



British Columbia Securities Commission

Service Plan

2004 - 2007

Our service plan

Additional copies of this Service Plan are available by contacting us at the address indicated below. Copies are also available on the BCSC website, at www.bpsc.bc.ca

BCSC address:

PO Box 10142, Pacific Centre
701 West Georgia Street
Vancouver, BC V7Y 1L2

Each division of the BCSC has its own operating plan, which details how its operations will contribute to the BCSC's strategy and Service Plan in the coming year. Copies of these operating plans are available by contacting the BCSC's enquiries line, at (604) 899-6854 or by emailing enquiries@bpsc.bc.ca

This Service Plan uses various industry terms and acronyms. We have attached a glossary as Appendix 2 to this Service Plan.

Letter to the Minister

January 30, 2004

Honourable John Les
Minister of Small Business and Economic Development
Parliament Buildings,
Victoria, British Columbia

Dear Minister,

I present the Service Plan of the British Columbia Securities Commission for the period April 1, 2004 to March 31, 2007. This plan is presented in accordance with the *Budget Transparency and Accountability Act*.

The upcoming period will be one of challenge and opportunity for the BCSC, and for British Columbia's securities markets. We expect to deliver to the government, before the beginning of the fiscal year 2004-05, a new *Securities Act*, ready to present to the Legislature for its consideration. The delivery of the new legislation will mark the culmination of more than two years of extraordinary effort by the project team with the able and dedicated assistance of other BCSC staff and commissioners. The project results also reflect the valuable input we received from many interested firms and individuals in British Columbia and beyond.

While the introduction and implementation of the new legislation will demand considerable attention and resources, we intend to continue improving our regulation of the capital markets in other ways, by sharpening our programs for promoting compliance with the rules, by acting decisively against misconduct, and by educating investors and industry participants. Our specific action plans in each area are spelled out in this Service Plan.

The BCSC is working to position British Columbia to take full advantage of the opportunities open to us.

Yours truly,

A handwritten signature in black ink, appearing to read 'DM Hyndman', with a stylized, flowing script.

Douglas M. Hyndman
Chair

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Accountability statement

The 2004-2007 Service Plan was prepared under our direction in accordance with the *Budget Transparency and Accountability Act*. We are accountable for the contents of the Service Plan.

All significant assumptions, policy decisions and identified risks have been considered in the Service Plan. We are accountable for ensuring that the BCSC achieves its specific objectives identified in the Service Plan and for measuring and reporting actual performance.



Douglas M. Hyndman
Chair



Steve Wilson
Executive Director

Executive summary

We are striving to become leaders in securities regulation by being innovative, low cost and tough but fair. Our commitment is to do all we can as regulators to make British Columbia the best place in North America to invest and raise capital.

We must both protect investors from fraudulent, abusive and unfair practices, and allow market participants to pursue their economic interests without an excessive burden of regulation. This is the heart of our new legislation initiative.

Our goal is to strengthen investor protection while reducing the burden of unnecessary regulation. We believe that we can regulate our markets effectively by identifying systemic market problems and fixing them over time. In this Plan, we focus on four goals:

1. Keep the rules few, simple and clear
2. Foster a culture of compliance
3. Act decisively against misconduct
4. Educate and inform investors and industry

We have developed strategies around these goals. We have also established criteria to judge whether, at the conclusion of the planning period, we have effectively met our goals.

Financially, we plan to operate close to breakeven. In doing that, we must take into account the fact that we are funded by fees from industry, which may vary from year to year. In recent years, our revenues have declined due to reduced market activity and a temporary fee reduction. Consequently, we have had to fund any new programs from cost savings found elsewhere.

Organization overview

Management has developed and the Commissioners have approved this Service Plan, which meets our responsibilities under the *Budget Transparency and Accountability Act*. We renew our three-year Service Plan annually and submit it to Treasury Board as required under the *Securities Act*, our enabling legislation. This is a public document.

Our mission

We are the independent provincial government agency responsible for regulating trading in securities in British Columbia. The mission of the BCSC is to protect and promote the public interest by regulating trading in securities

- to ensure the securities market is fair, and warrants public confidence; and
- to foster a dynamic and competitive securities industry that provides investment opportunities and access to capital.

The dual mission of the BCSC requires that we protect investors from fraudulent, abusive and unfair practices, and allow market participants to pursue their economic interests without an excessive burden of regulation. Effective regulation contributes to both aspects of the mission.

Our values

We focus on four core corporate attributes to ensure that we efficiently accomplish our mission, and reflect our values:

Drive for results –

Focus on results and achievement, hold high expectations and push for high levels of accomplishment.

Effective communication –

State our expectations clearly, express our ideas well, and keep others informed. Ensure all our communications use plain language principles.

Problem solving –

Think ahead and plan.

Teamwork and cooperation –

Work with each other to maximize our talents and accomplish our goals.

Our stakeholders

Our planning process identifies and evaluates the initiatives that will meet the needs of our stakeholders:

- Investors - both retail and institutional, who want to invest in fair, transparent and efficient markets
- Issuers - who rely on the capital markets to fund growth and diversification
- The securities industry - which serves both users and suppliers of capital
- The legislature and provincial government - to whom we are accountable for conducting our affairs and administering the *Securities Act*
- The public – who rely on the BCSC to ensure that the capital markets contribute to the economic well being of British Columbia

Governance

The provincial government appoints the Commissioners who administer the *Securities Act*. They are chosen for their skills and experience in business, law, capital markets and regulation. The BCSC currently has nine commissioners.

Commissioners have three basic functions:

1. Serve as the BCSC's board of directors
2. Establish rules and policies to regulate securities market participants
3. Conduct hearings and make decisions under the *Securities Act*

How we achieve our mission

We set rules for fair play. Rules are one tool we use to maintain market integrity. Three examples are:

- The securities industry has enormous potential for conflicts of interest. Rules require industry to disclose conflicts and manage them in a way that protects the integrity of the market.
- If not properly supervised, markets are vulnerable to manipulation and other forms of abuse that defraud unsuspecting investors. Rules prohibit market fraud, manipulation, and misrepresentation and require disclosure of insider trades and short sales.
- Market participants do not always have equal access to information. Rules prohibit persons with privileged access to information from trading at the expense of those without that information.

We police the markets for misconduct. We examine registered firms and monitor disclosure of publicly traded companies to ensure they are following the rules. We investigate frauds and market abuses. When we find misconduct, we sanction the persons responsible.

We screen market participants. Firms that trade securities, advise investors or manage portfolios must be registered, maintain minimum capital and adhere to specified standards of conduct.

We set disclosure standards for market participants. A company raising capital must disclose to investors all material facts about its business. It must also keep investors informed by sending them quarterly and annual financial statements and by promptly disclosing material changes affecting the business.

We educate investors and industry. We teach investors how to protect themselves before they invest their money. We help industry understand existing and proposed rules, so they can better comply with them. We use plain language to make the regulatory system accessible.

We oversee self-regulatory organizations and exchanges. Together with the other securities regulators in Canada, we supervise the operations of national self-regulatory organizations (SROs). The SROs are:

- *The Investment Dealers Association of Canada (IDA)*, which administers the registration of its member brokerage firms (including all participants in the Toronto Stock Exchange and TSX Venture) and regulates their conduct and capital adequacy.
- *The Mutual Fund Dealers Association of Canada (MFDA)*, which regulates the conduct and capital adequacy of mutual fund dealers.
- *Market Regulation Services, Inc., (RS)* which regulates securities trading on Canadian exchanges and other marketplaces by participating brokerage firms and helps the exchanges oversee their listed companies.

We share with the Alberta Securities Commission the responsibility for supervising the operations of TSX Venture. We have authorized two other exchanges, TSX and NASDAQ, to carry on business in British Columbia under exemption orders, relying on the oversight of their home regulators.

Our vision

Our vision is to do all we can as regulators to make British Columbia the best place in North America to invest and raise capital. To do that, we must remain leaders in securities regulation by being innovative, low cost and tough but fair.

Service and performance standards

Throughout this Service Plan, we have specified service standards and performance measures in various areas. This is our first attempt to publicly quantify these measures and standards. In future years, we will publish our progress against them, and further refine them.

Planning context 2004 – 2005

Our approach to regulation

The BCSC's approach to regulation is to identify important problems and fix them. In doing that, we focus our attention on risk control, compliance management, and problem solving activities. We:

- Establish simple rules and craft them in plain language
- Identify significant threats to investors and market integrity, systemic problems, or patterns of non-compliance with the rules
- Adopt creative, tailor made strategies and solutions for dealing with these problems using a range of regulatory tools (including, but not limited to, enforcement)
- Evaluate the impact of our actions in mitigating risks and improving compliance.

We get information about problems in a variety of ways. We regularly receive general or specific complaints or tips about misconduct or unfair practices. Applications to the BCSC or our own compliance reviews also alert us to problems. We have well-developed procedures and processes for dealing with these types of problems when they come to our attention. However, to improve protection of investors and markets, we are trying to identify at an earlier stage problems that have broader implications. We identify systemic problems through the strategic planning process we follow in developing this Service Plan, through our problem identification initiative launched last year, and through other contacts with industry and investors.

Our problem identification group brings a specific focus to the task of identifying potentially serious systemic problems at an early stage, and helps develop solutions that can be implemented before too much damage is done. In 2003-04, for example, this group identified the potential risk of misleading mining and exploration disclosure at a time of renewed investor interest in the junior mining sector. We responded by developing a comprehensive plan to improve disclosure. This included focusing continuous disclosure reviews on issuers and corporate officers with a background of compliance problems. We also publicized our intent to improve and step up our compliance action.

Organizations that participate in our problem identification initiative include our SROs, the Financial Institutions Commission of British Columbia, the Mortgage Brokers Association and the Vancouver Society of Financial Analysts.

The BCSC represents British Columbia in our national system of securities regulation, as an active member of CSA. We also participate in NASAA, an organization representing American state and Canadian provincial securities regulators, and we regularly cooperate and coordinate with American federal and state regulators on enforcement matters. The BCSC is also a member of IOSCO and COSRA, bodies representing international and pan-American securities regulators, respectively.

Securities reform initiatives

New legislation

Two years ago, the BCSC established our deregulation project because we believed that our legislation, rules, regulations and policies had become too voluminous, complex, and prescriptive. They imposed significant costs on industry and did not provide the best protection for investors.

We have proposed to the government new securities legislation for British Columbia that shows how securities laws that are streamlined and simplified can strengthen investor protection, while reducing the burden of regulation on business.

The provincial government has instructed us to work with government officials to prepare new securities legislation based on our proposals for introduction in the 2004 legislative session. We have developed this Service Plan with the expectation that the legislation will be passed early in the fiscal year and will come into force before the end of 2004.

Securities regulatory structure

There has been a long-standing debate over the securities regulatory structure in Canada. The costs and complexity of the current system have led to calls for regulatory reform.

(a) Inter-provincial initiatives

Throughout 2003, the provincial ministers responsible for securities regulation in Canada worked on developing a regulatory “passport” system to make securities regulation work better. This system would provide a single window of access to market participants. It would, if agreed to, authorize the BCSC to enter into agreements with securities regulators in other jurisdictions that would enable each to rely on the other to perform their supervisory duties regarding market access rules. It is not yet clear whether this proposal will proceed.

In parallel with the provincial ministers’ initiative, the CSA have been working on the Uniform Securities Legislation Project. In December 2003, CSA released

consultation drafts of a *Uniform Securities Act* proposed for each province and territory in Canada and a model *Securities Administration Act* based on the laws of Alberta.

A flexible passport model based on mutual recognition appears to hold the best prospect for reforming regulation at the national level. The rules and regulatory infrastructure in the major jurisdictions are close enough now to allow us to rely on each other. Uniform securities laws should not be a prerequisite to the passport system. We should continue to work to harmonize our rules, but a flexible passport model would allow individual jurisdictions to move ahead with reforms without jeopardizing market participants' ability to deal with one regulator and one set of rules. This would be in the best interests of our markets and a significant step to improve securities regulation in Canada.

(b) Federal initiative

The federal government has also considered how to improve Canada's securities markets. In December 2003, the federally appointed "Wise Persons Committee" issued a report that proposed the elimination of provincial securities regulation and the establishment of a single, national regulator based in the National Capital Region, with regional offices in Vancouver, Calgary, Winnipeg, Toronto, Montreal and Halifax.

Potential effect

One or more of the proposed national reforms might gain momentum. This could affect the BCSC's operating environment for fiscal 2004-07 in ways that are significant, but not yet clear. For this reason, we believe we must retain some operational flexibility to manage change during the period covered by this Service Plan and prepare our staff and operations for what the future may hold. We have therefore included in our operating plans, in various areas, several initiatives to manage this uncertainty.

Criminal justice initiatives

The federal government has taken action regarding enforcement of the *Criminal Code* in the area of corporate fraud. It intends to enhance investor confidence in Canada's capital markets by improving the following elements of the justice system:

- Legal framework
- Investigations
- Prosecutions
- Sentencing of offenders

As a step in that process, the federal government has begun to establish its Integrated Market Enforcement Team (IMET) initiative in several Canadian cities. In 2003, one IMET was established in Vancouver. In 2004, we expect that another team will be established here. The purpose of the IMET initiative is to focus resources on the investigation and prosecution of the most serious corporate frauds and market illegalities.

Potential effect

The BCSC supports the federal government's IMET initiative and has committed to be a full partner in the Vancouver IMET operations. This will include sharing information and data, when appropriate, and will involve assigning BCSC staff to each IMET in BC for one to two years.

Economic conditions

Securities markets

During most of 2003, North American securities markets experienced a strong resurgence and market indices increased significantly:

- Dow Jones 30 +25%
- NASDAQ +44%
- TSX (S&P) +24%
- TSX Venture +63%

As the stock markets rose, monthly trading volumes increased by an average of 20% on major exchanges. Trading on less regulated markets, like the OTC Bulletin Board, increased even more.

Interest rates

Interest rates remained low throughout the year. While there were minor fluctuations during 2003, the Bank of Canada's trend-setting bank rate was 3% on December 31st in both 2002 and 2003.

Resource sector

During 2003, the price of gold rose significantly, from US\$347 at December 31, 2002, to US\$416 at the end of 2003. As a result, investor showed increasing interest in the resource sector, including TSX Venture issuers. This is an important component of the British Columbia securities market: over 1000 resource issuers are headquartered in British Columbia, more than in any other province in Canada.

Private placement financings by British Columbia-based issuers

Private placement financings also rose in 2003, mainly as a result of increased interest from investors outside Canada. For the six-month period ended September 30, 2003¹, British Columbia-based issuers raised approximately \$1.5 billion, an increase of 38% from the corresponding period in 2002.

Real estate markets

As 2003 drew to a close, real estate markets were very active with a consequent increase in the issuance of real estate related securities.

Expanded access

During the year, the Commission decided that investment dealers registered in British Columbia would be able to give their clients more direct access to the trading services of NASDAQ.

Potential effects

(a) Changing nature of fraudulent activities

The nature and types of fraudulent activities in the marketplace change depending on whether markets are strong or weak. As markets improve, investors usually are less wary and more willing to take higher risks, increasing the likelihood of market misconduct. If the markets continue to advance during 2004-2005, we can expect unscrupulous persons to use the opportunity to take advantage of investors' enthusiasm through fraudulent and abusive practices. This would ultimately damage investor confidence in the integrity of the securities market. For this reason, we plan to augment our surveillance activities of the public market in the coming year.

(b) Increased activity to regulate

Increased market activity will put pressure on staff to maintain current service levels. High service standards and fast turnaround times become critical to filers during periods of higher activity.

(c) Increased revenue

Our revenue depends upon the activity of the securities market. As market volumes rise, our revenues will increase in similar proportions. We expect that this improvement, together with careful management of our costs, will enable us to eliminate our operating deficit and begin to rebuild our reserves for the next market cycle.

¹ The most recent date for which data is available.

Our goals

The BCSC is a problem-focused regulator. In addition to reacting to market events and providing service to our stakeholders, we use our problem solving approach to achieve our four goals.

1. Keep the rules few, simple and clear
2. Foster a culture of compliance
3. Act decisively against misconduct
4. Educate and inform investors and industry

These are the goals we have decided to focus on for the period covered by this Service Plan. We have also identified the strategies to attain each goal. In developing our Service Plan, we have consulted with both internal and external parties.

Goal 1 Keep the rules few, simple and clear

Strategies

1. New legislation

Since October 2001, we have been working on a project to improve British Columbia's securities legislation to make it more effective at protecting investors and more efficient for market participants. Last April, we published draft legislation and rules for comment. We spent the balance of the year preparing regulatory impact studies on various aspects of the new regime and finalizing the legislation for introduction in the provincial legislature for the 2004 spring session.

The new legislation focuses on outcomes. We believe this approach provides better investor protection than regimes that focus market participants on compliance with prescriptive rules rather than on sound decisions about what is best for investors and clients.

Recent financial reporting and trading scandals in North America have led some regulators in other jurisdictions to impose a host of new and costly requirements on market participants. We do not believe that relying on new, complex rules to prevent corporate scandals will be effective in the long term. In fact, we believe that these scandals demonstrate that a system of outcomes-based regulation, backed up by diligent enforcement and education, will provide a more effective system of regulation and will be less costly for honest market participants.

We are not alone in this view. Many respected observers from industry, the investment community and other regulators have argued in favour of outcomes-based regulation, and cited the scandals as evidence of the shortcomings of systems that depend on prescriptive rule-making.

Fundamentally, our challenge remains the same: do what best protects investors and market integrity and provides low-cost regulation to market participants. Finding the right balance is important to an efficient capital market that attracts both businesses and investors.

British Columbia government initiatives

The government has instituted a rigorous procedure for vetting any requests that regulatory bodies may have to enact new rules and regulations, including those from

the BCSC.² This process requires that rules be demonstrably effective and necessary for the protection of public health, safety, the environment or consumers.

The government also has a deregulation initiative that requires all government agencies to reduce their regulatory requirements by one-third. As of June 5, 2001, the reference date for the initiative, the BCSC administered 21,316 regulatory requirements, which means we must eliminate 7,105. If the proposed new legislation is passed by the provincial Legislature, we will meet and improve upon that target. If the new legislation does not proceed, we will not achieve the target.

Timing

We expect the government to introduce a new *Securities Act* in the Legislature in the 2004 spring session. The new Act will be based on the BC Model that we published last year, after giving effect to comments received and further study and analysis. We expect to adopt the accompanying rules in the fall.

Preparing ourselves and market participants for the implementation and administration of this new system of regulation will therefore be a major deliverable for the Commission this year.

The proposed timing is as follows:

- Spring Session of Legislature – Enactment of new *Securities Act*
- April 30, 2004 – Publish draft rules for further comment
- July 31, 2004 - Revise rules to reflect comments and deliver to Minister for approval
- October 31, 2004 – Training and preparation of Commission staff and systems completed; initial training and preparation of market participants completed.
- Mid-November, 2004 – Target date for proclamation of new Act and adoption of rules (subject to government determination)

Success measures

- Each element of the new regime in force on its target date
- Transition to the new regime completed without major unexpected disruptions to market participants.

² Regulatory Reform Policy, revised August 2002. For further information, refer to the website for the Minister of State for Deregulation at <http://www.deregulation.gov.bc.ca>

- Government's target of eliminating at least 7,105 of the existing 21,316 regulatory requirements exceeded.

2. Incorporate plain language into our operations

In 2000, the BCSC adopted a policy of using plain language in all of its communications, including decisions, news releases, policies, regulations and educational activities. Plain language is an essential ingredient to keeping rules simple and clear.

All commission staff have now been trained in the use of plain language and will continue to have their skills upgraded. However, the fact that many of our external industry and legal audiences are not using plain language and may not understand our initiative remains a significant challenge. We will take the following steps to address this:

- We will explain our plain language initiative to our industry and legal colleagues so they better understand the goal of the program and how this affects the wording of our documents. This information will accompany all key documents distributed to these audiences.
- Quarterly, we will review key documents we produce to ensure consistency and accuracy as well as continued adherence by the BCSC to plain language principles. Each division will be involved in this process and will provide feedback to staff.
- We will partner with one SRO to establish a program to promote the use of plain language in that organization.

Timing and success measures:

- We will prepare information for distribution by May 1, 2004. We will survey recipients by Sept. 30, 2004 to determine their awareness of our program.
- The quarterly review process will be in place by June 30, 2004 with the first review report submitted to the Executive Director by October 31, 2004.
- We will agree on a partnership initiative with an SRO by June 30, 2004 with the goal of implementing a program by Dec. 31, 2004.
- Annually, we will prepare a report for the Commission on the progress of our plain language initiative

3. Use our public website as a strategic tool

Our public website has taken on increasing importance each year, as the public becomes more accustomed to accessing the Internet for information. It is very important that the information contained on the website be current, user-friendly and easy to find. To that end, we recently improved users' ability to search our website to obtain relevant information, but we can do a lot more.

For 2004-2007, we plan to:

- Increase transparency of the BCSC to our stakeholders
- Support the educational function of the Commission
- Integrate our website with national initiatives, such as SEDI
- Develop an infrastructure for electronic transactions to simplify the public's and industry's dealings with the BCSC.

Each year we prepare a plan of website improvements. We have provided for a major re-design of the public website in the upcoming year, to improve the users' experience, the website's look and feel and, most importantly, the ease with which the public can quickly get the information it needs.

Timing:

We will prepare and publish the annual website plan by June 30 of each year. The plan itself will contain benchmarks and target dates for completion.

Success measures:

We will conduct a focus group of typical website users. We will ask them to rate the website changes and make suggestions for further improvements.

Service and performance measures:

In addition to our goal of keeping the rules simple, fair and clear, it is important to the BCSC's mandate to respond to the public's queries quickly and to process documents and applications rapidly. We have prepared the following service and performance measures that address important areas of public service.

| <i>Area</i> | <i>Measure</i> | <i>Standard</i> |
|--|---|--|
| Contact Centre (for public information and assistance) | <p>Available to handle public inquiries during regular business hours (Monday to Friday, 8:00 am to 4:30 pm).</p> <p>Callers to 899-6500 will wait less than 15 seconds for their call to be answered.</p> <p>We will resolve 60% of telephone queries on the spot.</p> | <p>In operation 99% of the time;</p> <p>95% of the time</p> <p>95% of the time</p> |
| Internet Website | Available to the public, 7 days a week, 24 hours a day | In operation 98% of the time |
| BCSC e-Services | <p>Available to the public, 7 days a week, 24 hours a day</p> <p>A decision should be rendered within 30 days from receipt of a completed local application</p> | <p>In operation 98% of the time</p> <p>85% of the time</p> |
| BCSC E-mail system | Available to the public and BCSC staff, 7 days a week, 24 hours a day | In operation 98% of the time |
| BCSC telephone system | Available to the public and BCSC staff, 7 days a week, 24 hours a day | In operation 98% of the time |
| BCSC computer network | Available to BCSC staff, 7 days a week, 24 hours a day | In operation 98% of the time |

Goal 2 Foster a culture of compliance

Introduction

Effective regulation relies on compliance by market participants with both the spirit and the letter of securities rules. We rely on the registrant community to monitor their sales compliance responsibilities, and to do what is right and ethical. As public markets become more active, British Columbia investors will rely increasingly on public companies complying with their continuous disclosure obligations.

Voluntary compliance and self-regulation are cornerstones of our securities regulatory scheme. It is critical we foster an environment in which these can flourish. To accomplish this, we will focus our compliance-enhancement activities in two areas in the coming period. We will work to enhance public company compliance with disclosure requirements, and to improve the self-regulatory process for brokers and advisors.

Issues

Results of our continuous disclosure reviews indicate that the quality of disclosure needs improvement. Problems include inadequate management discussion and analysis in quarterly and annual reports, non-compliance with mineral project disclosure standards, and failure to clearly disclose other material information on a timely basis.

Increased public market activity, the involvement of individuals with previous compliance problems and the return of less sophisticated investors to the market will exacerbate existing problems.

Our objective is to make sure the public companies we regulate comply with their continuous disclosure obligations so that the market is fair and investors can make fully informed decisions. We will achieve this objective through targeted monitoring, education and compliance initiatives. We will ensure that there are consequences for directors and officers whose companies fail to comply.

Registrants

BCSC and IDA reviews have demonstrated that registrants do not always comply with their “know your client” and “gatekeeper” obligations. Effective regulation relies on the brokerage industry for its front line compliance efforts. To protect investors and the reputation of our markets, we must build an effective “compliance culture” among registrants, based on:

- Getting compliance support at the most senior levels in each firm
- Doing what is right, not whatever can be done without detection
- Following the “spirit” of the rules, not just doing the minimum necessary for technical compliance
- Actively cooperating with industry compliance staff, SROs and provincial regulators to identify and resolve failures to meet appropriate standards of conduct

Strategies

We have developed four strategies to foster a culture of compliance.

1. Expand our disclosure compliance program

Investors in the public markets rely on continuous disclosure by public companies. We will likely start to see some of the disclosure abuses and misconduct that typically come with hot markets. We need to make sure we are conducting our monitoring and review activity as efficiently as possible. We have shifted staff to our compliance team to be more effective at detecting market abuses involving misleading disclosure before there is serious damage to the market. This will allow us to increase our vigilance in the coming year. To assist in the education of the industry, we will look for appropriate ways to publicize the compliance actions we take.

Our financial reporting, insider reporting and continuous disclosure review teams will be taking a more integrated approach to company reviews. We will continue to shift resources away from the routine review and processing of all financial filings to selective and focused reviews based on risk analysis.

We will work with our CSA counterparts to ensure that the review process is similar regardless of the issuer’s prime reporting jurisdiction. This program will include an initial screening procedure, with both a risk based and random component so that all issuers have a chance of being selected, and a cyclical review approach for high market capitalization companies. For example, all issuers with a market capitalization of over \$750 million will be reviewed every 3 years.

We will monitor British Columbia-based companies whose securities trade on the OTC Bulletin Board to detect misleading disclosure.

This year, we also plan to establish more formalized referral procedures with professional associations.

Timing:

Complete CSA coordinated review of a selection of public companies from various industries across Canada by March 31, 2005. BCSC staff will monitor the review of mining issuers to identify differences in approaches taken by different provinces and develop appropriate standardization.

During 2004-2005, subject to CSA cooperation:

- Implement a peer review system for continuous disclosure review comment letters.
- Work with the CSA's Continuous Disclosure Review committee to develop success criteria for the program and an audit process to measure the effectiveness of the program by September 30, 2004.

We expect that this initiative will continue past March 31, 2005. In the next planning cycle, we will review the progress of the continuous disclosure review program and determine our course of action.

Service and performance measures:

It is important to the BCSC's mandate to deal with matters quickly. We have therefore prepared service and performance measures that address important areas of continuous disclosure and issuer compliance.

| <i>Area</i> | <i>Measure</i> | <i>Standard</i> |
|-----------------------|-------------------------|---|
| Continuous disclosure | Total number of reviews | Increase number of reviews by 10% compared to 2003/2004 |
| Continuous disclosure | First comment letter | 80% within 10 days of file opening |
| Continuous disclosure | Review completed | 80% within 3 months of file opening |
| Compliance | Case completed | 80% within 4 months of file opening |

Success measures:

We will measure success by conducting external e-mail surveys of issuers. We will also conduct an evaluation of the effectiveness of our review of continuous disclosure documents by using commission professionals not normally involved in the process.³ At the end of the planning period we will prepare an annual

³ We do this by having participants evaluate the quality of continuous disclosure from one year to the next. It is done through a "blind" test where the participants do not know whether the sample disclosure they are evaluating was the subject of review in the past year. In this manner,

report card evaluating the quality of corporate disclosure of British Columbia-based companies; each year should show a 20% improvement.

2. *Education*

Industry education is an important tool for Corporate Finance to improve compliance and we will continue to host workshops and produce publications to help British Columbia companies comply with their disclosure requirements.

During 2002-2003, we conducted a study of compliance with National Instrument 43-101 *Standards of Disclosure for Mineral Projects*. This survey identified problem areas that we now want to target with our education efforts. We expect that we may initially find more problems as the mining sector revives and more shell companies are reborn as mining companies, because many of these companies do not have technically qualified people as directors.

We will ensure that our website contains easily accessible information so that the mining industry has the information it needs to comply with NI 43-101 requirements.

Timing and success measures:

- We will obtain feedback from seminar attendees and expect that it will demonstrate our courses are meeting their objectives.
- We will conduct a follow-up review to our NI 43-101 compliance study by the end of the year.
- By June 30, 2004, we will create a specialized mining page on our website.
- At least annually, we will review the progress of the industry education initiative to determine its effectiveness and to identify further implementation steps

3. *Compliance tools analysis*

An effective compliance program requires consequences for failure to comply with regulations, so that unacceptable activity can be curtailed before it escalates into something more detrimental to our markets. Our existing enforcement tools are designed to deal with significant offenses and usually involve a lengthy and complex legal process. It can be difficult to justify spending the resources necessary to bring a compliance case to a successful conclusion when it is

we can determine whether the continuous disclosure review process had an impact on the quality of disclosure in subsequent years.

compared to more serious enforcement cases. Using the experience provided by our disclosure compliance cases, we will:

- Analyze and identify criteria to determine when a more expedient process may be appropriate
- Recommend a quick and efficient process that ensures that the party is dealt with fairly, but does not require a formal hearing

For compliance cases involving public company director or officer misconduct, we will work with the stock exchanges to ensure we properly contemplate the indirect consequences to individuals of the sanctions we might impose on them. For example, a person's position in settlement negotiations might be affected if a sanction we propose would cause the exchange to consider the person unacceptable as a director or officer.

Timing and success measures

We will complete our report and provide our recommendations by September 30, 2004.

4. Self-regulatory organizations

The number of SROs and the character and extent of SRO regulation have changed radically in a relatively short period. Our reliance on SROs to regulate important aspects of market conduct is increasing. Our role has shifted from regulating registrants directly to supervising SROs that regulate registrants, and from having the primary responsibility for one British Columbia based SRO to sharing the responsibility for the supervision of three national SROs. We also share responsibility for supervising TSX Venture, Canada's venture capital stock market.

We must ensure that reliance on the SROs is justified, and that

- Appropriate benchmarks are set and the SROs are held to those standards
- Supervision of the SROs is coordinated and consistent within the BCSC and within CSA
- SRO regulation is effective
- The BCSC remains an effective advocate for change in the national SRO context

Our reliance on SROs is a substitute for direct regulation, and increases the risk inherent with all self-regulation – the conflicts of interest of an industry that regulates itself. Questions continue regarding the effectiveness of the securities industry SROs in areas such as discipline and enforcement. Therefore, the

benchmarks for SRO performance and effectiveness should be the standards we would set for ourselves. These must include standards for

- Timeliness in exercising regulatory responsibilities, like the investigation of complaints or the processing of registrations
- Effectiveness of disciplinary programs
- Transparency and fairness of procedures
- Plain language in written communication
- Contribution to minimizing the costs of regulation.

In addition, the benchmarks and supervision mechanisms must recognize and mitigate the lack of independence that is inherent in all SROs, without undermining the benefits of flexibility and industry expertise that SROs can bring to bear.

Timing and success measures:

We will:

- Prepare and publish at least one report annually that evaluates the regulatory activities of an SRO or exchange.
- Continue the benchmarking process by reviewing and developing appropriate performance standards for the MFDA and RS by November 30, 2004.
- Review the proposed role of TSX Venture and ensure gaps do not develop in the regulation of reporting issuers.
- Work with RS to expand the existing national cease trade order database to include orders against individuals (timing dependent on RS priorities), to achieve a single, publicly accessible national database for all securities regulatory orders.

Service Measures

Just as we expect SROs to have appropriate performance standards, we have developed the following standards for ourselves in the area of capital market regulation. These address important aspects of our mandate: the need to examine registrants, respond to industry enquiries and register firms on a timely basis.

| <i>Area</i> | <i>Measure</i> | <i>Standard</i> |
|--|--|---|
| Registrant field examinations | Examine all British Columbia-based non-SRO registrants every 3 years. | 90% of target. |
| Examination reports | Complete within 30 days from end of field visit. | 80% of the time. |
| Industry enquiries | <ul style="list-style-type: none"> • Assist registrants and others in resolving issues and provide guidance • Reply to phone calls within 24 hours • Respond to e-mails within 48 hours | 95% of the time. |
| Review of new firm applications for registration | <ul style="list-style-type: none"> • Commence review within 5 business days. | 95% of the time |
| Compliance trends | <ul style="list-style-type: none"> • Summarize examination results to evaluate overall compliance | Publish an industry sector report every 2 years |

We will track compliance trends, as indicated above, through our examination results for the registrants we directly regulate, to ensure continuous compliance improvement over the period covered by the industry sector report. Where compliance fails to improve to an acceptable level, or deteriorates, we will take corrective action as appropriate.

Goal 3 Act decisively against misconduct

Introduction

As public market activity increases, our enforcement strategy must ensure we are well positioned to quickly detect illegal conduct in the public markets, take decisive action and send the right signals to those who would contravene securities laws in their quest for profit. This will require taking our surveillance and intelligence work to the next level of sophistication in monitoring the markets, tying our activities even more closely to those of other Canadian and international regulators, and expediting the movement of cases through our process to a conclusion.

In the increasingly diverse and global markets, it is extremely important to employ creative, internationally-coordinated, and effective enforcement techniques in dealing with sophisticated law-breakers. We must also continue to work with those responsible for the criminal justice system to enhance its effectiveness in dealing with the worst securities fraud cases.

To be effective, enforcement must be timely enough to tackle *current* market problems, thereby sending prompt signals to other market participants, and the investing public. However, this desire for speed must always be balanced by the requirement for accuracy and fairness. We also need to ensure that major *Securities Act* violations can be properly brought before, and dealt with by, the criminal and civil justice systems in British Columbia.

Strategies

We have developed three strategies to keep enforcement at the forefront of our investor protection initiatives, and achieve our goal of being “tough but fair”.

1. Early detection

With the rise of market indices and a general rise in stock market trading volumes, we anticipate a corresponding rise in market abuse. We will increase our surveillance and intelligence capability, focusing particularly on the OTC Bulletin Board, which is a less-regulated market. We will also focus more attention on large issuers, which can be the subject of more subtle and sophisticated abuses that usually do not give rise to timely complaints.

As a result, we expect to generate a higher percentage of our cases internally than from external complaints. We plan to coordinate our intelligence function with the work of various other groups, including the new IMET recently set up in

Vancouver. We will also work with SROs and other agencies to increase the effectiveness of all regulatory agencies.

Timing and success measures:

During the planning period, we will prepare an annual report card on how successful we have been at detecting enforcement cases early. Each year should show continual improvement. During the year ended March 31, 2005, our initiative will be a success if our intelligence function is the source of at least 10% of the cases we undertake or refer to another agency for action. We will determine further success measures in future years.

2. Flexible, effective case processes

Addressing cases quickly is an essential part of an effective administrative justice system. We have improved significantly our production time for the assessment and investigation of cases. That improvement, however, has contributed to a bottleneck of cases in our Litigation department. We are currently considering how to resolve this problem and will continue to work on this in the next fiscal year. This is one of the largest challenges we face in the enforcement area.

To partly deal with this problem, we aim to settle or expedite many more cases than we currently do. Other regulators aim to settle a majority of cases: the United States Securities and Exchange Commission aims to settle 80% of the cases it investigates. The OSC has a similar target. During the year, we will review our policies and procedures for expediting the handling of cases without a Commission hearing.

Timing and success measures:

- During the fiscal year ended March 31, 2005 and in subsequent years, for 90% of cases, we will meet a time limit of 60 days from the conclusion of an investigation to the issuance of a Notice of Hearing or draft settlement agreement.
- By March 31, 2005 we will reduce the Litigation backlog of cases outside acceptable standards of timing review and assessment to 10 % of cases.

3. Criminal deterrence

The BCSC will participate in the new IMET initiative by seconding one investigator to each local IMET. The BCSC will also be a part of the management team for the Vancouver-based IMETs. That will allow us to assist in case selection and to review the IMET initiative's progress.

Timing:

- During the fiscal year, the IMETs will be able to commence accepting cases. We will respond to IMETs' requests for assistance in all cases.
- We will create a plan for cooperating with local IMETs and will implement that plan within the time set out. We will meet the timing commitments that are within our control.
- By March 31, 2005, we will review the success of the IMET initiative and our participation in it, and provide a report and recommendations for our further involvement.

Goal 4 Educate and inform investors and industry

Introduction

Investor and industry education is an essential tool for protecting investors and market integrity. Through our education programs, we:

- Show investors how to protect themselves before they invest their money
- Help industry understand existing and proposed rules, so they can better comply with them

Our education programs can help us improve compliance and provide better protection for investors.

We have stepped up our investor and industry education activities during the last several years and will expand them further. We will work to identify vulnerable investors and help them protect themselves from fraud and inappropriate sales practices. The best line of defence is a well-informed public that protects its hard-earned money by approaching investing with skepticism and prudence. We will work to help industry participants understand the principles of securities regulation and how complying with them ultimately improves business by strengthening public confidence in the integrity of the markets.

Communicating the BCSC's role to investors is a key part of educating them about the resources and safeguards that are available for their protection. Our awareness-raising efforts must support and enhance the educational activities we determine to be priorities. Our research shows that industry participants have a high awareness of the BCSC and its regulatory role. Therefore, our public awareness efforts will focus mainly on the investing public. In keeping with our strategy to carefully target our educational programs, we will build awareness by:

- Informing our target audiences about the BCSC's role and encouraging them to use our resources in ways that are relevant to their situations
- Employing educational vehicles that contain informative messages about our role and the resources we offer.

We will determine, develop and deliver messages that are more direct in communicating what actions we want people to take, such as visiting our website, attending our seminars, or calling our Contact Centre for further information. We will also encourage investors who suspect a problem to call us with tips and complaints and we will track that information.

Strategies

1. Implement a comprehensive industry education plan

The BCSC has been exploring industry education strategies in 2003 and reviewing the needs and challenges of industry audiences. Many BCSC divisions are involved in industry education and these efforts should be coordinated. We will implement a comprehensive industry education strategy to bring these efforts together so they are more cohesive, efficient and effective.

We will increase opportunities for partnering between operating divisions on joint industry education efforts, like initiatives to educate British Columbia companies on complying with disclosure requirements and to inform registrants about their obligations under the new legislation's proposed Code of Conduct. We will measure the effectiveness of these programs.

To support the anticipated implementation of our proposed new legislation during the year, we will focus our activities on educating industry about the new requirements.

Timing:

- Adopt plan by April 15, 2004
- Produce initial new industry education modules by June 30, 2004
- Apply initial success measures by December 31, 2004

Success measures:

Measures of success will include surveys and focus groups to gauge the level of participants' understanding before and after going through an educational program.

2. Implement a comprehensive investor education plan

The BCSC currently delivers a range of investor education programs and is enhancing and refining these activities through several new initiatives, including

increasing awareness and educational partnerships to broaden our reach. We have established 11 significant programs to reach our target audiences. These reach many distinct groups within our broader audiences of seniors, investors between 35 and 64 years old, youth and ethnic communities.

To help us continue to develop and deliver relevant programs targeting the right audiences, we will increasingly use research as part of our planning and evaluation process. We will do research on how to use education to respond to problems in the marketplace, how to prioritize our target groups, how best to reach those groups and how to tailor appropriate messages for each target audience.

During the year, we will assist the Ministry of Education with the development of materials to support the curriculum for a new course for secondary school students. This course will include modules relating to investing and other relevant subjects within the BCSC's expertise. The extent and timing of our assistance to the Ministry is not determined at this time.

Timing:

- Refine and formalize our investor education strategy by June 30, 2004
- Apply results of initial research projects by September 30, 2004
- Develop and implement a consistent process for measuring the effects of our educational activities and incorporating the results in our educational planning by December 31, 2004

Success measures:

- The Plan will contain schedules for conducting surveys and focus groups to test adoption and retention of our educational messages among control groups.
- We will also establish baseline measures on investor complaints to the BCSC and its SROs that will help gauge any increase in the awareness of these institutions and the educational resources they offer.

3. Develop partnerships based on our established criteria to further our educational efforts

We will reach more people cost-effectively if we establish well-founded partnerships with compatible organizations that have existing relationships and lines of communication with our target audiences. By making the right strategic alliances, we can expand our activities and educational reach by using the

resources and networks of others. In 2003, we formalized criteria that support our use of educational partnerships to help us reach investors and industry in the most economical, efficient and credible manner.

We will build on these partnership criteria to expand our activities in the coming year as follows:

- We will pursue partnerships with major British Columbia companies and government organizations to reach large groups of active and retired employees who represent investors in our defined target groups.
- We will reach clients of SRO member firms with our investor protection messages through partnerships with SROs. Our own research done in 1999 and research by the OSC in 2002 indicates that investors are most likely to rely on their own intermediaries for investor and market information.
- We will continue to seek qualified educational partnerships through the many requests we receive for funding from the BCSC Education Fund.

Timing:

- Establish at least four new organizational partnerships by Dec. 31, 2004
- Stage a pilot program for disseminating investor education information through one or more SRO member firms by December 31, 2004
- If successful, continue with the partnership program in fiscal years after March 31, 2005.

Success measure:

Double the number of seminars and other activities in conjunction with partners by March 31, 2005; future measures will be established later.

Alignment with government's strategic plan

The British Columbia government's strategic plan identifies three goals:

- A strong and vibrant provincial economy
- A supportive social infrastructure
- Safe, healthy communities and a sustainable environment

There are two important ingredients to achieve economic growth and a strong, vibrant economy. This can be expressed as a formula:

| |
|--|
| <p>Confident investors + Easy access to capital = Active markets and economic growth</p> |
|--|

Our vision is to do all we can as regulators to make British Columbia the best place in North America to invest and raise capital. If we achieve our vision, we will be making a positive contribution to British Columbia's prosperity and the attainment of the government's three goals. Specifically, the BCSC's objectives address the government's Strategic Plan as follows:

BC Government goal

Corresponding BCSC objective

| | |
|---|---|
| A strong and vibrant provincial economy | 1. Keep the rules few, simple and clear 4. Educate and inform investors and industry |
| Safe, healthy communities and a sustainable environment | 2. Foster a culture of compliance 3. Act decisively against misconduct |

Summary financial outlook

The following table summarizes the revenue, expenses and deficit from our operations⁴.

| <i>Amounts in millions of dollars</i> | Actual 2002/2003 | Budget 2003/2004 | Budget 2004/2005 | Forecast 2005/2006 | Forecast 2006/2007 |
|---------------------------------------|---------------------|---------------------|---------------------|-----------------------|-----------------------|
| <i>Operating revenue</i> | 18.1 | 22.3 | 27.0 | 28.0 | 28.7 |
| <i>Operating expenses</i> | 27.7 | 27.8 | 28.6 | 27.9 | 28.1 |
| <i>(Deficit)</i> | (9.6) | (5.5) | (1.6) | 0.1 | 0.6 |

We aim to operate the BCSC at a breakeven level. We expect to achieve the breakeven point in 2005/2006. To achieve this objective, we have sought to contain expenditures over the planning period, without hampering our core goals.

Operating revenue

Government does not fund the BCSC. We derive our revenue from activity and participation fees paid by market participants. We project the following sources of revenue over the planning period:

| <i>Amounts in millions of dollars</i> | Actual 2002/2003 | Budget 2003/2004 | Budget 2004/2005 | Forecast 2005/2006 | Forecast 2006/2007 |
|---|---------------------|---------------------|---------------------|-----------------------|-----------------------|
| <i>Prospectus and other distributions</i> | 8.6 | 11.7 | 12.8 | 13.2 | 13.6 |
| <i>Registration</i> | 6.2 | 4.9 | 8.8 | 9.3 | 9.6 |
| <i>Financial filings</i> | 1.7 | 4.5 | 4.3 | 4.4 | 4.5 |

⁴ "Operations" includes all non-restricted funds that we may spend for any purpose consistent with our mandate. Capital transactions, and restricted Education Fund transactions, are dealt with later in this section.

| <i>Amounts in millions of dollars</i> | Actual 2002/2003 | Budget 2003/2004 | Budget 2004/2005 | Forecast 2005/2006 | Forecast 2006/2007 |
|---------------------------------------|---------------------|---------------------|---------------------|-----------------------|-----------------------|
| <i>Investment and other income</i> | 0.9 | 0.5 | 0.5 | 0.5 | 0.4 |
| <i>Exemptions and orders</i> | 0.6 | 0.6 | 0.5 | 0.5 | 0.5 |
| <i>Enforcement cost recoveries</i> | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Total operating revenue | 18.1 | 22.3 | 27.0 | 28.0 | 28.7 |

Except for temporary fee reductions (ended in 2004/2005), our revenue rises and falls in proportion to market activity. Securities markets, by their nature, are volatile and unpredictable. Therefore a portion of the BCSC's revenue is also subject to significant fluctuation.

The Significant changes and forecast assumptions over the planning period include:

(a) Prospectus and other distributions

The largest components of our prospectus and other distribution revenue include (with 2004/2005 budget figures shown):

- Mutual fund base prospectus filing fee: \$3.7 million
- Prospectus percentage proceeds fees: \$3.6 million
- Non-mutual fund base prospectus filing fee: \$1.7 million
- Annual information form (AIF) filing fee: \$1.5 million

For the base prospectus filing fees in 2004/2005, we used the three-year average⁵ and added 3% based on the current upturn in financing activity.

For the percentage-of-proceeds fees (which relate mainly to mutual fund prospectuses), we used the average from the last three years and subtracted 10% due to uncertainty over the RRSP sales season in 2004.

⁵ Two years, in the case of non-mutual funds, because the third prior year was exceptionally high)

For AIF filings, because the revenues have been increasing steadily in recent years, we used the actual for the 12 months ended November 30, 2003.

Sensitivity

Revenue from prospectus and other distributions is our most volatile source of revenue. Over the past five years, prospectus and distribution revenue has been, in millions:

| Year | Amount |
|--------------------|-------------------|
| 1998/1999 | \$ 11.1 |
| 1999/2000 | 13.3 |
| 2000/2001 | 16.0 |
| 2001/2002 | 12.7 ⁶ |
| 2002/2003 | 8.6 ⁸ |
| 2003/2004 (budget) | 11.7 |
| 2004/2005 (budget) | 12.8 |
| 2005/2006 (budget) | 13.2 |
| 2006/2007 (budget) | 13.6 |

As the table demonstrates, we project that prospectus and other distribution revenue should increase modestly in future years over the 2004/2005 budgeted amount.

(b) Registration

We expect that budgeted registration revenue will increase from \$4.9 million in 2003/2004 to \$8.8 million in 2004/2005. This increase in revenue results from the elimination of the temporary fee reductions of \$3.3 million in 2003/2004, and an increase in individual registrations.

Sensitivity

Historically, except for the effects of temporary fee reductions, registration revenue has not been volatile. This is because the number of individual salespersons in British Columbia has continued to increase over recent years regardless of the fluctuations in the securities markets.

⁶ Includes the effect of the temporary fee reduction of \$0.7 million in 2001-2002 and \$3.1 million in 2002-2003.

Over the past five years, registration revenue has been, in millions:

| Year | Amount |
|--------------------|------------------|
| 1998/1999 | 5.6 |
| 1999/2000 | 6.2 |
| 2000/2001 | 6.7 |
| 2001/2002 | 7.3 |
| 2002/2003 | 6.2 ⁷ |
| 2003/2004 (budget) | 4.9 ⁸ |
| 2004/2005 (budget) | 8.8 |
| 2005/2006 (budget) | 9.3 |
| 2006/2007 (budget) | 9.6 |

Future revenue

The rules proposed under the new securities legislation would eliminate individual registrations. Individual registration fees provide the majority of registration revenue and represent one of the BCSC's most important revenue sources. That revenue is still required to fund the BCSC's regulatory activities. This Service Plan assumes that, if individual registration fees are eliminated, participation fees payable by registered firms will be increased by an equivalent amount.

(c) Financial filings

We expect that financial filings revenue will remain flat over the planning period. We do not expect that there will be a significant change in the revenue base, i.e. the number of reporting issuers in British Columbia.

Sensitivity

Historically, except for the effects of temporary fee reductions, financial filings revenue has not been volatile.

Over the past five years, financial filings revenue has been, in millions:

| Year | Amount |
|-----------|--------|
| 1998/1999 | \$ 3.4 |
| 1999/2000 | 3.6 |

⁷ Includes the effect of the temporary fee reduction of \$1.0 million.

⁸ Includes the effect of the temporary fee reduction of \$3.3 million

| | |
|--------------------|------------------|
| 2000/2001 | 3.9 |
| 2001/2002 | 3.6 |
| 2002/2003 | 1.8 ⁹ |
| 2003/2004 (budget) | 4.5 |
| 2004/2005 (budget) | 4.3 |
| 2005/2006 (budget) | 4.4 |
| 2006/2007 (budget) | 4.5 |

Operating expenses

Total operating expenses are not projected to increase significantly over the planning period.

| <i>Amounts in millions of dollars</i> | Actual 2002/2003 | Budget 2003/2004 | Budget 2004/2005 | Forecast 2005/2006 | Forecast 2006/2007 |
|---------------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-------------------------------------|-------------------------------------|
| <i>Salaries</i> | 19.5 | 19.5 | 20.0 | 19.5 | 19.7 |
| <i>Professional services</i> | 1.9 | 2.1 | 2.5 | 2.3 | 2.2 |
| <i>Rent</i> | 1.7 | 1.7 | 1.8 | 1.8 | 1.9 |
| <i>Depreciation</i> | 1.5 | 1.6 | 1.4 | 1.5 | 1.5 |
| <i>External communications</i> | 0.4 | 0.6 | 0.7 | 0.5 | 0.5 |
| <i>Administration</i> | 0.6 | 0.7 | 0.6 | 0.7 | 0.7 |
| <i>Information technology</i> | 1.1 | 0.4 | 0.4 | 0.5 | 0.5 |
| <i>Travel</i> | 0.4 | 0.5 | 0.4 | 0.4 | 0.4 |
| <i>Training</i> | 0.3 | 0.3 | 0.4 | 0.4 | 0.4 |

⁹ Includes the effect of the temporary fee reduction of 0.4 million in 2001-2002 and \$2.6 million in 2002-2003.

| <i>Amounts in millions of dollars</i> | Actual 2002/2003 | Budget 2003/2004 | Budget 2004/2005 | Forecast 2005/2006 | Forecast 2006/2007 |
|---------------------------------------|-----------------------------|-----------------------------|-----------------------------|-------------------------------|-------------------------------|
| <i>Knowledge management</i> | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| <i>Telephone</i> | 0.1 | 0.2 | 0.2 | 0.1 | 0.1 |
| Total operating expenses | 27.7 | 27.8 | 28.6 | 27.9 | 28.1 |

The three most significant expenses are:

(a) Salaries

Our salaries budget is based on November 30, 2003 staffing of 201.8 full time equivalent (FTE) staff¹⁰, less known future staff reductions, plus program additions. We plan to have 199.5 FTEs in 2004/2005. In addition, the budget assumes an average general increase in salaries expense of 3.2%.

(b) Professional services

Professional services in 2004/2005 include:

- Enforcement: \$0.7 million, primarily includes legal services related to expected hearings (up from \$0.5 million in 03/04 budget)
- Capital Markets Regulation: \$0.5 million, primarily commissions paid to the IDA for registration services delegated to them (unchanged from 2003/2004)
- BCSC's share of CSA projects: \$0.5 million (up from \$0.2 million in 2003/2004), due to the establishment of the CSA Secretariat in Montreal and staffing for the national systems co-ordinator in Toronto.
- Corporate Planning and Management Services: \$0.4 million, (unchanged from 2003/2004), primarily consisting of business continuity expenses and expenses to improve the BCSC website
- Other divisions: \$0.4 million

(c) Rent

Over the planning period, we expect that our rent expense will increase by the cost of our share of operating increases for our premises at 701 West Georgia

¹⁰ This represents the number of employees of the BCSC, expressed as if all were working full-time. For example, 5 full-time employees and 3 employees working half-time would be expressed as 6.5 FTEs: $[5.0 + 3(0.5)]$.

Street, Vancouver. We do not expect to acquire additional lease space during the period, and our basic rent is fixed during the planning period.

Education fund revenue and expenses (restricted fund)

The Education Fund represents primarily money received by the BCSC as revenue from administrative penalties levied under the *Securities Act* and settlements of enforcement matters. Under the provisions of the *Securities Act*, and a resolution of the Commission, the Education Fund may be used only for the purpose of educating securities market participants and members of the public about investing, financial matters and the operation or regulation of securities markets.

During the planning period, we expect that Education Fund expenses will average \$0.4 million to \$0.5 million per year, with the exception of the upcoming fiscal year.¹¹

| <i>Amounts in millions of dollars</i> | Actual 2002/2003 | Budget 2003/2004 | Budget 2004/2005 | Forecast 2005/2006 | Forecast 2006/2007 |
|--|---------------------|---------------------|---------------------|-----------------------|-----------------------|
| Balance, beginning of year | 3.9 | 4.2 | 4.0 | 3.3 | 3.3 |
| <i>Designated settlements and administrative penalties</i> | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| <i>Interest income</i> | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 |
| <i>(Disbursements)</i> | (0.2) | (0.4) | (1.1) | (0.4) | (0.5) |
| Balance, end of year | 4.2 | 4.3 | 3.3 | 3.3 | 3.2 |

¹¹ For 2004/2005, we have provided for potential expenses relating to the design of course materials for use in secondary schools.

Sensitivity

Education fund disbursements are completely controllable and are at the discretion of the Commission.

Revenue from designated settlements and administrative penalties is difficult to accurately predict. It is based upon individual enforcement events that may not be typical in any given year. We have therefore used the long-term historical average to estimate this income.

Divisional expenses

The expenses of the BCSC's various divisions are included in the expenses discussed above. The division with the greatest increase is Communications and Education, whose budget increased from \$1.2 million in 2003/2004, to \$2.0 million in 2004/2005. This increase reflects more BCSC activity in investor and industry education.

Capital expenditures

Capital expenditures consist primarily of information technology outlays. During the fiscal year 2004-2005, the main information technology expenses are to replace desktop computers and servers that have reached the end of their economic lives. Other capital expenditures include leasehold improvements, office equipment and furniture.

We project capital expenditures as follows for the planning period:

| <i>Amounts in millions of dollars</i> | Actual 2002/2003 | Budget 2003/2004 | Budget 2004/2005 | Forecast 2005/2006 | Forecast 2006/2007 |
|---|-----------------------------|-----------------------------|-----------------------------|-------------------------------|-------------------------------|
| <i>Information technology</i> | 0.7 | 0.8 | 0.7 | 0.7 | 0.7 |
| <i>Leasehold improvements, office equipment and furniture</i> | 0.1 | - | 0.1 | 0.1 | 0.1 |
| Total capital expenditures | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 |

Sensitivity

We estimate that our information technology assets have an economic life of about three years. Assuming no major change in technology pricing, the cost of

keeping our technology infrastructure up-to-date and secure will remain at approximately \$0.7 million annually during the planning period.

Reserves

Our general reserve will be eliminated during the planning period because of the temporary fee reductions and resulting deficits in fiscal years 2002/2003 and 2003/2004. We will draw on the fee stabilization reserve in 2003/2004 and 2004/2005. At the end of the planning period, we expect to have reserves totaling \$13.6 million, which will be sufficient to support our operations for the foreseeable future. If revenues exceed our conservative forecasts, we will use the opportunity to replenish the fee stabilization reserve.

| <i>Amounts in millions of dollars</i> | Actual 2002/2003 | Budget 2003/2004 | Budget 2004/2005 | Forecast 2005/2006 | Forecast 2006/2007 |
|---|---------------------|---------------------|---------------------|-----------------------|-----------------------|
| <i>Fee stabilization</i> | 12.0 | 10.6 | 8.3 | 8.4 | 9.0 |
| <i>General and contributed</i> | 4.6 | 1.4 | 1.4 | 1.4 | 1.4 |
| <i>Education fund</i> | 4.2 | 4.3 | 3.3 | 3.3 | 3.2 |
| Total reserves | 20.8 | 16.3 | 13.0 | 13.1 | 13.6 |

Appendix 1 – Operating benchmarks

We have compared the BCSC against the Ontario and Alberta securities commissions on certain basic measures.¹² It is difficult to obtain comparative information from other jurisdictions because most provinces account for information in different ways and have different circumstances.

The following information is current as of the fiscal year ended March 31, 2003. Unless otherwise stated, information has been obtained from each commission's *Annual Report*.

| | <u>BC</u> | <u>Ontario</u> | <u>Alberta</u> |
|---|--------------|----------------|----------------|
| <i>Population and economic information</i> | | | |
| Individual population, <i>Stats Can Est. 2003</i> | 4,146,580 | 12,238,300 | 3,153,723 |
| Provincial GDP, 2002 (Source: Statistics Canada, 1997 constant dollars, in billions) | 118 | 416 | 121 |
| TSX & TSX Venture companies headquartered in province (Source: CSA) | | | |
| TSX | 192 | 588 | 226 |
| TSX Venture (active only) | <u>1,231</u> | <u>495</u> | <u>573</u> |
| Total | 1,423 | 1,083 | 799 |
| Registered individuals | 23,500 | 63,000 | 15,500 |
| (Registrants per 1000/population) | 5.7 | 5.1 | 4.9 |

¹² Benchmarks with Quebec were not considered, since that province's securities regulatory system is undergoing significant change.

| | <u>BC</u> | <u>Ontario</u> | <u>Alberta</u> |
|---|----------------|----------------|----------------|
| Activity | | | |
| Commission decisions 2000-2003 (Source: Wise Persons Committee) | 29 | 13 | 11 |
| Enquiries received, total | 17,000 | 33,000 | 5,000 |
| (Enquiries per 1000/population) | 4.0998 | 2.6965 | 1.5854 |
| Prospectuses filed (non-mutual fund) | 440 | 400 | 560 |
| Financial (in thousands of dollars) | | | |
| Revenue (note 1) | 18,486 | 70,473 | 15,275 |
| Expenses | | | |
| Salary and benefits expenses (note 2) | 19,465 | 38,278 | 12,013 |
| Professional services | 1,952 | 3,123 | 1,820 |
| Occupancy | 1,650 | 3,726 | 1,264 |
| Other | <u>4,804</u> | <u>10,747</u> | <u>3,877</u> |
| Total expenses | 27,871 | 55,874 | 18,974 |
| Surplus (Deficit) (notes 1 and 2) | <u>(9,385)</u> | <u>14,599</u> | <u>(3,699)</u> |
| Enforcement budget (Per \$million of GDP; Source: Wise Persons Committee) | \$28 | \$22 | \$26 |

Notes

1. British Columbia's revenue was \$6.7 million lower in 2002-2003 because of a temporary fee reduction for most market participants
2. Major non-recurring items include:
 - Alberta's salary and benefits costs include \$1.4 million for severance costs due to the closure of the Edmonton office.
 - British Columbia's costs include new legislation costs of \$1.9 million.

Appendix 2 -- Glossary of terms and acronyms

| Term | Description |
|------------------------------|--|
| continuous disclosure | Information prescribed by securities laws that must be publicly disseminated and filed with the BCSC. This includes financial statements, quarterly reports, annual information forms, technical reports, material change reports, information circulars, proxy material, insider trading reports, and related material. |
| COSRA | Council of Securities Regulators of the Americas, of which the BCSC is a member. COSRA seeks to establish basic and common legal, regulatory and structural principles that promote efficient and liquid markets while ensuring appropriate levels of investor protection. http://www.cvm.gov.br/ingl/indexing.asp and follow the link to "International Affairs". |
| CSA | Canadian Securities Administrators: a council of the securities regulators of each Canadian province and territory. http://www.csa-acvm.ca |
| IDA | Investment Dealers Association of Canada, a self-regulatory organization. http://www.ida.ca |
| IMET | Integrated Market Enforcement Team (a partnership initiative between the federal Ministry of Justice, the Royal Canadian Mounted Police, the Vancouver Police, and the BCSC to improve policing in the securities markets). http://www.canada.justice.gc.ca/en/news/nr/2003/doc_30928.html |
| IOSCO | International Organization of Securities Commissions, of which the BCSC is an associate member. IOSCO promotes cooperation, mutual assistance, information sharing, and the development of standards to improve the regulation of securities markets internationally. http://www.iosco.org |
| insider disclosure | The legally required public disclosure by insiders of their securities holdings and transactions |
| issuer | A company or other entity that has issued or proposes to issue securities |
| MFDA | Mutual Fund Dealers Association of Canada, a self-regulatory organization. http://www.mfda.ca |

| | |
|---------------------------|--|
| NASAA | North American Securities Administrators Association, of which the BCSC is a member. NASAA consists of state, provincial, and territorial securities administrators in the United States, Canada, and Mexico. http://www.nasaa.org |
| NASDAQ | The NASDAQ Stock Market, Inc. is the world's largest electronic stock exchange. It is based in the United States. http://www.nasdaq.com |
| OTC Bulletin Board | A quotation service that displays quotes, last-sale prices, and volume information in over-the-counter equity securities in the United States. http://www.otcbb.com |
| registrant | A firm or individual that is registered under the <i>Securities Act</i> to trade or advise in securities |
| reporting issuer | An issuer that has issued securities in a public offering. These companies are subject to the continuous disclosure requirements of securities laws. |
| RS | Market Regulation Services Inc. is the independent regulation services provider for Canadian equity markets, including the TSX, TSX Venture, Bloomberg Tradebook Canada Company (Bloomberg) and Canadian Trading and Quotation System (CNQ). http://www.rs.ca |
| SRO | Self-regulatory organization |
| TSX | The Toronto Stock Exchange http://www.tse.com |
| TSX Venture | TSX Venture Exchange is Canada's primary venture capital stock exchange. Most British Columbia companies that are listed on TSX Venture are active in the mining and resource exploration industry. http://www.tse.com/en/aboutUs/cdnx |