

# **British Columbia Securities Commission**

## **2020/21 Annual Service Plan Report**

**August 2021**



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## Board Chair's Accountability Statement



The *British Columbia Securities Commission 2020/21 Annual Service Plan Report* compares the corporation's actual results to the expected results identified in the *2020/21 – 2022/23 Service Plan* created in February 2020. I am accountable for those results as reported.

A handwritten signature in black ink, appearing to be 'B. Leong', written in a cursive style.

Brenda M. Leong  
Chair and Chief Executive Officer  
July 27, 2021

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## Letter from the Board Chair & CEO

The BCSC is an independent Crown agency responsible for protecting investors and supporting fair, efficient and innovative investment markets.

Throughout 2020/21, the BCSC honored Government's commitment to delivering quality, cost-effective services to British Columbia families and businesses through outcomes-based regulation and vigorous and sustained enforcement and collections actions.

The BCSC began using new *Securities Act* amendments which provided us with stronger tools to support our efforts to detect, disrupt and deter securities misconduct. We undertook almost 300 actions to disrupt misconduct, many of which were schemes that sought to exploit the COVID-19 pandemic and collected \$502,668 in sanctions. Our specialized Trading Unit continued to combat abusive promotions and trading in the midst of high volatility in the markets and a proliferation of on-line trading. Alongside our enforcement efforts we also delivered public awareness campaigns raising awareness about investment fraud and elder financial abuse.

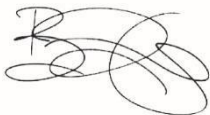
In keeping with Government's commitments to building a strong, sustainable economy that works for everyone, we collaborated with other securities regulators in Canada to implement key investor-oriented regulations: Client Focused Reforms, which will raise the standards of conduct for investment firms and put client's interests first, and introduced bans on certain mutual fund sales charges and order execution only trailing commissions, making fees more transparent and giving investors more control over the fees they pay.

With the advancement of technology driven investment options, our Fintech and Innovation Team worked with our Canadian regulatory partners to facilitate the operations of three new innovative business models, including a BC-based platform for exempt market trading of securitized tokens.

With a heightened focus globally on diversity and inclusion, we are proud of our gender-balanced workforce, comprised of 56% women and 44% men. Gender balance is represented up to and including our executive team. Our Board is made up of six women and three men.

The BCSC proactively engages with the Ministry of Finance at all levels to ensure strategic alignment with the Ministry's objectives. Ongoing and regular dialogue with the Ministry on emerging capital market issues, major enforcement actions and investor awareness initiatives supports and is critical to our success in meeting our strategic objectives.

Brenda M. Leong



Chair and Chief Executive Officer, British Columbia Securities Commission  
July 27, 2021

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

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

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

- identify important problems and address them through a variety of regulatory tools;
- approve applications for registration from those that trade securities, provide advice or manage portfolios and investment funds to ensure they are qualified, ethical and solvent;
- review the disclosure that businesses and investment funds raising capital must provide to investors to ensure compliance with securities law requirements;
- take compliance and enforcement action against those who contravene securities laws;
- educate investors to protect themselves and industry participants to bolster compliance with securities law requirements.

## Strategic Direction

The strategic direction set by Government in 2017, and expanded upon in the Board Chair's [2020 Mandate Letter](#) from the Minister Responsible, shaped the goals, objectives, performance measures and financial plan outlined in the [2020/21 British Columbia Securities Commission Service Plan](#) and actual results reported on in this annual report.

The global COVID-19 pandemic resulted in many shifts in priorities, structures and operations across the public sector. Any changes to British Columbia Securities Commission goals, objectives, performance measures or financial plan to align with the strategic direction established by Government in late 2020 are presented in the 2021/22 Service Plan.

## Operating Environment

The British Columbia Securities Commission (BCSC or Commission) works with other Canadian securities regulators through the Canadian Securities Administrators (CSA) to regulate Canada's capital markets. This year we participated in a CSA project to review the current self-

regulatory organization structure, including the Investment Industry Regulatory Organization of Canada (IIROC) and the Mutual Fund Dealers Association of Canada (MFDA), to ensure that it meets the needs of an evolving industry and investors. Certain of our policy projects, described further below, were delayed because of developments in other jurisdictions. We aim to provide nationally harmonized regulatory outcomes for market participants and investors, which sometimes means adjusting our timelines.

COVID-19 did not have a significant financial impact on the BCSC in the 2020/21 fiscal year. Revenues generated from market participant fees continued to be strong despite some market volatility early in the pandemic. We were able to deliver uninterrupted services to market participants and the investing public. For example, early in the pandemic, the BCSC adapted its hearing room facilities and processes to allow enforcement hearings to be run in person, electronically or on a hybrid basis.

One area of concern in public markets is a resurgence in abusive promotional and trading activity by a small number of market participants, primarily in venture markets. We are aggressively pursuing this activity, which aligns with our Government's priority to protect BC investors through decisive enforcement actions. This work relates to our broader, integrated approach to creating an environment that discourages misconduct through enhanced intelligence gathering, early intervention tactics to disrupt fraudulent activity, criminal investigations, and a visible and robust financial sanctions collections process.

The volume and complexity of market activity, and the volume of data the BCSC receives or could review in order to supervise market participants, has continued to expand over many years. This challenges BCSC's ability to keep up with its regulatory responsibilities and derive insights from this data. Given these challenges, BCSC developed a business case during the 2020/21 year for a new regulatory operations and data analytics Platform. The Platform is designed to improve the efficiency of our internal processes and improve our ability to analyze data, so we can prioritize our highest risk work. The project to implement the Platform is described in our 2021/22 Service Plan.

We continued to support our Government with the development of the legislative framework and the transition and integration work necessary to establish the Capital Markets Regulatory Authority.

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

### **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 businesses and investment funds that raise money in the capital markets, understand and comply with their regulatory obligations.

On the trading and advice side, we register securities firms and their advisors, audit these firms for compliance, and oversee the conduct of the TSX Venture Exchange (TSXV), Canadian Securities Exchange (CSE), Clearing and Depository Services (CDS), IIROC, and the MFDA.

On the capital-raising side, we regulate securities issuers and insiders and review that their mandatory filings meet minimum standards. In addition, we monitor daily trading of over-the-counter derivatives.

#### **Key Highlights**

- **Implement a derivatives regime**

This year we completed work on phase 1 of NI 25-102 (Designated Benchmarks and Benchmark Administrators). Notice of adoption was published in April, 2021. On the same day that we published the notice of adoption for phase 1, we published for comment phase 2 of NI 25-102 that relates to commodity benchmarks.

We continued work on national instruments including NI 93-101 (Derivatives: Business Conduct), NI 93-102 (Derivatives: Registration). We published both instruments for comment in July, 2021.

- **Implement client focused reforms**

The CSA has published detailed guidance to address questions from industry about how to implement various aspects of the client focused reforms (CFR). Through the CFR implementation committee, the CSA continues to provide ongoing guidance to industry about its implementation of the CFRs. The client focused reform provisions related to conflicts of interest came into effect on June 30, 2021, and the remaining provisions will come into effect on December 31, 2021.

- **Implement reforms to mutual fund fee structures**

The CSA, except for Ontario, published final amendments for the Deferred Sales Charge (DSC) ban on February 20, 2020 and the effective date is June 1, 2022.<sup>1</sup> BC led the drafting of the

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<sup>1</sup> Ontario joined the ban on deferred sales charges in May 2021.



Notice and amendments. The Ontario Securities Commission published on February 20, 2020 an alternative proposal for comment until July 6, 2020, consisting of certain restrictions on the sale of DSCs.

The CSA published final amendments for the Order Execution Only (OEO) trailing commission ban on September 17, 2020 which is intended to take effect on June 1, 2022. The effective date takes into account the need for dealer firms and representatives to transition their systems and processes to comply with these new rules, reassess their internal compensation arrangements and implement new fee charging systems. Additionally, the effective date provides fund organizations with sufficient time to make available a no-trailing commission mutual fund series for OEO investors.

Performance Measure(s)	2019/20 Actuals	2020/21 Target	2020/21 Actuals	2021/22 Target	2022/23 Target
1.1 a Percentage of reviewed issuers that reduce deficiencies:					
i. Improved disclosure subsequent to a continuous disclosure review	100%	>95%	100%	>95%	>95%
ii. Improved disclosure to minimum standards	100%	>95%	100%	>95%	>95%
1.1 b Percentage of randomly sampled mining companies that comply with standards for technical disclosure in:					
i. Filed disclosure (annual information forms, news releases, management discussion and analysis)	75%	83%	74%	85%	85%
ii. Issuer websites and other voluntary disclosure	68%	81%	63%	85%	85%
1.1c Average number of repeat deficiencies per examination in Capital Markets Regulation	1.05	0.67	0.67	0.64	0.64

Data source:

1.1a Internal evaluation of subsequent disclosure.

1.1b 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.

1.1c Data recorded in established tracking systems.

## Discussion of Results

1.1a This fiscal year, we reviewed 12 files, eight of which had compliant disclosure. Of the remaining four files, all improved their disclosure upon receiving comments from the BCSC. Of the 12 files reviewed, all of them met the basic standard for compliance.

1.1b We did not meet these targets. As previously reported, the KPI does not consider compliance in Form 43-101F1 technical reports. A new measure has been developed that

more precisely reflects material compliance with the mineral project disclosure standard in 1) technical reports and 2) all other disclosure including websites and social media. This new measure will be in effect starting fiscal year 2021/22. Compliance with the disclosure standard in required filings remained substantially unchanged over previous years. Compliance in voluntary disclosure declined over previous years. We attribute this decline to high activity in mining capital markets during 2020/21 precipitated by significant appreciation in commodity prices. Some market participants from other industry sectors shifted to mining and a significant number of new market participants joined the sector. We believe these factors were key contributors to the declines in compliance measured in 2020/21.

- 1.1c We met the target. We reviewed a total of nine firms, of which six had repeat deficiencies. From this group, one firm, on which we took compliance action and referred to enforcement, had three repeat deficiencies and impacted the overall data. We continue to adopt a risk-based approach which selects firms that are more likely to have compliance deficiencies.

## **Objective 1.2: Advance cost-effective regulation**

We aim to provide strong investor protection and market integrity for an appropriate cost by focusing on three core areas:

- Emphasizing practical solutions
- Using our resources efficiently
- Delivering services reliably

### **Key Highlights**

- **CSA systems redesign**

This year, the CSA continued work on the first of three phases of the National System Renewal Project (NSRP). The first phase will consolidate most issuer-focused functionality in existing systems. The significant work completed this year was:

- Completing development of end-user functionality
- Continued migration and quality testing of existing system data
- Continued development of jurisdictions' local system interfaces

The CSA anticipates launching the first phase of the new system in 2022.

- **Regulate financial technologies to support innovation**

The BCSC continued to regulate financial technologies to support innovation. We considered the appropriate regulatory framework for crypto-asset trading platforms (CATPs) and whether the regulatory framework needed modernization to facilitate the distribution and trading of blockchain-based securities. We strived to keep pace with (and properly control) emerging risks while also testing new business models and opportunities. To this end, we:

- Initiated operation of the Fintech Advisory Forum, an external stakeholder group that advises BCSC staff on fintech trends and developments

- Published Joint CSA/IIROC Staff Notice 21-329, which outlines securities law requirements that apply to crypto asset trading platforms (platforms) and how they may be tailored by securities regulators for the platform’s business model
- Published guidance to improve the quality of disclosures provided by issuers that engage materially with crypto assets

The BCSC has also continued its international activities as a member of the Global Fintech Innovation Network (GFIN) as well as through the International Organization of Securities Commissions and the North American Securities Administrators Association (NASAA).

- **Review and modernize regulations affecting reporting issuers**

In cooperation with the CSA, we continued work on reviewing and modernizing regulations affecting companies to reduce regulatory burden. To this end, we:

- Consulted on a potential prospectus exemption that would reduce regulatory burden for reporting issuers raising smaller amounts of capital
- Published for comment an “access equals delivery” model that would allow issuers to provide electronic access to disclosure documents instead of delivering them
- Adopted amendments that significantly reduced the circumstances in which a reporting issuer would be required to file a business acquisition report, while still ensuring disclosure of meaningful business acquisitions
- Continued to lead the CSA towards publishing proposed final NI 45-110 (Start-up Crowdfunding Registration and Prospectus Exemptions) after reviewing comments from publication of a proposed instrument for comment in February 2020

Performance Measure	2019/20 Actuals	2020/21 Target	2020/21 Actuals	2021/22 Target	2022/23 Target
1.2 Average score on cost-effective regulation scorecard	98%	>90%	95% <sup>1</sup>	>90%	>90%

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

<sup>1</sup> In fiscal 2020/21, we had six 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 six completed policy initiatives.

## 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:

- Gather and act on intelligence, including from the public and other agencies
- Act quickly to stop misconduct and freeze assets
- Investigate and prosecute misconduct, and seek administrative orders from our tribunal or refer criminal cases to Crown Counsel to prosecute
- Pursue payment of our financial sanctions and return money to harmed investors when possible

## Key Highlights

- **Improve market analytics capability for enforcement investigations**

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

- **Improve market intelligence capability**

The Trading Unit (TU) continued to review and investigate market misconduct matters and assess technological tools, including the Market Analytics Platform (MAP). During the year, the TU focused on testing, evaluating and using MAP in its initial release. They will continue to use and support MAP through future releases and assess how to deploy other means of data analytics to identify suspicious trading anomalies using MAP data. The TU also developed trade and detection model prototypes to help detect abusive promotions and trading activities. Due to higher priorities, we deferred expanding outreach until next fiscal year.

Performance Measure(s)	2019/20 Actuals	2020/21 Target	2020/21 Actuals	2021/22 Target	2022/23 Target
2.1a Actions taken to disrupt misconduct:					
i. Number of actions	119	130	292	136	143
ii. Average duration of complaint to action (days)	70	50	41	48	46
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)	31.0	35.7	42.9	40.5	Set at start of each fiscal year

Data source:

<sup>2.1a</sup>Data recorded in established tracking systems, primarily the BCSC Enforcement Case Tracking system and in official documents.

<sup>2.1b</sup> We base the fiscal 2021/2022 target on the average duration of our current portfolio of cases plus the two-year average duration to issue a NOH or enter into a Settlement Agreement.

## 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. This year, we greatly exceeded our target for number of actions taken to disrupt misconduct. For part of the year, Enforcement struck a taskforce whose primary goal was to identify and disrupt various COVID-19 related investment schemes. The taskforce also identified and disrupted other investment schemes, including unregistered forex trading, binary options schemes, and crypto-currency schemes. We worked with foreign regulators and CSA colleagues, as well as law enforcement agencies to disrupt these schemes. We also worked with Internet Service Providers and social media companies to remove websites, posts, and pages that contain language that contravenes the *Securities Act*. We also exceeded our target for the average duration to initiate a disruptive action after we receive a complaint or referral. Again this was primarily due to the proactive approach we took to address many of the investment schemes that popped up during the pandemic.
- 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. We did not meet our target due to these factors. We have set our targets for next year taking 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 investors to help them make informed decisions. Using social media and other channels for investor education, we help investors understand how to make informed investment decisions, including the importance of conducting due diligence.

## Key Highlights

- **Promote fraud awareness among BC residents**

We launched a new multilingual fraud awareness campaign in March 2021, which aligned with Fraud Prevention Month across Canada. The campaign, called *Hi, My Name is FOMO*, showed how social media can bring out the emotion of FOMO (Fear of Missing Out), which can potentially draw people into fraudulent investment schemes. The province-wide campaign included TV, radio, digital, social, billboards, media appearances and podcast advertisements.

- **Focus investor attention on achieving better investment outcomes**

In June 2020, we conducted COVID-19-specific research to better understand how the pandemic was impacting British Columbians' investing and saving behaviour. Based on those insights, we

developed a three-year advertising and research program and launched new multi-media advertising campaign, titled *Evasive Maneuvers*, in January 2021. The campaign used humour to show the ways people will avoid a conversation about investing, and offered a solution – to become educated – by visiting the BCSC website. We also delivered “always on” digital campaigns throughout the year, to raise awareness about investment fraud, elder financial abuse, and offered free educational resources that help people get started with investing.

Performance Measure(s)	2019/20 Actuals	2020/21 Target	2020/21 Actuals	2021/22 Target	2022/23 Target
2.2a Number of video views of Investment Fraud Explained seminar video	4,377	3,250	4,387	4,826	5,067
2.2b Percentage of BC public aware of BCSC	43%	43%	40%	45%	47%

Data source:

<sup>2.2a</sup> BCSC InvestRight YouTube channel/Google Ads

<sup>2.2b</sup> Independent survey

## Discussion of Results

2.2a 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. We have easily exceeded this target since Fiscal 2018/19. As a result, we will now use the 2019/20 actual as the baseline for this measure. Yearly targets in the [2021-2024 BCSC Service Plan](#) reflect a five per cent increase using this new baseline.

2.2b We did not meet this target; however, our campaign this year was carefully targeted to women under 45 years old. 45% of this group recalled at least one ad concept. 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?”

## Financial Report

For the auditor's report and audited financial statements, [see Appendix C](#). These can also be found on the British Columbia Securities Commission website [www.bpsc.bc.ca](http://www.bpsc.bc.ca).

## Discussion of Results

We prepared this discussion of financial position and results of operations of the British Columbia Securities Commission (BCSC) on May 14, 2021. Read it in conjunction with our audited financial statements for the year ended March 31, 2021.

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

BCSC is the provincial crown corporation responsible for regulating B.C. 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, 2021 were a surplus of \$11.8 million, which is \$9.7 million above budget. The total surplus is comprised of \$9.6 million for local operations and \$2.2 million for Partnership operations.

The key operating budget variances were:

- Distributions revenue was \$7.0 million (23%) higher than budget, due primarily to higher than expected prospectus percentage of proceeds fees and exempt distributions fees.
- Investment income and realized gains on investments was \$0.4 million (30%) higher than budget mainly due to gains on the sale of investments.
- Financial filing revenue was \$0.4 million (8%) higher than budget mainly due to a higher than expected number of filings.
- Enforcement sanctions revenue was \$0.3 million (57%) lower than budget. Enforcement sanction revenue is volatile and depends on the timing of enforcement actions completed during the year and on our ability to collect assessed amounts.
- Local expenses were \$2.6 million (5%) lower than budget; key components of this variance were professional services lower by \$0.6 million due primarily to lower than planned IT consulting, depreciation expense lower by \$0.5 million due to delays in capital spending, and training and travel expenses lower by \$0.7 million due primarily to travel restrictions.

The key capital budget variances were:

- Local capital spending was \$3.7 million (64%) lower than budget due to an IT shift to using software-as-a-service and delays in leasehold improvements. Partnership capital spending on information technology was \$2.4 million (59%) lower than budget due to timing of the work on national systems projects.

## Financial Results Summary

<i>(millions)</i>	2019/20	2020/21	2020/21	2020/21
	Actual	Budget	Actual	Variance
<b>Revenue</b>				
Regulatory and other local fees:				
Distributions	\$ 30.2	\$ 30.0	\$ 37.0	\$ 7.0
Registration	18.3	18.0	17.9	(0.1)
Financial filings	5.1	4.8	5.2	0.4
Exemptive orders and other fees	0.5	0.6	0.5	(0.1)
	\$ 54.1	\$ 53.4	\$ 60.6	\$ 7.2
Other revenue:				
National systems access and usage fees	\$ 6.5	\$ 7.0	\$ 6.7	\$ (0.3)
Enforcement sanctions	1.0	0.6	0.3	(0.3)
Investment income and realized gains on investments	1.8	1.7	2.1	0.4
	\$ 9.2	\$ 9.3	\$ 9.1	\$ (0.2)
<b>Total revenue</b>	<b>\$ 63.3</b>	<b>\$ 62.7</b>	<b>\$ 69.7</b>	<b>\$ 7.0</b>
<b>Expense</b>				
Local salaries and benefits	\$ 35.3	\$ 37.6	\$ 37.3	\$ (0.3)
Other local expenses	15.0	17.7	15.4	(2.3)
National systems expenses	4.6	5.3	5.2	(0.1)
<b>Total expenses</b>	<b>\$ 54.9</b>	<b>\$ 60.6</b>	<b>\$ 57.9</b>	<b>\$ (2.7)</b>
<b>Surplus</b>	<b>\$ 8.4</b>	<b>\$ 2.1</b>	<b>\$ 11.8</b>	<b>\$ 9.7</b>
<b>Supplementary Information</b>				
Unrestricted surplus	\$ 38.9	\$ 36.8	\$ 47.7	\$ 10.9
Restricted surplus	\$ 45.9	\$ 48.3	\$ 48.1	\$ (0.2)
Local capital expenditures	\$ 2.6	\$ 5.8	\$ 2.1	\$ (3.7)
Partnership capital expenditures	\$ 1.7	\$ 4.0	\$ 1.6	\$ (2.4)



## 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*

	2016/17	2017/18	2018/19	2019/20	2020/21
Distributions	50%	52%	46%	48%	53%
Registration	25%	24%	23%	29%	26%
Financial filings	10%	9%	8%	8%	7%
National systems access and usage fees	13%	12%	11%	10%	10%
Enforcement sanctions and other	2%	3%	12%	5%	4%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

#### *Local revenue*

<i>(thousands)</i>	2020/21 Actual versus Budget				2020/21 versus 2019/20			
	Actual	Budget	Variance	%	2020/21	2019/20	Variance	%
Distributions	\$ 36,999	\$ 30,000	\$ 6,999	23%	\$ 36,999	\$ 30,163	\$ 6,836	23%
Registration	17,901	18,000	(99)	(1%)	17,901	18,265	(364)	(2%)
Financial filings	5,175	4,800	375	8%	5,175	5,116	59	1%
Exemptions and other	530	560	(30)	(5%)	530	494	36	7%
Enforcement sanctions	258	600	(342)	(57%)	258	1,029	(771)	(75%)
Investment income & realized gains	1,403	900	503	56%	1,403	930	473	51%
	<b>\$ 62,266</b>	<b>\$ 54,860</b>	<b>\$ 7,406</b>	<b>13%</b>	<b>\$ 62,266</b>	<b>\$ 55,997</b>	<b>\$ 6,269</b>	<b>11%</b>

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 \$7.0 million (23%) higher than budget, and \$6.8 million (23%) higher than the preceding year, due primarily to higher than expected prospectus percentage-of-proceeds fees and higher exempt distributions fees.

Financial filing revenue was \$0.4 million (8%) higher than budget mainly due to higher than expected number of filings.

### ***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 \$43.3 million. We collected \$0.5 million of which \$0.2 million related to sanctions imposed in the current year and \$0.3 million related to sanctions imposed in prior years. In the preceding year we collected \$0.7 million.

We have a claims process for investors for any money that we obtain in payment of BCSC disgorgement orders. The Commission allocates to a reserve within accumulated operating surplus, 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 use the reserve to educate securities market participants and the public about investing, financial matters or the operation or regulation of securities markets, benefitting third parties the commission considers appropriate, enforcing (including collecting on) these orders, and processing claims to proceeds from disgorgement orders.

### ***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, 2021 we had \$5.8 million in local demand deposits. The Partnership's investments are in redeemable term deposits and guaranteed investment certificates.

Local investment income was \$0.5 million (56%) higher than budget, and \$0.5 million (51%) higher than the preceding year due primarily to gains on the sale of investments in investment pools.

## **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 contracted IT service providers, 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 71 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 2021 professional service costs related primarily to IT consulting, 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 single office in downtown Vancouver. Our leasing arrangements expire in November 2031.

We educate the public and market participants about investing, financial matters and the operation or regulation of investment markets. Most of the education spending in 2021 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>	2020/21 Actual versus Budget				2020/21 Actual versus 2019/20			
	Actual	Budget	Variance	%	2020/21	2019/20	Variance	%
Salaries and benefits	\$ 37,296	\$ 37,600	\$ (304)	(1%)	\$ 37,296	\$ 35,287	\$ 2,009	6%
Occupancy	4,019	4,370	(351)	(8%)	4,019	3,808	211	6%
Professional services	3,332	3,900	(568)	(15%)	3,332	3,626	(294)	(8%)
Information management	2,739	2,660	79	3%	2,739	2,189	550	25%
Depreciation	2,360	2,900	(540)	(19%)	2,360	2,102	258	12%
Education	1,822	1,750	72	4%	1,822	1,422	400	28%
Other	1,125	2,080	(955)	(46%)	1,125	1,839	(714)	(39%)
	<b>\$ 52,693</b>	<b>\$ 55,260</b>	<b>\$ (2,567)</b>	<b>(5%)</b>	<b>\$ 52,693</b>	<b>\$ 50,273</b>	<b>\$ 2,420</b>	<b>5%</b>

Total expenses for local operations were under budget by \$2.6 million primarily due to professional services, depreciation expense, and other expenses. Professional services were under budget by \$0.6 million due primarily to lower than planned IT consulting. Depreciation expense was under budget by \$0.5 million due to delays in capital spending. Other expenses were under budget by \$0.9 million, primarily due to a \$0.7 million variance in training and travel expenses caused primarily by travel restrictions.

Local salaries and benefits expense was \$2.0 million (6%) higher than the preceding year due to filling new positions and vacancies primarily to increase enforcement capacity and support our digital transformation project and merit-based salary increases. Other expenses were \$0.7 million (39%) lower than the preceding year due primarily to lower training and travel expenses caused primarily by travel restrictions.

### 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>	2020/21 Actual versus Budget			2020/21 Actual versus 2019/20		
	Actual	Budget	Variance	2020/21	2019/20	Variance
National systems access and usage fees	\$ 6,687	\$ 7,000	\$ (313)	\$ 6,687	\$ 6,453	\$ 234
Partnership investment income and other	743	750	(7)	743	837	(94)
National systems expenses	5,187	5,250	(63)	5,187	4,638	549
<b>Surplus</b>	<b>\$ 2,243</b>	<b>\$ 2,500</b>	<b>\$ (257)</b>	<b>\$ 2,243</b>	<b>\$ 2,652</b>	<b>\$ (409)</b>

The surplus for Partnership operations was \$0.3 million (10%) lower than budget and was slightly lower than the surplus in 2020. National systems expenses were on budget, while fee revenue was under budget by \$0.3 million.

### **Tangible Capital Assets**

Additions to local tangible capital assets of \$2.1 million were primarily for IT infrastructure upgrades. Additions to the Partnership information technology of \$1.6 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 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, 2024, 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, 2021 that materially affected, or are likely to materially affect, our ICFR. Our internal auditors tested operating effectiveness of our ICFR as at March 31, 2021 and concluded that the ICFR was operating effectively and that there are no material weaknesses.

## Appendix A: Additional Information

### Organizational Overview

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

### Corporate Governance

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

### Contact Information

British Columbia Securities Commission  
P.O. Box 10142, Pacific Centre  
12th Floor, 701 W. Georgia Street  
Vancouver B.C. V7Y 1L2  
604-899-6500  
[inquiries@bcsc.bc.ca](mailto:inquiries@bcsc.bc.ca)  
[www.bcsc.bc.ca](http://www.bcsc.bc.ca)

## **Appendix C: Auditor's Report and Audited Financial Statements**

## Management's Responsibility for Financial Reporting

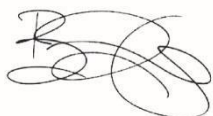
Management is responsible for the integrity and fair presentation of the financial statements and other financial information included in this annual service plan report. Management has prepared the consolidated financial statements in accordance with Canadian public sector accounting standards (PSAS).

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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Fax: 604 688 5132  
vancouver@bdo.ca  
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BDO Canada LLP  
Unit 1100 -Royal Centre  
1055 West Georgia Street P.O. Box 11101  
Vancouver, BC V6E 3P3 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, 2021, and the Consolidated Statements of Operation and Change in Accumulated Surplus, Remeasurement Gains and Losses, Changes 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, 2021, 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 our 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 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 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 the purpose of 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 Entity to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Entity 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 14, 2021



**British Columbia Securities Commission**

**Consolidated Financial Statements  
For the Year Ended March 31, 2021**

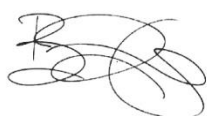
**Consolidated Statement of Financial Position**

As at March 31, 2021

(audited)

	Notes	March 31, 2021	March 31, 2020
<b>Financial assets</b>			
Cash	4	\$ 11,586,222	\$ 26,867,787
Restricted cash - 161(1)(g) payments	5	271,942	121,819
Investments	6	82,030,559	57,200,052
Amounts receivable	7	2,244,840	1,603,689
		96,133,563	85,793,347
<b>Liabilities</b>			
Accounts payable and accrued liabilities	8	3,542,313	3,207,171
Accrued salaries and benefits		149,729	1,201,419
Deferred registration fee revenue		11,929,379	11,610,895
Employee leave liability	9	1,669,815	1,086,489
161(1)(g) liabilities	5	271,942	121,819
		17,563,178	17,227,793
<b>Net financial assets</b>		78,570,385	68,565,554
<b>Tangible capital assets</b>		15,938,903	14,903,464
<b>Prepaid expenses</b>		1,260,185	1,275,115
		17,199,088	16,178,579
<b>Accumulated Surplus</b>		95,769,473	84,744,133
Accumulated Surplus is comprised of:			
Unrestricted operating surplus	12	48,279,754	38,705,772
Restricted operating surplus	12	48,102,102	45,858,925
		96,381,856	84,564,697
Accumulated remeasurement (losses) gains		(612,383)	179,436
		\$ 95,769,473	\$ 84,744,133

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, 2021  
(audited)

	Notes	March 31, 2021 Budget (Note 20)	March 31, 2021 Actual	March 31, 2020 Actual
<b>Revenues</b>				
Regulatory and other fees				
Prospectus and other distributions		\$ 30,000,000	\$ 36,999,324	\$ 30,162,691
Registration		18,000,000	17,900,743	18,264,870
Financial filings		4,800,000	5,175,370	5,115,937
Exemptive orders and other		560,000	530,050	494,060
National systems access and usage fees	13	7,000,000	6,687,092	6,453,152
Enforcement sanctions	14	600,000	258,128	1,028,500
Investment income	15	1,650,000	1,391,627	1,767,665
Realized gain on investments	15	–	754,431	–
		62,610,000	69,696,765	63,286,875
<b>Expenses</b>				
Local operations	16	55,260,000	52,692,504	50,273,099
Partnership operations	16	5,250,000	5,187,102	4,638,022
		60,510,000	57,879,606	54,911,121
Annual surplus		\$ 2,100,000	11,817,159	8,375,754
Accumulated operating surplus, beginning of year			84,564,697	76,188,943
Accumulated operating surplus, end of year			\$ 96,381,856	\$ 84,564,697

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

**Consolidated Statement of Remeasurement Gains and Losses**

For the Year Ended March 31, 2021

(audited)

	Notes	March 31, 2021	March 31, 2020
Accumulated remeasurement gains (losses), beginning of year		\$ 179,436	\$ (260,935)
Unrealized (losses) gains on investments	15	(37,388)	440,371
Realized gains on investments, reclassified to operations	15	(754,431)	–
Accumulated remeasurement (losses) gains, end of year		\$ (612,383)	\$ 179,436

*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, 2021

(audited)

	<b>March 31, 2021 Budget (Note 20)</b>	<b>March 31, 2021 Actual</b>	<b>March 31, 2020 Actual</b>
Surplus, for the year	\$ 2,100,000	\$ 11,817,159	\$ 8,375,754
Acquisition of tangible capital assets	(9,750,000)	(3,699,449)	(4,323,083)
Depreciation of tangible capital assets	3,000,000	2,664,010	2,206,820
	\$ (6,750,000)	(1,035,439)	(2,116,263)
Acquisition of prepaid expenses		(3,033,918)	(1,871,712)
Use of prepaid expenses		3,048,848	1,734,578
		14,930	(137,134)
Effect of net remeasurement gains and losses for the year		(791,819)	440,371
Increase in net financial assets, for the year		10,004,831	6,562,728
Net financial assets, beginning of year		68,565,554	62,002,826
Net financial assets, end of year		\$ 78,570,385	\$ 68,565,554

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

**Consolidated Statement of Cash Flows**

For the Year Ended March 31, 2021

(audited)

	March 31, 2021	March 31, 2020
<b>Operating transactions</b>		
Cash received from:		
Fees	\$ 66,801,240	\$ 60,518,518
Enforcement sanctions	346,515	700,175
Interest	939,883	1,210,779
	68,087,638	62,429,472
Cash paid to and on behalf of employees	(37,731,354)	(34,983,243)
Cash paid to suppliers and others	(17,522,249)	(19,108,912)
	(55,253,603)	(54,092,155)
Cash provided by operating transactions	12,834,035	8,337,317
<b>Capital transactions</b>		
Cash used to acquire tangible capital assets	(3,699,449)	(4,323,083)
<b>Investing transactions</b>		
Proceeds from disposals of investments	31,772,780	18,937,562
Purchase of investments	(56,188,931)	(19,666,830)
	(24,416,151)	(729,268)
(Decrease) increase in cash	(15,281,565)	3,284,966
Cash, beginning of year	26,867,787	23,582,821
Cash, end of year	\$ 11,586,222	\$ 26,867,787

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



## Notes to the Consolidated Financial Statements

For the Year Ended March 31, 2021

(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 77 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, 2024. 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, 2021

(audited)

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

Our financial instruments include cash, restricted cash, investments, amounts receivable, accounts payable and 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 ten years

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

For the Year Ended March 31, 2021

(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 seconded certain employees to CMAIO. 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, 2021

(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), an organization established by the B.C. government, administers.

During the year we invested in the following BCI pooled investment funds:

- Canadian Money Market Fund (ST2) - Invests in Canadian government and Canadian dollar denominated corporate debt securities, including commercial paper, having a maximum term to maturity of 15 months.
- Short Term Bond Fund (STB) – Invests in 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 - Invests in Canadian dollar denominated government and investment-grade corporate debt, having a maximum term to maturity of 30 years.

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.

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

For the Year Ended March 31, 2021

(audited)

In management's opinion, our investments as at March 31, 2021 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, 2021 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 \$0.7million. 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 less than a year and of the Canadian Universe Bond Fund is 8 years.

In management's opinion, amounts receivable, accounts payable and accrued liabilities, and accrued salaries and benefits 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, 2021

(audited)

**4. Cash**

	March 31, 2021	March 31, 2020
Local demand deposits	\$ 5,776,817	\$ 21,103,109
Partnership demand deposits	5,809,405	5,764,678
	\$ 11,586,222	\$ 26,867,787

Local cash and the Partnership's 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, 2021	March 31, 2020
Chien-Hua Liu, also known as William Liu	\$ 119,381	\$ –
Winston King-Loong Kuit	97,984	93,484
Mark Aaron McLeary	30,229	–
Darren Scott Davidson	5,500	5,500
Paul Webster	5,200	5,200
Weiqing Jane Jin	4,280	4,280
Brendan James Schouw	3,500	3,500
Dennis Carl Weigel	1,850	1,250
Donald Weiss	1,800	1,250
Daniel Eric Byer	1,250	1,250
Thalbinder Singh Poonian	582	–
Shailu Sharon Poonian	311	–
Renee Michelle Penko	75	75
Jefferson Franklin Mesidor	–	6,030
	\$ 271,942	\$ 121,819

**Notes to the Consolidated Financial Statements**

For the Year Ended March 31, 2021

(audited)

**6. Investments**

	March 31, 2021		March 31, 2020	
	Market Value	Cost	Market Value	Cost
<b>BCI pooled funds</b>				
Canadian Money Market Fund	\$ 41,904,457	\$ 41,954,669	\$ –	\$ –
Short Term Bond Fund	–	–	17,645,847	17,345,461
Canadian Universe Bond Fund	8,279,832	8,842,003	8,124,217	8,245,167
	\$ 50,184,289	\$ 50,796,672	\$ 25,770,064	\$ 25,590,628
<b>Partnership investments</b>				
Notice account	\$ 7,118,020	\$ 7,118,020	\$ 7,076,738	\$ 7,076,738
Term deposit	9,435,500	9,435,500	9,186,750	9,186,750
Guaranteed Investment Certificate	15,292,750	15,292,750	15,166,500	15,166,500
	\$ 31,846,270	\$ 31,846,270	\$ 31,429,988	\$ 31,429,988
	\$ 82,030,559	\$ 82,642,942	\$ 57,200,052	\$ 57,020,616

Refer to note 15 for information about investment income earned on the investments. The Partnership's investments are held in a notice account, term deposits and guaranteed investment certificates at fixed interest rates of 0.75% to 2.70%.

**Notes to the Consolidated Financial Statements**

For the Year Ended March 31, 2021

(audited)

**7. Amounts receivable**

	March 31, 2021	March 31, 2020
National systems user fees	\$ 1,062,639	\$ 514,533
SEDAR and other filings	539,257	183,400
Enforcement sanctions	322,238	410,625
GST refunds	125,980	173,123
Employee advances and other	89,134	31,011
Late insider report filing fees	54,350	28,700
Due from CSTO	28,469	28,224
National project recoveries	22,445	189,335
Due from CMAIO	328	44,738
	\$ 2,244,840	\$ 1,603,689

**8. Accounts payable and accrued liabilities**

	March 31, 2021	March 31, 2020
Local trade accounts payable	\$ 2,712,884	\$ 2,331,161
Partnership trade accounts payable	449,757	874,918
Other	379,672	1,092
	\$ 3,542,313	\$ 3,207,171

**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, 2021

(audited)

**10. Tangible capital assets**

	<b>March 31, 2021</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	\$ 14,169,311	\$ 5,911,949	\$ 2,685,941	\$ 8,917,274	\$ 31,684,475	
Additions	2,019,380	–	32,532	1,647,537	3,699,449	
Disposals	(1,843,491)	–	–	–	(1,843,491)	
Closing balance	\$ 14,345,200	\$ 5,911,949	\$ 2,718,473	\$ 10,564,811	\$ 33,540,433	
<b>Accumulated depreciation</b>						
Opening balance	\$ 8,398,303	\$ 5,419,334	\$ 2,405,973	\$ 557,401	\$ 16,781,011	
Depreciation	1,990,744	297,213	72,008	304,045	2,664,010	
Disposals	(1,843,491)	–	–	–	(1,843,491)	
Closing balance	\$ 8,545,556	\$ 5,716,547	\$ 2,477,981	\$ 861,446	\$ 17,601,530	
<b>Net book value</b>	<b>\$ 5,799,644</b>	<b>\$ 195,402</b>	<b>\$ 240,492</b>	<b>\$ 9,703,365</b>	<b>\$ 15,938,903</b>	

	<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>	

## Notes to the Consolidated Financial Statements

For the Year Ended March 31, 2021

(audited)

### 11. Prepaid expenses

	March 31, 2021	March 31, 2020
Local IT and information service contracts	\$ 767,405	\$ 610,344
Partnership IT and information service contracts	492,780	664,771
	\$ 1,260,185	\$ 1,275,115

### 12. Accumulated operating surplus

	March 31, 2021			
	General	Reserve (a)	Partnership (b)	Total
Opening balance	\$ 35,537,437	\$ 3,168,335	\$ 45,858,925	\$ 84,564,697
Annual Surplus	9,315,854	258,128	2,243,177	11,817,159
Investment income allocation	(32,924)	32,924	–	–
Education expenses paid from reserve	1,822,122	(1,822,122)	–	–
Closing balance	\$ 46,642,489	\$ 1,637,265	\$ 48,102,102	\$ 96,381,856

	March 31, 2020			
	General	Reserve (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

#### **a) Reserve (internally-restricted)**

The following administrative penalties and other financial orders can be made following a determination there was a contravention under the *Securities Act* or a conviction for an offence under the *Securities Act*:

- administrative penalties after a commission hearing
- administrative monetary penalties imposed by notice
- disgorgement orders
- orders against family members or third parties who received undervalue property from a person who contravened the *Securities Act* or committed an offence
- orders to forfeit property

We also negotiate settlement amounts.

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

For the Year Ended March 31, 2021

(audited)

We designate revenue from settlements, unclaimed amounts of disgorgement orders and from the other orders to a Reserve, which we spend in accordance with s.15(3) of the *Securities Act* on educating securities market participants and members of the public about investing, financial matters or the operation or regulation of securities markets, benefitting third parties the commission considers appropriate, enforcing (including collecting on) these orders, and processing claims to proceeds from disgorgement orders.

### ***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, 2021

(audited)

### 13. Partnership – summarized annual financial information

	March 31, 2021		March 31, 2020	
	Partnership	25% share	Partnership	25% share
<b>Financial Position</b>				
Financial assets	\$ 154,873,256	\$ 38,718,314	\$ 150,836,796	\$ 37,709,199
Liabilities	3,249,428	812,357	3,499,671	874,918
Net Financial assets	\$ 151,623,828	\$ 37,905,957	\$ 147,337,125	\$ 36,834,281
Non-financial assets	40,784,581	10,196,145	36,098,575	9,024,644
Accumulated surplus	\$ 192,408,409	\$ 48,102,102	\$ 183,435,700	\$ 45,858,925
<b>Operations</b>				
Revenues:				
National systems access and usage fee	\$ 26,748,366	\$ 6,687,092	\$ 25,812,607	\$ 6,453,152
Investment income and other	2,972,748	743,187	3,349,237	837,309
Expenses	20,748,406	5,187,102	18,552,088	4,638,022
Surplus	\$ 8,972,708	\$ 2,243,177	\$ 10,609,756	\$ 2,652,439

### 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 \$43.3 million (fiscal 2020 – \$4.1 million) during the year, of which we did not recognize \$43.0 million (fiscal 2020 – \$3.1 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, 2021

(audited)

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

	For the Year Ended March 31, 2021					
	Average Balance	Investment Income	Realized Gains (Losses)	Total Income	Unrealized Gains (Losses)	Annualized Return
Cash, term deposits and GIC	\$ 57,245,430	\$ 938,523	\$ –	\$ 938,523	\$ –	1.6%
Restricted cash - 161(1)(g) payments	185,291	1,360	–	1,360	–	0.7%
Canadian Money Market Fund	11,481,099	76,870	–	76,870	(50,212)	0.2%
Short Term Bond Fund	8,221,128	85,678	446,791	532,469	146,405	8.3%
Canadian Universe Bond Fund	8,544,960	289,196	307,640	596,836	(133,581)	5.4%
	\$ 85,677,908	\$ 1,391,627	\$ 754,431	\$ 2,146,058	\$ (37,388)	2.5%

	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%

**Notes to the Consolidated Financial Statements**

For the Year Ended March 31, 2021

(audited)

**16. Expenses**

	Budget 2021	Year ended March 31	
		2021	2020
<b>Local operations</b>			
Salaries and benefits	\$ 37,600,000	\$ 37,296,132	\$ 35,287,285
Occupancy	4,370,000	4,018,836	3,808,015
Professional services	3,900,000	3,331,870	3,625,626
Information management	2,660,000	2,738,962	2,188,501
Depreciation	2,900,000	2,359,965	2,102,361
Education	1,750,000	1,822,122	1,422,453
Administration	640,000	601,614	640,078
Telecommunications	310,000	267,125	274,603
Staff training	500,000	173,626	495,028
Travel	400,000	53,474	268,294
External communication	230,000	28,778	160,855
Total local operations	\$ 55,260,000	\$ 52,692,504	\$ 50,273,099
<b>Partnership operations</b>			
Professional services	\$ 3,868,000	\$ 3,185,584	\$ 3,210,583
Salaries and benefits	1,050,000	1,549,064	1,129,875
Depreciation	100,000	304,044	104,459
Information management and administration	232,000	148,410	193,105
Total Partnership operations	\$ 5,250,000	\$ 5,187,102	\$ 4,638,022
	\$ 60,510,000	\$ 57,879,606	\$ 54,911,121

## Notes to the Consolidated Financial Statements

For the Year Ended March 31, 2021

(audited)

### 17. Related party transactions

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

### 18. Post-retirement employee benefits

We, and our employees, contribute to the Public Service Pension Plan, a multi-employer plan. The plan is contributory, and its basic benefits are defined. The plan has approximately 67,000 active members, 51,000 retired members, and 20,000 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, 2020, indicated a \$2,667 million (March 31, 2017 – \$1,074 million, restated) 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 \$2.9 million (fiscal 2020 – \$2.7 million) to expense for employer contributions during the period.

## Notes to the Consolidated Financial Statements

For the Year Ended March 31, 2021

(audited)

### 19. Commitments and contingencies

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

Fiscal years	2022 - 2023	2024 - 2026	2027 - 2029	2030 - 2032	Total
	\$ 7,762,993	\$ 12,179,312	\$ 12,965,579	\$ 12,196,262	\$ 45,104,146

The Partnership has contracted with CGI to host and operate the national systems until January 12, 2024. 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.