Policies, People and Practice: Highlights from the OSC's 2026 RIE Annual Report

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The Ontario Securities Commission's (OSC) Registration, Inspections and Examinations (RIE) Division has published OSC Staff Notice 33-762, Registration, Inspections and Examinations Division, 2026 Annual Report (the Annual Report).

The Annual Report summarizes outcomes from RIE's examination priorities for the fiscal year ended March 31, 2026. It also provides observations and guidance arising from its broader supervisory activities, including initiatives related to digital engagement practices, cybersecurity, artificial intelligence (AI) and exempt market dealers (EMDs). Findings relating to EMDs are expected in fiscal 2026 or 2027. OSC Staff Notice 33-763 Focused Compliance Examinations of Artificial Intelligence Systems Use and Governance was published on November 12th and is the subject of a separate, upcoming BLG client bulletin.

The deficiencies discussed in the Annual Report share a common theme: registered firms must ensure that their governance, policies, registration information, resources and controls reflect the business they actually conduct and reflect the firm's growth and evolution.

Below, we highlight some of the most notable findings and identify practical steps firms may wish to consider. As always, we encourage firms to read the Annual Report in full.

Firm-wide governance and registration issues

Employment, confidentiality and severance agreements

RIE continues to identify provisions in employment, confidentiality and severance agreements that could discourage or restrict employees from voluntarily reporting potential securities laws violations. Examples include provisions permitting disclosure only where "required by law," requiring prior notice to or consent from the employer or requiring employees to represent that they have not assisted in a regulatory investigation.

Action item: Review template and executed agreements for restrictive language and determine whether current and former employees should be notified that their agreements do not prevent regulatory reporting or receipt of whistleblower awards.

Business titles, professional designations and official officers

Since the Client Focused Reforms introduced prohibitions on misleading communications and business titles, RIE has continued to identify inaccurate or inconsistent use and disclosure of business titles and professional designations. Titles disclosed on Form 33-109F4 should match those used publicly and should not imply authority, experience or qualifications beyond an individual's registration. RIE also identified individuals using officer titles without any formal appointment.

Action item: Ensure titles are consistent across corporate appointments, registration filings, business cards, email signatures, websites, marketing materials and client communications. Implementing a centralized process for approving and periodically reconciling titles may assist. This BLG bulletin on titles and misleading communications remains a useful resource.

Capital markets participation fees

RIE continues to identify errors in capital markets participation fee calculations, including improper deductions, incorrect Ontario percentages and the reporting of Ontario revenue instead of global gross revenue. The Annual Report also cautions that separately identifiable revenue should not generally be excluded where it is integral to the firm's registered or capital markets business.

Action item: Treat participation fee calculations as a substantive compliance exercise. Ensure compliance, finance and legal personnel align on methodology and significant classifications, and the calculation reviewed against current business lines before filing.

Derivatives data reporting examinations

RIE continues to identify significant deficiencies in derivatives data reporting under OSC Rule 91-507. Issues include late, missing or inaccurate creation, lifecycle event and valuation data, inaccurate or missing LEIs and failures to correctly determine which transactions are reportable. RIE attributes many of these deficiencies to inadequate reconciliation and oversight controls, including insufficient oversight of third-party service providers.

Action item: Review the firm's derivatives reporting controls to ensure that reportable transactions and required data fields are correctly identified and that reported data is complete, accurate and timely. Maintain effective reconciliation, escalation and remediation processes, alongside appropriate oversight of third-party reporting arrangements.

Insurance coverage

RIE continues to identify inadequate insurance coverage, including insufficient coverage as businesses or client assets grow, policies without a double aggregate limit and

policies that do not provide for full reinstatement. RIE expects firms to reassess coverage following material business changes and at renewal, factoring in anticipated growth.

Action Item: Consider incorporating insurance reviews into annual compliance calendars and material business change processes, assessing not only whether coverage remains in force, but whether its structure, limits and terms continue to meet regulatory requirements and reflect the firm's current business and risks.

Changes to a firm's business model

The Annual Report highlights the need for firms to consider the registration implications of changes to their business and operations. Examples include:

- material operational changes;
- the introduction of an online advice platform;
- the adoption of an issuer-sponsored dealing representative model;
- the implementation of an automated know-your-client (KYC) or suitability system; and
- certain uses of AI that affect registerable services.

Depending on the circumstances, changes to a firm's business may require updates to its registration information, including a Form 33-109F5 filing. The breadth of examples suggests that firms may increasingly need to consider registration implications across a wide range of operational and technological changes, including changes that may not have traditionally been viewed as material changes to the firm's business. This may feel familiar to firms navigating similar considerations in the Canadian Investment Regulatory Organization (CIRO) context and may add time, cost and complexity to change management processes.

Action item: Not every operational or technological change will require a filing, but firms should consider registration implications before implementing material changes. A registration impact assessment could be incorporated into the approval process for new products, technologies, outsourcing arrangements and business lines to identify any required registration filings, revised policies, compliance testing, additional disclosure, conflicts testing or need for regulatory engagement.

Portfolio management issues

Alternative investments

RIE expects portfolio managers to conduct enhanced and well-documented know-your-product (KYP) analysis for alternative investments, particularly regarding liquidity, valuation and complexity. The Annual Report emphasizes that these investments may warrant deeper analysis and documentation demonstrating how the firm assessed their specific risks and characteristics. RIE also continues to identify overconcentration in individual issuers and sectors and expects ongoing monitoring and reassessment of suitability following significant product changes.

Action item: Portfolio managers should review their product approval and monitoring processes to ensure that the analysis of alternative investments is appropriately robust and documented. Firms should be able to demonstrate what was considered and how that analysis informed product approval, portfolio construction and client suitability.

Management fees

RIE identified instances where management fees charged to clients did not correspond with disclosed fee schedules. It also found inadequate disclosure regarding how cash flows affect fee calculations and failures to provide the required 60 days' written notice of fee changes.

Action item: Reconcile the fee coding in firm systems against contractual fee schedules and client disclosure and ensure that clients are clearly informed of how contributions and withdrawals affect fee calculations.

Compliance with investment policy statements

RIE identified portfolios operating outside the asset allocation parameters in their investment policy statements (IPS) without adequate documentation, monitoring or timely follow-up. While temporary deviations may be appropriate, firms should be able to demonstrate that they promptly identified, considered and monitored them.

Action item: Consider testing IPS exceptions from identification through resolution to confirm that portfolio monitoring, investment personnel and compliance processes are operating consistently.

Leverage in managed accounts

RIE continues to identify leverage strategies implemented without adequate suitability assessments, including reliance on recommendations from unregistered third parties and failures to reassess suitability when leverage or client circumstances change. Portfolio managers are expected to conduct and document their own suitability assessments.

Action item: Assess the suitability of leverage at the outset and reassess it at least annually and following significant changes in the client's circumstances or use of leverage. Consider incorporating this review into annual KYC process and ensure that it considers both the investment account and the client's broader financial circumstances, where ascertainable.

Fully paid securities lending programs

Portfolio managers introducing clients to a custodian's fully paid securities lending program should consider whether the initiative requires a Form 33-109F5 filing. The custodian's operation of the program does not relieve the portfolio manager of its obligations in recommending or facilitating client participation.

Action item: Portfolio managers should apply their KYC, KYP and suitability processes, explain the material risks to clients, and address any material conflicts arising from revenue or other benefits in the clients' best interests.

Advising representative capacity

While RIE does not prescribe a particular client-to-advising representative (AR) ratio, appropriate capacity depends on factors such as the firm's business and service model, client needs, AUM, product and strategy complexity, available systems and technology, and required monitoring. The Annual Report reminds firms to be mindful that growth in their business or client base does not outpace the availability of ARs and associate advising representatives to meet ongoing KYC, KYP, suitability and portfolio-monitoring obligations.

Action item: Consider periodically assessing and documenting whether registered personnel, systems and supporting resources remain adequate for the firm's business and client base.

Product, outsourcing and transactional issues

Sale of a registered firm

The Annual Report cautions that acquiring a registered firm cannot be used to circumvent the scrutiny associated with a new registration application. Where a transaction introduces new key personnel or a materially different business plan, RIE may require updated firm and individual registration filings, alongside an in-person meeting with proposed key personnel.

Action item: Treat regulatory considerations as a core transaction workstream from the outset. Purchasers and registered targets should assess whether the post-closing business will remain consistent with the business for which the target was registered, including changes to key personnel, products, clients or registration categories and the adequacy of post-closing capital, insurance, systems and compliance resources. The parties should also identify required notices, applications and registration amendments early enough to account for potential regulatory engagement in the transaction timeline.

Special warrants and convertible securities

RIE expects EMDs and funding portals to consider the substance of transactions involving special warrants or convertible securities, particularly where the overall arrangement contemplates a prospectus-qualified distribution of the underlying securities. Structuring a transaction in separate stages does not necessarily permit each stage to be considered in isolation.

Action item: Review the transaction as a whole when determining the availability of prospectus exemptions and their resulting regulatory obligations.

Enforcement and director's decisions

The Annual Report observes that, since the partial delegation of registration to CIRO, the OSC's Registrant Conduct Team has shifted its focus to investigating firm-level compliance deficiencies.

The Director's decisions summarized in the Annual Report reinforce three important principles for registered firms and firms applying or re-applying for registration.

1. **Core registrant obligations cannot be delegated.** Firms cannot rely on issuers, referral sources or other third parties to discharge their KYC, suitability or other regulatory obligations;
2. **Patterns of non-compliance matter**. Repeated and/or historical deficiencies relating to capital, chief compliance officer responsibilities, regulatory filings, policies and procedures or operational matters may, taken together, raise concerns about a firm's continued suitability for registration, even where no single deficiency would necessarily do so; and
3. **Candour and cooperation are fundamental**. Misleading or incomplete disclosure to the OSC or a sponsoring firm may itself give rise to regulatory action.

The Annual Report also notes that the Registrant Conduct Team handled several matters in which individual registration applications were withdrawn after OSC Staff raised significant "non-securities-related" workplace misconduct concerns, typically involving conflicts of interest.

Action item: Maintain a robust compliance culture and respond to compliance deficiencies systematically. Consider not only how to correct the immediate issue but whether it reflects a broader pattern involving governance, supervision, resources or management's ability and willingness to comply.

Conclusion

Registered firms should use the Annual Report as a self-assessment tool and consider whether targeted enhancements to their policies, systems, testing and business-change processes are warranted.

If you have any questions about the Annual Report or its implications for your business, please reach out to your usual BLG lawyer or any of the authors listed below.

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