

CSA BUSINESS PLAN | 2013-2016

ACHIEVEMENT HIGHLIGHTS

*This document summarizes the CSA's achievements under its 2013-2016 Business Plan, which set forth strategic priorities and deliverables for the period ending on June 30, 2016. Therefore, the information presented here is provided as of that date.

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I. Enhanced Retail Investor Protection

1. Enhanced Disclosure to Investors

- *Complete rulemaking and implement point of sale disclosure and delivery regime for conventional mutual funds*
- *Introduce summary document and delivery obligation for ETFs and complete rule-making and implementation*
- *Publish the CSA risk calculation methodology to identify a mutual fund's risk level on the scale prescribed in the Fund Facts*

Fund Facts: The CSA adopted new rules requiring all dealers that sell conventional mutual funds to deliver a Fund Facts document before investors make a decision to buy a mutual fund. The Fund Facts is a document written in plain language, is no more than two pages and highlights key information about a mutual fund that CSA research has identified as important to investors. The rules became effective on May 30, 2016.

ETF Facts: The CSA also proposed a rule that will require exchange-traded mutual funds (ETFs) to produce and file a plain-language summary disclosure document similar to Fund Facts, called "ETF Facts". The CSA is currently finalizing the proposed rule.

Risk Classification Methodology: The CSA proposed a rule that would require fund managers to use a standardized risk classification methodology when determining a risk level for conventional mutual funds and ETFs in the Fund Facts and in the proposed ETF Facts, respectively. The new rule will address investors' concern with the current lack of transparency and consistency in investment risk level disclosure for mutual funds, when the methodology for determining the risk level is chosen at fund managers' discretion.

2. Mutual Fund Fees

- *Conduct stakeholder consultations and determine extent of regulatory response, as appropriate*

In 2013, the CSA organized a roundtable consultation and discussion forums with stakeholders aimed at examining investor protection issues that arise from embedded mutual fund fees. The CSA subsequently analyzed whether embedded mutual fund fees influence sales recommendations and investment outcomes. In 2014, the CSA hired two independent researchers to review Canada's mutual fund fee structure:

Fee-based vs. Commission-based Compensation: The Brondesbury Group conducted a financial literature review to assess the extent to which the use of fee-based vs. commission-based compensation changes the nature of advice and impacts investment outcomes over the long-term. The Brondesbury Group research report was published on June 11, 2015.

Effect of Sales and Trailing Commissions on Mutual Fund Sales: Douglas J. Cumming, Professor of Finance and Entrepreneurship at the Schulich School of Business, York University, collected and reviewed detailed fund data, obtained directly from manufacturers of publicly offered mutual funds in Canada, to examine whether sales and trailing commissions influence mutual fund sales. Professor Cumming's research was published on October 22, 2015.

The CSA has considered the results of both studies, as well as comments received during previous consultations, to determine whether to effect certain policy changes with respect to Canada's mutual fund fee structure. On June 29, 2016, the CSA published a notice that outlined its plan to consult on the option of discontinuing embedded commissions and transitioning to direct pay arrangements. The CSA expects to publish a consultation paper in the fall of 2016 and hold roundtables to discuss the impact of discontinuing embedded commissions.

3. Consumer Complaint Resolution

OBSI: Effective May 1, 2014, the CSA adopted a rule requiring all registered dealers and advisers to use the Ombudsman for Banking Services and Investments (OBSI) as the common dispute resolution service, except in Québec

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<ul style="list-style-type: none"> <i>Mandate OBSI as dispute resolution provider, and implement oversight regime to monitor OBSI's effectiveness</i> 	<p>where the mediation regime administered by the Autorité des marchés financiers continues to apply. The CSA also implemented oversight regime to monitor OBSI's effectiveness, including periodic reviews of OBSI's operations by an independent evaluator and a requirement that OBSI have a fair, transparent and appropriate process for setting fees and allocating costs across its membership.</p>
<p>4. Standard of Conduct for Registrants</p> <ul style="list-style-type: none"> <i>Complete amendments to provide clarity and guidance in certain areas of the registration regime</i> <i>Complete review of current regime and alternatives and determine (a) whether the introduction of a best interest standard is required and feasible, and (b) if so, the most efficient way to implement such a standard</i> 	<p>Registration Regime Enhancements: The CSA amended the regulatory framework for firms and individuals who trade in securities, provide investment advice or manage investment funds, contained in National Instrument 31-103 <i>Registration Requirements, Exemptions and Ongoing Registrant Obligations</i> and National Instrument 33-109 <i>Registration Information Requirements</i>. The amendments represent both general improvements to the registrant regulatory framework and specific measures to deal with problems the CSA has identified. They range from technical adjustments to more substantive matters, the purpose of which is to promote stronger investor protection by resolving ambiguities and clarifying the CSA's intentions, which will enhance compliance and create efficiencies for industry and regulators. More specifically, the amendments enhance and clarify certain proficiency requirements for registrants, limit the activities that may be conducted by exempt market dealers, provide guidance relating to conflict of interest issues, codify a sub-adviser exemption and a short-term debt registration exemption, and update and improve the registration forms. The amendments came into force on January 11, 2015.</p> <p>Standard of Conduct for Advisers/Dealers: The CSA published a consultation paper in 2012, and organized several consultation sessions in 2013 aimed at defining an appropriate standard of conduct for advisers and dealers, and, in particular, exploring the appropriateness of introducing a statutory best interest duty when advice is provided to retail clients. The CSA has reviewed the current regime and alternatives and prepared a consultation paper that identifies problems with the relationship between clients and their advisers/dealers that warrant regulatory reform, and how those problems may (or may not) be mitigated or eliminated by a regulatory best interest standard for advisers/dealers in addition to targeted reforms to current regulatory requirements. CSA Consultation Paper 33-404, outlining these policy proposals, was published for comment on April 28, 2016.</p>
<p>5. Investor Education</p> <ul style="list-style-type: none"> <i>Develop and proceed with a CSA investor education media campaign to provide education on fundamental principles of investing and raise retail investors' awareness about the CSA as a trusted source of investor education</i> 	<p>NRS Enhancements: The CSA implemented important enhancements to the National Registration Search (NRS) engine on November 30, 2015, including disclosure of registrants who are on the CSA Disciplined List, broadened name search, plain-language summary of terms and conditions, a "quick search", more streamlined search results, and removal of non-registration categories. The enhanced NRS engine was promoted by a national campaign that took place from January 8, 2016 to February 29, 2016 and involved several different online investing publishers, programmatic marketing and search engine marketing. The campaign targeted Canadians who showed an interest in investing through media consumption and search engine results to educate and inform them about the NRS tool and to promote its immediate trial.</p> <p>Other Investor Education Campaigns: This campaign complemented other investor education campaigns that the CSA conducts on a regular basis to provide education on fundamental principles of investing and raise retail investors'</p>

awareness about risks of fraud, new CSA regulatory initiatives or novel issues such as Fund Facts, crowdfunding rules, or risks associated with binary options.

II. Capital Raising by Small and Medium Sized Enterprises and Exempt Market Initiatives

1. Prospectus Exemptions

- *Amend as appropriate current prospectus exemptions based on investor sophistication/ accreditation, investment size or short-term debt issuance*
- *Complete review and amendment, as appropriate, of exemption and disclosure rules relating to securitized and complex products*
- *Evaluate whether to adopt a crowdfunding prospectus exemption and the appropriate registration regime*
- *Consider further harmonizing the exempt market regulatory framework, including the development and implementation of any new harmonized prospectus exemptions*

The CSA adopted or amended a number of prospectus exemptions to facilitate capital raising by companies:

Accredited Investor and Minimum Amount Investment Prospectus Exemptions:

The CSA amended the accredited investor and minimum amount investment prospectus exemptions to address investor protection concerns. The concerns were identified during the CSA's broad review of these exemptions highlighted as a result of the financial crisis in 2007-2008. The amendments restrict the minimum amount prospectus exemption to distributions to non-individual investors and generally require issuers to obtain a signed risk acknowledgement form from individual investors under the accredited investor prospectus exemption. There is no change, however, in the income and asset thresholds for an individual to qualify as an accredited investor. The amendments came into force on May 5, 2015.

Securitized Products and Short-term Debt: CSA members adopted amendments to the short-term debt prospectus exemption related to the sale of asset-backed commercial paper (ABCP). The amendments include changes to the requirements, such as minimum credit ratings, that traditional commercial paper must satisfy in order to be distributed under the short-term debt exemption, and changes that address the sale of ABCP. The amendments came into force on May 5, 2015.

Family, Friends and Business Associates Exemption: The OSC introduced a family, friends and business associates prospectus exemption that is substantially harmonized with the prospectus exemption available in other CSA jurisdictions. The prospectus exemption came into force in Ontario on May 5, 2015.

Existing Security Holder Exemption: CSA members adopted a new prospectus exemption that allows issuers listed on certain Canadian stock exchanges to raise capital by distributing securities to their existing security holders in prescribed circumstances. The prospectus exemption came into force in all CSA jurisdictions other than Ontario on March 13, 2014. In Ontario, the prospectus exemption came into force on February 11, 2015.

Disclosure by Venture Issuers: The CSA amended prospectus and disclosure requirements to make the disclosure by venture issuers more suitable and manageable at their stage of development. The amendments address continuous disclosure and governance obligations as well as disclosure for prospectus offerings. The amendments became effective on June 30, 2015.

Crowdfunding: CSA members adopted or are in the process of adopting three crowdfunding exemptions. (1) Manitoba, Ontario, Québec, and New Brunswick adopted Multilateral Instrument 45-108 *Crowdfunding*, which introduces a new prospectus exemption for issuers and a new registration regime for online funding portals. This crowdfunding rule came into effect in those jurisdictions on January 25, 2016, while Nova Scotia is awaiting Ministerial approval of this instrument and Saskatchewan is in the process of adopting it. (2) On May 14, 2015, British Columbia, Saskatchewan, Manitoba, Québec, New Brunswick and

Nova Scotia implemented registration and prospectus exemptions that allow start-ups and early-stage companies to raise capital through crowdfunding in these jurisdictions, subject to certain conditions. (3) On October 19, 2015, Alberta and Nunavut published for comment Multilateral Instrument 45-109 *Prospectus Exemption for Start-up Businesses*, which is designed to coordinate with the start-up crowdfunding exemption adopted in British Columbia, Saskatchewan, Manitoba, Québec, New Brunswick and Nova Scotia, and which will facilitate capital raising by start-up and early stage companies by allowing them to raise up to \$1,000,000 using a streamlined offering document together with a bluntly worded risk warning.

Offering Memorandum Exemption: Certain CSA members adopted rule amendments introducing an offering memorandum prospectus exemption in Ontario and modifying the existing offering memorandum prospectus exemption in Alberta, New Brunswick, Nova Scotia, Québec and Saskatchewan to strengthen investor protection. As a result of the amendments, the offering memorandum prospectus exemption is available in all CSA jurisdictions. The amendments came into force in Ontario on January 13, 2016 and in Alberta, New Brunswick, Nova Scotia, Québec and Saskatchewan on April 30, 2016.

Report of exempt distribution: The CSA has developed a new report of exempt distribution that will (i) reduce the compliance burden on issuers and underwriters by having a harmonized report across the CSA, and (ii) provide securities regulators with the necessary information to facilitate more effective regulatory oversight of the exempt market for both issuers and the registrants involved, and improve analysis for policy development purposes. The CSA published the new report on April 7, 2016. It came into force on June 30, 2016 in all CSA jurisdictions.

III. Shareholder Democracy and Protection

1. Canadian Proxy Infrastructure Review

- *Identify and analyze possible material weaknesses in the proxy voting infrastructure that undermine the accuracy of proxy voting results, and propose improvements through regulations, regulatory guidance and/or industry best practices, as appropriate*

Industry Protocols on Proxy Voting: Since 2013, the CSA has been conducting a review of Canada's proxy voting infrastructure (the network of organizations, systems, rules and practices that support the solicitation, collection, submission and tabulation of proxy votes for shareholder meetings) in order to determine whether the current infrastructure adequately supports accurate and reliable vote counting. This review included the publication of a Consultation Paper, several roundtables, targeted consultations, a review of six uncontested, uncontentious shareholder meetings and proxy contest held by reporting issuers, and expert advice from a proxy solicitor. The review's findings confirmed that the current proxy voting infrastructure is fragmented and needs to be modernized and improved. The CSA formed a working group to assist in developing industry protocols to address weaknesses identified in the proxy voting infrastructure. In March 2016, the CSA published the protocols for comment. The protocols are in the form of a CSA staff notice containing expectations and guidance. The CSA plans to publish final protocols as a CSA staff notice at the end of 2016, and establish a technical committee to support and monitor voluntary implementation of improvements for the 2017 proxy season.

2. Proxy Advisory Firms

- *Assess whether a*

Guidance for Proxy Advisory Firms: The CSA adopted guidance for proxy advisory firms, which recommends best practices to promote transparency in

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regulatory intervention is required to address concerns raised and risks identified with respect to activities conducted by proxy advisory firms and propose relevant regulatory regime

their processes and foster understanding among market participants about their activities. The guidance addresses conflicts of interest, the determination of vote recommendations, the development of proxy voting guidelines and communications with clients, market participants, the media and the public. The guidance became applicable on April 30, 2015.

3. Take-over Bid Regime

- *Review and amend rules as applicable to the early warning system, shareholders' rights plans and defensive tactics*

Take-Over Bid Regime: The CSA adopted amendments to the regime that governs take-over bids in Canada, which aim at rebalancing the dynamics among bidders, target company boards of directors and target company shareholders during a take-over bid. The new take-over bid regime requires (1) a minimum tender of more than 50 per cent of the outstanding securities that are subject to the bid (excluding securities owned by the bidder itself or its joint actors), unless exemptions apply; (2) a minimum deposit period of 105 days, subject to exceptions that allow for a shorter minimum period, either at the discretion of the target board, or in the event that the issuer enters into a specified alternative transaction; and (3) an extension of the minimum deposit period for at least 10 days after the minimum tender requirement and all other conditions are met.

Early Warning System: The CSA also adopted amendments that provide greater transparency about holdings of reporting issuers' securities under the early warning system and allow the market to review and assess the potential impact of changes in the ownership of, or control or direction over, a reporting issuer's securities. Among other things, the amendments (1) require disclosure of decreases in ownership, control or direction of 2 per cent or more for security-holders; (2) require disclosure when a security-holder's ownership, control or direction falls below the early warning reporting threshold of 10 per cent; (3) exempt lenders and borrowers, in certain circumstances, from including the securities lent or borrowed for the purposes of determining the early warning reporting threshold trigger; and (4) make the alternative monthly reporting system unavailable to eligible institutional investors who solicit proxies from security holders in certain circumstances.

Both the new take-over bid regime and the early warning amendments came into force in all jurisdictions on May 9, 2016.

IV. Market Regulation

1. Review of Order Protection Rule and Market Data Fees

- *Examine the impact of the order protection rule and market data fees and, if appropriate, develop a strategy to address any issues identified*

Order Protection Rule Revision: The CSA examined the impact on the market of the order protection rule (OPR), which generally requires that all better-priced orders be executed before inferior priced orders regardless of the marketplace on which the order is displayed, and determined that there are some costs and inefficiencies related to the current application of OPR, as well as concerns related to trading fees and market data fees. The CSA has finalized amendments that address the application of the OPR, trading fees and data fees, and proposed a new fee trading cap for non-interlisted securities.

OPR for Marketplaces with "Speed Bumps": In addition, the CSA has finalized guidance relating to the application of OPR to marketplaces with intentional order processing delays ("speed bumps").

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	<p>OPR amendment and the rule on the application of the OPR to marketplaces with speed bumps were published in final form on April 7, 2016, and will come into force on October 1, 2016.</p>
<p>2. Designated Rating Organizations</p> <ul style="list-style-type: none"> • <i>Develop and implement oversight regime</i> 	<p>Canada currently has four credit rating organizations that have been designated as designated rating organizations (DROs) under applicable securities laws: one Canadian credit rating organization (DBRS) and three major global credit rating organizations that have affiliate offices in Toronto (Moody's, S&P, and Fitch). As the principal regulator for each DRO, staff of the Ontario Securities Commission (OSC) developed a risk-based compliance review program for DROs in spring 2013, which involved consultation with CSA staff. OSC staff have implemented the program and conducted three compliance reviews of DROs in respect of the 2013-2014, 2014-2015, and 2015-2016 fiscal years. These reviews included on-site inspections and interviews.</p>
<p>3. OTC Derivatives Framework</p> <ul style="list-style-type: none"> • <i>Develop and implement rules for an OTC derivatives regulatory framework, including clearing and trade reporting</i> • <i>Implement operational and technological frameworks to carry out the CSA regulatory responsibilities</i> 	<p>CSA members continue developing rules for an over-the-counter (OTC) derivatives regulatory regime, including clearing and trade reporting. CSA members are also in the process of creating an operational and technological framework to carry out the CSA regulatory responsibilities. In its work, the CSA closely cooperates with an inter-agency group entitled the Heads of Agencies, which coordinates the efforts of prudential and securities regulators to create a comprehensive regulatory regime for OTC derivatives in Canada. The Heads of Agencies consist of the Bank of Canada, Canada's Department of Finance, the Office of the Superintendent of Financial Institutions, and four CSA members: the British Columbia Securities Commission, Alberta Securities Commission, Ontario Securities Commission and Autorité des marchés financiers. In addition, the CSA regularly consults with industry representatives, self-regulatory organizations and international derivatives regulator groups.</p> <p>CSA members developed and published for public comment the following consultation papers and proposed rules (several local rules have already become effective, as indicated below):</p> <p>Consultation Papers:</p> <ul style="list-style-type: none"> • 91-401 <i>Over-the-Counter Derivatives Regulation in Canada</i> • 91-402 <i>Derivatives: Trade Repositories</i> • 91-403 <i>Derivatives: Surveillance and Enforcement</i> • 91-404 <i>Segregation and Portability in OTC Derivatives</i> • 92-401 <i>Derivatives: Trading Facilities</i> • 91-405 <i>Derivatives: End User Exemption</i> • 91-406 <i>Derivatives: OTC Central Counterparty Clearing</i> • 91-407 <i>Derivatives: Registration</i> <p>Local Rules (Ontario, Manitoba, Quebec):</p> <ul style="list-style-type: none"> • 91-506 <i>Derivatives: Product Determination</i> (in effect) • 91-507 <i>Trade Repositories and Derivatives Data Reporting</i> (in effect) • 91-303 <i>Model Provincial Rules on Mandatory Central Counterparty Clearing of Derivatives</i> • 91-304 <i>Model Provincial Rules on Customer Clearing: Protection of Customer Assets</i> <p>CSA Multilateral Instruments (BC, AB, NB, NS and SK):</p> <ul style="list-style-type: none"> • 91-101 <i>Product Determination</i> • 96-101 <i>Trade Repositories and Derivatives Data Reporting</i>

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	<p>CSA National Instruments:</p> <ul style="list-style-type: none"> • 94-101 <i>Derivatives Mandatory Central Counterparty Clearing</i> • 94-102 <i>Derivatives Customer Clearing and Protection of Customer Positions and Collateral</i>
<p>V. Enhancement of Enforcement Effectiveness</p>	
<p>1. Reciprocal Orders</p> <ul style="list-style-type: none"> • <i>Promote greater use of reciprocal orders across CSA members</i> 	<p>CSA members have made significant efforts to promote greater use of reciprocal orders to increase the effectiveness of securities laws enforcement across Canada. In July 2015, the Alberta Government implemented a law providing for automatic reciprocation of enforcement orders issued by other Canadian provincial and territorial securities regulators. The other CSA jurisdictions have agreed to take steps to seek or recommend a similar statutory reciprocal provision. Similar legislative provisions introducing automatic reciprocation of enforcement orders have been adopted in Nova Scotia (effective May 20, 2016), Québec (effective June 23, 2016) and New Brunswick (effective June 28, 2016).</p>
<p>2. Information Sharing</p> <ul style="list-style-type: none"> • <i>Develop measures to address impediments to information sharing with other international jurisdictions and investigatory agencies</i> 	<p>The CSA undertook numerous initiatives to address impediments to information sharing with other domestic enforcement agencies and international jurisdictions.</p> <p>FINTRAC Information Sharing: As requested by the CSA, the Canadian government implemented amendments to federal law to allow the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC), which collects information on banking and financial transactions and shares it with various enforcement agencies, to disclose information to Canadian securities regulators in connection with investigations or prosecutions of securities offences. FINTRAC and CSA members worked together to implement a communication process, training, and other details of this information sharing initiative.</p> <p>Information Sharing with the U.S. SEC: Securities regulators in New Brunswick, Nova Scotia, Manitoba and Saskatchewan executed two Memorandums of Understanding with the U.S. Securities and Exchange Commission (SEC): (1) to enhance cooperation in securities enforcement (signed previously by British Columbia, Québec and Ontario) and (2) to improve consultation, cooperation and the exchange of information related to the supervision of cross-border securities entities (signed previously by Ontario, Québec, British Columbia and Alberta).</p> <p>Information Sharing with the U.S. CFTC: New Brunswick, Nova Scotia and Saskatchewan signed the Memorandum of Understanding concerning cooperation and the exchange of information related to the supervision of cross-border derivatives entities and transactions with the Commodity Futures Trading Commission (CFTC), which regulates derivatives trading in the U.S. This Memorandum of Understanding had been previously signed by British Columbia, Alberta, Ontario and Québec.</p>
<p>3. Surveillance Tools</p> <ul style="list-style-type: none"> • <i>Increase access to investigatory tools, including the development of marketplace surveillance and analytical systems</i> 	<p>New Market Analysis Platform: Considering the capital markets evolution over the last decade, the CSA now requires extensive historic records of complex structural information which call for upgraded technological foundations, tools and applications. Following these market changes, the CSA determined that it must retire its current system (MICA), which is mainly used to assist with investigations of market manipulation and insider trading, and create an enhanced system of investigatory tools, marketplace surveillance and analysis.</p>

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	The CSA has initiated a project to implement a new financial market analysis platform (MAP) and awarded a contract to a third-party consultant to assist the CSA in this project.
4. Case Management System <ul style="list-style-type: none"> • <i>Explore the development of a consolidated case management system</i> 	After consideration, due to competing priorities, it was recommended that this priority be revisited in the future, if still viewed as appropriate.
VI. Enhancement of Information Technology	
1. CSA National Filing Systems <ul style="list-style-type: none"> • <i>Develop and build a new national filing system to replace the core CSA national systems, including a national exempt distribution reporting system</i> 	The CSA has initiated a large-scale project to develop and build a new national filing system, which will replace the core CSA national systems (SEDAR, SEDI and NRD) and will also include a national exempt distribution reporting database. This is a multifaceted project that involves not only the development of a technological solution for a unified national filing system, but also a revision of the CSA legal framework to ensure that the necessary legal foundation is in place across the country at the time of the implementation of the renewed IT system. As such, it is expected to take several years to complete.
2. Data Repositories <ul style="list-style-type: none"> • <i>Explore the aggregation of data warehouses located in the relevant provinces and territories</i> 	After consideration, due to a higher priority given to a number of current CSA information technology projects, it was recommended that this priority be revisited in the future, if still viewed as appropriate.
VII. Other CSA projects and initiatives	
1. Passport Expansion	<p>Passport, a cornerstone of the regulatory cooperation among CSA members, is a regulatory system that gives a market participant access to markets in all passport jurisdictions by dealing only with its principal regulator and complying with one set of harmonized laws. CSA members have completed several initiatives aimed at improving and expanding the Passport system.</p> <p>Changes to “reporting issuer” status: The CSA has adopted an amendment that expands the passport system to applications to cease to be a reporting issuer. This amendment became effective on June 23, 2016.</p> <p>Cease Trade Orders for Failure-to-File: All CSA members except for Ontario and Alberta adopted a new rule providing for the issuance and revocation of cease trade orders for failure to file required disclosure by reporting issuers. This rule became effective on June 23, 2016. Alberta adopted a law on order reciprocation which has a similar effect to this CSA rule.</p> <p>As with other areas of the passport system, all CSA jurisdictions have worked together to develop new policies setting out the processes for applications made, and the issuance and revocations of cease trade orders in the expanded passport areas. The new policies also describe the interface between the passport jurisdictions and Ontario.</p>