

BC Securities Commission

Service Plan, 2012 – 2015



BC Securities Commission Service Plan

This Service Plan sets out our strategy for the next three years, beginning April 1, 2012. Copies are available on the BCSC website at www.bsc.bc.ca (*About the Commission*), or by phoning or emailing our public inquiries group.

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 also available by phoning or emailing our public inquiries group:

Direct: 604-899-6854 Toll-free: 1-800-373-6393 Email: inquiries@bcsc.bc.ca

The BCSC's office location and mailing address are:

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

Glossary

bcIMC	British Columbia Investment Management Corporation
CDS	CDS Inc.
CSA	Canadian Securities Administrators
IIROC	Investment Industry Regulatory Organization of Canada
MFDA	Mutual Fund Dealers Association of Canada
NRD	The National Registration Database
OSC	Ontario Securities Commission
PSAB	Public Sector Accounting Board
SEDAR	The System for Electronic Document Analysis and Retrieval
SEDI	The System for Electronic Disclosure by Insiders
SROs	Self-Regulatory Organizations
TSX	Toronto Stock Exchange
TSX-V	TSX Venture Exchange

Accountability statement – BCSC Chair to Minister

Honourable Kevin Falcon
Minister of Finance
Parliament Buildings
Victoria, BC V8V 1X4

Dear Minister:

On behalf of the Board of Directors and staff at the British Columbia Securities Commission, I am pleased to submit the BCSC's Service Plan for fiscal years 2012/13 – 2014/15.

The 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 plan

This is a three-year plan, which takes effect April 1, 2012. It identifies three strategic risks—illegal distributions and fraud, non-compliance in private placement market financing, and barriers to investigating market misconduct conducted through offshore secrecy jurisdictions. It describes seven strategies that strengthen our ability to achieve our mission and strategic goals. These are the regulatory priorities where we will focus our efforts in the year ahead. We will deal with these priorities within the context of other significant developments in the capital markets, such as the proposed Maple Acquisition of the TMX Group and Canada's commitments to the G20 to regulate over-the-counter derivatives.

We continue to organize our work under four goals:

- Foster a culture of compliance
- Act decisively against misconduct
- Educate investors
- Advance cost-effective regulation

Protecting investors

The three risks we identify in this plan continue from last year. While we have made good progress on the many initiatives aimed at managing these risks, these regulatory priorities require us to still focus more attention and energy to protect investors and the integrity of our capital markets.

Illegal Distributions and Fraud

While securities fraud is not new, it is occurring in new ways. The internet and advent of social networking sites provides for more opportunities to harm investors. While we employ traditional anti-fraud tools, if we are to be successful in dealing with securities fraud, we have to anticipate risks and invent and implement new tools to confront them.

To support compliance and enforcement efforts, we also use targeted campaigns to raise awareness of the warning signs of investment fraud among all British Columbians. Last fall we launched an aggressive three-year television, print, on-line and radio “Be Fraud Aware” campaign. This campaign, in several languages, is the first of its kind in Canada. In phase 2 we plan to build out the campaign to reach more investors across the province.

Non-compliance in the private placement market

Ensuring market integrity in the private placement market is challenging. It is a mosaic of thousands of businesses and thousands of investors. Currently, we are doing more than other jurisdiction in Canada to improve investor protection in this market.

Last year we introduced new disclosure requirements to provide investors with relevant information about private placement offerings. We have also dedicated a compliance team to focus on this market and we continue to provide investor education to give investors the information they require to decide if investing in this market is the right decision for them. Our objective is to find the right balance between protecting investors from the risks of private placement investments and market efficiency.

The venture capital market

Since its inception in 1999, companies listed on the Venture Exchange have raised over \$52 billion. It is a vital engine of Canada’s economic growth. Over the past ten years, over 475 companies have graduated from the Venture Exchange to the Toronto Stock Exchange and another 90 or so were merged with or were acquired by TSX- listed companies. Today 1 in 5 in the S&P TSX Index are graduates of the Venture Exchange. A significant number of Canada’s big companies come from small companies started up and financed in Western Canada.

Over the years, the BCSC has developed expertise in venture market regulation. In addition to our role of regulating the Venture Exchange, we have significant expertise in regulating the mining and exploration sector. BC is the centre of financing for the mining industry. We are home to a large number of junior mining companies, and we lead the country in financing mining exploration and development. The mining industry is also a significant player in Canada’s capital markets – 42% of Canada’s public companies are mining companies.

We have maintained the integrity of our capital markets and kept the costs of regulation at a level that allows for the successful financing of venture companies. These strengths must be preserved in any proposed national regulatory regime.

Accountability statement

I directed the preparation of this plan, and the Board approved it, in accordance with the *Budget Transparency and Accountability Act* and BC Reporting Principles. I am accountable for its contents, including what has been included and how it has been reported. The performance measures are consistent with the BCSC's mandate and goals, and focus on aspects critical to the BCSC's performance. The performance targets have been determined in view of the Commission's operating environment, forecast conditions, risk assessment, and past performance.

The plan is consistent with government's strategic priorities and fiscal plan. We have considered all significant assumptions, policy decisions, events, and identified risks as of January 5, 2012.

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 be 'B. Leong', with a stylized, cursive script.

Brenda M. Leong
Chair and Chief Executive Officer

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Organizational overview

BCSC vision

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

Mission

The BCSC is the independent provincial government agency responsible for regulating capital markets 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

Our values of integrity, accountability, and service guide our commitment to appropriate, effective, and flexible regulation. This commitment allows us to keep pace with quickly evolving capital market changes.

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 Minister of Finance, to whom we submit our annual report and audited financial statements. We submit our three-year Service Plan to the provincial Ministry of Finance and Treasury Board as required by the *Securities Act* and the *Budget Transparency and Accountability Act*.

Corporate governance

The BCSC is governed by a board of up to 11 (currently 8) commissioners appointed under the *Securities Act*. The commissioners have four categories of responsibilities. They:

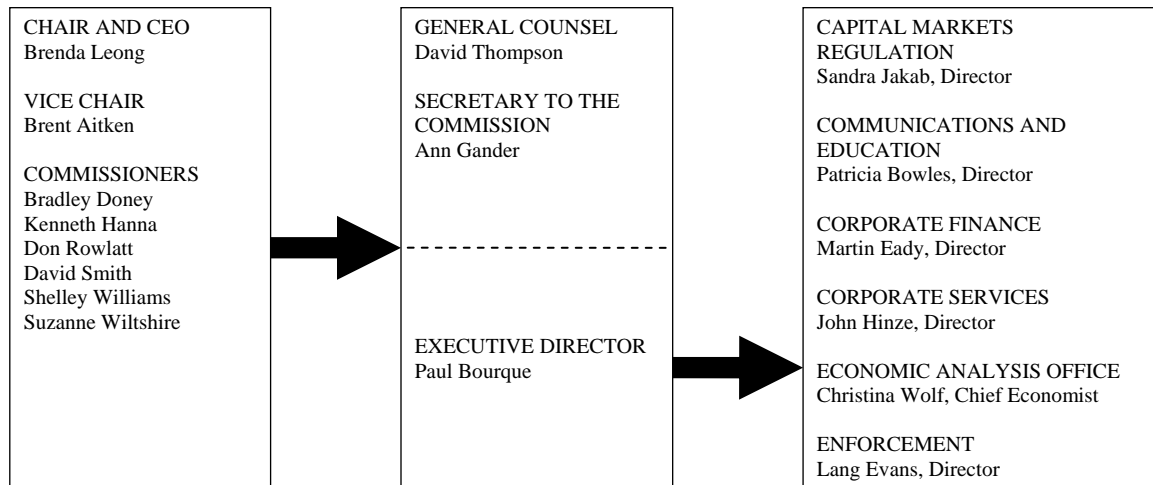
- Review and approve the development and implementation of securities legislation, regulations, rules, policies, and guidance
- Oversee the Self-Regulatory Organizations (SROs), exchanges, and other marketplaces
- Act as adjudicators on enforcement matters brought under the *Securities Act* and applications for review of decisions made by SROs and exchanges
- Act as the BCSC's board of directors, overseeing the BCSC's management, operations, and financial affairs

Our governance policy is on the BCSC website at www.bpsc.bc.ca (*About the Commission: Governance*). Except where noted in the policy, the board's governance practices meet the government's *Best Practice Guidelines-BC Governance and Disclosure Guidelines for Governing Boards of Public Sector Organizations* (2005, Board Resourcing and Development Office). More information about the BCSC governance policy, including biographies of each commissioner and members of the senior management team, is available on the BCSC website at www.bpsc.bc.ca (*About the Commission: Who We Are*).

Independent commissioners also sit on one or more of the three standing Board committees described in the table below.

Audit Committee	Purpose: Chair: Members:	The audit committee assists the board in <ul style="list-style-type: none"> ensuring the integrity of the commission's financial management and reporting systems ensuring the effectiveness of the commission's internal controls ensuring the independence of the commission's internal and external auditors monitoring risk management policies and systems such other related initiatives as may be necessary or desirable to enhance board effectiveness David J. Smith Suzanne K. Wiltshire, Shelley C. Williams
Human Resources Committee	Purpose: Chair: Members:	The human resources committee assists the board in <ul style="list-style-type: none"> ensuring the commission has an effective organizational structure and competitive human resources and compensation policies and practices ensuring appropriate processes are in place for the selection, evaluation, compensation, and succession of senior management evaluating and determining compensation for the chair such other related initiatives as may be necessary or desirable to enhance board performance Don Rowlatt Bradley Doney, Shelley C. Williams
Governance Committee	Purpose: Chair: Members:	The governance committee assists the board in <ul style="list-style-type: none"> ensuring the commission has policies and practices for good governance and ethical conduct ensuring the board and its committees function independently evaluating board performance selecting and evaluating commissioners and planning for their succession such other related initiatives as may be necessary or desirable to enhance board performance Kenneth G. Hanna Don Rowlatt, David J. Smith

Organizational structure



Key stakeholders

- The public—which relies on us to foster capital markets that contribute to the well being of BC
- Investors—who seek to invest in fair and efficient securities markets
- Issuers—companies that rely on the capital markets to fund growth
- Securities firms—which advise investors and companies, and facilitate trades
- Other regulators—with which we enforce compliance and develop and implement policy initiatives through the Canadian Securities Administrators (CSA)
- The provincial government—to which we are accountable

The securities regulation landscape

We fulfill our statutory mandate to regulate BC capital markets in cooperation with other CSA jurisdictions. Regulating BC capital markets in the context of a national system significantly affects how we conduct our work. It also influences how we consider and implement securities policy and practice in BC.

We work within a “passport” system, through which a market participant has access to markets in all passport jurisdictions by dealing only with its principal regulator and complying with one set of harmonized laws. All Canadian jurisdictions, except Ontario, participate in the passport system. While Ontario-based market participants benefit from the passport program, market participants based outside of Ontario need to deal with both their principal regulator and the Ontario Securities Commission (OSC).

We rely on two SROs to perform key regulatory functions related to dealers, salespersons, and trading activity in Canadian securities and exchange contract markets:

- Investment Industry Regulatory Organization of Canada (IIROC), which regulates investment dealers and trading activity on Canadian marketplaces, including the

Toronto Stock Exchange (TSX), the TSX Venture Exchange (TSX-V), and alternative trading systems

- Mutual Fund Dealers Association of Canada (MFDA), which regulates mutual fund dealers

The BCSC leads regulatory oversight for the MFDA on behalf of CSA, subject to input from the other CSA jurisdictions. The OSC performs the same role for IIROC.

The BCSC has recognized the TSX-V under the *Securities Act* and shares responsibility with the Alberta Securities Commission for its oversight. The BCSC has exempted the TSX and the Canadian National Stock Exchange from recognition, and we rely on oversight of these exchanges by the OSC. The OSC recently recognized Alpha Trading Systems Limited Partnership (Alpha LP): we anticipate an application for recognition from Alpha LP over this planning period.

The BCSC has also recognized the Canadian Public Accountability Board, which oversees auditors who audit public issuers in Canada.

BCSC core areas of operation

Compliance

We screen securities firms and their salespersons for registration (except IIROC firms and their salespersons who register with IIROC) and refuse applications from unsuitable candidates. We also regulate issuers and insiders.

We audit these securities firms and review issuers on an on-going basis for compliance with the rules. Better investor protection results when issuers, and securities firms and salespersons, understand and comply with the rules. We achieve this by, in part, ensuring these organizations have effective compliance systems and controls in place.

We rely on the SROs to regulate their member firms. We oversee the SROs and directly regulate firms not members of an SRO.

Enforcement

Effective enforcement requires decisive action against misconduct. Decisive action depends on timely detection, thorough investigation, and vigorous prosecution of alleged misconduct. We resolve cases through settlements and by administrative proceedings and criminal prosecutions.

Our Enforcement division focuses on illegal distributions (including misrepresentations and fraud), market misconduct (including market manipulation and insider trading), and compliance cases (including non-compliance by dealers and issuers), with a strong BC connection. When cases with national implications emerge involving a BC-based market participant, we usually take the enforcement lead. SROs generally deal directly with cases involving SRO member misconduct.

Investor education

Our goal is to educate investors so they can make informed investment decisions and protect themselves from fraudulent investment schemes. We want investors to assess potential investments and advisers critically before they invest. Research shows that many investors lack the knowledge and understanding they need to make sound investment decisions. For this reason, our Communications & Education division develops targeted programs for various groups from high school students to seniors.

Policy-making

We have the authority under the *Securities Act* to make rules. We also issue guidance to help market participants understand the rules. We use these tools when regulatory intervention into the market is justified and other tools are not sufficient to address the reason for the intervention.

BCSC operating environment and capacity

Capital markets are complex and fast moving. To regulate capital markets effectively, we acquire, understand, and act on information from a wide variety of sources. We actively manage our operations to ensure we have the appropriate resources to meet our commitments. We focus our efforts using a risk-based approach, paying more attention to high-risk individuals, firms, and issuers. We allocate resources and manage operations through:

- Strategic planning and comprehensive risk management
- A rigorous annual budgeting process and monthly budget variance reporting
- Strong project initiation and purchasing controls
- Succession planning and recruiting to maintain key competencies
- Ongoing professional development to meet evolving market developments

Two national initiatives could divert significant resources from our strategic priorities:

- The CSA initiative for rebidding the CSA IT systems operator and technology systems enhancement. This initiative involves the redevelopment and replacement of several national electronic filing systems. While the project scope and timing remain uncertain, the BCSC's participation in this initiative will require a significant commitment of its resources.
- The CSA initiative to regulate derivatives required to meet Canada's G20 financial regulatory commitments.

Significant additional resources will also be committed to three areas necessary to enhance our regulatory capabilities:

- Expansion of market intelligence
- Enhancement of risk-based approaches to our regulatory operations
- Extend our IT capabilities

We describe our specific plans in the "New strategies by goal" section.

Strategic context

In this plan, we identify three risks that we think pose the most significant threats to investor protection and market integrity in British Columbia for the planning period. These risks continue from last year.

In addition to the work that we will undertake to manage these risks, we will continue to support the initiatives of the CSA that address national and global market issues, including proposals to meet Canada's G20 financial regulatory commitments.

Under this plan, we will focus on three risks:

- Illegal distributions and fraud
- Non-compliance in the private placement market
- Market misconduct associated with offshore secrecy jurisdictions

Strategic risks

Risk 1: Illegal distributions and fraud

Public and private companies raising capital from the public must follow rules that preserve investor protection while fostering an efficient market for capital raising for small and medium sized businesses. When businesses raise capital without following these rules (called an illegal distribution), investors lose the protection created by the rules. Illegal distributions are sometimes designed to intentionally defraud investors. We view illegal distributions and fraud as a key risk to the BC public because:

- Investors often lose their entire investment
- There is little chance of recovering any part of the investment because there is no recourse to a registrant, and the investor's money is spent or moved offshore.

Our objectives are to deter fraudulent activity and illegal distributions, and to mitigate investor losses by disrupting frauds and illegal distributions in progress. When we find a fraud or an illegal distribution, we attempt, when possible, to secure ill-gotten gains for future distribution to victims. We prosecute wrongdoers before the Commission and in the criminal courts. We also educate investors about the warning signs of fraud so that fewer of them fall victim to fraudulent activity.

To achieve those objectives, we have implemented the following programs:

- Train financial industry employees to spot suspicious activity and to report it to us
- Train police about securities fraud
- Issue temporary orders to immediately stop misconduct
- Identify and freeze cash and other assets to ensure there is a fund available for distribution to victims by the courts or the Civil Forfeiture Office.
- Issue investor alerts through the news media about suspected frauds in progress
- Educate investors through our investor education website, InvestRight.org, and through advertising and seminars

We conduct investigations, leading to administrative hearings before the Commission, and assess sanctions where appropriate. We also pursue criminal investigations and refer appropriate cases to Crown Counsel for prosecution. Administrative sanctions and criminal convictions, fines, and jail sentences assist in deterring serious misconduct by others.

We started conducting criminal investigations in November 2006. Since then, the BCSC referred 22 cases to Crown Counsel with the following outcomes:

- Four cases are under review by Crown Counsel
- Eighteen cases have resulted in 258 charges: 211 *Securities Act* charges and 47 Criminal Code charges
- Nine cases are currently before the courts
- Nine cases have been completed with convictions or guilty pleas. Sentences have ranged from five to twenty-four months jail and aggregate orders for restitution of \$316,000.

Next steps

We will continue to give a high priority to this risk and allocate considerable resources to prevent, detect, and disrupt illegal distributions and fraud. In the coming year, our criminal investigation unit will continue to focus on more complex illegal distributions, frauds, and related offences.

In addition, we plan to use our new power to issue reciprocal orders against individuals disciplined by a SRO to ensure they cannot deal with the public in BC. We will also continue phase two of our community outreach strategy “Be Fraud Aware” to reach the broader BC public.

Risk 2: Non-compliance in the private placement market

Private placement securities are securities issued in Canada that do not require a prospectus. The private placement market is used by a wide variety of BC businesses – from start-up venture capital companies to established companies. The private placement market is extremely important to business capital raising. It is where companies raise their start-up capital until they are ready to go public. Even after going public, listed companies, especially those in the junior market, continue to rely on the private placement market to raise capital.

In 2010, BC companies (both public and private) raised \$10.8 billion (2010) in the private placement market. Of the monies raised by public companies (\$6.4 billion), most was for mining (exploration and production). Of the monies raised by private companies (\$4.4 billion), the highest percentage was raised by investment companies and funds, followed by mining and real estate investments. Smaller amounts were raised by utilities, technology, bio-tech, and oil and gas.

Companies may only solicit money in the private placement market from investors who do not require all of the consumer protection aspects of securities legislation because they:

- are more able than members of the public to withstand loss
- are closely connected to the company or directors and officers of the company, or
- have received alternate disclosure provided at the time of the investment, together with risk disclosures.

Persons who are in the business of raising capital on behalf of companies in the private placement market are required to either register or, if they meet specific criteria, they may operate without registration.

Our objectives in the private placement market are that:

- Participants in the private placement market are complying with the rules
- Issuers sell private placements only to investors that qualify as investors under the exemptions
- The rules protect those who are eligible to invest in the private placement market
- Companies can raise capital in the private placement market efficiently

To achieve those objectives, we dedicated a team within Corporate Finance to monitor the use of exemptions and the quality of disclosure in the private placement market. This group oversees the private placement market by:

- Reviewing issuer filings and making routine inquiries of issuers raising significant amounts of capital in BC to select market participants for further compliance review
- Raising the awareness in the private placement market of securities requirements and proper conduct in raising capital
- Surveying investors to confirm the proper use of the exemptions
- Reviewing the offering memorandum for completeness and compliance with requirements
- Taking enforcement action against those who do not comply with the rules

With this new team up and running, we have taken the following actions related to private placement issuers since April 2010:

- Issued 23 cease trade orders
- Issued 58 production orders for information about private placement issuers
- Sent 373 questionnaires to investors to validate proper use of exemptions
- Closed 165 compliance review cases
- Referred 8 cases to enforcement

Next steps

In addition to continuing the initiatives described above, we plan to:

- Invest in technology to expand our capacity to capture and analyze relevant information from regulatory filings and to more easily detect compliance issues
- Broaden our networks and tools for gathering, sharing, and analyzing information
- Review the nature and extent of private placement market compliance by reporting issuers

In the next section, we describe our plans to address the risks to investors posed by non-compliance in the private placement market under:

- Goal 2: *Act decisively against misconduct*
 - Strategy 2.2: *Build market intelligence systems capacity for the private placement market*

Risk 3: Market misconduct associated with offshore secrecy jurisdictions

The integrity of British Columbia markets is damaged when people trade illegally on inside information, manipulate the market, or engage in other forms of market misconduct using accounts in offshore secrecy jurisdictions.

We have addressed this issue by taking enforcement action, but that, by itself, is not sufficient to fully address the risk. One difficulty is that foreign banking and secrecy laws frustrate our investigations into suspicious activity associated with offshore accounts.

Our objectives are to ensure that:

- BC dealers are accountable for trading by their clients from offshore accounts
- We are able to investigate trading activity by offshore entities through BC dealers to the same extent, and in a similar time frame, as domestic trading activity

Next steps

We describe our plans to address the risks to investors posed by traders in offshore secrecy jurisdictions in the next section under:

- Goal 2: *Act decisively against misconduct*
 - Strategy 2.3: *Address inability to investigate market misconduct by traders in offshore secrecy jurisdictions*

New strategies by goal

We have the following goals:

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

We align each of the new strategies outlined in the following pages with our four stated goals. Strategies in this plan are project-oriented and represent the investment in new processes or content for the BCSC. Programs related to risks that we manage through our routine operations are not described in this section. We do not propose a new strategy for Risk 1: *Illegal Distribution and Fraud* because we believe our resources are most effectively used enhancing our current strategies. The chart below illustrates how strategies described under each goal relate to risks discussed in the Strategic Context section.

Summary of risks and related new strategies

	Risk 2: Non-compliance in the private placement market	Risk 3: Market misconduct by traders in offshore secrecy jurisdictions	Goal-related
Goal 1: Promote a culture of compliance			Strategy 1.1: <i>Review the regulatory environment for real estate exempt products</i>
Goal 2: Act decisively against misconduct	Strategy 2.2: <i>Build market intelligence capacity for the private placement market</i>	Strategy 2.3: <i>Address market misconduct associated with offshore secrecy jurisdictions</i>	Strategy 2.1: <i>Automate monitoring of internet, social media sites, and spam</i>
Goal 3: Educate investors			Strategy 3.1: <i>“Be Fraud Aware” campaign</i>
Goal 4: Advance cost-effective regulation			Strategy 4.1: <i>Build risk-based approaches for critical regulatory operations</i> Strategy 4.2: <i>Venture issuer regulation</i>

Goal 1: Promote a culture of compliance

Strategy 1.1: Review the regulatory environment for real-estate-based private placement products

Lead: Corporate Finance

BC-based mortgage investment companies that reported to the BCSC raised about \$506 million in 2010. This sector represents about 5% of our private placement market for non-reporting issuers. These investments are becoming increasingly attractive to investors seeking income and better returns in highly volatile, low interest, market conditions.

Today, securities with real estate underlying the investment are structured in a variety of ways. These structures attract a variety of different securities requirements and regulations from mortgage regulators. We need to better understand what regulation affects which sales activities and how. We plan to review this sector to determine if investor protections are consistent between product types when investor risks are equivalent.

Goal 2: Act decisively against misconduct

Strategy 2.1: Automate monitoring of internet, social media sites, and spam

Lead: Corporate Finance

Many issuers and registrants use social media (such as Facebook and Twitter) to promote ventures and communicate with potential investors. Scammers routinely use social media to execute their schemes.

Business promotion through electronic media is here to stay:

- Five percent of the top 800 Facebook blog subjects and 15% of the top 10,000 Twitter site subjects are business or economy related
- Public companies routinely include investor relations activities on their websites
- Bloggers and newsletter writers routinely write about public company activity
- Spam accounts for about 85% of email volume and stock scams account for 10% of spam topics

We intend to build our capability to gather market intelligence from the internet, social media sites, and spam so that we can:

- Detect potential illegal distributions by private companies, including ones that avoid contact with the BCSC
- Detect misrepresentations in issuer disclosure by comparing it to their public profile on websites and social media

- Gather intelligence from internet postings about persons that have attracted regulatory attention in the past

In the coming year, we will pilot technologies that automate market intelligence gathering about BC-based public and private placement issuers from social media sites and websites. We are starting with this group because:

- they are known names, with known connections to BC.
- when public issuers' websites depart from the filed record with the BCSC, or contain unsupported statements of questionable accuracy, investors are put at risk.

The project will raise issues for compliance review and enforcement action when warranted.

Strategy 2.2: Build market intelligence systems capacity for the private placement market

Lead: Corporate Finance

This strategy responds to Risk 2: *Non-compliance in the private placement market*. We will develop market intelligence from systems that will aid selection of issuers in the private placement market for compliance review.

When we have these systems in place, we will be better able to identify instances of issuer non-compliance.

In order to acquire this intelligence, we will:

- Upgrade our electronic filing system for private placement distribution reports to better utilize the information we collect and maintain
- Test and implement a risk-based model to identify non-reporting issuers for compliance reviews
- Use the technology developed through Strategy 2.1 to monitor online activity of active private placement issuers

Strategy 2.3: Address market misconduct associated with offshore secrecy jurisdictions

Lead: Enforcement

This strategy responds to Risk 3: *Market misconduct associated with offshore secrecy jurisdictions*. The integrity of British Columbia markets is damaged when people trade illegally on inside information, manipulate the market, or engage in other forms of market misconduct using accounts in offshore secrecy jurisdictions.

We will consider new policies, rules, or conditions of registration to ensure that:

- Dealers have a reasonable belief that they know the identity of the beneficial owner of securities traded from offshore accounts and can properly supervise the trading associated with these accounts

- We are able to investigate trading by offshore accounts in securities, listed on any market, through BC dealers to the same extent, and in a similar timeframe, as domestic trading activity

Goal 3: Educate investors

Strategy 3.1: “Be Fraud Aware” campaign

Lead: Communications & Education

Last year, we launched the first year of a three-year campaign to educate British Columbians on the dangers of investment fraud. The goal is to raise awareness of the warning signs of investment fraud among all British Columbians, beginning with the Chinese and Punjabi communities who represent 40% and 26% respectively of BC’s visible minority population. These communities have a very low awareness of the BCSC and its role to protect investors from investment fraud.

The campaign consists of television ads in Punjabi, Cantonese, and Mandarin, radio ads in Punjabi, Urdu, Hindi, Cantonese, Mandarin, and English, and supplemental print ads. The campaign urges people to visit InvestRight.org to learn more about how to protect themselves from investment fraud in Chinese, Punjabi, and English. In the coming year, the campaign will continue to reach British Columbians across the province.

Goal 4: Advance cost-effective regulation

Strategy 4.1: Build risk-based approaches for critical regulatory operations

Lead: Executive Director’s Office

The BCSC is building its capacity to rate the relative risk of specific market participants. We intend to design risk-based models to rank market participants in order to:

- Differentiate risk among market participants and peer groups of market participants to identify which merit the greatest regulatory attention
- Identify specific market participant risk trends
- Use the results from the risk models to manage resources
- Share the results from the risk models with higher-risk market participants
- Use the results from the risk models to develop additional corporate performance measures

We intend to strengthen our risk management capabilities by modeling the risks of registrants, reporting issuers, and non-reporting private placement market issuers. When the models are in place, higher risk participants should receive more scrutiny while low-risk participants should receive less.

We will employ risk-based approaches in the coming year to address four areas:

- *Registered firms*

The objective is to detect significant compliance deficiencies and direct corrective action.

- *Individual registration applicants*
The objective is to reduce the risk of unqualified and unethical individual registrants dealing with the public.
- *Corporate Finance continuous disclosure*
The objective is to reduce the risk of issuers providing investors with incomplete, inaccurate, or dishonest information.
- *Non-reporting issuer private placement distributions*
The objective is to reduce the risk of non-reporting issuers misusing exemptions and providing non-compliant disclosure to investors.

Strategy 4.2: Venture issuer regulation

Lead: Corporate Finance

Fast-growing companies, predominantly in their first 10 years of existence, create proportionately more new net employment in the broader market than long-established enterprises. A healthy venture issuer market, together with strong resource markets, has provided a catalyst for significant economic growth in British Columbia in recent years.

Since 2009, the BCSC has co-led a project with the Alberta Securities Commission to assess the feasibility of implementing a regime of regulation tailored to the needs of the venture market. As part of this project, we consulted with market participants about existing and proposed rules for venture issuers.

We published a draft rule for comment in 2011 with a view to implementing the rule in 2012. Using what we have learned from this work and the public comments, we will assess whether to continue to develop the regime.

If we proceed, we will need to develop a project plan to implement the new rule. This will involve aspects of:

- Changing the way we review files
- Revising electronic filing processes
- Investor and industry education

On going performance measurements and targets by goal

This section describes the performance measurements by which we track our progress in achieving our goals through our operating activities. We track progress towards our goals using relevant, long-term measures so that stakeholders can assess our performance over time. We set targets for each measure on an individual basis that factor in a target's ability to reflect a compliant market, hold Commission staff accountable for stretch goals, and improve on current results. Information about our performance measurement systems are summarized in a table in Appendix A. Further information about our performance measurements, including how we set targets, can be found on our public website at www.bcsc.bc.ca (About the Commission).

These measures are not tracked consistently across other CSA jurisdictions so we do not have benchmark comparisons that help gauge our relative performance to our peers.

Goal 1: Promote a culture of compliance

PERFORMANCE MEASURES		TARGETS			
	10/11 Actuals/ baseline	11/12 Target ⁽¹⁾	12/13 Target	13/14 Target	14/15 Target
1.1 Percentage of reviewed issuers that reduce deficiencies a) Improved disclosure subsequent to a continuous disclosure review b) Improved disclosure to minimum standards	a) 97% ⁽²⁾ b) 94%	a) > 95% b) set new baseline to reflect IFRS transition ⁽³⁾	a) > 95% b) set new baseline to reflect IFRS transition ⁽³⁾	a) > 95% b) Improve on 12/13 baseline	a) > 95% b) Improve on 13/14 baseline
	Our corporate finance division reviews issuer disclosure for non-compliance. At the end of each fiscal year, we retain an independent consultant to analyze the subsequent continuous disclosure of a statistically significant random sample of issuers that received comment letters from us during that year. The results of this review show the extent to which our detailed continuous disclosure review work motivated non-compliant issuers to improve their disclosure voluntarily.				

PERFORMANCE MEASURES			TARGETS		
	10/11 Actuals/ baseline	11/12 Target ⁽¹⁾	12/13 Target	13/14 Target	14/15 Target
1.2 Percentage of randomly sampled mining issuers that meet the minimum standards for technical disclosure in: a) Filed disclosure (Annual information forms, News releases, Management discussion and analysis) b) Issuer websites	a) 66% ⁽⁴⁾ b) 46%	a) > 75% b) > 65%	a) > 80% b) > 70%	a) > 80% b) > 75%	a) > 80% b) > 75%
	BC is home to most Canadian mining issuers. We will randomly select from a list of BC-based mining issuers and analyze whether those issuers' most recent technical filings were compliant with NI 43-101 <i>Standards of Disclosure for Mineral Projects</i> . This review shows the extent to which a sample of BC-based mining issuers is compliant in specific areas of their technical disclosure.				
1.3 Average number of deficiencies per examination in Capital Markets Regulation	3.88 out of 46 categories ⁽⁵⁾	3.69 out of 46 categories	Decrease deficiency average by 5% over 11/12	Create new measure	N/A
	Our Capital Markets Regulation division reviews securities firms that are not SRO members for compliance with their regulatory obligations. Using various indicators of risk, we risk rate our firms so that we can determine how frequently and how closely to examine their compliance. This statistic shows the average deficiencies found in complete exams performed over the period. Firms subjected to audits for cause are excluded from our analysis. We are exploring new measures for periods beyond 2011/12 to reflect new types of directly regulated firms subject to our oversight, such as exempt market dealers and investment fund managers.				

Notes: (1) Actual data for all targets will be included in the 11/12 Annual Report. (2) Based on a sample of 34 issuers. (3) Canada adopted international financial reporting standards (IFRS) on January 1, 2011 which changes the minimum standards. It will take two fiscal years for the baseline to reset. (4) Based on a sample of 40 issuers. (5) Based on 32 examinations. The number of deficiencies dropped by 46% in fiscal 2011. We think this is because five compliance examinations this year focused on marketing issues only, resulting in small numbers of deficiencies in those reviews, and, overall, staff used more risk-focused review practices, which likely reduced the number of deficiencies due to a reduced scope of examination.

Goal 2: Act decisively against misconduct

PERFORMANCE MEASURES			TARGETS		
	10/11 Actuals/ baseline	11/12 Target	12/13 Target	13/14 Target	14/15 Target
2.1 Average time to respond to misconduct with disruptive action	108 days	97	Decrease average by 10% over 11/12	Decrease average by 10% over 12/13	Decrease average by 10% over 13/14
	This measure focuses our efforts on early detection and shows our ability to take early action to stop the misconduct. We can significantly reduce the harm to the public when we can identify and act quickly to disrupt this misconduct. We measure this statistic by looking backwards from the disruptive action taken to the discovery of the case. We check whether the activity was active when we discovered it. We then measure the time taken by the Enforcement division to act on these incidents.				
2.2 Average life, in months, of cases resolved via settlement or enforcement decision	25.5 ⁽¹⁾	28 ⁽²⁾	Set according to formula ⁽³⁾	Set according to formula ⁽³⁾	Set according to formula ⁽³⁾
	We want to be transparent about the average time our administrative enforcement process takes. For the cases we close by settlement or a decision in the fiscal year, we 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.				

Notes: (1) New enforcement processes significantly improved our results for fiscal 2011 over the target established for this year of 41.5. These procedures provided expedited assessment of cases allowing staff to resolve many matters more quickly, and also earlier identification of files requiring more in-depth investigation. (2) This target is set based on service standards for cases that exist at the beginning of the fiscal year. (3) We calculate the target for the enforcement steps outstanding based on a case average of actual case age and service target timeframes outstanding on each case.

Goal 3: Educate investors

PERFORMANCE MEASURES			TARGETS		
	10/11 Actuals/ baseline	11/12 Target	12/13 Target	13/14 Target	14/15 Target
3.1 Number of inquiries received as a result of InvestRight investor education programs	78	82	Increase 5% over 11/12	Increase 5% over 12/13	Increase 5% over 13/14
	Through our public awareness and outreach programs, we aim to increase the flow of complaints and information we receive about possible investment frauds or illegal activities. We track the number of inquiries (referrals, tips, queries and complaints) we receive. We set targets according to the expectation that InvestRight education activities will generate more leads over time.				
3.2 Percentage of workshop participants who recall investor education messages of red flags	13%	16%	Increase 3% over 11/12	Increase 3% over 12/13	Increase 3% over 13/14
	We deliver investor education workshops to BC residents, primarily seniors. Our goal is to grow awareness of our investor education warnings, or “Red Flag,” messages. Several months after each seminar, we use a consultant to conduct a follow-up phone survey with participants who agreed to be contacted.				
3.3 Percentage of BC public aware of BCSC	46% ⁽¹⁾	>45%	> 45%	> 45%	> 45%
	We aim to build awareness of the BCSC and our many investor education resources so that British Columbians will know where to turn and what to do when faced with a possible fraud or unsuitable investment opportunity. We collect data by asking awareness questions in each year's investor survey.				

Notes: (1) BCSC survey, measuring awareness in the BC population. Awareness among BC investors is higher, at 62%.

Goal 4: Cost-effective regulation

PERFORMANCE MEASURES			TARGETS		
	10/11 Actuals/ baseline	11/12 Target	12/13 Target	13/14 Target	14/15 Target
4.1 Average score on cost-effective regulation scorecard	95%	90%	> 90%	> 90%	> 90%
	To measure cost-effective regulation, we use a scorecard that tracks the important steps and outcomes in responding to market problems. We apply the scorecard to all CSA and local projects. For CSA projects, the scorecard reports on the extent to which we took steps to advocate our cost-effective regulation principles. For all projects, the scorecard gives credit for outcomes-focused results. We commit ourselves to continually improving our execution relative to the standards we have set for creating cost-effective regulations.				
4.2 Average approved project post-implementation score	N/A ⁽¹⁾	80%	> 80%	> 80%	> 80%
	We assess local projects after completing them by evaluating benefits achieved versus the original project plans. We define a “project” as an initiative that takes more than 20 person days or costs more than \$25,000. We justify projects via written business cases that describe the expected benefits. Some projects forecast a return on investment generated by costs savings or cost avoidance that “pays” for the project. Other projects promise efficiency improvements or improved quality, accuracy, or control.				

Notes: (1) As of the 2011 Annual Report, we had not completed measuring the success for the one project captured by this measure in fiscal 2011. We will collect the remaining measurements in fiscal 2012, and report the results in our next annual report.

Government's letter of expectations

The provincial government sets out the following specific expectations of the BCSC in the Government's Letter of Expectations. The Government's Letter of Expectations is available on our public website at www.bpsc.bc.ca (*About the Commission*). Our planned action to meet those expectations is noted below.

Expectations	Planned action
Assist the provincial government with the federal government's development of a national securities regulatory framework (National Regulator Initiative) for consideration by governments.	The BCSC will provide advice and expertise to the provincial government.
Work with other provinces and territories to strengthen the Canadian regulatory framework and investor protection.	The BCSC continues to work with the CSA to strengthen investor protection and the Canadian regulatory framework.
Make best efforts to streamline, simplify, and harmonize securities laws with other provinces and territories.	<p>The BCSC participates in national initiative to develop a harmonized framework to regulate over-the-counter derivatives.</p> <p>The BCSC is co-leading a project with the Alberta Securities Commission to assess the feasibility of implementing a regime of regulations tailored to the needs of the venture market.</p>

Summary financial outlook

Future-oriented financial information

We prepared the following information for business planning purposes. The information may not be appropriate for other purposes.

The effective date of our underlying assumptions is December 7, 2011. Our fiscal 2012 forecast, fiscal 2013 budget and fiscals 2014 and 2015 projections, reflect BCSC actual results to November 30, 2011.

Fiscal 2012 forecast assumptions reflect our planned actions given our judgment as to the most probable set of economic conditions. Fiscal 2013 budget and 2014 and 2015 projection assumptions reflect our planned actions for those periods given our judgment as to the most probable set of economic conditions, together with one or more hypotheses. The hypotheses are assumptions that are consistent with the purpose of the information, but are not necessarily the most likely to occur. Actual results achieved for the fiscal 2012 – 2015 periods will vary from the information presented and those variations may be material.

We have not included in our assumptions any costs associated with additional resources or expenses that may be required if we transition to become part of a National Regulator. The fiscal 2013 budget and fiscals 2014 and 2015 projections are likely to change materially should a transition occur.

The financial information, including forecast information, was prepared based on current Public Sector Accounting Board (PSAB) standards.

Nature of operations

We are the provincial crown corporation responsible for regulating BC capital market activity.

We do not receive transfers from government tax revenues. Instead, fees charged to securities market participants fund our operations. Revenues fluctuate with market activity while most of our costs are fixed. Salaries, benefits, and occupancy costs account for about 75% of expenses.

As a government agency, we are exempt from income taxes. We pay HST but receive a 100% rebate on taxable purchases.

BCSC does not operate or have an interest in any subsidiaries.

Financial outlook

We expect a surplus of \$0.9 million in fiscal 2012 (2011 – \$3.7 million). The lower surplus is due primarily to the following factors:

- \$1.0 million (3%) higher distribution filing revenue, resulting from increased capital market activity
- \$4.0 million (12.9%) higher expenses due primarily to increased staffing, professional fees, occupancy, training, and external communications costs

The following table summarizes our actual and projected results of operations, by year¹:

Summarized Statements of Operations					
(millions)	10/11 Actual	11/12 Forecast	12/13 Budget	13/14 Projection	14/15 Projection
Revenue					
<i>Filing fees</i>					
Prospectus and other distributions	17.8	18.8	19.5	19.7	19.9
Registration	10.6	10.9	12.0	12.2	12.3
Financial filings	4.9	4.9	5.1	5.1	5.2
Other fees	0.2	0.2	0.2	0.2	0.2
	33.5	34.8	36.8	37.2	37.6
<i>Other revenue</i>					
Enforcement sanctions	0.4	0.3	0.3	0.3	0.3
Investment income	1.0	1.1	2.2	1.0	1.0
Total revenue	34.9	36.1	39.3	38.5	38.9
Expenses					
Salaries and benefits	23.5	25.0	26.7	27.2	27.7
Other expenses	7.7	10.2	12.0	11.3	11.2
Total expenses	31.2	35.2	38.7	38.5	38.9
Surplus for the year	3.7	0.9	0.6	-	-
SUPPLEMENTARY INFORMATION					
Accumulated surpluses	32.0	34.3	33.7	33.7	33.7
Capital expenditures	0.6	2.2	3.9	3.0	2.8
Debt	-	-	-	-	-

¹ The financial information, including forecast information, was prepared based on current PSAB standards.

Revenues

About 95% of our funding comes from filing, registration, and application fees paid by market participants under the *Securities Act*. The remainder of our operational funding comes from investment income and enforcement cost recoveries, if any.

Fee revenue

Our fee model is premised on generating sufficient revenue to allow us to break even over the business cycle. We generate surpluses during high points in the market's cycle, and may generate deficits during bear market periods.

A large part of our fee revenue comes from fees paid by mutual funds to distribute securities and file financial statements, and fees paid by the five largest Canadian banks to register their representatives.

Fee Revenue Growth

(millions)	10/11 Actual	11/12 Forecast	12/13 Budget	13/14 Projection	14/15 Projection
Revenue from fees	33.5	34.8	36.8	37.2	37.6
Fee revenue growth rate	8.5%	3.9%	5.8%	1.1%	1.1%

Each 1% change in revenues over the planning period (2013 – 2015) alters forecast revenues by about \$1.1 million. We maintain a Fee Stabilization Reserve to ensure that temporary reductions in revenue do not immediately impair our ability to operate, or require reactive fee changes. Our projections reflect general surplus appropriations to the fee reserve of \$3.0 million and \$1.0 million in fiscal 2013 and 2014, respectively, to keep the fund balance at about six months of operating expenses.

We collect the following fees:

Category	Source	Proportion of fee revenue Forecast 2012	Budget 2013
Distribution fees	Public companies, private companies and mutual funds, to file disclosure documents	54 %	53 %
Registration fees	Firms and individuals, to register with us to sell or advise on securities	31 %	32 %
Financial filing fees	Public companies and mutual funds, to file annual and interim financial statements	14 %	14 %
Other fees	Market participants, primarily to request <i>Securities Act</i> exemptions	1 %	1 %

Distribution fees

Distribution fee revenues vary depending on the number and size of securities offerings. The largest share of distribution fee revenue comes from prospectuses², exempt distribution reports³, and annual information forms⁴. Issuers pay fees to file these documents. When gross sales under a prospectus and under an exempt offering exceed \$7.5 million and \$0.3 million, respectively, an additional fee, called a “percent of proceeds fee,” may be payable.

Our revenue from distribution fees falls significantly during weaker markets because fees related to gross sales account for about half of distribution fee revenue.

More than half of distribution fees relate to mutual fund and pooled fund sales in BC. We receive the majority of revenue related to mutual fund sales in arrears, so distribution revenue changes lag market events.

We expect distribution revenue to increase \$1.0 million (6%) in fiscal 2012, due primarily to higher fees related to exempt market and mutual fund distributions. We expect mutual fund sales activity to increase further, increasing distribution revenue a further 4% in fiscal 2013. We project a further 1% increase in fiscal 2014 and a further 1% increase in fiscal 2015.

Registration fees

Firms and individuals register with us to sell or advise on securities. Registration fee revenue has low volatility and has grown steadily over the last decade. We expect registration revenue to increase modestly in fiscal 2012. National Instrument 31-103 *Registration Requirements and Exemptions* is extending our market oversight to additional firms and advisors. In fiscal 2013, we expect these changes to increase the number of firm and individual registrations, increasing this revenue stream by 10%. We project additional growth of 2% in fiscal 2014 and a further 1% in fiscal 2015.

Financial filing fees

Companies and mutual funds (reporting issuers) pay a fee to file their financial statements, and they pay a higher fee if they file late. The reporting issuer population increases modestly most years.

We expect financial filing revenues to increase modestly in fiscal 2012, with an additional increase of 4% in fiscal 2013, remain flat in fiscal 2014, and a further 2% increase in fiscal 2015.

² Companies and mutual funds must normally prepare a prospectus before raising money from the public. A prospectus gives details of the operations, financial status, and management of the company or fund.

³ Prospectus exemptions allow companies to sell securities without a prospectus when other factors (like relationship or financial sophistication) permit investors to have access to all information about the proposed transaction that could affect their purchase decision.

⁴ Annual information forms give current details of the operations, financial status, and management of the company.

Other fees

Other fees are mostly exemption application filing fees that account for only a small proportion of fee revenue.

We expect a modest decrease in fiscal 2012. We expect no growth over the planning period.

Enforcement sanctions

We order administrative penalties and disgorgements⁵ under the *Securities Act*. We also negotiate settlements, which sometimes include monetary sanctions. We appropriate these revenues to our education reserve, an internally restricted fund. Enforcement sanctions, which depend on the timing and nature of enforcement actions, vary significantly between periods.

We only recognize in revenue those sanctions we determine are collectible.

Investment income

Our prime investment objectives for surplus funds are capital preservation and sufficient liquidity so we can meet our expenditure commitments. We invest in highly liquid, high quality money market instruments, government securities, and investment-grade corporate debt securities.

We expect investment income to increase \$0.1 million (10%) in fiscal 2012 due to higher returns on fixed income investments. We assume investment yields of 3% over the rest of the planning period. In fiscal 2013 we plan to realize \$1.2 million of portfolio unrealized gains.

⁵ Disgorgement attempts to return ill-gotten gains to victims. We allocate to the education reserve disgorgements collected and not claimed within three years of collection.

Expenses

Salaries, benefits, and occupancy costs account for about 75% of our expenses.

We are committed to managing our expenses so they do not exceed expected revenue over the business cycle. We do this by preparing an annual budget approved by the Board, monthly budget variance reporting to management, requiring Board approval of significant expense variances, and continually improving our processes. Significant fiscal 2012 and fiscal 2013 expense increases relate to additional resources required to achieve the strategic initiatives described in this Service Plan.

Expense Growth

	10/11	11/12	12/13	13/14	14/15
(millions)	Actual	Forecast	Budget	Projection	Projection
Expenses	31.2	35.2	38.7	38.5	38.9
Expense growth	1.4%	12.9%	9.9%	-0.7%	1.2%

Salaries and benefits

Staffing costs account for about 70% of our 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 performance-based salary increases. To retain and recruit staff and remain market competitive, we conduct salary surveys annually and make adjustments as appropriate.

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

Strategic Goal		Fiscal 2012
Goal 1	Promote a culture of compliance	40%
Goal 2	Act decisively against misconduct	39%
Goal 3	Educate investors	8%
Goal 4	Advance cost effective regulation	13%

We expect salary and benefit costs to increase 6% in 2012 based upon merit increases averaging 2.6% and an increase in our staff complement to support strategic initiatives.

Fiscal 2013 reflects a 7% increase in salaries and benefits expenses. The increase is a result of staff additions to respond to the strategic risks previously outlined in our Service Plan, and due to performance-based merit increases averaging 2%. Prior to initiating changes to compensation, we will develop a detailed plan for funding proposed compensation changes and other incentives with the Province. We project annual merit increases of 2% per year over the balance of the planning period. We project a total expense increase of 2% in fiscal 2014 and a further 2% increase in fiscal 2015.

Rent

We have leased office space to November 2021. Our approximate annual rent over the lease term is as follows:

December 1, 2011 - November 30, 2013	\$1,390,000 per year
December 1, 2013 - November 30, 2015	\$1,460,000 per year
December 1, 2015 - November 30, 2017	\$1,540,000 per year
December 1, 2017 - November 30, 2019	\$1,620,000 per year
December 1, 2019 - November 30, 2021	\$1,700,000 per year

We also pay a proportionate share of the building's operating and maintenance costs, which we do not expect to grow faster than inflation over the planning period.

Professional services

We engage consultants when outsourcing is more cost-effective than performing the work ourselves. Professional service costs relate primarily to the following:

- Risk model implementation consulting
- Legal services and expert opinions to support the Commission
- Fees paid to IIROC for registration services delegated to them
- Our share of CSA project and management costs
- Legislative counsel services
- Interview and hearing transcription services
- Data entry services
- Internal audit services

We expect professional fees to increase \$1.0 million (47%) in fiscal 2012 primarily due to consulting fees related to the development of new risk-based models for our Compliance and Examination groups and for new on-line monitoring services. These significant increases reflect consulting resources required to achieve our strategic initiatives. We expect costs to remain flat in fiscal 2013. We project a reduction of 13% in fiscal 2014 and a further reduction of 22% in fiscal 2015.

Information management

We spend significant amounts on information systems and management annually to improve access to our services and information, and to increase our efficiency.

Information management has three main components:

- Software licensing and maintenance fees
- 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 in fiscal 2012. Hardware and software maintenance costs increase in fiscal

2013 primarily due to increased licensing costs and additional maintenance fees on software and equipment purchased in fiscal 2012. We expect (2%) inflationary growth over the balance of 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, including software – four years
- Leasehold improvements – the remaining lease term to November, 2021
- Office furniture and equipment – 10 years

We expect depreciation to be \$0.8 million in fiscal 2012. Depreciation will increase to \$1.2 million and \$1.8 million in fiscals 2013 and 2014 respectively, due to higher capital expenditures in both fiscal years. We project depreciation to remain at \$1.8 million in fiscal 2015.

Our capital spending relates primarily to computer systems and applications. In fiscal 2011, we deferred some capital improvements to fiscal 2012. Capital additions increase \$1.6 million in fiscal 2012 due primarily to upgrading office productivity software, network infrastructure upgrades, and office renovations. Significant projects planned for fiscal 2013 will increase capital spending to \$3.9 million, and include additional IT infrastructure upgrades, completion of a new Enforcement Case Management system, website redesign and the implementation of new risk-based models. We project capital additions to average \$2.9 million per year over the remainder of the planning period.

Education expenditures

Many British Columbians are not financially literate nor investment savvy. Knowing one's risk profile and understanding one's investments reduces the odds of falling victim to investment fraud. This makes education central to our mission of protecting investors.

We expend funds to educate securities market participants and the public about investing, financial matters, or the operation and regulation of securities markets.

We expect education spending of \$1.6 million in fiscal 2012. The increase over the prior year is primarily due to the implementation of our Be Fraud Aware radio and print media campaign. In fiscal 2013, education spending will increase to \$2.3 million with the addition of phase two of the Be Fraud Aware campaign, which may include television advertising. For fiscals 2014 and 2015 we project education spending of \$1.2 million and \$1.7 million respectively.

Other expenses

We expect other operating expenses (training, administration, external communications, travel, and telecommunications) to increase \$0.3 million to \$1.5 million in fiscal 2012, due primarily to higher external communication and training costs. We expect increases of 2% per year over the planning period.

Debt

We have no debt.

Risks and opportunities**Securities regulatory reform**

The BC government supports the federal government's initiative in developing a plan for a national regulator. We are engaged in this process and providing resources as necessary. We expect the BCSC to remain a going concern while participating governments consider whether to implement a national regulatory structure.

Fee revenue

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

Interest rate sensitivity

Our investments are exposed to interest rate risk. The fair value of our fixed rate securities will fluctuate with changes in interest rates. Although the short-term nature of our cash and money market investments limits the impact of fair value fluctuations, our longer-term bonds and debentures have greater interest rate sensitivity. Based on the November 30, 2011 composition of our investment portfolio, an immediate 1% increase in interest rates across the entire yield curve, with all other variables held constant, would result in a decrease in market value of approximately \$1.8 million. In addition, future investment income earned on variable rate cash deposits and maturing fixed rate securities would be positively impacted by any interest rate increase. We do not expect interest rates to increase significantly over the coming year. We manage interest rate risk by monitoring portfolio duration and yields with the fund administrator, British Columbia Investment Management Corporation (bcIMC). Current investment durations for the ST2 Money Market Fund, Short Term Bond Fund, and the Canadian Universe Bond Fund are 0.5 of a year, 2.5 years, and 7.1 years, respectively.

Reliance on CDS Inc.

Under various agreements with the CSA that end on October 31, 2012, CDS Inc. (CDS) operates three national electronic filing systems:

- The System for Electronic Document Analysis and Retrieval (SEDAR)
- The System for Electronic Disclosure by Insiders (SEDI)
- The National Registration Database (NRD)

We collect about 90% of our fee revenue through SEDAR and NRD. CDS maintains a comprehensive business continuity plan for each system. However, should CDS become unable or unwilling to continue to operate them, the CSA would have to contract another party to host them.

National electronic filing systems and operating agreements

CDS operates the SEDAR and SEDI national filing systems on behalf of the CSA under agreements with the Alberta Securities Commission, British Columbia Securities Commission, OSC, and l'Autorité des marchés financiers, together called the CSA Principal Administrators. CDS operates the NRD national filing system under agreements with the CSA Principal Administrators and IIROC. Under the agreements:

- The CSA Principal Administrators must pay CDS if the SEDAR system budgeted operating costs exceed revenues (shortfall). Our portion of any SEDAR shortfall is limited to 15.4%.
- CDS must pay SEDAR revenues in excess of system budgeted operating costs (surplus) to the CSA Principal Administrators. Any surplus is not divisible; the CSA Principal Administrators own it as a group.
- CDS and the CSA Principal Administrators share actual versus budgeted system operating cost (expense) variances.

The OSC is holding \$80.2 million (March 31, 2011 - \$64.9 million) in trust, on behalf of the CSA Principal Administrators. The funds are the national filing systems' accumulated surpluses and expenses variances and interest earned on those amounts to November 30, 2011.

The CSA Principal Administrators have agreed that we will use these funds only for the benefit of national filing system users through system enhancements or usage fee adjustments.

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: Percentage of reviewed issuers that reduce deficiencies in continuous disclosure					
Independent evaluation against criteria set by BCSC staff, set out in a report	Manual submission of reviewer's report	Collected annually	Measurement relies on objective third-party professional judgment of disclosure quality	Measures work done 12-24 months before the report: issuers reviewed by the BCSC from April 2012 to March 2013 will be reported on in May 2014.	Electronic system creates list of issuers with significant deficiencies. Reviewer then randomly selects issuers from the list to assess.
Measurement 1.2: Percentage of randomly sampled mining issuers that meet the minimum standards for technical disclosure					
Staff evaluation against criteria set by BCSC staff, recorded over the year in a spreadsheet	Manual submission of reviewer's report	Collected annually	Measurement relies on professional judgment of disclosure quality	Measure is based on the current continuous disclosure record of the selected issuers	Electronic system allows us to pull list of BC-prime mining issuers.
Measurement 1.3: Average number of deficiencies per examination in Capital Markets Regulation					
Data entered manually into management reporting files based on exam deficiency letters:	Data comes from a manually-updated Excel spreadsheet, and is adjusted to exclude targeted	Collected at year end	<ul style="list-style-type: none"> - Measurement relies on a our classification of compliance problems, which can change every year - Small data set - Measurement relies on judgment 	Measurement reflects data from deficiency letters sent during annual reporting period	Internal control environment

Data source	Data collection method	Data collection frequency	Disclosure of any limitations to the accuracy and reliability of the data	Data timeliness	Data controls
kept in spreadsheet	reviews		of evaluators		
Measurement 2.1: Average time to respond to misconduct with disruptive action					
Data recorded in enforcement using case management system and separate tracking spreadsheet	Collected manually based on internal reports	Collected quarterly	- Small data set	Measurement reflects cases referred for enforcement action in a fiscal year	Internal control environment
Measurement 2.2: Average life, in months, of cases resolved via settlement or enforcement decision					
Time data comes from case tracking system, official documents, and kept in management tracking sheet	Collected manually based on internal reports	Collected quarterly	- Single long cases and settlement/decision split 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
Measurement 3.1: Number of inquiries received as a result of InvestRight investor education programs					
Information comes from our case tracking system, our internal call	Collected manually based on internal reports	Collected regularly and reported annually	- Measurement relies on ability for our inquiries staff to sort inquiries based on caller involvement with our education programs - Measurement depends on	Counts activity in the fiscal year.	Internal control environment

Data source	Data collection method	Data collection frequency	Disclosure of any limitations to the accuracy and reliability of the data	Data timeliness	Data controls
tracking systems from the call centre and in C&E, and “Report a scam” and “File a complaint” forms on InvestRight			appropriate coding of enforcement leads coming from law enforcement agencies		
Measurement 3.2: Percentage of workshop participants who recall of investor education messages of red flags					
Data stored and analyzed electronically. Data received in report format at BCSC	Collected through paper surveys from investor education seminar participants and following phone contact	Collected regularly	<ul style="list-style-type: none"> - 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 parties administer surveys Third party phone contact
Measurement 3.3: Percentage of BC public aware of BCSC					
Independent survey. Data received in report format at BCSC	Data drawn from independent report	Collected annually	- Small changes in results year to year may not reflect a significant change in behavior because sampling from a population always creates a margin of error that may overlap with a previous study, and so not be statistically different from	Awareness assessed within the fiscal year	Research methodology designed to analyze all responses

Data source	Data collection method	Data collection frequency	Disclosure of any limitations to the accuracy and reliability of the data	Data timeliness	Data controls
			one another		
Measurement 4.1: Average score on cost-effective regulation scorecard					
Internal evaluation based on staff and management judgment and project documents, kept in a spreadsheet	Collected manually	Collected annually	<ul style="list-style-type: none"> - Measurement relies on judgment of evaluators: Executive Director' office and all policy managers evaluate a new rule together with staff involved in the project - Small sample size 	Measurement based on rules put into effect in BC or other major regulatory projects completed in the year; work to complete the project may have taken place over several years	Discussion on logic for each measurement documented during review.
Measurement 4.2: Average approved project post-implementation score					
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"> - Measurement relies on professional judgment - Small sample size 	Measurement reflects projects scored in the fiscal year: work to complete the project may have been over a period of years	Internal control environment

