ONTARIO SECURITIES COMMISSION

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2009 OSC Annual Report

ONTARIO SECURITIES COMMISSION

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Welcome to the 2009 Annual Report

The Ontario Securities Commission (OSC) administers and enforces securities legislation in the province of Ontario. The OSC's statutory mandate is to provide protection to investors from unfair, improper or fraudulent practices and to foster fair and efficient capital markets and confidence in capital markets.

Contents

1. Chair’s Message

1. Chair's Message

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

OSC VISION STATEMENT

This is an unprecedented time for the capital markets in Ontario, across Canada and around the world. The markets have experienced extreme volatility, undermining the confidence in markets of many investors and market participants. In this environment, the role of a securities regulator is particularly important in fostering confidence in the integrity of the capital markets.

Responding to the turmoil in the markets

Throughout the market turmoil in 2008–09, the OSC has responded with initiatives meant to provide protection to investors and foster confidence in fair and efficient markets. This Annual Report highlights the key elements of this response.

We have worked closely with the Ontario Ministry of Finance, federal Department of Finance, Bank of Canada, Office of the Superintendent of Financial Institutions, other members of the Canadian Securities Administrators (CSA), self-regulatory organizations (SROs) and the Ombudsman for Banking Services and Investments (OBSI). We have coordinated our activities, where appropriate, and have regularly communicated with each other on important issues arising from developments in the marketplace. Increasingly, our discussions have included issues related to risks to the financial system and we expect these issues to attract more attention from governments and financial market regulators in the coming year.

We have contributed to important national securities regulatory initiatives. For example, the OSC played a lead role in the preparation of a consultation paper on non-bank sponsored asset-backed commercial paper (ABCP). The consultation paper, released by the CSA in October 2008, outlines regulatory proposals including a recommendation to regulate credit rating agencies in Canada. We are planning to bring forward specific recommendations based on this consultation paper in the coming year.

We have also been active internationally. We are working closely with our fellow regulators in the International Organization of Securities Commissions (IOSCO) as well as with the U.S. Securities and Exchange Commission (SEC).

In Ontario, our response has included:

- Close monitoring of disclosures by public companies, especially those in the financial services sector as well as highly leveraged companies;
- Compliance reviews of money market investment funds and non-conventional investment funds based in Ontario to assess their asset exposures; and
- Compliance reviews of Ontario-based hedge fund managers to determine whether they posed particular risks, given prevailing market conditions.

We have reported publicly and specifically to the Legislature's Standing Committee on Government Agencies on our response to recent unprecedented market turmoil. It is important for investors and market participants to be informed of our initiatives. The OSC recognizes that recent market volatility has created challenges for investors and market participants. As a result, fostering investor confidence is an important, albeit challenging, task. (The Strong Investor Protection section contains more details about the OSC's work to provide protection to investors.)

Regulatory reform

Recent market events have focused public scrutiny on regulatory systems, including Canada's system of 13 securities regulators. In January 2009, the Expert Panel on Securities Regulation recommended the creation of a single securities regulator for Canada. The Government of Ontario expressed its satisfaction that the Expert Panel endorsed Ontario's long-standing support for a single regulator. The OSC supports the Government of Ontario's position and welcomes any step that takes Canada closer to establishing a single securities regulator to administer and enforce a single securities act and charge a single schedule of fees to market participants.

Fiscal priorities

The difficult conditions in the financial markets have had a substantial impact on the real economy. Therefore, the OSC in consultation with the Ontario Government has decided to maintain its fee schedule unchanged for the 12-month period ending March 31, 2010. The resulting operating shortfall will be absorbed by our accumulated operating surplus and as a result will not affect our ability to deliver balanced and effective regulation.

In the current environment, the OSC is imposing fiscal discipline on all of our operations. We are being prudent in terms of spending but remain focused on achieving our key priorities. Resources will be allocated to their most productive uses to ensure that we continue to carry out our responsibilities effectively and efficiently during these difficult times.

In 2008–09, the OSC worked diligently to deliver balanced and responsive regulation that provides protection to investors and fosters confidence in the capital markets. Our work in this regard is ongoing. At this time, it is especially important to increase our vigilance in order to fulfill the OSC mandate and vision.

I would like to thank, on behalf of the investors and market participants in Ontario, all of the Commissioners, management and staff of the OSC for their tremendous efforts during a turbulent period in the capital markets.

Yours very truly,

David Wilson
Chair and Chief Executive Officer
Ontario Securities Commission

Our Goals

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

2. The Commission

OSC
ONTARIO SECURITIES COMMISSION

2. The Commission

2.1 Introduction: The Commission

The Commission acts as a securities regulator and also serves as the Board of Directors of the OSC. As a securities regulator, the Commission is responsible for administering and enforcing securities and commodity futures laws in Ontario, including the *Securities Act* and the *Commodity Futures Act*. As a Board, the Commission oversees the management of the OSC's financial and other affairs.

Adjudication

In 2008–09, there was a marked increase in adjudicative activity by the Commission, both in the number and complexity of matters heard by adjudicative panels. The growing number of administrative proceedings resulted in an increase in the number of hearing days and the number of cases on which panels are sitting concurrently. As a result, the Commission is considering proposals to enhance its case management procedures in order to continue to maintain effective adjudication of matters.

Policy and Governance

The Commission has responsibilities under Ontario's securities laws to regulate the capital markets in the province. Members of the Commission approve and oversee the implementation of the OSC's regulatory initiatives and priorities. In 2008–09, Members were actively engaged with OSC staff in the development and implementation of regulatory responses to the difficult financial market conditions.

In their role as a Board, Members are responsible for the overall stewardship of the organization. The Commission strives to conform to the highest standards of corporate governance appropriate for the Board of a regulatory agency.

Please go to www.osc.gov.on.ca for more details about the activities and governance practices of the Commission.

2. The Commission

2.2 Adjudication

The Commission's adjudicative function involves the adjudication of securities law matters, including administrative proceedings initiated pursuant to the *Securities Act* by the OSC Enforcement Branch and corporate transaction matters requiring the exercise of statutory discretion by the Commission.

The matters heard by Commission adjudicative panels involve complex issues of securities law and require significant expertise and scrutiny. The Commission performs its adjudicative function in a fair, transparent and timely manner consistent with procedural fairness requirements.

Matters before the Commission

In 2008–09, there was a substantial increase in adjudicative activity. The Commission's adjudicative panels sat for a total of 248 hearing days in 2008–09 (see Adjudicative Activities of the Commission chart below). The number of hearing days represents a 48% increase from the total of 168 days in 2007–08. The increase in adjudicative activity is consistent with the trend that has emerged in recent years. For example, the number of sitting days for hearings on temporary cease trade orders increased from 16 in 2007–08 to 70 in 2008–09, while the number of sitting days for contested hearings on the merits increased from 46 to 59 over the same period.

Adjudicative Activities of the Commission in 2008–09

Type of adjudicative proceeding	Number of sitting days
Contested hearings on the merits (Includes sanctions and hearings in writing)	59
Settlement hearings	15
Hearings on temporary cease trade orders	70
Motions and other interlocutory matters	28
Applications (Includes applications for review, take-over bids and applications under section 17, section 144, section 127(10) of the *Securities Act*)	14
All other matters (Includes pre-hearing conferences, appearances, etc.)	62
Total	248

2. The Commission

2.2 Adjudication (continued)

The matters heard by Commissioners included administrative proceedings commenced by the OSC Enforcement Branch, applications for reviews of decisions by self-regulatory organizations as well as regulatory matters such as takeover bid hearings. The majority of the Commissioners' 248 sitting days involved enforcement-related matters, including contested hearings on the merits, hearings on temporary cease trade orders, settlement hearings and other proceedings related to enforcement matters. The Enforcement Branch initiated 21 new administrative proceedings in 2008–09.

In the fiscal year, the Commission issued a total of 33 "reasons and decisions." These "reasons and decisions" included enforcement matters such as Biovail Corporation and Limelight Entertainment Inc., and other regulatory matters, such as HudBay Minerals Inc. The reasons, decisions and orders issued by the Commission are available on the OSC website. In the fiscal year, settlements in 15 matters were approved by the Commission.

An adjudicative panel also has the authority to issue a temporary cease trade order (TCTO). This measure is protective in nature and its purpose is to halt trading activity during the course of OSC investigations. In 2008–09, the Commission issued 18 initial TCTOs and granted extensions of some of those TCTOs.

Adjudicative procedures and processes

As of April 1, 2009, new Rules of Procedure apply to all new adjudicative proceedings before the Commission where it is required by law to hold a hearing. The objective of the Rules is to promote the fair resolution of proceedings in the most accessible, expeditious and cost-effective manner. The new Rules of Procedure are posted on the OSC website and feature easily accessible guidance on the procedures required for the conduct of Commission proceedings, including how parties can represent themselves before a panel. The intention is to provide all stakeholders with clear and simple guidelines on proceedings before the Commission.

The Commission also provides guidance to Members on the standards expected of them in the exercise of their adjudicative responsibilities. The purpose of the adjudicative guidelines is to ensure that the Commission's adjudicative process is, and is seen to be, conducted with impartiality, integrity and effectiveness.

2. The Commission

2.2 Adjudication (continued)

The Commission is committed to providing fair and effective adjudication of matters of alleged misconduct in the capital markets. The Commission will continue to devote the necessary expertise, time and resources towards adjudicating matters on behalf of the investors and market participants in Ontario.

Efficient adjudicative case management

Proposals to enhance the Commission's adjudicative case management process will be published in 2009–10 following consultations with stakeholders. The timely adjudication of matters before the Commission requires that proceedings be brought forward expeditiously. Improving the Commission's case management capability is particularly important at this time. As adjudicative activity increases, matters become more complex and hearings take more time.

Like other administrative agencies with an adjudicative function, the Commission is aware of the priority to enhance its responsiveness and efficiency. The Commission has been actively managing its increasing case load and the ensuing procedural demands. This is necessary to continue to hear and dispose of matters fairly and without unnecessary cost and delay. The Commission remains committed to issuing "reasons and decisions" in a timely fashion.

Among the matters heard in 2008–09, many raised novel issues or had significant precedential or systemic importance. These issues required extensive analysis on complex regulatory and legal matters.

There has also been an increase in the number and complexity of motions, procedural rulings and evidentiary hearings. This trend has increased the length of hearings and thus the time required for deliberation, research and writing decisions.

In the 2009–10 fiscal year, the Commission expects to maintain or increase its current hearings schedule. The Commission is actively examining ways to bring forward more matters at a faster pace and in a cost effective manner for both the Commission and respondents and other parties to the proceedings.

2. The Commission

2.3 Policy and Governance

The Commission played an active role in the oversight of the OSC's regulatory and operational activities in 2008–09. In the performance of their duties, Members of the Commission are expected to demonstrate a strong commitment to the public interest on behalf of all stakeholders. Members balance their technical expertise and knowledge with their commitment to investor protection and promoting confidence in fair and efficient capital markets.

Responding to the market turmoil

The Commission devoted considerable effort to various initiatives in response to the difficult capital market conditions in 2008–09. Members focused on identifying important regulatory and risk management issues and on consulting with OSC management and staff about appropriate regulatory actions. Members are keenly aware of the degree to which recent adverse market conditions have affected both investors and market participants.

The engagement and responsiveness of the Commission are essential to the OSC's overall effectiveness. Members and OSC staff work together to provide high-quality regulatory services that contribute to fulfilling the OSC mandate. Members hold bi-weekly policy meetings with senior OSC staff, who bring policy initiatives to the Commission for discussion, input and approval. During quarterly reporting and strategic planning sessions, management and staff regularly discuss significant developments, trends and risks with the Commission for its input and guidance.

Commission governance initiatives

In the 2007–08 year, the Commission conducted an evaluation of the effectiveness of its Board and committee processes. That evaluation identified initiatives to improve overall Commission governance. Progress was made this year in addressing these initiatives, including:

- Enhancing the Board's contribution to setting strategic priorities and direction; and
- Enhancing the Board's contribution to identifying, monitoring and overseeing the management of risk.

2. The Commission

2.3 Policy and Governance (continued)

The Commission conducted a similar evaluation in 2008–09 and identified additional initiatives to enhance its governance practices such as setting annual milestones for risk management planning and reporting. The Commission will monitor the progress made toward completing those governance initiatives during the 2009–10 fiscal year.

In August 2008, the Commission adopted a new, more comprehensive Code of Conduct for the OSC. The new Code demonstrates the Commission's commitment to strengthen its already high standards of ethics and accountability. Under the Code, the OSC Chair is the Ethics Executive who is responsible for, among other things, promoting ethical conduct at the OSC.

The Code's conflict-of-interest provisions were approved by the provincial Conflict of Interest Commissioner in accordance with the *Public Service of Ontario Act, 2006* (PSOA). The robust trading and other reporting requirements for Members and staff are consistent with both the OSC's legal and ethical obligations. The PSOA is an important part of the Government of Ontario's commitment to strengthening accountability and transparency in the public service.

Please go to www.osc.gov.on.ca for more details about the activities and governance practices of the Commission.

2. The Commission

2.3 Policy and Governance (continued)

Terms of Members of the Commission (as at March 31, 2009)		
Name	Appointed	Current term expires
Paul K. Bates	June/03	**June/09**
Mary G. Condon	April/08	**April/10**
Margot C. Howard	December/06	**December/11**
Kevin J. Kelly	December/06	**December/11**
Paulette L. Kennedy	April/08	**April/10**
David L. Knight*	August/04	**June/10**
Patrick J. LeSage	December/05	**February/11**
Carol S. Perry	February/05	**February/11**
Lawrence E. Ritchie	February/07	**February/12**
Suresh G. Thakrar	June/03	**June/09**
James E. A. Turner	February/07	**February/12**
Wendell S. Wigle	May/03	**May/09**
W. David Wilson	November/05	**November/10**

*David L. Knight was the Lead Director of the Commission in 2008–09 and continues that role for 2009–10.

The term of office of Commissioner Wendell S. Wigle expired in May 2009 and the terms of Commissioners Paul K. Bates and Suresh G. Thakrar both expired in June 2009. The Commission extends its appreciation to Commissioners Wigle, Bates and Thakrar for their service and contributions.

Please go to www.osc.gov.on.ca for more details about the activities and governance practices of the Commission.

2. The Commission

2.3 Policy and Governance (continued)

Committees of the Commission (as at March 31, 2009)	
Audit and Finance Committee	**Governance and Nominating Committee**
Suresh G. Thakrar, Chair Margot C. Howard Kevin J. Kelly Paulette L. Kennedy Carol S. Perry	Carol S. Perry, Chair Paul K. Bates David L. Knight, Lead Director Wendell S. Wigle W. David Wilson *Ex-officio member*
Human Resources and Compensation Committee	**Adjudicative Committee**
Margot C. Howard, Chair Paul K. Bates Kevin J. Kelly Patrick J. LeSage	Patrick J. LeSage, Chair Mary G. Condon Lawrence E. Ritchie Suresh G. Thakrar James E. A. Turner Wendell S. Wigle John P. Stevenson *Ex-officio member*

The mandates of the committees and of the Lead Director are available at www.osc.gov.on.ca.

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2. The Commission

2.3 Policy and Governance (continued)

Meetings of the Commission in 2008–09	Regular	Special
Commission	24	1
Board	5	13
Audit and Finance Committee	6	8
Governance and Nominating Committee	4	4
Human Resources and Compensation Committee	4	1
Adjudicative Committee	3	0

In fiscal year 2008–09, attendance by Members at meetings of the Commission, Board and the various committees was 93%.

Please go to www.osc.gov.on.ca for more details about the activities and governance practices of the Commission.

2. The Commission

2.4 Members of the Commission

The Commission is comprised of a maximum of 14 Members, each of whom is appointed for a fixed term by the Lieutenant Governor in Council. Currently there are 13 Members on the Commission. Three are full-time: Chair W. David Wilson, Vice-Chair Lawrence E. Ritchie and Vice-Chair James E. A. Turner. The remaining 10 are part-time Members.

The Commission as at March 31, 2009:

W. David Wilson
Lawrence E. Ritchie
James E. A. Turner
Paul K. Bates
Mary G. Condon
Margot C. Howard
Kevin J. Kelly
Paulette L. Kennedy
David L. Knight
Patrick J. LeSage
Carol S. Perry
Suresh G. Thakrar
Wendell S. Wigle

Please go to www.osc.gov.on.ca for more details about the activities and governance practices of the Commission.

W. David Wilson

Chair

Appointed: November 2005

Term Expires: November 2010

Committees:

- Governance and Nominating Committee (ex officio)

Professional/Industry Experience:

- Investment Banking
- Retail and Institutional Investment
- Finance

Education:

- B.Comm, University of Toronto
- MBA, York University

David Wilson became Chair of the Ontario Securities Commission on November 1, 2005, following an extensive 35-year career in Canada's securities and banking industry.

Prior to his appointment for a five-year term as OSC Chair, Mr. Wilson was Vice Chair of the Bank of Nova Scotia and Chair and Chief Executive Officer of Scotia Capital in Toronto. He was responsible for all of Scotiabank's global wholesale banking activities, which included its corporate, institutional and government relationships on a global basis. Previously, Mr. Wilson held a variety of senior management positions with Scotiabank in the areas of investment banking, retail brokerage and corporate finance. He began his career as a financial analyst and in 1971 joined McLeod Young Weir, a predecessor firm to Scotia Capital.

During his career, Mr. Wilson has been actively involved in securities regulatory matters in Ontario and across Canada. He was Chairman of the Investment Dealers Association of Canada (IDA), a national self-regulatory organization (SRO), in 1996–1997. He was a founding Director of the Mutual Fund Dealers Association of Canada (MFDA), a SRO for the mutual fund industry, from 1997 to 1998. From 2001 to 2003, he served on the Ontario government's Five Year Review Committee, which reviewed the content of the *Ontario Securities Act*. Since 2003, he has been advising the Government of Ontario on its work toward the establishment of a common securities regulator for Canada.

Lawrence E. Ritchie

Vice-Chair

Appointed: February 2007

Term Expires: February 2012

Committees:

- Adjudicative Committee
- Professional/Industry Experience:
- Legal
- Litigation/Adjudication
- Administrative Law

Education:

- BA, University of Western Ontario
- LLB, Osgoode Hall Law School
- LLM, London School of Economics

Lawrence E. Ritchie, a former partner at Osler, Hoskin & Harcourt in Toronto, was a litigator for nearly 20 years, specializing in general corporate, securities and commercial litigation. He was also cross-appointed to the firm's Pensions & Benefits Department. His practice included a range of corporate governance, securities, pension, and general corporate and commercial civil litigation before the courts and before administrative tribunals. Mr. Ritchie had also acted for defendants in numerous class action proceedings. Mr. Ritchie participated in a secondment to the enforcement branch of the Ontario Securities Commission (OSC) in 1993, where he served as enforcement counsel. Upon return to his law firm, he acted for OSC enforcement staff, as well as securities dealers, brokers, promoters, public issuers, officers and directors and other securities market participants, in a wide range of securities-related proceedings. He advised public corporations and other securities-related participants, their officers and directors relating to internal and regulatory investigations, and reputational risk management. In addition to his securities regulatory practice, he acted in numerous private securities disputes and proceedings, including those relating to shareholder rights and remedies, private company disputes and corporate governance issues before the Courts and in ADR forums. Mr. Ritchie has been recognized in *Best Lawyers in Canada* and *Lexpert*.

James E. A. Turner

Vice-Chair

Appointed: February 2007

Term Expires: March 2012

Committees:

- Adjudicative Committee

Professional/Industry Experience:

- Legal

Education:

- BA, University of Western Ontario
- LLB, University of Western Ontario

James E. A. Turner, prior to joining the Commission, was a senior partner with Torys LLP. Mr. Turner has over 30 years of legal experience, specializing in corporate, securities, mergers and acquisitions and corporate governance matters. He has advised numerous public companies and boards of directors in connection with governance matters, fiduciary duties, public takeover bids and mergers and acquisitions. Mr. Turner is a former General Counsel of the Ontario Securities Commission (1987/88). He is recognized internationally as a leading practitioner in capital markets, mergers and acquisitions and securities law. He has been a speaker and panelist at numerous seminars, conferences and law school classes.

Paul K. Bates

Appointed: June 2003

Reappointed: June 2006

Term Expires: June 2009

Committees:

- Governance and Nominating Committee
- Human Resources and Compensation Committee

Current Directorships:

- Board of Governors, McMaster University

Professional/Industry Experience:

- Investment Management
- Retail and Institutional Investment

Education:

- Graduate, Cornwall Technical College (UK)

Paul K. Bates has been a leader and educator in the Canadian business community for more than two decades. He has been president of four major brokerage and investment firms, and has served on the boards of the Toronto Stock Exchange and the Investment Dealers Association. Professor Bates is currently Dean and Industry Professor in Financial Management Services at the DeGroote School of Business at McMaster University. As a former Adjunct Professor at the University of Toronto's Rotman School of Management, he was awarded the Outstanding Teacher Award in 2003 and again in 2004.

Mary G. Condon, BA, MA, LLM, SJD

Appointed: April 2008

Term Expires: April 2010

Committees:

- Adjudicative Committee

Current Directorships:

- Board of Trustees, York University Pension Fund

Professional/Industry Experience:

- Legal

Education:

- BA, Trinity College, Dublin
- MA, University of Toronto
- LLM and SJD, University of Toronto

Professor Mary G. Condon teaches securities law at Osgoode Hall Law School, and also directs and teaches in its part-time LLM program specializing in securities law. In winter 2009, she was the visiting Owen Chair at the Faculty of Law, University of British Columbia and Co-Director of the National Centre for Business Law. She is co-author of *Business Organizations: Principles, Policies and Practice* (2007) and *Securities Law in Canada: Cases and Commentary* (2005). Her book entitled *Making Disclosure: Ideas and Interests in Ontario Securities Regulation* was published by University of Toronto Press in 1998. She is also the author of articles, book chapters and commentaries on topics related to securities regulation and pension policy and has presented conference papers and given invited lectures nationally and internationally. She has prepared research and policy papers for the Ontario Expert Commission on Pensions, the Task Force to Modernize Securities Regulation (with Poonam Puri), the Department of Finance (Wise Persons' Committee) and the Law Commission of Canada (with Lisa Philipps). She is a member of the Bar of Ontario.

Margot C. Howard, CFA, MBA

Chair, Human Resources and Compensation Committee

Appointed: December 2006

Reappointed: December 2008

Term Expires: December 2011

Committees:

- Audit and Finance Committee
- Human Resources and Compensation Committee (Chair)

Professional/Industry Experience:

- Finance
- Portfolio Management
- Retail and Institutional Investment

Education:

- BA, York University
- MBA, University of Western Ontario
- CFA, CFA Institute

Margot C. Howard is a Chartered Financial Analyst with over twenty years of investment management experience and extensive knowledge of the Canadian capital markets. She began her career with McLeod Young Weir in 1985. Most recently, she was a portfolio manager with AMI Partners. Prior to that, Ms. Howard held senior positions with C.A. Delaney Capital Management Ltd. and Scotia McLeod Inc. Ms. Howard is an active member of Women in Capital Markets and is on the board of the Peter Gzowski Foundation for Literacy.

Kevin J. Kelly

Appointed: December 2006
Reappointed: December 2008
Term Expires: December 2011
Committees:

- Audit and Finance Committee
- Human Resources and Compensation Committee

Current Directorships:

- Chair, Canada-US Fulbright Foundation

Professional/Industry Experience:

- Investment Management
- Retail and Institutional Investment
- Investment Banking
- Finance

Education:

- B.Comm., Dalhousie University

Kevin J. Kelly has over thirty years of senior experience in the North American capital markets and financial services industry. He has served as President and Co-CEO of Wellington West Capital Inc., President of Fidelity Brokerage Company based in Boston, President of Fidelity Investments Institutional Services Co., President and CEO of Fidelity Investments Canada Ltd., and President and CEO of Bimcor Inc. Prior to holding these positions, Mr. Kelly served in senior management positions at Investment Corporation, Midland Walwyn Capital, Inc., and Merrill Lynch Canada, Inc.

Paulette L. Kennedy, CA

Appointed: April 2008

Term Expires: April 2010

Committees:

- Audit and Finance Committee

Current Directorships:

- Toronto Hydro Corporation

Professional/Industry Experience:

- Audit
- Accounting
- Financial Management

Education:

- B.Comm., MacMaster University
- Chartered Accountant

Paulette L. Kennedy is a chartered accountant with over 30 years financial and management experience. A chartered accountant since 1979, Paulette has held senior management positions at Ford Motor Company of Canada, Sun Life Financial, Sobeys Inc. and AEGON Canada. Areas of responsibility have included taxation and trade, accounting and financial reporting, financial management, internal auditing and corporate governance. Paulette has experience in IFRS reporting and the implementation of internal control attestations. Paulette has been a member of the board of directors of financial services and mutual fund management companies. She is currently a member of the business board of the University of Toronto and vice chair of their audit committee.

David L. Knight

Lead Director

Appointed: August 2004

Reappointed: June 2007

Term Expires: June 2010

Committees:

- Governance and Nominating Committee

Professional/Industry Experience:

- Auditing
- Accounting

Education:

- CA

David L. Knight was a partner in the accounting firm KPMG LLP (Canada) or its predecessor firm, Peat Marwick, for 30 years. For most of that time, he was a Vice-Chairman. Mr. Knight became a Chartered Accountant in 1962. He was elected as a Fellow of the Institute of Chartered Accountants of Ontario in 1985 in recognition of his professional accomplishments and service to the accounting profession and society. During his 46-year career in public accounting, Mr. Knight chaired committees and task forces which dealt with a wide range of matters including professional standards-setting, partnership governance, risk management, computer technology in auditing, and quality review of professional work. Mr. Knight has a long history of volunteer board-level involvement with health care organizations, including the Multiple Sclerosis Society of Canada, where he served as National Chair for two years. In 2002, he was awarded the Queen's Golden Jubilee Medal in recognition of his community service.

Patrick J. LeSage, Q.C.

Chair, Adjudicative Committee

Appointed: December 2005

Reappointed: December 2008

Term Expires: February 2011

Committees:

- Adjudicative Committee (Chair)
- Human Resources and Compensation Committee

Current Directorships:

- Board of Governors, York University

Professional/Industry Experience:

- Legal
- Adjudication
- Administrative Law

Education:

- B.Comm., University of Ottawa
- LLB, Osgoode Hall Law School

Patrick J. LeSage is a former Chief Justice of the Superior Court of Justice for Ontario. During his 29-year career on the bench, he presided over some of Canada's most publicized and complex cases. He began his career as a Crown Attorney in the Ontario Ministry of the Attorney General, where he rose to the position of Director of Crown Attorneys for Ontario. Appointed to the County and District Court in 1975, he became Associate Chief Judge of that Court in 1983. In 1994 he became Associate Chief Justice and in 1996 was appointed Chief Justice of what is now the Superior Court of Justice for Ontario. He held that position until September 2002, when he became a Senior Resident at Massey College, University of Toronto. Mr. LeSage is currently a member of the Advocacy Law Group at Gowling Lafleur Henderson in Toronto.

Carol S. Perry

Chair, Governance and Nominating Committee

Appointed: February 2005

Reappointed: February 2008

Term Expires: February 2011

Committees:

- Audit and Finance Committee
- Governance and Nominating Committee (Chair)

Current Directorships:

- Atomic Energy of Canada Limited

Professional/Industry Experience:

- Finance
- Investment Banking

Education:

- B. Engineering Science (Electrical), University of Western Ontario
- MBA, University of Toronto
- ICD.D, Directors Education Program, Rotman/ICD Corporate Governance College

Carol S. Perry is a former investment banker with more than 35 years of business experience. During her twenty year career in the investment industry she held senior investment banking positions with major Canadian firms, including CIBC World Markets and RBC Capital Markets, and started her own boutique financial advisory firm in 2000. Her public service and regulatory experience includes having served as a director and Audit Committee Chair of the Independent Electricity Market Operator. Ms. Perry is a former Chair of St. Joseph's Health Centre Board of Directors and is an active member of the Institute of Corporate Directors, currently serving on its Marketing and Membership Committee.

Suresh G. Thakrar, MBA FICB, ICD.D

Chair, Audit and Finance Committee

Appointed: June 2003

Reappointed: June 2006

Term Expires: June 2009

Committees:

- Audit and Finance Committee (Chair)
- Adjudicative Committee

Professional/Industry Experience:

- Finance
- Investment Banking
- Financial Services

Education:

- B.Sc., Makerere University (Uganda)
- MBA, McGill University
- FICB, Institute of Canadian Bankers
- ICD.D, Directors Education Program, ICD Corporate Governance College

Suresh G. Thakrar is an advisor in the areas of business/corporate financing, strategic planning, and corporate governance. He has over 30 years of extensive experience in the financial services industry. A former executive of the RBC Financial Group, Mr. Thakrar held senior positions in various areas of the bank, including corporate finance, multinational banking, commercial banking, personal financial services, merger office, process re-engineering, systems and technology, strategic planning, and business management. In his public service and community leadership roles, he has served on numerous boards and advisory committees, including the GTAA (Greater Toronto Airport Authority) Consultative Committee, the Indo-Canada Chamber of Commerce, Canada India Business Council, Renaissance ROM Campaign Cabinet, the ROM Royal Patrons Circle, and the Gujarat (India) Earthquake Relief Fund. Mr Thakrar was Chair of the Governance and Nominating Committee of the Commission. He was awarded the Queen’s Golden Jubilee Medal in recognition of his contribution to Canada and fellow Canadians.

Wendell S. Wigle, Q.C.

Appointed: May 2003
Reappointed: May 2006
Term Expires: May 2009
Committees:

- Adjudicative Committee
- Governance and Nominating Committee

Professional/Industry Experience:

- Legal
- Litigation/Adjudication
- Administrative Law

Education:

- BA, University of Western Ontario
- LLB, Osgoode Hall Law School

Wendell S. Wigle is senior litigation counsel and, since 1968, a senior partner at Hughes, Amys LLP. A member of the Ontario Bar since 1957, he has appeared before all levels of trial and appellate courts, including the Supreme Court of Canada. He was appointed Queen's Counsel in 1972 and was certified as a Specialist (Civil Litigation) by the Law Society of Upper Canada in 1988. Mr. Wigle has served as President of the Advocates' Society and the Medico-Legal Society of Toronto. He is a also a member of the Canadian Bar Association, the American Bar Association, the Defense Research Institute, and the American College of Trial Lawyers. From 1982 to 1989, he was a Fellow of the International Academy of Trial Lawyers. Mr. Wigle has served as chair, lecturer and panellist at various continuing legal education programs for the Law Society of Upper Canada and other groups.

3. Accountable Organization

ONTARIO SECURITIES COMMISSION

3. Accountable Organization

> The OSC's ability to fulfill its mandate was tested by developments in the marketplace in 2008–09. Once again, staff responded by demonstrating their commitment to the mandate and goals of the OSC.

Accountability to Ontario's investors and market participants is a driving force in the planning and implementation of the OSC's operational priorities. OSC management and staff are accountable to fulfill the OSC's dual mandate and they work with integrity, professionalism and efficiency to do so every day.

In preparing our 2010 budget, the OSC worked hard to conform with the budgetary priorities of the Government of Ontario. We will ensure that our spending is restrained without jeopardizing the OSC's capacity to fulfill its mandate effectively. Staff are being redeployed as appropriate in order to fulfill our important enforcement and compliance functions.

We are aware of the challenges facing market participants – such as public companies, investment dealers and fund managers. As a result, the OSC, in consultation with the Government of Ontario, decided to freeze the activity and participation fees at the levels currently charged to market participants for the 12 months ending March 31, 2010. We will use a portion of our accumulated operating surpluses to ensure that this decision will not constrain the OSC's ability to fulfill its regulatory mandate. [See the Management's Discussion and Analysis (MD&A) section for further details.]

In 2008–09, the OSC continued to make the best use of our resources throughout the organization:

- We improved our annual business planning process in order to contribute to overall organizational efficiency;
- Staff better aligned the various business planning initiatives with the OSC's mandate and strategic goals;
- We advanced our performance measurement programs; and
- We are committed to continue attracting, retaining and motivating staff with the necessary skills.

During 2008–09, the OSC continued its evolution as an organization. There was, for example, a transition in the leadership of the Enforcement Branch. We welcomed Tom Atkinson as the OSC's Enforcement

Director after his predecessor, Michael Watson, accepted an appointment to the RCMP's Integrated Market Enforcement Program. In the interim, I had the pleasure of working closely with a talented and dedicated team of professionals in the Enforcement Branch.

The OSC's ongoing evolution brings new expertise, experience and perspectives to the organization, which only makes it a stronger team. Overall, I believe the OSC is well positioned to continue to face the challenges of regulating the capital markets of Ontario.

The OSC's ability to fulfill its mandate was tested by developments in the marketplace in 2008–09. Once again, staff responded by demonstrating their commitment to the mandate and goals of the OSC. Their collective effort enables the OSC to be a flexible, efficient and accountable organization.

Sincerely,

P. Dowdall-Logie

Peggy Dowdall-Logie
Executive Director and Chief Administrative Officer
Ontario Securities Commission

4. Effective Compliance and Enforcement

OSC ONTARIO SECURITIES COMMISSION

4. Effective Compliance and Enforcement

4.1 Introduction: Compliance and Enforcement

The OSC uses a range of compliance and enforcement programs to oversee the capital markets. There are strengths and benefits to a compliance-enforcement continuum of oversight in all market conditions. Effective compliance and enforcement provide protection to investors. Effective compliance and enforcement foster fair and efficient capital markets.

Compliance

In 2008–09, the OSC conducted a series of extraordinary compliance reviews of market participants in response to developments in the capital markets. The OSC reviews were undertaken to determine whether any additional regulatory responses, including possible enforcement action, will be necessary as a result of market events.

The OSC also implements outreach initiatives to assist market participants with understanding applicable regulatory requirements. For example, staff may provide guidance and information to market participants about a proposed rule or policy. The OSC Inquiries and Contact Centre also responds to questions about compliance-related requirements from market participants.

The Compliance Section contains more details about the OSC's compliance activities in 2008–09.

Enforcement

The *Securities Act* and the *Commodity Futures Act* give the OSC powers to enforce securities and commodity futures laws in Ontario. The OSC conducts investigations of alleged breaches of these laws and, where circumstances so indicate, will launch proceedings against a respondent. The 21 administrative proceedings initiated in 2008–09 represented an increase from 12 in the previous fiscal year.

If OSC compliance staff identify a serious breach of Ontario securities or commodity futures law, they will discuss the findings with the Enforcement Branch and together staff will determine an appropriate course of action based on the particular circumstances. Similarly, Enforcement staff bring concerns about compliance issues that they identify to compliance staff for review.

The Enforcement Section contains more details about the OSC's enforcement activities in 2008–09.

4. Effective Compliance and Enforcement

4.2 Compliance

Compliance reviews were a major part of the OSC's response to developments in the markets in 2008–09. Another key initiative was the OSC's contribution to the development of proposals in response to regulatory concerns with respect to the sale of non-bank sponsored asset-backed commercial paper (ABCP) in Canada.

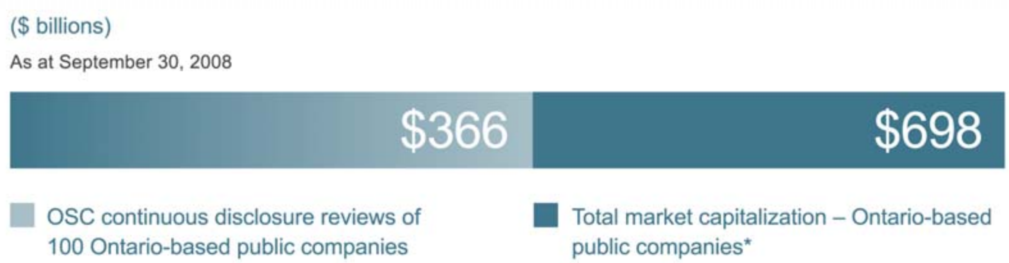
In the fall of 2008, the OSC implemented a phased response to the market crisis involving a number of compliance reviews (see Responding to Market Developments tables below). The reviews involved public companies, investment funds and hedge funds. OSC staff remain alert for any signs of possible misconduct.

Reviews of public company disclosure

Staff in the Corporate Finance Branch are closely monitoring continuous disclosure (CD) filings of public companies, especially in the banking/financial services sector as well as highly leveraged companies. In the past year, the OSC conducted reviews of the information publicly disclosed by 100 public companies. These companies accounted for approximately 52% of the total market capitalization of Ontario-based companies listed on the Toronto Stock Exchange and TSX Venture Exchange as at September 30, 2008.

Responding to market developments in 2008–09: Reviews of public companies

The OSC conducted targeted continuous disclosure compliance reviews of 100 public companies in Ontario, representing a market capitalization of approximately $366 billion. The 100 public companies were chosen using a risk-based selection process, and were ultimately comprised of companies in the banking and financial sector and highly leveraged firms.



* Source: TMX Group

4. Effective Compliance and Enforcement

4.2 Compliance (continued)

The companies were asked to provide detailed and transparent disclosure about the effect of the prevailing market environment on operations, cash flows and future prospects. The OSC also focused on relevant accounting requirements including financial instruments disclosure, going concern and impairment. Generally, the disclosures provided by the companies were appropriate. However, staff continue to monitor the disclosure filings of the type of companies involved in the reviews.

Staff have taken proactive steps to alert companies to issues of concern and areas where the OSC expects robust year-end disclosure. For example:

- 90 public companies with defined benefit pension plans were advised that the OSC expects to see disclosure of the impact of pension funding obligations on their capital, liquidity and financial position.
- In January 2009, the CSA published Staff Notice 51-328 *Continuous Disclosure Considerations Related to Current Economic Conditions* to assist public companies in preparing their financial statements and management's discussion and analysis (MD&A) in the current market environment. The Notice also highlighted important areas of disclosure to help investors understand the risks and circumstances that companies are facing today.

The OSC is reviewing year-end filings by public companies to determine whether its expectations have been met. Staff will follow up with public companies as appropriate.

Reviews of investment funds

The OSC conducted compliance reviews of major segments of the investment funds market in Ontario. The OSC completed fact-finding reviews of investment fund managers who manage or administer money market funds and/or non-conventional funds. The objectives were to review and assess whether there were any risks relating to redemption, concentration, counterparty exposure and valuation of securities in these investment funds. These on-site visits were conducted by the Compliance & Registrant Regulation Branch and the Investment Funds Branch.

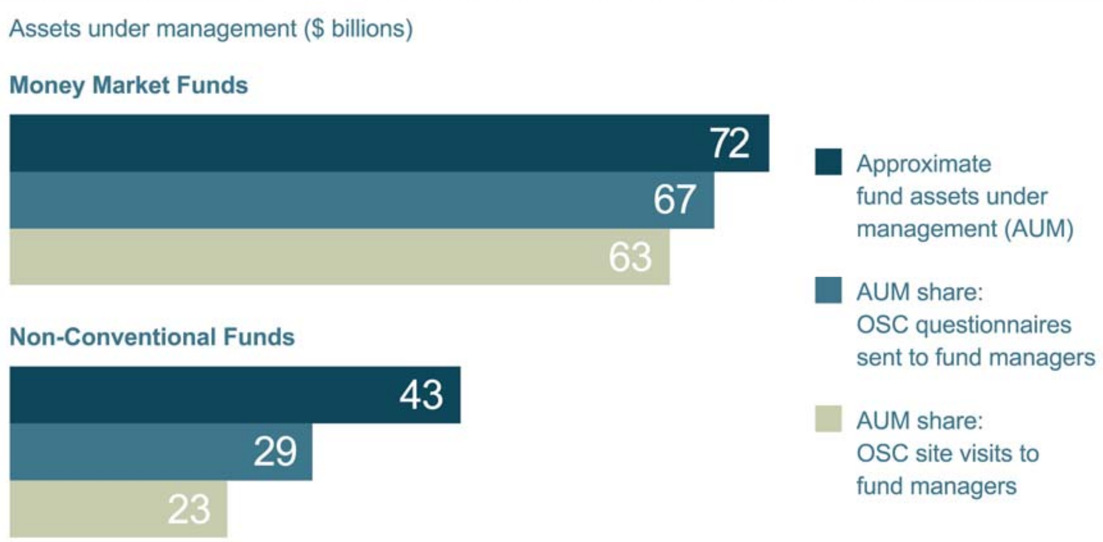
4. Effective Compliance and Enforcement

4.2 Compliance (continued)

In September 2008, OSC staff sent a questionnaire to the 50 largest Ontario money market fund managers (see Responding to Market Developments chart below) covering a number of key areas including portfolio holdings, valuation of portfolio securities (with a focus on illiquid securities) and sales and redemption levels. Another questionnaire tailored to non-conventional funds listed on the Toronto Stock Exchange was also sent to 27 fund managers. These non-conventional funds, including closed-end funds and exchange-traded funds, usually invest in a broader array of asset classes and employ higher risk investment strategies than conventional mutual funds.

Responding to market developments in 2008–09: Reviews of investment funds

The OSC conducted compliance reviews of a number of investment fund managers who manage or administer money market funds and non-conventional investment funds in Ontario. The OSC used risk-based criteria to select fund managers in both categories for site visits. The chart below shows the approximate total assets under management, the share of the respective marketplace that was targeted in OSC reviews, and the share that was covered by OSC site visits to investment fund managers during the compliance reviews.



* Sources – Money market fund assets under management as at January 2009: Investment Funds Institute of Canada. Non-conventional fund assets under management as at March 2008: TMX Group.

4. Effective Compliance and Enforcement

4.2 Compliance (continued)

Staff reviewed and risk-ranked the responses. They then conducted on-site visits to investment fund managers with money market assets under administration of approximately $63 billion, representing 90% of the money market fund assets of the 50 managers. In addition, staff also conducted CD reviews and on-site visits to managers of approximately 54% of the non-conventional assets under administration in Ontario. Staff carried out focused reviews to ensure that the investment fund managers were using appropriate valuation methodologies and monitoring counterparty exposure, concentration risks and the levels of redemptions.

Generally the OSC's on-site visits to investment fund managers with money market assets under administration did not identify any material issues. The reviews of the non-conventional investment funds did not identify concerns about inappropriate public disclosures by the fund managers. Staff continue to monitor the required disclosure filings of investment funds as part of the OSC's compliance oversight role and will follow up with individual fund managers as appropriate.

Reviews of hedge funds

In February 2009, the Compliance & Registrant Regulation Branch commenced a focused review of Ontario-based hedge funds to assess whether there were any additional risks to investors, given market conditions.

The OSC asked 90 fund managers to provide information for each of their hedge funds on a range of broad topics. These topics included facts about the funds themselves (number of unit holders, total assets, legal structure), their service providers, type of portfolio securities and valuation of portfolio securities.

The OSC is assessing the responses it received. Staff risk-ranked the responses and made a determination as to which hedge fund managers warrant an on-site review. These reviews commenced in the spring of 2009.

Regulatory proposals for the ABCP market

In October 2008, the Canadian Securities Administrators (CSA) released a consultation paper outlining securities regulatory proposals related to the frozen market for Canadian non-bank ABCP. The CSA's proposals are intended to help prevent a similar liquidity crisis from happening again.

4. Effective Compliance and Enforcement

4.2 Compliance (continued)

The OSC led the preparation of the CSA consultation paper, which includes proposals such as:

- Measures to restrict the way, and the investors to whom, complex short-term debt products are distributed; and
- The establishment of a framework to permit regulatory oversight of credit rating agencies.

The proposed framework would require rating agencies to comply with a code of conduct prepared by the International Organization of Securities Commissions (IOSCO). The OSC provided substantive input into the development of IOSCO's code of conduct for rating agencies.

The CSA's paper invited public comments on whether more disclosure should be required for investments such as ABCP in order to make them more transparent to investors and market participants. The public comment period on the ABCP proposals ended in February 2009. The CSA is assessing those comments as part of the process of developing final proposals.

The OSC, Quebec's Autorité des marchés financiers and the Investment Industry Regulatory Organization of Canada (IIROC) are reviewing complaints received in connection with the organization, sale or distribution of non-bank sponsored ABCP products. IIROC is the self-regulatory organization that oversees all investment dealers and trading activity on debt and equity marketplaces in Canada. The OSC is responsible for oversight of IIROC.

In 2008, IIROC conducted compliance reviews of dealer members involved in the third-party ABCP market. The reviews examined what controls and processes were in place and applied to the manufacture and sale of third-party ABCP. In October 2008, IIROC published its findings and recommendations.

Ongoing compliance programs

On an ongoing basis, the OSC reviews the prospectus and continuous disclosure filings of public companies and Ontario-based investment funds (see Results of Continuous Disclosure Reviews charts below). Risk-based criteria are used to select public companies and investment funds for reviews of their disclosure documents. This approach allows staff to focus on the areas where the potential consequences of regulatory issues are perceived to be greatest.

4. Effective Compliance and Enforcement

4.2 Compliance (continued)

The OSC is also responsible for compliance oversight of market participants that are not members of a self-regulatory organization (SRO), such as portfolio managers, limited market dealers, investment fund managers and scholarship plan dealers. Staff developed risk-assessment models to select market participants for compliance oversight reviews. The risk-assessment models enable staff to allocate resources more effectively and efficiently by targeting those market participants with higher risk rankings.

The OSC oversees IIROC and the Mutual Fund Dealers Association of Canada, two SROs that establish and enforce compliance with the rules governing the conduct of their members. The OSC also co-operates on compliance-related initiatives with other members of the CSA, who identify non-compliance by public companies and registrants based in other provinces.

New registrant sweeps

Since 2008, the OSC has conducted compliance reviews of a sample of registrants that are newly registered with the OSC, including investment counsel portfolio managers and limited market dealers. The purpose of these new registrant sweeps is to:

- Gain a better understanding of the new registrants' business operations;
- Assess their compliance with Ontario securities law;
- Provide guidance and information to new registrants to assist them in complying with Ontario securities law; and
- Confirm whether their current business activities are consistent with the activities described in their registration applications.

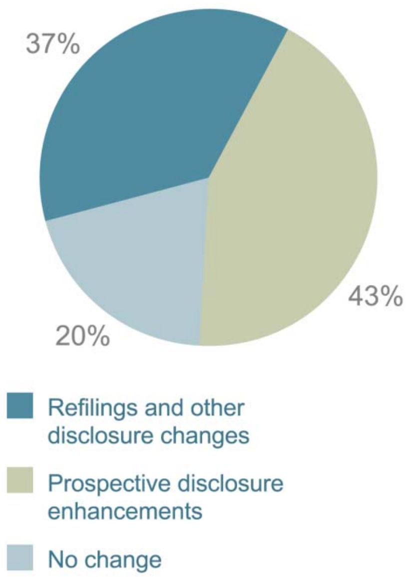
Reviews of new registrants now form part of the OSC's compliance field review program.

Assistance for Market Participants in 2008–09	
Total contacts from market participants to the OSC Inquiries & Contact Centre	23,757
Most common areas of contact with market participants in 2008–09	
Information about registration requirements	21%
System for Electronic Disclosure by Insiders (SEDI)	17%
National Registration Database	14%

4. Effective Compliance and Enforcement

4.2 Compliance (continued)

Results of OSC continuous disclosure reviews of public companies in 2008–09



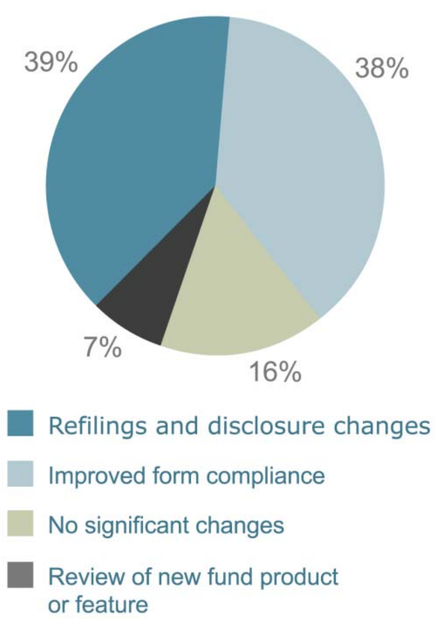
The OSC applies risk-based selection criteria, including market capitalization and trading activity, among others, to select the majority of public companies for continuous disclosure (CD) reviews. The OSC characterizes the outcome of each CD review based upon the nature and severity of the deficiencies identified, if any. More than one outcome can be associated with a particular file. Outcomes are monitored each year to assess overall compliance and to identify areas to focus on in future reviews.

In fiscal 2009, 37% of the CD reviews resulted in an outcome requiring a change by a public company or follow-up by the OSC. Another 43% of outcomes reflected staff guidance and commitments by public companies in connection with future disclosure, for example an undertaking to provide enhanced disclosure regarding financial instruments, going concerns and impairments in future financial statements and MD&A.

4. Effective Compliance and Enforcement

4.2 Compliance (continued)

Results of OSC prospectus and continuous disclosure reviews of investment funds in 2008–09



Risk-based selection criteria, including fund type and complexity, are used to select investment fund filings for review.

A majority of the prospectus and continuous disclosure reviews resulted in changes to current fund disclosure or undertakings that future disclosure would be appropriately modified. In more than one-third of the 2008–09 reviews, staff comments and guidance led to improved compliance with the disclosure requirements of either the prospectus forms or the form outlining the contents of the management reports of fund performance.

Staff reviews also involved analysis of novel investment fund products or features, which included the identification and resolution of operational and disclosure issues before the new product could be sold to retail investors.

4. Effective Compliance and Enforcement

4.3 Enforcement

The effective enforcement of securities laws provides protection to investors and fosters fair and efficient capital markets. The OSC deploys its broad investigative and enforcement powers in response to allegations of non-compliance and other misconduct in the capital markets. The OSC's compliance and enforcement functions complement each other in a continuum of oversight.

Regulatory Enforcement

The 2008–09 fiscal year featured an increase in the enforcement activity by the OSC with respect to the number of investigations, proceedings commenced and the use of interim measures such as temporary cease trade orders.

Case assessment

In 2008–09, the OSC Enforcement Branch assessed a total of 446 cases for evidence of potential breaches of Ontario securities law.

Potential enforcement cases come to the attention of the Enforcement Branch through other areas of the OSC, such as the Corporate Finance Branch, Compliance and Registrant Regulation Branch and Inquiries & Contact Centre; through referrals from other securities regulators or law enforcement agencies; from surveillance of market activity; and from monitoring public sources of information.

OSC Enforcement Branch: Intake

	2006–07	2007–08	2008–09
Number of cases assessed	421	499	**446**
Number transferred to Investigations	50	58	**49**

Of the cases assessed at intake, 49 were transferred for further investigation by the OSC. In some of the other cases, alternative approaches, such as the issuance of warning letters, undertakings to change practices or referrals to an SRO or a criminal law enforcement agency were used by the OSC.

4. Effective Compliance and Enforcement

4.3 Enforcement (continued)

Investigations

OSC investigators probe allegations of breaches of Ontario securities law. The process involves gathering evidence, documenting facts and interviewing witnesses under oath, or otherwise. Enforcement staff also work in co-operation with other securities regulators, SROs and law enforcement agencies.

OSC Enforcement Branch: Investigations			
	2006–07	**2007–08**	**2008–09**
Number of completed investigations	41	48	**59**
Number transferred to Litigation	16	16	**18**

The OSC has the authority to halt certain activities in order to preserve assets and to prevent further violations of securities laws even while an investigation is ongoing. For example:

- Temporary cease trade orders (TCTOs) are used to halt trading;
- Freeze orders restrict the use of monies or other assets so that they are not dissipated; and
- The Commission can seek a court order appointing a receiver to take control of any assets of firms or individuals.

These types of interim measures have been successful at halting trading activity or preserving assets during regulatory investigations. In 2008–09, adjudicative panels of the Commission issued 18 initial TCTOs against a total of 139 respondents. In addition, the OSC obtained from the courts 16 freeze orders, freezing approximately $22 million.

Temporary Cease Trade Orders and Freeze Orders

Increasingly, the OSC is using temporary cease trade orders (TCTOs) to halt trading activity during regulatory investigations. In 2008–09, the Commission issued 18 initial TCTOs and granted extensions of some of those TCTOs.

	2006–07	**2007–08**	**2008–09**
Actions before the Commission	5	11	**18**
Number of respondents (Parties to the proceedings)	25	117	**139**

In addition, in fiscal 2008–2009, 16 freeze orders were obtained in court by the OSC, freezing in excess of $22 million.

4. Effective Compliance and Enforcement

4.3 Enforcement (continued)

The OSC completed 59 investigations in the fiscal year, which included some investigations initiated in the 2007–08 fiscal year. A total of 18 files were transferred from the investigations stage for litigation by the OSC.

Litigation

The OSC formally commenced 23 enforcement proceedings in 2008–09, involving a total of 125 individuals and corporations. Twenty-one of the proceedings (related to 120 respondents to the proceedings) were commenced before an adjudicative panel of the Commission while two proceedings (relating to five defendants) were commenced before the Ontario Court of Justice. The number of proceedings commenced increased by 11 from a total of 12 in 2007–08.

OSC Enforcement Branch: Litigation

	2006–07	2007–08	2008–09
Litigation			
Proceedings commenced			
• Actions before the Commission	19	12	**21**
Number of respondents	65	42	**120**
• Actions before the courts	2	-	**2**
Number of defendants	5	-	**5**
Enforcement timelines			
Average number of months from intake to commencement of a proceeding	24.5	24.1	**12.4**

An administrative enforcement proceeding is brought before an adjudicative panel comprised of Members of the Commission. In considering matters before them, the panels exercise a protective, public-interest function. The majority of the OSC's enforcement proceedings are heard by adjudicative panels of the Commission.

4. Effective Compliance and Enforcement

4.3 Enforcement (continued)

The OSC also has the authority to prosecute alleged breaches of the *Securities Act* against defendants in the Ontario Court of Justice. In such cases, the proceedings are based upon alleged breaches of the *Securities Act* in circumstances where the Commission is seeking sanctions and penalties from the court to send a strong message of deterrence. The power to prosecute alleged criminal conduct lies with the criminal justice system, typically through prosecutions by the provincial or federal Attorneys General.

Concluded settlement and contested hearings

In 2008–09, the Commission concluded a total of 21 proceedings commenced by the Enforcement Branch, in relation to the actions of 46 respondents. The sanctions imposed in the concluded proceedings included the imposition of orders totalling some $20.8 million in administrative penalties, disgorgement, settlement amounts and costs. Certain concluded cases are featured in the Notable cases sidebar on this page.

Concluded Settlement and Contested Hearings before the Commission

	2006–07	2007–08	2008–09
Number of proceedings	22	13	**21**
Respondents	31	16	**46**
Sanctions include:			
Cease trade orders	18	10	**23**
Exemptions removed	14	7	**18**
Director and officer bans	12	8	**29**
Registration restrictions	5	4	**12**
Administrative penalties, disgorgement orders, settlement amounts imposed	$1,372,650	$3,419,000	**$17,709,868**
Costs imposed	$285,749	$1,730,282	**$3,103,191**

* In addition, three respondents agreed to pay $68,100,000 as part of a settlement agreement with the Commission. (See *In the Matter of RIM et al* in the Notable Cases sidebar.)

4. Effective Compliance and Enforcement

4.3 Enforcement (continued)

Two prosecutions before the Ontario Court of Justice were concluded in 2008–09, including the conviction of Barry Landen for illegal insider trading (see Notable cases sidebar). In the other case, Howard Rash pleaded guilty to trading in securities contrary to a registration requirement and to illegally distributing securities under the *Securities Act.* In August 2008, Mr. Rash received a suspended sentence and a two-year term of probation during which he is banned from working in the securities industry in Ontario.

The Commission section of this Annual Report includes more details about the activities of adjudicative panels in 2008–09.

Enforcement Co-operation and Coordination

Co-operation among jurisdictions is another essential part of the effective enforcement of securities laws in Ontario and across Canada. Enforcement cases often involve more than one jurisdiction, making collaboration among Canadian Securities Administrators (CSA) members and with other regulatory authorities a critical factor for success.

Reciprocal orders

In 2008, an amendment to the *Securities Act* authorized the OSC to make orders based on orders made by securities regulators in other jurisdictions. These "reciprocal orders" can be used by the OSC to prevent individuals and companies who have been sanctioned in another jurisdiction from engaging in similar misconduct in Ontario. Reciprocal orders are another measure that can enable the OSC to respond to protect investors and prevent wrongdoing. In 2008–09, four proceedings affecting five respondents were initiated under this provision.

Several other jurisdictions of the CSA have similar statutory powers to authorize the use of reciprocal orders. The use of reciprocal orders by CSA jurisdictions demonstrates the commitment of securities regulators to strengthen enforcement coordination across Canada.

Domestic co-operation

The OSC works proactively with other CSA jurisdictions, the SROs and law enforcement agencies to prevent, detect and deter misconduct. The OSC also partners in joint investigations and shares

4. Effective Compliance and Enforcement

4.3 Enforcement (continued)

intelligence, as appropriate, with other enforcement authorities. (The Strong Investor Protection section contains more details about the OSC's work to provide protection to investors.)

Along with the RCMP and the Investment Industry Regulatory Organization of Canada (IIROC), the OSC is a member of the Joint Securities Intelligence Unit (JSIU). The JSIU targets criminal syndicates and organized crime groups operating within the Canadian capital markets. A key objective is to detect and disrupt wrongdoing in the capital markets before investors are harmed.

International co-operation

Misconduct in the global capital markets transcends international borders. Securities regulators and law enforcement agencies deal with this borderless phenomenon by co-operating and sharing information. Securities regulators and law enforcement agencies work together to identify and close gaps in regulatory effectiveness between jurisdictions and to conduct vigorous and timely international investigations. In 2008–09, the OSC responded to some 500 enforcement-related assistance and information requests from international regulators and agencies.

When appropriate, the OSC assists foreign securities regulators, including the U.S. Securities and Exchange Commission (SEC), with investigations. For example, in 2008, the OSC provided assistance to an SEC initiative to protect investors from potentially fraudulent spam e-mails that promoted stock investments. The SEC campaign resulted in the suspension of trading in the securities of 35 companies. The OSC and SEC have also co-operated on a number of investigations, resulting in the commencement of proceedings in both Ontario and the U.S.

More than ever, the OSC recognizes the necessity and importance of improving collaboration among Canadian and international regulatory and criminal law enforcement agencies. The OSC strives to foster inter-jurisdictional co-operation and coordination of investigative efforts and enforcement tools in order to provide protection to investors from unfair, improper or fraudulent practices.

4. Effective Compliance and Enforcement

4.3 Enforcement (continued)

Notable Cases
In the Matter of RIM et al: In this settlement, four individuals paid in excess of $9 million in administrative penalties and costs, and three individuals agreed to make a payment of more than $68 million to Research in Motion (RIM) in respect of certain improperly authorized stock options. *In the Matter of Biovail Corporation:* The Commission approved a settlement where the company agreed to pay an administrative penalty of $5 million after agreeing that it breached Ontario securities law and acted contrary to the public interest in respect of its public disclosure. *In the Matter of Limelight:* Following a contested hearing in respect of an illegal distribution, the Commission ordered sanctions, including disgorgement totalling over $2.7 million and administrative penalties of more than $400,000. On January 29, 2009, Barry Landen, a former senior executive of a mining company, was sentenced by the Ontario Court of Justice to a 45-day jail term and a fine of $200,000 for illegal insider trading. In 2008–09, the Superior Court issued orders appointing receivers in respect of New Life Capital Corp and in respect of ASL Direct Inc. The OSC may apply to the Court for an order appointing a receiver for a company where it is in the best interests of, among others, security holders of the company, or where it is appropriate for the due administration of Ontario securities law.

5. Strong Investor Protection

5. Strong Investor Protection

Investor protection is one half of the OSC's dual mandate. As a regulatory agency, the OSC strives to provide protection to investors by administering and enforcing the *Securities Act* and the *Commodity Futures Act*.

Increasingly, Canadians are responsible for planning for their own retirements. The retirement savings of Canadians – including RRSPs and pension plans – are tied to the capital markets. As a result, investors have a greater awareness of and sensitivity to the effects of the current market downturn. In tandem, their expectations for financial market regulators to protect their interests have increased.

Investor Secretariat

In order to serve the interests of all investors, especially retail investors, the OSC understands how important it is to solicit and obtain their input and understand their concerns about regulatory matters. The OSC is developing better channels of communications with investors by building on the experience of earlier initiatives related to investor outreach and consultations. As well, the OSC is implementing more effective processes to better identify, articulate and expand on initiatives that both provide protection to, and inform, investors.

One such initiative that has been announced is the establishment of the OSC Investor Secretariat. It is anticipated that the Investor Secretariat will function as a hub within the OSC to better coordinate its policy efforts and assist with identifying and addressing issues of interest and concern to investors, especially retail investors. The Investor Secretariat will also assist OSC staff to better understand the impact that OSC initiatives may have on investors. Furthermore, the Investor Secretariat will identify ways to ensure that the retail investor perspective continues to be included in the development of all rules and policies.

Expanded investor outreach

A second initiative of the OSC is to support an expansion of the outreach initiatives to investors undertaken by the Investor Education Fund (IEF), which operates the website www.investorED.ca (330,000 visits in 2008–09). The IEF was established by the OSC and is funded through proceeds from OSC enforcement settlements and fines, but operates separately from the OSC.

The IEF's mandate is to develop, distribute and support resources that will increase the investment knowledge of investors and potential investors. These resources include financial literacy programs, lesson content for elementary and secondary school teachers and teacher training. The IEF also conducts research on topics such as the financial literacy of Ontarians.

5. Strong Investor Protection (continued)

The Investor Secretariat and expanded outreach programs will build on existing initiatives to engage retail investors in the regulatory process and obtain their input on securities-related matters. The OSC is continuing to explore more effective means through which to obtain feedback from investors, who are most directly affected by the OSC's investor protection efforts.

Joint Standing Committee on Retail Investor Issues

The OSC was one of four co-founding organizations of the Joint Standing Committee on Retail Investor Issues (JSC) in 2008. The other JSC partners are the Investment Industry Regulatory Organization of Canada (IIROC), the Mutual Fund Dealers Association of Canada (MFDA) and the Ombudsman for Banking Services and Investments (OBSI).

The purpose of the JSC is to provide an effective forum for executives of the four organizations to discuss and consider retail investor issues. The JSC works to coordinate ways to address emerging issues that affect retail investors. The JSC will also seek opportunities to co-operate with the new OSC Investor Secretariat.

In 2008–09, the initial consultative projects of the JSC involved seeking public feedback on questions related to investment product suitability and a study about the information needs of Canadian investors who work with investment advisers. Both projects were funded by the OSC and its JSC partners. A summary report about the consultation on investment product suitability is available on the OSC website.

Handling complaints

It is important for retail investors to know where to turn when they have a concern or complaint related to their experience investing in the capital markets.

The OSC has worked to improve how complaints from investors are handled so that concerns can be resolved more efficiently and effectively. Inquiries and complaints received by the OSC are handled with urgency, diligence and care. Complaints are first analyzed to identify potential violations of Ontario securities laws. Complaints that reveal potential violations are carefully reviewed and referred, as appropriate, to compliance and/or enforcement staff for further review, or to other regulators or authorities.

The OSC's Inquiries & Contact Centre operates an Investor Assistance function that has a particular focus on helping investors understand the securities regulatory system and the role of the OSC. Staff also assist investors to understand how to make a complaint to a securities regulator, self-regulatory organization (SRO) or other agency.

5. Strong Investor Protection (continued)

Assistance for Investors in 2008-09	
Total contacts from investors to the OSC Inquiries & Contact Centre	5,080
Most common areas of contact with investors in 2008–09	
Inquiries about public companies	24%
How and where to file a complaint	10%
Registration inquiries about investment dealers or advisers	8%
Inquiries about regulatory policy or securities law	8%
Issues about customer service provided by investment dealers, advisers and public companies	7%
Inquiries about alleged investment scams and frauds	7%

In 2008–09, most of the contacts about the complaint process were resolved by staff providing information to investors. When appropriate, the OSC has procedures in place to refer a complaint to the relevant SRO or agency. Both IIROC and the MFDA have issued separate proposals aimed at enhancing the process of how their member firms handle complaints from investors. Complaint handling will continue to be a significant area of focus for the Inquiries and Contact Centre in 2009–10.

Of the 5,080 total contacts from investors in 2008–09, the Inquiries & Contact Centre responded to 371 contacts of a regulatory nature for the OSC. Certain issues were forwarded within the OSC for further review and/or response, where appropriate. For example, investor feedback related to short selling was provided to the Market Regulation Branch and various concerns dealing with corporate takeover bids were referred to the Corporate Finance Branch. By referring such inquiries to various OSC Branches, the Inquiries & Contact Centre contributes to providing a timely and appropriate compliance and/or enforcement response.

Handling complaints: SROs

OSC staff have worked this past year with the Canadian Securities Administrators (CSA) and staff of IIROC and the MFDA to develop an effective and harmonized framework for the client complaint handling process. The framework sets out standards and timelines for acknowledging, investigating and responding to client complaints. The framework also contemplates that registered firms will monitor

5. Strong Investor Protection (continued)

complaints and report them to management in order to allow the detection of frequent and repetitive complaints that may, on a cumulative basis, indicate a problem.

The CSA is planning to include portions of the complaint handling framework in proposed National Instrument 31-103 Registration Requirements. The remainder of the client complaint handling framework is expected to be included in amendments to National Instrument 31-103 after the process of developing harmonized requirements with the SROs has been completed. IIROC and the MFDA recently published their complaint-handling proposals for comment. Proposed NI 31-103 also contains provisions that would require that independent dispute resolution or mediation services be made available to clients at the registered firm's expense.

Responding to market developments

The downturn in the capital markets in 2008–09 represented a significant challenge for investors, capital market participants and securities regulators. The OSC took a number of steps in response to developments in the capital markets:

- compliance reviews of major segments of the investment funds market in Ontario;
- continuous disclosure reviews and monitoring of public disclosure made by investment funds;
- focused reviews of Ontario-based hedge funds to assess any unusual risks to investors;
- reviews of continuous disclosure filings of 100 public companies, especially those in the banking and financial services sector, as well as highly leveraged companies; and
- a temporary prohibition on short selling of certain inter-listed financial sector stocks to prevent regulatory arbitrage. The precautionary ban was imposed following a similar prohibition by the U.S. Securities and Exchange Commission (SEC) to ensure that inter-listed financial sector stocks were not subject to short selling in Canada when this trading was prohibited in the U.S.

ABCP proposals

The OSC also led the preparation of a regulatory consultation paper on non-bank sponsored asset-backed commercial paper (ABCP). The paper by the CSA outlines several regulatory proposals related to the ABCP market, including:

- measures to restrict the way complex short-term debt products are distributed; and
- the need to regulate and oversee credit rating agencies.

5. Strong Investor Protection (continued)

The proposals related to ABCP are intended to provide an appropriate and proportionate response to the crisis in the credit markets by securities regulators. These proposals were published for public comment and the CSA is assessing those comments. The CSA will then develop final proposals to present to the public in the coming year.

Regulatory initiatives

The OSC has also played a leading role in several regulatory initiatives with important investor-protection objectives:

- **Point of sale disclosure:** The OSC is working with other financial market regulators in Canada to develop specific proposals to enhance the disclosure regime for investors before they buy mutual funds or segregated funds. The proposed regime would provide investors with more meaningful disclosure before they make an investment decision.

- **Registration reform:** In 2009–10, securities regulators in Canada plan to propose the implementation of significant reforms to the registration requirements for firms and individuals who sell securities, offer investment advice or manage investment funds. The reforms aim to improve investor protection by encouraging registrants to foster a culture of compliance, and also by giving regulators additional compliance oversight tools.

- **Trade-through protection:** The OSC is collaborating with the CSA to propose a framework that would ensure all better-priced orders for a security would be filled first, regardless of the marketplace where the order is entered. As market structures become more complex, the proposed trade-through obligations are intended to maintain investor confidence and fairness in the market.

- **Financial reporting:** Canadian securities regulators introduced reforms to improve the transparency, quality and reliability of financial reporting by publicly-traded companies. An important objective of these internal control requirements is to have public companies provide greater transparency to investors in their financial reporting.

- **Scholarship plans:** Securities regulators are working to develop proposals to update the rules that govern the formation and operation of scholarship plans, which are a form of investment vehicle used by Canadians to save for their children's education. In addition, securities regulators want to clarify the structure and simplify the disclosure in the information that is provided to scholarship plan holders to help them better understand the plans they are investing in.

6. Ontario's Capital Markets

6. Ontario's Capital Markets

	2006–07	2007–08	2008–09
Public companies in Ontario	1,460	1,466	**1,482**
Investment fund issuers in Ontario	2,859	3,066	**3,169**
Registered firms in Ontario	1,601	1,700	**1,721**
Registered individuals in Ontario	66,292	68,605	**70,057**

Number of marketplaces in Ontario

As of March 31, 2009, there were nine equity, three debt and four derivatives marketplaces operating in Ontario:

Equity	Debt	Derivatives
TSX	CBID	Bourse de Montreal
TSX Venture	CanDeal	ICE Futures Canada
CNSX (also operates Pure Trading)	Market Axess	ICE Futures Europe
Alpha		NGX
Chi-X		
Omega		
Match Now		
Liquidnet		
Bloomberg		

6. Ontario's Capital Markets (continued)

Market capitalization of Ontario-based public companies on the Toronto Stock Exchange and TSX Venture Exchange

	2006–07	2007–08	2008–09
Toronto Stock Exchange			
Listed public companies	$ 2,093,846	$ 1,991,149	**$ 1,265,957**
Domestic public companies	1,953,227	1,838,798	**1,207,434**
Ontario-based listed companies	856,995	777,112	**543,891**
TSX Venture Exchange*			
Listed public companies	62,258	51,095	**20,702**
Domestic public companies	56,556	48,025	**19,240**
Ontario-based listed companies	9,430	8,957	**2,965**

($ millions for years ending March 31)
Source: TMX Group
**TSX Venture Exchange does not include NEX*

Management's discussion and analysis

Financial statements

Contents

Overview

This document will explain the key financial events and actions that have brought the OSC to its current financial position. It will explain in detail the OSC's operations during the past year and provide an outlook on its 2009–2010 plans. The environment and challenges that the OSC faces and details on the key elements that were considered in developing the plan are also set out.

Certain statements included in this annual report are forward looking and are subject to risks and uncertainties. The results or events forecast in these statements may differ materially from actual results or events. Factors which could cause results or events to differ from current expectations are described in the Risks and Uncertainties section. Readers should note that any assumptions, although reasonable at the time of publication, are not guarantees of future performance.

This document should be read in conjunction with the financial statements. The financial statements present the OSC's results for the year ended March 31, 2009, with 2008 comparatives and accompanying notes. Unless otherwise specified, references to years, for example 2009, refer to the fiscal years of the OSC ended March 31. The factors which affected the OSC's operations during 2009 as well as the factors that reasonably may be expected to affect future operations and financial results are set out in the document.

The preparation of financial statements that conform with Canadian generally accepted accounting principles (GAAP) requires estimates and assumptions to be made that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Estimates are calculated based on historical experience, current trends and other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

Our responsibilities

The OSC plays a major role in securities regulation in Canada. The OSC is accountable to the Ontario Government. As a self-funded agency, the OSC is wholly dependent on fees from market participants. Its work affects investors and market participants:

> Investors – both retail and institutional, who seek to invest in fair and efficient markets. Ontario residents hold about 45% of the financial assets held by individual Canadians; and 84% of investment fund assets are held by fund companies based in Ontario.

> Market participants –

  - Issuers – public and private companies which rely on the capital markets to fund growth and diversification. Approximately 24% of Canadian-listed corporate issuers are based in Ontario, accounting for 40% of Canada's equity market value.
  - Intermediary firms – registered to provide investment services to both users and suppliers of capital. Approximately 1,700 registrant firms (out of 2,000 in Canada) and 70,000 individuals (out of 130,000 in Canada) are registered in Ontario.

As a member of the Canadian Securities Administrators (CSA), the OSC works with other Canadian securities regulators to improve, coordinate and harmonize the regulation of Canada's capital markets.

Our approach

The OSC is a Crown corporation without share capital and is the body responsible for regulating Ontario's capital markets. Fostering fair and efficient capital markets in Ontario involves striving to strike an appropriate balance between facilitating timely access to the material information needed by investors to make informed investment decisions and avoiding the imposition of undue regulatory burdens on market participants.

The OSC achieves its objectives through a variety of regulatory tools, including:

> Imposing requirements through rules and other regulatory instruments;

> Providing guidance to market participants (e.g. disclosure);

> Assessing compliance and directing corrective action; and

> Taking enforcement action.

The OSC is also an administrative tribunal with quasi-judicial powers. Panels of Commissioners hear enforcement proceedings and contested applications and consider applications for discretionary exemptions from the requirements of Ontario securities laws.

Financial oversight and accountability is achieved by:

- Preparing an annual budget, which is reviewed by the Audit and Finance Committee and approved by the Board;
- Continually assessing and improving 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; and
- Certification of the design and effectiveness of Internal Control over Financial Reporting (ICFR) by the Chair and the Director of Corporate Services.

There is more detail on these matters in the Policy and Governance section of the Annual Report.

Current environment and issues

Current economic conditions continue to pose challenges for those that the OSC regulates as well as increased demands on its operations. They continue to directly impact OSC activity levels, its fees and surplus and the way the OSC manages.

Economic environment and OSC activity levels

The OSC's operating environment remains challenging due to weak global economic conditions, continued financial market volatility and general uncertainty on the timing of a recovery. Canada and the United States have substantial economic and financial linkages. The risk remains for a persistent recession south of the border which could have significant impacts, both direct and indirect, on Canadian businesses, households and capital markets. The OSC continues to work closely with domestic and international regulators to review securities market regulation and identify possible weaknesses in the international financial system. The goal is to develop strategies to position our financial system to better respond to future events that could adversely affect our markets.

This matter is also addressed elsewhere in the Annual Report. In particular, see the Message from the Chair.

The OSC has intensified ongoing efforts in its own operations to refocus priorities, seek efficiencies and redeploy resources to priority areas. Although activity levels in some areas, such as prospectus reviews, are lower, there have been significant workload increases in other areas including additional continuous disclosure reviews, compliance, enforcement and market regulation activities to protect investors and address market issues. During 2009, responding to market turmoil resulted in significant demands on OSC staff as they conducted increased numbers of focused reviews of money market funds, exchange traded funds and hedge funds.

There is more detail on these activities in the Compliance section of the Annual Report.

OSC fees and surplus

The OSC's fee structure is designed to generate fees that reflect its cost of providing services to market participants. The OSC's fee rates were last set in April 2006. At that time the OSC projected revenues of $181.4 million for the three fiscal years ending March 31, 2009. Actual revenues for the three fiscal years were $217.8 million, $36.4 million or 20.1% above those forecast in 2006. This variance was due to higher than anticipated growth in the financial markets. The OSC's fees are difficult to predict because its revenues fluctuate in proportion to market activity. The variance between actual and projected costs across the three-year period was only 0.2%. Therefore, higher than expected revenues have been the reason for the OSC's surplus. The OSC's surplus as at March 31, 2009, was $46.8 million.

During 2009 the OSC reviewed fee approaches used by other regulators. The goal was to review best practices that could be used to improve the predictability of the OSC's revenues and to reduce the likelihood of significant surpluses or deficits in the future. On October 3, 2008, the OSC published proposed fee rules for public comment. After publishing the draft rules, the economic situation in Ontario and around the world worsened. On March 13, 2009, following a careful review of the comments from respondents, and in light of prevailing market conditions, the OSC, in consultation with the Ontario Government, announced its decision to maintain participation fees and activity fees at existing rates until March 31, 2010.

Fee rates are not at levels sufficient to recover the OSC's costs for 2010. The OSC projects a revenue shortfall of $22 million during 2010. The OSC will use a considerable portion of its surplus to offset this deficit. Future increases to fee rates will need to be sufficient to fully recover the Commission's costs of operations, and market participants should anticipate increases.

Over the next year, the OSC will further review its fee model. The OSC's goal is to develop a more predictable fee structure that will allow full recovery of its costs in a way that is fair and transparent to market participants.

There is more commentary on this matter in the Message from the Chair and Accountable Organization sections of the Annual Report.

Recoveries of enforcement costs

Settlements and orders often include amounts to recover enforcement costs. Cost recoveries are very difficult to predict as they vary significantly each year. They have ranged from $220,000 to over $2.8 million over the past 5 years, as follows:

(Thousands)	**2009**	2008	2007	2006	2005
Cost recoveries	**$ 2,831**	$ 1,569	$ 220	$ 1,102	$ 744

Because of the significant variability of the recoveries, the OSC has decided to present recoveries of enforcement costs separately in the financial statements and budget. This will facilitate year-over-year comparisons of operating costs.

OSC 2010 budget approach

In developing the OSC's 2010 budget, the OSC carefully balanced the need for restraint in these challenging times with its duty to continue to take appropriate steps to vigorously pursue its mandate of providing protection to investors and fostering fair and efficient capital markets. The OSC's fiscal approach recognizes the circumstances faced by market participants. The budget focuses on redeployment of resources to priority areas and increased focus on internal efficiencies and controllable cost areas.

Additional details on the OSC's budget are presented in 2010 Outlook in the MD&A.

Adoption of International Financial Reporting Standards (IFRS)

In 2008, the Canadian Accounting Standards Board confirmed that GAAP for publicly accountable enterprises will be IFRS, for interim and annual reporting purposes, beginning on or after January 1, 2011. Although the OSC is not a publicly accountable enterprise as defined, if available as an option, the OSC intends to voluntarily adopt IFRS for the year ending March 31, 2012. For the OSC, the adoption date of April 1, 2011, would require the restatement, for comparative purposes, of amounts reported by the OSC for its year ending March 31, 2011, and of the opening balance sheet as at April 1, 2010.

In February 2009, the Public Sector Accounting Board (PSAB) issued an Invitation to Comment (ITC) regarding financial reporting by government organizations. Based on the results of this ITC, some government organizations may be reclassified and directed to a different source of GAAP. Based on the information contained in the ITC, the OSC concluded that it should be classified as an "Other Government Organization," and is therefore able to self-select the accounting standards it wishes to apply. The OSC would elect to apply IFRS.

The PSAB expects to issue an exposure draft in June 2009 and approve amendments to the "Introduction to the Public Sector Standards" in September 2009. In light of these developments, the OSC's plans for transition are at the preliminary stage.

Internal control over financial reporting

As part of its comprehensive corporate governance, the OSC has decided to apply the reporting issuer provisions of National Instrument 52-109 as they relate to ICFR.

During the year, the design of internal controls was updated and their operating effectiveness tested using the framework and criteria established in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. An external consultant was retained by the OSC to assist management in evaluating the design of internal controls and, under the supervision of management, to complete testing in certain areas, and provide guidance and a review of the operating effectiveness testing of ICFR performed by the OSC. Based on this evaluation, the OSC has concluded that the ICFR were operating effectively and that there are no material weaknesses.

There have been no changes in the OSC's ICFR that occurred during the most recent period ended March 31, 2009, that have materially affected, or are reasonably likely to materially affect, the OSC's ICFR. The Chair and the Director of Corporate Services certify the design and effectiveness of ICFR in the Statement of Management's Responsibility and Certification.

Selected three-year annual information

(Thousands)	**2009**	2008	2007
Revenues	**$ 68,562**	$ 78,238	$ 71,067
Expenses	**81,053**	75,190	69,524
Surplus/(deficiency) of revenue over expenses (before recoveries)	**(12,491)**	3,048	1,543
Recoveries of enforcement costs	**2,831**	1,569	220
Surplus/(deficiency) of revenue over expenses	**$ (9,660)**	$ 4,617	$ 1,763
Capital expenditures	**$ 5,297**	$ 917	$ 988

Analysis of operating results

Overview

The OSC had a net deficit of $9.7 million in 2009 ($4.6 million surplus – 2008). The OSC's deficiency of revenues over expenses was reduced significantly due to the recovery of $2.8 million in enforcement costs through settlements and orders. These recoveries were about $1.8 million higher than the average for the previous five years.

2009 actual to 2008 actual

Revenues decreased by $9.7 million or 12.4% due to weakening market conditions. Participation fees were $6.1 million or 10% lower. Activity fee revenues fell by $2.0 million or 18.0%. Revenue changes were due to declines in registrant revenues and issuer market capitalization and lower volumes for prospectuses and applications, as the fee schedule has remained unchanged since April 1, 2006.

Expenses increased $5.9 million or 7.8%. The increase in expenses primarily related to increased staff-related costs for salaries and benefits, including costs for eight additional staff, primarily in enforcement and compliance ($4.0 million) and occupancy ($968,000). Employee compensation and occupancy costs account for 83.4% (2008 – 83.3%) of expenses (before recoveries).

The premises and equipment balance increased by $4.0 million or 152% due to expansion and renovation of OSC facilities during 2009. Renovations related to the acquisition of additional space to accommodate staff growth and the need for expanded hearing room facilities and additional work areas for Commissioners to address significant growth in hearing activity.

There is more detail on hearing activity in the Adjudication section of the Annual Report.

Detailed analysis of fiscal 2009 operating results

Our fee structure is designed to generate fees that reflect the OSC's cost of providing services to market participants. The current fee schedule has been in place since April 1, 2006. The fee schedule requires the payment of "activity fees" and "participation fees."

Activity fees are set at a level to reflect an estimate of the direct cost of OSC staff resources used in undertaking those activities requested of staff by market participants. Activity fees are charged at flat rates based on the OSC's average cost to provide the service.

Participation fees are based on the cost of a broad range of regulatory services that cannot be practically or easily attributed to individual activities or entities and are intended to serve as a proxy for the market participant's use of the Ontario capital markets. Participation fee levels are set using a tiered structure. Fees for issuers are based on market capitalization; fees for registrants are based on their revenues. As a market participant grows, it moves through various tiers which have increasingly higher fees.

Revenues

(Thousands)	% of total fees	**Actual 2009**	Actual 2008	Change	% change
Participation fees	82.5	**$ 54,831**	$ 60,912	$ (6,081)	(10.0)
Activity fees	13.6	**9,048**	11,028	(1,980)	(18.0)
Late fees	3.9	**2,556**	2,754	(198)	(7.2)
Total fees	100.0	**66,435**	74,694	(8,259)	(11.1)
Investment income		**2,085**	3,417	(1,332)	(39.0)
Miscellaneous		**42**	127	(85)	(66.9)
Total revenues		**$ 68,562**	$ 78,238	$ (9,676)	(12.4)

Figure 1
OSC fees by type

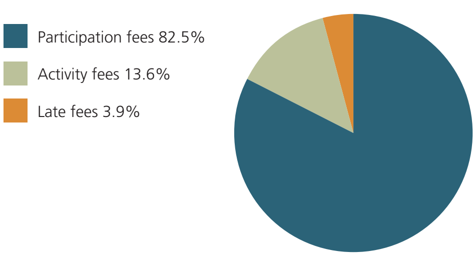


Figure 1 shows the sources of the OSC's fee revenues:

Deteriorating market conditions resulted in lower than expected fee revenues. Revenues for the year were $68.6 million, down from $78.2 million in 2008. The variance is related to the following:

Participation fees were lower by $6.1 million or 10.0%. The significant market downturn during the past year resulted in lower revenues for registrants and reduced market capitalization levels for issuers.

Activity fees fell by $2.0 million or 18.0% as lower levels of market activity resulted in decreased numbers of prospectus filings (both for reporting issuers and investment funds), private placement filings, and applications for relief.

Late fees were $198,000 or 7.2% lower than last year. Across the year, the OSC saw a decrease in late filings of insider trade reports and financial statements. This was partially offset by an increase in late filings of registration-related documents.

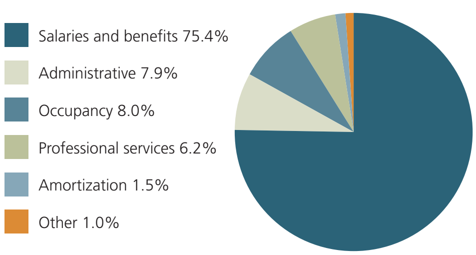
Investment income fell $1.3 million or 39.0%, reflecting lower rates of return on smaller cash balances. The average rate of return on cash balances and investments was 2.71% (2008 – 4.23%), which was 152 basis points lower than in 2008.

Miscellaneous revenue was $85,000 or 66.9% lower as the OSC did not conduct "Dialogue with the OSC" during 2009 and the related revenues were not generated.

Expenses

(Thousands)	% of total expenses	**Actual 2009**	Actual 2008	Change	% change
Salaries and benefits	75.4	**$ 61,088**	$ 57,089	$ 3,999	7.0
Administrative	7.9	**6,443**	5,655	788	13.9
Occupancy	8.0	**6,501**	5,533	968	17.5
Professional services	6.2	**4,987**	4,534	453	10.0
Amortization	1.5	**1,243**	1,483	(240)	(16.2)
Other	1.0	**791**	896	(105)	(11.7)
	100.0	**81,053**	75,190	5,863	7.8
Recoveries		**2,831**	1,569	1,262	80.4
Total (net of recoveries)		**$ 78,222**	$ 73,621	$ 4,601	6.3

Figure 2
OSC expenses by type



Total expenses for 2009 (Figure 2) increased 7.8% to $81.1 million (2008 – $75.2 million).

The key contributors to the expenditure increase were as follows:

Salaries and benefits costs increased by 7.0% to $61.1 million (2008 – $57.1 million) and accounted for 75% of total expenses. The 2009 expenses included the full-year cost impact of staff hired during 2008, as well as the costs for eight additional staff, primarily in enforcement and compliance. Some of the new positions were hired to expand the Boiler Room unit. This unit was started in 2007 to address the sales of securities without a prospectus by unregistered individuals, frequently to small, often unsophisticated, investors.

Also contributing to the increase was the impact of the salary increases put in place at the beginning of the fiscal year totalling approximately $2.1 million (2008 – $1.9 million). As the OSC operates in a competitive environment for professional talent, its compensation system includes performance-based incentives. These incentives represented 9.0% of total salaries and benefits costs (2008 – 9.4%).

Administrative costs increased by 13.9% to $6.4 million (2008 – $5.7 million) and accounted for 7.9% (2008 – 7.5%) of total expenses. Spending on information technology maintenance was up due to costs related to redesigning the OSC's website and improved information management. These expenditures will improve the OSC's ability to interact with market participants electronically through electronic submissions, provide support for improved knowledge and document management, and provide additional support for new equipment and services due to the continued expansion of information storage requirements. Training costs were higher due to spending on National CSA Corporate Finance and Investment Funds Conference training which is held biennially and occurred in 2009 and because budgets for general staff training were more fully used.

Occupancy costs accounted for 8.0% (2008 – 7.4%) of the OSC's total expenses. Expenditures on occupancy increased $968,000 or 17.5% to $6.5 million. The increase reflected the impact of higher lease costs and the acquisition of additional space to accommodate staff growth and provide additional facilities for Commission hearings.

Professional services spending increased 10% from $4.5 million to $5.0 million and accounted for 6.2% (2008 – 6.0%) of the OSC's total expenses. The OSC contracts third-party professional services when it is not cost-effective to perform the work in-house, or when specialized skills are needed. Key drivers of the increase included expenditures for enforcement litigation and surveillance support, redesign of the OSC's website (including web content migration); document management and development of enterprise information models; and one-time investments in IT infrastructure to upgrade and enhance internal systems.

The OSC is a member of the CSA, which is a forum of Canadian securities regulators. Professional services include costs to operate CSA offices (allocated on a formula basis) as well as the OSC's portion of professional services costs incurred on joint CSA projects. Total CSA spending on shared projects in 2009 was slightly higher at $2.3 million (2008 – $2.2 million); the OSC contributed $886,000 (2008 – $873,000). All CSA projects, including the development of harmonized securities policies and rules, are coordinated through a central secretariat. The CSA's business relationships with third party technology providers are managed through the CSA systems office. In 2009, the OSC contributed $246,000 (2008 – $217,000) to the cost of the CSA Secretariat and $259,000 (2008 – $235,000) to the cost of the systems office.

Amortization costs decreased to $1.2 million (2008 – $1.5 million) and accounted for about 1.5% (2008 – 2.0%) of the OSC's total expenses. Amortization expenses fell as the existing capital base was depreciated, but will increase next year as a result of the renovations and expansion completed in 2009.

Other expenses, which are travel and related expenses, declined by $105,000 or 11.7% to $791,000 (2008 – $896,000) and accounted for 1.0% (2008 – 1.2%) of the OSC's total expenses. Decreases were achieved through management cost reductions, including postponement of some international work with IOSCO and replacement of some planned CSA-related travel with conference calls.

Liquidity and financial position

Financial instruments

Financial instruments used by the OSC consist of Cash, Funds held pursuant to designated settlements and orders, Funds in trust, and Reserve fund assets, all of which are recorded at fair value. Accounts receivable and accounts payable and accrued liabilities are recorded at cost which approximates fair value given their short-term maturities. Cash, Funds held pursuant to designated settlements and orders and Funds in trust are held in a Canadian deposit account with a Schedule 1 bank, earning interest at 1.75% below the prime rate. Reserve fund assets are invested with the Ontario Financing Authority in highly liquid Government of Ontario treasury bills with maturities of one year or less. The carrying values of the OSC's financial instruments approximate their fair values because of their short-term nature.

It is management's opinion that the OSC is not exposed to significant interest rate, currency or liquidity risks arising from its financial instruments due to their short-term nature. The OSC's concentrations of credit risk with respect to accounts receivable are limited due to the large number of debtors with individually immaterial balances owing.

Liquidity

The OSC has sufficient liquidity to finance its operations and purchases of premises and equipment. The OSC's cash position decreased by $12.6 million or 19.5% in 2009. Cash flows from operating activities were an outflow of $8.3 million. Purchases of premises and equipment used $5.3 million.

As at March 31, 2009, the OSC held $52.0 million (2008 – $64.6 million) in cash, had current assets of $54.3 million (2008 – $66.8 million) and current liabilities of $12.3 million (2008 – $11.3 million) for a current ratio of 4.4:1 (2008 – 5.9:1). The OSC's general surplus decreased by $9.7 million, reflecting the deficit of revenues over expenses.

The decision to maintain current fee levels for one year will reduce the OSC's liquidity. In 2010, the OSC projects an operating deficit of $22.0 million. The OSC will fund this through its accumulated surplus. This will result in lower cash balances going forward.

The OSC's cash balance is expected to decrease during 2010 to an estimated low of $7.6 million in December 2009 and then increase to approximately $23.0 million in March 2010. The OSC is investigating a number of alternatives to deal with short-term cash deficits that are expected to arise in 2011.

Revenues

Revenue generation remains a source of risk as all the OSC's revenues are correlated to market activity. The degree to which the OSC's revenues vary along with market fluctuations is greater than was anticipated when its fee structure was developed. As noted earlier in the MD&A and elsewhere in the Annual Report, fees have been frozen until March 31, 2010, which will result in a revenue shortfall for the OSC in 2010. During 2010 the OSC will be reviewing options to address the variability of its revenues as it needs to develop a more predictable fee structure that will allow full recovery of its costs in ways that remain fair and transparent to market participants.

Reserves

The OSC has a $20.0 million reserve as an operating contingency for revenue shortfalls or unexpected expenses. The OSC has an additional $12.0 million reserve that currently may only be used to offset costs incurred related to a past proposed merger of the OSC with the Financial Services Commission of Ontario.

The prime investment consideration for the reserve is the protection of capital and liquidity. The rate of return on investments is low as funds are invested in Government of Ontario treasury bills. The OSC records income generated by the reserve in general operations.

Accounts receivable

Accounts receivable decreased 9.0% to $1.5 million (2008 – $1.7 million). Outstanding late fees, which accounted for 37.1% of accounts receivable, decreased 5.1% to $559,000 (2008 – $592,000). The allowance for doubtful accounts increased by $38,000 as a result of an increase in late fees from private placements. Other key receivables are interest receivable $434,000 (2008 – $772,000) and $108,000 from the Investor Education Fund (2008 – $118,000) for services the OSC provides to the Fund.

Funds held pursuant to designated settlements and orders

The OSC has a number of settlement agreements and orders arising from enforcement proceedings where monies from these settlements and orders are to be set aside and allocated to such third parties as the OSC may determine. In 2009, the OSC received $13.9 million through designated settlements and orders. Funds that are not so designated at the time that settlements are approved or orders are made are to be paid to the Consolidated Revenue Fund of the Government of Ontario. In 2009, as authorized by the Board the OSC paid $1.75 million to the Investor Education Fund (2008 – $1.75 million) which was part of a two year commitment.

The OSC currently holds $17.2 million (2008 – $4.9 million) pursuant to designated settlements and orders. Amendments to the *Securities Act* in December 2004 removed the requirement for Ministerial approval of allocations of designated funds. The Minister retained the right to establish guidelines for the allocation of these funds. The OSC is subject to Ministerial approval to transfer to third parties $1.9 million of the designated settlement balances relating to a settlement entered into in March 2004.

Funds in trust

To March 31, 2009, the OSC received $33.1 million (2008 – $22.4 million) from the operator of the System for Electronic Document Analysis and Retrieval (SEDAR), the National Registration Database (NRD) and the System for Electronic Disclosure by Insiders (SEDI), representing the accumulated surplus from the operations of SEDAR, NRD and SEDI from their inception. Interest earned on these funds to 2009 was $2.1 million (2008 – $1.5 million).

As described in Note 6 of the financial statements, these funds may be used to enhance the systems, reduce systems fees or offset shortfalls in revenue in SEDAR, SEDI, and NRD. In 2009, there were no SEDAR deficits. As at March 31, 2009, $19.3 million (2008 – $16.1 million) of the total funds held in trust are available for SEDAR. Should these funds not be available and SEDAR operating costs were to exceed revenues, the OSC is currently committed to pay 45.1% of any shortfalls.

Premises and equipment

Expenditures on premises and equipment during 2009 included:

(Thousands)	2009	2008	% change
Furniture and equipment	**$ 679**	$ 66	929
PCs, laptops and other IT equipment	**2,100**	704	198
Leaseholds and other capital items	**2,518**	147	1,613
Total	**$ 5,297**	$ 917	478

Expenditures on premises and equipment increased to $5.3 million (2008 – $917,000). The significant increase in expenditures on furniture and equipment and leaseholds and other capital items relates to the substantial renovations to the OSC's premises. Technology-related purchases of $2.1 million (2008 – $704,000) primarily related to replacement of computer equipment to ensure the currency of the technology base.

Liabilities

Accounts payable and accrued liabilities increased 9.4% to $12.2 million (2008 – $11.1 million). Key increases are due to outstanding charges and accruals mainly related to the renovation project. This was partially offset by a reduction in outstanding severance costs.

The accrued pension liability of $1.6 million (2008 – $1.5 million) represents future obligations relating to supplementary pension plans for the current and former Chairs and Vice-Chairs. The unfunded supplemental pension plans' accrued benefit obligation at March 31, 2009, was $1.4 million (2008 – $1.3 million). The OSC's related expense for the year was $193,000 (2008 – $238,000) and is included in salaries and benefits.

The OSC is committed to lease payments as follows:

Capital leases (PCs, laptops and other IT equipment)

2010	$ 163,549
2011	115,224
2012	88,796
2013	1,769
Total minimum lease payments	369,338
Less: Amount representing interest at 6%	23,057
Balance of the obligation	$ 346,281

Operating leases (premises and office equipment)

	Total	<1 year	1 to 3 years	4 to 5 years
	$20,710,346	$ 6,013,593	$12,165,416	$ 2,531,337

Risks and uncertainties

Financial entities operate globally. Overlap and integration between financial sectors continues to grow. Products and markets are increasingly complex. The importance of identifying and understanding risk continues to grow.

Operational risk

The OSC has policies and processes to identify, manage and control operational risk. Key components of the approach to operational risk management include:

- A Board of Directors responsible for sound corporate governance;
- A strong internal control environment, including management oversight that includes reviewing the design of internal controls over financial reporting and testing operating effectiveness of key controls, as discussed earlier;
- Regular reviews of systems security measures to monitor controls and identify potential vulnerabilities to external parties accessing OSC data;
- Mitigation of risk to assets through insurance where practical and appropriate;
- Independent third-party internal auditors who, through periodic, risk-based audits, assist management in identifying significant risks, assessing the appropriateness of controls and recommending policies and processes to control those specific risks; and
- Separation of duties between key functions.

The OSC has a Business Continuity Plan to ensure the continuation of critical regulatory services should it face a significant disruption to its operations. Detailed business continuity plans are in place for each priority business function. Each plan includes documented recovery procedures including manual workarounds and mitigation strategies. Offsite recovery services and facilities are in place and were successfully tested during 2009. Remote access capability exists to all critical OSC systems. The OSC's plan is continually refined to include strategies to recover and resume operations for various disruption scenarios.

The broadening and deepening of risk management programs in the OSC's day-to-day operations is a key business priority for 2010 and beyond. The OSC's goal is to enhance its ability to identify risks and assess their impacts on markets, investors and its own strategic goals as well as to confirm that its internal processes are well designed to mitigate the adverse effects of potential risks. As part of this process, the OSC has increased risk management focus on specific activities such as complaint handling and internal file management practices.

Various branches employ a variety of risk-based approaches to assess disclosure review and compliance activities of market participants. The OSC will use the increased understanding gained through enterprise risk management activities to refine its regulatory approaches.

Reputational risk

Reputational risk is the risk that negative publicity or assessments regarding the OSC's conduct or business practices, whether true or not, may adversely affect its effectiveness as a regulator in achieving its mandate. Reputational risk is managed and controlled throughout the OSC by its code of conduct, governance practices and risk management programs, policies, procedures and training. The following principles apply to the OSC's overall management of reputational risk:

- The OSC must operate with integrity at all times in order to sustain its effectiveness as a regulator with a strong and positive reputation.
- Conducting itself with integrity is the responsibility of all its employees, including senior management, and extends to all members of the OSC Board of Directors.

Each year all Commissioners and employees must provide written certification that they have conducted themselves in accordance with the OSC's Code of Conduct.

Additional details are presented in the Policy and Governance section of the Annual Report.

Financial risk

As discussed earlier in the MD&A and elsewhere in the Annual Report, OSC fees will remain at current levels for 12 months, to March 31, 2010, given the difficult economic situation. This will result in a revenue shortfall in 2010 that will be offset by using a substantial portion of its accumulated surplus. In order to maintain financial stability, the OSC needs to develop a more predictable fee structure that will allow it to better match its revenues and expenses.

Additional details are presented in the **OSC Fees and Surplus** section of the MD&A.

National approaches to securities regulation

The implications of the ongoing Federal initiative, supported by both the Ontario Government and the OSC, to establish a common securities regulator in Canada are a source of uncertainty and could have a material impact on OSC operations.

Reliance on CDS

CDS operates a number of major systems (SEDAR, NRD and SEDI) on behalf of the CSA and the OSC. The NRD system was launched on March 31, 2004, SEDI became fully operational in May 2003 and the SEDAR system was launched in January 1997. CDS recovers its costs to operate these systems by charging user fees to filers. In 2009, 92.7% (2008 – 90.0%) of total fee revenue was collected through national systems: SEDAR (34.8%) and the NRD (57.9%). No material change is expected in the volume of fees collected through these systems. The current operating agreement for these systems runs until October 2011. The CSA Project Office is reviewing the current CDS contract and is also examining options to manage these systems beyond the expiration of the current operating agreements.

The CSA requires CDS to provide an annual CICA 5970 audit report on their controls for each system. As well, CDS is required to have an operating and annually tested disaster recovery site for these systems. However, if CDS becomes unwilling or unable to operate one or all of these systems, the OSC and the CSA will need to ensure the continued operation of these systems as disruptions in processing fees through these systems would materially affect cash flows.

Contingencies

The OSC is involved in various legal actions arising from the ordinary course and conduct of business. Settlements, if any, concerning these contingencies will be accounted for in the period in which the settlement occurs. The outcome and ultimate disposition of these actions are not determinable at this time; however, OSC management does not expect the outcome of any of these proceedings, individually or in aggregate, to have a material impact on its financial position.

Critical accounting estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenditures for the period. Actual amounts could differ from these estimates because future events may differ significantly from management's expectations. The OSC uses various estimates to prepare the financial statements. Estimates were used in the following accounts: collectability of accounts receivable, valuation of pension liabilities, estimated useful life of premises and equipment, total accrued liabilities and collectability of designated settlements and orders. Where appropriate, such as for pension matters, the OSC obtains independent expertise to assist in these estimates. It is management's opinion that none of the estimates as described in Note 2 of the 2009 financial statements requires the OSC to make assumptions about matters that are highly uncertain. For these reasons, none of the estimates is considered a critical accounting estimate.

2010 outlook

The 2009/2010 OSC Statement of Priorities sets out its priorities and proposed initiatives for the upcoming year. The document is available at www.osc.gov.on.ca. The 2010 OSC budget is designed to achieve the following goals:

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.

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

OSC revenues and surplus

The economic environment continues to have a material impact on OSC revenues and expenses. Revenues are expected to decline by approximately $6.7 million or about 10% in 2010. These declines are due to the impact of market conditions and will affect all revenue categories.

> Participation fees are projected to fall by approximately $6.4 million or 12% due to the impact of market conditions.

> Activity fees are projected to rise by approximately $900,000 or 10% as the OSC is forecasting some increase in prospectus filings (both for reporting issuers and investment funds), private placement filings, and applications for relief due to continued market uncertainty.

> Late fees are projected to fall by approximately $330,000 or 13% due to reduced rates.

> Investment income is projected to fall by approximately $900,000 or 44% primarily due to lower cash balances.

On March 13, 2009, after consultation with the Ontario Government, the OSC announced its decision to maintain participation fees and activity fees at current rates over the next 12 months, for the year ending March 31, 2010. As a result, fee rates are not at levels sufficient to recover the OSC's costs for fiscal 2010. The OSC projects a deficiency of revenue over expenses of about $22 million over the next fiscal year. The OSC will need to use a considerable portion of its surplus to offset this deficit.

Over the next year, the OSC will further review its fee model. The OSC's goal is to develop a more predictable fee structure that will allow it to fully recover its costs in ways that remain fair and transparent to market participants. Future increases to fee rates will need to be sufficient to fully recover the OSC's costs of operations, and market participants should anticipate increases.

OSC 2010 budget approach

The current economic environment poses a range of risks to investors and our capital markets. The OSC's budget priorities reflect its assessment of these risks and their potential impacts. These challenging economic conditions continue to generate significant pressures for those that the OSC regulates as well as increased demands on the OSC's own operations. Immediate issues include:

> Volume and complexity of continuous disclosure work is increasing as issuers struggle with disclosure in the current economic environment. The importance of disclosures related to potential going concern issues, asset impairments, liquidity and capital resources and other disclosures are increasingly important to help investors understand the risks facing issuers;

> Potential strains arising due to recent adverse market conditions may distract market participants from focusing on compliance requirements;

> Pressures for regulation or changes to the regulation of certain products, including derivatives and commodities, and certain activities such as rating agencies, commodities and short selling as well as greater needs for coordinated on-site compliance reviews (e.g. money market fund and non-conventional fund sweeps); and

> Market participants, in attempting to deal with the fallout from the market turmoil, may test regulatory and policy boundaries by creating novel products and/or requesting novel exemptive relief.

Downturns have historically exposed questionable practices and often occur at times when investors can be most vulnerable. The potentially poor financial health of issuers and registrants poses major, if unquantifiable, compliance and enforcement risks. In developing the OSC's 2010 budget, the OSC carefully balanced the need for cost restraint in these challenging times with its duty to take appropriate steps as necessary to pursue its mandate of providing protection to investors and fostering fair and efficient capital markets. The OSC's budget (before recoveries) will increase by $3.8 million or 4.7% over 2009 spending. The ability to limit the increase to this level was the result of an increased focus on internal efficiencies and controllable cost areas. In particular, the OSC held average salary increases to 1.6%. Total staff will increase modestly from 468 to 470.

(Thousands)	2010 budget	**2009 actual**	Change	% change
Revenues	$ 61,900	**$ 68,562**	$ (6,662)	(9.7)
Expenses	84,900	**81,053**	(3,847)	4.7
Deficiency of revenues over expenses (before recoveries)	(23,000)	**(12,491)**	(10,509)	
Recoveries	1,000	**2,831**	(1,831)	(64.7)
Deficiency of revenues over expenses	$ (22,000)	**$ (9,660)**	$ (12,340)	
Capital expenditures	$ 1,758	**$ 5,297**	$ (3,539)	(66.8)

Salaries and benefits, which comprise $63.3 million or 74.6% of the budget, reflect an increase of $2.2 million or 3.6%. Most of the increase in salaries and benefits cost reflects prior staffing decisions, including the full-year costs for staff hired during 2009 and the planned hiring of previously approved positions. Higher pension contribution rates and increased health benefit costs are other factors. Increased staff costs are partially offset by an estimated $947,000 or 19.2% reduction in professional services costs. Amortization costs for 2010 will be $1.6 million higher. This non-cash cost accounts for more than 40% of the OSC's total budget increase.

Travel costs are budgeted to increase 47.2% to $1.2 million (2009 – $791,000). The range of current and emerging market issues continues to grow. Proposed growth in travel requirements is necessary to allow us to participate in international regulatory efforts to address these issues. International travel must be pre-approved and is planned on a trip-by-trip basis, based upon the participation of the Chair, Vice-Chairs and staff on various committees and at the relevant meetings.

The OSC's deficiency of revenues over expenses in 2009 was reduced significantly due to recovery of $2.8 million in costs through enforcement settlements. These amounts were about $1.8 million higher than the average for the previous five years.

Additional details on recoveries are presented in the Recoveries of Enforcement Costs section of the MD&A.

The projected decrease of $3.5 million or 66.8% in capital expenditures is due to the completion of the expansion and renovation of its premises in 2009. The resulting increase in the OSC's capital base has generated the projected increase in amortization costs noted above.

Management's responsibility and certification

Management is responsible for the integrity, consistency and reliability of the financial statements and other information presented in the annual report. The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

We certify that we have reviewed the financial statements and other information contained in the annual report, and, based on our knowledge, they do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the statements and the annual report.

Based on our knowledge, the financial statements together with other financial information included in the annual report fairly present in all material respects the financial condition, results of operations and cash flows of the Ontario Securities Commission (the "OSC") as of the dates and for the periods presented. The preparation of financial statements involves transactions affecting the current period which cannot be finalized with certainty until future periods. Estimates and assumptions are based on historical experience and current conditions, and are believed to be reasonable.

We are responsible for establishing and maintaining internal control over financial reporting for the OSC. We have designed such internal control over financial reporting, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles.

We evaluated, or caused to be evaluated under our supervision, the effectiveness of the OSC's internal control over financial reporting at the financial year end and the OSC has disclosed in its annual MD&A our conclusion about the effectiveness of internal control over financial reporting at the financial year end based on that evaluation.

We have also disclosed in the MD&A any change in our internal control over financial reporting that occurred during the year that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

The Board of Directors ensures that management fulfills its responsibility for financial reporting and internal control. The financial statements have been reviewed by the Audit and Finance Committee and approved by the Board of Directors. The Auditor General's Report, which follows, outlines the scope of the Auditor's examination and opinion on the financial statements.

W. David Wilson
CHAIR AND CHIEF EXECUTIVE OFFICER
MAY 11, 2009

A. Kenneth Gibson, CA
DIRECTOR, CORPORATE SERVICES

Auditor's report

To the Ontario Securities Commission

I have audited the balance sheet of the Ontario Securities Commission (the "OSC") as at March 31, 2009 and the statements of operations and operating surplus and cash flows for the year then ended. These financial statements are the responsibility of the OSC's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the OSC as at March 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Jim McCarter, CA
AUDITOR GENERAL
LICENSED PUBLIC ACCOUNTANT

TORONTO, ONTARIO
MAY 11, 2009

Balance sheet

AS AT MARCH 31

	2009	2008
ASSETS		
CURRENT		
Cash	**$ 51,992,333**	$ 64,571,100
Accounts receivable	**1,504,874**	1,652,856
Prepaid expenses	**837,500**	556,052
	54,334,707	66,780,008
FUNDS HELD PURSUANT TO DESIGNATED SETTLEMENTS AND ORDERS (Note 5)	**17,180,263**	4,882,802
FUNDS IN TRUST (Note 6)	**35,187,761**	23,927,009
RESERVE FUND ASSETS (Note 7)	**32,000,000**	32,000,000
PREMISES AND EQUIPMENT (Note 8)	**6,685,065**	2,657,985
	$ 145,387,796	$ 130,247,804
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	**$ 12,176,926**	$ 11,129,889
Current portion of obligation under capital leases (Note 13(b))	**149,860**	188,107
	12,326,786	11,317,996
NON-CURRENT		
Obligation under capital leases (Note 13(b))	**196,421**	61,076
Pension liabilities (Note 9(b))	**1,646,568**	1,549,038
	14,169,775	12,928,110
FUNDS HELD PURSUANT TO DESIGNATED SETTLEMENTS AND ORDERS (Note 5)	**17,180,263**	4,882,802
FUNDS IN TRUST (Note 6)	**35,187,761**	23,927,009
SURPLUS		
OPERATING		
General (Note 10)	**46,751,753**	56,411,639
Reserve (Note 7)	**32,000,000**	32,000,000
	78,751,753	88,411,639
CONTRIBUTED	**98,244**	98,244
	78,849,997	88,509,883
	$ 145,387,796	$ 130,247,804

Investor Education Fund (Note 15)

Commitments and Contingencies (Notes 11, 13)

See accompanying notes to Financial Statements.

ON BEHALF OF THE BOARD OF THE COMMISSION

W. David Wilson
CHAIR
MAY 11, 2009

Suresh G. Thakrar
CHAIR, AUDIT AND FINANCE COMMITTEE

Statement of operations and operating surplus

FOR THE YEAR ENDED MARCH 31

		2009		2008
REVENUES				
Fees (Note 10)	**$**	**66,435,229**	$	74,693,885
Investment income		**2,084,876**		3,416,824
Miscellaneous		**41,638**		127,473
		68,561,743		78,238,182
EXPENSES				
Salaries and benefits (Note 14(c))		**61,088,037**		57,089,088
Administrative		**6,443,343**		5,655,113
Occupancy (Note 13(a))		**6,501,252**		5,532,809
Professional services		**4,987,008**		4,533,686
Amortization		**1,242,655**		1,483,247
Other		**790,504**		896,289
		81,052,799		75,190,232
Recoveries of enforcement costs (Note 12)		**(2,831,170)**		(1,569,000)
		78,221,629		73,621,232
EXCESS/(DEFICIENCY) OF REVENUES OVER EXPENSES		**(9,659,886)**		4,616,950
OPERATING SURPLUS, BEGINNING OF YEAR		**88,411,639**		83,794,689
OPERATING SURPLUS, END OF YEAR	**$**	**78,751,753**	$	88,411,639
REPRESENTED BY:				
General	**$**	**46,751,753**	$	56,411,639
Reserve		**32,000,000**		32,000,000
	$	**78,751,753**	$	88,411,639

See accompanying notes to Financial Statements.

Statement of cash flows

FOR THE YEAR ENDED MARCH 31

	2009	2008
NET INFLOW (OUTFLOW)		
OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
Cash flows from operating activities		
Excess/(deficiency) of revenues over expenses	**$ (9,659,886)**	$ 4,616,950
Items not affecting cash		
Pension liabilities	**97,530**	139,259
Loss on disposal of premises and equipment	**26,871**	4,656
Amortization	**1,242,655**	1,483,247
	(8,292,830)	6,244,112
Changes in non-cash working capital:		
Accounts receivable	**147,982**	54,974
Prepaid expenses	**(281,448)**	221,198
Accounts payable and accrued liabilities	**1,047,037**	392,845
	913,571	669,017
	(7,379,259)	6,913,129
Cash flows from financing activities		
Repayment of obligations under capital leases	**(212,420)**	(221,403)
	(212,420)	(221,403)
Cash flows from investing activities		
Purchase of premises and equipment (Note 8)	**(4,987,088)**	(890,775)
	(4,987,088)	(890,775)
NET INCREASE/(DECREASE) IN CASH POSITION	**(12,578,767)**	5,800,951
CASH POSITION, BEGINNING OF YEAR	**64,571,100**	58,770,149
CASH POSITION, END OF YEAR	**$ 51,992,333**	$ 64,571,100

See accompanying notes to Financial Statements.

1. Nature of the corporation

The Ontario Securities Commission (the "OSC") is a corporation without share capital and is the regulatory body responsible for regulating the province's capital markets. As a Crown corporation, the OSC is exempt from income taxes.

2. Significant accounting policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. These require that management make estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenditures for the period. Actual amounts could differ from these estimates. Significant accounting policies followed in the preparation of these financial statements are:

a. Financial instruments

Under Canadian generally accepted accounting principles, financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities.

Under this standard, all financial instruments are required to be measured at fair value upon initial recognition except for certain related party transactions. After initial recognition, financial instruments should be measured at their fair values, except for financial assets classified as held-to-maturity, loans and receivables and other financial liabilities, which are measured at cost or amortized cost using the effective interest method.

The fair value of financial instruments is the amount of consideration that would be agreed upon in an arm's length transaction between willing parties.

The OSC has adopted the following classifications for financial assets and financial liabilities:

Held-for-trading

Cash, Funds held pursuant to designated settlements and orders, Funds in trust and Reserve fund assets are classified as held-for-trading and recorded at fair value.

Loans and receivable

Accounts receivable are classified as loans and receivables and are valued at cost which approximates fair value given their short-term maturities.

Other financial liabilities

Accounts payable and accrued liabilities are classified as other financial liabilities and are valued at cost which approximates fair value given their short-term maturities.

b. Premises and equipment

Premises and equipment is recorded at cost less accumulated amortization. Amortization is calculated on a straight-line basis over the estimated useful lives of the assets, beginning in the fiscal year following acquisition, as follows:

Office furniture and equipment	5 to 10 years
Computer hardware and related applications	2 years
Leasehold improvements	over term of lease

c. Revenues

Fees are recognized when earned, which is normally upon receipt.

Participation fees are recognized when received because these fees represent the payment for the right to participate in the Ontario capital markets.

Activity fees represent the direct cost of OSC staff resources expended in undertaking certain activities requested of staff by market participants. Because the activities undertaken are normally completed in a relatively short period of time, activity fees are recognized when received.

Late filing fees for insider trading "reports" are recognized on the 15th and at the end of each month and include all insider trading reports filed late in the preceding 15 day period.

Recoveries of enforcement costs are recorded as offsets to total expenses on the date a settlement is approved or an order issued by the OSC, unless management determines there is significant doubt as to ultimate collection, in which case recovery is recognized when cash is received.

d. Funds held pursuant to designated settlements and orders

Funds held pursuant to designated settlements and orders are recorded when settlements are approved or orders made by the Commission, unless management determines there is significant doubt as to ultimate collection, in which case they are recognized when cash is received.

e. Employee benefit plans

The OSC provides pension benefits to its full-time employees through participation in Ontario's Public Service Pension Plan, which is a multi-employer defined benefit pension plan. This plan is accounted for as a defined contribution plan, as the OSC has insufficient information to apply defined benefit plan accounting to this pension plan.

The OSC also maintains unfunded supplemental pension plans for certain full-time Commission members as described in note 9(b). The OSC accrues its obligations and the related costs under these unfunded supplemental pension plans. The transitional obligation and actuarial gains or losses are being amortized over the average remaining service period of active members, or over the life expectancy of inactive members, expected to receive benefits under these plans. The actuarial liability and the current service cost are determined by independent actuaries using the projected benefit method prorated on services and management's best estimate assumptions.

The costs of non-pension benefits for eligible pensioners are paid by the Government of Ontario and are not included in the Statement of Operations and Operating Surplus as described in note 14(c).

3. Financial instruments

Currency risk:
The OSC's exposure to currency risk is minimal as only a small number of transactions are in currencies other than Canadian dollars.

Interest rate risk:
The OSC's financial assets and liabilities are not exposed to significant interest rate risk due to their short-term nature. Cash balances of $52 million earn interest at a rate of 1.75% below the prime rate (average for the year was 2.39%) and the Reserve fund of $32 million earned interest at an average rate of 3.08%.

A 50 basis point change in the interest rate would impact the OSC's operating surplus as follows:

	Impact on operating surplus	
	50 basis point increase in rates	50 basis point decrease in rates
Cash balance	$ 222,525	$ (222,525)
Reserve fund balance	156,441	(156,441)
	$ 378,966	$ (378,966)

Credit risk:

The OSC is exposed to minimal credit risk related to the Cash, Funds held pursuant to designated settlements and orders, Funds in trust, Reserve fund and accounts receivable.

The OSC's Cash, Funds held pursuant to designated settlements and orders, and Funds in trust are held in a Schedule 1 bank and Reserve fund assets are invested with the Ontario Financing Authority, an agency of the Government of Ontario. Together, these two counterparties hold approximately 94% of the OSC's financial assets; however, given the nature of these counterparties, it is management's opinion that exposure to concentration of credit risk is minimal.

Concentration of credit risk primarily relates to the OSC's accounts receivable balance, which includes a large number of debtors with individually immaterial outstanding balances. The OSC maintains an allowance for doubtful accounts. Therefore the carrying amount of accounts receivable generally represents the maximum credit exposure. Collection efforts continue for accounts receivable balances, including those that are captured in the allowance for doubtful accounts.

The aging of accounts receivable from outstanding invoices issued is as follows:

	2009
Current	**$ 726,709**
Past due 31–60 days	**298,119**
Past due 61 to 90 days	**124,106**
Past due greater than 90 days	**1,173,306**
	$ 2,322,240

Reconciliation of allowance for credit losses:

	2009
Opening balance	**$ 779,357**
Current year provision	**53,624**
Write-off during the year	**(15,615)**
Closing balance	**$ 817,366**

The Accounts receivable balance of $1,504,874 is the sum of the total receivable of $2,322,240 less the allowance for doubtful accounts of $817,366.

Liquidity risk:

The OSC's exposure to liquidity risk is minimal as the OSC has a sufficient cash balance and reserve funds to settle all current liabilities. As at March 31, 2009, the OSC had a cash balance of $52 million to settle current liabilities of $12.4 million.

4. Capital disclosure

The OSC has established a $20,000,000 reserve fund as described in note 7(b) which it considers as capital. The primary objective of maintaining this capital is to fund OSC's operations in the event of revenue shortfalls or unanticipated expenditures.

The OSC maintains an investment policy whereby reserve funds are restricted to direct and guaranteed obligations of Canada and its provinces to protect the principal.

The OSC is not subject to any externally imposed capital requirements.

5. Funds held pursuant to designated settlements and orders

The OSC has a number of settlement agreements and orders arising from enforcement proceedings where monies from these settlements and orders are to be set aside and allocated to such third parties as the OSC may determine. The balance includes a settlement for $1,900,000, the distribution of which is subject to the approval of the responsible Minister as required under the provision of the *Securities Act* in effect at the time the settlement was approved. The accumulated funds are held in a segregated bank account and earn interest at the monthly average bank prime rate less 1.75%.

As at March 31, 2009, the accumulated balance is determined as follows:

	2009	2008
Opening balance	**$ 4,882,802**	$ 5,611,341
Settlements and orders	**13,964,725**	786,694
Interest	**137,736**	234,767
Payments		
Investor Education Fund (Note 15(b)(i))	**(1,750,000)**	(1,750,000)
Others	**(55,000)**	–
Closing balance	**$ 17,180,263**	$ 4,882,802
Represented by:		
Cash	**$ 17,085,046**	$ 4,831,486
Receivables	**95,217**	51,316
	$ 17,180,263	$ 4,882,802

6. Funds in trust

The OSC is in receipt of payments from the operator of the System for Electronic Data Analysis and Retrieval (“SEDAR”), the National Registration Database (“NRD”), and the System for Electronic Disclosure by Insiders (“SEDI”) representing the accumulated surplus from the operations of SEDAR, NRD, and SEDI. The total accumulated funds as at March 31, 2009 were $35,187,761 (2008 – $23,927,009), representing total payments received to date of $33,080,929 (2008 – $22,440,872) and interest earned to date of $2,106,832 (2008 – $1,486,137). These funds are held in trust by the OSC in accordance with agreements amongst the OSC, the Alberta Securities Commission, the British Columbia Securities Commission, and L’Autorité des marchés financiers. In the case of NRD, the Investment Industry Regulatory Organization of Canada is also a party to the agreement. These funds shall be used to offset any shortfall in revenues from the systems, to develop or enhance the systems and to reduce fees charged to users of the systems. These funds are held in segregated bank accounts and earn interest at the monthly average bank prime rate less 1.75%.

7. Reserve fund assets

a. The prime investment consideration for the reserve is the protection of principal and the appropriate liquidity to meet cash flow needs. Interest earned on investments is credited to the operations of the OSC. The accumulated funds, at March 31, 2009, have been invested in one year Government of Ontario treasury bills with the Ontario Financing Authority.

b. As part of the approval of its self-funded status, the OSC was allowed to establish a $20.0 million reserve to be used as an operating contingency against revenue shortfalls or unanticipated expenditures.

c. The May 2, 2000 Budget proposed that the Ontario Securities Commission and the Financial Services Commission of Ontario would be merged into a single agency that would provide regulation of the capital markets and financial services sectors. Legislation is required in order to create the proposed new organization and specify its regulatory responsibilities and powers. At March 31, 2009, legislation has not yet been introduced.

The OSC received approval in 2002 from the Ministry of Finance to retain $12.0 million, which may only be used toward implementation costs of the proposed merger and is subject to appropriate terms and conditions agreed with the Ministry of Finance, including:

i) The monies will be paid to the Consolidated Revenue Fund of the Government of Ontario, in part or in full, if not required to fund the costs of the merger; and

ii) While retained by the OSC, the monies will be invested with the Ontario Financing Authority.

8. Premises and equipment

	Cost	Accumulated amortization	**2009 net book value**	2008 net book value
Office furniture	$ 4,073,668	$ 3,162,779	**$ 910,889**	$ 394,161
Office equipment	581,182	467,102	**114,080**	171,648
Computer hardware and related applications	13,561,223	11,550,891	**2,010,332**	927,095
Computer hardware and related applications held under capital leases	592,214	269,793	**322,421**	109,756
Leasehold improvements	9,754,018	6,426,675	**3,327,343**	1,055,325
	$ 28,562,305	$ 21,877,240	**$ 6,685,065**	$ 2,657,985

During the year, premises and equipment were acquired at an aggregate cost of $5,296,606 (2008 – $916,581), of which $309,518 (2008 – $25,806) were acquired by means of capital leases.

9. Pension plans

a. All eligible OSC employees and members must participate in the Ontario Public Service Pension Plan. The OSC's contribution to the Public Service Pension Plan for the year ended March 31, 2009 was $3,455,650 (2008 – $3,011,765), which is included in salaries and benefits.

b. The OSC also has unfunded supplemental pension plans for the OSC's current and former Chairs and Vice-Chairs. They had an accrued benefit obligation (ABO) of $1,415,148 at March 31, 2009 (2008 – $1,327,235) and an accrued benefit liability (ABL) of $1,646,568 (2008 – $1,549,038). The difference between the ABO and the ABL represents the unamortized net actuarial gain of $231,420 (2008 – $221,803). The OSC's expense related to the supplemental pension plans for the year was $192,858 (2008 – $238,220) and is included in salaries and benefits. Benefits totalling $95,328 were paid during the year (2008 – $98,961). The average remaining service lifetime of the active members covered by these plans ranges from 2.0 to 3.89 years at March 31, 2008 (2007 – 3.58 to 4.89 years); the 2008 figures were used for amortization purposes in fiscal 2009. The average life expectancy of the non-active members ranges from 16.29 to 33.07 years at March 31, 2008 (2007 – 17.03 to 34.03 years). The significant actuarial assumptions adopted at March 31, 2009 include a discount rate of 6.5% (2008 – 5.9%) on the ABO, 5.9% (2008 – 4.75%) on the benefit cost and a rate of compensation increase ranging from 2.0% to 2.1%, as applicable (2008 – 2.1% to 3.0%).

10. Fees

The OSC's fee structure is designed to generate fees that reflect the OSC's cost of providing services to market participants. The fee structure is based on the concept of "participation fees" and "activity fees." Participation fees represent the benefit derived by market participants from participating in Ontario's capital markets. Activity fees represent the direct cost of OSC staff resources expended in undertaking certain activities requested of staff by market participants. Generally, under this fee model, the OSC sets fees estimated to reflect the cost of regulation over a three-year horizon. The forecasted General Operating Surplus at March 31, 2006, was used to establish a revised level of participation fees for the three-year cycle which began April 1, 2006. During the year, the Commission reviewed its fees and decided to maintain its current fees for a period of one year. The General Operating Surplus at March 31, 2009, will be used to help fund its operations over the fiscal year which begins April 1, 2009.

Details of fees received for the year ended March 31, 2009 are as follows:

	2009	2008
Participation fees	**$ 54,831,014**	$ 60,912,202
Activity fees	**9,048,275**	11,027,587
Late filing fees	**2,555,940**	2,754,096
Total	**$ 66,435,229**	$ 74,693,885

11. Commitments and contingencies

a. The OSC has committed to paying 45.1% of annual shortfalls resulting from the operations of SEDAR, where SEDAR operating costs exceed revenues. SEDAR is an electronic filing and payment system jointly used by the members of the Canadian Securities Administrators (CSA) for the transmission, receipt, acceptance, review and dissemination of documents filed in an electronic format. The system is operated by an external agency on behalf of the CSA under an agreement signed on August 1, 2004. The Alberta Securities Commission, the British Columbia Securities Commission and L'Autorité des marchés financiers have also committed to paying specified percentages of any annual SEDAR deficit.

In the current year, there were no SEDAR deficits. As described in note 6, the OSC is holding funds in trust that may be used to offset shortfalls in revenue in SEDAR, SEDI, and NRD. As at March 31, 2009, $19,296,255 (2008 – $16,060,621) of the total funds held in trust are available for SEDAR.

b. The OSC is involved in various legal actions arising from the ordinary course and conduct of business. The outcome and ultimate disposition of these actions are not determinable at this time; however, management does not expect the outcome of any of these proceedings, individually or in aggregate, to have a material impact on the OSC's financial position. Settlements, if any, concerning these contingencies will be accounted for in the period in which the settlement occurs.

12. Recovery of enforcement costs

In 2009, the OSC recorded $2,831,170 (2008 – $1,569,000) in recoveries of enforcement costs of which $2,429,899 (2008 – $1,479,824) was for internal resources and $401,271 (2008 – $89,176) was for external resources.

13. Lease commitments

a. Operating leases

The OSC has entered into operating lease agreements for equipment and office space and is committed to operating lease payments as follows:

2010	$ 6,013,593
2011	$ 6,108,355
2012	$ 6,057,061
2013	$ 2,527,537
2014	$ 3,800

There are currently no lease commitments beyond 2014.

b. Capital leases

The OSC has entered into capital lease agreements for computer hardware and related applications. Leases that substantially transfer all of the benefits and risks of ownership of property to the OSC, or otherwise meet the criteria for capitalizing a lease under Canadian generally accepted accounting principles, are accounted for as capital leases. An asset is recorded at the time the capital lease is entered into, together with its related obligation to reflect its purchase and financing. The total interest expense recorded on the lease obligations for the year ended March 31, 2009, is $11,854 (2008 – $21,402). The following is a schedule of future minimum lease payments for the capital leases, which expire on or before August 30, 2012:

Year ending March 31	
2010	$ 163,549
2011	115,224
2012	88,796
2013	1,769
Total minimum lease payments	369,338
Less: Amount representing interest at 6%	23,057
Balance of the obligation	$ 346,281

The total obligations under capital leases of $346,281 consists of a current portion of $149,860 and a non-current portion of $196,421.

14. Transactions with Province of Ontario

In the course of normal operations, the OSC entered into transactions with the Province of Ontario as follows:

a. The *Securities Act* states that when ordered to do so by the responsible Minister, the OSC shall remit to the Province of Ontario such surplus funds as determined by the Minister. In light of the fee model as described in note 10 and the OSC's practice of setting fees periodically, the OSC is not required to make remittances of its surplus to the Consolidated Revenue Fund. Surpluses retained by the OSC are subject to appropriate terms and conditions to be agreed with the Ministry.

b. The OSC has a tri-party agreement with the Ontario Financing Authority to facilitate banking arrangements with a Schedule 1 bank.

c. Costs of non-pension benefits for eligible pensioners are paid by the Government of Ontario and are not included in the Statement of Operations and Operating Surplus.

15. Investor Education Fund

a. The Investor Education Fund (the "Fund") was incorporated by letters patent of Ontario dated August 3, 2000, as a non-profit corporation without share capital. The Fund is managed by an independent Board of Directors and its purpose is to increase knowledge and awareness among investors and potential investors and to support research and develop programs and partnerships which promote investor education. The OSC oversees the Fund as the sole voting member. The Fund is exempt from income taxes.

The Fund has not been consolidated in the OSC's financial statements. Financial statements of the Fund are available on request. Financial summaries of this unconsolidated entity as at March 31, 2009 and 2008 and for the two years ended March 31, 2009, are as follows:

	2009	2008
FINANCIAL POSITION		
Total assets	**$ 1,840,174**	$ 2,170,222
Less: Total liabilities	**200,957**	238,704
Total net assets	**1,639,217**	1,931,518
Less: Invested in premises and equipment	**263,235**	954,130
Available for Fund purposes	**$ 1,375,982**	$ 977,388
RESULTS OF OPERATIONS		
Total contributions and interest income	**$ 1,786,053**	$ 1,795,062
Total expenses	**2,078,354**	2,043,912
Deficiency of revenue over expenses	**$ (292,301)**	$ (248,850)
CASH FLOWS		
Cash flows from operating activities		
Cash receipts from the Ontario Securities Commission	**$ 1,750,000**	$ 1,750,000
Investment income received	**38,862**	44,819
Cash paid for initiatives and expenses	**(1,382,056)**	(1,348,837)
Cash paid for premises and equipment	**(64,373)**	(120,506)
Net increase/(decrease) in cash position	**342,433**	325,476
Cash position, beginning of period	**1,209,427**	883,951
Cash position, end of period	**$ 1,551,860**	$ 1,209,427

b. During the year, the OSC entered into transactions with the Fund as follows:

i) The OSC paid $1,750,000 to the Fund (2008 – $1,750,000). These payments were from Funds held pursuant to designated settlements and orders, as described in note 5.

ii) The OSC has a Management Services agreement with the Fund for the provision of administrative and management services, at cost.

For the period ended March 31, 2009, the OSC incurred costs totalling $476,919 (2008 – $440,763) for services related to the Fund. The total cost of these services has been charged to the Fund and, of this amount, $108,215 is owing to the OSC as of March 31, 2008 (2008 – $117,562).

16. Accounting pronouncements

An exposure draft has been issued by the Accounting Standards Board to replace Canadian generally accepted accounting principles with International Financial Reporting Standards (IFRS) for publicly accountable enterprises. The exposure draft proposes that IFRS be effective for fiscal years commencing on or after January 1, 2011. In February 2009, the Public Sector Accounting Board (PSAB) issued an Invitation to Comment on the financial reporting to be used by government organizations such as the Commission. The paper presented four alternatives for consideration, all of which were consistent in providing the Commission with the option of selecting either PSAB standards or IFRS.

17. Comparative figures

Certain of the comparative figures have been reclassified to conform to current presentation.

ONTARIO SECURITIES COMMISSION

The OSC Inquiries & Contact Centre responds to e-mail or telephone inquiries, and handles initial reviews of written complaints against market participants. The Contact Centre operates from 8:30 a.m. to 5:00 p.m., Monday to Friday, and can be reached by:

> Tel: 416 593-8314 (Toronto area)
1-877-785-1555 (toll-free)
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> Fax: 416 593-8122

> Mail: Ontario Securities Commission
20 Queen Street West, Suite 1903
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Ontario

As the regulatory body responsible for overseeing the capital markets in Ontario, the Ontario Securities Commission administers and enforces the provincial *Securities Act*, the provincial *Commodity Futures Act* and administers certain provisions of the provincial *Business Corporations Act.* The OSC is a self-funded Crown corporation accountable to the Ontario Legislature through the Minister of Finance.