



Securities Commission

Annual Accountability Report  
for the Fiscal Year 2018 – 2019

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## Accountability Statement

The Accountability Report of the Nova Scotia Securities Commission (the Commission) for the year ended March 31, 2019, 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 2018-2019 Business Plan.

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"Paul E. Radford"  
Paul E. Radford, QC, Chair

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"H. Jane Anderson"  
H. Jane Anderson, 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 2018-2019 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 2018-2019 increased by 3.0%, or \$0.612 million, from the prior year to \$21.109 million. This increase in our revenues is attributable primarily to an increase in corporate filings. Our total expenditures for 2018-2019 increased by 1.7%, or \$0.041 million, over the prior year to \$2.402 million. This increase in expenditures relates primarily to an increase in professional service expenses related to the Canadian Securities Administrators (CSA) and increases in rent. Our total expenditures for the year were \$0.244 million under our approved budget of \$2.647 million.

This year, the Commission accomplished considerable policy development work, including publishing for comment rule amendments and guidance to enhance the standards of conduct of investment professionals. The Commission also continued its work on initiatives to reduce regulatory burden and reviewing the exempt market in Nova Scotia, as described in the 2018-2019 Business Plan. Work by the CSA jurisdictions on a comprehensive web-based National Electronic Filing System also continues.

The Commission develops policy through participation in committees organized by the 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.

In response to the increase in the development and use of financial technology and services (fintech) during the year, the CSA Regulatory Sandbox was active and CSA members successfully addressed two very risky fintech developments, binary options and cryptocurrency offerings, through regulators' enforcement and investor awareness initiatives. In addition, the Commission and the other CSA members are evaluating regulation of crypto-asset trading platforms to address unregulated activity where there is risk of significant harm.

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"Paul E. Radford"

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

## Financial Results

Core Business (All)	2018-2019 Estimate (\$ thousands)	2018-2019 Actual (\$ thousands)	Variance (\$ thousands)
Revenues	(19,700)	(21,115)	1,415 <sup>1</sup>
Expenditures			
Salaries and Benefits	2,019	1,781	238
Operating Costs	628	622	6 <sup>2</sup>
Cost Recoveries			
Total Expenditures	2,647	2,403	244
Net Revenue	(17,053)	(18,713)	1,659
FTEs	19.0	17.6	1.4

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

<sup>2</sup> Lower operating costs compared to estimate were the result of vacant positions.

## 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 2014-2015 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 Memorandum of Understanding on Securities Regulation

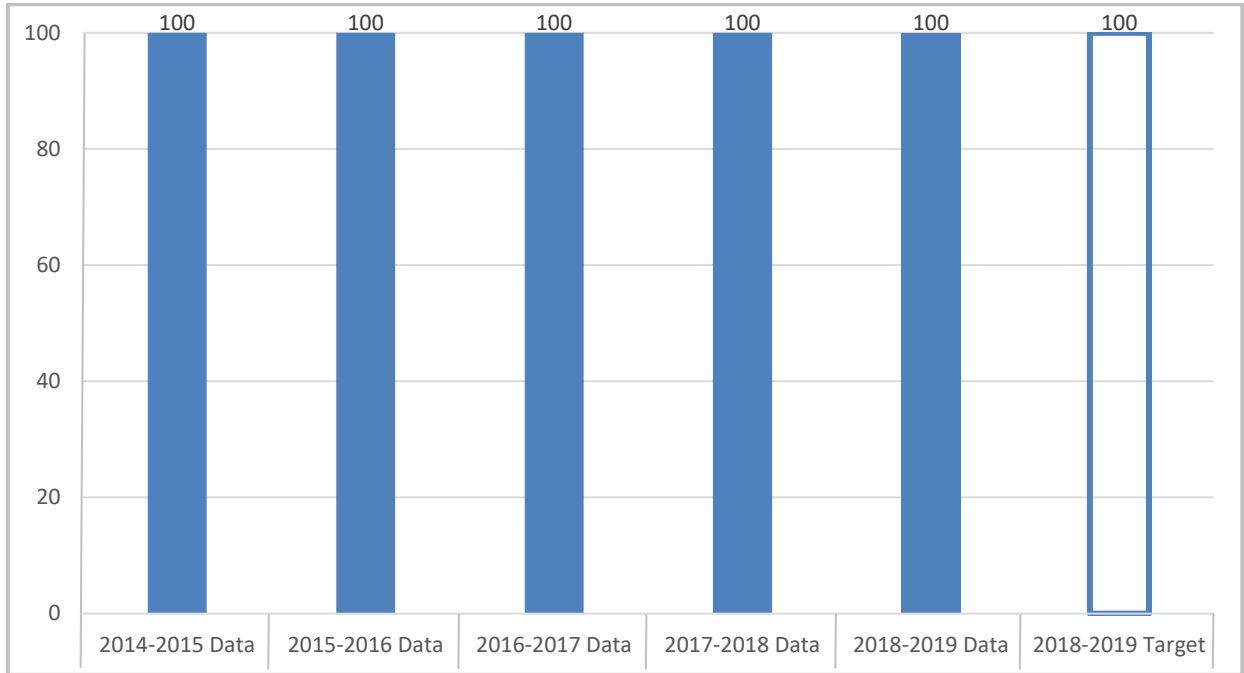
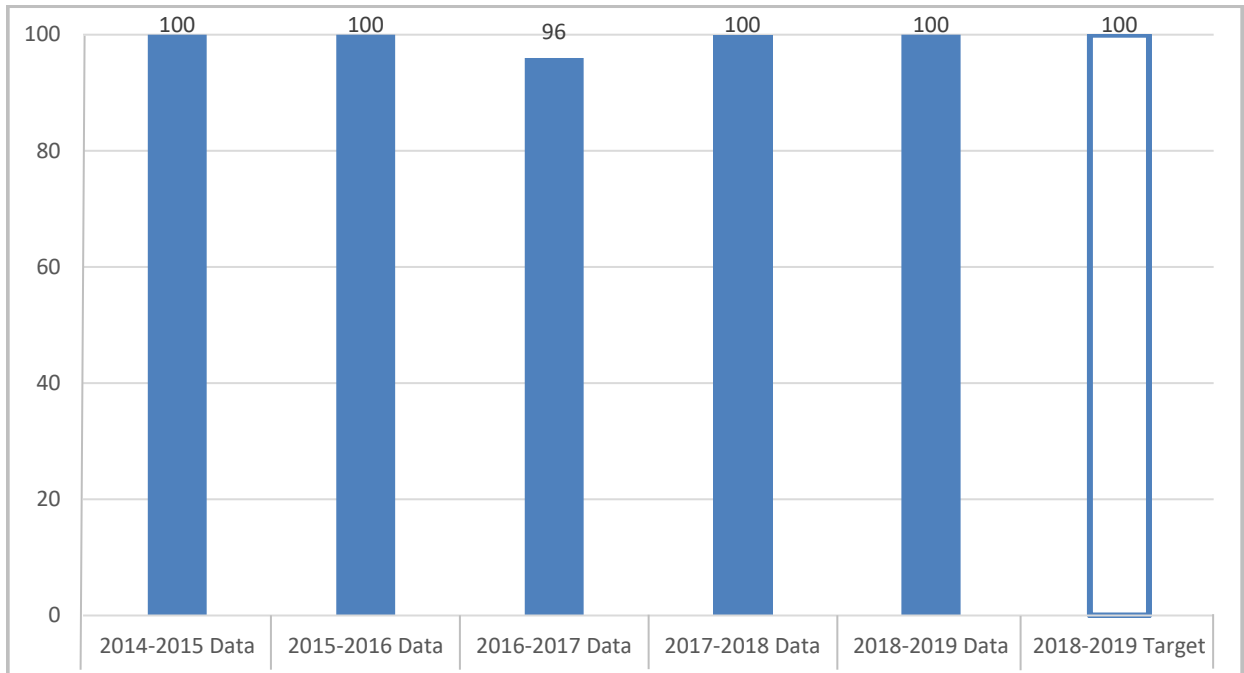


Chart 2: Percentage of exemption applications considered within five business days of filing





As illustrated in Chart 3 below, this year the Commission exceeded its target relating to the timely issuance of orders after settlement hearings. In 2018-2019, the Commission held four hearings to consider the approval of settlement agreements. The orders approving the settlement agreements were all 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 heard two contested matters that proceeded by way of hearings in writing. One matter is ongoing and an Order for the other matter was issued within the 90-day target date following 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*

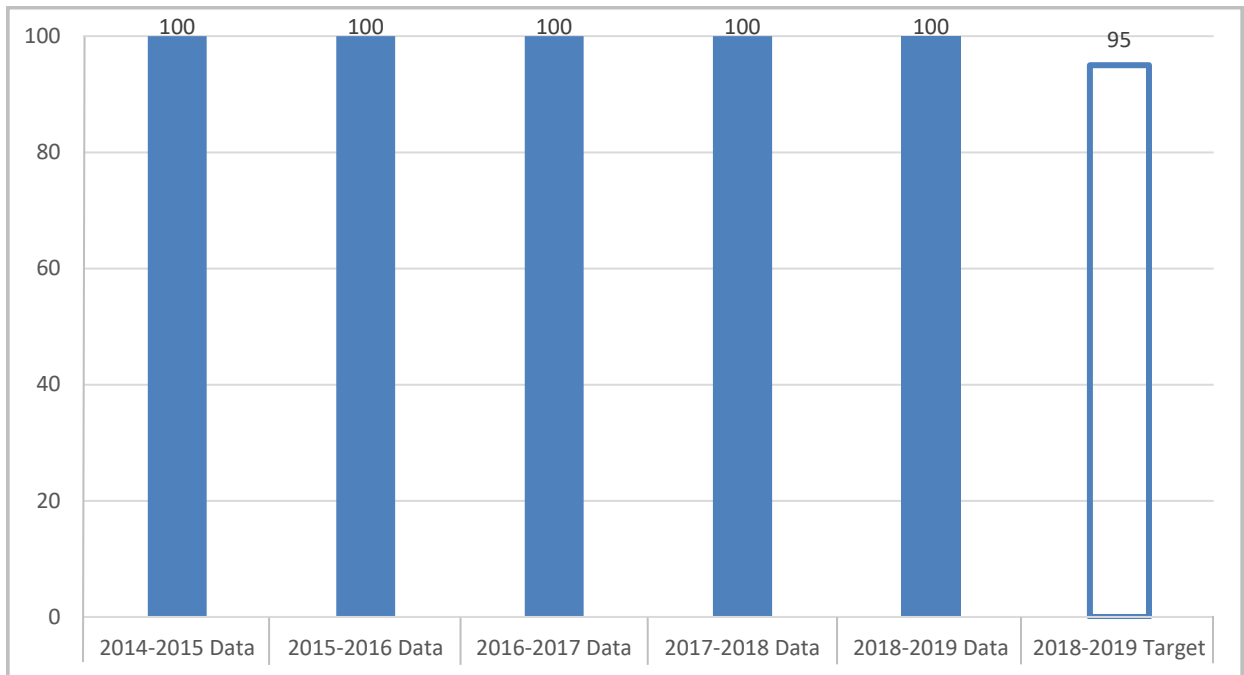
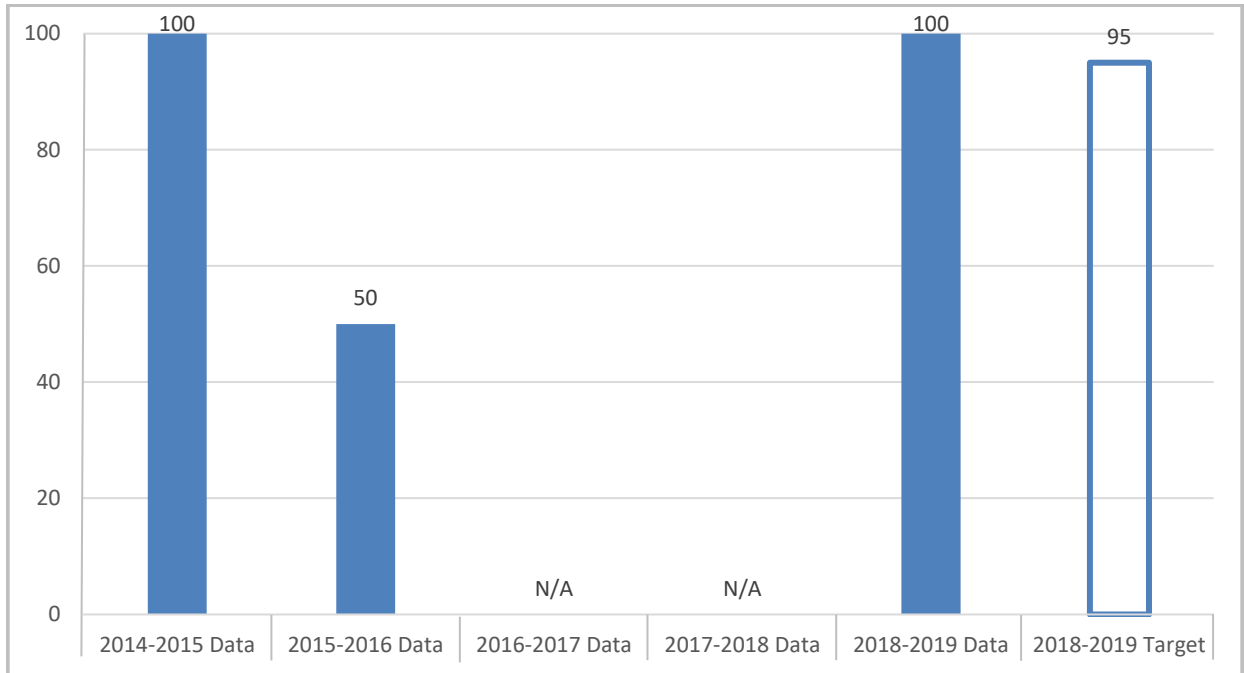


Chart 4: Percentage of orders and decisions made within 90 days of the final submissions from the parties following the conclusion of a contested hearing



### Major Policy Initiatives

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

- Publication of proposed National Instrument 93-102 *Derivatives: Registration* (NI 93-102) to implement a regime requiring persons or companies that are in the business of trading or advising on derivatives to be registered. NI 93-102 is intended to protect investors, reduce risk, and improve transparency and accountability in over-the-counter derivatives markets.
- Publication of proposed amendments to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (NI 31-103) to amend certain conduct provisions that apply to registered dealers and advisers (registrants) in order to better align the interests of registrants with the interests of their clients, to improve outcomes for clients, and to make clearer to clients the nature and the terms of the relationship with registrants. Specifically, the amendments to NI 31-103 amend the following provisions: (i) know your client, (ii) know your product, (iii) suitability, (iv) conflicts of interest, and (v) relationship disclosure information. The amendments relating to conflicts of interest and suitability include the requirements that registrants have to address all existing and reasonably foreseeable conflicts of interest in the best interests of their clients, and registrants have to put the clients' interest first when making suitability determinations. The amendments relating to know your client and know your product are

designed to support these critical provisions. The amendments relating to relationship disclosure information provide for expanded disclosure about any restrictions on the products or services a registrant will make available to a client, including the impact on a client's investment returns that may result from such restrictions, as well as potential impact of costs and charges. In addition, a new requirement is introduced to make key information publicly available so that potential clients are better able to choose a registrant that is likely to meet their expectations.

- Adoption of Commission Blanket Order No. 94-502 *In the Matter of Relief for Certain Counterparties from Mandatory Clearing Under National Instrument 94-101 Mandatory Central Counterparty Clearing of Derivatives* (BO 94-502). BO 94-502 effectively extends exemptive relief granted by the Commission pursuant to Commission Blanket Order 94-501, which expired on August 20, 2018, to certain counterparties of over-the-counter derivatives from the clearing requirement under National Instrument 94-101 *Mandatory Central Counterparty Clearing of Derivatives*.
- Publication of National Instrument 93-101 *Derivatives Firms – Business Conduct* (NI 93-101) which sets out a comprehensive approach to regulating the conduct of derivatives markets participants, including among others, conflicts of interest, fair dealing, and know your client. NI 93-101, together with proposed NI 93-102, are expected to establish a robust investor protection regime applicable to derivatives market participants.
- Adoption of 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.
- Publication of proposed National Instrument 52-112 *Non-GAAP Financial Measures and Other Financial Measures Disclosure* (NI 52-112) to address the disclosure of non-GAAP financial and other measures, such as segment measures, capital management measures, and supplementary financial measures, because such information may be helpful to investors to assess an issuers' performance. NI 52-112 does not contain specific limitations or industry specific requirements; rather, it includes comprehensive disclosure requirements whose overall goal is to improve the quality of information provided to investors.
- Publication of proposed amendments to National Instrument 81-105 *Mutual Fund Sales Practices* to implement the CSA's policy response to the investor protection and market efficiency issues arising from the prevailing practice of investment fund managers remunerating dealers and their representatives from mutual fund sales through embedded

commissions, including sales and trailing commissions. The proposed amendments: (i) prohibit the payment of upfront sales commissions by fund organizations to dealers and, in doing so, discontinue sales charge options that involve such payments, such as all forms of the deferred sales charges, and (ii) prohibit the payment of commissions by fund organizations to dealers who do not make a suitability determination, such as order-execution-only dealers.

- Adoption of amendments to National Instrument 81-102 *Investment Funds* (NI 81-102) to help facilitate more alternative and innovative strategies of investment funds while, at the same time, maintaining restrictions that are appropriate for products that can be sold to retail investors. The amendments include moving most of the regulatory framework currently applicable to commodity pools into NI 81-102 and renaming these funds as "alternative mutual funds". The amendments also codify certain existing exemptive relief frequently granted to mutual funds, and include additional changes arising from feedback received.
- Publication of proposed amendments to National Instrument 24-102 *Clearing Agency Requirements* (NI 24-102) to: (i) enhance operational system requirements, emphasizing the importance of cyber resilience, and clarifying testing and reporting expectations, (ii) align aspects of the instrument more closely with similar provisions in National Instrument 21-101 *Marketplace Operation*, and (iii) reflect the latest developments and findings of the Committee on Payments and Market Infrastructures and the International Organization of Securities Commissions that are relevant to the Canadian market.
- Adoption of amendments to NI 31-103 regarding custody-related amendments to codify existing custodial best practices by registered firms of certain margin and security interests. The permissible activities are similar to the custodial practices for investment funds permitted under NI 81-102 in respect of portfolio assets being held as margin for certain derivatives transactions out of Canada. The intent of these amendments is to give all clients and investment funds of registered firms the same ability to deposit assets with certain dealers in respect to cleared over-the-counter derivatives.
- Publication for a second time of amendments to NI 45-106 and NI 31-103 relating to syndicated mortgages. As a result of comments received on previously published proposed amendments relating to syndicated mortgages, the proposed amendments: (i) remove the prospectus and registration exemptions in NI 45-106 and NI 31-103 for the distribution of syndicated mortgages in the CSA jurisdictions where exemptions are currently available, (ii) introduce additional requirements to the Offering Memorandum exemption in NI 45-106 that apply when the exemption is used to distribute syndicated mortgages, and (iii) amend the private issuer prospectus exemption in NI 45-106 so it is not available for the distribution of syndicated mortgages. In addition, the Commission is

proposing to adopt dealer registration and prospectus exemptions for “qualified syndicated mortgages” on properties that have no more than four units and are primarily used for residential purposes as these types of syndicated mortgages are more like traditional mortgages.

- Publication of proposed National Instrument 25-102 *Designated Benchmarks and Benchmark Administrators* to implement a comprehensive regime for the designation and regulation of benchmarks, the designation and regulation of persons or companies that administer benchmarks, the regulation of benchmark contributors, and the regulation of certain users of designated benchmarks.
- Publication of joint CSA/IIROC Consultation Paper 23-406 *Internalization within the Canadian Equity Market*. In response to concerns regarding the internalization of retail/small orders within the Canadian equity market, the consultation paper seeks feedback regarding how current trading practices fit within the marketplace rule framework. The term “internalization” refers to different types of trading activities and may occur through a variety of means. A trade that has been “internalized” is generally considered to be a trade that is executed with the same dealer as both the buyer and the seller. A dealer may act as an agent on both sides of an internalized trade or may act as principal in taking the other side of a client order. While the rule framework currently accommodates some internalization, the CSA wants to ensure these rules continue to meet the policy objectives, promote the functioning of a fair and efficient market, and reflect the evolution of the market.
- Publication of joint CSA/IIROC Consultation Paper 21-402 *Proposed Framework for Crypto-Asset Trading Platforms*. As a result of the emergence of distributed ledger technology, crypto-assets, and digital trading platforms, the CSA and IIROC are considering issues surrounding the appropriate regulation of trading platforms. Depending on how they operate and the crypto-assets that they make available for trading, trading platforms may be subject to securities regulation. Where securities legislation applies to trading platforms, the CSA is considering a set of tailored regulatory requirements to address the novel features and risks, and are seeking feedback thereon.
- Publication of proposed amendments to National Instrument 21-101 *Marketplace Operation* to reduce the regulatory burden associated with reporting requirements for marketplaces and information processors by eliminating the reporting of superfluous information and duplicative reporting requirements, enhancing the systems-related requirements, and providing for consistency with recent changes to the systems requirements for clearing agencies in NI 24-102.

## Core Area 2 – Policy and Market Regulation Branch

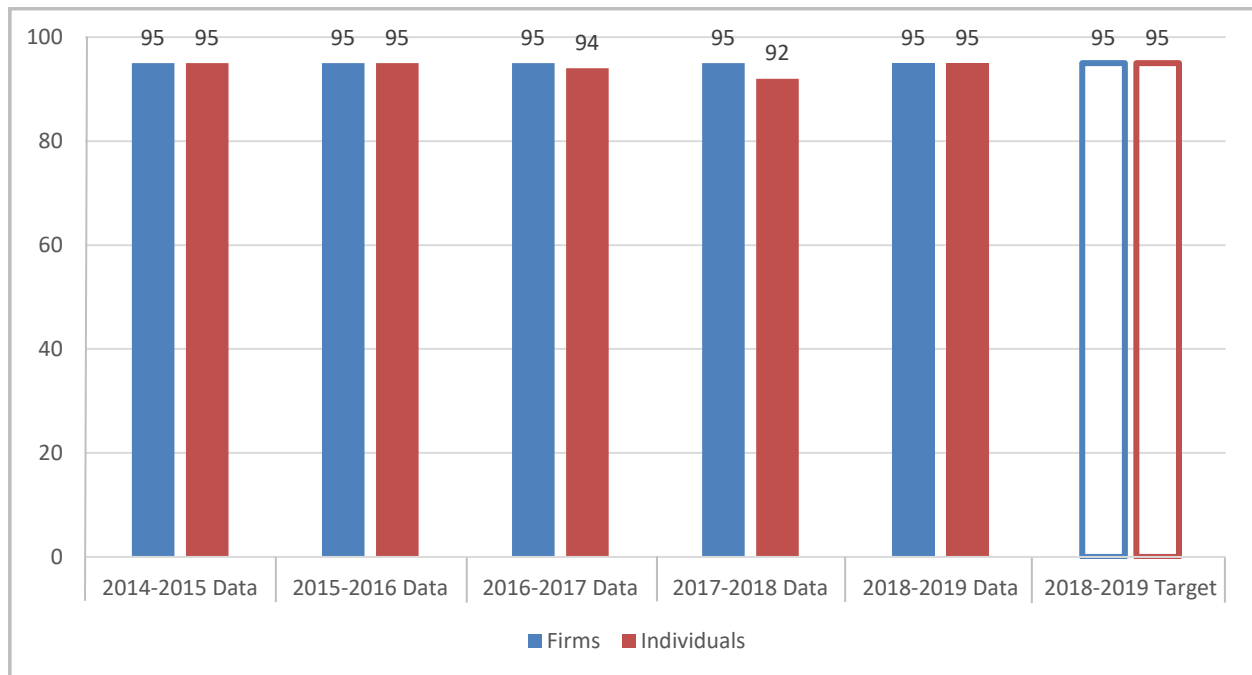
The Policy and Market Regulation Branch has three core areas of responsibility: Registration, which relates to the registration and oversight of investment professionals and firms in Nova Scotia; Compliance, which relates to the review and oversight of the activities of investment professionals and firms 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.

### Registration

**Outcome: Efficient administration of the registration system to ensure new and existing registrants meet all requirements to maintain confidence in the capital markets and provide effective investor protection**

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 remained steady since the implementation of the passport system for registration in September 2009. We met our target for individual and firm registrations in 2018-2019.

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 Registration staff also continue to work on several committees of the CSA to provide a voice for the stakeholders in Nova Scotia with respect to the formation of new rules and

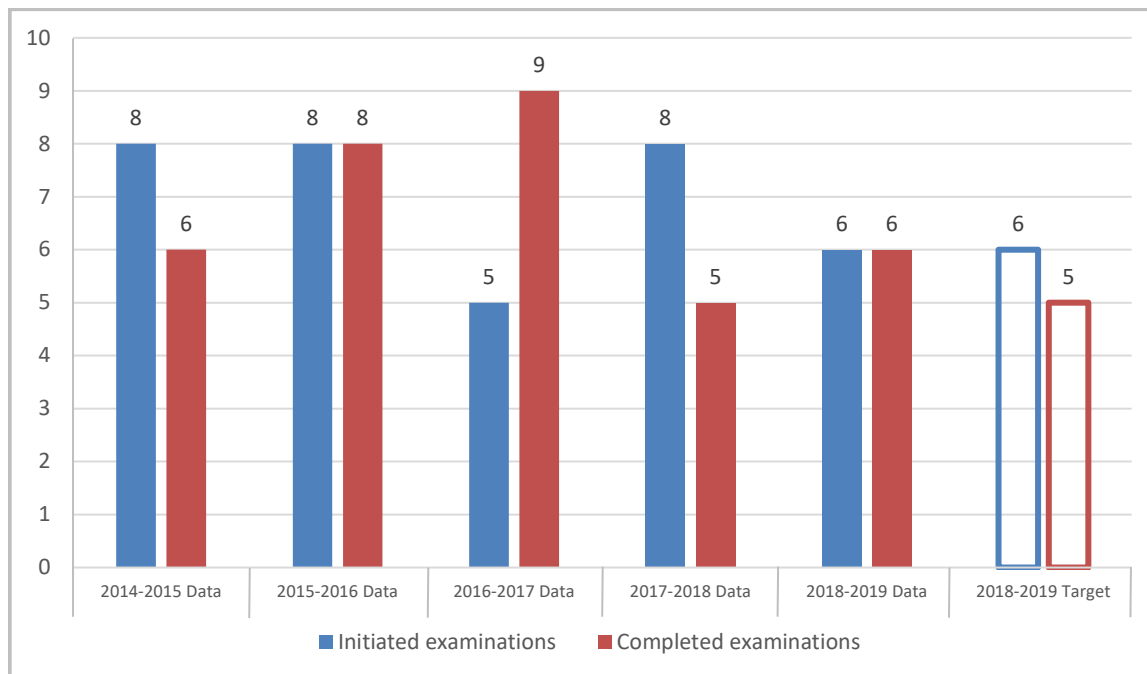
amendments to current rules. During 2018-2019, the emergence of crypto-asset trading platforms and other new forms of fintech have presented challenges, and work continues with other Canadian jurisdictions through the CSA Regulatory Sandbox to establish the appropriate registration structures for these new market participants. When there are significant rule changes and enhancements to the registration process, staff provide specific notice to Nova Scotia-based registered firms in order to provide a continued robust and streamlined approach to submissions.

## 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 their 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 2018-2019, there was a continued 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 compliance work is to provide effective and comprehensive oversight of the SROs in Nova Scotia. As the investment industry in Nova Scotia is mostly comprised of branch offices of registered firms that are members of the SROs, 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 and better oversight of the many branch offices located in this jurisdiction.

Compliance staff also continue 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. Significant work has been completed, together with the SROs related to client-focused reforms, which will enhance investor protection.

## ***Investor Education***

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

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

In 2018-2019, the Commission continued to make a strong effort to increase their public outreach to youth and students in the Province. The Commission relaunched their Student Connections program to connect with more high schools and post-secondary institutions in Nova Scotia. The Student Connections package went out to professors, instructors, teachers, deans, principals, guidance counsellors, and leaders from different youth and student clubs, groups, and organizations across Nova Scotia in mid-September. We immediately received requests from educators that wanted to bring the Student Connections program to their school.

Investor Education staff had the privilege to visit several schools across the province, both in-person and virtually through online videoconferencing. The Commission also hosted a finance class from the Nova Scotia Community College's Ivany Campus in our offices for the first time. These future advisers and finance professionals were able to learn firsthand from Investor Education, Registration, Compliance, and Enforcement staff.

Staff also travelled to Acadia University in Wolfville, Nova Scotia, to talk to an Investment Class in the F.C. Manning School of Business and members of the Acadia Investment Club. Following the presentation and discussion with the class, staff were interviewed for the Acadia business school's



podcast *The AxeChange*. The interview touched on many topics of interest to young investors, including cryptocurrencies and ICOs, investing in the marijuana industry, real estate investing, fraud, and securities regulation.

The Commission is always looking for new ways and new tools to improve the reach of our investor education message. A new Investor Education Resources’ webpage was created on the Commission’s website to house all such resources in one place, including brochures, information sheets, checklists, infographics, and online guides developed by the Commission, the CSA, and the North American Securities Administrators Association (NASAA). The new webpage is the next step in improving the content and design of the website with internal links replacing external links. This change will provide website users with the information they need, without sending them to another site.

Along with the new Resources’ webpage, a new webpage for our investor education videos was also created. To populate this webpage, the Commission began creating our own branded investor education animated videos. Staff created and launched the first video “What is the Nova Scotia Securities Commission?”, in February. The video informs viewers about the current framework of securities regulation in Canada, and the mandate and function of the Commission.

The Commission followed up the first video with a four-part series on investment fraud during Fraud Prevention Month in March. The series took a closer look at three specific types of investment fraud; Ponzi schemes, pump and dump scams, and boiler rooms. The final part of the series looked at what to do if you’re a victim of investment fraud, outlining where to turn and how to protect yourself.

The website enhancements and new investor education content have helped increase the number of user sessions on the Commission’s website. According to our analytics, user sessions increased 47% over the previous year. A large part of this increase has been our *Before You Invest* blog, which has seen tremendous growth since its relaunch in January 2016. We have published over 150 posts since then and many posts rank among the most viewed pages on the website every month.

Communications Matrix		
Goals	Percentage of Goal Completed in 2018-2019	Actions to Achieve Goals
Outreach to local media to build new and enhanced existing relationships	100%	<ul style="list-style-type: none"> <li>- Regularly updated media list to ensure all media outlets and reporters are being reached.</li> <li>- Received regular media inquiries from press releases and successfully pitched media stories.</li> </ul>

Communications Matrix		
Goals	Percentage of Goal Completed in 2018-2019	Actions to Achieve Goals
Improve investor education online resources	100%	<ul style="list-style-type: none"> <li>- Added a new investor education resources page to house all resources in one place.</li> <li>- Maintained <i>Question of the Week</i> feature with direct input and feedback from the public.</li> <li>- Created new evergreen content on investment fees, investment fraud, and fraud prevention.</li> <li>- Created new investor education videos pages with new videos and our older video content.</li> </ul>
Update Commission website	100%	<ul style="list-style-type: none"> <li>- Added new pages/content in Investor Education, Registration and Compliance, and Enforcement sections of the website.</li> <li>- Enhanced investor education web pages with more resources and new videos section.</li> </ul>

Communications Matrix		
Goals	Percentage of Goal Completed in 2018-2019	Actions to Achieve Goals
Connect the Commission with high school and post-secondary students in Nova Scotia through presentations and outreach	100%	<ul style="list-style-type: none"> <li>- Made connections with high school and post-secondary teachers/instructors.</li> <li>- Delivered presentations to high schools and post-secondary institutions across the province.</li> <li>- Delivered introduction letter and developed base presentation to be delivered to students as part of our Student Connections initiative.</li> <li>- Created multiple specialized presentations on requested topics.</li> </ul>
Maintain traffic to the Commission's website and increase reach on social media	100%	<ul style="list-style-type: none"> <li>- According to analytics, our website sessions increased 47% over last year.</li> <li>- Increased our followers on Twitter and better coordinated social media posting schedule.</li> </ul>

### ***Core Area 3 – Corporate Finance Branch***

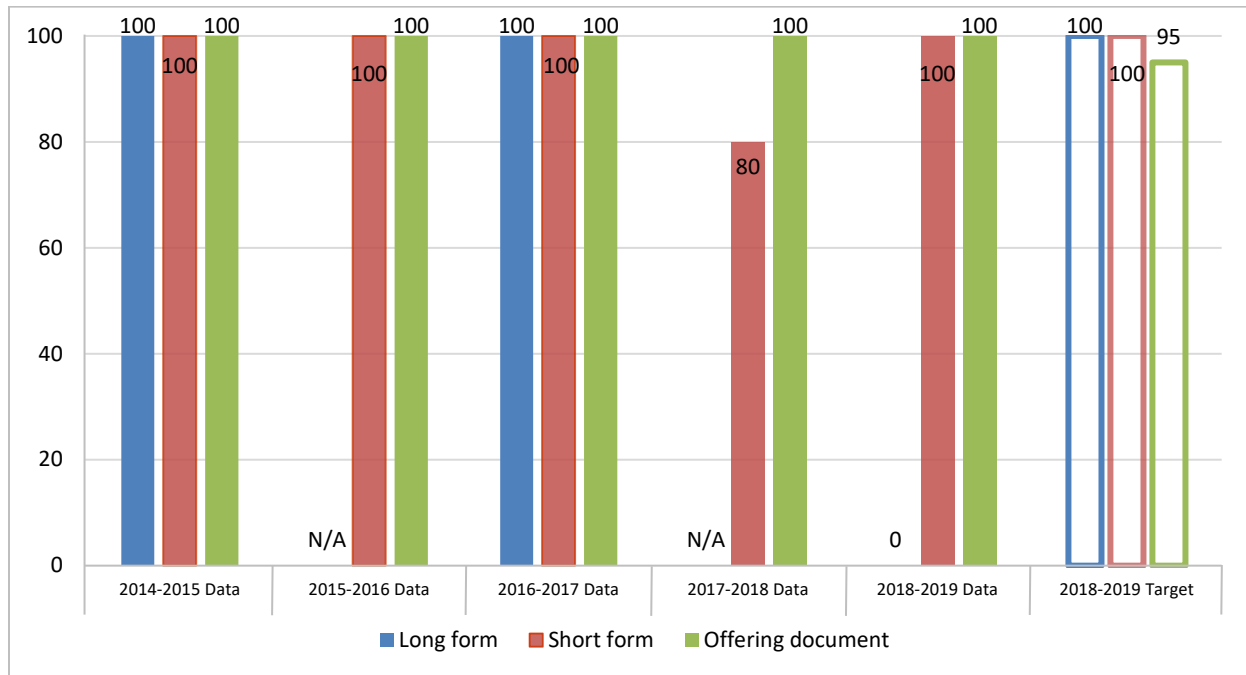
#### ***Outcome: Efficient administration of the prospectus, Community Economic Development Investment Fund (CEDIF) and continuous disclosure review systems***

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 2018-2019, Corporate Finance issued comment letters within three business days to seven out of seven (100%) short-form prospectus filers. There were no long form prospectuses filed during the year. All other comment letters, receipts, and non-objection letters were issued within the targeted time frames.

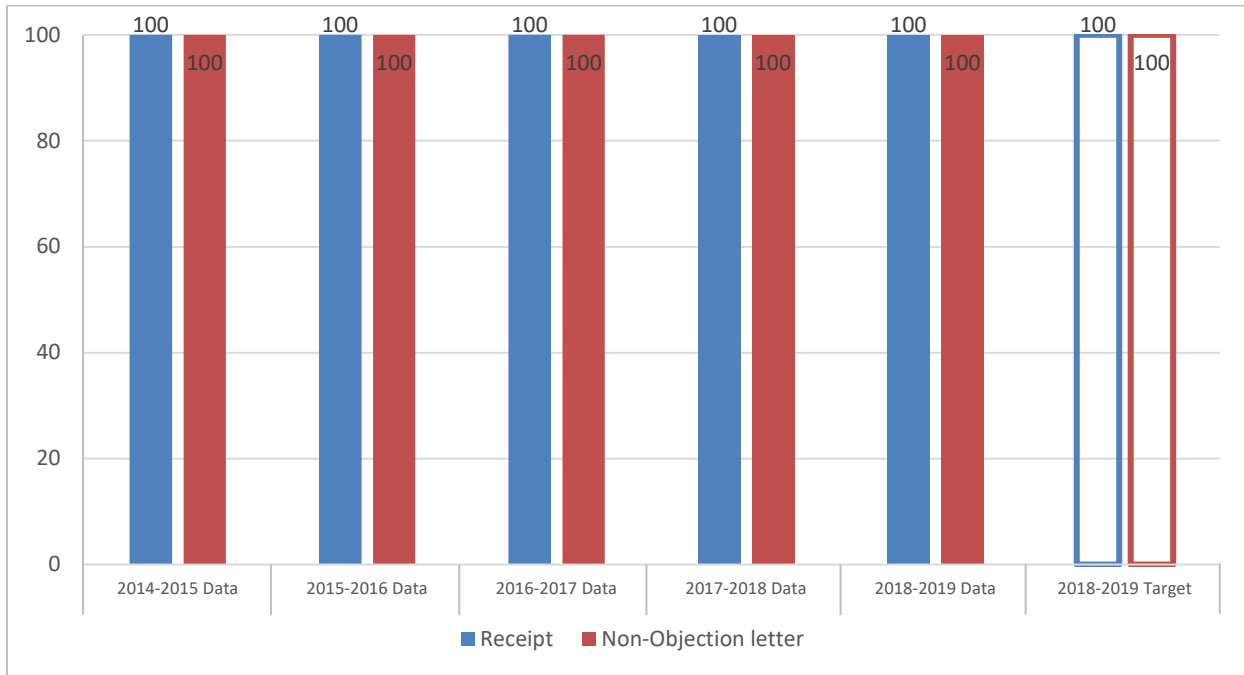
Prospectus issuers with head offices in Nova Scotia raised \$1.4 billion in 2018-2019, while CEDIF issuers raised \$2.9 million.

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.

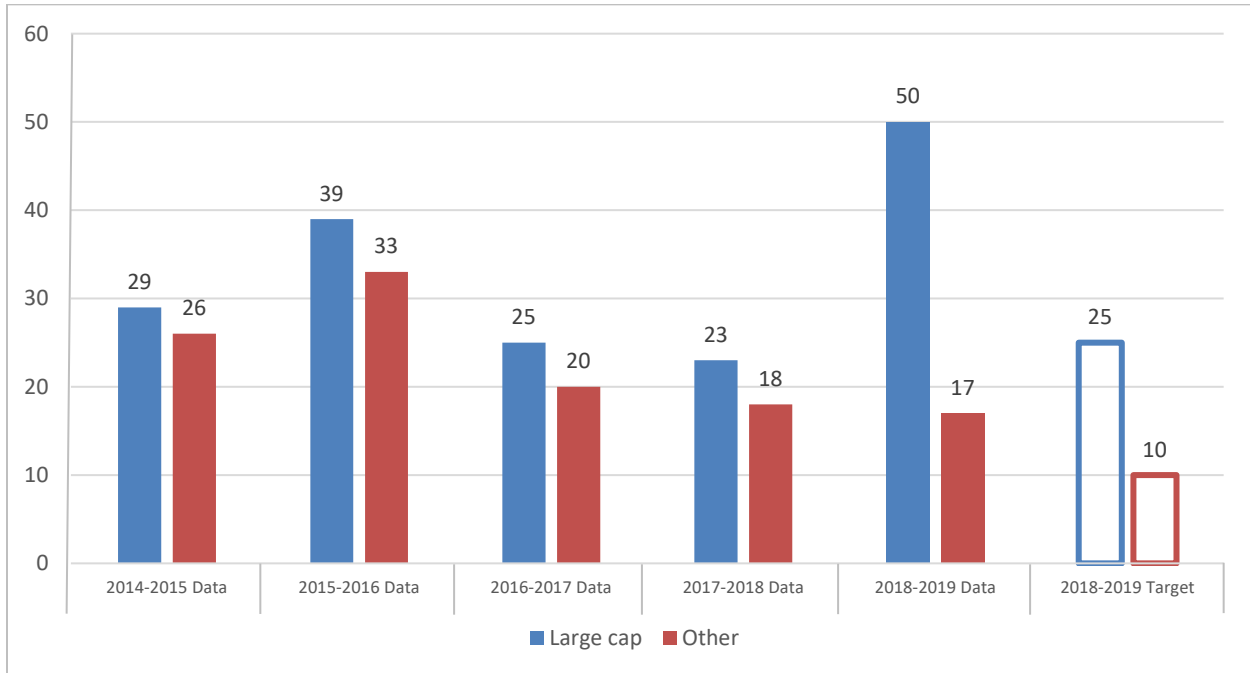
Chart 8: Percentage of issuers based in Nova Scotia who received the receipt for a prospectus or letter of non-objection for an offering document within the mandated timeframes after filing final documents (for receipts, one day; for offering documents, two days)



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 2018-2019, 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 \$19.1 billion, and 10% of its other reporting issuers, based on 17 other issuers. Both the large cap reviews and the small cap reviews exceeded the targets in 2018-2019, with Commission staff completing reviews for \$9.6 billion out of the \$19.1 billion of Nova Scotia’s large cap public companies (five out of 15 large cap reporting issuers) and four 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 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 2018-2019, the Director of Corporate Finance issued four cease trade orders for failure to file financial and associated disclosure within mandated timeframes. One of these cease trade orders remain in force.

Corporate Finance staff also continued their CSA committee work on the reduction of regulatory burden initiatives, venture issuer regulation, derivatives, investment funds, 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.

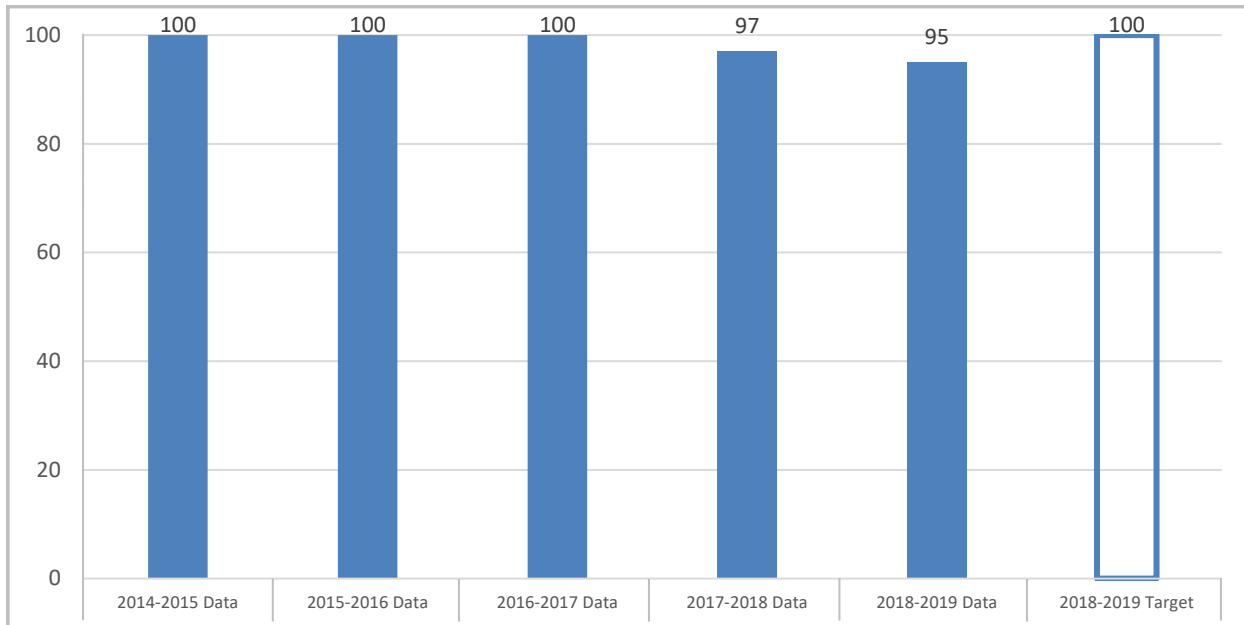
### Core Area 4 – Enforcement Branch

#### **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, despite being understaffed for a substantial portion of the 2018-2019 fiscal year, the Enforcement Branch consistently met its three-day target for reviewing and confirming initial assessments of each complaint received, save for four matters. The initial assessment in those four matters took longer to complete due to the complexity and volume of the materials provided and unexpected loss of enforcement staff.

*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*



In the 2018-2019 fiscal year, the Enforcement Branch received 105 complaints<sup>3</sup> of which 48 were opened as investigation files. The remaining 57 complaints were determined to be unactionable inquiries. A significant amount of staff time and Enforcement Branch resources are expended in responding to all complaints, including those that do not result in enforcement action.

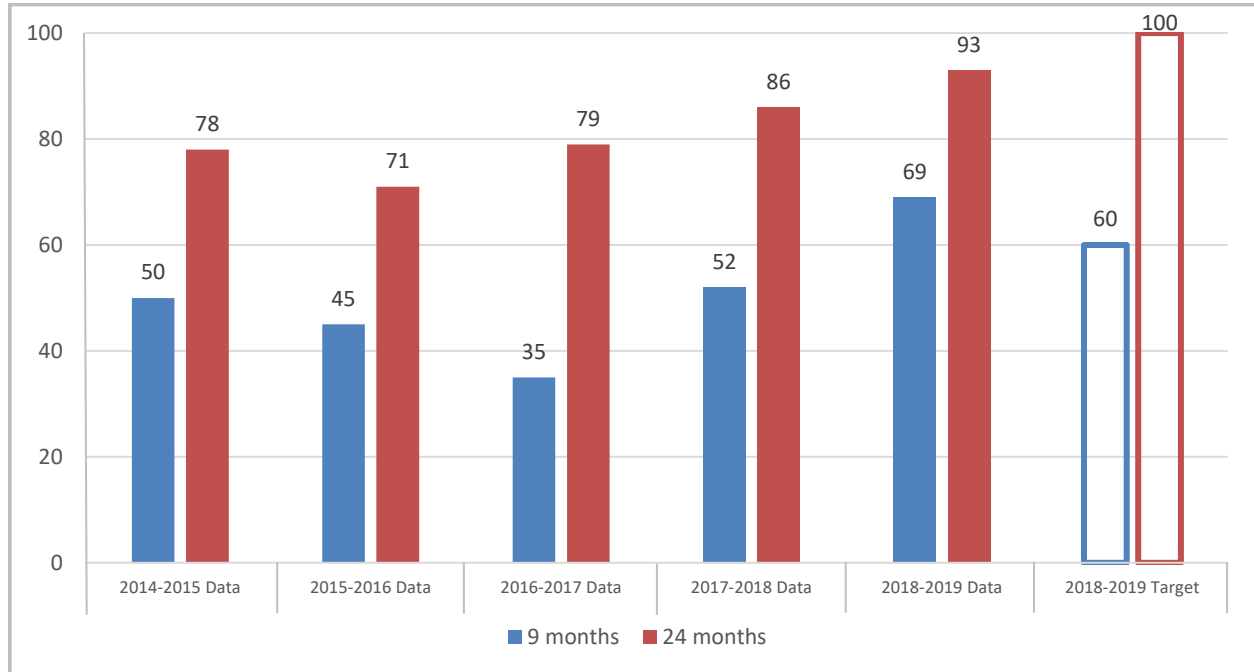
With each complaint, the preliminary facts must be assessed to determine if the Enforcement Branch has jurisdiction to initiate an investigation. Enforcement jurisdiction only exists where there is a locational nexus to a “trade” in a “security” or “derivative”.

Forty-five investigation files were concluded in 2018-2019. Of those 45 files, 31 files (69%) were concluded within the first nine months of commencing the investigations and only 12 files (28%) of all investigation files took 24 months from the date of commencing the investigation to conclude.

<sup>3</sup> “Complaints” in this Report include: public complaints; public inquiries; referrals by SROs and other regulatory bodies, both inside and outside of Canada; self-reporting; media; civil court actions; criminal cases and/or convictions.

Chart 11 below depicts an increase in the percentage of investigations concluded as metrics require that 60% of all investigations be concluded within nine months and 100% of all investigations be concluded within 24 months. Due to the growing complexity of investigation files as a result of both traditional and new financial instruments, coupled with the growing volume of available records, investigations are both more complex and more time consuming.

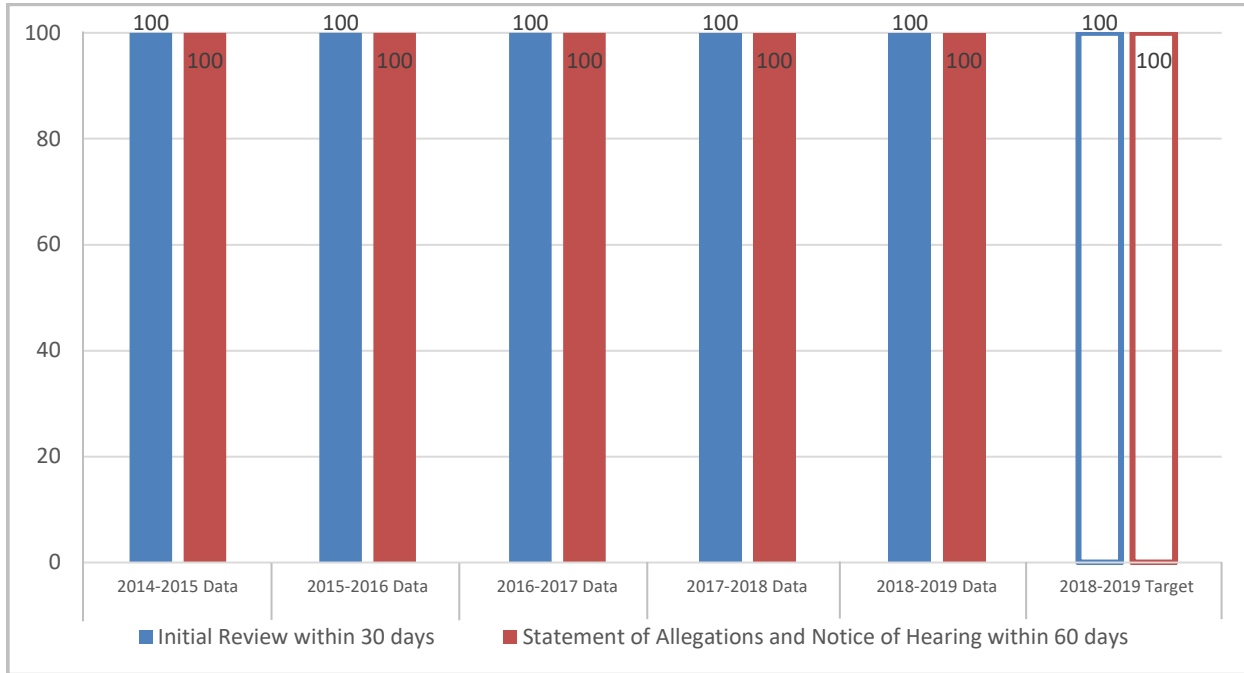
Chart 11: Percentage of investigations concluded and reported on by enforcement staff to Director of Enforcement based on: 1) 60% of investigations within nine months; and 2) all investigations within 24 months



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 of referral or conclusion of any negotiations. 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 2018-2019, the Commission concluded five enforcement proceedings resulting in the issuance of numerous regulatory sanctions, \$63,000 in administrative penalties, and \$5,000 in cost recoveries.<sup>4</sup>

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 Enforcement Committee, the Investment Fraud Task Force, the Data Analytics Forum, the Reciprocal Order Forum, the Ombudsman for Banking and Investment Services Project Forum, and the Insider Trading and Market Manipulation Forum.

<sup>4</sup> With respect to one of the proceedings that was concluded, the decision on the merits was issued by the Commission during the 2018-2019 year, but the decision on the sanctions was not issued until after the 2018-2019 year. The sanctions, penalties, and costs imposed in this proceeding were therefore not included in the above calculations.

## 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 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 (which has since been renamed as the Investment Fraud 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, enabling the Task Force's focus to shift to disrupting other types of investment fraud, such as non-compliant ICOs.

### ***NASAA Crypto-sweep***

During the fiscal 2018-2019 period, 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.

### ***Growth in Financial Technology***

Since 2017, there has been significant growth in the development and use of fintech. In order to support fintech businesses seeking to offer innovative products, services, and applications in Canada, the CSA created the Regulatory Sandbox 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 published CSA Staff Notice 46-307 *Cryptocurrency Offerings* and 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 crypto-assets in Canada. The CSA Regulatory Sandbox also published joint CSA/IIROC Consultation Paper 21-401 *Proposed Framework for Crypto-Asset Trading Platforms* seeking feedback on how requirements may be tailored for crypto-asset trading platforms operating in Canada whose operations may engage securities laws. The consultation paper notes that digital trading platforms, depending on how they operate and the crypto-assets made available for trading, may be subject to securities regulation. Depending on their structure, the platforms may introduce novel features that create risks to investors and capital markets that may not be fully addressed by the existing securities regulatory framework.

The Commission, along with other CSA members, issued an Investor Alert urging Canadians to be cautious when considering buying and selling crypto-assets through digital online trading platforms as such platforms may not be regulated.

## 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 2018-2019
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