

# **British Columbia Securities Commission**

## **2015/16 ANNUAL SERVICE PLAN REPORT**



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



The BC Securities Commission (BCSC) is responsible for regulating one of the most dynamic capital markets in the country. British Columbia is home to more venture companies than any other province in Canada. Effective regulation of BC's capital markets requires an in-depth knowledge of the opportunities and challenges facing the securities industry, and our organization is committed to the regulation, enforcement, and investor protection programs that keep our capital markets functioning smoothly and efficiently.

The BCSC contributed to, and in many cases led, Canadian Securities Administrators' (CSA) efforts to streamline, simplify, and harmonize securities laws with other provinces and territories. Changes to the Canada's rights offering regime and the streamlining of venture issuer disclosure are prime examples of this work. We also focused our efforts on strengthening investor protection through public education campaigns such as the CSA's Check Registration Day initiative and the BCSC's Smarter Investor campaign.

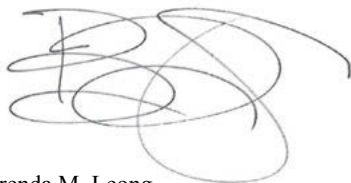
The BCSC continues to work cooperatively with other Canadian jurisdictions and the federal government on the transition to the Cooperative Capital Markets Regulatory System (the Cooperative System). The BCSC, our partners, and the CSA remain committed to ensuring effective regulation of the capital markets leading up to and during the transition.

The BCSC proactively engages with Ministry staff on a regular basis about strategic issues. The BCSC also keeps Ministry staff updated on the state of the provincial capital markets, in particular on issues concerning the venture market and recent regulatory efforts to facilitate capital raising.

In Fiscal 2014/15, all members of the BCSC board and the senior executive were trained on the Taxpayer Accountability Principles and the implementation requirements. The board and senior executives were engaged in the BCSC's implementation of the Taxpayer Accountability Principles. The chair and independent board members also participated in the Crown Agency Resource Office's Board Chair and Directors Professional Development Day in June 2015.

This fiscal year, all board members confirmed their compliance with the Taxpayer Accountability Principles by signing the Mandate Letter.

The BCSC's *2015/16 Annual Service Plan Report* compares the actual results to the expected results identified in the *2015/16 - 2017/18 Service Plan*. I am accountable for those results as reported.

A handwritten signature in black ink, appearing to be 'B. Leong', written over a light grey background.

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 British Columbia. 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 Commission 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 [2015/16 Mandate Letter](#).

The Mandate Letter included assisting the Minister of Finance in developing the Cooperative System that protects B.C.'s interests and ensures B.C.'s securities industry is not negatively impacted, as discussed below. It also included working with other provinces and territories to strengthen investor protection and making best efforts to streamline, simplify, and harmonize securities laws with other provinces and territories.

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 a territory joined subsequently. Since then, these governments have been working collaboratively to develop draft legislation and regulations, as well as a Memorandum of Agreement (MOA).

Under the MOA, the Cooperative System will 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 will continue to provide expertise and Commission resources to the initiative to effectively support the transition to the Cooperative System. At the same time, we are also working cooperatively within the CSA to continue to protect investors and Canada's capital markets.

In addition to supporting the transition to the Cooperative System and ongoing CSA initiatives, our strategies for Fiscal 2015/16 focused on the following three priorities:

- Find opportunities to reduce the cost of regulation for venture companies
- Reduce the risk of non-compliance in the private placement market
- Reduce the risk of market misconduct associated with offshore secrecy jurisdictions

## Report on Performance

The BCSC continued to work cooperatively with the CSA on various regulatory initiatives, including those related to Canada's G-20 commitments to implement an over-the-counter derivatives regime. This work contributed to strengthening investor protection and the Canadian regulatory framework as well as streamlining, simplifying, and harmonizing securities laws with other provinces and territories. As noted earlier, the BCSC also provided expertise and resources to support the government's Cooperative System initiative.

The BCSC provided regular quarterly updates on its financial position and operating results, and 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 investigation and adjudication of enforcement cases. The Ministry and the Commission agreed that our Service Plan was an appropriate evaluation plan.

### ***Goals, Strategies, Measures, and Targets***

We selected 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 having an industry that takes its compliance responsibilities seriously and is held accountable for its compliance obligations both 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 its requirements. We selected this goal because enforcement actions both 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 retail investors understand their opportunities and rights, and when they recognize the warning signs of investment fraud and know how to report investment fraud, if 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 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.

### **Strategies**

#### **Strategy 1: Modernize our approach to capital raising exemptions**

- In 2015/16, the BCSC continued to lead a CSA project to update the national accredited investor and minimum amount exemptions. In May 2015, changes to these exemptions came into effect that strengthen investor protection. As a result, individuals must now sign a risk acknowledgement form confirming they have the income or financial assets to qualify as accredited investors. Companies can also no longer use the minimum amount exemption (\$150,000) to sell to individuals.
- The BCSC also worked with other CSA jurisdictions to adopt start-up crowdfunding exemptions in May 2015. The new exemptions allow start-ups and early stage companies to raise limited amounts of capital through crowdfunding portals.
- In December 2015, the CSA adopted significant changes to the rights offering regime—a project led by the BCSC. These changes introduce a more cost effective regime for exempt rights offerings by reporting companies.
- In January 2016, the BCSC, along with several other provincial regulators, adopted a new prospectus exemption for investment dealers that is designed to foster greater participation of retail investors in private placements.

#### **Strategy 2: Research on venture trading strategies**

- In Fiscal 2015/16, the BCSC completed and published a study on the impact of high frequency traders (HFTs) on venture markets. The study tested two hypotheses: (1) HFTs were causing increased price volatility in venture market securities, and (2) HFTs were short selling after the release of positive news, limiting the increase in the price of a security. Our findings did not support either hypothesis.
- The BCSC, along with the Alberta Securities Commission (ASC), TSX Venture Exchange, and the Investment Industry Regulatory Organization of Canada (IIROC), published these results in October 2015. Staff also presented our findings at a public forum on high frequency trading in Toronto.

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

Our Corporate Finance division reviews company disclosure for non-compliance. At the end of each fiscal year, we retain an independent consultant to analyze the subsequent continuous disclosure of a statistically significant random sample of 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.

Status: Met	Results and targets						
Performance Measure	2012/13 Actual	2013/14 Actual	2014/15 Actual	2015/16 Target	2015/16 Actual <sup>1</sup>	2016/17 Target	2017/18 Target
Percentage of reviewed companies that improved disclosure subsequent to continuous disclosure review	100%	100%	100%	>95%	100%	>95%	>95%
Percentage of reviewed companies that improved disclosure to minimum standards	100%	100%	100%	>95%	100%	>95%	>95%

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

<sup>1</sup>All 20 companies reviewed in fiscal 2015/16 improved their disclosure in some areas to meet the basic standard for compliance.

#### Discussion

- 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 2015/16 are based on the results of reviewed companies' subsequent disclosure following BCSC's continuous disclosure reviews completed during Fiscal 2014/15.
- Overall, we set targets that are practically achievable. The measures reflect compliant behaviour by companies. The 95% target in the first measurement reflects that only one in 20 companies would not improve their disclosure after our review. The 95% target in the second measurement reflects a similar proportion of companies would not improve their disclosure to minimum standards.

#### **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 was compliant with NI 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.



Status: Not Met	Results and targets						
Performance Measure	2012/13 Actual	2013/14 Actual	2014/15 Actual	2015/16 Target	2015/16 Actual <sup>1</sup>	2016/17 Target	2017/18 Target
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)	79%	73%	75%	Improve on 2014/15	76%	>76%	Improve on 2016/17
Percentage of randomly sampled mining companies that meet minimum standards for technical disclosure in company websites and other voluntary disclosure	57%	57%	66%	71%	63%	68%	Increase average by 5% over 2016/17

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 mining disclosure standards. To determine the average score per company, we review 20 separate disclosure requirements in the National Mining Rule. In our view, an average score for an individual company of 67% or better, across these 20 requirements, indicates that the company is making a reasonable effort to comply.
- The Fiscal 2015/16 results indicate compliance levels for filed disclosure have remained essentially unchanged. We view this level of compliance as reasonable. Compliance levels for voluntary disclosure have declined. This may reflect continued reduction in resources available for voluntary disclosure as mining companies continued to face challenges given volatile market conditions. Our compliance efforts appear to be sufficient to maintain current levels of compliance for filed disclosure. We will increase the focus of our reviews on voluntary disclosure documents in an effort to reverse this trend.

#### **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 how closely to examine their compliance.

Status: Met	Results and targets						
Performance Measure	2012/13 Actual	2013/14 Actual	2014/15 Actual	2015/16 Target	2015/16 Actual	2016/17 Target	2017/18 Target
Average number of deficiencies per examination in Capital Markets Regulation	4.16	3.94	4.64	4.41 <sup>1</sup>	4.34	4.12	Decrease deficiency average by 5% over 2016/17

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

<sup>1</sup>We amended the target because of a mathematical calculation error in the previous target number of 4.18.

#### Discussion

- The target is set to decrease these percentages as a sign of increased industry compliance. A 5% year-over-year reduction is an ambitious target because of new requirements, such as the Client Relationship Model, Phase 2, which registrants are learning to comply with. This typically results in a greater number of deficiencies found.

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

We aim to achieve timely enforcement through early intervention and the pursuit of cases that will deter future misconduct. The BCSC cooperates with securities regulators in other jurisdictions to share information, conduct investigations, and issue reciprocal enforcement orders. We also aggressively pursue securities misconduct through administrative and criminal proceedings. Under administrative proceedings, the BCSC can impose monetary sanctions and order people out of the market. We work closely with Crown Counsel to pursue criminal charges, where warranted. Criminal convictions allow for penalties to be imposed, including prison sentences, which help deter serious misconduct.

### **Strategies**

#### **Strategy 3: Disrupt manipulative trading from off-shore secrecy jurisdictions**

- In May 2015, the BCSC sanctioned registrant Douglas Falconer Wood for lying to regulators and acting contrary to the public interest. Among other things, the panel found that Wood set up an offshore trading structure with Bank Gutenberg AG, a Swiss bank, to conceal his trading activity and lied to staff from the BCSC and IIROC. He was ordered to pay an administrative penalty of \$30,000. In the prior fiscal year, Bank Gutenberg AG and related companies agreed in a settlement to permanent trading bans and an administrative penalty of \$850,000.
- In November 2015, BCSC staff issued a notice of hearing against Verdmont Capital S.A., a Panamanian brokerage firm. The notice of hearing alleges that, between 2010 and 2013, Verdmont Capital S.A. breached B.C. registration requirements by maintaining accounts for over 100 B.C. residents. Hearing dates are now set for November 2016. The allegations in the notice of hearing have not been proven.
- In December 2015, a BCSC panel found that Mark Aaron McLeary failed to file insider reports for trades he made in two companies for which he served as CEO and director. The

trades were made primarily through accounts with Verdmont Capital in Panama. Sanctions against McLeary are pending.

- Over-the-Counter Bulletin Board registration conditions for B.C. dealers were made permanent in Fiscal 2014/15. BCSC staff continue to monitor these conditions.

#### **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 the harm to the public when we can identify and act quickly to disrupt misconduct. We aim to stop investment schemes before they start, and prevent further participation in existing schemes. Disruptive action provides a visible, valuable benefit to the public.

Status: Met	Results and targets						
Performance Measure	2012/13 Actual	2013/14 Actual	2014/15 Actual	2015/16 Target	2015/16 Actual	2016/17 Target	2017/18 Target
Number of actions	N/A <sup>1</sup>	140 <sup>2</sup>	127	140	180	154 <sup>3</sup>	Increase 10% over 2016/17
Average duration of complaint to action (in days)	73 days	72 days	72 days	65 days	52 days	47 days	Decrease average by 10% over 2016/17

Data source: **Data recorded in established tracking systems**

<sup>1</sup> We revised this measurement methodology in Fiscal 2013/14. Therefore, we have not included measurement for Fiscal 2012/13 because it is not comparable.

<sup>2</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>3</sup> We have used the Fiscal 2015/16 Target to determine the Fiscal 2016/17 Target because the results this year were an anomaly. See discussion below.

#### Discussion

- 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
  - halt trade orders
- The number of actions in Fiscal 2015/16 was 180, which we consider an anomaly. We had one case in which we issued 51 demands and four freeze orders, which represent approximately 30% of the total. We also investigated a large Ponzi case involving 18 demands, which is above average. As a result, we believe the actual number of actions in Fiscal 2015/16 should not form the basis for our target because there is no guarantee we will have similar cases going forward.

- We set our targets to increase the number of disruptive actions as well as to reduce the average time to take action. We believe a 10% increase in the number of disruptive actions and a 10% decrease in the time taken reflect achievable operational improvements.

### **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.

Status: Not Met	Results and targets					
Performance Measure	2013/14 Actual	2014/15 Actual	2015/16 Target	2015/16 Actual	2016/17 Target	2017/18 Target
Average life, in months, of cases either from complaint to a notice of hearing (NOH) or from complaint to settlement before an NOH is issued	15.1	20.3	22	25.6	22 <sup>1</sup>	Set according to review

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

<sup>1</sup>We base the Fiscal 2016/17 target on current active cases. For Fiscal 2016/17, we are maintaining our target of 22 months for a variety of reasons, such as complex cases, rigorous evidence handling, and delays in acquiring evidence including slow replies to our information requests (some agencies take one year or more to reply).

#### Discussion

- We measure the average case duration from complaint to issuance of a notice of hearing or, absent a notice of hearing, a settlement agreement.
- In this fiscal year, several cases were delayed due to delays in receiving documents, unexpected changes in staffing, and in one case, a respondent being imprisoned in a foreign country.

### **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.

#### Strategies

##### **Strategy 4: BeFraudAware and Smarter Investor Campaigns**

- In anticipation of regulatory changes that will require investors to receive a statement of the fees they pay on their accounts and information on the performance of their account holdings, we undertook a new initiative to empower investors with tools and information to help them make more informed investing decisions.
- The new Smarter Investor campaign was backed by national research and centered on a quiz that received over 19,000 completions, a seven-fold increase over previous BCSC engagement tools. The campaign was also supported by an integrated paid media campaign that included television, digital, and social media advertising, and a very active social media program on Facebook, Twitter, and YouTube.

- We further supported the Smarter Investor campaign with a proactive media relations campaign during RRSP season and built upon a television buy to garner both local and national media coverage.
- For Fraud Prevention Month in March 2016, we brought together the Smarter Investor and BeFraudAware campaign messages in a special event staged at Murchie’s Tea & Coffee in Victoria, B.C. that targeted vulnerable seniors on Vancouver Island. We then released a YouTube video of the event as “BeFraudAware: the 2 Minute Musical” with the key message “Become a Smarter Investor: Be Fraud Aware.”

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

Through our public awareness and outreach programs, we aim to increase the flow of complaints and information we receive about possible investment frauds or illegal activities. We track the number of referrals, tips, queries, and complaints received by BCSC Inquiries that are traceable to InvestRight investor education activity.

Status: Not Met	Results and targets				
Performance Measure	2014/15 Baseline	2015/16 Target	2015/16 Actual	2016/17 Target	2017/18 Target
Number of contacts to BCSC Inquiries triggered by InvestRight activity	40	42	24 <sup>1</sup>	25	Increase 5% over 2016/17

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

<sup>1</sup> We set a new baseline last fiscal year to more accurately reflect how we collect this information. Further review of the data collection process revealed additional collection difficulties, which we resolved by counting only phone contacts. This year’s result shows the impact of this more limited collection practice.

**Discussion**

- We set this target with the expectation that increasing awareness and understanding of investment fraud through our InvestRight education activities will influence British Columbians to report investment fraud to the BCSC, if they see or suspect it.

**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. Prior to Fiscal 2015/16, follow up surveys were conducted over the phone by an independent consultant.

Status: Baseline	Results and targets		
Performance Measure	2015/16 Baseline	2016/17 Target	2017/18 Target
Percentage of workshop participants who recall the warning signs of investment fraud	39% <sup>1, 2, 3</sup>	42%	Increase by 3% over 2016/17

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

<sup>1</sup> Combines those who recalled three warning signs (6%) and those who recalled a total of four (33%). A further 44% recalled all five warning signs.

<sup>2</sup> Small sample size of 18 (compared to 84 in 2014). We delivered about 30% fewer seminars this year and far fewer attendees agreed to participate in a follow-up e-mail survey. Of those who did, a comparable proportion actually completed the survey (the "conversion rate").

<sup>3</sup> Although 83% of respondents recalled three, four, or five warning signs, the small sample size in this baseline year poses a challenge to setting a realistic target. For this reason, we report only those who recalled three or four, and set a conservative target for the coming 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.
- In moving from a telephone survey to an online survey, we also increased the level of difficulty of the recall questions. The new survey relies on respondents' ability to apply what they learned in the seminar they attended, rather than repeat the warning signs of investment fraud in the formulaic way they first encountered them.
- Despite the small sample size this year, the conversion rate of those who completed surveys (38%) compared well to the previous year (42%) and was greater than in the previous two years (29% and 31%).

## 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 and over 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.

Status: Not Met	Results and targets						
Performance Measure	2012/13 Actual	2013/14 Actual	2014/15 Actual	2015/16 Target	2015/16 Actual	2016/17 Target	2017/18 Target
Percentage of B.C. public aware of BCSC	42%	49%	34%	>45%	36% <sup>1</sup>	>45%	>45%

Data Source: **Independent survey. Data received in report format at BCSC**

<sup>1</sup> While the general population of B.C. adults 18 years and older showed 36% awareness this year, awareness was 45% among those with an investment advisor. We pay particular attention to this group as they will be our main focus in the coming years.

## Discussion

- 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 survey to measure awareness, recall, and impact of our public awareness campaigns. In Fiscal 2015/16, we changed from phone to online methodology and increased our general population sample size five-fold from 400 to 2,000. This survey is conducted among British Columbians, 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.

## Strategies

### **Strategy 5: CSA national filing forms and systems redesign**

- The BCSC, with the ASC, Ontario Securities Commission, and l’Autorité des marchés financiers (the Principal Administrators or PAs), manages CSA national filing systems and applications.
- The PAs completed a request for proposal process for the redevelopment of the SEDAR, SEDI, NRD, and other national filing systems. We expect to award the contract and begin the design phase with the successful vendor in summer 2016.
- The CSA completed the request for proposal process to engage advisory support for planning the renewal of the CSA’s Market Integrity and Computer Analysis (MICA) application. The CSA awarded the contract in January 2016 and has begun the business-requirements-gathering phase with the vendor.
- The CSA proposed a new national exempt distribution report form, which will harmonize the two forms now in use. The BCSC is completing supporting changes to the local e-filing system in time for the summer 2016 launch of the new form.

### **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.

Status: Met	Results and targets						
Performance Measure	2012/13 Actual	2013/14 Actual	2014/15 Actual	2015/16 Target	2015/16 Actual	2016/17 Target	2017/18 Target
Average score on cost-effective regulation scorecard	93%	95%	97%	>90%	98% <sup>1</sup>	>90%	>90%

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

<sup>1</sup> In Fiscal 2015/16, 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 or where we were fully reliant.

- The target of greater than 90% 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.

Status: Met	Results and targets						
Performance Measure	2012/13 Actual	2013/14 Actual	2014/15 Actual	2015/16 Target	2015/16 Actual	2016/17 Target	2017/18 Target
Average approved project post-implementation score	93%	90%	88%	>80%	100% <sup>1</sup>	>80%	>80%

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

<sup>1</sup> In Fiscal 2015/16, we assessed two IT-enabled projects.

Discussion

- Our objective is that our IT-enabled projects will be well executed. We recognize that there will frequently be issues from which we can learn. We consider an 80% post-implementation score as evidence of a successful and well-run project.



## **Discussion of Results**

For the Year Ended March 31, 2016

*We prepared this discussion of financial position and results of operations of the British Columbia Securities Commission (BCSC) on May 5, 2016. Read it in conjunction with our audited financial statements for the year ended March 31, 2016.*

*We prepared the financial information in this report in accordance with Canadian public sector accounting standards. We report in Canadian dollars. We round totals and percentages. Year references are to fiscal years ending March 31.*

BCSC is the provincial crown corporation responsible for regulating B.C. capital market activity. Effective April 2, 2013, results include 25% of a government partnership (Partnership) that operates certain national electronic filing and payment systems. We refer to all other operating results as local (Local).

**Discussion of Results**

For the Year Ended March 31, 2016

**Financial Resource Summary**

<i>(millions)</i>	2011	2012	2013	2014	2015	2016	2016	Fiscal 2016	
	Actual	Actual	Actual	Actual	Actual	Budget	Actual	vs Budget	vs 2015
<b>Revenue</b>									
Local filing fees									
Prospectus and other distributions	\$ 17.8	\$ 19.2	\$ 18.3	\$ 20.9	\$ 20.5	\$ 21.5	\$ 23.7	\$ 2.2	\$ 3.2
Registration	10.6	10.9	11.1	11.1	11.4	11.7	11.6	–	0.2
Financial filings	4.9	4.7	4.7	5.0	4.8	4.6	4.9	0.3	0.1
Other fees	0.2	0.2	0.2	0.2	0.2	0.2	0.2	–	–
	\$ 33.5	\$ 34.9	\$ 34.2	\$ 37.2	\$ 36.9	\$ 38.0	\$ 40.4	\$ 2.5	\$ 3.6
Other revenue									
National systems filing and data fees	\$ –	\$ –	\$ –	\$ 36.3	\$ 6.4	\$ 6.4	\$ 6.4	\$ –	\$ –
Enforcement sanctions	0.4	0.3	1.0	0.7	1.0	0.3	0.2	(0.1)	(0.8)
Investment income	1.0	1.6	2.2	0.9	1.2	0.7	1.4	0.7	0.3
	\$ 1.4	\$ 2.0	\$ 3.2	\$ 37.9	\$ 8.5	\$ 7.4	\$ 8.0	\$ 0.6	\$ (0.5)
Total revenue	\$ 34.9	\$ 36.9	\$ 37.4	\$ 75.1	\$ 45.4	\$ 45.3	\$ 48.4	\$ 3.1	\$ 3.0
<b>Expenses</b>									
Salaries and benefits	\$ 23.5	\$ 25.9	\$ 27.0	\$ 28.8	\$ 30.8	\$ 31.4	\$ 30.6	\$ (0.8)	\$ (0.2)
Other expenses	7.7	10.3	11.5	12.0	11.0	12.0	11.8	(0.2)	0.9
National filing systems expenses	–	–	–	7.6	3.5	4.5	4.0	(0.5)	0.5
Total expenses	\$ 31.2	\$ 36.2	\$ 38.5	\$ 48.5	\$ 45.3	\$ 48.0	\$ 46.5	\$ (1.4)	\$ 1.2
Surplus (deficit)	\$ 3.7	\$ 0.6	\$ (1.1)	\$ 26.6	\$ 0.1	\$ (2.7)	\$ 1.9	\$ 4.6	\$ 1.8
<b>SUPPLEMENTARY INFORMATION</b>									
Unrestricted surplus	\$ 32.0	\$ 33.6	\$ 31.4	\$ 28.8	\$ 26.6	\$ 21.3	\$ 24.9	\$ 3.6	\$ (1.7)
Restricted surplus	–	–	–	28.9	32.2	34.4	35.0	0.6	2.8
Local capital expenditures	0.6	2.2	4.2	5.2	2.9	1.2	1.6	0.4	(1.3)
Partnership capital expenditures	–	–	–	0.2	0.2	–	0.3	0.3	0.1
Debt	–	–	–	–	–	–	–	–	–

## Discussion of Results

For the Year Ended March 31, 2016

Consolidated results were \$1.9 million, \$4.6 million above budget.

The key budget variances were:

- Exempt market (EDER) filing revenues were \$0.9 million (23%) above budget. Most of the increase 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.
- Public distribution filing revenues were \$1.1 million (7%) above budget. We budgeted for a \$1.3 million increase in mutual fund (MF) fee revenue. Actual growth was even higher, at \$2 million (19%) over fiscal 2015 results. In addition, the non-mutual fund (NMF) issuer population shrank, as expected, but related capital raising fees did not decline.
- We managed cash and investments to maximize income and avoided a budgeted investment loss, so investment income was \$0.7 million (294%) above budget.
- Compensation costs were \$0.8 million (2%) below budget, through modest staff attrition and higher than expected capital effort. Average full-time equivalent (FTE) employees fell seven FTEs (3%).
- Net contribution from a national filing system partnership (CSA partnership) was \$0.5 million (20%) higher than budget, due to the timing of expenses related to two systems renewal projects.

Capital spending was \$0.4 million (33%) above budget, due to the type of work completed, not from adding unbudgeted or unplanned resources. The timing of CMRA work (expense) enabled us to focus on approved internal projects (often capital). As a result, capital additions and salary costs were higher and lower, respectively. Fiscal 2016 capital projects include e-filing system changes to support a CSA project to harmonize the Exempt Distribution filing form, IT system security improvements, risk model enhancements to refine data analysis, new databases to give staff greater access to BCSC information, and networking equipment replacements.

## 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*. A portion of our revenue is a 25% interest in the CSA partnership. The remainder of our revenue is investment income and enforcement sanctions.

## Discussion of Results

For the Year Ended March 31, 2016

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

Revenue source/Year	2011	2012	2013	2014	2015	2016
Distributions	51%	52%	49%	41%	45%	49%
Registrations	30%	30%	30%	22%	25%	25%
Financial filings	14%	13%	13%	10%	11%	10%
Interest	3%	4%	5%	1%	2%	2%
Sanctions and other	2%	1%	3%	1%	2%	0%
Partnership	0%	0%	0%	25%	15%	14%
<b>Total</b>	100%	100%	100%	100%	100%	100%

### Local fee revenue

We collect the following fees:

- *Distribution fees*, from public companies, private 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

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. The nature of the markets has changed over the years to a point where we need to adjust our fee model and fee rate structure to ensure sufficient funding going forward.

### Enforcement sanctions

We can order respondents to pay to us administrative penalties, and under section 161(1)(g) also money obtained by contravening the *Securities Act*. We also negotiate settlements, which include monetary sanctions. We recognize administrative penalties and settlements that are collectible, and unclaimed 161(1)(g) payments, as revenue and appropriate these revenues to our education reserve, 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, have poor credit, or have left B.C. We have collected less than 5% of the amount sanctioned since our incorporation on April 1, 1995. We pursue outstanding amounts vigorously. However, of the \$425 million outstanding, only \$0.1 million is likely collectible and accrued in our financial statements.

## Discussion of Results

For the Year Ended March 31, 2016

About 77% (\$329 million) of the outstanding sanctions relates to eleven cases. Over 37% (\$159 million) of the outstanding sanctions relates to 161(1)(g) orders.

Enforcement sanctions vary significantly between periods.

### Investment income

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

### Local revenue analysis

Revenues were \$3.1 million (8%) above budget, primarily due to higher fees from exempt market, mutual fund, public issuer distributions, and higher investment income.

Distribution revenue was \$2.2 million (10%) higher than budget. The positive variance was from \$0.9 million (23%) higher fees from exempt market capital raising, \$0.7 million (6%) higher MF proceeds fees from higher than expected growth in mutual fund sales, and \$0.4 million (13%) higher fees from non-mutual fund prospectuses.

Investment income was \$0.7 million (294%) higher than budget due to realizing a gain on investments, higher than anticipated investment balances that generated higher returns, and avoiding an expected investment loss through cash management.

The reporting issuer population fell, but financial filings revenue was \$0.3 million (7%) higher than budget due to timing.

### Local revenues

<i>(thousands)</i>	2016 versus Budget				2016 versus 2015			
	Actual	Budget	Variance	%	2016	2015	Variance	%
Distribution	\$ 23,693	\$ 21,500	\$ 2,193	10%	\$ 23,693	\$ 20,519	\$ 3,174	15%
Registration	11,633	11,650	(17)	0%	11,633	11,384	249	2%
Financial filings	4,899	4,600	299	7%	4,899	4,764	135	3%
Exemptions and other	216	200	16	8%	216	190	26	14%
Sanctions	199	300	(101)	-34%	199	1,027	(828)	-81%
Investment income	984	250	734	294%	984	764	220	29%
	\$ 41,625	\$ 38,500	\$ 3,125	8%	\$ 41,625	\$ 38,648	\$ 2,977	8%

Revenues increased \$3.0 million (8%) versus 2015, for the reasons noted above, and from continued growth in individual registration fees. Lower sanction receipts only partly offset the other revenue increases.

## **Discussion of Results**

For the Year Ended March 31, 2016

### **Expenses**

Expenses relate to local operations and a proportionate interest in the CSA partnership.

Compensation and occupancy costs account for about 80% of Local expenses. As described elsewhere in this annual report, we focus our effort on four goals:

1. Promoting a culture of compliance
2. Acting decisively against misconduct
3. Educating investors
4. Advancing cost-effective regulation

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

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.

#### **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. Executive and management salaries remain frozen.

#### **Local occupancy costs**

We run Local operations from a downtown Vancouver office to be close to the reporting issuers and registrants that we regulate. Our 61,000 square feet of space cost us about \$49 per square foot for 2016, under a lease that expires in November 2021.

## **Discussion of Results**

For the Year Ended March 31, 2016

### **Local professional services**

We engage consultants when outsourcing is more cost-effective than performing the work ourselves. Fiscal 2016 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
- Data entry 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 2016 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**

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

- Software licensing and maintenance fees
- Electronic information services
- Physical record storage costs

## Discussion of Results

For the Year Ended March 31, 2016

### Local expense analysis

Expenses were \$0.9 million (2%) below budget, primarily due to lower compensation costs, partly offset by higher professional fees.

Salaries and benefits costs were \$0.8 million (2%) lower than budget from higher position vacancies and project effort capitalization.

Professional fees were \$0.3 million (12%) higher than budget, primarily due to the nature and timing of external legal support and because we now net CSA website project cost recoveries, usually time spent by staff, against salaries.

Other operating expenses are comprised of administration, telecommunications, business travel, training, and external communications.

#### Local expenses

(thousands)	2016 versus Budget				2016 versus 2015			
	Actual	Budget	Variance	%	2016	2015	Variance	%
Salaries	\$ 30,649	\$ 31,400	\$ 751	2%	\$ 30,649	\$ 30,821	\$ 172	1%
Professional services	2,358	2,100	(258)	-12%	2,358	1,955	(403)	-21%
Occupancy	3,117	3,270	153	5%	3,117	3,046	(71)	-2%
Depreciation	2,780	2,850	70	2%	2,780	2,394	(386)	-16%
Information management	1,456	1,550	94	6%	1,456	1,313	(143)	-11%
Education	762	750	(12)	-2%	762	728	(34)	-5%
Other	1,357	1,485	128	9%	1,357	1,533	176	11%
	\$ 42,478	\$ 43,405	\$ 927	2%	\$ 42,478	\$ 41,788	\$ (690)	-2%

Expenses increased \$0.7 million (2%) from 2015, primarily due to higher professional fees and depreciation expenses.

Professional fees increased \$0.4 million (21%) for the reasons described above.

Depreciation was \$0.4 million (16%) higher due to increased capital spending in prior fiscal years.

Salaries expense decreased \$0.2 million (1%). Non-management staff received an average 3% merit increase, costing \$0.6 million, effective April 1, 2015. A drop in employees through attrition, from 245 to 238 full-time equivalents, offset the compensation cost increases.



## National filing systems partnership

Effective April 2, 2013, the BCSC, together with the Alberta Securities Commission, Ontario Securities Commission, and the l' Autorité des marchés financiers (collectively, the Principal Administrators or PAs), agreed to govern certain national electronic filing and payment systems on behalf of the Canadian Securities Administrators. Under the arrangements, each of the four PAs has one vote on national electronic filing systems matters. This arrangement is a government partnership and we consolidate twenty-five percent of national filings systems assets and operations.

### Operations

Partnership operations (millions)	2015	2016	2016	Fiscal 2016	
	Actual	Budget	Actual	vs Budget	vs 2015
National filing systems revenues	\$ 6.8	\$ 6.8	\$ 6.8	\$ –	\$ –
National filing systems expenses	3.5	4.5	4.0	0.5	(0.5)
Surplus	\$ 3.3	\$ 2.3	\$ 2.8	\$ 0.5	\$ (0.5)

Partnership results for the year were \$0.5 million (22%) higher than budget primarily due to the timing of professional services expenditures related to two national filing system renewal projects.

## **Discussion of Results**

For the Year Ended March 31, 2016

### **Financial position and liquidity**

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

Local and Partnership operations do not use or invest in complex or higher risk financial instruments, so we do not face significant credit or material market risk. Liquidity risk is also low because our investments are in demand deposits and redeemable, pooled fund units.

Our Local pooled fund investments expose us to interest rate risk because their fair value fluctuates with interest rate changes. An immediate 1% interest rate increase would decrease our investment portfolio value by about \$1.3 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, bcIMC. The current investment duration of the Short Term Bond Fund is 2.8 years and of the Canadian Universe Bond Fund is 7.9 years.

#### **Consolidated liquidity**

Cash flow for the period was positive \$16.4 million (fiscal 2015 – negative \$20.6 million). Positive cash flows were due to \$13.8 million net sales of investments and a \$4.5 million cash inflow provided by operations partly offset by \$1.9 million of capital asset acquisitions. We ended the year with \$29.5 million (March 31, 2015 - \$13.1 million) in cash.

#### **Consolidated assets**

Amounts receivable remained unchanged at \$1.1 million (March 31, 2015 - \$1.1 million). Partnership receivables relate primarily to systems usage fees. Local receivables relate primarily to enforcement sanctions, GST receivable, national project cost recoveries, and administrative support cost recoveries due from the Canadian Securities Transition Office.

Capital assets decreased \$1.0 million to \$10.1 million, net of \$2.9 million depreciation. Local capital spending related primarily to e-filing system changes to support a CSA project to harmonize the Exempt Distribution filing form, IT system security improvements, risk model enhancements to refine data analysis, new databases to give staff greater access to BCSC information, and networking equipment replacements, and totalled \$1.6 million, as follows:

## Discussion of Results

For the Year Ended March 31, 2016

Project	(\$ millions)
E-services filing system changes	\$ 0.5
IT security improvements	0.4
Databases	0.2
Risk model enhancements	0.2
Network equipment upgrades	0.2
Other	0.1
	\$ 1.6

Prepaid expenses increased slightly to \$1.0 million (March 31, 2015 - \$0.9 million). Prepaid expenses relate primarily to prepaid software licenses and registration processing fees paid in advance.

We ended the year with a \$59.9 million accumulated surplus (March 31, 2015 - \$58.8 million).

### Local contractual obligations

Our significant Local contractual obligations at March 31, 2016 relate to our office lease and multi-function devices. Our commitments under those contracts total approximately \$18.5 million (March 31, 2015 - \$21.6 million), as follows:

(\$millions)	2017	2018-2019	2020-2021	2022	Total
Leased space and equipment	\$ 3,146,436	\$ 6,421,022	\$ 6,668,255	\$ 2,265,649	\$ 18,501,361

## **Discussion of Results**

For the Year Ended March 31, 2016

### **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, 2016, that materially affected, or are likely to materially affect, our ICFR. Our internal auditors tested operating effectiveness of our ICFR as at March 31, 2016 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. The nature of the markets has changed over the years to a point where we need to adjust our fee model and fee rate structure to ensure sufficient funding going forward.

#### **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 electronic filing 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, 2016

### 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, 2016

### Fiscal 2016 compensation summary (in dollars)

#### Executive and Senior Management Compensation

Name and Position	Salary	Benefits <sup>(1)</sup>	Pension	All Other Compensation (expanded below)	2016 Total	Previous Two Years Totals	
						2015	2014
Brenda Leong, Chair	\$ 434,748	\$ 8,643	\$ 46,694	\$ 9,166	\$ 499,251	\$ 499,251	\$ 499,251
Nigel Cave, Vice Chair <sup>(2)</sup>	327,000	10,264	–	2,057	339,321	340,000	28,022
Paul Bourque, Executive Director	\$ 334,312	\$ 9,890	\$ 35,717	\$ 9,584	\$ 389,503	\$ 390,293	\$ 387,326
Teresa Mitchell-Banks, Director, Enforcement <sup>(3)</sup>	\$ 162,862	\$ 3,946	\$ 17,801	\$ 429,331	\$ 613,940	\$ 283,824	\$ 286,048
Peter Brady, Director, Enforcement <sup>(4)</sup>	\$ 229,935	\$ 10,162	\$ 24,308	\$ 6,472	\$ 270,877	\$ 268,010	\$ 268,729
John Hinze, Director, Corporate Services	\$ 218,275	\$ 10,056	\$ 23,102	\$ 2,390	\$ 253,823	\$ 253,210	\$ 253,818

*1 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 fitness reimbursements.*

*2 Appointed February 28, 2014*

*3 Appointment ended November 27, 2015*

*4 Appointed Director of Enforcement February 3, 2016; previously Director of Corporate Finance*

#### Executive and Senior Management Other Compensation

Name and Position	All Other Compensation	Severance	Vacation payout	Parking	Professional Membership Fees
Brenda Leong, Chair	\$ 9,166	\$ –	\$ –	\$ 6,384	\$ 2,782
Nigel Cave, Vice Chair	\$ 2,057	\$ –	\$ –	\$ –	\$ 2,057
Paul Bourque, Executive Director	\$ 9,584	\$ –	\$ –	\$ 6,384	\$ 3,200
Teresa Mitchell-Banks, Director, Enforcement	\$ 429,331	\$ 416,858	\$ 7,335	\$ 3,081	\$ 2,057
Peter Brady, Director, Enforcement	\$ 6,472	\$ –	\$ –	\$ 4,415	\$ 2,057
John Hinze, Director, Corporate Services	\$ 2,390	\$ –	\$ –	\$ –	\$ 2,390

## Discussion of Results

For the Year Ended March 31, 2016

### *Independent Commissioner Compensation<sup>(5)</sup>*

Name and Position	Fees	Benefits <sup>(6)</sup>	2016	2015	2014
Judith Downes, Commissioner	\$ 85,125	\$ 2,085	\$ 87,210	\$ 142,726	\$ 87,537
George C. Glover, Jr., Commissioner	\$ 112,750	\$ 111	\$ 112,861	\$ 128,335	\$ 119,606
Audrey T. Ho, Commissioner	\$ 103,025	\$ 2,279	\$ 105,304	\$ 129,806	\$ 85,407
Gordon Holloway, Commissioner	\$ 73,963	\$ 2,652	\$ 76,615	\$ 71,173	\$ 59,666
Don Rowlatt, Commissioner	\$ 79,100	\$ 122	\$ 79,222	\$ 96,802	\$ 66,907
Suzanne K. Wiltshire, Commissioner	\$ 134,275	\$ 2,672	\$ 136,947	\$ 146,177	\$ 132,730
Retired Commissioners	\$ 4,658	\$ 854	\$ 5,513	\$ 62,785	\$ 52,390

<sup>5</sup> These are part-time positions

<sup>6</sup> Benefits include Canada Pension Plan and Worksafe premiums

Total Commissioner compensation is fees for all activities including attendance at meetings and hearings. Our Independent Commissioner compensation policy is located on the BCSC website.

## **Management's responsibility and certification**

Management is responsible for ensuring that the financial statements and other financial information included in this annual report (Report) are complete and accurate. Management has prepared the financial statements according to Canadian public sector accounting standards (PSAS).

We certify that:

- 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 directed the evaluation of the effectiveness of these internal controls over financial reporting (ICFR) and we are not aware of any ICFR gap that has or is likely to materially affect our ICFR
- We have reviewed the financial statements and other information in this Report
- We believe the Report reflects all material facts for the period it covers
- We do not believe the Report misstates any material fact

We believe that the financial statements and other financial information in the 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 establishing prudent rules of business and staff conduct. It is the BCSC's policy to maintain the highest standards of ethics in all its activities. The BCSC has an employee conduct policy, including conflict of interest rules for employees and commissioners, to achieve those standards.

The Board is also 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 committee members are independent commissioners who do not participate in the day-to-day operations of the BCSC. The Audit Committee meets regularly throughout the year with management, the internal auditors and the external auditors to review the:

- financial statements,
- adequacy of financial reporting, accounting systems and controls, and
- internal and external audit functions.

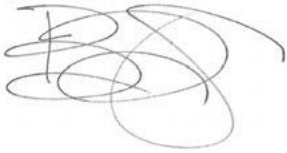


## Management's responsibility and certification

The internal auditors are responsible for reviewing and evaluating the adequacy of and compliance with the BCSC's internal control standards. The internal auditors report the results of their reviews and make recommendations both to management and the Audit Committee. The external auditor's responsibility is to express an opinion on whether the financial statements, in all material respects, fairly present the BCSC's financial position, results of operations and cash flows in accordance with PSAS. The internal and external auditors have full and open access to the audit committee, with and without the presence of management.

The Audit Committee has reviewed these financial statements and has recommended that the Board approve them.

The BCSC has appointed BDO Canada LLP (BDO) to be the independent auditor of the Commission. BDO has examined the financial statements and its report follows.



Brenda M. Leong  
*Chair and Chief Executive Officer*



Paul C. Bourque  
*Executive Director*



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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, 2016, 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, 2016 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.

Chartered Professional Accountants

Vancouver, British Columbia  
May 5, 2016

**Statement of Financial Position**

As at March 31, 2016

(audited)

	March 31, 2016	March 31, 2015
<b>Financial assets</b>		
Cash (note 4)	\$ 29,379,432	\$ 13,016,690
Restricted cash – 161(1)(g) payments (note 5)	151,781	131,781
Investments (note 6a)	30,365,341	44,102,667
Amounts receivable (note 7)	1,067,682	1,119,495
	\$ 60,964,236	\$ 58,370,633
<b>Liabilities</b>		
Accounts payable and accrued liabilities (note 8)	\$ 1,831,268	\$ 1,705,188
Accrued salaries	1,105,136	1,006,332
Deferred registration fee revenue	8,031,547	7,894,828
Employee leave liability (note 9)	998,994	825,339
161(1)(g) liabilities (note 5)	151,781	131,781
	\$ 12,118,726	\$ 11,563,468
<b>Net financial assets</b>	\$ 48,845,510	\$ 46,807,165
Tangible capital assets (note 10)	\$ 10,063,752	\$ 11,122,693
Prepaid expenses (note 11)	968,090	918,412
	\$ 11,031,842	\$ 12,041,105
<b>Accumulated Surplus</b>	\$ 59,877,352	\$ 58,848,270
Accumulated Surplus is comprised of:		
Unrestricted surplus (note 12)	\$ 25,401,883	\$ 26,254,886
Restricted surplus (note 12)	34,963,992	32,198,293
	60,365,875	58,453,179
Accumulated remeasurement gains (losses)	(488,523)	395,091
	\$ 59,877,352	\$ 58,848,270

Commitments and contingencies (note 18)

*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, 2016

(audited)

Year Ended	March 31, 2016 Budget (note 19)	March 31, 2016 Actual	March 31, 2015 Actual
<b>Revenues</b>			
Regulatory and other fees			
Prospectus and other distributions	\$ 21,500,000	\$ 23,693,491	\$ 20,519,116
Registration	11,650,000	11,633,154	11,384,090
Financial filings	4,600,000	4,898,652	4,763,870
Exemptive orders and other	200,000	369,541	312,430
National filing systems access and usage fees (note 6b)	6,800,000	6,230,310	6,243,860
Enforcement sanctions (note 13)	300,000	199,472	1,026,813
Investment income (notes 6b, 14)	250,000	1,039,678	1,179,873
Realized gains (losses) on investments (note 14)	–	368,229	(27,587)
	\$ 45,300,000	\$ 48,432,527	\$ 45,402,465
<b>Expenses</b>			
Local operations (note 15)	43,405,000	42,477,950	41,788,482
National filing systems operations (notes 6b, 15)	4,550,000	4,041,881	3,501,010
	\$ 47,955,000	\$ 46,519,831	\$ 45,289,492
Annual surplus (deficit)	\$ (2,655,000)	\$ 1,912,696	\$ 112,973
Accumulated surplus, beginning of year		\$ 58,453,179	\$ 58,340,206
Accumulated surplus, end of year		\$ 60,365,875	\$ 58,453,179

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

**Statement of Remeasurement Gains and Losses**

For the Year Ended March 31, 2016

(audited)

<b>Year Ended</b>	<b>March 31, 2016</b>	<b>March 31, 2015</b>
Accumulated remeasurement gains (losses), beginning of year	\$ 395,091	\$ (620,401)
Unrealized gain (loss) on investments (note 14)	(515,385)	987,905
Realized (gain) loss on investments, reclassified to operations (note 14)	(368,229)	27,587
Accumulated remeasurement gains (losses), end of year	\$ (488,523)	\$ 395,091

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

## Statement of Change in Net Financial Assets

(audited)

Year Ended	March 31, 2016 Budget (note 19)	March 31, 2016 Actual	March 31, 2015 Actual
Surplus (deficit), for the year	\$ (2,655,000)	\$ 1,912,696	\$ 112,973
Acquisition of tangible capital assets (note 10)	\$ (1,200,000)	\$ (1,876,113)	\$ (3,145,809)
Write-off of intangible capital assets (note 10)	–	52,500	–
Amortization of tangible capital assets (note 10)	2,850,000	2,882,554	2,461,076
	\$ 1,650,000	\$ 1,058,941	\$ (684,733)
Acquisition of prepaid expenses (note 11)		\$ (1,040,104)	\$ (852,570)
Use of prepaid expenses (note 11)		990,426	768,855
		\$ (49,678)	\$ (83,715)
Effect of net remeasurement gains (losses) for the year		\$ (883,614)	\$ 1,015,492
Increase in net financial assets, for the year		\$ 2,038,345	\$ 360,018
Net financial assets, beginning of year		\$ 46,807,165	\$ 46,447,148
Net financial assets, end of year		\$ 48,845,510	\$ 46,807,165

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

## Statement of Cash Flows

(audited)

Year Ended	March 31, 2016	March 31, 2015
<b>Operating transactions</b>		
Cash received from:		
Fees (note 6b)	\$ 47,013,247	\$ 43,522,878
Enforcement sanctions (note 13)	152,368	1,147,123
Interest	475,071	443,124
	<b>\$ 47,640,686</b>	<b>\$ 45,113,125</b>
Cash paid for:		
Cash paid to and on behalf of employees	\$ (30,364,110)	\$ (30,608,500)
Cash paid to suppliers and others	(12,824,269)	(13,436,064)
	<b>\$ (43,188,379)</b>	<b>\$ (44,044,564)</b>
Cash provided by operating transactions	\$ 4,452,307	\$ 1,068,561
<b>Capital transactions</b>		
Cash used to acquire tangible capital assets (note 10)	\$ (1,876,113)	\$ (3,145,809)
<b>Investing transactions</b>		
Proceeds from disposals of investments	\$ 46,368,218	\$ 9,000,000
Investments	(32,581,669)	(27,500,000)
	<b>\$ 13,786,549</b>	<b>\$ (18,500,000)</b>
Increase (decrease) in cash	\$ 16,362,742	\$ (20,577,248)
Cash, beginning of year	\$ 13,016,690	\$ 33,593,938
Cash, end of year	<b>\$ 29,379,432</b>	<b>\$ 13,016,690</b>

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

## **Notes to the Financial Statements**

For Year Ended March 31, 2016

(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.

Effective April 2, 2013, the BCSC, the Alberta Securities Commission, Ontario Securities Commission, and the l'Autorité des marchés financiers (collectively, the Principal Administrators, or PAs), agreed with Investment Industry Regulatory Organization of Canada (IIROC), CDS Inc. (CDS) and CGI Information Systems and Management Consultants Inc. (CGI) to consolidate national electronic filing systems governance under the PAs and transition systems management from CDS to CGI during fiscal 2014. Under the arrangements, each of the four PAs has one vote on national electronic filing systems matters. This arrangement is a government partnership under Public Sector Accounting Standards (PSAS). Accordingly, these financial statements include 25% of the assets, liabilities, net assets, revenues and expenses of the Partnership, effective April 2, 2013.

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

Management has prepared these financial statements in accordance with PSAS using guidance developed by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants Canada. Significant accounting policies followed in the preparation of these financial statements are:

#### ***a) Interest in Partnership***

We record the BCSC interest in the Partnership using proportionate consolidation, whereby we record our pro-rata share of each of the assets, liabilities, net assets, revenues and expenses of the Partnership.

#### ***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 BCSC money that we receive, but do not immediately need, in investment pools that the British Columbia Investment Management Corporation (bcIMC), a B.C. government organization, administers. The Partnership's surplus cash and our restricted cash are on deposit with Schedule 1 chartered banks. Surplus cash earns interest at prime minus 1.85%. Our restricted cash earns interest at prime minus 1.70%. The Partnership's term deposits are held with credit unions in redeemable term deposits at fixed interest rates. The term deposits earn interest at a rate of 1.70% (2015 - 1.25% to 2.00%).



## Notes to the Financial Statements

For Year Ended March 31, 2016

(audited)

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 surplus/deficit, in the period that they arise.

We record unrealized gains and losses separately in the statement of accumulated remeasurement gains / (losses). We reinvest any investment earnings in the portfolio and returns adjust the carrying value of the units we own.

### ***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 the BCSC 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. We hold these funds in a segregated bank account where they earn interest at prime minus 1.70%.

### ***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:

- Information technology – five years
- Leasehold improvements – the remaining lease term to November 30, 2021
- Office furniture and equipment – ten years
- Partnership information technology – five years

### ***e) Prepaid expenses***

Prepaid expenses include calendar year registration processing fees and prepaid IT hardware and software maintenance. We charge prepaid expenses to expense over the periods of expected benefit.

## Notes to the Financial Statements

For Year Ended March 31, 2016

(audited)

### *f) Revenue recognition*

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

We receive registration fees in advance, so we defer and recognize them in revenue over the calendar year to which they relate.

We recognize enforcement sanctions when we determine they are collectible.

### *g) Expenses*

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

### *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. We review estimates of employee leave liability annually. We review all other estimates on a quarterly basis.

Actual results may differ from these estimates. Any adjustments to these estimates will be recorded in the period that additional information becomes available.

## **3. Financial instruments**

Cash and restricted cash consists of demand deposits held at Schedule 1 Canadian chartered banks.

Our investments are in units of bcIMC investment pools. Our investment policy allows us to buy units of the following bcIMC pooled funds:

- Canadian Money Market Fund (ST1)  
Canadian money market investments with original maturities of less than 45 days
- Canadian Money Market Fund (ST2)  
Canadian money market investments with original maturities of less than 15 months

## Notes to the Financial Statements

For Year Ended March 31, 2016

(audited)

- 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 the following risks:

- *Credit risk* – the possibility that an underlying issuer will default, by failing to repay principal and interest in a timely manner
- *Liquidity risk* – the possibility that we will not be able to sell our investments when we want
- *Market risk* – the possibility that our investments may decline over time because of economic changes or other events that affect large portions of the market
- *Interest rate risk* – the possibility that the value of our investments and the related investment returns will fluctuate over time because of interest rate changes

In management's opinion, our investments do not expose the BCSC to significant credit or material market 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 pool are also highly liquid.

Our investments expose the BCSC to interest rate risk. The fair value of our investments in longer-term fixed rate securities fluctuates significantly with changes in interest rates. Based on the March 31, 2016 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 \$1.3 million. In addition, future investment income earned on variable rate cash deposits and maturing fixed rate securities 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 7.9 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, 2016

(audited)

**4. Cash**

Cash is demand deposits, as follows:

	March 31, 2016	March 31, 2015
Operating cash	\$ 5,256,918	\$ 4,169,063
Partnership cash	24,122,514	8,847,627
	\$ 29,379,432	\$ 13,016,690

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

Case	March 31, 2016	March 31, 2015
Keith Henry Alexander	\$ 20,000	\$ –
Canada Pacific Consulting Inc. and Michael Robert Shantz	131,781	131,781
	\$ 151,781	\$ 131,781

**6. Investments****a) bcIMC and national filing system investments**

Investments are carried at fair value, and consist of:

	March 31, 2016		March 31, 2015	
	Market Value	Cost	Market Value	Cost
<b>bcIMC pooled funds</b>				
Short Term 2 Fund	\$ –	\$ –	\$ 5,073,118	\$ 5,076,033
Short Term Bond Fund	5,994,644	6,011,633	–	–
Canadian Universe Bond Fund	14,370,697	14,842,231	16,529,549	16,131,544
	\$ 20,365,341	\$ 20,853,864	\$ 21,602,667	\$ 21,207,577
<b>National filing systems partnership</b>				
2 year term deposit	\$ 10,000,000	\$ 10,000,000	\$ –	\$ –
1 year term deposit	–	–	16,250,000	16,250,000
1 year GIC	–	–	6,250,000	6,250,000
	\$ 10,000,000	\$ 10,000,000	\$ 22,500,000	\$ 22,500,000
	\$ 30,365,341	\$ 30,853,864	\$ 44,102,667	\$ 43,707,577

bcIMC investment distributions, net of management fees, are reinvested in the portfolio and adjust the carrying value of the units we own.

**Notes to the Financial Statements**

For Year Ended March 31, 2016

(audited)

***b) National filing systems partnership***

Summarized statements of financial position, operations and cash flows as at March 31, 2016, and for the period then ended, are as follows:

	March 31, 2016		March 31, 2015	
	Partnership	25% share	Partnership	25% share
<b>Financial Position</b>				
Financial assets	\$ 139,736,757	\$ 34,934,189	\$ 129,066,938	\$ 32,266,735
Liabilities	1,743,570	435,893	1,673,941	418,485
Net Financial assets	\$ 137,993,187	\$ 34,498,297	\$ 127,392,997	\$ 31,848,249
Non-financial assets	1,862,781	465,695	1,400,176	350,044
Accumulated surplus	\$ 139,855,968	\$ 34,963,992	\$ 128,793,173	\$ 32,198,293
<b>Operations</b>				
Revenue	\$ 27,230,319	\$ 6,807,580	\$ 27,018,131	\$ 6,754,533
Expenses	16,167,524	4,041,881	13,910,550	3,501,008
Surplus	\$ 11,062,795	\$ 2,765,699	\$ 13,107,581	\$ 3,276,895
<b>Cash flows</b>				
Cash provided by (used in):				
Operating	\$ (11,062,795)	\$ (2,765,699)	\$ (13,107,581)	\$ (3,276,895)
Capital	1,084,317	271,079	961,824	240,456
Investing	74,201,800	18,550,450	(64,569,589)	(16,142,397)
Increase (decrease) in cash	\$ 64,223,322	\$ 16,055,830	\$ (76,715,346)	\$ (19,178,837)

**Notes to the Financial Statements**

For Year Ended March 31, 2016

(audited)

**7. Amounts receivable**

Amounts receivable consists of:

	March 31, 2016	March 31, 2015
National filing systems user fees	\$ 637,553	\$ 750,880
Enforcement sanctions (note 13)	142,938	95,834
Late insider report filing fees	16,800	18,000
Due from CSTO (a)	74,519	80,530
National project recoveries (b)	82,469	21,631
GST rebates	74,222	104,673
Employee advances and other	39,181	47,947
	<b>\$ 1,067,682</b>	<b>\$ 1,119,495</b>

(a) We seconded employees to, and provide technology and accounting support to, the Canadian Securities Regulatory Regime Transition Office (CSTO) on a cost recovery basis. The balance reflects cost recoveries due from the CSTO.

(b) We incur IT costs on behalf of the Partnership. The balance reflects cost recoveries due from the other partners.

**8. Accounts payable and accrued liabilities**

Accounts payable and accrued liabilities consists of:

	March 31, 2016	March 31, 2015
Trade accounts payable	\$ 1,393,765	\$ 1,241,332
National filing systems payables	435,893	418,485
CSA payables	–	45,000
Other	1,610	371
	<b>\$ 1,831,268</b>	<b>\$ 1,705,188</b>

**9. Employee leave liability**

Employee leave liability is what we owe to our employees for their accumulated vacation time and other leave entitlements not yet taken.

**Notes to the Financial Statements**

For Year Ended March 31, 2016

(audited)

**10. Tangible capital assets**

Tangible capital assets consists of:

	March 31, 2016				Total
	Information technology	Leasehold improvements	Office furniture and equipment	Partnership Information technology	
<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 amortization</b>					
Opening balance	\$ 5,327,289	\$ 3,943,337	\$ 2,269,135	\$ 77,912	\$ 11,617,673
Amortization	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
Net book value	\$ 7,343,051	\$ 1,682,171	\$ 572,836	\$ 465,695	\$ 10,063,752

	March 31, 2015				Total
	Information technology	Leasehold improvements	Office furniture and equipment	Partnership Information technology	
<b>Cost</b>					
Opening balance	\$ 12,071,220	\$ 5,441,510	\$ 2,740,383	\$ 187,500	\$ 20,440,613
Additions	1,972,920	708,156	224,277	240,456	3,145,809
Disposals	(576,913)	(225,243)	(43,900)	–	(846,056)
Write-downs	–	–	–	–	–
Closing balance	\$ 13,467,227	\$ 5,924,423	\$ 2,920,760	\$ 427,956	\$ 22,740,366
<b>Accumulated amortization</b>					
Opening balance	\$ 3,820,052	\$ 3,934,526	\$ 2,237,658	\$ 10,417	\$ 10,002,653
Amortization	2,084,150	234,054	75,377	67,495	2,461,076
Disposals	(576,913)	(225,243)	(43,900)	–	(846,056)
Write-downs	–	–	–	–	–
Closing balance	\$ 5,327,289	\$ 3,943,337	\$ 2,269,135	\$ 77,912	\$ 11,617,673
Net book value	\$ 8,139,939	\$ 1,981,086	\$ 651,625	\$ 350,044	\$ 11,122,693

**Notes to the Financial Statements**

For Year Ended March 31, 2016

(audited)

**11. Prepaid expenses**

Prepaid expenses consist of:

	March 31, 2016	March 31, 2015
IIROC registration processing fees	\$ 299,531	\$ 295,320
National filing systems prepaid contracts	174,123	168,227
Hardware and software maintenance contracts	494,437	454,865
	\$ 968,090	\$ 918,412

**12. Accumulated surplus**

	March 31, 2016			
	General	Education (a)	National systems (b)	Total
<b>Opening balance</b>	\$ 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)	-	-
<b>Closing balance</b>	\$ 25,401,883	\$ -	\$ 34,963,992	\$ 60,365,875

	March 31, 2015			
	General	Education (a)	National systems (b)	Total
<b>Opening balance</b>	\$ 29,395,436	\$ -	\$ 28,944,770	\$ 58,340,206
Additions and appropriations	(4,167,363)	1,026,813	3,253,523	112,973
Investment income allocation	-	-	-	-
Education disbursements paid from reserve	727,814	(727,814)	-	-
<b>Closing balance</b>	\$ 25,955,887	\$ 298,999	\$ 32,198,293	\$ 58,453,179



## **Notes to the Financial Statements**

For Year Ended March 31, 2016

(audited)

### ***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)***

Canadian Securities Administrators (CSA) jurisdictions share an undivided interest in Partnership surpluses. The Partnership agreement specifies that the Partnership will use these systems' surpluses only for the benefit of national filing systems users.

## **13. Enforcement sanctions**

Enforcement sanctions include 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 \$84.9 million (fiscal 2015 - \$172.0 million) during the year, of which we did not recognize \$84.7 million (fiscal 2015 - \$171.0 million) as revenue because we do not expect to receive payment.

Collecting enforcement sanctions is difficult because respondents often have limited assets, poor credit, or have left British Columbia. We pursue outstanding amounts as appropriate, to maximize sanction receipts, net of collection costs.

**Notes to the Financial Statements**

For Year Ended March 31, 2016

(audited)

**14. Investment income**

Financial and real returns related to financial assets are as follows:

	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%
Pooled Cdn Money						
Market Fund (ST2)	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%)
Cdn 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%

	For the Year Ended March 31, 2015					
	Average Balance	Investment Income	Realized Gains (Losses)	Total Income	Unrealized Gains (Losses)	Annualized Return
Cash	\$ 36,725,095	\$ 443,123	\$ –	\$ 443,123	\$ –	1.2%
Restricted cash -	131,781	–	–	–	–	0.0%
161(1)(g) payments						
Pooled Canadian Money	3,907,601	41,626	–	41,626	(2,914)	1.0%
Market Fund (ST2)						
Short Term Bond Fund	–	–	(27,587)	(27,587)	–	0.0%
Cdn Universe Bond Fund	16,859,747	695,124	–	695,124	990,819	10.0%
	\$ 57,624,224	\$ 1,179,873	\$ (27,587)	\$ 1,152,286	\$ 987,905	3.7%

**Notes to the Financial Statements**

For Year Ended March 31, 2016

(audited)

**15. Expenses by object**

	Year ended March 31		
	Budget 2016	2016	2015
<b>Local operations</b>			
Salaries and benefits	\$ 31,400,000	\$ 30,649,438	\$ 30,820,677
Professional services	2,100,000	2,357,592	1,954,676
Occupancy	3,270,000	3,116,547	3,046,399
Amortization	2,850,000	2,779,626	2,393,581
Information management	1,550,000	1,456,182	1,312,676
Education disbursements	750,000	761,531	727,814
External communication	125,000	119,818	171,806
Administration	550,000	510,798	531,840
Staff training	400,000	320,285	457,841
Travel	225,000	239,106	226,297
Telecommunications	185,000	167,027	144,875
Total local operations	\$ 43,405,000	\$ 42,477,950	\$ 41,788,482
<b>National filing systems operations</b>			
Salaries and benefits	\$ 661,000	\$ 723,407	\$ 635,652
Professional services	3,551,000	3,060,048	2,703,111
Amortization	202,000	102,928	67,495
Information management	–	155,498	94,753
Administration	136,000	–	–
Total National filing systems operations	\$ 4,550,000	\$ 4,041,881	\$ 3,501,010
	\$ 47,955,000	\$ 46,519,831	\$ 45,289,492

## Notes to the Financial Statements

For Year Ended March 31, 2016

(audited)

### 16. Related party transactions

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

### 17. 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 56,000 active members and approximately 43,000 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. The next valuation is scheduled for March 31, 2017 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 \$2.4 million to expense for employer contributions during the period (fiscal 2015 - \$2.5 million).

### 18. Commitments and contingencies

#### a) Office and equipment leases

We have lease agreements for office space and equipment. Our total lease commitments as at March 31, 2016 are \$18.5 million (fiscal 2015 - \$21.6 million)

	2017	2018-2019	2020-2021	2022	Total
Leased space and equipment	\$ 3,146,436	\$ 6,421,022	\$ 6,668,255	\$ 2,265,649	\$ 18,501,361

## **Notes to the Financial Statements**

For Year Ended March 31, 2016

(audited)

### ***b) National electronic filing systems***

The 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. The Partnership oversees several national electronic filing systems, on behalf of the CSA.

The PAs govern the systems, under agreements with the other CSA members. The CSA Chief Information Officer manages vendors and systems architecture. The OSC manages funds and accounting. The ASC manages intellectual property, filer agreements, and data dissemination agreements. The Partnership contracted CGI to provide IT services, to January 13, 2019.

We collect about 90% of our fee revenue through the filing systems. CGI maintains a comprehensive business continuity plan for each system.

The Partnership charges user fees to recover systems development and operating costs, and the CSA jurisdictions share an undivided interest in the systems and related surpluses. As at March 31, 2016, the Partnership's accumulated surpluses totalled \$139.9 million. The Partnership has agreed to use these surpluses only for the benefit of national filing systems users.

### ***c) Contingent 161(1)(g) payments and liabilities***

Upon favourable resolution of two legal actions, we expect to receive payments totalling approximately \$12.5 million related to 161(1)(g) orders.

## **19. Budgeted figures**

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](#)

### *Glossary*

- ASC: Alberta Securities Commission
- B.C.: British Columbia
- BCSC or Commission: British Columbia Securities Commission
- Cooperative System: Cooperative Capital Markets Regulatory System
- CSA: Canadian Securities Administrators
  - The council of securities regulators of Canada's 13 provinces and territories
- IIROC: Investment Industry Regulatory Organization of Canada
  - the national self-regulatory organization that oversees all investment dealers as well as trading activity on debt and equity marketplaces in Canada
- National Mining Rule: National Instrument 43-101 *Standards of Disclosure for Mineral Projects*
- NI: National Instrument
  - A document that sets out uniform rules to govern the national securities market, and deals with various regulatory matters
- NRD: National Registration Database
  - The CSA's national web-based system that permits individuals who are dealers or advisers to file registration forms electronically
- SEDAR: System for Electronic Document Analysis and Retrieval
  - The CSA's national electronic filing system for disclosure by public companies and mutual funds
- SEDI: System for Electronic Disclosure by Insiders
  - The CSA's national web-based system that facilitates the filing and public dissemination of "insider reports"

## Appendix B: Crown Corporations Mandate and Actions Summary

In the 2015/16 Mandate Letter from the minister responsible, the Commission received direction on strategic priorities for the 2015/16 fiscal year. These priorities and the BCSC's resulting actions are summarized below:

Mandate Letter Direction	Crown Corporation's Action
1. Assist the Minister of Finance in developing the Cooperative System for Canada that protects British Columbia's interests and ensures British Columbia's securities industry is not negatively impacted by a new regime.	The BCSC provided expertise and Commission resources to support the government's Cooperative System initiative. The BCSC continues to work cooperatively with other Canadian jurisdictions and the federal government on the transition to the Cooperative System.
2. Work with other provinces and territories to strengthen investor protection and the Canadian regulatory framework.	The BCSC continued to work cooperatively with the CSA on various regulatory initiatives, including those related to Canada's G-20 commitments. This work contributed to strengthening investor protection and the Canadian regulatory framework.
3. Make best efforts to streamline, simplify, and harmonize securities laws with other provinces and territories.	The BCSC led work with other provinces and territories to simplify ongoing reporting requirements for venture companies and to provide new capital raising options for small non-public companies and venture companies.