ONTARIO
SECURITIES
COMMISSION

2010 **OSC** Annual Report

Welcome to the 2010 Annual Report

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

Contents

1. Ontario's Capital Markets

1.0 Ontario's Capital Markets

Ontario's capital markets	2007–08	2008–09	2009–10
Public companies in Ontario	1,466	1,482	**1,429**
Investment fund issuers in Ontario	3,066	3,169	**3,159**
Registered firms in Ontario	1,700	1,721	**1,424***
Registered individuals in Ontario	68,605	70,057	**64,637***

*A key reason for the decline in the number of registered firms and individuals from 2008–09 was the implementation of registration reforms by the Canadian Securities Administrators in September 2009. Under the reforms, some firms and individuals are no longer required to be registered.

Marketplaces operating in Ontario

As of March 31, 2010, the following securities marketplaces operated in Ontario for the trading of equities, debt and/or derivatives:

- TSX Inc.
- TSX Venture Exchange Inc.
- The Canadian National Stock Exchange, including Pure Trading
- Alpha ATS L.P.
- Chi-X Canada ATS Ltd.
- Omega Securities Inc.
- MatchNow
- LiquidNet Canada Inc.
- Bloomberg Tradebook Canada Company
- EquiLend Canada Inc.
- CBID Markets Inc.
- CanDeal.ca Inc.
- MarketAxess Canada Limited
- Bourse de Montreal Inc.
- ICE Futures Canada Inc.
- ICE Futures Europe Inc.
- ICE Futures U.S. Inc.
- Natural Gas Exchange Inc.

Total market participant contacts with the OSC Inquiries & Contact Centre in 2009–10

19,797

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

($ millions for years ending March 31)	2007–08	2008–09	2009–10
Toronto Stock Exchange			
Listed public companies	$ 1,991,149	$ 1,265,957	**$ 1,845,505**
Domestic public companies	1,838,798	1,207,434	**1,765,099**
Ontario-based listed issuers	777,112	543,891	**806,618**
TSX Venture Exchange*			
Listed public companies	$ 51,095	$ 20,702	**$ 39,914**
Domestic issuers	48,025	19,240	**36,295**
Ontario-based listed issuers	8,957	2,965	**5,937**

Source: Toronto Stock Exchange
*TSX Venture Exchange does not include NEX.

2. Chair's Message and Activities of the Commissioners

2.0 Chair's Message

The cumulative experience and expertise of the Members of the Commission represent an extensive understanding of both the capital markets and the interests of its various stakeholders.

As the capital markets undergo rapid and significant changes, the Ontario Securities Commission remains focused on providing protection to investors and fostering fair and efficient capital markets. Accordingly, the Commission is diligent in its governance practices and strives to deliver effective regulatory services and demonstrate operational transparency and efficiency. As the Chair of the Commission, I want to emphasize our dedication to protecting the public interest and fostering confidence in the capital markets.

The OSC regulates capital markets that include emerging marketplaces, innovative products, technologically advanced trading systems and new investor services, in addition to areas of traditional focus, such as securities exchanges, public companies and registered intermediaries. In such a dynamic environment, the Commission works to keep abreast of market developments and to respond in a timely and effective way.

This past year, the Commission identified four environmental factors that shape the landscape in which we operate. These factors can affect our work to achieve the OSC's strategic goals and may therefore influence our future priorities, as indicated in our 2010–11 Statement of Priorities. Specific environmental factors include:

- **Pace of change:** Rapid changes are occurring in markets, investment products and the regulatory landscape.
- **Regulatory gaps and coverage:** The adequacy of the current regulatory structure to address issues arising from, or that contribute to, financial market instability must be considered.
- **Deepening investor focus:** Investor protection requires effective ways to safeguard investor interests throughout the investment cycle.
- **Growing public expectations and accountability:** Regulators are expected to respond decisively to market developments, while demonstrating transparency and accountability.

The Commission supports the Ontario Government's position on the need for a national securities regulator to enhance investor protection, strengthen market competitiveness and solidify Canada's international reputation for excellence in the regulation of its financial system. Ontario is one of the provinces participating in a federal initiative to create a national securities regulator. In support of this process, the OSC has provided advice to the Canadian Securities Transition Office, which has drafted a new federal *Securities Act*.

Accountability and governance

The Commission functions both as a securities regulator in terms of policy initiatives and adjudication and as the OSC's Board of Directors. The Commission governs itself through a robust and transparent governance framework that is consistent with the best practices advocated for public companies. Members also promote a culture of integrity throughout the OSC, consistent with our Code of Conduct.

The Commission is accountable to the Ontario Legislature through the Minister of Finance. In 2009, the Commission updated its Memorandum of Understanding (MOU) with the Minister. Among other things, the MOU sets out:

- the accountability relationship between the Commission and the Minister; and
- the respective roles and responsibilities of the Minister, the Commission's Chair and the Board of Directors.

The Minister and the Commission both recognize that effective consultation is essential in discharging their respective responsibilities.

On March 29, 2010, the Standing Committee on Government Agencies released a report on its agency review of the OSC. We are currently reviewing the recommendations in the report which were directed at the Commission.

Expertise of the Commission

Understanding the issues and concerns of stakeholders is essential to the effectiveness of a board of directors, especially for regulatory agencies. The cumulative experience and expertise of the Members of the Commission represent an extensive understanding of both the capital markets and the interests of its various stakeholders. Members have professional experience in areas such as:

- retail and institutional investing;
- accounting and auditing;
- financial intermediary and advisory activities;
- corporate issuer requirements and obligations; and
- litigation and adjudication.

Members have the broad range of skills and qualifications that are needed by the Commission as a whole to carry out its responsibilities. The areas of expertise, skills and qualifications are identified in the Commission's Member Profile.

Activities of the Commissioners

Our 2010 Annual Report includes a section that highlights the activities of the Commissioners in 2009–10, with particular emphasis on enhancing the efficiency of managing an increasing adjudicative caseload. This section also discusses the results of the annual Board evaluation process and the creation of the Investor Advisory Panel.

I want to thank all of the Commissioners, management and staff of the OSC for their professionalism and commitment. In particular, I extend my appreciation to Lead Director David Knight, who retired from the Commission in June 2010.

I congratulate all of the Commissioners and staff for their dedicated service to the investors and market participants of Ontario.

Yours very truly,

David Wilson
CHAIR
ONTARIO SECURITIES COMMISSION

2.1 Activities of the Commissioners

Adjudicative activity

As the number and complexity of adjudicative proceedings increase, the Commission is enhancing its processes to ensure the caseload is managed fairly and expeditiously. Measures taken to improve efficiency include proposed amendments to the Rules of Procedure, which provide guidance to participants in adjudicative proceedings.

New case management procedures

In July 2009, the Commission implemented new case management procedures to facilitate the early identification and resolution of preliminary matters in order to:

> bring adjudicative proceedings to final resolution more rapidly and cost effectively;

> enhance the flexibility of the hearings schedule; and

> reduce demands on the time and resources of parties to the proceedings and the Commission.

One new procedure involves the use of a "designated Commissioner." Where practicable, one Commissioner is now assigned to each adjudicative matter at its commencement. The designated Commissioner presides over and determines all matters other than the hearing on the merits and approval of any settlement agreement. In addition, the designated Commissioner is authorized to hear and make orders on any case management and interlocutory matters such as applications for interim orders and motions. Overall, the new procedures contributed to the improved efficiency of caseload management in 2009–10.

New procedures for approving settlement agreements

In September 2009, the Commission reviewed its settlement agreement approval process by consulting with members of the respondents' bar and OSC staff. Following the consultations, the Commission published a request for comments on March 12, 2010, regarding a proposed revision to procedures for approving settlement agreements. The proposal aims to enhance the efficiency of the settlement process by reducing costs, encouraging settlements, where appropriate, and decreasing the number of hearings required.

The Commission has proposed the introduction of settlement conferences into the overall process. A settlement conference could be held before an adjudicative panel prior to any public hearing to approve a settlement agreement. A settlement conference would be scheduled only at the joint request of OSC staff and the respondent, likely at the stage where the parties are discussing a proposed settlement. The panel would generally limit its role to expressing views that might assist the parties in reaching agreement. Generally, the proposal aims to enhance accessibility to a panel in order to facilitate settlements as well as the reliability for a settlement between parties that are seeking that outcome. Hearings to approve settlement agreements will continue to be held in public.

Adjudicative matters before the Commission

In the 2009–10 fiscal year, adjudicative panels sat for a total of 305 sitting days (see Adjudicative Activities of the Commission chart below). This represents a 23% increase from the total of 248 days in 2008–09. The number of matters before the Commission rose from 53 in 2008–09 to 81 in 2009–10.

Adjudicative panels spent less time on hearings on temporary cease trade orders, applications, pre-hearing conferences and other procedural matters in 2009–10 even though the number of such matters increased substantially from the previous year. Panels spent more time presiding over contested hearings on the merits. The number of sitting days for contested hearings on the merits increased from 59 in 2008–09 to 169 in 2009–10. Indeed, panels devoted a significantly larger share of their time to both contested hearings on the merits and settlement hearings than in the previous fiscal year. In 2009–10, 58% of the total sitting days were devoted to those hearings, compared to 30% in 2008–09.

Adjudicative Activities of the Commission

Type of adjudicative proceeding	Number of sitting days per fiscal year* 2008–09	2009–10
Contested hearings on the merits (Includes sanctions hearings and hearings in writing)	59	**169**
Settlement hearings	15	**8**
Hearings on temporary cease trade orders	70	**45**
Motions and other interlocutory matters	28	**66**
Applications (Includes applications for review, applications relating to take-over bids and applications under section 17 (disclosure), section 144 (revocations or variations of decisions), section 127(10) (inter-jurisdictional enforcement) of the *Securities Act*.)	14	**6**
All other matters (Includes pre-hearing conferences, appearances, etc.)	62	**11**
Total	248	**305**

* More than one sitting day can occur in one calendar day.

Generally, enhancements to caseload management at the earlier stages of the adjudicative process resulted in more efficient handling of cases through to hearings on the merits. For example:

> The number of sitting days for matters such as pre-hearing conferences and repeat appearances decreased to 11 from 62 in the previous fiscal year.

> 45 sitting days were required for hearings on temporary cease trade orders (TCTOs) yet panels disposed of more than twice the number of TCTOs: 44 in 2008–09 and 90 in 2009–10.

> Panels disposed of the same number of settlement agreements (15) as the previous fiscal year, but required approximately half the time to do so: a total of eight sitting days versus 15 in 2008–09.

As a result of the enhanced case management, an increased number of contested hearings on the merits, which include hearings on sanctions, were brought forward to adjudicative panels and were disposed of more expeditiously.

The increasing caseload has, however, contributed to some delays in issuing decisions. The Commission is aware of the priority for panels to render decisions and reasons in a more timely manner and will proactively address this issue in 2010–11.

Governance initiatives

Members of the Commission conduct annual evaluations of the Board and its Committees with a view to improving their effectiveness and performance against their mandates. The Board has made progress on the governance initiatives identified in the prior year's assessment, including strengthening its strategic focus and monitoring of risk.

The latest Board evaluation identified the need to continue to enhance the Members' involvement in the setting of strategic priorities and in monitoring the organization's performance against objectives. Identification of opportunities for the ongoing education and development of the Members was also identified as an area requiring further initiative. Recognizing that assessing the adequacy of risk management is a core function of the Board, an initiative is underway to implement an enhanced enterprise risk-management framework at the OSC in 2010–11.

In order to foster transparency and accountability, the Commission publishes its governance documents on the OSC website. These documents include the annual Statement of Governance Practices, which identifies specific governance initiatives undertaken during the fiscal year. The Statement of Governance Practices is published online in conjunction with the Annual Report.

Investor Advisory Panel

To encourage a broad range of input from investors, the Commission announced the creation of the Investor Advisory Panel in February 2010. As an advisory committee to the Commission, the Investor Advisory Panel will give feedback on proposed rules and policies, the annual Statement of Priorities and other specific issues. The Panel will have seven members who are representative of the wide range of investors in Ontario.

Terms of Members of the Commission

(As at March 31, 2010)	Appointed	Current term expires
Sinan O. Akdeniz	September/09	September/11
James D. Carnwath	August/09	August/11
Mary G. Condon	April/08	March/13
Margot C. Howard	December/06	December/11
Kevin J. Kelly	December/06	December/11
Paulette L. Kennedy	April/08	March/13
David L. Knight*	August/04	June/10
Patrick J. LeSage	December/05	February/11
Carol S. Perry	February/05	February/11
Lawrence E. Ritchie**	February/07	February/12
C. Wesley M. Scott	September/09	September/11
James E. A. Turner	February/07	February/12
W. David Wilson	November/05	November/10

* David L. Knight was the Lead Director of the Commission in 2009–10.
** Vice-Chair Lawrence Ritchie has been seconded to the Canadian Securities Transition Office.

The term of office of Commissioner David L. Knight expired in June 2010. The Commission extends its appreciation to Commissioner Knight for his service and contributions.

Committees of the Commission

(As at March 31, 2010)

Audit and Finance Committee	Governance and Nominating Committee	Human Resources and Compensation Committee	Adjudicative Committee*
Margot C. Howard, Chair	Carol S. Perry, Chair	Kevin J. Kelly, Chair	Patrick J. LeSage, Chair
Kevin J. Kelly	Mary G. Condon	Sinan O. Akdeniz	James D. Carnwath
Paulette L. Kennedy	David L. Knight, Lead Director	Margot C. Howard	Mary G. Condon
Carol S. Perry	C. Wesley M. Scott	Paulette L. Kennedy	David L. Knight, Lead Director
	W. David Wilson, *Ex-officio member*	Patrick J. LeSage	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.

3. Report by the Executive Director – OSC Year in Review

3.0 Report by the Executive Director

Addressing today's issues in the capital markets and anticipating tomorrow's challenges are keys to the success of a securities regulator.

The OSC endeavours to maintain a healthy balance between the need for fiscal restraint and the need to invest in resources that allow us to focus on important regulatory issues. We are taking progressive approaches toward fulfilling the OSC's mandate and achieving our organizational goals related to responsive regulation, compliance and enforcement, investor protection and accountability.

Responsive regulation

Addressing today's issues in the capital markets and anticipating tomorrow's challenges are keys to the success of a securities regulator. The OSC continues to review its operational and strategic capabilities and is making the necessary organizational changes in order to keep abreast of market developments. For example, internal expertise that had been embedded in certain operational Branches has now been focused in a new derivatives team in order to enhance our work in this area. The derivatives team is considering the most appropriate regulatory approach to issues associated with the use and trading of over-the-counter (OTC) derivatives.

Compliance and enforcement

A significant part of a securities regulator's mandate is achieved through its compliance and enforcement programs. Recognizing the importance of these activities, we have adapted our compliance programs to major developments in Canada's regulatory framework. Following the launch of a new national registration regime, we made organizational changes to improve the effectiveness and efficiency of our oversight of market participant conduct as it pertains to the new regime.

In 2009–10, the Enforcement Branch adopted an integrated, team-based organizational model that enables staff to more effectively target specific cases. As well, we continue working with governments, other securities regulators, self-regulatory organizations (SROs) and law enforcement agencies to strengthen securities law enforcement in Canada and internationally.

Investor protection

We have been working to deepen our focus on investor protection, which is a core element of the OSC's mandate. In 2009–10, we made progress on this commitment including:

> Promoting clear disclosure to investors through regulatory policy initiatives such as the proposed enhancements to scholarship plan disclosure;
> Supporting investor outreach and education programs through our relationship with the Investor Education Fund; and
> Creating the Investor Advisory Panel as a method of securing much valued investor input to the Commission's regulatory processes.

Organizational accountability and efficiency

The OSC is aligned with the fiscal priorities of the Government of Ontario and provincial agencies, boards and commissions. The OSC is adhering to the provincial government's approach to controlling expenditures, including matters related to compensation. Our spending will remain prudent as we continue to build efficiencies within our operations.

OSC Year in Review: Activities of Staff

This year's OSC Annual Report includes a Year in Review section that highlights the activities of staff in the areas of compliance, enforcement, investor protection and marketplace regulation. These four sections provide details about major initiatives and accomplishments in each area. We believe the OSC Year in Review will serve as an informative summary of the work we have done in support of our strategic goals.

All of our staff contribute to making the OSC an efficient, accountable and progressive organization. As we work together to fulfil the OSC's mandate and goals, I want to express my appreciation to our staff for their commitment and support.

Sincerely,

P. Dowdall-Logie

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

3.1 Compliance at Work

OSC YEAR IN REVIEW

Compliance with securities law by market participants supports investor protection and promotes public confidence in Ontario's capital markets. As such, the OSC's compliance program has a dual purpose:

1. to oversee compliance by market participants with Ontario securities law; and
2. to foster a culture of compliance through outreach and other initiatives that assist market participants to comply with applicable regulatory requirements and enhance their compliance systems, policies and procedures.

OSC compliance oversight

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); and

> public companies and investment funds that are reporting issuers in Ontario.

In addition, the OSC is responsible for the oversight of the Investment Industry Regulatory Organization of Canada (IIROC) and the Mutual Fund Dealers Association of Canada (MFDA) to monitor how they regulate their members who are registered dealers in Ontario.

The OSC assesses compliance with securities laws by conducting formal reviews of registrants and the disclosure filed by public companies and investment funds which are chosen according to risk-based criteria. Through its reviews, the OSC strives to achieve enhanced compliance. Compliance is an important part of the continuum of regulatory oversight of the capital markets, and enhanced compliance with securities laws by market participants can prevent harm to investors and market abuse. In 2009–10, a significant number of compliance reviews conducted by the OSC resulted in either enhanced compliance by market participants or commitments to improve compliance in upcoming filings.

In conducting compliance reviews, the OSC may take remedial action, where appropriate, against market participants that do not comply with securities law. This may 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 OSC Enforcement Branch. Similarly, during the course of an investigation, the Enforcement Branch may recommend that the activities of an individual or a corporation be reviewed for their compliance with securities law.

Working with market participants to strengthen compliance

Providing outreach to market participants is an integral part of the OSC's compliance programs. OSC staff communicate to market participants about major industry developments, proposed regulations and compliance with existing requirements. The goal is to assist issuers and registrants in developing robust compliance policies and procedures.

Implementation of registration reform

The launch of a new Canada-wide registration regime on September 28, 2009, harmonized, streamlined and modernized the regulatory requirements for registered firms and individuals. As at March 31, 2010, there were approximately 1,600 firms and 120,000 individuals registered across Canada, including more than 1,400 firms and approximately 64,600 individuals in Ontario. These registrants deal in securities, provide investment advice or manage investment funds. The reforms set out new requirements for them.

Securities regulators consulted stakeholders during the development of the new rules and consultations are continuing during the implementation process. In 2010–11, the OSC is working with the Canadian Securities Administrators (CSA) on amendments to the registration regime to address developments arising from the implementation process. Given the impact of the new registration regime and the ongoing obligations for registrants, it is important that registrants understand the requirements and then develop appropriate procedures for an effective transition. The OSC and CSA are working with current and prospective registrants to make the transition as efficient as possible. This includes regular communications to market participants about transition and implementation issues, such as:

- CSA Staff Notice 31-311 which provided guidance for the transition to the new registration regime, including proposed changes to the National Registration Database (NRD), the conversion by firms and individuals to new registration categories and the transition periods to comply with new requirements; and
- Publication by the CSA of frequently asked questions (FAQs) about the registration regime based on public enquiries that CSA members had received. The online FAQ list is updated regularly.

The OSC's Inquiries & Contact Centre has provided ongoing support to existing, new and prospective registrants about their obligations during the implementation of the new registration regime. This support has included guidance about transition provisions, proficiency requirements and filing timelines. Inquiries about registration requirements represented 29% of the approximately 20,000 total contacts from market participants in 2009–10.

Report on Focused Reviews of Investment Funds

As reported in its 2009 Annual Report, the OSC's response to the turmoil in the financial markets in 2008 and 2009 included compliance reviews of Ontario-based money market funds, non-conventional investment funds and hedge funds. A summary of the three-phase initiative was published on January 19, 2010. Despite the market downturn, OSC staff did not identify any industry-wide compliance issues during the period reviewed. The OSC encourages fund managers to use the report as a self-assessment tool to strengthen their compliance and improve their internal controls and supervision.

Preparing to adopt IFRS

Canada's capital markets are moving to adopt International Financial Reporting Standards (IFRS). This move reflects an increasing international acceptance of a single, harmonized set of accounting standards. For financial years beginning on or after January 1, 2011, domestic issuers and registrants will be required to use IFRS, which will become the Canadian generally accepted accounting principles (GAAP) for public enterprises. The OSC and the CSA released regulatory proposals and guidance in 2009–10 to assist market participants as they prepare for the changeover to IFRS, including:

- Proposed acceptable accounting principles and auditing standards for issuers and registrants to use when filing or delivering financial statements to securities regulators;
- Proposals aimed at assisting investment funds to make a smooth transition to IFRS (amendments to National Instrument 81-106 *Investment Fund Continuous Disclosure*); and
- Results of a targeted review of the quality of disclosure by public companies of their readiness for the upcoming changeover (Staff Notice 52-718 *IFRS Transition Disclosure Review*).

Corporate sustainability reporting

In spring 2009, the Ontario Legislature approved a non-binding resolution calling on the OSC to undertake a broad consultation to consider best practices in corporate social responsibility and environmental, social and governance disclosure. In response, the OSC developed a plan to enhance compliance by reporting issuers (other than investment funds) with corporate governance and environmental disclosure requirements. In a report to the Minister of Finance in December 2009, the OSC set out recommendations on how to enhance disclosure in these areas. For example, one recommendation proposed issuing guidance on compliance with existing environmental disclosure requirements, both in general terms and possibly on an industry-specific basis.

Results of Compliance Reviews

The OSC assesses compliance with securities laws by conducting formal reviews of samples of registrants, public companies, and investment funds selected according to risk-based criteria. Through its reviews, the OSC strives to achieve enhanced compliance by these market participants.

Reviews of registrants

Every year, the OSC conducts compliance reviews of selected registered portfolio managers, exempt market dealers, scholarship plan dealers and investment fund managers. Areas of non-compliance are identified for corrective action, and staff work with the firms to facilitate the appropriate steps to address the matters. Compliance reviews often lead to enhanced compliance at firms, as indicated in the outcomes of OSC field reviews in 2009–10.

Results of OSC field reviews of registrants in 2009–10	
Significantly enhanced compliance	50%
Enhanced compliance	37%
Referral to the Enforcement Branch	10%
Terms and conditions on registration	3%

A risk-based approach is used to select registrants for compliance field reviews and to determine the areas of focus for the reviews. OSC staff monitor the outcomes from its reviews of registrants to assess their overall compliance and to identify the areas to focus on in future reviews. In 2009–10, the compliance field reviews resulted in:

> **Enhanced compliance:** At the end of a review, staff generally issue a report to the firm identifying areas of non-compliance that require corrective action. Staff work with these firms to facilitate the appropriate resolution of deficiencies. Compliance field reviews generally result in enhanced compliance at these firms following their actions to address the identified matters and to improve their compliance systems, internal controls, or policies and procedures. In 2009–10, 37% of field reviews resulted in enhanced compliance by the registrant.

> **Significantly enhanced compliance:** When the seriousness of the deficiencies identified during a review warrant it, in addition to the steps taken in the enhanced compliance outcome, staff increase their monitoring of the registrant. For example, staff may conduct a follow-up review of a registrant or require the registrant to provide additional evidence, to assess if they have appropriately addressed the deficiencies. The increased monitoring and the registrant's actions generally result in significantly enhanced compliance by the firm. In 2009–10, 50% of field reviews resulted in significantly enhanced compliance by registrants.

> **Terms and conditions on registration:** Staff may impose terms and conditions on a firm's registration to further monitor how a registrant is complying with securities law. For example, terms and conditions may require the firm to retain a consultant to improve its compliance systems, or to frequently report information to the OSC. In 2009–10, 3% of field reviews resulted in the imposition of terms and conditions on the registration of registrants.

> **Referral to the Enforcement Branch:** If staff identify a serious breach of securities law, they may also discuss the findings with the Enforcement Branch, and together determine an appropriate course of action. In 2009–10, 10% of field reviews resulted in referrals to the Enforcement Branch.

Reviews of public companies

The OSC promotes compliance with securities regulatory requirements by public companies through a continuous disclosure (CD) review program. Staff monitor the results of CD reviews each year to assess overall compliance and to identify areas to focus on in future reviews.

Results of OSC continuous disclosure reviews of public companies in 2009–10	
Prospective disclosure enhancements	45%
Issuer education about specific disclosure risks	18%
Refilings and other regulatory actions	9%
No change required	28%

The OSC uses a risk-based approach to select public companies for continuous disclosure (CD) reviews and to determine the area of focus of those reviews. OSC staff monitor outcomes from CD reviews each year to assess overall compliance and to identify areas to focus on in future reviews. More than one result can be associated with a particular CD review. In 2009–10, the CD reviews resulted in:

- **Prospective disclosure enhancements:** This year, 45% of the outcomes were commitments by public companies to make changes to disclosure in an upcoming CD filing. Most of these changes involve correcting deficiencies in Management's Discussion & Analysis.
- **Issuer education about specific disclosure risks:** 18% of the outcomes this year consisted of identifying issuers at risk of a specific disclosure issue and contacting them about our concern before they made their next CD filing. Issuer outreach was mainly focused around International Financial Reporting Standards this year.
- **Refilings and other regulatory actions:** This year, 9% of the outcomes involved the identification of significant deficiencies that led to a restatement and refiling of a CD document or another regulatory action.

Reviews of investment fund issuers

The OSC promotes compliance with securities regulatory requirements by investment funds that are reporting issuers in Ontario through integrated reviews of both prospectus and CD filings. Prospectus reviews focus on compliance with disclosure requirements related to the investment fund's key attributes, such as its investment objective, strategies and risks, determining the relevant criteria for future CD reviews of the investment fund.

Results of OSC prospectus and continuous disclosure reviews of investment funds in 2009–10	
Refilings and disclosure changes	41%
Improved form compliance	25%
No significant changes required	24%
Review of new fund product or feature	10%

The OSC applies risk-based selection criteria, including fund type and complexity, to select investment fund filings for review. Staff monitor outcomes from prospectus and continuous disclosure (CD) reviews to identify trends and areas of focus for future reviews. More than one outcome can be derived from each review. In 2009–10, the prospectus and CD reviews resulted in:

> **Refilings and disclosure changes:** 41% of the investment funds reviewed made changes to their current fund disclosure or agreed to make modifications to future disclosure.

> **Improved form compliance:** One-quarter of investment fund issuers improved their compliance with the form and content requirements for prospectuses and management reports of fund performance. Generally, compliance with form requirements improved from the previous fiscal year.

> **New fund product or feature:** OSC staff identified novel or unusual features of funds which led to significant discussions with fund managers to resolve various issues. These matters were either operational issues to address before a new product could be sold to investors, or compliance/disclosure issues related to certain fund transactions.

In 2009–10, the OSC also conducted its first review of a sample of investment fund managers to assess their compliance with disclosure requirements imposed by National Instrument 81-107 *Independent Review Committee for Investment Funds*. These requirements include the newly mandated Independent Review Committee Report to Securityholders. In 2010–11, the OSC intends to publish a notice that discusses the results of the reviews and sets out best practice guidelines.

3.2 Effective Enforcement

The OSC enforces securities laws in Ontario to provide protection to investors and foster public confidence in the capital markets. In 2009–10, the OSC placed particular focus on targeting misconduct that causes direct harm to investors, such as illegal securities distributions and fraud. As the globalization of the capital markets continues, the OSC believes that co-operation is even more critical to preventing, detecting and deterring wrongdoing committed in Ontario as well as cross-border fraud and other misconduct. Effective enforcement requires the collaboration of securities regulators and law enforcement agencies in jurisdictions across Canada and internationally.

The OSC co-operates with other organizations in several areas, including intelligence sharing, market surveillance and joint enforcement actions. In 2009–10, the OSC worked closely with members of the Canadian Securities Administrators (CSA), self-regulatory organizations (SROs) and other agencies toward the common goal of detecting and prosecuting misconduct in the capital markets.

Enforcement co-operation

Two separate enforcement cases concluded by the OSC in 2009–10 demonstrate the importance of co-operation with fellow securities regulators and law enforcement agencies: The settlements related to a joint regulatory investigation into Canada's non-bank-sponsored asset backed commercial paper (ABCP) market and the matter of Stanko Joseph Grmovsek.

1. ABCP settlements

In December 2009, the OSC, Quebec's Autorité des marchés financiers and the Investment Industry Regulatory Organization of Canada (IIROC) reached settlements with several financial institutions in connection with a joint investigation into the non-bank sponsored ABCP market. The investigation was launched after the non-bank-sponsored ABCP market seized up in 2007.

The OSC settled with the Canadian Imperial Bank of Commerce, CIBC World Markets Inc. and HSBC Bank Canada, which admitted that they failed to respond adequately to emerging issues in the third-party ABCP market, as they continued to sell without engaging compliance and other appropriate processes for assessing such issues. The settlements provided for the payment of a total of $28 million in administrative penalties and investigation costs. A fair and appropriate use for the sanction monies will be determined in accordance with applicable laws, court orders and in the public interest. In addition, the institutions each agreed to retain an outside consultant to conduct an independent review of certain of their training, compliance and oversight functions. The joint investigation also resulted in the commencement of a separate OSC proceeding against another market participant which is ongoing.

2. In the matter of Stanko Joseph Grmovsek

The OSC actively investigates individuals suspected of accessing and using confidential information for illegal purposes. The insider trading case against Stanko Joseph Grmovsek was jointly investigated by the OSC, the U.S. Securities and Exchange Commission (SEC) and the RCMP's Integrated Market Enforcement Team in Toronto. Several other agencies were also involved, including IIROC, the U.S. Federal Bureau of Investigation and prosecutors in Canada and the U.S. In settling with the OSC, Mr. Grmovsek admitted to having engaged in illegal insider trading in connection with a scheme that elicited profits estimated at US$9 million. The scheme involved trading on confidential information regarding potential corporate mergers and acquisitions, which was obtained surreptitiously from law firms. Mr. Grmovsek was ordered to disgorge the proceeds obtained through his unlawful conduct and is subject to permanent prohibitions of buying or selling securities, and on becoming or acting as a director or officer of any issuer or registrant.

Mr. Grmovsek also pleaded guilty to criminal charges of insider trading, fraud and money laundering. In January 2010, he was sentenced in Toronto to 39 months imprisonment. This case represents the first Canadian conviction of insider trading pursuant to the *Criminal Code*. In addition, Mr. Grmovsek pleaded guilty to criminal charges of conspiracy to commit securities fraud in the U.S. and agreed to settle a complaint filed by the SEC.

Enforcement Activity in 2009–10

In 2009, the OSC's Enforcement Branch was restructured to allow staff to be more targeted and timely in managing enforcement cases through the case assessment (intake), investigation and litigation phases. Two of the six integrated teams focus solely on specific areas of wrongdoing: illegal insider trading and "boiler rooms." A boiler room involves unregistered salespeople making illegal distributions of securities to investors, often through telephone solicitations.

In the 2009–10 fiscal year, the Enforcement Branch assessed a total of 467 matters for evidence of potential breaches of Ontario securities law. Matters come to the attention of the Enforcement Branch through:

- surveillance of market activity;
- monitoring public sources of information;
- other areas of the OSC, including compliance staff;
- investor contacts with the OSC Inquires & Contact Centre; and
- referrals from other securities regulators or law enforcement agencies.

Of the potential matters assessed at intake, 33 were transferred for further OSC investigation. In response to some of the remaining matters, the OSC pursued alternative approaches, such as the issuance of warning letters or referrals to an SRO or criminal law enforcement agency.

Investigations

Enforcement staff completed 46 investigations in 2009–10, many of which were initiated in previous fiscal years. Of these completed investigations, 26 files were recommended for litigation by the OSC.

In the interests of protecting investors, the Commission has the authority to halt certain activities during the course of an enforcement investigation. Temporary cease trade orders (TCTOs) are used to halt the trading of specified securities. Freeze orders restrict the use of monies or other assets so that they are not dissipated. In addition, OSC staff can apply to a court for the appointment of a receiver to take control of any assets of a firm or individual. In the fiscal year, adjudicative panels of the Commission issued 12 initial TCTOs against a total of 53 respondents, and some of those TCTOs were extended. In addition, OSC staff obtained 30 freeze orders from the courts, freezing in excess of $5 million (see table below).

Temporary Cease Trade Orders

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

Fiscal Year	2007–08	2008–09	**2009–10**
Actions before the Commission	11	18	**12**
Number of respondents (Parties to the proceedings)	117	139	**53**

In addition, in fiscal 2009–10, 30 freeze orders were obtained in court by the OSC, freezing in excess of $5 million.

When appropriate, the OSC works proactively with other securities regulators and law enforcement agencies to share intelligence and provide inter-jurisdictional assistance in investigations of alleged cross-border misconduct. For example:

> The OSC may notify Ontario residents if their contact information is found in the possession of boiler room operators who might target them for future investment frauds. Similarly, the OSC notifies other securities regulators when information about companies or individuals in their jurisdictions is recovered from boiler rooms; and

> The OSC is a member of the Joint Securities Intelligence Unit (JSIU) which targets organized crime groups operating in Canada. For example, the JSIU identifies companies and individuals engaged in activities that may pose a risk to investors and may post their names on the Investor Warning List on the OSC's website. The RCMP and IIROC are the OSC's partners in the JSIU.

Proceedings commenced

The OSC commenced a total of 28 enforcement proceedings in 2009–10, involving a total of 99 individuals and corporations. It took an average of 17 months from the date the matter was opened in the Enforcement Branch to investigate the alleged wrongdoing and commence a proceeding. The average number of months varies depending on the size and complexity of the individual matters.

Twenty-four of the proceedings, related to a total of 92 respondents, were commenced before adjudicative panels of the Commission. The other four proceedings, related to a total of seven defendants, were commenced before the Ontario Court of Justice. Alleged criminal conduct in the capital markets is prosecuted through the criminal justice system, typically by the provincial or federal Attorneys General.

In proceedings commenced before the Commission, a broad range of wrongdoing was alleged, including fraud, illegal distributions, market manipulation, illegal insider trading and misleading disclosure. The respondents included registrants, reporting issuers such as public companies, and directors and officers of reporting issuers.

Concluded settlements and contested hearings

In 2009–10, the Commission concluded a total of 16 proceedings that had been commenced by the Enforcement Branch in relation to the actions of 32 respondents (see table below). The sanctions imposed included orders totalling approximately $35.9 million in administrative penalties, disgorgement and settlement amounts. The sanctions imposed by adjudicative panels of the Commission also included 18 Director and Officer bans and 18 cease trade orders.

Two matters before the Ontario Court of Justice were concluded in the fiscal year. In one, Peter Robinson was found to be in contempt as a result of his failure to comply with OSC summonses and with Court orders and was sentenced to four months in jail.

Concluded Settlement and Contested Hearings before the Commission

Fiscal Year	2007–08	2008–09	**2009–10**
Number of proceedings	13	21	**16**
Number of respondents	16	46	**32**
Sanctions include:			
Cease trade orders	10	23	**18**
Director and Officer bans	8	29	**18**
Registration restrictions	4	12	**6**
Administrative penalties, disgorgement orders, settlement amounts	$ 3,419,000	$ 17,709,868*	**$ 35,967,173**
Costs ordered	$ 1,730,282	$ 3,103,191	**$ 951,500**

* In addition, three individuals agreed in 2008–09 to pay $68,100,000 to Research In Motion Ltd. as part of a settlement agreement with the Commission.

Notable Enforcement Cases

In the matter of Watt Carmichael Inc.

In December 2009, the OSC sanctioned Watt Carmichael Inc. and three of its senior officers, Roger D. Rowan, Harry J. Carmichael, and G. Michael McKenney, relating to discretionary trading in the securities of Biovail Corporation by Mr. Rowan, who was also a director of Biovail. In an earlier decision dealing with the merits of the case, the OSC had found that Mr. Rowan failed to file insider trading reports with respect to trades he executed in Biovail securities that were held in client trust accounts, that he failed to disclose to Biovail the number of Biovail securities held in the trust accounts over which he exercised control or direction, and that he traded in Biovail securities in the trust accounts during Biovail's blackout periods. The Commission had also found that Watt Carmichael Inc., Mr. Carmichael and Mr. McKenney failed to adequately supervise Rowan's trading. The decision is under appeal by the respondents.

This case included a constitutional challenge, as the respondents argued that the administrative penalty provisions under the *Securities Act* (Ontario) infringed the Canadian Charter of Rights and Freedoms. The Commission dismissed the challenge.

In the matter of Rajeev Thakur

The respondent, Rajeev Thakur, admitted to committing illegal insider trading while he was employed as Director of Outsourcing Strategies for Celestica Inc. As a Director, Mr. Thakur had access to material information about the company's finances. Mr. Thakur used this and other confidential information to make a series of trades in Celestica securities which resulted in a profit of approximately $642,056. In settling with the OSC, Mr. Thakur disgorged that amount to the Commission and paid an administrative penalty of $481,542, plus costs. In addition, he was permanently prohibited from acting as an officer or director of any registrant or issuer.

Enforcement Activity and Concluded Hearings

The OSC enforces securities laws in Ontario to provide protection to investors and foster public confidence in the capital markets. The following tables present the activities of the OSC Enforcement Branch in the various stages of the enforcement process: intake, investigations and litigation. The final table reports the results of the Concluded Settlements and Contested Hearings before the Commission in 2009–10.

OSC Enforcement Branch: Intake

Fiscal Year	2007–08	2008–09	**2009–10**
Number of matters assessed	499	446	**467**
Number transferred for investigation	58	49	**33**

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

OSC Enforcement Branch: Investigations

Fiscal Year	2007–08	2008–09	**2009–10**
Number of completed investigations	48	59	**46**
Number transferred for litigation	16	18	**26**

OSC Enforcement Branch: Litigation

Fiscal Year	2007–08	2008–09	**2009–10**
Proceedings Commenced			
> Actions before the Commission	12	21	**24**
Number of respondents	42	120	**92**
> Actions before the Courts	–	2	**4**
Number of defendants	–	5	**7**
Enforcement Timelines			
Average number of months from intake to commencement of a proceeding	24.1	12.4	**17.2**

Concluded Settlement and Contested Hearings before the Commission

Fiscal Year	2007–08	2008–09	**2009–10**
Number of Proceedings	13	21	**16**
Number of Respondents	16	46	**32**
Sanctions include:			
Cease trade orders	10	23	**18**
Exemptions removed	7	18	**17**
Director and Officer bans	8	29	**18**
Registration restrictions	4	12	**6**
Administrative penalties, disgorgement orders, settlement amounts	$ 3,419,000	$ 17,709,868*	**$ 35,967,173**
Costs ordered	$ 1,730,282	$ 3,103,191	**$ 951,500**

* In addition, three individuals agreed in 2008–09 to pay $68,100,000 to Research In Motion Ltd. as part of a settlement agreement with the Commission.

The OSC is deepening its focus on investors to better address their concerns. Internally, staff are paying particular attention to investor issues in project selection and policy development. In addition, the OSC is working with its regulatory partners on several initiatives to enhance investor protection. During the 2009–10 fiscal year, the OSC focused on activities related to:

> Consulting investors;
> Supporting investor education and outreach;
> Improving disclosure to investors; and
> Helping investors protect themselves.

Consulting investors

The new OSC Investor Advisory Panel is mandated to give broad investor input on the Commission's proposed rules and policies, its annual Statement of Priorities and other specific issues. The seven members of the Investor Advisory Panel, including its Chair, will have a range of relevant experience, skills and perspectives, including knowledge of both the capital markets and the OSC's regulatory responsibilities. The members will be appointed by the end of June 2010.

Supporting investor education

The recent global financial crisis emphasized the importance of promoting financial literacy among investors. The OSC established the Investor Education Fund (IEF) as a non-profit organization in 2000 and uses proceeds from settlements and fines from enforcement proceedings to fund its operations. The IEF develops independent resources to help consumers make better financial decisions. In 2009–10, the OSC and IEF began working with the Government of Ontario to introduce financial literacy into the provincial school curriculum for Grades 4 to 12, starting in September 2011. The IEF is co-chairing the Financial Literacy Working Group, which will identify the core financial concepts and skills that should be integrated into the curriculum. The Working Group will report its findings to the Minister of Education's Curriculum Council.

The OSC has also supported the IEF's expansion of outreach to investors through its programs and website www.getsmarteraboutmoney.ca. The IEF's resources, infrastructure and partnerships all increased in 2009–10, enabling it to expand programs such as:

> A research-based approach to developing financial literacy content;
> A web-based campaign targeting consumers aged 20 to 35; and
> Investor education presentations in communities across the province.

Investor protection at the OSC

Many of the OSC's policy initiatives focus on ensuring investors receive timely, relevant and accurate information throughout the investing cycle. The following initiatives in 2009–10 included significant investor protection components:

> **Point of sale disclosure for mutual funds:** Canadian securities regulators have proposed regulatory changes to improve disclosure about mutual funds to investors. The point-of-sale initiative proposes to give investors key information about a mutual fund, in language they can easily understand, at the time it is relevant to their investment decisions.

- **Scholarship plans:** The OSC played a leading role in developing regulatory proposals aimed at providing investors with more meaningful disclosure about scholarship plans. The CSA published the proposals in March 2010 as part of a broader effort to modernize and harmonize the regulation of investment funds.
- **Order protection:** The Canadian securities market has seen the emergence of multiple marketplaces. Investors must be confident that their orders will be treated fairly regardless of the marketplace where the orders are entered. In response, the Canadian Securities Administrators (CSA) created an Order Protection Rule, which requires that all immediately accessible better-priced visible orders be filled before other orders at inferior prices.

Helping investors protect themselves

Investors can help protect themselves by becoming more informed about frauds such as illegal distributions, and investing in general. The OSC website has helpful resources for investors, including:

- An Investor Warning List highlights companies that appear to OSC staff to be engaging in activities that may pose risks to investors;
- When warranted, the OSC posts specific Investor Warnings on its website to caution investors about individuals, companies or activities;
- A Protect Yourself Against Fraud section with resources to help investors recognize and avoid fraudulent investments such as Ponzi schemes; and
- Investors can also subscribe to OSC Investor News, an online publication about regulatory developments that affect investors.

In addition, the CSA website maintains a Disciplined Persons List of individuals who have been sanctioned by CSA members, other regulators and/or government agencies.

Handling investor inquiries and complaints

It is important for investors to know where to turn with a question or a concern about investing. In 2009–10, the OSC Inquiries & Contact Centre received 6,000 contacts from investors. Of these, approximately 2,400 related to checking registrations and possible disciplinary proceedings involving firms or individuals, plus questions about investment offerings, public companies and online education resources. The total number of investor contacts also included 1,469 complaints and tips in 2009–10. About two-thirds of the complaints and tips were referred to regulatory staff for internal review or redirected to self-regulatory organizations (SROs) and other regulators.

Currently, firms registered as dealers and advisers with the OSC must document complaints and respond to them in a fair and effective manner. The CSA is introducing additional complaint-handling requirements for registered dealers and advisers. Those dealers and advisers registered with the OSC prior to September 28, 2009, have a transition period of two years (until September 28, 2011) to make independent dispute resolution or mediation services available to clients, at the firm’s expense. However, the new CSA requirements now apply to any new firms that apply for registration as a dealer or adviser.

The global securities markets, particularly equity markets, are undergoing significant changes in market structure and investment products. The shift to a multiple marketplace environment has introduced complexity to the way equity trading is conducted. The number of equity marketplaces operating in Ontario has increased from six in 2005 to 10 in 2010. Marketplaces and market participants are using more sophisticated technologies that have increased the speed and complexity of trading. In addition, there has been a proliferation of novel products that are more widely available. The OSC is responding with progressive approaches that support both investor protection and fair and efficient capital markets.

Order Protection Rule

Investors should be confident that their orders will be treated fairly in the Canadian capital markets. To maintain this confidence, the OSC worked with the Canadian Securities Administrators (CSA) in 2009–10 to introduce the Order Protection Rule. The Rule will require all immediately accessible, better-priced, visible limit orders for securities to be filled before other limit orders at inferior prices. The Order Protection Rule will come into effect on February 1, 2011. In the meantime, OSC staff have been working with market participants to address any implementation issues that arise.

Exchanges and Alternative Trading Systems

The increasingly competitive landscape for trading equity securities has necessitated the re-examination of the processes for regulating marketplaces. In the OSC's view, transparency in the operations of exchanges and alternative trading systems (ATSs) contributes to market fairness and efficiency. Exchanges and ATSs should therefore be subject to the same degree of transparency when proposing similar changes to their operations. Effective October 9, 2009, the OSC implemented a process to align the transparency of operational changes of ATSs with the processes in place for recognized exchanges. Both are now required to publish notices and request comments relating to certain proposed changes, such as modifications to order types and procedures governing order entry and display. The current phase of this review involves examining existing requirements and updating rules as necessary.

Direct market access

Increasingly, clients of investment dealers are seeking faster and more direct access to exchanges and ATSs to execute trades. The process known as direct market access (DMA) relates to the ability of a client to directly access the market either through a dealer's systems or directly to a marketplace without going through the dealer's systems. The OSC is gathering information about DMA processes of dealers, marketplaces, vendors and investors with a view to formulating a regulatory framework for marketplace access. Securities regulators in other jurisdictions, including the U.S. and the European Union, are also examining issues related to DMA.

Dark pools and dark orders

The multiple markets in Canada now include two electronic marketplaces that offer no pre-trade transparency, known as dark pools. Also, new order types with limited or no transparency – dark orders – now interact with visible orders and trade on transparent marketplaces. The CSA and the Investment Industry Regulatory Organization of Canada (IIROC) are gathering input from investors and market participants about dark pools and dark orders. Specifically:

- On September 30, 2009, the CSA and IIROC published the *Joint Consultation Paper on Dark Pools, Dark Orders, and Other Developments in Market Structure in Canada* for public comment.
- On March 23, 2010, the CSA and IIROC hosted a dark pools forum in Toronto to explore issues raised in the comments on the Consultation Paper.

The CSA and IIROC are reviewing the public comments and issues raised at the forum and intend to publish a notice outlining next steps before the summer of 2010.

Contracts for Difference

On October 27, 2009, the OSC issued a notice as general guidance to market participants about offerings of contracts for difference (CFDs), foreign exchange (forex) contracts and similar over-the-counter (OTC) derivatives to investors in Ontario. CFDs and forex contracts are increasingly being offered for sale directly through the Internet. Following a review of CFDs and forex contracts, OSC staff concluded that they constitute "securities" for the purposes of provincial securities law when they are offered to Ontario investors. (See the sidebar titled Oversight of Derivatives for more about oversight of OTC derivatives.)

International activity

The recent downturn in financial markets exposed gaps in the global regulatory framework which need to be addressed through regulatory co-operation and coordination. The OSC invests substantial time and resources in its work with international securities regulators and other regulatory bodies. For example, the OSC regularly exchanges information involving either policy or enforcement matters with its colleagues at the U.S. Securities and Exchange Commission (SEC). The OSC is also actively participating in international initiatives related to the oversight of credit rating agencies, unregulated financial entities (such as hedge fund managers), short selling and over-the-counter derivatives. OSC staff work closely with the member jurisdictions of the International Organization of Securities Commissions (IOSCO) and the International Joint Forum of Financial Market Regulators, which has representatives from the securities, banking and insurance sectors.

Oversight of Derivatives

Securities regulators in several countries are actively reviewing the supervision of over-the-counter (OTC) derivatives that trade in exempt markets. In Canada, the Expert Panel on Securities Regulation identified derivatives as a major issue to be addressed by the proposed national securities regulator. The Panel's final report, published in 2009, advocated more regulatory oversight of the OTC derivatives market.

The OSC recognizes the importance of recent developments relating to the OTC derivatives markets. Sufficient internal resources and market information are necessary to determine the appropriate approach to supervision. The OSC is building its expertise and analyzing the current derivatives markets in Canada through:

- **A new group was established within the OSC to focus on the oversight of OTC derivative products;**
- **The OSC is a member of the CSA Derivatives Committee that is examining the OTC derivatives market in Canada; and**
- **The OSC, Office of the Superintendent of Financial Institutions, Bank of Canada and the federal Department of Finance are working together to develop recommendations for implementing the Group of 20 commitments for improving the infrastructure of OTC derivatives in Canada.**

The OSC is also participating with IOSCO and other international organizations in assessing the global OTC derivatives and commodity futures markets.

4. Management's discussion and analysis Financial statements

Contents

Overview

This document sets out the key financial events and actions and how they have influenced the OSC's operations during the past year and provides an outlook on its 2010–2011 plans. The environment and challenges that the OSC faces and details on the key elements that were considered in developing the plans are also set out. Additional details on 2010–2011 plans are set out in the OSC Statement of Priorities which is available at www.osc.gov.on.ca.

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

This document should be read in conjunction with the financial statements. The financial statements present the OSC's results for the year ended March 31, 2010, with 2009 comparatives and accompanying notes. Unless otherwise specified, references to years, for example 2010, refer to the fiscal years of the OSC ended March 31 of that year. The factors which affected the OSC's operations during 2010, as well as the factors that reasonably may be expected to affect future operations and financial results, are set out in the document.

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

OSC responsibilities

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

> Investors – both retail and institutional, who seek to invest in fair and efficient markets. Ontario residents hold about 43% of the financial assets held by individual Canadians and 81% of investment fund assets are held by fund companies based in Ontario.

> Market participants

- Issuers – public and private companies which rely on the capital markets to fund growth and diversification. Approximately 25% of Canadian-listed corporate issuers are based in Ontario, accounting for 43% of Canada's equity market value.
- Intermediary firms – registered to provide investment services to both users and suppliers of capital. There are 1,424 registrant firms (out of 1,639 in Canada) and 64,637 individuals (out of 119,853 in Canada) registered in Ontario.
- Marketplaces – There are currently 19 marketplaces (e.g. TSX, Pure Trading, Alpha ATS, etc.) operating within Ontario.

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

OSC approach

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

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

- Imposing requirements through rules and other regulatory instruments;
- Providing guidance to market participants;
- Assessing compliance and directing corrective action; and
- Taking enforcement action.

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

Financial oversight and accountability is achieved by:

- Preparing an annual budget, which is reviewed by the Audit and Finance Committee and approved by the Board;
- Providing summary financial information to the Board each month;
- Reporting actual versus budget performance and updated full-year forecasts every quarter to the Audit and Finance Committee and the Board;
- Requiring Board approval of significant unbudgeted expenses or re-allocations; and
- Certifying the design and effectiveness of Internal Control over Financial Reporting (ICFR) by the Chair and the Director of Corporate Services.

Current environment and issues

A range of environmental factors continue to pose challenges for those that the OSC regulates and the OSC itself. The main environmental factors affecting the OSC's work are set out below.

Economic environment and OSC activity levels

The OSC's operating environment remains challenging. Despite improving global economic conditions there remain a range of uncertainties around the possible outcomes for the economy. The timing and strength of a recovery remain uncertain and financial market volatility persists. The OSC continues to work closely with domestic and international regulators to review securities market regulation and identify possible weaknesses in the international financial system. The goal is to develop strategies to position the Canadian financial system to better respond to future events that could adversely affect our markets.

The pace of change in capital markets, in Ontario and in other jurisdictions, has generated significant structural change, including shifts from single marketplaces to multiple and increasingly complex marketplaces. At the same time, there has been a proliferation of complex securities products and investment advice (including the use of leverage, derivatives and exposure to commodities) and an increasing technological sophistication in the operations of market participants. Adapting OSC resources and skills to meet these issues continues to be a key challenge.

The financial crisis also revealed weaknesses in the global financial regulatory system, highlighting the need for a co-ordinated global response to address systemic risk and develop a more effective system of oversight and regulation. During the year, the CSA, including the OSC, formed a Systemic Risk Committee that is developing a process to identify, analyse and monitor systemic risks within the Canadian capital markets. This group will consult with other regulators with an interest in systemic risk and will report to the CSA Chairs, at least annually, on emerging systemic risks in the capital markets. The OSC also works in this area with partners such as Office of the Superintendent of Financial Institutions, the Bank of Canada, provincial insurance and other federal and provincial securities regulators. The OSC has continued to collaborate with the International Organization of Securities Commissions and other international standard setters and regulators to address regulatory gaps and implement the G20 action plan to strengthen transparency and accountability, enhance sound financial regulation, promote integrity, and reinforce international cooperation.

Ontario securities laws must evolve to meet these changing markets and products. To help prospective investors make informed investment decisions, the OSC is trying to better understand the information investors need, as well as how and when they need this information. The OSC must work to ensure that market participants meet the regulatory standards for disclosure and advice that investors require. To provide increased focus on investor issues, the OSC initiated work toward the establishment of an independent, funded Investor Advisory Panel during the last quarter of 2010.

Growing public expectations/accountability

Market participants and industry watchers continue to want regulators to move faster and more decisively in responding to current and potential problems. While the OSC seeks to be responsive to these demands, its response must be balanced and guided by its mandate, the scope of its authority and its operational capabilities.

Accountability to Ontario's investors and market participants is integral to the planning and implementation of the OSC's operational priorities. The OSC will continue to outline its regulatory goals and outcomes, how it will seek to achieve these goals and outcomes, and the challenges it faces. During 2010, the OSC held the consultation process for the OSC Statement of Priorities earlier in order to better consider stakeholder feedback as part of the annual budget approval process. The OSC will continue this process going forward, since listening to and communicating with interested stakeholders is essential to meeting the challenges it faces in fulfilling its mandate and addressing expectations about what it can accomplish.

OSC 2011 budget and fees

In developing the 2011 budget, the OSC carefully balanced the need for restraint with its need to move forward on initiatives which are necessary to achieve its mandate of providing protection to investors and fostering fair and efficient capital markets. The OSC's fiscal approach recognizes the circumstances faced by market participants. The budget focuses on redeployment of resources to priority areas and increased focus on internal efficiencies and controllable cost areas.

Securities market participants fund OSC operations through fees they pay. The OSC's fee structure is designed to generate fees that recover its cost of providing services to market participants. From 2003 to 2008, the OSC generated accumulated surpluses. These surpluses were largely due to higher than anticipated market growth in that period. Since 2008, the OSC has operated at a deficit. The OSC used a portion of its surplus to defer a planned fee increase for 2010.

An amended fee rule was approved by the Minister of Finance with an effective date of April 5, 2010. Even with these fee increases, the OSC expects to operate at a deficit in each of the next three years. These deficits are expected to largely eliminate the OSC's accumulated surplus. The OSC expects a revenue shortfall of $22 million in 2011. The OSC's goal is to return to full cost recovery by 2013.

Additional details on OSC 2011 budget and fees are provided in the "2011 Outlook" section.

Internal control over financial reporting

During the year, the design of ICFR was updated and operating effectiveness tested using the framework and criteria established in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Staff performed an evaluation, under the supervision and with the participation of management, of the effectiveness of the OSC's ICFR as at March 31, 2010. Based on this evaluation, the OSC has concluded that the ICFR was operating effectively and that there are no material weaknesses.

There have been no changes in the OSC's ICFR that occurred during the most recent year ended March 31, 2010, that have materially affected, or are reasonably likely to materially affect, the OSC's ICFR. The Chair and the Director of Corporate Services certify the design and effectiveness of ICFR in the Statement of Management's Responsibility and Certification.

Selected three-year annual information

(Thousands)	**2010**	2009	2008
Revenues	**$ 61,466**	$ 68,562	$ 78,238
Expenses	**80,320**	81,053	75,190
Surplus/(deficiency) of revenue over expenses (before recoveries)	**(18,854)**	(12,491)	3,048
Recoveries of enforcement costs	**870**	2,831	1,569
Surplus/(deficiency) of revenue over expenses	**$ (17,984)**	$ (9,660)	$ 4,617
Capital expenditures	**$ 1,373**	$ 5,297	$ 917

Analysis of operating results

Certain numbers have been rounded for presentation purposes. As a result, small differences in calculations may arise. Where these occur, they are not considered to be material.

Overview

The OSC had a net deficit of $18.0 million in 2010 ($9.7 million – 2009). The OSC's deficiency of revenues over expenses was reduced by the recovery of $870,000 in enforcement costs through settlements and orders. Recoveries were down $2.0 million from 2009 and were about $420,000 lower than the average for the previous five years.

2010 actual to 2009 actual

Revenues decreased by $7.1 million or 10.4% mainly due to lower participation fee revenues and reduced investment income which were partially offset by slightly higher activity fee revenues.

Expenses were $733,000 or 0.9% lower. Increased costs for salaries and benefits ($585,000) and amortization ($1.5 million) were more than offset by decreases in professional services ($2.5 million) and travel and related expenses ($326,000). Employee compensation and occupancy costs account for 84.8% (2009 – 83.4%) of expenses (before recoveries).

The premises and equipment balance decreased by $1.3 million or 20.0% as amortization exceeded capital additions.

Detailed analysis of fiscal 2010 operating results

The OSC fee structure is designed to generate fees that reflect the OSC's cost of providing services to market participants. The OSC was able to defer a fee increase in 2010 by using a portion of its surplus. As a result, other than a change in fees for late payment of participation fees, the current fee schedule has been in place since April 1, 2006. An amended fee rule was approved by the Minister of Finance with an effective date of April 5, 2010. Even with these fee increases, the OSC expects to operate at a deficit in each of the next three years.

The fee schedule requires the payment of "activity fees" and "participation fees."

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

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

Revenues

(Thousands)	% of total 2010 fees	**Actual 2010**	Actual 2009	Change	% change
Participation fees	80.5	**$ 49,068**	$ 54,831	$ (5,763)	(10.5)
Activity fees	16.1	**9,828**	9,048	780	8.6
Late fees	3.4	**2,032**	2,556	(524)	(20.5)
Total fees	100.0	**60,928**	66,435	(5,507)	(8.3)
Investment income		**460**	2,085	(1,625)	(77.9)
Miscellaneous		**77**	42	35	83.3
Total revenues		**$ 61,465**	$ 68,562	$ (7,097)	(10.4)

Figure 1
OSC fees by type

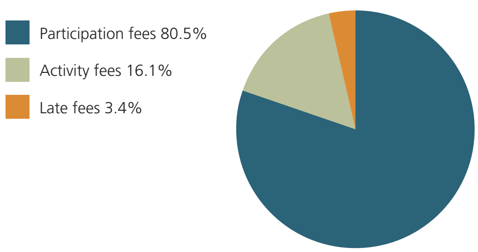


Figure 1 shows the sources of the OSC's fee revenues:

The impact of weak market performance late in 2009 and in early 2010 had a negative impact on OSC revenues. Revenues for the year were $61.5 million, down from $68.6 million in 2009. The variance is explained below:

Participation fees were lower by $5.8 million or 10.5%, reflecting the continued impact of the market downturn in 2009 which resulted in lower revenues for registrants and reduced market capitalization levels for issuers.

Activity fees rose by $780,000 or 8.6%, as market activity improved slightly resulting in increased numbers of prospectus and private placement filings.

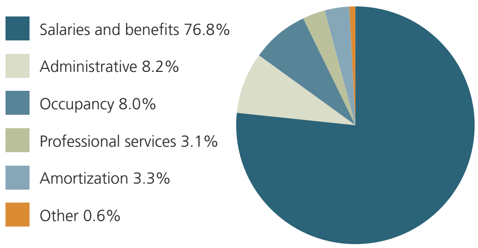
Late fees were $524,000 or 20.5% lower than last year. The reduction was due to a decrease in late filings of insider trade reports and due to the change in fees levied for late payment of participation fees.

Investment income fell $1.6 million or 77.9%, reflecting lower rates of interest on lower cash balances. The average rate of return on cash balances and investments was 0.9% (2009 – 2.71%), which was 181 basis points lower than in 2009.

Expenses

(Thousands)	% of total 2010 expenses	**Actual 2010**	Actual 2009	Change	% change
Salaries and benefits	76.8	**$ 61,673**	$ 61,088	$ 585	1.0
Administrative	8.2	**6,567**	6,443	124	1.9
Occupancy	8.0	**6,445**	6,501	(56)	(0.9)
Professional services	3.1	**2,466**	4,987	(2,521)	(50.6)
Amortization	3.3	**2,705**	1,243	1,462	117.6
Other	0.6	**464**	791	(327)	(41.3)
Total expenses	100.0	**80,320**	81,053	(733)	(0.9)
Recoveries		**870**	2,831	(1,961)	(69.3)
Total (net of recoveries)		**$ 79,450**	$ 78,222	$ 1,228	1.6

Figure 2
OSC expenses by type



Total expenses for 2010 (Figure 2) decreased 0.9% to $80.3 million (2009 – $81.1 million).

The key contributors to the expenditure decrease were as follows:

Salaries and benefits costs increased by 1.0% to $61.7 million (2009 – $61.1 million) and accounted for 76.8% of total expenses. The 2010 expenses included the full-year cost impact of staff hired during 2009, as well as the costs for two additional staff in registrant regulation and compliance. Also contributing to the increase was the impact of the salary increases put in place at the beginning of the fiscal year totalling approximately $620,000 (2009 – $2.1 million). Offsetting these increases was a $783,000 reduction in bonus payments and an $84,000 reduction in the use of temporary staff.

Administrative costs increased by 1.9% to $6.6 million (2009 – $6.4 million) and accounted for 8.2% (2009 – 7.9%) of total expenses. Key contributors to the increase were higher spending on supplies and additional Commission expenses. Commissioners on adjudicative panels sat for a total of 305 or 23% more sitting days (2009 – 248 days).

Occupancy costs accounted for 8.0% (2009 – 8.0%) of the OSC's total expenses. Expenditures on occupancy decreased $56,000 or 0.9% to $6.4 million.

Professional services spending decreased 50.6% from $5.0 million to $2.5 million and accounted for 3.1% (2009 – 6.2%) of the OSC's total expenses. The OSC contracts third-party professional services when it is not cost-effective to perform the work in-house, or when specialized skills are needed. Enforcement-related professional services were $1.5 million lower as more work was undertaken internally. Recruitment expenses were lower due to low turnover rates. The need to adapt to government procurement directives had an impact on operations and resulted in delays and reductions in planned spending on general professional services. For example, plans to develop and integrate an enterprise risk management program into the OSC's operations were delayed due to changed requirements to the procurement process. Work was initiated on this important initiative late in 2010.

The OSC is a member of the CSA, which is a forum of Canadian securities regulators. Professional services include costs to operate CSA offices (allocated on a formula basis) as well as the OSC's portion of professional services costs incurred on joint CSA projects. Total CSA spending on shared projects in 2010 was slightly higher at $2.5 million (2009 – $2.3 million); the OSC contributed $952,000 (2009 – $886,000). All CSA projects, including the development of harmonized securities policies and rules, are co-ordinated through a central secretariat. The CSA's business relationships with third-party technology providers are managed through the CSA systems office. In 2010, the OSC contributed $195,000 (2009 – $246,000) to the cost of the CSA Secretariat and $306,000 (2009 – $259,000) to the cost of the systems office.

Amortization costs increased to $2.7 million (2009 – $1.2 million) and accounted for about 3.3% (2009 – 1.5%) of the OSC's total expenses. Amortization expenses rose reflecting the increases to the OSC capital base as a result of the renovations and expansion completed primarily in 2009.

Other expenses, which are travel and related expenses, declined by $327,000 or 41.3% to $464,000 (2009 – $791,000) and accounted for 0.6% (2009 – 1.0%) of the OSC's total expenses. Decreases were achieved through management cost reductions, including postponement of some international work with IOSCO and replacement of some planned CSA-related travel with conference calls. Travel was also deferred while changes to government directives were clarified.

Liquidity and financial position

Financial instruments

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

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

Liquidity

The OSC holds cash and marketable securities to ensure that sufficient liquidity is available to meet forecasted cash requirements. The OSC has sufficient liquidity to finance its operations and purchases of premises and equipment. The OSC's general surplus decreased by $18.0 million, reflecting the anticipated deficit of revenues over expenses. As a result, the OSC's cash position decreased by $16.4 million or 31.5% in 2010. Cash flows from operating activities are an outflow of $15.2 million. Purchases of premises and equipment used $1.4 million.

As at March 31, 2010, the OSC held $35.6 million (2009 – $52.0 million) in cash, had current assets of $37.1 million (2009 – $54.3 million) and current liabilities of $11.8 million (2009 – $12.3 million) for a current ratio of 3.2:1 (2009 – 4.4:1).

In 2011, the OSC projects an operating deficit of $17.2 million. The OSC will use its accumulated surplus to fund this deficit. This will result in lower cash balances going forward. Since a large portion of the OSC's revenues are normally received in the last quarter of the fiscal year, the cash balance decreases through the first three quarters, as the OSC funds its operations. The OSC expects to begin to use a portion of its reserve fund assets in December 2010. In January 2011, when the majority of registrant fees are received, the $20 million reserve will be restored. The cash balance is projected to increase to approximately $24.7 million in March 2011.

Revenues

Revenue generation remains a source of risk as all the OSC's revenues are correlated to market activity. The degree to which the OSC's revenues vary along with market fluctuations is greater than was anticipated when its fee structure was developed. Additional discussion is provided under "Financial Risk" later in the document.

Reserves

Since 2001, the OSC has had a $20.0 million general reserve as an operating contingency for revenue shortfalls or unexpected expenses. The prime investment consideration for the reserve is the protection of capital and liquidity. The rate of return on investments is low as funds are invested in Government of Ontario treasury bills. The OSC records income generated by the reserve in general operations.

In 2002, the OSC received approval to retain $12.0 million which could only be used toward implementation costs of a planned merger of the OSC and the Financial Services Commission of Ontario into a single agency that would provide regulation of the capital markets and financial services sectors. As the merger has not proceeded, the $12.0 million decline in the OSC reserve reflects the repayment of these funds to the Ministry of Finance during the year.

Accounts receivable

Accounts receivable decreased 30.5% to $1.0 million (2009 – $1.5 million). Outstanding late fees, which accounted for 36.3% of accounts receivable, decreased 32.1% to $379,000 (2009 – $559,000). The allowance for doubtful accounts decreased by $21,000 as a result of an increase in collection efforts. Other key receivables are interest receivable of $61,000 (2009 – $434,000), which fell due to smaller cash balances and lower interest rates, and $171,000 from the Investor Education Fund (2009 – $108,000) for services the OSC provides to the Fund.

Funds held pursuant to designated settlements and orders

The OSC has a number of settlement agreements and orders arising from enforcement proceedings where monies from these settlements and orders are to be set aside and allocated to such third parties as the OSC may determine. Funds that are not so designated at the time that settlements are approved or orders are made are to be paid to the Consolidated Revenue Fund of the Government of Ontario. With regard to monetary sanctions imposed, a fair and appropriate use for these monies will be determined in accordance with applicable laws, court orders and in the public interest.

In 2010, the OSC received $29.8 million (2009 – $13.9 million) through designated settlements and orders. As authorized by the Board, the OSC paid $3.37 million to the Investor Education Fund (2009 – $1.75 million) as part of a two-year commitment. The OSC also paid $283,000 (2009 – $0) to the Attorney General of Ontario, as directed by an order of the Commission.

The OSC currently holds $43.5 million (2009 – $17.2 million) pursuant to designated settlements and orders. Amendments to the *Securities Act* in December 2004 removed the requirement for Ministerial approval of allocations of designated funds. The Minister retained the right to establish guidelines for the allocation of these funds. The OSC is subject to Ministerial approval to allocate to third parties $1.9 million of the designated settlement balances, relating to a settlement entered into in March 2004.

Funds in trust

To March 31, 2010, the OSC received $46.9 million (2009 – $33.1 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 2010 was $2.3 million (2009 – $2.1 million).

As described in Note 6 of the financial statements, these funds may be used to enhance the systems, reduce systems fees or offset shortfalls in revenue in SEDAR, SEDI, and NRD. In 2010, there were no SEDAR deficits. As at March 31, 2010, $22.4 million (2009 – $19.3 million) of the total funds held in trust are available for SEDAR. Should these funds not be available and SEDAR operating costs were to exceed revenues, the OSC is currently committed to pay 45.1% of any shortfalls.

During the year, work began on the redevelopment of these systems. As at March 31, 2010, payments related to this redevelopment project totalled $82,184. The CSA has also entered into a contract totalling $750,000 for the design of the Enterprise Architecture of these systems. Redevelopment work will be funded by the amount held in trust.

Premises and equipment

Expenditures on premises and equipment during 2010 included:

(Thousands)	**2010**	2009	% change
Furniture and equipment	**$ 11**	$ 679	(98)
PCs, laptops and other IT equipment	**1,306**	2,100	(38)
Leaseholds and other capital items	**56**	2,518	(98)
Total	**$ 1,373**	$ 5,297	(74)

Expenditures on premises and equipment declined to $1.4 million (2009 – $5.3 million). Expenditures on furniture and equipment and leaseholds and other capital items were significantly higher in 2009 as substantial renovations were undertaken to the OSC's premises. Technology-related purchases of $1.3 million (2009 – $2.1 million) reflected more typical levels. Purchases in 2009 were higher than usual as they included the replacement of the OSC electronic storage, new video conferencing, document management system, and the web content management system.

Liabilities

Accounts payable and accrued liabilities decreased 4.0% to $11.7 million (2009 – $12.2 million) mainly because there were additional charges and accruals related to the renovation project included in the prior year's totals. This was partially offset by a increase in payroll accruals.

The accrued pension liability of $1.7 million (2009 – $1.6 million) represents future obligations relating to supplementary pension plans for the current and former Chairs and Vice-Chairs. The unfunded supplemental pension plans' accrued benefit obligation at March 31, 2010 was $1.8 million (2009 – $1.4 million). The OSC's related expense for the year was $198,000 (2009 – $193,000) and is included in salaries and benefits.

The OSC is committed to lease payments as outlined in Note 13 to the financial statements.

Critical accounting estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the financial statements 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. To address this the OSC uses various estimating techniques and assumptions to prepare the financial statements. Estimates were used in the following accounts: collectability of accounts receivable, valuation of pension liabilities, estimated useful life of premises and equipment, total accrued liabilities and collectability of designated settlements and orders. Where appropriate, such as for pension matters, the OSC obtains independent professional expertise to assist in the calculation of these estimates. It is management's opinion that none of the estimates as described in Note 2 of the 2010 financial statements requires the OSC to make assumptions about matters that are highly uncertain. For these reasons, none of the estimates is considered a "critical accounting estimate."

Risks and uncertainties

Globalization of financial entities and their operations continues to intensify. Overlap and integration across financial sectors continues to expand. Product and market complexity are increasing. Economic and financial market conditions, the expectations of public accountability, and the plans and actions of other regulatory agencies and jurisdictions affect OSC operations. Against this background, the importance of identifying and understanding the nature of specific risks the OSC must manage continues to grow. The OSC Board of Directors is responsible for sound corporate governance and oversight of risk.

Operational risk

Operational risk can be defined as the risk of direct or indirect loss resulting from the organizational environment or external events, or from inadequate internal processes, staff resources, or supporting systems. Management is responsible for the day-to-day control of operational risk by ensuring that appropriate procedures, internal controls and processes or other actions and compliance with such programs are established to reduce operational risk.

Specialist support groups, such as Human Resources, Corporate Services and the Office of the General Counsel, assist operational management by maintaining oversight in areas such as corporate data security, staff behaviour 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:

- A strong internal control environment, including management oversight that includes reviewing the design of internal control over financial reporting and testing operating effectiveness of key controls, as discussed earlier;
- Regular reviews of systems security measures to monitor controls and identify potential vulnerabilities to external parties accessing OSC data;
- Mitigation of risk to assets through insurance where practical and appropriate; and
- Separation of duties across key functions.

Operational risk can extend to risk to the OSC's reputation as can the risk of not meeting its mandate or regulatory requirements. Reputational risk is addressed at the OSC by its Code of Conduct and governance practices established by its Board of Directors (additional details available at www.osc.gov.on.ca) as well as other specific risk management programs, policies, procedures and training.

The implications of the ongoing Federal initiative, supported by both the Ontario Government and the OSC, to establish a common securities regulator in Canada are a source of uncertainty and could have a material impact on OSC operations. As this initiative becomes more defined the OSC may encounter more difficulty attracting or retaining staff. Although no evidence has been seen to date, the OSC will continue to monitor staffing and will develop strategies to address issues should they arise.

Key supplier dependency is another potential source of risk. A number of major applications (SEDAR, NRD and SEDI) are operated by CDS INC. (CDS) on behalf of the CSA including the OSC. CDS recovers its costs to operate these systems through the application of user fees to filers. In 2010, 91.8% (2009 – 92.7%) of total regulatory fee revenue at the OSC was collected through these national applications (SEDAR 35.7% and NRD 56.1%). No material change is expected in the volume of fees collected through these systems. The current operating agreement with CDS for these systems runs until October 2011 but can be extended up to two years at the option of the CSA. The CSA IT Systems Office is examining options for both the management and redevelopment of these mission critical systems beyond the expiration of the current operating agreements.

The CSA requires CDS to provide an annual third-party audit report (CICA 5970) on its operational and environmental controls for each system. In addition, CDS is required to have an operating disaster recovery site for these systems that is annually tested.

Financial risk

The majority of OSC revenue is generated through participation fees. The OSC fee model uses a tiered structure to moderate the impact of market fluctuations in an effort to provide revenue stability. While the fee model has achieved this objective across multi-year periods, in any given year, the predictability of OSC revenues is less certain as participation fees are still subject to market fluctuations.

As discussed earlier in the MD&A and elsewhere in the Annual Report, an amended fee rule was approved with an effective date of April 5, 2010. Under this new rule, fee rates were increased. Even with these fee increases, the OSC expects a revenue shortfall of $22 million in 2011 and to operate in a deficit position for each of the next three years. These deficits are planned to be offset by using the OSC's accumulated surplus. The OSC has assumed a 10% annual market growth in developing its revenue forecast. Should this growth rate not be achieved, revenues could be materially lower than forecast and further revisions to the fee rule could then be required.

Business continuity

In the event of an external disruption, the OSC maintains a robust Business Continuity Plan to ensure the continuation of critical regulatory services. Detailed business continuity plans are in place for each priority business function. Each functional plan includes documented recovery procedures including manual workarounds and other mitigation strategies. Offsite recovery services and facilities have been contracted and were successfully tested during 2010. Remote access capability exists to enable staff to access all critical OSC systems. The OSC's plan is continually reviewed and refined to include strategies to recover data and functionality and to resume operations under various disruption scenarios. Another key element of the OSC plan addresses its interfaces with SROs and other key market participants and includes strategies to effectively address various market disruption scenarios.

Contingencies

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

Risk management – Next steps

The broadening and deepening of risk management programs in the OSC's day-to-day operations has been identified as a key business priority for 2011 and beyond. The OSC is enhancing its ability to identify, assess and report on risks affecting the efficiency and fairness of Ontario's capital markets, as well as its ability to enhance investor protection, by:

- Developing a consistent understanding of risk;
- Establishing clear accountability for its management; and
- Setting out a framework for the ongoing monitoring and reporting on specific risk management activities across the organization.

Late in 2010, the OSC engaged consultants to assist in the ongoing development of an appropriate enterprise risk management framework. The scope of the project includes a comprehensive review and assessment of current risk management approaches employed by the OSC, assessment of their effectiveness, benchmarking and identification and recommendations for improvement. The OSC will use the increased understanding gained through this enterprise risk management process to refine its regulatory approaches.

2011 outlook

The 2010/2011 OSC Statement of Priorities sets out the Commission's priorities and proposed initiatives for the upcoming year. The document is available at www.osc.gov.on.ca. The 2011 OSC budget is designed to achieve the following goals:

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

The OSC has identified five broad priorities for 2011:

1. Deepen our focus on investor protection.
2. Respond to market developments.
3. Address adequacy of regulatory coverage.
4. Maintain a strong and visible enforcement presence.
5. Improve the way we work.

OSC revenues and surplus

Securities market participants fund OSC operations through fees they pay. The current fee structure under the *Securities Act* (Ontario) and the *Commodity Futures Act* was established in 2003. The fee model is intended to recover the OSC's costs of operation in fulfilling its mandate while allowing it to remain financially stable. When the OSC implemented the fee model, it committed to re-evaluate fee levels every three years. Achieving the appropriate balance can be challenging because most of the OSC's costs are relatively fixed, while its revenues fluctuate with market activity. From 2003 to 2008, the OSC generated accumulated surpluses. These surpluses were largely due to higher than anticipated market growth in that period. The OSC was able to defer a fee increase in 2010 by using a portion of its surplus in 2010.

An amended fee rule was approved by the Minister of Finance with an effective date of April 5, 2010.

Activity fees – Most of the activity fees were unchanged from the rates set in 2006.

Participation fees – Total participation fees paid by market participants will rise by a weighted average of 12.2% per year. This will result in increases of approximately 9% per year for registrants and 17% per year for issuers from the participation fees set in 2006. However, the issuers' participation fees for comparable fee tiers will be less in each of the years covered by the proposed amendments (2011 to 2013) than in 2003, when these fees were first set. The difference in fee increases for issuers and registrants is intended to better align revenues generated from each group with its level of participation in the Ontario capital markets.

Even with these fee increases, the OSC expects to operate at a deficit in each of the next three years. For the three years ending March 2013, the OSC projects operating costs will exceed revenues by $27.3 million. This deficit will be offset by applying the expected March 2010 accumulated operating surplus of $28.9 million and will result in an ending operating surplus of $1.6 million in 2013.

2011 budget approach

In developing the 2011 budget, the OSC carefully balanced the need for restraint with its need to move forward on initiatives necessary to achieve its mandate of providing protection to investors and fostering fair and efficient capital markets. The OSC Board of Directors and management are committed to prudently managing the OSC's budget and expenditures. The OSC strives to provide value-for-money to its stakeholders and ensure that it delivers quality services efficiently.

The budget reflects a projected increase of $7.3 million or 9.2% over 2010 actual spending and 3.4% above the 2010 budget. Salaries and benefits, which comprise $65.2 million or 75.2% of the budget, reflect an increase of $4.3 million or 7.1% over 2010 spending. The increase in salaries and benefits cost reflects a number of factors including: the full-year costs for staff hired during 2010, six new positions, average salary increases of 1.6% and higher health benefits costs. It should be noted that 2010 spending was significantly below the amount budgeted. This was partly due to the need to adapt operations to accommodate government directives on travel and procurement of professional services which resulted in delays and reductions in planned spending. As a result, the 2010 spending is an artificially low baseline for comparison to 2011. Moving the costs for some of these deferred 2010 initiatives into the 2011 budget magnifies the variance and compounds the difficulties in making meaningful comparisons with 2010.

2011 budget comparisons

				2011 budget to 2010 budget		2011 budget to 2010 actual	
(Thousands)	2010 budget	**2010 actual**	2011 budget	Change	% change	Change	% change
Revenues	$ 61,900	**$ 61,465**	$ 69,497	$ 7,597	12.3	$ 8,032	13.1
Expenses	83,905	**79,450**	86,740	2,835	3.4	7,290	9.2
Deficiency of revenue compared with expenses	$ (22,005)	**$ (17,985)**	$ (17,243)	$ 4,762		$ 742	

The 2011 budget increase also includes two significant new initiatives. Additional funding is required for the recently announced independent, funded panel with a focus on investor issues. The other initiative is the planned establishment of a new group within the OSC to focus on the regulation of over-the-counter (OTC) derivatives. While these initiatives will be staffed in part by a re-allocation of existing resources, the scope of the initiatives is such that incremental resources will be needed and are reflected in the budget. These initiatives are consistent with the regulatory outcomes the OSC is seeking.

Adoption of International Financial Reporting Standards (IFRS)

In 2008, the Canadian Accounting Standards Board confirmed that GAAP for publicly accountable enterprises will be IFRS, for interim and annual reporting purposes, for years beginning on or after January 1, 2011.

In October 2009, the Public Sector Accounting Board (PSAB) approved an amendment to the Introduction to the PSA Handbook which allows an "Other Government Organization," such as the OSC, to determine by assessing its mandate, considering its purpose, objectives and limitations, and the user's needs, the appropriate accounting standards it wishes to apply. The OSC currently applies Canadian GAAP and intends to transition to IFRS, consistent with the disclosure required of the market participants the OSC regulates.

For the OSC, the date of transition is April 1, 2010 and the first set of IFRS financial statements is for the year ending March 31, 2012. For comparative purposes, amounts reported by the OSC for its year ending March 31, 2011 will be restated to IFRS along with the opening balance sheet as at April 1, 2010.

It should be noted that an Addendum to the 2010 Ontario Budget expressed concerns with the range of accounting standards in use across the Ontario public sector. It states that amendments will be proposed to the *Financial Administration Act* and other statutes "to clarify the government's authority to direct the organizations that are included in the Province's consolidated accounts on which accounting policies are to be applied in the preparation of their financial statements." No details and no timing are provided. The changeover plan below is based on conversion to IFRS, and may be affected by the government's plans.

1. IFRS changeover plan

IFRS uses a conceptual framework similar to Canadian GAAP, but there may be differences in recognition and measurement of assets and liabilities, and related disclosures, that may materially impact the OSC's financial statements. The OSC has developed an IFRS implementation plan to prepare the organization for this transition. This plan is comprised of three related phases:

- Scope and Planning
- Design and Build
- Implement and Review

The OSC's staff are participating in a CSA-wide IFRS training program over five years. The program includes two-hour sessions on each IFRS standard, as well as in-depth, customized, two-day IFRS sessions each year. Certain members of the Audit and Finance Committee have already received IFRS training. All Audit and Finance Committee members will receive sufficient IFRS training to assist them in fulfilling their oversight role in relation to the integrity of the OSC's financial statements.

2. Phase 1: Scope and planning phase

The objective of this phase is to identify the required changes to accounting policies and practices resulting from the changeover to IFRS to determine the scope of the work effort required for the Design and Implementation phases. In this first phase staff prioritize the assessment of standards that have a high likelihood of impacting the financial statements, where significant choices are available, or where significant process or system changes are anticipated.

3. Phase 2: Design and build phase

In this phase, each area identified from the scope and planning phase will be addressed in order of descending priority. This phase involves specification of changes required to existing accounting policies, information systems, business and control processes, IFRS training, together with an analysis of policy alternatives allowed under IFRS and development of draft IFRS financial statement content.

4. Phase 3: Implement and review phase

This phase includes implementing the required changes necessary for IFRS compliance. The focus of this phase is the finalization of IFRS conversion impacts, approval and implementation of accounting policies, including decisions on retrospective or prospective adoption, implementation and testing of new processes, systems and controls, IFRS training, and preparation of opening IFRS balances.

5. Status update and changeover plan

Phases and key activities	Milestones (expected timeframe)	Status and comments
Phase 1 – Scope and planning – 2010		
Develop an initial project plan. Initial assessment of all accounts to identify measurement, accounting, and disclosure differences between current accounting policies and IFRS. Identify IFRS 1 exemptions to be elected. Assess impact of IFRS on internal control over financial reporting (ICFR) and information systems. Staff participates in OSC training programs.	Identification of IFRS differences, IFRS 1 exemptions to be elected and impact on controls and systems.	Developed the detailed project plan. Completed the identification of IFRS differences, IFRS 1 exemptions that are applicable, and impact on controls and systems. IFRS training is ongoing.
Phase 2 – Design and build – 2011		
Staff to propose IFRS accounting policy choices including IFRS 1 exemptions to be elected. Engage in discussion with Audit and Finance Committee on policy choices and alternatives. Design and develop any required changes to ICFR and information systems. Develop draft IFRS financial statement content. IFRS training including training for Audit and Finance Committee members.	OSC's Audit and Finance Committee sign-off for policy recommendations and IFRS 1 exemptions to be elected. ICFR and information systems changes to be completed and draft IFRS financial statement content to be developed.	Requires detailed assessment of key IFRS standards including the determination of policy choices and quantification of the impact, if available. This assessment also includes the determination of key changes to ICFR and information systems. Phase 2 is in progress and expected to be completed on schedule.
Phase 3 – Implement and review – 2012		
Address impact of IFRS conversion on financial performance, the balance sheet, opening retained earnings, and MD&A disclosure. Engage in discussion with Audit and Finance Committee on the approval of draft statements. Test new processes, systems and controls. Prepare the draft format of 2011 comparative financial statements, including note disclosures. Prepare IFRS comparative financial statements including note disclosure at March 31, 2012. Compliance review and ongoing IFRS update and related change management.	Disclose quantitative impact of IFRS conversion, if available, in 2011 MD&A. Updated processes tested. OSC's Audit Committee approval on financial statement format. Approval of 2012 final IFRS statements.	Approval of 2012 IFRS statements in Q1 2013.

Overall, progress against the milestones is on track.

6. Summary of key expected changes

The OSC is in the process of evaluating the expected differences between the IFRS and the current accounting treatment under Canadian GAAP. The review consists of a detailed analysis of each IFRS standard applicable to OSC, a determination of the recognition and measurement differences, an action plan to address identified differences and an evaluation of the impact on the existing accounting policies, information systems, business and control processes. Based on the work performed to date, no significant differences were found between IFRS and Canadian GAAP. However, the following are the areas where OSC is expecting certain differences with respect to the recognition and measurement of certain balance sheet and income statement items.

7. Accounting policies

a. Premises and equipment

IAS 16 Property Plant & Equipment (IAS 16) permits the use of the cost model or the revaluation model for these assets. Under the cost model, assets are carried at cost less any accumulated depreciation and any accumulated impairment losses. Under the revaluation model, assets whose fair value can be reliably measured can be carried at the revalued amount.

IAS 16 requires the depreciation of an asset to begin when it is available for use. The OSC commences the depreciation of an asset in the beginning of fiscal year following the acquisition. The OSC is assessing the overall impact of this difference in timing of recording depreciation. Adoption of IAS 16 is expected to result in a reduction of net book value of its premises and equipment balance by increasing the accumulated depreciation at the transition date.

IFRS 1 allows a first-time adopter to measure an item of Property, Plant and Equipment (PP&E) at the date of transition to IFRS at fair value as deemed cost (or under certain circumstances, to use a previous GAAP revaluation) as opposed to full retrospective application of the cost model under IFRS. Under this option, fair value as deemed cost will become the new cost amount for qualifying assets at transition.

The OSC expects to apply the cost model for PP&E, and does not expect to elect to use the IFRS 1 exemption to restate PP&E to fair value as deemed cost under IFRS. The OSC expects to use the historical cost under Canadian GAAP as cost under IFRS at the date of transition.

b. Employee benefits

All eligible OSC employees are members of the Ontario Public Service Pension Plan, which is a multi-employer defined benefit plan. This plan is accounted for as a defined contribution plan, as the OSC has insufficient information to apply defined benefit accounting to this plan. The transition to IFRS is not expected to impact the accounting treatment.

The OSC also maintains unfunded supplemental pension plans for the current and former Chairs and Vice-Chairs.

In accordance with IAS 19 Employee Benefits, an entity may elect to use a "corridor" approach that requires, as a minimum, only a specified portion of actuarial gains and losses to be recognized. Retrospective application of this approach requires an entity to split the cumulative actuarial gains and losses from the inception of the plan until the date of transition to IFRS into a recognized portion and an unrecognized portion.

However, IFRS 1 permits a first-time adopter to elect to recognize all cumulative actuarial gains and losses at the date of transition to IFRS, even if it uses the corridor approach for later actuarial gains and losses. If a first-time adopter uses this election, it shall apply it to all plans.

Under IAS 19, the opening Accrued Benefit Obligation related to the supplementary pension plans that the OSC administers would remain the same as under Canadian GAAP. However, the accrued benefit liability would increase by the amount of the actuarial loss recorded as at the transition date. This adjustment will be recorded directly to retained earnings. The impact of this adjustment is expected to be immaterial. The OSC expects to elect the relevant IFRS 1 exemption, and to continue to use the corridor approach.

8. Business activities

The OSC has considered the impact of IFRS conversion on all areas of the business and determined that the adoption of IFRS will not have a significant impact on its business activities.

9. Internal control over financial reporting (ICFR)

At this point, the OSC has determined that ICFR applicable to its current reporting processes under Canadian GAAP is fundamentally the same as that required in its IFRS reporting environment. Changeover to IFRS will not significantly impact its ICFR.

10. Information systems and processes

Based on the work performed to date, the OSC does not expect that adoption of IFRS will have a pervasive impact on its information systems and processes. Due to the limited nature of the differences identified in the conversion process, the OSC believes that the current information system and processes can support the preparation of IFRS-compliant financial statements.

11. Financial reporting expertise

The OSC has implemented a detailed staff training plan, led by the OSC's Office of the Chief Accountant, addressing all aspects of the IFRS conversion project. A number of training sessions related to specific standards and customized training sessions related to the IFRS conversion were provided to relevant staff including those with financial reporting responsibilities. All Audit and Finance Committee members will receive sufficient IFRS training to assist them in fulfilling their oversight role.

12. Audit and finance committee involvement

As discussed in the changeover plan, the OSC's Audit and Finance Committee will be updated each quarter on the progress of the IFRS conversion plan including the review of timelines for implementation, the implication of IFRS standards to the Commission and an overview of the impact to the financial statements. The Committee will discuss with management all accounting policy choices and approve all selected policies as well as IFRS draft financial statements.

13. Changes to IFRS

Staff are monitoring proposed changes to IFRS. Staff will continue to evaluate whether any of the proposed changes impact the OSC, and whether the OSC should early adopt any of the new IFRS.

Management's responsibility and certification

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

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

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

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

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

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

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

W. David Wilson
CHAIR AND CHIEF EXECUTIVE OFFICER
MAY 7, 2010

A. Kenneth Gibson, CA
DIRECTOR, CORPORATE SERVICES

Auditor's report

To the Ontario Securities Commission

I have audited the balance sheet of the Ontario Securities Commission (the "OSC") as at March 31, 2010 and the statements of operations and operating surplus and cash flows for the year then ended. These financial statements are the responsibility of the OSC's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the OSC as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Jim McCarter, FCA
AUDITOR GENERAL
LICENSED PUBLIC ACCOUNTANT

TORONTO, ONTARIO
MAY 7, 2010

Balance sheet

AS AT MARCH 31

		2010	2009
ASSETS			
CURRENT			
Cash		**$ 35,592,848**	$ 51,992,333
Accounts receivable		**1,046,029**	1,504,874
Prepaid expenses		**505,472**	837,500
		37,144,349	54,334,707
FUNDS HELD PURSUANT TO DESIGNATED SETTLEMENTS AND ORDERS (Note 5)		**43,495,838**	17,180,263
FUNDS IN TRUST (Note 6)		**49,135,268**	35,187,761
RESERVE FUND ASSETS (Note 7)		**20,000,000**	32,000,000
PREMISES AND EQUIPMENT (Note 8)		**5,351,254**	6,685,065
		$ 155,126,709	$ 145,387,796
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities		**$ 11,686,270**	$ 12,176,926
Current portion of obligation under capital leases (Note 13(b))		**107,899**	149,860
		11,794,169	12,326,786
NON-CURRENT			
Obligation under capital leases (Note 13(b))		**88,522**	196,421
Pension liabilities (Note 9(b))		**1,747,190**	1,646,568
		13,629,881	14,169,775
FUNDS HELD PURSUANT TO DESIGNATED SETTLEMENTS AND ORDERS (Note 5)		**43,495,838**	17,180,263
FUNDS IN TRUST (Note 6)		**49,135,268**	35,187,761
SURPLUS			
OPERATING			
General (Note 10)		**28,767,478**	46,751,753
Reserve (Note 7)		**20,000,000**	32,000,000
		48,767,478	78,751,753
CONTRIBUTED		**98,244**	98,244
		48,865,722	78,849,997
		$ 155,126,709	$ 145,387,796

Investor Education Fund (Note 15)

Commitments and Contingencies (Notes 11, 13)

See accompanying Notes to Financial Statements.

ON BEHALF OF THE BOARD OF THE COMMISSION

W. David Wilson
CHAIR
MAY 7, 2010

Margot C. Howard
CHAIR, AUDIT AND FINANCE COMMITTEE

Statement of operations and operating surplus

FOR THE FOR THE YEAR ENDED MARCH 31

		2010		2009
REVENUES				
Fees (Note 10)	**$**	**60,928,330**	$	66,435,229
Investment income		**460,044**		2,084,876
Miscellaneous		**77,243**		41,638
		61,465,617		68,561,743
EXPENSES				
Salaries and benefits (Note 14(d))		**61,673,500**		61,088,037
Administrative		**6,567,220**		6,443,343
Occupancy (Note 13(a))		**6,444,891**		6,501,252
Professional services		**2,465,416**		4,987,008
Amortization		**2,705,055**		1,242,655
Other		**464,207**		790,504
		80,320,289		81,052,799
Recoveries of enforcement costs (Note 12)		**(870,397)**		(2,831,170)
		79,449,892		78,221,629
DEFICIENCY OF REVENUES OVER EXPENSES		**(17,984,275)**		(9,659,886)
OPERATING SURPLUS, BEGINNING OF YEAR		**78,751,753**		88,411,639
LESS: Distribution to Province of Ontario (Notes 7(b), 14(b))		**12,000,000**		–
OPERATING SURPLUS, END OF YEAR	**$**	**48,767,478**	$	78,751,753
REPRESENTED BY:				
General	**$**	**28,767,478**	$	46,751,753
Reserve		**20,000,000**		32,000,000
	$	**48,767,478**	$	78,751,753

See accompanying Notes to Financial Statements.

Statement of cash flows

FOR THE YEAR ENDED MARCH 31

	2010	2009
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
Cash flows from operating activities		
Deficiency of revenues over expenses	**$ (17,984,275)**	$ (9,659,886)
Items not affecting cash		
Increase in pension liabilities	**100,622**	97,530
Loss on disposal of premises and equipment	**1,683**	26,871
Amortization	**2,705,055**	1,242,655
	(15,176,915)	(8,292,830)
Changes in non-cash working capital:		
Accounts receivable	**458,845**	147,982
Prepaid expenses	**332,028**	(281,448)
Accounts payable and accrued liabilities	**(490,656)**	1,047,037
	300,217	913,571
	(14,876,698)	(7,379,259)
Cash flows from financing activities		
Repayment of obligations under capital leases	**(149,860)**	(212,420)
	(149,860)	(212,420)
Cash flows from investing activities		
Purchase of premises and equipment (Note 8)	**(1,372,927)**	(4,987,088)
	(1,372,927)	(4,987,088)
NET DECREASE IN CASH POSITION	**(16,399,485)**	(12,578,767)
CASH POSITION, BEGINNING OF YEAR	**51,992,333**	64,571,100
CASH POSITION, END OF YEAR	**$ 35,592,848**	$ 51,992,333

See accompanying Notes to Financial Statements.

1. Nature of the corporation

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

2. Significant accounting policies

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

a. Financial instruments

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

Under this standard, all financial instruments are required to be measured at fair value upon initial recognition except for financial assets classified as held-to-maturity, loans and receivables, and other financial liabilities which are measured at cost or amortized cost using the effective interest method, and certain related party transactions. After initial recognition, financial assets initially measured at fair value continue to be recognized at fair value, with gains and losses recognized in net income in the period in which they arise.

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

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

Held-for-trading

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

Loans and receivable

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

Other financial liabilities

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

b. Premises and equipment

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

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

c. Revenues

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

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

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

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

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

d. Funds held pursuant to designated settlements and orders

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

e. Employee benefit plans

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

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

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

3. Financial instruments

Currency risk:

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

Interest rate risk:

The OSC's financial assets and liabilities are not exposed to significant interest rate risk due to their short-term nature. Cash balances earn interest at a rate of 1.75% below the prime rate (average for the year was 0.51%) and the Reserve fund earned interest at an average rate of 1.11%.

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

	Impact on operating surplus	
	25 basis point increase in rates	25 basis point decrease in rates
Cash balance	$ 83,178	$ (83,178)
Reserve fund balance	51,613	(51,613)
	$ 134,791	$ (134,791)

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

The OSC's Cash, Funds held pursuant to designated settlements and orders, and Funds in trust are held in a Schedule 1 bank and Reserve fund assets are invested with the Ontario Financing Authority, an agency of the Government of Ontario. Together, these two counterparties hold approximately 95% of the OSC's financial assets; however, given the nature of these counterparties, it is management's opinion that exposure to concentration of credit risk is minimal.

The OSC's accounts receivable balance consists of a large number of debtors with individually immaterial outstanding balances. 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 accounts receivable generally represents the maximum credit exposure. Collection efforts continue for accounts receivable balances, including those that are captured in the allowance for doubtful accounts.

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

	2010	2009
Current	**$ 578,632**	$ 726,709
Past due 31 to 60 days	**296,124**	298,119
Past due 61 to 90 days	**69,940**	124,106
Past due greater than 90 days	**897,413**	1,173,306
	$ 1,842,109	$ 2,322,240

Reconciliation of allowance for credit losses:

	2010	2009
Opening balance	**$ 817,366**	$ 779,357
Current year provision	**19,869**	53,624
Write-off during the year	**(41,155)**	(15,615)
Closing balance	**$ 796,080**	$ 817,366

The accounts receivable balance of $1,046,029 is the sum of the total receivable of $1,842,109 less the allowance for doubtful accounts of $796,080.

Liquidity risk:
The OSC's exposure to liquidity risk is minimal as the OSC has a sufficient cash balance and reserve funds to settle all current liabilities. As at March 31, 2010, the OSC had a cash balance of $35,592,848 to settle current liabilities of $11,794,169.

4. Capital disclosure

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

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

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

5. Funds held pursuant to designated settlements and orders

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

As at March 31, 2010, the accumulated balance is determined as follows:

	2010	2009
Opening balance	**$ 17,180,263**	$ 4,882,802
Settlements and orders	**29,842,804**	13,964,725
Interest	**125,771**	137,736
Payments		
Investor Education Fund (Note 15(b)(i))	**(3,370,000)**	(1,750,000)
Others	**(283,000)**	(55,000)
Closing balance	**$ 43,495,838**	$ 17,180,263
Represented by:		
Cash	**$ 43,392,254**	$ 17,085,046
Receivables	**103,584**	95,217
	$ 43,495,838	$ 17,180,263

6. Funds in trust

The OSC is in receipt of payments from the operator of the System for Electronic Data Analysis and Retrieval (SEDAR), the National Registration Database (NRD), and the System for Electronic Disclosure by Insiders (SEDI) representing the accumulated surplus from the operations of SEDAR, NRD, and SEDI. The total accumulated funds as at March 31, 2010 were $49,135,268 (2009 – $35,187,761), representing total payments received to date of $46,907,190 (2009 – $33,080,929) and interest earned to date of $2,310,262 (2009 – $2,106,832), less payments issued to date totalling $82,184. These funds are held in trust by the OSC in accordance with agreements amongst the OSC, the Alberta Securities Commission, the British Columbia Securities Commission, and L’Autorité des marchés financiers. In the case of NRD, the Investment Industry Regulatory Organization of Canada is also a party to the agreement. These funds shall be used to offset any shortfall in revenues from the systems, to develop or enhance the systems and to reduce fees charged to users of the systems. These funds are held in segregated bank accounts and earn interest at the monthly average bank prime rate less 1.75%.

The CSA is proceeding with plans to redevelop these systems in a multi-year phased approach. Funding for this redevelopment program will come from accumulated surplus amounts. As at March 31, 2010, payments related to the redevelopment of SEDAR totalled $82,184. The CSA has also entered into a contract, totalling $750,000, for the provision of professional services to design an Enterprise Architecture for the three national electronic filing systems.

7. Reserve fund assets

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

b. The May 2, 2000 Budget proposed that the OSC and the Financial Services Commission of Ontario would be merged into a single agency that would provide regulation of the capital markets and financial services sectors. As part of this initiative, the OSC received approval in 2002 from the Ministry of Finance to retain an additional $12.0 million, which could only be used toward implementation costs of the proposed merger, subject to appropriate terms and conditions agreed with the Ministry of Finance.

As the merger has not proceeded, during the year the OSC remitted the $12.0 million to the Ministry of Finance.

c. 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, 2010, have been invested in either one-year or six-month Government of Ontario treasury bills with the Ontario Financing Authority.

8. Premises and equipment

	Cost	Accumulated amortization	**2010 net book value**	2009 net book value
Office furniture	$ 4,084,489	$ 3,429,971	**$ 654,518**	$ 910,889
Office equipment	581,182	518,361	**62,821**	114,080
Computer hardware and related applications	14,640,137	12,559,572	**2,080,565**	2,010,332
Computer hardware and related applications held under capital leases	592,465	437,455	**155,010**	322,421
Leasehold improvements	9,809,765	7,411,425	**2,398,340**	3,327,343
	$ 29,708,038	$ 24,356,784	**$ 5,351,254**	$ 6,685,065

During the year, premises and equipment were acquired at an aggregate cost of $1,372,927 (2009 – $5,296,606), none of which were acquired by means of capital leases (2009 – $309,518).

9. Pension plans

a. All eligible OSC employees and members must participate in the Ontario Public Service Pension Plan. The OSC's contribution to the Public Service Pension Plan for the year ended March 31, 2010 was $3,713,737 (2009 – $3,455,650), which is included in salaries and benefits. 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.

b. The OSC also has unfunded supplemental pension plans for the OSC's current and former Chairs and Vice-Chairs. They had an accrued benefit obligation (ABO) of $1,782,872 at March 31, 2010 (2009 – $1,415,148) and an accrued benefit liability (ABL) of $1,747,190 (2009 – $1,646,568). The difference between the ABO and the ABL represents the unamortized net actuarial loss of $35,682 (2009 – gain of $231,420). The OSC's expense related to the supplemental pension plans for the year was $197,519 (2009 – $192,858) and is included in salaries and benefits. Benefits totalling $96,897 were paid during the year (2009 – $95,328). The average remaining service lifetime of the active members covered by these plans ranges from 1.0 to 2.89 years at March 31, 2009 (2008 – 2.0 to 3.89 years); the 2009 figures were used for amortization purposes in fiscal 2010. The average life expectancy of the non-active members ranges from 15.90 to 32.35 years at March 31, 2009 (2008 – 16.29 to 33.07 years). The significant actuarial assumptions adopted at March 31, 2010 include a discount rate of 5.25% (2009 – 6.5%) on the ABO, 6.5% (2009 – 5.9%) on the benefit cost and a rate of compensation increase ranging from 2.0% to 2.1%, as applicable (2009 – 2.0% to 2.1%).

10. 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 participant's 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 forecasted General Operating Surplus at March 31, 2010 was used to establish revised participation fees which are effective April 5, 2010.

Details of fees received for the year ended March 31, 2010 are as follows:

	2010	2009
Participation fees	**$ 49,068,114**	$ 54,831,014
Activity fees	**9,828,324**	9,048,275
Late filing fees	**2,031,892**	2,555,940
Total	**$ 60,928,330**	$ 66,435,229

11. Commitments and contingencies

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

In the current year, there were no SEDAR deficits. As described in Note 6, the OSC is holding funds in trust that may be used to offset shortfalls in revenue in SEDAR, SEDI, and NRD. As at March 31, 2010, $22,394,935 (2009 – $19,296,255) of the total funds held in trust are available for SEDAR.

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

12. Recoveries of enforcement costs

In 2010, the OSC recorded $870,397 (2009 – $2,831,170) in recoveries of enforcement costs of which $741,198 (2009 – $2,429,899) was for internal resources and $129,199 (2009 – $401,271) was for external resources.

13. Lease commitments

a. Operating leases

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

2011	$	6,071,915
2012	$	6,040,742
2013	$	2,521,331
2014	$	3,800

There are currently no lease commitments beyond 2014.

b. Capital leases

The OSC has entered into capital lease agreements for computer hardware and related applications. Leases that substantially transfer all of the benefits and risks of ownership of property to the OSC, or otherwise meet the criteria for capitalizing a lease under Canadian generally accepted accounting principles, are accounted for as capital leases. An asset is recorded at the time the capital lease is entered into, together with its related obligation to reflect its purchase and financing. The total interest expense recorded on the lease obligations for the year ended March 31, 2010 is $17,764 (2009 – $11,854). The following is a schedule of future minimum lease payments for the capital leases, which expire on or before August 30, 2012:

Year ending March 31		
2011	$	115,225
2012		88,796
2013		1,769
Total minimum lease payments		205,790
Less: Amount representing interest at 6%		9,369
Balance of the obligation	$	196,421

The total obligation under capital leases of $196,421 consists of a current portion of $107,899 and a non-current portion of $88,522.

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

b. During the year the OSC remitted the $12.0 million to the Ministry of Finance, representing the amount that was retained for the proposed merger with the Financial Services Commission of Ontario which has not proceeded.

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

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

15. Investor Education Fund

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

The Fund is not considered to be a subsidiary of the OSC and therefore has not been consolidated in the OSC's financial statements. Financial statements of the Fund are available on request. Financial summaries of this unconsolidated entity as at March 31, 2010 and 2009 and for the two years ended March 31, 2010 are as follows:

	2010	2009
FINANCIAL POSITION		
Total assets	**$ 2,498,362**	$ 1,840,174
Less: Total liabilities	**532,082**	200,957
Total net assets	**1,966,280**	1,639,217
Less: Invested in premises and equipment	**249,746**	263,235
Available for Fund purposes	**$ 1,716,534**	$ 1,375,982
RESULTS OF OPERATIONS		
Total contributions and interest income	**$ 3,378,477**	$ 1,786,053
Total expenses	**3,051,414**	2,078,354
Excess/(deficiency) of revenue over expenses	**$ 327,063**	$ (292,301)
CASH FLOWS		
Cash flows from operating activities		
Cash receipts from the Ontario Securities Commission	**$ 3,370,000**	$ 1,750,000
Cash receipts from third parties	**202,422**	–
Interest income received	**8,812**	38,862
Cash paid for initiatives and expenses	**(2,725,925)**	(1,382,056)
Cash paid for premises and equipment	**(178,596)**	(64,373)
Net increase in cash position	**676,713**	342,433
Cash position, beginning of period	**1,551,860**	1,209,427
Cash position, end of period	**$ 2,228,573**	$ 1,551,860

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

i) The OSC paid $3,370,000 to the Fund (2009 – $1,750,000). These payments were from Funds held pursuant to designated settlements and orders, as described in Note 5.

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

For the period ended March 31, 2010, the OSC incurred costs totalling $703,456 (2009 – $476,919) for services related to the Fund. The total cost of these services has been charged to the Fund and, of this amount, $171,050 is owing to the OSC as of March 31, 2010 (2009 – $108,215).

16. Accounting pronouncements

In 2008, the Canadian Accounting Standards Board confirmed that generally accepted accounting principles for publicly accountable enterprises will be international financial reporting standards (IFRS). The first year of implementation is to be the fiscal year commencing on or after January 1, 2011, but comparative figures will be required in the financial statements for the prior fiscal year. In October 2009, the Canadian Institute of Chartered Accountant's (CICA) Public Sector Accounting Board approved an amendment that would require government organizations, such as the Commission, to consider the needs of the users of their financial statements in determining whether standards in the CICA Public Sector Accounting Handbook or IFRS are the most appropriate basis of accounting to adopt. The OSC has chosen to adopt IFRS, and is undertaking an assessment of the impact of the transition to IFRS on the financial statements. In an Addendum to the 2010 Ontario Budget, the Government of Ontario expressed concerns with the range of accounting standards in use across the Ontario public sector and is seeking to clarify its authority to direct the organizations such as the OSC that are included in the Province's consolidated accounts on which accounting policies are to be applied in the preparation of their financial statements. The OSC's changeover plan to transition to IFRS may be affected by the government's plans.

OSC ONTARIO SECURITIES COMMISSION

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

> Tel: 416 593-8314 (Toronto area)
1-877-785-1555 (toll-free)
1-866-827-1295 (TTY)

> Fax: 416 593-8122

> E-mail: inquiries@osc.gov.on.ca

> Mail: Ontario Securities Commission
20 Queen Street West, Suite 1903
Toronto, ON M5H 3S8

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.