

**BC Securities Commission**  
**Service Plan, 2008 – 2011**



## **BC Securities Commission Service Plan**

This Service Plan sets out our strategy for the next three years, beginning April 1, 2008. Copies are available on the BCSC website at [www.bsc.bc.ca](http://www.bsc.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:

Direct: 604 899-6854  
Toll-free: 1-800-373-6393 (BC, AB)  
Email: [inquiries@bcsc.bc.ca](mailto:inquiries@bcsc.bc.ca)

The BCSC's office location and mailing address are:

BC Securities Commission  
PO box 10142, Pacific Centre  
12<sup>th</sup> Floor, 701 W. Georgia Street  
Vancouver, BC V7Y 1L2

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## Accountability statement - BCSC Chair to Minister

Honourable Wally Oppal  
Attorney General and Minister Responsible for Multiculturalism  
Parliament Buildings  
Victoria, BC V8V 1X4

Dear Minister:

The British Columbia Securities Commission (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 capital markets are highly integrated with other markets in Canada. BC investors hold securities of issuers from other provinces. Most BC-based public companies have investors in other provinces and must comply with the rules and deal with the regulators in those provinces. BC-based securities dealers operate in other provinces or belong to national self-regulatory organizations. It is therefore in British Columbia's interest for Canada to have efficient and effective securities regulation.

We have been thinking hard for several years about how to design and administer a more efficient system of securities regulation that protects investors and the integrity of our markets, fosters innovation, and makes our markets more competitive. We believe that how we regulate is important to healthy, vibrant, and competitive markets. A good system of regulation imposes a minimum burden to get the job done. We are striving now to put these ideas into action as we work with other Canadian securities regulators through the Canadian Securities Administrators organization (CSA) to coordinate regulation and harmonize requirements.

We continue to lead CSA work on the inter-provincial Passport System, which will soon allow market participants to deal solely with their home regulators. All provinces except Ontario support the development of this system.

British Columbia's and Canada's markets are also increasingly integrated with foreign securities markets, bringing both benefits and risks to our province. We are working with our regulatory colleagues in Canada and abroad to facilitate international securities trading and to share information so that perpetrators of fraudulent and abusive activity cannot use national boundaries to escape detection and enforcement.

In October 2007, the Legislative Assembly approved key *Securities Act* amendments to improve investor protection and increase harmonization with other Canadian jurisdictions. These include:

- A secondary market liability regime consistent with that in Alberta, Manitoba, and Ontario. Ninety-five per cent of securities trading is between investors in the secondary market, who rely on disclosure by the issuers of the securities to assess their value. The new civil liability provisions will enable investors to sue issuers or related persons for public disclosure that is not timely or that contains misrepresentations.
- New enforcement powers that, among other things, will enable the BCSC to order those who breach securities laws to give up ill-gotten gains. This will enable the BCSC to obtain disgorgement through a regulatory enforcement proceeding. Previously, the Commission could obtain a disgorgement order only through a separate court proceeding.
- A revised provision for the basic registration requirement, which will bring all investment fund managers under regulatory oversight and provide a foundation for a harmonized national registration rule. This rule will consolidate and update most of the requirements that apply to registrants in Canada.

Our Service Plan for 2008 – 2011 identifies three key strategic risks that threaten investor protection or market integrity. These risks are:

- Abusive junior market practices
- Unsuitable investments
- Securities fraud

We have traditionally dealt with securities fraud through enforcement actions, which are essentially reactive. Although enforcement can limit the ability of violators to engage in further fraud and serve as a deterrent to others, securities fraud is a persistent and corrosive problem in our markets and a threat to the well-being of British Columbia investors. Last year, we achieved some success in approaching fraud more proactively by complementing our enforcement efforts with targeted public information and investor education. We have also conducted new research into the extent and social impact of securities fraud and what makes investors vulnerable to fraud. In this year's plan, we highlight securities fraud as a distinct risk for the first time and introduce strategies to use our communication/education and enforcement capabilities in innovative ways to disrupt, stop, and prevent fraud.

The plan is a three-year plan, beginning April 1, 2008. We will focus on 12 strategies this year. Six respond directly to the three risks; six others aim to strengthen our ability to achieve our mission and strategic goals. We will measure progress in achieving our goals using the same measures as the previous year's plan.

The plan was prepared under my direction and in accordance with the *Budget Transparency and Accountability Act* and BC Reporting Principles. I am accountable for its contents, including the selection of performance measures and targets. The performance measures are consistent with the BCSC's mandate and goals, and focus on aspects critical to the BCSC's performance. 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 overall Strategic Plan. We have considered all significant assumptions, policy decisions, and identified risks as of December 6, 2007 in our planning activity.

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

Yours truly,

A handwritten signature in black ink, appearing to read "D. M. Hyndman". The signature is fluid and cursive, with a long horizontal stroke at the end.

Douglas M. Hyndman  
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

A description of the Commission's values is available on the BCSC website at [www.bpsc.bc.ca](http://www.bpsc.bc.ca) (*About the Commission*).

### ***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 Attorney General, 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 its expectations of the BCSC in the Shareholder's Letter of Expectations. The letter is available on the BCSC website at [www.bpsc.bc.ca](http://www.bpsc.bc.ca) (*About the Commission*). The two specific directives in the letter, which we address in this Service Plan, are to:

- Propose legislation that streamlines, simplifies, and harmonizes current legislation with other jurisdictions, while strengthening investor protection and reducing regulatory burden on business; and
- Continue to work with other provinces, the federal government, and committees tasked with developing new securities legislation and regulatory models.

### ***Governance***

The BCSC is governed by a board of up to 11 commissioners appointed under the *Securities Act*. The commissioners have three categories of responsibilities. They:

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

We updated our governance policy on March 2, 2007. 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, plus biographies of each commissioner and member of the executive team, are on our public website at [www.bsc.bc.ca](http://www.bsc.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 economic well being of British Columbia
- *Investors*—both retail and institutional, who seek to invest their savings in fair and efficient securities markets
- *Issuers*—public and private companies that rely on the capital markets to fund growth and diversification
- *Securities firms*—registered to provide investment services to both users and suppliers of capital
- *Other Canadian regulators*—with which we develop and implement initiatives through the Canadian Securities Administrators (CSA)
- *The provincial government*—to which we are accountable

### ***BCSC core business areas***

We organize our work into four core business areas—compliance, enforcement, investor education, and policy-making.

#### **Compliance**

Our goal is to foster a culture of compliance. Investors are better protected if securities firms and securities issuers understand and comply with their regulatory obligations. This can be achieved in part when these organizations have effective systems and controls in place to ensure compliance, so that regulatory intervention is only occasionally needed to correct non-compliance.

We rely on the Investment Dealers Association of Canada (IDA) and the Mutual Fund Dealers Association of Canada (MFDA) for regulatory oversight. We then directly regulate BC-based issuers, BC-based or BC branch offices of registered firms not under IDA or MFDA supervision, and other market participants doing business in BC. The

corporate finance division oversees companies that raise capital in the public or private securities markets, as well as company “insiders”. The capital markets regulation division oversees non-SRO firms and their employees, the SROs themselves, and marketplaces operating in BC.

CSA shares responsibility for overseeing three SROs and several marketplaces. Each SRO has a CSA regulator leading the oversight work, subject to monitoring by the other CSA jurisdictions. The BCSC is the lead regulator for the MFDA. The BCSC and the Alberta Securities Commission share lead regulatory responsibilities for oversight of the TSX Venture Exchange.

### **Enforcement**

Our goal is to act decisively against misconduct. Decisive action depends on open channels for receiving tips, timely processing of complaints, targeted surveillance to detect misconduct, thoroughly investigating suspected securities laws breaches, and resolving cases through timely settlements and administrative hearings.

In our enforcement division, we focus on cases with a strong BC connection, whether local or national. For example, if cases with national implications emerge involving a BC-based market participant, we will usually take the enforcement lead. We also work with others, including other regulators, SROs, and policing agencies to enforce our rules. Cases involving SRO member misconduct will, in most cases, be dealt with by the respective SRO.

### **Investor education**

Our goal is to help investors protect their financial interests. We want investors to have the confidence to research and assess potential investments, legitimate or not, before they part with their money. Research tells us that many adults today lack the skills they need to make sound investment decisions. For this reason, our communications and education division develops programs that focus on financial life skills using a life-cycle approach that recognizes that young people with a proper financial education become more confident adult investors.

BC is one of only two Canadian provinces providing mandatory financial learning programs for youth. The BCSC supports the finance curriculum for BC high school students with a comprehensive financial life skills teaching resource that covers essential topics including budgeting, saving, investing, and investment fraud.

Investors need to develop critical thinking skills so they can look at investment opportunities with a healthy skepticism and assume more responsibility for their investment decisions. Our adult education targets 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 than younger adults to recover their losses. Through our one-stop website resource, [InvestRight.org](http://InvestRight.org), we offer tools and information to help investors avoid and report investment fraud.

## **Policy-making**

Policy-making is a key regulatory tool we use to protect investors and foster fair and competitive markets. We have the power under the *Securities Act* to make rules. We also issue guidance in the form of policy statements and notices 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 to minimize compliance costs for all market participants.

Market participants can apply for exemptions from our rules. The Passport System will give market participants the benefit of reduced costs by having to apply only to their home regulator for exemptions. As a result, they will receive one decision from that regulator and an automatic exemption from other passport jurisdictions.

## ***BCSC operating capacity and capacity changes for 2008/09***

We plan no operating capacity changes in the coming year. We have the capacity to manage the risks identified in this plan and sufficient capacity flexibility to address new market issues as they emerge. We use the following methods to allocate resources and manage capacity:

- Strategic planning and enterprise-wide risk management to prioritize risks and opportunities
- Rigorous project approval standards for significant projects
- Personal development plans for all employees and competitive salaries to retain staff
- Succession planning, and recruiting for specific expertise, to safeguard key competencies

## **Strategic context**

### ***The securities regulation landscape***

Although our statutory mandate is to regulate BC capital markets, in reality we are part of a system of securities regulation that is national in scope. This significantly affects how we do our work and influences how we think about, and implement, securities policy and practice in BC.

For example, there is a broad consensus among all stakeholders that a system of regulation that is largely, if not completely, harmonized among all jurisdictions in Canada will best serve the interests of both industry and investors. We therefore coordinate our work as much as possible with the other members of CSA. To achieve the appropriate level of harmonization throughout the country, all CSA jurisdictions strive to minimize policy and procedural differences.

We also devote significant resources to supporting the provincially-led Passport System project. All provinces except Ontario support this system. The goal of Passport is to provide efficient, streamlined, and cost-effective securities regulation that is simpler,

faster and cheaper for market participants. The participating provinces will achieve this by establishing a system that will allow market participants to deal solely with their home regulator, eliminating the need for separate approvals from each jurisdiction.

Under the CSA umbrella and powers provided in the *Securities Act*, we rely on three SROs to perform key regulatory functions related to investment dealer and mutual fund dealer firms, and trading activity on the Canadian equity markets:

- *Investment Dealers Association of Canada (IDA)*, which regulates investment dealers.
- *Mutual Fund Dealers Association of Canada (MFDA)*, which regulates mutual fund dealers.
- *Market Regulation Services Inc. (RS)*, which regulates equities trading on Canadian markets, including the Toronto Stock Exchange, the TSX Venture Exchange, the Canadian Trading and Quotation System, and other markets.<sup>1</sup>

We have the statutory power to recognize stock exchanges. This recognition allows the exchanges to operate and sets out the terms and conditions under which the exchanges are regulated. We currently recognize TSX Venture Exchange Inc. and egX Canada Inc. We have given exemptions from recognition as exchanges to TSX Inc., the Canadian Trading and Quotation System Inc. (CNQ) and the NASDAQ Stock Market, Inc., based on our assessment of the rigor of oversight by the principal regulators.

Securities markets are global. We cooperate extensively with regulators in the United States, the UK, Hong Kong, Australia, and other countries where Canadians do business, to regulate cross-border market activity.

### ***Significant risks that could impact our performance***

We apply a disciplined risk management framework to help identify the most serious threats, or risks, to our mission. Identifying key strategic risks brings focus to our operating priorities. In the next chapter, we describe management and mitigation strategies for each risk under the goal to which it is most directly related.

This year we will focus on three risks. The first two risks carry over from last year and the third risk is new this year. These risks relate to:

1. Abusive junior market practices
2. Unsuitable investments
3. Securities fraud

#### **Risk 1: Abusive junior market practices**

Some market participants with connections to the province engage in abusive market activities through the over-the-counter markets in the United States. These US OTC markets are the OTC Bulletin Board (OTCBB) and Pink Sheet quotation system. A

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<sup>1</sup> The IDA and RS have proposed to merge and anticipate completing the merger during the 2008-2009 planning period.

disproportionate number of players in the US OTC markets who engage in abusive activities have visible connections to BC.<sup>2</sup> Their activities damage the reputation of the province's capital markets, harming the interests of legitimate issuers, investment dealers, and other market participants.

We have designed a set of initiatives to remove the conditions that these unscrupulous promoters need to succeed. Our initiatives have these objectives:

- Improve disclosure and compliance by US OTC issuers with significant connections to British Columbia
- Discourage the manufacture and sale of US OTC shell companies for abusive purposes
- Disrupt abusive promotions
- Hold dealers responsible for their trading activities in the US OTC market
- Discourage participation by lawyers, accountants, geologists and other professionals who facilitate abusive market activities

On October 29, 2007, the BCSC published for comment a proposed rule and proposed conditions of dealer registration that would give the BCSC better tools to accomplish these objectives.

Our goal is to reduce British Columbia's attractiveness as a place to engage in abusive market activity. We will continue to pursue this risk under Goal 2: *Act decisively against misconduct* in Strategy 2.1: *Disrupt abusive junior market practices in British Columbia*.

## **Risk 2: Unsuitable investments**

Registered securities firms and their salespersons play a key role in the market as intermediaries and providers of expert advice to investors. We describe our regulatory oversight of firms in Goal 1: *Promote a culture of compliance*.

Firms must develop and maintain effective systems and controls to ensure that they comply with regulatory requirements. One of the key registrant obligations is to recommend only investments suitable for the client, given the client's investment needs and objectives. When a client wants to make an investment that does not appear to be suitable, the registrant must make reasonable efforts to advise the client of this before executing the trade.

We are focusing on this risk because suitability complaints are, year after year, a significant source of investor complaints received by the IDA and the MFDA. With 51% of BC adults holding stocks or mutual funds outside of pension funds, and 63% of

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<sup>2</sup> BC-based issuers represent about 45% of all TSX-Venture exchange issuers, yet they represent 70% of all Canadian-based OTCBB issuers and 15% of OTCBB issuers overall. These statistics are one measure of the BC connection in the US OTCBB market generally, and reflect both legitimate and abusive activity.

financial wealth in BC held in market-sensitive assets<sup>3</sup>, investors are increasingly relying on the expert advice of registrants to make suitable investment choices.

We have gained a better understanding of the nature of suitability risks this past year. We will work with the IDA and MFDA to strengthen suitability-related compliance for retail clients. We will also continue our investor education efforts, focusing on financial life skills and increasing investors' understanding of their role and responsibilities in the suitability process.

We describe our plans for the third year of work in this area under Goal 1: *Promote a culture of compliance* in Strategy 1.1: *Review suitability risks and registrant performance*, and under Goal 3: *Educate Investors* in Strategy 3.2: *Build public awareness of our investor education programs*.

### **Risk 3: Securities fraud**

Roughly one-in-twenty Canadians have been victimized by investment fraud. Almost one-in-five know a friend or a family member who has been victimized. Four-in-ten have been approached with an investment fraud. We know from the recent CSA Investor Study<sup>4</sup> that British Columbians fall victim to fraud slightly more often than Canadians in other provinces, but that the incidence of fraud in BC has been falling for the last three years. BC residents are also much more likely to be repeat fraud victims than other Canadians. Given the extent and impact of fraud, it is not surprising that Canadians take fraud seriously, with nine-in-ten agreeing, "The impact of investment fraud can be just as serious as the impact of crimes like robbery and assault."

We will aggressively pursue securities fraud cases through administrative and criminal enforcement proceedings. Through our administrative processes we can impose monetary sanctions and order people out of the market. Timely criminal enforcement, and meaningful prison sentences will complement our regulatory efforts to effectively deter securities fraud.

We can detect and stop these frauds more quickly by sharing information with other enforcement agencies and financial institutions. Our objective in doing this is to detect suspicious activity and take action to minimize investor losses earlier.

Through the CSA Investor Study, we learned that half of fraud victims were introduced to the fraud through a person they trusted. This reinforces the importance of continuing work on our current initiatives to disrupt and stop affinity fraud, which relies on relationships of trust to be successful.

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<sup>3</sup> Investor Economics, Household Balance Sheet Report, 2007 edition. Market-sensitive assets are defined as equities, investment funds, and fixed income securities.

<sup>4</sup> 2007 Investor Study: Understanding the Social Impact of Investment Fraud, Canadian Securities Administrators, October 2007.

We describe our disruption and enforcement work under Goal 2: *Act decisively against misconduct* in Strategy 2.2: *Disrupt and stop fraud* and Strategy 2.3: *Build stronger criminal investigation capability in BC for financial crime*. We describe our investor education work in this area under Goal 3: *Educate investors* in Strategy 3.1: *Expand financial life skills education programs*.

## Strategies by goal

This section describes the BCSC’s strategic priorities for each of our four goals. These goals are:

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

The graphic below shows how strategies described under each goal tie to risks discussed in the Strategic Context chapter.

### Summary of risks and related strategies

	Risk 1: Abusive market practices	Risk 2: Unsuitable Investments	Risk 3: Securities Fraud	Other goal-related strategies
Goal 1 Promote a culture of compliance		Strategy 1.1		Strategy 1.2 Strategy 1.3
Goal 2 Act decisively against misconduct	Strategy 2.1		Strategy 2.2 Strategy 2.3	
Goal 3 Educate investors		Strategy 3.2	Strategy 3.1	Strategy 3.3
Goal 4 Cost-effective regulation				Strategies 4.1, 4.2, 4.3

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

Investors are better protected if securities firms and securities issuers understand and comply with their regulatory obligations. Our regulations impose duties for these organizations to have effective systems and controls in place to ensure compliance. Regulatory intervention should only be occasionally needed to correct non-compliance. We promote compliance by setting clear expectations for market participants and through performing compliance and examination activities to oversee conduct.

### **Strategies supporting Goal 1**

Three strategies support this goal:

- Strategy 1.1: Review suitability risks and registrant performance
- Strategy 1.2: Insider reporting compliance
- Strategy 1.3: Launch an improved defaulting issuers list

#### **Strategy 1.1: Review suitability risks and registrant performance**

*Lead: Capital Markets Regulation*

Our objective in Strategy 1.1 is to reduce the risk to retail clients of investing based on unsuitable recommendations from registrants. To provide a suitable recommendation, a registrant must know the client, know the product, and match the client to the product.

We adopted this strategy because the number of complaints SROs receive about unsuitable recommendations is consistently high relative to other types of complaints about registrants. After a detailed review of complaints for 2005, we concluded that:

- Many complaints about unsuitable recommendations are unfounded
- The SROs' processes for dealing with suitability complaints are reasonable
- Many unsuitable recommendations are never reported to the SROs

Complaints statistics are one source of quantitative information to help regulators define the nature and scope of this risk. Last year, we worked with the IDA and the MFDA to identify the points in the investment process that are important to forming a suitable recommendation: poor execution at one of these points could put the client at increased risk of receiving an unsuitable recommendation. We also looked at the regulatory tools the SROs apply to manage the risks.<sup>5</sup> We learned that much regulatory attention at the SROs goes to the know-your-client obligation, but less to know-your-product.

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<sup>5</sup> The MFDA is working on its compliance examination programs and on guidance for its members about the suitability obligation. The IDA is starting work on the suitability obligation, too.

We will explore options to gather additional qualitative and quantitative information to achieve our objective such as:

- Mystery shopping to directly and randomly test the quality of suitability recommendations
- A compliance sweep or a survey to directly test firms' product due diligence
- Learning what percentage of the amount dealer firms pay out on all retail client complaints is related to suitability complaints

We will work with the IDA and MFDA to gather the information, decide how to measure success in mitigating this risk, and select the regulatory tools to help achieve our objective. Some regulatory tools we will consider include:

- Registrant education, including guidance
- Revised compliance examination programs to better test identified risk areas
- Targeted compliance examinations with compliance action to encourage a culture of compliance with this obligation
- Targeted enforcement action to act against serious misconduct
- Investor education materials about suitable investing

### **Strategy 1.2: Insider reporting compliance**

*Lead: Corporate Finance*

Market participants who are insiders of reporting issuers self-report their trading through the national SEDI system. SEDI was recently improved to make it easier for insiders to accurately report transactions on a timely basis.

We will launch an initiative to test the extent of compliance by insiders with their reporting obligations. This targeted review will include:

- Comparing insider filings with other public sources of information, such as proxy circulars
- Asking insiders, selected using risk-based criteria, to support their filings by providing supporting documentation
- Contacting investment dealers for information about accounts on which insiders have trading authority and reviewing independent records of trading activity, such as trading blotters

If we detect instances of non-compliance by an insider, we will take appropriate action that may include cease trade orders against the insiders and referrals to enforcement.

### **Strategy 1.3: Launch an improved defaulting issuers list**

*Lead: Corporate Finance*

An issuer in default of its continuous disclosure obligations is an important warning signal for investors that there may be problems with that issuer.

We currently generate and publish a weekly list of defaulting issuers. We will streamline our processes for identifying, communicating, and tracking disclosure defaults by reporting issuers. This will result in the publication of a daily defaulting issuers list. The new defaulting issuers list will also include current and historical information on cease trade orders issued due to failure to meet disclosure obligations.

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

Decisive action depends on open channels for receiving tips, timely processing of complaints, targeted surveillance to detect misconduct, thoroughly investigating suspected securities laws breaches, and resolving cases through timely settlements and administrative hearings.

Four core areas are critical to strong and effective enforcement:

- *Generate leads.* We will raise public awareness about fraudulent investments, encourage investors to report suspicious activity, and share intelligence with other regulatory and enforcement agencies.
- *Select cases.* We will use risk-based criteria to select and prioritize cases, and continuously evaluate the viability of active cases.
- *Complete cases.* We will complete investigations, settlements, and hearings in a timely manner without compromising procedural fairness.
- *Maintain strong ties to Crown.* We will continue our efforts to strengthen relationships with Crown prosecutors, and federal and provincial law policing agencies, and investigate and refer appropriate cases for prosecution.

### **Strategies supporting Goal 2**

Three strategies support this goal:

- Strategy 2.1: Disrupt abusive junior market practices in British Columbia
- Strategy 2.2: Disrupt and stop securities fraud
- Strategy 2.3: Build stronger criminal investigation capability in BC for financial crime

#### **Strategy 2.1: Disrupt abusive junior market practices in British Columbia**

*Lead: Corporate Finance*

Our objective in this strategy is to make British Columbia unattractive as a place to engage in abusive market activity, such as illegal stock promotions, spam, and the creation of shell companies as vehicles for market manipulation. We intend to introduce new disclosure rules for US OTC issuers with significant connections to BC. In addition, we will monitor compliance with these new rules and take action against issuers who breach them.

We will also be holding dealers accountable for their trading of OTC stocks. We plan to continue to build awareness about the problems of the US OTC markets with local accountants, lawyers, and geologists through their professional associations.

### **Strategy 2.2: Disrupt and stop securities fraud**

*Lead: Communication & Education*

Our Communications & Education and Enforcement divisions are working together on strategies to disrupt and stop securities fraud.

- When investors report fraud, they usually go to the RCMP or local police. We will continue to expand our outreach programs to the RCMP and other policing agencies to train them to recognize investment fraud and to know when the BCSC can be an effective partner in disrupting and stopping this illegal activity.
- We will build stronger partnerships with banks and credit unions to detect suspicious activity earlier.
- We will focus on increasing public reporting of securities fraud in our investor education awareness campaigns throughout the year.
- We will step up our enforcement case review to look for opportunities to disrupt suspected illegal activity by issuing red alerts and issuing temporary orders and freezing assets to limit investor losses.

### **Strategy 2.3: Build stronger criminal investigation capability in BC for financial crime**

*Lead: Enforcement*

Criminal convictions enable penalties that can strengthen deterrence of serious misconduct. Last year we focused on referring cases to the Crown that involved a breach of Commission orders. To date, the Crown has approved two of these cases for prosecution. Successful prosecution will strengthen compliance with BCSC orders. In the coming year we will focus on referring cases involving illegal distributions and fraud to the Crown.

### **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, legitimate or not, before they part with their money.

We focus on three core areas to create a successful investor education program.

- *Create greater public awareness.* We will create greater public awareness of our education programs so that investors learn the appropriate skills to help them protect their finances.

- *Reach investors early.* We will expand financial life skills programs to help investors spot fraudulent investments before they suffer investment losses.
- *Expand our partner relationships.* We will build partnerships to reach more ethnic and religious communities throughout the province.

### **Strategies supporting Goal 3**

Three strategies support this goal:

- Strategy 3.1: Expand financial life skills education programs
- Strategy 3.2: Build public awareness of our investor education programs
- Strategy 3.3: Develop media partnerships in ethnic communities

#### **Strategy 3.1: Expand financial life skills education programs**

*Lead: Communications & Education*

We prioritized financial life skills education four years ago, and developed a resource for teachers in British Columbia to teach financial life skills. Over time, we want this resource to be recognized and used throughout the province. We define financial life skills as:

- Knowing where to get information
- Knowing how to analyze that information
- Understanding concepts—savings, investing, budgeting, financial planning
- Being able to make sound consumer and investment decisions

Financial life skills enable individuals to be capable stewards of their financial assets. For example, if retail investors do not recognize signs of fraud, they are vulnerable to fraudulent investment schemes. If they do not understand the role of investment advisers, they risk investing their money in unsuitable products that may compromise their financial assets.

In late 2007, we signed a partnership and licensing agreement with the Financial Consumer Agency of Canada (FCAC) to design a web-based financial life skills education program based on the BCSC's Planning 10 resource. The new program will target high school students across Canada in both official languages. It will also be usable on a stand-alone basis for basic adult financial literacy education. We will work with FCAC in the next year to develop the program and launch it by fall 2008.

#### **Strategy 3.2: Build public awareness of our investor education programs**

*Lead: Communications & Education*

We will continue to build on the BCSC InvestRight program. The objective of InvestRight is to provide a consumer-friendly, accessible, one-stop resource for BC

investors. We want it to be recognized and used as a credible source of investor education information. The program includes a website, public awareness advertising, and partnerships with the BC Crime Prevention Association, the Better Business Bureau, and others.

This program targets seniors and pre-retirement baby boomers. We plan improvements for the coming year including:

- Finding ways to increase media and police attention to prevent, stop, and disrupt investment scams
- Designing messages to warn investors they must do their own due diligence even if they rely on a registered investment representative for investment advice

### **Strategy 3.3: Develop media partnerships in ethnic communities**

*Lead: Communications & Education*

The BCSC's affinity fraud program is well established in religious communities in the lower mainland. The program is tied to the interest and willingness of the leaders of various communities to publicize the threat of affinity fraud to their congregations. We will continue expanding our partnerships with religious associations.

Another type of affinity fraud common in BC is affinity through ethnicity. Last year we expanded our reach across the province through ethnic media, primarily in the Chinese-Canadian community. We will continue to use the InvestRight program to develop media partnerships in ethnic communities throughout the province, focusing on the Indo-Canadian community. We expect these partnerships to help us reach leaders in ethnic communities and to provide new vehicles and opportunities for sparking awareness about investment fraud in those communities.

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

Our goal is to advance cost-effective regulation through our CSA work. 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 will 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 will deploy our resources efficiently through risk management, teamwork, relevant performance measures, and benchmarking.
- *Deliver services reliably.* We will continue our commitment to delivering key regulatory services, on a timely basis, recognizing that delay adds to costs for market participants.

## **Strategies supporting Goal 4**

Three strategies support this goal:

- Strategy 4.1: Work with government and other regulators to implement harmonized legislation and the Passport System
- Strategy 4.2: Review fee models across CSA jurisdictions
- Strategy 4.3: Implement new CSA IT governance model

### **Strategy 4.1: Work with government and other regulators to implement harmonized legislation and the Passport System**

*Lead: Office of the Chair*

We continue to lead work with government and other Canadian securities regulators to make the Canadian securities regulatory system more efficient and effective through the Passport System for securities regulation. Passport will permit a market participant to have access to capital markets in multiple jurisdictions by dealing only with its principal regulator and complying with the harmonized securities laws in that jurisdiction. The Passport System presumes highly harmonized and streamlined securities regulation across Canada.

In 2005, the members of CSA, except Ontario, adopted Multilateral Instrument 11-101 *Principal Regulator System*, which implemented the first phase of Passport. In 2006, the regulators sought amendments to their legislation to obtain additional tools to implement more Passport measures. British Columbia and most other jurisdictions have already adopted the passport tool amendments and the changes are under way in the remaining passport jurisdictions.

This year, we will continue working with CSA to implement the second phase of the Passport System and interfaces with Ontario. We will also continue to participate in the CSA work to harmonize the registration requirements and other areas of securities regulation.

### **Strategy 4.2: Review fee models across CSA jurisdictions**

*Lead: Human Resources and Administration*

CSA is working to improve the securities regulatory framework through the Passport System. To support Passport and to reduce the costs of market participants who pay fees in multiple jurisdictions, we have undertaken to lead a review of the fees and fee structures across CSA jurisdictions. The objective is for jurisdictions to retain authority to set and collect fees, while harmonizing and streamlining the various fee structures.

### **Strategy 4.3: Implement new CSA IT governance model**

*Lead: Information Management*

In 2007, we led a CSA project that developed a strategic plan for future CSA information technology investments and produced a set of recommendations to improve its IT governance. Over the next three to five years, the CSA intend to remodel the national systems to better support securities regulation in all jurisdictions. The CSA also intend to adopt a number of IT governance changes to manage IT-enabled projects and IT operations more cost-effectively.

The BCSC will support this significant initiative by:

- Dedicating resources to help develop an enterprise architecture for the CSA's core business functions
- Providing technical and executive management support to implement the proposed governance recommendations and to execute the strategic plan
- Working with CSA to define a new infrastructure for the CSA's new systems
- Participating in IT governance oversight

## Performance measurements and targets by goal

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

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

PERFORMANCE MEASUREMENTS	TARGETS				
	06/07 Actuals /Baseline	07/08 Estimate	08/09 Target	09/10 Target	10/11 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% b) 81%	Data will be available in 07/08 Annual Report	a) $\geq 94\%$ <sup>(1)</sup> b) $\geq 85\%$	a) $\geq 94\%$ b) $\geq 90\%$	New measure planned for new reporting standard <sup>(2)</sup>
	Our corporate finance division reviews issuer disclosure for non-compliance. At the end of each fiscal year, we retain an outside auditor 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 will show the extent to which our detailed CD review work motivated non-compliant issuers to improve their disclosure voluntarily.				
1.2 Percentage of randomly sampled mining issuers that meet the minimum standards for technical disclosure in: a) News releases b) Annual information forms c) Issuer websites d) Management discussion and analysis	a) 71% b) 70% c) 47% d) 42%	Data will be available in 07/08 Annual Report	a) 70% b) 70% c) 55% d) 50%	a) 70% b) 70% c) 70% d) 70%	a) 75% b) 75% c) 75% d) 75%
	BC is home to many mining issuers. We will give a list of BC-based mining issuers to an external mining specialist, who will select randomly from that list and analyze whether those issuers' most recent technical filings were compliant with NI 43-101 <i>Standards of Disclosure for Mineral Projects</i> . This review will show the extent to which a sample of BC-based mining issuers is compliant in specific areas of their technical disclosure.				

Notes: (1) This target is lower than the 2006/07 actual to allow for our small sample size (around 30 reviews). (2) We expect that Canada will adopt international financial reporting standards (IFRS) by January 1, 2011.

PERFORMANCE MEASUREMENTS	TARGETS				
	06/07 Actuals /Baseline	07/08 Estimate	08/09 Target	09/10 Target	10/11 Target
1.3 Percentage of BC-prime reporting issuers on defaulting issuer list for: a) Late filing b) Unpaid fees c) Inadequate disclosure d) In total	a) 18% b) 14% c) 20% d) 22%	Data will be available in 07/08 Annual Report	Set new baseline <sup>(1)</sup>	10% improvement over 08/09	No measure projected <sup>(2)</sup>
	The <i>Securities Act</i> requires reporting issuers to file certain information on time, in the required form, and with the appropriate fee. We put issuers on a list of defaulting issuers if they do not file, fail to pay fees, or file materials clearly not in the required form. We will track the total percentage of BC-prime reporting issuers on this list during each year.				
1.4 Average number of deficiencies per examination in Capital Markets Regulation	7.3 /57 categories	Data will be available in 07/08 Annual Report	Decrease deficiency average by 5% over 07/08	Decrease deficiency average by 5% over 08/09	Decrease deficiency average by 5% over 09/10
	Our Capital Markets Regulation division reviews securities firms that are not SRO members for compliance with their regulatory obligations. Using risk-based assessment criteria, we set our examination schedule of registered firms and report results using 57 categories of deficiencies. In fiscal 2008/09, we will report the deficiencies per examination based on the 57 categories we use today.				

Notes: (1) Today firms have a few days to resolve issues before they are placed on the DIL. The new system will result in a higher baseline. (2) We expect that Canada will adopt international financial reporting standards (IFRS) by January 1, 2011. Transitional non-compliance may lead to more issuers going on the defaulting issuers list. For this reason, we are unable to set a reasonable level of issuer compliance in this year.

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

PERFORMANCE MEASUREMENTS	TARGETS				
	06/07 Actuals /Baseline	07/08 Estimate	08/09 Target	09/10 Target	10/11 Target
2.1 Percentage of new cases with active misconduct where we intervened	20%	55%	55%	60%	65%
	Detecting active misconduct and then preventing, stopping, or disrupting it early benefits investors, especially since the amount of money investors lose in illegal distributions tends to increase exponentially over the life of the distribution. We will track the cases accepted each year for enforcement action where the misconduct was ongoing when the BCSC learned of it. We will calculate the percentage of those cases in which we issued a freeze order, a temporary order, or took some other step to formally or informally disrupt the distribution. This will show how often we take early action to stop misconduct.				

PERFORMANCE MEASUREMENTS			TARGETS		
	06/07 Actuals /Baseline	07/08 Estimate	08/09 Target	09/10 Target	10/11 Target
2.2 Average life, in months, of cases resolved via settlement or enforcement decision	22.8 months	40.8 months	34 months	28 months	5% improvement over 09/10
	<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 will 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 will not be included.</p> <p>The 22.8 month actual from 2006/07 was unusual because 1/3 of our cases concluded in under a year. Our 40.8-month estimate for this year is down from the 2005/06 average of 49 months.</p>				

**Goal 3: Educate investors**

PERFORMANCE MEASUREMENTS			TARGETS		
	06/07 Actuals /Baseline	07/08 Estimate	08/09 Target	09/10 Target	10/11 Target
3.1 Number of complaints and tips received as a result of InvestRight investor education and outreach programs	50	Data will be available in 07/08 Annual Report	Increase 4% over 07/08	Increase 5% over 08/09	Increase 5% over 09/10
	<p>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 will help us prevent, stop, or disrupt these activities. We will 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.</p>				
3.2 Percentage of workshop participants who applied investor education messages	New measure	Data will be available in 07/08 Annual Report	Increase 2% over 07/08	Increase 3% over 08/09	Increase 3% over 09/10
	<p>We deliver investor education workshops to BC residents, primarily seniors, through our new partnership with the BC Crime Prevention Association and the BC Power Pioneers. We will survey seminar participants before and after each presentation, and a third time after they have made an investment, to measure the percentage of workshop participants who applied our investor education messages.</p>				

PERFORMANCE MEASUREMENTS			TARGETS		
	06/07 Actuals /Baseline	07/08 Estimate	08/09 Target	09/10 Target	10/11 Target
3.3 Percentage of BC public aware of BCSC	42%	30% <sup>(1)</sup>	47%	50%	52%
	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 will collect data by asking both unaided and aided awareness questions in next year's investor survey.				

Note (1): This is an actual number from our October 2007 investor survey.

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

PERFORMANCE MEASUREMENTS			TARGETS		
	06/07 Actuals /Baseline	07/08 Estimate	08/09 Target	09/10 Target	09/11 Target
4.1 Average score on cost-effective regulation scorecard	New measure	Data will be available in 07/08 Annual Report	Improve on 07/08	Improve on 08/09	Improve on 09/10
	To measure cost-effective regulation, we will create a scorecard that tracks the important steps and outcomes in responding to market problems. We will apply the scorecard to all CSA and local projects. For CSA projects, the scorecard will report on the extent to which we took steps to advocate our cost-effective regulation principles. For all projects, the scorecard will give credit for outcomes-focused results. We will report the average score of all the projects completed each year.				
4.2 Average approved project post-implementation score	New measure	Data will be available in 07/08 Annual Report	Improve on 07/08	Improve on 08/09	Improve on 09/10
	We will assess each local IT 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

### *Financial structure and history*

We try to operate at a break-even level over the business cycle. This is challenging because most of our costs are fixed, but our revenues fluctuate in proportion to market activity.

Securities market participants fund our operations through fees they pay under the *Securities Act*. Our revenues increase during periods of strong market activity and decline during periods of weak market activity.

Salaries, benefits, and occupancy costs make up about 80% of our operating expenses. As a BC government agency, we are exempt from income taxes and the GST.

We maintain a Fee Stabilization Reserve (FSR) to ensure that temporary reductions in revenue do not immediately impair our ability to operate, or force reactive fee changes. We had an FSR balance of \$13.0 million as of March 31, 2007. If sufficient assets become available, we will increase the FSR to \$16.0 million over the planning period. We will also draw on the FSR, if needed, over the planning period.

We expect a surplus in 2007-2008. Lower financial filings revenue caused by filing cycle changes will only partly offset significantly higher distribution and registration revenue from strong market activity.

We expect to generate small surpluses over the remainder of the planning period.

The following table summarizes our actual and expected results of operations and financial position, by year:

**Summarized Statements of Operations**

(000,000's)	<b>06/07</b>	<b>07/08</b>	<b>08/09</b>	<b>09/10</b>	<b>10/11</b>
	Actual	Forecast	Budget	Projection	Projection
<b>OPERATIONS</b>					
<b>Revenue</b>					
<i>Filing fees</i>					
Prospectus and other distributions	16.3	17.6	16.5	16.8	17.0
Registration	8.7	9.2	9.1	9.4	9.6
Financial Filings	5.0	4.6	4.6	4.7	4.8
Other fees	0.5	0.6	0.1	0.1	0.1
	<u>30.5</u>	<u>32.0</u>	<u>30.3</u>	<u>31.0</u>	<u>31.5</u>
<i>Other revenue</i>					
Enforcement cost recoveries	0.3	-	-	-	-
Investment income	0.9	1.1	1.1	1.4	1.6
<b>Total revenue</b>	<u>31.7</u>	<u>33.1</u>	<u>31.4</u>	<u>32.4</u>	<u>33.1</u>
<b>Expenses</b>					
Salaries and benefits	21.3	21.8	23.0	23.9	24.9
Other operating expenses	7.3	7.1	7.6	7.8	8.2
<b>Total expenses</b>	<u>28.6</u>	<u>28.9</u>	<u>30.6</u>	<u>31.7</u>	<u>33.1</u>
<b>Operating surplus for the year</b>	<u>3.1</u>	<u>4.2</u>	<u>0.8</u>	<u>0.7</u>	<u>-</u>
<b>EDUCATION RESERVE</b>					
<b>Education revenues</b>					
Investment income	0.1	0.1	0.2	0.2	0.2
Penalties and designated settlement revenue	1.4	0.6	0.6	0.6	0.6
	<u>1.5</u>	<u>0.7</u>	<u>0.8</u>	<u>0.8</u>	<u>0.8</u>
<b>Education reserve disbursements</b>	<u>0.6</u>	<u>0.4</u>	<u>0.8</u>	<u>0.8</u>	<u>0.8</u>
<b>Education reserve surplus for the year</b>	<u>0.9</u>	<u>0.3</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Consolidated surplus for the year</b>	<u>4.0</u>	<u>4.5</u>	<u>0.8</u>	<u>0.7</u>	<u>-</u>
<b>Surplus balances</b>					
General	3.8	6.0	6.3	6.9	6.4
Fee stabilization reserve	13.0	15.0	15.5	15.5	16.0
Education reserve	3.3	3.7	3.7	3.7	3.8
	<u>20.1</u>	<u>24.7</u>	<u>25.5</u>	<u>26.1</u>	<u>26.2</u>
<b>SUPPLEMENTARY INFORMATION</b>					
Cash and short-term investments	9.8	11.8	12.5	13.6	13.5
Capital expenditures	0.2	0.8	0.7	0.7	0.7
Average FTEs	189	196	198	198	198

## Operating revenues

### Fee revenues

Almost all of our operational funding comes from fees paid by market participants, including mutual funds that contribute about 35% of our fee revenue. We collect:

Category	Source	% of Fee Total	
		Forecast 2007-2008	Fiscal 2006-2007
Distribution fees	Paid by securities issuers when they file disclosure documents	55%	54%
Registration fees	Paid by firms and individuals to register with us to sell or advise on securities	29%	28%
Financial filing fees	Paid by public companies when they file annual and quarterly financial statements	14%	16%
Other fees	Paid by market participants, primarily to request exemptions from <i>Securities Act</i> requirements	2%	2%

Distribution fee revenues vary depending on the number and sizes of offerings completed in each year and are higher during strong markets. The other fee categories have low volatilities.

Fee revenues will grow about \$1.5 million (5%) in 2007-2008, due primarily to:

- \$1.3 million (8%) higher distribution fees, related mostly to higher mutual fund sales and significantly more non-prospectus offerings
- \$0.5 million (6%) higher registration fees because of growth in advisor registrations
- \$0.4 million (8%) lower financial filings fees because of filing cycle changes

In 2008-2009, we expect lower market activity to reduce fee revenues by \$1.7 million (5%), with the most significant reduction coming from exempt distribution report filings<sup>6</sup>. Exempt distribution fee revenues are volatile, fluctuating significantly with market activity changes.

We expect modest revenue increases, through market activity or filing fee increases, over the remainder of the planning period.

#### *Distribution fees*

The largest share of distribution filing fee revenue comes from prospectuses<sup>7</sup> (68%), exempt distribution reports (20%), and annual information forms<sup>8</sup> (12%). Issuers pay us fees to file these documents. Also:

<sup>6</sup> Prospectus exemptions allow companies to sell securities without a prospectus when other factors (like relationship or financial sophistication) ensure investors have access to all information about the proposed transaction that could affect their purchase decision.

<sup>7</sup> Companies are normally required to prepare a prospectus before raising money from the public. A prospectus gives details of the operations, financial status and management of the company.

- When sales under a prospectus exceed \$7.5 million, an additional fee, called a “percent of proceeds fee”, may be payable.
- When reported sales under an exempt distribution report exceed \$0.3 million, an additional fee may be payable.

We expect exempt distribution report revenue to decline \$1.1 million (31%) to \$2.4 million in 2008-2009. The four-year range of this volatile revenue stream is \$1.9 million to \$3.5 million.

We expect the “percent of proceeds” fees from prospectus filings in 2008-2009 to remain at \$6.0 million. The four-year range of this volatile revenue stream is \$3.5 million to \$6.0 million.

We have forecast average growth of 1.5% per year over the remainder of the planning cycle.

#### *Registration fees*

We receive registration fees annually, in advance, and recognize the revenue over the following calendar year.

We expect registration revenues to grow by \$0.5 million (6%) in 2007-2008, and no growth 2008-2009. We forecast modest growth of 2.5% per year thereafter because consolidating industry trends, such as online investing, will partly offset natural growth of about 3% per year.

#### *Financial filing fees*

Financial filings revenue is not volatile, except for the effects of temporary fee reductions and filing cycle changes. We expect revenues to increase by \$0.4 million (8%) in 2007-2008 because of a filing cycle change. For 2008-2009, we expect no revenue growth. We have forecast modest growth of 2.5% per year over the remainder of the planning cycle.

#### *Other fees*

Market participants pay fees in this category primarily when requesting exemptions from *Securities Act* requirements.

We expect no growth in this revenue stream in 2007-2008. We expect to lose \$0.5 million (83%) of revenue from this source in 2008-2009 because of filing requirement changes proposed under the *Passport* initiative (see Risks & Opportunities section).

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<sup>8</sup> An AIF gives details of the operations, financial status and management of the company.

### *Revenue sensitivity*

Each 1% change in our overall fee assumptions alters forecast revenues by about \$1.5 million over the planning period.

<b>Fee Revenue Growth</b>					
(000,000's)	<b>06/07</b> Actual	<b>07/08</b> Forecast	<b>08/09</b> Budget	<b>09/10</b> Projection	<b>10/11</b> Projection
<b>Fee Revenue</b>					
Revenue from fees	30.5	32.0	30.3	31.0	31.5
Fee revenue growth rate	8.5%	4.7%	-5.1%	1.9%	1.9%

### **Investment income**

Our portfolio generates modest returns because we invest conservatively. Most of our funds are in investment pools managed by the British Columbia Investment Management Corporation (bcIMC), a BC government organization. About half of our bcIMC-invested funds are in 15-month or shorter money market instruments through its ST2 fund. The rest are in its Short Term Bond fund, which invests in Canadian bonds that mature within ten years, issued or guaranteed by Canada or a Canadian province.

We have assumed investment yields of 4% to 5.25% over the planning period, consistent with government assumptions.

### ***Operating expenses***

We are committed to managing our expenses so they do not exceed the revenue expected over the business cycle. We do this by:

- Preparing an annual budget approved by the Board
- Reporting budget variances monthly to management
- Requiring Board approval for significant unbudgeted expenses
- Continually improving the efficiency of our processes

To 2007-2008, our six-year average operating expense growth was 2%.

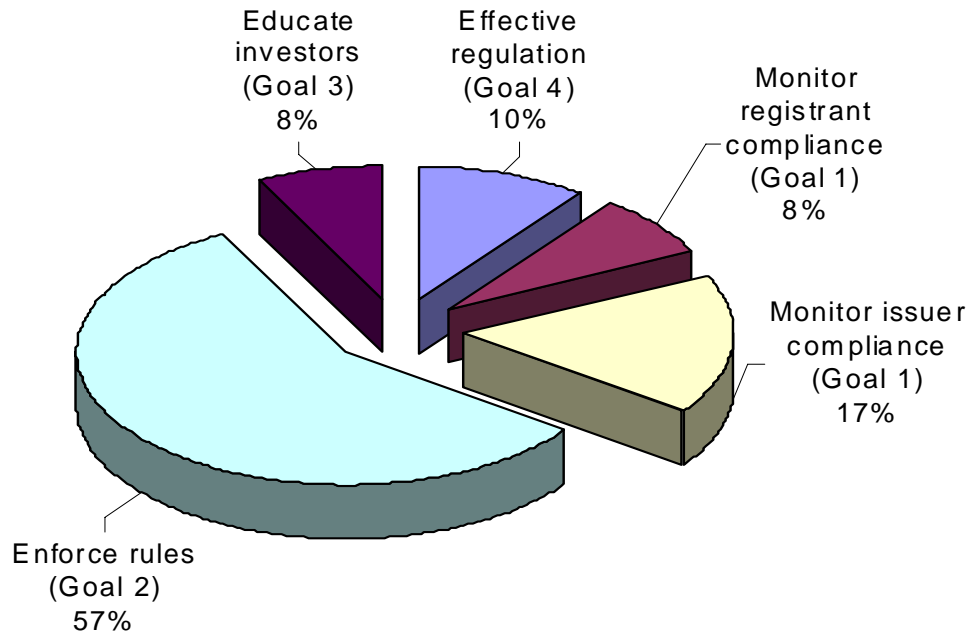
Annual performance-based salary increases drive most of our non-project expense growth. We expect salary and benefit cost increases of 6% in 2008-2009. Over the remainder of the planning period, we expect annual performance-based salary increases to average 4%. With the exception of activity-based expense changes, we expect all other expenses to increase at the government-forecasted, 2%, annual rate of inflation.

<b>Operating Expense Growth</b>					
(000,000's)	<b>06/07</b> Actual	<b>07/08</b> Forecast	<b>08/09</b> Budget	<b>09/10</b> Projection	<b>10/11</b> Projection
<b>Operating Expenses</b>					
Expenses, excluding education disbursements	28.6	28.9	30.6	31.7	33.1
Operating expense growth	4.2%	1.0%	6.1%	3.5%	4.4%

## Salaries and benefits

Staffing costs are approximately 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 merit-based salary increases and a performance-based incentive program. To remain competitive, we conduct salary surveys annually and make adjustments as appropriate.

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



Planned results reflect the following significant staffing assumptions:

- 2.4 FTE (1%) increase in staff size effective April 1, 2008 and no changes over the remainder of the planning period
- Salary and benefits expense increases 6% for 2008-2009, and averages a 4% per year increase over the remainder of the planning period

## Professional services

Professional service costs relate to the following:

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

External consulting to execute Strategy 1.1: *Review suitability risks and registrant performance*, measure our organizational performance, and audit our internal control

systems, will increase annual professional service costs by about \$0.3 million, starting in 2008-2009. Otherwise, we expect only inflationary growth in professional service costs over the planning period.

### **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.

### **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
- Leasehold improvements – the shorter of the length of the remaining lease term and the length of the estimated useful life of each improvement
- Office furniture and equipment – 10 years

We expect depreciation to average \$0.9 million per year over the planning period.

Our capital spending relates primarily to computer systems and applications. We plan additions of \$0.8 million in 2007-2008, \$0.7 million in 2008-2009, and averaging \$0.7 million per year over the remainder of the planning period.

### **Information management**

We spend significant amounts on information systems and management annually to continually improve market participants' access to our services and the information we maintain, and the timeliness and quality of our regulatory activities. Information management has three main components:

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

We do not expect the composition of our information management activities to change significantly, and we expect only inflationary growth in their cost, over the planning period.

### ***Education fund reserve***

We appropriate hearing and settlement sanctions to our Education fund reserve. We use education reserve funds only to educate securities market participants and members of the public about investing, financial matters, or the operation and regulation of securities markets. We supplement education disbursements by absorbing indirect education costs in our operating budget.

### **Education fund revenue**

Education revenue is difficult to predict because it depends on the nature and timing of enforcement actions completed during the year, and on our ability to collect assessed amounts.

Since our incorporation on April 1, 1995, we have collected \$12.5 million (49%) of \$25.4 million sanctioned. We pursue unpaid amounts, which totaled \$12.9 million as of December 31, 2007, vigorously and indefinitely.

We reviewed previous years' receipts to estimate 2008-2009 revenue, and have forecast no growth over the remainder of the planning period.

### **Education fund expenses**

We expect to disburse \$0.5 million in 2007-2008 and expect an Education fund balance of \$3.6 million at the end of 2007-2008. Because fund outflows are discretionary, we have assumed that fund disbursements will equal fund inflows over the remainder of the planning period.

The most significant components of 2006-2007 Education fund expenses relate to investor education outreach programs, redesigning our InvestRight.org website, and to distributing and maintaining our financial planning course module (Planning 10) for grade 10 students.

## ***Risks and Opportunities***

### **Fee revenue**

Fee revenue fluctuates with market activity, rising in strong market conditions and falling in weak market conditions. We continuously monitor our fee structure and may propose changes to ensure we break even in future years.

### **Securities regulatory reform**

We have been supporting government's work to implement the regulatory reforms outlined in the Provincial / Territorial Memorandum of Understanding Regarding Securities Regulation (Passport MOU), signed September 30, 2004 by ministers responsible for securities regulation in all provinces and territories except Ontario. The Passport MOU proposes 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. Changes to date have not materially affected our operations.

The Passport MOU may ultimately change what we do and how we fund our operations. Other than budgeting lower exemption application revenue, we have forecast no impact on our revenues and expenses because we expect any other changes to have no net impact on our bottom line.

### **National electronic filing systems**

We collect about 90% of our fee revenue through the SEDAR and NRD electronic filing systems. Under various agreements with the Canadian Securities Administrators (CSA), CDS Inc. (CDS) operates the SEDAR, SEDI and NRD electronic filing systems. Should CDS become unable or unwilling to continue to operate them, the CSA would have to contract another party to host them.

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 (OSC), and l'Autorité des Marchés Financiers (AMF), together called the CSA Principal Administrators. CDS operates the NRD national filing system under agreements with the CSA Principal Administrators and the Investment Dealers Association (IDA). 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 \$20.5 million in trust. The funds are the national filing systems' accumulated surpluses and expenses variances and interest earned on those amounts to December 31, 2007. 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.

