



Securities Commission

Annual Accountability Report
for the Fiscal Year 2017 – 2018

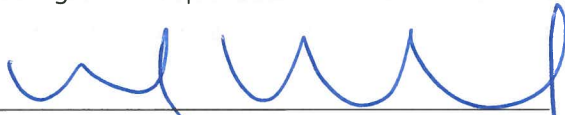
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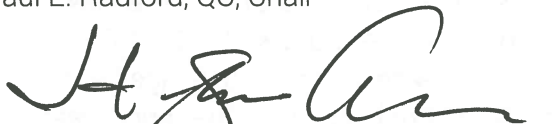
Accountability Statement

The Accountability Report of the Nova Scotia Securities Commission (the Commission) for the year ended March 31, 2018, is prepared pursuant to the *Finance Act* and government policies and guidelines. These authorities require the reporting of outcomes against the Commission's Business Plan for the fiscal year just ended. 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 2017-2018 Business Plan.



Paul E. Radford, QC, Chair



H. Jane Anderson, Acting Executive Director

Message from the Chair

The principal mission of the 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 2017-2018 Business Plan, which is available on the Commission's website.

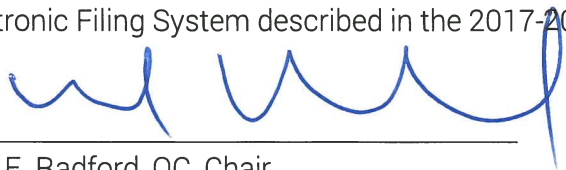
As in years past, we have fulfilled our mandate with a close attention to fiscal responsibility. Our revenues for 2017-2018 increased by 2.6%, or \$0.522 million, from the prior year to \$20.497 million. This increase in our revenues is attributable primarily to an increase in corporate filings. Our total expenditures for 2017-2018 decreased by 7.8%, or \$0.201 million, over the prior year to \$2.361 million. This decrease in expenditures relates primarily to vacant positions and lower than expected professional services and honoraria expenses. Our total expenditures for the year were \$0.247 million under our approved budget of \$2.608 million.

This year, the Commission accomplished considerable policy development work, including further work regulating derivatives, reducing regulatory burdens, and continuing work on projects to enhance the standards of conduct of investment professionals.

The Commission develops policy through participation in committees organized by the Canadian Securities Administrators (CSA), through its own policy analyses, and from its own public and targeted consultations. While harmonization of securities laws across Canadian jurisdictions is highly desirable, there are occasional instances where differences are appropriate for Nova Scotia.

Developments in securities and financial products occur at a rapid pace, and regulation must monitor and design appropriate responses. The Supplemental Information section of this Report describes two recent very risky interventions, binary options and cryptocurrency offerings, and regulators' enforcement and investor awareness initiatives in response, as well as an approach to facilitate desirable financial services and product innovation, the Regulatory Sandbox.

Finally, work by the CSA jurisdictions continues on the new comprehensive web-based National Electronic Filing System described in the 2017-2018 Business Plan.



Paul E. Radford, QC, Chair
Nova Scotia Securities Commission

Financial Results

Core Business (All)	2017-2018 Estimate (\$ thousands)	2017-2018 Actual (\$ thousands)	Variance (\$ thousands)
Revenues	(19,100)	(20,497)	1,397 ¹
Expenditures			
Salaries and Benefits	1,842	1,810	32
Operating Costs	766	551	215 ²
Cost Recoveries			
Total Expenditures	2,608	2,361	247
Net Revenue	(16,492)	(18,136)	1,644
FTEs	19.0	17.0	2

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

² Lower operating costs compared to estimate were the result of vacant positions and lower than expected professional services and honoraria expenses.

Measuring Our Performance

The performance measures for the Commission are focused on its goals of maintaining currency, relevancy, and standards in securities regulation in Nova Scotia and ensuring the efficient administration of the Commission's four core business areas: the Commission board, the Policy and Market Regulation branch, the Corporate Finance branch, and the Enforcement branch. All data used in the following performance measurements is gathered from internal sources and is presented to the Commission via monthly operating reports.

The charts below report data since the 2013-2014 fiscal year. For data since the base year of 2008-2009, see the Commission's Annual Accountability Report for the fiscal year 2016-2017.

Core Area 1 – The Commission Board

Outcome: Efficient administration of the Commission's adjudicative and exemption granting jurisdictions

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 and to maintaining 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 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

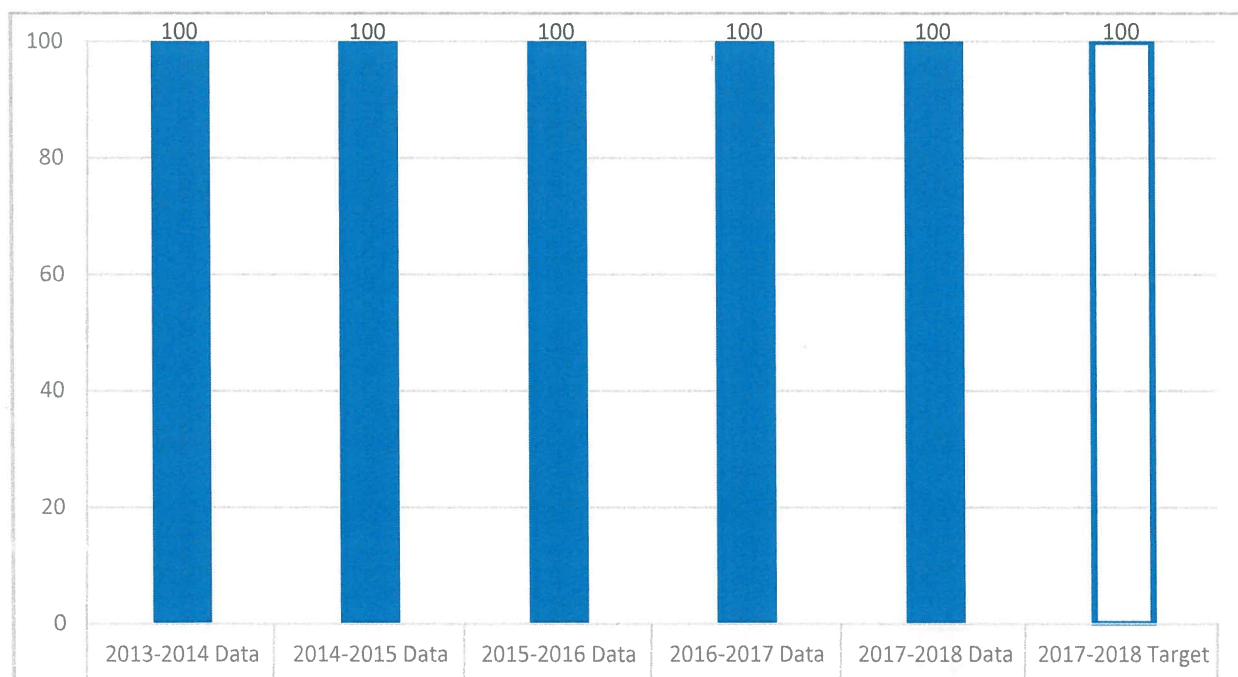
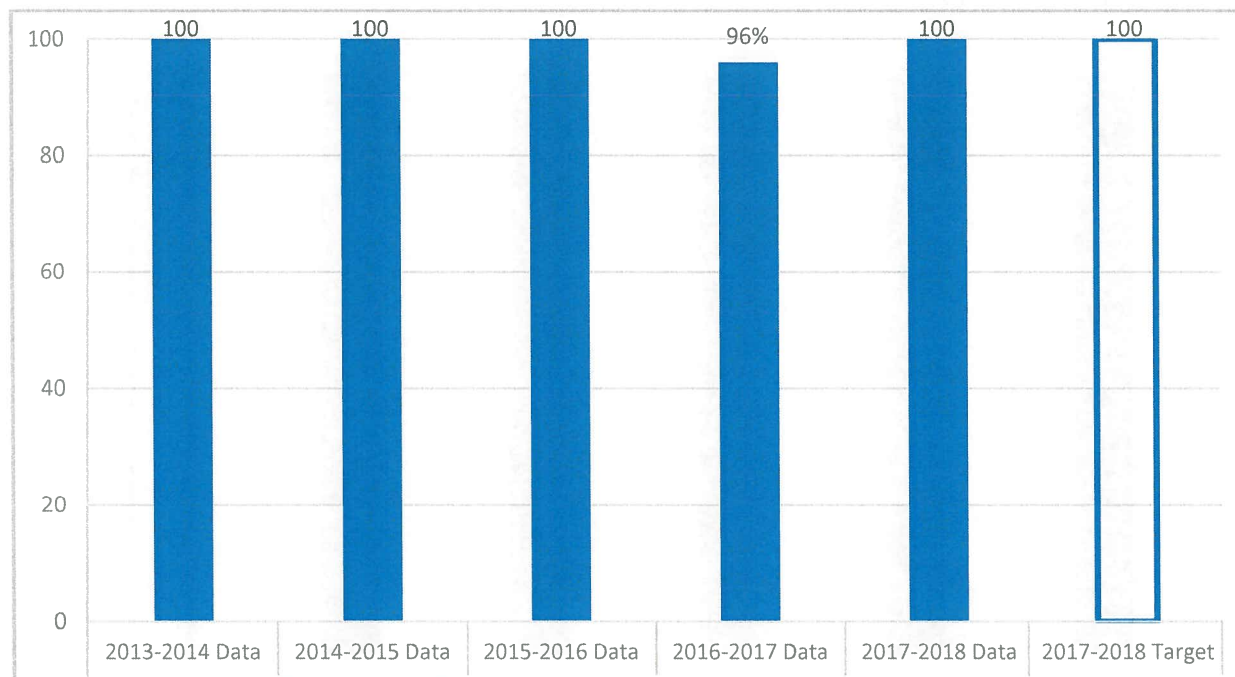


Chart 2: Percentage of exemption applications considered within five business days of filing

As illustrated in Chart 3 below, this year the Commission exceeded its target relating to the timely issuance of orders after settlement hearings. In 2017-2018, the Commission held two settlement hearings to consider the approval of settlement agreements. The orders approving the settlement agreements were made within 10 business days of final submissions in the hearing, surpassing our target rate of 95%. For the same time period, as illustrated in the following Chart 4, the Commission did not hear any contested matters. However, during the period, the Commission issued seven orders reciprocating orders or settlements made in other jurisdictions in Canada within 45 days of the date of the final submissions.

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

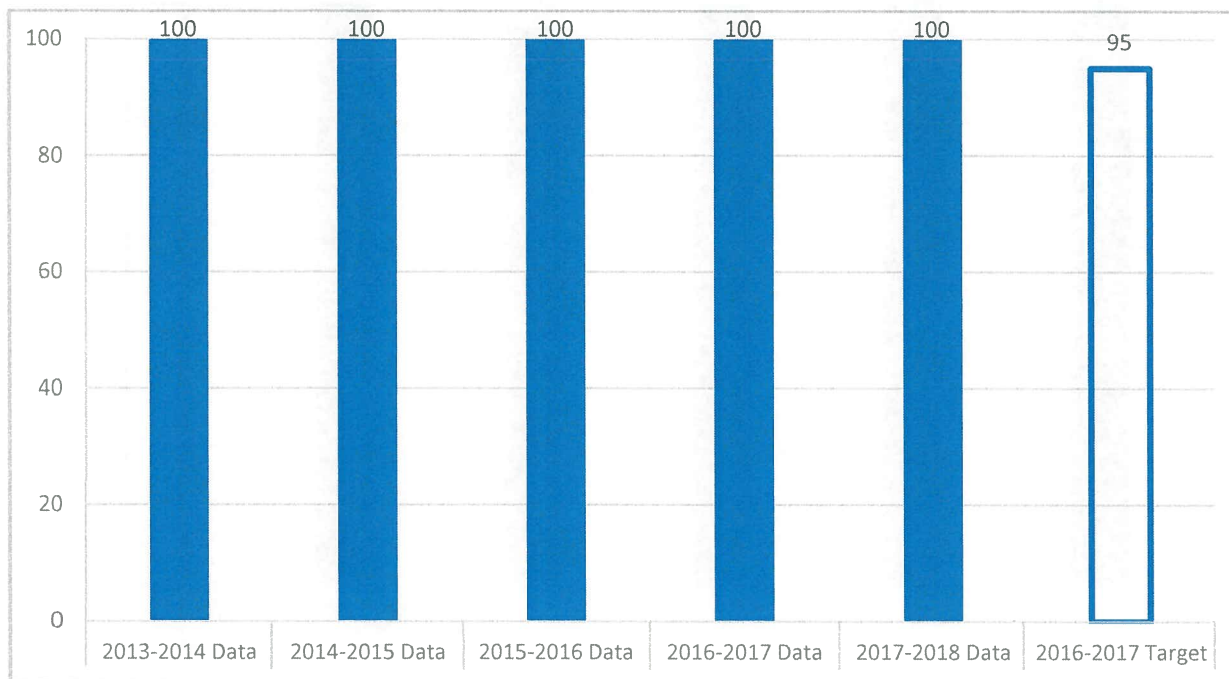
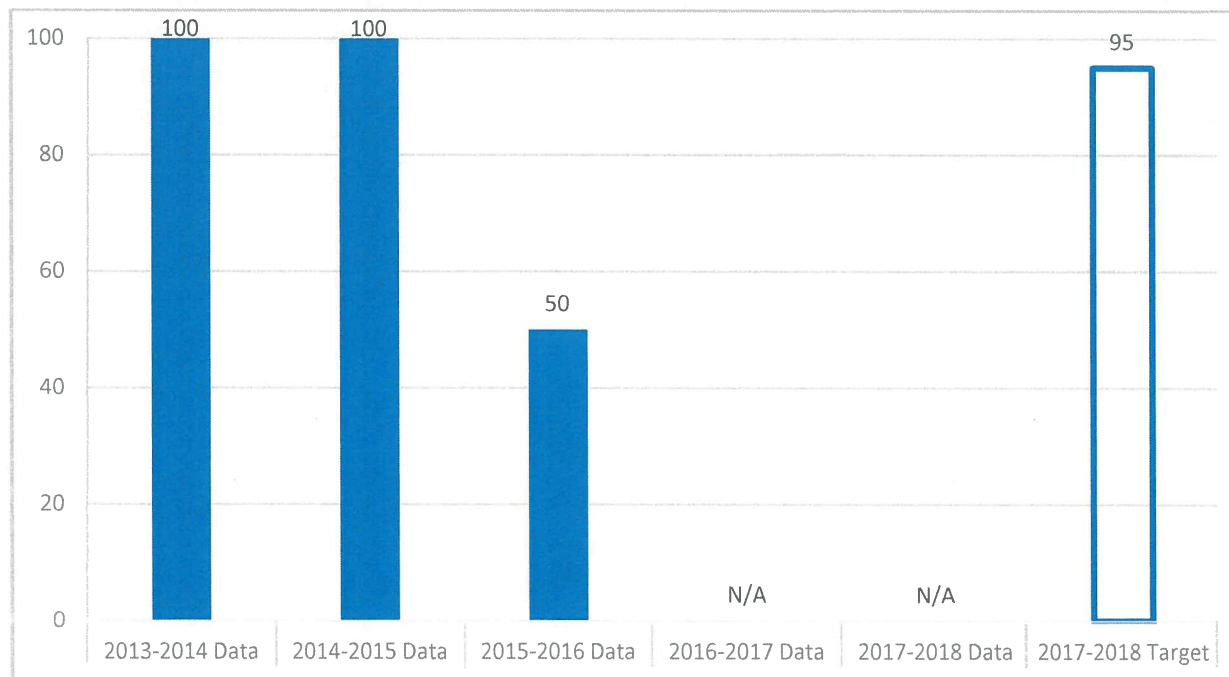


Chart 4: Percentage of orders and decisions made within 90 days of the final submissions from the parties following the conclusion of a contested hearing



Major Policy Initiatives

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

- Publication of CSA Consultation Paper 52-403 *Auditor Oversight Issues in Foreign Jurisdictions* seeking comments on a proposal from the Canadian Public Accountability Board (CPAB) to the CSA to amend National Instrument 52-108 *Auditor Oversight* to require certain foreign audit firms involved in the audit of a reporting issuer's financial statements to register as a participating audit firm. Such registration which would give CPAB a legal basis to inspect the audit work done by these audit firms in relation to reporting issuer audits. The paper also describes potential disclosure enhancements to inform stakeholders about any restrictions CPAB has faced in inspecting audit work performed.
- Adoption of Multilateral Instrument 91-102 *Prohibition of Binary Options* (NI 91-102) to protect would-be investors from becoming victims of products commonly known as "binary options" by raising awareness that these products are illegal and by disrupting the advertising and facilitation of these products. To this end, NI 91-102 prohibits advertising, offering, selling, or otherwise trading of a binary option to an individual if the time period specified for determining whether the predetermined condition(s) are met is less than 30 days from the date the binary option is entered into.
- Publication of proposed amendments to National Instrument 45-106 *Prospectus Exemptions* (NI 45-106) by amending Form 45-106F1 Report of Exempt Distribution to provide greater clarity and flexibility regarding the certification requirement of the report, and to streamline certain information requirements to assist filers in completing the report while still providing the CSA with the information necessary for oversight and policy development.
- Adoption of Blanket Order No. 81-504 *In the Matter of an Exemption from Prescribed Text of Mutual Fund Auditor Reports Under National Instrument 81-102 Investment Funds*. As a result of amendments to Canadian generally accepted auditing standards (GAAS) in the Chartered Professional Accountants' Canada Handbook, the blanket order provides relief from filing a report by an auditor in the form required in National Instrument 81-102 *Investment Funds* (NI 81-102), provided that a report by an auditor dated on or after June 30, 2017, complies with Canadian GAAS.

- Adoption of Blanket Order No. 94-501 *In the Matter of Exempting Certain Counterparties from Mandatory Clearing* to clarify the scope of the counterparties that are subject to mandatory clearing under National Instrument 94-101 *Mandatory Central Counterparty Clearing of Derivatives* (NI 94-101). The blanket order exempts certain counterparties, on a temporary basis, from the clearing requirement under NI 94-101. The effect of the order is to extend the effective date of the clearing requirement from October 4, 2017, to August 20, 2018, for certain counterparties.
- Adoption of amendments to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (NI 31-103) and consequential amendments to National Instrument 31-109 *Registration Information* (NI 31-109). The amendments include, among other things, enhancing custody requirements applicable to registered firms that are not members of a self-regulatory organization, clarifying the activities that may be conducted under the exempt market dealer (EMD) category of registration in respect of trades in prospectus-qualified securities, and making permanent certain temporary relief granted in May 2015 relating to the requirements for client reporting under the Client Relationship Model (Phase II) regime.
- Adoption of amendments to NI 81-102 and consequential amendments to National Instrument 81-104 *Commodity Pools* to harmonize the settlement of the underlying equity and long-term debt securities owned by conventional mutual funds with the T+2 settlement of the mutual fund securities. The amendments align the settlement standard in Canada with the standard in the U.S., Europe, Australia, and New Zealand.
- Publication of proposed amendments to NI 94-101 to refine the scope of counterparties to which the mandatory clearing requirement applies and the types of derivatives that are subject to the clearing requirement by amending certain requirements in subsection 3(1). The proposed amendments include, among other things, (i) the exclusion from the clearing requirement of a trust or an investment fund that is affiliated with certain entities; (ii) the clearing requirement under paragraph 3(1)(c) will no longer apply to a local counterparty with a gross notional amount of outstanding derivatives of \$1 billion or less, excluding the notional amount of mandatory clearable derivatives to which paragraph 7(1)(a) applies; and (iii) the removal from the list of mandatory clearable derivatives of overnight index swaps with variable notional type and forward rate agreements with variable notional type.

- Publication of CSA Consultation Paper 52-404 *Approach to Director and Audit Committee Member Independence* to solicit views on whether or not any changes should be considered to the existing regulatory requirements. Currently, the regime encompasses guidelines related to the exercise of independent judgement, including the composition of the board of directors and the audit committee. Non-venture issuers must provide disclosure with reference to the guidelines within the framework of a “comply or explain” disclosure model, whereas venture issuers are subject to more basic disclosure requirements.
- Signing of an *Innovation Functions Co-operation Agreement* among the Commission, certain other CSA jurisdictions, and the Australian Securities and Investments Commission for the purposes of promoting innovation in financial services in the parties’ respective markets through co-operation with each other.
- Signing of a *Co-operation Agreement Regarding Co-operation for Innovation in the Financial Sector* among the Commission, certain other CSA jurisdictions, and the Autorité des marchés financiers (France) for the purposes of encouraging and enabling innovation in financial services in the parties’ respective markets through co-operation with each other.
- Signing of an *Innovation Functions Co-operation Agreement* among the Commission, certain other CSA jurisdictions, and the Financial Conduct Authority (of the UK) for the purposes of encouraging and enabling innovation in financial services in the parties’ respective markets through co-operation with each other.
- Adoption of amendments to Blanket Order No. 96-501 (Amendment) *In the Matter of Relief from Certain Derivatives Reporting Requirements* including, among other things, (i) extending relief originally granted in 2016 relating to situations where foreign laws prevent or hinder the reporting of required information by a reporting counterparty, (ii) extending relief relating to required counterparty feedback, counterparty legal entity identifiers (LEI), and broker or clearing intermediary LEI, and narrowing this relief in certain circumstances following a phase-in period of approximately six (6) months, and (iii) providing additional relief of a technical nature relating to the reporting of valuation data to address situations where the relevant closing market data from the previous business day is not available because that day is not a business day in the jurisdiction of the relevant market.
- Publication of CSA Notice and Request for Comment 21-323 *Proposal for Mandatory Post-Trade Transparency of Trades in Government Debt Securities* and proposed amendments to National Instrument 21-101 *Marketplace Operation* (NI 21-101) to obtain feedback on a proposed framework for mandatory post-trade transparency of trades in government debt securities (Proposed Framework) and related amendments to NI 21-101. If adopted, the Proposed Framework will require dealers, marketplaces, and interdealer bond brokers to

provide information regarding trades in government debt securities to an information processor, which would in turn publicly disseminate details of those trades.

- Publication of proposed amendments to NI 45-106 and NI 31-103 relating to syndicated mortgages, ie. mortgages in which two or more persons participate, directly or indirectly, as lenders in the debt obligation that is secured by the mortgage. The proposed amendments include (i) removing the prospectus and registration exemptions in NI 45-106 and NI 31-103 respectively for the distribution of syndicated mortgages in the CSA jurisdictions where the exemptions are available, (ii) introducing additional requirements to the offering memorandum exemption in NI 45-106 that apply when the exemption is used to distribute syndicated mortgages, and (iii) amending the private issuer prospectus exemption in NI 45-106 so that it is not available for the distribution of syndicated mortgages.
- Adoption of consequential amendments related to the designation of Kroll Bond Rating Agency, Inc. (Kroll) as a designated rating organization (DRO) to NI 31-103, NI 31-109, National Instrument 41-101 *General Prospectus Requirements*, National Instrument 44-101 *Short Form Prospectus Distributions* (NI 44-101), National Instrument 44-102 *Shelf Distributions* (NI 44-102), NI 45-106, National Instrument 51-102 *Continuous Disclosure Obligations*, NI 81-102, National Instrument 81-106 *Investment Fund Continuous Disclosure*, Companion Policy 21-101CP *Marketplace Operation*, and Companion Policy 81-102CP *Investment Funds*. The amendments to NI 44-101 and NI 44-102 recognize the credit ratings of Kroll but only for the purposes of the alternative eligibility criteria for issuers of asset-backed securities (ABS) to file a short form prospectus or shelf prospectus (the ABS Short Form Eligibility Criteria). The other amendments include, among other things, (i) ensuring that Kroll credit ratings are only recognized for purposes of the ABS Short Form Eligibility Criteria, and (ii) clarifying language in the instruments that refer to DROs or credit ratings of DROs.
- Adoption of amendments to National Instrument 45-102 *Resale of Securities* (NI 45-102) to introduce a new prospectus exemption in NI 45-102 for the resale of securities (and underlying securities) of a foreign issuer that applies in all jurisdictions other than Alberta and Ontario if (i) the issuer is not a reporting issuer in any jurisdiction of Canada, and (ii) the resale is on an exchange, or a market, outside of Canada or to a person or company outside of Canada. A foreign issuer is an issuer that is not incorporated or organized under the laws in Canada unless certain circumstances suggest that the issuer has more than a minimal connection to Canada (i.e. the issuer has a head office in Canada or the majority of its directors or executive officers ordinarily reside in Canada).

- Adoption of a variation and restatement of the Investment Industry Regulatory Organization of Canada's recognition order (IIROC RO). The IIROC RO eliminates outdated reporting requirements, combines and amends multiple date specific reporting requirements into one quarterly "Operational Report", reorganizes the reporting requirements as a separate schedule, and adds some new reporting requirements, including, among other things, (i) an annual certification of compliance with the terms and conditions (including the reporting requirements) by the CEO and General Counsel of IIROC; (ii) notification of security breaches; and (iii) prior notice before publication of any document expected to have a significant impact on members or capital markets.
- Adoption of a variation and restatement of the Mutual Fund Dealers' Association of Canada's recognition order (MFDA RO). The MFDA RO eliminates outdated reporting requirements, combines and amends multiple date specific reporting requirements into one quarterly "Operational Report", reorganizes the reporting requirements as a separate schedule, and adds some new reporting requirements, including, among other things, (i) an annual certification of compliance with the terms and conditions (including the reporting requirements) by the CEO and General Counsel of the MFDA; (ii) notification of security breaches; and (iii) prior notice before publication of any document expected to have a significant impact on members or capital markets.

Core Area 2 – Policy and Market Regulation Branch

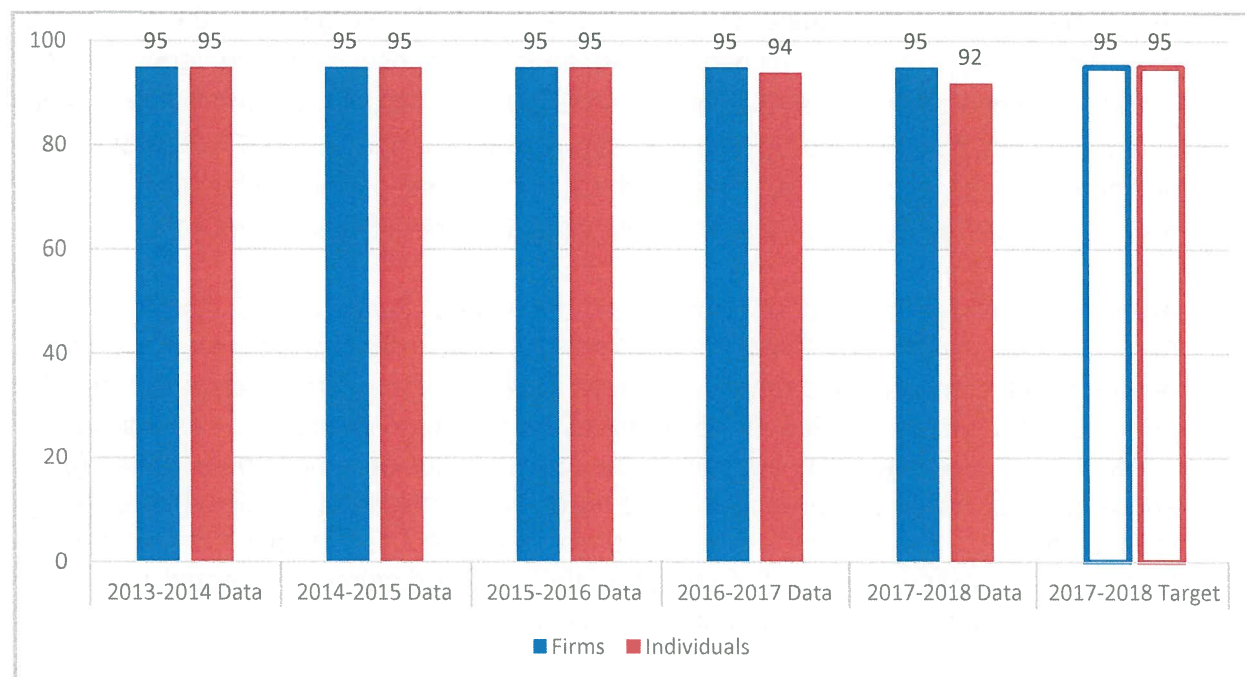
The Policy and Market Regulation branch has three core areas of responsibility: Capital Markets, which relates to the registration and oversight of investment professionals and firms in Nova Scotia; Compliance, which relates to the Commission's review and oversight of the activities of investment professionals and firms in Nova Scotia; and Investor Education, which relates to the Commission's work to improve investors' understanding of sound investment practices, ability to recognize questionable products and practices, and awareness of the role of the Commission.

Capital Markets

Outcome: Efficient administration of the registration system

The performance 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. We once again met our target for firms and were slightly below target for individual registrations in 2017-2018. The reason for the slight decline in meeting the target for individual registrations was due to the fact that applicants must now obtain their own criminal record check.

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



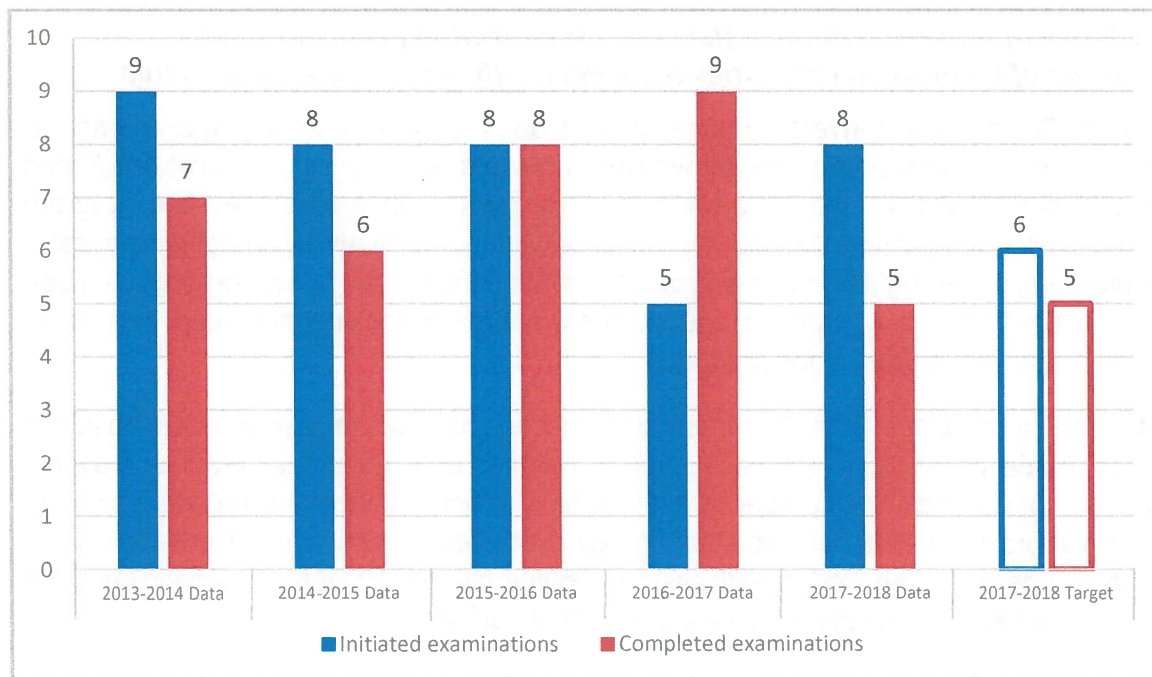
The Commission's Capital Markets staff also continues to work on several committees of the CSA to provide a voice for the stakeholders of Nova Scotia in the formation of new rules and the ongoing amendment of current rules. During 2017-2018, regulatory amendments concerning the custody of assets were implemented with no disruption to Nova Scotia stakeholders. Staff also provides specific notice to Nova Scotia-based registered firms when there are significant rule changes.

Compliance

Outcome: Efficient administration of the compliance programs to deter undesirable behavior in capital markets and provide effective investor protection

The performance 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 build efficiencies in 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.

During 2016-2017, the targets for the Commission's compliance program were reduced to permit more focus on the oversight of the Investment Industry Regulatory Organization of Canada and Mutual Fund Dealers Association of Canada, which are self-regulatory organizations (SROs) recognized in Nova Scotia. 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 SROs 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 additional resources have been directed to their oversight to ensure the ongoing confidence in the capital market. While this will result in fewer direct examinations by the Commission, the diligent oversight of the SROs has resulted in higher numbers of firms being examined in Nova Scotia by the SROs (there was a net increase of two reviews in 2017-2018 which is a continuing positive trend) and better oversight of the many branch offices located in this jurisdiction.

The Commission's Compliance staff also continues to work on a number of CSA committees providing jurisdictional input to protect local investor interests, providing a voice for the stakeholders of Nova Scotia, and contributing to policy development and harmonization. Compliance staff also work with the North American Securities Administrators Association (NASAA) to develop and provide training on critical and timely examination and compliance issues.

Investor Education

Outcome: Efficient administration of the investor education programs and communication of Commission activities to promote effective investor protection

The goal of the Commission's Investor Education division is to produce engaging and practical investor education programs and to connect with investors and potential investors in Nova Scotia for the purposes of effective investor protection. The performance measures and program examples listed below outline how the Commission is delivering an effective and engaging investor education program, achieving its goal to educate Nova Scotians on sound investment practices, and give Nova Scotians the knowledge and skills to recognize and identify fraud as well as questionable investment products and practices.

The Investor Education section of the Commission's website continues to be improved with added content. We made an effort to increase internal content and resources developed by the Commission to cut down on the number of external links which potentially send users away to content and resources on external websites. A few examples of new content created by the Commission include our online *Working with an adviser* guide, *Investment Fraud Prevention Checklist*, and information sheets on cryptocurrencies and initial coin offerings.

Over the last year, the Commission's Investor Education branch continued to make a strong push to connect with Nova Scotia youth by focusing on developing new partnerships with high school and post-secondary students. These partnerships were developed in connection with a communications and engagement plan targeting high school economics and business classes, university and college business students, professors, clubs, and societies. Our goal was to inform these audiences why securities regulators exist, what they do, and to offer the Commission as a source for investor education resources and information.

This communications and engagement plan has proven successful and has led to several presentations and question and answer sessions, including presentations on investing, frauds and scams to Grade 11 and 12 students at Dartmouth High School, a presentation on what the Commission does and registration to the Nova Scotia Community College (NSCC) School of Business Financial Services Concentration, and a presentation on protecting senior investors, also to NSCC students.

During Financial Literacy Month in November, the Commission's goal was to tackle the ongoing questions we had been receiving during the year regarding the relationship between advisers and clients. A new online guide *Working with an adviser: getting the most out of the client-adviser relationship* was developed to provide up-to-date relevant information for Nova Scotia investors. There are plans to continue to develop online guides for other topics in the future.

During Fraud Prevention Month in March, the Commission developed a new social media campaign on common forms of investment fraud and red flags to watch for to avoid becoming victims of investment fraud. This series received excellent feedback and engagement, leading to great discussions and questions from many different audiences to help broaden our reach and deliver our message on safe investing. During the month, the Commission also piggybacked on

the national campaign *Warning Canadians about Binary Options*, through social media and coverage through traditional media.

Throughout the year, the Commission continued to issue Investor Alerts, publish timely and relevant blog posts on issues affecting Nova Scotia investors, and deliver presentations to Nova Scotians, including Nova Scotian government employees, to provide them with information so they can make informed investment decisions.

Communications Matrix		
Goals	Percentage of Goal Completed in 2017-2018	Actions to Achieve Goals
Outreach to local media to build new and enhanced existing relationships	100%	<ul style="list-style-type: none"> - Regularly updated media list to ensure all media outlets and reporters are being reached. - Received regular media inquiries from press releases and successfully pitched media stories on fraud prevention, investor alert database, and cryptocurrencies/initial coin offerings (or ICOs).
Improve investor education online resources	100%	<ul style="list-style-type: none"> - Added new fraud prevention tools to the website. - Maintained <i>Question of the Week</i> feature with direct input and feedback from the public. - Created new evergreen content on working with an adviser, investment fraud, and fraud prevention.

Communications Matrix		
Goals	Percentage of Goal Completed in 2017-2018	Actions to Achieve Goals
Update Commission website	100%	<ul style="list-style-type: none"> - Made updates and improvements to website security. - Added new pages/content in Investor Education, Registration and Compliance, and Enforcement sections of the website.
Connect the Commission with high school and post-secondary students in Nova Scotia through presentations and outreach	100%	<ul style="list-style-type: none"> - Made connections with high school and post-secondary teachers/instructors. - Delivered presentations to high school students and students at NSCC. - Prepared introduction letter and presentation to be delivered to students as part of Student Connections Initiative (ongoing).
Maintain traffic of Commission website and increase reach on social media	100%	<ul style="list-style-type: none"> - Tracked user traffic and data for website using Google Analytics. Data shows numbers holding steady from last year and increases in certain areas. - Increased our followers on Twitter and better coordinated social media posting schedule.

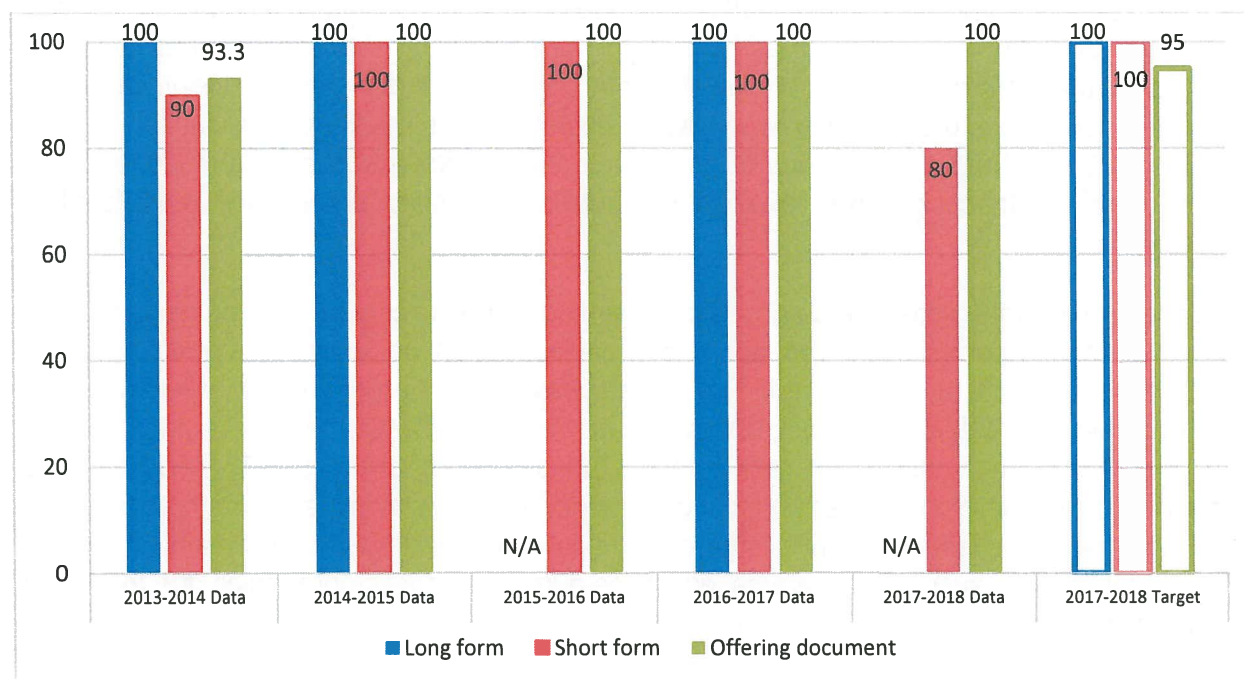
Core Area 3 – Corporate Finance Branch

Outcome: Efficient administration of the prospectus, Community Economic Development Investment Fund (CEDIF) and continuous disclosure review systems

The five performance measures set out in Charts 7 and 8 below relate to the timely issuance of a comment letter, non-objection letter, or receipt. These measures demonstrate how efficiently the Corporate Finance branch reviews and processes prospectuses and offering documents filed with the Commission as the principal regulator. When the Director of Corporate Finance issues a receipt for a prospectus or non-objection letter for an offering document, 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. During 2017-2018, Corporate Finance issued comment letters within three business days to four out of five (80%) short-form prospectus filers. The one letter that did not meet the target was due to the Christmas holidays and staff scheduling. All other comment letters, receipts, and non-objection letters were issued within the targeted time frames.

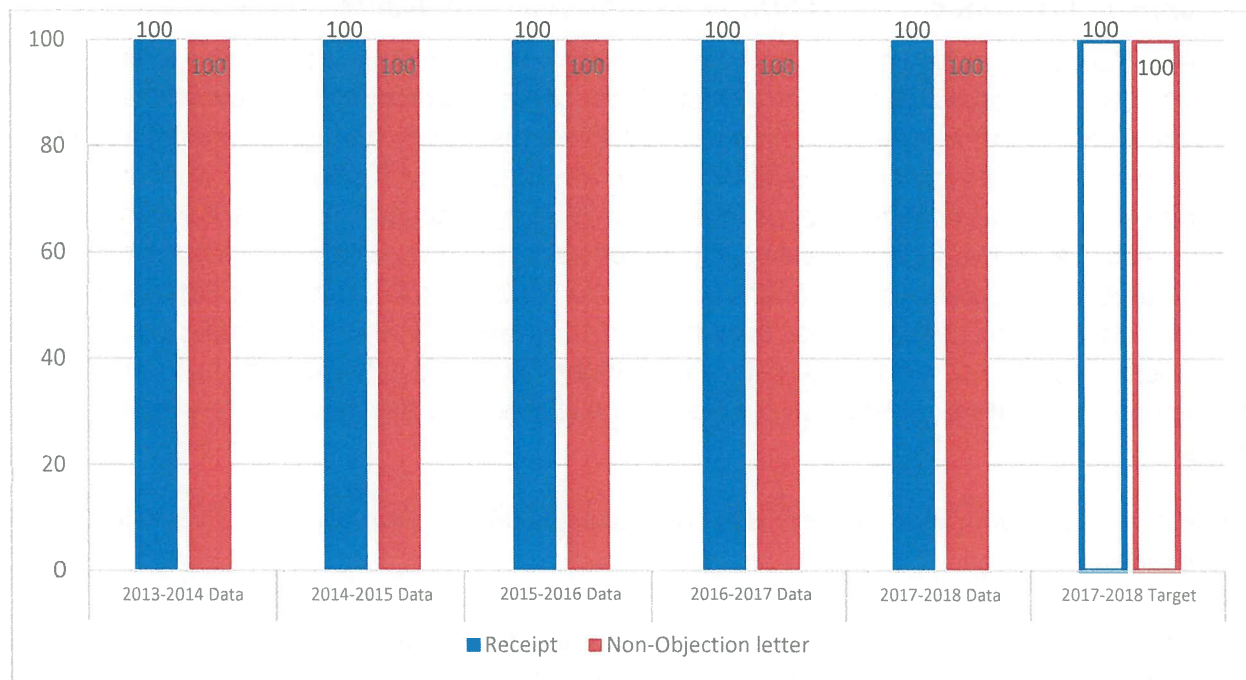
Prospectus issuers with head offices in Nova Scotia raised \$893 million in 2017-2018, while CEDIF issuers raised \$6 million.

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)



*In 2015-2016 and 2017-2018, no long form prospectuses were filed.

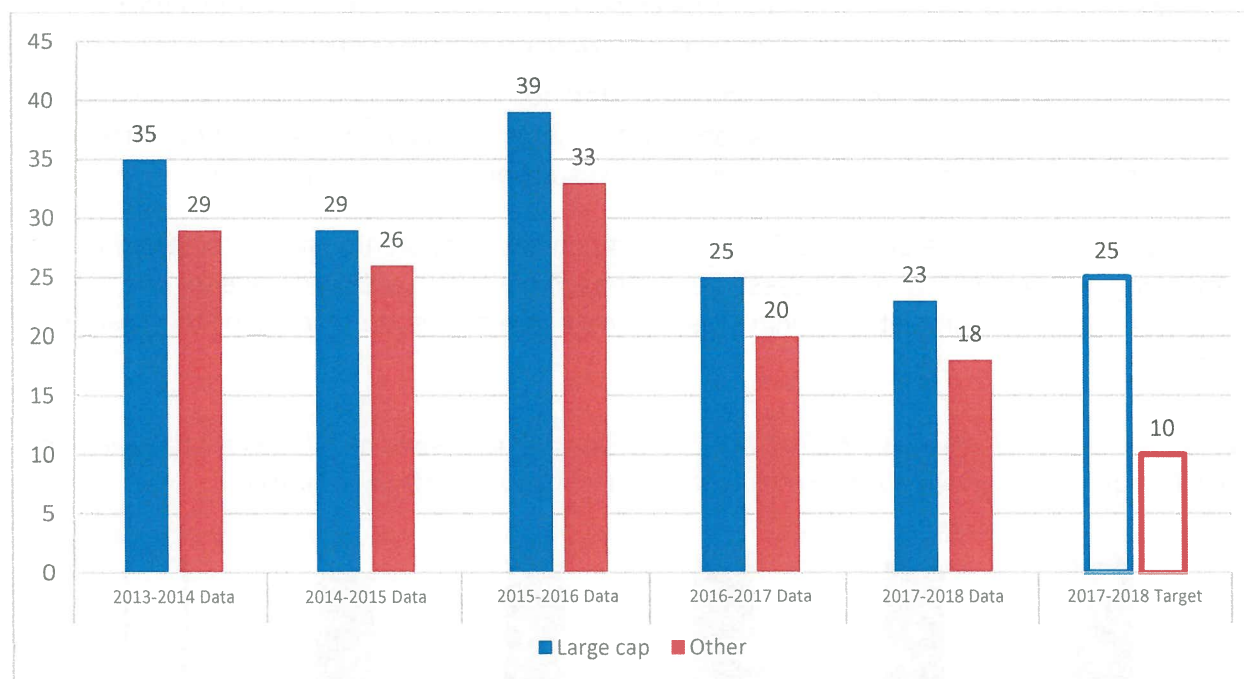
Chart 8: Percentage of issuers based in Nova Scotia who received the receipt for a prospectus or letter of non-objection for an offering document within the mandated timeframes after filing final documents (for receipts, one day; for offering documents, two days)



The Commission's Corporate Finance staff review public companies' filings to ensure consistency and uniformity in the information disseminated to the public who make investment decisions based upon that information. In 2017-2018, the Commission completed reviews of public companies' continuous disclosure 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 reviewed the public companies' compliance with its filing requirements.

As illustrated in Chart 9 below, the Commission targets to complete continuous disclosure reviews for 25% of Nova Scotia's large cap public companies, based on a market capitalization of \$18.72 billion, and 10% of its other reporting issuers, based on 17 other issuers. While the large cap reviews were slightly below target, the small cap reviews exceeded the targets in 2017-2018, with Commission staff completing reviews for \$4.22 billion out of the \$18.72 billion of Nova Scotia's large cap public companies (five out of 15 large cap reporting issuers) and three out of 17 of its other reporting issuers. While large cap public company reviews are based on market capitalization, other issuer reviews are based on the number of public companies due to market price volatility.

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 and 2012-2013, the focus of reviews was for compliance with International Financial Reporting Standards. 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. In 2014, to further reduce administrative requirements, the Commission removed the requirement to hold a hearing for failing to file documents. This enhancement to the process has improved the efficiency and responsiveness of our Corporate Finance branch, and allowed Commission resources to be more effectively utilized. In 2017-2018, the Director of Corporate Finance issued two cease trade orders for failure to file financial and associated disclosure within mandated timeframes. Two of these cease trade orders remain in force.

Corporate Finance staff also continued their CSA committee work on venture issuer regulation, derivatives, investment funds, rights offerings, reciprocal cease trade orders, electronic filing of exempt trade reports, crowdfunding and offering memorandum exemptions, and pursued, when possible, further harmonization with other jurisdictions of policies and procedures to continue to streamline Corporate Finance operations.

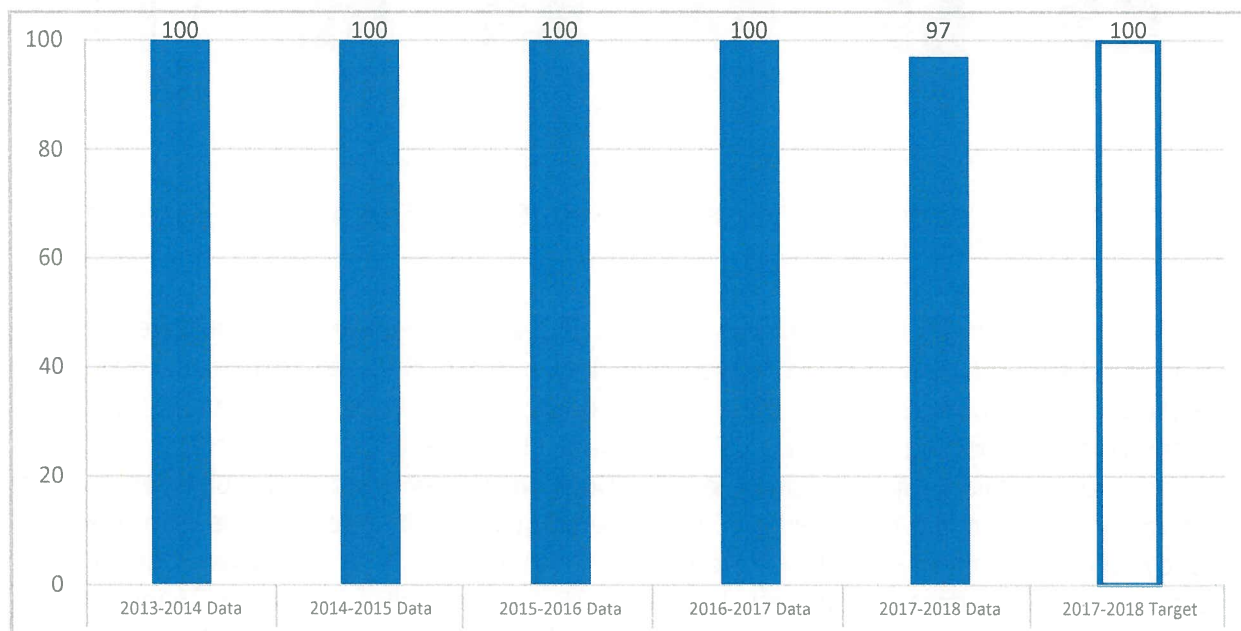
Core Area 4 – Enforcement Branch

Outcome: Efficient administration of enforcement programs to deter undesirable behavior in capital markets and provide effective investor protection

The performance measures enable Commission staff to decisively detect and disrupt market practices and misconduct that pose a danger to the investing public and bring cases for prosecution in hearings before the Commission when such actions are appropriate.

As illustrated in Chart 10 below, the Enforcement branch has consistently met its three-day target for reviewing and confirming initial assessments of each complaint received, save for one matter which took longer to complete the initial assessment due to the complexity of the materials provided.

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 days of receipt of complaint



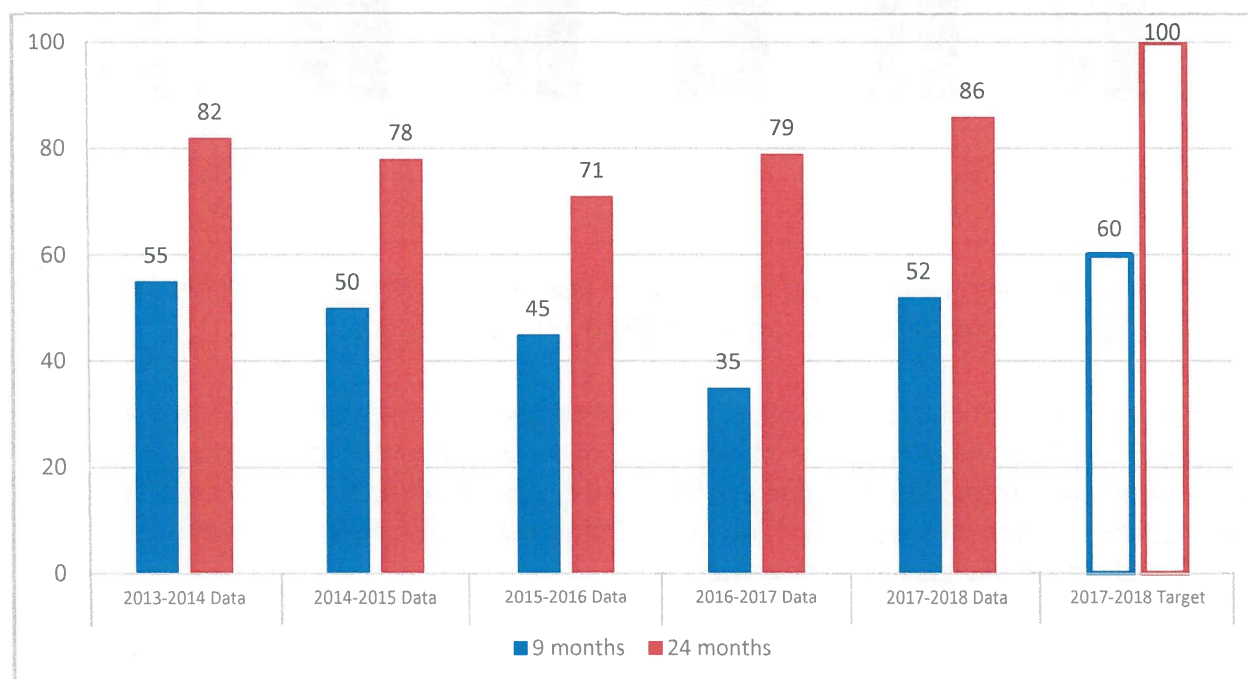
(*Please note that historically Enforcement Branch data was reported on a calendar year basis, however, to harmonize reported data, Enforcement data will be reported on a fiscal year basis going forward.)

In the 2017-2018 fiscal year, the Enforcement branch received 78 complaints of which 39 were opened as investigation files. The remaining 39 were identified as unactionable inquiries. A significant amount of staff time and branch resources are expended in responding to all complaints, including those that do not result in Enforcement action and therefore no file is opened.

With each complaint, the preliminary facts must be assessed to determine if Enforcement has jurisdiction to initiate an investigation. Enforcement jurisdiction only exists where there is a nexus to a “trade” in a “security”.

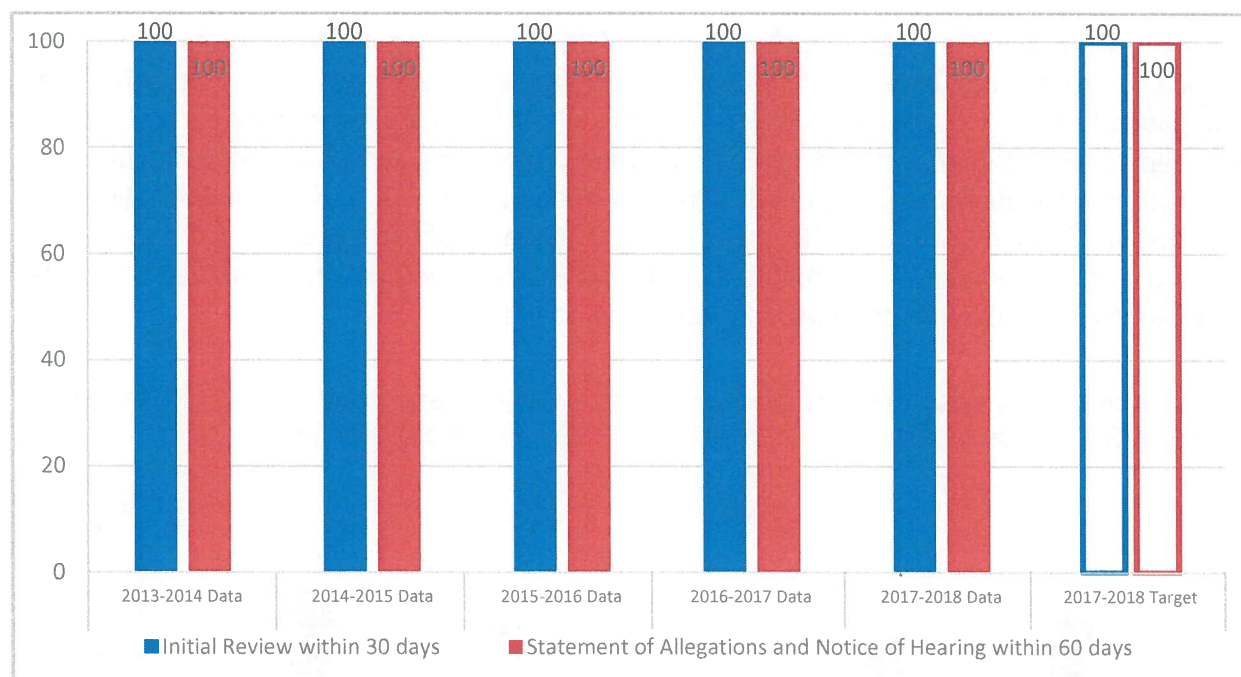
Forty-six investigation files were concluded in 2017-2018. Of those 46 files, 24 files (52%) were concluded within the first nine months of commencing the investigations and 36 files (86%) of all investigation files were concluded within 24 months of commencing the investigation. Chart 11 below depicts an increase in the percentage of investigations concluded as metrics require that 60% of all investigations be concluded within six months and 100% of all investigations be concluded within 24 months. Due to the growing complexity of investigation files due to both traditional and new financial instruments, coupled with the growing volume of available records, investigations are both more complex and more time consuming.

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



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 within 30 days; and 2) the initiation of issuance of the Statement of Allegations and Notice of Hearing within 60 days. 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



In 2017-2018, the Commission concluded two cases against multiple respondents resulting in the issuance of \$47,500 in administrative fines and \$3,500 in cost recoveries.

Enforcement staff continue to participate in CSA committee work to harmonize investigative and litigation methods, to streamline and standardize procedures to better utilize resources, and to expedite complaint resolution. Examples of this are the creation of the Binary Options Task Force (renamed the Investment Fraud Task Force), the Data Analytics Working Group, and the Insider Trading and Market Manipulation Committee.

Supplemental Information and Appendices

While there is no one national securities regulator in Canada, staff of the Commission work closely with staff of the other CSA members with the goal of adopting a harmonized and coordinated approach to securities regulation in Canada. The Commission is also a member of NASAA, comprised of members from each of the securities regulators in Canada, the United States, and Mexico, of which staff of the Commission are actively involved in some NASAA initiatives. Some of the recent CSA and NASAA initiatives include:

Disrupting Binary Option Fraud

In response to an increase in binary options scams aimed at Canadians during the 2017-2018 period, members from the Enforcement branches of the CSA formed the Binary Options Task Force. The CSA's Binary Options Task Force undertook a number of initiatives to protect Canadians from unregistered and offshore sellers of binary options. Such initiatives included (i) working with online advertisers and companies to eliminate binary option advertising and mobile apps in Canada, (ii) coordinating efforts with international organizations and governments, (iii) creating and maintaining a system to share and track fraudulent activity across the country, and (iv) working closely with the fraud teams at major credit card and financial institutions to cut off funding mechanisms. The CSA also conducted an investor awareness campaign to educate Canadians about such scams.

In parallel, the CSA also adopted National Instrument 91-102 *Prohibition of Binary Options* (NI 91-102) effective December 12, 2017. NI 91-102 marks the first time the Commission and other CSA members have banned a type of security. NI 91-102 explicitly prohibits the advertising, offering, selling, or otherwise trading a binary option that has a maturity of less than 30 days. The prohibition is directed at trading with individuals and companies created or primarily used to trade binary options.

As a result of these investor protection initiatives, there has been a significant decrease in complaints received in Canada related to binary options.

Growth in Financial Technology

During the 2017-2018 period, there was significant growth in the development and use of financial technology (fintech). In order to support fintech businesses seeking to offer innovative products, services, and applications in Canada, the CSA created the Regulatory Sandbox. The CSA Regulatory Sandbox is part of the CSA's 2016-2019 Business Plan to gain a better understanding of how technology innovations are impacting capital markets, assess the scope and nature of regulatory implications, and what may be required to modernize the securities regulatory framework for fintech.

Firms with innovative business models are encouraged to contact their local securities regulator to discuss the firm's business model and applicable securities law issues. Novel fintech

businesses are referred to the CSA Regulatory Sandbox to register and/or obtain exemptive relief from securities laws requirements under a faster and more flexible process.

The CSA Regulatory Sandbox also published CSA Staff Notice 46-307 *Cryptocurrency Offerings*, and more recently, CSA Staff Notice 46-308 *Securities Law Implications for Offerings of Tokens*, to provide guidance for fintech businesses to understand what obligations may apply under securities laws to the sale of cryptocurrency and crypto-assets in Canada.

NASAA Crypto-sweep

The Commission, along with 40 other state and provincial securities regulators, was involved in a coordinated series of inquiries, investigations, and enforcement actions taken by state and provincial securities regulators related to fraudulent or non-compliant ICOs and cryptocurrency-related investment products. “Operation Cryptosweep” resulted in nearly 70 investigations and 25 completed or pending enforcement actions taken in North American in May 2018.

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 2017-2018
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