

# **British Columbia Securities Commission**

**2017/18**

## **ANNUAL SERVICE PLAN REPORT**

**July 2018**



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



The British Columbia Securities Commission (BCSC) is responsible for regulating a dynamic capital market that saw continued growth over the last fiscal year. We saw increased capital raising in emergent industries like cannabis and financial technology (fintech), and heightened activity among issuers in more established resource industries. The BCSC believes in taking a flexible and innovative approach to securities regulation to adapt to and keep pace with the evolving marketplace. The BCSC is responsible for delivering effective regulation that provides opportunities for capital raising, supporting cost effective delivery of services and protecting investors.

Last year, the BCSC consulted extensively with fintech companies to learn about innovations in the financial industry culminating in the release of a notice and request for comment that sought input on potential measures to clarify or modernize B.C. securities laws for fintech stakeholders. We further supported fintech growth through amendments to the start-up crowdfunding exemption, the registration of the first investment fund manager in Canada dedicated solely to cryptocurrency investments and registration of online advisors. The application of rapidly evolving technology to financial services contributes to more efficient and cost effective provision of services. By supporting technological innovation, we are aligning our efforts with [government's commitments](#) to making life more affordable for British Columbians and providing a strong, sustainable economy.

The BCSC works with other Canadian securities regulators under the umbrella of the Canadian Securities Administrators (CSA) to help streamline, simplify and harmonize regulatory requirements across the country. In fiscal 2017/18, the BCSC worked on significant investor protection initiatives to raise the standards of conduct of advisors and to manage conflicts of interest presented by mutual fund compensation structures. Regulatory harmonization across the provinces and territories helps support a strong, sustainable economy.

In addition, this past year, the BCSC ran two public awareness campaigns to help investors understand the impact of fees on their investments, and to help investors protect themselves from fraud. We are committed to protecting investors through our enforcement efforts and strategy to detect, disrupt and deter securities misconduct in the province. This work aligns with the B.C. government's commitment to delivering the services that are relied on by British Columbians.

The BCSC proactively engages with the Ministry of Finance to ensure strategic alignment with the Ministry's objectives. We regularly update the Ministry on the issues that affect British Columbians, including market trends, policy updates and investor education initiatives.

The BCSC's 2017/18 Annual Service Plan Report compares the corporation's actual results to the expected results identified in the 2017/18 - 2019/20 Service Plan created in September 2017. I am accountable for those results as reported.



Brenda M. Leong  
*Chair and Chief Executive Officer*

## Purpose of the Organization

The BCSC is the independent provincial government agency responsible for regulating capital markets in B.C. The BCSC's enabling legislation is the [Securities Act](#), RSBC 1996, c. 418. Our mission is to protect and promote the public interest by fostering:

- a securities market that is fair and warrants public confidence
- a dynamic and competitive securities industry that provides investment opportunities and access to capital

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

- monitor securities laws and propose changes where needed
- 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
- educate investors to protect themselves and industry participants to understand how to comply with securities law requirements
- review the disclosure that businesses and investment funds raising capital must provide to investors
- take compliance and enforcement action against those who contravene securities laws

## Strategic Direction and Operating Environment

During fiscal 2017/18, the BCSC worked to support government's three key priorities as set out in its [Mandate Letter](#):

- make life more affordable
- deliver the services that people count on
- build a strong, sustainable, innovative economy that works for everyone

The Chair/CEO Report Letter above, and the remainder of this report, describe how we supported these priorities.

B.C. remains an important hub of venture market activity, with approximately 50 percent of Canada's public venture companies based in B.C. Resource companies continue to dominate our public markets though there are signs of increasing diversity. As the fiscal year began, the venture market was showing signs of recovering from a protracted downturn. As the year progressed, market activity was strong and the volume and liquidity on venture markets rose accordingly. Mergers and acquisitions activity was also strong. Non-venture markets, including mutual fund companies, also enjoyed strong market activity this fiscal year.

The lengthy venture market downturn followed by significant improvement over the last two years highlight the cyclical nature of B.C.'s capital markets, which has a corresponding regulatory and financial impact on the BCSC.

Over the last few years, the BCSC has been spearheading initiatives to streamline the costs of capital for public issuers. We are also continuing to work with industry to examine ways to ease regulatory burden without adversely impacting investor protection. This is important in any market cycle.

We derive most of our revenue from filing fees related to capital raising activities and licensing of financial advisors. This revenue was stronger than expected this year. However, as demonstrated by recent experience, our revenue can be volatile, so we hold accumulated reserves to fund operations through market downturns. We need to ensure we maintain a strong financial position to sustain us in weaker years, particularly to respond to unforeseen market issues and increasingly complex markets and regulatory responsibilities.

As an example of increasing complexity, the explosive growth of technology in financial services is changing the fundamentals of how companies raise capital and how individuals invest and manage their money. Crowdfunding, online lending, initial coin and token offerings (ICOs), robo-advisors and artificial intelligence have the potential to impact every BCSC stakeholder. During fiscal 2017/18, we provided guidance to numerous fintech companies about the application of securities laws to their businesses, always seeking a balance between facilitating growth and protecting investors. Approximately 40 companies approached our Tech Team about possible ICOs. We will need to carefully manage the risks and resource demands presented by emerging fintech business models without stifling innovation.

During the financial year, securities regulators across Canada experienced heightened public concern about fraud and financial crimes and what steps can be taken to strengthen investor protection. There has also been considerable debate on compensation structures that create conflicts of interest in advisory services. This report describes initiatives that were important in fiscal 2017/18, some of which will continue into next fiscal year, to address these issues.

## **Report on Performance**

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

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

#### **Strategy 1.1: Implement a derivatives regime**

- On April 4, 2017, we published for comment NI 93-101 Derivatives: Business Conduct and are in the process of reviewing comments and developing a new version of the rule to be published for comment a second time in fiscal 2018/19.
- In fiscal 2017/18, we worked with the CSA Derivatives Committee to continue policy development work, including consulting with federal government authorities, on NI 93-102 Derivatives: Registration<sup>1</sup> and NI 95-101 Margin and Collateral Requirements for Non-Centrally Cleared Derivatives. We expected to publish these rules for comment during fiscal 2017/18, but this was delayed to allow for additional consultation and analysis. We expect NI 95-101 to be published for comment in fiscal 2018/19.

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<sup>1</sup> NI 93-102 was published for comment on April 25, 2018.

- In fiscal 2017/18, we participated in work to develop proposed amendments to NI 24-102 Clearing Agency Requirements and NI 94-101 Mandatory Central Counterparty Clearing of Derivatives. These amendments are expected to be published for comment in fiscal 2018/19.
- BCSC staff has received and is processing applications for recognition from a number of derivatives clearing agencies. We expect that the recognition orders for these clearing agencies will be completed in fiscal 2018/19. We also expect to receive additional applications in fiscal 2018/19. BCSC staff is currently working with staff from other CSA jurisdictions on the ongoing oversight framework.

### **Strategy 1.2: Implement reforms to improve client-registrant relationships**

- In fiscal 2017/18, the CSA and self-regulatory organizations (SROs) worked together to develop a policy approach to address the harms identified in Consultation Paper 33-404, and draft related amendments to NI 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations and CP 31-103 (the Targeted Reforms). The CSA is planning to publish the Targeted Reforms for public comment in fiscal 2018/19.
- In August 2016, the CSA announced a multi-year research project, which the BCSC leads, to measure the impacts of the CRM2 and the Point of Sale amendments on investor knowledge, attitudes and behaviour; registrant practices; and fund fees and product offerings. The research is on track and scheduled to be completed in 2020.

### **Strategy 1.3: Consider reforms to mutual fund fee structures**

- On January 10, 2017, the CSA published Consultation Paper 81-408 on the Option of Discontinuing Embedded Commissions. The paper sought input on the option of discontinuing embedded commissions and the potential impacts of such a change on Canadian investors and market participants. The CSA received 142 comment letters from various stakeholders.
- The CSA sought input on transitioning to direct pay arrangements as a way to manage or mitigate the issues that arise from embedded commissions. The CSA also asked for feedback on possible alternatives that would maintain embedded commissions but still address CSA's key investor protection and market integrity concerns.
- The CSA held formal and informal in-person consultations with stakeholders including one-on-one meetings, speaking engagements, public information sessions and roundtables. The BCSC held private in-person consultations with industry stakeholders on September 12, 15 and 20, 2017, and an open consultation/webinar on October 5, 2017.
- The CSA is planning to announce its intended approach to these issues in fiscal 2018/19.

## Strategy 1.4: Assess firm and marketplace cybersecurity risk management practices

- We participated in the CSA cybersecurity working group's work on CSA Staff Notice 11-336 Summary of CSA Roundtable on Response to Cyber Security Incidents, which was published on April 6, 2017 and summarized discussions on cybersecurity coordination between the CSA, marketplaces, clearing agencies, registrants, reporting issuers, SROs and cybersecurity experts. This led to the creation of a CSA committee, in which the BCSC is a participant, to enhance coordination and communication on market disruption and cybersecurity incidents within the CSA, between the CSA and the SROs and with industry stakeholders.
- We participated in the CSA Compliance Committee's work on CSA Staff Notice 33-321 Cyber Security and Social Media, which was published on October 19, 2017. This notice reported on the results of a cybersecurity survey that the Committee conducted on investment fund managers, portfolio managers and exempt market dealers in the fall of 2016, as well as provided guidance on what practices firms should consider in terms of cybersecurity.

### Performance Measure 1.1: Percentage of reviewed issuers that reduce deficiencies.

We review company disclosure for non-compliance. Annually, we 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.

Performance Measures	2015/16 Actuals	2016/17 Actuals	2017/18 Target	2017/18 Actuals <sup>1</sup>	2018/19 Target	2019/20 Target
1.1a Percentage of reviewed issuers that reduce deficiencies in improved disclosure subsequent to a continuous disclosure review	100%	94%	>95%	94%	>95%	>95%
1.1b Percentage of reviewed issuers that reduce deficiencies in improved disclosure to minimum standards	100%	88%	>95%	95%	>95%	>95%

**Data Source:** Internal evaluation of subsequent disclosure.

<sup>1</sup> 15 of 16 files showed improvement in their disclosure and 18 of 19 files met the basic standard for compliance.

## Discussion

- One reviewed issuer represented that it would correct disclosure in a future period, but it failed to file and has been cease traded. This issuer is the one issuer that did not provide disclosure to meet the basic standard for compliance and also did not subsequently improve disclosure after our review.



## Performance Measure 1.2: Percentage of randomly sampled mining companies that comply with standards for technical disclosure.

We randomly select companies from a list of B.C.-based mining companies and analyze whether the most recent technical disclosure from each of those companies complied with 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.

Performance Measures	2015/16 Actuals	2016/17 Actuals	2017/18 Target	2017/18 Actuals <sup>1</sup>	2018/19 Target	2019/20 Target
1.2a 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)	76%	73%	>73%	78%	Improve on 2017/18 actual	Improve on 2018/19 actual
1.2b Percentage of randomly sampled mining companies that comply with standards for technical disclosure in issuer websites and other voluntary disclosure	63%	64%	69%	69%	Increase average by 5% over 2017/18	Increase average by 5% over 2018/19

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

<sup>1</sup>Based on a review of 40 randomly selected B.C. mining companies that have not been subject to a continuous disclosure review in the preceding three years.

## Discussion

- The survey assesses the degree to which the selected mining issuers comply with 20 disclosure requirements of NI 43-101. It assesses the disclosure in both required filings, excluding NI 43-101 technical reports and voluntary disclosure. In our view, if an issuer's disclosure is assessed at a rating of 67 percent or better across the applicable requirements, it is making a reasonable effort to comply with NI 43-101.
- Fiscal 2017/18 results showed a moderate improvement over the previous year. We view the level of compliance as reasonable. Mining technical disclosure during the year returned to levels more typical of that experienced prior to the commodities downturn earlier this decade. Companies continue to have success in raising capital with the result being new and reactivated projects resulting in increased disclosure. We are re-evaluating the measurement system and have developed an instrument to assess disclosure in technical reports. We will look to incorporate this into the measure once we have established a baseline.

### Performance Measure 1.3: Average number of deficiencies per examination in Capital Markets Regulation.

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

Performance Measure	2015/16 Actuals	2016/17 Actuals	2017/18 Target	2017/18 Actuals	2018/19 Target	2019/20 Target
1.3a Average number of deficiencies per examination in Capital Markets Regulation <sup>1</sup>	4.34	6.58	6.25	6.57	Decrease average by 5% over 2017/18	Decrease average by 5% over 2018/19

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

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

### Discussion

- We chose this measure before we implemented the Registrant Risk Model, which helps identify the firms at highest risk of breaches of securities legislation. We use the model to choose firms for reviews. At the time we chose the measure, we chose a reducing target as a sign of increased industry compliance. A 5 percent year-over-year reduction was ambitious then and is increasingly so now that we use the Registrant Risk Model. We have been using this risk model for several years now. As the model has been populated with data and we have become more attuned to accurate risk predictors, we have become better predictors of firms that pose the highest risk of being in breach of securities legislation.
- We did not meet this target in fiscal 2017/18. In particular, for exempt market dealer firms, in addition to using our Registrant Risk Model, we reviewed firms that recently changed their business model. Staff noticed from previous reviews that firms that changed their business models had, in many instances, not adapted their policies and procedures to suit their revised business. This contributed to an increase in deficiencies per examination.

### Goal 2: Act decisively against misconduct.

We aim to achieve timely and effective enforcement through early intervention and 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 principally through administrative proceedings. Under administrative proceedings, the BCSC can impose monetary sanctions and ban people from market participation. We also work closely with Crown Counsel to pursue criminal charges, where warranted. Criminal convictions allow for other consequences to be imposed, including prison sentences.

## **Strategy 2.1: Reduce securities fraud through detection, disruption and deterrence**

- Staff met with four large banks and discussed enhancing our information sharing relationships. In October 2017, staff presented at an international bank security conference.
- During the year, staff also presented to numerous police detachments and departments to expand awareness of the BCSC, our mission and powers and the cases we investigate.
- Early intervention actions include two Halt Trade Orders issued to disrupt suspicious conduct on January 19 and March 20, 2018, respectively.
- We also added 23 parties to the Investor Caution List, many offering binary options, cryptocurrency and initial coin offerings.
- Seven criminal matters we investigated are currently before the courts. One criminal matter we investigated concluded on May 23, 2017, resulting in a six-month jail sentence and an order to pay \$10,000 in restitution.
- We commenced several lawsuits to renew BCSC judgments to be able to continue collections efforts. We also entered into payment plans with respondents, conducted examinations to locate assets, took out writs of seizure and sale and commenced or continued proceedings in foreign jurisdictions to obtain assets.
- We completed one claims process to return money to investors who were harmed by contraventions of the *Securities Act*. We obtained this money in satisfaction of a disgorgement order, and developed an online claims form for future claims processes.
- On April 12, 2017, the BCSC had the Court appoint a receiver over approximately \$10 million the BCSC had frozen; the receiver started a claims process to return money to investors, which is scheduled to be completed in mid-2018.

## **Strategy 2.2: Upgrade approach to investigating insider trading**

- In a previous fiscal year, the BCSC developed a risk model that scores insider trading referrals from the Investment Industry Regulatory Organization of Canada for our investigation unit. This risk model is now operational at the BCSC. This year we brought in-house certain aspects of the model that were previously outsourced. We will consider refinement to the model after the CSA's Market Analysis Platform (MAP) is launched. MAP is a proposed system for collecting and analyzing market data to support investigations and improve insights into the Canadian capital markets.

## **Strategy 2.3: Improve market analytics capability for enforcement investigations**

- The BCSC worked as part of the group to evaluate responses to the Request for Proposal for MAP and to clarify requirements important to proper pricing of the system. We also participated in work to refine MAP business requirements.

## Performance Measure 2.1: Actions taken to disrupt misconduct.

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

Performance Measures	2015/16 Actuals	2016/17 Actuals	2017/18 Target	2017/18 Actuals	2018/19 Target	2019/20 Target
2.1a Number of actions	85	86	94	113	Increase 10% over 2017/18	Increase 10% over 2018/19
2.1b Average duration of complaint to action (days)	48	66	60	54	Decrease average by 10% over 2017/18	Decrease average by 10% over 2018/19

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

## Discussion

- We exceeded our targets for this fiscal year. The primary reason for exceeding the target number of disruptive actions is we opened more cases in fiscal 2017/18 than we did in 2016/17.
- The reason for the decrease in duration is that 75 percent of the disruptive actions occurred in the first 60 days of a case.
- It is important to note that the actions available, and time needed to take them, vary with the nature of the files open in a given year.

## Performance Measure 2.2: Average life of cases before a Notice of Hearing (NOH) is issued.

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

Performance Measure	2015/16 Actuals	2016/17 Actuals	2017/18 Target	2017/18 Actuals	2018/19 Target	2019/20 Target
2.2a Average life (in months) of cases either from complaint to NOH or from complaint to settlement before NOH is issued	25.6	31.9	30.4	32.1	31.9 <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 updated the 2018/19 target compared to the September 2017 Service Plan on our current portfolio of cases, and on the likelihood that an NOH or settlement agreement will be issued within the next 12 months.

### Discussion

- We measure the average case duration from complaint to issuance of an NOH or, absent an NOH, a settlement agreement.
- In fiscal 2017/18, we experienced an increase in the time taken to issue an NOH or settlement agreement. This was due, in part, to increases in case complexity, delays receiving documents and delays obtaining testimony from witnesses.

### Goal 3: Educate investors.

We want B.C. investors to have the knowledge, attitudes and behaviours they need to:

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

### Strategy 3.1: Raising public awareness about investment fees

With the investment firms we regulate now fulfilling their CRM2 disclosure obligations by providing their clients with more transparent information about the fees they pay, the BCSC is actively directing the attention of B.C. investors to their investment fees. We want B.C. investors to benefit from CRM2 by understanding the investment fees they pay and the impact of those fees on their investment returns over time.

In fiscal 2017/18 we:

- Refreshed advertising launched in year one of this strategy, which encouraged investors to “Take a Look” at their investment fees.
- Increased the reach and frequency of TV, radio, digital and social media advertising and concentrated the media buy into a shorter time period to deliver greater awareness.
- Introduced and/or enhanced novel educational tools, including an investment fees video and an improved fee comparison calculator.
- Conducted proactive media relations to support the paid advertising campaign with new research findings about why people do not pay attention to their investment fees.

During Fraud Prevention Month in March 2018, we raised the BCSC’s profile further with a fraud prevention message on TV, radio, digital and social media. We also conducted proactive media relations to support the paid advertising, releasing new research showing that one in four B.C. adults is vulnerable to investment fraud.

### **Performance Measure 3.1: Percentage of B.C. investors who strongly agree they have a good understanding of how fees impact the returns on their investments.**

We communicate with B.C. investors through public awareness advertising campaigns. Our goal is to raise awareness among B.C. investors working with registrants about the investment fees they pay and the impact of those fees on their investment returns. We want investors to pay attention to their fees and to make fees and returns part of their ongoing communication with their advisors.

<b>Performance Measure</b>	<b>2016/17 Actuals</b>	<b>2017/18 Target</b>	<b>2017/18 Actuals</b>	<b>2018/19 Target</b>	<b>2019/20 Target</b>
3.1a Percentage of B.C. investors who strongly agree they have a good understanding of how fees impact the returns on their investments	19.1% <sup>1</sup>	24% <sup>2</sup>	22%	Increase 5% over 2017/18	Increase 5% over 2018/19

**Data Source:** Online investor survey.

<sup>1</sup>The 2016/17 actual was misstated at 21 percent in the 2016/17 Annual Report. It has been corrected here to 19 percent.

<sup>2</sup>The target should be five percentage points above the actual and is corrected here to 24 percent.

### **Discussion**

- We did not meet this target in aggregate although we did meet it for one of the two data gathering points. The measure is an average of data gathered from investors in March 2017 (24 percent) just following our *Take a Look at Fees* advertising campaign and conclusion of the RRSP season, when investors are thinking about investing; and six months later, in September 2017 (21 percent), when we expect they are thinking less about their investments. This is a new measure and more data will show whether the target is aligned with what is achievable.

### Performance Measure 3.2: Percentage of workshop participants who recall the warning signs of investment fraud.

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

Performance Measure	2016/17 Actuals	2017/18 Target	2017/18 Actuals	2018/19 Target	2019/20 Target
3.2a RETIRE: Percentage of workshop participants who recall the warning signs of investment fraud	52%	55%	67% <sup>1</sup>	Discontinue	Discontinue

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

<sup>1</sup>This number combines those surveyed who recalled three warning signs only (0 percent) with those who recalled four (67 percent). A further 33 percent recalled all five warning signs. This keeps our reporting consistent with the previous year.

### Discussion

- As reflected in the February 2018 Service Plan, we are retiring this measure and replacing it with a new measure that tracks online views of the video we created of the seminar – *Investment Fraud Explained*. The new measure will reflect our current practice of offering seminars primarily online, which ensures broader distribution to a wider audience and makes video views a more appropriate measure.

### Performance Measure 3.3: Percentage of B.C. public aware of BCSC.

We aim to build awareness of the BCSC so that British Columbians will know where to look for unbiased investment information and who to contact when faced with a possible fraud or unsuitable investment opportunity. Low public awareness of the BCSC is a significant challenge when it comes to delivering investor education to the B.C. public.

Performance Measure	2015/16 Actuals	2016/17 Actuals	2017/18 Target	2017/18 Actuals	2018/19 Target	2019/20 Target
3.3a Percentage of B.C. public aware of BCSC	36%	33%	>45%	37% <sup>1</sup>	>45%	>45%

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

<sup>1</sup>Awareness in the general population increased four percentage points. Awareness was 48 percent among respondents who recalled at least one "Take a Look" ad. Awareness was 50 percent among our core target audience of B.C. investors who work with an investment advisor.

## Discussion

- We collect this information as part of an annual online survey to measure awareness, recall and impact of our public awareness campaigns among 1,500 British Columbians aged 18 years and older.
- Two factors contributed to our not meeting this target. One is that our measure does not concentrate on our target audience of advised investors (a subset of the total B.C. population aged 18+) and instead takes into consideration the total B.C. population aged 18+. As such, many of the people seeing our ads aren't the people we are trying to influence, and therefore aren't increasing their awareness of the BCSC. Another factor is that our advertising and other media coverage doesn't reach everyone in the province. Our ability to increase awareness is directly linked to the number of people we can reach.
- 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?"

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

Our goal is to advance cost-effective regulation. We are mindful that regulation imposes costs so we aim to provide strong investor protection and foster market growth for the least cost.

#### **Strategy 4.1: CSA systems redesign**

Our key goal remains increased regulatory effectiveness. CSA will through this project ultimately consolidate seven shared systems and two local systems, standardize filing processes, provide single window access for market participants and increase filing data quality.

- The BCSC, Alberta Securities Commission, Ontario Securities Commission and Autorité des marchés financiers (the Principal Administrators or PAs) jointly manage the CSA's shared information systems.
- The fiscal 2017/18 strategy continued two distinct system redevelopment projects that the PAs are undertaking: the National System Renewal Project (NSRP) and MAP.
- On NSRP, during fiscal 2017/18, the PAs continued working with vendors to complete:
  - software suitability validation through pilot testing of several filing processes, of the software that the new system will use
  - detailed business requirements, including revising high-level business requirements to remove tailored local processes from the project scope, reducing project complexity and duration
  - the business processes that the new system will run and define the system's configuration, data migration and integration requirements



- On MAP, during fiscal 2017/18, the PAs:
  - completed the public procurement process and selected a vendor to design, develop and evolve the system as well as related infrastructure hosting and application support services
  - refined the high level business and infrastructure requirements for the new system
  - continued discussions with SROs to define what, and agree on terms of use for, reference and market data that the system will use

### **Strategy 4.2: Fintech outreach – securities regulation in a digital world**

- In the summer of 2017, the BCSC’s Tech Team conducted in-person and telephone consultations with various fintech industry segments, including crowdfunding portals, crowdfinance industry groups and online advisors. Consultations over 2017 also included meetings with B.C. fintech companies, incubators, academic groups and other securities regulators globally.
- These consultations culminated in the publication on February 14, 2018 of BCN 2018/01 Notice and Request for Comment: Consulting on the Securities Law Framework for Fintech Regulation<sup>2</sup>. This notice summarized the BCSC’s consultation findings and requested feedback from stakeholders on specific questions relating to crowdfunding and online lending business models; online advising; cryptocurrency funds; initial coin offerings and cryptocurrencies; and the future of fintech regulation.

### **Strategy 4.3: Review and modernize regulations affecting reporting issuers**

- During consultations conducted prior to December 2016, institutional investors identified concerns with the requirements for Canadian investors to resell securities in foreign issuers outside Canada. During the year, CSA developed a new exemption for resale of foreign issuer securities outside Canada.
- CSA also reviewed the approaches taken in other jurisdictions and consulted directly with regulators in the U.K., U.S. and Australia on certain aspects of their resale regimes. We identified several options to modernize Canada’s resale regime and determined, based on the breadth of stakeholders consulted and the nature of comments received during our consultations with stakeholders, that it was not necessary to publish a consultation paper on the broader resale project at this time.
- On April 6, 2017, CSA published a consultation paper to identify and consider areas of securities legislation applicable to non-investment fund reporting issuers that could benefit from a reduction of undue regulatory burden, without compromising investor protection or the efficiency of the capital market. The consultation paper identified a number of options to reduce the regulatory burden associated with both capital raising in the public markets and the ongoing costs of remaining a reporting issuer.
- We received 57 comment letters. In addition, BCSC staff consulted with a number of local industry advisory groups. After the comment period, BCSC staff also surveyed the B.C.-based venture issuer community to elicit feedback from stakeholders that did not respond to the consultation paper.

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<sup>2</sup> The comment period ended April 3, 2018, and the comments received will serve as an input to the BCSC’s regulation of fintech going forward.

- The CSA published a staff notice on March 27, 2018 outlining the specific initiatives it intends to pursue.

#### **Strategy 4.4: Transition to the Capital Markets Regulatory Authority (CMRA)**

- The BCSC continues to work with the B.C. government, and the governments and regulatory staff from other participating jurisdictions to transition to the CMRA.

#### **Performance Measure 4.1: 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.

<b>Performance Measure</b>	<b>2015/16 Actuals</b>	<b>2016/17 Actuals</b>	<b>2017/18 Target</b>	<b>2017/18 Actuals<sup>1</sup></b>	<b>2018/19 Target</b>	<b>2019/20 Target</b>
4.1a Average score on cost-effective regulation scorecard	98%	94%	>90%	93%	>90%	>90%

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

<sup>1</sup>In fiscal 2017/18, we had five policy projects that qualified for review.

#### **Discussion**

- We report the average score of all the projects completed each year. This analysis does not include rules that we adopt purely to harmonize with other jurisdictions that were simple exemptions, or where we were fully reliant.
- The target of greater than 90 percent 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 4.2: Average approved project post-implementation score.**

We assess each local Information Technology (IT)-enabled project at a predetermined time after the project's completion (as documented in the project proposal) and score the project's success relative to its proposed benefits.

<b>Performance Measure</b>	<b>2015/16 Actuals</b>	<b>2016/17 Actuals</b>	<b>2017/18 Target</b>	<b>2017/18 Actuals<sup>1</sup></b>	<b>2018/19 Target</b>	<b>2019/20 Target</b>
4.2a Average approved project post-implementation score	100%	100%	>80%	100%	>80%	>80%

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

<sup>1</sup>In fiscal 2017/18, we assessed two IT-enabled projects.

## **Discussion**

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

## **Financial Report Discussion of Results For the Year Ended March 31, 2018**

### **Highlights**

We prepared this discussion of financial position and results of operations of the British Columbia Securities Commission (BCSC) on May 3, 2018. Read it in conjunction with our audited financial statements for the year ended March 31, 2018.

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. Results include 25 percent of a government partnership (Partnership) that operates certain shared information systems. We refer to all other operating results as local.

The consolidated results from operations for the year ended March 31, 2018 were a \$4.2 million surplus, \$7.6 million above budget. The total surplus is comprised of \$1.4 million for local operations and \$2.8 million for Partnership operations.

The key budget variances were:

- Prospectus and other distribution revenue was \$4.1 million (18%) higher than budget, due primarily to \$2.7 million (49%) higher fees from exempt market capital raising and \$1.5 million (10%) higher fees from prospectus base and proceeds fees.
- Local operations expenses were \$1.8 million below budget due primarily to higher than expected staff vacancies partly offset by higher than budgeted spending on education and professional services.
- Partnership expenses were \$1.3 million (24%) below budget relating primarily to lower expenditures on professional services due to the timing of systems redevelopment activities.

Partnership capital spending on information technology was \$1.0 million compared to budget of \$6.2 million. This variance is due to timing of the work on the CSA national systems renewal project.

## Financial Results Summary

<i>(millions)</i>	2014	2015	2016	2017	2018			
	Actual	Actual	Actual	Actual	Budget	Actual	vs Budget	vs 2017
<b>Revenue</b>								
Regulatory and other local fees:								
Prospectus and other distributions	\$ 20.9	\$ 20.5	\$ 23.7	\$ 23.9	\$ 22.3	\$ 26.4	\$ 4.1	\$ 2.5
Registration	11.1	11.4	11.6	11.9	12.0	12.2	0.2	0.3
Financial filings	5.0	4.8	4.9	4.6	4.5	4.7	0.2	0.1
Exemptive orders and other fees	0.2	0.2	0.2	0.4	0.2	0.4	0.2	–
	\$ 37.2	\$ 36.9	\$ 40.4	\$ 40.7	\$ 39.0	\$ 43.7	\$ 4.7	\$ 2.9
Other revenue:								
National systems	\$ 36.3	\$ 6.4	\$ 6.4	\$ 6.2	\$ 6.3	\$ 6.2	\$ (0.1)	–
Enforcement sanctions	0.7	1.0	0.2	1.0	0.3	0.2	(0.1)	(0.7)
Investment income	0.9	1.2	1.4	0.9	0.7	0.8	0.1	(0.2)
	\$ 37.9	\$ 8.6	\$ 8.0	\$ 8.1	\$ 7.3	\$ 7.2	\$ (0.1)	\$ (0.9)
Total revenue	\$ 75.1	\$ 45.4	\$ 48.4	\$ 48.8	\$ 46.3	\$ 50.8	\$ 4.5	\$ 2.0
<b>Expenses</b>								
Salaries and benefits	\$ 28.8	\$ 30.8	\$ 30.6	\$ 30.7	\$ 32.7	\$ 29.6	\$ (3.1)	\$ (1.1)
Other local expenses	12.0	11.0	11.8	12.0	11.7	13.0	1.3	1.0
Partnership expenses	7.6	3.5	4.0	3.9	5.3	4.0	(1.3)	0.1
Total expenses	\$ 48.5	\$ 45.3	\$ 46.5	\$ 46.6	\$ 49.7	\$ 46.6	\$ (3.1)	–
<b>Surplus (deficit)</b>	\$ 26.6	\$ 0.1	\$ 1.9	\$ 2.2	\$ (3.4)	\$ 4.2	\$ 7.6	\$ 2.0
<b>Supplementary Information</b>								
Unrestricted surplus	\$ 28.8	\$ 26.7	\$ 25.0	\$ 24.2	\$ 16.0	\$ 25.5	\$ 9.5	\$ 1.3
Restricted surplus	\$ 28.9	\$ 32.2	\$ 35.0	\$ 37.9	\$ 38.8	\$ 40.7	\$ 1.9	\$ 2.8
Local capital expenditures	\$ 5.2	\$ 2.9	\$ 1.6	\$ 1.1	\$ 1.0	\$ 1.2	\$ 0.2	–
Partnership capital expenditures	\$ 0.2	\$ 0.2	\$ 0.3	\$ 3.3	\$ 6.2	\$ 1.0	\$ (5.2)	\$ (2.3)
Debt	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –

## Variance and Trend Analysis

### Revenues

The BCSC does not receive taxpayer funding. Most of our revenue comes from local filing, registration and application fees paid by market participants under the *Securities Act*. Our revenue also includes 25 percent of the national systems access and usage fees earned by the Partnership. The remainder of our revenue is investment income and enforcement sanctions.

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

	2014	2015	2016	2017	2018
Prospectus and other distributions	41%	45%	49%	50%	52%
Registration	22%	25%	25%	25%	24%
Financial filings	10%	11%	10%	10%	9%
National systems access and usage fees	25%	15%	14%	13%	12%
Other	1%	2%	0%	2%	3%
	100%	100%	100%	100%	100%

### Local fee revenue

We collect the following fees:

- *Distribution fees*, from companies and mutual funds, to file disclosure documents, which can include fees related to 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

(thousands)	2018 Actual versus Budget				2018 versus 2017			
	Actual	Budget	Variance	%	2018	2017	Variance	%
Distributions	\$ 26,383	\$ 22,300	\$ 4,083	18%	\$ 26,383	\$ 23,867	\$ 2,516	11%
Registrations	12,176	12,000	176	1%	12,176	11,892	284	2%
Financial filings	4,737	4,450	287	6%	4,737	4,605	131	3%
Exemptions and others	196	250	(54)	(22%)	196	197	(2)	(1%)
Enforcement sanctions	222	300	(78)	(26%)	222	952	(730)	(77%)
Investment income	304	300	4	1%	304	517	(213)	(41%)
	\$ 44,018	\$ 39,600	\$ 4,418	11%	\$ 44,018	\$ 42,031	\$ 1,987	5%

Prospectus and other distribution revenue was \$4.1 million (18%) higher than budget due primarily to \$2.7 million (49%) higher fees from exempt market capital raising and \$1.5 million (10%) higher fees from prospectus base and proceeds fees. Market activity strengthened this year, particularly in the last quarter.

***Enforcement sanctions***

We collect sanctions relating to *Securities Act* enforcement matters. Enforcement sanctions revenue includes administrative penalties, settlements and unclaimed 161(1)(g) payments, if any. Sanction revenue varies significantly between periods. We allocate such revenue to our education fund, which we spend only to educate securities market participants and the public about investing, financial matters and the operation and regulation of securities markets.

While we pursue outstanding amounts vigorously, collecting sanctions is difficult. Respondents often have limited assets, cannot be found, are bankrupt or are in jail. Of the \$485 million outstanding sanctions (including 161(1)(g) orders), only \$0.1 million is accrued in our financial statements. About 73 percent (\$356 million) of the outstanding sanctions relates to eleven cases. We have collected approximately 4 percent of the amounts sanctioned since our incorporation on April 1, 1995.

***Investment income***

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

## **Expenses**

Expenses relate to local operations and Partnership operations.

Compensation and occupancy costs account for about 77 percent of local expenses.

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

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

The BCSC seconded certain employees and provides administrative support, on a cost recovery basis, to the Canadian Securities Regulation Regime Transition Office (CSTO) and Capital Markets Authority Implementation Organization (CMAIO). These arrangements support the B.C. government's work to build the Capital Markets Regulatory Authority. We net reimbursements (\$1.6 million in fiscal 2018) against the corresponding salaries and benefits costs.

### ***Local expenses***

Employee compensation accounts for approximately 70 percent 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.

We engage consultants when we need specialized services or when outsourcing is more cost-effective than performing the work ourselves. Fiscal 2018 professional service costs related primarily to legal services, our share of CSA project and management costs, legislative counsel services, interview and hearing transcription services, internal and external audit services and HR consulting.

We run local operations from a downtown Vancouver office to be close to the market participants that we regulate. Our 61,000 square feet of space cost us about \$52 per square foot for 2018, under a lease that expires in November 2021.

We educate the public and securities market participants about investing, financial matters and the regulation of securities markets. Most of the education spending in 2018 was on investor education.



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

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

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

<i>(thousands)</i>	2018 versus Budget				2018 versus 2017			
	Actual	Budget	Variance	%	2018	2017	Variance	%
Salaries and benefits	\$ 29,606	\$ 32,675	\$ (3,069)	(9%)	\$ 29,606	\$ 30,705	\$ (1,099)	(4%)
Professional services	2,072	1,700	372	22%	2,072	1,822	250	14%
Occupancy	3,323	3,200	123	4%	3,323	3,176	147	5%
Depreciation	2,760	2,400	360	15%	2,760	2,975	(214)	(7%)
Information management	1,797	1,800	(3)	–	1,797	1,763	35	2%
Education	1,394	750	644	86%	1,394	729	665	91%
Other	1,628	1,875	(247)	(13%)	1,628	1,534	94	6%
	\$ 42,580	\$ 44,400	\$ (1,820)	(4%)	\$ 42,580	\$ 42,703	\$ (123)	–

Local expenses were \$1.8 million (4%) below budget, due primarily to higher than expected staffing vacancies partly offset by higher than budgeted spending on education and professional services.

Total local expenses were comparable to 2017. Salaries and benefits were lower by \$1.0 million (4%) due to lower benefit costs.

Education expenses increased \$0.7 million (91%) compared to the prior year due to an expanded investor education campaign. Professional fees increased by \$0.3 million (14%) related to collections and HR consulting.

## 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 oversee certain shared information systems on behalf of the CSA. Each of the PAs has one vote on national systems matters. The Partnership is a government partnership under Canadian Public Sector Accounting Standards. Accordingly, we consolidate 25 percent of Partnership assets and operations.

<i>(thousands)</i>	2018 versus Budget			2018 versus 2017		
	Actual	Budget	Variance	2018	2017	Variance
National systems access & usage fees	\$ 6,159	\$ 6,300	\$ (141)	\$ 6,159	\$ 6,200	\$ (41)
Partnership investment income	468	400	68	468	427	41
Other revenue	181	–	181	181	200	(19)
Partnership expenses	4,024	5,300	(1,276)	4,024	3,882	142
Surplus	\$ 2,784	\$ 1,400	\$ 1,384	\$ 2,784	\$ 2,945	\$ (161)

Partnership expenses were \$1.3 million (24%) below budget relating primarily to lower expenditures on outsourced services due to the timing of systems redevelopment activities.

## Tangible Capital Assets

Additions to local tangible capital assets of \$1.2 million were primarily for IT infrastructure upgrades. Additions to the Partnership information technology of \$1.0 million relate to development of new national systems.

## **Risks and Uncertainties**

We practice enterprise risk management to identify and manage our risks and support our strategic planning process. We maintain a business continuity plan to restore critical functions within hours.

Capital markets activity can be volatile, causing local revenue to fluctuate. We hold accumulated reserves to fund local operations through market downturns.

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

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

## **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, 2018 that materially affected, or are likely to materially affect, our ICFR. Our internal auditors tested operating effectiveness of our ICFR as at March 31, 2018 and concluded that the ICFR was operating effectively and that there are no material weaknesses.

## Management's Responsibility for Financial Reporting

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

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

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

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

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



Brenda M. Leong  
*Chair and Chief Executive Officer*



Peter J. Brady  
*Executive Director*



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## 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, 2018, 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, 2018 and its results of operations, changes in net financial assets, remeasurement gains and losses and cash flows for the year then ended, in accordance with Canadian public sector accounting standards.

*BDO Canada LLP*

Chartered Professional Accountants

Vancouver, British Columbia  
May 3, 2018

BDO Canada LLP, a Canadian limited liability partnership, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

**Statement of Financial Position**

As at March 31, 2018

(audited)

	March 31, 2018	March 31, 2017
<b>Financial assets</b>		
Cash (note 4)	\$ 9,822,092	\$ 10,070,585
Restricted cash - 161(1)(g) payments (note 5)	223,626	332,046
Investments (note 6)	55,660,041	51,043,118
Amounts receivable (note 7)	1,605,617	1,632,891
	\$ 67,311,376	\$ 63,078,640
<b>Liabilities</b>		
Accounts payable and accrued liabilities (note 8)	\$ 2,392,685	\$ 1,679,060
Accrued salaries and benefits	1,339,455	1,917,923
Deferred registration fee revenue	8,504,595	8,276,172
Employee leave liability (note 9)	1,109,141	1,040,599
161(1)(g) liabilities (note 5)	223,626	332,046
	\$ 13,569,502	\$ 13,245,800
<b>Net financial assets</b>	\$ 53,741,874	\$ 49,832,840
<b>Tangible capital assets (note 10)</b>	\$ 10,784,258	\$ 11,423,021
<b>Prepaid expenses (note 11)</b>	1,655,515	881,036
	\$ 12,439,773	\$ 12,304,057
<b>Accumulated Surplus</b>	\$ 66,181,647	\$ 62,136,897
Accumulated Surplus is comprised of:		
Unrestricted operating surplus (note 12)	\$ 26,167,401	\$ 24,729,701
Restricted operating surplus (note 12)	40,717,247	37,933,152
	66,884,648	62,662,853
Accumulated remeasurement losses	(703,001)	(525,956)
	\$ 66,181,647	\$ 62,136,897

Commitments and contingencies (note 19)

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

Approved by the Board:


Brenda M. Leong  
Chair and Chief Executive Officer

Suzanne K. Wiltshire  
Chair, Audit Committee

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

For the Year Ended March 31, 2018

(audited)

	March 31, 2018 Budget (note 20)	March 31, 2018 Actual	March 31, 2017 Actual
<b>Revenues</b>			
Regulatory and other fees			
Prospectus and other distributions	\$ 22,300,000	\$ 26,383,044	\$ 23,867,429
Registration	12,000,000	12,176,017	11,891,660
Financial filings	4,450,000	4,736,801	4,605,436
Exemptive orders and other	250,000	376,536	373,489
National systems access and usage fees (note 13)	6,300,000	6,158,744	6,247,627
Enforcement sanctions (note 14)	300,000	222,067	952,089
Investment income (note 15)	700,000	910,970	799,073
Realized (loss) gain on investments (note 15)	–	(138,118)	145,320
	\$ 46,300,000	\$ 50,826,061	\$ 48,882,123
<b>Expenses</b>			
Local operations (note 16)	\$ 44,400,000	\$ 42,580,215	\$ 42,703,003
Partnership operations (note 16)	5,300,000	4,024,051	3,882,142
	\$ 49,700,000	\$ 46,604,266	\$ 46,585,145
Annual surplus (deficit)	\$ (3,400,000)	\$ 4,221,795	\$ 2,296,978
Accumulated operating surplus, beginning of year		\$ 62,662,853	\$ 60,365,875
Accumulated operating surplus, end of year		\$ 66,884,648	\$ 62,662,853

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

**Statement of Remeasurement Gains and Losses**

For the Year Ended March 31, 2018

(audited)

	<b>March 31, 2018</b>	<b>March 31, 2017</b>
Accumulated remeasurement losses, beginning of year	\$ (525,956)	\$ (488,523)
Unrealized (losses) gains on investments (note 15)	(315,163)	107,887
Realized losses (gains) on investments, reclassified to operations (note 15)	138,118	(145,320)
Accumulated remeasurement losses, end of year	\$ (703,001)	\$ (525,956)

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



**Statement of Change in Net Financial Assets**

For the Year Ended March 31, 2018

(audited)

	March 31, 2018 Budget (note 20)	March 31, 2018 Actual	March 31, 2017 Actual
Surplus (deficit), for the year	\$ (3,400,000)	\$ 4,221,795	\$ 2,296,978
Acquisition of tangible capital assets	\$ (7,200,000)	\$ (2,195,125)	\$ (4,454,594)
Write-off of intangible capital assets	-	-	-
Depreciation of tangible capital assets	2,550,000	2,833,887	3,095,326
	\$ (4,650,000)	\$ 638,762	\$ (1,359,268)
Acquisition of prepaid expenses		\$ (1,777,415)	\$ (1,190,840)
Use of prepaid expenses		1,002,937	1,277,893
		\$ (774,478)	\$ 87,053
Effect of net remeasurement losses for the year		\$ (177,045)	\$ (37,433)
Increase in net financial assets, for the year		\$ 3,909,034	\$ 987,330
Net financial assets, beginning of year		49,832,840	\$ 48,845,510
Net financial assets, end of year		\$ 53,741,874	\$ 49,832,840

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

**Statement of Cash Flows**

For the Year Ended March 31, 2018

(audited)

	March 31, 2018	March 31, 2017
<b>Operating transactions</b>		
Cash received from:		
Fees	\$ 50,155,917	\$ 46,939,239
Enforcement sanctions	252,129	979,093
Interest	544,267	479,183
	\$ 50,952,313	\$ 48,397,515
Cash paid to and on behalf of employees	\$ (30,130,893)	\$ (29,948,450)
Cash paid to suppliers and others	(14,309,407)	(13,053,317)
	\$ (44,440,300)	\$ (43,001,767)
Cash provided by operating transactions	\$ 6,512,013	\$ 5,395,748
<b>Capital transactions</b>		
Cash used to acquire tangible capital assets	\$ (2,195,125)	\$ (4,454,594)
<b>Investing transactions</b>		
Proceeds from disposals of investments	\$ 47,000,000	\$ 5,500,000
Purchase of investments	(51,565,382)	(25,750,000)
	\$ (4,565,382)	\$ (20,250,000)
Decrease in cash	\$ (248,494)	\$ (19,308,847)
Cash, beginning of year	\$ 10,070,585	\$ 29,379,432
Cash, end of year	\$ 9,822,092	\$ 10,070,585

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

## **Notes to the Financial Statements**

For Year Ended March 31, 2018

(audited)

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

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

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

Management has prepared these financial statements in accordance with Canadian Public Sector Accounting Standards (PSAS). Significant accounting policies followed in the preparation of these financial statements are:

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

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. BCSC, Alberta Securities Commission, Ontario Securities Commission, and Autorité des marchés financiers (collectively, the Principal Administrators or PAs) have agreed to oversee CSA's shared information systems, on behalf of the CSA. Each of the PAs has one vote on shared system matters.

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

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

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

## **Notes to the Financial Statements**

For Year Ended March 31, 2018

(audited)

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

Our financial instruments include cash, restricted cash, investments, amounts receivable, accounts payable, accrued liabilities, accrued salaries and benefits, and 161(1)(g) liabilities.

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

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

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

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

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

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

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

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

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

## **Notes to the Financial Statements**

For Year Ended March 31, 2018

(audited)

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

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

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

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

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

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

The BCSC seconded certain employees and provides information technology, payroll, and financial accounting support, on a cost recovery basis, to the Canadian Securities Regulation Regime Transition Office (CSTO) and Capital Markets Authority Implementation Organization (CMAIO). These arrangements support the B.C. government's work to build the Capital Markets Regulatory Authority (CMRA). We net reimbursements against corresponding salaries and benefits costs.

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

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

## Notes to the Financial Statements

For Year Ended March 31, 2018

(audited)

### *h) Measurement uncertainty*

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

In our financial statements, management has estimated the:

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

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

### **3. Financial instruments**

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

Under the *Securities Act*, we must invest any money that we receive relating to local operations, but do not immediately need, in investment pools that the British Columbia Investment Management Corporation (BCI), a B.C. government organization, administers.

We buy units of the following BCI pooled funds:

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

## **Notes to the Financial Statements**

For Year Ended March 31, 2018

(audited)

Our investments in financial instruments expose us to financial risks associated with the funds and the underlying securities held in the investment funds, including credit risk, market risk, and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is the risk of loss from unfavourable changes in fair value or future cash flows of a financial instrument. Market risk is comprised of currency risk, interest rate risk, and price risk. Liquidity risk is the risk that the BCSC will encounter difficulty in meeting obligations associated with its financial liabilities.

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

Our investments expose us to interest rate risk associated with the underlying interest-bearing securities held in the investment funds. Interest rate risk relates to the possibility that the fair value of investments will change due to future fluctuations in market interest rates. In general, investment returns from bonds are sensitive to changes in the level of interest rates, with longer-term interest-bearing securities being more sensitive to interest rate changes than shorter-term interest-bearing securities. Based on the March 31, 2018 composition of our investment portfolio, an immediate 1 percent increase in interest rates across the entire yield curve, with all other variables held constant, would result in a decrease in market value of approximately \$1.1 million. In addition, future investment income earned on variable rate cash deposits and new investments would increase after an interest rate increase. We expect interest rates to rise slightly over the coming year. We manage interest rate risk by monitoring portfolio duration and yields with the fund administrator, BCI. The current investment duration of the Short Term Bond Fund is 2.7 years and of the Canadian Universe Bond Fund is 7.3 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, 2018

(audited)

**4. Cash**

	March 31, 2018	March 31, 2017
Local demand deposits	\$ 4,181,126	\$ 5,099,036
Partnership demand deposits	5,640,966	4,971,549
	\$ 9,822,092	\$ 10,070,585

Local working capital cash and the Partnership's working capital cash, are on deposit with Schedule 1 chartered banks, and earn interest ranging from prime minus 1.85% to prime minus 1.70%.

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

Case	March 31, 2018	March 31, 2017
Donald Weiss	\$ 50	\$ –
Jefferson Franklin Mesidor	6,030	–
Winston King-Loong Kuit	81,485	75,985
Ayaz Dhanani	–	120,000
Weiqing Jane Jin	4,280	4,280
Canada Pacific Consulting Inc. and Michael Robert Shantz	131,781	131,781
	\$ 223,626	\$ 332,046



**Notes to the Financial Statements**

For Year Ended March 31, 2018

(audited)

**6. Investments**

	March 31, 2018		March 31, 2017	
	Market Value	Cost	Market Value	Cost
<b>BCI pooled funds</b>				
Money Market Fund	\$ 667	\$ 667	\$ 7,000,050	\$ 6,999,937
Short Term Bond Fund	19,485,585	19,748,429	6,036,412	6,070,818
Canadian Universe Bond Fund	7,358,406	7,798,563	9,256,656	9,748,319
	\$ 26,844,658	\$ 27,547,659	\$ 22,293,118	\$ 22,819,074
<b>Partnership investments</b>				
1 year term deposit	\$ 7,500,000	\$ 7,500,000	\$ 10,000,000	\$ 10,000,000
15 months GIC	10,000,000	10,000,000	8,750,000	8,750,000
Notice account	11,315,383	11,315,383	10,000,000	10,000,000
	\$ 28,815,383	\$ 28,815,383	\$ 28,750,000	\$ 28,750,000
	\$ 55,660,041	\$ 56,363,042	\$ 51,043,118	\$ 51,569,074

Refer to note 15 for information about investment income on the investments. The Partnership's investments are held in redeemable term deposits and guaranteed investment certificates at fixed interest rates of 1.8% to 2.4%.

**Notes to the Financial Statements**

For Year Ended March 31, 2018

(audited)

**7. Amounts receivable**

	March 31, 2018	March 31, 2017
National systems user fees	\$ 859,922	\$ 1,123,595
SEDAR filings	297,366	118,350
GST refunds	122,971	38,113
Due from CMAIO	107,013	85,159
Due from CSTO	89,058	91,326
Employee advances and other	51,372	27,323
Late insider report filing fees	31,700	13,815
Enforcement sanctions	27,500	55,934
National project recoveries	18,715	79,276
	\$ 1,605,617	\$ 1,632,891

**8. Accounts payable and accrued liabilities**

	March 31, 2018	March 31, 2017
Local trade accounts payable	\$ 1,950,957	\$ 576,396
Partnership trade accounts payable	156,185	697,716
Other	285,543	404,948
	\$ 2,392,685	\$ 1,679,060

**9. Employee leave liability**

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

**Notes to the Financial Statements**

For Year Ended March 31, 2018

(audited)

**10. Tangible capital assets**

	March 31, 2018				
	Local Information Technology	Local Leasehold Improvements	Local Furniture & Equipment	Partnership Information Technology	Total
<b>Cost</b>					
Opening balance	\$ 14,645,212	\$ 5,911,949	\$ 2,808,961	\$ 3,960,716	\$ 27,326,838
Additions	1,159,945	–	17,629	1,017,551	2,195,125
Disposals	(3,618,150)	–	(140,084)	–	(3,758,234)
Write-downs	–	–	–	–	–
Closing balance	\$ 12,187,007	\$ 5,911,949	\$ 2,686,506	\$ 4,978,267	\$ 25,763,728
<b>Accumulated depreciation</b>					
Opening balance	\$ 8,746,152	\$ 4,526,991	\$ 2,329,122	\$ 301,552	\$ 15,903,817
Depreciation	2,390,160	297,213	73,103	73,411	2,833,887
Disposals	(3,618,150)	–	(140,084)	–	(3,758,234)
Write-downs	–	–	–	–	–
Closing balance	\$ 7,518,162	\$ 4,824,204	\$ 2,262,141	\$ 374,963	\$ 14,979,470
<b>Net book value</b>	<b>\$ 4,668,845</b>	<b>\$ 1,087,745</b>	<b>\$ 424,365</b>	<b>\$ 4,603,304</b>	<b>\$ 10,784,258</b>
<b>March 31, 2017</b>					
	Local Information Technology	Local Leasehold Improvements	Local Furniture & Equipment	Partnership Information Technology	Total
<b>Cost</b>					
Opening balance	\$ 14,369,675	\$ 5,911,949	\$ 2,858,990	\$ 646,535	\$ 23,787,149
Additions	1,140,414	–	–	3,314,180	4,454,594
Disposals	(864,877)	–	(50,029)	–	(914,906)
Write-downs	–	–	–	–	–
Closing balance	\$ 14,645,212	\$ 5,911,949	\$ 2,808,961	\$ 3,960,716	\$ 27,326,838
<b>Accumulated depreciation</b>					
Opening balance	\$ 7,026,625	\$ 4,229,778	\$ 2,286,154	\$ 180,840	\$ 13,723,397
Depreciation	2,584,404	297,213	92,997	120,712	3,095,326
Disposals	(864,877)	–	(50,029)	–	(914,906)
Write-downs	–	–	–	–	–
Closing balance	\$ 8,746,152	\$ 4,526,991	\$ 2,329,122	\$ 301,552	\$ 15,903,817
<b>Net book value</b>	<b>\$ 5,899,060</b>	<b>\$ 1,384,958</b>	<b>\$ 479,839</b>	<b>\$ 3,659,163</b>	<b>\$ 11,423,021</b>

**Notes to the Financial Statements**

For Year Ended March 31, 2018

(audited)

**11. Prepaid expenses**

	March 31, 2018	March 31, 2017
Local hardware and software maintenance contracts	\$ 465,459	\$ 392,777
Partnership information services	1,157,624	458,675
Partnership software maintenance	32,432	29,584
	\$ 1,655,515	\$ 881,036

**12. Accumulated operating surplus**

	March 31, 2018			
	General	Education (a)	Partnership (b)	Total
Opening balance	\$ 24,522,385	\$ 207,316	\$ 37,933,152	\$ 62,662,853
Additions and appropriations	1,215,633	222,067	2,784,095	4,221,795
Investment income allocation	(2,824)	2,824	–	–
Education disbursements paid from reserve	432,207	(432,207)	–	–
Closing balance	\$ 26,167,401	\$ –	\$ 40,717,247	\$ 66,884,648

	March 31, 2017			
	General	Education (a)	Partnership (b)	Total
Opening balance	\$ 25,401,883	\$ –	\$ 34,963,992	\$ 60,365,875
Additions and appropriations	(1,604,271)	932,089	2,969,160	2,296,978
Investment income allocation	(4,107)	4,107	–	–
Education disbursements paid from reserve	728,880	(728,880)	–	–
Closing balance	\$ 24,522,385	\$ 207,316	\$ 37,933,152	\$ 62,662,853

**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) Partnership (restricted)**

The partners have agreed to use Partnership surpluses only for the benefit of systems users.

**Notes to the Financial Statements**

For Year Ended March 31, 2018

(audited)

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

	March 31, 2018		March 31, 2017	
	Partnership	25% share	Partnership	25% share
<b>Financial Position</b>				
Financial assets	\$ 141,265,080	\$ 35,316,270	\$ 139,380,573	\$ 34,845,143
Liabilities	1,569,538	392,385	4,237,653	1,059,413
Net Financial assets	\$ 139,695,542	\$ 34,923,886	\$ 135,142,920	\$ 34,273,989
Non-financial assets	23,173,444	5,793,361	16,589,688	4,147,422
Accumulated surplus	\$ 162,868,986	\$ 40,717,247	\$ 151,732,608	\$ 37,933,152
<b>Operations</b>				
Revenue	\$ 27,232,582	\$ 6,808,146	\$ 27,405,208	\$ 6,851,302
Expenses	16,096,204	4,024,051	15,528,568	3,882,142
Surplus	\$ 11,136,378	\$ 2,784,095	\$ 11,876,640	\$ 2,969,160
<b>Cash flows</b>				
Cash provided by (used in):				
Operating	\$ (11,136,378)	\$ (2,784,095)	\$ (11,876,640)	\$ (2,969,160)
Capital	14,070,205	1,017,551	13,256,722	3,314,180
Investing	9,743,842	2,435,961	(77,983,944)	(19,495,986)
Increase (decrease) in cash	\$ 2,677,669	\$ 669,417	\$ (76,603,862)	\$ (19,150,966)

**14. Enforcement sanctions**

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

We assessed enforcement sanctions of \$6.0 million (fiscal 2017 - \$54.1 million) during the year, of which we did not recognize \$5.8 million (fiscal 2017 - \$53.0 million) as revenue because we do not expect to receive payment.

**Notes to the Financial Statements**

For Year Ended March 31, 2018

(audited)

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

For the Year Ended March 31, 2018						
	Average Balance	Investment Income	Realized Gains (Losses)	Total Income	Unrealized Gains (Losses)	Annualized Return
Cash, term deposits and GIC	\$ 38,839,242	\$ 540,249	\$ –	\$ 540,249	\$ –	1.4%
Restricted cash - 161(1)(g) payments	299,430	4,018	–	4,018	–	1.3%
Canadian Money Market Fund	692,600	730	–	730	(113)	0.1%
Short Term Bond Fund	12,946,509	177,611	–	177,611	(228,438)	(0.4%)
Canadian Universe Bond Fund	8,247,807	188,362	(138,118)	50,244	(86,612)	(0.4%)
	\$ 61,025,588	\$ 910,970	\$ (138,118)	\$ 772,852	\$ (315,163)	0.7%

For the Year Ended March 31, 2017						
	Average Balance	Investment Income	Realized Gains (Losses)	Total Income	Unrealized Gains (Losses)	Annualized Return
Cash, term deposits and GIC	\$ 38,779,971	\$ 477,470	\$ –	\$ 477,470	\$ –	1.2%
Restricted cash - 161(1)(g) payments	163,990	1,713	–	1,713	–	1.0%
Canadian Money Market Fund	961,565	(58)	(5)	(63)	108	–
Short Term Bond Fund	6,019,258	59,185	–	59,185	(17,417)	0.7%
Canadian Universe Bond Fund	11,780,422	260,763	145,325	406,088	125,196	4.5%
	\$ 57,705,206	\$ 799,073	\$ 145,320	\$ 944,393	\$ 107,887	1.8%

**Notes to the Financial Statements**

For Year Ended March 31, 2018

(audited)

**16. Expenses**

	Budget 2018	Year ended March 31	
		2018	2017
<b>Local operations</b>			
Salaries and benefits	\$ 32,675,000	\$ 29,605,683	\$ 30,705,078
Professional services	1,700,000	2,072,215	1,822,153
Occupancy	3,200,000	3,322,796	3,175,682
Depreciation	2,400,000	2,760,476	2,974,614
Information management	1,800,000	1,797,306	1,762,558
Education disbursements	750,000	1,393,987	728,880
External communication	200,000	92,812	123,986
Administration	600,000	605,588	645,152
Staff training	375,000	522,093	284,487
Travel	500,000	285,388	302,152
Telecommunications	200,000	121,871	178,261
Total local operations	\$ 44,400,000	\$ 42,580,215	\$ 42,703,003
<b>Partnership operations</b>			
Salaries and benefits	\$ 800,000	\$ 636,497	\$ 641,212
Professional services	4,100,000	3,132,692	2,922,735
Depreciation	150,000	73,411	120,712
Information management and administration	250,000	181,451	197,483
Total Partnership operations	\$ 5,300,000	\$ 4,024,051	\$ 3,882,142
	\$ 49,700,000	\$ 46,604,266	\$ 46,585,145

## **Notes to the Financial Statements**

For Year Ended March 31, 2018

(audited)

### **17. 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.

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

We, and our employees, contribute to the Public Service Pension Plan, a multi-employer plan. The plan is contributory, and its basic benefits are defined. The plan has about 55,000 active members and approximately 41,000 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, 2017, indicated a \$1,895 million (March 31, 2014 - \$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 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 \$2.2 million (fiscal 2017 - \$3.2 million) to expense for employer contributions during the period.



**Notes to the Financial Statements**

For Year Ended March 31, 2018

(audited)

**19. Commitments and contingencies**

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

<i>Fiscal year</i>	2019	2020	2021	2022	Total
	\$ 3,262,762	\$ 3,322,215	\$ 3,412,785	\$ 2,288,471	\$ 12,286,233

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

During the year ended March 31, 2017, the Partnership signed an agreement with CGI to replace the national systems. Development is occurring in a multi-year phased approach. The Partnership has certain rights to terminate the agreement, with and without cause.

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

**20. Budgeted figures**

Budgeted figures are for comparison purposes.

## **Appendix A – Additional Information**

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

### ***Corporate Governance***

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

### ***Organizational Overview***

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

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