

Moving ahead

with regulatory reform in British Columbia

For the past several years, the BC Securities Commission has been developing an outcomes-based approach to regulation that provides better protection for investors and reduces costs and complexity for industry. The new *BC Securities Act*, passed last year but not yet in force, reflects this new approach, but the most important aspect of regulatory reform is a change in how we administer securities legislation. The new BC approach to regulating securities supports fair, efficient, and competitive capital markets more effectively by being focused, flexible, responsive to changing market conditions, and accountable for the costs that regulation imposes.

BC's approach to regulation

Meeting market needs

Under our new approach, we have established four goals for effective regulation: act decisively against misconduct, promote a culture of compliance, educate investors and industry, and make the rules clear and simple. BC's approach to meeting these goals is founded on the same principles that have governed securities regulation for decades, but it features important differences from the old style of regulation that will deliver key improvements for our markets.

Key improvements for the market

Standards, not detailed requirements

Regulatory intervention is not always the right answer to market problems. When regulators mandate excessively detailed and prescriptive requirements, market participants tend to follow the letter and not the spirit of the rules, and the costs imposed on the market often exceed any benefits. Excessive regulation can undermine the goals of investor protection and market integrity.

We think it is better to set clear and fundamental standards of conduct for market participants and apply them using a range of regulatory tools like guidance, education, compliance, and enforcement. This encourages market participants to exercise judgment about what is right and wrong, rather than what they can or cannot do under the rules.

Rules that fix problems, not symptoms

When a rule is clearly necessary, it should be tested for its effectiveness, neutrality, flexibility, scope, and clarity.

Effectiveness The outcome of a rule should be clear and likely. When the link between a rule and a desired outcome is weak, the risk is that the rule will impose a regulatory burden without yielding corresponding benefits to industry or investors. Badly designed rules can create more problems than they solve.

Neutrality A rule should not systematically favour one type or size of market participant over another unless that is essential to achieve the intended outcome.



Flexibility A rule should require market participants to exercise judgment in their business practices. It should place responsibility on directors and senior management to establish and apply adequate systems and controls to meet regulatory obligations.

Scope A rule should prescribe only what is necessary to achieve the intended outcome.

Clarity Everyone affected by a rule should be able to find it easily, understand it, and apply it practically.

Effective compliance systems recognized, poor ones penalized

Outcomes-based regulation focuses our compliance efforts on desired outcomes and behaviours rather than strict adherence to prescribed procedures or forms. Our compliance and enforcement programs should recognize market participants that have strong and effective regulatory compliance systems and controls, and penalize those with weak and ineffective ones, whether or not the participants follow all the detailed requirements.

Value for investors

The costs of securities regulation ultimately come out of the pockets of investors. Every requirement imposed by regulators triggers compliance costs for market participants. Higher costs for public companies mean lower returns for their shareholders. Higher costs for investment firms mean higher fees for their clients. BC's new approach

recognizes that we must assess both the costs and benefits of regulation to ensure we deliver value to investors for their money.

Securities regulation reform in Canada

Regulators have never had a better opportunity to improve the way we work so we can deliver greater value to the investors we serve. Governments, securities regulators, and participants in Canada's capital markets all agree that our system of securities regulation needs improvement. Yet most discussion focuses on the structure of our regulatory system.

Structural reform is only a partial solution and, if done the wrong way, it could become an obstacle to substantive reform. Whether Canada moves toward a more centralized structure or keeps a decentralized system, we need a market-oriented, problem-focused style of regulation. By adopting that approach, we can achieve the traditional goals of investor protection and market integrity in a way that suits today's markets.

*Find out more about
British Columbia's approach
to securities regulation*

You'll find a full record of BC's regulatory approach, from concept through to legislation, on the BCSC website. Select "Hot Topics" from the commission's homepage at www.bcsc.bc.ca.