Review Committee for Investment Funds to assess its effectiveness in achieving the objective relating to the management of conflicts of interest facing investment fund managers;	NI 81-107 came into force on November 1, 2006. The first major deadline was May 1, 2007, at which time all fund managers were required to appoint an independent review committee (IRC). The next deadline was November 1, 2007, at which time all investment fund IRCs became operational. OSC staff responded to inquiries from fund managers on implementation issues. Staff also began to grant some exemptive relief in connection with the implementation of the Rule. Since investment fund IRCs became fully operational in November 2007, in the coming year we will continue to monitor NI 81-107 to assess its effectiveness in achieving the objective relating to the management of conflicts.
8. Propose amendments to National Instrument 81-106 Investment Fund Continuous Disclosure to provide guidance on fair-value principles that investment funds should use in calculating their net asset value and eliminate the need for investment fund managers to change valuation practices to align with new accounting measurement standards;	Proposed amendments to National Instrument 81-106 Investment Fund Continuous Disclosure were published on June 1, 2007 modifying the requirements regarding the calculation of net asset value following the introduction of section 3855 Financial Instruments – Recognition and Measurement, of the CICA Handbook. Amendments to National Instrument 81-106 to modify the requirements regarding the calculation of net asset value have been finalized. The amendments remove the requirement to calculate net asset value in accordance with Canadian GAAP, to eliminate the need for investment funds to change their valuation practices. Instead, the rule will require that investment funds determine the fair value of their assets and liabilities. Publication of the amendments is planned for June, 2008, with a target effective date of September 30, 2008.
9. Identify the appropriate regulatory response to market developments in the area of non-conventional investment funds and structured products such as Linked Notes offered under a shelf prospectus;	On July 20, 2007, CSA Staff Notice 44-304 Linked Notes Distributed Under Shelf Prospectus System was released. It provides guidance to issuers that intend to qualify linked notes for distribution. Amendments to National Instrument 44-102 Shelf Distributions (which broaden the scope of prospectus supplements for specified derivatives that issuers would be required to pre-clear with securities regulators) came into force on March 17, 2008.

10. Address recent market developments by working with Market Regulation Services Inc. to update the Alternative Trading System (ATS) rules (National Instrument 21-101 Marketplace Operation and National Instrument 23-101 Trading Rules) to improve consistency of rules at the self-regulatory organization (SRO) level and at the Canadian Securities Administrators (CSA) level;	In a Joint Notice with Market Regulation Services Inc., 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. Staff are working with the CSA to finalize the best execution amendments and are also working on a draft rule related to trade-through.
11. Implement National Instrument 24-101 Institutional Trade Matching and Settlement and support industry progress toward achieving institutional trade matching on the trade date or "T" by July 1, 2008;	CSA Staff Notice 24-304 was published on July 13th announcing the establishment of the CSA-Industry Working Group to identify/resolve issues in relation to NI 24-101. A letter requesting the Minister's approval of local Rule 24-502 extending the transitional reporting period by 24 months was sent on April 1, 2008. The exception reporting system for reports filed under NI 24-101 was implemented in Q4.
12. Collaborate with the CSA to develop and implement practices to enable regulators to interpret and apply harmonized securities requirements in a uniform way;	The CSA Passport Steering Committee (PSC) identified five risks associated with implementing a harmonized regulatory system and developed five strategies that mitigate those risks.
13. Work with the CSA to build appropriate interfaces between the OSC and any CSA members that proceed with Phase 2 of the proposed Passport System;	The interface policies, NP 11-202, <i>Process for Prospectus Reviews in Multiple Jurisdictions</i> and NP 11-203, <i>Process for Exemptive Relief Applications in Multiple Jurisdictions</i> came into force on March 17, 2008.
14. Align our securities regulatory system with international best practices by participating in the International Monetary Fund (IMF)/World Bank	The detailed Financial Sector Assessment Program (FSAP) self-assessment was delivered to the federal Department of Finance and the IMF. The IMF on-site visit took place in September 2007. In February 2008, the IMF released its report that was generally very positive. The OSC is monitoring progress on the IMF's recommendations.

Financial Sector Assessment Program Update initiative; and	
15. Assess the policy and operating implications for the marketplace of adopting International Financial Reporting Standards (IFRS) to replace Canadian Generally Accepted Accounting Principles and implement strategies to facilitate the transition.	The CSA Chief Accountants' Committee made a preliminary identification of issues associated with a transition for reporting issuers from Canadian GAAP to IFRS. The Committee has begun development of a Staff Notice to provide guidance on how existing MD&A disclosure requirements should be applied. An IFRS Working Group has been set up and has substantially completed a review of each of the OSC's operating branches to identify areas of our operations that may be affected by adoption of IFRS including training needs.

GOAL 2 – Deliver fair, vigorous and timely enforcement and compliance programs.

Timely and appropriate compliance and enforcement are integral to fostering confidence in capital markets and preventing harm to investors. The Canadian regulatory and enforcement framework is perceived by many stakeholders to be fragmented and not operating in an effective or efficient manner. To address this, we will:

- **Focus additional enforcement and compliance resources and ensure effective coordination among OSC branches relating to improper market conduct;**
- **Identify gaps in the enforcement framework and co-operate with others to find practical solutions;**
- **Improve the effectiveness of our enforcement work through reduced timelines for completing investigations and bringing regulatory proceedings forward;**
- **Provide leadership and assistance to improve collaboration among Canadian and international regulatory and criminal law enforcement agencies;**
- **Foster inter-jurisdictional co-operation to improve the coordination of investigative efforts, enforcement, and legal tools for enforcement; and**

- Increase our transparency through timely and effective communications of enforcement actions where warranted.

Key Accomplishments and Highlights

The OSC launched a specialized Boiler Room Unit to disrupt and prevent the distribution of 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.

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.

The investment funds continuous disclosure (CD) review program was expanded in 2007–08 following its launch in 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 be improved and provides guidance for enhancing the quality and presentation of the management reports of financial performance.

In December 2007, the CSA announced that they 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 review. 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 the case to the Enforcement Branch.

Goal 2	
Initiative	Status
1. Articulate and promote a coherent statement of enforcement and compliance priorities;	Staff have completed a draft statement of Enforcement priorities. It incorporates the OSC's priorities for Enforcement for 2008-2009. Commission input and approval will be sought in Q1 2008-2009.
2. Improve the internal processes for identifying and referring cases to	Economic Analysis, Strategy and Planning staff are working with the Enforcement Branch Surveillance team to review past cases of suspected insider trading in advance of M&A

enforcement under a risk-based approach to regulation;	transactions. Using the group's expertise in data analysis, the focus is to find potential links across cases and identify individuals who were not official insiders but may have had access to non-public information.
3. Increase the number of enforcement proceedings commenced within four months of the date of transfer to litigation, where there have not been settlement discussions;	Enforcement implemented a tracking system to ensure proceedings are commenced on a timely basis. Over the past year we commenced proceedings within four months in 84% of cases.. Our Surveillance group has been reconfigured with two fully integrated units – boiler room and insider trading. This is expected to greatly reduce time lags between phases of the process.
4. Increase the effectiveness of the protection provided to investors against frauds and scams by creating a specialized multi-disciplinary unit dedicated to investigating economic crimes such as illegal distributions and unregistered trading in securities;	On July 3, 2007, the OSC formally established a specialized unit known as the Boiler Room Unit dedicated to investigating illegal distributions with an element of fraud. As part of our investigations during 2007-2008 we obtained Temporary Cease Trade Orders against 117 individuals and corporations up from 38 in 2006-2007. These temporary orders provide protection to investors at an earlier stage of the enforcement process while our investigations are completed.
5. Implement further improvements to the electronic processing and storage of documentary evidence to permit more efficient and effective access by investigators and counsel and provide enhanced disclosure of documents;	Our OSC information technology staff worked with Enforcement to implement a newer version of the Investigations and Litigation support application, known as Summation. Staff in the Litigation and Investigations units have been trained in Summation usage with on going training and support provided on an as needed basis. Twenty three investigation files which have been uploaded into Summation. These files represent matters which require Summation's capacity to handle large volumes of evidence or where the evidence has been collected in electronic format. All major new files are now being entered into Summation.
6. Increase the efficiency and value of the continuous disclosure review program for corporate issuers by continuing to implement an industry-specialization approach. External resources will be employed where specialized industry knowledge is needed to achieve program objectives;	Our key objectives for each industry group for fiscal 2007/2008 included the following: • Selecting of issuers for review based on risks and other relevant factors identified for each industry group in their industry plans. Last fiscal was the first year each industry group pre-selected issuers for review to meet our average annual benchmarks of reviewing 25% of market capitalization for larger companies (TSX and TSX - V Tier 1 issuers) and 10% of the total number of issuers for other companies (TSX - V Tier 2, NEX and unlisted issuers); and • Conducting reviews focused on industry specific risks and issues identified by the industry group. For example, industry specialization was particularly important last fiscal in the banking and financial services industry as a result of the credit crisis.

	Our industry specialization objectives for 2007-08 were met. We completed 314 CD reviews. Review plans have been set for 2008-2009 and reviews are in progress.
7. Increase utilization of coordinated inter-Branch compliance field reviews of investment fund market participants;	Compliance staff, with some staff from Investment Funds, conducted reviews of 26 fund managers focused on fund expenses and valuation of securities. Deficiency letters are being finalized and a summary report of the findings is being drafted.
8. Support efforts of federal, provincial and territorial ministers responsible for justice to develop recommendations to improve the enforcement regime in Canada for securities fraud and other economic crimes. Play a leadership role by co-chairing the Task Force on Securities Fraud Enforcement, which plans to report its recommendations to the ministers in November 2007; and	The Task Force is co-chaired by David Wilson. Along with the Chair, OSC Enforcement staff have been active participants in the development of recommendations. Recommendations were presented and are currently under discussion by the Ministers and their Deputies. An implementation committee has been established. Work is proceeding on all major recommendations.
9. Work with the International Organization of Securities Commissions (IOSCO) and other international bodies to enhance global co-operation in enforcement matters.	OSC Enforcement is an active participant on the IOSCO Enforcement Committee, SC4, and the related Multilateral Memorandum of Understanding (MMOU) Screening Group. The mandate of SC4 focuses on facilitating processes for investigations and prosecution in the enforcement process. The IOSCO MMOU is designed to ensure commitments to the highest standards of information sharing in enforcement investigations among signatories. We have participated extensively in the review process for applicants to the IOSCO MMOU. OSC has worked on numerous IOSCO Enforcement projects aimed at enhancing international communication on enforcement matters.

GOAL 3 – Champion investor protection, especially for retail investors.

The interests and needs of investors, particularly retail investors, will continue to be strongly reflected in all the OSC's operations. In addition to our enforcement activities, investor education and awareness and timely access to accurate information are important components of investor protection. We will:

- **Continue to reflect investor interests in all that we do;**

- **Increase support for investor education;**
- **Continue to support and grow plain-language initiatives for investors to achieve better communications;**
- **Work with the Government and self-regulatory organizations (SROs) to improve investor access to timely and affordable means of redress. This includes improving investor awareness of, and access to, existing mechanisms for resolution of complaints and restitution, such as those offered by the Ombudsman for Banking Services and Investments (OBSI);**
- **Work with the SROs and lead or support initiatives that recognize the importance of the adviser to the retail investor, and strengthen and improve the adviser/retail investor relationship;**
- **Communicate our commitment to investor protection and the importance of that commitment;**
- **Increase and enhance targeted outreach efforts to the investor through such vehicles as Investor Town Halls and the Investor Advisory Committee; and**
- **Increase the involvement of other industry groups, such as SROs, through their participation and information exchange.**

Key Accomplishments and Highlights

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.

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. The CSA's XBRL voluntary filing program was launched in May 2007. The voluntary program will help the CSA test and assess the usefulness of XBRL as it considers whether to propose making filing in the XBRL format mandatory.

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 to reach out 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 2007–2008. 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 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 incorporating environmental matters in their continuous disclosure documents to ensure their disclosure is in compliance with securities legislation.

Goal 3	
Initiative	Status
1. Work with the Joint Forum of Financial Market Regulators to publish for comment a proposed framework for point-of-sale disclosure that would require clear, concise and plain-language product and sales fee disclosure for investors in mutual funds and segregated funds;	On June 15, 2007, the Joint Forum published its proposed point-of-sale framework for public comment. A two-page document called Fund Facts is a significant element of the framework. Using plain language, Fund Facts highlights critical information for investors, including fund performance, risks and costs. Under the proposed framework, investors would receive Fund Facts before or at the time they are making their decision to buy a mutual or segregated fund. The Joint Forum received 87 comments on the proposed framework. After considering all of the comments received, the Joint Forum is currently developing a revised framework. We expect to publish the revised framework in fall 2008.
2. Improve our understanding of investor expectations of the complaint-handling process, working in partnership with the SROs and OBSI, and also research and consider more effective means for the resolution of complaints and restitution;	An investor survey exploring retail investors' experience and satisfaction with the complaint processes at the IDA, MFDA, OSC and OBSI was conducted. The results will be utilized by all four organizations to improve the complaint process for investors. We published a brochure "Getting Help with Your Complaint" that describes clearly how an investor can navigate through the complaints process. Our Inquiries & Contact Centre was reorganized into two divisions Market Participant Support and Investor Assistance – in order to better respond to and provide specialized assistance to key stakeholders.

3. Work with the Joint Forum of Financial Market Regulators to enhance the effectiveness of the Financial Services OmbudsNetwork;	We participated in the Joint Forum initiative to develop a new framework for collaboration with the OmbudServices that make up the Financial Services OmbudsNetwork. We also participated on the Joint Forum Dispute Resolution Standing Committee, which is working with the OmbudServices to improve complaint handling processes for investors.
4. Hear directly from retail investors by co-hosting a 2007 Investor Town Hall with the SRO's and OBSI;	The 2007 Investor Forum, held in Toronto on October 24, 2007, attracted 243 people and featured a progress report on developments and programs since the 2005 Town Hall together with educational sessions on topics including choosing an advisor and understanding investment products and risks. The event was also a forum for investors to share their views and concerns with the regulatory bodies. Attendee surveys were very positive with 86% indicating it was a worthwhile event. A joint report on the Forum entitled, "Working together: the 2007 Investor Forum," was published on the websites of all four participating organizations.
5. Seek retail investor perspectives on key issues such as the investor/adviser relationship, transparency and accountability;	Staff consulted with the OSC Investor Advisory Committee (IAC), which was created to enhance consultation with investors, at its quarterly meetings. The two-year term of the IAC ended in 2007–08. A preliminary meeting with senior executives from the IDA, the MFDA and OBSI was held to establish a new Joint Standing Committee on Retail Investor Issues. The terms of reference are being drafted and will be finalized and posted to the websites of all four organizations in April 2008.
6. Collaborate with the Canadian Securities Administrators (CSA) to continue to improve our process for providing timely alerts and other information to investors;	Staff worked with the CSA to develop a comprehensive Communications Strategy and the CSA Investor Education Committee to update the CSA consumer brochures using plain language and clear design. The CSA Investor Education Committee reached out to Canadian youth through the Financial Fitness Challenge, which saw 17,166 students register for the contest, 46% of which were from Ontario. A news release was issued to announce Fraud Awareness Month (March 2008). The release reiterated the messages in the OSC's "Check Before You Invest" campaign. We oversaw the release of a national survey on investment fraud and used this opportunity to highlight work by the Boiler Room Unit and raise awareness among investors about the red flags of fraud.

	OSC Staff Ambassadors spoke to 18,200 people at 62 trade shows and events across Ontario, and distributed 50,100 investor education brochures as part of the "Check Before You Invest Campaign".
7. Broaden implementation of reviews of investment fund prospectuses and continuous/integrated disclosure to assess sufficiency of disclosure and identify emerging issues, including trends in fees;	Investment funds staff reviewed continuous disclosure filings for a number of investment funds and published OSC Staff Notice 81-709 Report on Staff's Continuous Disclosure Review of Investment Funds (2008) on May 30, 2008. Investment Funds also engaged in a targeted review of investment funds holding asset-backed commercial paper (ABCP) with a focus on valuation and disclosure issues. Investment funds staff will expand their continuous disclosure reviews to include non-conventional investment funds (such as closed-end funds, limited partnerships, labour-sponsored investment funds and scholarship plans) and will communicate the findings from those reviews in future notices.
8. Explore opportunities for enabling investors to receive, compare and analyze financial information through eXtensible Business Reporting Language (XBRL) ; and	Corporate Finance staff continue to lead the CSA's XBRL voluntary filing program. CSA staff are monitoring the SEC's XBRL activities and await the spring 2008 publication of a proposed rule on filing XBRL financial statements. The SEC's Committee to Improve Financial Reporting has recommended that the SEC begin mandating the filing of XBRL financial statements as early as 2009 for its largest issuers. Three issuers have filed XBRL financial statements under the voluntary filing program. We continue to monitor developments in the US and internationally.
9. Review, in conjunction with the CSA, technological solutions that will improve public access to information on a CSA administered system.	Please see CSA IT Strategic Plan below. (Goal 4 Item 4)

GOAL 4 – Support and promote a more flexible, efficient and accountable organization.

The OSC's strength is its people. We will make the best use of all our resources, including people, technology, research and financial, to achieve timely and effective execution of all that we do. We expect OSC Commissioners and employees to maintain the highest standards of conduct and personal integrity and to deal openly and fairly with all of our stakeholders. We shall continue to constantly advance our business competence and effectiveness. We will:

- **Continuously monitor and improve the efficiency and effectiveness of our operations;**
- **Be responsive and flexible as an organization and treat all stakeholders with respect and fairness;**
- **Leverage information technology effectively to support our operations and optimize our electronic interface with our stakeholders;**
- **Secure the most appropriate resources and justify their acquisition through cost- benefit analyses and similar tools;**
- **Identify skills requirements and ensure that we attract, retain and motivate staff who possess the required skills, and continue improving and enhancing our succession plans;**
- **Increase the knowledge management and risk analysis capabilities of the OSC;**
- **Supplement OSC staff resources with external resources where appropriate; and**
- **Identify those situations where greater reliance on other jurisdictions or organizations is appropriate.**

Key Accomplishments and Highlights

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.

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.

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, to promote the development of balanced, cost-effective regulation. OSC staff are asked to consider the costs and other potential impacts of proposed policy

initiatives to assist in evaluating regulatory alternatives and promote an outcome that is reasonable balanced in terms of the value of its objectives and estimated related 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.

Goal 4	
Initiative	Status
1. Develop more expertise and rigor in the conduct of cost-benefit analyses to enhance the development of cost-effective regulation without compromising investor protection;	Our Economic Analysis, Strategy and Planning staff continue to assist policy staff in the identification and assessment of costs and other impacts associated with new policy initiatives or, where the extent of the changes to existing policies is significant. On January 11, 2008 the CSA published for comment proposed NI 23-102 Use of Client Brokerage Commissions which was accompanied by a cost-benefit analysis examining the potential implications of the revised policy proposal.
2. Identify opportunities for improving service to the public and market participants who make inquiries of and/or complaints to the OSC;	The contact centre's new telephone platform provides self-serve options, and allows for queuing of calls to staff with the requisite skills (such as SEDI or French-language). This new platform also allows for rapid resumption of telephone services during emergency situations. Registrant information was enhanced on the OSC website, making it easier for investors to determine if an individual or firm is registered to sell securities or provide investment advice. The search results clearly indicate the category of registration and whether any terms and conditions are attached to the registration. Work is continuing on our website redevelopment project. Usability testing on a proposed new website framework has been completed.
3. Update the OSC's IT strategic plan, recognizing the technology needs of the Commission and its stakeholders;	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. 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. The recent CSA IT Strategic Plan report was reviewed to identify potential interfaces. Implementation of our plan is underway.
4. Work with the other provincial and territorial securities regulators to develop an IT strategic plan for the Canadian Securities Administrators;	CSA's IT Strategic Plan was drafted in October 2007. It is comprised of three key deliverables: (a) IT strategic plan; (b) a set of national systems governance recommendations; and (c) a design for a framework for future systems development. The implementation of the CSA IT Strategic Plan and governance structure awaits finalization and approval of matters regarding the business and operating models; recruitment of key resources; and final validation of various elements of the draft plan.
5. Implement improved internal knowledge-management initiatives across the OSC;	Work to better organize data in our shared drives is underway; digitization of key securities reports and historical <i>Ontario Securities Acts</i> has been completed. A review of document management needs has been initiated. The functionality of Google Appliance with LotusNotes databases is being tested.
6. Continue to develop an OSC human resources strategic plan that strengthens initiatives for leadership development, succession planning and compensation policies; and	The OSC refined its human resources strategic plan to focus on the priorities of attracting and retaining staff and developing a total compensation framework and a succession planning approach.
7. Review and strengthen the OSC's robust standards of ethics, integrity and accountability, consistent with the Government of Ontario's planned implementation of the new <i>Public Service of Ontario Act, 2006</i> .	In response to the new <i>Public Service of Ontario Act, 2006</i> (PSOA) the OSC has developed a new OSC Conflict of Interest and Ethics Reporting Policy (Code of Conduct). Certain aspects of the new Code must be approved by the Conflict of Interest Commissioner of Ontario. If, and when approved, the new Code will come into effect in August 2008. The OSC Chair will be our Chief Ethics Executive under the PSOA.

Comments on the 2007-2008 Financial Outlook

The OSC fee structure is intended to generate fees that reflect the OSC's cost of providing services to market participants. The fee schedule requires the payment of "activity fees" and "participation fees". The forecasted surplus at March 31, 2006 was anticipated to be eliminated over the next three years based on a reduced level of participation fees for the fee schedule that was implemented in 2007. In fact, we have now revised our forecast from no accumulated surplus as at March 31, 2009 to an accumulated surplus of \$49.3 million due to the strong

performance of the capital markets. The fee structure is being reviewed to determine if there are ways to improve the predictability of revenues, fairness to market participants and matching of revenues and expenses. Implementation of a revised fee schedule is planned for April 1, 2009.

The OSC manages expenses by:

- Preparing an annual budget, which is reviewed by the Audit and Finance Committee and approved by the Board
- Continually assessing the efficiency of its processes
- Reporting actual versus budget performance and updated full-year forecasts every quarter to the Audit and Finance Committee and the Board
- Requiring Board approval of significant unbudgeted expenses or re-allocations

The 2007-2008 budget called for a deficiency of revenue over expenses of \$7.2 million in 2008. The actual result was an excess of \$4.6 million.

<i>(Thousands)</i>	2008 Actual	2008 Budget
Revenues	\$78,238	\$75,189
Expenses	\$73,621	\$82,437
Excess of Revenue	\$4,617	(\$7,248)

Revenues were \$3.0 million higher than budget primarily due to surplus participation fees (\$2.0 million), late filing fees (\$0.4 million) and investment income (\$0.7 million).

Expenses reflected lower than expected spending across all expense categories. Expenses were \$8.8 million lower than budget.

Salaries and benefits spending was \$4.4 million or 7.3% under budget. Funds were budgeted to address any necessary mid-year market related adjustments that did not take place and accounted for \$1.5 million or 34.1% of the underspending. The balance of the savings was due to vacancies and delays in hiring. The OSC continues to experience delays in hiring as there are certain positions where challenges in attracting and/or retaining staff persist, in particular: litigators in the Enforcement Branch; accountants generally; and investigators. The OSC had an approved permanent staff at March 31, 2008 of 467.

Professional services costs were \$2.2 million or 33.1% under budget. In Enforcement, which accounts for 35.8% of the variance, spending on some of the cases identified did not occur or was less than planned. Other initiatives that were underspent include; work on various policy initiatives (e.g. PPN rule, scholarship plans, data modelling for TREATS), a contingency for cost benefit analysis work was not used; and the

biennial OSC stakeholder survey was deferred. Savings also occurred due to delays on planned audits under the internal audit program. Contingencies for outside expert legal opinions and for certain CSA initiatives and were also not fully used. The contingency included in the OSC share of the CSA budget (\$194,000) was not required. Recruitment costs were \$154,000 or 48.9% over budget due to greater than expected use of external firms to address strong market demand for certain positions and unplanned senior recruitment during the year.

Additional details on our financial performance are discussed in greater detail in the Management Discussion and Analysis section of the 2008 Annual Report, which can be found on the OSC website.