

British Columbia Securities Commission

2017/18 – 2019/20 SERVICE PLAN

September 2017



1.

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, B.C. V7Y 1L2

Contact Information

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

Email

inquiries@bcsc.bc.ca
or visit our website at
www.bcsc.bc.ca

Board Chair Accountability Statement



The 2017/18 - 2019/20 British Columbia Securities Commission (BCSC) Service Plan was prepared under my direction in accordance with the Budget Transparency and Accountability Act. 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. I am responsible for the validity and reliability of the information included in the plan.

All significant assumptions, policy decisions, events and identified risks, as of August 23, 2017 have been considered in preparing the plan. The performance measures presented are consistent with the *Budget Transparency and Accountability Act* and the BCSC'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 BCSC's operating environment, forecast conditions, risk assessment and past performance.



Brenda M. Leong
Chair and Chief Executive Officer

Table of Contents

Board Chair Accountability Statement	3
Strategic Direction and Operating Environment.....	5
Strategic Direction and Operating Environment.....	5
Performance Plan	5
Financial Plan.....	15
Summary financial outlook.....	15
Breakdown of other local expenses	16
Key Assumptions and Risks	16
Overview of Operations and Management’s Perspective	17
Appendix A: Hyperlinks to Additional Information.....	19
Corporate Governance	19
Organizational Overview	19

Glossary

B.C.	British Columbia
BCSC	British Columbia Securities Commission
CDS	Clearing and Depository Services Inc.
CGI	CGI Information Systems and Management Consultants Inc.
Cooperative System	Cooperative Capital Markets Regulatory System
CMRA	Capital Markets Regulatory Authority
CMSA	Capital Markets Stability Act
CRM2	Customer Relationship Model, Phase 2 amendments to NI 31-103 <i>Registration Requirements, Exemptions and Ongoing Registrant Obligations</i>
CSA	Canadian Securities Administrators
G20	Group of 20 Major Economies
IIROC	Investment Industry Regulatory Organization of Canada
MAP	Market Analysis Platform, a data system to monitor trading abuse
NI	National Instrument
NOH	Notice of Hearing
OSC	Ontario Securities Commission
TSX-V	TSX Venture Exchange

Strategic Direction and Operating Environment

Strategic Direction and Operating Environment

B.C. remains an important hub of venture market activity, with approximately 50% of Canada's public venture companies calling B.C. home. Resource companies continue to dominate our public markets though there are signs of increasing diversity. These markets are gradually recovering from a protracted downturn. Many venture issuers have been able to raise capital recently, but markets remain far off previous highs. Regardless of the economic environment, we need to always be mindful of the costs of raising capital and the costs of regulation generally. The BCSC has been leading initiatives to reduce costs for public issuers and will continue to work with industry to examine ways to ease regulations around capital raising and disclosure without adversely impacting investor protection.

The Economic Forecast Council (EFC) expects British Columbia's real GDP to grow by 3.0 per cent in 2017 and 2.3 per cent in 2018. For Canada, the EFC projects national real GDP to grow by 2.7 per cent in 2017 and 2.0 per cent in 2018. As such, BC's economic growth is expected to outperform Canada in the coming years. Downside risks to BC's economic outlook include uncertainty regarding US fiscal and trade policy, the potential for a slowdown in domestic activity, as well as risks arising from the challenging economic environment in Asia and the euro zone. Additionally, there are risks related to monetary policy tightening and the uncertainties associated with commodity prices and the exchange rate outlook.

The explosive growth of technology in financial services is changing the fundamentals of how companies raise capital and individuals invest and manage their money. Crowdfunding, online lending, initial coin and token offerings, robo-advisors, artificial intelligence and many other developments impact every BCSC stakeholder. We will provide guidance to fintech companies about the application of securities laws to their business, and when securities laws apply, provide a balanced approach to facilitate their growth. We will continue to consult with B.C. businesses active in this sector to understand their capital needs and how they are targeting their technology to financial services. We will need to carefully manage the risks presented by emerging fintech business models without stifling innovation.

The BCSC is committed to supporting government's three key priorities as set out in its [Mandate Letter](#).

Performance Plan

Goals, Objectives, Strategies and Performance Measures

Goal 1: Promote a culture of compliance

Investors are better protected if securities firms and companies operating in the capital markets understand and comply with their regulatory obligations. They must have effective systems and

controls in place to ensure compliance with securities rules. We apply risk-based reviews and take appropriate action to correct non-compliance.

We register securities firms and their advisors (except Investment Industry Regulatory Organization of Canada (IIROC) member firms and advisors) and refuse applications from unsuitable candidates. We audit these securities firms routinely for compliance with the rules. We also oversee the conduct of the TSX-V, CDS, IIROC, and the Mutual Fund Dealers Association (MFDA), all of which are recognized in B.C. This involves close and regular interaction with these entities, reviewing ongoing filings, proposed rule and fee changes, and conducting periodic oversight reviews.

The BCSC regulates companies and insiders and reviews prospectus filings that companies make when they go public or when they are already public. The prospectus is a 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.

Strategies

Strategy 1.1: Implement a derivatives regime

Staff are working with other CSA jurisdictions to fulfill the G20 commitments made by Canada's Minister of Finance following the 2008 financial crisis. Rules necessary to implement a derivatives regime – including rules related to establishing derivatives subject to regulation, trade reporting, mandatory clearing, and for the treatment of collateral for cleared derivatives – were put in place last year. Requirements for margin and collateral for uncleared derivatives are due to be adopted during fiscal 2017/18. The BCSC will also recognize the relevant derivatives clearing agencies and finalize its approach to oversight of those clearing agencies.

Staff will continue policy development work in coordination with other CSA jurisdictions for:

- Registration for derivatives dealers and advisors
- Market conduct requirements
- Market structure rules for derivatives trading facilities

Strategy 1.2: Implement reforms to improve client-registrant relationships

We are working with other CSA jurisdictions to enhance the obligations of registrants to their clients, including proposed targeted amendments to NI 31-103 Registration Requirements, Exemptions, and Ongoing Registrant Obligations. Last year, we published a consultation paper setting out the amendments. The amendments will better align the interests of registrants with the interests of clients, clarify the client-registrant relationship for clients, and enhance various specific obligations that registrants owe to their clients. We have identified these broad problems:

- Misplaced trust and reliance
- Client portfolios underperforming common benchmarks

- Clients not getting results intended in regulatory framework
- Disclosure of conflicts having the unintended effect of increased reliance
- Information asymmetry

B.C. is also leading a CSA project to measure the impact that Client Relationship Model – Phase 2 (CRM2) reforms and point of sale pre-sale disclosure have on investor knowledge, attitudes, and behaviours, distribution firm practices, and mutual fund fees and asset flows. This research will run through 2019.

Strategy 1.3: Consider reforms to mutual fund fee structures

We are working with others in CSA to consider reforms that better align the interests of investment fund managers and dealers/representatives with investors. CSA will issue a consultation paper to explore the potential impacts of discontinuing embedded commissions. CSA has identified these broad problems:

- Embedded commissions raise conflicts of interest that misalign the interests of investment fund managers and dealers/representatives and their investors
- Embedded commissions limit investor awareness, understanding, and control of dealer costs
- Embedded commissions do not align with the services investors receive

The BCSC plans to consult with stakeholders about the impact of discontinuing embedded commissions and other options for reform.

Strategy 1.4: Assess firm and marketplace cybersecurity risk management practices

We are working with other CSA jurisdictions to gather information about the current state of cyber security policies and procedures at registrants, self-regulatory organizations, marketplaces, clearing agencies and information processors. The BCSC will participate in the follow-on work to this project as agreed on by the CSA jurisdictions.

Performance Measures for Goal 1

Performance Measure	2016/17 Actual	2017/18 Target	2018/19 Target	2019/20 Target
1. Percentage of reviewed issuers that reduce deficiencies:				
a) Improved disclosure subsequent to a continuous disclosure review	94% ¹	>95%	>95%	>95%
b) Improved disclosure to minimum standards	88% ¹	>95%	>95%	>95%
2. Percentage of randomly sampled mining companies that comply with standards for technical disclosure in:				
1. Filed disclosure (annual information forms, news releases, management discussion and analysis)	73% ²	>73%	Improve on 17/18 actual	Improve on 18/19 actual
2. Issuer websites and other voluntary disclosure	64% ²	69%	Increase	Increase

			average by 5% over 17/18	average by 5% over 18/19
3. Average number of deficiencies per examination in Capital Markets Regulation	6.58	6.25	Decrease average by 5% over 17/18 ³	Decrease average by 5% over 18/19

Data Source BC Securities Commission, April 2017.

¹ Measures work done 12-24 months before the report. Based on a sample of 17 issuers.

² Based on a survey of 40 randomly selected B.C. mining companies.

³ 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 and newly-registered businesses.

Discussion

Measure 1: At the end of each fiscal year, we analyze the subsequent continuous disclosure of a statistically significant random sample of companies that received continuous disclosure comment letters from us during the year. The results of this review 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 B.C.-based mining companies 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 B.C.-based mining companies is compliant in specific areas of their technical disclosure. The target is set to increase this percentage 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. The measure states the average number of deficiencies found in completed exams performed over the period, excluding firms subjected to audits for cause. The target is set to decrease average deficiencies as a sign of increased industry compliance.

Goal 2: Act decisively against misconduct

Our Enforcement division focuses on cases with a strong B.C. connection. These include:

- Illegal distributions
- 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 component of protecting investors. Our objectives are to deter this misconduct and to mitigate investor losses through early disruption and timely enforcement. To this end, we:

- Conduct investigations, leading to settlements or administrative hearings before the Commission
- Pursue criminal investigations and refer appropriate cases to Crown Counsel for prosecution
- Identify and freeze cash and other assets to preserve property for distribution to victims
- Issue temporary orders to immediately stop misconduct
- 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, and encourage early reporting of suspicious activity.

Strategies

Strategy 2.1: Reduce securities fraud through detection, disruption, and deterrence

Securities fraud causes significant harm to B.C. investors and loss of confidence in our capital markets. Securities fraudsters thrive in secrecy and can be difficult to detect. We will develop an integrated approach to creating an environment that discourages fraudulent securities activities. Creating this environment will also enhance the efficiency of legitimate securities activities on the capital markets as market participants will gain increased confidence in the systems in place. Components of the approach will include:

1. Enhancing intelligence gathering. This includes two initiatives: building our capacity to obtain intelligence both covertly and overtly, and strengthening relationships through education and outreach with key information sources that can alert us to fraudulent activity, including financial institutions, the police, the public, and other regulators.
2. Expanding early intervention tactics. To disrupt fraudulent activity, we will enhance our capacity to quickly intervene, including by refining our processes to more deftly deploy our statutory tools.
3. Strengthening criminal investigation. This includes three initiatives: making earlier decisions on the appropriate investigative stream (criminal or administrative); expanding our criminal enforcement capacity to investigate targeted fraud cases for referral to the Crown; and increasing public awareness of our criminal investigations.
4. Revising our collections strategy. We will implement a more visible and robust collections process that runs from identifying and preserving assets during the course of an investigation to taking a strategic approach to collections efforts following hearing decisions.

Taken together, the components of this strategy will create stronger deterrence against investment fraud. We will develop new ways to act rapidly on intelligence and information we obtain to disrupt fraudulent securities activities – the most effective way to prevent investor losses is to prevent a fraudulent investment from happening. Increased criminal investigations will enhance the prospect of criminal sanctions, often the only effective deterrents for fraudulent misconduct. Additionally, our targeted and persistent collections efforts will aim to increase our sanctions collections rate, raising the cost of engaging in fraudulent activity.

Strategy 2.2: Upgrade approach to investigating insider trading

We regularly receive referrals from IIROC regarding possible insider trading activity. Our trading team spends a significant amount of time reviewing them. About 5% of these referrals lead to an investigation. In the last five years, we have pursued eight insider trading cases resulting in settlement or a notice of hearing (NOH).

Last year, we implemented a risk-based model that scores IIROC referrals and prioritizes them for potential investigations. We will refine the model after its first year of operation in late fiscal 2017/18.

Strategy 2.3: Improve market analytics capability for enforcement investigations

We regularly use market data and corresponding broker data to investigate market manipulations and insider trading. The current system we use was developed before our multiple marketplace environment and requires considerable manual preparation of data. We are working with other CSA jurisdictions to build a data repository and data analytics system to support enforcement work on trading abuse. This system, called Market Analysis Platform (MAP), will start by providing improved functionality when replacing existing tools and will expand to support new types of investigations and case support. Last year we issued a request for proposal for building the MAP system. During the remainder of fiscal 2017/18, we will award the project and work toward the launch of the equity data warehouse, data exploration for enforcement, and the implementation of certain types of trade matching.

Performance Measures for Goal 2

Performance Measure	2016/17 Actual	2017/18 Target	2018/19 Target	2019/20 Target
1. Actions taken to disrupt misconduct:				
a) Number of actions	86	94	Increase 10% over 17/18	Increase 10% over 18/19
b) Average duration of complaint to action (days)	66	60	Decrease average by 10% over 17/18	Decrease average by 10% over 18/19
2. Average life, in months, of cases either from complaint to NOH or from complaint to settlement before an NOH is issued	31.9	30.4 ¹	Set according to review	Set according to review

Data Source: BC Securities Commission, April 2017.

¹ We base the 2017/18 target on our current portfolio of cases, and on the likelihood that an NOH or settlement agreement will be issued within the next 12 months.

Discussion

Measure 1: 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 misconduct. We aim to stop investment schemes before they start and prevent further participation in existing schemes. Disruptive action provides a visible, valuable 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 2: Quick, thorough investigations provide the public with confidence in the actions we take to address misconduct. This measure is an indicator of timely enforcement and measures the average duration of administrative enforcement cases. 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. We set our target each year using information from our current caseload.

Goal 3: Educate investors

We want B.C. investors to have the knowledge, attitudes, and behaviours they need to:

- Engage actively in their relationship with their investment advisors
- Understand the fees they pay and the impact of those fees on the investment returns they receive
- Recognize and reject investments that are unsuitable for them or potentially fraudulent
- Know where to report fraudulent investment activity when they encounter or suspect it

Strategies

Strategy 3.1: Raising public awareness about investment fees

We launched a three-year public awareness campaign in fiscal 2016/17 to support new securities regulations under CRM2, which require investment firms to report to their clients more transparent information about the account fees they pay and the performance of their account holdings. The BCSC has almost a decade of research suggesting that B.C. investors do not have the knowledge, attitudes, and behaviours to benefit fully from this information.

We continue to use research to guide our work in this area. Last's year's campaign invited B.C. investors to "Take a Look" at their investment fees. TV, digital, and social media advertising presented B.C. investors with novel educational tools, including an investment fees quiz and a fee calculator, to help them better understand the fees they pay and their impact on investment returns. We will continue our proven multi-media approach in years two and three, introducing new key messages about investment fees and returns that will be guided by a longitudinal research study focused on investment fees and by our annual advertising impact research.

Fraud prevention will remain an important investor education message but will be a secondary focus.

Performance Measures for Goal 3

Performance Measure	2016/17 Actual	2017/18 Target	2018/19 Target	2019/20 Target
1. Percentage of B.C. investors who strongly agree they have a good understanding of how fees impact the returns on their investments	21%	26%	Increase 5% over 17/18	Increase 5% over 18/19
2. Percentage of workshop participants who recall the warning signs of investment fraud	52% ¹	55%	Increase 3% over 17/18	Increase 3% over 18/19
3. Percentage of British Columbia public aware of BCSC	33% ²	>45%	>45%	>45%

Data Source: Measure 1 NEW: Online survey; Measure 2: Online survey; Measure 3: Consumer survey.

¹ 2015/16 was the first year we conducted an online survey for this measure. Our sample size ended up being very small (18, compared to 84 the year before.) as we delivered about 30% fewer in-person seminars and had far fewer attendees agree to participate in the follow-up survey. The target reflects a conservative goal for the coming year.

² Third party survey, measuring aided awareness in the B.C. population among adults 18 and over. While the general population showed 33% awareness, awareness was 49% among those who recalled seeing at least one BCSC InvestRight advertisement in the previous six months.

Discussion

Measure 1: We communicate with B.C. investors through public awareness advertising campaigns. Our goal is to raise awareness among B.C. investors working with registrants about the investment fees they pay and the impact of those fees on their investment returns. We want investors to receive the benefits of CRM2 by paying attention to their fees and to make fees and returns part of their ongoing communication with their advisors. This measure comes from an online survey of investors age 18 and over.

Measure 2: We deliver investor education workshops to British Columbians, primarily seniors, and pre-retirees. Our goal is to grow 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 conduct an online survey with attendees who opt-in.

Measure 3: We aim to build awareness of the BCSC and our many investor education resources so that British Columbians will know where to turn when faced with a possible fraud or unsuitable investment opportunity. We survey the B.C. general population 18 and over. 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, and can potentially stifle innovation. 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.

Strategies

Strategy 4.1: CSA 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 with CSA in a multi-year system redesign project to replace various applications including B.C.'s exempt distribution filing system. The CSA redesign will modernize filing processes for market participants and establish a platform for improved oversight analysis.

Strategy 4.2: Fintech outreach – securities regulation in a digital world

The BCSC has a long history of innovative rule-making, flexibility in our consideration of exemption applications, and early adoption of new technology. We apply this approach in regulating all industries, not just technology industries. However, the emergence of innovations applied to core financial markets services will challenge us to keep pace and consider appropriate regulations without stifling innovation.

Registrants, issuers and other market participants are incorporating innovative technology to improve service delivery for investors or to launch new ways of conducting business. Today, the BCSC has eight firms registered as robo-advisors, with many more incorporating algorithms into their investing advice. We have exempted nine firms from registration as crowdfunding portals and registered a further 12 portals as exempt market dealers. These firms facilitate small companies raising capital from the retail public. We have one registered firm conducting online lending. And we have numerous other local companies working on various financial services-related technologies, such as automated payment processes, compliance technology, and risk management products.

As both entrepreneurs and established players introduce new technological tools to deliver financial services to the public, reinventing parts of both the front and back office, we want to make sure regulation is fit for the new environment. This means understanding the way these technologies change how things are done today and ensuring that our regulatory structure manages new risks and opportunities while considering how outdated regulatory controls may slow technology growth.

The BCSC will consult with B.C. businesses active in this sector to understand how they are targeting their technology to financial services, how they raise capital to fund their firms' development, and how new innovations may produce new business models that may require us to re-examine specific securities regulations. At the end of the consultation period, we will publish a paper for comment summarizing our findings and proposing next steps that are tailored to the specific needs of B.C. market participants.

Strategy 4.3: Review and modernize regulations affecting reporting issuers

We are co-leading a CSA project to study the current resale regime for prospectus-exempt securities under National Instrument 45-102 Resale of Securities to determine the extent to which the resale provisions continue to be relevant in today's markets and to assess the impact of alternative regulatory approaches.

We will:

- Conduct consultations with stakeholders to assess whether the current securities resale regime remains relevant
- Research alternative approaches in other jurisdictions, particularly the US, UK, and Australia
- Research the potential impact of reducing or eliminating seasoning and restricted hold periods, including on investor behavior, prospectus use by venture and non-venture issuers, and underwriting activities by registered dealers
- Draft and publish a consultation paper, if warranted
- Recommend a modern resale regime for consideration by the CSA

We also are working with the CSA to identify further opportunities to reduce unnecessary burden on public issuers. We will consult with issuers and other stakeholders to identify specific areas of

securities regulation that may impose regulatory burden that may be disproportionate to its purported regulatory objective.

Strategy 4.4: Transition to the Capital Markets Regulatory Authority (CMRA)

We will continue to work with Government to seamlessly transition to the CMRA, assisting with the legislative framework and the transition and integration work necessary to establish it. We will also work with local market participants to ensure they will be able to access the services they do today.

Performance Measures for Goal 4

Performance Measure	2016/17 Actual	2017/18 Target	2018/19 Target	2019/20 Target
1. Average score on cost-effective regulation scorecard	94% ¹	>90%	>90%	>90%
2. Average approved project post-implementation score	100% ²	>80%	>80%	>80%

Data Source: Internal evaluations

¹ We scored 11 policy projects, of which one was a B.C.-only initiative.

² We assessed one regulatory operations project, the End User Analytics Project.

Discussion

Measure 1: 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 policy projects. For CSA projects, the scorecard shows the extent to which we advocated our cost-effective regulation principles in problem definition, rule creation, and effective rule writing. We 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 2: We assess each completed regulatory operations project 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/or costs more than \$25,000. Our objective is that our projects will be well executed. The target is set at 80% because we believe that is evidence of a successful and well-run project.

Financial Plan

Summary financial outlook

	2017	2018	2019
(millions)	Actual	Budget	Projection
Revenue			
Local filing fees			
Prospectus and other distributions	\$ 23.9	\$ 22.3	\$ 22.8
Registration	11.9	12.0	12.2
Financial filings	4.6	4.5	4.4
Other fees	0.2	0.2	0.2
	<u>\$ 40.6</u>	<u>\$ 39.0</u>	<u>\$ 39.6</u>
Other revenue			
CSA partnership user fees	6.3	6.3	6.3
Enforcement sanctions	1.0	0.3	0.3
Investment income	1.0	0.7	0.7
Total revenue	<u>\$ 48.9</u>	<u>\$ 46.3</u>	<u>\$ 46.9</u>
Expense			
Salaries and benefits - local	\$ 30.7	\$ 32.7	\$ 35.8
Other expenses - local	12.0	11.7	10.8
CSA partnership	3.9	5.3	6.5
Total expenses	<u>\$ 46.6</u>	<u>\$ 49.7</u>	<u>\$ 53.1</u>
Annual surplus (deficit)	<u>\$ 2.3</u>	<u>\$ (3.4)</u>	<u>\$ (6.2)</u>
Supplementary Information			
Total liabilities	\$ 13.2	\$ 11.9	\$ 12.1
Accumulated unrestricted operating surplus	24.7	16.0	9.6
Accumulated restricted operating surplus	37.9	38.8	39.0
Local capital expenditures	1.1	1.0	1.0
CSA partnership capital expenditures	3.3	6.2	7.4

Breakdown of other local expenses

	(millions)	2017	2018	2019
		Actual	Budget	Projection
Rent		\$ 3.2	\$ 3.2	\$ 3.3
Depreciation		3.0	2.4	1.6
Professional Services		1.8	1.7	1.5
Information management		1.8	1.8	1.8
Education		0.7	0.8	0.8
Administration		0.6	0.5	0.5
Staff training		0.3	0.4	0.4
Business travel		0.3	0.5	0.5
External communications		0.1	0.2	0.2
Telecommunications		0.2	0.2	0.2
Other local operating expenses		\$ 12.0	\$ 11.7	\$ 10.8

Key Assumptions and Risks

Key assumptions

Our key assumptions for revenues in 2017/18 and 2018/19 are:

- Prospectus and distribution revenue decreases \$1.6 million (M) (7%) in fiscal 2018 due to continued decline in the number of non-mutual fund issuers partially offset by growth in the number of mutual fund issuers. An increase of \$0.5M (2%) in fiscal 2019 is primarily due to higher mutual fund prospectus volumes.
- Registration revenue increases of \$0.1M (1%) in fiscal 2018 and \$0.2M (2%) in fiscal 2019, reflecting modest growth in the number of individual registrants over the last two years.
- Small decreases in financial filings revenue due to continued decline in the number of non-mutual fund issuers partly offset by growth in the number of mutual fund issuers.
- No growth in CSA partnership revenues. Market volatility does not significantly affect these fees.
- Sanction receipts consistent with historical experience. Actual receipts will depend on the nature and timing of cases resolved during the year.
- Investment income decreases \$0.3M in 2017/18, reflecting our plan to move our longer-term investments into short-term instruments over the next two years so we have the working capital required to fund the projected deficits. We expect interest rates to remain low.

Our key assumptions for expenses in 2017/18 and 2018/19 are:

- Staffing costs increase \$2.0M (7%) in 2017/18 and \$3.1M (10%) in 2019. In both years, we assume no significant changes in staffing levels, four temporary positions to support CMRA transition planning work, 3% position vacancy, and merit-based salary increases averaging 2%. In addition, we expect an additional \$1.2M and \$3.5M of CMRA-related spending in 2017/18 and 2018/19, respectively, to fund general BCSC transition and wind-up costs.
- CSA partnership costs increase by \$1.4M (36%) in 2017/18 and a further \$1.2M (23%) in 2019 due to higher systems operating costs as CSA begins to implement and depreciate new systems.

- The 2017/18 budget and 2018/19 projection include decreases in other local operating expenses of \$0.3M (3%) and \$0.9M (8%) respectively primarily due to lower depreciation and professional services expenses. Depreciation will decrease due to lower capital expenditures during 2014/15, 2015/16 and 2016/17.

Risks

The CSA partnership has contracted 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.

We rely on the CSA partnership projections to estimate our net contribution from the national systems operations. Actual results will differ.

CMRA project estimates remain preliminary. Actual results will differ. The actual effort required for the project could be higher, which would increase BCSC deficits. The 2017/18 budget and the 2018/19 projection include \$3.3M and \$5.6M respectively for costs relating to the transition to CMRA. Wind-up and general transition liabilities will not be known with certainty until shortly before the BCSC's integration into the CMRA.

We forecast deficits for 2017/18 and 2018/19 and a significant reduction in the BCSC's unrestricted surplus. If realized, this would leave the BCSC more financially vulnerable, particularly if BCSC or CMRA initiative costs increase.

Overview of Operations and Management's Perspective

The 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 small portion of our revenue is investment income and enforcement sanctions.

Compensation, occupancy, and asset depreciation costs account for about 85% of local expenses. We expect CMRA project spending to be \$3.3 M in fiscal 2017/18, and \$5.6M in fiscal 2018/19. Please see the risks section for more information on this project.

In addition to our local operations, in accordance with Canadian public sector accounting standards, we proportionately consolidate 25% of the assets, liabilities, net assets, revenues and expenses of a national filing system partnership (CSA partnership). CGI operates the SEDAR, SEDI, and NRD national electronic filing systems on behalf of a government partnership between the BCSC, OSC, Alberta Securities Commission, and the Autorité des marchés financiers.

We expect the CSA partnership operating costs will increase as CSA implements expected new systems. In 2018/19 we project operating expenses of \$6.5M compared to revenues from CSA partnership user fees, interest, and other partnership revenue of \$6.7M.

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

Capital markets activity can be volatile, so we hold accumulated reserves to fund operations through market downturns.

We prepare an annual budget for approval by the Board, monthly budget variance reporting to management, and request Board approval of significant expense variances.

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 B.C.'s "[Governance and Disclosure Guidelines for Governing Boards of B.C. 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](#)
- [The location of the BCSC's operations](#)