

# **British Columbia Securities Commission**

## **2015/16 – 2017/18 SERVICE PLAN**



For more information on the British Columbia Securities Commission, contact:

**Location**

British Columbia Securities Commission  
P.O. Box 10142, Pacific Centre  
12th Floor, 701 W. Georgia Street  
Vancouver, BC V7Y 1L2

**Contact Information**

Switchboard: 604 899-6500  
Inquiries: 604 899-6854  
Toll-free: 1-800-373-6393

**Email**

[inquiries@bcsc.bc.ca](mailto:inquiries@bcsc.bc.ca)

or visit our website at

[www.bcsc.bc.ca](http://www.bcsc.bc.ca)

# Accountability Statement

The 2015/16 - 2017/18 British Columbia Securities Commission service plan was prepared under my direction in accordance with the *Budget Transparency and Accountability Act* and the BC Reporting Principles. The plan is consistent with government's strategic priorities and fiscal plan. I am accountable for the contents of the plan, including what has been included in the plan and how it has been reported.

All significant assumptions, policy decisions, events and identified risks, as of January 8, 2015 have been considered in preparing the plan. The performance measures presented are consistent with the British Columbia Securities Commission's mandate and goals, and focus on aspects critical to the organization's performance. The targets in this plan have been determined based on an assessment of the Commission's operating environment, forecast conditions, risk assessment and past performance.



Brenda M. Leong  
Chair and Chief Executive Officer

# Table of Contents

<b>Accountability Statement</b> .....	<b>3</b>
<b>Strategic Direction and Context</b> .....	<b>5</b>
<b>Performance Plan</b> .....	<b>6</b>
<b>Financial Plan</b> .....	<b>16</b>
Resource Summary Table.....	16
<b>Appendices</b> .....	<b>21</b>
Appendix A: Hyperlinks to Additonal Information .....	21

## Glossary

BC	British Columbia
BCSC	British Columbia Securities Commission
CDS	CDS Inc.
Cooperative System	Cooperative capital markets regulatory system
CSA	Canadian Securities Administrators
IIROC	Investment Industry Regulatory Organization of Canada
MOA	Memorandum of Agreement
NI	National Instrument
PCMA	Provincial Capital Markets Act
PSEC	Public Sector Employer's Council
TSX-V	TSX Venture Exchange

# Strategic Direction and Context:

## Strategic Direction and Operating Environment

### **Transition to a cooperative capital markets regulatory system**

In September 2013, the Minister of Finance of British Columbia agreed in principle to establish a cooperative capital markets regulatory system with the ministers of Finance for Ontario and Canada. In July 2014, the governments of Saskatchewan and New Brunswick signed an amended agreement in principle to join the initiative. Since then, these governments have been working collaboratively to develop draft uniform Provincial Capital Markets (PCMA) legislation and complementary federal legislation, as well as a Memorandum of Agreement (MOA). The two pieces of draft platform legislation were published for comment on September 8, 2014 along with the MOA. In October 2014, the government of Prince Edward Island signed the MOA and joined the Cooperative System and the six governments renewed the invitation to all remaining provinces and territories to participate.

Draft regulations to accompany the PCMA are due to be published for comment in Spring 2015. Under the MOA the cooperative securities regulator will administer a uniform securities act and a complementary federal act, and be accountable to a Council of Ministers representing participating jurisdictions. Timelines for the implementation of this system are described in the MOA with a proposed transition date in the fall of 2015.

The BCSC will continue to provide expertise and Commission resources to effectively support the government's cooperative capital markets regulatory system. At the same time, we are also working cooperatively within the Canadian Securities Administrators (CSA) to ensure the efficient functioning of the capital markets as we transition towards the Cooperative System.

### **Crown's 2015/16 Mandate Letter and the Taxpayer Accountability Principles**

BCSC is committed to meeting government's expectations as set out in its 2015/16 Mandate letter and our Plan aligns with the [Taxpayer Accountability Principles](#).

### **Strategic context**

This plan identifies three strategic priorities that we think pose the most significant threats to investor protection and market integrity in British Columbia for the planning period. Once again this year, we will focus on:

- Opportunities to reduce the cost of regulation for venture issuers
- Non-compliance in the private placement market
- Market misconduct associated with offshore secrecy jurisdictions

# Performance Plan:

## Goals, Strategies, Measures and Targets

We have the following goals:

1. Promote a culture of compliance
2. Act decisively against misconduct
3. Educate investors
4. Advance cost-effective regulation

### Goal 1: Promote a culture of compliance

Investors are better protected if securities firms and companies that issue securities understand and comply with their regulatory obligations. They must have effective systems and controls in place to ensure compliance with securities rules. We intervene to correct non-compliance when warranted.

In our Capital Markets Regulation division, we register securities firms and their advisors (except IIROC firms and their advisors, who register with IIROC) and refuse applications from unsuitable candidates. We audit these securities firms on an on-going basis for compliance with the rules. Better investor protection results when securities firms and advisors understand and comply with the rules. We achieve this, in part, by ensuring these firms have effective compliance systems and controls in place. We also oversee the conduct of self-regulatory organizations (SROs) recognized in BC, the TSX-V, and CDS. This involves reviewing ongoing filings, proposed rule and fee changes, and conducting periodic oversight reviews.

In our Corporate Finance division, we regulate companies and insiders and review prospectus filings that companies make when they go public or when they are already public. The prospectus is the key disclosure document used by companies to raise money from the public. Public companies also file continuous disclosure documents and mining technical disclosure that we monitor to detect cases where they are not providing adequate disclosure. Investors are better able to make informed investment decisions when they have access to periodic and timely disclosure. In addition, we monitor two other types of market activity: daily trading of over-the-counter companies that file with the BCSC, and the private placement of securities by non-reporting issuers.

Two strategic priorities relate to this goal:

- Opportunities to reduce the cost of regulation for venture issuers
- Non-compliance in the private placement market

#### Opportunity 1: Reduce the cost of regulation for venture issuers

BC is known internationally as a centre of mining finance, particularly in the area of exploration and development. About 25% of the world's public mining companies call BC home. The province is also home to half of the TSX-V's 2,000 listed issuers, with about 800 of them operating in the mining sector.

The last few years have been difficult for the junior public venture market, with slow economic growth, global financial issues, and depressed commodities prices being factors. As shown below, market capitalization of TSX-V issuers declined by more than 50% and financings by more than 50% between the peak year of 2007 and 2014.

(billions)	2007 (Peak)	2011 <sup>1</sup>	2012 <sup>1</sup>	2013 <sup>1</sup>	2014 <sup>3</sup>
<b>Market Cap</b>	\$58	\$49	\$40	\$33	\$28
<b>Financings<sup>2</sup></b>	\$11	\$10	\$6	\$4	\$5

Not only is the market smaller, the remaining companies are smaller: about 59% of TSX-V issuers today have a market capitalization under \$5 million<sup>3</sup>.

These challenging market conditions provide an opportunity to refocus regulation and eliminate unnecessary compliance costs. This year we will implement targeted rule changes developed last year and continue to consult on opportunities to reduce compliance costs for venture issuers while maintaining appropriate investor protection.

#### *Current work to examine existing regulations*

##### *Tailoring venture issuer disclosure*

Proportionality is an important principle in achieving cost effective regulation. Although we have contemplated a separate continuous disclosure and corporate governance regime for venture issuers, we have not pursued it. Feedback from the venture issuer community indicates that the burden of transitioning to a new regime outweighs the benefits, particularly at a time when venture issuers are facing significant challenges.

We still believe that streamlining and tailoring venture issuer disclosure will reduce regulatory costs for venture issuers if implemented by amending existing rules and are leading a CSA project to implement the following amendments this year:

- Replacing quarterly Management Discussion and Analysis with a highlights document for issuers without significant revenue
- Creating a new, tailored executive compensation disclosure form for venture issuers
- Significantly reducing the requirements for business acquisition reporting

##### *Rights offerings*

Rights offerings are widely regarded as one of the fairest ways of raising capital since they enable existing investors to maintain their proportionate interest in the issuer. But public companies do not often complete rights offerings due to the associated time and costs. We are leading a CSA review of this regime to make it a more time and cost efficient financing vehicle for public companies.

##### *Research to identify opportunities to reduce regulatory cost in the venture market*

Last year we initiated two research projects designed to help us identify problems we may be able to address through better regulation.

<sup>1</sup> Amounts as of year end

<sup>2</sup> Capital raising from all sources, including initial public offerings, subsequent offerings, and private placements.

<sup>3</sup> Amounts as of August 31, 2014

### *1. Venture trading strategies review*

We are analyzing venture market trading information to understand the impact of high frequency trading and short selling on market quality. We will consider whether there is evidence of harm and, if so, whether regulatory action is necessary. This work is ongoing.

### *2. Use of existing security holder prospectus exemption*

BC listed companies have shown considerable interest in a new prospectus exemption that allows them to sell up to \$15,000 worth of securities to existing investors (unlimited if the investor receives suitability advice from an investment dealer). The exemption gives companies access to a new source of capital and investors the benefits of a private placement where they have already decided to invest. We will continue monitoring use of the exemption, promoting its availability to BC listed companies, and assessing whether adjustments are needed to make it more effective.

We will address the risk that securities regulation is a contributor to the venture market downturn under Strategy 1: *Modernize our approach to capital raising exemptions* and Strategy 2: *Research on venture trading strategies*.

### **Risk 1: Non-compliance in the private placement market**

The private placement market is used by a wide variety of businesses, from start-ups to established companies, and is a significant avenue for capital raising. The most active industries are investment funds, real estate, and mining. In 2013, BC companies both public and private raised \$11b in this market. Of the \$8b raised by *private* BC companies, \$5b went to private investment funds and \$3b to all other types of entities. *Public* BC companies raised \$3b in this market, half the amount raised through public offerings.

We want to see compliant market participants and rules that both protect those eligible to invest in this market and promote efficient capital raising for those who rely on it. To this end, we:

- Educate private BC companies about capital raising rules
- Monitor the use of exemptions and the quality of disclosure where it is required
- Select higher-risk market participants for compliance reviews and refer cases of misconduct to our enforcement division
- Conduct compliance reviews of exempt market dealers who sell private placement securities
- Monitor compensated promoters who have claimed an exemption from the advisor registration requirement

We will address risks to investors posed by non-compliance in the private placement market under Strategy 1: *Modernize our approach to capital raising exemptions* and Strategy 5: *CSA national filing forms and systems redesign*.

### **Strategy 1: Modernize our approach to capital raising exemptions**

We will modernize exemptions that permit investors to participate in the private placement market and continue leading a CSA policy project to review the capital raising exemptions in National Instrument 45-106 *Prospectus Exemptions* with the following areas of focus:

- The accredited investor and the minimum investment amount exemptions
- Adapting our regime to enable issuers to raise money through a crowd-funding rule



We will also continue leading a CSA policy project to amend National Instrument 45-101 *Rights Offerings*. The focus is to make this capital raising option faster and more cost-effective.

## Strategy 2: Research on venture trading strategies

We will continue to follow up on our 2014 study of specific trading practices.

### Performance Measures for Goal 1

Performance Measure	2013/14 Actual	2014/15 Forecast <sup>1</sup>	2015/16 Target	2016/17 Target	2017/18 Target
1 Percentage of reviewed issuers that reduce deficiencies: a) Improved disclosure subsequent to a continuous disclosure review b) Improved disclosure to minimum standards	a) 100% <sup>2</sup> b) 100%	a) > 95% b) > 95%	a) > 95% b) > 95%	a) > 95% b) > 95%	a) > 95% b) > 95%
2 Percentage of randomly sampled mining issuers that meet the minimum standards for technical disclosure in: a) Filed disclosure (annual information forms, news releases, management discussion and analysis) b) Issuer websites and other voluntary disclosure	a) 73% b) 57%	a) Improve on 13/14 actual b) 62%	a) Improve on 14/15 actual b) Increase average by 5% over 14/15	a) Improve on 15/16 actual b) Increase average by 5% over 15/16	a) Improve on 16/17 actual b) Increase average by 5% over 16/17
3 Average number of deficiencies per examination in Capital Markets Regulation	3.94 out of 46 categories <sup>3</sup>	3.74	Decrease average by 5% over 14/15 <sup>4</sup>	Decrease average by 5% over 15/16	Decrease average by 5% over 16/17

**Data Source:** Measure 1: Independent evaluation against criteria set by BCSC staff, set out in a report; Measure 2: Staff evaluation against criteria set by BCSC staff, recorded over the year in a spreadsheet; Measure 3: Data entered manually into management reporting files based on exam deficiency letters and kept in spreadsheet

<sup>1</sup> Actual data for all targets will be included in the 14/15 Annual Report.

<sup>2</sup> Measures work done 12-24 months before the report: issuers reviewed by the BCSC from April 2015 to March 2016 will be reported on in May 2017. Based on a sample of 19 issuers.

<sup>3</sup> Based on 34 inspections and full examinations.

<sup>4</sup> A 5% year-over-year reduction is an ambitious target because deficiencies have already declined significantly since we first started this measure in 2007 (down from 7.3) and our compliance focus is on riskier registered firms of the large number of newly registered businesses.

## **Discussion**

Measure 1: At the end of each fiscal year, we retain an independent consultant to analyze the subsequent continuous disclosure of a statistically significant random sample of issuers that received continuous disclosure comment letters from us during the year. The results show the extent to which our detailed continuous disclosure review work motivated non-compliant issuers to improve their disclosure. The target is set to what is practically achievable and reflects compliant behaviour by issuers.

Measure 2: We randomly select issuers from a list of BC-based mining issuers and analyze whether their most recent technical filings were compliant with NI 43-101 *Standards of Disclosure for Mineral Projects*. This review shows the extent to which a sample of BC-based mining issuers is compliant in specific areas of their technical disclosure. The targets recognize that, based on historical results, these measures fluctuate; however, we aim to improve these percentages as a sign of increased industry compliance.

Measure 3: Using various risk indicators, we rate firms to determine how frequently and closely to examine their compliance. This shows the average deficiencies found in completed exams performed over the period. We exclude firms subjected to audits for cause. The target is set to decrease these percentages as a sign of increased industry compliance.

## **Goal 2: Act decisively against misconduct**

Our Enforcement division focuses on cases with a strong BC connection, including:

- Illegal distributions (including misrepresentations and fraud)
- Market misconduct (including market manipulation and insider trading)
- Compliance cases (including non-compliance by dealers and issuers)
- Criminal cases related to securities transactions

Pursuing illegal distributions and fraud through both administrative and criminal enforcement is a critical part of our work. Our objectives are to deter fraudulent activity and illegal distributions, and to mitigate investor losses by disrupting ongoing frauds and illegal distributions. To this end, we:

- Identify and freeze cash and other assets to preserve property for distribution to victims
- Issue temporary orders to immediately stop misconduct
- Conduct investigations, leading to settlements or administrative hearings before the Commission
- Pursue criminal investigations and refer appropriate cases to Crown Counsel for prosecution
- Use traditional and social media to issue investor alerts about suspected frauds in progress
- Educate investors about the warning signs of investment fraud so that fewer of them fall victim to fraudulent activity

The following strategic priority, market misconduct associated with offshore secrecy jurisdictions, relates to this goal.

## Risk 2: Market misconduct associated with offshore secrecy jurisdictions

The integrity of BC markets is damaged when people use BC dealers and accounts in offshore secrecy jurisdictions to trade illegally on inside information, manipulate the market, or engage in other forms of market misconduct. Investigating illegal activity hidden in these offshore secrecy jurisdictions can be almost impossible. For this reason, we focus on market misconduct by BC brokers, promoters, nominees, foreign financial institutions, and newsletter writers that facilitate illegal offshore secrecy jurisdiction trading.

Our objectives are to ensure that:

- Dealers reasonably believe that they know the beneficial owner of securities traded from offshore accounts and can properly supervise the trading associated with these accounts
- We can investigate trading by offshore accounts in securities, listed on any market, through BC dealers to the same extent, and in a similar timeframe, as domestic trading activity
- We deter illicit offshore secrecy jurisdiction trading

We will address the risks to investors posed by traders in offshore secrecy jurisdictions under Strategy 3: *Disrupt manipulative trading from off-shore secrecy jurisdictions.*

### Strategy 3: Disrupt manipulative trading from off-shore secrecy jurisdictions

We will implement conditions of registration for BC dealers to mitigate the risks related to trading for offshore clients and target enforcement action to deter facilitation of market misconduct by offshore banks, newsletter writers, promoters, and brokers.

### Performance Measures for Goal 2

Performance Measure	2013/14 Actual	2014/15 Forecast	2015/16 Target	2016/17 Target	2017/18 Target
4. Actions taken to disrupt misconduct: a) Number of actions b) Average duration of complaint to action (days)	a) 140 b) 72 days	a) 154 b) 65 days	a) Increase 10% over 14/15 b) Decrease average by 10% over 14/15	a) Increase 10% over 15/16 b) Decrease average by 10% over 15/16	a) Increase 10% over 16/17 b) Decrease average by 10% over 16/17
5. Average life, in months, of cases either from complaint to a notice of hearing (NOH) or from complaint to settlement before an NOH is issued	15.1 <sup>1</sup>	22	Set according to review	Set according to review	Set according to review

Data Source: Data recorded in established tracking systems

<sup>1</sup>In fiscal 2014, we completed 27 cases.

## Discussion

Measure 4: This measure focuses our efforts on early detection and shows our ability to take early action to stop the misconduct. We can significantly reduce the harm to the public when we can identify and act quickly to disrupt this misconduct. Stopping investment schemes before they start and preventing further participation in existing schemes is more effective than prosecuting them after there is more significant damage to investors. Disruptive action provides a valuable visible benefit to the public. We will track the number of disruptive actions taken by staff. We set our targets to increase the number of disruptive actions taken year-over-year and reduce the average time to take action.

Measure 5: Quick, thorough investigations provide the public with confidence in the actions that we take to address misconduct. We want to be transparent about the average time our administrative enforcement process takes. For cases open during the fiscal year, we measure the average case duration from start to issuing the NOH or, absent an NOH, the settlement. Because of the relatively small number of cases we process each year (15-20), a small number of “outliers” can significantly affect our targets. The target is set each year using information from our current caseload.

## Goal 3: Educate investors

Our goal is to help investors protect their financial interests. We want investors to have the confidence to research and assess potential investments before they invest. To this end, we focus on the following core areas to support a successful investor education program:

- *Increasing public awareness about investment fraud*—We broadcast fraud awareness campaigns so that investors learn the warning signs of investment fraud and what to do if they see or suspect it.
- *Reaching investors early*—We support the teaching of financial life skills education in BC high schools and deliver fraud prevention seminars in BC communities to help investors spot fraudulent investments before they suffer investment losses.
- *Strengthening investor education*—We provide tools and information to help investors build the skills they need to protect their financial interests.

## Strategy 4: Be Fraud Aware campaign

The objective of our *Be Fraud Aware* campaign is to fraud-proof British Columbians, especially in three communities: English, Chinese (Mandarin, Cantonese), and South Asian (Punjabi). Since the launch of the campaign in 2011, awareness of the warning signs of investment fraud is up considerably in all three communities. As a result, we are receiving more information and tips from the public, which aids our enforcement efforts.

Building on the successful conclusion of the first, three-year phase of our long-term, social marketing campaign to fraud-proof British Columbians, we continue our strategy of empowering BC investors to recognize and avoid investment fraud using traditional and social media. A key objective of this campaign is to increase the flow of information we receive from the public about known or suspected investment frauds.

### Performance Measures for Goal 3

Performance Measure	2013/14 Actual	2014/15 Forecast	2015/16 Target	2016/17 Target	2017/18 Target
6: Retiring: Number of complaints and tips received as a result of InvestRight programs	201	Set new baseline <sup>1</sup>	Increase by 5% over 14/15	Increase by 5% over 15/16	None specified in last plan
6: New: Number of contacts to BCSC Inquiries triggered by InvestRight activity	201	Set new baseline <sup>1</sup>	Increase 5% over 14/15	Increase 5% over 15/16	Increase 5% over 16/17
7 Percentage of workshop participants who recall the warning signs of investment fraud	42%	Set new baseline <sup>2</sup>	Increase 3% over 14/15	Increase 3% over 15/16	Increase 3% over 16/17
8 Percentage of BC public aware of BCSC	49% <sup>(3)</sup>	>45%	> 45%	> 45%	> 45%

**Data Source:** Measure 6: Inquiries tracking system; Measure 7: Online survey; Measure 8: Consumer survey.

<sup>1</sup> With more modest investor education budgets in the coming years than we had in 2011-2014, we can expect to see an overall decrease in calls to BCSC inquiries. For this reason, we expect this year's numbers to set a new baseline and return to the incremental increases anticipated in this measure.

<sup>2</sup> Conducting an online survey is a change from the third-party phone survey follow-up we have conducted since 2004. Because we cannot accurately predict the impact of this methodology change, we will use this year's findings to set a new baseline.

<sup>3</sup> Third party survey, measuring aided awareness in the BC population among adults 18 and over.

### Discussion

**Measure 6:** We have reworded this measure for clarity and accuracy and will set a new baseline to reflect the impact of moving from a fully-funded multi-media advertising campaign in F2012 - F2014 to more modest budgets starting in F2015. Through our public awareness and outreach programs, we aim to increase the flow of information from the public about known or suspected investment frauds. We set targets with the expectation that InvestRight education activities will generate more leads over time, while recognizing that budget levels directly influence actions taken by the public.

**Measure 7:** We deliver investor education workshops to BC residents, primarily seniors, with the goal of growing awareness of the warning signs of investment fraud. We want seminar attendees to recall at least three of the five warning signs they learned during our presentations. To determine recall, we will conduct an online survey with attendees who opt-in.

**Measure 8:** We aim to build awareness of the BCSC and our many investor education resources so that British Columbians will know where to turn and what to do when faced with a possible fraud or unsuitable investment opportunity. We use a consultant to survey the BC general population as part of a larger research effort. The target is set as a stretch goal for what we could practically achieve.

## Goal 4: Advance cost-effective regulation

Our goal is to advance cost-effective regulation. Regulation imposes costs through compliance requirements, restrictions on innovation, and fees. Investors inevitably pay these costs. We aim to provide strong investor protection and market integrity for the least cost by focusing on three core areas:

- *Emphasizing practical solutions*—When the market cannot fix market problems, we emphasize practical solutions, looking at the full range of potential regulatory responses and advancing only those that will provide significant benefits that exceed the costs.
- *Using our resources efficiently*—We deploy our resources efficiently through risk management, teamwork, and relevant performance measures.
- *Delivering services reliably*—We deliver key regulatory services, on a timely basis, recognizing that delay adds to costs for market participants.

### Strategy 5: CSA national filing forms and systems redesign

The BCSC is one of four CSA partners responsible for operating national filing systems, which are critical to both our regulatory system and market participants. We are closely involved in this multi-year system redesign project to build new systems that will replace several applications as well as BC's exempt distribution and exemption application filing systems. The CSA redesign will modernize the filing system for market participants and establish a platform for improved oversight analysis. The contract for this project will be awarded in summer 2015, following a full RFP process.

### Performance Measures for Goal 4

Performance Measure	2013/14 Actual	2014/15 Forecast	2015/16 Target	2016/17 Target	2017/18 Target
9 Average score on cost-effective regulation scorecard	95% <sup>1</sup>	90%	> 90%	> 90%	> 90%
10 Average approved project post-implementation score	90% <sup>2</sup>	80%	> 80%	> 80%	> 80%

Data Source: Internal evaluations

<sup>1</sup> We scored seven policy projects, none of which was a BC-only initiative.

<sup>2</sup> We assessed two Information Management projects.

### Discussion

Measure 9: We use a scorecard to track 16 important steps and outcomes in responding to market problems. We apply the scorecard to all CSA and local projects. For CSA projects, the scorecard shows the extent to which we advocated our cost-effective regulation principles (e.g., do we follow industry developments during the project, do we seek industry input on problem definition and on the alternatives for regulation, and do we do cost-benefit analysis). We analyze and report the average score of all projects completed each year, except those we adopt purely to harmonize with other jurisdictions. The target is set to show that we achieve our objectives if we hit the standards on the scorecard in all but one area.

Measure 10: We assess completed local projects by evaluating benefits achieved against the business case and score the project's success relative to its proposed benefits. A "project" is an initiative that takes more than 20 person days and costs more than \$25,000. We justify projects via business cases that describe the expected benefits.

## **Implementing the Taxpayer Accountability Principles**

The foregoing goals, strategies and measures in this Plan support the Taxpayer Accountability Principles. Securities market participants fund BCSC operations through fees they pay under the *Securities Act*. In this plan we strive to serve the public interest by delivering cost-efficient, effective regulatory services and programs by focusing on reducing red tape for venture market participants, educating investors and protecting them from investment fraud, and strengthening the integrity of the capital markets through strong compliance.

Public confidence in our capital markets is integral to our mandate. Therefore it is critical that we operate in a manner that is transparent, ethical, impartial, and free of conflict of interest. We demonstrate these principles daily in the way we develop securities rules, make regulatory decisions, and investigate and adjudicate enforcement cases. These principles, including a statutory requirement to keep information received in the course of employment confidential, are enshrined in a strong Ethics and Conduct Policy that applies to all BCSC employees and board members.

In collaboration with our Ministry, we will develop plans to strengthen strategic engagement and evaluate our performance against the Taxpayer Accountability Principles that we will report on in our annual report.

# Financial Plan

## Summary Financial Outlook

We generated a \$26.6 million surplus for fiscal 2014. The surplus was due primarily to income from the proportionate consolidation of our interest in a national filing system partnership. Public sector accounting standards required us to record our opening interest in income for the year.

We are forecasting a \$1.7 million deficit for fiscal 2015, as budgeted in our Service Plan. The fiscal 2015 budget includes \$2.8 million for CMRA transition planning expenses.

We are budgeting a \$1.2 million surplus for fiscal 2016. The budgeted improvement reflects higher expected distribution activity. The fiscal 2016 budget includes \$1.3 million for CMRA transition planning expenses.

The following table summarizes our actual and projected results of operations, by year<sup>4</sup>:

(millions)	2013/14 Actual	2014/15 Forecast	2015/16 Budget
<b>Revenue</b>			
<i>Local filing fees</i>			
Prospectus and other distributions	20.9	20.9	23.9
Registration	11.1	11.0	11.4
Financial filings	5.0	4.7	4.8
Other fees	0.2	0.1	0.1
	37.2	36.7	40.2
<i>Other revenue</i>			
National filing systems income	12.9	6.9	6.9
Enforcement sanctions	0.7	0.9	1.0
BCSC investment income	0.7	0.6	0.8
<b>Total revenue</b>	51.4	45.1	48.9
<b>Expenses</b>			
Salaries and benefits	28.8	31.0	31.9
Other expenses	12.0	11.9	11.9
National filing systems expenses	6.5	3.9	3.9
National filing systems transition costs	1.1	-	-
<b>Total expenses</b>	48.5	46.8	47.7
<b>Surplus (deficit) before special item</b>	<b>2.9</b>	<b>(1.7)</b>	<b>1.2</b>
Surplus on recognition of partnership	23.7	-	-
<b>Surplus (deficit)</b>	<b>26.6</b>	<b>(1.7)</b>	<b>1.2</b>
<b>SUPPLEMENTARY INFORMATION</b>			
Unrestricted surplus	28.8	24.7	25.3
Restricted surplus	28.9	31.9	34.9
Local capital expenditures	5.2	2.5	1.5
Total liabilities	12.1	12.4	12.7

<sup>4</sup> The financial information, including forecast information, was prepared based on current PSAB standards.



## ***Key Forecast Assumptions***

### ***Revenues***

BCSC does not receive taxpayer funding. Most of our revenue comes from local filing, registration, and application fees paid by market participants under the *Securities Act*. A portion of our revenue is a 25% interest in a national filing system partnership. The remainder of our revenue is investment income and enforcement sanctions.

#### Local fee revenue

Capital markets activity can be volatile. See the “risks section” below.

Canadian banks are our most significant sources of revenue. Most individual registrants are bank employees, and the banks pay fees to register their representatives. The banks manage many of Canada’s largest mutual funds, and those mutual funds pay fees to distribute securities and file financial statements.

We are forecasting a \$0.5 million (1%) decline in fee revenues for fiscal 2015 due primarily to the timing of financial filings and modestly lower registration activity.

The fiscal 2016 budget reflects a \$3.6 million (10%) revenue growth primarily from higher distribution and registration revenues. We expect distribution revenue to increase significantly, based on recent growth in Canadian mutual fund sales. We expect registration revenue to grow modestly, based on individual registration trends.

### ***Expenses***

Expenses relate to local operations and a proportionate interest in the national filing systems partnership. Compensation, occupancy, and asset amortization costs account for about 85% of local expenses.

#### ***Local expenses***

We are committed to managing our local expenses so they do not exceed expected local revenue over market cycles. We do this by preparing an annual budget approved by the Board, through monthly budget variance reporting to management, and by requiring Board approval of significant expense variances.

#### Local salaries and benefits

Staffing costs account for about 75% of our local expenses. To retain and recruit staff and remain market competitive, we conduct salary surveys and make adjustments as appropriate.

Management salaries have been frozen since April 1, 2011. We are forecasting a \$2.2 million (8%) increase in salaries and benefits expense in fiscal 2015, due primarily to the additional effort required to support the government's CMRA project, and non-management merit-based salary increases.

We are budgeting a \$0.9 million (3%) increase in salaries and benefits expense in fiscal 2016, due primarily to non-management merit-based salary increases and spending a higher proportion of our IT development effort on operating versus capital projects.

### Other local expenses

We are forecasting flat other local expenses for fiscal 2015 and budgeting no net growth for fiscal 2016. Higher depreciation from sustained IT capital spending, higher rent under our lease, higher information management costs from software licensing and data subscription cost increases are offset by lower spending on our "Be Fraud Aware" investor education campaign and lower project-related consulting effort.

The following table summarizes our actual and projected *local expenses* of operations by year:

(millions)	2013/14 Actual	2014/15 Forecast	2015/16 Budget
<b>Other Expenses</b>			
Professional Services	2.4	2.2	1.9
Staff training	0.5	0.5	0.5
Administration	0.6	0.6	0.6
Information management	1.2	1.3	1.5
External communications	0.4	0.2	0.2
Business travel	0.2	0.3	0.4
Depreciation	1.4	2.7	2.6
Education	2.2	0.8	0.8
Telecommunications	0.2	0.2	0.2
Rent	3.1	3.0	3.3
<b>Total other expenses</b>	12.0	11.9	11.9

### Other expenses include:

- Rent - includes lease costs and a proportionate share of the building's operating and maintenance costs.
- Professional services - We engage consultants when outsourcing is more cost-effective than performing the work ourselves. Professional service costs relate primarily to the following:
  - Legal services and expert opinions
  - Fees paid to IROC for registration services delegated to them
  - Our share of CSA project and management costs
  - Legislative counsel services
  - Interview and hearing transcription services
  - Data entry services
  - Internal and external audit services

- Depreciation - We depreciate our leasehold improvements, fixtures, and information technology over their useful lives using the straight-line method. We estimate the useful lives of our assets to be:
  - Information technology, including software – five years
  - Leasehold improvements – the remaining lease term to November 30, 2021
  - Office furniture and equipment – 10 years
- Information Management - We spend significant amounts on information and management systems annually to improve access to our services and information, to increase our capacity to monitor and analyze market activity, and to increase the efficiency of our processes.
- Education expenditures - We educate investors and securities market participants about financial literacy, investment fraud, and the operation and regulation of securities markets.
- Training - The financial services industry experiences continuous product and delivery innovation. We budget 2% of payroll to maintain staff regulatory competence.
- Administration, external communications, travel, and telecommunications - Expenditures in these areas are only those required to support BCSC operations.

### ***National filing system partnership***

CGI operates the SEDAR, SEDI, and NRD national electronic filing systems on behalf of a government partnership between the British Columbia Securities Commission (BCSC), Ontario Securities Commission (OSC), Alberta Securities Commission (ASC) and the Autorité des marchés financiers (AMF).

Following PSAB, we proportionately consolidate twenty-five percent of national filing system assets, liabilities, net assets, revenues and expenses.

The participants in the government partnership have agreed to restrict the use of national system surplus funds to only benefit national filing system users, through system enhancements or usage fee adjustments.

The following table summarizes our actual and projected partnership segment operations, by year<sup>5</sup>:

Partnership operations (millions)	2013/14 Actual	2014/15 Forecast	2015/16 Budget
<b>Operations</b>			
National filing systems revenues	12.9	6.9	6.9
National filing systems expenses	(6.5)	(3.9)	(3.9)
National filing systems transition costs	(1.1)	-	-
<b>Surplus before special item</b>	5.2	3.0	3.0
Surplus on recognition of partnership	23.7	-	-
<b>Surplus</b>	<b>28.9</b>	<b>3.0</b>	<b>3.0</b>
Partnership capital expenditures	0.2	-	-

For fiscals 2015 and 2016 we are projecting net contributions of \$3.0 million per year.

## ***Risks and opportunities***

### Risk management approach

We practice enterprise risk management (ERM) to identify and manage our risks. We follow an Australian risk management standard (AS/NZS 4360:2004, or AS 4360). Our ERM process updates the board on key risks and supports our strategic planning process. We maintain a business continuity plan and can restore critical functions within five hours.

### Local fee revenue

We fund operations primarily from fees paid by market participants. Revenue fluctuates with market activity, rising in strong market conditions and falling in weak market conditions. We have sufficient liquidity and capital to fund operations through a sustained market downturn.

### Partnership revenue

The Partnership funds operations primarily from fees paid by market participants. Market volatility does not significantly affect fees. In addition, the Partnership has an accumulated surplus sufficient to fund operations through a sustained period of no or low usage fees.

### Reliance on CGI

The government partnership has contracted with CGI Information Systems and Management Consultants Inc. (CGI) to operate several national electronic filing systems through which we collect most of our fee revenue. CGI maintains comprehensive business continuity plans for these systems.

## **Financial Outlook**

The Ministry's CMRA initiative contemplates a merger of the BCSC and the Ontario Securities Commission, and targets implementation of the new CMRA organization, during fiscal 2016. As directed by Ministry staff, we have not projected 2017 or 2018 results, because the BCSC will not exist.

<sup>5</sup> We do not have fiscal 2015 forecast and fiscal 2016 budget balance sheet information for this segment.

# Appendix A:

## Hyperlinks to Additional Information

### Corporate Governance

- [BCSC's governance policy, and the role of the Board of Directors and of each Board Committee](#)
- [Membership list of the Board of Directors](#)
- [Membership list of each Board Committee](#)
- [Names and job titles of senior management](#)
- [Key accountability relationships with Ministers, ministries, and any other significant reporting relationships](#)
- Per Appendix 1 of BC's "[Governance and Disclosure Guidelines for Governing Boards of BC Public Sector Organizations](#)", these guidelines do not apply to the BCSC.

### Organizational Overview

- [Enabling statute](#)
- [Mandate provided in enabling statute, vision, values, and overall benefit](#)
- [BCSC's business areas](#)
- [BCSC Stakeholders and Partners](#)
- Services delivered by the BCSC. Information about our services are on our [website](#).
- [The location of the BCSC's operations](#)