

PROVINCIAL/TERRITORIAL COUNCIL OF MINISTERS OF SECURITIES REGULATION

ANNUAL PROGRESS REPORT

(January 2017 to December 2017)

BACKGROUND

Under the 2004 *Provincial/Territorial Memorandum of Understanding Regarding Securities Regulation* (2004 MOU), the Provincial-Territorial Council of Ministers of Securities Regulation (Council) and their securities regulators committed to harmonize, modernize and reform the Canadian securities regulatory system. Implementation of the fully operational passport system in 2009 resulted from an unprecedented level of cooperation, coordination and consensus among governments to streamline and modernize securities regulation in Canada.

All provinces and territories, except Ontario, signed the 2004 MOU.

2017 DEVELOPMENTS

Cooperative Capital Markets Regulatory System (CCMR) Initiative

On January 26, 2017, Kevan Cowan, Chief Executive Officer of the Capital Markets Regulatory Authority Implementation Organization (CMAIO) announced the initial management team to lead the work to operationalize a cooperative regulator, the Capital Markets Regulatory Authority (CMRA) in Canada: Pamela McDonald, Head of Communications, Frank Panzetta, Head of Finance, Linda Cowan, Head of Information Services and Joe Annibale, Head of Facilities, will join Kevan Cowan and Keith Persaud, Chief Administrative Officer, as members of the CMAIO team.

Partnership Agreement for Securities Regulation (Partnership Agreement)

Alberta, Québec and Manitoba jointly oppose the national securities regulator initiative, preferring a provincially-led regulatory system. The other jurisdictions continue to evaluate their options.

Alberta, Québec and Manitoba remain committed to signing the Partnership Agreement. The remaining provinces and territories will be invited to participate in the Partnership Agreement.

The Partnership Agreement builds on the strengths of the passport system and commits the participating governments and their regulators to work cooperatively to further improve securities regulation that meets the needs of all provinces and territories as well as the expectations of investors. Key elements of the Partnership Agreement are outlined in the Council 2014 Progress Report.

At the request of the Council, government officials continue to monitor developments relating to:

- regulation of financial planners;
- the incorporation of registered representatives;

- derivatives; and,
- the proposed statutory best interest standard for dealers and advisors.

Québec Constitutional Reference

In 2016, the Québec government challenged the constitutional validity of the CCMR initiative and the complementary federal legislation and referred two constitutional questions to the Québec Court of Appeal:

1. Does the Constitution of Canada authorize the implementation of pan-Canadian Securities regulation under the authority of a single regulator, according to the model established by the most recent publication of the Memorandum of Agreement regarding the Cooperative Capital Markets Regulatory system?
2. Does the most recent version of the draft federal Capital Markets Stability Act exceed the authority of the Parliament of Canada over the general branch of the trade and commerce power under section 91(2) of the *Constitution Act, 1867*?

The Québec Court of Appeal heard submissions from the Governments of Québec, Manitoba, Canada and British Columbia on the two questions in November 2016.

On May 10, 2017, the Québec Court of Appeal released its decision on the Québec Reference with a majority of the Court of Appeal answering both questions in the negative.

On June 9, 2017, Canada, British Columbia and Québec submitted notices of appeal to the Supreme Court of Canada. Since then, Alberta, Prince Edward Island, Manitoba, New Brunswick, Nova Scotia, Ontario and Saskatchewan indicated their intention to intervene in the reference to the court. The hearing before the Supreme Court has been set for January 19, 2018.

2017 Accomplishments

We remain committed to maintaining a modern and responsive securities regulatory system in Canada to ensure that it reflects the realities of today's 21st century markets and keeps in step with evolving international standards and global regulatory reforms.

Provincial and territorial government commitments to enact legislation to support initiatives identified in the Council's 2016 and 2017 Progress Reports do not commit provinces and territories participating in the CCMR initiative, unless otherwise noted.

On July 7, 2016, the Canadian Securities Administrators (CSA) released its Business Plan for 2016-2019 outlining eighteen priorities with action plans that focused on investor protection, fair and efficient markets, enforcement effectiveness and information technology. The 2017 Council Progress Report continues to highlight progress made to date on key elements of the CSA Business Plan.

Passport System Expansion

The passport system is a harmonized pan-Canadian system that gives a market participant automatic access to capital markets in other jurisdictions by obtaining a decision only from its principal (home) regulator and complying with a harmonized set of laws. The regulatory areas currently covered under the passport system include prospectus clearances, exemptive relief applications, registration applications and the designation of credit rating organizations.

In April 2015, the Canadian Securities Administrators (CSA) published proposals to further expand the passport system to two new areas: applications to cease to be a reporting issuer and cease trade orders from the failure to file continuous disclosure documents. As with the other passport areas, streamlined interfaces between the passport jurisdictions and Ontario have also been proposed to ensure that passport benefits continue to be available for all market participants across Canada.

Status of legislation

- Most jurisdictions already have in place legislative amendments to support the proposed expansion of the passport system.
- In 2015 Québec, Nova Scotia and Ontario followed Alberta (2014) in passing passport expansion-related legislative amendments.
- All jurisdictions remain committed to bring forward any necessary legislative amendments to facilitate the expansion of the passport system.

Status of G-20 Commitments

Derivatives Regulation

Work continues on the harmonization of derivatives regulation across the country.

- By 2016, all Canadian provinces and territories have passed legislative amendments to implement a regulatory framework for over-the-counter (OTC) derivatives, including the mandatory clearing of standardized OTC derivatives transactions through a central counterparty and the trading of OTC derivatives transactions on exchanges or electronic platforms, where appropriate.
- The OTC derivatives framework has been implemented by way of the development and implementation of:
 - Rules for OTC derivatives trade reporting: substantively harmonized requirements were adopted by way of local rules in Ontario, Manitoba and Québec on June 6, 2013 and a multilateral rule on January 21, 2015 in British Columbia, Alberta, Saskatchewan, New Brunswick and Nova Scotia.
 - Rules for the mandatory clearing of OTC derivatives (NI 91-101) were published in final form on January 19, 2017 and became effective on April 3, 2017 for clearing members, and on October 3, 2017 for non-clearing members.
 - Rules for customer clearing and protection of collateral for derivatives market participants: NI 94-102 *Derivatives Customer Clearing and Protection of Customer Positions and Collateral* was published in final form on January 19, 2017 and became effective on July 3, 2017.
- All jurisdictions remain committed to bringing forward necessary derivatives-related legislative amendments to implement a harmonized framework for derivatives regulation across Canada.

**OTC Derivatives - Cash Collateral*

- In all provinces and territories (except Québec) *Personal Property and Security Act* (PPSA) legislation does not address the use of cash as collateral for OTC derivatives transactions, especially those cleared through a central counterparty.
- Jurisdictions continue to await the release of the final report and recommendations of the Ontario expert committee that has been reviewing available options for creating such a security interest before bringing harmonized PPSA amendments forward to facilitate the use of cash as collateral for OTC derivatives transactions.

International Financial Reporting Standards (IFRS)

- Most Canadian jurisdictions have passed IFRS-related amendments to support the adoption of IFRS in Canada.

Other Securities-Related Initiatives

Incorporation of Individual Representatives of Registered Dealers and Advisers

- Alberta and Saskatchewan have passed (but have not yet proclaimed) incorporation-related legislative amendments to provide representatives of registered dealers or advisers with the option of providing securities-related services through a professional corporation, without compromising investor protection.
- Manitoba, Newfoundland and Labrador, Northwest Territories and Nunavut remain committed to bring forward harmonized incorporation-related amendments. Québec does not plan to adopt the amendments at this time.

Investor Protection

The Council and the CSA continue to focus on enhancing investor protection. These enhancements range from prohibiting fraudulent, manipulative and misleading practices to a variety of mechanisms dealing with investor education, effective disclosure and market oversight. Examples include:

New Financial Benchmarks Regime

- The CSA has commenced a rule-making project to establish a Canadian regulatory regime for financial benchmarks in time for a European Union (EU) equivalency deadline of January 1, 2020 and in order to reduce regulatory risks.
- In order to implement the Canadian regime and have it recognize as equivalent in the EU, the Securities Acts in all jurisdictions will need to be amended to include additional authorities to regulate benchmarks and benchmark administrators, contributors and users, and prohibitions on market misconduct in relation to benchmarks.
- These statutory amendments and rules must come into force prior to the EU's January 1, 2020 deadline. Alberta, Ontario, Nova Scotia and Quebec have amended their securities legislation to support the new Canadian benchmarks regime. The other jurisdictions have committed to taking amendments forward prior to the January 1, 2020 deadline.

Automatic Reciprocal Enforcement Regime Implemented in Alberta and Quebec

- In December 2014, Alberta passed amendments to its *Securities Act* to create a new automatic reciprocal enforcement regime in Alberta, which came into force on July 1, 2015. Québec passed similar amendments in spring 2015, which came into force in June 2015, in Nova Scotia (2016), New Brunswick (2016), and Manitoba (2017). The Northwest Territories hopes to adopt these provisions during the Fall 2018 session.
- Securities regulatory authorities in the other jurisdictions are currently required to conduct a separate hearing in order to reciprocate an enforcement order against a person or company sanctioned by another Canadian securities regulatory authority.
- Jurisdictions are committed to bring forward harmonized legislative amendments to improve the interjurisdictional reciprocal enforcement regime in Canada.

Secondary Market Civil Liability

- On December 4, 2015, the Supreme Court of Canada (by a 4-3 majority) ruled that leave is required to suspend the limitation period for statutory secondary market misrepresentation claims under the Ontario *Securities Act*.
- Amendments are still required in all jurisdictions except Alberta, Ontario and New Brunswick (2014) and Nova Scotia (2015).
- Jurisdictions remain committed to bring forward amendments to address the limitation period applicable to secondary market misrepresentation claims.

Canadian Public Accountability Board (CPAB)

- Most jurisdictions have passed CPAB-related legislative amendments to provide CPAB with the powers and protections necessary to fulfil its mandate to ensure the integrity of financial reporting by public companies in Canada.
- Newfoundland and Labrador and Nunavut remain committed to bring forward harmonized CPAB-related legislative amendments.

Point of Sale Disclosure Project

Since 2010, the CSA has proceeded with a three-staged approach for implementing the Point of Sale (POS) disclosure project. The focus of the POS disclosure document is to provide investors with more meaningful and effective prospectus disclosure of mutual funds and segregated funds.

Stage 1

- All provinces and territories have amended their legislation to support a disclosure regime for mutual funds to support the use of a Fund Facts disclosure document.

Stage 2

- Most jurisdictions have amended their legislation to support Stage 2 of the POS project requiring dealers to deliver the Fund Facts within two days of buying a conventional mutual fund.
- Newfoundland and Labrador and Nunavut remain committed to follow suit by bringing forward Stage 2-related legislative amendments.

Stage 3

- Significant progress has been made by the regulators to complete the final stage of the POS project, which consists of three sub-projects (see Appendix).

- Ontario (2011), Alberta and Nova Scotia (2015), followed by Québec (2016) amended their legislation to support Stage 3 of the POS project to support the use of Exchange Traded Funds (ETF) Facts, a disclosure document for exchange-traded mutual funds.
- Manitoba already has the necessary legislative authority in place.
- British Columbia, Newfoundland and Labrador, Prince Edward Island, Yukon, Northwest Territories and Nunavut remain committed to bring forward Stage-3 related legislative amendments.

Emerging Issues and Terms

The CSA has identified two emerging issues/trends requiring regulatory attention:

Binary Options

- Most CSA jurisdictions considered binary options to fall within the definition of securities or derivatives under securities laws, and must be registered to trade in Canada. This led to the creation of a Binary Options Taskforce to deal with the risks of binary options fraud to Canadian investors.
- The Taskforce has developed four strategies to respond to the threat of binary options fraud. Responses to date include;
 - creating an intelligence database which is updated quarterly;
 - sharing intelligence with other Canadian and international agencies with similar binary options fraud concerns;
 - taking preventive measures against binary options trading platforms to send a message of deterrence; and
 - undertaking an investor education campaign.
- On September 28, 2017, the CSA published in final form MI 91-102 *Prohibition of Binary Options*, which came into effect on December 12, 2017 in all jurisdictions except British Columbia. The British Columbia Securities Commission elected instead to issue a local notice confirming that binary option schemes are illegal in BC.
- The CSA also conducted a communications campaign in September-October 2017 to publicise and explain the binary options ban.

Legal Privilege

- CSA staff have developed the Legal Privilege Toolbox to provide a practical reference for staff in each jurisdiction to access appropriate privilege protection tools in various circumstances.
- CSA staff also prepared, and continue to periodically update, a shared-access database of key court and tribunal decisions relating to legal privilege.

Canadian Securities Administrators 2016-19 Business Plan

CSA members are focused on making significant progress on initiatives outlined in the CSA 2016-19 Business Plan. Additional information on the CSA 2016-19 Business Plan can be obtained at www.securities-administrators.ca.

The Appendix highlights the CSA's progress on meeting deliverables outlined in its 2016-19 Business Plan.

REVIEWING PROGRESS

Ministers are committed to keeping stakeholders informed of the progress being achieved in fulfilling their governments' commitments to maintain and enhance the status of Canada's securities regulatory system, which is consistently ranked as one of the best in the world.

Previous Council annual progress reports, Council communiqués, and other relevant securities-related information can be obtained at www.securitiescanada.org.

Appendix: 2016-19 CSA Business Plan – Progress on Deliverables of Selected CSA Priorities

CSA Priorities	Identified Deliverables	Progress on Deliverables
Enhanced Investor Protection		
1. Enhanced Disclosure to Investors	<ul style="list-style-type: none"> Complete rulemaking and implement requirement for point of sale disclosure and delivery regime for exchange-traded funds (ETFs). Assess the need for additional disclosure requirements from audit committees about auditor oversight and appointment and key areas of focus. Finalize and implement the CSA risk classification methodology for use in the Fund Facts document and the proposed ETF Facts document to identify the fund's risk level. 	<ul style="list-style-type: none"> The ETF Facts filing requirement became effective on September 1, 2017, while the new ETF Facts delivery requirement for dealers will become effective on December 10, 2018. Legislative amendments are required in most jurisdictions in order to implement delivery of the ETF Facts. Amendments are still required in British Columbia, Newfoundland and Labrador, Northwest Territories, Nunavut, Prince Edward Island and Yukon. The CSA completed some initial analysis of the potential considering timelines for preparing recommendations for next steps impact of imposing a pre-sale delivery requirement for ETF purchases and will be considering timelines for preparing recommendations for next steps. The CSA has completed research and consultations with key stakeholders regarding additional disclosure requirements for audit committee activities. The CSA decided not to proceed with the publication of a concept paper on enhancing audit committee disclosure at this time due to mixed feedback during targeted consultations and the current CSA priority to review regulatory burden of reporting issuers. CSA staff will continue monitoring changes to the Canadian Audit and Assurance Standards Board's (AASB) position on key audit matters, international developments, and results of the CSA's regulatory burden review. On December 8, 2016, the CSA published in final form a rule that requires fund managers to use a standardized risk classification methodology when determining a risk level for conventional mutual funds and ETFs in the Fund Facts and in the new ETF Facts, (amendments to NI 81-102 <i>Investment Funds</i> and consequential amendments to NI 81-101 <i>Mutual Fund Prospectus Disclosure</i> and CP). The risk classification methodology amendments came into effect on March 8, 2017.
2. For embedded commission - consider whether regulatory action is needed to address conflicts	<ul style="list-style-type: none"> Complete stakeholder consultations to determine whether the use of embedded commissions in investment funds should be addressed to better align the interests of investment fund managers and dealers/representatives with those of the investors they serve, and implement a regulatory proposal as appropriate. 	<ul style="list-style-type: none"> The CSA hired two independent researchers to review Canada's mutual fund fee structure: (1) the Brondesbury Group conducted a financial literature review to assess the extent to which the use of fee-based vs. commission-based compensation changes the nature of advice and impacts investment outcomes over the long-term (published on June 11, 2015); and (2) Douglas Cumming, Professor of Finance and Entrepreneurship at the Schulich School of Business, York University, collected and reviewed detailed fund data, obtained directly from manufacturers of publicly offered mutual funds in Canada, to examine the effect of sales and trailing commissions on mutual fund sales (published on October 22, 2015). The CSA has considered the results of both studies, as well as comments received during previous consultations, to determine whether to effect certain policy changes with respect to Canada's mutual fund fee structure. On June 29, 2016, the CSA published CSA Staff Notice 81-327 Next Steps in the CSA's Examination of Mutual Fund Fees, which outlined its plan to consult on the possible option of banning the use of embedded commissions.

CSA Priorities	Identified Deliverables	Progress on Deliverables
		<ul style="list-style-type: none"> CSA Consultation Paper 81-408 <i>Consultation on the Option of Discontinuing Embedded Commissions</i> was published for a 150-day comment period on January 10, 2017. The comment period closed on June 9, 2017, and the CSA received approximately 127 comment letters. The CSA has reviewed the comment letters and results of stakeholder consultations, and is currently finalizing recommendations for next steps.
3. Enhanced Advisor – Client Relationship	<ul style="list-style-type: none"> Complete consultation to determine the extent of targeted reforms required to enhance regulatory requirements in this area, and for some CSA members, decide whether to proceed with the development and introduction of a best interest standard for advisors. Implement regulatory reforms as appropriate. 	<ul style="list-style-type: none"> The CSA conducted a series of consultations aimed at defining an appropriate standard of conduct for advisers and dealers, and, in particular, exploring the appropriateness of introducing a statutory best interest duty when advice is provided to retail clients. Based on its review of the current regime and alternatives, the CSA published, CSA Consultation Paper 33-404 <i>Proposals to Enhance the Obligations of Advisers, Dealers, and Representatives toward their Clients</i> on April 28, 2016. The consultation paper identified problems with the relationship between clients and their advisers/dealers that warrant regulatory reform, and how those problems may (or may not) be mitigated or eliminated by a regulatory best interest standard for advisers/dealers in addition to targeted reforms to current regulatory requirements. The comment period ended on September 30, 2016, with the CSA receiving 120 comment letters. The committee completed multiple consultations with stakeholders, both locally and CSA-wide, between June and September 2016, and held roundtables in December 2016. In addition, the CSA published CSA Staff Notice 33-318 <i>Review of Practices Firms Use to Compensate and Provide Incentives to their Representatives</i> on December 15, 2016 and CSA Staff Notice 33-319 <i>Status Report on CSA Consultation Paper 33-404 Proposals to Enhance the Obligations of Advisers, Dealers, and Representatives Toward Their Clients</i> on May 11, 2017. CSA staff finalized its recommendations on the proposed reforms and next steps. Based on these recommendations, the CSA has initiated a project to develop targeted reforms to enhance adviser-client relationships and the standard of conduct for advisers and dealers, including conflicts of interest, know-your-client and suitability reforms. The CSA has significantly advanced the drafting of the reforms package and plans to present recommendations for next steps. In parallel with these reforms, the Ontario Securities Commission and the Financial and Consumer Services Commission of New Brunswick plan to proceed with the development of a statutory best interest standard for advisers and dealer.
4. Measure Impact of CRM2 and POS Reforms	<ul style="list-style-type: none"> Conduct post-implementation analysis of the impact of the Client Relationship Model – Phase 2 and Point of Sale (POS) amendments on investors and industry. 	<ul style="list-style-type: none"> On August 22, 2016, the CSA issued a press release announcing a multi-year research project to measure the impacts of requirements introduced by Phase 2 of the Client Relationship Model (CRM2) and the Point of Sale (POS) amendments on investors and the industry. The research will measure outcomes related to investor knowledge, attitude, and behavior, registrant practices, and fund fees and product offerings. It will cover activity from 2016 through 2019 and is expected to be completed by 2021. The CSA is currently completing the first phase of the research gathering baseline data, and is conducting subsequent rounds of data collection for certain aspects of the project.

CSA Priorities	Identified Deliverables	Progress on Deliverables
5. Improve Canadian Proxy Voting Infrastructure	<ul style="list-style-type: none"> Finalize and publish industry protocols clarifying the roles and responsibilities of key entities and providing guidance on the kinds of operational processes that they should implement to support accurate, reliable and accountable meeting vote reconciliation. Monitor the implementation of improvements and measure their impact on the accuracy, reliability and accountability of meeting vote reconciliation to determine whether additional rules and policy guidance are required. 	<ul style="list-style-type: none"> The CSA reviewed Canada's proxy voting infrastructure in order to determine whether it adequately supports accurate and reliable vote counting. The review's findings confirmed that the current proxy voting infrastructure was fragmented and needed to be modernized and improved. To address weaknesses identified in the proxy voting infrastructure, the CSA developed industry protocols in the form of a CSA staff notice. CSA Staff Notice 54-305 Meeting Vote Reconciliation Protocols, which outlined CSA staff expectations and guidance for improving the processes involved in the tabulation of proxy votes, was published in final form on January 26, 2017. The CSA has established a technical committee to support and monitor voluntary implementation of improvements for the 2017 and 2018 proxy seasons. The technical committee continues to track data on implementation and effectiveness of the Meeting Vote Reconciliation Protocols that were published in January 2017.
6. Educate investors	<ul style="list-style-type: none"> Develop retail investor communication programs to optimize implementation of key CSA policy initiatives, including CRM2 and the new annual reports on costs and performance statements. Pursue programs encouraging investors to confirm their advisor's registration and promoting the use of the CSA National Registration Search engine. 	<ul style="list-style-type: none"> The CSA held a campaign to educate retail investors about changes in investment statements introduced by the Client Relationship Model 2 (CRM2) in conjunction with Investor Education Month in October 2016. The campaign included several short videos that explained in clear words and images various disclosure requirements introduced by CRM2, which became effective in three phases: July 15, 2014, July 15, 2015 and July 15, 2016, and were promoted via social media. In addition, from October 2016 through March 2017, the CSA ran an online public awareness campaign to promote the use of the CSA's National Registration Search engine (NRS) and to highlight the importance of checking the registration of persons or companies offering an investment.
<i>Fair and Efficient Markets and Reduction of Risks to Market Integrity</i>		
1. Closely Monitor Prospectus Exempt Market	<ul style="list-style-type: none"> Engage in risk-based supervision of issuers and registrants using the new and modified capital-raising exemptions. 	<ul style="list-style-type: none"> The CSA established a working group to review and modernize the Canadian resale regime. The project involves a review of the resale regime in general as it applies to both reporting and non-reporting domestic and foreign issuers, and will be completed in two phases: (1) research and analysis of the resale regime and publication of a consultation paper; and (2) drafting and implementation of any amendments to the resale regime recommended in Phase 1.

CSA Priorities	Identified Deliverables	Progress on Deliverables
	<ul style="list-style-type: none"> • Evaluate emerging trends and levels of compliance. • Study the current resale regime for prospectus-exempt securities under National Instrument 45-102 <i>Resale of Securities</i> to determine whether the resale provisions continue to be relevant in today's markets and to assess the impact of alternative regulatory approaches. 	<ul style="list-style-type: none"> • The CSA has completed the economic and legal research as part of Phase 1 of the project and held consultations with stakeholders in the fall of 2016. • On June 29, 2017, the CSA published amendments to NI 45-102 <i>Resale of Securities</i> for comment to address concerns identified by stakeholders with the resale regime for investors in foreign issuers. The comment period ended on September 27, 2017, and the CSA received eight comment letters. It is in the process of preparing the amendments for final publication. • In addition, the CSA has commenced two new projects relating to prospectus exempt markets: <ul style="list-style-type: none"> (1) a project to make legislative and regulatory amendments related to distributions of syndicated mortgage investments in the exempt markets that are intended to improve investor protection and enhance transparency; and (2) a project to improve disclosure that issuers provide in their offering memorandums so investors receive better information when making an investments decision, and to make the requirements clearer for issuers.
2. Improve Access, Transparency and Fairness in Fixed Income Market	<ul style="list-style-type: none"> • Implement public transparency of corporate fixed income trading data, with Investment Industry Regulatory Organization of Canada (IIROC) acting as the information processor for corporate debt. • Monitor fixed income data to consider the impact of transparency and timeliness of information. • Consider transparency requirement for government debt data. • Conduct a review of dealers' allocation practices for new debt issues. 	<ul style="list-style-type: none"> • On November 14, 2017, the CSA commenced a project to publish proposed amendments to NI 21-101 <i>Marketplace Operation</i> and its Companion Policy to introduce post-trade transparency for government debt securities. In addition, CSA Staff Notice 21-320 <i>On NI 21-101 Marketplace Operation</i> concerning the expiration of the government debt exemption in NI 21-101 and the upcoming amendments was published on December 14, 2017.
3. Finalize and Implement OTC Derivatives Framework	<ul style="list-style-type: none"> • Implement rules for OTC trade reporting derivatives. • Develop and implement rules for the mandatory clearing of OTC derivatives. • Develop and implement rules for customer clearing and 	<p>The CSA has completed the development and implementation of the following rules:</p> <ul style="list-style-type: none"> • rules for OTC derivatives trade reporting <ul style="list-style-type: none"> – Local Rule 91-507 <i>Trade Repositories and Derivatives Data Reporting</i> was adopted on June 6, 2013 in Ontario, Manitoba and Québec. In addition, Multilateral Instrument 96-101 <i>Trade Repositories and Derivatives Data Reporting</i> was adopted on January 21, 2015 in British Columbia, Alberta, Saskatchewan, New Brunswick and Nova Scotia.

CSA Priorities	Identified Deliverables	Progress on Deliverables
	<p>protection of collateral for derivatives market participants.</p> <ul style="list-style-type: none"> • Develop and implement a registrant regulation framework for derivatives market participants. • Consult on margin and collateral requirements for non-centrally cleared derivatives. • Develop and implement rules for derivatives trading facilities. • Implement rule/policy framework for clearing agencies to incorporate CPMI/IOSCO revised standards. 	<ul style="list-style-type: none"> • rules for the mandatory clearing of OTC derivatives <ul style="list-style-type: none"> – 94-101 <i>Derivatives Mandatory Central Counterparty Clearing</i> was published in final form on January 19, 2017. NI 94-101 became effective on April 3, 2017 for clearing members, and on October 3, 2017 for non-clearing members. • rules for customer clearing and protection of collateral for derivatives market participant <ul style="list-style-type: none"> – NI 94-102 <i>Derivatives Customer Clearing and Protection of Customer Positions and Collateral</i> was published in final form on January 19, 2017 as well. It came into effect on July 3, 2017. <p>Since 2016, the CSA Derivatives Committee has developed and published the following consultation papers and rules for over-the-counter derivatives:</p> <p>Consultation Papers:</p> <ul style="list-style-type: none"> • 95-401 <i>Margin and Collateral Requirements for Non-Centrally Cleared Derivatives</i>: published on July 7, 2016, the comment period ended on September 6, 2016. <p>Rules:</p> <ul style="list-style-type: none"> • 94-101 <i>Derivatives Mandatory Central Counterparty Clearing</i>: in effect. On October 12, 2017, the CSA published proposed amendments to NI 94-101. The comment period ended on January 10, 2018. • 94-102 <i>Derivatives Customer Clearing and Protection of Customer Positions and Collateral</i>: in effect. • 93-101 <i>Derivatives Firms - Business Conduct Obligations and Exemptions (proposed)</i> was published for comment on April 6, 2017. The comment period ended on September 4, 2017. <p>The CSA Derivatives Committee is in the process of working on the following draft regulations:</p> <ul style="list-style-type: none"> • NI 93-102 <i>Derivatives Registration - Requirements, Exemptions, and Ongoing Obligations</i>; • NI 92-101 <i>Derivatives Trading Facilities</i>; • NI 95-101 <i>Margin and Collateral Requirements for Non-Centrally Cleared Derivatives</i>; • Draft proposed amendments to NI 93-101 <i>Derivatives Firms – Business Conduct Obligations and Exemptions</i>. <p>In addition, on September 28, 2017, all CSA jurisdictions except British Columbia published in final form Multilateral Instrument 91-102 <i>Prohibition of Binary Options</i>. It became effective on December 12, 2017. The British Columbia Securities Commission elected not to participate in this publication, and instead to proceed by way of a local notice confirming that binary option schemes are illegal in BC.</p>

CSA Priorities	Identified Deliverables	Progress on Deliverables
4. Monitor Recent Market Structure Changes	<ul style="list-style-type: none"> Conduct a review of market share thresholds for protected markets. Complete and implement amendments necessary to shorten the settlement cycle (T+2) and mitigate settlement risk. 	<ul style="list-style-type: none"> On April 27, 2017, the CSA published in final form amendments to NI 24-101 <i>Institutional Trade Matching and Settlement</i>. These amendments, which came into effect on September 5, 2017, are part of the Canadian securities industry's plans to shorten the standard settlement cycle for trades from three days after a trade (T+3) to two days after a trade (T+2). The transition to T+2 occurred on September 5, 2017, the same date the markets in the United States moved to a T+2 settlement cycle. A shorter settlement cycle is expected to mitigate risk in securities clearing and settlement by reducing counterparty exposure between the parties to a trade. On August 31, 2017, all CSA jurisdictions except the British Columbia Securities Commission (BCSC) and Financial and Consumer Affairs Authority of Saskatchewan (FCAA) published in final form amendments to NI 81-102 Investment Funds that shorten the settlement cycle for conventional mutual funds to T+2. The amendments came into effect in the participating jurisdictions on November 14, 2017. The FCAA published the amendments to NI 81-102 in final form on September 14, 2017, and they came into effect in Saskatchewan on November 14, 2017. The BCSC published the proposed amendments to NI 81-102 for comment on October 4, 2017, and the comment period ended on December 4, 2017. The BCSC is currently preparing the amendments for publication in final form. The CSA continues monitoring industry's transition to T+2.
5. Review Aspects of Corporate Governance Regime	<ul style="list-style-type: none"> Conduct a targeted review of certain aspects of the corporate governance regime, including the independence of board and committee members, to assess whether they remain appropriate in today's environment. 	<ul style="list-style-type: none"> On October 26, 2017, the CSA published CSA Consultation Paper 52-404 <i>Approach to Director and Audit Committee Member Independence</i>, which solicits comments on the appropriateness of, or need for, any changes to the current approach to director independence to determine whether the approach continues to be appropriate for all issuers in the Canadian market, including for controlled companies. The comment period is ending on January 25, 2018.
6. Review Regulatory Burden for Reporting Issuers	<ul style="list-style-type: none"> Review requirements applicable to reporting issuers, including continuous disclosure, to identify areas that would benefit from a reduction of any undue regulatory burden and seek to streamline these requirements without reducing investor protection or the efficiency of markets. 	<ul style="list-style-type: none"> On April 6, 2017, the CSA published for comment CSA Consultation Paper 51-404 <i>Considerations for Reducing Regulatory Burden for Non-Investment Fund Reporting Issuers</i> to solicit feedback from all market participants and stakeholders on potential options for reducing regulatory burden. The Consultation Paper identified a broad range of potential new areas to further support reducing securities regulatory burden for reporting issuers, without reducing investor protection or capital market efficiency. The comment period ended on July 28, 2017. The CSA received 57 comment letters, has reviewed this feedback and developed recommendations for future work. In addition, the CSA has initiated a project to rationalize the investment fund disclosure, whose primary objective is to remove redundant and ineffective disclosure and reporting requirements in order to reduce the regulatory burden for investment funds and provide more streamlined and

CSA Priorities	Identified Deliverables	Progress on Deliverables
		<p>useful disclosure for investors. The CSA has completed a comprehensive review of the current investment fund disclosure regime; a comparative review of the non-investment fund reporting issuer regime; international benchmarking and consultations with stakeholders such as dealers, institutional investors and SROs. The CSA is currently formulating recommendations for the next steps.</p>
<p>7. Enhance Cybersecurity</p>	<ul style="list-style-type: none"> • Improve collaboration and communication on cybersecurity issues with market participants, including reporting issuers, registrants and other regulated entities. • Assess the level of market participant cybersecurity resilience, including measures for protection of personal investor data. • Improve market participants' understanding of CSA members' cybersecurity oversight activities, including providing guidance on expectations for market participants' cybersecurity preparedness. 	<ul style="list-style-type: none"> • On September 27, 2016, the CSA published CSA Staff Notice 11-332 Cyber Security. The Staff Notice highlights the importance of being vigilant about cyber risks; informs stakeholders about recent and upcoming CSA initiatives; references existing standards and work published, including work published by IIROC, the Mutual Fund Dealers Association (MFDA) and international regulatory authorities and standard-setting bodies; communicates general expectations for market participants with respect to their cyber-security frameworks; and examines ways to coordinate communication and information sharing between regulators and market participants. • On February 27, 2017, the CSA held a cybersecurity roundtable in Toronto with a diverse group of participants, including marketplaces, clearing agencies, registrants, reporting issuers, regulatory bodies and cybersecurity experts. Following the roundtable, the CSA published CSA Staff Notice 11-336 Summary of CSA Roundtable on Response to Cyber Security Incidents on April 6, 2017. • On November 14, 2017, the CSA approved a new Market Disruption and Cybersecurity Coordination project. The project's key deliverables include designing a more formal coordination process to manage market disruptions due to cybersecurity threats and publishing a CSA staff notice that will reiterate the obligation of market participants with respect to cybersecurity incidents, clarify the role of regulatory authorities and inform the public of the formal coordination process.
<p>8. Monitor and Assess Implications of Fintech Innovations</p>	<ul style="list-style-type: none"> • Gain a better understanding of how certain disruptive technology innovations, including blockchain, robo advising, online crowdfunding portals and peer-to-peer lending are impacting capital markets, and assess the scope and nature of regulatory implications that may be required. 	<ul style="list-style-type: none"> • As part of its 2016 systemic risk assessment process, the CSA has conducted a study of cybersecurity and block chain technology to develop an understanding of potential risks and identify any information or data gaps from the perspective of systemic risk. • On February 23, 2017, the CSA launched the Regulatory Sandbox to foster innovative technology-focused or digital business models whose activities trigger the application of securities laws. The innovative business models may include online platforms such as crowdfunding portals, marketplace lenders, angel investor networks, any business models using artificial intelligence for trades or recommendations, cryptocurrency or distributed-ledger technology based ventures, and technology service providers to the securities industry. The objective of this initiative is to facilitate the ability of those businesses to offer innovative products and services across Canada, while ensuring appropriate investor protection. The CSA Regulatory Sandbox considers applications, including for time-limited registrations and exemptive relief, on a coordinated and flexible basis to provide a harmonized approach throughout Canada for innovative business models, whether they are start-ups or incumbents, while providing flexibility and rapidity in the treatment of registration and other applications. For

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		<p>example, following discussions among the members of its Regulatory Sandbox, the CSA has recently granted exemptive relief to two issuers for their initial coin offering (ICO) and has authorized two registered firms to launch cryptocurrency investment funds distributed under prospectus exemptions.</p> <ul style="list-style-type: none"> Activities of the CSA Regulatory Sandbox also include informing industry of CSA's approach to innovative business model. The CSA Regulatory Sandbox published CSA Staff Notice 46-307 <i>Cryptocurrency Offerings</i> providing guidance on various aspects of cryptocurrency offerings which may involve sales of securities. Finally, the CSA Regulatory Sandbox recently sent a coordinated e-mail blast to inform all registrants that terms and conditions might apply to firms establishing, managing, advising and/or trading in securities of cryptocurrency investment funds.
Enhancement of Enforcement Effectiveness		
<p>1. Improve Market Analytics Capacity</p>	<ul style="list-style-type: none"> Develop and implement new marketplace surveillance and analytical system to replace MICA. 	<ul style="list-style-type: none"> In consideration of the capital markets evolution over the last decade, the CSA currently requires extensive historic records of complex structural information, which necessitate upgraded technological foundations, tools and applications. Following these market evolutions, the CSA must retire its current system (MICA), a system mainly used to assist with investigations of market manipulation and insider trading, and create an enhanced and scalable IT solution for a financial market analysis platform (MAP). In February 2017, the Ontario Securities Commission, on behalf of the CSA, issued a Request for Proposal (RFP) to find an optimal MAP solution to replace the existing process and software with a system that will: <ul style="list-style-type: none"> collect as much data as possible in a timely fashion, including targeted broker data, into a CSA-specific central data repository so as to avoid the existing time-lagged piecemeal approach; and provide a rich functionality toolset, including automated re-construction of the order book, to navigate, analyse and visualise the data resulting in meaningful information. The CSA received eleven submissions in response to the RFP, and after a thorough review process, selected the top-ranked submission. It is currently conducting negotiations with the selected vendor.
<p>2. Strengthen Enforcement Technology Capabilities and Strategies</p>	<ul style="list-style-type: none"> Promote greater use of reciprocal orders across CSA members. 	<ul style="list-style-type: none"> The CSA Enforcement Committee continues working on two initiatives to strengthen enforcement technology capabilities. It is completing a Technology Survey, an inventory of internal tools used by members to detect, investigate and prosecute securities violations. This Technology Survey will assist the CSA in identifying most significant technology challenges and disseminating best practices. In addition, in coordination with the Canadian Bank Association, it is developing a data delivery standard for the major local and national banks to be used during investigations by CSA members. In addition, on November 6-7, 2017, the CSA hosted a Data Analytics conference on industry best practices relating to data science. The conference addressed subjects relating to artificial intelligence and machine learning, open source technology solutions, storing and analyzing

CSA Priorities	Identified Deliverables	Progress on Deliverables
<p>3. Identify and Respond to Emerging Issues and Trends</p>	<ul style="list-style-type: none"> Coordinate expertise to develop a timely response to minimize threats to capital markets and investors. Enhance regulators' capacity to address issues such as (i) legal privilege, by developing a collective strategy and (ii) binary options, including coordinated action, education, creation of a task force and increased public awareness. 	<p>evidence in the cloud, cryptocurrencies and shared resources.</p> <p>Binary Options:</p> <ul style="list-style-type: none"> The CSA has created a Binary Options Taskforce, comprised of enforcement staff, to address the risks to the Canadian investors posed by binary options platforms. Most CSA jurisdictions have taken a position that binary options fall within the definition of securities or derivatives under the securities laws, and therefore companies offering investments in binary options must be registered to trade in securities in Canada. The Taskforce has identified four strategies to respond to the threat of binary options fraud: <ul style="list-style-type: none"> (1) implementing a plan to share intelligence between the CSA and other Canadian and international agencies that have similar concerns with binary options fraud; (2) minimizing the binary options fraud threat through the use of social media, mobile applications, partnering with payment processing companies and multijurisdictional enforcement; (3) taking preventive measures against binary options trading platforms to send a message of deterrence; and (4) investor education campaign. The Binary Options Taskforce has made progress with all four strategies. It has created an intelligence database and updates it quarterly; developed relationships with credit card companies and financial institutions to have them restrict payments to binary options companies using credit cards or bank wires; and developed relationships with partner agencies, including the Canadian Anti-Fraud Centre, the FBI, the SEC and Europol. The Taskforce presented at the Europol Binary Options Summit in The Hague, Netherlands in January 2017, and at a Binary Option Briefing in San Francisco, California to various law enforcement, financial and social media companies, including the FBI, SEC, IRS, Visa, MasterCard, Amex, Apple, Google, and Twitter. In addition, the Taskforce identified and contacted domain registry and website hosting companies used by binary option marketers targeting Canadians in an effort to have the identified websites shut down. Fifty percent of the identified websites have been disabled as a result of the initiative. The Taskforce, together with the CSA Investor Education Committee, launched an educational campaign on March 2, 2017 to mark Fraud Prevention Month. The campaign was designed to combat binary options fraud by raising public awareness of what binary options fraud looks like, how to protect yourself and others and how to report incidences of binary options fraud. The campaign consisted of a public relations campaign, development of a binary options website and online twitter and Search Engine Marketing advertising campaigns. This CSA initiative was widely covered in the media and shared with numerous other investor protection organizations. In addition, on September 28, 2017, the CSA published in final form Multilateral Instrument 91-102 Prohibition of Binary Options, as described in section B(3) of this report. MI 91-102 came into effect on December 12, 2017 in all jurisdictions except British Columbia (the BCSC elected not to participate in this publication, and instead to proceed by way of a local notice confirming

CSA Priorities	Identified Deliverables	Progress on Deliverables
		<p>that binary option schemes are illegal in BC). The CSA also conducted a communications campaign in September-October 2017 to publicize and explain the binary options ban.</p> <ul style="list-style-type: none"> The Binary Options Task Force will continue on as the Investment Fraud Task Force targeting Binary Options and other emerging investment frauds in a similar manner. The Binary Options portion of this deliverable is now complete. <p><i>Legal Privilege</i></p> <ul style="list-style-type: none"> The CSA has several core initiatives to develop a collective strategy with respect to legal privilege issues. CSA staff has finalized the Legal Privilege Toolbox Table, a privileged document for internal use, providing a practical reference for staff in each jurisdiction to access appropriate privilege protection tools in various circumstances. In addition, it is preparing an internal analytical paper with recommendations for implementing protocols, processes and/or formal rules or legislation to ensure that privilege claims do not create litigation risks or barriers to effective investigation. The CSA's work on this issue has led to additional elements, including addressing how the CSA protects confidentiality and privilege over its shared legal work product, and how such privilege may be waived. New work is also underway to create a shared-access database of key court and tribunal decisions relating to legal privilege, and to prepare a template "public facing" statement on how the CSA members protect legal privileges and what is expected of those who provide documents and evidence to investigators to help facilitate such protection. Finally, staff is exploring efficient, effective avenues for dealing with parties who raise overly-broad claims of privilege to resist producing information to CSA member investigators.
Enhancement of Information Technology		
CSA National Filing Systems	<ul style="list-style-type: none"> Develop and build a new national filing system to replace core CSA national systems (SEDAR, SEDI, NRD), including a national exempt distribution reporting system. 	<ul style="list-style-type: none"> CSA members have initiated a project to develop a unified renewed filing system that will replace the current CSA systems and databases, including SEDAR, SEDI, NRD, the CTO Database and Disciplined Persons List. The goal of this project is to develop one modern, accessible, integrated, searchable and secure national database and system. On June 1, 2016, the CSA executed agreements with CGI and Foster Moore for the development of a new national filing system. The CSA and the outside contractors continue defining the program scope, release strategy, systems requirements and design. In addition, the CSA is taking steps to carry out regulatory and policy changes to create the necessary legal foundation for the new CSA IT system.

CSA Priorities	Identified Deliverables	Progress on Deliverables
Other CSA Projects and Initiatives		
Other projects and initiatives, in addition to initiatives already identified in the CSA 2016-19 Business Plan	The CSA has identified 2 new projects: 1) Proposed Rule Relating to Benchmarks; and 2) Strengthening OBSI's powers to secure redress for Investors.	<ul style="list-style-type: none"> • Benchmarks rule – to be in place prior to the EU equivalency deadline of January 1, 2020 • Strengthening OBSI's powers to secure redress for Investors – completion date to be determined
Completed or Closed Projects	Prohibition of Binary Options	Completed December 12, 2017 (effective date)