

# British Columbia Securities Commission

## 2017/18 – 2019/20 SERVICE PLAN

February 2017



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## Accountability Statement

The 2017/18 - 2019/20 British Columbia Securities Commission (BCSC) service plan was prepared under my direction in accordance with the *Budget Transparency and Accountability Act* and the BC Reporting Principles. The plan is consistent with government's strategic priorities and fiscal plan. I am accountable for the contents of the plan, including what has been included in the plan and how it has been reported. I am responsible for the validity and reliability of the information included in the plan.

All significant assumptions, policy decisions, events and identified risks, as of January 12, 2017 have been considered in preparing the plan. The performance measures presented are consistent with the Taxpayer Accountability Principles, the BCSC's mandate and goals, and focus on aspects critical to the organization's performance. The targets in this plan have been determined based on an assessment of the BCSC's operating environment, forecast conditions, risk assessment, and past performance.



Brenda M. Leong  
Chair and Chief Executive Officer

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## Glossary

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

# Strategic Direction and Context:

## Strategic Direction and Operating Environment

### Transition to a cooperative capital markets regulatory system

British Columbia, Ontario, Saskatchewan, New Brunswick, Prince Edward Island, Yukon and Canada are jointly engaged in the implementation of the [Cooperative Capital Markets Regulatory System](#) (Cooperative System). The Cooperative System is designed to streamline the capital markets regulatory framework to protect investors, foster efficient capital markets and manage systemic risk while preserving the strengths of the current system.

The participating jurisdictions will seek the enactment of a uniform *Capital Markets Act* (CMA), which harmonizes and modernizes the aspects of capital markets regulation within their jurisdiction. The federal government will seek the enactment of a complementary *Capital Markets Stability Act* (CMSA). Administration of these Acts will be delegated to a cooperative regulator, the Capital Markets Regulatory Authority (CMRA), that will be accountable to a Council of Ministers representing participating jurisdictions.

The BCSC will continue to provide expertise and resources to effectively support, develop and implement the Cooperative System. As we transition towards the Cooperative System, we continue to work cooperatively with the Canadian Securities Administrators (CSA) to ensure the ongoing efficient functioning of the capital markets.

### Crown's 2017/18 Mandate Letter and the Taxpayer Accountability Principles

The BCSC is committed to meeting government's expectations as set out in its [Mandate Letter](#). We also model government's [Taxpayer Accountability Principles \(TAP\)](#) to ensure accountability and cost control. Specifically:

- We deliver cost-effective regulation to market participants
- We control expense growth in three main ways: preparing an annual budget for Board approval; conducting monthly budget variance reporting; and requiring Board approval of significant expense variances
- We continuously improve our services, which yields two key benefits: increased capacity to monitor and analyze market activity and increased efficiency of our processes

The Ministry of Finance and the BCSC have agreed on TAP metrics as set out in the Service Plan that accompany each goal and also to an engagement plan including periodic meetings to evaluate our TAP compliance. Further, we revised our compensation philosophy in 2015 to articulate more clearly its alignment with government's core compensation principles.

# Performance Plan:

## Goals, Strategies, Measures, and Targets

This Service Plan includes the same five goals as the previous year. Of the 17 strategies in this year's plan, four are new: Strategy 3, Strategy 4, Strategy 5, and Strategy 10. Strategy 7 is now split out separately from Strategy 9, while last year's Strategy 6 is complete.

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

Investors are better protected if securities firms and companies operating in the capital markets understand and comply with their regulatory obligations. They must have effective systems and controls in place to ensure compliance with securities rules. We apply risk-based reviews and take appropriate action to correct non-compliance.

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

The BCSC regulates companies and insiders and reviews prospectus filings that companies make when they go public or when they are already public. The prospectus is a key disclosure document used by companies to raise money from the public. Public companies also file continuous disclosure documents and mining technical disclosure that we monitor to detect cases where they are not providing adequate disclosure. Investors are better able to make informed investment decisions when they have access to periodic and timely disclosure. In addition, we monitor two other types of market activity: daily trading of over-the-counter companies that file with the BCSC, and the private placement of securities by non-reporting issuers.

### **Strategy 1: Implement a derivatives regime**

Staff are working with other CSA jurisdictions to fulfill the G20 commitments made by Canada's Minister of Finance following the 2008 financial crisis. Rules necessary to implement a derivatives regime – including rules related to establishing derivatives subject to regulation, trade reporting, mandatory clearing, and for the treatment of collateral for cleared derivatives – were put in place last year. Requirements for margin and collateral for uncleared derivatives are due to be adopted during fiscal 2018. The BCSC will also recognize the relevant derivatives clearing agencies and finalize its approach to oversight of those clearing agencies.

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

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

## **Strategy 2: Implement reforms to improve client-registrant relationships**

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

- Misplaced trust and reliance
- Client portfolios underperforming common benchmarks
- Clients not getting results intended in regulatory framework
- Disclosure of conflicts having the unintended effect of increased reliance
- Information asymmetry

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

## **Strategy 3: Consider reforms to mutual fund fee structures**

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

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

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

## **Strategy 4: Assess firm and marketplace cybersecurity risk management practices**

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

## Performance Measures for Goal 1

Performance Measure	2015/16 Actual	2016/17 Forecast <sup>1</sup>	2017/18 Target	2018/19 Target	2019/20 Target
1. Percentage of reviewed issuers that reduce deficiencies:					
a) Improved disclosure subsequent to a continuous disclosure review	100% <sup>2</sup>	>95%	>95%	>95%	>95%
b) Improved disclosure to minimum standards	100%	>95%	>95%	>95%	>95%
2. Percentage of randomly sampled mining companies that comply with standards for technical disclosure in:					
a) Filed disclosure (annual information forms, news releases, management discussion and analysis)	76% <sup>3</sup>	Improve on 15/16 actual	Improve on 16/17 actual	Improve on 17/18 actual	Improve on 18/19 actual
b) Issuer websites and other voluntary disclosure	63%	68%	Increase average by 5% over 16/17	Increase average by 5% over 17/18	Increase average by 5% over 18/19
3. Average number of deficiencies per examination in Capital Markets Regulation	4.34	4.12	Decrease average by 5% over 16/17 <sup>4</sup>	Decrease average by 5% over 17/18	Decrease average by 5% over 18/19

Data Sources: BC Securities Commission.

1. Actual data for all targets will be included in the 16/17 Annual Report.

2. Measures work done 12-24 months before the report: issuers reviewed by the BCSC from April 2017 to March 2018 will be reported on in May 2019. Based on a sample of 20 issuers.

3. Based on a survey of 40 randomly selected BC mining companies.

4. A 5% year-over-year reduction is an ambitious target because deficiencies have already declined significantly since we first started this measure in 2007 (down from 7.3) and our compliance focus is on riskier registered firms and newly-registered businesses.

## Discussion

**Measure 1:** At the end of each fiscal year, we analyze the subsequent continuous disclosure of a statistically significant random sample of companies that received continuous disclosure comment letters from us during the year. The results of this review show the extent to which our detailed continuous disclosure review work motivated non-compliant issuers to improve their disclosure. The target is set to what is practically achievable and reflects compliant behaviour by issuers.

**Measure 2:** We randomly select issuers from a list of BC-based mining companies and analyze whether their most recent technical filings were compliant with NI 43-101 *Standards of Disclosure for Mineral Projects*. This review shows the extent to which a sample of BC-based mining companies is compliant in specific areas of their technical disclosure. The target is set to increase this percentage as a sign of increased industry compliance.



**Measure 3:** Using various risk indicators, we rate firms to determine how frequently and closely to examine their compliance. The measure states the average number of deficiencies found in completed exams performed over the period, excluding firms subjected to audits for cause. The target is set to decrease average deficiencies as a sign of increased industry compliance.

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

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

- Illegal distributions
- Market misconduct, including market manipulation and insider trading
- Compliance cases, including non-compliance by dealers and issuers
- Criminal cases related to securities transactions

Pursuing illegal distributions and fraud through both administrative and criminal enforcement is a critical component of protecting investors. Our objectives are to deter this misconduct and to mitigate investor losses through early disruption and timely enforcement. To this end, we:

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

## **Strategy 5: Reduce securities fraud through detection, disruption, and deterrence**

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

1. Enhancing intelligence gathering. This includes two initiatives: building our capacity to obtain intelligence both covertly and overtly, and strengthening relationships through education and outreach with key information sources that can alert us to fraudulent activity, including financial institutions, the police, the public, and other regulators.
2. Expanding early intervention tactics. To disrupt fraudulent activity, we will enhance our capacity to quickly intervene, including by refining our processes to more deftly deploy our statutory tools.
3. Strengthening criminal investigation. This includes three initiatives: making earlier decisions on the appropriate investigative stream (criminal or administrative); expanding our criminal enforcement capacity to investigate targeted fraud cases for referral to the Crown; and increasing public awareness of our criminal investigations.

4. Revising our collections strategy. We will implement a more visible and robust collections process that runs from identifying and preserving assets during the course of an investigation to taking a strategic approach to collections efforts following hearing decisions.

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

### **Strategy 6: Upgrade approach to investigating insider trading**

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

Last year, we implemented a risk-based model that scores IIROC referrals and prioritizes them for potential investigations. We will refine the model after its first year of operation in late fiscal 2018.

### **Strategy 7: Improve market analytics capability for enforcement investigations**

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

## Performance Measures for Goal 2

Performance Measure	2015/16 Actual	2016/17 Forecast	2017/18 Target	2018/19 Target	2019/20 Target
4. Actions taken to disrupt misconduct: Number of actions	180	154 <sup>1</sup>	Increase 10% over 16/17	Increase 10% over 17/18	Increase 10% over 18/19
Average duration of complaint to action (days)	52	47	Decrease average by 10% over 16/17	Decrease average by 10% over 17/18	Decrease average by 10% over 18/19
5. Average life, in months, of cases either from complaint to NOH or from complaint to settlement before an NOH is issued	25.6	22	Set according to review	Set according to review	Set according to review

Data Sources: BC Securities Commission.

1. We have used the Fiscal 2015/16 Target as the Fiscal 2016/17 Forecast because the 2015/16 Actual results were anomalous in that one case generated 51 demands and four freeze orders.

## Discussion

**Measure 4:** This measure focuses our efforts on early detection and shows our ability to take early action to stop the misconduct. We can significantly reduce the harm to the public when we can identify and act quickly to disrupt misconduct. We aim to stop investment schemes before they start and prevent further participation in existing schemes. Disruptive action provides a visible, valuable benefit to the public. We will track the number of disruptive actions taken by staff. We set our targets to increase the number of disruptive actions taken year-over-year and reduce the average time to take action.

**Measure 5:** Quick, thorough investigations provide the public with confidence in the actions we take to address misconduct. This measure is an indicator of timely enforcement and measures the average duration of administrative enforcement cases. For cases open during the fiscal year, we measure the average case duration from start to issuing the NOH or, absent an NOH, the settlement. Because of the relatively small number of cases we process each year (15-20), a small number of “outliers” can significantly affect our targets. We set our target each year using information from our current caseload.

## Goal 3: Educate investors

We want BC investors to have the knowledge, attitudes, and behaviours they need to:

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

## Strategy 8: Raising public awareness about investment fees

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

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

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

### Performance Measures for Goal 3

Performance Measure	2015/16 Actual	2016/17 Actual	2017/18 Target	2018/19 Target	2019/20 Target
6. RETIRE: Number of phone contacts to BCSC Inquiries triggered by InvestRight activity	40	42	Discontinue		
6. NEW: Percentage of BC investors who strongly agree they have a good understanding of how fees impact the returns on their investments	N/A	21%	Increase 5% over 16/17	Increase 5% over 17/18	Increase 5% over 18/19
7. Percentage of workshop participants who recall the warning signs of investment fraud	83%	42% <sup>1</sup>	Increase 3% over 16/17	Increase 3% over 17/18	Increase 3% over 18/19
8. Percentage of British Columbia public aware of BCSC	36% <sup>2</sup>	>45%	>45%	>45%	>45%

Data Sources: Measure 6 NEW: Online survey; Measure 7: Online survey; Measure 8: Consumer survey.

- 2015/16 was the first year we conducted an online survey for this measure. Our sample size ended up being very small (18, compared to 84 the year before.) as we delivered about 30% fewer in-person seminars and had far fewer attendees agree to participate in the follow-up survey. The target reflects a conservative goal for the coming year.
- Third party survey, measuring aided awareness in the BC population among adults 18 and over. While the general population showed 36% awareness, awareness was 45% among those with an investment advisor.

## Discussion

**Measure 6, Retired:** We have discontinued this measure. It was introduced to track the effectiveness of our fraud-related investor education activities and their potential impact on generating enforcement tips. Moving away from fraud prevention marketing to raising investor awareness about investment fees and performance means that we no longer expect our investor education activity to measurably contribute to the flow of complaints and information about potential investment fraud.

**Measure 6, New:** We communicate with BC investors through public awareness advertising campaigns. Our goal is to raise awareness among BC investors working with registrants about the investment fees they pay and the impact of those fees on their investment returns. We want investors to receive the benefits of CRM2 by paying attention to their fees and to make fees and returns part of their ongoing communication with their advisors. This measure comes from an online survey of investors age 18 and over.

**Measure 7:** We deliver investor education workshops to British Columbians, primarily seniors, and pre-retirees. Our goal is to grow awareness of the warning signs of investment fraud. We want seminar attendees to recall at least three of the five warning signs they learned during our presentations. To determine recall, we conduct an online survey with attendees who opt-in.

**Measure 8:** We aim to build awareness of the BCSC and our many investor education resources so that British Columbians will know where to turn when faced with a possible fraud or unsuitable investment opportunity. We survey the BC general population 18 and over. The target is set as a stretch goal for what we could practically achieve.

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

Our goal is to advance cost-effective regulation. Regulation imposes costs through compliance requirements, and can potentially stifle innovation. Investors inevitably pay these costs. We aim to provide strong investor protection and market integrity for the least cost by focusing on three core areas:

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

## **Strategy 9: CSA systems redesign**

The BCSC is one of four CSA partners responsible for operating national filing systems, which are critical to both our regulatory system and market participants. We are closely involved with CSA in a multi-year system redesign project to replace various applications including BC's exempt distribution filing systems. The CSA redesign will modernize the filing system for market participants and establish a platform for improved oversight analysis.

## **Strategy 10: Fintech outreach – securities regulation in a digital world**

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

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

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

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

### **Strategy 11: Review and modernize regulations affecting reporting issuers**

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

We will:

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

We also are working with the CSA to identify further opportunities to reduce unnecessary burden on public issuers. We will consult with issuers and other stakeholders to identify specific areas of securities regulation that may impose regulatory burden that may be disproportionate to its purported regulatory objective.



## Performance Measures for Goal 4

Performance Measure	2015/16 Actual	2016/17 Forecast	2017/18 Target	2018/19 Target	2019/20 Target
9. Average score on cost-effective regulation scorecard	98% <sup>1</sup>	90%	>90%	>90%	>90%
10. Average approved project post-implementation score	100% <sup>2</sup>	80%	>80%	>80%	>80%

Data Source: Internal evaluations

1 We scored 11 policy projects, none of which was a BC-only initiative.

2 We assessed two regulatory operations projects.

## Discussion

**Measure 9:** We use a scorecard to track 16 important steps and outcomes in responding to market problems. We apply the scorecard to all CSA and local policy projects. For CSA projects, the scorecard shows the extent to which we advocated our cost-effective regulation principles in problem definition, rule creation, and effective rule writing. We report the average score of all projects completed each year, except those we adopt purely to harmonize with other jurisdictions. The target is set to show that we achieve our objectives if we hit the standards on the scorecard in all but one area.

**Measure 10:** We assess each completed regulatory operations project by evaluating benefits achieved against the business case and score the project's success relative to its proposed benefits. A "project" is an initiative that takes more than 20 person days and/or costs more than \$25,000. Our objective is that our projects will be well executed. The target is set at 80% because we believe that is evidence of a successful and well-run project.

## Goal 5: Transition to launch of CMRA

Our goal is to continue to work with government to seamlessly transition to the CMRA. Local market participants accustomed to working with the BCSC and filing documents through our systems and national systems must continue to be able to access the services they do today.

The strategies under this goal summarize the legislative and operational work required to launch the CMRA. Teams under strategies 12 through 17 are structured with BCSC and Ontario Securities Commission (OSC) staff as co-leads and membership across CMRA participating jurisdictions.

### Strategy 12: Assist in the development of the CMRA legislative framework

The BCSC will advise the BC Government as requested on the required legislation and regulations and will work with participating jurisdictions to develop recommendations to participating governments on transition and integration.

### Strategy 13: Prepare for new regulatory processes under CMRA

The work under this strategy is to prepare the CMRA to administer its new legislation on launch date. This will include providing market participants with clear contact points in the Cooperative System.

The federal government, the BCSC, and the OSC are co-leading a separate project to develop procedures to administer the new CMSA legislation. The project focuses on information collection and systemic risk analysis.

**Strategy 14: Prepare for additional enforcement processes under CMRA**

The work under this strategy is to develop additional administrative and criminal enforcement procedures under the CMRA's legislation.

**Strategy 15: Prepare tribunal structure under CMRA**

The work under this strategy is to establish the tribunal as an independent division of the CMRA to fulfil its mandate under the CMRA legislation.

**Strategy 16: Educate external stakeholders to prepare them for CMRA**

The work under this strategy is to educate market participants, investors, and all our stakeholders so that they have the information they need to seamlessly conduct their businesses at the launch of the CMRA.



# Financial Plan

## Overview of Operations

The BCSC does not receive taxpayer funding. Most of our revenue comes from local filing, registration, and application fees paid by market participants under the Securities Act. A portion of our revenue is a 25% interest in a national filing system partnership (CSA partnership). The remainder of our revenue is investment income and enforcement sanctions.

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

Expenses relate to local operations and a proportionate interest in the CSA partnership. Compensation, occupancy, and asset depreciation costs account for about 85% of local expenses. We expect CMRA project spending to be \$0.8 million (M) in fiscal 2017, \$3.3M in fiscal 2018, and \$5.6M in fiscal 2019. Please see the risks section for more information on this project.

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

## Summary financial outlook

BCSC generated a \$1.9M surplus for fiscal 2016.

For fiscal 2017, we are forecasting a decline in revenue by \$2.4M (5%), an increase in spending by \$1.7M (4%), and a \$2.2M deficit.

Key fiscal 2017 revenue changes:

- \$1.8M (8%) lower distribution revenue due to lower revenue from prospectus and other distributions
- \$0.7M (70%) lower investment income due to realizing investment gains in fiscal 2016
- \$0.4M (8%) lower financial filings revenue due to fewer non-mutual fund filers
- \$0.4M (200%) higher sanctions revenue due to the timing and nature of enforcement cases

Key fiscal 2017 expense changes:

- \$1.2M (4%) higher staff costs due primarily to a 2% decline in average full-time equivalent employees being offset by average 2% merit-based salary increases, \$0.7M lower capitalized project effort, and \$0.4M higher reorganization costs
- \$0.3M (8%) higher CSA partnership costs due to system redesign projects
- \$0.2M (13%) higher information management costs from new software, and license increases

We budget a \$3.4M deficit for fiscal 2018. This is \$1.2M higher than the forecast for fiscal 2017 due primarily to \$1.2M higher CMRA expenses and \$1.1M higher CSA partnership operating costs being only partly offset by \$0.5M lower depreciation, \$0.3M lower professional services costs, and net \$0.3M revenue growth.

We project a \$6.2M deficit for fiscal 2019, which includes \$5.6M for the CMRA project.

The table below summarizes our actual, forecast, budgeted, and projected results of operations.

	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
(millions)	<u>Actual</u>	<u>Forecast</u>	<u>Budget</u>	<u>Projection</u>
<b>Revenue</b>				
Local filing fees				
Prospectus and other distributions	\$ 23.7	\$ 21.9	\$ 22.3	\$ 22.8
Registration	11.6	11.8	12.0	12.2
Financial filings	4.9	4.5	4.5	4.4
Other fees	0.2	0.2	0.2	0.2
	<u>\$ 40.4</u>	<u>\$ 38.4</u>	<u>\$ 39.0</u>	<u>\$ 39.6</u>
Other revenue				
CSA partnership user fees	6.4	6.3	6.3	6.3
Enforcement sanctions	0.2	0.6	0.3	0.3
Investment income	1.4	0.7	0.7	0.7
<b>Total revenue</b>	<u>\$ 48.4</u>	<u>\$ 46.0</u>	<u>\$ 46.3</u>	<u>\$ 46.9</u>
<b>Expense</b>				
Salaries and benefits	\$ 30.6	\$ 31.8	\$ 32.7	\$ 35.8
Other expenses	11.8	12.1	11.7	10.8
CSA partnership	4.0	4.3	5.3	6.5
<b>Total expenses</b>	<u>\$ 46.5</u>	<u>\$ 48.2</u>	<u>\$ 49.7</u>	<u>\$ 53.1</u>
<b>Surplus (deficit)</b>	<u><b>\$ 1.9</b></u>	<u><b>\$ (2.2)</b></u>	<u><b>\$ (3.4)</b></u>	<u><b>\$ (6.2)</b></u>
<b>Supplementary Information</b>				
Total liabilities	\$ 11.7	\$ 11.9	\$ 11.9	\$ 12.1
Unrestricted surplus	25.4	20.8	16.0	9.6
Restricted surplus	35.0	37.4	38.8	39.0
Local capital expenditures	1.6	1.8	1.0	1.0
CSA capital expenditures	0.3	5.9	6.2	7.4

Our key assumptions for revenues in fiscals 2018 and 2019 are:

- Distribution revenue increases of \$0.4M (2%) in fiscal 2018, and \$0.5M (2%) in fiscal 2019, primarily due to higher mutual fund prospectus volumes
- Registration revenue increases of \$0.2M (2%) in fiscal 2018 and \$0.2M (2%) in fiscal 2019, based on 2% average growth in the number of individual registrants over the last two years
- Small decreases in financial filings revenue due to growth in the number of mutual fund issuers offset by a continued decline in the number of non-mutual fund issuers
- No growth in CSA partnership revenues. Market volatility does not significantly affect these fees.

- Sanction receipts consistent with historical experience. Actual receipts will depend on the nature and timing of cases resolved during the year.
- No growth in investment income. We expect to move our longer-term investments into short-term instruments over the next two years so we have the working capital required to fund the projected deficits. We expect interest rates to remain low.

Our key assumptions for expenses in fiscals 2018 and 2019 are:

- Staffing costs increase \$0.9M (3%) in fiscal 2018 and \$3.1M (9%) in 2019. In both years, we assume no new positions, four temporary positions to support CMRA transition planning work, 3% position vacancy, and merit-based salary increases averaging 2%. In addition, we expect an additional \$1.2M and \$3.5M of CMRA-related spending in 2018 and 2019, respectively, to fund general BCSC transition and wind-up costs.
- CSA partnership costs increase by \$1.0M (23%) in 2018 and a further \$1.2M (23%) in 2019 due to higher systems operating costs as CSA begins to implement and depreciate new systems
- The 2018 budget and 2019 projection include decreases in other operating expenses of \$0.4M (3%) and \$0.9M (8%) respectively primarily due to lower depreciation and professional services expenses. Depreciation will decrease due to lower capital expenditures during the preceding three years.

The table below shows expected changes in the components of other operating expenses.

	2016	2017	2018	2019
(millions)	Actual	Forecast	Budget	Projection
Rent	\$ 3.1	\$ 3.1	\$ 3.2	\$ 3.3
Depreciation	2.8	2.9	2.4	1.6
Professional Services	2.3	2.0	1.7	1.5
Information management	1.5	1.7	1.8	1.8
Education	0.8	0.8	0.8	0.8
Administration	0.5	0.5	0.5	0.5
Staff training	0.3	0.4	0.4	0.4
Business travel	0.2	0.3	0.5	0.5
External communications	0.1	0.2	0.2	0.2
Telecommunications	0.2	0.2	0.2	0.2
Other operating expenses	\$ 11.8	\$ 12.1	\$ 11.7	\$ 10.8

## Risks

The CSA partnership has contracted CGI Information Systems and Management Consultants Inc. (CGI) to operate several national electronic filing systems through which we collect most of our fee revenue. CGI maintains comprehensive business continuity plans for these systems.

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

CMRA project estimates remain preliminary. Actual results will differ. The actual effort required for the project could be higher, which would increase BCSC deficits. The fiscal 2018 budget and the

2019 projections include \$3.3M and \$5.6M respectively for costs relating to the transition to CMRA. Wind-up and general transition liabilities will not be known with certainty until shortly before the BCSC's integration into the CMRA.

We forecast deficits for fiscals 2017, 2018 and 2019 and a significant reduction in the BCSC's unrestricted surplus. If realized, this would leave the BCSC more financially vulnerable, particularly if BCSC or CMRA initiative costs increase.

## CSA partnership

CGI operates the SEDAR, SEDI, and NRD national electronic filing systems on behalf of a government partnership between the BCSC, OSC, Alberta Securities Commission, and the Autorité des marchés financiers.

In accordance with Canadian public sector accounting standards, we proportionately consolidate twenty-five percent of national filing system assets, liabilities, net assets, revenues and expenses.

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

The following table summarizes our actual and expected CSA partnership operations.

	2016		2017		2018		2019	
(millions)	Actual	Forecast	Budget	Projection				
<b>CSA Partnership</b>								
Revenues	\$ 6.8	\$ 6.7	\$ 6.7	\$ 6.7				
Operating expenses	4.0	4.3	5.3	6.5				
Surplus	2.8	2.4	1.4	0.2				
Capital Expenditures	\$ 0.3	\$ 5.9	\$ 6.2	\$ 7.4				

The 2017 forecast, 2018 budget and 2019 projection reflect net contributions of \$2.4M, \$1.4M and \$0.2M, respectively. We expect contributions to decline because systems operating costs will increase as CSA implements expected new systems.

# Appendix A:

## Hyperlinks to Additional Information

### Corporate Governance

- [BCSC's governance policy, and the role of the Board of Directors and of each Board Committee](#)
- [Membership list of the Board of Directors](#)
- [Membership list of each Board Committee](#)
- [Names and job titles of senior management](#)
- [Key accountability relationships with Ministers, ministries, and any other significant reporting relationships](#)
- Per Appendix 1 of BC's "[Governance and Disclosure Guidelines for Governing Boards of B.C. Public Sector Organizations](#)", these guidelines do not apply to the BCSC.

### Organizational Overview

- [Enabling statute](#)
- [Mandate provided in enabling statute, vision, values, and overall benefit](#)
- [BCSC's business areas](#)
- [BCSC stakeholders and partners](#)
- [The location of the BCSC's operations](#)