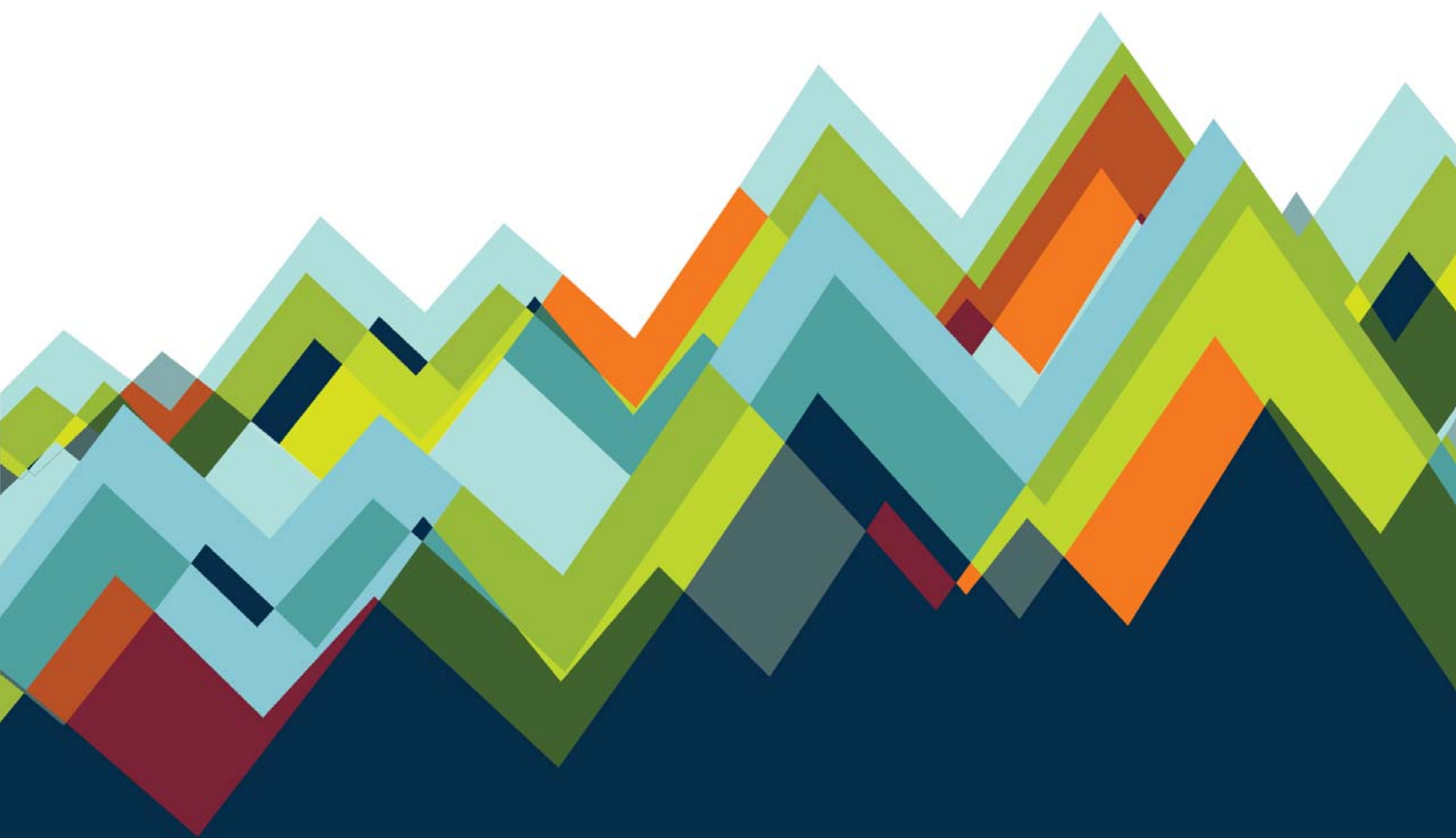




British Columbia  
Securities Commission

# Service Plan 2013/14 – 2015/16



## British Columbia Securities Commission Service Plan

This Service Plan sets out our strategy for the next three years, beginning April 1, 2013. Copies are available on the British Columbia Securities Commission (BCSC) website at [www.bpsc.bc.ca](http://www.bpsc.bc.ca) (*About the Commission*), or by phoning or emailing our public inquiries group:

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

The BCSC's office location and mailing address are:

British Columbia Securities Commission  
P.O. Box 10142, Pacific Centre  
12th Floor, 701 W. Georgia Street  
Vancouver, BC V7Y 1L2  
604 899-6500

## ACCOUNTABILITY STATEMENT – BCSC CHAIR TO MINISTER

Honourable Michael de Jong  
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 2013/14 – 2015/16.

The BCSC is an 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, 2013. It identifies three strategic risks: illegal distributions and fraud, non-compliance in the private placement market, and market misconduct associated with offshore secrecy jurisdictions. It describes eight strategies that strengthen our ability to achieve our mission and strategic goals. We will focus our efforts in the year ahead on these regulatory priorities within the context of global priorities in the capital markets, such as Canada's commitments to the G20 to regulate over-the-counter derivatives and our commitment to work with national and international financial regulators to manage systemic risks.

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 have identified in this plan continue from previous years' service plans. We remain committed under this plan to build on the excellent progress made to manage these risks, thereby better protecting investors and the integrity of our capital markets.

### *Illegal Distribution and Fraud*

This risk remains a top priority for the BCSC because financial loss, particularly to older Canadians, can be devastating. The sheer number of Canadians approaching retirement, the current low interest rates, and volatile market returns suggests that we must be vigilant in helping to protect investors.

We do this partly through aggressive enforcement action, both administratively and criminally. On the administrative side, we have improved the efficiency of our enforcement practices, which has resulted in handling more cases with the same resources and, in some cases, significantly faster.

With five years of dedicated resources for investigating criminal cases, we have substantially increased the number of cases opened and individuals charged. Since January 2011, we have opened 21 more cases.

Our goal is to bring more cases before the Commission and the Courts in order to send a strong deterrence message.

We also seek to protect investors through education. In Fall 2011 we launched a three-year *Be Fraud Aware* campaign to fraud proof British Columbians in three communities: English, Chinese (Mandarin, Cantonese), and South Asian (Punjabi). In year two, we added an aggressive English TV and social media campaign that includes a *Be Fraud Aware* mobile application. Awareness of the warning signs of fraud is up considerably in all three communities. As a result, we are receiving more information and tips from the public that brings direct benefit to our enforcement efforts. The *Be Fraud Aware* campaign will be successful if investors are able to spot and avoid fraudulent investment schemes.

### *Non-compliance in the private placement market*

Capital raised in the private placement market now exceeds the public markets, accounting for \$9.3 billion in 2011. The vast majority of those who use the private placement market to raise capital are investment funds and public companies. Mining, real estate, and utilities head up the list.

A small percentage of this money is raised to finance venture start-up businesses. These companies pose the highest risk for investors. They have limited disclosure obligations, resale restrictions on their securities, and are susceptible to failing.

We have strengthened our oversight of this market and changed some of the rules to better protect private start-up investors. We have included information about investing in private companies in our *Be Fraud Aware* campaign and provided an on-line *Guide to Private Placement Investing* to help investors decide if investing in this market is right for them.

In the coming year we will continue conducting compliance reviews of those operating in the private placement market – both issuers and intermediaries, to rigorously monitor compliance with the private placement rules.

### **The venture capital market**

The venture capital market is important to Canada and particularly important to BC's economy. There are over 1100 BC-based venture companies, representing about half of the companies listed on the TSX-Venture. Many are junior mining companies looking for mining and exploration capital. We want our regulatory regime to support a cost-effective, innovative, and reputable market for these early-stage companies.

Early this year we will implement a new rule that creates more suitable and manageable disclosure requirements for junior publicly traded companies that are also more relevant and understandable for investors. These changes will go some ways to reduce the compliance burden for these companies.

### **Accountability statement**

I directed the preparation of the 2013/14 – 2015/16 BCSC Service Plan, and the Board approved it, in accordance with the *Budget Transparency and Accountability Act* and the B.C. 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 10, 2013.

Yours truly,

A handwritten signature in black ink, appearing to be 'B. Leong', with a stylized, overlapping loop structure.

Brenda M. Leong  
Chair and Chief Executive Officer

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## GLOSSARY

|       |   |
|-------|---|
| B.C.  | British Columbia                                      |
| BCSC  | British Columbia Securities Commission                |
| CSA   | Canadian Securities Administrators                    |
| IFRS  | International Financial Reporting Standards           |
| IIROC | Investment Industry Regulatory Organization of Canada |
| MFDA  | Mutual Fund Dealers Association of Canada             |
| NI    | National Instrument                                   |
| NOH   | Notice of Hearing                                     |
| OSC   | Ontario Securities Commission                         |
| RSBC  | Revised Statutes of British Columbia                  |
| SRO   | Self-Regulatory Organization                          |
| TSX   | Toronto Stock Exchange                                |
| TSX-V | TSX Venture Exchange                                  |

## 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 and values***

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 commissioners (the Board) 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



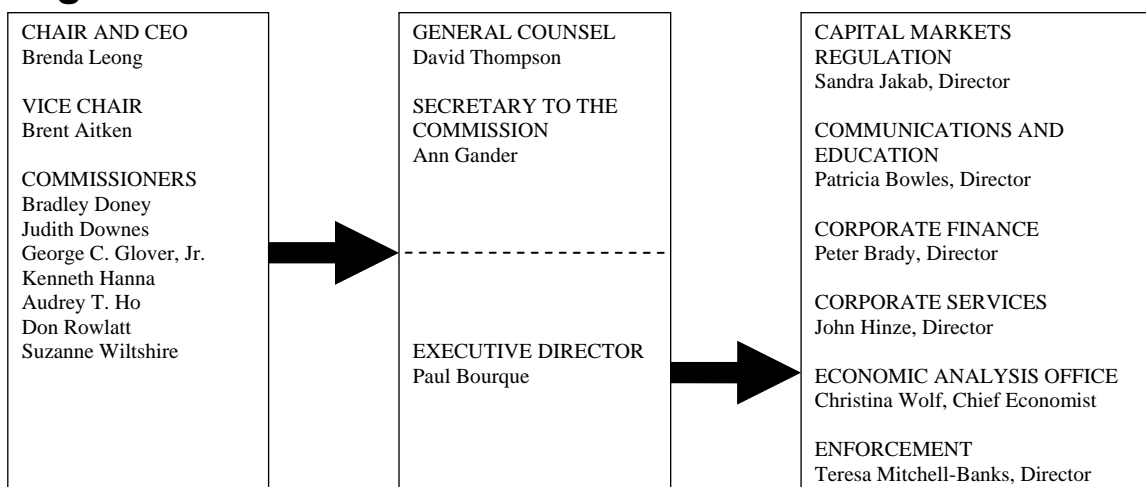
Our governance policy is on the BCSC website at [www.bsc.bc.ca](http://www.bsc.bc.ca) (*About the Commission: Governance*). The commission's governance practices meet the government's *Best Practice Guidelines-B.C. Governance and Disclosure Guidelines for Governing Boards of Public Sector Organizations* (2005, Board Resourcing and Development Office), with one exception. The Chair of the commission functions as both chair and chief executive officer. The board does not have a lead director. The governance policy describes the mechanisms in place to balance the combination of the chair and chief executive roles, and explains how those mechanisms provide appropriate governance outcomes. 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.bsc.bc.ca](http://www.bsc.bc.ca) (*About the Commission: Governance*).

Independent commissioners are also members of one or more of three Board subcommittees described in the table below.

|                           |                    |   |
|---------------------------|--------------------|---|
| Audit Committee           | Purpose:           | <p>The audit committee assists the board in:</p> <ul style="list-style-type: none"> <li>• ensuring the integrity of the commission’s financial management and reporting systems</li> <li>• ensuring the effectiveness of the commission’s internal controls</li> <li>• ensuring the independence of the commission’s internal and external auditors</li> <li>• monitoring risk management policies and systems</li> <li>• such other related initiatives as may be necessary or desirable to enhance board effectiveness</li> </ul>                                       |
|                           | Chair:<br>Members: | Suzanne Wiltshire<br>George C. Glover, Jr., Don Rowlatt   |
| Human Resources Committee | Purpose:           | <p>The human resources committee assists the board in:</p> <ul style="list-style-type: none"> <li>• ensuring the commission has an effective organizational structure and competitive human resources and compensation policies and practices</li> <li>• ensuring appropriate processes are in place for the selection, evaluation, compensation, and succession of senior management</li> <li>• evaluating and determining compensation for the chair</li> <li>• such other related initiatives as may be necessary or desirable to enhance board performance</li> </ul> |
|                           | Chair:<br>Members: | Don Rowlatt<br>Bradley Doney, Judith Downes, Suzanne Wiltshire  |
| Governance Committee      | Purpose:           | <p>The governance committee assists the board in:</p> <ul style="list-style-type: none"> <li>• ensuring the BCSC has policies and practices for good governance and ethical conduct</li> <li>• ensuring the board and its committees function independently</li> </ul>  |

|  |          |  |
|--|----------|--|
|  |          | <ul style="list-style-type: none"> <li>• evaluating board performance</li> <li>• selecting and evaluating commissioners and planning for their succession</li> <li>• such other related initiatives as may be necessary or desirable to enhance board performance</li> </ul> |
|  | Chair:   | Kenneth Hanna  |
|  | Members: | George C. Glover, Jr., Audrey T. Ho  |

## Organizational structure



## Key stakeholders

- The public—which relies on us to foster capital markets that contribute to the well being of B.C.
- 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
- Market places—which 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 mandate to regulate B.C. capital markets in cooperation with other CSA jurisdictions. Regulating B.C. 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 in B.C.

We work within a “passport” system. Passport is a regulatory system that gives a market participant automatic access to the capital markets in other jurisdictions by obtaining a decision only from its principal regulator and meeting the requirements of 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 SROs to regulate dealers and trading activity in Canadian securities and exchange contract markets:

- Investment Industry Regulatory Organization of Canada (IIROC) regulates investment dealers and trading activity on Canadian equity marketplaces, including the Toronto Stock Exchange (TSX), the TSX Venture Exchange (TSX-V), and alternative trading systems.
- The Mutual Fund Dealers Association of Canada (MFDA) 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, Alpha Exchange, and the Canadian National Stock Exchange from recognition, and we rely on oversight of these exchanges by the OSC.

The BCSC has recognized CDS Clearing and Depository Services Inc. and Canadian Derivatives Clearing Corporation. These agencies clear exchange-listed securities and derivatives.

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**

In our Capital Markets Regulation division, 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 companies and insiders.

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

In our Corporate Finance division, we review prospectus filings that companies make when they go public or when they are already public. The prospectus is the key disclosure document used by companies to raise money from the public. We also monitor continuous disclosure documents filed by public companies to detect cases where they are not providing adequate disclosure. Investors are better able to make informed investment decisions when they have access to adequate periodic and timely disclosure. As part of our prospectus and continuous disclosure review programs, we review mining technical disclosure of public companies. On request, we perform a pre-filing technical review for companies contemplating filing a short form prospectus, which has shorter review times.

We monitor daily filings by companies in the private placement market to gather information about these companies and identify those with higher risk. This allows us to focus our resources on the higher-risk companies.

We also monitor daily trading of OTC companies that file with the BCSC. We flag unusual trading activity and request further information.

## **Enforcement**

Effective enforcement requires decisive action against misconduct. Decisive action depends on timely detection, quick and 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 B.C. connection, as well as criminal cases. 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 insufficient to address the reason for the intervention.

## ***BCSC operating environment and capacity***

Capital markets are rapidly evolving and becoming increasingly complex and sophisticated. Electronic trading and innovative design and delivery of complex securities products poses significant challenges for securities regulators in Canada and internationally. The 2008 global financial crisis revealed the interdependence of securities markets with the broader financial markets, and heightened awareness of systemic risks.

We manage our operations to ensure we have the appropriate resources and capital market expertise to meet these market challenges. We focus our efforts using a risk-based approach, paying more attention to high-risk firms, issuers, and individuals. We allocate resources and manage operations through:

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

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. The BCSC's Risk Management Framework is approved by the Board and defines the approach used to assess and manage risks in the market and the application of regulations, and in operating the BCSC.

We outline in this Service Plan the key strategic risks and mitigation strategies, which we implement through detailed operating plans. 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

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.

### ***Strategic risks***

#### **Risk 1: Illegal distributions and fraud**

Companies raising capital from the public must follow rules designed to protect investors and support efficient and cost effective capital raising. Investors are put at risk when companies do not comply with these rules (called an illegal distribution). In the worst cases, illegal distributions are designed to defraud investors. We view illegal distributions and fraud as a key risk to the public because the financial loss can equal the entire savings of households, with a low probability of recovery, and well documented emotional impacts for the individuals and their families.

Our objectives are to deter fraudulent activity and illegal distributions, and to mitigate investor losses by disrupting frauds and illegal distributions in progress.

To achieve those objectives, we do the following things:

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

### **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. We describe our investor education campaign to raise awareness of fraud in the next section under:

- Goal 3: *Educate investors*
  - Strategy 3.1: *“Be Fraud Aware” campaign*

### **Risk 2: Non-compliance in the private placement market**

Securities may be sold in the private placement market without a prospectus. The private placement market is used by a wide variety of businesses – from start-up venture capital companies to established companies. The private placement market is extremely important for capital raising.

In 2011, private companies raised \$4.1 B in the private placement market, of which \$1.05B went to private enterprises outside of the investment fund and real estate markets. Public companies raised \$5.2B in the private placement market, which is more than the \$3.8B raised through public offerings. The most active industries in the private placement market are investment funds, real estate, and mining.

Our objectives in the private placement market are to have:

- Participants in the private placement market comply with the rules
- Rules that protect those who are eligible to invest in the private placement market
- Companies raise capital in the private placement market efficiently

To achieve those objectives, we oversee the private placement market by:

- Monitoring the use of exemptions and the quality of disclosure where it is required
- Selecting higher risk market participants for compliance reviews and referring cases of misconduct to enforcement
- Raising public awareness of the rules in the private placement market
- Conducting compliance reviews of exempt market dealers who sell private placement securities
- Monitoring compensated promoters who have claimed an exemption from the adviser registration requirement

### **Next steps**

We plan to address risks to investors posed by non-compliance in the private placement market under:

- Goal 1: *Promote a culture of compliance*
  - Strategy 1.1: *Educate private companies about B.C. capital raising rules*
  - Strategy 1.3: *Modernize our approach to capital raising exemptions*
- Goal 2: *Act decisively against misconduct*
  - Strategy 2.2: *Pursue non-compliance with registration requirements in the private placement market*
- Goal 4: *Cost-effective regulation*
  - Strategy 4.1: *Build risk-based approaches for critical regulatory operations*

### **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. When offshore secrecy jurisdictions are used to hide illegal activity, it makes an investigation more difficult and time consuming.

Given the extraterritorial nature of the problem, we understand that our activities cannot directly address the problem. Our approach must, by necessity, be indirect. We must target all the activities that facilitate offshore secrecy jurisdiction trading that occur in B.C. and the participants that facilitate offshore secrecy jurisdiction trading that are in B.C. or have a connection to B.C. Our overall strategy is to increase the cost and effort on the illegal transactions and individuals who facilitate the illegal activity.

We have addressed this issue by taking enforcement action, but that, by itself, is insufficient to fully address the risk.

Our objectives are to ensure that:

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

#### **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: *Disrupt manipulative trading from 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.

| <b>Goal 1: Promote a culture of compliance</b>  |                     |   |
|---|---------------------|---|
| Investors are better protected if securities firms and companies that issue securities understand and comply with their regulatory obligations. They must have effective systems and controls in place to ensure compliance with securities rules. We intervene to correct non-compliance when warranted. |                     |   |
| <b>Strategy</b>   | <b>Related Risk</b> | <b>Commitments</b>  |
| Strategy 1.1:<br>Educate private companies about B.C. capital raising rules   | 2                   | In the coming year, we will develop educational materials that aid small business entrepreneurs in B.C. to comply with securities rules. We will identify government agencies and other organizations that support small business to effectively reach this target group.   |
| Strategy 1.2:<br>Review the regulatory environment for real-estate-based private placement products   | None                | Today, securities with real estate underlying the investment are structured in a variety of ways. These structures trigger a variety of requirements and regulations from both securities and mortgage regulators. We will evaluate whether investor protections across real estate securities with similar risks are consistent, and explore changes to advising and disclosure protections where necessary. We will also consider whether reporting of real estate investment sales is sufficient for compliance oversight. |
| Strategy 1.3:<br>Modernize our approach to capital raising exemptions   | 2                   | We will modernize exemptions that permit investors to participate in the private placement market.<br><br>We will continue leading a CSA policy project to review the capital raising exemptions in National Instrument (NI) 45-106 <i>Prospectus exemptions</i> . The areas of focus   |

|  |  |   |
|--|--|---|
|  |  | are the accredited investor and the minimum investment amount exemptions. Once complete, we will consider other exemptions, such as for short-term debt. In a separate but related policy initiative, we will review the requirements for the offering memorandum exemption and explore ways to adapt our regime to provide similar capital raising opportunities for small companies as will be available under anticipated U.S. Securities and Exchange Commission crowd funding rules. |
|--|--|---|

| <b>Goal 2: Act decisively against misconduct</b>  |                     |   |
|---|---------------------|---|
| We aim to achieve timely enforcement through early intervention and the pursuit of cases that will deter future misconduct. The BCSC cooperates with securities regulators in other jurisdictions to share information, conduct investigations, and issue reciprocal enforcement orders. We also aggressively pursue securities misconduct through administrative and criminal proceedings. Under administrative proceedings, the BCSC can impose monetary sanctions, and order people out of the market. We work closely with Crown Counsel to pursue criminal charges where warranted. Criminal convictions allow for the imposition of penalties, including prison sentences, which help deter serious misconduct. |                     |   |
| <b>Strategy</b>   | <b>Related Risk</b> | <b>Commitments</b>  |
| Strategy 2.1:<br>Automate monitoring of internet and social media sites   | None                | In the coming year, we will consider whether we can automatically monitor internet and social media sites and gather relevant information.  |
| Strategy 2.2:<br>Pursue non-compliance with registration requirements in the private placement market   | 2                   | <p>We will use a new data mining tool to monitor both issuers who do not compensate promoters as well as unregistered compensated promoters. We will determine whether unregistered persons raising capital in the private placement market are properly relying on dealer registration exemptions and take enforcement action where necessary.</p> <p>We will also consider changes to the dealer registration exemptions.</p> |
| Strategy 2.3:<br>Disrupt manipulative trading from off-shore secrecy jurisdictions  | 3                   | <p>We will:</p> <ul style="list-style-type: none"> <li>• Work with IIROC to increase transparency of beneficial owners related to accounts held at financial institutions in secrecy jurisdictions</li> <li>• Conduct a compliance sweep of B.C.-connected newsletter writers to test for connected party disclosures that satisfy a key condition to remain</li> </ul>   |

|  |  |   |
|--|--|---|
|  |  | <p>unregistered</p> <ul style="list-style-type: none"> <li>• When warranted, build enforcement cases targeting newsletter writers, promoters, and dealers that facilitate manipulative trading through offshore accounts</li> <li>• Collect data on off-shore secrecy jurisdiction trading activity at B.C. offices of IIROC dealers and analyze this data for compliance and enforcement purposes</li> </ul> |
|--|--|---|

| <b>Goal 3: Educate investors</b>   |                     |   |
|--|---------------------|---|
| <p>Our goal is to help investors protect their financial interests. We want investors to have the confidence to research and assess potential investments before they invest.</p> <p>We focus on these core areas to support a successful investor education program:</p> <ul style="list-style-type: none"> <li>• <i>Increase public awareness</i>—we increase awareness of our education programs so that investors learn the skills they need to help them protect their finances.</li> <li>• <i>Reach investors early</i>—we expand financial life skills programs to help investors spot fraudulent investments before they suffer investment losses.</li> <li>• <i>Strengthen investor education</i>—we provide tools and information to help investors get better service and advice.</li> <li>• <i>Develop partner relationships</i>—we build partnerships to reach ethnic and religious communities throughout the province.</li> </ul> |                     |   |
| <b>Strategy</b>  | <b>Related Risk</b> | <b>Commitments</b>  |
| Strategy 3.1: “Be Fraud Aware” campaign  | 1                   | We will complete year three of a three-year campaign to educate British Columbians on the dangers of investment fraud. The goal is to raise all British Columbians’ awareness of the warning signs of investment fraud. |

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

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

We advance cost-effective regulation by focusing on three core areas:

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

| <b>Strategy</b>  | <b>Related Risk</b> | <b>Commitments</b>  |
|--|---------------------|---|
| Strategy 4.1: Build risk-based approaches for critical regulatory operations | None                | <p>We will implement four risk-based models:</p> <ul style="list-style-type: none"> <li>• <i>Private placement filings</i><br/>The objective is to reduce the risk of private companies misusing exemptions or providing non-compliant disclosure to investors</li> <li>• <i>Registered firms</i><br/>The objective is to detect significant compliance deficiencies and direct corrective action.</li> <li>• <i>Individual registration applicants</i><br/>The objective is to reduce the risk of unqualified and unethical individual registrants dealing with the public.</li> <li>• <i>Corporate Finance continuous disclosure</i><br/>The objective is to reduce the risk of issuers providing investors with incomplete, inaccurate, or dishonest information.</li> </ul> |

## ONGOING PERFORMANCE MEASUREMENTS AND TARGETS BY GOAL

This section describes the performance measures we use to 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.

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   |   |  |  |  |
|---|---|---|--|--|--|
|   | 11/12 Actuals/<br>baseline  | 12/13 Target <sup>(1)</sup>   | 13/14 Target                             | 14/15 Target                           | 15/16 Target                           |
| 1.1 Percentage of reviewed issuers that reduce deficiencies<br>a) Improved disclosure subsequent to a continuous disclosure review<br>b) Improved disclosure to minimum standards | a) 100% <sup>(2)</sup><br>b) 100%   | a) > 95%<br>b) set new baseline to reflect IFRS transition <sup>(3)</sup> | a) > 95%<br>b) Improve on 12/13 baseline | a) > 95%<br>b) Improve on 13/14 actual | a) > 95%<br>b) Improve on 14/15 actual |
|   | 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. The target is set to what is practically achievable and reflects compliant behaviour at issuers. |   |  |  |  |

| PERFORMANCE MEASURES   |  |                                     | TARGETS  |  |  |
|--|--|-------------------------------------|--|--|--|
|  | 11/12 Actuals/<br>baseline   | 12/13 Target                        | 13/14 Target   | 14/15 Target   | 15/16 Target   |
| 1.2 Percentage of randomly sampled mining issuers that meet the minimum standards for technical disclosure in:<br>a) Filed disclosure (Annual information forms, News releases, Management discussion and analysis)<br>b) Issuer websites and other voluntary disclosure | a) 68% <sup>(4)</sup><br>b) 52%  | a) > 80% <sup>(5)</sup><br>b) > 70% | a) Improve on 12/13 actual<br>b) Increase average by 5% over 12/13 | a) Improve on 13/14 actual<br>b) Increase average by 5% over 13/14 | a) Improve on 14/15 actual<br>b) Increase average by 5% over 14/15 |
|  | B.C. is home to most Canadian mining issuers. We will randomly select issuers 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 will show the extent to which a sample of B.C. -based mining issuers is compliant in specific areas of their technical disclosure. The targets recognize that, based on historical results, these measures fluctuate with no real trend, but we aim to improve these percentages as a sign of increased industry compliance. |                                     |  |  |  |
| 1.3 Average number of deficiencies per examination in Capital Markets Regulation   | 5.59 out of 46 categories <sup>(6)</sup>   | 5.3 out of 46 categories            | Decrease average by 5% over 12/13                                  | Decrease average by 5% over 13/14                                  | Decrease average by 5% over 14/15                                  |
|  | 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. The target is set to decrease these percentages as a sign of increased industry compliance.   |                                     |  |  |  |

Notes: (1) Actual data for all targets will be included in the 12/13 Annual Report. (2) Based on a sample of 25 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) These targets were set in January, 2012, before we calculated the 11/12 Actuals. (6) Based on 27 examinations. Four firms had over 10 deficiencies.

## Goal 2: Act decisively against misconduct

| PERFORMANCE MEASURES  |                                    |                         | TARGETS  |   |   |
|---|------------------------------------|-------------------------|--|---|---|
|   | 11/12<br>Actuals/<br>baseline      | 12/13<br>Target         | 13/14<br>Target  | 14/15<br>Target   | 15/16<br>Target   |
| 2.1 Actions taken to disrupt misconduct:<br>a) Number of actions<br>b) Average duration of complaint to action (days)                           | a) 43 <sup>(1)</sup><br>b) 93 days | a) New measure<br>b) 84 | a) Increase 10% over 12/13<br>b) Decrease average by 10% over 12/13  | a) Increase 10% over 13/14<br>b) Decrease average by 10% over 13/14 | a) Increase 10% over 14/15<br>b) Decrease average by 10% over 14/15 |
|   |                                    |                         | This measure focuses our efforts on early detection and shows our ability to take early action to stop the misconduct. We can significantly reduce the harm to the public when we can identify and act quickly to disrupt this misconduct. Stopping investment schemes before they start and preventing further participation in existing schemes is more effective than prosecuting them after there is damage to investors. Disruptive action provides a visible valuable benefit to the public. We will track the number of disruptive actions taken by staff. We set our targets to increase the number of disruptive actions taken year over year and reduce the average time to take action. |   |   |
| 2.2 Average life, in months, of cases either from complaint to a notice of hearing (NOH) or from complaint to settlement before a NOH is issued | 12.0 <sup>(2)</sup>                | New measure             | Set according to review  | Set according to review   | Set according to review   |
|   |                                    |                         | Quick thorough investigations provide the public with confidence in the actions that we take to address misconduct. We want to be transparent about the average time our administrative enforcement process takes. For cases open during the fiscal year, we measure the average case duration from start to issuing the NOH or, absent an NOH, the settlement. Because of the relatively small number of cases we process each year, a small number of “outliers” can significantly affect our targets. The target is set each year using information from our current caseload.  |   |   |

Notes: (1) In fiscal 2012, we took disruptive action on 43 complaints. We removed five outliers that resulted from us issuing freeze orders based on information gathered from

our ongoing investigations. In these cases, we determined that the misconduct was no longer active. (2) In fiscal 2012, we completed 15 cases. All 15 had NOHs.

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

| PERFORMANCE MEASURES   |   |                 | TARGETS                      |                              |                              |
|--|---|-----------------|------------------------------|------------------------------|------------------------------|
|  | 11/12 Actuals/<br>baseline  | 12/13<br>Target | 13/14<br>Target              | 14/15<br>Target              | 15/16<br>Target              |
| 3.1 Number of complaints and tips received from InvestRight programs                             | 147 <sup>(1)</sup>  | 154             | Increase<br>5% over<br>12/13 | Increase<br>5% over<br>13/14 | Increase<br>5% over<br>14/15 |
|  | 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 referrals, tips, queries, and complaints received by phone and email in BCSC Inquiries that are traceable to InvestRight investor education activity, plus the number of Report a Scam and complaint forms submitted through InvestRight.org. 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 warning signs of red flags | 19%   | 22%             | Increase<br>3% over<br>12/13 | Increase<br>3% over<br>13/14 | Increase<br>3% over<br>14/15 |
|  | We deliver investor education workshops to B.C. residents, primarily seniors. Our goal is to grow awareness of our investor education warnings, or “Red Flag,” messages. We use an independent consultant to conduct a follow-up phone survey with participants who previously agreed to be contacted. To determine recall of investment fraud warning signs amongst those we have spoken to, the consultant asks each respondent, “Can you name three warning signs of investment fraud?” The target is set as a stretch goal for what we could practically achieve.       |                 |                              |                              |                              |
| 3.3 Percentage of B.C. public aware of BCSC  | 41% <sup>(2)</sup>  | >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 use a consultant to survey the B.C. general population, either as part of a larger research effort or to gather data for this measure. The target is set as a stretch goal for what we could practically achieve.   |                 |                              |                              |                              |

Notes: (1) In addition to the 147 complaints and tips in fiscal 2012, we also received an additional 112 tips on the Samji/Patel case, triggered by an Investor Alert. (2) BCSC survey, measuring awareness in the B.C. population. While the general population aged 18+ showed 41% awareness this year, awareness was 56% among investors and 55% among our key target audience aged 50+.



## Goal 4: Cost-effective regulation

| PERFORMANCE MEASURES                                     |  |                 | TARGETS         |                 |                 |
|--|--|-----------------|-----------------|-----------------|-----------------|
|  | 11/12 Actuals/<br>baseline   | 12/13<br>Target | 13/14<br>Target | 14/15<br>Target | 15/16<br>Target |
| 4.1 Average score on cost-effective regulation scorecard | 90.6%  | 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. We report the average score of all the projects completed each year. We do not include rules that we adopt purely to harmonize with other jurisdictions in this analysis. The target is set at a level such that, on average, we achieve our objectives if we hit the standards on the scorecard in all but one area.   |                 |                 |                 |                 |
| 4.2 Average approved project post-implementation score   | 100% <sup>(1)</sup>  | 80%             | > 80%           | > 80%           | > 80%           |
|  | We assess local projects after completing them by evaluating benefits achieved versus the original project plans. We 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. We define a "project" as an initiative that takes more than 20 person days and 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) We scored one project.

## GOVERNMENT 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](http://www.bpsc.bc.ca) (About the Commission). Our planned actions to meet those expectations are noted below.

| EXPECTATIONS  | PLANNED ACTION   |
|---|--|
| Assist the provincial government in continuing to cooperate with the federal government's development of a common securities regulatory framework for consideration by governments (Common Regulator Initiative).   | The BCSC will provide advice and expertise to the provincial government.   |
| Work with other provinces and territories to strengthen investor protection and the Canadian regulatory framework.  | The BCSC will continue to work with the CSA to enhance the effectiveness of CSA, and 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 is participating in a 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 implement a regime of regulations tailored to the needs of the venture market.</p>   |
| <p>Comply with Government's requirements to be carbon neutral under the <i>Greenhouse Gas Reduction Targets Act</i>, including:</p> <ul style="list-style-type: none"> <li>• Accurately defining, measuring, reporting on and verifying the greenhouse gas emissions from the Corporation's operations</li> <li>• Implementing aggressive measures to reduce those emissions and reporting on these reduction measures and reduction plans</li> <li>• Offsetting any remaining emissions through investments in the Pacific Carbon Trust, which will invest in</li> </ul> | <p>The BCSC registered for Climate Smart Business training, including learning the <a href="#">Greenhouse Gas Protocol</a> methodology for measuring our carbon footprint, and identifying emission reduction strategies.</p> <p>The BCSC reduced travel after upgrading meeting room audiovisual equipment, renovated office space to increase utilization, and upgraded to high-efficiency ENERGY STAR qualified multi-function devices.</p> <p>The BCSC participates with our Landlord,</p> |

|  |  |
|--|--|
| greenhouse gas reduction projects outside of the Corporation's scope of operations | in a comprehensive environmental sustainability program called GREEN AT WORK™ to reduce energy use, reduce waste, and increase environmental awareness at our leased office space. |
|--|--|

## 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 January 10, 2013. Our fiscal 2013 forecast, fiscal 2014 budget and fiscals 2015 and 2016 projections, reflect BCSC actual results to December 31, 2012.

Fiscal 2013 forecast assumptions reflect our planned actions given our judgment as to the most probable set of economic conditions. Fiscal 2014 budget and 2015 and 2016 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 2013 – 2016 periods will vary from the information presented and those variations may be material.

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 (12%) on taxable purchases but receive a 100% rebate. Effective April 1, 2013, we will receive GST rebates (5%), but will again pay provincial sales tax (7%), most significantly on professional services.

BCSC does not operate or have an interest in any subsidiaries. Results reflect the estimated impact of our expected interest in national filing system operations, following a reorganization of those operations in early fiscal 2014.

## Financial outlook

We expect a \$0.8 million surplus for fiscal 2013 (2012 – \$0.6 million). The higher surplus is due primarily to the following factors:

- \$1.8 million (5%) higher revenue, due primarily to higher investment income from realizing capital gains, strong growth in individual registrations, and stable distribution revenues
- \$1.6 million (5%) higher expenses, due primarily to staffing increases to respond to enforcement activity, and higher spending on investor education.

The following table summarizes our actual and projected results of operations, by year<sup>1</sup>:

| Summarized Statements of Operations     |            |            |            |            |            |
|---|------------|------------|------------|------------|------------|
|   | 11/12      | 12/13      | 13/14      | 14/15      | 15/16      |
| (millions)                              | Actual     | Forecast   | Budget     | Projection | Projection |
| <b>OPERATIONS</b>                       |            |            |            |            |            |
| <b>Revenue</b>                          |            |            |            |            |            |
| <i>Filing fees</i>                      |            |            |            |            |            |
| Prospectus and other distributions      | 19.2       | 19.4       | 19.6       | 19.8       | 19.9       |
| Registration                            | 10.9       | 11.4       | 11.9       | 12.3       | 12.7       |
| Financial filings                       | 4.7        | 5.0        | 5.1        | 5.2        | 5.3        |
| Other fees                              | 0.2        | 0.2        | 3.7        | 3.7        | 3.7        |
|   | 34.9       | 36.0       | 40.2       | 41.0       | 41.5       |
| <i>Other revenue</i>                    |            |            |            |            |            |
| Enforcement sanctions                   | 0.3        | 0.6        | 0.4        | 0.4        | 0.4        |
| Investment income                       | 1.6        | 2.1        | 0.6        | 0.8        | 0.9        |
| <b>Total revenue</b>                    | 36.9       | 38.7       | 41.2       | 42.2       | 42.8       |
| <b>Expenses</b>                         |            |            |            |            |            |
| Salaries and benefits                   | 25.9       | 26.7       | 25.8       | 26.3       | 26.8       |
| Other expenses                          | 10.3       | 11.2       | 15.2       | 14.8       | 13.5       |
| <b>Total expenses</b>                   | 36.2       | 37.9       | 41.0       | 41.1       | 40.3       |
| <b>Surplus for the year<sup>2</sup></b> | <b>0.6</b> | <b>0.8</b> | <b>0.2</b> | <b>1.1</b> | <b>2.5</b> |
| <b>SUPPLEMENTARY INFORMATION</b>        |            |            |            |            |            |
| National systems investment             | -          | -          | 27.5       | 31.0       | 34.5       |
| Accumulated surpluses                   | 33.6       | 33.6       | 57.8       | 58.9       | 61.4       |
| Capital expenditures                    | 2.2        | 3.6        | 7.6        | 2.8        | 2.0        |
| Debt                                    | -          | -          | -          | -          | -          |

<sup>1</sup> The financial information, including forecast information, was prepared based on current PSAB standards.

<sup>2</sup> Fiscal 2014 through 2016 surpluses are restricted, attributable to national system operations.

## Revenues

About 90% of our revenue 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 cost recoveries. Beginning in fiscal 2014, revenues also include an expected proportionate interest in national filing system operations.

### 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)         | 11/12<br>Actual | 12/13<br>Forecast | 13/14<br>Budget | 14/15<br>Projection | 15/16<br>Projection |
|--------------------|-----------------|-------------------|-----------------|---------------------|---------------------|
| Revenue from fees  | 34.9            | 36.0              | 40.2            | 41.0                | 41.5                |
| Fee revenue growth | 4.3%            | 3.1%              | 11.7%           | 1.9%                | 1.3%                |

Each 1% change in revenues over the planning period alters forecast revenues by about \$1.6 million. We maintain a Fee Stabilization Reserve (FSR) to ensure that temporary reductions in revenue do not immediately impair our ability to operate, or require reactive fee changes. The current FSR balance is equivalent to about five months of cash expenses, excluding education spending.

We collect the following fees:

| Category              | Source   | Forecast 2013 | Proportion of fee revenue<br>Budget<br>2014 |
|-----------------------|--|---------------|---|
| Distribution fees     | Public companies, private companies and mutual funds, to file disclosure documents | 54%           | 49%   |
| Registration fees     | Firms and individuals, to register with us to sell or advise on securities         | 32%           | 30%   |
| Financial filing fees | Public companies and mutual funds, to file annual and interim financial statements | 14%           | 13%   |
| Other fees            | Market participants, primarily to request <i>Securities Act</i> exemptions         | 1%            | 9%  |

### *Distribution fees*

Distribution fee revenues vary depending on the number and size of securities offerings. The largest share of distribution fee revenue comes from prospectuses<sup>3</sup>, exempt distribution reports<sup>4</sup>, and annual information forms<sup>5</sup>. 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 these sales in arrears, so distribution revenue changes lag market events.

We expect distribution revenue to increase \$0.2 million (1%) in fiscal 2013 as public market activity remains tepid, while private market and mutual fund sales activity remain strong. We project 1% annual growth in fiscals 2014, 2015 and 2016.

### *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 \$0.5 million (5%) in fiscal 2013. We project growth of 4% in fiscal 2014, and a further 3% in fiscal 2015 and in fiscal 2016.

### *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 \$0.3 million (7%) in fiscal 2013. We project 4% growth in fiscal 2014 and 3% annual increases over the balance of the planning period.

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<sup>3</sup> 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.

<sup>4</sup> Prospectus exemptions allow companies to sell securities without a prospectus in limited circumstances.

<sup>5</sup> Annual information forms give current details of the operations, financial status, and management of the company.

#### *Other fees – exemption applications*

To the end of fiscal 2013, other fees are mostly exemption application filing fees that account for only a small proportion of fee revenue.

#### *Other fees – national filing system revenues*

CDS Inc. (CDS) operates three national electronic filing systems on behalf of the CSA:

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

In early fiscal 2014, we expect to begin proportionately consolidating national filing system revenues and expenses following a reorganization of system delivery and governance. For planning purposes, we have included the estimated net impact of these changes within the other fees category. Pursuant to agreements, the national filing system governing parties (British Columbia, Alberta, Ontario, and Quebec), have agreed to restrict the use of national system surplus funds to only benefit national filing system users, through system enhancements or usage fee adjustments.

We expect no other growth in the other fee category during fiscal 2014 and over the balance of the planning period.

### **Enforcement sanctions**

We order administrative penalties and disgorgements<sup>6</sup> 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, investment-grade corporate debt securities, and term deposits.

We expect investment income to increase \$0.5 million (29%) in fiscal 2013 due to realizing portfolio capital gains. We assume investment yields of 2 - 3% over the rest of the planning period.

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<sup>6</sup> 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 through fiscal 2014 expense increases relate primarily to additional resources required to achieve the strategic initiatives described in this Service Plan.

|            | 11/12  | 12/13    | 13/14  | 14/15      | 15/16      |
|------------|--------|----------|--------|------------|------------|
| (millions) | Actual | Forecast | Budget | Projection | Projection |
| Expenses   | 36.2   | 37.9     | 41.0   | 41.1       | 40.3       |
| Growth     | 16.1%  | 4.6%     | 8.3%   | 0.1%       | -1.8%      |

## Salaries and benefits

Staffing costs account for about 65% 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 allocate salaries to four activities (overhead allocated proportionately):

| Strategic Goal                    | Fiscal 2013 | Fiscal 2012 |
|-----------------------------------|-------------|-------------|
| Promote a culture of compliance   | 37%         | 41%         |
| Act decisively against misconduct | 37%         | 35%         |
| Educate investors                 | 9%          | 9%          |
| Advance cost effective regulation | 17%         | 15%         |

We expect salary and benefit costs to increase 3% in 2013 from, consistent with government compensation policies, non-management merit increases averaging 2% and an increase in our staff complement to support strategic initiatives.

Fiscal 2014 reflects a 3% decrease in salaries and benefits expenses. The decrease is a result of capitalizing the effort related to several significant projects underway to address the strategic risks previously outlined in our Service Plan, partly offset by additional staffing to expand our enforcement capacity and accomplish our project work, and performance-based merit increases averaging 2%. 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 2015 and a further 2% increase in fiscal 2016.

## 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.

We expect to expand our office space by about 13% during fiscal 2014 at terms similar to our existing lease.

## Professional services

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

- Risk model implementation consulting
- Legal services and expert opinions
- 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 and external audit services

We expect professional fees to decrease \$0.6 million (17%) in fiscal 2013 as our compliance risk model project moves into the implementation phase, during which we will capitalize associated development costs. We expect professional fees to increase \$1.9 million (71%) in fiscal 2014, driven by additional project resources to achieve our strategic initiatives, costs to develop our on-line monitoring capabilities, and the cost of outsourcing our disaster recovery infrastructure. We project a reduction of 21% in fiscal 2015 and a further reduction of 19% in fiscal 2016.

## **Information management**

We spend significant amounts on information systems and management annually to improve access to our services and information, to increase our capacity to monitor and analyze market activity, and to increase the efficiency of our processes. Information management has three main components:

- Software licensing and maintenance fees (increasing)
- Electronic information services and hardcopy materials (stable)
- Physical record scanning and storage costs (stable)

We do not expect the composition of our information management activities to change significantly in fiscal 2013. Hardware and software maintenance costs will remain flat in fiscal 2013. Costs will increase \$0.3 million (31%) in 2014, primarily due to increased licensing costs and additional maintenance fees on software and equipment purchases. 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 \$1 million in fiscal 2013. Depreciation will increase to \$1.9 million and \$3.0 million in fiscals 2014 and 2015 respectively, due to higher capital expenditures in both fiscal years. We project depreciation to remain at \$3 million in fiscal 2016.

Our capital spending relates primarily to computer systems and applications. Capital additions increased \$1.4 million (66%) in fiscal 2013 due primarily to implementing a case management system, continuing development on our compliance risk models, upgrading office productivity software, increasing networked storage capacity and speed, and office renovations. Significant projects planned for fiscal 2014 will increase capital spending to \$7.6 million, and include office renovations, additional IT infrastructure upgrades, risk model implementation, and website redesign. We project capital additions to decline to \$2.8 million in fiscal 2015 and then to \$2.0 million in fiscal 2016.

## **Education expenditures**

We expend funds to educate securities market participants and the public about financial literacy, investment fraud, and the operation and regulation of securities markets.

We expect education spending of \$2.3 million in fiscal 2013. The increase over the prior year is primarily due to the expansion of our Be Fraud Aware television, radio and print

media campaign. In fiscal 2014, education spending will remain at \$2.3 million with the continuation of the Be Fraud Aware campaign. For fiscals 2015 and 2016 we project education spending of \$1.7 million and \$1.0 million respectively.

### **Other expenses**

We expect other operating expenses (training, administration, external communications, travel, and telecommunications) to increase \$0.4 million (36%) to \$1.4 million in fiscal 2014, due primarily to higher project-specific training costs. We expect increases of 2% per year over the remainder of the planning period.

### **Debt**

We have no debt.

## ***Risks and opportunities***

### **Securities regulatory reform**

The BC government supports the federal government's common regulator initiative. We are engaged in this process and provide resources as necessary.

### **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.

### **Reliance on CDS Inc.**

Under various agreements with the CSA that end on October 31, 2013, 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. CSA plans to transition to a new service provider in calendar 2013.

### **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 \$95.0 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, 2012.

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: 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 2013 to March 2014 will be reported on in May 2015. | 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   | Data comes from a manually-updated Excel spreadsheet, and | Collected at year end     | - Measurement relies on our classification of compliance problems, which can change every year | Measurement reflects data from deficiency letters sent during annual reporting period  | 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>         |
|---|--|---|--|--|------------------------------|
| based on exam deficiency letters: kept in spreadsheet   | is adjusted to exclude targeted reviews                              |   | <ul style="list-style-type: none"> <li>- Small data set</li> <li>- Measurement relies on judgment of evaluators</li> </ul>   |  |                              |
| <b>Measurement 2.1: Actions taken to disrupt misconduct</b>   |  |   |  |  |                              |
| Data recorded in established tracking systems   | Manually collected into spreadsheet based on internal data sources   | Collected quarterly                       | - Small data set   | Measurement reflects cases that had disruptive action occur in a fiscal year                             | Internal control environment |
| <b>Measurement 2.2: Average life, in months, of cases either from complaint to a NOH or from complaint to settlement before a NOH is issued</b> |  |   |  |  |                              |
| Data recorded in established tracking systems and official documents  | Manually collected into spreadsheet based on internal data sources   | Collected quarterly                       | <ul style="list-style-type: none"> <li>- Single long cases can move the overall average</li> <li>- Cases put on hold for reasons outside of commission control can move the overall average</li> <li>- Settlements are often by party while NOHs can name several parties</li> </ul> | Measurement reflects cases passing the milestones of an NOH or, if no NOH, a settlement in a fiscal year | Internal control environment |
| <b>Measurement 3.1: Number of complaints and tips received from InvestRight programs</b>  |  |   |  |  |                              |
| Data recorded in established tracking system from inquiries via phone calls, emails, InvestRight.org,   | Manually collected into spreadsheet based on tracking system records | Collected regularly and reported annually | - Measurement relies on ability for our inquiries staff to sort inquiries based on caller involvement with our education programs  | 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>  |
|---|--|----------------------------------|---|--|---|
| and the BeFraudAware mobile application   |  |                                  |   |  |   |
| <b>Measurement 3.2: Percentage of workshop participants who recall of investor education warning signs of red flags</b> |  |                                  |   |  |   |
| 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"> <li>- Survey response rate may be low, making statistical significance hard to draw</li> <li>- May have sample bias as response is voluntary</li> </ul>  | Measurement reflects surveys completed during the reporting period | Internal control environment<br><br>Third parties administer surveys<br><br>Third party phone contact |
| <b>Measurement 3.3: Percentage of BC public aware of BCSC</b>   |  |                                  |   |  |   |
| 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 one another | Awareness assessed within the fiscal year                          | Research methodology designed to analyze all responses  |
| <b>Measurement 4.1: Average score on cost-effective regulation scorecard</b>  |  |                                  |   |  |   |
| Internal evaluation based on staff and  | Collected manually   | Collected annually               | - Measurement relies on judgment of evaluators: Executive Director's office and all policy managers   | Measurement based on rules put into effect in BC or other major    | Discussion on logic for each line item rating   |

| <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>         |
|---|-------------------------------|----------------------------------|--|--|------------------------------|
| management judgment and project documents, kept in a spreadsheet  |                               |                                  | evaluate a new rule together with staff involved in the project<br>- Small sample size | regulatory projects completed in the year; work to complete the project may have taken place over several years            | documented during review.    |
| <b>Measurement 4.2: Average approved project post-implementation score</b>  |                               |                                  |  |  |                              |
| Internal accounting systems, internal asset management systems, and internal evaluation based on staff and management judgment and documented results | Collected manually            | Collected regularly              | - Measurement relies on professional judgment<br>- 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 |



