

# **British Columbia Securities Commission**

## **2019/20** **Annual Service Plan Report**



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## Board Chair's Accountability Statement



The *British Columbia Securities Commission 2019/20 Annual Service Plan Report* compares the corporation's actual results to the expected results identified in the *2019/20 – 2021/22 Service Plan* created in February 2019. I am accountable for those results as reported.

A handwritten signature in black ink, appearing to read 'B. Leong', with a stylized flourish at the end.

Brenda M. Leong  
Chair and Chief Executive Officer  
July 2, 2020

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## Letter from the Board Chair & CEO

The BCSC is responsible for protecting investors and supporting fair, efficient and innovative investment markets. We successfully delivered on substantively all of our Service Plan strategies.

Throughout 2019/20, the BCSC honoured Government's commitment to delivering services people can count on through vigorous and sustained enforcement and collections actions. We collected \$714,825 in sanctions and returned an additional \$1.8 million to investors. Our Criminal Investigations Branch had charges approved in two cases and convictions were obtained in three others. A new Trading Unit took steps to combat abusive promotions and trading. We also delivered public awareness campaigns about investment fraud and the basics of investing.

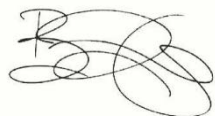
The enactment of amendments to the *Securities Act* provided the Commission with significant new investor protection tools, many of which are the strongest in the country. David Thompson, the BCSC's General Counsel, led the BCSC's legislative project team before his retirement in October 2019. On behalf of the BCSC, I would like to acknowledge David's tremendous contributions to the Commission and thank him for 37 years of dedicated service.

In keeping with Government's commitments to making life more affordable and building a strong, sustainable economy, we finalized significant investor protection rules that will lead to the end of mutual fund deferred sales charges and require registrants to address material conflicts of interest in the best interest of their clients. We also worked on several initiatives that will reduce the regulatory burden on companies and facilitate capital formation, such as rules to streamline market offerings and a national regime for start-up crowdfunding. To support emerging innovative businesses, our Fintech and Innovation Team worked with colleagues across Canada to provide foundational guidance on the application of securities laws to crypto-asset trading platforms.

The BCSC proactively engages with the Ministry of Finance to ensure strategic alignment with the Ministry's objectives. We regularly communicate with the Ministry on policy updates, major enforcement actions and investor education initiatives.

To promote strong Board governance, we provided quarterly education sessions to our Board and delivered a comprehensive orientation program for new Board members, including the CABRO program "Governing in the Public Interest."

Brenda M. Leong



Chair and Chief Executive Officer  
British Columbia Securities Commission  
July 2, 2020

## Purpose of the Annual Service Plan Report

The Annual Service Plan Report is designed to meet the requirements of the [Budget Transparency and Accountability Act](#) (BTAA), which sets out the legislative framework for planning, reporting and accountability for Government organizations. Under the BTAA, the Crown Corporation’s Board is required to report on the actual results of the Crown’s performance related to the forecasted targets documented in the previous year’s Service Plan.

## Purpose of the Organization

The British Columbia Securities Commission (BCSC or Commission) is the independent Provincial Government agency responsible for regulating capital markets in British Columbia. The BCSC’s enabling legislation is the [Securities Act](#), RSBC 1996 c. 418. Our mission is to protect and promote the public interest by fostering:

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

The Commission benefits the public by protecting investors and the integrity of BC’s capital markets. We:

- Review the disclosure that reporting issuers and businesses raising capital must provide to investors to ensure they have information that will help them to make informed decisions
- Review applications for registration from those that trade securities, provide advice, or manage portfolios or investment funds, to ensure they are qualified, ethical, and solvent
- Take action against those who contravene securities laws to deter misconduct and mitigate investor losses
- Educate investors to protect themselves and industry participants to understand how to comply with securities law requirements

## Strategic Direction

The strategic direction set by Government in 2019/20 and expanded upon in the [Board Chair’s Mandate Letter](#) from the Minister Responsible in 2019 shaped the [2019/20 British Columbia Securities Commission Service Plan](#) and results in this Report.

The BCSC’s key objectives aligned with the Government’s key priorities:

Government Priorities	The BCSC aligns with these priorities by:
Making life more affordable	<ul style="list-style-type: none"> <li>• Reviewing and modernizing regulations affecting reporting issuers (Strategy 7)</li> <li>• Implementing reforms to mutual fund fee structures (Strategy 3)</li> </ul>

Delivering the services people count on	<ul style="list-style-type: none"> <li>• Implementing client focused reforms (Strategy 2)</li> <li>• Focusing investor attention on achieving better investment outcomes (Strategy 11)</li> <li>• Promoting fraud awareness among BC residents (Strategy 10)</li> <li>• Improving market intelligence capability (Strategy 8)</li> </ul>
A strong, sustainable economy	<ul style="list-style-type: none"> <li>• Regulating financial technologies to support innovation (Strategy 6)</li> <li>• Implementing a derivatives regime (Strategy 1)</li> </ul>

## Operating Environment

The BCSC coordinates its policy, compliance and enforcement work with other provincial and territorial securities regulators through the Canadian Securities Administrators (CSA). During the year, certain CSA members received regulatory burden reduction directives from their governments, which impacted development of regulation and caused the CSA to re-evaluate its approach to several ongoing projects. For example, the committee charged with implementing a derivatives regime was required to consider substantial changes to several rules that had been published for comment. In addition, the Ontario government's decision not to adopt CSA rules that will ban mutual fund deferred sales charges, delayed adoption and impacted the BCSC's goal of developing nationally harmonized rules.

Early in the year, we faced the challenge of an expiring occupancy lease during an increasingly competitive market for commercial space in downtown Vancouver. We addressed this risk through a public tender for space, which resulted in competitive terms for a new 10 year lease in our current office.

Like all BC government agencies, the BCSC experienced the full impact of the COVID-19 pandemic in March. We were able to continue to deliver near uninterrupted services to market participants and the investing public through a relatively seamless move to working from home. However, as explained under Strategy 12 below, we delayed the launch of our new public website to minimize interruptions to market participants and ensured that it went live at a time when stakeholders were ready to appreciate its benefits.

COVID-19 did not have a significant financial impact on BCSC in 2019/20. Our revenues come primarily from fees paid by market participants, and revenues were strong for most of the year, which is reflected in our financial results. However, we have been monitoring market trends and the impact of the pandemic on market participants and the broader economy to assess the level of risk to our operating capacity going forward.

## **Report on Performance: Goals, Objectives, Measures and Targets**

This section addresses the BCSC's strategic priorities – Goal 1: Support fair, efficient, and innovative Canadian capital markets and Goal 2: Inspire investor confidence. We align objectives and related strategies under each goal to demonstrate how the BCSC worked towards achieving these goals.

### **Goal 1: Support fair, efficient, and innovative Canadian capital markets**

#### **Objective 1.1: Promote a culture of compliance**

Investors are better protected when firms and individuals that trade or advise in securities, and companies that raise money in the capital markets, understand and comply with regulatory obligations.

Regarding trading and advice, we register securities firms and their advisors, refusing applications from unsuitable candidates. We audit these firms routinely for compliance. We also oversee conduct of the TSX Venture Exchange, Clearing and Depository Services, the Investment Industry Regulatory Organization of Canada (IIROC), and the Mutual Fund Dealers Association, all of which are recognized in BC. As well, we jointly oversee conduct of the Canadian Securities Exchange (CSE) with the Ontario Securities Commission (OSC).

Regarding capital raising, we regulate both public companies and insiders, reviewing mandatory disclosure filings. We monitor daily trading of over-the-counter (OTC) derivatives and the private placement of securities by companies required to report to the BCSC.

### **Key Highlights**

#### **Strategy 1: Implement a derivatives regime**

This year we continued to make progress in implementing an OTC derivatives regime which meets Canada's G-20 commitments and international standards. We continued work on national instruments including NI 93-101 (*Derivatives: Business Conduct*), NI 93-102 (*Derivatives: Registration*) and NI 25-102 (*Designated Benchmarks and Benchmark Administrators*). In addition, we finalized amendments to NI 24-102 (*Clearing Agency Requirements*).

#### **Strategy 2: Implement client focused reforms**

In October 2019, the CSA adopted the client focused reforms (CFR) to NI 31-103 (*Registration Requirements, Exemptions, and Ongoing Registrant Obligations*) and Companion Policy 31-103CP (*Registration Requirements, Exemptions, and Ongoing Registrant Obligations*). The CFR will require registrants to put client interests first when assessing the suitability of an investment and resolve conflicts of interest in the best interest of clients. The CFR provisions related to conflicts of interest will come into effect on June 30, 2021, and the remaining provisions will come into effect on December 31, 2021. Preparations for implementation will continue into next fiscal year.



### Strategy 3: Implement reforms to mutual fund fee structures

In February 2020, the CSA (except Ontario) announced advance notice of adoption of rules that will lead to the end of deferred sales charges (DSC) on mutual funds. The rules – which take effect in 2022 across all provinces and territories except Ontario – will prohibit fund organizations from paying upfront sales commissions to dealers. This is a significant investor protection initiative. The CSA considered alternatives to a DSC ban, including regulating sales through a series of restrictions (as Ontario is proposing), but concluded this option would only partially mitigate investor harms. The CSA, including Ontario, also announced in December 2019 that it will publish final amendments next fiscal year to ban the payment of trailing commissions to dealers (e.g. order-execution-only discount brokers) that do not provide suitability advice.

### Strategy 4: Modernize the offering memorandum

Issuers can use the offering memorandum (OM) exemption to raise money from any BC investor. We are co-leading a CSA project to modernize OM disclosure required when issuers use that exemption to raise capital. Current requirements do not reflect the increasingly complex businesses that are using the OM exemption. We are revising these disclosure requirements so investors receive more relevant information. We anticipate publishing the proposals for comment next fiscal year.

Performance Measure(s)	2018/19 Actuals	2019/20 Target	2019/20 Actuals	2020/21 Target	2021/22 Target
1.1a Percentage of reviewed issuers that reduce deficiencies: <sup>1</sup>					
i. Improved disclosure subsequent to a continuous disclosure review	83%	>95%	100%	>95%	>95%
ii. Improved disclosure to minimum standards	82%	>95%	100%	>95%	>95%
1.1b Percentage of randomly sampled mining companies that comply with standards for technical disclosure in: <sup>1,2</sup>					
i. Filed disclosure (annual information forms, news releases, management discussion and analysis)	74%	81%	75%	83%	85%
ii. Issuer websites and other voluntary disclosure	68%	77%	68%	81%	85%
1.1c Average number of repeat deficiencies per examination in Capital Markets Regulation <sup>3</sup>	0.72	0.71	1.05	0.67	0.64

Data source:

<sup>1</sup>Internal evaluation of subsequent disclosure.

<sup>2</sup>Based on a review of 40 randomly selected BC mining companies that had not been subject to a continuous disclosure review in the preceding three years.

<sup>3</sup>Data recorded in established tracking systems.

## Discussion of Results

1.1a) This fiscal year, we reviewed 18 files, eight of which had compliant disclosure. Of the remaining 10 files, all improved their disclosure upon receiving instruction from the BCSC to do so. Of the total 18 files reviewed, all met the basic standard for compliance. The large change between our 2018/19 and 2019/20 actuals is a matter of small sample size. In 2018/19, of the 11 files we reviewed, nine met the minimum disclosure standard. This year, each of the issuers we reviewed complied, resulting in 100% improved disclosure to the standard. Due to the small sample size, the results can vary significantly from one year to the next.

1.1b) We did not meet these targets. We evaluated disclosure of randomly selected mining companies for compliance with 20 requirements of NI 43-101, by reviewing certain required filings and voluntary disclosure. Filed disclosure improved marginally over the last year, while voluntary disclosure compliance remained unchanged.

The current metrics do not consider technical reports, a key mining disclosure document, and we are unable to incorporate technical report compliance in our current measurement system. Instead, we are developing a new metric that will better monitor mining disclosure compliance based on an annual reduction in deficiencies identified during our ongoing technical disclosure review program (which includes technical reports). We believe the new metric will serve as a better proxy for the BCSC mining team's effectiveness. Our goal is to have the new metric approved for the Fiscal 2021/22 Service Plan.

1.1c) A small number of firms had significant repeat deficiencies, impacting overall data. The higher number of repeat deficiencies may demonstrate that our risk-based exam selection is working, in that we are identifying firms that are more likely to have compliance deficiencies. A higher number of repeat deficiencies resulted in an increased number of compliance actions and enforcement referrals as compared to last year.

### Objective 1.2: Advance cost-effective regulation

We aim to provide investor protection and support market integrity at a reasonable cost by focusing on three core areas:

- Emphasizing practical solutions: When the market cannot fix market problems, we look at the full range of potential regulatory responses and advance only those that will provide significant benefits
- Using resources efficiently: We deploy resources through risk management, teamwork and relevant performance measures
- Delivering services reliably: We deliver key regulatory services on a timely basis, recognizing that delay adds costs for market participants

### Key Highlights

#### Strategy 5: CSA systems redesign

This year, the CSA continued work on the first of three phases of the National System Renewal Project. The most significant work was:

- Completing the second of five development “sprints” to configure the system functionality that will consolidate most issuer-focused functionality in existing systems
- Continued migration of existing system data
- Beginning development of jurisdictions’ local system interfaces

Development work will continue through next fiscal year.

### **Strategy 6: Regulate financial technologies to support innovation**

The BCSC continued to explore the intersections between financial services, technological innovation, and the need for regulation of fintech. We strived to keep pace with - and properly control - emerging risks while also testing new business models and opportunities. To this end, we:

- Led the CSA in publishing proposed NI 45-110 (*Start-up Crowdfunding Registration and Prospectus Exemptions*) in February 2020 for comment
- Formed the BCSC Fintech Advisory Forum to advise BCSC staff on fintech trends and developments
- Published CSA Staff Notice 21-327, which provides guidance to crypto-asset trading platforms (CATP) on how their trading on behalf of clients could trigger securities laws
- Reviewed responses to CSA/IIROC Joint Consultation Paper 21-402, which sought feedback on proposed securities regulatory framework that applies to CATPs
- Facilitated the test of various business processes and models through the CSA Regulatory Sandbox

The BCSC has also continued its international activities as a member of the Global Fintech Innovation Network and through the International Organization of Securities Commissions.

### **Strategy 7: Review and modernize regulations affecting reporting issuers**

In fiscal 2019/2020, together with the CSA, we continued work on six initiatives to reduce regulatory burden for non-investment fund issuers without compromising investor protection or capital market efficiency:

- Removing or modifying business acquisition report (BAR) requirements
- Codifying at-the-market offering requirements
- Revisiting the financial statements needed when preparing an initial prospectus
- Considering alternative prospectus offering models
- Streamlining duplicative continuous disclosure requirements
- Facilitating the electronic delivery of disclosure required under securities law

We are co-leading two CSA projects:

- Removing or modifying BAR requirements. This year, we published for comment proposed amendments that would significantly reduce the circumstances in which a reporting issuer would be required to file a BAR, while still ensuring disclosure of meaningful business acquisitions

- Consideration of alternative prospectus models. This project incorporates our previous work on modernization of the resale regime. This year, we developed a proposal for a small offering prospectus exemption to facilitate capital raising for reporting issuers at a lower issuer effort and cost. We also developed a proposal to facilitate capital raising for large issuers by easing certain requirements for filing a base shelf prospectus

We are participating in multiple CSA projects:

- Streamlining at-the-market offerings. This year, we published for comment proposed amendments that would codify the exemptive relief required for a reporting issuer intending to conduct an at-the-market offering, with additional changes aimed at further reducing the regulatory burden associated with these offerings
- Clarifying which financial statements are needed when preparing an initial prospectus offering. This year, we developed a harmonized proposal that would provide greater clarity to issuers preparing an initial prospectus and expect to publish the proposed amendments for comment in calendar 2020
- Streamlining continuous disclosure requirements
- Facilitating electronic delivery of documents required to be delivered under securities legislation. This year, we published a consultation paper on a proposed “access equals delivery” model

Performance Measure(s)	2018/19 Actuals	2019/20 Target	2019/20 Actuals	2020/21 Target	2021/22 Target
1.2 Average score on cost-effective regulation scorecard <sup>1</sup>	98%	>90%	98% <sup>2</sup>	>90%	>90%

Data source:

<sup>1</sup>Internal evaluation based on staff and management judgment and project documents.

<sup>2</sup>In fiscal 2019/20, we had four policy projects that qualified for review.

## Discussion of Results

1.2) We met this target. We use a scorecard to track 16 important steps and outcomes in responding to market problems in a way that results in cost-effective regulation. We score and report the average score of all CSA and local policy projects completed each year. This analysis does not include rules that we adopt purely to harmonize with other jurisdictions, simple exemptions, or circumstances where we are fully reliant on the policy work of other CSA members. The target of greater than 90% is set so that, on average, we achieve our objectives if we hit the standards on the scorecard in all but one area. This year, we scored four completed policy initiatives, with one policy having one step that did not meet the outcomes-based test.

## **Goal 2: Inspire investor confidence**

### **Objective 2.1: Act decisively against misconduct**

Our Enforcement division focuses on cases with a strong BC connection. These include:

- Illegal distributions and fraud
- Market misconduct, including market manipulation and insider trading
- Regulatory compliance, including non-compliance by dealers and issuers

Our objectives are to deter misconduct and mitigate investor losses through early disruption and timely enforcement. To this end, we:

- Conduct investigations, leading to settlements or administrative hearings before the Commission
- Identify and freeze assets to preserve property for distribution to victims of misconduct
- Pursue collection of financial sanctions
- Issue temporary orders to stop misconduct immediately
- Issue investor alerts about suspected misconduct in progress
- Educate investors about the warning signs of investment fraud and encourage early reporting of suspicious activity
- Together with other policing agencies, pursue criminal investigations and refer appropriate cases to Crown Counsel for prosecution

### **Key Highlights**

#### **Strategy 8: Improve market intelligence capability**

One of the main objectives in this multi-year strategy was creating a new branch in Enforcement – the Trading Unit (TU). This year we staffed the TU, developed its structure, and defined its mandate. The TU assessed over 311 matters this year, which led to 10 referrals to other divisions or agencies, nine disruptive actions, 31 investigated matters, and five files referred to other Enforcement branches for criminal and administrative investigations, or litigation. While not assessing or investigating, the TU took a number of steps to address the risks associated with aggressive promotions used to impact the market activity of shares in BC reporting issuers. This included:

- Identifying issuers who demonstrate some of the hallmarks associated with this risk
- Obtaining data from OTC Markets to help identify issuers with active promotions
- Commencing ad hoc surveillance using a new quotation system
- Identifying Commission operational needs in the area of data analytics and technology to improve intelligence and detection capabilities

#### **Strategy 9: Improve market analytics capability for enforcement investigations**

Together with other CSA jurisdictions, we continued to develop the first phase of a data analytics system – Market Analysis Platform (MAP) – that will include an equity data warehouse and priority enforcement tools for trade matching and trading data exploration.

Performance Measure(s)	2018/19 Actuals	2019/20 Target	2019/20 Actuals	2020/21 Target	2021/22 Target
2.1a Actions taken to disrupt misconduct <sup>1</sup>					
i. Number of actions	116	124	119 <sup>1</sup>	130	136
ii. Average duration of complaint to action (days)	61	52	70 <sup>1</sup>	50	48
2.1b Average life of cases either from complaint to a Notice of Hearing (NOH) or from complaint to settlement before an NOH is issued (months) <sup>2</sup>	36.2 <sup>2</sup>	31.7	31.0 <sup>1</sup>	35.7 <sup>2</sup>	Set at start of each fiscal year

Data source:

<sup>1</sup>Data recorded in established tracking systems, primarily the BCSC Enforcement Case Management system and in official documents.

<sup>2</sup>We base fiscal 2020/21 target on our current portfolio of cases, and on the likelihood that an NOH or settlement agreement will be issued within 12 months.

## Discussion of Results

2.1a) We measure the number of actions taken to disrupt active misconduct, and we measure the average time between receiving the complaint and taking action. We did not meet our targets for the current fiscal year; however, we have increased the number of actions year-over-year for the past three years and in some cases took action to advance files that we do not record as disruptive action. The average duration from complaint to action increased because of case-specific issues such as delays in obtaining evidence.

2.1b) We measure the average case duration from complaint to issuance of an NOH or, absent an NOH, a settlement agreement. Timely and thorough investigations provide the public with confidence in the actions we take to address misconduct. Many factors impact the life of a case – including case complexity, delays receiving documents and delays obtaining testimony from witnesses. While we met our target this year with an average life per case of 31 months, it was not a result of a change we made. The factors that affect case life simply did not extend case life as much in the year. We have set our targets next year to take these factors into consideration.

## Objective 2.2: Educate investors

We want British Columbians to understand how investing can help them achieve their financial goals but also to be cautious of emerging investment trends and aware of the warning signs of investment fraud. Through public awareness advertising, we promote awareness of investment fraud and instill financial confidence in British Columbians to help them make informed investment decisions. Using social media and mass media channels, we help investors understand novel investment types and the need to conduct adequate due diligence.

## Key Highlights

### Strategy 10: Promote fraud awareness among BC residents

This year we extended the duration of our March Fraud Prevention Month campaign by 50% with an early campaign launch. We used a wide variety of media touch points to educate British Columbians on how to recognize, reject, and report investment fraud. The *Don't Be Part of a*

*Fraud* campaign theme focused on affinity fraud which, according to our research, is the least-recognized fraud warning sign. The campaign aired across radio, television, print, online, and social media. This year we expanded our reach to include podcasts, digital transit shelters and in restaurants and bars in order to reach British Columbians in their late 20s and 30s, who were least likely to recognize the warning signs of affinity fraud. In-language fraud prevention radio ads aired for Cantonese, Mandarin, and Punjabi audiences. Due to the onset of COVID-19, the campaign was suspended six days early.

**Strategy 11: Focus investor attention on achieving better investment outcomes**

This year we conducted research that will set the foundation for a new three-year campaign and to gain a better understanding of why British Columbians choose to participate, or not, in BC capital markets. We learned what level of knowledge many British Columbians have when it comes to investments and the investment markets. We learned that British Columbians want to see themselves as investors and that they want to get investment education from a trusted, unbiased source, like the BCSC, and we planned to build a new campaign with these underpinnings. As a result of COVID-19 it will be important to revisit these research findings and reassess our path forward.

**Strategy 12: Create a new BCSC website**

This year, we entered into a competitive Request For Proposal process for the redesign of [the BCSC website](#). The tender included work for the website redesign, a new content management system, and a cloud hosting solution. Working with our consultant over the past nine months, we have engaged numerous internal subject matter experts and third party specialists in web design and development. While our consultant completed the work on the new website by March 31, we decided to delay the public launch due to impacts from COVID-19.

Performance Measure(s)	2018/19 Actuals	2019/20 Target	2019/20 Actuals	2020/21 Target	2021/22 Target
2.2a Percentage of BC investors who strongly agree they have a good understanding of how fees impact the returns on their investments	22%	23%	N/A <sup>3</sup>	N/A	N/A
2.2b Number of video views of <i>Investment Fraud Explained</i> seminar video <sup>1</sup>	4,137	3,100	4,377	3,250	3,400
2.2c Percentage of BC public aware of BCSC <sup>2</sup>	40%	41%	43%	43%	45%

<sup>1</sup>Data source: BCSC InvestRight YouTube channel.

<sup>2</sup>Data source: Independent survey. Data received by the BCSC in report form.

<sup>3</sup>This measure has been discontinued.

## Discussion of Results

2.2a) Our three year campaign focused on investment fees concluded in the 2018/19 fiscal year. We are, therefore, no longer measuring it.

2.2b) We met this target. Views are a direct result of an online advertising campaign targeting British Columbians seeking “investment services” and users identified by Google as “avid investors.” Targeting users by these categories increased the likelihood of reaching active investors rather than the general public.

2.2c) We met this target. We collect this information as part of an annual online survey to measure awareness, recall and impact of our public awareness campaigns among 2,000 British Columbians aged 18 years and older. We report on aided awareness with the question “*As you may know, there is a provincial agency in British Columbia responsible for regulating securities investments called the BC Securities Commission. Now that we have mentioned the BC Securities Commission, how familiar would you say you are with this agency?*” Low public awareness of the BCSC is a significant challenge when it comes to delivering messages and education to the BC public. Our ability to increase awareness of the BCSC is directly linked to the number of people we can reach with the budget we allocate to our public awareness campaigns.



## **Financial Report**

### **Discussion of Results**

### **For the Year Ended March 31, 2020**

#### **Highlights**

We prepared this discussion of financial position and results of operations of the British Columbia Securities Commission (BCSC) on May 7, 2020. Read it in conjunction with our audited financial statements for the year ended March 31, 2020.

We report in Canadian dollars. We round totals and percentages. Year references are to fiscal years ending March 31.

BCSC is the provincial Crown corporation responsible for regulating BC investment market activity. Results include 25 percent of a government partnership (Partnership) that operates certain shared information systems. We refer to all other operating results as local.

The results from operations for the year ended March 31, 2020 were a surplus of \$8.4 million, which is \$5.3 million above budget. The total surplus is comprised of \$5.7 million for local operations and \$2.7 million for Partnership operations.

The key operating budget variances were:

- Registration revenue was \$1.7 million (10%) higher than budget due primarily to a higher than expected number of individual registrants
- Distributions revenue was \$1.6 million (5%) higher than budget due primarily to higher than expected prospectus percentage of proceeds fees and exempt distributions fees
- Investment income was \$0.9 million (100%) higher than budget due to higher than expected balances available to invest and higher than expected returns
- Local professional services expense was \$1.3 million (58%) higher than budget due to collections and other enforcement activities; this variance was offset by lower than budgeted spending on local salaries and benefits, information management and business travel, with the result that local expenses were on budget overall
- Partnership expenses were \$0.9 million (16%) below budget due to the timing of national systems projects

The key capital budget variances were:

- Partnership capital spending on information technology was \$4.0 million lower than budget due to timing of the work on national systems projects

## Financial Results Summary

<i>(millions)</i>	2019	2020	2020	2020
	Actual	Budget	Actual	Variance
<b>Revenue</b>				
Regulatory and other local fees:				
Distributions	\$ 27.1	\$ 28.6	\$ 30.2	\$ 1.6
Registration	13.5	16.6	18.3	1.7
Financial filings	4.8	5.2	5.1	(0.1)
Exemptive orders and other fees	0.4	0.7	0.5	(0.2)
	\$ 45.7	\$ 51.1	\$ 54.1	\$ 3.0
Other revenue:				
National systems access and usage fees	\$ 6.5	\$ 6.5	\$ 6.5	\$ –
Enforcement sanctions	5.2	0.5	1.0	0.6
Investment income	1.4	0.9	1.8	0.9
	\$ 13.1	\$ 7.9	\$ 9.2	\$ 1.5
Total revenue	\$ 58.8	\$ 59.0	\$ 63.3	\$ 4.3
<b>Expense</b>				
Local salaries and benefits	\$ 31.0	\$ 35.9	\$ 35.3	\$ (0.6)
Other local expenses	13.7	14.5	15.0	0.5
National systems expenses	4.8	5.5	4.6	(0.9)
Total expenses	\$ 49.5	\$ 55.9	\$ 54.9	\$ (1.0)
<b>Surplus</b>	\$ 9.3	\$ 3.1	\$ 8.4	\$ 5.3
<b>Supplementary Information</b>				
Unrestricted surplus	\$ 32.7	\$ 30.1	\$ 38.9	\$ 8.8
Restricted surplus	\$ 43.2	\$ 45.0	\$ 45.9	\$ 0.9
Local capital expenditures	\$ 2.3	\$ 2.2	\$ 2.6	\$ 0.4
Partnership capital expenditures	\$ 2.2	\$ 5.7	\$ 1.7	\$ (4.0)
Debt	\$ –	\$ –	\$ –	\$ –

## Variance and Trend Analysis

### Revenues

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

#### *Proportion of total revenue by source and year*

	2016	2017	2018	2019	2020
Distributions	49%	50%	52%	46%	48%
Registration	24%	25%	24%	23%	29%
Financial filings	10%	10%	9%	8%	8%
National systems access and usage fees	13%	13%	12%	11%	10%
Enforcement sanctions and other	4%	2%	3%	12%	5%
<b>Total</b>	100%	100%	100%	100%	100%

#### *Local revenue*

<i>(thousands)</i>	2020 Actual versus Budget				2020 versus 2019			
	Actual	Budget	Variance	%	2020	2019	Variance	%
Distributions	\$ 30,163	\$ 28,600	\$ 1,563	5%	\$ 30,163	\$ 27,108	\$ 3,055	11%
Registration	18,265	16,600	1,665	10%	18,265	13,513	4,752	35%
Financial filings	5,116	5,200	(84)	(2%)	5,116	4,756	360	8%
Exemptions and other	494	700	(206)	(29%)	494	363	131	36%
Enforcement sanctions	1,029	450	579	129%	1,029	5,207	(4,178)	(80%)
Investment income	930	400	530	133%	930	597	333	56%
	\$ 55,997	\$ 51,950	\$ 4,047	8%	\$ 55,997	\$ 51,544	\$ 4,453	9%

We collect the following fees:

- *Distribution fees*, from companies and investment funds, to file offering disclosure documents, which can include fees related to proceeds of the offering
- *Registration fees*, from firms and individuals, to register with us to sell or advise on investments
- *Financial filings fees*, from public companies and investment funds, to file annual and interim financial statements
- *Other fees*, from market participants, primarily to request *Securities Act* exemptions

Distributions revenue was \$1.6 million (5%) higher than budget, due primarily to higher than expected prospectus percentage-of-proceeds fees and exempt distributions fees. Distributions revenue was \$3.0 million (11%) higher than the preceding year due primarily to the impact of fee changes that became effective December 30, 2018.

Registration revenue was \$1.7 million (10%) higher than budget due primarily to a higher than expected number of individual registrants. Registration revenue was \$4.8 million (35%) higher than the prior year due primarily to the impact of fee changes that became effective December 30, 2018.

### ***Enforcement sanctions***

We vigorously pursue outstanding sanctions arising from our enforcement actions. We register all our decisions with the Supreme Court and then use whatever tools we can to collect. For example, we seize and sell assets, garnish bank accounts, and compel debtors to enter into court ordered payment plans. We start lawsuits to recover assets and participate in other court proceedings that return money to investors.

Sanctions include administrative penalties, disgorgement orders, and amounts owing under settlement agreements. Millions of dollars have been returned to investors through our disgorgement process and court proceedings.

Enforcement sanctions revenue depends on the timing of enforcement actions completed during the year and on our ability to collect assessed amounts. During the year, we assessed sanctions of \$4.1 million. We collected \$0.7 million of which \$0.6 million related to sanctions imposed in the current year and \$0.1 million related to sanctions imposed in prior years. In the preceding year we collected \$5.2 million which included \$4.9 million relating to the Bossteam case.

We have a claims process for investors for any money that we obtain in payment of BCSC disgorgement orders. The Commission allocates to its education fund amounts collected for disgorgement orders that the Commission has not paid to investors after adjudicating all claims, as well as revenue from administrative penalties, and settlement agreements. We only use the education fund to educate securities market participants and the public about investing, financial matters, and the operation and regulation of securities markets.

### ***Investment income***

Our main investment objectives are capital preservation and liquidity to meet our expenditure commitments. We invest funds that we expect to access in the short-term (up to 1 year) or medium-term (1 to 2 years) in bank deposits, or in investment pools managed by the British Columbia Investment Management Corporation. At March 31, 2020 we had \$21.1 million in local demand deposits that currently earn higher risk-adjust returns than the short term investment pools. The Partnership's investments are in redeemable term deposits and guaranteed investment certificates.

## **Expenses**

Expenses relate to local operations and Partnership operations.

Salaries and benefits and occupancy costs account for about 78 percent of local expenses.

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

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

### ***Local expenses***

Employee compensation accounts for approximately 70 percent of local expenses. We compete for professional staff with law and accounting firms, the securities industry, and other regulators. Like most of our competitors, our compensation package includes performance-based salary increases. To remain competitive, we conduct periodic salary surveys and make adjustments as appropriate within provincial compensation guidelines.

We engage consultants when we need specialized services or when outsourcing is more cost-effective than performing the work ourselves. Fiscal 2020 professional service costs related primarily to legal services, our share of CSA project and management costs, legislative counsel services, interview and hearing transcription services, internal and external audit services, and HR consulting.

We run local operations from a downtown Vancouver office to be close to the market participants that we regulate. Our 68,000 square feet of space cost us about \$56 per square foot for 2020, under leasing arrangements that expire in November 2031.

We educate the public and market participants about investing, financial matters and the regulation of investment markets. Most of the education spending in 2020 was on investor education.

Our local capital spending and related depreciation relate primarily to information systems. Our information management costs include fees for software licensing and maintenance and electronic information services.

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

<i>(thousands)</i>	2020 Actual versus Budget				2020 Actual versus 2019			
	Actual	Budget	Variance	%	2020	2019	Variance	%
Salaries and benefits	\$ 35,287	\$ 35,900	\$ (613)	(2%)	\$ 35,287	\$ 31,048	\$ 4,239	14%
Occupancy	3,808	3,800	8	0%	3,808	3,463	345	10%
Professional services	3,626	2,300	1,326	58%	3,626	2,461	1,165	47%
Information management	2,189	2,650	(461)	(17%)	2,189	1,955	234	12%
Depreciation	2,102	2,220	(118)	(5%)	2,102	2,441	(339)	(14%)
Education	1,422	1,500	(78)	(5%)	1,422	1,768	(346)	(20%)
Other	1,839	1,990	(151)	(8%)	1,839	1,592	247	16%
	\$ 50,273	\$ 50,360	\$ (87)	(0%)	\$ 50,273	\$ 44,728	\$ 5,545	12%

Total expenses for local operations were on budget. Higher than budgeted spending on professional services offset savings in other areas including salaries and benefits, information management and business travel. Additional professional services expenses were incurred to support enforcement activities and to pursue collection of sanctions.

Local salaries and benefits expense was \$4.2 million (14%) higher than the preceding year due to filling new positions and vacancies principally to increase enforcement and compliance capacity, merit-based salary increases, and higher costs for health benefits as we transitioned to the new employer health tax.

### Partnership

Effective April 2, 2013, the BCSC, Alberta Securities Commission, Ontario Securities Commission, and Autorité des marchés financiers (collectively, the Principal Administrators or PAs), agreed to oversee certain shared information systems on behalf of the CSA. Each of the PAs has one vote on national systems matters. The Partnership is a government partnership under Canadian Public Sector Accounting Standards. Accordingly, our financial statements include 25 percent of the assets, liabilities, net assets, revenues and expenses of the Partnership.

<i>(thousands)</i>	2020 Actual versus Budget			2020 Actual versus 2019		
	Actual	Budget	Variance	2020	2019	Variance
National systems access and usage fees	\$ 6,453	\$ 6,500	\$ (47)	\$ 6,453	\$ 6,523	\$ (70)
Partnership investment income and other	837	500	337	837	757	80
National systems expenses	4,638	5,500	(862)	4,638	4,790	(152)
Surplus	\$ 2,652	\$ 1,500	\$ 1,152	\$ 2,652	\$ 2,489	\$ 163

The surplus for Partnership operations was \$1.2 million (77%) higher than budget and was comparable to the surplus in 2019. National systems expenses were \$0.9 million (16%) lower than budget due to the timing of work on national systems projects.

### Tangible Capital Assets

Additions to local tangible capital assets of \$2.6 million were primarily for IT infrastructure upgrades. Additions to the Partnership information technology of \$1.7 million relate to development of new national systems.

## **Risks and Uncertainties**

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

Investment markets activity can be volatile, causing local revenue to fluctuate. We hold accumulated reserves to fund local operations through market downturns. The impact of COVID-19 on investment markets could decrease BCSC fee revenues over the coming years, but it is too early to estimate the impact.

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

Under an agreement with CGI Information Systems and Management Consultants Inc. (CGI) that ends on January 12, 2022, CGI hosts and operates several national systems through which we collect most of our fee revenue. CGI maintains a comprehensive business continuity plan for these systems.

## **Internal control over financial reporting (ICFR)**

During the year, we reviewed our ICFR processes and updated documentation where necessary. No changes occurred during the year ended March 31, 2020 that materially affected, or are likely to materially affect, our ICFR. Our internal auditors tested operating effectiveness of our ICFR as at March 31, 2020 and concluded that the ICFR was operating effectively and that there are no material weaknesses.

## Management's Responsibility for Financial Reporting

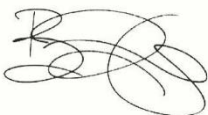
Management is responsible for the integrity and fair presentation of the financial statements and other financial information included in this annual service plan report. Management has prepared the consolidated financial statements in accordance with Canadian public sector accounting standards (PSAS).

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

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

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

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



Brenda M. Leong  
*Chair and Chief Executive Officer*



Peter J. Brady  
*Executive Director*





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BDO Canada LLP  
600 Cathedral Place  
925 West Georgia Street  
Vancouver BC V6C 3L2 Canada

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## Independent Auditor's Report

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To the Commissioners of the British Columbia Securities Commission

And to the Minister of Finance, British Columbia

### Opinion

We have audited the consolidated financial statements of the British Columbia Securities Commission (the "Entity"), which comprise the Consolidated Statement of Financial Position as at March 31, 2020, and the Consolidated Statements of Operations and Change in Accumulated Surplus, Remeasurement Gains and Losses, Change in Net Financial Assets and Cash Flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at March 31, 2020, and its consolidated results of operations, remeasurement gains and losses, change in net financial assets, and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of this report. We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Consolidated Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

### Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.



As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Consolidated Entity to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*BDO Canada LLP*

Chartered Professional Accountants

Vancouver, British Columbia

May 7, 2020

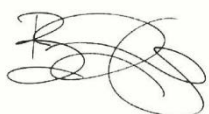
**Consolidated Statement of Financial Position**

As at March 31, 2020

(audited)

	Notes	March 31, 2020	March 31, 2019
<b>Financial assets</b>			
Cash	4	\$ 26,867,787	\$ 23,582,821
Restricted cash - 161(1)(g) payments	5	121,819	238,951
Investments	6	57,200,052	55,473,526
Amounts receivable	7	1,603,689	1,396,406
		\$ 85,793,347	\$ 80,691,704
<b>Liabilities</b>			
Accounts payable and accrued liabilities	8	\$ 3,207,171	\$ 4,787,685
Accrued salaries and benefits		1,201,419	1,020,377
Deferred registration fee revenue		11,610,895	11,656,197
Employee leave liability	9	1,086,489	985,668
161(1)(g) liabilities	5	121,819	238,951
		\$ 17,227,793	\$ 18,688,878
<b>Net financial assets</b>		\$ 68,565,554	\$ 62,002,826
<b>Tangible capital assets</b>			
	10	\$ 14,903,464	\$ 12,787,201
<b>Prepaid expenses</b>			
	11	1,275,115	1,137,981
		\$ 16,178,579	\$ 13,925,182
<b>Accumulated Surplus</b>		\$ 84,744,133	\$ 75,928,008
Accumulated Surplus is comprised of:			
Unrestricted operating surplus	12	\$ 38,705,772	\$ 32,982,457
Restricted operating surplus	12	45,858,925	43,206,486
		\$ 84,564,697	\$ 76,188,943
Accumulated remeasurement gains (losses)		179,436	(260,935)
		\$ 84,744,133	\$ 75,928,008

Commitments and contingencies (Note 19)

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


Brenda M. Leong  
Chair and Chief Executive Officer



George C. Glover  
Chair, Audit Committee

**Consolidated Statement of Operations and Change in Accumulated Surplus**  
For the Year Ended March 31, 2020  
(audited)

	Notes	March 31, 2020 Budget (Note 20)	March 31, 2020 Actual	March 31, 2019 Actual
<b>Revenues</b>				
Regulatory and other fees				
Prospectus and other distributions		\$ 28,600,000	\$ 30,162,691	\$ 27,107,545
Registration		16,600,000	18,264,870	13,513,120
Financial filings		5,200,000	5,115,937	4,755,996
Exemptive orders and other		700,000	494,060	362,528
National systems access and usage fees	13	6,500,000	6,453,152	6,523,022
Enforcement sanctions	14	450,000	1,028,500	5,206,676
Investment income	15	900,000	1,767,665	1,421,222
Realized loss on investments	15	–	–	(67,159)
		\$ 58,950,000	\$ 63,286,875	\$ 58,822,950
<b>Expenses</b>				
Local operations	16	\$ 50,360,000	\$ 50,273,099	\$ 44,728,192
Partnership operations	16	5,500,000	4,638,022	4,790,463
		\$ 55,860,000	\$ 54,911,121	\$ 49,518,655
Annual surplus		\$ 3,090,000	\$ 8,375,754	\$ 9,304,295
Accumulated operating surplus, beginning of year			\$ 76,188,943	\$ 66,884,648
Accumulated operating surplus, end of year			\$ 84,564,697	\$ 76,188,943

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

**Consolidated Statement of Remeasurement Gains and Losses**

For the Year Ended March 31, 2020

(audited)

	Notes	March 31, 2020	March 31, 2019
Accumulated remeasurement losses, beginning of year		\$ (260,935)	\$ (703,001)
Unrealized gains on investments	15	440,371	374,907
Realized losses on investments, reclassified to operations	15	–	67,159
Accumulated remeasurement gains (losses), end of year		\$ 179,436	\$ (260,935)

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

**Consolidated Statement of Change in Net Financial Assets**

For the Year Ended March 31, 2020

(audited)

	<b>March 31, 2020 Budget (Note 20)</b>	<b>March 31, 2020 Actual</b>	<b>March 31, 2019 Actual</b>
Surplus, for the year	\$ 3,090,000	\$ 8,375,754	\$ 9,304,295
Acquisition of tangible capital assets	\$ (7,915,000)	\$ (4,323,083)	\$ (4,522,469)
Depreciation of tangible capital assets	2,348,000	2,206,820	2,519,526
	\$ (5,567,000)	\$ (2,116,263)	\$ (2,002,943)
Acquisition of prepaid expenses		\$ (1,871,712)	\$ (1,061,576)
Use of prepaid expenses		1,734,578	1,579,110
		\$ (137,134)	\$ 517,534
Effect of net remeasurement gains and losses for the year		\$ 440,371	\$ 442,066
Increase in net financial assets, for the year		\$ 6,562,728	\$ 8,260,952
Net financial assets, beginning of year		\$ 62,002,826	\$ 53,741,874
Net financial assets, end of year		\$ 68,565,554	\$ 62,002,826

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

**Consolidated Statement of Cash Flows**

For the Year Ended March 31, 2020

(audited)

	March 31, 2020	March 31, 2019
<b>Operating transactions</b>		
Cash received from:		
Fees	\$ 60,518,518	\$ 55,682,972
Enforcement sanctions	700,175	5,151,876
Interest	1,210,779	867,406
	\$ 62,429,472	\$ 61,702,254
Cash paid to and on behalf of employees	\$ (34,983,243)	\$ (31,420,297)
Cash paid to suppliers and others	(19,108,912)	(13,113,996)
	\$ (54,092,155)	\$ (44,534,293)
Cash provided by operating transactions	\$ 8,337,317	\$ 17,167,961
<b>Capital transactions</b>		
Cash used to acquire tangible capital assets	\$ (4,323,083)	\$ (4,522,469)
<b>Investing transactions</b>		
Proceeds from disposals of investments	\$ 18,937,562	\$ 20,500,781
Purchase of investments	(19,666,830)	(19,385,544)
	\$ (729,268)	\$ 1,115,237
Increase in cash	\$ 3,284,966	\$ 13,760,729
Cash, beginning of year	\$ 23,582,821	\$ 9,822,092
Cash, end of year	\$ 26,867,787	\$ 23,582,821

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

## Notes to the Consolidated Financial Statements

For the Year Ended March 31, 2020

(audited)

### 1. Nature of operations

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

### 2. Significant accounting policies

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

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

The CSA is an umbrella organization of Canada's ten provincial and three territorial securities regulators, whose objective is to improve, coordinate and harmonize regulation of the Canadian capital markets. BCSC, Alberta Securities Commission, Ontario Securities Commission, and Autorité des marchés financiers (collectively, the Principal Administrators or PAs) have agreed to oversee CSA's shared information systems, on behalf of the CSA. Each of the PAs has one vote on shared system matters.

We collect approximately 79 percent of our local fee revenue through the national systems. The Partnership contracted CGI Information Systems and Management Consultants Inc. (CGI) to provide IT services to January 12, 2022. CGI maintains a comprehensive business continuity plan for the national systems.

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

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



## Notes to the Consolidated Financial Statements

For the Year Ended March 31, 2020

(audited)

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

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

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

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

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

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

The BCSC can order respondents to pay it money obtained as a result of contravening the *Securities Act*. If the BCSC receives money under such an order, we receive and consider applications for payment to eligible claimants from the money collected. We disburse funds to eligible claimants after adjudicating all claims, and retain any funds not disbursed after adjudicating all claims.

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

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

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

- Local information technology – three to five years
- Local leasehold improvements – the remaining lease term to November 30, 2031
- Local office furniture and equipment – ten years
- Partnership information technology – three to seven years

## **Notes to the Consolidated Financial Statements**

For the Year Ended March 31, 2020

(audited)

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

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

We recognize annual registration fees in revenue in the calendar year to which the fees relate.

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

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

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

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

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

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

## Notes to the Consolidated Financial Statements

For the Year Ended March 31, 2020

(audited)

### *h) Measurement uncertainty*

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

In our financial statements, management has estimated the:

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

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

### **3. Financial instruments**

Cash and restricted cash are demand deposits held at federally regulated financial institutions.

We invest local funds that we expect to use in the short-term (up to 1 year) or medium-term (1 to 2 years) in bank deposits or in investment pools that the British Columbia Investment Management Corporation (BCI), a BC government organization, administers.

We buy units of the following BCI pooled funds:

- Canadian Money Market Fund – Canadian government and corporate money market investments with original maturities of up to 15 months
- Short Term Bond Fund – Canadian federal, provincial and municipal government bonds and Canadian dollar fixed income securities that are insured or guaranteed by sovereign governments, and supranational debt securities, with a typical term to maturity of up to 5 years
- Canadian Universe Bond Fund – Government and investment-grade corporate debt securities, denominated in Canadian dollars with a term to maturity of up to 30 years

## Notes to the Consolidated Financial Statements

For the Year Ended March 31, 2020

(audited)

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

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

Our investments expose us to interest rate risk associated with the underlying interest-bearing securities held in the investment funds. Interest rate risk relates to the possibility that the fair value of fixed rate investments will change due to future fluctuations in market interest rates. In general, bond values are sensitive to changes in the level of interest rates, with longer-term interest-bearing securities being more sensitive to interest rate changes than shorter-term interest-bearing securities. Based on the March 31, 2020 composition of our investment portfolio, an immediate 1 percent increase in interest rates across the entire yield curve, with all other variables held constant, would result in a decrease in market value of approximately \$1.1 million. In addition, future investment income earned on variable rate cash deposits and new investments would increase after an interest rate increase. We manage interest rate risk by monitoring portfolio duration and yields with the fund administrator, BCI. The current investment duration of the Short Term Bond Fund is 2.6 years and of the Canadian Universe Bond Fund is 8.0 years.

In management's opinion, amounts receivable, accounts payable, and accrued liabilities and accrued salaries do not expose us to significant financial risk because of their short-term nature.

**Notes to the Consolidated Financial Statements**

For the Year Ended March 31, 2020

(audited)

**4. Cash**

	March 31, 2020	March 31, 2019
Local demand deposits	\$ 21,103,109	\$ 18,520,253
Partnership demand deposits	5,764,678	5,062,568
	\$ 26,867,787	\$ 23,582,821

Local working capital cash and the Partnership's working capital cash are on deposit with federally regulated financial institutions and earn interest ranging from prime minus 1.85% to prime minus 1.70%.

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

Case	March 31, 2020	March 31, 2019
Winston King-Loong Kuit	\$ 93,484	\$ 86,985
Jefferson Franklin Mesidor	6,030	6,030
Darren Scott Davidson	5,500	4,500
Paul Webster	5,200	4,000
Weiqing Jane Jin	4,280	4,280
Brendan James Schouw	3,500	–
Donald Weiss	1,250	700
Dennis Carl Weigel	1,250	600
Daniel Eric Byer	1,250	–
Renee Michelle Penko	75	75
Canada Pacific Consulting Inc. and Michael Robert Shantz	–	131,781
	\$ 121,819	\$ 238,951

**Notes to the Consolidated Financial Statements**

For the Year Ended March 31, 2020

(audited)

**6. Investments**

	March 31, 2020		March 31, 2019	
	Market Value	Cost	Market Value	Cost
<b>BCI pooled funds</b>				
Short Term Bond Fund	\$ 17,645,847	\$ 17,345,461	\$ 17,008,282	\$ 17,033,149
Canadian Universe Bond Fund	8,124,217	8,245,167	7,764,318	8,000,386
	\$ 25,770,064	\$ 25,590,628	\$ 24,772,600	\$ 25,033,535
<b>Partnership investments</b>				
Notice account	\$ 7,076,738	\$ 7,076,738	\$ 16,781,776	\$ 16,781,776
Term deposit	9,186,750	9,186,750	8,919,150	8,919,150
Guaranteed Investment Certificate	15,166,500	15,166,500	5,000,000	5,000,000
	\$ 31,429,988	\$ 31,429,988	\$ 30,700,926	\$ 30,700,926
	\$ 57,200,052	\$ 57,020,616	\$ 55,473,526	\$ 55,734,461

Refer to note 15 for information about investment income earned on the investments. The Partnership's investments are held in redeemable term deposits and guaranteed investment certificates at fixed interest rates of 2.25% to 3.00%.

**Notes to the Consolidated Financial Statements**

For the Year Ended March 31, 2020

(audited)

**7. Amounts receivable**

	March 31, 2020	March 31, 2019
National systems user fees	\$ 514,533	\$ 747,688
Enforcement sanctions	410,625	82,300
National project recoveries	189,335	145,938
SEDAR and other filings	183,400	60,200
GST refunds	173,123	198,876
Due from CMAIO	44,738	44,407
Employee advances and other	31,011	39,740
Late insider report filing fees	28,700	20,800
Due from CSTO	28,224	56,457
	\$ 1,603,689	\$ 1,396,406

**8. Accounts payable and accrued liabilities**

	March 31, 2020	March 31, 2019
Local trade accounts payable	\$ 2,331,161	\$ 4,041,131
Partnership trade accounts payable	874,918	549,147
Other	1,092	197,408
	\$ 3,207,171	\$ 4,787,685

**9. Employee leave liability**

Employee leave liability is what we owe to our employees for their earned but unused vacation time.

**Notes to the Consolidated Financial Statements**

For the Year Ended March 31, 2020

(audited)

**10. Tangible capital assets**

	<b>March 31, 2020</b>					<b>Total</b>
	<b>Local Information Technology</b>	<b>Local Leasehold Improvements</b>	<b>Local Furniture &amp; Equipment</b>	<b>Partnership Information Technology</b>		
<b>Cost</b>						
Opening balance	\$ 12,291,658	\$ 5,911,949	\$ 2,685,941	\$ 7,212,047		\$ 28,101,595
Additions	2,617,856	–	–	1,705,227		4,323,083
Disposals	(740,203)	–	–	–		(740,203)
Closing balance	\$ 14,169,311	\$ 5,911,949	\$ 2,685,941	\$ 8,917,274		\$ 31,684,475
<b>Accumulated depreciation</b>						
Opening balance	\$ 7,403,807	\$ 5,121,417	\$ 2,336,228	\$ 452,942		\$ 15,314,394
Depreciation	1,734,699	297,917	69,745	104,459		2,206,820
Disposals	(740,203)	–	–	–		(740,203)
Closing balance	\$ 8,398,303	\$ 5,419,334	\$ 2,405,973	\$ 557,401		\$ 16,781,011
<b>Net book value</b>	<b>\$ 5,771,008</b>	<b>\$ 492,615</b>	<b>\$ 279,968</b>	<b>\$ 8,359,873</b>		<b>\$ 14,903,464</b>

	<b>March 31, 2019</b>					<b>Total</b>
	<b>Local Information Technology</b>	<b>Local Leasehold Improvements</b>	<b>Local Furniture &amp; Equipment</b>	<b>Partnership Information Technology</b>		
<b>Cost</b>						
Opening balance	\$ 12,187,007	\$ 5,911,949	\$ 2,686,506	\$ 4,978,267		\$ 25,763,729
Additions	2,289,254	–	(565)	2,233,780		4,522,469
Disposals	(2,184,603)	–	–	–		(2,184,603)
Closing balance	\$ 12,291,658	\$ 5,911,949	\$ 2,685,941	\$ 7,212,047		\$ 28,101,595
<b>Accumulated depreciation</b>						
Opening balance	\$ 7,518,162	\$ 4,824,204	\$ 2,262,142	\$ 374,963		\$ 14,979,471
Depreciation	2,070,248	297,213	74,086	77,979		2,519,526
Disposals	(2,184,603)	–	–	–		(2,184,603)
Closing balance	\$ 7,403,807	\$ 5,121,417	\$ 2,336,228	\$ 452,942		\$ 15,314,394
<b>Net book value</b>	<b>\$ 4,887,851</b>	<b>\$ 790,532</b>	<b>\$ 349,713</b>	<b>\$ 6,759,105</b>		<b>\$ 12,787,201</b>



**Notes to the Consolidated Financial Statements**

For the Year Ended March 31, 2020

(audited)

**11. Prepaid expenses**

	March 31, 2020	March 31, 2019
Local IT and information service contracts	\$ 610,344	\$ 455,656
Partnership IT and information service contracts	664,771	682,325
	\$ 1,275,115	\$ 1,137,981

**12. Accumulated operating surplus**

	March 31, 2020			
	General	Education (a)	Partnership (b)	Total
Opening balance	\$ 29,511,967	\$ 3,470,490	\$ 43,206,486	\$ 76,188,943
Additions and appropriations	4,694,815	1,028,500	2,652,439	8,375,754
Investment income allocation	(91,798)	91,798	–	–
Education expenses paid from reserve	1,422,453	(1,422,453)	–	–
Closing balance	\$ 35,537,437	\$ 3,168,335	\$ 45,858,925	\$ 84,564,697

	March 31, 2019			
	General	Education (a)	Partnership (b)	Total
Opening balance	\$ 26,167,401	\$ –	\$ 40,717,247	\$ 66,884,648
Additions and appropriations	1,608,380	5,206,676	2,489,239	9,304,295
Investment income allocation	(31,641)	31,641	–	–
Education expenses paid from reserve	1,767,827	(1,767,827)	–	–
Closing balance	\$ 29,511,967	\$ 3,470,490	\$ 43,206,486	\$ 76,188,943

**a) Education reserve (internally-restricted)**

We order administrative penalties and 161(1)(g) payments under the *Securities Act*. We also negotiate settlement amounts. We designate revenue from penalties, settlements, and unclaimed 161(1)(g) payments to our Education reserve, which we spend only to educate securities market participants and the public about investing, financial matters, and the operation or regulation of securities markets.

**b) Partnership (restricted)**

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

**Notes to the Consolidated Financial Statements**

For the Year Ended March 31, 2020

(audited)

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

	March 31, 2020		March 31, 2019	
	Partnership	25% share	Partnership	25% share
<b>Financial Position</b>				
Financial assets	\$ 150,836,796	\$ 37,709,199	\$ 146,044,729	\$ 36,511,182
Liabilities	3,499,671	874,918	2,984,505	746,126
Net Financial assets	\$ 147,337,125	\$ 36,834,281	\$ 143,060,224	\$ 35,765,056
Non-financial assets	36,098,575	9,024,644	29,765,720	7,441,430
Accumulated surplus	\$ 183,435,700	\$ 45,858,925	\$ 172,825,944	\$ 43,206,486
<b>Operations</b>				
Revenues:				
National systems access and usage fee	\$ 25,812,607	\$ 6,453,152	\$ 26,092,086	\$ 6,523,022
Investment income and other	3,349,237	837,309	3,026,718	756,680
Expenses	18,552,088	4,638,022	19,161,846	4,790,462
Surplus	\$ 10,609,756	\$ 2,652,439	\$ 9,956,958	\$ 2,489,240

**14. Enforcement sanctions**

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

We assessed enforcement sanctions of \$4.1 million (fiscal 2019 – \$35.4 million) during the year, of which we did not recognize \$3.1 million (fiscal 2019 – \$34.8 million) as revenue because we have not determined that the sanctions are collectible.

## Notes to the Consolidated Financial Statements

For the Year Ended March 31, 2020

(audited)

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

	For the Year Ended March 31, 2020					
	Average Balance	Investment Income	Realized Gains (Losses)	Total Income	Unrealized Gains (Losses)	Annualized Return
Cash, term deposits and GIC	\$ 52,031,661	\$ 1,205,575	\$ –	\$ 1,205,575	\$ –	2.3%
Restricted cash - 161(1)(g) payments	226,584	5,204	–	5,204	–	2.3%
Short Term Bond Fund	17,212,993	312,105	–	312,105	325,253	3.7%
Canadian Universe Bond Fund	8,023,138	244,781	–	244,781	115,118	4.5%
	\$ 77,494,376	\$ 1,767,665	\$ –	\$ 1,767,665	\$ 440,371	2.8%

	For the Year Ended March 31, 2019					
	Average Balance	Investment Income	Realized Gains (Losses)	Total Income	Unrealized Gains (Losses)	Annualized Return
Cash, term deposits and GIC	\$ 41,182,536	\$ 862,694	\$ –	\$ 862,694	\$ –	2.1%
Restricted cash - 161(1)(g) payments	230,705	4,712	–	4,712	–	2.0%
Short Term Bond Fund	18,399,536	351,993	(67,159)	284,834	170,818	2.5%
Canadian Universe Bond Fund	7,419,771	201,823	–	201,823	204,089	5.5%
	\$ 67,232,548	\$ 1,421,222	\$ (67,159)	\$ 1,354,063	\$ 374,907	2.6%

**Notes to the Consolidated Financial Statements**

For the Year Ended March 31, 2020

(audited)

**16. Expenses**

	Year ended March 31		
	Budget 2020	2020	2019
<b>Local operations</b>			
Salaries and benefits	\$ 35,900,000	\$ 35,287,285	\$ 31,048,503
Occupancy	3,800,000	3,808,015	3,462,981
Professional services	2,300,000	3,625,626	2,460,717
Information management	2,650,000	2,188,501	1,954,776
Depreciation	2,220,000	2,102,361	2,441,547
Education	1,500,000	1,422,453	1,767,827
Administration	630,000	640,078	550,597
Staff training	500,000	495,028	463,423
Telecommunications	180,000	274,603	215,757
Travel	500,000	268,294	273,999
External communication	180,000	160,855	88,065
<b>Total local operations</b>	<b>\$ 50,360,000</b>	<b>\$ 50,273,099</b>	<b>\$ 44,728,192</b>
<b>Partnership operations</b>			
Professional services	\$ 4,133,000	\$ 3,210,583	\$ 3,730,603
Salaries and benefits	1,016,000	1,129,875	779,724
Information management and administration	223,000	193,105	202,158
Depreciation	128,000	104,459	77,979
<b>Total Partnership operations</b>	<b>\$ 5,500,000</b>	<b>\$ 4,638,022</b>	<b>\$ 4,790,463</b>
	<b>\$ 55,860,000</b>	<b>\$ 54,911,121</b>	<b>\$ 49,518,655</b>

## **Notes to the Consolidated Financial Statements**

For the Year Ended March 31, 2020

(audited)

### **17. Related party transactions**

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

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

We, and our employees, contribute to the Public Service Pension Plan, a multi-employer plan. The plan is contributory, and its basic benefits are defined. The plan has approximately 50,000 active members, 64,000 retired members, and 19,000 inactive members. A board of trustees, representing plan members and employers, is responsible for overseeing the management of the plan, including investment of assets and administration of benefits.

An actuarial valuation of the plan performed every three years assesses the plan's financial position. The latest valuation, as at March 31, 2017, indicated a \$1,895 million (March 31, 2014 – \$194 million) surplus for basic pension benefits. In addition to basic benefits, the plan also provides supplementary benefits, including inflation indexing. These supplementary benefits are paid only to the extent that they have been funded, which is currently done on a "pay-as-you-go" basis.

The plan trustees monitor the impact of the financial environment on plan health. Plan surpluses and deficits are not attributable to individual employers, but affect future contribution levels. We charged \$2.7 million (fiscal 2019 – \$2.4 million) to expense for employer contributions during the period.

**Notes to the Consolidated Financial Statements**

For the Year Ended March 31, 2020

(audited)

**19. Commitments and contingencies**

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

Fiscal year	2021 - 2022	2023 - 2025	2026 - 2028	2029 - 2032	Total
	\$ 7,798,979	\$ 12,019,600	\$ 12,812,223	\$ 16,754,857	\$ 49,385,659

The Partnership has contracted with CGI to host and operate the national systems until January 12, 2022. The Partnership has certain rights to terminate the agreement, with and without cause, as set out in the agreement.

The Partnership has also contracted with CGI to redevelop several shared filing systems over the next several years. The Partnership has also contracted with First Derivatives Canada Inc. to design and operate a shared investment market analysis system over the next several years. The Partnership has certain rights to terminate the agreements, with and without cause, as set out in the agreements.

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

**20. Budgeted figures**

Budgeted figures are for comparison purposes.

**21. Subsequent event**

The COVID-19 pandemic has shocked the Canadian and global economies. BCSC has not, to date, experienced significant financial impacts as a result of the pandemic. However, the pandemic's continuing effects on investment markets could impact the BCSC's operations and financial results. We cannot reasonably estimate such impacts at this time given the unprecedented and dynamic nature of the pandemic. Potential impacts include reduced revenue. We hold accumulated reserves to fund local operations through market downturns.

## **Appendix A: Additional Information**

### **Organizational Overview**

- [Enabling Statute](#)
- [Mission, Values, and Overall Benefit](#)
- [Organizational Chart](#)
- [Stakeholders and Partners](#)
- [Location of BCSC Operations](#)

### **Corporate Governance**

- [Governance](#)
- [Commissioners](#)
- [Board Committees](#)
- [Senior Management](#)
- [Funding and Accountability](#)

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