

BC Securities Commission
Service Plan, 2010 – 2013



BC Securities Commission Service Plan

This Service Plan sets out our strategy for the next three years, beginning April 1, 2010. Copies are available on the BCSC website at www.bcsc.bc.ca (*About the Commission*), or by phoning or emailing our public inquiries group.

Each BCSC division has an operating plan that describes how it will implement the strategies in the Service Plan to address identified risks. Copies of these operating plans are also available by phoning or emailing our public inquiries group:

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Glossary

CSA	Canadian Securities Administrators
IIROC	Investment Industry Regulatory Organization of Canada
IMET	Integrated Market Enforcement Team
MFDA	Mutual Fund Dealers Association
NI	National Instrument
RCMP	Royal Canadian Mounted Police
SRO	Self-regulatory Organization

Accountability statement – BCSC Chair to Minister

Honourable Colin Hansen
Minister of Finance
Parliament Buildings
Victoria, BC V8V 1X4

Dear Minister:

On behalf of the Board of Directors and staff at the British Columbia Securities Commission, I am pleased to submit the BCSC's Service Plan for fiscal years 2010/11 – 2012/13.

The BCSC is the independent provincial government agency responsible for administering the *Securities Act*. We protect and promote the public interest by fostering:

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

Our plan

This is a three-year plan, which takes effect April 1, 2010. It identifies two strategic risks—unsuitable investments and securities fraud—that threaten investor protection and market integrity, and describes the seven strategies that strengthen our ability to achieve our mission and strategic goals.

We continue to organize our work under four goals:

- Foster a culture of compliance
- Act decisively against misconduct
- Educate investors
- Advance cost-effective regulation

External factors

Global economic environment

Finance ministers from the G20 countries are considering various reform proposals to deal with issues exposed by the global credit crisis. Some of these proposals relate to securities regulation. The International Organization of Securities Commissions plays a leading role in setting global standards related to those proposals. Canada participates in this process, and implements national responses, through the Canadian Securities Administrators (CSA).

All of these initiatives are being led at the international or national level. We will participate in discussions about them through CSA. We do not expect that work on any of the proposed initiatives will have a significant impact on our activities during at least the first year of the plan.

National regulation

The federal government intends to establish a national securities regulator. It has formed the Canadian Securities Transition Office to produce legislation and develop a plan for the proposed new securities regulator. The BCSC has agreed to assist the BC government in its discussions with the federal government by providing advice and expertise where appropriate. Our ultimate participation in the national regulatory scheme will depend on the outcome of those discussions.

In the meantime, we expect to continue our important work as part of a national system of securities regulation within CSA.

Accountability statement

I directed the preparation of this plan, and the Board approved it, in accordance with the *Budget Transparency and Accountability Act* and BC Reporting Principles. I am accountable for its contents, including what has been included and how it has been reported. The performance measures are consistent with the BCSC's mandate and goals, and focus on aspects critical to the BCSC's performance. We will use essentially the same measures as in fiscal year 2010. The performance targets have been determined in view of the Commission's operating environment, forecast conditions, risk assessment, and past performance.

The plan is consistent with government's strategic priorities and fiscal plan. We have considered all significant assumptions, policy decisions, events, and identified risks as of February 4, 2010.

I am accountable for ensuring the BCSC achieves the objectives identified in the plan and for measuring and reporting actual performance.

Yours truly,



Brenda Leong
Chair

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Organizational overview

BCSC vision

To play a leading role in securities regulation that inspires investor confidence and supports fair, efficient, and innovative Canadian capital markets.

Mission

The BCSC is the independent provincial government agency responsible for regulating securities trading in British Columbia through the administration of the *Securities Act*. Our mission is to protect and promote the public interest by fostering:

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

Our commitment to appropriate, effective, and flexible regulation is guided by our values of integrity, accountability, and service. This commitment allows us to keep pace with quickly evolving capital market changes.

Enabling legislation

The BCSC's enabling legislation is the *Securities Act*, RSBC 1996, c. 418.

We are accountable to the provincial legislature and the public through the Minister of Finance, to whom we submit our annual report and audited financial statements. We submit our three-year Service Plan to the provincial Treasury Board as required by the *Securities Act* and the *Budget Transparency and Accountability Act*.

Shareholder's Letter of Expectations

The provincial government sets out the following expectations of the BCSC in the Shareholder's Letter of Expectations:

- Assist the provincial government with the federal government's development of a national securities regulatory framework (National Regulator Initiative) for consideration by governments
- Work with other provinces and territories to strengthen the Canadian regulatory framework and investor protection
- Make best efforts to streamline, simplify, and harmonize securities laws with other provinces and territories
- Work on issues arising under the Passport MOU
- Comply with the Shareholder's requirements to make the Public Sector carbon neutral by 2010

Corporate Governance

The BCSC is governed by a board of up to 11 (currently 8) commissioners appointed under the *Securities Act*. The commissioners have four categories of responsibilities.

They:

- Review and approve the development and implementation of securities legislation, regulations, rules, policies, and guidance
- Oversee the self-regulatory organizations (SROs), exchanges, and other marketplaces
- Act as adjudicators on enforcement matters brought under the *Securities Act* and applications for review of decisions made by SROs and exchanges
- Act as the BCSC's board of directors, overseeing the BCSC's management, operations, and financial affairs

Our governance policy is on the BCSC website. Except where noted in the policy, the board's governance practices meet the government's *Best Practice Guidelines—BC Governance and Disclosure Guidelines for Governing Boards of Public Sector Organizations* (2005, Board Resourcing and Development Office). More information about the BCSC governance policy, including biographies of each commissioner and members of the senior management team, are on our public website at <http://www.bcsc.bc.ca> (*About the Commission: Governance Policy; Organizational Chart*).

Key stakeholders

- *The public*—which relies on us to foster capital markets that contribute to the well being of British Columbia
- *Investors*—who seek to invest in fair and efficient securities markets
- *Issuers*—companies that rely on the capital markets to fund growth
- *Securities firms*—which advise investors and companies, and facilitate trades
- *Other regulators*—with which we enforce compliance and develop and implement policy initiatives through the CSA
- *The provincial government*—to which we are accountable

The securities regulation landscape

We fulfill our statutory mandate to regulate BC capital markets in cooperation with other CSA jurisdictions. Regulating as part of a national system significantly affects how we do our work and influences how we think about, and implement, securities policy and practice in BC.

We also work within the passport system – now fully in place among all jurisdictions in Canada except Ontario.

We rely on two SROs to perform key regulatory functions related to dealers, salespersons, and trading activity in Canadian equity markets:

- *Investment Industry Regulatory Organization of Canada (IIROC)*, which regulates investment dealers and equities trading on Canadian marketplaces, including the Toronto Stock Exchange, the TSX Venture Exchange, and others

- *Mutual Fund Dealers Association of Canada (MFDA)*, which regulates mutual fund dealers

The BCSC leads senior regulator oversight for the MFDA on behalf of CSA, subject to input from the other CSA jurisdictions. The Ontario Securities Commission fills the same role for IIROC.

The BCSC has recognized the TSX Venture Exchange Inc. under the *Securities Act* and shares responsibility with the Alberta Securities Commission for its oversight. The BCSC has exempted the Toronto Stock Exchange, the Canadian National Stock Exchange, and the NASDAQ Stock Market Inc. from recognition. We rely on oversight by their principal regulators in other CSA jurisdictions.

BCSC core areas of operation

Compliance

Investors are better protected if issuers, securities firms, and sales representatives registered under the *Securities Act* understand and comply with their regulatory obligations. We can achieve this in part by encouraging these organizations to have effective compliance systems and controls in place, thereby reducing the instances when we need to intervene.

We rely on the SROs to regulate their member firms. We regulate non-SRO-member firms and their employees, and oversee the SROs. We also regulate companies and insiders.

Enforcement

Effective enforcement requires decisive action against misconduct. Decisive action depends on open channels for receiving tips, timely complaint reviews, targeted surveillance to detect misconduct, thorough investigation of suspected misconduct, and the resolution of cases through timely settlements, administrative decisions, and, working with Crown, criminal convictions.

Because we do not have the authority to prosecute wrongdoing in the criminal courts, we engage primarily in administrative enforcement. Outcomes from these cases are settlements with wrongdoers and administrative hearings resulting in sanctions the Commission is allowed to impose under the *Securities Act*. When we detect wrongdoing that we think should be dealt with through criminal prosecution, we work with the police and Crown counsel to assist them with the prosecution.

Our Enforcement division focuses on cases with a strong BC connection. When cases with national implications emerge involving a BC-based market participant, we usually take the enforcement lead. Cases involving SRO member misconduct are most often dealt with directly by the respective SRO.

Investor Education

Our goal is to educate investors so they can make informed investment decisions and protect their financial interests. We want investors to confidently research and critically assess potential investments *before* they invest. Research shows that many adults lack the knowledge and understanding they need to make sound investment decisions. For this reason, our Communications & Education division develops programs using a life-cycle approach, which recognizes that young people with a proper financial education become more confident and knowledgeable adult investors.

BC is the only Canadian province providing mandatory financial learning programs for youth. Since 2004, we have provided BC high school teachers with a comprehensive financial life skills education resource known as “The City: Financial Life Skills for Planning 10”. In 2008, we collaborated with the Financial Consumer Agency of Canada to launch an online bilingual financial literacy program modelled on the BCSC’s successful, award-winning teaching resource.

Our adult education programs target seniors and pre-retirees, two groups we know to be particularly vulnerable to investment fraud. If they fall victim to a fraud, the financial impact can be serious since they have less time to recover their losses than younger investors. We offer tools and information to help investors avoid and report investment fraud and to help them understand the basics of making informed investment choices through our website resource, InvestRight.org.

Policy-making

Policy-making is one regulatory tool we use to protect investors and foster fair and competitive markets. We have the authority under the *Securities Act* to make rules. We also issue guidance to help market participants understand our requirements. Our Corporate Finance and Capital Markets Regulation divisions work to harmonize rules and guidance among all CSA jurisdictions and mitigate compliance costs for market participants.

BCSC operating environment and capacity

Securities regulation is highly specialized and dynamic. To do it well, we need to recruit and retain qualified and motivated professionals. We offer challenging work, competitive salaries and benefits, and an excellent working environment.

We allocate resources and manage capacity in the following ways:

- Strategic planning and enterprise-wide risk management to prioritize risks and opportunities
- Succession planning, and recruiting for specific expertise, to safeguard key competencies
- Ongoing professional development to expand staff capacity to meet evolving market developments
- Rigorous annual budgeting process, monthly budget variance reporting, and strong project initiation and purchasing controls
- Regularly measuring the quality and efficiency of our services and processes, and continuously improving them

Our financial projections recognize the continuing uncertainty about the economy and markets. We expect to manage that uncertainty successfully within our existing fee structure through strong cost controls and significant cash reserves.

Strategic context

We focus our resources on strategic risks that pose the most serious threats to our mission, as identified through our risk management process. The two risks that are the focus of this plan are *Unsuitable investments* and *Securities fraud*. *Unsuitable investments* has been in the plan since the 2006/2007 fiscal year, and *Securities fraud* since 2008/2009. These risks remain of central importance in the plan because they are both significant and continuing risks to investors.

The risk of unsuitable investments is addressed by a long-standing component of securities regulation that requires registrants to recommend only suitable securities to their clients. It is an important aspect of our oversight of dealers. Suitability issues continue to surface in compliance examinations and in complaints to dealers, SROs, and the Ombudsman for Banking Services and Investment.

Anti-fraud provisions are also central to securities regulation. The challenge is to detect fraud as soon as possible (ideally, to stop frauds from starting) and to prosecute those who commit fraud. According to research, 138,000 people in British Columbia have been victims of fraud, and 1.6 million (48% of the adult population) have been offered a fraudulent investment at least once. The losses suffered by fraud victims are often just as devastating as those suffered by the victims of other crimes.

Strategic risks

Risk 1: Unsuitable investments

One report says that half of BC adults hold stocks or mutual funds outside of pension funds, and 61.5% of financial wealth in BC is held in market-sensitive assets (equities, investment funds, and fixed income securities). Registered dealers and their salespersons provide advice to retail investors in making these investments. These registrants have two primary obligations to investors:

- *Know your client.* A registrant must know the essential facts about each client, including the client's financial and life circumstances and risk tolerance.
- *Suitability.* A registrant must evaluate the suitability of each sale of a product given the client's circumstances and the product's features.

This is the fifth year that unsuitable investments has been a priority risk area in our Service Plan. During that period, the BCSC's work with SROs and other Commissions significantly strengthened the suitability framework. Strengthening the suitability framework prepares the SROs for more effective compliance and enforcement action on suitability non-compliance. Now that the SROs are better prepared, this year's work will focus on putting the framework into action and measuring suitability outcomes for retail investors.

Here's how the framework has been strengthened:

Guidance and industry education

- In the last year, the CSA, IIROC, and the MFDA all issued detailed guidance to registrants on how to comply with the "know your client" and suitability rules
- IIROC and the MFDA issued guidance on product due diligence, and the MFDA provided guidance on complying with the suitability requirement for investors who borrow to make investments

Complaints and compliance examinations

- The BCSC reviewed the SROs' handling of complaints and compliance examinations and confirmed that the SROs' policies and procedures are appropriate
- The MFDA examined leverage use and frequency of exempt product sales at BC MFDA dealers and reported those results to the BCSC

Investor protection

To complement the work by the SROs to strengthen suitability compliance, the BCSC published an online guide, "*Guide to Investing: How to Work with Your Investment Advisor.*" This program helps investors take greater responsibility for their investment decisions and understand what to expect from their registered advisors.

Next steps

We want the SROs to monitor effectively their strengthened suitability frameworks and to take enforcement action when appropriate. To that end we will ensure that the SROs:

- Incorporate the new suitability framework, including their own guidance and new elements of National Instrument (NI) 31-103 *Registration Requirements*, into their compliance examinations, case assessment, and investigations processes
- Commit to measure compliance over time

We describe our plans for work in this area under the following headings:

- Goal 1: *Promote a culture of compliance*
 - Strategy 1.1: *Strengthen suitability risk management*

Risk 2: Securities fraud

This year we have seen investors lose their savings in a number of high-profile investment frauds. Many of these frauds were Ponzi schemes – where fraudsters pay investors who invest early in the scheme with money from investors who invest later. In

some cases, the terms of the investment cause people to remain in the fraud for years before discovering they are victims of fraud.

Fraud artists operate by setting themselves up as a trusted source of investment opportunity. Many of them recognize the potential in exploiting existing relationships of trust among members of religious, ethnic, or other closely knit communities. They are also opportunists who use the cyclical nature of the capital markets to devise schemes for bull markets, where they exploit investor desires for a piece of the action, or for bear markets, where they exploit investor fear of financial loss.

Our goal is to disrupt fraud where we find it, to stop the flow of investor money into fraudulent schemes, and to prevent future fraud from occurring. The programs we have put in place over the past two years combine investor education, police agency outreach, innovative use of administrative powers, and criminal prosecution. They fall into three broad program areas:

Recognizing and reporting investment fraud

- We blog about investment fraud and publish the names of known current promotions on InvestRight.org
- We provide tools and information via InvestRight.org to help investors recognize investment fraud tactics and build an informed relationship with their investment advisor
- We advertise on radio in English, Chinese, and South Asian languages to raise awareness of investment fraud and the BCSC's role in protecting investors

Reaching and supporting victims of investment fraud

- In cooperation with other regulatory agencies and police forces who investigate fraud, we have initiated a program to provide a single point of contact to connect BC residents to those agencies
- We present seminars in BC communities to teach the red flags of investment fraud
- We issue Investor Alerts through the news media to notify BC residents of active suspected frauds in their communities

Enforcing securities laws

- We present seminars about securities fraud to RCMP detachments and local police departments
- We support Crown counsel in criminal prosecutions of securities law offences
- We reach out to market participants for their cooperation by reporting suspicious market activity

Next steps

Building on the insights gained from these and other programs, we will:

- Work with volunteers in select BC communities to recognize and report suspicious activity promoted through investment seminars, advertising, and social media
- Initiate new relationships and expand existing ones with policing agencies and police training institutions to increase awareness of investment fraud and how to respond
- Reach out to friends and family of fraud victims to encourage reporting of investment fraud activity

We describe our disruption and enforcement work in the following chapter under the following headings:

- Goal 2: *Act decisively against misconduct*
 - Strategy 2.1: *Recruit and train community volunteers to recognize and report suspicious investment promotions*
 - Strategy 2.2: *Detect and deter fraud through industry outreach and intelligence gathering.*

We describe our investor education work in this area under the following headings:

- Goal 3: *Educate investors*
 - Strategy 3.1: *Encourage friends and family to report investment fraud*

Strategies by goal

We have the following goals:

1. Promote a culture of compliance
2. Act decisively against misconduct
3. Educate investors
4. Advance cost-effective regulation

We align strategies with our goals: the chart below shows how strategies described under each goal tie to risks discussed in the Strategic Context chapter.

Summary of risks and related strategies

	Unsuitable investments	Securities fraud	Other goal-related strategies
Goal 1: Promote a culture of compliance	Strategy 1.1		Strategy 1.2
Goal 2: Act decisively against misconduct		Strategy 2.1 Strategy 2.2	
Goal 3: Educate investors		Strategy 3.1	
Goal 4: Cost-effective regulation			Strategy 4.1 Strategy 4.2

Goal 1: Promote a culture of compliance

Investors are better protected if securities firms and securities issuers understand and comply with their regulatory obligations. They must have effective systems and controls in place to ensure compliance with our rules. We intervene to correct non-compliance when warranted.

Strategies supporting Goal 1

Two strategies support this goal:

- Strategy 1.1: Strengthen suitability risk management
- Strategy 1.2: Extend compliance officer outreach program to new classes of registrants

Strategy 1.1: Strengthen suitability risk management

Lead: Capital Markets Regulation

This strategy responds to Risk 1: *Unsuitable investments*, with the goal of making the strengthened suitability framework as effective as possible. This year we will focus on two areas.

First, we will ensure that the SROs appropriately incorporate the new suitability framework, including their own guidance and new elements of NI 31-103 *Registration Requirements*, into their compliance examination, case assessment, and investigation processes. We will:

- Identify changes to suitability requirements in NI 31-103 *Registration Requirements* and ensure that IIROC and the MFDA design modules for business conduct compliance examinations that test these new provisions
- Ensure that IIROC and the MFDA educate member firms on the new suitability standards in NI 31-103 *Registration Requirements*
- Review the suitability compliance modules at the MFDA and IIROC to ensure they reflect the SROs' recent industry guidance on the know your client obligation, suitability, leveraging, and product due diligence

Second, we will require IIROC and the MFDA to find meaningful ways to measure the extent of suitability compliance within their dealer community over time. Our objective is to entrench the suitability obligation in the registered dealers' culture so that suitable recommendations more often are made to retail investors.

Strategy 1.2: Extend compliance officer outreach program to new classes of registrants

Lead: Capital Markets Regulation

Last year we initiated a new program to build stronger compliance in our directly regulated firms. Our Capital Markets division holds a quarterly forum for BC's chief compliance officers of these firms to discuss key compliance concerns and encourage compliance officers to share best practices in developing specific compliance systems.

Under NI 31-103 *Registration Requirements*, two new groups of currently unregistered activity will be subject to registration requirements in 2010:

- Some firms that sell exempt products to investors will be required to register as exempt market dealers
- Firms that manage investment funds will be required to register as investment fund managers

We will take appropriate steps to help these firms adapt to the new regulatory requirements.

We will measure whether our outreach program is effective by:

- Measuring whether regulatory risk associated with the new firms decreases over time
- Analyzing survey feedback from outreach participants

Goal 2: Act decisively against misconduct

Strong and effective enforcement depends on four core activities:

- *Generate leads.* We raise public awareness about fraudulent investments, encourage investors to report suspicious activity, and share intelligence with other regulatory and enforcement agencies.
- *Select cases.* We use risk-based criteria to select and prioritize cases, and continuously evaluate the viability of active cases.
- *Complete cases.* We complete investigations, settlements, and hearings in a timely manner.
- *Maintain strong ties to Crown.* We work with Crown prosecutors and federal and provincial law enforcement agencies, and we investigate and refer appropriate cases for prosecution.

Enforcement staff 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 fraud cases through administrative proceedings. Under administrative proceedings, the BCSC can impose monetary sanctions and order people out of the market. We work closely with Crown counsel to pursue criminal charges where warranted. Criminal convictions allow

for the imposition of penalties, including prison sentences, which help deter serious misconduct.

Strategies supporting Goal 2

Two strategies support this goal:

- Strategy 2.1: Recruit and train community volunteers to recognize and report suspicious investment promotions
- Strategy 2.2: Detect and deter fraud through industry outreach and information gathering

Strategy 2.1: Recruit and train community volunteers to recognize and report suspicious investment promotions

Lead: Communications & Education

This strategy responds to Risk 2: *Securities fraud* with the goal of generating more leads to frauds promoted through investment seminars, advertising, and social media. Many frauds are broadly marketed to the BC public and actively promoted to people who respond to ads or attend investment seminars. The success of our Ad Watch program, where community volunteers forward to us investment information they see promoted in their communities, gives us confidence that British Columbians are keenly interested in helping the BCSC develop broader intelligence channels.

This new program will recruit and train volunteers throughout the province to be our eyes and ears for active investment promotions in their communities.

These types of real-time leads enable us to move in while a scheme is active and mitigate harm to investors. In some cases, early intervention involves issuing freeze orders, which can help preserve assets for investor claims.

Strategy 2.2: Detect and deter fraud through industry outreach and intelligence gathering

Lead: Enforcement

This strategy responds to Risk 2: *Securities fraud*, with the goal of supplementing our work with policing agencies by working with industry.

In our work with industry, we have two initiatives:

- Build stronger referral networks with banks. Bank employees are often the front line for detecting suspicious activity. We plan to approach federal agencies that oversee banks to explore ways to get timely information from banks on suspicious transfer patterns.
- Build on our existing intelligence function to strengthen our ability to obtain securities industry leads on investment fraud. We will focus on projects in specific areas selected from current market priorities or recurring problem areas such as dealing with trading arising from offshore secrecy jurisdictions or the re-emergence of Ponzi-type frauds.

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.

We focus on these core areas to support a successful investor education program:

- *Increase public awareness.* We increase awareness of our education programs so that investors learn the skills they need to help them protect their finances.
- *Reach investors early.* We expand financial life skills programs to help investors spot fraudulent investments before they suffer investment losses.
- *Strengthen investor education.* We provide tools and information to help investors get better service and advice.
- *Develop partner relationships.* We build partnerships to reach ethnic and religious communities throughout the province.

Strategies supporting Goal 3

One strategy supports this goal:

- Strategy 3.1: Encourage friends and family to report investment fraud

Strategy 3.1: Encourage friends and family to report investment fraud

Lead: Communications & Education

This strategy responds to Risk 2: *Securities fraud*, with the goal of increasing leads to active fraud activity from people close to fraud victims. Friends and family are in a unique position to observe the changes in behaviour that come into play when someone is being defrauded. CSA research shows that friends and family have a greater awareness than do victims of the social, emotional, and health issues that affect people who have lost their money in an investment fraud. This strategy assumes that they are also better positioned than victims to see a fraud, or potential fraud, unfolding and that they would be willing to take steps to help their friend or family member, or stop further losses in their community.

Under this strategy, we will target friends and family of fraud victims to encourage early reporting of suspicious investments and potential frauds.

Goal 4: Advance cost-effective regulation

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

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

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

Strategies supporting Goal 4

Two strategies support this goal:

- Strategy 4.1: Co-lead project to develop a streamlined regulatory framework for venture issuer disclosure and governance
- Strategy 4.2: Improve access to information from our national filing systems

Strategy 4.1: Co-lead project to develop a streamlined regulatory framework for venture issuer disclosure and governance

Lead: Corporate Finance

The BCSC is co-leading, with the Alberta Securities Commission, a review of the governance and disclosure regime for issuers listed on the TSX Venture Exchange. Several other provinces are participating. The first public step of the review will be publication of a consultation paper in early 2010. The paper will explore the relevance and usefulness of current regulatory requirements and seek comment from all stakeholders. Next steps will be determined following completion of the consultation phase.

Strategy 4.2: Improve access to information from our national filing systems

Lead: Corporate Finance, Capital Markets Regulation, and Information Management

Our regulations mandate the delivery of many documents and forms from:

- Public companies to the public
- Dealers and advisors to clients
- Market participants to securities regulators

Last year, the CSA began a three-year, multi-million dollar project to redevelop the systems used to facilitate the filing and delivery of these documents. The project's next phases include the development of an enterprise architecture and the development of a new national filing system.

The goal of the project is to:

- Improve disclosure to investors
- Improve access to information in filings
- Reduce regulatory compliance costs

We will be providing strategic direction to the project and devoting significant resources to the work.

Ongoing performance measurements and targets by goal

This section describes the performance measurements by which we track our progress in achieving our goals through our operating activities. We track progress towards our goals using relevant, long-term measures so stakeholders can assess our performance over time. More information about our performance measurements, including performance management systems and how we set targets, can be found on our public website at www.bpsc.bc.ca (*About the Commission*).

These measures are not tracked consistently across other CSA jurisdictions so we do not have benchmark comparisons that help gauge our relative performance to our peers.

Goal 1: Promote a culture of compliance

PERFORMANCE MEASURES			TARGETS		
	08/09 Actuals /Baseline	09/10 Target ⁽¹⁾	10/11 Target	11/12 Target	12/13 Target
1.1 Percentage of reviewed issuers that reduce deficiencies in their continuous disclosure a) Improved disclosure subsequent to a continuous disclosure review b) Improved disclosure to minimum standards	a) 100% ⁽²⁾ b) 87%	a) ≥94% b) ≥90%	a) ≥95% b) Set new baseline to reflect IFRS transition ⁽³⁾	a) ≥95% b) Improve on 10/11 baseline	a) ≥95% b) Improve on 11/12
	Our corporate finance division reviews issuer disclosure for non-compliance. At the end of each fiscal year, we retain an independent consultant to analyze the subsequent continuous disclosure of a statistically significant random sample of issuers that received comment letters from us during that year. The results of this review show the extent to which our detailed continuous disclosure review work motivated non-compliant issuers to improve their disclosure.				
1.2 Percentage of randomly sampled mining issuers that meet the minimum standards for technical disclosure in: a) Filed disclosure (News releases, Annual information forms, Management discussion and analysis) b) Issuer websites	a) 73% ⁽⁴⁾ b) 65%	a) ≥70% b) ≥70%	a) ≥75% b) ≥75%	a) ≥80% b) ≥75%	a) ≥80% b) ≥75%
	BC is home to most Canadian mining issuers. We will randomly select from a list of BC-based mining issuers and analyze whether those issuers' most recent technical filings were compliant with NI 43-101 Standards of Disclosure for Mineral Projects. This review shows the extent to which a sample of BC-based mining issuers is compliant in specific areas of their technical disclosure.				
1.3 Average number of deficiencies per examination in Capital Markets Regulation ⁽⁵⁾	6.9 out of 57 categories ⁽⁶⁾	Decrease deficiency average by 5% over 08/09	Set new baseline to reflect two new categories of registered dealer	Decrease deficiency average by 5% over 10/11	Decrease deficiency average by 5% over 11/12
	Our Capital Markets Regulation division reviews securities firms that are not SRO members for compliance with their regulatory obligations. Using various indicators of risk, we assess ratings to our firms so that we can determine how frequently and how closely to examine their compliance.				

Notes: (1) Actual data for all targets will be available in the 09/10 Annual Report; (2) Based on a sample of 27 issuers; (3) Canada will adopt international financial reporting standards (IFRS) for public issuers effective January 1, 2011, which changes the minimum standards; (4) Based on a sample of 30 issuers; (5) We exclude targeted, issue-based exams from this calculation; (6) Based on 20 examinations. The number of categories change as we drop, consolidate, or add categories to capture current compliance concerns accurately.

Goal 2: Act decisively against misconduct

PERFORMANCE MEASURES			TARGETS		
	08/09 Actuals /Baseline	09/10 Target	10/11 Target	11/12 Target	12/13 Target
2.1 Average Time to Respond to Misconduct with Disruptive Action	New measure	Set baseline	Decrease average by 20% over 09/10	Decrease average by 10% over 10/11	Decrease average by 10% over 11/12
	<p>This measure focuses our efforts on early detection and shows our ability to take early action to stop the misconduct. We can significantly reduce the harm to the public when we can identify and act quickly to disrupt this misconduct.</p> <p>We will track a specific number of intervention types and measure how long it takes us to implement the intervention from the opening of the complaint.</p>				
2.2 Average life, in months, of cases resolved via settlement or enforcement decision	47	≤34	Set according to formula ⁽¹⁾	Set according to formula ⁽¹⁾	Set according to formula ⁽¹⁾
	<p>We want to be transparent about the average time our administrative enforcement process takes. For the cases we close by settlement or a decision in the fiscal year, we measure the average number of months a case is open from when we first learn of the conduct to the case's completion by settlement or decision. Reciprocal orders are not included.</p>				

Notes: (1) We calculate the target based on a case average of actual case age and service target timeframes for the enforcement steps outstanding on each case.

Goal 3: Educate investors

PERFORMANCE MEASURES			TARGETS		
	08/09 Actuals /Baseline	09/10 Target	10/11 Target	11/12 Target	12/13 Target
3.1 Number of complaints and tips received as a result of InvestRight investor education and industry outreach programs	87	97	Increase 5% over 09/10	Increase 5% over 10/11	Increase 5% over 11/12
	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. This network of information helps us prevent, stop, or disrupt these activities. We track the number of enquiries, referrals, and complaints we receive from the public, media, and policing agencies such as the RCMP, IMET, and local police.				
3.2 Percentage of workshop participants who recall investor education messages of red flags	11%	14%	Increase 3% over 09/10	Increase 3% over 10/11	Increase 3% over 11/12
	We deliver investor education workshops to BC residents, primarily seniors. We hire a firm to survey seminar participants after each presentation, and a second time six months later, to measure the percentage of workshop participants who recall our investor education messages.				
3.3 Percentage of Canadian investors aware of provincial securities regulators	43% ⁽¹⁾	46% ⁽²⁾	≥45%	≥45%	≥45%
	BCSC investor education resources provide BC retail investors with valuable information to help them protect themselves from fraud and unsuitable investments. We aim to build awareness of the BCSC and our many investor education resources so that British Columbians will know where to turn and what to do when faced with a possible fraud or unsuitable investment opportunity. We collect data by asking awareness questions in each year's investor survey.				

Note (1): From our July 2008 investor survey. This measure is the percentage of BC public aware of BCSC. (2) Actual from the October 2009 CSA Investor Index.

Goal 4: Advance cost-effective regulation

PERFORMANCE MEASURES			TARGETS		
	08/09 Actuals /Baseline	09/10 Target	10/11 Target	11/12 Target	12/13 Target
4.1 Average score on cost-effective regulation scorecard	89%	90%	≥90%	≥90%	≥90%
	To measure cost-effective regulation, we use a scorecard that tracks the important steps and outcomes in responding to market problems. We apply the scorecard to all CSA and local projects. For CSA projects, the scorecard reports on the extent to which we took steps to advocate our cost-effective regulation principles. For all projects, the scorecard gives credit for outcomes-focused results. We report the average score of all the projects completed each year.				
4.2 Average approved project post-implementation score	95%	80%	≥80%	≥80%	≥80%
	We assess each local 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.				

Summary financial outlook

Future-oriented financial information

We prepared the following information for business planning purposes. The information may not be appropriate for other purposes.

The effective date of our underlying assumptions is January 28, 2010. Our fiscal 2010 forecast and fiscals 2011 and 2012 projections reflect BCSC actual results to December 31, 2009.

Fiscal 2010 forecast assumptions reflect our planned actions given our judgment as to the most probable set of economic conditions. Fiscal 2011 and 2012 projection assumptions reflect our planned actions for those periods given our judgment as to the most probable set of economic conditions, together with one or more hypotheses. The hypotheses are assumptions that are consistent with the purpose of the information, but are not necessarily the most likely to occur. Actual results achieved for the fiscal 2010 – 2012 periods will vary from the information presented and those variations may be material.

The financial information, including forecast information, was prepared based on current Canadian Generally Accepted Accounting Principles (GAAP).

Financial overview

We aim to break even over the business cycle. Our revenues fluctuate in proportion to market activity, while most of our costs are fixed.

Operations

We are the provincial crown corporation responsible for regulating BC capital market activity.

We do not receive transfers from government tax revenues. Instead, fees charged to securities market participants fund our operations. Almost all of our operational funding comes from filing, registration and application fees paid by market participants. Salaries, benefits, and occupancy costs account for more than 85% of operating expenses.

BCSC does not operate or have an interest in any subsidiaries.

Education reserve

We order administrative penalties and disgorgements¹ under the *Securities Act*. We also negotiate settlements, which sometimes include monetary sanctions. We appropriate these revenues to our education reserve.

We mix education reserve funds with other funds for investment purposes, so we allocate a portion of investment income to the education reserve.

We spend education reserve funds only to educate securities market participants and members of the public about investing, financial matters, or the operation or regulation of securities markets.

Financial outlook

We expect an operating surplus, excluding education, of \$0.6 million in fiscal 2010 (2009 – \$1.9 million surplus). Results will be lower than fiscal 2009 due primarily to the following:

- \$1.2 million (7%) lower distribution filing revenue, due to continued capital market weakness
- \$0.4 million (33%) lower investment income allocated to operations due to lower interest rates
- \$0.3 million (1%) lower operating expenses due primarily to vacant positions and the completion of certain collection actions in fiscal 2009

The actual impact of the market correction on operations has not been as severe as we forecast in our updated fiscal 2010 Service Plan. We expect market activity to remain relatively weak through fiscal 2011 and to strengthen to the end of the planning period.

¹ Disgorgement attempts to return ill-gotten gains to victims. We allocate to the education reserve disgorgements collected and not claimed within three years of collection.

The following table summarizes our actual and projected results of operations and financial position, by year²:

(millions)	08/09 Actual	09/10 Forecast	10/11 Budget	11/12 Projection	12/13 Projection
OPERATIONS					
Revenue					
<i>Filing fees</i>					
Prospectus and other distributions	16.0	14.8	14.5	16.7	18.7
Registration	9.6	9.6	9.6	9.8	10.0
Financial filings	4.6	4.6	4.7	4.8	4.9
Other fees	0.2	0.2	0.4	0.3	0.3
	<u>30.5</u>	<u>29.3</u>	<u>29.2</u>	<u>31.5</u>	<u>33.8</u>
<i>Other revenue</i>					
Investment income	1.1	0.8	0.8	1.0	1.3
Total revenue	<u>31.6</u>	<u>30.1</u>	<u>30.0</u>	<u>32.6</u>	<u>35.1</u>
Expenses					
Salaries and benefits	22.6	22.6	23.7	24.3	25.5
Other operating expenses	7.2	6.9	7.4	7.5	7.7
Total expenses	<u>29.8</u>	<u>29.5</u>	<u>31.1</u>	<u>31.8</u>	<u>33.2</u>
Operating surplus / (deficit) for the year	<u>1.9</u>	<u>0.6</u>	<u>(1.1)</u>	<u>0.8</u>	<u>2.0</u>
EDUCATION RESERVE					
Revenue					
Investment income	0.2	-	0.1	0.1	0.1
Enforcement sanctions	0.3	0.3	0.3	0.3	0.3
	<u>0.5</u>	<u>0.3</u>	<u>0.4</u>	<u>0.4</u>	<u>0.4</u>
Disbursements	<u>0.7</u>	<u>1.0</u>	<u>0.9</u>	<u>0.9</u>	<u>0.9</u>
Education reserve (deficit) for the year	<u>(0.2)</u>	<u>(0.6)</u>	<u>(0.5)</u>	<u>(0.5)</u>	<u>(0.5)</u>
CONSOLIDATED SURPLUS / (DEFICIT) FOR THE YEAR	<u>1.6</u>	<u>-</u>	<u>(1.6)</u>	<u>0.3</u>	<u>1.5</u>
SURPLUSES					
General	9.1	9.8	8.8	9.6	11.6
Fee stabilization reserve	15.0	15.0	15.0	15.0	15.0
Education reserve	3.7	2.9	2.3	1.8	1.3
	<u>27.8</u>	<u>27.7</u>	<u>26.1</u>	<u>26.4</u>	<u>27.8</u>
SUPPLEMENTARY INFORMATION					
Cash and short-term investments	16.7	17.3	17.0	18.2	20.5
Capital expenditures	0.7	0.6	0.5	0.7	0.7

² The financial information, including forecast information, was prepared based on current Canadian Generally Accepted Accounting Principles (GAAP).

Operating revenues

More than 95% of our operational funding comes from filing, registration, and application fees paid by market participants under the *Securities Act*. The remainder of our operational funding comes from investment income and enforcement cost recoveries, if any.

Fee revenue

Our fee model is premised on generating sufficient revenue to allow us to break even over the business cycle. We generate surpluses during high points in the market's cycle, and may generate deficits during bear market periods. Our fee model is working as designed.

A large part of our fee revenue comes from fees paid by mutual funds to distribute securities and file financial statements, and on fees paid by the five largest Canadian banks to register their representatives.

	(millions)	08/09 Actual	09/10 Forecast	10/11 Projection	11/12 Projection	12/13 Projection
Revenue from fees		30.5	29.3	29.2	31.5	33.8
Fee revenue growth rate		-6.3%	-4.0%	-0.3%	8.1%	7.3%

Each 1% change in revenues over the planning period (2011 – 2013) alters forecast revenues by about \$0.9 million. We maintain a Fee Stabilization Reserve to ensure that temporary reductions in revenue do not immediately impair our ability to operate, or require reactive fee changes.

We collect the following fees:

Category	Source	Proportion of fee revenue	
		Forecast 2010	Budget 2011
Distribution fees	Public companies, private companies and mutual funds, to file securities offerings	51%	48%
Registration fees	Firms and individuals, to register with us to sell or advise on securities	32%	34%
Financial filing fees	Public issuers and mutual funds, to file financial statements	16%	17%
Other fees	Market participants, primarily to request Securities Act exemptions	1%	1%

Distribution fees

Distribution fee revenues vary depending on the number and size of securities offerings. The largest share of distribution fee revenue comes from prospectuses³, exempt

³ Companies and mutual funds must normally prepare a prospectus before raising money from the public. A prospectus gives details of the operations, financial status, and management of the company or fund.

distribution reports⁴ and annual information forms⁵. Issuers pay fees to file these documents. When gross sales under a prospectus and under an exempt offering exceed \$7.5 million and \$0.3 million, respectively, an additional fee, called a “percent of proceeds fee,” may be payable.

Our revenue from distribution fees falls significantly during weaker markets because fees related to gross sales account for almost half of distribution fee revenue.

More than half of distribution fees relate to mutual fund sales in BC. We receive the majority of revenue related to mutual fund sales in arrears, so distribution revenue changes lag market events.

We expect distribution revenue to fall \$1.2 million (7%) in fiscal 2010, due primarily to lower percent of proceeds fees related to mutual fund sales. Based on mutual fund industry sales statistics, we expect distribution fee revenues to decline 2% in fiscal 2011. We expect non-mutual fund sales to remain flat in fiscal 2011. We expect market activity to improve over the remainder of the planning period, increasing distribution revenue by 15% in fiscal 2012 and by a further 12% in fiscal 2013.

Registration fees

Firms and individuals register with us to sell or advise on securities. Registration fee revenue has low volatility and has grown steadily over the last decade. We expect registration revenue to remain flat in fiscals 2010 and 2011. On September 28, 2009, National Instrument 31-103 extended our market oversight to additional firms and advisors. We expect fees from these new registration categories to offset a modest decline in historical registration types precipitated by the recent market contraction. We project growth of 2% per year over the remainder of the planning period.

Financial filing fees

Companies and mutual funds (reporting issuers) pay a fee to file their financial statements, and they pay a higher fee if they file late. The reporting issuer population has increased slowly over the last several years.

We expect financial filing revenues to remain flat in fiscals 2010 and 2011. Revenue due to September 2008 rule changes that made BC-based over-the-counter and Pink Sheet issuers reporting issuers is offsetting a modest reduction in other issuers due to economic conditions. We project overall growth of 2% per year over the remainder of the planning period.

⁴ Prospectus exemptions allow companies to sell securities without a prospectus when other factors (e.g. relationship, financial sophistication) permit investors to have access to all information about the proposed transaction that could affect their purchase decision.

⁵ Annual information forms give current details of the company’s operations, financial status, and management.

Other fees

Other fees are mostly exemption application filing fees. Implementation of the Passport system eliminated the need to file most exemption applications in BC after March 2008. Other fees now account for only a small proportion of fee revenue.

We expect no growth in this revenue stream in fiscal 2010. We expect a one-time increase in fiscal 2011 due to exemption applications related to the new registration categories previously discussed.

Investment income

Our prime investment objectives for surplus funds are capital preservation and sufficient liquidity so we can meet our expenditure commitments. Our conservative approach, investing in liquid, high quality money market instruments and government securities, generates modest returns. We mix Education reserve funds with operating funds for investment purposes, so we allocate a portion of our investment income to the Education reserve.

We expect investment income related to operations to fall \$0.4 million (33%) in fiscal 2010 due to lower interest rates. We assume investment yields of 3% to 4% over the rest of the planning period, based on our investment manager's estimates of our portfolio returns.

Operating expenses

Salaries, benefits, and occupancy costs account for over 85% of our expenses.

We are committed to managing our expenses so they do not exceed expected revenue over the business cycle. We do this by preparing an annual budget approved by the Board, monthly budget variance reporting to management, requiring Board approval of significant expenses, and continually improving our processes.

	08/09	09/10	10/11	11/12	12/13
(millions)	Actual	Forecast	Budget	Projection	Projection
Expenses, excluding education disbursements	29.8	29.5	31.1	31.8	33.2
Operating expense growth	4.9%	-1.0%	5.5%	2.2%	4.4%

Salaries and benefits

Staffing costs account for more than 75% of our operating expenses. We compete for professional staff with law and accounting firms, the securities industry, and other regulators. Like most of our competitors, we offer a compensation package that includes performance-based salary increases and incentives. To retain and recruit staff and remain market competitive, we conduct salary surveys annually and make adjustments as appropriate.

We spend our salaries in four areas (overhead allocated proportionately):

Strategic Goal	Fiscal 2009
Promote a culture of compliance	36%
Act decisively against misconduct	37%
Educate investors	10%
Advance cost effective regulation	17%

We expect salary and benefit costs to remain flat in 2010. Fiscal 2010 forecast results reflect a six FTE (3%) increase in average staff size. Staffing changes are to strengthen compliance, enforcement, and legal services capacity. Cost recoveries, largely from secondments, substantially offset the increases.

We forecast salaries and benefits expense to increase 4.8%, 2.5% and 4.9% in fiscals 2011, 2012 and 2013 respectively. In fiscal 2011, we will add three positions to handle new registration and compliance volume resulting from the previously described registration regime changes. Our planning assumptions include 2.5% annual performance-based increases. We project no other staffing changes until fiscal 2013, when three seconded employees will return.

Rent

We have leased office space to November 2011 at an annual rent, net of sublease recoveries, of about \$0.9 million. We also pay a proportionate share of the building's operating and maintenance costs, which we do not expect to grow faster than inflation over the planning period.

We are evaluating whether or not to relocate at the end of our lease. Relocating would affect projected capital additions and amortization expense over the planning period. We expect to pay higher rent after our lease expires in fiscal 2012 because market rents have increased.

Professional services

We contract third-party professional services when outsourcing is more cost-effective than performing the work ourselves. Professional service costs relate primarily to the following:

- Fees paid to IIROC for registration services delegated to them
- Our share of CSA project and management costs
- Legal services to defend our actions when appealed to higher courts
- Legal services to support policy development
- Legal services for collection actions
- Interview and hearing transcription services
- Corporate services activities, including disaster recovery facility and internal audit costs

We expect professional fees to decrease \$0.3 million (14%) in fiscal 2010 due to completing certain legal actions in fiscal 2009. We expect only inflationary growth in professional service costs over the remainder of the planning period.

Information management

We spend significant amounts on information systems and management annually to improve access to our services and information, and to increase our efficiency.

Information management has three main components:

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

We do not expect the composition of our information management activities to change significantly. We expect only inflationary growth over the balance of the planning period.

Depreciation and capital expenditures

We depreciate our leasehold improvements, fixtures, and information technology over their useful lives using the straight-line method. We estimate the useful lives of our assets to be:

- Information technology – four years
- Intangible assets (software) – four years
- Leasehold improvements – the remaining lease term to November, 2011
- Office furniture and equipment – 10 years

We expect depreciation to average \$1.0 million per year for fiscals 2010 and 2011. Depreciation will remain flat in fiscal 2012 and decline to \$0.7 million in fiscal 2013 because the cost of all leasehold improvements and most furniture will be amortized by November 2011.

Our capital spending relates primarily to computer systems and applications. We plan lower capital spending, \$0.6 million, in fiscal 2010 and \$0.5 million in fiscal 2011, primarily by deferring some capital improvements to future years. We project capital additions to average \$0.7 million per year over the remainder of the planning period.

Other operating expenses

With the exception of activity-based expense changes, we expect all other expenses to increase at 2%, our estimate of the annual rate of inflation.

Education reserve

Many British Columbians are not financially literate nor investment savvy. Knowing one's risk profile and understanding one's investments reduces the odds of falling victim to investment fraud. This makes education central to our mission of protecting investors.

We use Education reserve funds only to educate securities market participants and the public about investing, financial matters, or the operation and regulation of securities markets. We supplement education disbursements by absorbing indirect education costs—for example, staff salaries on education projects—in our operating budget.

Education revenue

We order administrative penalties and disgorgements⁶ under the *Securities Act*. We also negotiate settlements, which sometimes include monetary sanctions. We appropriate these revenues to our education reserve. Enforcement sanctions, which depend on the timing and nature of enforcement actions, vary significantly between periods.

We only recognize in revenue sanctions we determine are collectible.

Collecting sanctions is difficult because respondents often have limited assets, have poor credit, or have left BC. Since our incorporation in April 1995, we have collected \$9.5 million (12%) of \$79.8 million sanctioned. We pursue outstanding amounts vigorously. However, of the \$70.3 million outstanding, only \$0.1 million is likely collectible and accrued in our financial statements. About 84% of the \$70.3 million outstanding relates to two cases.

We reviewed previous years' receipts to estimate fiscal 2011 revenue, and have forecast no growth over the remainder of the planning period.

Education expenses

We expect to disburse \$1.0 million on education projects in fiscal 2010. Most of what we spend relates to education campaigns (e.g. radio spots), distributing and maintaining our financial planning course module (Planning 10) for grade 10 students, maintaining InvestRight.org, our investor education website, and hosting an annual industry education conference (Capital Ideas).

We expect annual Education reserve disbursements of \$0.9 million over the planning period.

We project the Education reserve to decline to \$1.3 million over the planning period based on our revenue estimates and disbursement plans.

Risks and opportunities

Fee revenue

As previously mentioned, we fund operations primarily from filing fees paid by market participants. Fee revenue fluctuates with market activity, rising in strong market conditions and falling in weak market conditions. Market activity is complex and volatile, and so difficult to predict even over short periods. Based upon economic events, we expect revenues to decline 4% in fiscal 2010 and remain flat in fiscal 2011 before increasing 8% and 7% in fiscals 2012 and 2013 respectively. We continuously monitor our fee structure and may propose changes to government to ensure we break even over the business cycle.

⁶ Disgorgement attempts to return ill-gotten gains to victims. We allocate to the education reserve disgorgements collected and not claimed within three years of collection.

Securities regulatory reform

We have been supporting government's work to implement the regulatory reforms outlined in the September 2004 Provincial / Territorial Memorandum of Understanding Regarding Securities Regulation (Passport MOU) among all provinces and territories, except Ontario. The Passport MOU proposed a single window access to capital markets in participating provinces and territories, and a review of the regulatory fees charged in the context of the passport system. Supporting implementation of Registration Passport-related changes will require three additional staff, in our registration, compliance, and examination departments.

The federal government is proposing to create a national regulator. The BC government is evaluating whether to participate. Our planning assumptions include that the BCSC will remain a going concern during the planning period. We would incur significant restructuring costs if the BC government decided to transition to a national regulator during the planning period.

National electronic filing systems

Under various agreements with the CSA that end on October 31, 2011, CDS Inc. (CDS) operates three national electronic filing systems:

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

We collect about 90% of our fee revenue through SEDAR and NRD. CDS maintains a comprehensive business continuity plan for each system. However, should CDS become unable or unwilling to continue to operate them, the CSA would have to contract another party to host them.

National filing systems operating agreements

CDS operates the SEDAR and SEDI national filing systems on behalf of the CSA under agreements with the Alberta Securities Commission, British Columbia Securities Commission, Ontario Securities Commission, and l'Autorité des marchés financiers, together called the CSA Principal Administrators. CDS operates the NRD national filing system under agreements with the CSA Principal Administrators and the Investment Industry Regulatory Organization of Canada Inc. Under the agreements:

- The CSA Principal Administrators must pay CDS if the SEDAR system budgeted operating costs exceed revenues ("shortfall"). Our portion of any SEDAR shortfall is limited to 15.4%.
- CDS must pay SEDAR revenues in excess of system budgeted operating costs ("surplus") to the CSA Principal Administrators. Any surplus is not divisible; the CSA Principal Administrators own it as a group.
- CDS and the CSA Principal Administrators agree to share actual versus budgeted system operating cost ("expense") variances equally.

The OSC is holding \$48.8 million in trust, on behalf of the CSA Principal Administrators. The funds are the national filing systems' accumulated surpluses and expense variances and interest earned on those amounts to December 31, 2009. The CSA Principal Administrators have agreed that we will use these funds only for the benefit of national filing system users through system enhancements or usage fee adjustments.

