

# **British Columbia Securities Commission**

**2016/17  
ANNUAL SERVICE PLAN REPORT**



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## Chair/CEO Report Letter and Chair's Accountability Statement



British Columbia has one of the most active and innovative capital markets in the country, and regulating that environment requires an equally robust and flexible approach. New products and services, such as crowdfunding, peer-to-peer lending platforms, online lenders, and algorithm-based advisory services (robo-advisers), continue to challenge us to manage risk while at the same time encouraging innovative business models. We introduced new initiatives last year, including a crowdfunding exemption to allow capital raising through crowdfunding portals, and formed a B.C. Tech Team to actively engage in outreach with B.C.'s tech community. The British Columbia Securities Commission (BCSC) is responsible for facilitating capital raising in B.C.'s capital markets, while ensuring that market participants comply with the rules and investors are protected.

As a member of the Canadian Securities Administrators (CSA), the BCSC led and participated in several countrywide initiatives to harmonize and streamline regulation across jurisdictions and to encourage cooperation and coordination between the participating regulators. One such initiative was the launch of a CSA "regulatory sandbox" that supports businesses seeking to offer innovative products, services, and applications. We also consulted on major reform initiatives to enhance the obligations of advisers to investors and to consider whether to discontinue embedded commissions in mutual funds. These initiatives could have profound impacts on both the industry and investors, so we are focused on ensuring broad and extensive consultation and applying rigorous, outcomes-based analysis.

The BCSC continues to provide staff resources and expertise to support the Ministry in the development of the Cooperative Capital Markets Regulatory System (the Cooperative System). The BCSC is committed to a smooth transition to the Cooperative System that ensures B.C.'s interests are represented and the country's capital markets continue to operate fairly and efficiently.

The BCSC provides regular updates to the Ministry of Finance on mutually-relevant issues to ensure our strategic direction aligns with that of the Ministry. The BCSC advises the Ministry on matters relating to policy development, communications and educational initiatives, and trends and activities in the venture market.

In Fiscal 2014/15, all members of the BCSC board and executive were trained on the Taxpayer Accountability Principles and the implementation requirements. The board and executives were engaged in the BCSC's implementation of the Taxpayer Accountability Principles. The chair and independent board members also participated in the Public Sector Board Governance Professional Development Forum in December 2016. This fiscal year, all board members confirmed their compliance with the Taxpayer Accountability Principles by signing the Mandate Letter.

The BCSC's *2016/17 Annual Service Plan Report* compares the actual results to the expected results identified in the *2016/17–2018/19 Service Plan*. I am accountable for those results as reported.



Brenda M. Leong  
Chair and Chief Executive Officer

## **Purpose of the Organization**

The BCSC is the independent provincial government agency responsible for regulating capital markets in B.C. The BCSC's enabling legislation is the [Securities Act](#), RSBC 1996, c. 418. 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

The BCSC benefits the public by protecting investors and the integrity of B.C.'s capital markets. We:

- review the disclosure that businesses raising capital must provide to investors
- review applications for registration from those that trade securities, provide advice, or manage portfolios or investment funds to ensure they are qualified, ethical, and solvent
- take action against those who contravene securities laws
- educate investors to protect themselves and industry participants to understand how to comply with securities law requirements

## **Strategic Direction and Context**

The provincial government set out specific expectations of the BCSC in the [2016/17 Mandate Letter](#).

The Mandate Letter included a commitment to develop, and where possible to implement, flexible capital raising rules to assist B.C.'s venture market. It also included assisting the Minister of Finance in developing the Cooperative System so that it protects B.C.'s interests and ensures B.C.'s securities industry is not negatively impacted.

The Taxpayer Accountability Principles consist of principles relating to cost consciousness (efficiency), accountability, appropriate compensation, service, respect, and integrity. These principles are an overarching government priority that the BCSC has implemented.

### **Transition to the Cooperative System**

In September 2013, the B.C. Minister of Finance agreed in principle to establish the Cooperative System with the ministers of finance for Ontario and Canada. Other provinces and one territory joined subsequently. Since then, these governments have been working collaboratively to develop draft legislation and regulations.

Under the Memorandum of Agreement (MOA) signed by participating governments, the Cooperative System would administer a uniform securities act and a complementary federal systemic risk act, and be accountable to a Council of Ministers representing participating jurisdictions.

The BCSC has provided, and will continue to provide, expertise and Commission resources to the Ministry in the development of the Cooperative System. At the same time, we have worked, and will continue to work, cooperatively within the CSA to continue to protect investors and Canada's capital markets.

## Report on Performance

Toward the end of Fiscal 2015/16, the BCSC adopted the investment dealer exemption and implemented changes to the rights offering regime to streamline and reduce costs for raising capital. We have been monitoring the use of these exemptions to ensure they are operating as intended. The BCSC is also working with the CSA to identify further opportunities to reduce regulatory burden on public companies and co-leading an initiative to review the continued relevance of private placement resale restrictions. As noted earlier, the BCSC also provided expertise and resources to support the development of the Cooperative System initiative.

The BCSC provided regular quarterly updates on its financial position and operating results. We complied with the requirement to be carbon neutral under the [Greenhouse Gas Reduction Targets Act](#). The BCSC's goals, strategies, and measures support the Taxpayer Accountability Principles. We demonstrate these principles on an ongoing basis through our rule-making procedures, regulatory decision making, and the investigation and adjudication of enforcement cases. The Ministry and the BCSC agreed that our Service Plan was an appropriate evaluation plan.

## Goals, Strategies, Measures, and Targets

We selected the goals that, together, cover the key ways the BCSC delivers on its mandate.

- **Goal 1: Promote a culture of compliance**  
Goal 1 covers our oversight of market participants who are subject to the *Securities Act*. We selected this goal because an industry that takes its compliance responsibilities seriously, and is held accountable for its compliance obligations, protects market integrity and strengthens investor protection.
- **Goal 2: Act decisively against misconduct**  
Goal 2 focuses on our enforcement of the *Securities Act* when people intentionally ignore the law through fraud or other acts, or when market participants do not comply with their obligations. We selected this goal because enforcement actions protect market integrity and strengthen investor protection.
- **Goal 3: Educate investors**  
Goal 3 focuses on the work we do educating investors. We selected this goal because providing information and tools that investors can use to protect their financial interests strengthens investor protection. We believe that securities markets function better when investors understand their opportunities, make informed investment decisions, recognize the warning signs of investment fraud, and know how to report investment fraud when they see or suspect it.
- **Goal 4: Advance cost-effective regulation**  
Goal 4 reinforces the work we do to deliver the greatest investor protection and market integrity benefits for the least cost. We selected this goal to focus on streamlining and simplifying securities laws. Goal 4 captures our disciplined, outcomes-based approach to dealing with market issues in regulation and our rigorous oversight of how we spend the fees we collect from industry.

- **Goal 5: Transition to launch of the Capital Markets Regulatory Authority (CMRA)**

Goal 5 focuses on our work with government to seamlessly transition to the CMRA. Local market participants accustomed to working with the BCSC and filing documents through both local and national systems must continue to be able to access the key services they do today.

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

Market integrity is enhanced, and investors are better protected, if securities firms and companies understand and comply with their regulatory obligations. These firms and companies must have effective systems and controls in place to ensure compliance with our rules. We intervene to correct non-compliance when warranted.

**Strategy 1: Implement a derivatives regime**

- BCSC staff continued work with other CSA jurisdictions on rules necessary to implement a derivatives regime. In July 2016, rules adopted in Fiscal 2015/16 came into effect. These rules related to:
  - establishing the types of derivatives that will be subject to trade reporting and other requirements
  - trade reporting and the recognition of trade repositories
- During the first two quarters of Fiscal 2016/17, staff educated market participants and trade repositories about the requirements by holding roundtable consultations and creating educational material to ensure a successful launch of this new regime.
- As of August 2016, when the BCSC began to receive derivatives trading data, the BCSC arranged for database services and developed basic tools to help analyze trade-reporting information.
- Staff prepared and rolled out an oversight module for trade reporting. Work on an oversight module for trade repositories continues and is expected to be finalized in Fiscal 2017/18.
- Rules relating to mandatory clearing and to the protection of collateral for cleared derivatives were adopted in January 2017 and are expected to come into effect in Fiscal 2017/18.
- Rules relating to registration for derivatives dealers and advisers, market conduct, and mandatory collateral requirements for uncleared trades are expected to be published for comment in Fiscal 2017/18.

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

- In Fiscal 2015/16, the BCSC completed research with the Alberta Securities Commission (ASC) related to the client-registrant relationship to improve investor outcomes and published targeted reforms for comment with the CSA.
- During the comment period that ended in September 2016, the CSA received over 120 comment letters on the proposed targeted reforms. In November 2016, the BCSC and other CSA jurisdictions engaged in extensive roundtable consultations to provide an opportunity for

staff to gain a deeper understanding of the comments received. BCSC staff are working with their CSA colleagues on how to proceed in response to the comments. They expect to make recommendations on the various proposed reforms early in Fiscal 2017/18.

- In August 2016, the CSA announced a multi-year research project, which the BCSC leads, to measure the impacts of the Client Relationship Model, Phase 2 (CRM2) and the Point of Sale amendments on investor knowledge, attitudes, and behaviour, registrant practices, and fund fees and product offerings. The research is on track and scheduled to be completed in 2020.

### **Performance Measure 1: Percentage of reviewed companies that reduce deficiencies in their continuous disclosure**

We review company disclosure for non-compliance. Annually, we retain an independent consultant to analyze the subsequent continuous disclosure of a statistically significant random sample of companies 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 companies to improve their disclosure.

<b>Performance Measure</b>	<b>2013/14 Actual</b>	<b>2014/15 Actual</b>	<b>2015/16 Actual</b>	<b>2016/17 Target</b>	<b>2016/17 Actual<sup>1</sup></b>	<b>2017/18 Target</b>	<b>2018/19 Target</b>
Percentage of reviewed companies that improved disclosure subsequent to continuous disclosure review	100%	100%	100%	>95%	94%	>95%	>95%
Percentage of reviewed companies that improved disclosure to minimum standards	100%	100%	100%	>95%	88%	>95%	>95%

Data Source: **Independent evaluation against criteria set by BCSC staff and set out in a report.**

<sup>1</sup> 16 of 17 files showed improvement in their disclosure and 15 of 17 files met the basic standard for compliance.

### Discussion

- One issuer did not file a material contract for confidentiality reasons, chose not to seek relief from that required filing, and so did not meet the basic standard for compliant disclosure.
- Another issuer did not respond to our comment letter, then missed a filing deadline, and was subsequently cease traded.
- This measurement always lags by one year because we have to wait for the next filing cycle to evaluate the improvement in subsequent periods. For example, the actual results reported for Fiscal 2016/17 are based on the results of reviewed companies' subsequent disclosure following BCSC's continuous disclosure reviews completed during Fiscal 2015/16.

- Overall, we set targets that are practically achievable. The measures reflect compliant behaviour by companies. The 95 per cent target in the first measurement reflects that only one in 20 companies would not improve their disclosure after our review. The 95 per cent target in the second measurement reflects a similar proportion of companies that would not improve their disclosure to minimum standards.
- The results for Fiscal 2016/17 show less than 100 per cent compliance for the first time in several years. The variance this year is the result of two companies not responding, or only partially responding, to our comments.

**Performance Measure 2: Percentage of randomly sampled mining companies that meet the minimum standards for technical disclosure**

We randomly select companies from a list of B.C.-based mining companies and analyze whether the most recent technical disclosure from each of those companies complied with National Instrument 43-101 *Standards of Disclosure for Mineral Projects* (the National Mining Rule). This review shows the extent to which a sample of B.C.-based mining companies is compliant in specific areas of their technical disclosure.

<b>Performance Measure</b>	<b>2013/14 Actual</b>	<b>2014/15 Actual</b>	<b>2015/16 Actual<sup>1</sup></b>	<b>2016/17 Target</b>	<b>2016/17 Actual</b>	<b>2017/18 Target</b>	<b>2018/19 Target</b>
Percentage of randomly sampled mining companies that meet minimum standards for technical disclosure in filed disclosure (annual information forms, news releases, management discussion and analysis)	73%	75%	76%	>76%	73%	>73%	Improve on 2017/18 actual
Percentage of randomly sampled mining companies that meet minimum standards for technical disclosure in company websites, corporate presentations, and	57%	66%	63%	68%	64%	69%	Increase average by 5% over 2017/18

marketing materials							
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Data Source: **Staff evaluation against criteria set by BCSC staff and recorded over the year.**

<sup>1</sup> Based on a survey of 40 randomly selected B.C. mining companies.

#### Discussion

- We measure the degree to which B.C. mining companies meet disclosure standards by reviewing 20 separate disclosure requirements in the National Mining Rule. In our view, if an individual issuer scores 67 per cent or better across the 20 requirements, the company is making a reasonable effort to comply.
- While slightly below target, the Fiscal 2016/17 results indicate that compliance levels for both filed and voluntary disclosure are essentially unchanged. We view this level of compliance as reasonable. We saw a gradual return to more normal levels of mining technical disclosure over the past year as companies experienced greater success in raising capital resulting in new and reactivated projects. We will continue to focus many of our reviews on voluntary disclosure. We are reevaluating the measurement system and will consider whether to adjust the targets or move to a different performance measure.

### **Performance Measure 3: Average number of deficiencies per examination in Capital Markets Regulation**

Our Capital Markets Regulation division reviews securities firms that are not members of a self-regulatory organization for compliance with their regulatory obligations. Using various indicators of risk, we risk-rate our firms so that we can determine how frequently and closely to examine their compliance.

Performance Measure	2013/14 Actual	2014/15 Actual	2015/16 Actual	2016/17 Target	2016/17 Actual	2017/18 Target	2018/19 Target
Average number of deficiencies per examination in Capital Markets Regulation <sup>1</sup>	3.94	4.64	4.34	4.12	6.58	6.25	Decrease average by 5% over 2017/18

Data Source: **Data entered manually into management reporting files based on examination deficiency letters.**

<sup>1</sup> We treat an exam as complete when we hold a closing meeting with the registrant.

#### Discussion

- We chose this measure before implementing our Registrant Risk Model, which targets the riskiest firms for examinations. At that time, the measure was designed to decrease the target as a sign of increased industry compliance. A five per cent year-over-year reduction was ambitious then and is increasingly so now that we use the Registrant Risk Model.
- We did not meet this target. In Fiscal 2016/17, we observed a much higher number of compliance deficiencies than in previous years. We selected firms for review using a predictive risk-based model to indicate firms that pose a higher risk of being in breach of securities legislation. We have been using this risk model for several years now. As the model has been populated with data and we have become more attuned to accurate risk predictors, we

have become better predictors of firms that pose the highest risk of being in breach of securities legislation.

- For this reason, we expect to see more compliance deficiencies than was historically the case. As a result, we will need to reevaluate our compliance examination target assessment.

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

We aim to achieve timely enforcement through early intervention and pursue 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 penalties to be imposed, including prison sentences, which help deter serious misconduct.

### **Strategy 3: Upgrading approach to investigating insider trading**

- The BCSC developed a new risk model that scores insider trading referrals from the Investment Industry Regulatory Organization of Canada (IIROC) for our investigation unit. This risk model went live in June 2016.

### **Performance Measure 4: Actions taken to disrupt misconduct**

This measure focuses our efforts on early detection and shows our ability to take early action to stop the misconduct. We can significantly reduce harm to the public when we can identify and act quickly to disrupt misconduct. We aim to stop illegal investment schemes before they harm investors, and prevent further participation in existing schemes. Disruptive action provides a visible, valuable benefit to the public.

<b>Performance Measure</b>	<b>2013/14 Actual<sup>1</sup></b>	<b>2014/15 Actual</b>	<b>2015/16 Actual</b>	<b>2016/17 Target</b>	<b>2016/17 Actual</b>	<b>2017/18 Target</b>	<b>2018/19 Target</b>
Number of actions	140	127	85 <sup>2</sup>	94 <sup>3</sup>	86	94	Increase 10% over 2017/18
Average duration of complaint to action (in days)	72	72	48 <sup>2</sup>	43 <sup>3</sup>	66	60	Decrease average by 10% over 2017/18

Data Source: **Data recorded in established tracking systems.**

<sup>1</sup> Fiscal 2013/14 should be considered a benchmark for this measure as we changed the approach to measurement in Fiscal 2013/14. The BCSC's Enforcement Case Management system has improved our ability to capture these actions.

<sup>2</sup> In this report, we revised down the actual Fiscal 2015/16 numbers due to mathematical calculation errors in the 2015/16 actual numbers reported in the previous annual report. See discussion below.

<sup>3</sup> We amended the 2016/17 targets to a 10 per cent increase over the corrected 2015/16 actual number of actions and a 10 per cent decrease over the updated 2015/16 actual duration of complaint to action.

### **Discussion**

- We did not meet these targets.

- The primary reason for not achieving the target number of disruptive actions is that we opened fewer cases in Fiscal 2016/17 than we did in either Fiscal 2015/16 or Fiscal 2014/15. Fewer cases mean fewer disruptive actions. The secondary reason is that not all cases lead to disruptive actions.
- The reason for the increase in duration is that certain disruptive actions take longer to complete than others. Some disruptive actions can occur almost immediately, while others take significantly longer than average to prepare and complete. In Fiscal 2016/17, two disruptive actions fell into the latter category, which negatively affected our results.
- We track a specific number of intervention types and measure how long it took us to implement the intervention from the opening of the complaint. We measure this by capturing the first disruptive action taken within one year of the case opening and the time taken to implement the disruptive action. Disruptive actions include temporary orders, freeze orders, production orders, and halt trade orders.
- The number of actions recorded in the Annual Report for Fiscal 2015/16 was 180. This number incorrectly captured all of the disruptive actions taken during the fiscal year, not just the first instance of the disruptive action. The number of actions and the average duration have been corrected to reflect correct methodology.
- Due to the changes to the 2015/16 numbers, the targets for 2016/17 and 2017/18 have been adjusted.
- The actions available, and time needed to take them, varies with the nature of the files open in a given year.

#### Performance Measure 5: Timely resolution of enforcement cases

This measure is an indicator of timely enforcement by measuring the average duration of administrative enforcement processes.

Performance Measure	2014/15 Actual	2015/16 Actual	2016/17 Target	2016/17 Actual	2017/18 Target	2018/19 Target
Average life (in months) of cases either from complaint to NOH or from complaint to settlement before NOH is issued	20.3	25.6	22	31.9	30.4 <sup>1</sup>	Set according to review

Data Source: **Data recorded in established tracking systems, primarily BCSC Enforcement Case Tracking system, and in official documents.**

<sup>1</sup> We base the 2017/18 target on our current portfolio of cases, and on the likelihood that an NOH or settlement agreement will be issued within the next 12 months.

#### Discussion

- We measure the average case duration from complaint to issuance of a notice of hearing (NOH) or, absent an NOH, a settlement agreement.
- In Fiscal 2016/17, we experienced an increase in the time taken to issue an NOH or settlement agreement. This was due, in part, to increases in case complexity, delays receiving documents, and delays obtaining testimony from witnesses.

**Goal 3: Educate investors**

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 and to recognize, reject, and report those that are unsuitable for them or potentially fraudulent.

**Strategy 4: Public Awareness Campaign**

With CRM2 now mandating disclosure transparency, we want B.C. investors to benefit from the fee and performance information available to them by understanding the investment fees they pay and the impact of those fees on their returns over time.

- To support new fee and performance disclosure required under the CRM2, we launched a three-year public awareness campaign focused on fees.
- The Take a Look campaign featured an online fee quiz and fee comparison calculator designed to increase investor understanding of investment fees and to enable investors to see for themselves the impact of even small fee differences on their investments over time.
- We supported these and other tools and information with an integrated media campaign that included television, digital, and social media advertising, and an active social media program on Facebook, Twitter, and YouTube.
- During RRSP season, we augmented the fees campaign reach with proactive media relations to release new B.C. research into investor readiness for better fee information.
- During Fraud Prevention Month in March 2017, we released our second musical fraud video featuring a fraudster singing the song, “*I’m Comin’ to Rip You Off*”. By year-end, this video had received 20 per cent more views than the previous year’s BeFraudAware musical video.

**Performance Measure 6: Contacts to BCSC Inquiries triggered by InvestRight activities**

Performance Measure	2014/15 Baseline	2015/16 Actual	2016/17 Target	2016/17 Actual	2017/18 Target	2018/19 Target
RETIRE: Number of phone contacts to BCSC Inquiries triggered by InvestRight activity	40	24	25	42	Discontinue	

Data Source: Data recorded in tracking system from inquiries via phone calls.

**Discussion**

- We met this target and have discontinued the 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.

### Performance Measure 7: Percentage of workshop participants who recall the warning signs of investment fraud

We deliver investor education workshops to B.C. residents, primarily seniors and pre-retirees. Our goal is to grow awareness of the warning signs of investment fraud. We send a follow-up email survey at the end of each quarter to seminar participants who have agreed to be contacted. To determine the effectiveness of our seminars as learning opportunities, the survey asks questions that test the respondents' ability to apply what they were taught about the warning signs of investment fraud.

Performance Measure	2015/16 Baseline	2016/17 Target	2016/17 Actual	2017/18 Target	2018/19 Target
Percentage of workshop participants who recall the warning signs of investment fraud	39%	42%	52% <sup>1</sup>	55%	Increase 3% over 2017/18

Data Source: **Online survey with results stored and analyzed electronically.**

<sup>1</sup> Combines those surveyed who recalled three warning signs (22 percent) with those who recalled four (30 percent). A further 35 per cent recalled all five warning signs. This keeps our reporting consistent with last year.

#### Discussion

- We want British Columbians to fraud-proof themselves by recognizing and rejecting investment fraud. Recognizing the warning signs of a possible scam is an important first step towards this long-term goal.
- The average seminar attendance in Fiscal 2016/17 was 48 attendees. This compared well to previous years' attendance averages (Fiscal 2015/16–38; Fiscal 2014/15–36; Fiscal 2013/14–49).
- The conversion rate (those who completed our follow-up surveys compared to those who agreed to be contacted) was 56 per cent and rose compared to previous years (Fiscal 2015/16–38 per cent; Fiscal 2014/15–42 per cent; Fiscal 2013/14–29 per cent).

### Performance Measure 8: Percentage of B.C. public aware of BCSC

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 British Columbians 18 years and older in keeping with the BCSC's province-wide mandate and because investment fraud can happen at any age to anyone with savings and/or other assets.

Performance Measure	2013/14 Actual	2014/15 Actual	2015/16 Actual	2016/17 Target	2016/17 Actual <sup>1</sup>	2017/18 Target	2018/19 Target
Very or somewhat familiar	49%	34%	36%	>45%	33%	>45%	>45%

Data Source: **Independent survey. Data received by BCSC in report form.**

<sup>1</sup> While the general population of B.C. adults 18 years and older showed 33 per cent awareness this year, awareness was 49 per cent among those who recall seeing at least one BCSC InvestRight advertisement in the previous six months as part of the Take a Look at Fees public awareness campaign.

## Discussion

- We did not meet this target because we reduced our media budget by 75 per cent in Fiscal 2014/15 and have retained this significantly lower budget since then. We are reevaluating the measurement and will consider whether to adjust the measurement or the target.
- We report on aided awareness by asking the following question: “As you may know, there is a provincial agency in British Columbia responsible for regulating securities investments called the BC Securities Commission. Now that we have mentioned the BC Securities Commission, how familiar would you say you are with this agency?”
- We collect this information as part of an annual online survey to measure awareness, recall, and impact of our public awareness campaigns among 2,000 British Columbians aged 18 years and older.

### **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. We aim to provide strong investor protection and market integrity for the least cost.

### **Strategy 5: CSA systems redesign**

Our goals are threefold: to improve filer and filings management, by consolidating shared systems; to simplify filing processes, by providing a single point of entry for market participants; and to support initiatives that increase our regulatory effectiveness, by increasing filings data quality.

- The BCSC, ASC, Ontario Securities Commission (OSC), and Autorité des marchés financiers (the Principal Administrators or PAs) jointly manage the CSA’s shared information systems.
- The Fiscal 2016/17 strategy included two distinct system redevelopment projects that the PAs are undertaking; the National System Renewal Project (NSRP), and the Market Analysis Platform (MAP).
- On NSRP, during Fiscal 2016/17, the PAs began working with vendors to replace seven national systems (including the System for Electronic Document Analysis and Retrieval (SEDAR), the System for Electronic Disclosure by Insiders (SEDI), and the National Registration Database (NRD)) and two local systems with one new system, completing the following work:
  - Selecting the software that the new system will use, documenting the business processes that the new system will run, and beginning to define the system’s configuration and related data migration and integration requirements
  - Approving high-level business requirements for the new system for what the new system will do
  - Beginning to work with the vendor on detailed specifications for how the new system will work behind the scenes
- On MAP, during Fiscal 2016/17:
  - The PAs completed the business case and high level business requirements for the new system.
  - The PAs issued a request for proposal to solicit competitive bids for a new system, including integration and implementation services to design, develop, and evolve the system as well as related infrastructure hosting and application support services.

**Strategy 6: CSA exempt distribution report harmonization project**

- The BCSC, together with other CSA jurisdictions, adopted a harmonized Form 45-106F1 Report of exempt distribution (F1), effective on June 30, 2016. To accommodate the filing of the new F1, the BCSC developed and implemented a web-form version of the F1 under existing eServices and updated internal systems for staff review. Data from the new F1 is being stored in databases and used in business intelligence systems.
- The purchaser information from the F1 schedule requires data cleansing to ensure the consistency of the data in BCSC databases. The technical modifications required for this data cleansing have been moved into a second phase of the project, as has the development of a staff dashboard to streamline the review process. The requirements for the second phase are complete and the updated internal process will start in Fiscal 2017/18.
- Risk Model 3, the exempt distribution model, was updated to accommodate the new information in the F1 and may need further adjustments as part of the completion of the second phase.

**Performance Measure 9: Average score on cost-effective regulation scorecard**

To measure cost-effective regulation, we use a scorecard that tracks 16 aspects of best practices related to problem definition, rule-creation, and effective rule-writing.

Performance Measure	2013/14 Actual	2014/15 Actual	2015/16 Actual	2016/17 Target	2016/17 Actual <sup>1</sup>	2017/18 Target	2018/19 Target
Average score on cost-effective regulation scorecard	95%	97%	98%	>90%	94%	>90%	>90%

Data Source: **Internal evaluation based on staff and management judgment and project documents.**

<sup>1</sup> In Fiscal 2016/17, we had 11 policy projects that qualified for review.

**Discussion**

- We report the average score of all the projects completed each year. This analysis does not include rules that we adopt purely to harmonize with other jurisdictions, that were simple exemptions, or where we were fully reliant.
- The target of greater than 90 per cent is set so that, on average, we achieve our objectives if we hit the standards on the scorecard in all but one area.

**Performance Measure 10: Average approved project post-implementation score**

We assess each local Information Technology (IT)-enabled 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.

<b>Performance Measure</b>	<b>2013/14 Actual</b>	<b>2014/15 Actual</b>	<b>2015/16 Actual</b>	<b>2016/17 Target</b>	<b>2016/17 Actual<sup>1</sup></b>	<b>2017/18 Target</b>	<b>2018/19 Target</b>
Average approved project post-implementation score	90%	88%	100%	>80%	100%	>80%	>80%

Data Source: **Internal accounting system, internal asset management systems, and internal evaluation based on staff and management judgment and documented results.**

<sup>1</sup> In Fiscal 2016/17, we assessed one IT-enabled project.

#### Discussion

- We met this target. Our objective is to execute our IT-enabled projects efficiently and effectively. We recognize that there will frequently be issues from which we can learn. We consider an 80 per cent post-implementation score evidence of a successful and well-run project.

#### ***Goal 5: Transition to launch of the CMRA***

The strategies under this goal summarize the legislative and operational work required to launch the CMRA. Teams under strategies seven through 12 are structured with BCSC and OSC staff as co-leads, or with staff from the Capital Markets Authority Implementation Organization taking the lead, with support from membership across CMRA participating jurisdictions.

#### **Strategy 7: Assist in the development of the CMRA legislative framework**

#### **Strategy 8: Prepare for new regulatory processes under CMRA**

#### **Strategy 9: Prepare for new enforcement processes under CMRA**

#### **Strategy 10: Prepare tribunal structure under CMRA**

#### **Strategy 11: Educate external stakeholders to prepare them for CMRA**

#### **Strategy 12: Address internal needs for transitioning to CMRA**

The BCSC is working with the B.C. government, and the governments and regulatory staff from New Brunswick, Ontario, Prince Edward Island, Saskatchewan, and Yukon, as well as the federal government, to successfully launch the CMRA. The work is being done by following the principles the governments agreed to in the MOA, including that market participants and regulatory staff in all participating jurisdictions will experience a seamless transition from today's regulatory regimes to the CMRA.

## **Discussion of Results**

For the Year Ended March 31, 2017

We prepared this discussion of financial position and results of operations of the British Columbia Securities Commission (BCSC) on May 4, 2017. Read it in conjunction with our audited financial statements for the year ended March 31, 2017.

We report in Canadian dollars. We round totals and percentages. Year references are to fiscal years ending March 31.

Budget figures presented for the year ended March 31, 2017 are from the revised budget approved by the government on January 26, 2017.

BCSC is the provincial crown corporation responsible for regulating B.C. capital market activity. Results include 25% of a government partnership (Partnership) that operates certain shared information systems. We refer to all other operating results as local (Local).

## Discussion of Results

For the Year Ended March 31, 2017

### Financial Results Summary

<i>(millions)</i>	2013	2014	2015	2016	2017			
	Actual	Actual	Actual	Actual	Budget	Actual	vs Budget	vs 2016
<b>Revenue</b>								
Regulatory and other local fees:								
Prospectus and other distributions	\$ 18.3	\$ 20.9	\$ 20.5	\$ 23.7	\$ 21.9	\$ 23.9	\$ 2.0	\$ 0.2
Registration	11.1	11.1	11.4	11.6	11.8	11.9	0.1	0.3
Financial filings	4.7	5.0	4.8	4.9	4.5	4.6	0.1	(0.3)
Exemptive orders and other fees	0.2	0.2	0.2	0.2	0.2	0.4	0.2	0.2
	\$ 34.2	\$ 37.2	\$ 36.9	\$ 40.4	\$ 38.4	\$ 40.7	\$ 2.3	\$ 0.3
Other revenue:								
National systems access and usage fees	\$ –	\$ 36.3	\$ 6.4	\$ 6.4	\$ 6.3	\$ 6.2	\$ (0.1)	\$ (0.2)
Enforcement sanctions	1.0	0.7	1.0	0.2	0.6	1.0	0.4	0.8
Investment income	2.2	0.9	1.2	1.4	0.7	0.9	0.2	(0.5)
	\$ 3.2	\$ 37.9	\$ 8.6	\$ 8.0	\$ 7.6	\$ 8.1	\$ 0.5	\$ 0.1
<b>Total revenue</b>	<b>\$ 37.4</b>	<b>\$ 75.1</b>	<b>\$ 45.4</b>	<b>\$ 48.4</b>	<b>\$ 46.0</b>	<b>\$ 48.8</b>	<b>\$ 2.8</b>	<b>\$ 0.4</b>
<b>Expenses</b>								
Salaries and benefits	\$ 27.0	\$ 28.8	\$ 30.8	\$ 30.6	\$ 31.8	\$ 30.7	\$ (1.1)	\$ 0.1
Other expenses	11.5	12.0	11.0	11.8	12.1	12.0	(0.1)	0.2
National systems expenses	–	7.6	3.5	4.0	4.3	3.9	(0.4)	(0.1)
<b>Total expenses</b>	<b>\$ 38.5</b>	<b>\$ 48.5</b>	<b>\$ 45.3</b>	<b>\$ 46.5</b>	<b>\$ 48.2</b>	<b>\$ 46.6</b>	<b>\$ (1.6)</b>	<b>\$ 0.2</b>
<b>Surplus (deficit)</b>	<b>\$ (1.1)</b>	<b>\$ 26.6</b>	<b>\$ 0.1</b>	<b>\$ 1.9</b>	<b>\$ (2.2)</b>	<b>\$ 2.2</b>	<b>\$ 4.4</b>	<b>\$ 0.2</b>
<b>Supplementary Information</b>								
Unrestricted surplus	\$ 31.4	\$ 28.8	\$ 26.7	\$ 25.0	\$ 20.8	\$ 24.2	\$ 3.4	\$ (0.8)
Restricted surplus	\$ –	\$ 28.9	\$ 32.2	\$ 35.0	\$ 37.4	\$ 37.9	\$ 0.5	\$ 2.9
Local capital expenditures	\$ 4.2	\$ 5.2	\$ 2.9	\$ 1.6	\$ 1.8	\$ 1.1	\$ (0.7)	\$ (0.5)
Partnership capital expenditures	\$ –	\$ 0.2	\$ 0.2	\$ 0.3	\$ 5.9	\$ 3.3	\$ (2.6)	\$ 3.0
Debt	–	–	–	–	–	–	–	–

## Discussion of Results

For the Year Ended March 31, 2017

The consolidated results from operations for the year ended March 31, 2017 were a \$2.2 million surplus, \$4.4 million above budget. The total surplus is comprised of \$0.7 million Local deficit and \$2.9 Partnership surplus.

The key budget variances were:

- Exempt market (EDER) filing revenues were \$1.9 million (48%) above budget. Most of the variance was from higher fees paid by private funds that report annually. This revenue stream is volatile and we receive most fees in the last quarter every year.
- Sanctions receipts were \$0.4 million (59%) higher than budgeted. Revenues depend on the timing and nature of enforcement actions completed during the year.
- Compensation costs were \$1.1 million (3%) below budget, primarily due to higher than expected vacancies partly offset by higher benefits costs.
- National system expenses were \$0.4 million (9%) below budget relating primarily to lower expenditures on professional services.

Local capital spending related primarily to e-filing system changes to implement a new EDER filing form, and networking equipment replacements. Local capital spending was \$0.6 million (33%) below budget. We delayed work on the last phase of our EDER project to free staff time to support the CSA national systems renewal project.

Partnership capital spending on information technology was \$3.3 million compared to budget of \$5.9 million. This variance occurred because work on the CSA national systems renewal project started later than planned.

## Revenues

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*. Our revenue also includes 25% of the national systems access and usage fees earned by the Partnership. The remainder of our revenue is Local and Partnership investment income and Local enforcement sanctions.

## Discussion of Results

For the Year Ended March 31, 2017

The following table details the proportion of total revenue by source and year:

	2013	2014	2015	2016	2017
Prospectus and other distributions	49%	41%	45%	49%	50%
Registration	30%	22%	25%	25%	25%
Financial filings	13%	10%	11%	10%	10%
National system access and usage fees	0%	25%	15%	14%	13%
Other	3%	1%	2%	0%	2%
<b>Total revenue</b>	100%	100%	100%	100%	100%

### Local fee revenue

We collect the following fees:

- *Distribution fees*, from companies and mutual funds, to file disclosure documents, which can include fees related to the amount, called proceeds, of the offering
- *Registration fees*, from firms and individuals, to register with us to sell or advise on securities
- *Financial filings fees*, from public companies and mutual funds, to file annual and interim financial statements
- *Other fees*, from market participants, primarily to request *Securities Act* exemptions

### Enforcement sanctions

We assess and collect sanctions relating to *Securities Act* enforcement matters. We allocate such receipts to our education fund, an internally restricted fund. We spend education reserve funds only to educate securities market participants and the public about investing, financial matters, and the operation and regulation of securities markets.

Collecting sanctions is difficult. Respondents often have limited assets, or cannot be found. We have collected less than 5% of the amounts sanctioned since our incorporation on April 1, 1995. We pursue outstanding amounts vigorously. However, of the \$478 million outstanding, only \$0.1 million is likely collectible and accrued in our financial statements. About 74% (\$356 million) of the outstanding sanctions relates to eleven cases. Over 49% (\$238 million) of the outstanding sanctions relates to 161(1)(g) orders.

Enforcement sanctions revenue varies significantly between periods.

## Discussion of Results

For the Year Ended March 31, 2017

### Investment income

Our prime investment objectives are capital preservation and liquidity to meet our expenditure commitments. We invest any money that we receive relating to local operations, but do not immediately need, in investment pools managed by the British Columbia Investment Management Corporation. The Partnership's investments are in redeemable term deposits and guaranteed investment certificates.

### Local revenue analysis

Prospectus and other distribution revenue was \$2.0 million (9%) higher than budget. The positive variance was due primarily to \$1.9 million (48%) higher fees from exempt market capital raising and \$0.3 million (22%) higher fees from prospectus amendment filings.

Sanctions receipts were \$0.4 million (59%) higher than expected. Revenues depend on the timing and nature of enforcement actions completed during the year.

### Local revenues

(thousands)	2017 versus Budget				2017 versus 2016			
	Actual	Budget	Variance	%	2017	2016	Variance	%
Distribution	\$ 23,867	\$ 21,900	\$ 1,967	9%	\$ 23,867	\$ 23,693	\$ 174	1%
Registrations	11,892	11,800	92	1%	11,892	11,633	259	2%
Financial filings	4,605	4,500	105	2%	4,605	4,899	(294)	(6%)
Exemptions and others	197	200	(3)	(1%)	197	216	(19)	(9%)
Enforcement sanctions	952	600	352	59%	952	199	753	378%
Investment income	517	300	217	72%	517	984	(467)	(47%)
	\$ 42,031	\$ 39,300	\$ 2,731	7%	\$ 42,031	\$ 41,625	\$ 407	1%

Regulatory and other local fee revenues were very similar to the prior year, with small increases in prospectus and other distribution fee revenue, and registration revenue, partially offset by a decrease of \$0.3 million (6%) in financial filings fee revenue.

Sanctions revenue, which as previously noted is volatile, was \$0.8 million (378%) higher than the prior year.

Investment income was \$0.5 million lower due to higher realized gains on investment in the prior year.

## **Discussion of Results**

For the Year Ended March 31, 2017

### **Expenses**

Expenses relate to Local operations and Partnership operations.

Compensation and occupancy costs account for about 80% of Local expenses.

Most Partnership expenses are fees paid to the contracted IT service provider, and the compensation of Partnership employees.

Local and Partnership operations are exempt from income taxes. Locally, we pay PST (7%) and GST (5%) on taxable purchases, but recover the GST. Partnership fees are HST-exempt and the Partnership pays recoverable HST on taxable purchases.

The BCSC seconded certain employees and provides administrative support, on a cost recovery basis, to the Canadian Securities Regulation Regime Transition Office (CSTO) and Capital Markets Authority Implementation Organization (CMAIO). These arrangements support the BC government's Cooperative System initiative, which is distinct from the BCSC's regulatory mandate. We net reimbursements (\$1.1 M in fiscal 2017) against the corresponding salaries and benefits costs.

#### **Local salaries and benefits**

Employee compensation accounts for over 70% of Local expenses. We compete for professional staff with law and accounting firms, the securities industry, and other regulators. Like most of our competitors, our compensation package includes performance-based salary increases. To remain competitive, we conduct periodic salary surveys and make adjustments as appropriate.

#### **Local occupancy costs**

We run local operations from a downtown Vancouver office to be close to the market participants that we regulate. Our 61,000 square feet of space cost us about \$52 per square foot for 2017, under a lease that expires in November 2021.

## **Discussion of Results**

For the Year Ended March 31, 2017

### **Local professional services**

We engage consultants when outsourcing is more cost-effective than performing the work ourselves. Fiscal 2017 professional service costs related primarily to the following:

- Legal services
- 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
- Internal and external audit services

### **Local education**

We educate securities market participants and the public about financial literacy, investment fraud, and the operation and regulation of securities markets. Most 2017 education spending was on investor education.

### **Local depreciation and capital spending**

Our Local capital spending and related depreciation relate primarily to information systems.

### **Local information management**

Our information management costs include fees for software licensing and maintenance and electronic information services.

## Discussion of Results

For the Year Ended March 31, 2017

### Local expense analysis

Local expenses were \$1.2 million (3%) below budget, primarily due to lower compensation costs.

Salaries and benefits costs were \$1.1 million (3%) lower than budget primarily due to higher than expected vacancies partly offset by higher benefits costs.

Other operating expenses include administration, telecommunications, business travel, training, and external communications.

#### Local expenses

<i>(thousands)</i>	2017 versus Budget				2017 versus 2016			
	Actual	Budget	Variance	%	2017	2016	Variance	%
Salaries	\$ 30,705	\$ 31,800	\$ (1,095)	(3%)	\$ 30,705	\$ 30,649	\$ 56	–
Professional services	1,822	2,000	(178)	(9%)	1,822	2,358	(536)	(23%)
Occupancy	3,176	3,150	26	1%	3,176	3,117	59	2%
Depreciation	2,975	2,900	75	3%	2,975	2,780	195	7%
Information management	1,763	1,750	13	1%	1,763	1,456	307	21%
Education	729	750	(21)	(3%)	729	762	(33)	(4%)
Other	1,534	1,550	(16)	(1%)	1,534	1,356	178	13%
	\$ 42,703	\$ 43,900	\$ (1,197)	(3%)	\$ 42,703	\$ 42,478	\$ 225	1%

Local expenses increased \$0.2 million (1%) from 2016, primarily due to higher information management, depreciation, and other expenses, partly offset by lower professional fees.

Information management expenses increased \$0.3 million (21%) due to new service fees for reporting derivative transactions.

Depreciation increased \$0.2 million (7%) due to increased capital spending in prior fiscal years.

Professional fees decreased \$0.5 million (23%) due to fewer contracted services for capital projects.

Salaries expense increased \$0.1 million (0.2%). Staff received average 1.7% merit increases, costing \$0.5 million. A decrease in the number of employees from an average of 238 full-time equivalents for the year ended March 31, 2016 to an average of 224 for the year ended March 31, 2017 resulted in savings compared to the prior year, but was partly offset by higher benefits costs.

## Discussion of Results

For the Year Ended March 31, 2017

### Partnership

Effective April 2, 2013, the BCSC, together with the Alberta Securities Commission, Ontario Securities Commission, and the Autorité des marchés financiers (collectively, the Principal Administrators or PAs), agreed to oversee certain shared information systems on behalf of the Canadian Securities Administrators. Each of the four PAs has one vote on national electronic systems matters. The Partnership is a government partnership under Canadian public sector accounting standards. Accordingly, we consolidate twenty-five percent of Partnership assets and operations.

#### *Partnership operations*

<i>(thousands)</i>	2016 Actual	2017			
		Budget	Actual	vs Budget	vs 2016
National systems access & usage fees	\$ 6,200	\$ 6,300	\$ 6,200	\$ (100)	\$ –
Partnership investment income	400	400	427	27	27
Other revenue	150	125	200	75	50
National systems expenses	4,000	4,300	3,882	418	118
Surplus	\$ 2,750	\$ 2,525	\$ 2,945	\$ 420	\$ 195

National system expenses were \$0.4 million (9%) below budget relating primarily to lower expenditures on outsourced services.

## **Discussion of Results**

For the Year Ended March 31, 2017

### **Financial position and liquidity**

#### **Use of financial instruments**

Local and Partnership operations do not use or invest in complex or higher risk financial instruments. In management's opinion, our investments do not expose the BCSC to significant credit risk because we invest in liquid, high quality money market instruments, government securities, and investment-grade corporate debt securities. Liquidity risk is also low because our investments are in pooled fund units redeemable within two weeks, without penalty. However, our Local investments do expose us to interest rate risk.

An immediate 1% interest rate increase would decrease our investment portfolio value by about \$1.1 million. However, we expect rates to increase slowly, if at all, over the coming year, and rate increases would also increase future investment income. We manage interest rate risk by monitoring portfolio duration and yields with the fund administrator. The current investment duration of the Short Term Bond Fund is 2.8 years and of the Canadian Universe Bond Fund is 7.7 years.

#### **Consolidated liquidity**

Cash flow for the period was negative \$19.3 million (fiscal 2016 – positive \$16.4 million). Negative cash flows were due to \$20.3 million net purchase of investments and \$4.5 million of capital asset acquisitions partly offset by \$5.4 million cash inflow provided by operations. We ended the year with \$10.1 million (March 31, 2016 – \$29.4 million) in cash.

Cash flows from local operations were a \$2.5 million net inflow from operations, offset by capital purchases of \$1.1 million and \$1.5 million net purchases of investments, for a net outflow of \$0.1 million.

#### **Consolidated assets**

Amounts receivable increased \$0.6 million to \$1.6 million (March 31, 2016 – \$1.1 million) due to higher partnership receivables relating primarily to systems usage fees. Local receivables relate primarily to enforcement sanctions, GST receivable, national project cost recoveries, and amounts due from the CSTO and CMAIO for reimbursement of costs of seconded BCSC employees and administrative support provided by the BCSC.

Capital assets increased \$1.3 million to \$11.4 million, net of \$3.1 million depreciation. Local capital spending of \$1.1 million related primarily to e-filing system changes to implement a new Exempt Distribution filing form (\$0.4 million) and networking equipment replacements (\$0.4 million).

## Discussion of Results

For the Year Ended March 31, 2017

Prepaid expenses decreased slightly to \$0.9 million (March 31, 2016 – \$1.0 million). Prepaid expenses relate primarily to information services and maintenance contracts for hardware and software.

We ended the year with a \$62.1 million accumulated surplus (March 31, 2016 – \$59.9 million).

### Contractual obligations

Our significant Local contractual obligations at March 31, 2017 relate to our office lease and multi-function devices. Our commitments under those contracts total approximately \$15.5 million (March 31, 2016 – \$18.5 million), as follows:

	2018	2019-2020	2021-2022	Total
Leased space and equipment	\$ 3,217,693	\$ 6,594,456	\$ 5,703,882	\$ 15,516,031

The Partnership's agreement with CGI to host and maintain the national systems has an initial term of five years, expiring on January 13, 2019, and is extendible for up to three additional years. The Partnership has certain rights to terminate the agreement, with and without cause.

During the year, the Partnership signed an agreement with CGI to replace the national systems with one system. Development is occurring in a multi-year phased approach. The Partnership has certain rights to terminate the agreement, with and without cause.

The BCSC has committed to pay 25% of any claim or expenses related to operation and redevelopment of the national systems that exceed the Partnership's surplus funds.

## **Discussion of Results**

For the Year Ended March 31, 2017

### **Internal control over financial reporting (ICFR)**

During the year, we reviewed our ICFR processes and updated documentation where necessary. No changes occurred during the year ended March 31, 2017 that materially affected, or are likely to materially affect, our ICFR. Our internal auditors tested operating effectiveness of our ICFR as at March 31, 2017 and concluded that the ICFR was operating effectively and that there are no material weaknesses.

### **Risk management**

#### **Risk management approach**

We practice enterprise risk management (ERM) to identify and manage our risks. Our ERM process updates the Board on key risks and supports our strategic planning process. We maintain a business continuity plan to restore critical functions within hours.

#### **Local fee revenue**

Capital markets activity can be volatile, so we hold accumulated reserves to fund operations through market downturns. We designed our fee model to generate sufficient revenue to fund our operations through market cycles, so that our regulatory capacity is not compromised during a sustained downturn.

#### **Partnership revenue**

The Partnership funds operations primarily from fees paid by market participants. Market volatility does not significantly affect fees. In addition, the Partnership has an accumulated surplus sufficient to fund operations through a sustained period of no or low usage fees.

#### **Reliance on CGI**

Under an agreement with CGI Information Systems and Management Consultants Inc. (CGI) that ends on January 13, 2019, CGI operates several national systems through which we collect most of our fee revenue. CGI maintains a comprehensive business continuity plan for these systems.

## **Discussion of Results**

For the Year Ended March 31, 2017

### **Compensation structure**

We are accountable to the provincial legislature and the public through the Minister of Finance. Our compensation plan requires Public Sector Employers' Council approval.

The BCSC manages its compensation through effective internal governance policies and practices, including as follows:

- Our Audit and Human Resources committees comprise only independent commissioners appointed by the Lieutenant Governor-in-Council
- The Audit Committee oversees the BCSC's annual budget and the Human Resources Committee oversees the design and administration of BCSC performance management and compensation practices
- Semi-annually, the Human Resources Committee reviews the Chair's performance against her objectives. In consultation with the Chair, the Human Resources Committee reviews the performance of other executives and senior managers
- The Human Resources Committee recommends, for board approval, the Chair's compensation
- The Chair and Executive Director consult the Human Resources Committee on the compensation of other executives and senior managers

### **Compensation philosophy**

Our compensation philosophy reflects the following principles:

- Compensation decisions should be objective
- Compensation should reflect job attributes
- Compensation should reflect performance
- Employees and the public should understand our compensation program

We strive to offer median compensation.

For roles that require securities industry expertise, we benchmark against law and accounting firms, the securities industry, and other securities regulators. For other roles, we benchmark against competing public sector organizations including the Financial Institutions Commission, other provinces, and against private sector organizations when comparable public sector benchmarks are not available. To remain competitive, we conduct periodic salary surveys and propose adjustments when surveyed position salaries are significantly below the median.

We award performance-based salary increases. We meet with employees to review and formally document their performance, at least annually.

We maintain a comprehensive compensation and performance management policy for employees. We publish our policy for compensating independent commissioners, an annual Financial Information Act report, and annual executive compensation disclosure.

## Discussion of Results

For the Year Ended March 31, 2017

### Fiscal 2017 compensation summary

#### Executive and Senior Management Compensation

	Salary	Benefits <sup>1</sup>	Pension	Parking	2017 Total	2016
Brenda M. Leong, Chair and Chief Executive Officer	\$ 436,420	\$ 14,269	\$ 46,871	\$ 6,969	\$ 504,529	\$ 499,251
Nigel P. Cave, Vice Chair	\$ 328,258	\$ 12,344	\$ –	\$ –	\$ 340,602	\$ 339,321
Peter J. Brady, Executive Director <sup>2</sup>	\$ 284,805	\$ 12,589	\$ 30,300	\$ 4,593	\$ 332,287	\$ 270,877
John Hinze, Director, Corporate Services	\$ 228,853	\$ 12,059	\$ 24,160	\$ –	\$ 265,071	\$ 253,823
Mark Wang, Director, Capital Markets Regulation <sup>3</sup>	\$ 205,789	\$ 11,572	\$ 21,637	\$ 4,593	\$ 243,590	\$ 217,339

#### Independent Commissioner Compensation <sup>4</sup>

	Fees	Benefits <sup>5</sup>	2017 Total	2016
Judith Downes	\$ 75,950	\$ 2,978	\$ 78,928	\$ 87,210
George C. Glover Jr.	\$ 81,925	\$ 134	\$ 82,059	\$ 112,861
Audrey T. Ho	\$ 83,675	\$ 2,365	\$ 86,040	\$ 105,304
Gordon L. Holloway	\$ 54,988	\$ 1,761	\$ 56,749	\$ 76,615
Don Rowlatt	\$ 76,075	\$ 116	\$ 76,191	\$ 79,222
Suzanne K. Wiltshire	\$ 92,325	\$ 1,106	\$ 93,431	\$ 136,947

<sup>1</sup> Benefits includes long-term disability plan premiums, Canada Pension Plan premiums, extended health and dental plan premiums, Medical Services Plan premiums, Employment Insurance premiums, Worksafe premiums, group life insurance premiums, and wellness program reimbursements.

<sup>2</sup> Appointed Executive Director effective September 7, 2016; previously Director, Enforcement.

<sup>3</sup> Appointed Director, Capital Markets Regulation effective February 1, 2016; previously Manager, Legal Services.

<sup>4</sup> These are part-time positions. Commissioner fees are for all activities including attendance at meetings and hearings. Our [Independent Commissioner compensation policy](#) is located on the BCSC website.

<sup>5</sup> Benefits includes Canada Pension Plan and Worksafe premiums.

## Management's Responsibility for Financial Reporting

Management is responsible for the integrity and fair presentation of the financial statements and other financial information included in this annual report. Management has prepared the financial statements in accordance with Canadian public sector accounting standards (PSAS).

We oversaw the design of internal controls to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with PSAS. We also directed the evaluation of the effectiveness of these internal controls and we are not aware of any material weakness in these controls.

We believe that the financial statements and other financial information in this annual report fairly present in all material respects the financial condition, results of operations and cash flows of the British Columbia Securities Commission (BCSC) as of the dates and for the periods presented. The preparation of financial statements necessarily involves the use of estimates, which have been made using careful judgment. It is possible that circumstances will cause actual results to differ. We do not believe it is likely that any differences will be material.

The Board is responsible for ensuring that management fulfills its financial reporting and control responsibilities, and has appointed an independent Audit Committee to oversee the financial reporting process. The Audit Committee meets regularly throughout the year with management, the internal auditors and the external auditors to review the financial statements, adequacy of internal controls relating to financial reporting, and internal and external audit functions. The external auditor has full and open access to the Audit Committee, with and without the presence of management.

BDO Canada LLP (BDO), the BCSC's independent auditor has examined the financial statements and its report follows.



Brenda M. Leong  
*Chair and Chief Executive Officer*



Peter J. Brady  
*Executive Director*



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BDO Canada LLP  
600 Cathedral Place  
925 West Georgia Street  
Vancouver BC V6C 3L2 Canada

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## INDEPENDENT AUDITOR'S REPORT

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### To the Commissioners of the British Columbia Securities Commission

We have audited the accompanying financial statements of the British Columbia Securities Commission, which comprise the Statement of Financial Position as at March 31, 2017, and the Statements of Operations and Change in Accumulated Surplus, Remeasurement Gains and Losses, Change in Net Financial Assets and Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, the financial statements present fairly in all material respects, the financial position of the British Columbia Securities Commission as at March 31, 2017 and its results of operations, changes in net financial assets, remeasurement gains and losses and cash flows for the year then ended, in accordance with Canadian public sector accounting standards.

*BDO Canada LLP*

Chartered Professional Accountants

Vancouver, British Columbia  
May 4, 2017

**Statement of Financial Position**

As at March 31, 2017

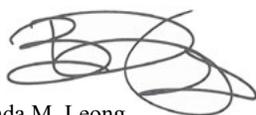
(audited)

	March 31, 2017	March 31, 2016
<b>Financial assets</b>		
Cash (note 4)	\$ 10,070,585	\$ 29,379,432
Restricted cash - 161(1)(g) payments (note 5)	332,046	151,781
Investments (note 6)	51,043,118	30,365,341
Amounts receivable (note 7)	1,632,891	1,067,682
	<b>\$ 63,078,640</b>	<b>\$ 60,964,236</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities (note 8)	\$ 1,679,060	\$ 1,831,268
Accrued salaries and benefits	1,917,923	1,105,136
Deferred registration fee revenue	8,276,172	8,031,547
Employee leave liability (note 9)	1,040,599	998,994
161(1)(g) liabilities (note 5)	332,046	151,781
	<b>\$ 13,245,800</b>	<b>\$ 12,118,726</b>
<b>Net financial assets</b>	<b>\$ 49,832,840</b>	<b>\$ 48,845,510</b>
<b>Tangible capital assets (note 10)</b>	<b>\$ 11,423,021</b>	<b>\$ 10,063,752</b>
<b>Prepaid expenses (note 11)</b>	<b>881,036</b>	<b>968,090</b>
	<b>\$ 12,304,057</b>	<b>\$ 11,031,842</b>
<b>Accumulated Surplus</b>	<b>\$ 62,136,897</b>	<b>\$ 59,877,352</b>
Accumulated Surplus is comprised of:		
Unrestricted operating surplus (note 12)	\$ 24,729,701	\$ 25,401,883
Restricted operating surplus (note 12)	37,933,152	34,963,992
	62,662,853	60,365,875
Accumulated remeasurement losses	(525,956)	(488,523)
	<b>\$ 62,136,897</b>	<b>\$ 59,877,352</b>

Commitments and contingencies (note 19)

*The accompanying notes are an integral part of these financial statements.*

Approved by the Board:



Brenda M. Leong  
Chair and Chief Executive Officer



Suzanne K. Wiltshire  
Chair, Audit Committee

**Statement of Operations and Change in Accumulated Surplus**

For the Year Ended March 31, 2017

(audited)

	March 31, 2017 Budget (note 20)	March 31, 2017 Actual	March 31, 2016 Actual
<b>Revenues</b>			
Regulatory and other fees			
Prospectus and other distributions	\$ 21,900,000	\$ 23,867,429	\$ 23,693,491
Registration	11,800,000	11,891,660	11,633,154
Financial filings	4,500,000	4,605,436	4,898,652
Exemptive orders and other	350,000	373,489	369,541
National systems access and usage fees (note 13)	6,250,000	6,247,627	6,230,310
Enforcement sanctions (note 14)	600,000	952,089	199,472
Investment income (note 15)	700,000	799,073	1,039,678
Realized gains on investments (note 15)	–	145,320	368,229
	\$ 46,100,000	\$ 48,882,123	\$ 48,432,527
<b>Expenses</b>			
Local operations (note 16)	\$ 43,900,000	\$ 42,703,003	\$ 42,477,950
National systems operations (note 16)	4,400,000	3,882,142	4,041,881
	\$ 48,300,000	\$ 46,585,145	\$ 46,519,831
<b>Annual surplus (deficit)</b>	\$ ( 2,200,000)	\$ 2,296,978	\$ 1,912,696
<b>Accumulated operating surplus, beginning of year</b>		\$ 60,365,875	\$ 58,453,179
<b>Accumulated operating surplus, end of year</b>		\$ 62,662,853	\$ 60,365,875

*The accompanying notes are an integral part of these financial statements.*

**Statement of Remeasurement Gains and Losses**

For the Year Ended March 31, 2017

(audited)

	<b>March 31, 2017</b>	<b>March 31, 2016</b>
Accumulated remeasurement gains (losses), beginning of year	\$ (488,523)	\$ 395,091
Unrealized gains (losses) on investments (note 15)	107,887	(515,385)
Realized gains on investments, reclassified to operations (note 15)	(145,320)	(368,229)
Accumulated remeasurement losses, end of year	\$ (525,956)	\$ (488,523)

*The accompanying notes are an integral part of these financial statements.*

**Statement of Change in Net Financial Assets**

For the Year Ended March 31, 2017

(audited)

	March 31, 2017 Budget (note 20)	March 31, 2017 Actual	March 31, 2016 Actual
Surplus (deficit), for the year	\$ (2,200,000)	\$ 2,296,978	\$ 1,912,696
Acquisition of tangible capital assets	\$ (1,750,000)	\$ (4,454,594)	\$ (1,876,113)
Write-off of intangible capital assets	–	–	52,500
Depreciation of tangible capital assets	2,900,000	3,095,326	2,882,554
	\$ 1,150,000	\$ (1,359,268)	\$ 1,058,941
Acquisition of prepaid expenses		\$ (1,190,840)	\$ (1,040,104)
Use of prepaid expenses		1,277,893	990,426
		\$ 87,053	\$ (49,678)
Effect of net remeasurement losses for the year		\$ (37,433)	\$ (883,614)
Increase in net financial assets, for the year		\$ 987,330	\$ 2,038,345
Net financial assets, beginning of year		\$ 48,845,510	\$ 46,807,165
Net financial assets, end of year		\$ 49,832,840	\$ 48,845,510

*The accompanying notes are an integral part of these financial statements.*

**Statement of Cash Flows**

For the Year Ended March 31, 2017

(audited)

	March 31, 2017	March 31, 2016
<b>Operating transactions</b>		
Cash received from:		
Fees	\$ 46,939,239	\$ 47,013,247
Enforcement sanctions	979,093	152,368
Interest	479,183	475,071
	\$ 48,397,515	\$ 47,640,686
Cash paid to and on behalf of employees	\$ (29,948,450)	\$ (30,364,110)
Cash paid to suppliers and others	(13,053,317)	(12,824,269)
	\$ (43,001,767)	\$ (43,188,379)
Cash provided by operating transactions	\$ 5,395,748	\$ 4,452,307
<b>Capital transactions</b>		
Cash used to acquire tangible capital assets	\$ (4,454,594)	\$ (1,876,113)
<b>Investing transactions</b>		
Proceeds from disposals of investments	\$ 5,500,000	\$ 46,368,218
Investments	(25,750,000)	(32,581,669)
	\$ (20,250,000)	\$ 13,786,549
<b>Increase (decrease) in cash</b>	<b>\$ (19,308,847)</b>	<b>\$ 16,362,742</b>
<b>Cash, beginning of year</b>	<b>\$ 29,379,432</b>	<b>\$ 13,016,690</b>
<b>Cash, end of year</b>	<b>\$ 10,070,585</b>	<b>\$ 29,379,432</b>

*The accompanying notes are an integral part of these financial statements.*

## **Notes to the Financial Statements**

For Year Ended March 31, 2017

(audited)

### **1. Nature of operations**

The British Columbia Securities Commission (BCSC) is a Crown corporation created by the Province of British Columbia on April 1, 1995. We are responsible for the administration of the *Securities Act*. As a Crown corporation, the BCSC is exempt from income taxes. We pay PST (7%) and GST (5%) on taxable purchases but recover the GST.

### **2. Significant accounting policies**

Management has prepared these financial statements in accordance with Canadian public sector accounting standards (PSAS). Significant accounting policies followed in the preparation of these financial statements are:

#### ***a) Interest in national systems Partnership***

The Canadian Securities Administrator (CSA) is an umbrella organization of Canada's ten provincial and three territorial securities regulators, whose objective is to improve, coordinate and harmonize regulation of the Canadian capital markets. BCSC, Alberta Securities Commission, Ontario Securities Commission, and Autorité des marchés financiers (collectively, the Principal Administrators, or PAs), have agreed to oversee CSA's shared information systems, on behalf of the CSA. Each of the PAs has one vote on shared system matters.

We collect over 80% of our fee revenue through the national systems. The Partnership contracted CGI Information Systems and Management Consultants Inc (CGI) to provide IT services, to January 13, 2019. CGI maintains a comprehensive business continuity plan for the national systems.

The Partnership charges user fees to recover systems development and operating costs. The Partnership has agreed to use its accumulated surpluses only for the benefit of systems users.

The national systems arrangement is a government partnership under PSAS. Accordingly, these financial statements include 25% of the assets, liabilities, net assets, revenues and expenses of the Partnership.

## Notes to the Financial Statements

For Year Ended March 31, 2017

(audited)

### ***b) Financial instruments***

Our financial instruments include cash, restricted cash, investments, amounts receivable, accounts payable, accrued liabilities, accrued salaries, and 161(1)(g) liabilities. Under the *Securities Act*, we must invest any money that we receive relating to local operations, but do not immediately need, in investment pools that the British Columbia Investment Management Corporation (bcIMC), a BC government organization, administers. Our working capital cash, our restricted cash, and the Partnership's working capital cash, are on deposit with Schedule 1 chartered banks, and earn interest ranging from Prime minus 1.70% to Prime minus 1.85%. The Partnership's investments are held in redeemable term deposits and guaranteed investment certificates at fixed interest rates of 1.10% to 1.70%.

We account for all of our financial instruments on a fair value basis, as follows:

- We record cash, restricted cash, and investments at fair value (fair value measurement hierarchy level one – quoted market prices). We consider the fair value of our investments to be market value because they are highly liquid.
- We record all other financial instruments at cost, which approximates fair value, due to their short-term nature.

We recognize realized gains and losses in annual operating surplus/deficit. We record unrealized gains and losses separately in the statement of accumulated remeasurement gains (losses). We reinvest any investment earnings in the portfolio and adjust the carrying value of the units we own accordingly.

### ***c) 161(1)(g) payments***

The Commission can order respondents to pay to the Commission money obtained as a result of contravening the *Securities Act*. If the Commission receives money under such an order, we must:

- issue a press release
- post a notice on our website that we have collected money
- receive and consider applications for payment to eligible claimants from the money collected

We allocate funds to eligible claimants after adjudicating all claims, and retain any funds not disbursed after adjudicating all claims.

## **Notes to the Financial Statements**

For Year Ended March 31, 2017

(audited)

### ***d) Tangible capital assets***

We record tangible capital assets at cost. We depreciate them using the straight-line method over their useful lives.

We estimate the useful lives of our tangible capital assets to be as follows:

- Local information technology – five years
- Local leasehold improvements – the remaining lease term to November 30, 2021
- Local office furniture and equipment – ten years
- Partnership information technology – five years

### ***e) Revenue recognition***

We recognize revenue for prospectus and other statutory filing fees when filings are made and collectability is assured. The amounts due and their collectability are normally determined simultaneously, as almost all filings are paid for immediately.

We receive annual registration fees and recognize them in revenue in the calendar year to which they relate.

We recognize enforcement sanctions revenue when we determine sanctions are collectible.

### ***f) Expenses***

We report expenses on an accrual basis. We expense the cost of all goods consumed and services received during the year.

The BCSC seconded certain employees and provides information technology, payroll, and financial accounting support, on a cost recovery basis, to the Canadian Securities Regulation Regime Transition Office (CSTO) and Capital Markets Authority Implementation Organization (CMAIO). These arrangements support the BC government's Cooperative System initiative, which is distinct from the BCSC's regulatory mandate. We net reimbursements against corresponding salaries and benefits costs.

### ***g) Employee future benefits***

We participate in the Public Service Pension Plan, a multi-employer defined benefit pension plan. We account for the plan as a defined contribution plan as we have insufficient information to apply defined benefit plan accounting. Pension costs included in our financial statements are comprised of the cost of employer contributions related to the current service of employees during the year and additional employer contributions for service relating to prior years.

## **Notes to the Financial Statements**

For Year Ended March 31, 2017

(audited)

### ***h) Measurement uncertainty***

PSAS require management to make estimates and assumptions for certain amounts disclosed in the financial statements.

In our financial statements, management has estimated the:

- portion of amounts receivable that we will collect
- useful lives of tangible capital assets
- value of the employee leave liability

Estimates reflect the best information available when we prepare the financial statements. Actual results may differ from these estimates. We will record any adjustments to these estimates in the period that additional information becomes available.

### **3. Financial instruments**

Cash and restricted cash are demand deposits held at Schedule 1 chartered banks.

Our investments are in units of bcIMC investment pools. We buy units of the following bcIMC pooled funds:

- Canadian Money Market Fund – Canadian money market investments with original maturities of less than 15 months
- Short Term Bond Fund – Canadian federal and provincial government bonds and Canadian dollar fixed income securities that are insured or guaranteed by sovereign governments, and supranational debt securities, all maturing within five years
- Canadian Universe Bond Fund – Canadian federal and provincial government bonds, Canadian dollar fixed income securities insured or guaranteed by sovereign governments, and investment-grade corporate debt securities, all maturing within 30 years

Our use of financial instruments to invest exposes us to financial risks associated with the underlying securities held in the investment funds, including credit risk, market risk, and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is the risk of loss from unfavourable changes in fair value or future cash flows of a financial instrument causing financial loss. Market risk is comprised of currency risk, interest rate risk, and price risk. Liquidity risk is the risk the fund will not be able to meet its obligations as they fall due.

## **Notes to the Financial Statements**

For Year Ended March 31, 2017

(audited)

In management's opinion, our investments do not expose the BCSC to significant credit risk because we invest in liquid, high quality money market instruments, government securities, and investment-grade corporate debt securities. Liquidity risk is low because our investments are in pooled fund units redeemable within two weeks, without penalty. The underlying assets in the pools are also highly liquid. We have low exposure to currency risk.

Our investments expose us to interest rate risk associated with the underlying interest-bearing securities held in the investment funds. Interest rate risk relates to the possibility that the fair value of investments will change due to future fluctuations in market interest rates. In general, investment returns from bonds are sensitive to changes in the level of interest rates, with longer-term interest-bearing securities being more sensitive to interest rate changes than shorter-term bonds. Based on the March 31, 2017 composition of our investment portfolio, an immediate 1% increase in interest rates across the entire yield curve, with all other variables held constant, would result in a decrease in market value of approximately \$1.1 million. In addition, future investment income earned on variable rate cash deposits and new investments would increase after an interest rate increase. We expect interest rates to rise slightly, if at all, over the coming year. We manage interest rate risk by monitoring portfolio duration and yields with the fund administrator, bcIMC. The current investment duration of the Short Term Bond Fund is 2.8 years and of the Canadian Universe Bond Fund is 7.7 years.

In management's opinion, amounts receivable, accounts payable, and accrued liabilities and accrued salaries do not expose us to significant financial risk because of their short-term nature.

**Notes to the Financial Statements**

For Year Ended March 31, 2017

(audited)

**4. Cash**

	March 31, 2017	March 31, 2016
Local demand deposits	\$ 5,099,036	\$ 5,256,918
Partnership demand deposits	4,971,549	24,122,514
	\$ 10,070,585	\$ 29,379,432

**5. Restricted cash - 161(1)(g) payments and 161(1)(g) liabilities**

Case	March 31, 2017	March 31, 2016
Winston King-Loong Kuit	\$ 75,985	\$ –
Ayaz Dhanani	120,000	–
Weiying Jane Jin	4,280	–
Keith Henry Alexander	–	20,000
Canada Pacific Consulting Inc. and Michael Robert Shantz	131,781	131,781
	\$ 332,046	\$ 151,781

**6. Investments**

	March 31, 2017		March 31, 2016	
	Market Value	Cost	Market Value	Cost
<b>bcIMC pooled funds</b>				
Canadian Money Market Fund	\$ 7,000,050	\$ 6,999,937	\$ –	\$ –
Short Term Bond Fund	6,036,412	6,070,818	5,994,644	6,011,633
Canadian Universe Bond Fund	9,256,656	9,748,319	14,370,697	14,842,231
	\$ 22,293,118	\$ 22,819,074	\$ 20,365,341	\$ 20,853,864
<b>Partnership investments</b>				
2 year term deposit	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000
1 year term deposit	8,750,000	8,750,000	–	–
1 year GIC	10,000,000	10,000,000	–	–
	\$ 28,750,000	\$ 28,750,000	\$ 10,000,000	\$ 10,000,000
	\$ 51,043,118	\$ 51,569,074	\$ 30,365,341	\$ 30,853,864

**Notes to the Financial Statements**

For Year Ended March 31, 2017

(audited)

**7. Amounts receivable**

	March 31, 2017	March 31, 2016
National systems user fees	\$ 1,123,595	\$ 637,553
SEDAR filings	118,350	–
Enforcement sanctions	55,934	142,938
Late insider report filing fees	13,815	16,800
Due from CSTO	91,326	74,519
Due from CMAIO	85,159	–
National project recoveries	79,276	82,469
GST rebates	38,113	74,222
Employee advances and other	27,323	39,181
	\$ 1,632,891	\$ 1,067,682

**8. Accounts payable and accrued liabilities**

	March 31, 2017	March 31, 2016
Local trade accounts payable	\$ 576,396	\$ 1,393,765
Partnership trade accounts payable	697,716	135,071
Other	404,948	302,432
	\$ 1,679,060	\$ 1,831,268

**9. Employee leave liability**

Employee leave liability is what we owe to our employees for their accumulated vacation time.

**Notes to the Financial Statements**

For Year Ended March 31, 2017

(audited)

**10. Tangible capital assets**

	March 31, 2017				Total
	Local Information technology	Local leasehold improvements	Local furniture & equipment	Partnership Information technology	
<b>Cost</b>					
Opening balance	\$ 14,369,675	\$ 5,911,949	\$ 2,858,990	\$ 646,535	\$ 23,787,149
Additions	1,140,414	–	–	3,314,180	4,454,594
Disposals	(864,877)	–	(50,029)	–	(914,906)
Write-downs	–	–	–	–	–
Closing balance	\$ 14,645,212	\$ 5,911,949	\$ 2,808,961	\$ 3,960,716	\$ 27,326,838
<b>Accumulated depreciation</b>					
Opening balance	\$ 7,026,625	\$ 4,229,778	\$ 2,286,154	\$ 180,840	\$ 13,723,397
Depreciation	2,584,404	297,213	92,997	120,712	3,095,326
Disposals	(864,877)	–	(50,029)	–	(914,906)
Write-downs	–	–	–	–	–
Closing balance	\$ 8,746,152	\$ 4,526,991	\$ 2,329,122	\$ 301,552	\$ 15,903,817
<b>Net book value</b>	<b>\$ 5,899,060</b>	<b>\$ 1,384,958</b>	<b>\$ 479,839</b>	<b>\$ 3,659,163</b>	<b>\$ 11,423,021</b>
<b>March 31, 2016</b>					
	Local Information technology	Local leasehold improvements	Local furniture & equipment	Partnership Information technology	Total
<b>Cost</b>					
Opening balance	\$ 13,467,227	\$ 5,924,423	\$ 2,920,760	\$ 427,956	\$ 22,740,366
Additions	1,590,145	–	14,890	271,079	1,876,113
Disposals	(687,696)	(12,474)	(76,660)	–	(776,830)
Write-downs	–	–	–	(52,500)	(52,500)
Closing balance	\$ 14,369,675	\$ 5,911,949	\$ 2,858,990	\$ 646,535	\$ 23,787,149
<b>Accumulated depreciation</b>					
Opening balance	\$ 5,327,289	\$ 3,943,337	\$ 2,269,135	\$ 77,912	\$ 11,617,673
Depreciation	2,387,032	298,915	93,679	102,928	2,882,554
Disposals	(687,696)	(12,474)	(76,660)	–	(776,830)
Write-downs	–	–	–	–	–
Closing balance	\$ 7,026,625	\$ 4,229,778	\$ 2,286,154	\$ 180,840	\$ 13,723,397
<b>Net book value</b>	<b>\$ 7,343,051</b>	<b>\$ 1,682,171</b>	<b>\$ 572,836</b>	<b>\$ 465,695</b>	<b>\$ 10,063,752</b>

**Notes to the Financial Statements**

For Year Ended March 31, 2017

(audited)

**11. Prepaid expenses**

	March 31, 2017	March 31, 2016
Local hardware and software maintenance contracts	\$ 392,777	\$ 494,437
Partnership information services	458,675	174,123
Partnership software maintenance	29,584	–
IIROC registration processing fees	–	\$ 299,531
	\$ 881,036	\$ 968,090

**12. Accumulated operating surplus**

	March 31, 2017			Total
	General	Education (a)	National systems (b)	
Opening balance	\$ 25,401,883	\$ –	\$ 34,963,992	\$ 60,365,875
Additions and appropriations	(1,608,378)	936,196	2,969,160	2,296,978
Investment income allocation	–	–	–	–
Education disbursements paid from reserve	728,880	(728,880)	–	–
Closing balance	\$ 24,522,385	\$ 207,316	\$ 37,933,152	\$ 62,662,853

	March 31, 2016			Total
	General	Education (a)	National systems (b)	
Opening balance	\$ 25,955,887	\$ 298,999	\$ 32,198,293	\$ 58,453,179
Additions and appropriations	(1,051,343)	198,340	2,765,699	1,912,696
Investment income allocation	–	–	–	–
Education disbursements paid from reserve	497,339	(497,339)	–	–
Closing balance	\$ 25,401,883	\$ –	\$ 34,963,992	\$ 60,365,875

**a) Education reserve (internally-restricted)**

We order administrative penalties and 161(1)(g) payments under the *Securities Act*. We also negotiate settlement amounts. We designate revenue from penalties, settlements, and unclaimed 161(1)(g) payments to our Education reserve, which we spend only to educate securities market participants and the public about investing, financial matters, or the operation or regulation of securities markets.

**b) National systems (restricted)**

The Partnership agreement specifies that the Partnership will use its surpluses only for the benefit of systems users.

**Notes to the Financial Statements**

For Year Ended March 31, 2017

(audited)

**13. Partnership - summarized annual financial information**

	March 31, 2017		March 31, 2016	
	Partnership	25% share	Partnership	25% share
<b>Financial Position</b>				
Financial assets	\$ 141,333,608	\$ 35,333,402	\$ 139,736,757	\$ 34,934,189
Liabilities	4,237,653	1,059,413	1,743,570	435,893
Net Financial assets	\$ 137,095,955	\$ 34,273,989	\$ 137,993,187	\$ 34,498,297
Non-financial assets	14,636,653	3,659,163	1,862,781	465,695
Accumulated surplus	\$ 151,732,608	\$ 37,933,152	\$ 139,855,968	\$ 34,963,992
<b>Operations</b>				
Revenue	\$ 27,405,208	\$ 6,851,302	\$ 27,230,319	\$ 6,807,580
Expenses	15,528,568	3,882,142	16,167,524	4,041,881
Surplus	\$ 11,876,640	\$ 2,969,160	\$ 11,062,795	\$ 2,765,699
<b>Cash flows</b>				
Cash provided by (used in):				
Operating	\$ (11,876,640)	\$ (2,969,160)	\$ (11,062,795)	\$ (2,765,699)
Capital	13,256,722	3,314,180	1,084,317	271,079
Investing	(77,983,944)	(19,495,986)	71,078,026	17,769,507
Increase (decrease) in cash	\$ (76,603,862)	\$ (19,150,966)	\$ 61,099,548	\$ 15,274,887

**14. Enforcement sanctions**

Enforcement sanctions revenue includes administrative penalties, settlements, and unclaimed 161(1)(g) payments, if any. Revenues depend on the timing of enforcement actions completed during the year and on our ability to collect assessed amounts.

We assessed enforcement sanctions of \$54.1 million (fiscal 2016 - \$84.9 million) during the year, of which we did not recognize \$53.0 million (fiscal 2016 - \$84.7 million) as revenue because we do not expect to receive payment.

Collecting enforcement sanctions is difficult because respondents often have limited assets, or cannot be found. We pursue outstanding amounts as appropriate, to maximize sanction receipts, net of collection costs.

**Notes to the Financial Statements**

For Year Ended March 31, 2017

(audited)

**15. Investment income, realized gains on investments, and unrealized gains (losses) on investments**

For the Year Ended March 31, 2017						
	Average Balance	Investment Income	Realized Gains (Losses)	Total Income	Unrealized Gains (Losses)	Annualized Return
Cash	\$ 38,779,971	\$ 477,470	\$ –	\$ 477,470	\$ –	1.2%
Restricted cash - 161(1)(g) payments	163,990	1,713	–	1,713	–	1.0%
Canadian Money Market Fund	961,565	(58)	(5)	(63)	108	–
Short Term Bond Fund	6,019,258	59,185	–	59,185	(17,417)	0.7%
Canadian Universe Bond Fund	11,780,422	260,763	145,325	406,088	125,196	4.5%
	\$ 57,705,207	\$ 799,073	\$ 145,320	\$ 944,393	\$ 107,887	1.8%

For the Year Ended March 31, 2016						
	Average Balance	Investment Income	Realized Gains (Losses)	Total Income	Unrealized Gains (Losses)	Annualized Return
Cash	\$ 37,267,726	\$ 473,565	\$ –	\$ 473,565	\$ –	1.3%
Restricted cash - 161(1)(g) payments	145,657	1,506	–	1,506	–	1.0%
Canadian Money Market Fund	1,812,521	14,234	(3,718)	10,516	(804)	0.5%
Short Term Bond Fund	921,865	11,633	–	11,633	(16,989)	(0.6%)
Canadian Universe Bond Fund	15,654,861	538,740	371,947	910,687	(497,592)	2.6%
	\$ 55,802,631	\$ 1,039,678	\$ 368,229	\$ 1,407,907	\$ (515,385)	1.6%

**Notes to the Financial Statements**

For Year Ended March 31, 2017

(audited)

**16. Expenses**

	Budget 2017	Year ended March 31	
		2017	2016
<b>Local operations</b>			
Salaries and benefits	\$ 31,800,000	\$ 30,705,078	\$ 30,649,438
Professional services	2,000,000	1,822,153	2,357,592
Occupancy	3,150,000	3,175,682	3,116,547
Depreciation	2,900,000	2,974,614	2,779,626
Information management	1,750,000	1,762,558	1,456,182
Education disbursements	750,000	728,880	761,531
External communication	150,000	123,986	119,818
Administration	550,000	645,152	510,798
Staff training	375,000	284,487	320,285
Travel	300,000	302,152	239,106
Telecommunications	175,000	178,261	167,027
Total local operations	\$ 43,900,000	\$ 42,703,003	\$ 42,477,950
<b>National systems Partnership operations</b>			
Salaries and benefits	\$ 750,000	\$ 641,212	\$ 723,407
Professional services	3,300,000	2,922,735	3,060,048
Depreciation	150,000	120,712	102,928
Information management and administration	200,000	197,483	155,498
Total national systems Partnership operations	\$ 4,400,000	\$ 3,882,142	\$ 4,041,881
	\$ 48,300,000	\$ 46,585,145	\$ 46,519,831

## **Notes to the Financial Statements**

For Year Ended March 31, 2017

(audited)

### **17. Related party transactions**

We are related through common ownership to all BC provincial government ministries, agencies, and Crown corporations. We conducted all transactions with these entities as though we were unrelated parties.

### **18. Post-retirement employee benefits**

We, and our employees, contribute to the Public Service Pension Plan, a multi-employer plan. The plan is contributory, and its basic benefits are defined. The plan has about 58,000 active members and approximately 45,000 retired members. A board of trustees, representing plan members and employers, is responsible for overseeing the management of the plan, including investment of assets and administration of benefits.

An actuarial valuation of the plan performed every three years assesses the plan's financial position. The latest valuation, as at March 31, 2014, indicated a \$194 million surplus for basic pension benefits. In addition to basic benefits, the plan also provides supplementary benefits, including inflation indexing. These supplementary benefits are paid only to the extent that they have been funded, which is currently done on a "pay-as-you-go" basis. A valuation as at March 31, 2017 has been scheduled and the results will be announced in 2018.

The plan trustees monitor the impact of the financial environment on plan health. Plan surpluses and deficits are not attributable to individual employers, but affect future contribution levels. We charged \$3.2 million to expense for employer contributions during the period.

**Notes to the Financial Statements**

For Year Ended March 31, 2017

(audited)

**19. Commitments and contingencies**

Our commitments relating to lease agreements for office space and equipment are as follows:

	2018	2019-2020	2021-2022	Total
Leased space and equipment	\$ 3,217,693	\$ 6,594,456	\$ 5,703,882	\$ 15,516,031

The Partnership's agreement with CGI to host and maintain the national systems has an initial term of five years, expiring on January 13, 2019, and is extendible for up to three additional years. The Partnership has certain rights to terminate the agreement, with and without cause.

During the year, the Partnership signed an agreement with CGI to replace the national systems with one system. Development is occurring in a multi-year phased approach. The Partnership has certain rights to terminate the agreement, with and without cause.

The BCSC has committed to pay 25% of any claim or expenses related to operation and redevelopment of the national systems that exceed the Partnership's surplus funds.

**20. Budgeted figures**

On January 26, 2017, the government approved a revised budget for fiscal 2017. Budgeted figures are for comparison purposes.

## **Appendix A—Additional Information**

Please refer to the following links for additional information about the BCSC:

### **Organizational Overview**

- [Securities Law](#)
- [Mission, Values & Overall Benefits](#)
- [Organizational Chart](#)
- [Stakeholders & Partners](#)
- [Contact Us](#)

### **Corporate Governance**

- [Governance](#)
- [Commissioners](#)
- [Board Committees](#)
- [Funding & Accountability](#)

### **Frequently Used Terms**

- ASC: Alberta Securities Commission
- B.C.: British Columbia
- BCSC or Commission: British Columbia Securities Commission
- CMRA: Capital Markets Regulatory Authority
- Cooperative System: Cooperative Capital Markets Regulatory System
- CSA: Canadian Securities Administrators
  - The council of securities regulators of Canada's 13 provinces and territories
- MOA: Memorandum of Agreement
  - Sets out the terms and conditions of the Cooperative System
- OSC: Ontario Securities Commission

## Appendix B—Crown Corporation’s Mandate and Actions Summary

In the 2016/17 Mandate Letter from the minister responsible, the BCSC received direction on strategic priorities for the 2016/17 fiscal year. These priorities and the BCSC’s resulting actions are summarized below:

Mandate Letter Direction	Crown Corporation’s Action
<p>1. Continue to finalize and/or develop flexible capital raising rules to assist B.C.’s venture market</p>	<p>Towards the end of the prior fiscal year, the BCSC adopted the investment dealer exemption and changes to the rights offering exemption. The BCSC continues to monitor the use of these exemptions as well as the existing security holder exemption and the crowdfunding exemption. Use of rights offerings in B.C. increased significantly since implementing the changes. During the fiscal year, the BCSC identified areas to further streamline the exemption and prepared guidance for market participants.</p> <p>Shortly, after the end of Fiscal 2016/17, the BCSC published with the CSA a consultation paper that identifies and seeks input on potential options for reducing regulatory burden in capital raising in the public markets and the ongoing costs of being a reporting issuer.</p>
<p>2. Assist the Ministry of Finance in developing a Cooperative System for Canada that protects B.C.’s interests and ensures B.C.’s securities industry is not negatively impacted by a new regime, by:</p> <ul style="list-style-type: none"> <li>• Supporting the finalization of the provincial/territorial <i>Capital Markets Act</i>;</li> <li>• Continuing to develop the draft initial regulations of the Cooperative System;</li> <li>• Supporting the operational integration of the BCSC into the CMRA.</li> </ul>	<p>The BCSC provided expertise and Commission resources to support the development of the Cooperative System initiative. The BCSC continues to work cooperatively with the B.C. Ministry of Finance, other participating provincial jurisdictions, and the Capital Markets Authority Implementation Organization on the development of the Cooperative System.</p>