



Securities Commission

Annual Accountability Report
for the Fiscal Year 2013 – 2014

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Accountability Statement

The Accountability Report of the Nova Scotia Securities Commission (the Commission) for the year ended March 31, 2014, is prepared pursuant to the *Finance Act* and government policies and guidelines. These authorities require the reporting of outcomes against the Commission's Statement of Mandate for the fiscal year 2013-2014. The reporting of the Commission's outcomes necessarily includes estimates, judgments and opinions by Commission management.

We acknowledge that this Accountability Report is the responsibility of Commission management. The report is, to the extent possible, a complete and accurate representation of outcomes relative to the goals and priorities set out in the Commission's 2013-2014 Statement of Mandate.

"Sarah Bradley"

Sarah P. Bradley, Chair

"J.W. Slattery"

J. William Slattery, C.A., Executive Director

Message from the Chair

The principal mission of the Nova Scotia Securities Commission, as set out in the *Securities Act*, is to protect investors in Nova Scotia while fostering fair and efficient capital markets in the Province. The Commission fulfils this mission through its activities in four core business areas: the regulatory, administrative and adjudicative activities of the Commission board; the policy development, registration, compliance, and investor education activities of the Policy and Market Regulation branch; the offering document review and continuous disclosure review activities of the Corporate Finance branch; and the investigation and enforcement activities of the Enforcement branch.

This report describes the Commission's significant activities and accomplishments in each of these business areas during the past year, with particular reference to the progress we have made in achieving the goals and priorities set out in the Commission's 2013-2014 Statement of Mandate which is available on the Commission's website.

I am pleased to report that over the past year, the Commission has achieved almost all of the targets set out in its Statement of Mandate, with only minor deficiencies. This success is a credit to the expertise and committed work of the Commission's experienced staff.

As in years past, we have fulfilled our mandate with a close attention to fiscal responsibility. Our revenues for 2013-2014 increased by \$2.139 million from the prior year to over \$17.88 million, while our total expenditures decreased by \$0.175 million to \$2.459 million.

This year, the Commission accomplished considerable policy development work, including developing proposed rules for two new crowdfunding exemptions intended to improve access to capital for small and medium sized enterprises in Nova Scotia, developing a new rule to exempt CEDIFs from the investment fund requirements while providing appropriate investor protection, continuing to modernize and harmonize the exempt market, and continuing to contribute to the policy development and harmonization efforts of the Canadian Securities Administrators.

The Commission also continued the implementation of our new communications strategy and media policy, developed and launched a new and modern Commission website, developed new educational materials for investors and businesses, and developed and launched a convenient new online form for enforcement complaints.

"Sarah Bradley"

Sarah P. Bradley, Chair
Nova Scotia Securities Commission

Financial Results

Core Business (All)	2013-2014 Estimate (\$ thousands)	2013-2014 Actual (\$ thousands)	Variance (\$ thousands)
Revenues:	(15,406)	(17,880)	2,474 ¹
Expenditures:			
Salaries and Benefits	1,874	1,862	12
Operating Costs	780	631	149 ²
Cost Recoveries	-	(34)	34
Total Expenditures	2,654	2,459	195
Net Revenue	(12,752)	(15,421)	2,669
FTEs	19	19	0

¹ Revenues were higher than budgeted due to an increase in the volume of corporate finance filings and registration fees.

² Primarily lower professional services expenses.

Measuring Our Performance

The performance measures for the Commission are focused on its goals of improving the framework of securities regulation in Nova Scotia and ensuring the efficient administration of the Commission’s adjudicative and exemption-granting jurisdictions. All data used in the following performance measurements is gathered from internal sources and is presented to the Commission via monthly operating reports.

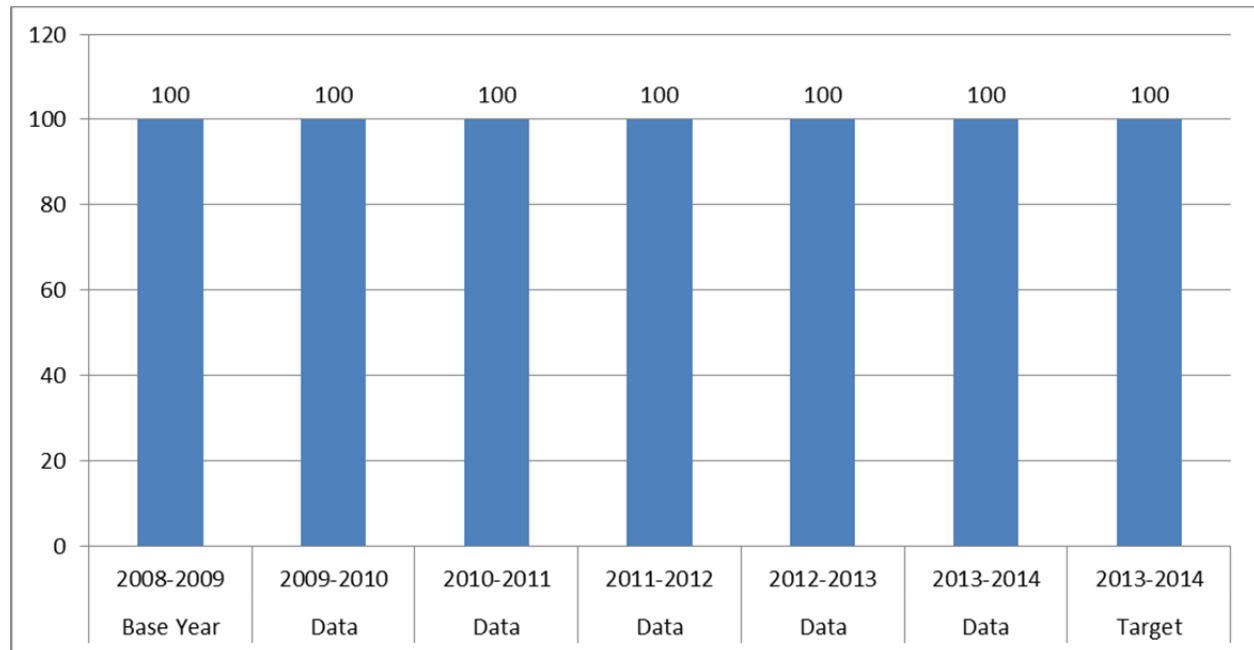
Core Area 1 – The Commission

The Commission’s commitment to and accomplishment of harmonization of the securities laws of Nova Scotia with the securities legislation in the other Canadian jurisdictions to maintain the Passport System for Securities Regulation is reflected in Chart 1 below, which shows that the Commission met its targets for the timely adoption of national and multilateral instruments. Chart 2 shows that the Commission also met its target for considering exemption applications within five business days of the application being filed.

Chart 1: Percentage of national/multilateral instruments adopted as rules within set timelines to continue the harmonization of securities laws as contemplated in the Provincial/Territorial MOU on Securities Regulation



Chart 2: Percentage of exemption applications considered within five business days of filing



As illustrated below, this year the Commission exceeded its targets relating to the timely issuance of orders after a hearing. Prior to 2012–2013, there was a 10-day target for the issuance of an order after final submissions for all hearings. However, in 2010-2011 and 2011-2012, the Commission heard a number of matters that were contested, lengthy and complex and it became clear that the 10-day target for issuance of a decision was not realistically achievable and was not a valid measure for such hearings. Accordingly, this measure was amended in 2012-2013 to create two new measures, as shown below in Charts 3 and 4. These new measures maintained our goal of 10 business days for settlement hearings and added a measure of 90 days for contested hearings.

In 2013-2014, the Commission held five settlement hearings to consider the approval of settlement agreements. Orders were made within 10 business days of final submissions in all of the hearings, surpassing our target rate of 95%. For the same time period, the Commission heard one contested matter for which the order and decision were made within 90 days of final submissions, surpassing our target rate of 95%.

Chart 3: Percentage of orders made within 10 business days of the final submissions from the parties following the conclusion of a settlement hearing

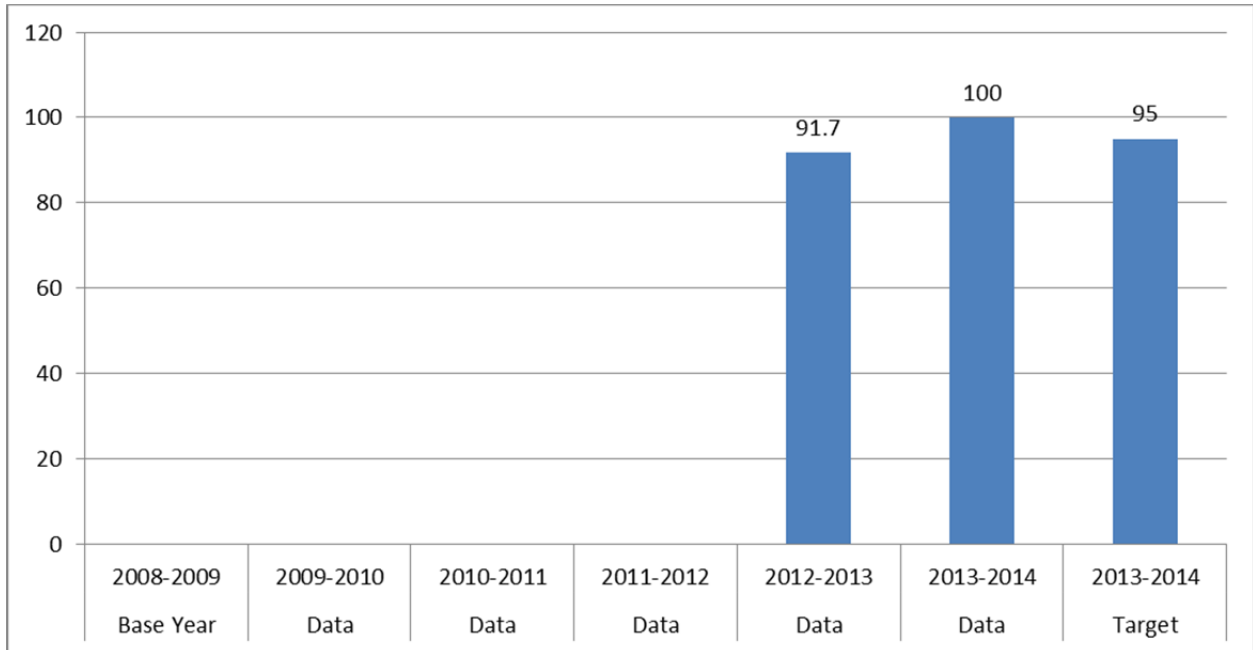
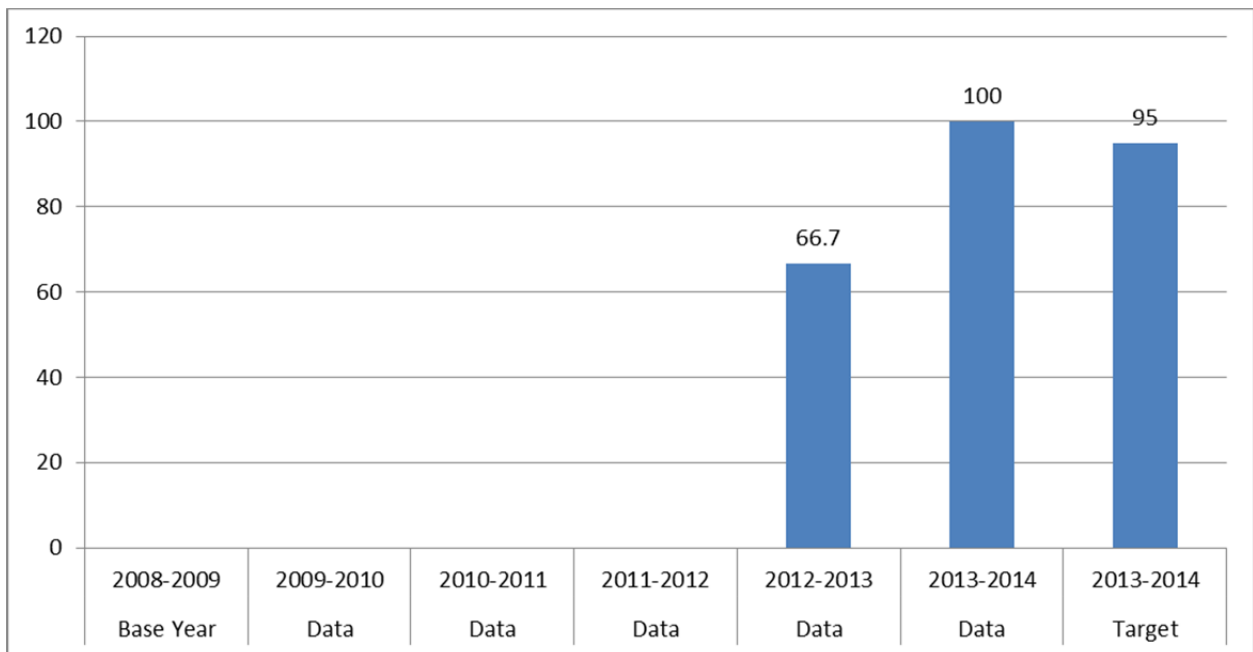


Chart 4: Percentage of orders and decisions made within 90 days of the final submissions from the parties following the conclusion of a contested hearing



Major Policy Initiatives

In further support of the Passport System for Securities Regulation, the Commission participated in the following major policy initiatives:

- Adoption of amendments to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* as a rule. The amendments set out requirements for reporting to clients relating to investment charges, investment performance and client statements to ensure that clients of registrants receive clear and complete disclosure of all charges and registrant compensation associated with the investment products and services they receive.
- Adoption of amendments to National Instrument 41-101 *General Prospectus Requirements* as a rule. The amendments set out modifications to the prospectus pre-marketing and marketing regime in Canada for non-investment fund issuers which will increase the range of permissible pre-marketing and marketing activities for prospectus offerings.
- Adoption of amendments to National Instrument 81-101 *Mutual Fund Prospectus Disclosure* as a rule. The amendments complete Stage 2 of the Point of Sale Project which will require delivery of the Fund Facts document instead of the simplified prospectus to satisfy the prospectus delivery requirements under securities legislation.
- Adoption of amendments to National Instrument 23-103 *Electronic Trading* as a rule. The amendments set out a consistent framework for marketplaces and marketplace participants regarding the offer and use of direct electronic access by investment dealers to their clients to ensure that risks associated with this access are appropriately managed.
- Adoption of National Instrument 13-102 *System Fees for SEDAR and NRD* as a rule. The rule consolidates and replaces the existing filing service charge schedules under the SEDAR Filer Manual and NRD User Guide in connection with the scheduled expiry of existing agreements with CDS Inc. to operate SEDAR and NRD.
- Publication for comment of proposed amendments to National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities*. The proposed amendments will promote better disclosure of resources other than reserves and associated metrics, provide for increased flexibility for oil and gas reporting issuers that report in a variety of different locations worldwide and bring the requirements into harmony with proposed changes to the Canadian Oil and Gas Handbook.
- Publication for comment of the proposed repeal and replacement of National Instrument 52-108 *Auditor Oversight*. In the proposed repeal and replacement, the primary amendment will be to change the triggers for when a public accounting firm must deliver to the regulator a notice relating to remedial actions imposed by the Canadian Public Accountability Board.
- Adoption of amendments to National Instrument 81-106 *Investment Fund Continuous Disclosure* as a rule. The amendments accommodate the transition of financial reporting

for investment funds to International Financial Reporting Standards (IFRS) which will require investment funds, for financial years beginning on or after January 1, 2014, to prepare a financial statement in accordance with Canadian GAAP applicable to publicly accountable enterprises and to report compliance with IFRS.

- Publication for comment of proposed amendments to National Instrument 33-105 *Underwriting Conflicts* and proposed Multilateral Instrument 45-107 *Listing Representation and Statutory Rights of Action Disclosure Exemptions*. The proposals provide exemptions from various disclosure requirements in an offering document used to distribute securities under a prospectus exemption in a foreign private placement offered to sophisticated investors in Canada.
- Publication for comment of proposed amendments to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*. The proposed amendments provide general improvements to the registrant regulatory framework and specific measures to deal with problems which have been identified since the Instrument was first adopted.
- Publication for comment of proposed amendments to National Instrument 45-106 *Prospectus and Registration Exemptions*. The proposed amendments would change the requirements that short term debt securities must satisfy in order to be distributed under the short-term debt prospectus exemption, make this exemption unavailable for securitized products such as asset-backed commercial paper and introduce a new prospectus exemption for short-term securitized products.
- Continued consideration and review of the proposals relating to mutual fund fee structures and the appropriate standard of conduct for advisers and dealers.
- Publication for comment of proposed amendments to National Instrument 45-106 *Prospectus and Registration Exemptions*. The proposed amendments will require accredited investors who are individuals and who own less than \$5 million in financial assets to complete and sign a new risk acknowledgement form and will restrict the use of the minimum amount exemption to investors that are not individuals.
- Adoption of amendments to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* as a rule. The amendments require all registered dealers and advisers to use the Ombudsman for Banking Services and Investments as the common dispute resolution service, except in Québec where the mediation regime administered by the Autorité des Marchés Financiers will continue to apply.
- Publication for second comment of proposed amendments to National Instrument 81-101 *Mutual Fund Prospectus Disclosure*. The proposed amendments will implement Stage 3 of the Point of Sale Project. They set out the requirements to implement pre-sale delivery of the Fund Facts document for mutual funds.
- Publication for comment of proposed Multilateral Instrument 45-108 *Crowdfunding* and Blanket Order No. 45-524 *Start-Up Crowdfunding Prospectus and Registration*

Exemption. The proposal includes two different crowdfunding prospectus exemptions: 1) the crowdfunding exemption in Multilateral Instrument 45-108 *Crowdfunding* which is available to reporting issuers and non-reporting issuers, and 2) the start-up exemption in a local blanket order aimed at providing an alternative source of capital to non-reporting issuers at a very early stage of development.

The Commission also adopted the following local initiatives:

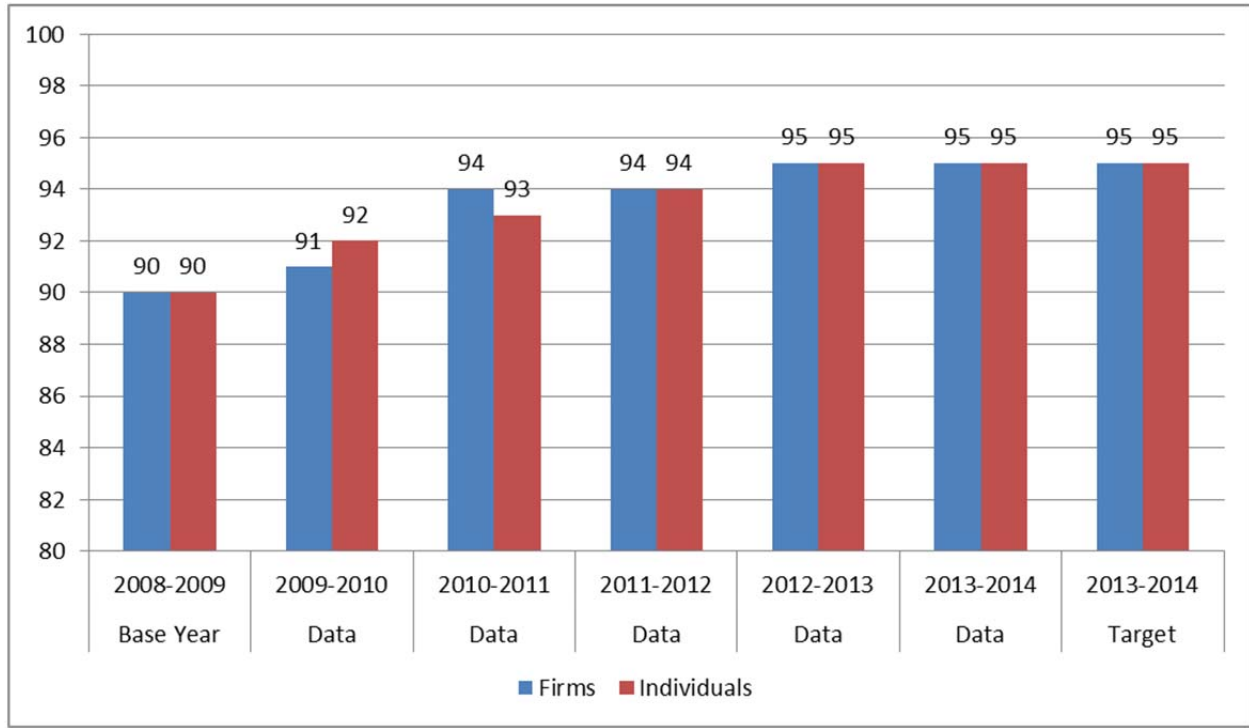
- Rule 45-501 Statutory Liability for Misrepresentations in an Offering Memorandum under Certain Exemptions from the Prospectus Requirement. The rule specifies when the statutory rights of action for misrepresentation in section 138 of the *Securities Act* will apply to an offering memorandum that has been furnished to a prospective purchaser in connection with a distribution of a security under certain prospectus exemptions.
- Policy 45-601 Community Economic Development Investment Funds and the corresponding Blanket Order No. 45-521. The policy and blanket order set out the three situations where a community economic development investment fund (CEDIF) that is an investment fund can be exempted from the investment fund requirements in Nova Scotia securities laws. Generally, the CEDIF can satisfy the requirements of the exemption through providing disclosure of the investments that the CEDIF has made with the capital raised or by limiting the amount of capital that the CEDIF raises under prospectus exemptions.
- Blanket Order No. 45-525 Exemption from Prospectus Requirement for Certain Trades to Existing Security Holders. The blanket order provides a prospectus exemption that permits issuers listed on the TSX Venture Exchange, Toronto Stock Exchange or Canadian Securities Exchange to raise money by distributing securities to their existing security holders.

Core Area 2 – Policy and Market Regulation Branch

Capital Markets

The specified outcome for the Capital Markets performance measures is to improve the level of efficiency in the administration of the registration system. The measures indicate how efficiently registration applications are reviewed and processed to enable registrants to carry on business in Nova Scotia. As shown in Chart 5 below, the efficiency of the registration system has steadily increased since 2008-2009 with the implementation of the passport system for registration in September, 2009, and we once again met our targets in this area in 2013-2014.

Chart 5: Percentage of firm applicants and individual applicants, where the Commission is the principal regulator, who had their applications processed within the mandated timeframes after the final submission of necessary documents



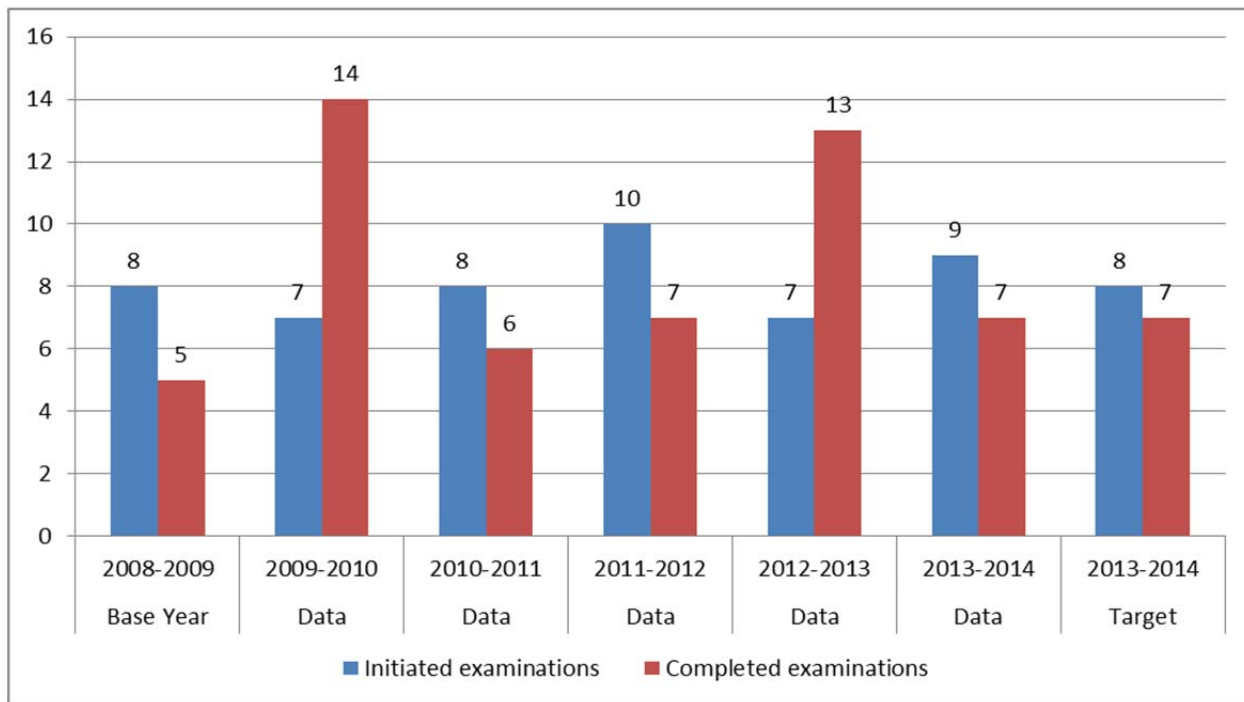
The Commission’s Capital Markets staff continues to work on several committees of the Canadian Securities Administrators (CSA) to provide a voice for the stakeholders of Nova Scotia in the formation of new rules and the ongoing amendment of current rules. Staff also provides specific notice to Nova Scotia-based registered firms when there are significant rule changes.

Compliance

The specified outcome for the Compliance performance measures is to improve the efficiency of the compliance programs in order to deter undesirable behavior in the capital markets and provide effective investor protection.

The measures in Chart 6 below reflect the efficiency of the compliance program and the Commission’s effectiveness in requiring registered firms to correct deficiencies in compliance with ongoing registration requirements to ensure that business practices and procedures create a safe environment for meeting their clients’ investment needs and objectives.

Chart 6: Initiated and completed field examinations of Nova Scotia registrants



The priority for the Commission’s compliance operations is to continue to build our compliance program, focusing on activities that will protect investors from unfair and fraudulent practices. Compliance is proactive in nature and, given the appropriate support, can provide a significant return in increased confidence in the Nova Scotia capital market, protection against investor losses and the consequential reduction in enforcement proceedings.

Although not stipulated in the Commission’s formal performance measures, an integral part of the Commission’s compliance work is to provide effective and comprehensive oversight of the Mutual Fund Dealers Association of Canada and the Investment Industry Regulatory Organization of Canada, which are the self-regulatory organizations (SROs) recognized in Nova Scotia. As the investment industry in Nova Scotia is mostly comprised of branch offices of registered firms that are members of SROs, the resources utilized to oversee the SROs are of vital importance to ensure the ongoing confidence in the capital market.

Therefore, the Commission’s key compliance oversight activity is SRO oversight reviews. SRO oversight reviews are critical to ensuring that the SROs are overseeing their members in Nova Scotia in accordance with their recognition orders, though resources dedicated to these reviews may lead to fewer direct examinations. Diligent oversight of the SROs has resulted in higher numbers of firms being examined in Nova Scotia by the SROs and better oversight of the many branch offices located in this jurisdiction. Ultimately, full participation in the oversight reviews improves compliance within our capital market.

The Commission’s Compliance staff also continues to work on a number of CSA committees providing jurisdictional input which best protects local investor interests, providing a voice for the stakeholders of Nova Scotia and contributing to policy development and harmonization.

In addition to the coordinated work with the CSA, Compliance staff also work with the North American Securities Administrators Association to develop and provide training on critical and timely examination and compliance issues.

Investor Education

The goal of the Commission’s Investor Education work is to improve the efficiency of the investor education programs to provide effective investor protection. The performance measures outlined below indicate how effectively the Commission is developing and implementing an investor education program aimed at raising the understanding of sound investment practices by Nova Scotia residents and providing them with the knowledge and skills to recognize questionable products and practices.

In 2013, the Commission developed and implemented a Communications Strategy. This Strategy included a Communications Matrix which set out investor education measures and goals. In accordance with this new strategy, the public events measure used in previous Statements of Mandate was replaced with a new set of measures relating to the goals set out in the annual Communications Matrix. The table below describes these goals and how they were achieved.

Communications Matrix		
Goals	Percentage of Goal Completed in 2013-2014	Actions to Achieve Goals
Outreach to local media to build new and existing relationships	100%	- Hosted media meet and greet to introduce Commission’s new media policy
Develop investor education online resources	90%	- Developed Raising Capital for Small and Mid-size Businesses handbook
Re-design Commission website	100%	- Designed new look and feel for Commission website - Designed new investor education resource: Report a Scam online form, added Before You Invest Blog to new website

Communications Matrix		
Goals	Percentage of Goal Completed in 2013-2014	Actions to Achieve Goals
Outreach to industry participants to provide education on proposed crowdfunding exemptions	50%	<ul style="list-style-type: none"> - Published two crowdfunding proposals for comment - Comment period ends on June 18, 2014
Give presentations to students studying securities law and industry	100%	<ul style="list-style-type: none"> - Gave three presentations to Nova Scotia Community College's Investment Management Certificate Program students - Presented to Dalhousie Law students
Increase traffic to Commission website	75%	<ul style="list-style-type: none"> - More than 1,300 new visits to Commission website

One of the new goals added was creating a new user-friendly website (nssc.novascotia.ca) to help educate and provide information to protect investors. An important investor protection feature added was an online Report a Scam form for people to submit complaints directly to the Commission. The website launched to good reviews and, over the next year, traffic to the new website will be monitored to measure its effectiveness to reach our audiences.

As part of our outreach goals, presentations on ethical behaviour in the industry were given to future registrants in the Nova Scotia Community College's Investment Management Certificate Program. The feedback received from students was positive and support was expressed for two more presentations at other campuses and an invite back in the fall semester.

Providing education relating to Nova Scotia's capital markets to help the public to better understand how to raise capital in the exempt markets is a goal that will continue into next year. An informative brochure was created this year to easily explain the exemptions available for businesses to raise capital and was distributed online and at events throughout the Province.

The Commission has determined that media coverage of the Commission does not necessarily measure the effectiveness of the Commission's investor education program. To this end, the media coverage data set out in Chart 14 of the 2013-2014 Statement of Mandate will no longer be provided.

With the re-design of the Commission website, the Before You Invest blog was rolled into the website as a separate section for investors and is no longer a stand-alone site. Accordingly, data

for the measure relating to hits on the blog and Twitter account, as was set out in Chart 16 of the 2013-2014 Statement of Mandate, is no longer being collected or presented.

Core Area 3 – Corporate Finance Branch

The primary objective of the Corporate Finance branch of the Commission is to monitor and improve the administration of the corporate finance disclosure system for public companies in Nova Scotia.

The five performance measures set out in Charts 7 and 8 below relate to the timely issuance of a comment, non-objection letter or receipt. These measures demonstrate how efficiently the Corporate Finance branch is reviewing and processing prospectuses and offering documents filed with the Commission as the principal regulator. Once a receipt or non-objection letter for an offering document has been issued by the Director of Corporate Finance, an issuer can proceed to offer its securities to the public. The efficient operations of the Corporate Finance branch help to promote an efficient capital market and economy.

Prospectus issuers with head offices in Nova Scotia raised \$5.24 billion in 2013-2014, while CEDIF issuers raised \$7.6 million.

Chart 7: Percentage of issuers based in Nova Scotia who received a first comment letter for their preliminary long form prospectus, short form prospectus or offering document within CSA mandated timeframes (for long form, 10 days; for short form, five days; and for offering document, 10 days)

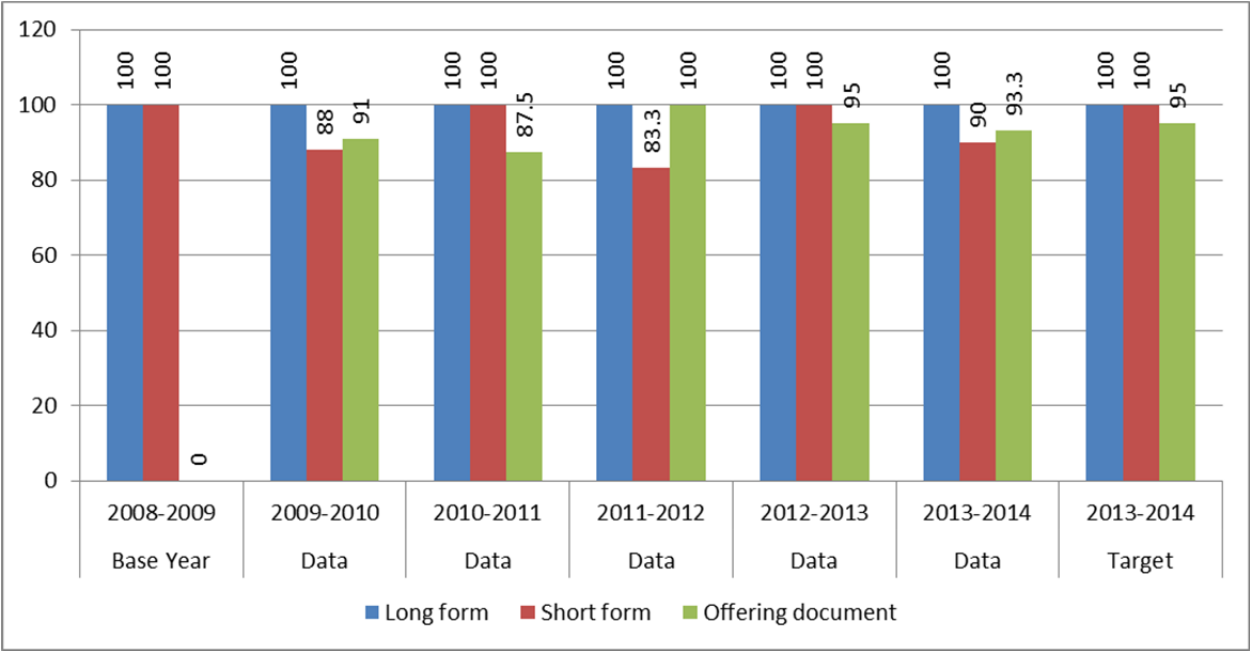
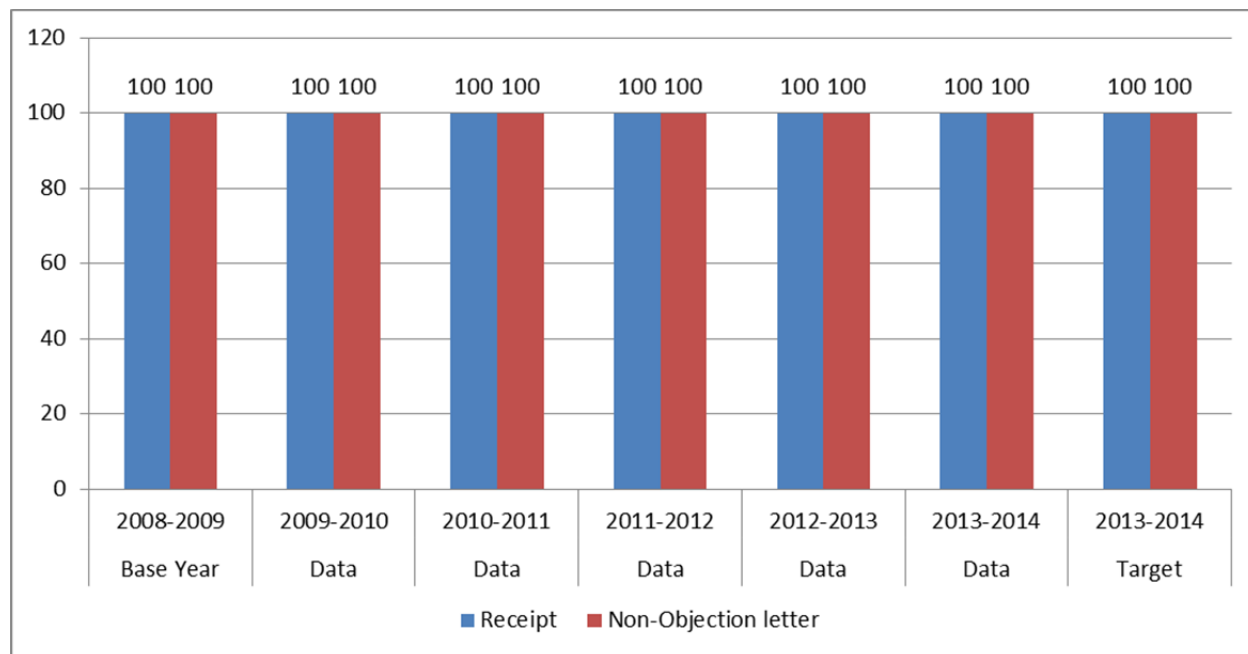


Chart 8: Percentage of issuers based in Nova Scotia who received the receipt for a prospectus or letter of non-objection for an offering document within the mandated timeframes after filing final documents (for receipts, one day; for offering documents, two days)

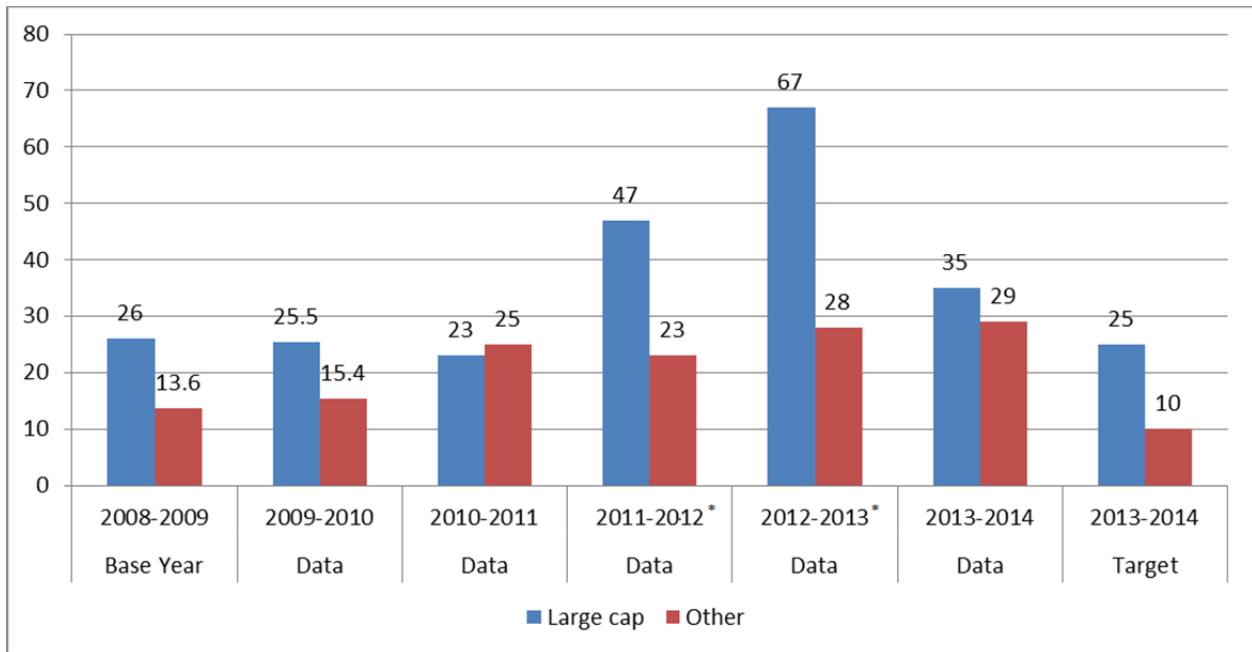


Public companies' filings are reviewed by the Commission's Corporate Finance staff to ensure consistency and uniformity in the information disseminated to the public who are making investment decisions based upon that information. In 2013-2014, the Commission's reviews of public companies' continuous disclosure were done in two streams, each based on market capitalization: 1) large capital Nova Scotia head office reporting issuers; and 2) other Nova Scotia head office reporting issuers. Each of these streams was reviewed for compliance with the public companies' filing requirements.

As illustrated in Chart 9 below, the Commission's continuous disclosure review targets are to complete reviews for 25% of Nova Scotia's large cap public companies and 10% of its other reporting issuers. These targets were achieved and exceeded in 2013-2014, with Commission staff completing reviews for 35% of Nova Scotia's large cap public companies and 29% of its other reporting issuers.

Corporate Finance staff also participated in International Financial Reporting Standards (IFRS) and other professional training to provide staff with the tools to ensure filers meet current reporting requirements.

Chart 9: Percentage of reporting issuers based in Nova Scotia that had a review of their continuous disclosure filings in the year



*In 2011-2012 & 2012-2013, the focus of reviews was for compliance with International Financial Reporting Standards (IFRS). The other periods reflect full continuous disclosure reviews.

In order to promote the efficient and timely issuance of cease trade orders for companies that fail to file financial statements as required by securities law, in 2012-2013, the Commission delegated to the Director of Corporate Finance the authority to issue cease trade orders in certain limited situations where a reporting issuer or a CEDIF has failed to file its financial statements. This new process has improved the efficiency and responsiveness of our Corporate Finance branch and allowed Commission resources to be more effectively utilized. In 2013-2014, the Director of Corporate Finance issued 15 cease trade orders for failure to file financial and associated disclosure within mandated timeframes.

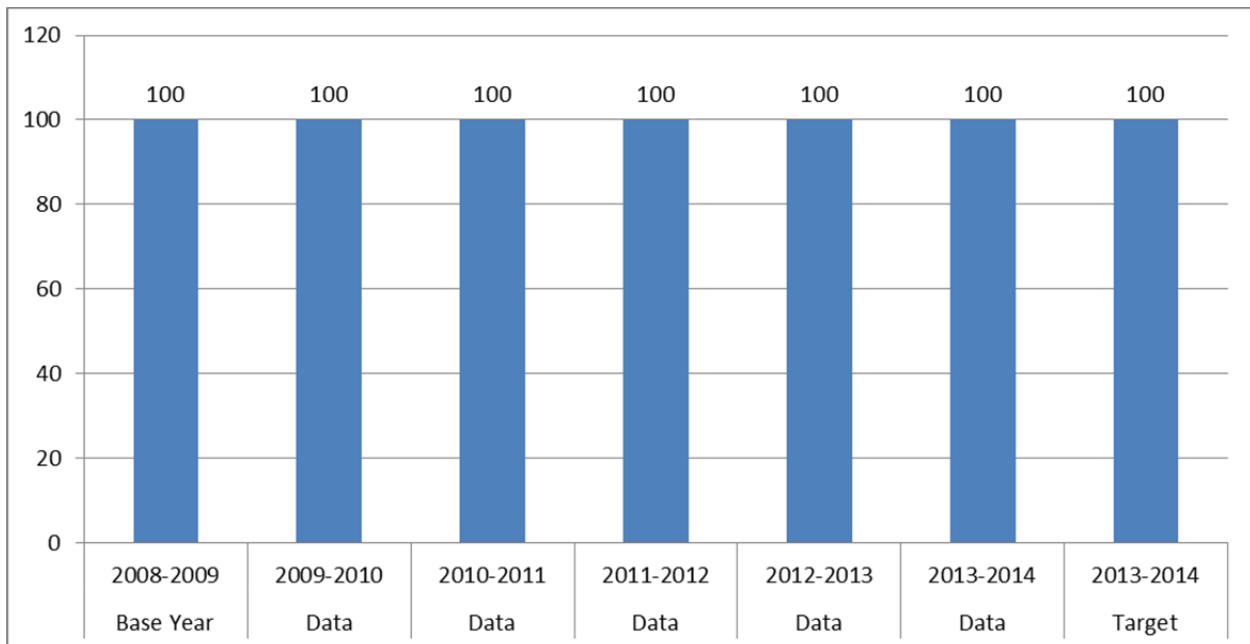
Corporate Finance staff also continued their CSA committee work on small issuer regulation, derivatives, investment funds, rights offerings and pursued, when possible, further harmonization with other jurisdictions of policies and procedures to continue to streamline Corporate Finance operations.

Core Area 4 – Enforcement Branch

The stipulated outcome for the Commission’s Enforcement branch performance measures is to improve the efficiency of the enforcement programs to deter undesirable behavior in capital markets and provide effective investor protection. The measures enable Commission staff to decisively detect and disrupt market practices and misconduct that pose a danger to the investing public and bring more cases for prosecution in hearings before the Commission.

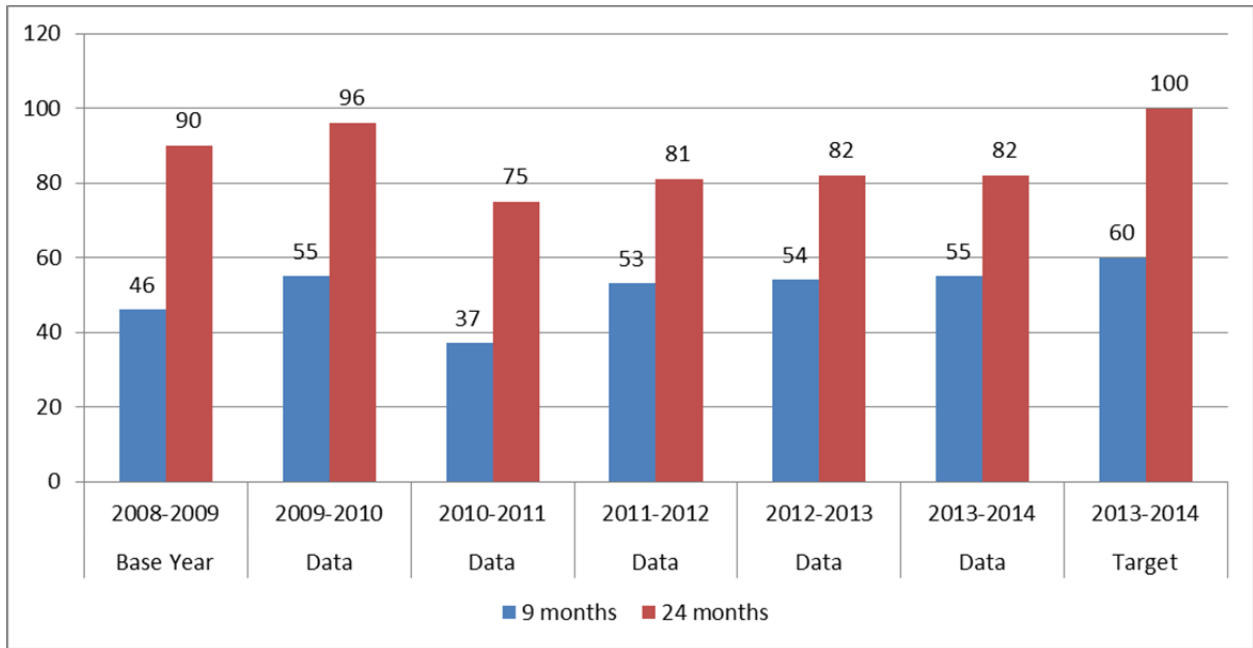
As illustrated in Chart 10 below, the Enforcement branch has consistently met its three day target of reviewing and confirming initial assessments of each complaint received.

Chart 10: Percentage of complaints referred by Enforcement staff to Director of Enforcement for review and confirmation of initial assessment of each complaint within three (3) days of receipt of complaint



Fifty-one investigation files were concluded in 2013-2014. Of those 51 files, 55% were concluded within the first nine months of commencing the investigations and 82%, or 42 investigation files, were closed within 24 months of commencing the investigations. As shown in Chart 11, the Enforcement branch has consistently increased the number of investigation files concluded within the first nine months over the past four fiscal periods and is nearing its target of 60%. It has also consistently increased the number of investigation files concluded within 24 months to 82% over the past four fiscal periods and is within range of reaching its target.

Chart 11: Percentage of investigations concluded and reported on by Enforcement staff to Director of Enforcement based on: 1) 60% of investigations within nine months; and 2) all investigations within 24 months

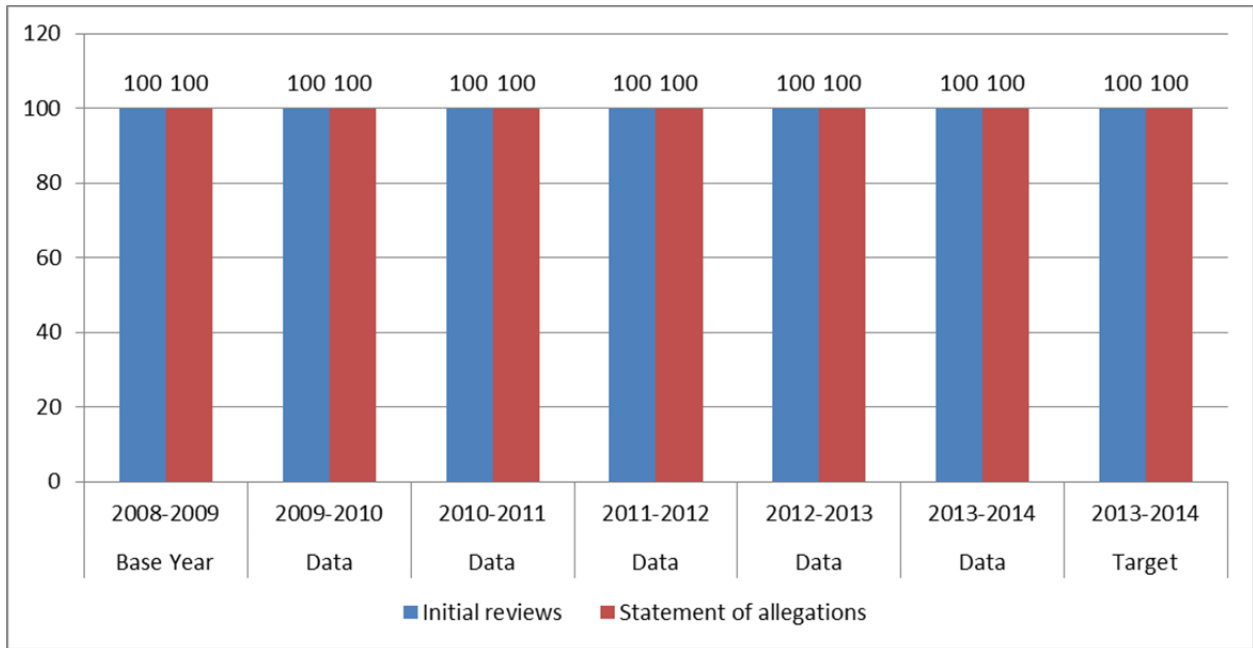


In the calendar year of 2013, the Commission investigated 58 new complaints and issued \$181,000 in administrative fines. The Commission concluded nine cases against fifteen defendants that included six cases involving misconduct by registrants and three cases involving unauthorized sale of investments to the public. This information was compiled for preparation of the CSA 2013 Enforcement Report.

In 2013-2014, the Enforcement branch also developed a new online enforcement complaint system accessible through the Commission’s website. This new system will facilitate public access to the Commission’s enforcement services and provide our Enforcement Branch with a new tool for information gathering.

The timely conclusion of Enforcement litigation files requires the achievement of two key benchmarks once a file has been referred to Enforcement counsel following investigation: 1) the completion of an initial review; and 2) the issuance of a Statement of Allegations and Notice of Hearing. Chart 12 below illustrates that the Enforcement branch continues to meet its target with respect to these two benchmarks.

Chart 12: Percentage of files where enforcement counsel: 1) completed initial review of investigation files referred to counsel and provided a written response within 30 days; and 2) initiated issuance of a Statement of Allegations and Notice of Hearing within 60 days of referral and conclusion of negotiations



Appendix A

Annual Report under Section 18 of the Public Interest Disclosure of Wrongdoing Act

The *Public Interest Disclosure of Wrongdoing Act* (the Act) was proclaimed into law on December 20, 2011.

The Act provides for government employees to be able to come forward if they reasonably believe that a wrongdoing has been committed or is about to be committed and they are acting in good faith.

The Act also protects employees who do disclose from reprisals, by enabling them to lay a complaint of reprisal with the Labor Board.

A wrongdoing for the purposes of the Act is:

- a) a contravention of provincial or federal laws or regulations,
- b) a misuse or gross mismanagement of public funds or assets,
- c) an act or omission that creates an imminent risk of a substantial and specific danger to the life, health or safety of persons or the environment, or
- d) directing or counselling someone to commit a wrongdoing.

Table A.1

The following is a summary of disclosures received by the Commission

Information Required under Section 18 of the Act	Fiscal Year 2013-2014
The number of disclosures received	Nil
The number of findings of wrongdoing	Nil
Details of each wrongdoing	N/A
Recommendations and actions taken on each wrongdoing	N/A