TRANSPARENCY
SECURITIES REGULATION
INVESTOR EDUCATION
COMMUNITY OUTREACH
EFFECTIVE ENFORCEMENT
STAKEHOLDER CONSULTATION
EFFICIENT REGULATOR
ONTARIO CAPITAL MARKETS
GLOBAL CONNECTIONS
ACCOUNTABILITY

PROTECTION

ANNUAL REPORT 2013

OSC
ONTARIO SECURITIES COMMISSION

Contents

OSC VISION

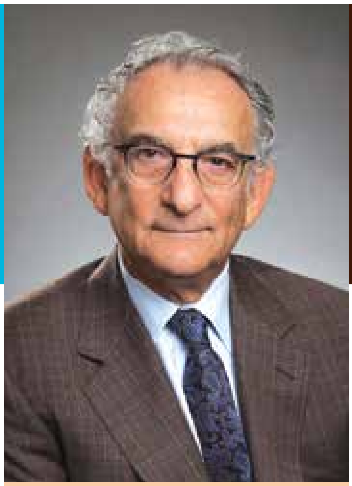
To be an effective and responsive securities regulator – fostering a culture of integrity and compliance and instilling investor confidence in the capital markets.

OSC MANDATE

To provide protection to investors from unfair, improper or fraudulent practices and to foster fair and efficient capital markets and confidence in capital markets. The mandate is established by statute.

OSC ORGANIZATIONAL GOALS

1. Deliver strong investor protection
2. Deliver responsive regulation
3. Deliver effective enforcement and compliance
4. Support and promote financial stability
5. Run a modern, accountable and efficient organization



Howard I. Wetston, Q.C.

Chair's Message

Supporting Healthy Capital Markets for Ontario's Investors

The Ontario Securities Commission oversees the capital markets of Ontario. The capital markets are central to our economy, and one of the strongest forces in determining the health of the markets is public confidence.

We regulate, enforce and seek compliance from market participants to help protect investors, and we empower investors with tools and information to help them protect themselves. Together, these activities help ensure the integrity of the capital markets for those who rely on them for their financial well-being.

While the purpose of securities regulation must be to protect the investing public, it also determines how issuers, dealers and other market participants perform their capital market functions.

One of the enduring challenges of securities regulation is how to align the interests of investors and market participants. Since the financial crisis of 2007 – 08, this has become much more complex.

The OSC, like many securities regulators around the world, is facing three key challenges: globalization, structural changes in our markets, and financial innovation and complexity. This has given rise to new areas of focus such as derivatives, algorithmic trading, social media and cyber security, to name just a few.

Within this environment, it is our duty as securities regulators to examine whether the rules in place are inhibiting or promoting the high-quality capital markets that our economy needs in order to grow. Effective securities regulation must, among other things, address three fundamental issues:

1. Improve efficient access to capital for issuers;
2. Increase access to investment opportunities for investors; and
3. Provide appropriate protection to investors.

The traditional tools of securities regulation in setting "the rules of the game" – registration, enforcement, compliance and oversight – are as relevant and important as ever to fostering capital formation and investor protection. But securities regulators also need to consider new approaches that may be appropriate to meet the needs of today's investors and the markets.

For example, just a few years ago, companies raising capital through online social media networks would have been inconceivable to securities regulators. Today, it is our role to examine whether innovations like these are in the best interests of investors and the markets, and to determine whether any restrictions or additional investor protection measures are warranted. At the same time, any proposals have to work both for the individuals in communities across Ontario who want to invest their savings and for the big pension funds that are responsible for providing income to thousands of retirees.

We also have an obligation to ensure that any proposals reflect today's market realities. For example, the OSC serves Ontario, but our capital markets operate in a highly interconnected national and global environment. Providing Ontario's investors with substantive safeguards calls on us to look outside our borders and combine our efforts with those of comparable authorities in domestic and international settings.

Investor Protection: A Shared Responsibility

In carrying out our mandate, the OSC identifies the issues that require a regulatory response and determines the appropriate regulation to support our capital markets. These efforts bring us into contact with investment professionals and with individual investors in every corner of Ontario.

What everyone has in common is that they assume – and expect – the system will always work for them. Investors expect the system to be fair and effective, and to support their ongoing investment activity. The system may often be "invisible", yet they trust it will be there when it is needed.

We view investor protection as a shared responsibility. Confident investors make for a confident and effective securities industry; anxious investors cannot grant trust and will reject even minimal risk-taking – regardless of repeated reassurances.

Protecting investors is more than meeting legal requirements or technical compliance. We expect market participants to conduct themselves in a manner that is consistent with the principles of securities regulation. This requires market participants to respect not just the letter of the law, but also the spirit of the law.

Challenges to our capital markets will continue to materialize. I am confident the OSC will respond to them effectively by working co-operatively with our stakeholders: together, we can achieve the efficient regulatory environment Ontario's investors need and deserve. To that end, we continue to support efforts toward an enhanced regulatory framework for the benefit of all Canadians.

I want to thank the members of the Commission, Vice-Chairs James Turner and Mary Condon, Executive Director Maureen Jensen, management and staff of the OSC for working diligently on behalf of Ontario's investors and capital markets.

Howard I. Wetston, Q.C.
Chair and Chief Executive Officer

C. Wesley M. Scott

Message from the Lead Director

The Commission is the governing body of the OSC and oversees the OSC's regulatory, adjudicative, enforcement and operational activities and functions, including strategic planning, rule-making initiatives, risk management and financial reporting. The 2012 – 13 fiscal year was a period of considerable achievement for the OSC as Commissioners, management and staff worked together on numerous regulatory initiatives to improve securities regulation in Ontario. The Part-time Members of the Commission appreciate the dedication of the management and staff to the fulfillment of the OSC's statutory mandate.

Accountability and Transparency

Accountability and transparency are fundamental in discharging the OSC's responsibilities and we aspire to the highest standards of corporate governance, ethics and integrity to promote a culture of integrity within the organization. We support greater engagement with our stakeholders, particularly retail investors, to help ensure that the OSC remains a responsive and effective securities regulator. The OSC's Code of Conduct, Strategic Plan and Statement of Priorities articulate the commitment to accountability, openness and engagement, and this Annual Report contains many examples of that commitment.

Efficiency and Accessibility of Adjudicative Proceedings

Effective securities regulation requires the timely, open and efficient administration and enforcement of the *Securities Act* (Ontario) by the Commission. In our capacity as adjudicators, we support the efforts made by the OSC to meet these standards by continuing to modernize and improve the way administrative justice is delivered by the OSC.

The following are examples of the progress made in 2012 – 13:

1. Introducing electronic evidence management to some adjudicative hearings to provide easier access to documents and reduce the time, effort and space required to manage documents throughout the hearings cycle. A more robust electronic case management system will be implemented in 2013 – 14.
2. Equipping hearing rooms with hardware and software systems to conduct electronic hearings.
3. Creating the Securities Proceedings Advisory Committee to provide balanced comments and timely advice to the OSC's Office of the Secretary on policy and procedural initiatives relating to administrative tribunal proceedings.

The Commission, with the support and assistance of the respondents' bar, officially launched the OSC Litigation Assistance Program (LAP) in 2012 – 13 to promote the efficiency and accessibility of adjudicative proceedings. The program provides the services of duty counsel, free of charge, to self-represented respondents involved in enforcement proceedings before Commission tribunals. Counsel are volunteers from private law firms and are independent of the Commission. The volunteer counsel assist self-represented respondents with litigation services during specific stages of a proceeding, such as pre-hearing conferences and settlement conferences and/or hearings. Enhanced access to legal services for self-represented respondents fosters fair and impartial adjudicative proceedings. The LAP was approved following a successful one-year pilot project that generated strong stakeholder support.

Stewardship of the OSC

The Part-time Members, sitting as a Board of Directors, oversee the management of the OSC's governance, financial and other affairs. The OSC is a self-funded Crown corporation accountable to the Legislature through the Minister of Finance and, accordingly, it is incumbent on the organization to maximize its fiscal and operational efficiency. The Commission's Audit and Finance Committee worked with management to appoint a Chief Internal Auditor in July 2012 to develop and implement a risk-based internal audit program that evaluates the effectiveness of OSC processes and systems. In addition, a new risk management framework, approved by the Board of Directors in November 2012, is helping the OSC to better identify, prioritize and manage risk, including financial risk, consistent with the OSC's Strategic Plan.

International Leadership

Regulation that provides protection to investors and fosters fair and efficient capital markets requires leadership and the OSC consistently demonstrates that leadership, both domestically and internationally. This leadership capacity was acknowledged by the appointment of Chair Howard Wetston as a Vice-Chair of the International Organization of Securities Commissions (IOSCO) and a member of the IOSCO Management Team. In addition, OSC employees hold numerous leadership roles on IOSCO committees and in policy initiatives of the

Canadian Securities Administrators (CSA), representing the interests of Ontario's investors and capital markets. The OSC must participate in collaborative responses to the increasing number of international regulatory initiatives, especially those related to systemic risk, cross-border misconduct and financial market integrity. Keeping Ontario's regulatory framework aligned with evolving international standards benefits investors and market participants in our province.

On behalf of the Part-time Members of the Commission, I want to express our alignment with the strategic direction, goals and priorities of the OSC as well as our confidence in the accountability, management and staff of the organization. I wish to acknowledge the contributions of the Part-time Commissioners whose terms of office expired in 2012 – 13: former Lead Director Kevin Kelly, Margot Howard and Paulette Kennedy. I also welcome Catherine Bateman, Deborah Leckman, Alan Lenczner and AnneMarie Ryan who were appointed as Part-time Members in 2013. They bring valuable expertise to the Commission in its independent, but related, oversight roles as a securities regulator and Board of Directors. I extend my appreciation to the Members, management and staff for their excellent work on behalf of Ontario's investors, market participants and capital markets.

C. Wesley M. Scott
Lead Director
Ontario Securities Commission

Information about the adjudicative activities of the Commission is available on page 84 in the Appendix.

The Commission | (From left) Sarah Kavanagh, James Carnwath, Alan Lenczner, Christopher Portner, AnneMarie Ryan, Lead Director Wesley Scott, Vern Krishna, Chair Howard Wetston, Judith Robertson, Vice-Chair James Turner, Edward Kerwin, Vice-Chair Mary Condon, Catherine Bateman, Sinan Akdeniz, Deborah Leckman

THE ROLES OF THE COMMISSION

The Commission performs duties and responsibilities as both a securities regulator and as the OSC's Board of Directors. The Chair and Vice-Chairs are full-time Members and the remaining Commissioners are Part-time Members who devote as much time as necessary to perform their duties. Under the *Securities Act* (Ontario), the Chair is both the Chair of the Board and Chief Executive Officer of the OSC. The Lead Director is a Part-time Member, elected by the other Part-time Commissioners, whose role is to assist them and the Chair in the effective operation of the Board and its Committees. The OSC is a self-funded Crown corporation that is accountable to the Ontario Legislature through the Minister of Finance. The Commission has a memorandum of understanding (MOU) with the Minister which describes the respective roles and responsibilities of the Minister and of the Chair and Board of Directors of the Commission. The MOU also sets out the accountability relationship between the Commission and the Minister.

Maureen Jensen

Executive Director's Letter

The management and staff of the OSC are proud to serve investors and market participants as the regulator of Ontario's capital markets. We take this responsibility seriously and work together to deliver strong securities regulation to protect investors and to foster fair and efficient capital markets. Our goal is to make the OSC an increasingly effective and efficient regulator and we strive to achieve that by being more focused, collaborative and responsive.

Engagement

Protecting retail investors in today's globalized markets is critical for market confidence. Our increasing engagement with investors has improved our understanding of their needs and has informed how we undertake our outreach and education, regulatory policy, compliance oversight and enforcement work.

In this first year of the OSC's Office of the Investor we have increased our engagement with investors through multiple conduits and key issues are being discussed and acted upon. This Office is the "voice" of retail investors in our internal discussions on disclosure, industry standards of conduct, mutual fund fees and other investor-focused initiatives.

The Office of the Investor is also core to the "OSC in the Community" program. We launched this meeting series in 2013 as a new way to converse directly with investors and civic leaders in their communities. OSC staff are speaking with Ontarians about how they can be more informed about their investments and advisers and about how they can recognize frauds and scams. Residents in multiple city centres across Ontario have shared their feedback from "OSC in the Community" meetings and attendee responses indicate they are getting useful information. These meetings have been very useful in informing our own policy and operational work.

Working with Market Participants

The OSC expects all market participants to demonstrate exemplary conduct, to protect their clients and to promote public trust. While working to better address investor concerns, we are also improving how we articulate our expectations about investor protection to market participants.

During the past year we demonstrated this focus to market participants around:

- How Ontario-based issuers operating in emerging markets must fully comply with all regulatory requirements, including the need for their advisers to understand and address the key risks of these businesses in their work;
- A proposed comprehensive framework for shareholder rights plans to give boards and shareholders greater discretion during take-over bids; and
- New capital-raising methods for the exempt market to facilitate capital formation for small- and medium-sized businesses, while protecting investors.

We recognize any new regulations must not only address specific market concerns but also minimize the risks from unintended consequences. Together with our counterparts in the CSA, IOSCO and other standard-setters, we are carefully considering the impact of initiatives as we move forward.

Collaboration with our colleagues in the CSA produced a number of important regulatory actions this past year, including:

- New requirements for cost disclosure and performance reporting for investors;
- Changes to the regulation of dark pools and dark liquidity in Canada;
- A new electronic trading rule, which also applies to high-frequency trading; and
- Enhanced scholarship plan disclosure for investors.

Effective Enforcement and Compliance

To promote public confidence in capital markets, we must use our authority to address non-compliance and misconduct. The OSC is intensifying its enforcement presence and exploring new opportunities to safeguard both investor and market participant trust in our markets. We have strengthened co-operative efforts with police services and the Ministry of the Attorney General to prosecute securities fraud under the *Securities Act* (Ontario) and the *Criminal Code*. We will capitalize on the increased opportunities these relationships offer to target fraudulent schemes that harm investors and to increase deterrence through enforcement actions.

Active Reviews to Ensure Consistent Compliance

As a cornerstone of investor protection, we have increasingly focused on scrutinizing registrant compliance with suitability obligations. An expansive compliance sweep of selected exempt market dealers and portfolio managers was undertaken in which we actively solicited feedback from clients. The results of this direct connection with clients was so effective and enlightening that we have now incorporated this approach into our ongoing compliance program.

Efficient securities regulation is effective regulation:

we are committed to making the most of our limited resources.

OSC Executive Management Team | (From left) Debra Foubert, Mark Adams, John Stevenson, Eleanor Farrell, H.R. Goss, Karen Taylor, Tom Atkinson, Monica Kowal, Executive Director Maureen Jensen, Kevin Fine, Rhonda Goldberg, Cameron McInnis, Susan Greenglass, Huston Loke, Tula Alexopoulos, Jill Homenuk, Leslie Byberg

Efficient Regulation

Market participants are operating in challenging times and have to deal with intense competition, uneven global economic growth and slowly recovering financial markets. Business conditions, driven by the previous worldwide financial downturn, affect all regulated entities and we must consider them in our work on new policy initiatives. We know market participants want us to be more efficient, so improving our efficiency is a top priority. Our current approaches to policy development, understanding risk and our focus on effective resource allocation all speak to our commitment to improve efficiency.

We understand that current market conditions are challenging for all market participants and we have heard the concerns expressed about the rate of regulatory change. We also know that regulatory change often translates into costs to market participants as they need to make process and system changes. We commit to carefully assessing the impacts of our proposed policy and operational changes.

More Evidence-Based Policy Planning

The OSC's research and data-analysis capacity has grown during the past year. Staff can better identify problems, estimate impacts, propose solutions and assess costs and benefits of proposed policy changes. Two examples are the work done on CSA Consultation Paper 21-401 on market data fees and OSC Consultation Paper 45-710 *Considerations For New Capital Raising Prospectus Exemptions*. We are planning to conduct a qualitative regulatory impact analysis for all future policy and rule-making projects.

Prudent Use of Available Resources

To preserve competitive capital markets in Canada, the OSC must align its regulatory framework to meet global standards and rising domestic expectations. We face a wide range of demands including Canada's G20 commitments, an increasing number of international enforcement files, more complex product regulation and increased market oversight of market infrastructure entities, both existing and new. We are working hard to respond effectively. We are leveraging our staff expertise through secondments, by deploying integrated teams and through the more effective use of technology. We are keeping our eye on the bottom line and we are committed to making the most of our resources.

A Strong and Effective Organization

This increasing complexity requires the OSC to continually improve. Effective regulation requires an array of legal, accounting, market, investigative and business skills to identify, analyze and respond to global challenges of changing markets, financial innovation and new technology. We continue to be committed to broadening our staff expertise and deepening our understanding of evolving markets.

I am pleased to state that we strive to be a healthy and engaged workplace. In 2013, we were honoured when the OSC was chosen as one of Greater Toronto's Top Employers. The OSC ranked in the top 10% of Canadian employers for reasons such as our professional development support and flexible work arrangements. Recognition as a great workplace is an important achievement, but we are aiming for continuous improvement. This focus on improvement is why I am confident the OSC will continue to be a strategic, consultative and efficient regulator.

It is my privilege to work with Chair Howard Wetston, Vice-Chairs James Turner and Mary Condon, the Commission, management and all of the wonderful OSC staff. I thank them for their ongoing commitment and support to the success of the OSC. Their dedication to public service and their demonstrated professionalism have enabled the OSC to fulfill its commitments to Ontario's investors, market participants, and to all of our stakeholders. We look forward to continuing to deliver on this commitment to you in 2014.

Maureen Jensen

Maureen Jensen
Executive Director and Chief Administrative Officer

STRONG INVESTOR PROTECTION

The OSC is delivering on its mandate to provide strong investor protection by engaging more with investors, integrating their concerns into the policy-making process, promoting investor education, fostering compliance with the rules and targeting the most serious misconduct, including fraudulent activity. The OSC's commitment to investor protection is at the core of everything the OSC does.

Outreach and Education

The OSC has strengthened its focus on retail investors and is engaging with them in new ways, including meeting directly with them in communities across Ontario. Enhanced engagement with investors allows the OSC to better understand retail investor concerns and it supports the OSC's promotion of investor education and financial literacy.

Office of the Investor

The OSC created an Office of the Investor to increase engagement with investors and ensure investor issues are directly considered in policy and operational activities. In 2012 – 13, the Office launched consultations with investor advocacy groups and established relationships with organizations such as the Financial Consumer Agency of Canada. The Office also coordinates investor-focused initiatives with the OSC Investor Advisory Panel (IAP) and Investor Education Fund (IEF) to support their respective mandates and priorities.

In its outreach, the Office has heard from many investors about issues such as mutual fund fees and a best interest standard for advisers and dealers. The Office represented investor concerns during OSC staff policy discussions on these and other initiatives such as point-of-sale disclosure for mutual funds (*Fund Facts*), cost disclosure and performance reporting for investors, capital-raising in the exempt market and the need for consistency and fairness in dispute-resolution services.

36% of the financial wealth in Canada is held in mutual funds.

Canadian Financial Monitor

OSC in the Community

OSC staff met with retail investors, community leaders and police services across the province as part of a new roadshow called "OSC in the Community". In the winter and spring of 2013, the OSC visited Thunder Bay, Kingston, London, Sault Ste. Marie, Sudbury and Peterborough to promote financial literacy, hear investors' stories and help investors learn how to protect themselves against fraud.

Staff from the Enforcement Branch and the Office of the Investor gave presentations about fraud prevention and how to identify the warning signs of fraudulent investment schemes, such as high-pressure offers through unsolicited phone calls. The IEF talked to attendees about financial literacy and the importance of becoming a more informed and protected investor. Staff also offered tips about maintaining productive relationships with financial advisers.

Outreach programs such as "OSC in the Community" helps the OSC understand what investors want and need, how they invest and how their concerns should be reflected in regulatory policies. It also informs investors, community leaders and police about the OSC, its regulatory role and the resources it has to offer. "OSC in the Community" is building relationships with local police authorities and showing them how the OSC can assist in certain areas. More "OSC in the Community" events are scheduled in 2013 – 14.

OSC Investor Advisory Panel

The IAP is another important channel that represents investor perspectives to the OSC. Created in 2010, the IAP provides investor-focused comments on proposed rules, policies, discussion papers and the draft OSC *Statement of Priorities*. The panel has submitted valuable input on several policy issues, including dispute-resolution services for investors, the standard of conduct for advisers and dealers and mutual fund fees. The IAP also participates in research. In March 2013, the IAP released the study, "Strengthening Investor Protection in Ontario – Speaking with Ontarians". The study explores the views of Ontario investors regarding their relationships with advisers and how they use investment product information and advice. This research will inform and support the IAP's future input to the OSC.

Investor Education

The OSC provides funding and ongoing support to improve the level of financial literacy of Ontarians, primarily through the IEF, the largest financial literacy trainer of teachers and students in Canada. The IEF website, GetSmarterAboutMoney.ca, is Canada's most popular financial literacy website, which attracted 1.8 million visitors to its online content in 2012 – 13 and achieved a 58% increase in the size of its social media community. The OSC established the IEF in 2000 and it is funded through proceeds from OSC enforcement activities and penalties.

5,559 Total contacts from investors with the OSC Inquiries & Contact Centre in 2012 – 13.

Regulation

The regulatory framework for Ontario's capital markets is designed to provide protection to investors while fostering fair and efficient capital markets. Public confidence in these markets can be affected by factors such as the stability of the financial system and perceptions of the effectiveness of market supervision. The OSC maintains a regime of appropriate regulations to promote investor confidence, and several investor-centred policy initiatives undertaken in 2012 – 13 will impact retail investors in tangible ways.



Disclosure

The OSC and other members of the CSA want Canadians to be able to make more informed investment decisions. More effective disclosure, prepared in easy-to-understand formats, can help investors better understand investment products, risks, costs and performance.

The CSA's investor-focused policy projects include a number related to improved disclosure:

1. New rules for registered dealers and portfolio managers to provide clients with information about the costs and performance of their investments to help them make more informed investment decisions;
2. Improvements to scholarship plan disclosure, including the introduction of a two-page Plan Summary that provides important information, in easy-to-read language, about the potential risks and costs of investing in a scholarship plan; and
3. Enhancements to *Fund Facts*, a concise, plain-language disclosure document that highlights key information about a mutual fund that is important to investors, including risk and fund performance. Rather than a prospectus, investors will soon receive the *Fund Facts* document, which is central to the CSA's point-of-sale disclosure initiative, when they purchase a mutual fund.

Focus on Suitability

Many Ontarians work with an adviser or dealer to achieve their investment and retirement goals. These registrants are obligated to understand the general investment needs and objectives of their clients and to have a solid understanding of the products they recommend. The OSC considers the suitability obligations of registrants to be key protections for investors. In 2012 – 13, the OSC conducted its largest targeted review of approximately 90 portfolio managers and exempt market dealers. The sweep was used to assess their compliance with Know Your Client (KYC) requirements, Know Your Product (KYP) and other suitability obligations. Staff found a number of substantive issues, such as sales of securities to non-accredited investors and inadequate suitability assessments.

During the sweep, staff contacted approximately 200 clients of portfolio managers and exempt market dealers to check the information on the KYC forms and the clients' understanding of their investments. Most of the clients confirmed what was on their KYC forms and what they were told about their investments. But in some cases staff received conflicting information from the client, which required follow-up with the firm. Staff published their findings from the suitability sweep in May 2013 and will provide "best practice" guidance to address the deficiencies identified.

49% of Canadians have financial advisers, up from 42% in 2006. 60% of the people with financial advisers have not done a background check on them.

2012 CSA Investor Index

Photo | Representatives of staff from the Compliance and Registrant Regulation Branch.

Best Interest Standard

Individuals and firms registered with the OSC to participate in the capital markets are expected to meet significant responsibilities to their clients and the public at large. Recently, securities regulators in a number of countries, including Canada, have been considering the relationship between clients and their advisers. Given the importance of this relationship, the OSC believes it must be effective for investors and well understood by advisers and investors alike.

The OSC and the CSA published a consultation paper in October 2012 on the potential benefits and competing considerations of introducing a statutory "best interest" standard for advisers and dealers when they provide advice to retail clients. Comments on the paper are being reviewed and public consultation sessions are scheduled in 2013 to consider perspectives on the issue. The OSC will host three stakeholder roundtables in June and July 2013 to further explore the CSA consultation paper.

"Mutual funds are a cornerstone investment for many Canadian investors. At the end of 2011, the mutual fund industry managed $762 billion in assets on behalf of Canadians. Those assets accounted for 73.8% of all Canadian investment fund industry assets under management."

CSA Discussion Paper 81-407 *Mutual Fund Fees*

Mutual Fund Fees

In response to growing public interest in mutual fund fees, the CSA created a platform for an open discussion on Canada's mutual fund fee structure. In December 2012, the CSA published Discussion Paper 81-407 *Mutual Fund Fees* for comment. The paper examines the current mutual fund fee structure, product distribution channels and fee disclosure, and identifies potential investor-protection issues. The paper is a key element of extensive consultations with investors and market participants underway to consider what changes could or should be taken to enhance investor protection and foster investor confidence.

Photo | 2013 OSC Mutual Fund Fees Roundtable

Those consultations included an OSC roundtable with investors and other stakeholders in June 2013. More consultations will be scheduled in 2013 – 14.

Dispute Resolution for Investors

The OSC and its CSA counterparts believe that having one common dispute-resolution service for the securities industry is in the best interests of investors and registered dealers and advisers. In December 2012, the CSA proposed rule amendments that would require all registered dealers and advisers, outside of Québec, to use the Ombudsman for Banking Services and Investments (OBSI) as the common dispute-resolution service for the securities industry. OBSI is an independent, not-for-profit organization with significant experience as a dispute-resolution service. The proposal was subject to a public comment period and the CSA is reviewing stakeholder comments with a view to developing final rule changes to clarify for investors how their complaints will be handled.

Ontario's Exempt Market

The total amount of capital raised in Ontario through exempt distributions in 2011 was approximately $86.5 billion. This capital was raised by a diverse range of issuers using a variety of instruments, including debt, equity, asset backed securities, investment fund securities and derivatives.

Of the $27.7 billion raised in Ontario in 2011 by issuers other than investment funds, approximately 23% was raised by the financial services industry, 14% by the mining sector and 5% by the technology industry.

Capital Markets Accessibility

To foster confidence in the capital markets as a whole, the OSC works to increase access to investment opportunities for investors in the exempt market while providing appropriate protection to investors. In the exempt market, small- and medium-sized enterprises may, in some cases, sell securities without a prospectus. Securities may be traded according to the terms of various exemptions set out by the OSC. The exempt market allows for efficient capital formation and is a significant part of the provincial capital markets.

The OSC is consulting investors and other stakeholders about new proposals, such as crowdfunding, to facilitate greater access to investment opportunities in the exempt market. Crowdfunding is a method of raising small amounts of capital from a large number of people, often through online channels, such as social media. The stakeholder outreach has included a survey of approximately 1,500 Canadians to gauge their needs and interests regarding investments in the exempt market generally and in small business in particular. The investor research and consultations will ensure that any new prospectus exemptions introduced by the OSC will include appropriate investor protections.

Photo | Members of the OSC exempt market team

Protection through Enforcement

In addition to its rule-making function, the OSC enforces securities laws in Ontario. In the event of suspected misconduct, the OSC has a vigorous enforcement program to investigate potential breaches of the *Securities Act* (Ontario) and commence proceedings before the Commission's adjudicative tribunal or the Ontario Court of Justice.

4.6% of Canadians believe they have invested money in what turned out to be a fraudulent investment.

2012 CSA Investor Index

Fraud is one of the most serious types of harm that confronts investors and targeting fraud has become a heightened priority for the OSC. A new Joint Serious Offences Team (JSOT) that is dedicated to the detection of fraud and prosecution in quasi-criminal proceedings and under the *Criminal Code* has been established by the OSC. This team, including former police officers and former Crown attorneys, works closely with police agencies and the provincial Ministry of the Attorney General. Some OSC staff have been designated as

"Special Constables" to work with police to investigate criminal activity related to securities. The JSOT is a collaborative, inter-agency effort to investigate and prosecute securities fraud and seek jail terms where warranted.

Enforcement staff pursue individuals and companies alleged to have perpetrated fraud and other misconduct in administrative proceedings before the Commission tribunal and quasi-criminal matters before the Ontario Court of Justice. In administrative proceedings, the tribunal can impose monetary sanctions, order individuals or firms to disgorge ill-gotten gains and ban individuals from trading or from leadership roles in issuers, either temporarily or permanently, among other sanctions. In quasi-criminal proceedings, the Court can impose jail sentences for violations of the *Securities Act* (Ontario) and breaches of Commission orders, and thereby send a strong deterrence message to the public. In 2012 – 13, the OSC concluded two proceedings before the Court against two individuals. One individual was sentenced to two years in jail after pleading guilty to three counts of fraud. OSC staff also commenced five proceedings before the Court, four of which involved fraud allegations against a total of 10 individual and corporate defendants.

In matters before the tribunal, OSC staff concluded 16 proceedings involving allegations of fraud under the *Securities Act* (Ontario) in 2012 – 13. These proceedings involved a total of 46 individual and corporate respondents, or approximately one third of all respondents. In addition, staff commenced eight proceedings involving fraud allegations against a total of 28 individual and corporate respondents, or one quarter of all of the respondents in commenced proceedings in 2012 – 13.

About 27% of Canadians believe they have been approached with a possible fraudulent investment at some point in their lives, and 5% say they have been victimized by fraud, according to the 2012 CSA Investor Index. The Index findings emphasize the need to promote fraud awareness to help Canadians protect themselves and to assist authorities. The OSC Enforcement Branch, and law enforcement agencies in general, welcomes tips from the public. Information provided by citizens can be valuable to investigators and can assist the OSC's investor-protection mandate. The OSC also issues investor warnings and alerts though its website to warn the public about individuals and companies that may be involved in harmful activity. In 2012 – 13, the OSC issued six Investor Alerts, many related to businesses located overseas, which attracted more than 4,500 page views in English and French. The OSC also added 19 companies to its Investor Warning List.

Read more about OSC Enforcement in "Effective Enforcement and Compliance" on page 20.

EFFECTIVE ENFORCEMENT AND COMPLIANCE

The OSC regulates Ontario's capital markets by making and enforcing rules that apply to individuals and firms that sell securities and provide advice in this province, public companies, investment funds and marketplaces. The OSC articulates its expectations of market participants to maintain high standards of conduct and comply with applicable requirements. It also responds to securities-related misconduct and non-compliance with vigorous and timely actions that protect investors, safeguard market integrity and foster public confidence.

Making the Rules

Rules for the capital markets establish requirements for honest and responsible conduct. They also set the standards for timely, accurate and efficient disclosure of information to the public. An integral part of the rule-making process is co-operation with the CSA on national rule initiatives.

The OSC works with the CSA to harmonize and modernize regulation in Canada, including the following new rule initiatives in 2012 – 13:

- A proposed regulatory framework for the treatment of shareholder rights plans. The proposal would give more discretion to boards, but ultimate power would be in the hands of shareholders.
- Rule changes to improve communications between reporting issuers and their shareholders in the proxy-voting process.
- Proposals to modernize investment fund rules.
- Recommendations for the registration and regulation of market participants trading in over-the-counter (OTC) derivatives.

The rule-making process is informed by input on securities regulation and industry trends from investors and market participants, including the members of the OSC's 10 advisory committees. Each advisory committee serves as a forum for staff and stakeholders to discuss securities regulation, industry trends and technical issues, including matters related to disclosure and compliance. The OSC has increased the number of advisory committees in recent years to draw more on the expertise and perspectives of stakeholders.

12,312 Total contacts from market participants to the OSC Inquiries & Contact Centre in 2012 – 13.

Articulating Expectations

Staff use various channels to communicate to market participants the OSC's expectations for compliance with the requirements of the *Securities Act* (Ontario) and any related rules and policies.

Examples include:

- The annual Summary Report for Dealers, Advisers and Investment Fund Managers (OSC Staff Notice 33-728), published in November 2012, and Summary Report for Investment Fund Issuers (OSC Staff Notice 81-718), published in January 2013;
- An Issuer Guide for Companies Operating in Emerging Markets (Staff Notice 51-720), published in November 2012, setting out the OSC's expectations for the directors and management of issuers listed in Ontario which have significant business operations in emerging markets. The Guide is intended to clarify existing continuous disclosure requirements for these companies which should be considered when assessing risk and complying with securities law;
- The OSC Investment Funds Practitioner updates investment fund managers and their advisers on how investment funds should comply with applicable requirements; and
- The OSC and the Investment Industry Regulatory Organization of Canada (IIROC) co-hosted a stakeholder conference on June 26, 2012, to discuss the evolution and future of Canada's equity market.

In addition, the annual OSC Dialogue conference brings together staff, investor advocates and industry representatives to discuss important issues in securities regulation. More than 300 people attended the 2012 conference, which featured sessions on enforcement, systemic risk and capital formation, as well as remarks by Gary Gensler, Chairman of the U.S. Commodity Futures Trading Commission (CFTC).

The OSC monitors and oversees the compliance with Ontario securities law by approximately:

1,400	Public Companies
3,700	Investment Fund Issuers
1,300	Registered Firms
66,000	Registered Individuals

Focused Compliance

The OSC reviews and monitors compliance by registered firms and individuals, including investment fund managers, advisers and dealers that are not members of a self-regulatory organization (SRO), as well as public companies and investment funds that are reporting issuers in Ontario.

Risk-based criteria are used to select and review the disclosure documents and/or activities of issuers and individuals. Staff concentrate on areas where regulatory issues are most likely to appear, an approach designed to be efficient and proactive. For example, OSC staff conducted a review of the advertising and marketing materials of a sample of investment fund managers to check for information that could be potentially misleading to retail investors. The reviews included materials for conventional mutual funds, exchange-traded funds and commodity pools. The managers under review were asked to provide all advertisements and marketing materials used during the preceding quarter and to describe their policies and procedures related to marketing activities. Staff expect to publish observations and guidance arising out of this review in 2013.

OSC staff also use outreach, education and consultation to foster compliance by registrants. The OSC SME Institute is a major outreach initiative that was launched in July 2012 for small and

Photo | 2012 OSC Dialogue

medium enterprises (SMEs). The SME Institute offers free education seminars with practical information on cost-effective compliance and other topics. Staff have hosted seminars on specific issues, such as continuous disclosure requirements, and for particular industries, including mining, financial services and technology. The goal is to assist directors and managers in building their knowledge of securities laws and applying it to their businesses.

Timely and Responsive Oversight

The OSC oversees activity within the capital markets with a comprehensive compliance and enforcement program. The OSC can respond with a range of tools to breaches of securities law or conduct that is contrary to the public interest. Remedial action can include suspending a registrant's registration, imposing terms and conditions on a registrant, requiring an issuer to restate or refile its financial statements, or a referral to the Enforcement Branch.

Four scholarship plan dealers were referred to the Enforcement Branch after staff in the Compliance and Registrant Regulation Branch identified serious concerns with sales and other practices during compliance reviews of the dealers. The OSC placed temporary terms and conditions on the registrations of the dealers, including a requirement for each dealer to retain a consultant to develop and implement a compliance plan to strengthen its compliance system and retain a monitor to ensure the sales of these plans are suitable.

Another example of the OSC's compliance-enforcement oversight involved a registered portfolio manager firm that failed to ensure that certain investments were suitable for all of its clients. The Commission approved a settlement agreement on April 27, 2012, with Trapeze Asset Management Inc. and two individuals after the three respondents admitted to breaching the "Know your Client" (KYC) and suitability obligations. Under terms of that agreement, the Commission ordered the respondents to pay an administrative penalty of $1,000,000. Trapeze also agreed to submit to a review of its practices and to conduct account reviews.

In the wake of the OSC's Emerging Markets Issuer Review, more focus has been put on whether gatekeepers, such as auditors, adequately perform their role in protecting investors. In December 2012, OSC staff issued allegations that the former auditors of Sino-Forest Corporation breached the *Securities Act* (Ontario) by failing to conduct audits in accordance with relevant standards.

Enforcement staff also brought the first case before the Commission that pertained to the conduct of a "Qualified Person", a gatekeeper of technical information under National Instrument 43-101 *Standards of Disclosure for Mineral Projects*. The matter involved Bernard Boily, a geologist and the Qualified Person for a mining exploration company listed on the TSX Venture Exchange. In reaching a settlement with OSC staff in March 2013, Mr. Boily agreed that, among other things, he perpetrated a fraud in relation to his conduct with the Independent Qualified Persons and issued misleading and untrue statements to the market. In the settlement, he also undertook never to act as a Qualified Person for any issuer in the future and agreed to a penalty of $750,000.

Another priority is to pursue cases of illegal insider trading and abusive trading. Using confidential, material information for personal gain is abusive market behaviour that will attract a vigorous enforcement response from the OSC, including working with international partners. For example, one abusive trading case that involved parallel investigations by the OSC and U.S. Securities and Exchange Commission (SEC) resulted in strong sanctions on both sides of the border in April 2013.

The OSC is also considering new policy initiatives to strengthen its enforcement regime. OSC Staff Notice 15-704 *Request for Comments on Proposed Enforcement Initiatives* was published in October 2011 and the Commission will convene a public policy hearing on June 17, 2013, to receive oral submissions from parties who submitted written comments on proposed policy initiatives:

1. A program for explicit "no-enforcement action agreements", under which a party would not be subject to OSC enforcement action in exchange for self-reporting matters that may involve breaches of Ontario securities law or activities that would be considered contrary to the public interest, and for co-operating in an investigation;
2. The introduction of no-contest settlements, under which a protective order could be made in the absence of a specific admission by a respondent of a breach of the *Securities Act* (Ontario);
3. A clarified process for self-reporting under the OSC credit for co-operation program; and
4. Enhanced public disclosure of the credit granted for co-operating with the OSC.

The initiatives are intended to enhance the flow of information provided to the OSC, facilitate the more timely and effective resolution of enforcement matters and contribute to a higher volume of protective orders made in the public interest.

Statistics about the OSC's Enforcement Activity and Concluded Hearings are included in the Appendix on page 82.

"The OSC oversees activity within the capital markets with a comprehensive compliance and enforcement program. The OSC can respond with a range of tools to breaches of securities law or conduct that is contrary to the public interest."

Photo | Staff from the OSC Enforcement Branch who work with the Joint Serious Offences Team (JSOT). For more on the JSOT, see page 18 in "Strong Investor Protection".

MARKET STRUCTURE EVOLUTION

Global capital markets are undergoing significant technological change and rapid evolution. The OSC continues to respond with proactive and collaborative policy responses and by implementing appropriate international best practices to support fair, efficient and orderly markets in Ontario. As markets evolve, the OSC is examining changing market structures and also the impact and risks of algorithmic and other electronic trading in its work to strengthen the regulation of marketplaces and trading.

Regulating Marketplaces and Clearing Agencies

The capital markets of Ontario are made up of 21 marketplaces for the trading of equities, debt securities and derivatives. Marketplaces, together with clearing agencies, provide the infrastructure that supports securities transactions. Technology, competition and changing investor behaviour are driving major changes in marketplaces. The overall objective of market regulation is to ensure that markets remain fair and that participants have confidence in their resiliency and integrity.

ALMOST $2.2 TRILLION

Total market capitalization of the Canadian equity market as of December 31, 2012, or approximately 121% of GDP.

The OSC sets the operational requirements for exchanges, alternative trading systems (ATSs) and clearing agencies. Staff conduct regular and rigorous oversight of the operations of regulated entities and their impact on the markets and strive to be proactive in identifying and addressing any regulatory issues through policy development and consultations with industry and other regulators.

Regulation of Dark Pools

Canada was one of the first jurisdictions to introduce a framework with respect to the regulation of dark pools, which are marketplaces that do not make orders to trade securities visible to market participants. The evolution of the use of dark pools and dark orders, or dark liquidity, created a challenge for regulators intent on promoting market transparency and price discovery for all investors while recognizing that dark pools facilitate the execution of large orders by participants such as institutional investors.

In October 2012, the CSA and IIROC implemented a regulatory framework for dark liquidity to ensure Canadian equity markets develop in a manner that strengthens investor protection and promotes fair and efficient markets. This new framework seeks to strike an appropriate balance in supporting the price-discovery process while allowing for market innovation. Since the regulation took effect in October 2012, the volume of equities trading on lit markets in Canada increased from 94% to 98%

of total volumes. Lit markets generally display orders to market participants before trades occur. Canada's regulatory regime has been recognized internationally by securities regulators and other commentators as a proactive response to the evolution of dark pools.

HIGH FREQUENCY TRADES (HFT) accounted for approximately 40% of the more than 227 million trades executed in Canada for the three months from August to October in 2011. Approximately 300 HFT users participated in trading.

2011 IIROC HOT Study

Electronic Trading Rule

The evolution of technology and the use of sophisticated strategies, including high frequency trading and algorithmic trading, are increasing the speed and complexity of securities trading. This creates risks that must be managed by market participants and marketplaces. In developing its rule framework, the OSC and other members of the CSA have required dealers and marketplaces to take an active role in managing the risks of electronic trading. Specifically, National Instrument 23-103 *Electronic Trading*, which came into effect in March 2013, introduced a framework to manage the risks associated with accessing markets electronically. The rule applies to the trading of all securities, including fixed income securities, on ATSs and recognized exchanges and is consistent with international approaches to regulating electronic trading. These protections were put in place to foster the efficiency and orderliness of the Canadian capital markets. However, the OSC recognizes that markets and technology continue to evolve and as a result, it will actively monitor markets to ensure that the regulatory framework remains comprehensive and robust.

Photo | 2012 OSC-IIROC Market Structure Conference

TMX Group is the **8th LARGEST** exchange group by market capitalization and also has more listed companies than any other North American exchange.

TMX Group, World Federation of Exchanges

Oversight of the Integrated TMX Group

The Maple acquisition of the TMX Group in 2012 resulted in fundamental changes to the infrastructure of Canada's markets. As a result of the acquisition, The Canadian Depository for Securities Limited (CDS) changed from a cost-recovery industry utility to a for-profit commercial enterprise owned by a large exchange group, and the relationship between CDS and its participants also changed.

52% Percentage of companies listed on the Toronto Stock Exchange were based in Ontario, as at March 31, 2013. These 807 companies also represented 41% of the total TSX market capitalization of $2.2 trillion.

TMX Group

The Commission anticipated the issues resulting from these fundamental changes as it reviewed the Maple application. The final recognition orders include terms and conditions to address the novel issues raised, including the concentration of ownership of key infrastructure, pricing of and fair access to services, and potential conflicts related to ownership. Such significant change to market infrastructure also requires enhancements in regulatory oversight to ensure that regulation keeps pace with the evolving marketplace.

Since the approval of the Maple transaction, the OSC has considered how it oversees the new TMX Group within the context of the wider market structure. The oversight is active, continuous and focused on key areas including management of conflicts, the pricing of products and services and arrangements between CDS and its participants. A pricing review program for CDS is in development and the OSC continues to monitor the progress of CDS as it finalizes the scope of the review of participant arrangements. Under the new OSC fee rule, marketplaces and clearing agencies, including TMX Group and its subsidiaries, will be responsible for the costs of their oversight in Ontario.

"Canada was one of the first jurisdictions to introduce a framework with respect to the regulation of dark pools, which are marketplaces that do not make orders to trade securities visible to market participants."

INTERNATIONAL LEADERSHIP

The complexity and interconnectedness of global capital markets require increased alignment by regulators to prevent regulatory gaps between jurisdictions, strengthen enforcement co-operation and promote financial stability. This international outlook underpins the OSC's important partnerships with prudential and securities regulators at a time when the international reform agenda has a strong influence on Canada's regulatory agenda.

Ontario in the Global Markets

Ontario's financial markets are part of the international markets, closely linked by technology, investment flows, risk-management practices, the business models of market participants and investor behaviour. Ontarians invest in international markets and foreign investors look for opportunities in this province, which is home to a growing international financial services industry:

- Toronto is the seventh largest financial centre in the world, and second largest in North America, according to the 2012 Annual Ranking of International Financial Centres by *The Banker* magazine in the U.K.
- Approximately 340 foreign companies were listed on the TSX and TSX-V as at March 31, 2013, with a total market capitalization of approximately $171 billion, or 8% of total market capitalization.
- Canadians purchased $2.2 billion in foreign equities and investment funds in March 2013.

Global market developments affect Ontario's markets and the OSC must therefore take an international view of securities regulation, particularly regarding cross-border enforcement issues, the promotion of financial stability and the development of international regulatory standards.

Enforcement Co-operation

Fraudulent investment schemes do not respect borders and seek to prey on people around the world. Collaboration is therefore vital to combatting misconduct and deterring harm. The OSC is a central player in assisting its counterparts in cross-border enforcement investigations to fight fraud and other forms of misconduct, which often manifest themselves in complex schemes. Typical requests to the OSC Enforcement Branch include requests for assistance in obtaining financial documents and testimony from individuals. Such requests can also alert the OSC to possible misconduct in Ontario.

2002 | Year that the OSC signed the IOSCO Multilateral Memorandum of Understanding on Cooperation and Exchange of Information.

The OSC Enforcement Branch has productive relationships with the SEC and Commodity Futures Trading Commission (CFTC), the two regulators that account for the largest share of assistance requests. However, the level of co-operation provided to regulators in Europe and Asia is increasing. In 2012 – 13, the OSC Enforcement Branch received 60 requests from regulators, 31 of which were from U.S. regulators and 18 from other regulators, including Germany and Hong Kong. In the previous fiscal year, the OSC received 12 assistance requests from other international regulators. In turn, the OSC made 50 requests for enforcement assistance to international regulators in 2012 – 13, including 30 requests to non-U.S. regulators.

The OSC must deal with an increasing number of investigations and actions involving alleged misconduct with international ties. One example of such action was the investigation that resulted in allegations of fraud against Sino-Forest Corporation and six individuals. A proceeding was commenced in May 2012 and is currently before the Commission. Strong relationships with regulatory partners enhance information-sharing and improve the timely conduct of cross-border investigations.

"In this historic effort, the Commodity Futures Trading Commission has enjoyed a very close working relationship with authorities in Canada. We've worked constructively bilaterally, as well as through international forums such as the International Organization of Securities Commissions, where the OSC is a fellow co-chair of the OTC Derivatives Task Force."

Gary Gensler, Chairman of the U.S. Commodity Futures Trading Commission, speaking to OSC Dialogue on October 30, 2012, about the global initiative to meet the G20 commitments to strengthen the international financial regulatory system.

Supporting Financial Stability

The development of effective international regulation leverages local perspectives and the OSC contributes Ontario's perspective to this process. OSC staff are active contributors to the collective effort to promote the stability of the financial system, which is an organizational goal of the OSC. Specifically, the OSC works with IOSCO, the CSA and other agencies to fulfill Canada's various commitments to the G20 and the Financial Stability Board (FSB), especially in the creation of a transparent framework for regulating over-the-counter (OTC) derivatives markets. Securities regulators are adopting reforms that provide increased transparency in OTC derivatives markets and are developing a clearing system to reduce counterparty credit risks.

5 LARGEST chartered Banks in Canada had a total of approximately $18 trillion in notional amount of outstanding over-the-counter (OTC) derivatives in 2012.

The OSC plays a leading role in both domestic and international derivatives reform initiatives. As co-chair of the IOSCO Task Force on OTC Derivatives, the OSC led the Report on Derivatives Market Intermediary Oversight, published in June 2012. Staff participate in discussions by a group of international regulators responsible for implementing new international standards related to OTC derivatives, and hosted a roundtable of the Over the Counter Derivatives Regulators group in Toronto in May 2012.

In Canada, OSC staff spearheaded the development of the first proposed derivatives rules, published for comment in CSA Staff Consultation Paper 91-301 in December 2012. The Model Reporting Rules define the types of contracts or instruments required to be reported to a trade repository, establish requirements for the operation of trade repositories and propose requirements for transaction data reporting. Developed from consultations between the CSA and stakeholders, the model rules marked the start of the process of drafting final rules for OTC derivatives transactions in Canada.

Strengthening the regulation of "shadow banking" (or market-based financing) is another initiative aimed at promoting financial stability. Shadow banking generally refers to entities and activities structured outside the regular banking system but which perform bank-like functions, such as credit intermediation. In response to the G20's commitment to enhance the regulation of the shadow banking system, the FSB set a deadline of September 2013 for rules on money-market funds and other shadow-banking activities. The CSA's response has included implementing new requirements for money market funds in October 2012 to make them more resilient to short-term market risks, consistent with global standards. The changes are part of the ongoing modernization of investment fund regulation in Canada.

Photo | Members of the OSC Derivatives Branch

179 international companies were listed on the TSX as at March 31, 2013, representing 11% of total listings and 7% of the total capitalization on the TSX.

TMX Group

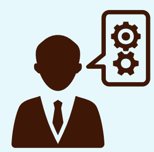
OSC at the IOSCO Table

The OSC plays a leadership role as a founding member of IOSCO, which sets internationally recognized standards for the securities sector. In March 2013, Chair Howard Wetston was appointed a Vice-Chair of the IOSCO Board, in recognition of the OSC's contribution and commitment to IOSCO and its mandate. In this role, Mr. Wetston will influence and advance IOSCO's priorities and policy agenda in important areas such as systemic risk, financial benchmarks and retail investor issues. He will also chair the IOSCO Monitoring Group, which oversees international auditing standard setting, and the Decision-Making Group for IOSCO's Multilateral Memorandum of Understanding (MMOU), which sets out requirements for the exchange of information, ensuring that no domestic secrecy laws or regulations prevent the sharing of enforcement information among securities regulators.

94 | Number of IOSCO members that signed the IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information, the instrument used by securities regulators around the world to combat cross-border fraud and misconduct. Together, these jurisdictions regulate more than 94% of the world's securities markets.

The OSC plays an active role in IOSCO in many areas, including:

- As a member of IOSCO's Task Force on Financial Benchmarks, the OSC is helping to shape new principles for the regulation and oversight of financial benchmarks.
- The OSC is on a new IOSCO Task Force on Cross-Border Regulation to provide guidance for IOSCO members on improving the regulation of entities and transactions that cross international borders.
- The OSC is on the IOSCO Assessment Committee, which monitors the implementation of key regulatory principles by members.



"The OSC is a central player in assisting its counterparts in cross-border enforcement investigations to fight fraud and other forms of misconduct, which often manifest themselves in complex schemes."

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Management's Discussion and Analysis

This MD&A was prepared as of May 21, 2013 and is intended to assist our readers in understanding key financial events and actions and how they have influenced the Ontario Securities Commission's (OSC) operations during the past year. An outlook on OSC 2013 – 2014 plans is also provided. Additional details on 2013 – 2014 plans are set out in the OSC Statement of Priorities and the OSC Strategic Plan at www.osc.gov.on.ca.

Certain statements in this MD&A are forward-looking and are therefore subject to risks and uncertainties. The financial performance or events forecast in these statements may differ materially from actual financial performance or events. Factors which could cause financial performance or events to differ from current expectations are described under "Risks and Uncertainties." The words "believe", "plan", "intend", "estimate", "expect" or "anticipate" and similar expressions, as well as future or conditional verbs such as "will", "should", "would" and "could" often identify forward-looking statements. The OSC has based these forward-looking statements on its current views of future events and financial performance. Any assumptions, although reasonable at the time of publication, are *not* guarantees of future performance.

This document should be read with the financial statements. The financial statements present the OSC's financial performance with 2012 comparatives as at March 31, 2013 and accompanying notes. Unless otherwise specified, references to a year, for example 2013, refer to the fiscal year of the OSC ended March 31 of that year. The factors which affected the OSC's operations during 2013, as well as the factors that reasonably may be expected to affect future operations and financial performance, are set out in this document.

All financial information in this MD&A related to 2013 and 2012 is in accordance with International Financial Reporting Standards ("IFRS") and all dollar amounts are expressed in Canadian dollars unless otherwise indicated.

Summary of Key Themes and Highlights of 2013

The OSC has prepared this high-level summary of key themes and highlights of its MD&A to enable readers to quickly review what we believe were notable developments during fiscal 2013. It is not intended as a substitute for the full MD&A but reflects the OSC's commitment to open and accessible communication.

Fiscal 2013 – Key Themes

In the year that passed, activities engaged in by the OSC reflected three themes:

Efficiency

The numbers show we are doing more with less. The OSC has assumed significant additional responsibilities for more complex work, as well as for critically important information technology projects. We have done so with the fewest possible additional staff: hiring from the outside only where specific expertise is required and reallocating activities efficiently among existing employees. The increment in fees and in required staffing should be compared with the additional activities the OSC is undertaking to respond to global pressures and industry needs and to provide enhanced investor protection.

Responsiveness

The OSC has reduced its financial surplus over the past few years and moderated its fee increases as part of its response to difficult market conditions for the securities industry and challenges in the broader economy. Drawing down the surplus was a responsible measure that has seen the OSC incur a financial deficiency in 2013, and we expect to see our surplus decline to $3.4 million in 2014. The new fee model for the coming fiscal year has been targeted to address stresses faced by market participants, in particular to reduce the administrative burden on smaller firms.

Transparency

Readers who compare this MD&A with previous versions will find the OSC has provided additional financial detail that delivers greater transparency and reflects best communications practices. Included is new information about the Canadian Securities Administrators (CSA) cost sharing and systems development, more transparent information about enforcement assessments and collection processes, and improved fee setting process. We have also sought to offer an understanding of the alignment between costs and goals.

MD&A Highlights

- Following its plan to reduce its surplus, the OSC had a net deficiency of revenues over expenses of $7.6 million, including $1.2 million recovered in enforcement costs.
- The OSC amended its fee rules for fiscal years ending March 31, 2014, 2015 and 2016; the new rules took effect on April 1, 2013.
- The OSC made new staff additions specifically to establish the Office of the Investor, to provide analytical and research support, to improve adjudicative process timeliness and to address operational priorities.
- The OSC acquired more space to accommodate expanded hearing rooms and staff growth.
- The OSC renewed its revolving line of credit for another two years (expiring June 30, 2014) for $35 million.
- The OSC will seek approval to increase its line of credit to $60 million and to make it permanent. Subject to approval, it should succeed arrangements expiring in June 2014.
- As planned, the OSC expects to continue to operate at a deficit in 2013 – 2014, and the OSC accumulated surplus is projected to decrease to $3.4 million as at March 31, 2014.

Overview

The OSC is a Crown corporation without share capital and is responsible for regulating Ontario's capital markets. In protecting investors and fostering fair and efficient capital markets in Ontario, the OSC seeks to strike an appropriate balance between facilitating timely access to the material information needed by investors to make informed investment decisions, while avoiding undue regulatory burdens on market participants. A member of the CSA, the OSC works with other Canadian securities regulators to improve, co-ordinate and harmonize the regulation of Canada's capital markets.

The OSC achieves its goals through various regulatory tools, including:

- Imposing requirements through rules and other regulatory instruments;
- Providing guidance to market participants;
- 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 Ontario securities law requirements. Certain authorities are delegated by statute to OSC Directors and other staff as designated under the *Securities Act* (Ontario) and the *Commodity Futures Act*.

Selected Three-Year Annual Information

(Thousands)	2013	2012	2011
Revenue	$ 87,278	$ 85,638	$ 72,955
Expenses	96,166	91,163	84,584
Deficiency of revenue over expenses (before recoveries)	(8,888)	(5,525)	(11,629)
Recoveries of enforcement costs	1,245	1,139	703
Deficiency of revenue over expenses	(7,643)	(4,386)	(10,926)
General surplus	5,842	13,485	17,872
Property, plant and equipment	$ 7,775	$ 1,877	$ 1,321

Certain financial statement amounts have been rounded for discussion purposes; however, percentages are calculated from financial statement amounts. As a result, small differences in calculations may arise, but are not deemed material.

Analysis of Financial Performance

Revenues increased $1.6 million or 1.9% from higher participation fee revenues. Expenses were $5.0 million or 5.5% higher. Key drivers of the increase in expenses were costs for salaries and benefits ($2.9 million), administrative ($789,000) and occupancy ($890,000). Employee compensation and occupancy costs account for 82.9% (2012 – 83.3%) of expenses (before recoveries).

Consistent with its plan to reduce its surplus, the OSC had a net deficiency of revenues over expenses of $7.6 million (2012 – $4.4 million). The deficiency was $1.1 million more than budgeted because revenues were $6.2 million lower than planned and spending was $4.8 million under budget. The OSC's deficiency of revenues over expenses was reduced by recovering $1.2 million in enforcement costs through settlements and orders.

The property, plant and equipment balance increased $5.9 million (314.2%) through expansion and renovation of OSC facilities. The OSC acquired more space to accommodate staff growth and expand hearing rooms, create additional work areas for staff and for painting and re-carpeting its offices.

OSC Fee Structure

Securities market participants fund OSC operations through their fees. The fee structure under the *Securities Act* (Ontario) and the *Commodity Futures Act* was established in 2003. When the OSC implemented the fee structure, it committed to re-evaluate the fee levels every three years. Before amendments made in 2013 (described on the following page), OSC fee rules were last amended in April 2010 for fiscal years ending March 31, 2011, 2012 and 2013. The fee structure is intended to recover operating costs to fulfill the OSC's mandate, while allowing it to remain financially stable.

Payment of "activity fees" and "participation fees" are included:

Activity fees

- Reflect estimate of direct cost for OSC staff to undertake activities requested by market participants.
- Flat rates based on OSC's average cost to provide requested services.

Participation fees

- Based on cost of broad range of regulatory services that cannot be practically or easily attributed to individual activities or entities.
- Proxy for market participants' use of Ontario capital markets.
- Tiered structure: for issuers, based on average market capitalization across fiscal year; for registrants, based on revenues.
- As a market participant grows, it passes through tiers with increasingly higher fees.

The OSC amended the OSC fee rules for fiscal years ending March 31, 2014, 2015 and 2016. They were approved by the Minister of Finance on January 15, 2013, and took effect on April 1, 2013.

Under the OSC fee rules, participation fees for reporting issuers will increase over the three-year cycle 4.7% per year for registrants and 11.6% per year for issuers. The fee increases proposed for issuers and registrants differ to better align revenues generated from market participant groups with their participation levels in Ontario's capital markets. Most activity fees have increased to address greater work complexity and increased workload since they were last changed in 2010. The new fees will enable the OSC to recover its costs by the end of fiscal 2016. Under the fee proposal, revenues collected from the industry in 2013 – 2014 will rise by $13.4 million.

Detailed Analysis of Fiscal 2013 Financial Performance

Revenue

(Thousands)	% of 2013 Revenue	2013	2012	Change	% Change
Participation fees	86.6%	$ 75,310	$ 71,694	$ 3,616	5.0%
Activity fees	11.1%	9,616	10,728	(1,112)	(10.4%)
Late fees	2.3%	2,004	2,760	(756)	(27.4%)
Total fees	100.0%	**$ 86,930**	$ 85,182	$ 1,748	2.1%
Interest income	–	237	344	(107)	(31.1%)
Miscellaneous	–	111	112	(1)	(0.9%)
Total revenues	–	**$ 87,278**	$ 85,638	$ 1,640	1.9%

Figure 1 – Sources of the OSC's fee revenue

86.6%	11.1%	2.3%
Participation fees	Activity fees	Late fees

Revenues for the year were $87.3 million, up from $85.6 million in 2012 as a result of higher participation fee rates. The variance is explained below.

Participation fees increased $3.6 million (5%). In fiscal 2013, participation fee rates rose by 9% for registrants and 17% for issuers. The difference in fee levels is intended to better align revenues generated from each group with its participation level in Ontario's capital markets.

Issuer participation fee revenues increased $2.8 million from higher fee rates; these were partially offset by year-over-year decreases in market capitalizations. Registrant participation fee revenues were higher by $852,000 as year-over-year decreases in registrants' revenues almost offset higher rates.

Activity fees fell by $1.1 million (10.4%). The lower issuer activity fee revenues resulted from a lower volume of filed applications for relief, preliminary short form prospectuses, and private placement filings than in fiscal 2012. Registrant activity fees declined from a decrease in applications for relief and in registrations of new representatives.

Late filing fees were $756,000 (27.4%) lower than last year from a decrease in late filings of annual and interim financial statements and insider reports.

Investment income declined by $107,000 (31.1%) from holding lower cash balances over the previous year. The average rate of return on cash balances was 1.22% (2012 – 1.25%). The average rate of return on reserve fund investments was 1.23% (2012 – 1.34%).

Expenses

(Thousands)	% of 2013 Expenses	2013	2012	Change	% Change
Salaries and benefits	75.2%	$ 72,336	$ 69,415	$ 2,921	4.2%
Administrative	7.9%	7,607	6,818	789	11.6%
Occupancy	7.7%	7,434	6,544	890	13.6%
Professional services	6.0%	5,767	5,920	(153)	(2.6%)
Depreciation	2.6%	2,461	1,844	617	33.5%
Other	0.6%	561	623	(62)	(10.0%)
	100.0%	**$ 96,166**	$ 91,164	$ 5,002	5.5%
Recoveries of enforcement costs	–	(1,245)	(1,139)	(106)	9.3%
Total expenses (net of recoveries)	–	**$ 94,921**	$ 90,025	$ 4,896	5.4%

Figure 2 – OSC expenses by type

75.2%	7.9%	7.7%	6.0%	2.6%	0.6%
Salaries and benefits	Administrative	Occupancy	Professional services	Depreciation	Other

Total expenses (net of recoveries) for fiscal 2013 increased 5.4% to $94.9 million (2012 – $90.0 million). Key expenditure increase contributors were:

Salaries and benefits

- Costs increased 4.2% to $72.3 million (2012 – $69.4 million) and accounted for 75.2% (2012 – 76.1%) of total expenses.
- Full-year cost of staff hired during 2012, as well as costs for new staff were key increase drivers.
- Staff additions: to establish the Office of the Investor, to provide analytical and research support (so the OSC can reinforce a more fact-based regulatory approach), to increase enforcement and to improve adjudicative process timeliness. Other staff was added across various branches to address operational priorities.

The OSC operates in a competitive market for required skills and expertise, including legal, accounting, market and investigative capabilities. In addition to the increase in the number of staff, as noted above, salary increases, averaging 1.6% were introduced at the beginning of the fiscal year in compliance with Government guidelines. The increases totalled $910,000 (2012 – $887,000). They were partially offset by savings of $712,000 on salaries and benefits recovered for staff seconded to the Canadian Securities Transition Office (CSTO). Severance costs were $1.6 million, $463,000 higher than 2012. Our focus on prudent and efficient cost control includes efforts to ensure that staff have the necessary talents and skills to meet and deliver on the OSC's goals.

Administrative costs

- Increased 11.6% to $7.6 million (2012 – $6.8 million) and accounted for 7.9% (2012 – 7.5%) of total expenses.
- Key drivers were a $553,000 rise in information technology maintenance, additional products and services outsourced and expensed monthly, and higher Commission costs of $330,000 due to the increased number of hearing days.

Occupancy costs

During fiscal 2013, the OSC renewed its lease and expanded its offices. The lease has been renewed for five years (expiring August 31, 2017). The new agreement includes an extension option for two more five-year periods to August 31, 2027. The OSC expects to exercise the first option. Total rentable area is 166,364 square feet.

- Increased 13.6% to $7.4 million (2012 – $6.5 million) and accounted for 7.7% (2012 – 7.2%) of the OSC's total expenses and result from higher lease costs and acquiring additional space to accommodate staff growth.

Professional services

- Accounted for 6.0% (2012 – 6.5%) of total expenses; essentially flat.

Depreciation costs

- Increased 33.5% to $2.5 million and accounted for 2.6% (2012 – 2.0%) of total expenses; for facilities expansion and renovation during 2013.
- Multi-year renovation and expansion project will accommodate staff growth; provides expanded hearing rooms, additional staff work areas and overall refresh of paint and carpets.
- Renovation and expansion expenses will be depreciated over the term of the lease plus one option period for a total of 10 years. All renovation and expansion costs have been accrued properly as at March 31, 2013 based on OSC design consultant status reports.

Other expenses

- Travel and related expenses decreased $62,000 (10.0%) to $561,000 (2012 – $623,000) and accounted for 0.6% (2012 – 0.7%) of OSC's total expenses.
- The cost decline is primarily from a decrease in the number of trips, especially for ongoing enforcement staff investigations of emerging markets issues.

CSA shared costs

The OSC is a member of the CSA, a forum of Canadian securities regulators. Professional services include costs to operate CSA offices (which are allocated by formula), plus OSC's portion of professional services costs for joint CSA projects.

The CSA's business relationships with third-party technology providers are managed through the CSA systems office. In prior years, costs for this office were included in CSA costs. Effective April 1, 2012, the Principal Administrators of the CSA agreed to fund the CSA systems office from CSA surplus funds held by the OSC, not from CSA member operations. This policy change explains the decrease in OSC contribution to CSA projects (noted below). Total fiscal 2013 CSA spending on shared projects was lower ($1.9 million versus $3.0 million in 2012) and the OSC contributed $722,000 (versus $1.1 million in 2012). OSC staff time is not included in these totals. All CSA projects, including developing harmonized securities policies and rules, are co-ordinated through a central secretariat. In fiscal 2013, the OSC contributed $263,000 (2012 – $250,000) to support the CSA Secretariat.

Liquidity and Financial Position

Financial instruments

Financial instruments used by the OSC consist of Cash, Funds held pursuant to designated settlements and orders, Funds held for CSA systems redevelopment, and Reserve fund assets; all are recorded at fair value. Trade and other receivables, trade and other payables 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, Funds held for CSA systems redevelopment and Reserve fund assets are held in Canadian deposit accounts with Schedule 1 banks, earning interest at 1.85% below prime. Before February 1, 2013, interest was earned at 1.75% below prime.

Management believes the OSC is not exposed to significant interest rate, currency or liquidity risks from its investments due to their short-term nature and because virtually all transactions are in Canadian dollars. The OSC's concentrations of credit risk from trade and other receivables are limited: they comprise a large number of debtors owing individually immaterial balances and amounts receivable from:

- Government of Canada for recovering Harmonized Sales Tax (HST) paid during the year;
- The Canadian Securities Transition Office (CSTO) for seconded staff;
- The Investor Education Fund (IEF) for seconded staff; and
- Funds held for CSA systems redevelopment, which the OSC oversees, to recover staff costs and other charges incurred by the CSA IT systems office.

During the year, the OSC revised its investment policy to set an amount limit of $30 million in a Schedule 1 bank for each category of OSC Funds and to restrict investing funds not held in Schedule 1 banks to guaranteed obligations of the Province of Ontario. These changes maintain the OSC's prime objectives: capital preservation and risk minimization. They also better align the OSC's investment policy with *Financial Administration Act* requirements.

Liquidity

- At March 31, 2013, the OSC held $11.2 million (2012 – $23.1 million) in cash, had current assets of $15.9 million (2012 – $26.8 million) and current liabilities of $17.1 million (2012 – $15.2 million) for a current ratio of 0.9:1 (2012 – 1.8:1).
- The OSC holds enough cash, reserve fund assets and credit access to ensure liquidity for its forecast cash requirements.

In setting fees for the three years ending March 31, 2013, the OSC planned to operate at a deficiency in each year to eliminate its surplus by the end of the period. In 2013, the OSC had an operating deficiency of $7.6 million; the year-end surplus was reduced to $5.8 million. The OSC's planned deficiency, coupled with leasehold improvement spending and other capital items, caused its cash position to decrease by $11.9 million (51.5%). Cash flows from operating activities produced an outflow of $4.1 million (2012 – $1.5 million). Property, plant and equipment consumed $7.8 million (2012 – $1.9 million).

For 2014, the OSC forecasts an operating deficiency of $2.4 million. In March 2014, it projects its cash balance to decrease to about $3.9 million; the general surplus, about $3.4 million.

The OSC faces significant annual cash flow challenges from a timing mismatch between its revenues and expenditures. More than 75% of OSC revenues arrive in the last quarter of each fiscal year; expenses are incurred relatively evenly. This results in negative annual cash balances that peak in December. Historically, the OSC managed this issue through higher cash and accumulated surpluses. But a planned surplus reduction, resulting in part from the use of surplus funds to help offset fee increases, and declining cash balances in recent years required the OSC to fully use its $20 million reserve in 2013 to help fund operations.

The OSC renewed its revolving line of credit for another two years (expiring June 30, 2014) for $35 million; it contains no commitment or standby fees charged on undrawn amounts. The OSC used $8.7 million of its line of credit between October and December 2012. When most registrant participation fees were received in January 2013, this amount was repaid and the $20 million reserve was restored.

For 2014, the OSC expects that it will draw against its line of credit between August and December. The OSC will seek approval to increase its line of credit to $60 million and to make it permanent. Subject to approval, it should succeed arrangements expiring in June 2014.

With a total operating surplus (including its reserve fund, and re-establishing its credit facility), the OSC expects to be able to properly finance its operations and pay for property, plant and equipment.

Revenues

Revenue generation remains a source of risk as OSC revenues reflect market activity. The degree to which OSC revenues mimic market fluctuations is greater than was anticipated when its fee structure was developed. (Additional discussion is shared in "Financial Risk".)

Reserves

Since 2001, the OSC has held a $20.0 million general reserve to guard against revenue shortfalls or unexpected expenses, or to cover discrepancies between timing of revenue and expenses. Its prime investment consideration is protection of capital and liquidity. The OSC records income generated by the reserve in general operations.

Trade and other receivables

Trade and other receivables increased 32.0% to $3.6 million (2012 – $2.7 million). The net increase in trade and other receivables over the same period last year-end is from an increase in the amount owing by:

- The Funds held for CSA redevelopment for staff and other costs incurred by the OSC, which owe $664,000 (2012 – $0);
- IEF, which owes $503,000 (2012 – $236,000); and
- The Government of Canada, which owes $869,000 (2012 – $704,000) for HST recovery.

Funds held pursuant to designated settlements and orders

The OSC has a number of settlement agreements and orders arising from enforcement proceedings where monies are to be set aside (or "designated") and allocated as the OSC may determine. This includes allocations to harmed investors, where an allocation can be reasonably made. Before June 2012, these monies could only be allocated to or for the benefit of third parties. A June 2012 amendment to the *Securities Act* (Ontario) permits the OSC to use these funds to educate investors about how the securities and financial markets work. Funds that are not designated when settlements are approved or orders are made must be paid to the Consolidated Revenue Fund of the Government of Ontario.

The Commission may impose monetary sanctions for breaches of Ontario securities law and has exercised this authority since 2005. Sanction amounts depend on the circumstances of each proceeding. The Commission may consider a respondent's "ability to pay" in imposing financial sanctions, but typically levies sanctions appropriate to the circumstances, irrespective of a respondent's

	Assessed	Collected	% Collected
2005 – 2011			
Settlements	$ 136,695,377	$ 101,734,396	74.4%
Contested hearings	55,166,283	1,245,000	2.3%
Total	$ 191,861,660	$ 102,979,396	53.7%
2012			
Settlements	$ 12,085,450	$ 2,055,816	17.0%
Contested hearings	26,901,021	1,000,000	3.7%
Total	$ 38,986,471	$ 3,055,816	7.8%
2013			
Settlements	**$ 33,922,886**	**$ 1,251,268**	**3.7%**
Contested hearings	**46,251,826**	**1,966,866**	**4.3%**
Total	**$ 80,174,712**	**$ 3,218,134**	**4.0%**

ability to pay. This practice is intended to deter others from contravening the *Securities Act* (Ontario). The OSC continues to face challenges in collecting sanctions as respondents often have limited assets, poor credit or have left Ontario. Although the OSC actively pursues outstanding amounts, material differences remain between assessments and collections since 2005 (above table).

Staff continue to investigate how to improve OSC collections procedures. The experiences of other public and private sector organizations are being examined to identify effective methods the OSC could use.

Of the $80.2 million in orders assessed during the year, the OSC recorded $4.9 million in its Funds held pursuant to designated settlements and orders, as described in Note 6 to the financial statements. Of this amount, the OSC collected $3.2 million and deemed $1.7 million as being collectible.

The OSC paid $28.6 million (including earned interest and fees incurred for the Administrator) to be distributed to eligible investors who bought third-party Asset-Backed Commercial Paper (ABCP). This disbursement is part of the ABCP settlement distribution plan announced in 2012. Ernst & Young Inc., the Administrator, was appointed to administer the distribution of these funds to eligible investors.

As authorized by its Board, the OSC provided $3.9 million to the Investor Education Fund (2012 – $4.4 million) to enhance investor knowledge.

Funds held for CSA systems redevelopment

To March 31, 2013, the OSC has received $95.9 million (2012 – $79.2 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 2013 was $4.8 million (2012 – $3.8 million).

As described in Note 7 to 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. From April 1, 2012, these funds may also be used to fund the operations of the CSA IT Systems Office. In 2013, there were no SEDAR deficits. As at March 31, 2013, $29.2 million (2012 – $28.2 million) of the total funds held for CSA systems redevelopment is available for SEDAR, $19.9 million (2012 – $15.3 million) is available for SEDI and $45.7 million (2012 – $37.0 million) is available for NRD. The OSC has committed to paying its share of annual shortfalls resulting from the operations of SEDAR (45.1%), SEDI (25%) and NRD (36.07%), if they happen and accumulated surpluses are unavailable.

The core CSA National Systems (SEDAR, SEDI and NRD) have been active for more than a decade. Contracts with their service provider will expire in October 2013, and a new organization will oversee their operations later this year. The new arrangement is expected to decrease the operating costs of the systems and provide opportunities to pass along savings to market participants. Plans are also underway to replace these systems to improve functionality and usability. The OSC will work with the CSA to convey the needs of its market participants to these initiatives.

The OSC, British Columbia Securities Commission (BCSC), Alberta Securities Commission (ASC) and L'Autorité des marchés financiers (AMF) finalized an agreement on April 2, 2013 on a governance framework for oversight and management of the new service provider that will operate the CSA National Systems when existing contracts expire. The Agreement identifies how certain functions of the CSA National Systems will be performed for the other parties; outlines how user fees will be established, collected and deployed; and addresses allocation and payment of liabilities arising from supplier agreements entered into by the CSA and the CSA National Systems.

The CSA has begun using these funds to pay for engaging the new systems service provider, the CSA IT Systems Office (which oversees the CSA National Systems), and other activities for redeveloping the national systems. Spending on these latter initiatives will accelerate in coming years.

As at March 31, 2013, total accumulated costs related to the development or enhancement of the systems totalled \$5.9 million (2012 – \$2.5 million).

Property, plant and equipment

Property, plant and equipment costs increased to \$7.8 million (2012 – \$1.9 million) for expanding and refreshing OSC premises.

Liabilities

Trade and other payables increased 12.2% to \$17.1 million (2012 – \$15.2 million). The key contributor was an increase in accruals for work completed on refreshing the OSC's premises.

The OSC is committed to lease payments as outlined in Note 11 to the financial statements.

The accrued pension liability of \$2.2 million (2012 – \$2.0 million) represents future obligations for supplementary pension plans for present and past Chairs and Vice-Chairs. The unfunded supplementary pension plans' defined benefit obligation at March 31, 2013 was \$2.7 million (2012 – \$2.4 million). The recognized pension liability was \$2.2 million (2012 – \$2.0 million). The OSC's related expense for the year was \$281,000 (2012 – \$117,000) and is included in salaries and benefits.

(Thousands)	2013	2012
Furniture and equipment	$ 369	$ 55
PCs, laptops and other IT equipment	1,812	1,751
Leaseholds and other capital items	5,594	71
Total	**$ 7,775**	$ 1,877

Internal Control Over Financial Reporting (ICFR)

During fiscal 2013, the OSC's ICFR processes were reviewed and documentation was updated where needed. Operating effectiveness was tested using the framework and criteria established in the "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Staff performed an evaluation, under supervision by and with participation from management, of the effectiveness of the OSC's ICFR for preparing the March 31, 2013 financial statements.

No changes occurred during the year ending March 31, 2013 that have materially affected, or are reasonably likely to materially affect, the OSC's ICFR. The Chair and the Director, Corporate Services certify the design and effectiveness of ICFR in the Statement of Management's Responsibility and Certification.

The OSC identified a control improvement for verifying participation fees for market participants and reviewed selected participants to confirm that fees were calculated properly. While some discrepancies were found, the overall adjustment was not material. A program to perform a recurring review will be developed.

Critical Accounting Estimates

Preparing financial statements consistent with IFRS requires management judgments, estimates and assumptions that affect reported amounts of assets and liabilities for the date of the financial statements, as well as reported amounts of revenues and expenses for the period.

An accounting estimate is "critical" if:

- It requires assumptions about highly uncertain matters when it is made; or
- We could reasonably have used different estimates in the period; or
- Estimate changes are likely to occur between periods that would materially affect our financial condition, changes in our financial condition, or results of our operations.

Actual amounts can differ from these estimates if future outcomes differ significantly from management's forecast expectations. The OSC therefore uses various estimating techniques and assumptions to prepare its financial statements.

Estimates were used in the following accounts: collectability of trade and other receivables, valuation of pension liabilities, estimated useful life of property, plant and equipment, total trade and other payables and collectability of designated settlements and orders, and recovery of enforcement costs. Where appropriate, such as for pension matters, the OSC gets independent professional expertise to support calculating these estimates. It is management's opinion that, except for the collectability of designated settlements and orders and recovery of enforcement costs, none of the estimates in Note 2 to the financial statements requires the OSC to make assumptions about highly uncertain matters. A change in the collectability of designated settlements and orders and recovery of enforcement costs assumptions will change assets and liabilities related to designated settlements and orders and expenses will change related to the recoveries of enforcement costs.

Judgment was used to decide whether to consolidate the Investor Education Fund.

Risks and Uncertainties

The OSC must manage a growing range of risk from the pace of change and the continuing globalization of financial entities and their operations.

These developments include:

- *The overall investment marketplace:* these may be product-based, market structure-based, or relate to transactions by or activities of market intermediaries.
- *The domestic and international regulatory arena:* economies and markets have become more globally linked, affecting how many financial services regulations are viewed.
- *Stakeholder perceptions of regulatory effectiveness:* despite extensive efforts and spending by regulators, a gap remains between public expectations and perceptions of regulatory effectiveness.

The OSC has identified improving risk identification and management as a key goal. Understanding those we regulate is necessary to respond to emerging risks in a more timely and appropriate way. A strong focus on risk is needed to ensure we identify and mitigate risk effectively. With this in mind, the OSC approved a Risk Management Framework in November 2012 and is implementing it.

The Framework will:

- Promote a risk awareness culture within the OSC;
- Align the OSC risk appetite with its strategic direction;
- Identify and manage enterprise-wide risks (reputational, financial, operational and people);
- Provide an important contribution to setting the OSC's strategic direction and business planning;
- Allow proactive management of risk, performance measures, stakeholder disclosure, and prioritizing initiatives and allocation of resources.

A Risk Management Committee, staffed by management, has been established under the Framework to support the Board and Chair with risk management oversight. The Risk Committee also monitors and advises on *emerging* risks and reviews the OSC's regulatory responsibilities to determine if there are any risk-related gaps.

Operational Risk

Operational risk derives from direct or indirect loss from the organizational environment or external events, or from inadequate internal processes, staff resources, or supporting systems. Management is responsible for ongoing control and reduction of operational risk by ensuring appropriate procedures, internal controls and processes, other necessary actions and compliance measures are undertaken.

Specialist support groups, such as Human Resources, Corporate Services, Strategy & Operations and the Office of the General Counsel, assist operational management in mitigating risk. They do so by maintaining oversight in corporate data security, staff conduct requirements, technology stability and reliability, financial controls, corporate insurance and legal compliance, among others. The OSC has established policies and processes to identify, manage and control operational risk.

Key components include:

- Regular reviews of systems security measures to monitor controls and identify potential vulnerabilities to external parties accessing OSC data;
- Mitigating asset risks through insurance where practical and appropriate; and
- Separating duties across key functions.

Operational risk can include risk to the OSC's reputation. Reputational risk is addressed by the OSC's Code of Conduct and governance practices established by its Board of Directors (details available at www.osc.gov.on.ca), as well as other specific risk management programs, policies, procedures and training.

Legal Risk

Periodically, the OSC is involved in legal actions arising from the ordinary course of its business. Settlements from such actions will be accounted for when they occur. The outcome and ultimate disposition of such actions cannot be determined at this time; however, OSC management does not expect the outcome of any proceeding, individually or in aggregate, will have material impact on its financial position.

Systems Risk

Disruption to any major systems applications (SEDAR, NRD and SEDI) operated by CDS INC. (CDS) for the CSA (including the OSC) is a potential source of risk. CDS recovers its costs to operate these systems by applying user fees to filers. In 2013, 94.2% (2012 – 92.9%) of total regulatory fee revenue at the OSC was collected through these national applications (SEDAR 40.6% and NRD 53.6%). No material change is expected in the volume of fees collected through these systems. The current operating agreement with CDS for these systems will expire on October 31, 2013; a new service provider will take over their operation after this date. In fiscal 2014, the CSA IT Systems Office will issue a competitive tender for redeveloping these systems.

The CSA requires CDS to provide an annual third-party audit report (CSAE 3416) that reviews the internal controls design for each system. CDS is also required to have an operating disaster recovery site for these systems that is tested annually.

Financial Risk

The OSC maintains strong internal controls, including management oversight to provide reasonable assurance of financial reporting reliability and preparation of financial statements for external purposes consistent with IFRS.

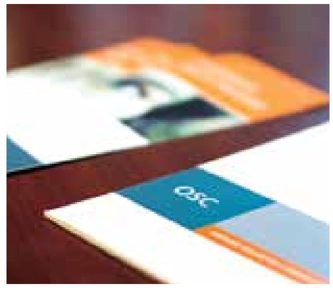
Most OSC revenue is generated through participation fees. The OSC fee model uses a tiered structure to moderate market fluctuation impact towards providing revenue stability. While the fee model has achieved this goal across multi-year periods, in any given year, predicting OSC revenues has been less certain because participation fees remained subject to variation.

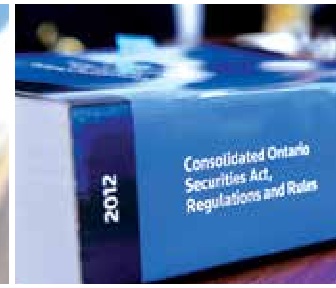
In its new fee rules for fiscal years ending March 31, 2014, 2015 and 2016, the OSC introduced a *reference fiscal year* on which all participation fees will be calculated. As defined, the *reference fiscal year* is the participant's *last fiscal year ending before May 1, 2012*. This will significantly reduce the impact of market fluctuation on calculating participation fees. Nevertheless, market participants may exit or consolidate with another participant. This could result in revenues that are below forecast but which should not impair OSC operations.

Business Continuity

The OSC maintains a robust Business Continuity Plan to ensure critical regulatory services can continue despite external disruption. Detailed business continuity plans support each priority business function. Each plan includes documented recovery procedures, including manual workarounds and other mitigation strategies. Offsite recovery services and facilities have been secured, and remote access capabilities will enable OSC staff to access all key systems. An offsite facilities test is scheduled for June 2013. The OSC plan is continually reviewed and refined and includes strategies to recover data and functionality and to resume operations under various disruption scenarios. The OSC plan addresses its interfaces with self-regulatory organizations and other key market participants and includes strategies to effectively address various market disruption scenarios.

2014 OUTLOOK





The 2013 – 2014 OSC Statement of Priorities sets out organizational direction and proposed initiatives for the upcoming year. The document is available at www.osc.gov.on.ca. The OSC has identified five broad priorities for 2014:

1. Expanded outreach to investors
2. Alternative capital-raising techniques for issuers
3. Outreach to registrants as part of a preventative approach to compliance
4. Intensified enforcement
5. Oversight of rapidly changing market structures

Details on planned initiatives toward achievement of these priorities are set out earlier in the Annual Report.

For the coming year, the OSC will continue to focus on maximizing the use of its resources to obtain the highest level of efficiency possible. We will aim to consistently achieve the best possible outcome while incurring the least expenses wherever possible; this orientation to seek optimal value will define our activities in 2013 – 2014.

OSC Revenues and Surplus

The OSC is forecasting 2013 – 2014 revenues to increase by 15.9% from 2012 – 2013 revenues. The forecast reflects new fees and rates outlined in the OSC's fee rules (13-502 and 13-503), which took effect April 1, 2013.

These increases were necessary for two reasons:

- First, most of the rise in fees is needed to address the current operating deficit and return the OSC to cost recovery.
- Second, additional revenues are needed to meet evolving regulatory responsibilities, many of them driven by IOSCO and the Financial Stability Board (FSB) at the international level.

To maintain competitive capital markets in Canada, the OSC must align its regulatory framework to adhere to important global reforms and standards, including G20 commitments (OTC derivatives and systemic risk), increasingly complex international enforcement matters, and changing oversight responsibilities related to market infrastructure entities and complex new products. As planned, the OSC expects to continue to operate at a deficit in 2013 – 2014, and the OSC accumulated surplus is projected to decrease to $3.4 million as at March 31, 2014.

2013 2014 BUDGET APPROACH

The OSC must continue to improve its capacity to keep up with market developments, innovation and investor concerns. It needs to continue to strengthen its institutional capabilities in key areas, including:

- Building its derivatives capacity;
- Expanding the new Office of the Investor;
- Growing expertise in complex products and infrastructure oversight; and
- Augmenting its research and data analysis capabilities to support a more data-based approach to issues and policy development.

The 2013 – 2014 OSC budget invests in key strategies identified in the three-year OSC Strategic Plan. Activities of strategic focus were allocated increases, while budgets for most programs were held to last year's levels or were decreased.

The 2013 – 2014 budget projects an increase of $8.6 million (9.1%) over 2012 – 2013 and 3.6% above the 2012 – 2013 budget. Salaries and benefits, which comprise $76.6 million or 74.0% of the budget, reflect an increase of $4.0 million or 5.4% over 2012 – 2013 spending.

This increase mainly reflects costs for:

- Full-year expenses for staff hired during 2012 – 2013 to fill vacancies, including the Office of the Investor; and
- *New* approved positions to achieve the OSC's strategic plan, including:
  - Establishing an enforcement team to focus on criminal activity;
  - Addressing new market structure issues and oversight responsibilities; and
  - Undertaking analytical and research work, so the OSC can apply a more fact-based approach to its operational and policy work.

(Thousands)	2012 – 13 Budget	2012 – 13 Actual	2013 – 14 Budget	2013 – 14 Budget to 2012 – 13 Budget Change	2013 – 14 Budget to 2012 – 13 Budget % Change	2013 – 14 Budget to 2012 – 13 Actual Change	2013 – 14 Budget to 2012 – 13 Actual % Change
Revenues	$ 93,524	$ 87,278	$ 101,160	$ 7,636	8.2%	$ 13,882	15.9%
Expenses	$ 99,986	$ 94,921	$ 103,552	$ 3,566	3.6%	$ 8,631	9.1%
Deficiency of revenue compared with expenses	$ (6,462)	$ (7,643)	$ (2,392)	$ 4,070	–	–	–
Property, plant and equipment	$ 8,057	$ 7,775	$ 5,660	$ (2,397)	–	–	–

The significant decrease in the capital budget primarily reflects the build-out of recently acquired additional space in 2012 – 2013. The amount allocated to this initiative is lower because it is expected to be completed early in 2013 – 2014. The budget also includes support for upgrading and expanding our information technology, including replacing our network, to facilitate excellence in executing OSC operations.

V O L O R M A G N I H I C T E C T T A T A T

E N I A E I N C I T L A M R E P R O E U M E

D O L O R A D T E M Q U I A R E S E D I T A

O M M O L Q **F I N A N C I A L** P H I L I Q U

Q U I D U T **S T A T E M E N T S** M R T L I T

E U M Q U A T E R E P R A V E R U M S O L U

A U T E M Q U E D O L O R E P L I T D O L O

M O V O L O R A N O E N I S T E M A L I Q U

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 International Financial Reporting Standards.

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.

Howard I. Wetston, Q.C.
Chair and Chief Executive Officer

H.R. Goss
Director, Corporate Services

May 21, 2013

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

Independent Auditor's Report

To the Ontario Securities Commission

I have audited the accompanying financial statements of the Ontario Securities Commission, which comprise the statement of financial position as at March 31, 2013, and the statement of comprehensive income, statement of changes in surplus and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ontario Securities Commission as at March 31, 2013 and its financial performance, and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Gary R. Peall, CPA, CA, LPA
Acting Auditor General

May 21, 2013
Toronto, Ontario

Statement of Financial Position

In Canadian dollars

Assets	Notes	March 31, 2013	March 31, 2012
Current			
Cash		$ 11,175,984	$ 23,061,703
Trade and other receivables	5	3,566,243	2,699,510
Prepayments		1,129,765	1,025,843
Total Current		**$ 15,871,992**	$ 26,787,056
Non-Current			
Funds held pursuant to designated settlements and orders	6	$ 19,756,165	$ 47,194,738
Funds held for CSA systems redevelopment	7	94,810,759	80,521,903
Reserve fund assets	8	20,000,000	20,000,000
Property, plant and equipment	9	9,257,175	3,943,729
Total Non-Current		**$ 143,824,099**	$ 151,660,370
Total Assets		**$ 159,696,091**	$ 178,447,426
Liabilities			
Current			
Trade and other payables	10	$ 17,090,122	$ 15,228,177
Obligation under finance leases		–	1,631
Total Current		**$ 17,090,122**	$ 15,229,808
Non-Current			
Pension liabilities	12 (b)	$ 2,197,427	$ 2,016,341
Funds held pursuant to designated settlements and orders	6	19,756,165	47,194,738
Funds held for CSA systems redevelopment	7, 17	94,810,759	80,521,903
Total Non-Current		**$ 116,764,351**	$ 129,732,982
Total Liabilities		**$ 133,854,473**	$ 144,962,790
Surplus			
Operating			
General	14	$ 5,841,618	$ 13,484,636
Reserve	8, 13	20,000,000	20,000,000
		$ 25,841,618	$ 33,484,636
Total Liabilities and Surplus		**$ 159,696,091**	$ 178,447,426

The related notes are an integral part of these financial statements.

On behalf of the Board of the Commission

Howard I. Wetston, Q.C.
Chair and Chief Executive Officer

Sinan O. Akdeniz
Chair, Audit and Finance Committee

Statement of Comprehensive Income

In Canadian dollars

Revenues	Notes	Year ended March 31, 2013	Year ended March 31, 2012
Fees	14	$ 86,930,037	$ 85,182,382
Interest income		236,708	343,740
Miscellaneous		111,136	111,768
Total Revenues		**$ 87,277,881**	$ 85,637,890
Expenses			
Salaries and benefits	15	$ 72,336,238	$ 69,414,747
Adminstrative	16	7,606,472	6,818,005
Occupancy		7,434,056	6,544,194
Professional Services		5,767,182	5,919,595
Depreciation	9	2,461,213	1,843,700
Other		560,669	623,189
		$ 96,165,830	$ 91,163,430
Recoveries of enforcement costs		$ (1,244,931)	$ (1,138,500)
Total Expenses		**$ 94,920,899**	$ 90,024,930
Deficiency		**$ (7,643,018)**	$ (4,387,040)

The related notes are an integral part of these financial statements.

Statement of Changes in Surplus

In Canadian dollars

	Notes	March 31, 2013	March 31, 2012
Operating surplus, beginning of year		$ 33,484,636	$ 37,871,676
Deficiency		(7,643,018)	(4,387,040)
Operating Surplus, End of Year		**$ 25,841,618**	$ 33,484,636
Represented by:			
General	14	$ 5,841,618	$ 13,484,636
Reserve	8, 13	20,000,000	20,000,000
		$ 25,841,618	$ 33,484,636

The related notes are an integral part of these financial statements.

Statement of Cash Flows

In Canadian dollars

Cash flows from/(used in) operating activities	Notes	Year ended March 31, 2013	Year ended March 31, 2012
Deficiency of revenues over expenses		$ (7,643,018)	$ (4,387,040)
Adjusted for:			
Interest received		248,495	327,008
Interest income		(236,708)	(343,740)
Interest expense on line of credit		24,012	–
Pension liabilities		181,086	11,147
Loss on disposal of property, plant and equipment		931	132
Amortization		2,461,213	1,843,700
		$ (4,963,989)	$ (2,548,793)
Changes in non-cash working capital:			
Trade and other receivables		$ (878,520)	$ (530,850)
Prepayments		(103,922)	(260,362)
Trade and other payables		1,861,945	1,853,546
		$ 879,503	$ 1,062,334
Net cash flows used in operating activities		$ (4,084,486)	$ (1,486,459)
Cash flows used in investing activities			
Purchase of property, plant and equipment	9	$ (7,775,590)	$ (1,876,803)
Net cash flows used in investing activities		$ (7,775,590)	$ (1,876,803)
Cash flows used in financing activities			
Repayment of obligation under finance leases		$ (1,631)	$ (78,778)
Interest paid on line of credit		(24,012)	–
Net cash flows used in financing activities		$ (25,643)	$ (78,778)
Net Decrease in Cash		**$ (11,885,719)**	$ (3,442,040)
Cash Position, Beginning of Year		**23,061,703**	26,503,743
Cash Position, End of Year		**$ 11,175,984**	$ 23,061,703

The related notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 Reporting Entity

The Ontario Securities Commission (the "OSC") is a corporation domiciled in Canada. The address of the OSC's registered office is 20 Queen Street West, Toronto, ON M5H 3S8. 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 Basis of Presentation

A. Statement of compliance

These financial statements are in accordance with International Financial Reporting Standards (IFRS). These financial statements for the year ended March 31, 2013 (including comparatives) were authorized for issue by the Board of Directors on May 21, 2013.

B. Basis of measurement

The financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value and pension liabilities that are measured net of actuarial gain and losses, as explained in the accounting policies in the next section. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

C. Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the OSC's functional currency, which have been rounded to the nearest dollar.

D. Use of judgments and estimates

The preparation of financial statements in accordance with IFRS requires that management make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the financial statements, as well as the reported amounts of revenues and expenditures for the period. Actual amounts can differ from these estimates to the extent future outcomes differ significantly from management's forecast expectations.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Judgments

The following are the judgments in applying accounting policies apart from those involving estimates that have the most significant effect on the amounts recognized in the financial statements.

Investor Education Fund (IEF or the "Fund")

The IEF is a non-profit organization funded by settlements and fines from enforcement proceedings of the OSC. There are a number of areas where significant judgment is exercised to establish whether the Fund needs to be consolidated with the OSC. Key areas of judgment include: legal relationship, contractual terms, board and management representation, power to govern, benefits and materiality. The exercise of judgment in these areas determines whether the Fund is consolidated with the OSC. Details related to the IEF are set out in Note 19.

Estimates

The following are the key assumptions and other major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year.

Designated settlements and orders and recovery of enforcement costs

Designated settlements and orders and recovery of enforcement costs are recognized net of amounts deemed uncollectible and when it is expected that the amount related to the sanction imposed on respondents is collectible. Significant consideration is given to determine the recognition of designated settlements and orders and recovery of enforcement costs. Key areas considered include: the ability of the respondent to pay the sanction amount, the residency of the respondent and whether the respondent owns any assets. A change in any of the above areas can have a material impact on the OSC's financial statements. Assets and liabilities will change related to designated settlements and orders and expenses will change related to the recoveries of enforcement costs. Details of designated settlements and orders are set out in Note 6.

3 Significant Accounting Policies

The following accounting policies have been applied consistently to all periods presented in these financial statements.

A. Financial Instruments

Financial assets and financial liabilities are recognized when the OSC becomes a party to the contractual provisions of the instrument.

Financial instruments are classified into one of the following categories: financial assets at fair value through profit or loss, loans and receivables, and other liabilities.

Financial assets and financial liabilities are measured initially at fair value plus transactions costs, except for financial assets carried at fair value through profit or loss, which are measured initially at fair value.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognized when it is extinguished, discharged, cancelled or expired.

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

Loans and receivables

Trade and other receivables and receivables from designated settlements and orders are classified as loans and receivables and are measured at amortized cost, less any impairment loss. Impairment provisions are recognized when there is objective evidence (such as significant financial difficulties on the part of a market participant, or default or significant delay in payment) that the OSC will be unable to collect all of the amounts due under the terms of the amount receivable.

Financial assets at fair value through profit or loss

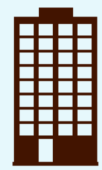
Cash, Funds held pursuant to designated settlements and orders, Funds held for the Canadian Securities Administrators (CSA) systems redevelopment and Reserve fund assets are classified as held-for-trading and recorded at fair value.

Other liabilities

Trade and other payables are classified as other liabilities and measured at amortized cost.

B. Property, Plant and Equipment

Items of property, plant and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Depreciation is recognized in profit and loss and calculated on a straight-line basis over the estimated useful lives of the assets less its residual value, as follows:

Office furniture and equipment	Computer hardware and related applications	Leasehold improvements
		
5 to 10 years	3 years	Over term of the lease plus one option period

The estimated useful lives, residual values and depreciation method are reviewed at the end of each year, with the effect of any changes in estimates accounted for on a prospective basis.

Computer hardware and related applications held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, when shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the net disposal proceeds and the carrying amount of the asset and is recognized in profit or loss.

Items of property, plant and equipment are reviewed for impairment at each reporting date to determine whether there is any indication of impairment. If such indication exists, then the asset's recoverable amount is estimated. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

C. Revenue Recognition

Fees are recognized when services are rendered, which is normally upon receipt.

Participation fees

Participation fees are recognized when received because these fees cannot be measured reliably as market capitalization of issuers or the specified Ontario revenue of registrants, on which their participation fees are based, is not determinable prior to receipt. These fees represent the payment for the right to participate in the Ontario capital markets and the OSC has no specific obligations throughout the year to any individual market participant. As such, the OSC's performance consists of a single act, being the payment of the fee. Once the fee is paid, there is no obligation to refund the fees and there are no other unfulfilled conditions on behalf of the OSC. Therefore, participation fees are deemed to be earned upon receipt.

Activity fees

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

Late filing fees in respect of insider trading reports are recognized weekly and include fees related to all insider trading reports filed late in the preceding seven-day period.

Recoveries of enforcement costs

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 Benefits

Ontario's Public Service Pension Plan

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 sufficient information is not available to apply defined benefit plan accounting to this pension plan. The Province of Ontario is the sole sponsor of the Public Service Pension Plan. As the sponsor is responsible for ensuring that the pension funds are financially viable, any surpluses or unfunded liabilities arising from statutory actuarial funding valuations are not assets or obligations of the OSC. Payments made to the above plan are recognized as an expense when employees have rendered service entitling them to the contributions.

Supplemental Pension Plan

The OSC also maintains unfunded supplemental pension plans for certain full-time Commission members as described in Note 12(b). The liability recognized in the statement of financial position for the supplemental pension plans is the present value of the defined benefit obligation at the reporting date together with adjustments for unrecognized actuarial gains or losses and past service costs. 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 OSC recognizes all actuarial gains and losses arising from the supplemental pension plans in profit and loss using the corridor method.

Other post-employment obligations

The costs of non-pension benefits for eligible pensioners are paid by the Government of Ontario and are not included in the statement of comprehensive income as described in Note 18(b).

Termination benefits

Termination benefits are generally payable when employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The OSC recognizes termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without a realistic possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

Short-term benefits

Short-term employee benefits, such as salaries, pension contributions, paid annual leaves and bonuses, are measured on an undiscounted basis and are expensed as the related service is provided.

F. Leases

Leases of property, plant and equipment are classified as finance leases when the OSC obtains substantially all the risks and rewards of ownership of the underlying assets. At the inception of the lease, the OSC records an asset together with a corresponding long-term liability at the lower of the fair value of the leased asset or the present value of the minimum lease payments. Any initial direct costs are added to the amount recognized as an asset. Thereafter, the asset is amortized over the shorter of its useful life and the lease term. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

All other leases are classified as operating leases. Lease payments are expensed on a straight-line basis over the term of the lease.

In the event that lease incentives are received to enter into operating leases, the aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

G. Provisions

Legal

A provision is recognized when a present legal or constructive obligation results from past events, it is probable that an outflow of resources will be required to settle the obligation and when a reliable estimate of the amount of the obligation can be made.

4 Financial Instruments Risks

The OSC is exposed to various risks in relation to financial instruments. The OSC's objective is to maintain a minimal risk. The OSC's financial assets and liabilities by category are summarized in Note 3. The main types of risks related to the OSC's financial instruments are currency risk, interest rate risk, credit risk and liquidity risk. This note presents information about the OSC's exposure to these risks and the OSC's objectives, policies and processes for measuring and managing these risks.

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. The OSC's Cash, Funds held pursuant to designated settlements and orders, Funds held for CSA systems redevelopment and Reserve fund assets are held by Schedule 1 banks. As of February 1, 2013, the bank balances earn interest at a rate of 1.85% (2012 – 1.75%) below the prime rate, the average rate of interest earned for the year was 1.22% (2012 – 1.25%). The Reserve fund earned interest at an average rate of 1.23% (2012 – 1.34%).

A 25 basis points change in the interest rate would impact the OSC's operating surplus as follows:

	Impact on operating surplus	
	25 basis points increase in rates	25 basis points decrease in rates
Reserve fund assets	$ 17,387	$ (17,387)
Cash balance	30,961	(30,961)
	$ 48,348	**$ (48,348)**

Credit Risk

The OSC is exposed to minimal credit risk related to Cash, Funds held pursuant to designated settlements and orders, Funds held for CSA systems redevelopment, Reserve fund assets and trade and other receivables.

The Schedule 1 banks hold approximately 98% of the OSC's financial assets; however, given the nature of this counterparty, it is management's opinion that exposure to concentration of credit risk is minimal. Additionally, the investment policy for Cash and for Funds held pursuant to designated settlements and orders was revised and now limits amounts held on deposit in any one of the Schedule 1 banks to $30,000,000 for each category.

The OSC's trade and other receivables balance consists of a large number of debtors with individually immaterial outstanding balances, and amounts receivable from the following:

- The Government of Canada for the recovery of the Harmonized Sales Tax (HST) paid during the year;
- The Funds held for CSA systems redevelopment for staff and other costs incurred by the OSC which are recoverable from these funds;
- The IEF for the recovery of staff and other costs incurred by the OSC; and
- The Canadian Securities Transition Office (CSTO) for staff seconded to that office.

Therefore, the OSC's exposure to concentration of credit risk is minimal.

The OSC maintains an allowance for doubtful accounts. Therefore, the carrying amount of trade and other receivables generally represents the maximum credit exposure. Based on historical information about debtors' default rates, management considers the credit quality of trade receivables that are not past due or impaired to be good. Collection efforts continue for trade and other receivables balances, including those that are captured in the allowance for doubtful accounts.

The aging of trade and other receivables is as follows:

	March 31, 2013	March 31, 2012
Current	$ 2,004,358	$ 1,702,917
Past due 31 to 60 days	970,252	707,645
Past due 61 to 90 days	328,970	38,913
Past due greater than 90 days	1,333,007	1,208,869
	$ 4,636,587	$ 3,658,344

Reconciliation of allowance for doubtful accounts:

	Notes	March 31, 2013	March 31, 2012
Opening balance		$ 958,834	$ 865,510
Current year provision		140,540	117,629
Written-off during the year		(29,030)	(24,305)
Closing balance	5	**$ 1,070,344**	$ 958,834

Liquidity Risk

The OSC's exposure to liquidity risk is low as the OSC has a sufficient cash balance, reserve fund assets, and access to a credit facility to settle all current liabilities. As at March 31, 2013, the OSC had a cash balance of $11,175,984 and reserve fund assets of $20,000,000 to settle current liabilities of $17,090,122.

The OSC has put in place a $35,000,000 credit facility to address any short-term cash deficiencies. Interest on the credit facility is charged at a rate of 0.5% below the prime rate. During the year, the OSC utilized the credit facility to a maximum of $8,695,076. As at March 31, 2013, there is no amount outstanding on the credit facility.

The overall exposure to the above noted risk remains unchanged from 2012.

5 Trade and Other Receivables

	Notes	March 31, 2013	March 31, 2012
Trade receivables		$ 1,202,251	$ 1,498,637
Allowance for doubtful accounts	4	(1,070,344)	(958,834)
		$ 131,907	$ 539,803
Other receivables		$ 2,031,326	$ 1,177,589
Interest receivable		30,936	42,723
Due from IEF	19	502,635	235,617
HST recoverable		869,439	703,778
		$ 3,566,243	$ 2,699,510

6 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. As a result of an amendment to the *Securities Act* (Ontario) effective June 2012, the Commission may also use these funds for the purpose of educating investors or promoting or otherwise enhancing knowledge and information of persons regarding the operation of the securities and financial markets. The accumulated funds are held in a segregated bank account and earn interest at the monthly average bank prime rate less 1.85%. The OSC will allocate these funds as it determines appropriate in its discretion. This will include allocations to harmed investors where appropriate and where an allocation can be reasonably effected.

As at March 31, 2013, the accumulated balance is determined as follows:

	Notes	March 31, 2013	March 31, 2012
Opening balance		$ 47,194,738	$ 43,603,984
Assessed during the year		80,174,712	38,986,471
Less:			
Amounts to be paid directly to investors		(4,019,124)	–
Adjustments to present value		(21,051)	(155,350)
Orders deemed uncollectible		(71,249,950)	(31,504,822)
Amount recorded from assessments in year		4,884,587	7,326,299
Adjustments to amounts assessed in prior years		195,172	158,607
Total settlements and orders recorded		5,079,759	7,484,906
Add: Interest		514,283	530,848
Less: Payments			
IEF	19	(3,900,000)	(4,420,000)
ABCP		(28,632,615)	–
Others		(500,000)	(5,000)
Closing balance		**$ 19,756,165**	$ 47,194,738
Represented by:			
Cash		$ 14,607,579	$ 41,786,979
Receivable		5,148,586	5,407,759
		$ 19,756,165	$ 47,194,738

The $5,079,759 (2012 – $7,484,906) identified as total settlements and orders recorded reflects the portion of $80,174,712 (2012 – $38,986,471) in settlements and orders that were assessed during the year for which payment was either received or has been deemed collectible. This total includes $195,172 (2012 – $158,607) in adjustments from orders recorded in prior years. The adjustments to amounts assessed in prior years includes the portion of orders from prior years that are on payment plans that were recorded in fiscal 2013, plus the amount that had been previously deemed uncollectible where payment was received in fiscal 2013, less the amount that is now deemed as uncollectible but had been deemed as collectible in prior periods. As at March 31, 2013, $5,148,586 (2012 – $5,407,759) is considered receivable because these amounts are expected to be collected.

The OSC collected a total of $3,218,134 (2012 – $2,202,763) of the designated settlements and orders assessed during the year resulting in an average collection rate of 4.01% (2012 – 5.65%).

As authorized by the Board, the OSC made the following payments from the designated funds. The OSC paid $3,900,000 to the IEF (2012 – $4,420,000). The OSC also paid $28,632,615 (including the interest earned on these funds) to be distributed to the eligible investors who purchased third-party Asset-Backed Commercial Paper (ABCP). This disbursement is part of the ABCP settlement distribution plan announced in 2012. Ernst & Young Inc. was appointed to administer the distribution of these funds to the eligible investors. Fees totalling $198,315 were paid to Ernst & Young Inc. for their services as Administrators and are included in the total. The OSC also paid $500,000 to FAIR Canada as part of a two-year funding commitment.

7 Funds Held for CSA Systems Redevelopment

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. During the year, the OSC received payments totalling $16,692,000 (2012 – $16,596,429), earned interest of $1,043,705 (2012 – $879,526) and made payments totalling $3,446,849 (2012 – $1,834,263).

The total accumulated funds as at March 31, 2013 are calculated as follows:

	March 31, 2013	March 31, 2012
Total payment received to date	$ 95,933,047	$ 79,241,047
Interest earned to date	4,796,773	3,753,068
Less: Payments made to date	(5,919,061)	(2,472,212)
Total accumulated funds	**$ 94,810,759**	$ 80,521,903

These funds are held 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 applicable 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 1.85%.

The CSA plans to redevelop these systems in a multi-year phased approach. Funding for this redevelopment program will come from the accumulated surplus amounts. As at March 31, 2013, accumulated payments totalling $5,919,061 (2012 – $2,472,212) related to the development or enhancement of the systems were made for the following purposes:

	March 31, 2013	March 31, 2012
To provide procurement and information technology law advice	$ 2,007,137	$ 782,306
To provide information technology and business process outsourcing advice	1,332,373	567,637
To design an Enterprise Architecture for the CSA National Systems	555,825	555,825
To provide data architecture services and support	659,976	302,022
Staff support for the CSA National Systems development	165,138	165,138
To fund the CSA Systems office	968,632	–
To provide information security services	130,696	–
To provide a vision for the Enterprise Architecture	82,184	82,184
To design web user interface	17,100	17,100
Total	**$ 5,919,061**	$ 2,472,212

8 Reserve Fund Assets

As part of the approval of its self-funded status, the OSC was allowed to establish a $20,000,000 reserve to be used as an operating contingency against revenue shortfalls, unanticipated expenditures, or to cover the discrepancy between timing of revenue and expenses.

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, 2013, are held in a segregated bank account and earn interest at the monthly average bank prime rate less 1.85%.

9 Property, Plant and Equipment

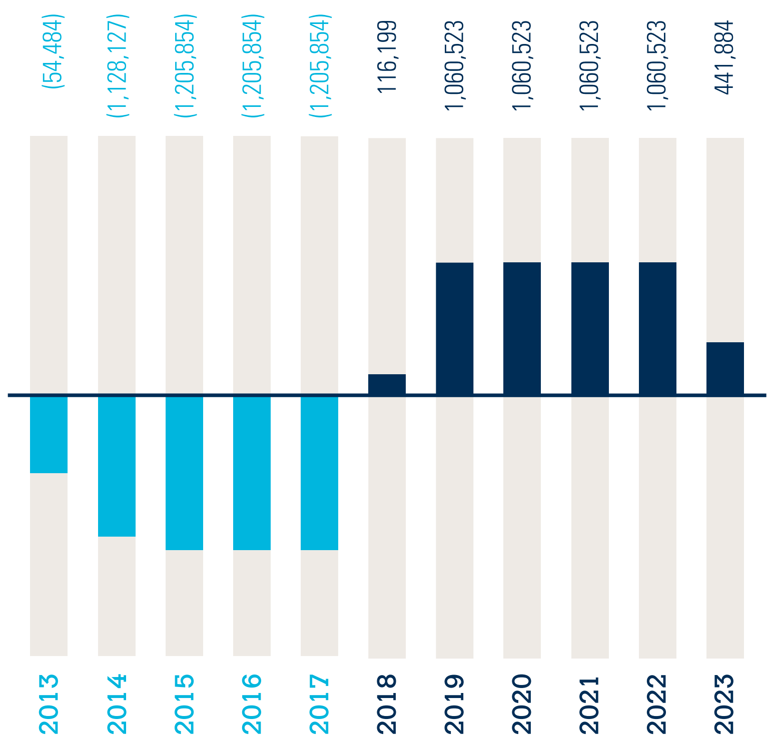
2013	Office furniture	Office equipment	Computer hardware and related applications	Computer hardware and related applications held under finance leases	Leasehold improvments	Total
Gross carrying amount						
Balance as at April 1, 2012	$ 4,163,752	$ 581,182	$ 16,897,843	$ 395,828	$ 10,028,079	$ 32,066,684
Additions	368,883	70	1,812,274	–	5,594,363	7,775,590
Disposals	(1,015)	–	(14,417)	(85,864)	(10,028,078)	(10,129,374)
Balance at March 31, 2013	**$ 4,531,620**	**$ 581,252**	**$ 18,695,700**	**$ 309,964**	**$ 5,594,364**	**$ 29,712,899**
Depreciation						
Balance as at April 1, 2012	$ (3,814,510)	$ (430,666)	$ (14,304,544)	$ (224,368)	$ (9,348,867)	$ (28,122,955)
Depreciation for the year	(170,783)	(18,925)	(1,261,370)	(171,460)	(838,675)	(2,461,213)
Disposals	1,015	–	13,468	85,864	10,028,097	10,128,444
Balance at March 31, 2013	$ (3,984,278)	$ (449,591)	$ (15,552,446)	$ (309,964)	$ (159,445)	$ (20,455,724)
Carrying amount at March 31, 2013	**$ 547,342**	**$ 131,661**	**$ 3,143,254**	**$ 0**	**$ 5,434,919**	**$ 9,257,175**

2012	Office furniture	Office equipment	Computer hardware and related applications	Computer hardware and related applications held under finance leases	Leasehold improvments	Total
Gross carrying amount						
Balance as at April 1, 2011	$ 4,123,859	$ 581,182	$ 15,664,187	$ 421,593	$ 9,957,151	$ 30,747,972
Additions	54,359	–	1,751,516	–	70,928	1,876,803
Disposals	(14,466)	–	(517,860)	(25,765)	–	(558,091)
Balance at March 31, 2012	**$ 4,163,752**	**$ 581,182**	**$ 16,897,843**	**$ 395,828**	**$ 10,028,079**	**$ 32,066,684**
Depreciation						
Balance as at April 1, 2011	$ (3,658,696)	$ (423,309)	$ (14,074,112)	$ (250,091)	$ (8,431,006)	$ (26,837,214)
Depreciation for the year	(170,280)	(7,357)	(748,160)	(42)	(917,861)	(1,843,700)
Disposals	14,466	–	517,728	25,765	–	557,959
Balance at March 31, 2012	$ (3,814,510)	$ (430,666)	$ (14,304,544)	$ (224,368)	$ (9,348,867)	$ (28,122,955)
Carrying amount at March 31, 2012	**$ 349,242**	**$ 150,516**	**$ 2,593,299**	**$ 171,460**	**$ 679,212**	**$ 3,943,729**

Effective September 01, 2012, the OSC changed its estimates of the useful lives of the leasehold improvements. The useful lives of the leasehold improvements were previously estimated to be over the term of the lease, and have now been changed to be over the term of the lease plus one option period. The OSC made this change to reflect the fact that it intends to exercise the first option on its new lease and will amortize the cost of the renovations of its premises over approximately 10 years instead of five.

The effect of this change on depreciation expense in the current and future years is as follows:

(Decrease) increase in depreciation expense



10 Trade and Other Payables

	March 31, 2013	March 31, 2012
Trade payables	$ 1,263,691	$ 1,971,359
Payroll accruals	12,009,019	12,221,197
Other accrued expenses	3,817,412	1,035,621
	$ 17,090,122	$ 15,228,177

11 Lease Commitments

Operating leases

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

	March 31, 2013	March 31, 2012
Less than one year	$ 7,859,555	$ 6,977,370
Between one and five years	26,762,021	25,199,130
More than five years	–	–
	$ 34,621,576	$ 32,176,500

Lease expense recognized during the period amounted to $7,198,182 (2012 – $6,296,593). This amount consists of minimum lease payments. A small portion of the OSC's office space is sublet to the IEF which is recorded as miscellaneous revenue. Sublease payments of $87,272 are expected to be received during the next year.

The lease on OSC premises was renewed for an additional five years beginning August 30, 2012 and expiring on August 31, 2017. The OSC has two consecutive options to extend the term beyond August 31, 2017, each for a period of five years. The OSC expects to exercise the first option. The OSC operating lease agreements do not contain any contingent rent clauses.

12 Pension Plans

A. Ontario Public Service Pension Plan

All eligible OSC employees must, and members may, participate in the Ontario Public Service Pension Plan. The OSC's contribution to the Public Service Pension Plan for the year ended March 31, 2013 was $4,384,576 (2012 – $4,164,416), which is included under salaries and benefits in the statement of comprehensive income.

B. Supplemental pension plans

The OSC also has unfunded supplemental defined benefit pension plans for the OSC's current and former Chairs and Vice-Chairs. These supplemental pension plans have no plan assets.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	March 31, 2013	March 31, 2012
Discount rate(s)	3.75%	3.80%
Inflation	2.50%	2.50%
Expected rate(s) of salary increase	0%	0%
CPP YMPE increase	3.00%	3.00%
Increase in CRA limit	**$ 2,696.7**	$ 2,646.7

Amount recognized in profit or loss as follows:

	March 31, 2013	March 31, 2012
Service cost with interest	$ 124,936	$ 83,329
Interest cost on defined obligation	87,582	101,563
Amortization of net actuarial losses/(gains)	114,232	(25,978)
Recovery from the CSTO	(45,998)	(41,936)
	$ 280,752	$ 116,978

The expense for the year is included in the salaries and benefits expense in the statement of comprehensive income.

The amount included in the statement of financial position arising from the OSC's obligation in respect to its supplemental benefits plans is as follows:

	March 31, 2013	March 31, 2012
Defined benefit obligation	$ 2,731,528	$ 2,377,608
Fair value of the assets	–	–
Funded status	(2,731,528)	(2,377,608)
Unamortized net actuarial loss	534,101	361,267
Recognized pension liabilities	**$ (2,197,427)**	$ (2,016,341)

Movements in the present value of the defined benefit obligations in the current year were as follows:

	March 31, 2013	March 31, 2012
Opening defined benefit obligations	$ 2,377,608	$ 2,021,767
Current service cost	124,936	83,329
Interest cost	87,582	101,563
Benefit payment	(145,664)	(147,767)
Actuarial losses	287,066	318,716
Closing defined benefit obligation	**$ 2,731,528**	$ 2,377,608

The development of the OSC's supplemental plans may be summarized as follows:

	March 31, 2013	March 31, 2012
Present value of the defined benefit obligation	$ 2,731,528	$ 2,377,608
Fair value of plan assets	–	–
Deficit/(surplus) in the plan	$ (2,731,528)	$ (2,377,608)
Liabilities experience adjustments:		
Obligation loss during the period	**$ 270,107**	$ 24,268

The OSC expects to incur $144,000 in benefit payments from the supplemental pension plan during next fiscal year.

13 Capital Management

The OSC has established a $20,000,000 reserve fund as described in Note 8, which it considers as capital. The primary objective of maintaining this capital is to fund OSC's operations in the event of revenue shortfalls, unanticipated expenditures or to cover the discrepancy between timing of revenue and expenses. The OSC's overall strategy remains unchanged from 2012.

The OSC maintains an investment policy whereby reserve funds are restricted to direct and guaranteed obligations of the Government of Canada and its provinces and to instruments issued by Canadian Schedule 1 banks to protect the principal.

The OSC has put in place a $35,000,000 credit facility to address any short-term cash deficiencies.

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

14 Fees

The OSC's fee structure is designed to generate fees that recover 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 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 participants' use of 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. Any general operating surpluses generated are normally returned to market participants by way of fees that are lower than otherwise required to recover costs, or direct refunds. The Commission revised its participation fees and activity fees effective April 01, 2013, with participation fees being subsequently adjusted at the beginning of fiscal years 2015 and 2016. The forecasted General Operating Surplus at March 31, 2013 was used to establish the revised participation fees rates.

Details of fees received for the year ended March 31, 2013 are as follows:

	March 31, 2013	March 31, 2012
Participation fees	$ 75,310,296	$ 71,694,825
Activity fees	9,615,841	10,727,761
Late filing fees	2,003,900	2,759,796
	$ 86,930,037	$ 85,182,382

15 Salaries and Benefits

	March 31, 2013	March 31, 2012
Salaries	$ 59,778,078	$ 58,052,798
Benefits	6,288,066	5,938,444
Pension expense	4,665,328	4,281,394
Severance/termination payments	1,604,766	1,142,111
	$ 72,336,238	$ 69,414,747

16 Administrative

	March 31, 2013	March 31, 2012
Commission expense	$ 1,953,225	$ 1,622,531
Communications & publications	1,469,219	1,319,783
Maintenance & support	1,996,279	1,442,961
Supplies	797,585	899,023
Other expenses	709,650	682,305
Training	680,514	851,402
	$ 7,606,472	$ 6,818,005

17 Contingent Liabilities and Contractual Commitments

A. The OSC has committed to paying its share of annual shortfalls resulting from the operations of the following, should they occur and accumulated surpluses are unavailable, as follows:

March 31, 2013

45.10%	36.07%	25.00%
SEDAR	NRD	SEDI

The systems are operated by a third-party service provider on behalf of the CSA under agreements dated as of August 01, 2004 for SEDAR, October 26, 2001 for SEDI and June 13, 2003 for NRD. The Alberta Securities Commission, the British Columbia Securities Commission, L'Autorité des marchés financiers and the Investment Industry Regulatory Organization of Canada (in the case of NRD only) have also committed to paying specified percentages of any annual deficit in the systems.

In the current year, there were no deficits. As described in Note 7, the OSC is holding funds in segregated bank accounts that may be used to offset shortfalls in revenue in SEDAR, SEDI and NRD.

	March 31, 2013	March 31, 2012
Total accumulated funds	**$ 94,810,759**	$ 80,521,903
Available for:		
SEDAR	$ 29,192,967	$ 28,190,836
NRD	45,716,112	37,011,477
SEDI	19,901,680	15,319,590
	$ 94,810,759	$ 80,521,903

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 cannot be measured with sufficient reliability 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.

18 Related Party Transactions

Transactions with the 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* (Ontario) 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 14 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. Costs of non-pension benefits for eligible pensioners are paid by the Government of Ontario and are not included in the statement of comprehensive income.

Compensation to Key Management Personnel

Key management of the OSC are members of the board of directors, Chair, Vice-chairs and Executive Director. Key management personnel remuneration includes the following expenses:

	March 31, 2013	March 31, 2012
Short-term employee benefits	$ 3,458,567	$ 3,097,318
Post-employment benefits	406,642	235,722
Total compensation	**$ 3,865,209**	$ 3,333,040

19 Investor Education Fund

A. The IEF was incorporated by letters patent of Ontario dated August 03, 2000 as a non-profit corporation without share capital. The Fund is managed by a separate 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 and financial education in schools and among adult learners.

The OSC is the sole voting member of the Fund. However, the OSC has determined, based on an evaluation of the terms and conditions of the arrangement, that investors in the capital market, rather than the OSC, obtain the benefit or rewards from the activities of the IEF. As such the OSC does not control the Fund, and the Fund has not been consolidated in the OSC's financial statements as discussed in Note 2(d). The Fund is exempt from income taxes.

Financial statements of the Fund are available on request. During the year, the OSC entered into transactions with the Fund as follows:

1. The OSC paid $3,900,000 to the Fund (2012 – $4,420,000). These payments were from funds held pursuant to designated settlements and orders as described in Note 6.
2. 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, 2013, the OSC incurred costs totaling $1,000,975 (2012 – $905,438) for services related to the Fund. The total cost of these services has been charged to the Fund and, of this amount, $502,635 is owing to the OSC (2012 – $235,617).
3. Subsequent to year end, the Commission approved funding totaling $3,295,000 for the IEF for the 2014 fiscal year.

20 Accounting Pronouncements

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended March 31, 2013, and have not been applied in preparing these financial statements. None of these are expected to have a material impact on the financial statements of the OSC.

IFRS 9 Financial Instruments

In October 2010, the IASB released IFRS 9, *Financial instruments*, which is the first part of a three-part project to replace IAS 39, *Financial instruments: Recognition and Measurement*. This first part only covers classification and measurement of financial assets and financial liabilities, with impairment of financial assets and hedge accounting being addressed in the other two parts.

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9. However, requirements for measuring a financial liability at fair value have changed, as the portion of the changes in fair value related to the entity's own credit risk must be presented in OCI rather than in the statement of income. IFRS 9 will be effective for fiscal years beginning on January 01, 2015, with earlier application permitted.

IFRS 10 Consolidated Financial Statements

In May 2011, the IASB issued IFRS 10 *Consolidated Financial Statements* to replace IAS 27 *Consolidated and Separate Financial Statements* and SIC 12 *Consolidation – Special Purpose Entities*. The new standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. Determination of control now includes elements of power over the investee, exposure, or rights, to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the investor's returns. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. IFRS 10 will be mandatorily effective for annual periods beginning on or after January 01, 2013, on a retrospective basis. Earlier application is permitted.

IFRS 11

Joint Arrangements

In May 2011, the IASB issued IFRS 11, *Joint Arrangements* to replace IAS 31 *Interests in Joint Ventures*. The standard outlines the accounting by entities that jointly control an arrangement. Joint control involves the contractual agreed sharing of control and arrangements subject to joint control are classified as either a joint venture (representing a share of net assets and equity accounted) or a joint operation (representing rights to assets and obligations for liabilities, accounted for accordingly). IFRS 11 will be mandatorily effective for annual periods beginning on or after January 01, 2013, on a retrospective basis. Earlier application is permitted.

IFRS 12

Disclosure of Interests in Other Entities

In May 2011, the IASB released IFRS 12, *Disclosure of Interests in Other Entities*. IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles. The standard requires an entity to disclose information regarding the nature and risks associated with its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. IFRS 12 will be mandatorily effective for annual periods beginning on or after January 01, 2013, on a retrospective basis. Earlier application is permitted.

IFRS 13

Fair Value Measurement

In May 2011, the IASB released IFRS 13, *Fair value measurement*. IFRS 13 will improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The standard will be mandatorily effective for annual periods beginning on or after January 01, 2013, on a retrospective basis. Earlier application is permitted.

IFRS 19

Employee Benefits

In June 2011, the IASB amended IAS 19, *Employee Benefits* ("IAS 19"). This amendment eliminated the use of the 'corridor' approach and mandates that all remeasurement impacts be recognized in OCI. It also enhances the disclosure requirements, providing better information about the characteristics of defined benefit plans and the risk that entities are exposed to through participation in those plans. This amendment clarifies when a company should recognize a liability and an expense for termination benefits. The amendment to IAS 19 will be mandatorily effective for annual periods beginning on or after January 01, 2013, on a retrospective basis. Earlier application is permitted.

V O L O R M A G N I H I C T E C T T A T A T

E N I A E I N C I T L A M R E P R O E U M E

D O L O R A D T E M Q U I A R E S E D I T A

O M M O L Q V **A P P E N D I X** P H I L I Q U

Q U I D U T I A E I N C R O E U M R T L I T

E U M Q U A T E R E P R A V E R U M S O L U

A U T E M Q U E D O L O R E P L I T D O L O

M O V O L O R A N O E N I S T E M A L I Q U

Appendix

Issuers and Registrants

	2010 – 11	2011 – 12	2012 – 13
Public companies in Ontario	1,339	1,362	1,372
Investment fund issuers in Ontario	3,303	3,594	3,715
Registered firms in Ontario	1,249	1,290	1,301
Registered individuals in Ontario	64,628	65,975	65,899

Assistance for Market Participants in 2012 – 13

12,312 | Total contacts from market participants to the OSC Inquiries & Contact Centre

Most common areas of contact with market participants

	2012 – 13
Registration requirements and related information	55%
System for Electronic Disclosure by Insiders (SEDI) filing, reports, info	14%
Information about issuers' obligations	12%
Fees	7%
Hearings, proceedings, orders	4%
Checking registration	3%
Exemptions, exempt distributions	2%
Registration-related (OSC) rules	1%
Insider requirements	1%

Assistance for Investors in 2012 – 13

5,559 | Total contacts from investors to the OSC Inquiries & Contact Centre

Most common areas of contact with investors

	2012 – 13
Trading without registration and/or prospectus and/or exemption	19%
Information about hearings, proceedings and orders	14%
Information about public companies and investment offerings	12%
Checking adviser registration, prospectus or exemption	10%
Inadequate or misleading disclosure	9%
Educational materials, resources for retail investors	6%
Registrant misconduct	6%
Registrant services-related issues	6%
Abusive Trading or Market Manipulation	3%
Shareholder Rights, director/officer responsibilities, corporate law	2%
Take-over bids and related party transactions	2%
How, where to complain	1%
All other	9%

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

($ millions for years ending March 31)	2010 – 11	2011 – 12	2012 – 13
Toronto Stock Exchange			
Listed public companies	$ 2,318,844	$ 2,123,624	$ 2,203,203
Domestic public companies	$ 2,140,250	$ 1,933,296	$ 2,038,709
Ontario-based listed issuers	$ 913,762	$ 843,652	$ 903,855
TSX Venture Exchange*			
Listed public companies	$ 76,915	$ 51,952	$ 38,289
Domestic public companies	$ 70,043	$ 47,880	$ 35,083
Ontario-based listed issuers	$ 10,911	$ 9,066	$ 6,303

Source: Toronto Stock Exchange

*TSX Venture Exchange does not include NEX

Marketplaces operating in Ontario

As of March 31, 2013, the following securities marketplaces operated in Ontario for the trading of equities, debt and/or derivatives:

TMX Group Inc. and TSX Inc.	ICE Futures US	MATCH Now
CNSX Markets Inc.	Natural Gas Exchange Inc.	Omega ATS
Alpha Exchange Inc.	Bloomberg Tradebook Canada	TMX Select
TSX Venture Exchange	Chi-X Canada	CBID / CBID Institutional
Bourse de Montréal Inc.	CX2 Canada	CanDeal
ICE Futures Canada	Instinet Canada Cross	MarketAxess
ICE Futures Europe	Liquidnet Canada	EquiLend Canada Corp.

Enforcement Activity and Concluded Hearings

Fiscal Year	2010 – 11	2011 – 12	2012 – 13
OSC Enforcement Branch: Intake			
Number of matters assessed	348	210	238
Number transferred for investigation	25	21	18
OSC Enforcement Branch: Investigations			
Number of completed investigations	56	39	36
Number transferred for litigation	35	29	25

Note: The Enforcement tables contain numbers that may vary from year to year, depending on the size and scope of individual cases and other factors.

Temporary Orders

The OSC uses temporary cease trade orders (TCTOs) to halt trading activity during regulatory investigations.

Fiscal Year	2010 – 11	2011 – 12	2012 – 13
Number of TCTOs	11	10	9*
Number of respondents (Parties to the proceedings)	71	45	25
Number of Freeze Directions Obtained	9	1	2
Amount Frozen	$ 7,765,666	$ 45,540	$ 1,013,000

Note: *Includes four temporary orders imposing terms and conditions on registration only and one temporary order imposing both terms and conditions on registration and a temporary order.

OSC Enforcement Branch: Litigation

Fiscal Year	2010 – 11	2011 – 12	2012 – 13
Proceedings Commenced			
Actions before the Commission	32	24	21
Number of respondents	170	103	102
Actions before the Courts	3	5	5
Number of defendants	4	6	11
Enforcement Timelines			
Average number of months from intake to commencement of a proceeding	21.8	20.6	20.3

Concluded Settlement and Contested Hearings before the Commission

Fiscal Year	2010 – 11	2011 – 12	2012 – 13
Number of Proceedings	36	39	42
Number of Respondents	109	125	147
Sanctions include:			
Cease trade orders	82	110	139
Exemptions removed	88	108	93
Director and Officer bans	56	81	60
Registration restrictions	45	50	63
Administrative penalties, disgorgement orders, settlement amounts	$ 82,307,662	$ 38,986,471	$ 80,174,712
Costs ordered	$ 1,633,193	$ 2,287,165	$ 3,725,219

Reciprocal Orders

Fiscal Year	2010 – 11	2011 – 12	2012 – 13
Number of proceedings commenced	1	4	9
Respondents	8	12	19
Number of orders	3	3	8*
Respondents	10	12	14
Sanctions include:			
Cease trade orders	10	11	10
Exemptions removed	10	12	10
Director and Officer bans	6	4	9
Registration restrictions	6	5	2

Note: *Includes one reciprocal order on a temporary basis

Concluded Matters before the Ontario Court of Justice

Fiscal Year	2010 – 11	2011 – 12	2012 – 13
Number of matters	2	9	2
Total number of defendants	2	14	2

Two matters relating to two defendants were concluded before the Ontario Court of Justice in the 2012 – 2013 fiscal year. One of these matters related to contempt proceedings sought by staff to vigorously compel responses to summonses issued to facilitate our investigative process. Staff obtained an order of the Ontario Superior Court of Justice ordering production of information to Staff by the respondent further to Staff's application under section 128 of the *Securities Act* (Ontario). In the second matter, Michael Chomica was sentenced to two years in jail on March 14, 2013, after pleading guilty to three counts of fraud contrary to the *Securities Act* (Ontario).

Adjudicative Activities of the Commission

Type of adjudicative proceeding	Number of sitting days per fiscal year* 2011 – 12	2012 – 13
Contested hearings on the merits (Includes sanctions hearings and hearings in writing)	128	138
Settlement hearings (Includes settlement conferences)	41	28.5
Hearings on temporary cease trade orders	30	28
Motions and other interlocutory matters	14	35
Applications Includes applications for review, applications relating to take-over bids and applications under section 17 (disclosure), section 144 (revocations or variations of decisions), and section 127(10) (inter-jurisdictional enforcement) of the *Securities Act*. (Ontario)	18	23
All other matters (Includes pre-hearing conferences, appearances, etc.)	49	47.5
Total	280	300

Note: *More than one sitting day can occur in one calendar day as a result of multiple proceedings.

Terms of Members of the Commission

(At March 31, 2013)

	Appointed	Current term expires
Sinan O. Akdeniz	September/09	September/14
Catherine E. Bateman	March/13	March/15
James D. Carnwath	August/09	August/14
Mary G. Condon	June/11	May/14
Sarah B. Kavanagh	June/11	May/16
Edward P. Kerwin	January/11	January/16
Vern Krishna	October/10	October/14
Deborah Leckman	February/13	February/15
Alan J. Lenczner	February/13	February/15
Christopher Portner	December/10	December/15
Lawrence E. Ritchie*	February/07	February/14
Judith N. Robertson	June/11	May/16
AnneMarie Ryan	February/13	February/15
C. Wesley M. Scott**	September/09	September/14
James E. A. Turner	February/07	February/15
Howard I. Wetston	November/10	November/15

* Vice-Chair Lawrence E. Ritchie has been seconded to the Canadian Securities Transition Office.
** C. Wesley M. Scott is the Lead Director of the Commission.

More information about the Members of the Commission is available at www.osc.gov.on.ca.

Board and Commission Committees

(At March 31, 2013)

Audit and Finance Committee

Sinan O. Akdeniz, Chair
Catherine E. Bateman
Sarah B. Kavanagh
Vern Krishna

Governance and Nominating Committee

Christopher Portner, Chair
James D. Carnwath
Sarah B. Kavanagh
Judith N. Robertson
AnneMarie Ryan
Howard I. Wetston *Ex officio* member

Human Resources and Compensation Committee

Judith N. Robertson, Chair
Sinan O. Akdeniz
Edward P. Kerwin
Deborah Leckman

Adjudicative Committee*

James D. Carnwath, Chair
Mary G. Condon
Edward P. Kerwin
Vern Krishna
Alan J. Lenczner
Christopher Portner
James E. A. Turner
John P. Stevenson *Ex officio* member

*The Adjudicative Committee is a standing policy committee of the Commission.

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

OSC Advisory Committees

Investor Advisory Panel

An independent advisory panel to the Commission, the Investor Advisory Panel provides comments in response to public requests for comment by the Commission on proposed rules, policies, concept papers and discussion drafts. The Panel also provides commentary on the OSC's proposed annual Statement of Priorities, brings forward policy issues for consideration and advises on the effectiveness of the OSC's investor protection initiatives.

Continuous Disclosure Advisory Committee

The CDAC advises OSC staff on the development, implementation and review of continuous disclosure policies and practices.

Exempt Market Advisory Committee

The EMAC advises OSC staff on possible regulatory approaches to the capital-raising segment of the exempt market.

Investment Funds Product Advisory Committee

The IFPAC advises OSC staff on emerging product developments and innovations occurring in the investment fund industry.

Market Structure Advisory Committee

The MSAC serves as a forum to discuss issues and policy and rule-making initiatives associated with market structure and marketplace operations in the Canadian and global capital markets.

Mining Technical Advisory and Monitoring Committee

The MTAMC provides advice to the Canadian Securities Administrators on technical issues relating to disclosure requirements for the mining industry. The committee also serves as a forum for continuing communication between the CSA and the mining industry.

Registrant Advisory Committee

The RAC serves as a forum to discuss issues and challenges faced by registrants in interpreting and complying with Ontario securities law, including registration and compliance-related matters.

Securities Advisory Committee

The SAC provides advice to the OSC on legislative and policy initiatives, and capital markets trends.

Securities Proceedings Advisory Committee

This is an advisory committee to the Office of the Secretary to the Commission that provides comments and advice on policy and procedural initiatives relating to the Commission's administrative tribunal proceedings.

Small and Medium Enterprises Committee

The SMEC advises OSC staff on policy and rule-making initiatives relevant to small issuers, and on the emerging issues and unique challenges faced by small issuers.

More information about OSC Advisory Committees and their members is available at www.osc.gov.on.ca.

OSC ONTARIO SECURITIES COMMISSION

The OSC Inquiries & Contact Centre operates from 8:30 a.m. to 5:00 p.m. Eastern Time, Monday to Friday, and can be reached on the Contact Us page of

www.osc.gov.on.ca

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.