



# **BC Securities Commission**

## **Service Plan, 2007 – 2010**

## **BC Securities Commission Service Plan**

This Service Plan sets out our strategy for the next three years. Copies are available on the BCSC website at [www.bcsc.bc.ca](http://www.bcsc.bc.ca) (*About the Commission*), or by writing to us at:

Public Inquiries  
BC Securities Commission  
PO Box 10142, Pacific Centre  
701 West Georgia Street  
Vancouver BC V7Y 1L2

Each BCSC division has an operating plan that describes how it will implement the strategies in the Service Plan to address identified risks. Copies of these operating plans are available by phoning or emailing our public inquiries group:

Direct: 604 899-6854  
Toll-free: 1-800-373-6393 (BC, AB)  
Email: [inquiries@bcsc.bc.ca](mailto:inquiries@bcsc.bc.ca)

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## Accountability statement - BCSC Chair to Minister

Honourable Wally Oppal  
Attorney General and Minister Responsible for Multiculturalism  
Parliament Buildings  
Victoria, BC V8V 1X4

Dear Minister:

The British Columbia Securities Commission (BCSC) is the independent provincial government agency responsible for administering the *Securities Act*. We protect and promote the public interest by fostering:

- A securities market that is fair and warrants public confidence
- A dynamic and competitive securities industry that provides investment opportunities and access to capital

Our capital markets are highly integrated with other markets, nationally and internationally. Most BC-based public companies have investors in other provinces and must comply with the rules and deal with the regulators in those provinces. Most BC-based securities dealers operate in other provinces or belong to national self-regulatory organizations. It is therefore in British Columbia's interest for Canada to have efficient and effective securities regulation.

We devote significant resources to working with other Canadian securities regulators through the Canadian Securities Administrators organization (CSA) to coordinate regulation and harmonize requirements. We are leading CSA work on an inter-provincial initiative known as the Passport System. All provinces except Ontario support the development of this system. Its goal is to ensure efficient, streamlined, and cost-effective securities regulation that is simple to use for market participants. The participating provinces intend to achieve this by establishing a system that will allow market participants to deal solely with their home regulators, eliminating the need for separate approvals from each jurisdiction.

Our Service Plan for 2007 – 2010 identifies three key strategic risks that undermine investor protection or market integrity. These risks are:

- Risk 1: Unsuitable investments
- Risk 2: Investment fads
- Risk 3: Abusive junior market practices

This plan details our three-year strategy. In addition to strategies to address the three key strategic risks, we describe nine other strategies meant to improve the quality of our regulatory oversight. This includes strategies to build on our investor education program and to identify and respond to illegal sales of securities. Our InvestRight program, launched in October 2006, teaches investors critical thinking skills so they will look at investment opportunities with a healthy skepticism. The program also warns investors about ongoing investment scams through InvestRight Red Alerts. These alerts are designed to prevent, stop, or disrupt potential illegal investment activities.

The plan contains a new set of performance measures for the BCSC. We chose these measures based on an assessment of what outcomes reflect overall Commission performance across each of our four goals.

This plan was prepared under my direction and in accordance with the *Budget Transparency and Accountability Act* and BC Reporting Principles. I am accountable for the contents of the plan, including the selection of performance measures and targets.

The plan is consistent with government's strategic priorities and overall Strategic Plan. We have considered all significant assumptions, policy decisions, and identified risks as of December 1, 2006 in our planning activity.

I am accountable for ensuring the BCSC achieves the objectives identified in the plan and for measuring and reporting actual performance.

Yours truly,

A handwritten signature in black ink, appearing to read 'D. M. Hyndman', written in a cursive style.

Douglas M. Hyndman  
Chair

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## Organization overview

### *BCSC mission*

The BCSC is the independent provincial government agency responsible for regulating securities trading in British Columbia through the administration of the *Securities Act*. Our mission is to protect and promote the public interest by fostering:

- A securities market that is fair and warrants public confidence
- A dynamic and competitive securities industry that provides investment opportunities and access to capital

### *Enabling legislation*

The BCSC's enabling legislation is the *Securities Act*, RSBC 1996, c. 418.

We are accountable to the provincial legislature and the public through the Attorney General, to whom we submit our annual report and audited financial statements. We submit our three-year Service Plan to the provincial Treasury Board as required by the *Securities Act* and the *Budget Transparency and Accountability Act*.

### *Governance structure*

The BCSC is governed by a board of 10 commissioners appointed by the provincial government. The commissioners have overall responsibility for administration of the *Securities Act* and perform three functions:

- Serve as the BCSC's board of directors
- Make rules (with the consent of the Minister responsible for the *Securities Act*), and issue guidance, to regulate the securities industry
- Act as an administrative tribunal and make regulatory decisions under the legislation

As members of an administrative tribunal, commissioners form hearing panels to:

- Adjudicate enforcement cases brought forward by staff and, when appropriate, impose regulatory sanctions
- Review regulatory decisions made by BCSC staff, exchanges, or self-regulatory organizations, upon application by BCSC staff or persons affected by the decision

We publish the BCSC Governance Policy and Ethics and Conduct Policy on our website at [www.bsc.bc.ca](http://www.bsc.bc.ca) (*About the Commission*). These policies include information about:

- The terms of reference for the Commission, the Chair, the commissioners, the Audit Committee, and the Human Resources Committee
- Appointment, evaluation, and compensation for commissioners
- Expected standards of conduct for commissioners and staff

## Commissioners

We currently have three executive and seven independent commissioners:

- Doug Hyndman, Chair and Chief Executive Officer
- Brent Aitken, Vice Chair
- Robin Ford, Full-time Commissioner
- Neil Alexander
- Marc Foreman
- John Graf
- Ken Hanna
- Robert Milbourne
- David Smith
- Suzanne Wiltshire

Two committees help the commission fulfill its financial and human resources oversight responsibilities.

The *Audit Committee* reviews for approval by the commission our public reporting of financial information, monitors our control systems, and oversees both internal and external audit functions. The Audit Committee members are:

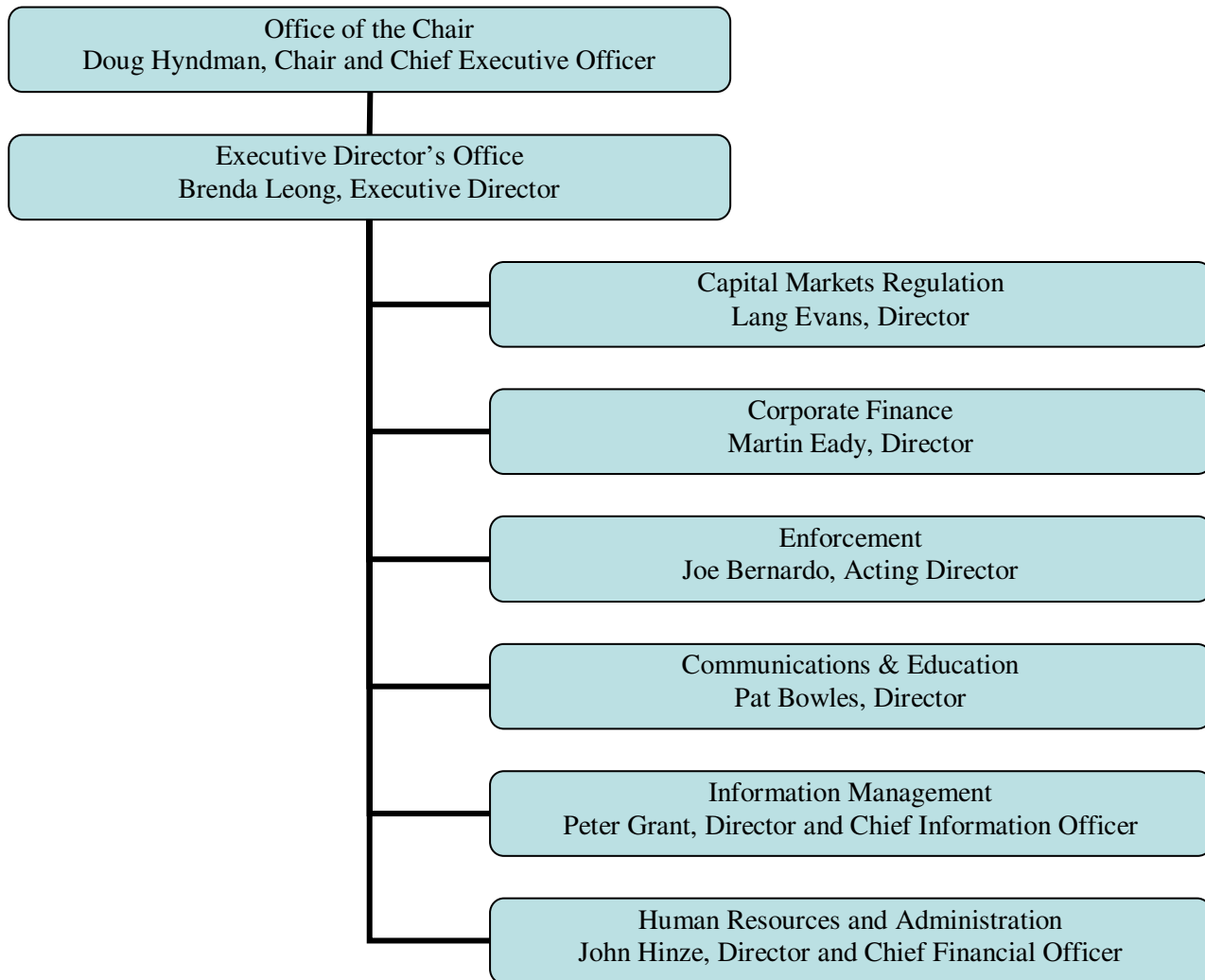
- John Graf, Chair
- Marc Foreman
- David Smith
- Suzanne Wiltshire

The *Human Resources Committee* ensures that we follow appropriate procedures for the selection, evaluation, compensation, and succession of commissioners, executives, senior management, and employees. The committee is also responsible for seeing that our human resources and compensation policies and practices support the Service Plan. The Human Resources Committee members are:

- Robert Milbourne, Chair
- Neil Alexander
- Ken Hanna



## Executive management team



## Key stakeholders

Our stakeholders have diverse yet interdependent interests, both provincial and national in scope. We consult them in various ways to understand their needs and interests, and we communicate with them to explain our requirements, expectations, and plans.

- *The public* – which relies on us to foster capital markets that contribute to the economic well being of British Columbia
- *Investors* – both retail and institutional, who seek to invest their savings in fair and efficient securities markets
- *Issuers* – public and private companies that rely on the capital markets to fund growth and diversification
- *Securities firms* – registered to provide investment services to both users and suppliers of capital

- *The provincial government* – to which we are accountable
- *Other Canadian regulators* – with which we develop and implement initiatives through the Canadian Securities Administrators

### ***BCSC core business areas***

We organize our work into four core business areas: compliance, enforcement, investor education, and policy-making.

#### **Compliance**

We focus our compliance activities on BC-based dealers, dealer branches in BC, BC-based issuers, and other market participants residing in BC.

- The capital markets regulation division oversees securities firms, their employees, and the self-regulatory organizations. Staff in this division monitor registered firms for compliance with the Securities Act, register firms and their salespeople, and review applications for exemptions from regulatory requirements.
- The corporate finance division oversees the companies that raise capital in the public or private securities markets, and also company “insiders”. Staff in this division review and receipt securities offering documents, and review applications for exemptions from regulatory requirements. They also monitor public company disclosure (including financial statements), exempt capital raising, and insider reporting.

The CSA shares the responsibility for overseeing three self-regulatory organizations (SROs). Each SRO has a lead CSA regulator that does most of the oversight work, subject to monitoring by the other CSA jurisdictions. The BCSC is the lead regulator for the Mutual Fund Dealers Association. The BCSC and the Alberta Securities Commission also share lead regulatory responsibilities for oversight of the TSX Venture Exchange.

#### **Enforcement**

We focus on cases with a strong BC connection. When cases emerge related to SRO members, the SRO typically takes the lead on the enforcement action. When cases with national implications emerge that involve a BC-based market participant, BC usually leads the CSA’s enforcement response. Leading enforcement actions involves investigating possible breaches of the *Securities Act*, conducting administrative hearings before commission panels, and representing the BCSC before the courts. We refer cases with a criminal aspect for criminal prosecution.

#### **Investor Education**

We run targeted programs for investors to help them protect themselves from fraud and unsuitable investments. We deliver our messages through strategic partnerships to broaden our reach into various communities throughout the province.

#### **Policy-making**

We have the power under the *Securities Act* to make rules. We also issue guidance in the form of policy statements and notices to help market participants understand our

requirements. We make rules and issue guidance in cooperation with CSA with the goal of harmonization among all jurisdictions.

Market participants can apply for exemptions from our rules. Often the person makes the same application in several jurisdictions. We analyze exemption applications and cooperate with other CSA jurisdictions to reach an appropriate and harmonized decision in all jurisdictions participating in the decision.

### ***BCSC operating capacity***

To support our core business areas, we recruit and retain qualified staff, develop and maintain reliable information management systems, and manage our operations cost-effectively.

#### **Human Resources**

We strive to attract and retain capable staff by recruiting employees who embody our values, keeping the BCSC compensation structure competitive, improving our regulatory competencies through training, and maintaining a succession plan. Our efforts to maintain a motivating work culture focus on providing opportunities for staff to learn and grow, effective performance feedback, and strong internal communication channels.

#### **Information Management**

We develop, manage, and support key national and local systems to advance our regulatory work. Key local systems that improve our communication with the public and industry include e-services, public website, registration search, a defaulting issuers list, and a disciplined persons list.

Gathering relevant information and getting that knowledge to the right staff or stakeholder at the right time is critical to our overall efficiency and effectiveness as a regulator. Information management supports our knowledge culture by conducting custom research, managing records, responding to public inquiries, building custom interfaces to regulatory databases, and running internal workflow systems. We maintain internal project management expertise to guide us through large change projects.

#### **Finance**

We manage spending through budget planning, tracking, and reporting, and by keeping cost considerations in high profile throughout the organization. We report our financial performance to stakeholders as required under the *Securities Act* and the *Budget Transparency Act*. Our purchasing systems, payroll systems, and expense and reimbursement procedures all contribute to effective control of our significant financial and physical risks.

#### **Capacity changes for 2007-2008**

In the coming year we will expand our staffing by 3.25 FTEs. We have budgeted to increase our corporate finance staff in response to increased demand for prospectus and

exemption reviews by BC-based issuer activity. We also will increase our staff in communications and education to reflect our increased emphasis on investor education.

***Office location***

The BCSC's office is at 701 West Georgia Street. Our public reception is on the 12th floor.

## **Alignment with Government's Strategic Plan**

Our Service Plan aligns with Goal 1 and Goal 5 in the government's Strategic Plan. The other three goals are not relevant to our mission.

### ***Government Goal 1: Make BC the best-educated, most literate jurisdiction on the continent***

We support this goal in the following ways.

- We provide BC high school teachers with an award-winning financial literacy program for youth. This Ministry of Education-endorsed resource for the Planning 10 Finances curriculum helps young people acquire the knowledge, skills, and confidence they will need to begin planning for their post-secondary education or career, and to navigate safely through the financial realities of adulthood.
- We support lifelong learning by offering investor education throughout the province, primarily to seniors and pre-retirees. Our InvestRight Red Flag program teaches investors how to protect themselves from becoming a victim of fraud. We extend the reach of this education to all corners of the province through partnerships with the BC Crime Prevention Association, the BC Hydro Power Pioneers, the Mennonite Brethren, and a pair of Fraser Valley pastors known as God's Fraud Squad.

### ***Government Goal 5: Create more jobs per capita than anywhere else in Canada***

We support this goal in the following ways:

- By fostering a local market that is fair and warrants investor confidence, we further BC's reputation as a centre for raising capital
- By minimizing the regulatory burden, we encourage investment in BC by supporting a business climate that allows for innovation and growth

## Strategic context

### *BCSC vision*

To play a leading role in securities regulation that inspires investor confidence and supports fair, efficient, and innovative Canadian capital markets.

### *BCSC mission*

The BCSC is the independent provincial government agency responsible for regulating securities trading in British Columbia through the administration of the *Securities Act*. Our mission is to protect and promote the public interest by fostering:

- A securities market that is fair and warrants public confidence
- A dynamic and competitive securities industry that provides investment opportunities and access to capital

### *Values*

We embrace five values to help fulfill our mission:

- *Excellence* – we commit to high standards and take pride in our work
- *Service* – we provide efficient, timely, and responsive service
- *Integrity* – we act fairly and ethically
- *Accountability* – we take responsibility for meeting our commitments
- *Resourcefulness* – we are proactive, innovative, and cost effective

### *The securities regulation landscape*

Although our statutory mandate is to regulate BC capital markets, in reality we are part of a system of securities regulation that is national in scope. This significantly affects how we do our work and influences how we think about, and implement, securities policy and practice in BC.

For example, there is a broad consensus among all stakeholders that a system of regulation that is largely, if not completely, harmonized among all jurisdictions in Canada will best serve the interests of both industry and investors. We therefore coordinate our work as much as possible with the other members of the Canadian Securities Administrators, the organization comprising all of Canada's securities regulators. In order to achieve the appropriate level of harmonization throughout the country, all CSA jurisdictions strive to minimize differences of policy and procedure.

We also devote significant resources to support the provincially led Passport System project. All provinces except Ontario support the development of this system. Its goal is

to ensure efficient, streamlined, and cost-effective securities regulation that is simple to use for market participants. The participating provinces intend to achieve this by establishing a system that will allow market participants to deal solely with their home regulators, eliminating the need for separate approvals from each jurisdiction.

Under the CSA umbrella and powers provided in the *Securities Act*, we rely on three self-regulatory organizations to perform key regulatory functions related to investment dealer and mutual fund dealer firms, and trading activity on the Canadian equity markets:

- *Investment Dealers Association of Canada (IDA)*, which regulates investment dealers.
- *Mutual Fund Dealers Association of Canada (MFDA)*, which regulates mutual fund dealers.
- *Market Regulation Services*, which regulates equities trading on Canadian markets, including the Toronto Stock Exchange, the TSX Venture Exchange, the Canadian Trading and Quotation System, and other markets. (Market Regulation Services is in merger discussions with the IDA. If the merger proceeds as the parties intend, it will be complete during the 2007-2008 planning period.)

Securities markets are also global, so we cooperate extensively with regulators in the United States, Hong Kong, Australia, and other countries where Canadians do business to oversee cross-border market activity.

### ***The BCSC's approach to regulation***

We regulate in cooperation with other regulators in Canada and, as noted above, harmonization among jurisdictions is important. When we participate in discussions about regulatory policy and practice with other jurisdictions, we base our contributions to those discussions on our approach to regulation.

Regulation inevitably imposes costs through regulatory fees, compliance costs, and restrictions on business activity. Investors ultimately pay these costs, so regulatory interventions should generate the greatest investor protection and market integrity benefits for the least cost. We think that the way to do that is to define problems properly, to choose the right regulatory tools to deal with problems and, when rule-making is a tool we choose, to design rules that address only the defined problem and whose impacts can be measured.

#### **1. Problem definition**

Proper problem definition reduces the risk of imposing ineffective, and potentially costly, solutions. It also ensures that regulators allocate resources more efficiently and effectively. Defining a problem properly involves three steps: first, show that a problem warranting regulatory intervention exists; second, define the problem with the precision necessary to fix it; and, third, develop specific and practical criteria to measure the effectiveness of the solution.

Cost-benefit and regulatory impact analyses, as well as consultation, are tools that help evaluate the anticipated costs and benefits of a proposed intervention, and therefore whether it makes sense to intervene. These analyses are also useful in the tool selection process, described next.

## 2. Tool selection

After defining the problem precisely, the next step is to consider which regulatory tools will result in the most positive change with the least regulatory burden.

We have many tools. We can:

- provide guidance
- educate market participants and investors
- demand corrective action through our compliance function
- take enforcement action
- make new rules

Often the best approach to solving the problem will involve more than one tool.

We think regulators should seek solutions that:

- hold market participants, including their directors and senior managers, accountable for their compliance decisions
- help market participants understand their obligations and our expectations for their conduct
- are timely, taking into account rapidly changing market conditions and the implications for investor protection and market integrity
- encourage market participants to design processes to achieve outcomes that are efficient for them – there is often more than one way to achieve a regulatory outcome
- make cost-effective use of regulatory resources

## 3. Rule design

Rules are often not the best choice of tool, because they tend to be the most intrusive and most costly alternative. They also take a long time to develop and implement. However, if a rule is necessary, we think it should have these attributes:

- The focus should be on the outcome, which should be clear and measurable. This helps to ensure that the rule achieves the intended result, rather than merely prescribe a process on the assumption that the resulting process will achieve the outcome.
- The scope of the rule should be limited to what is necessary to achieve the desired outcome.
- The rule should be clear and simple.

The rule-making process should include periodic reviews of the relevance and effectiveness of each rule, so that regulators can remove or amend outdated rules to reflect changing circumstances.



## Planning context and key strategic issues

Our mission is to protect and promote the public interest by fostering a securities market that is fair and warrants public confidence and by fostering a dynamic and competitive securities industry that provides investment opportunities and access to capital. We have four goals, described in the next chapter, that support our mission.

We apply a disciplined risk management framework to help identify the most serious threats, or risks, to our mission.

This year we will continue to focus on the same risks as last year. These risks relate to:

1. Unsuitable investments
2. Investment fads
3. Abusive junior market practices

Identifying these key strategic risks brings focus to our operating priorities. In the next chapter, we describe mitigation strategies for each risk under the goal to which it is most directly related.

### ***Risk 1: Unsuitable investments***

Registered securities firms and their salespersons play a key role in the market as intermediaries and providers of expert advice to investors. We describe our regulatory oversight of firms in Goal 1: *Promote a culture of compliance*.

Firms have a responsibility to develop, implement, and monitor effective systems for compliance with their regulatory obligations. One of the key registrant obligations is to recommend only investments suitable for the client, given the client's investment needs and objectives. When a client proposes an investment that does not appear to be suitable, the registrant must make reasonable efforts to advise the client of this before executing the trade.

We are focusing on this risk in response to statistics indicating that suitability complaints are, year after year, the greatest source of investor complaints received by the IDA and the MFDA.

Having gained a better understanding of the nature of the suitability issues over the past year, we will work with the IDA and MFDA to strengthen suitability-related compliance for retail clients.

We describe our plans for the second year of work in this area under Goal 1: *Promote a culture of compliance* in Strategy 1.1: *Assess the level of compliance with firm and salesperson suitability obligations*.

### ***Risk 2: Investment fads***

The securities market is subject to waves of investor interest in a particular security, or type of security. Media coverage, advertising, and word-of-mouth fuel these trends. Salespersons may recommend these securities to clients, or fulfill client demand for them, without properly assessing the suitability of the investment for the client. Some issuers, seeking to capitalize on investor interest in these securities, create new products to meet demand. Investors may expose themselves to sizeable losses if they over-concentrate their portfolios in a single security, or type of security, that they do not understand or that is riskier than they think.

Last year, we developed a program that engaged the expertise of all operating divisions to monitor and evaluate emerging retail trends. We will continue this work under Goal 1: *Promote a culture of compliance* in Strategy 1.2: *Identify and respond to emerging retail investment trends*.

### ***Risk 3: Abusive junior market practices***

Vancouver is a major market for venture capital financing. It is important to maintain a good reputation as a leading centre for financing legitimate start-up companies. This reputation is put at risk by a sub-culture of unscrupulous people in BC who seek to profit through abusive activities involving issuers quoted on the US-based over-the-counter markets, principally the Over the Counter Bulletin Board (OTCBB) and the Pink Sheets. Although BC investors are not generally the targets of these schemes, the activities damage the credibility and reputation of BC issuers and markets.

In 2005, we identified over 400 OTCBB issuers with significant connections to BC, or about 10% of all OTCBB quotations. We also receive a significant number of inquiries from the US Securities and Exchange Commission (SEC) relating to OTCBB issuers with a BC connection. In 2005, we formed a dedicated team of compliance and enforcement staff to deal with this risk. We implemented a strategy that we will continue to pursue under Goal 2: *Act decisively against misconduct* in Strategy 2.1: *Disrupt abusive junior market practices in British Columbia*.

## Goals, strategies, and performance measurements

This section describes our goals, the strategies that support them, and the performance measurements by which we track our progress in achieving our goals.

Four goals support our mission. They are:

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

Under the heading ‘core focus areas’ for each goal, we describe how we will focus our operating activities to achieve the goal and how we plan to support related service commitments.

The strategies described under each goal support our efforts to meet the goal in one of two ways. They are either a direct response to identified market risks related to the goal, or a commitment to improve operational efficiency or effectiveness. This is a three-year plan. Some of the strategies continue from last year’s plan; some will continue in future plans. We will complete the work specifically described in each strategy by the end of the fiscal year 2007/2008.

We have developed performance measurements for each goal to help us, and our stakeholders, assess our performance. We select measurements based on the following criteria:

- Connection to our goals. We choose measurements that will assess our progress in achieving our goals and, through them, our mission.
- Longevity. We choose measurements that we will be able to track over several years, and whose trends will provide valuable information for improving our performance.
- Measurability. We choose measurements for which we can collect accurate data and form baselines in a timely way.

Some measurements track the overall progress we are making towards achieving our goals. Others measure routine operational processes critical to the delivery of an efficient and effective regulatory system. More detailed information about our performance management systems is charted in Appendix A.

As an organization, we are in the early stages of creating measurements. In some cases, we are still developing baselines, and in others, we are formulating methodologies. With more time and experience, we expect to create a set of meaningful measurements that will support continuous improvement within our organization and help focus our activities to achieve desired regulatory outcomes.

### ***Goal 1: Promote a culture of compliance***

Investors are better protected if securities firms and issuers of securities understand and comply with their regulatory obligations. A compliant culture starts at the top with directors and senior management taking their compliance responsibilities seriously and reinforcing compliance throughout the organization. This is partially achieved by having effective systems and controls in place to ensure compliance. An effective culture of compliance aligns the private interests of market participants with the public interest in a fair, efficient, and reputable securities market. Regulatory intervention should only occasionally be necessary to correct non-compliance. When we perform our compliance function efficiently, compliance costs should decrease for compliant businesses.

#### **Core focus areas**

1. *Emphasize firm and management accountability.* We expect strong senior management commitment and will hold senior managers and directors accountable in appropriate cases.
2. *Set clear expectations for market participants.* Our compliance and oversight programs focus less on compliance with prescriptive regulatory requirements and more on the outcomes we expect firms and issuers to achieve. Together with the SROs, we issue guidance, deliver education programs, and communicate with market participants to help market participants understand the regulatory requirements and how we will enforce them. Those who understand the requirements are more likely to comply with them.

#### **Strategies supporting Goal 1**

Three strategies support this goal:

- Strategy 1.1: Assess the level of compliance with the firm and salesperson suitability obligations
- Strategy 1.2: Identify and respond to emerging retail investment trends
- Strategy 1.3: Enforce technical mining disclosure standards in prospectus filings

## **Strategy 1.1: Assess the level of compliance with firm and salesperson suitability obligations**

*Lead: Capital Markets Regulation*

Our work in this strategy will focus on the specific issues covered in Risk 1: *Unsuitable investments*.

Last year we analyzed suitability-related complaints made to SROs and the Ombudsman for Banking Services and Investments (OBSI). We also analyzed complaints reported by IDA members through the COMSET (Complaints and Settlements) database. We found no concentration of problems in any particular industry segment, geographic region, or product type. The overall incidence of complaints was low in proportion to market size and total activity.

We now have a better understanding of how the SROs deal with suitability complaints and about the differences between IDA and MFDA approaches. We are supporting the SROs in their work to improve their processes.

Following our detailed review of complaints filed in 2005, we decided that we needed to develop regulatory tools to detect suitability non-compliance more quickly. Complaints to the SROs are frequently about transactions that occurred several years previously. Further, we believe suitability problems may be under-reported to regulators.

We will work with the SROs to develop additional tools to improve suitability compliance. These will include:

- **Direct testing of the quality of advice given to retail customers**  
We looked at the Australian Securities and Investment Commission's (ASIC) work on suitability. ASIC anonymously approached salespersons and firms for advice on pension annuity products. The study concluded that advice appeared to be fee-driven in one out of every eight cases. We will explore options for conducting a similar review in Canada.
- **Improving the awareness of investor restitution options such as OBSI**  
Clients seek restitution for monies lost. In 2005, OBSI recommended some level of restitution to clients in 50% of the securities-related cases. However, many clients learned about OBSI from sources other than their dealers. We will work with the SROs to improve dealer efforts to increase client awareness and understanding of OBSI and what it can do for them.

## **Strategy 1.2: Identify and respond to emerging retail investment trends**

*Lead: Information Management*

Our work in this strategy addresses issues discussed in Risk 2: *Investment fads*. Our aim is to identify retail investment trends early and to understand potential problems that could put investors at risk. In appropriate circumstances, we will respond to these problems to try to reduce the risk.

Knowing sooner what security types are becoming popular in the retail market will allow us to better manage potential risks to investors by following up on sales practices and taking action so that issuers correct non-compliant disclosure.

- We monitor investment products by reviewing prospectuses, offering memoranda, news stories, trade publications, and other sources of information. We then share what we know internally using a central database. For every identified product, we examine the risks to retail investors, the channels through which it is available, and its scale and growth.
- We assess the information we gather to determine if a product is becoming a trend and, if so, whether there are any significant potential risks to investors that warrant a regulatory response.
- We implement appropriate responses and measurements to address specific problems. Responses may include:
  - Investor education such as information bulletins or investor alerts
  - Compliance actions to improve issuer disclosure or firm due diligence practices
  - Enforcement action

Last year, we monitored and assessed a number of products including units in income trusts, closed-end funds, exchange traded funds, and split share corporations. We issued an investor alert on income trusts to help investors understand the attributes and risks associated with these investments.

In fiscal 2007-2008, we will broaden the use of this new repository of information by commission staff. We will also:

- Continue to identify and assess investment products
- Develop resources for investors to help them understand the “fit” of investment products
- Share our knowledge and experience with the SROs and other commissions

## **Strategy 1.3: Enforce technical mining disclosure standards in prospectus filings**

*Lead: Corporate Finance*

When making a prospectus offering, mining issuers provide additional technical documents that disclose important information about their business. Some technical materials filed with prospectus offerings by mining issuers have material deficiencies. Although we require issuers to rectify these deficiencies before we issue a final receipt

for a prospectus, it appears that some issuers are relying on our regulatory review to catch their deficiencies, rather than taking responsibility for their own compliance.

Technical reviews relate primarily to whether filed technical documents comply with National Instrument 43-101 *Standards of Disclosure for Mineral Projects*. We see too many blatant deficiencies that appropriate due diligence and skilled preparation by both issuer and underwriter would prevent.

We will apply a variety of compliance tools in situations where we find poor technical disclosure. Our approach may include:

- Rejecting the application
- Using industry education to increase awareness about, and skill in preventing, common disclosure deficiencies
- Focusing compliance work on issuers that need to pay greater attention to their disclosure obligations
- Rewarding issuers with a history of compliant disclosure by fast-tracking their offerings
- Taking appropriate enforcement action when we find blatantly deficient disclosure, or in situations where directors, professional advisors, or underwriters repeatedly submit deficient disclosure

### Performance measurements for Goal 1

PERFORMANCE MEASUREMENTS	TARGETS				
	05/06 Actuals /Baseline	06/07 Estimate	07/08 Target	08/09 Target	09/10 Target
1.1 Percentage of reviewed issuers that reduce deficiencies in their continuous disclosure a) Improved disclosure b) Improved disclosure to minimum standards	a. 90% b. 84%	Data will be available in 06/07 Annual Report	a. 90% b. 85%	a. 94% b. 85%	a. 94% b. 90%
1.2 Percentage of randomly sampled mining issuers that meet the minimum standards for technical disclosure	New measure	Setting baseline by end of this fiscal year	TBD based on initial results	TBD based on initial results	TBD based on initial results
1.3 Percentage of BC-prime reporting issuers on defaulting issuer list a) Late filing b) Unpaid fees c) Inadequate disclosure d) Total	a) 17% b) 18.5% c) 21% d) 23%	Data will be available in 06/07 Annual Report	Total issuers equal or less than 06/07	10% improvement over 07/08	10% improvement over 08/09
1.4 Average number of deficiencies per examination in Capital Markets Regulation	7.6 /57 categories	Data will be available in 06/07 Annual Report	Decrease deficiency average by 5%	Decrease deficiency average by 5%	Decrease deficiency average by 5%
1.5 Percentage of new IDA and MFDA firm clients who: a) Recall discussing their investment goals with their advisor b) Read specific disclosure	New measure	New measure	Set baseline	TBD based on initial results	TBD based on initial results



### **Measurement 1.1: Continuous disclosure improvement**

Our corporate finance division reviews issuer disclosure for non-compliance. At the end of each fiscal year, we retain an outside auditor to analyze the subsequent continuous disclosure of a statistically significant sample of issuers that received comment letters from us during that year. We limit audits to the non-compliant disclosure documents for each issuer. These could include interim and annual financial statements, management discussion and analysis, or mineral exploration results. The audit methodology measures:

1. Any year-over-year improvement that demonstrates an issuer took action in response to our compliance efforts
2. Whether that issuer's new disclosure materials are compliant

The results of this review will show the extent to which our detailed CD review work motivated non-compliant issuers to improve their disclosure voluntarily. This measurement uses a different sample of issuers each year. This measurement does not gauge compliance for all issuers; it focuses only on the non-compliant disclosure of those issuers we choose to review based on our risk-based selection criteria.

This measurement will always lag by one year because we will have to wait for the next filing cycle to evaluate improvements from the prior year's disclosure. In May 2009, we will report on disclosure improvements resulting from reviews carried out between April 2007 and March 2008.

### **Measurement 1.2: Technical disclosure compliance**

BC is home to many mining issuers. Those issuers who list on a Canadian exchange are required to comply with National Instrument 43-101 *Standards of Disclosure for Mineral Projects*. We will give a list of BC-based mining issuers to an external mining specialist, who will select randomly from that list and analyze whether those issuers' most recent technical filings were compliant with NI 43-101.

This review will show the extent to which a sample of BC-based mining issuers is compliant in their technical disclosure. Unlike Measurement 1.1, this sample draws from the issuer population, and so reflects the state of compliance in a specific part of our disclosure requirements.

### **Measurement 1.3: Issuer compliance with filing requirements**

The *Securities Act* requires reporting issuers to file certain information on time, in the required form, and with the appropriate fee. One measurement of a compliant industry is that issuers consistently meet these filing requirements. We routinely put issuers that do not file or pay fees on time on a list of defaulting issuers. We also put an issuer on the list if we decide that a filing is clearly not in the required form.

We will track the total percentage of BC-prime reporting issuers on this list during each year. Firms that, in addition to being on the defaulting issuer list also had a cease trade

order for more than 90 days, will be excluded from this analysis because that pattern suggests the issuer is leaving the market altogether. The percentage of BC-prime issuers that appear on the list each year should decrease over time.

This data might reveal that, despite a general improvement in compliance culture by other measures, the number of issuers in default increases in a particular year for one of two reasons. First, there might be transitional increases in non-compliance as we change our standards (for example, by imposing new disclosure requirements or shortening filing cycles). Second, a general downturn in the economy, the market, or a particular sector could put more issuers in financial difficulty and increase the risk that they would not meet their filing requirements. We should be able to account for these factors when interpreting the results.

#### **Measurement 1.4: Compliance of directly-regulated securities firms**

Our Capital Markets Regulation division reviews securities firms that are not SRO members for compliance with their regulatory obligations. Using risk-based assessment criteria, we examine those firms that pose the highest compliance risk more frequently and report results using 57 categories of deficiencies.

In fiscal 2007-2008, we will report the deficiencies per examination based on the 57 categories we use today, plus the deficiencies per examination based on the year-end categories. As we add, combine, or eliminate deficiency categories, we will need to reset the measurement. Our target will be to see the average number of deficiencies per firm decline over time.

Because we do risk-based examinations, we place a priority on reviewing firms for which we already have compliance concerns. This measurement will therefore uncover a higher average number of deficiencies than if we reviewed a cross-section of all firms. In addition, we may decide in a particular year to review all firms for specific compliance problems, which would raise reported deficiencies in defined areas. To neutralize this bias, we will adjust for the results of targeted examination sweeps.

#### **Measurement 1.5: Survey of new IDA and MFDA clients**

When we have a compliant registrant community, investment advisers will have informative discussions with their clients about the risks of investing and the suitability of proposed investments. To test for this, we will work with SROs and dealers to survey a sample of clients from new client lists to evaluate investors' new-account-opening experience. We will ask questions related to:

- The depth and nature of adviser inquiries about financial circumstances and investment goals
- Whether new purchases were accompanied by discussions about the specific products and disclosures
- Whether clients received, read, and understood specific disclosures

In addition to the self-reporting information we get from client surveys in this measure, we will analyze dealer documents and client account activity for consistency with client profiles and objectives as part of Strategy 1.1: *Assess the level of compliance with firm and salesperson suitability obligations.*

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

Decisive action involves receiving and processing complaints and tips about alleged misconduct, conducting surveillance to detect misconduct, investigating suspected breaches of securities laws, and resolving cases through settlements and administrative hearings. We have strong compliance and enforcement processes to respond quickly and appropriately to cases of misconduct. We promote compliance through the various strategies outlined in Goal 1: *Promote a culture of compliance*.

Underlying an effective regulatory enforcement regime are strategies that focus on protection and prevention. One of our objectives is to intervene and disrupt misconduct to minimize investor losses. We allocate our resources to those cases that will provide the most significant protection to investors and send the strongest deterrent messages. Cost-effective enforcement stems from both how we select and manage enforcement cases and how we coordinate our enforcement actions with SROs and other regulators.

### **Core focus areas**

1. *Detect, intervene and disrupt misconduct.* The majority of our cases involve illegal distributions; some involve fraud. We gather information about these activities quickly and intervene as early as possible to minimize investor losses. We do this by:
  - Raising public awareness of potential fraudulent activities and encouraging investors to report them
  - Sharing intelligence with other regulatory and enforcement agencies
  - Issuing temporary orders to stop misconduct and freeze orders to preserve assets
2. *Select and investigate a strong portfolio of enforcement cases.* Enforcement action in the form of administrative proceedings is a powerful tool for deterring misconduct. Because these actions are resource-intensive, we apply a risk-based approach to select and prioritize cases. We also continuously evaluate our portfolio of cases to assess the strength of evidence and their deterrence value.
3. *Complete investigations, settlements, and hearings in a timely manner.* Decisive action requires timeliness in investigating and resolving cases of misconduct. We will not compromise procedural fairness however in our desire for timeliness.
4. *Generate cases to refer for prosecution.* Many cases of misconduct involve fraud, which quasi-criminal and criminal prosecutions may deal with more effectively. We will strengthen our relationships with federal and provincial enforcement agencies and refer appropriate cases for prosecution.

### **Strategies supporting Goal 2**

Three strategies support this goal:

- Strategy 2.1: Disrupt abusive junior market practices in British Columbia
- Strategy 2.2: Identify and respond to ongoing misconduct
- Strategy 2.3: Build case flow of *Securities Act* offences for prosecution by the Crown.

## **Strategy 2.1: Disrupt abusive junior market practices in British Columbia**

*Lead: Corporate Finance*

We will continue dedicating resources to address Risk 3: *Abusive junior market practices*. The compliance and enforcement actions we take to disrupt abusive junior market practices in BC include:

- Raising awareness among BC-connected participants in the over-the-counter market that BC securities laws apply to them and that we will enforce those laws
- Cross-border and inter-agency surveillance, information sharing, and joint enforcement action to act more quickly and effectively to enforce BC and US securities laws
- Investigating and taking enforcement action on individual cases of misconduct involving the over-the-counter market
- Publicizing the compliance and enforcement results of our work to maximize the deterrent effect of our actions
- Implementing policy solutions to give the BCSC more tools to regulate the activities of BC-based OTCBB issuers
- Working with the IDA on issues related to OTCBB trading by their members
- Encouraging professional bodies to take action against their members who facilitate abusive practices

## **Strategy 2.2: Identify and respond to ongoing misconduct**

*Lead: Communication and Education*

Last year we launched a new investor education strategy. At the centre of the program is a new program called InvestRight RED ALERTS. These ALERTS are designed to prevent, stop, and/or disrupt possible illegal investment activities.

Our Communications and Education and Enforcement divisions are working together on a strategy to gather and share information about suspected illegal distributions and investment scams.

We will issue InvestRight RED ALERTs, either province-wide or in specific communities as appropriate, to warn investors of suspicious activity to help prevent investor losses. We will release these ALERTS to the media and to local enforcement agencies. We will follow-up with community leaders, mainstream and ethnic media, and others in a weeklong, intensive program to get key warning messages out.

Enforcement will step up its case review to look for opportunities to disrupt suspected illegal activity by issuing temporary orders where appropriate and freezing assets to protect investor losses.

**Strategy 2.3: Build case flow of *Securities Act* offences for prosecution by Crown**

*Lead: Enforcement*

British Columbia investors are exposed persistently to both large- and small-scale illegal distributions. These illegal distributions are strict liability offences under the *Securities Act*. Criminal or quasi-criminal sanctions will have a greater impact than administrative orders on serious or deliberate acts of misconduct.

From time to time, individuals subject to orders under section 161 of the *Act* breach them. Further regulatory sanctions against such individuals are likely to be ineffective.

To both reduce illegal distributions (fraudulent and otherwise) and support effective commission orders, we will focus this year on increasing the number of cases investigated and referred to Crown counsel for prosecution under the *Act*.

**Performance measurements for Goal 2**

PERFORMANCE MEASUREMENTS	TARGETS				
	05/06 Actuals /Baseline	06/07 Estimate	07/08 Target	08/09 Target	09/10 Target
2.1 Percentage of new cases with active misconduct where we intervened	Will construct from past data	Will construct from 6 month data	TBD based on data	TBD based on data	TBD based on data
2.2 Average life, in months, of cases resolved via settlement or decision	49 months	30.1 YTD (6 months)	5% improvement over 06/07	5% improvement over 07/08	5% improvement over 08/09

**Measurement 2.1: Action in response to ongoing misconduct**

Detecting active misconduct and then preventing, stopping, or disrupting it early benefits investors, especially since the amount of money investors lose in illegal distributions tends to increase exponentially over the lifespan of the distribution. We will track the cases accepted each year for enforcement action where the misconduct was ongoing when the BCSC learned of it. We will calculate the percentage of those cases we acted on by a freeze order, a temporary order, or some other form of formal or informal disruption. This will show how often we take action to stop misconduct.

**Measurement 2.2: Timely resolution of enforcement cases**

Timely enforcement is essential to acting decisively against misconduct, yet many processes influence our ability to resolve a case. From conducting investigations to negotiating settlements, conducting hearings, and writing decisions – these required

stages of enforcement action can consume vast amounts of time and resources and slow down case resolutions.

We want to be transparent about the average time this process takes. For cases we close by settlement or a decision in the fiscal year, we will measure the average number of months a case is open from when we first learn of the conduct to the case's completion by settlement or decision.

### ***Goal 3: Educate investors***

Investor education strengthens our regulatory system by teaching retail investors how they can protect their financial interests. Investors face a number of risks including:

- Lack of investment skills and knowledge to make informed investment decisions
- Vulnerability to fraudulent and abusive investment schemes
- Poor financial planning for retirement

Our InvestRight program launched last year teaches investors critical thinking skills so they will look at investment opportunities with a healthy skepticism. It also warns investors about the hallmarks of an investment scam through our RED-FLAGS campaign. The InvestRight program targets those investors with the most to lose: seniors (many of whom are on fixed income) and pre-retirement “boomers”. We will build on our education strategy by seeking out new partnerships to help us get our key messages out.

Many British Columbians appear to lack the skills and knowledge to prepare themselves financially for retirement. These skills are particularly important as investors take on more of the risk and responsibility of managing their retirement savings, either within or outside a defined contribution plan, a group RRSP, or other retirement savings plan. We will develop a program for reaching investors saving for retirement under Strategy 3.1: *Strengthen public awareness programs*.

We also recognize the importance of educating youth. We have developed a Financial Life Skills resource that teaches financial literacy to youth through the government-mandated Planning 10 program for grade 10 students. Under Strategy 3.3: *Financial literacy for youth*, we will broaden awareness of this resource among educators and continue to support them in the use of our materials.

We will continue to make investor education more cost-effective by improving how we get the public’s attention, how we choose and work with partners and other regulators to reach investors, and the content of our messages.

#### **Core focus areas**

1. *Create public awareness of investor education programs.* Investors need to understand that they are responsible for their own finances. They need to develop the skills and knowledge to attain healthier financial outcomes. Investors also need to learn how to protect themselves from fraudulent investment schemes.
2. *Develop relevant partnerships.* We have already partnered with some key organizations to help us get our investor protection messages out. We aim to expand our capacity to reach our target investor groups by continuing to look for new partnerships and opportunities.
3. *Reach investors early.* The best time to reach investors is before they suffer investment losses. We aim to help investors learn fundamental financial skills and teach them to spot potential fraudulent investment schemes. We want them to have



the confidence to ask the right questions and to research potential investments, legitimate or not, before they part with their money.

### **Strategies supporting Goal 3**

Three strategies support this goal:

- Strategy 3.1: Build public awareness of our investor education programs
- Strategy 3.2: Develop media partnerships in ethnic communities
- Strategy 3.3: Financial literacy for youth

#### **Strategy 3.1: Build public awareness of our investor education programs**

*Lead: Communication and Education*

Last year we launched the BCSC InvestRight program with a website and an investor education BC tour that began in October 2006. The program also includes partnerships with the BC Crime Prevention Association, BC Hydro retirees' Power Pioneers and its Senior's Safety and Crime Prevention Wise Owl program, and the Better Business Bureau.

The objective of InvestRight is to provide a consumer-friendly, accessible, one-stop resource for BC investors. Over time, we want it to be recognized throughout the province as a credible source of investor education information. We launched a RED-FLAGS campaign in conjunction with InvestRight, to warn investors about pitch-lines used in scams so they can spot, avoid, and report suspicious investment activity to the BCSC.

These programs target seniors and pre-retirement baby boomers. We will strengthen them in the coming year through the following initiatives:

- Increase media and police attention through InvestRight RED ALERTS to prevent, stop, and disrupt scams.
- Design a module as part of the InvestRight program aimed to help investors understand the importance of, and their responsibilities for, planning for their retirement. This is particularly important for investors who have no defined benefit plan that will provide them with an assured income stream in their retirement.
- Increase awareness of the BCSC and its InvestRight program by driving traffic to the InvestRight website and increase attendance at our investor protection seminars.

#### **Strategy 3.2: Develop media partnerships in ethnic communities**

*Lead: Communication and Education*

The BCSC's affinity fraud program is well established in religious communities in the lower mainland. Last year we expanded our reach across the province by partnering with the Mennonite Brethren. Each partnership is tied to the interest and willingness of the

leaders of various denominations to recognize the threat of affinity fraud to their congregations. We will continue to expand our partnerships with religious associations.

Another type of affinity fraud common in BC is affinity through ethnicity. Our analysis shows that the most promising approach to reaching ethnic communities is through their own media outlets. We will use the InvestRight program to develop media partnerships in ethnic communities throughout the province. We expect these partnerships to help us reach leaders in various ethnic communities and to provide new vehicles and opportunities for sparking awareness about investment fraud in those communities.

### **Strategy 3.3: Financial literacy for youth**

*Lead: Communication and Education*

Last year we officially launched the BCSC's Planning 10 Finances resource, which we had developed and introduced to BC high schools two years earlier. The resource supports the government's mandatory financial literacy program for youth. We will continue to advocate use of this teaching resource by BC teachers and students, with an emphasis on increasing awareness, maintaining high approval ratings, and spreading word-of-mouth promotion.

We will strengthen our "teach the teacher" program for Planning 10 through telephone outreach and online training tutorials that will give teachers remote access to training when and where they need it. This will give them the support and confidence they need to use the resource materials.

In 2006 – 2007, we will continue to look for other ways to reach new teachers and teachers new to Planning 10.

### Performance measurements for Goal 3

PERFORMANCE MEASUREMENTS	TARGETS				
	05/06 Actuals /Baseline	06/07 Estimate	07/08 Target	08/09 Target	09/10 Target
3.1 Number of complaints and tips received as a result of InvestRight investor education and outreach programs	New measure	Baseline based on 3 months data	Adjust 06/07 baseline to full year and increase 3%	Increase 4% over 07/08	Increase 5% over 08/09
3.2 Percent of workshop participants who applied investor education messages	New measure	Start baseline based on 3 months data	Set baseline using 12 months of data	Increase 2% over 07/08	Increase 3% over 08/09
3.3 Percentage of BC public aware of BCSC	New measure	42%	44%	47%	50%

#### Measurement 3.1: Complaints and tips received from InvestRight programs

Through our public awareness and outreach programs, we hope to increase the flow of complaints, and information we receive, from the media, enforcement agencies, or the public about possible investment frauds or illegal activities. This network of information will strengthen our ability to detect misconduct and help us prevent, stop, or disrupt these activities. The Investor Index survey told us that only 14 percent of the 1 in 3 Canadians who had been approached with an investment fraud reported it. Our objective is to improve this number over time and we expect our RED ALERT and InvestRight education programs to generate more leads.

We will track the number of enquiries, referrals, and complaints we receive from law enforcement agencies such as the RCMP, IMET, local police, public, media and others in response to our InvestRight programs and partnerships.

#### Measurement 3.2: Workshop participant application of investor education messages

Measuring what investors know about how to protect themselves helps us to demonstrate the effectiveness of our investor education programs. We will rely on our new partnership with the BC Crime Prevention Association and the contact and distribution network of the BC Power Pioneers to deliver investor education workshops to BC residents, primarily seniors. The program focuses on the red flags that characterize investment frauds and how investors can protect themselves from fraud.

We will establish a baseline by surveying seminar participants before and after each presentation and again after they have made an investment. The pre-survey will collect

information on their most recent investment decisions, their investment fraud experience, and their awareness of the BCSC. The post-survey will collect information about how they intend to approach their next investment and what they have learned about investment fraud. The follow-up survey will only be completed by people who have made an investment after participating in the program, probably within six months, and will collect information about actual investing behaviors.

Our experience with the Power Pioneers' workshops will set the measurement standard for future partners. We know already, however, that it is often difficult to get seniors to participate in surveys. We may need to review the viability of this measure and adjust it accordingly.

### **Measurement 3.3: BCSC awareness**

BCSC investor education resources provide BC retail investors with valuable information to help them protect themselves from fraud and unsuitable investments. Yet we know from our recent Investor Index survey that only 42 percent of BC adults are aware that there is an agency that regulates financial investments in BC. We aim to build awareness of the BCSC and our many investor education resources so that British Columbians will know where to turn and what to do when faced with a fraud or unsuitable investment opportunity.

This measurement will track what people know about the BCSC and our resources. We expect awareness to increase over time in direct relation to the programming initiatives. We will collect data by asking both unaided and aided awareness questions in next year's CSA consumer survey.

## ***Goal 4: Advance cost-effective regulation***

We apply a disciplined, problem-focused approach to dealing with market issues. Our approach to regulation focuses on problem definition, regulatory tool selection, and effective regulation design. We apply this approach in responding to both local and national risks and opportunities. As most BC market participants operate nationally, we work closely with the CSA and SROs to streamline and improve the Canadian regulatory system.

Regulation inevitably imposes costs through fees, compliance costs, and restrictions on innovation. Investors ultimately pay these costs: higher costs for public companies mean lower returns for their shareholders; higher costs for securities firms mean higher fees for their clients. We aim to regulate to provide the greatest investor protection and market integrity benefits for the least cost. When regulation is both effective in its outcomes and efficient in how it is achieved, we consider it to be cost-effective.

We aim to advance cost-effective regulation through our CSA harmonization work. Failing to introduce cost-effective regulation through CSA will keep regulatory costs unnecessarily high for BC investors and market participants alike.

### **Core focus areas**

1. *Emphasize practical regulatory solutions.* Events, complaints, and changes in market practices and products constantly raise questions about the possible need for regulatory intervention. We analyze current and emerging market issues to define them as precisely as possible and assess whether regulatory intervention is appropriate. If so, we will look at the full range of potential regulatory responses and advance those that will provide significant benefits that exceed the costs.
2. *Efficiently use our resources.* We allocate our resources commission-wide to operate efficiently. Practices such as risk management, cross-divisional teamwork, and benchmarking inform our resourcing decisions. By considering the efficiency of our organization, we apply our resources to the most important areas and minimize fees industry needs to pay for regulatory oversight.
3. *Timely delivery of key services.* Market participants need regulatory clearance for some types of transactions or business activities. We process completed applications for prospectus receipts, registrations, and exemptions in a timely manner, recognizing that delay adds to costs.

### **Strategies supporting Goal 4**

Three strategies support this goal:

- Strategy 4.1: Work with government and other regulators to implement harmonized legislation and the passport system
- Strategy 4.2: Advance clear problem definition and outcomes-focused solutions
- Strategy 4.3: Apply risk management to our compliance processes

#### **Strategy 4.1: Work with government and other regulators to implement harmonized legislation and the passport system**

*Lead: Office of the Chair*

We will continue to work with government and other Canadian securities regulators to make the Canadian securities regulatory system more efficient and effective through the passport system for securities regulation. The goal of the passport system is to permit a market participant to have access to capital markets in multiple jurisdictions by dealing with its principal regulator and complying with securities laws in that jurisdiction. The passport system presumes highly harmonized and streamlined securities legislation across Canada.

In 2005, the members of CSA, except Ontario, adopted Multilateral Instrument 11-101 *Principal Regulator System*, which implemented the first phase of passport. In 2006, the regulators sought amendments to their legislation to obtain additional tools to implement more passport measures. British Columbia and some other jurisdictions have already adopted the passport tool amendments and the changes are under way in most others.

This year, we will continue working with CSA to develop a proposal for the second phase of the passport system. We will also continue to participate in the work to harmonize the prospectus and registration system and other areas of securities regulation.

#### **Strategy 4.2: Advance clear problem definition and outcomes-focused solutions**

*Lead: Executive Director's office*

We work with CSA to develop national solutions to market problems. We will actively work with CSA to encourage strong problem definition and outcomes-focused solutions. We will do this by:

- Developing a Regulatory Risk Assessment model for new CSA policy project proposals. Applied properly, this discipline will help to define the problem more precisely and design a cost-effective regulatory response.
- Training CSA staff to conduct Regulatory Risk Assessments.
- Consulting more effectively with industry on proposed regulatory responses. Through these consultations, we will work with market participants to better understand their business and the impact on them of the proposed response.

#### **Strategy 4.3: Apply risk management to our compliance processes**

*Lead: Corporate Finance for issuer initiatives; Capital Markets Regulation for Capital securities firm initiatives*

We are continuing to improve our compliance processes. Last year we developed risk assessment tools and tested them on selected compliance issues. We are strengthening our capability to detect potential problems as they arise and deploy our resources to deal

with the most significant threats to investors or the market. This year we will implement our risk management environmental scan across our compliance processes and use the assessment tools to evaluate potential risks.

Risk management will support our objective to realize value for our stakeholders. We make decisions in setting strategy and in operating day to day that create, preserve, or erode value. This program will help us:

- Identify significant risks
- Focus efforts on particular risks or categories of risk
- Implement cost-effective responses
- Maintain risk controls
- Establish risk reporting processes

### Performance measurements for Goal 4

PERFORMANCE MEASUREMENTS	TARGETS				
	05/06 Actuals /Baseline	06/07 Estimate	07/08 Target	08/09 Target	09/10 Target
4.1 Average score on cost-effective regulation scorecard	New measure	New measure	Set baseline	Improve on 07/08	Improve on 08/09
4.2 Average approved project post-implementation score	New measure	New measure	Set baseline	Improve on 07/08	Improve on 08/09
4.3 Average BCSC fee load for prime issuers and registrants in BC, AB, and ON - For a segment of issuers - For a segment of PM/IC firms	New measure	Setting baseline by end of this fiscal year	TBD based on initial results	TBD based on initial results	TBD based on initial results

#### Measurement 4.1: Scorecard for advancing cost-effective regulation

The BCSC is committed to regulating in a way that is flexible, outcomes-focussed, and cost-effective. To measure cost-effective regulation, we will create a scorecard that tracks the important steps and outcomes in responding to market problems. We will apply the scorecard to all CSA policy projects as well as our local efforts to create new cost-effective regulation. The scorecard will report on the extent to which we are taking steps to advocate our cost-effective regulation principles and will give further credit for outcomes-focused results. We will report the average score of projects completed each year.

If there are fewer than five new projects scored in a single year, we will use the average for the last five projects. We will not include rules that we adopt purely to harmonize with other jurisdictions in this analysis. The process CSA uses to create harmonization rules does not consider problem definition or alternative tools.

#### **Measurement 4.2: Scorecard for approved project post-implementation**

For this measurement, we define a “project” as an initiative that requires executive director approval, and either costs more than \$10,000 or takes more than 25 person days. We justify these projects in writing and include a description of the expected benefits. Some projects will forecast a return on investment generated by cost savings or cost avoidance that “pays” for the project within a reasonably short period (typically up to three years). Other projects promise efficiency improvements or improved quality, accuracy, or control.

We will assess each project at a predetermined time after the project’s completion (as documented in the project proposal) and score the project’s success relative to its proposed benefits. This assessment will normally occur after six months, but for reasons of complexity or novelty may be conducted as early as three months or as late as 12 months after a project completes. The baseline we set will be an average of the projects assessed during the year.

#### **Measurement 4.3: BCSC fee load for prime issuers and registrants relative to other jurisdictions**

This measure compares the fees paid to us by BC-prime issuers and registrants to the fees paid by issuers and firms that have Alberta or Ontario as their principal regulator. Securities market participants fund our operations through fees they pay under the *Securities Act*. Our fees are usually a small portion of the costs of market participation. However, we strive to keep them competitive with comparable jurisdictions to minimize the potential for our fees to cause firms to choose to operate elsewhere or avoid market participation altogether.

We will calculate the average fees that issuers and firms based in Ontario, Alberta, and BC pay to their principal regulator. By calculating the average direct regulatory cost per entity across these three provinces, we can see how our cost to issuers and firms compares to other provinces.



## Summary financial outlook

### *Financial structure and history*

We try to operate at a break-even level over the business cycle. This is challenging because most of our costs are fixed, but our revenues fluctuate in proportion to market activity. Securities market participants fund our operations through fees they pay under the *Securities Act*. Salaries, benefits, and occupancy costs make up about 80% of our operating expenses. As a BC government agency, we are exempt from income taxes and the GST.

Strong market activity during the late 1990s resulted in higher than necessary fee revenues and an accumulating surplus. From our incorporation on April 1, 1995 to March 31, 2001 we accumulated surpluses totaling \$25.1 million, net of a \$12 million transfer to the Province.

To address the imbalance, we eliminated or reduced 14 fees, totaling approximately \$4 million of annual revenue, on January 1, 2001. To return about \$12 million of the accumulated surplus to market participants, we also temporarily reduced fees in January 2002 for one year. We allocated \$12 million of the remaining surplus to the Fee Stabilization Reserve (FSR). The FSR ensures that temporary reductions in revenue do not immediately impair our ability to operate, or force reactive fee changes.

We had an FSR balance of \$12.0 million as of March 31, 2006. If sufficient assets become available, we will increase the FSR to \$15.0 million over the planning period. We will also draw on the FSR, if needed, over the planning period.

We expect a surplus in 2006-2007. Higher distribution and registration revenue and higher investment income will offset a modest decrease in financial filings revenue caused by filing cycle changes.

We expect to break even in 2007-2008.

The following table summarizes our actual and expected results of operations and financial position, by year:

### Summarized Statements of Operations

(000,000's)	05/06 Actual	06/07 Forecast	07/08 Budget	08/09 Projection	09/10 Projection
<b>OPERATIONS</b>					
<b>Revenue</b>					
<i>Filing fees</i>					
Prospectus and other distributions	14.7	15.7	15.3	15.8	16.3
Registration	8.3	8.7	9.0	9.2	9.5
Financial Filings	4.6	4.5	4.4	4.6	4.7
Other fees	0.5	0.5	0.4	0.2	0.1
	<u>28.1</u>	<u>29.4</u>	<u>29.1</u>	<u>29.8</u>	<u>30.6</u>
<i>Other revenue</i>					
Enforcement cost recoveries	0.1	0.2	0.2	0.2	0.2
Investment income	0.5	0.7	0.9	1.0	1.1
<b>Total revenue</b>	<u>28.7</u>	<u>30.3</u>	<u>30.2</u>	<u>31.0</u>	<u>31.9</u>
<b>Expenses</b>					
Salaries and benefits	20.2	21.2	22.7	23.3	24.1
Other operating expenses	7.2	7.0	7.5	7.7	7.8
<b>Total expenses</b>	<u>27.4</u>	<u>28.2</u>	<u>30.2</u>	<u>31.0</u>	<u>31.9</u>
<b>Operating surplus for the year</b>	<u>1.3</u>	<u>2.1</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>EDUCATION RESERVE</b>					
<b>Education revenues</b>					
Investment income	0.1	0.1	0.1	0.1	0.1
Penalties and designated settlement revenue	0.7	1.3	0.5	0.5	0.5
	<u>0.8</u>	<u>1.4</u>	<u>0.6</u>	<u>0.6</u>	<u>0.6</u>
<b>Education reserve disbursements</b>	<u>1.2</u>	<u>0.7</u>	<u>0.6</u>	<u>0.6</u>	<u>0.6</u>
<b>Education reserve (deficit) / surplus for the year</b>	<u>(0.4)</u>	<u>0.7</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Consolidated surplus for the year</b>	<u>0.9</u>	<u>2.8</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Surpluses</b>					
General	1.7	2.9	1.9	1.3	0.7
Fee stabilization reserve	12.0	13.0	14.0	14.5	15.0
Education reserve	2.4	3.1	3.1	3.1	3.2
	<u>16.1</u>	<u>19.0</u>	<u>19.0</u>	<u>18.9</u>	<u>18.9</u>
<b>SUPPLEMENTARY INFORMATION</b>					
Cash and short-term investments	6.7	9.2	8.4	8.5	8.6
Capital expenditures	0.3	0.1	0.9	0.5	0.5
Average FTEs	191	197	200	198	197

## ***Operating revenues***

Our operating revenues consist of:

- Fee revenues – filing, registration, and application fees paid by securities market participants
- Enforcement revenues – hearing cost recoveries and amounts designated under settlements as cost recoveries
- Investment portfolio income

## **Fee revenues**

Almost all of our operational funding comes from fees paid by market participants, including mutual funds that contribute about 40% of our fee revenue. We collect:

Category	Source	% of Fee Total	
		Forecast 2007	Fiscal 2006
Distribution fees	Paid by securities issuers when they file disclosure documents	53.5%	52.3%
Registration fees	Paid by firms and individuals to register with us to sell or advise on securities	29.6%	29.6%
Financial filing fees	Paid by public companies when they file annual and quarterly financial statements	15.2%	16.4%
Other fees	Paid by market participants, primarily to request exemptions from Securities Act requirements	1.7%	1.8%

Distribution fee revenues vary depending on the number and sizes of offerings completed in each year and are higher during strong markets. The remaining fee categories have low volatilities.

The largest share of our fee revenue comes from prospectuses<sup>1</sup> (about 35% of total fee revenue), exempt distribution reports<sup>2</sup> (about 10% of total fee revenue), and annual information forms<sup>3</sup> (about 5% of total fee revenue). Issuers pay us fees to file these documents. Also:

- When sales under a prospectus exceed \$7.5 million, an additional fee, called a “percent of proceeds fee”, may be payable.
- When reported sales under an exempt distribution report exceed \$0.3 million, an additional fee may be payable.

<sup>1</sup> Companies are normally required to prepare a prospectus before raising money from the public. A prospectus gives details of the operations, financial status and management of the company.

<sup>2</sup> Prospectus exemptions allow companies to sell securities without a prospectus when other factors (like relationship or financial sophistication) ensure investors have access to all information about the proposed transaction that could affect their purchase decision.

<sup>3</sup> An AIF gives details of the operations, financial status and management of the company.

Fee revenues should grow by about \$1.3 million (4.6%) in 2006-2007, due primarily to:

- \$1.0 million (6.8%) higher distribution fees, related mostly to an increase in mutual fund sales
- \$0.4 million (4.8%) higher registration fees because of growth in advisor registrations
- \$0.1 million (2.2%) lower financial filings fees because of filing cycle changes

We expect fee revenues to decline about \$0.2 million (0.6%) in 2007-2008 as capital market activity may have reached a plateau. For the remainder of the planning period, we expect revenues to increase modestly, either through increases in market activity or filing fee increases.

#### *Prospectus and other distribution filing fees*

We expect the “percent of proceeds” fees from prospectus filers in 2007-2008 to drop \$0.2 million (5%). Filers, mostly mutual fund issuers, pay these fees in arrears. Analyzing current mutual fund gross sales statistics helps us to predict changes in revenue. Mutual fund industry statistics show that gross fund sales were 3% lower during the twelve-month period ended November 30, 2006 compared to the prior twelve-month period.

We expect 15% (\$0.4 million) lower exempt distribution report fees in 2007-2008. These fees have not declined so far in 2006-2007. However, we expect some moderation after 2005-2006 and 2004-2005 increases of \$0.8 million (40%) and \$0.4 million (30%), respectively. After such extraordinary growth, we expect exempt market activity, and therefore exempt distribution report fees, to decline modestly in the coming year.

We expect \$0.2 million (14%) higher AIF fees in 2007-2008 because we expect more issuers to take advantage of the relatively new “short-form” offering system. This system reduces the time and cost of bringing an offering to market by allowing an issuer to reference existing disclosure in an offering document. One requirement of the “short-form” system is to have a current AIF.

Excluding timing differences, we expect 3% growth in all prospectus and distribution filing fees over the remainder of the planning period.

#### *Registrations*

Qualified individuals who wish to sell or advise on securities in BC must apply to us for registration and then pay an annual fee to maintain it. Annual registration fees are paid to us in advance and we recognize the revenue over the following calendar year.

We expect registration revenues to grow by \$0.4 million (4.2%) in 2006-2007, and by \$0.3 million (3.8%) in 2007-2008, based on industry registration statistics. We have forecast modest growth of 2.5% per year thereafter because we anticipate a slowdown in new registrants due to consolidating industry trends, such as online investing.

### *Financial filings*

Public companies (typically mutual funds and exchange-listed companies) pay financial filing fees with their quarterly and annual financial statement filings.

Historically, financial filings revenue has not been volatile, except for the effects of temporary fee reductions and filing cycle changes. We expect revenues to decrease by \$0.1 million (3.1%) in 2006-2007 because of a filing cycle change. For 2007-2008, we expect revenue from this source to remain flat. We have forecast modest growth of 2.5% per year over the remainder of the planning cycle.

### *Other applications and filings*

Market participants pay fees in this category primarily when requesting exemptions from *Securities Act* requirements.

We expect no growth in this revenue stream in 2006-2007. Higher application volumes related to strong capital market activity stabilized revenue from this source in 2005-2006 after several years of decline related to our decision to reduce the need for exemptions through general exemption orders that apply to all market participants. We expect to lose \$0.4 million (80%) of revenue from this source over the forecast period because of filing requirement changes proposed under the *Passport* initiative (see page 49).

### *Revenue sensitivity*

Each 1% change in our overall fee assumptions alters forecast revenues by about \$2 million over the planning period.

<b>Fee Revenue Growth</b>					
(000,000's)	<b>05/06</b>	<b>06/07</b>	<b>07/08</b>	<b>08/09</b>	<b>09/10</b>
	Actual	Forecast	Budget	Projection	Projection
<b>Fee Revenue</b>					
Revenue from fees	28.1	29.4	29.1	29.8	30.6
Fee revenue growth rate	5.7%	4.3%	-0.5%	1.9%	2.4%

### **Enforcement revenues**

Enforcement cost recoveries are unpredictable. Revenues depend on the timing of enforcement actions completed during the period and on our ability to collect assessed amounts. Collecting enforcement cost recoveries can be difficult because respondents often have limited assets, poor credit, or have left British Columbia. We collect most amounts designated under settlements as cost recoveries, so we accrue these amounts. Since we collect few hearing cost recoveries, we recognize these revenues only when paid.

Since our incorporation on April 1, 1995, we have collected \$11.6 million (48%) of \$24.5 million sanctioned. We pursue unpaid amounts, which totaled \$12.8 million as of December 31, 2006 (March 31, 2006 - \$12.9 million), vigorously and indefinitely.

We budgeted a conservative amount for 2007-2008 enforcement revenue by basing it on the five-year average after excluding unusually large receipts in any particular year. We have assumed no growth in enforcement revenue over the planning period.

### **Investment income**

Our portfolio generates modest returns because we invest conservatively. Most of our funds are in investment pools managed by the British Columbia Investment Management Corporation (bcIMC), a BC government organization. About half of our bcIMC-invested funds are in 15-month or shorter money market instruments through its ST2 fund. The rest are in its Short Term Bond fund, which invests in Canadian bonds that mature within ten years, issued or guaranteed by Canada or a Canadian province.

We have assumed investment yields between 3.9% and 5.0% over the planning period, based on Treasury Board forecasts.

### ***Operating expenses***

We are committed to managing our expenses so they do not exceed the revenue expected over the business cycle. We do this by:

- Preparing an annual budget approved by the commission
- Reporting budget variances monthly to management
- Requiring commission approval for significant unbudgeted expenses
- Continually improving the efficiency of our processes

To 2006-2007, we expect five-year average operating expense growth to be 1.6%.

Filing and policy expectations have increased in recent years, while our staff has been declining. We will add 3.25 FTEs (1.5%) to our approved complement in 2007-2008 so we can maintain service levels. Otherwise, we expect operating expenses to grow modestly over the planning period. Annual performance-based salary increases drive most of our non-project expense growth. We expect annual performance-based salary increases to average 3.8%. With the exception of activity-based expense changes, we expect all other expenses to increase at the government-forecasted, 2.1%, annual rate of inflation.

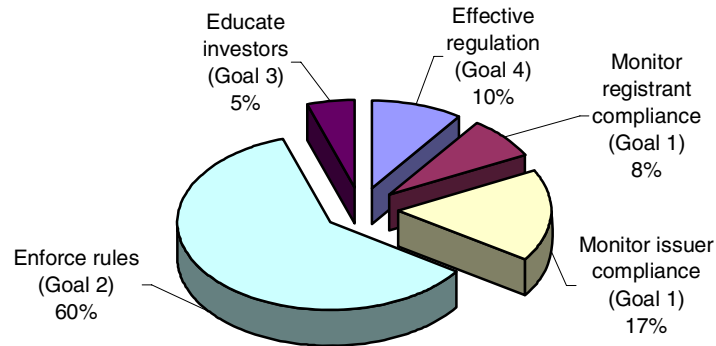
#### **Operating Expense Growth**

(000,000's)	05/06 Actual	06/07 Forecast	07/08 Budget	08/09 Projection	09/10 Projection
<b>Operating Expenses</b>					
Expenses, excluding education disbursements	27.4	28.2	30.2	31.0	31.9
Operating expense growth	2.8%	2.8%	7.1%	2.7%	2.8%

## Salaries and benefits

Staffing costs are almost 75% of our operating expenses. We compete for professional staff with law and accounting firms, the securities industry, and other regulators. Like most of our competitors, we offer a compensation package that includes merit-based salary increases and a performance-based incentive program. To remain competitive, we conduct salary surveys annually and adjust salaries that are too low.

We spend our salaries budget in five areas (overhead allocated proportionately):



Planned results reflect the following significant staffing assumptions:

- We expect a 3.25 FTE (1.5%) increase in staff size effective April 1, 2007, a two FTE (1%) decrease effective April 1, 2008, and a one FTE (0.5%) decrease effective April 1, 2009
- Base salary and benefit cost increases 5% for 2007-2008, and averages a 4% per year increase over the remainder of the planning period

## Professional services

Professional service costs relate primarily to:

- Legal services to defend our actions when appealed to higher courts
- Fees paid to the IDA for registration services delegated to them
- Our share of CSA project and management costs
- Legal services to support policy development
- Interview and hearing transcription services
- Corporate services activities, including disaster recovery facility and internal audit costs

External consulting to improve our performance measurement systems, recruit new staff, and to process registration applications, will increase annual professional service costs by about \$0.3 million, starting in 2007-2008. Otherwise, we expect only inflationary growth in professional service costs over the planning period.

## **Rent**

We have leased office space to November 2011 at an annual rent, net of sublease recoveries, of about \$0.9 million. We also pay a proportionate share of the building's operating and maintenance costs, which we do not expect to grow at more than inflation over the planning period.

## **Depreciation and capital expenditures**

We depreciate our leasehold improvements, fixtures, and information technology over their useful lives using the straight-line method. We estimate the useful lives of our assets to be:

- Information technology – four years
- Leasehold improvements – the shorter of the length of the remaining lease term and the length of the estimated useful life of each improvement
- Office furniture and equipment – 10 years

We expect depreciation to average \$1.0 million per year over the planning period.

We expect planned capital spending to be \$0.1 million in 2006-2007, \$0.9 million in 2007-2008, and to average \$0.5 million per year over the remainder of the planning period. Capital spending will relate primarily to computer systems and applications.

## **Information management**

We spend significant amounts on information systems and management annually to continually improve market participants' access to our services and the information we maintain, and the timeliness and quality of our regulatory activities. Information management has three main components:

- Software licensing and maintenance fees – most significantly for office productivity, workflow, and document management applications
- Electronic information services and hardcopy materials
- Physical record scanning and storage costs

We do not expect the composition of our information management activities to change significantly, and we expect only inflationary growth in their cost, over the planning period.

## ***Education reserve***

We appropriate receipts from administrative penalties and settlement payments in excess of our costs of investigation to our Education Reserve. We use education reserve funds only to educate securities market participants and members of the public about investing, financial matters, or the operation and regulation of securities markets. We supplement education fund disbursements by absorbing indirect education costs in our operating budget. For example, we normally fund staff time spent supporting education fund



projects, and education programs that include a significant promotional component, from operations.

### **Education revenue**

Education revenue is difficult to predict because it depends on the nature and timing of enforcement actions completed during the year, and on our ability to collect assessed amounts. We have therefore used the long-term historical average to estimate 2007-2008 income, and have forecast no growth over the remainder of the planning period.

### **Education expenses**

We disburse our Education Fund at the discretion of the commission. We expect to disburse \$0.7 million in 2006-2007. Because fund outflows are discretionary, we have assumed that fund disbursements will equal fund inflows over the remainder of the planning period.

The most significant component of 2006-2007 education expenses relates to distributing and maintaining a financial planning course module (Planning 10) for grade 10 students. Our award-winning Planning 10 module includes teaching materials, an illustrative DVD, student portfolios, and a supporting website.

The Education Fund balance was \$2.4 million at the end of 2005-2006. We expect the fund balance will increase to, and then stabilize at, \$3.2 million during the planning period.

## ***Risks and Opportunities***

### **Fee revenue**

Temporary fee reductions and lower market activity significantly reduced fiscal 2003 and 2004 revenues. Market activity increased in fiscal 2005, and has since been strong. We continuously monitor our fee structure and may propose changes to ensure we break even in future years.

### **Securities regulatory reform**

We have been supporting government's work to implement the regulatory reforms outlined in the September 30, 2004 *Memorandum of Understanding Regarding Securities Regulation* (Passport MOU), signed by most of Canada's ministers responsible for securities regulation. The Passport MOU proposes a single window access to capital markets in participating provinces and territories, harmonized and streamlined legislation, and a review of the regulatory fees charged in the context of the passport system.

The Passport MOU may ultimately change what we do and how we fund our operations. However, with the exception of our applications and filings revenue, we have forecast no

effect on our revenues and expenses because we expect any changes to have no net impact on our bottom line.

### **National electronic filing systems**

About 90% of our fee revenue is collected through the SEDAR and NRD electronic filing systems. Under various agreements with the Canadian Securities Administrators, CDS Inc. operates the SEDAR, SEDI, and NRD electronic filing systems. Should CDS become unable or unwilling to continue to operate them, the CSA would have to contract with another party.

CDS operates the SEDAR electronic filing and payment system on behalf of the CSA under an August 1, 2004 agreement with the CSA Principal Administrators, Alberta Securities Commission, British Columbia Securities Commission, Ontario Securities Commission (OSC), and L'authorité des Marchés Financiers. Under the agreement:

- The CSA Principal Administrators must pay CDS if SEDAR system operating costs exceed revenues (a "shortfall"). Our portion of that guarantee is limited to 15.4% of any shortfall. The chance of an operating loss is low, however, because SEDAR typically generates positive operating results. Revenues and expenses do not vary much from year to year and the CSA participate in setting the system's annual operating budget.
- CDS must pay SEDAR revenues in excess of system operating costs (a "surplus") to the CSA Principal Administrators. Any surplus is not divisible; the CSA Principal Administrators own it as a group.

CDS has paid \$12.6 million to the OSC, in trust, representing surpluses generated by SEDAR during the November 1, 2002 to October 31, 2006 period. The CSA Principal Administrators have agreed to use these funds only for the benefit of national filing system users through system enhancements or usage fee adjustments.

### **Temporary Fee Reductions**

We expect a \$0.3 million/year fee holiday for MFDA members in good standing to end in fiscal 2010. The forecast is net of the estimated impact of these fee reductions.

## Appendix A. Review of performance measurement systems for each Service Plan measurement

Data source	Data collection method	Data collection frequency	Disclosure of any limitations to the accuracy and reliability of the data	Data timeliness	Data controls
Measurement 1.1: Continuous disclosure improvement					
Independent evaluation against criteria set by BCSC staff	Manual submission of reviewer's report	Collected annually	Measurement relies on objective professional judgment of disclosure quality	Measures work done 12-24 months before the report: issuers cited by the BCSC from April 2006 to March 2007 will be reported on in May 2008.	Electronic system creates list of issuers with significant deficiencies. Reviewer then randomly selects issuers from the list to assess.
Measurement 1.2: Technical disclosure compliance					
Independent evaluation against criteria set by BCSC staff	Manual submission of reviewer's report	Collected annually	Measurement relies on objective professional judgment of disclosure quality	Measure is based on current continuous disclosure record of the selected issuers	Electronic system allows us to pull list of BC-prime mining issuers.
Measurement 1.3: Issuer compliance with filing requirements					
Internal database	Manually compiled	Collected continually; only relevant as a measurement at year end	<ul style="list-style-type: none"> <li>- Some firms who proceed to delist are still captured in this measure</li> <li>- An issuer can be in default between week-to-week list publications, and would be omitted from this measurement</li> </ul>	Measurement reflects firms on defaulting list at some point during fiscal year	Internal control environment

<b>Data source</b>	<b>Data collection method</b>	<b>Data collection frequency</b>	<b>Disclosure of any limitations to the accuracy and reliability of the data</b>	<b>Data timeliness</b>	<b>Data controls</b>
<b>Measurement 1.4: Compliance of directly-regulated securities firms</b>					
Data entered manually based on exam deficiency letters	Data comes from a manually-updated Excel spreadsheet, and is adjusted for targeted reviews	Collected at year end	<ul style="list-style-type: none"> <li>- Measurement relies on a our classification of compliance problems, which can change every year</li> <li>- Small data set</li> <li>- Measurement relies on judgment of evaluators</li> </ul>	Measurement reflects data from exam letters sent during annual reporting period	Internal control environment
<b>Measurement 1.5: Survey of new IDA and MFDA clients</b>					
Retail client surveys	To be determined We plan to work with a consumer survey expert to design the survey	Collected once a year for measurement purposes	<ul style="list-style-type: none"> <li>- The measure looks at the perceptions of the clients of their relationship with their broker.</li> <li>- Definitions of activities may not mean the same thing to consumer and to regulators: for example, how much of the prospectus you need to read and understand to say you've read the prospectus</li> <li>- Small changes in results year to year will not reflect a significant change in behavior because of our likely sample size</li> <li>- May have sample bias as response is voluntary</li> </ul>	Survey participants will be new clients of IDA and MFDA members.	Currently believe we will outsource the survey collection and analysis to independent provider.

<b>Data source</b>	<b>Data collection method</b>	<b>Data collection frequency</b>	<b>Disclosure of any limitations to the accuracy and reliability of the data</b>	<b>Data timeliness</b>	<b>Data controls</b>
<b>Measurement 2.1: Action in response to ongoing misconduct</b>					
- Cases in our denominator come from case tracking system - Actions counting toward the measure are also recorded in our case tracking system	Collected manually based on internal reports	Collected quarterly	- Small data set - Measurement does not track all freeze orders or temporary orders issued in a given year	Measurement reflects cases referred for enforcement action in a fiscal year	Internal control environment
<b>Measurement 2.2: Timely resolution of enforcement cases</b>					
Time data comes from case tracking system, official documents, and management tracking sheet.	Closed cases drawn from management tracking sheet	Collected quarterly	- Single long cases can move the overall average - Cases put on hold for reasons outside of commission control can move the overall average	Measurement reflects cases closed by settlement or decision in a fiscal year	Internal control environment
<b>Measurement 3.1: Complaints and tips received from InvestRight programs</b>					
Information comes from our web statistics, case tracking system, and our internal call tracking systems.	To be determined as we implement this measure	Collected quarterly	- Measurement relies on ability for our inquiries line to sort complaints and tips based on caller involvement with our education programs - Measurement depends on appropriate coding of enforcement leads coming from law enforcement agencies	Counts activity in the fiscal year.	Internal control environment

<b>Data source</b>	<b>Data collection method</b>	<b>Data collection frequency</b>	<b>Disclosure of any limitations to the accuracy and reliability of the data</b>	<b>Data timeliness</b>	<b>Data controls</b>
<b>Measurement 3.2: Workshop participant application of investor education messages</b>					
Data stored and analyzed electronically	Collected through paper and electronic surveys from investor education participants	Collected regularly	- Survey response rate may be low, making statistical significance hard to draw - May have sample bias as response is voluntary	Measurement reflects surveys completed during the reporting period	Internal control environment  Third party may execute survey
<b>Measurement 3.3: BCSC awareness</b>					
Independent survey	Data drawn from independent report	Collected annually	- Small changes in results year to year may not reflect a significant change in behavior because of the error we accepted in selecting our sample size - May have sample bias as response is voluntary	Awareness assessed within the fiscal year.	Research methodology designed to analyze all responses.
<b>Measurement 4.1: Scorecard for cost-effective regulation</b>					
Internal evaluation based on staff and management judgment and project documents	Collected manually	Collected regularly	- Measurement relies on judgment of evaluators: Executive Director evaluates a new rule together with staff, brings to full-time commissioners for review before final score made - Small sample size	Measurement based on rules put into effect in BC or other major regulatory projects completed; work to complete the project may have been over a period of years	Discussion on logic for each measurement documented for review.

Data source	Data collection method	Data collection frequency	Disclosure of any limitations to the accuracy and reliability of the data	Data timeliness	Data controls
Measurement 4.2: Scorecard for approved project post-implementation					
Internal accounting systems, internal asset management systems, and internal evaluation based on staff and management judgment and documented results	Collected manually	Collected regularly	<ul style="list-style-type: none"> <li>- Measurement relies on professional judgment</li> <li>- Small sample size</li> </ul>	Measurement reflects projects scored in the fiscal year: work to complete the project may have been over a period of years	Internal control environment
Measurement 4.3: BCSC fee load for prime issuers and registrants relative to other jurisdictions					
Internal accounting systems and data from other regulators	Computer generated list of issuers and fees	Collected annually	<ul style="list-style-type: none"> <li>- Other jurisdictions may not follow our requested methodology precisely, making the numbers hard to compare.</li> <li>- Measurement may not be possible in time for Annual Report given the size of the data request from other regulators.</li> </ul>	Measurement reflects fees for active issuers at the end of the fiscal year.	Internal control environment