

British Columbia Securities Commission

2019/20 – 2021/22 SERVICE PLAN



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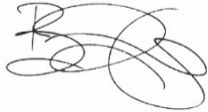
Board Chair Accountability Statement



The 2019/20 - 2021/22 British Columbia Securities Commission (BCSC) Service Plan was prepared under my direction in accordance with the *Budget Transparency and Accountability Act*. The plan is consistent with government's strategic priorities and fiscal plan. I am accountable for the contents of the plan, including what has been included in the plan and how it has been reported. I am responsible for the validity and reliability of the information included in the plan.

All significant assumptions, policy decisions, events and identified risks, as of January 10, 2019 have been considered in preparing the plan. The performance measures presented are consistent with the *Budget Transparency and Accountability Act*, the BCSC's mandate and goals, and focus on aspects critical to the organization's performance. The targets in this plan have been determined based on an assessment of the BCSC's operating environment, forecast conditions, risk assessment and past performance.

Board Chair's Signature

A handwritten signature in black ink, appearing to be 'B. Leong'.

Brenda M. Leong
Board Chair

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Glossary

B.C.	British Columbia
BCSC	British Columbia Securities Commission
CMRA	Capital Markets Regulatory Authority
CRM2	Client Relationship Model, Phase 2
NI 31-103	National Instrument 31-103 <i>Registration Requirements, Exemptions and Ongoing Registrant Obligations</i>
CSA	Canadian Securities Administrators
CSE	Canadian Securities Exchange
G20	Group of 20 major global economies
IIROC	Investment Industry Regulatory Organization of Canada
MFDA	Mutual Fund Dealers Association
NI	National Instrument
NOH	Notice of Hearing
OM	Offering memorandum
RSBC	Revised Statutes of British Columbia
TSX-V	TSX Venture Exchange

Strategic Direction and Alignment with Government Priorities

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 B.C.'s capital markets. We:

- Review the disclosure that reporting issuers and businesses raising capital must provide to investors
- 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

The BCSC is aligned with the Government's key priorities as set out in its [Mandate Letter](#), and as summarized in the chart below.

Government Priorities	BC Securities Commission Aligns with These Priorities By:
Making life more affordable	• Reviewing and modernizing regulations affecting reporting issuers (Strategy 7) • Implementing reforms to mutual fund fee structures (Strategy 3)
Delivering the services people count on	• Implementing client focused reforms (Strategy 2) • Focusing investor attention on achieving better investment outcomes (Strategy 11) • Promoting fraud awareness among B.C. residents (Strategy 10) • Improving market intelligence capability (Strategy 8)
A strong, sustainable economy	• Regulating financial technologies to support innovation (Strategy 6) • Implementing a derivatives regime (Strategy 1)

Operating Environment

We work with other Canadian securities regulators through the Canadian Securities Administrators (CSA), an umbrella organization of Canada's provincial and territorial securities regulators, to

regulate Canada's capital markets¹ and coordinate oversight of market participants operating in multiple jurisdictions. Regulating B.C.'s capital markets within a national system significantly impacts how we approach existing and new securities regulations in B.C. While we endeavour to achieve highly harmonized regulations within the CSA, local priorities and imperatives in various jurisdictions may sometimes lead to the adoption of different regulations.

Our revenues come from fees paid by market participants and have been strong in recent years. There is a risk, however, that a market downturn would generate lower fee revenue. We budget conservatively to limit the impact of a market downturn on our operating capacity and consequential ability to effectively regulate the markets.

While our markets are strong today, they remain cyclical. For this reason, the BCSC continues to explore ways to support B.C.'s competitiveness as a global venture finance hub in any market environment. We are currently working with the CSA on a set of reforms that will reduce regulatory burden for public companies, bring down costs for issuers and help to make B.C.'s public markets an attractive place to invest.

B.C. has a vibrant and growing technology sector that provides good jobs and investment opportunities for British Columbians. Trends in the area of financial technology (fintech) present a set of new risks and challenges to manage within our regulatory framework. Fintech is rapidly transforming many traditional financial activities in areas such as wealth management, online lending, and regulatory compliance. The rise of blockchain-based securities, where the record of ownership and trading are tracked in a new form of technology, also poses risks in terms of custodial roles, exchange regulation, trade oversight and investment disclosure. These developments challenge us to keep pace with rapid innovation and the related investor protection risks and opportunities.

One area of concern in public markets is a resurgence in abusive promotional and trading activity by a small number of market participants. Over the past two years, these participants have been using new electronic platforms to conduct questionable investor relations activities that may not benefit investors or the public markets. We intend to aggressively pursue this activity which aligns with our Government's priority to get tougher on white collar crime. 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 collections process.

Certain roles in regulation require specialized expertise that is scarce in B.C.'s labour market. In the last year, we have been challenged to find qualified candidates for roles in our trading investigations team, our criminal investigations team, and in other areas requiring specific securities knowledge. For example, conducting criminal investigations into securities market breaches requires highly specialized knowledge in both criminal investigation and the securities industry. Our ability to attract and hire these specialized resources may impact our ability to meet our priority of more effective criminal enforcement.

¹ One of many aspects of the capital markets is that they provide opportunities for companies of all sizes to raise money by issuing debt and equity and for investors to grow the value of their investments through returns. The *BC Securities Act* regulates these markets to provide protection to investors from unfair, improper or fraudulent practices, to foster fair, efficient and competitive capital markets in which the public has confidence, and to contribute to the stability and integrity of the financial system.

We are updating our regulatory technology because the systems we rely on today are outdated. Canadian securities regulators currently receive most filings from public companies, insiders and registrants through shared national systems that are 10 to 20 years old. In addition, the multiple marketplace environment has dramatically increased transaction volumes, presenting ever greater market data challenges. Building strong regulatory systems better serves market participants and gives us new tools to promptly detect trading-related misconduct.

British Columbia is engaged with other Canadian jurisdictions on the implementation of the Capital Markets Regulatory Authority (CMRA). We will continue to support our Government with the development of the legislative framework and the transition and integration work necessary to establish the new regulator. The extent to which this work increases in the coming year and the timeframe for launching the initiative could impact our ability to meet key priorities in this plan.

Performance Plan

This section describes the BCSC's two 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 intends to work towards achieving these goals. We engage in regular, meaningful dialogue with Ministry of Finance staff on all issues that intersect with Government's priorities and that are key to delivering on our mandate.

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 their regulatory obligations.

On the trading and advice side, we register securities firms and their advisors and refuse applications from unsuitable candidates. We audit these securities firms routinely for compliance with the rules. We also oversee the conduct of the TSX-V, Clearing and Depository Services (CDS), Investment Industry Regulatory Organization of Canada (IIROC), and Mutual Fund Dealers Association (MFDA), all of which are recognized in B.C. This involves close and regular interaction with these entities, reviewing ongoing filings, proposed rule and fee changes, and conducting periodic oversight reviews.

On the capital-raising side, we regulate public companies and insiders and review their mandatory filings for adequate disclosure. In addition, we monitor daily trading of over-the-counter derivatives and the private placement of securities by companies required to report to the BCSC.

Key Strategies:

1. Implement a derivatives regime

We are working with other CSA jurisdictions to fulfill Canada's G20 commitments to regulate over-the-counter derivatives. To date, we have adopted rules related to trade reporting, mandatory clearing and collateral for cleared derivatives.

In coordination with other CSA jurisdictions, we will continue to develop:

- Registration rules for derivatives dealers and advisors
- Market conduct requirements

- A market structure rule for derivatives trading facilities
- Margin and collateral requirements for uncleared derivatives

2. Implement client focused reforms

We are working with other CSA jurisdictions on regulatory amendments that will enhance the obligations of registrants to their clients. In fiscal 2018/2019, we published amendments to NI 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*. In fiscal 2019/2020 we will continue to work with the CSA to finalize these proposed amendments which would require registrants to:

- Resolve conflicts of interest in the best interest of their clients
- Put their clients' interests first when recommending the purchase or sale of securities
- Make publicly available all information that potential clients would consider important when deciding to become a client
- Avoid using titles or designations that might mislead a client about the registrant's proficiency, experience, or qualifications

The BCSC is also leading a CSA project to measure the impact that the Client Relationship Model, Phase 2 (CRM2) reforms, and point-of-sale pre-sale disclosure have on investor knowledge, attitudes and behaviours, distribution firm practices, and mutual fund fees and asset flows. This research will run through 2021.

3. Implement reforms to mutual fund fee structures

We are working with other CSA jurisdictions on a project to implement reforms that better align the interests of investment fund managers and dealers/representatives with investors.

Previous CSA work identified three broad investor protection concerns about current commission structures. They:

- Raise conflicts of interest that misalign the interests of investment fund managers and dealers/representatives and their clients
- Limit investor awareness, understanding and control of dealer costs
- Do not align with the services investors receive

Last year, the CSA proposed rule amendments related to some forms of commissions that, if adopted, would prohibit all forms of deferred sales charge options, including low-load options and their upfront commissions, and trailing commissions in the discount broker channel. The CSA project team is analyzing the feedback from that consultation and this year we will continue to work with our CSA colleagues with a view to finalizing our proposals to deal with our investor protection concerns.

4. Modernize the offering memorandum form

B.C. is co-leading a CSA project to modernize the disclosure required when businesses use the offering memorandum (OM) exemption to raise capital. Currently, businesses can use the OM exemption to raise money from any B.C. investor. B.C. pioneered this exemption to lower costs for small businesses raising capital while maintaining protections for investors. More complex businesses are now using this exemption, however, so we are revisiting the adequacy of the disclosure requirements. We began this work last year.

This year, we plan to propose for comment OM disclosure changes that will better reflect the types of businesses making regular use of this exemption, clarify requirements for issuers and provide investors with better information.

Performance Measures:

Performance Measure(s)		2017/18 Actual	2018/19 Forecast	2019/20 Target	2020/21 Target	2021/22 Target
1.1a	Percentage of reviewed issuers that reduce deficiencies:					
	i. Improved disclosure subsequent to a continuous disclosure review	94% ^{1,2}	>95%	>95%	>95%	>95%
	ii. Improved disclosure to minimum standards	95% ^{1,2}	>95%	>95%	>95%	>95%
1.1b	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)	78% ^{1,3}	79%	81%	83%	85%
	ii. Issuer websites and other voluntary disclosure	69% ^{1,3}	73%	77%	81%	85%
1.1c	NEW: Average number of repeat deficiencies per examination in Capital Markets Regulation	0.12	0.75	0.71	0.67	0.64

¹ Data Source: Internal evaluation of subsequent disclosure.

² 15 of 16 files showed improvement in their disclosure and 18 of 19 files met the basic standard for compliance.

³ Based on a review of 40 randomly selected B.C. mining companies that have not been subject to a continuous disclosure review in the preceding three years.

⁴ Data Source: Data recorded in established tracking systems.

Linking Performance Measures to Objectives:

- 1.1a When we promote a culture of compliance through our continuous disclosure reviews, public companies become more aware of disclosure requirements. This pair of measures shows the extent to which our detailed continuous disclosure reviews motivated non-compliant issuers to improve their disclosure.
- 1.1b When we promote a culture of compliance through our technical report reviews, mining firms adhere to the specialized disclosure requirements we have for the mining industry. This pair of measures shows the extent to which a sample of B.C.-based mining companies is compliant in specific areas of their technical disclosure.
- 1.1c This is a new measure, replacing one that reported the average number of deficiencies across all completed exams. Compliance staff rely heavily on repeat deficiencies as a general indication of the state of compliance at a registered firm. Repeat deficiencies are also an indication of whether a firm has allocated sufficient resources to or is focused on effective compliance. Staff frequently refer firms with repeat deficiencies for enforcement or other remedial action.

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

Key Strategies:

5. CSA systems redesign

The BCSC is one of four CSA partners responsible for operating national filing systems which are critical to both our regulatory system and market participants. We are closely involved with the CSA in a multi-year system redesign project to replace various applications including our public company filing, insider reporting and registration systems. The CSA redesign will modernize filing processes for market participants and establish a platform for improved oversight analysis.

6. Regulate financial technologies to support innovation

The BCSC has a long history of innovative rule-making, flexibility in our consideration of exemption applications and early adoption of new technology. We apply this approach in regulating all industries, not just technology industries. However, the emergence of innovations applied to core financial markets services will challenge us to keep pace and consider appropriate regulatory changes that will support innovation without undermining investor protection.

As market participants are introducing innovative technologies to improve customer service delivery, launch new business models or facilitate capital raising from retail investors, we want to make sure regulation is a fit for the new environment. This means understanding how these technologies change business practices, ensuring that our regulatory structure manages new risks and opportunities, and keeping in mind how outdated regulatory controls may slow technology growth.

When investors cannot buy into new trends such as blockchain-based investments in the public markets, they will instead buy these assets through unregulated channels, increasing investment risk. To advance the regulation of blockchain-based securities so that more businesses of this type can be held in investment funds or traded on exchanges, we plan to work with our CSA colleagues this year to:

- Research and propose any necessary changes to the regulatory regime for marketplaces that flow from trading blockchain-based securities
- Research and, if appropriate, propose amendments to public and exempt capital raising requirements and issuer continuous disclosure requirements to accommodate the unique aspects of blockchain-based securities

7. Review and modernize regulations affecting reporting issuers

In fiscal 2017/2018 we worked with the CSA to explore options to streamline regulations for public issuers. We consulted with issuers and other stakeholders to identify specific areas of securities regulation that may be disproportionate to purported regulatory objectives.

In fiscal 2018/2019, together with the CSA, we began 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 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

This year we will continue work on these initiatives, including publishing proposed amendments for comment.

Performance Measures:

Performance Measure(s)		2017/18 Actual	2018/19 Forecast	2019/20 Target	2020/21 Target	2021/22 Target
1.2	Average score on cost-effective regulation scorecard	93% ^{1,2}	>90%	>90%	>90%	>90%

¹ Data Source: Internal evaluation based on staff and management judgment and project documents.

² In fiscal 2017/2018 we had five policy projects that qualified for review.

Linking Performance Measures to Objectives:

- 1.2 To advance cost-effective regulation, we need to clearly define problems and tailor cost-effective solutions to these problems. 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 apply the scorecard to all CSA and local policy projects. We report the average score of all projects completed each year, except those we adopt purely to harmonize with other jurisdictions. Although we have already achieved 93%, we set our target at 90% because the measure includes some national projects that B.C. cannot control.

Goal 2: Inspire investor confidence

Objective 2.1: Act decisively against misconduct

Our Enforcement division focuses on cases with a strong B.C. 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 cash and other 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 so that fewer of them fall victim to fraudulent activity 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 Strategies:

8. Improve market intelligence capability

Misconduct relating to listed securities causes investor losses and harms the reputation of the markets they are trading on, causing a loss of public confidence. Market misconduct in or from outside B.C. can be part of complex schemes which can include activities in other jurisdictions that may impact trading in Canada. It often involves investor relations or other promotional activities using social media or other new technology tools, as opposed to news releases or required disclosure documents.

This is a new strategy. In fiscal 2019/2020, we will improve our capacity to detect abusive promotions and abusive trading activity that can impact our markets. This will include coordinating with self-regulatory organizations and other regulators to ensure we can effectively surveil the markets and gather intelligence so there are no gaps in the system for detection of market misconduct. Improving our market intelligence capacity will lead to faster, proactive action, including disruption of abusive promotions and trading.

We will also prioritize the investigation and prosecution of cases flowing from this increased capacity. We anticipate that this will be a multi-year strategy given the complexity of these cases.

9. Improve market analytics capability for enforcement investigations

Our enforcement trading unit routinely uses market data and corresponding broker data to investigate market manipulations and insider trading. The current system was developed before Canada had multiple marketplaces and requires considerable manual preparation of data. We are working with other CSA jurisdictions to build a data repository and data analytics system to support more efficient enforcement work on trading abuse. In fiscal 2018/2019, the CSA launched a three-year project to build this system, called Market Analysis Platform (MAP). This year, we plan to launch priority enforcement tools for trade matching and trading data exploration for enforcement.

Performance Measures:

Performance Measure(s)		2017/18 Actual	2018/19 Forecast	2019/20 Target	2020/21 Target	2021/22 Target
2.1a	Actions taken to disrupt misconduct					
	i. Number of actions	113 ¹	118	124	130	136
	ii. Average duration of complaint to action (days)	54 ¹	53	52	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) ²	32.1 ¹	31.9 ²	Set at start of each fiscal year	Set at start of each fiscal year	Set at start of each fiscal year

¹ Data Source: Data recorded in established tracking systems, primarily the BCSC Enforcement Case Tracking system and in official documents.

² We base the fiscal 2018/2019 target on our current portfolio of cases, and on the likelihood that an NOH or settlement agreement will be issued within the next 12 months.

Linking Performance Measures to Objectives:

- 2.1a Part of acting decisively against misconduct is to take early action to stop the misconduct. We can significantly reduce the harm to the public when we can identify and act quickly to disrupt misconduct. We aim to stop investment schemes before they start and prevent further participation in existing schemes. Disruptive action provides a visible, valuable benefit to the public. This measure tracks the number of disruptive actions taken by staff.
- 2.1b This measure is an indicator of timely enforcement and measures the average duration of administrative enforcement cases. Timely and thorough investigations provide the public with confidence in the actions we take to address misconduct. For cases open during the fiscal year, we measure the average case duration from start to issuing the Notice of Hearing (NOH) or, absent an NOH, the settlement. Because of the relatively small number of cases we process each year (15-20), a small number of outliers can significantly affect our targets. We set our target at the start of each fiscal year using information from our current caseload, including actual case age and service target timeframes for the enforcement steps outstanding on each case, and calculate the target for average life for those cases that we believe should complete this coming fiscal year.

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 novel investment types and the need to conduct adequate due diligence.

Key Strategies:**10. Promote fraud awareness among B.C. residents**

Last year we increased our fraud awareness promotion, adding a new mass media advertising campaign during Fraud Prevention Month in March to ongoing social media activity. We want B.C. residents to know how to recognize and reject investment fraud and to report it to the BCSC

when they see or suspect it. The new *Don't Be Part of a Fraud* campaign featured radio and social media advertising.

In fiscal 2019/2020 we will expand our fraud campaign to include and increase frequency on province-wide radio, digital media and some TV, introduce out-of-home advertising and pilot an in-language campaign targeting B.C.'s Chinese community.

11. Focus investor attention on achieving better investment outcomes

Last year we concluded a three-year public awareness campaign and three-year research project, both of which supported our CRM2-focused investor education activities. The *Take a Look at Fees* advertising campaign directed the attention of B.C. investors to their investment fees. The four-part longitudinal research study *Investor Readiness for Better Investing*, and related qualitative research, provided unique insights on how individual B.C. investors use their CRM2 fee reports and identified barriers that keep investors from taking steps to secure better investment outcomes for themselves. A national investor study furthered our inquiry into investor behaviours and showed how the client-advisor relationship is evolving in Canada.

In fiscal 2019/2020 we will introduce new three-year advertising and research programs to further increase our understanding of B.C. investors and our effectiveness at helping them to achieve better investment outcomes in 2020 and beyond.

12. Create a new BCSC website

There has been a significant shift in how we interact with our customers and in available technology in the five years since we redesigned the current BCSC public website. Market participants today expect to be able to find and easily access securities market information using whatever device they have at hand.

In fiscal 2018/2019, we upgraded our existing content management system (CMS) and built a roadmap to redesign and upgrade the BCSC website, which will:

- Deliver authoritative BCSC content in a modern format that is easy to navigate and consume
- Improve relevance, usability and user experience
- Be mobile-responsive for access via smartphones or other hand-held devices

In fiscal 2019/2020 we will tender the website work and launch a fully redesigned site.

Performance Measures:

	Performance Measure(s)	2017/18 Actual	2018/19 Forecast	2019/20 Target	2020/21 Target	2021/22 Target
2.2a	Percentage of B.C. investors who strongly agree they have a good understanding of how fees impact the returns on their investments	22% ¹	22%	23%	24%	25%
2.2b	Number of video views of <i>Investment Fraud Explained</i> seminar video	2,834 ²	2,950	3,100	3,250	3,400
2.2c	Percentage of B.C. public aware of BCSC	37% ³	39%	41%	43%	45%

¹ Data Source: Online investor survey.

² Data Source: BCSC InvestRight YouTube channel.

³ Data Source: Independent survey. Data received by BCSC in report form.

Linking Performance Measures to Objectives:

- 2.2a We communicate with B.C. investors through public awareness advertising campaigns. Our goal is to raise awareness among B.C. investors, working with registrants about the investment fees they pay and the impact of those fees on their investment returns. We want investors to receive the benefits of CRM2 by paying attention to their fees and to make fees and returns part of an ongoing dialogue with their advisors. This measure comes from an online survey of investors age 18 and over.
- 2.2b This measure reflects our move away from in-person to online seminars which achieve broader, more convenient distribution to a wider audience.
- 2.2c Low public awareness of the BCSC is a significant challenge when it comes to delivering investor education to the B.C. public. Our ability to increase awareness of our agency is directly linked to the number of people we can reach with the budget we allocate to our public awareness campaigns. The measure aims to aid awareness of the BCSC among the B.C. general population 18 and over and is ambitious in view of available resources.

Financial Plan

Summary Financial Outlook

	2017/18	2018/19	2019/20	2020/21	2021/22
(millions)	Actual	Forecast	Budget	Projection	Projection
Revenue					
Local filing fees					
Prospectus and other distributions	\$ 26.4	\$ 26.8	\$ 28.6	\$ 29.0	\$ 29.0
Registration	12.2	13.4	16.6	17.3	17.3
Financial filings	4.7	5.0	5.2	5.0	5.0
Other fees	0.4	0.3	0.7	0.7	0.7
	<u>\$ 43.7</u>	<u>\$ 45.5</u>	<u>\$ 51.1</u>	<u>\$ 52.0</u>	<u>\$ 52.0</u>
Other revenue					
National systems	6.2	6.3	6.5	6.5	6.5
Enforcement sanctions	0.2	3.9	0.5	0.5	0.5
Investment income	0.8	0.9	0.9	0.9	0.9
	<u>\$ 50.8</u>	<u>\$ 56.6</u>	<u>\$ 59.0</u>	<u>\$ 59.9</u>	<u>\$ 59.9</u>
Total revenue					
	<u>\$ 50.8</u>	<u>\$ 56.6</u>	<u>\$ 59.0</u>	<u>\$ 59.9</u>	<u>\$ 59.9</u>
Expense					
Salaries and benefits	\$ 29.6	\$ 32.0	\$ 35.9	\$ 36.9	\$ 37.9
Other local expenses	13.0	14.8	14.5	14.5	14.8
Partnership expenses	4.0	4.0	5.5	7.0	7.0
	<u>\$ 46.6</u>	<u>\$ 50.8</u>	<u>\$ 55.9</u>	<u>\$ 58.4</u>	<u>\$ 59.7</u>
Total expenses					
	<u>\$ 46.6</u>	<u>\$ 50.8</u>	<u>\$ 55.9</u>	<u>\$ 58.4</u>	<u>\$ 59.7</u>
Surplus					
	<u>\$ 4.2</u>	<u>\$ 5.8</u>	<u>\$ 3.1</u>	<u>\$ 1.4</u>	<u>\$ 0.2</u>
Supplementary information					
Total liabilities	\$ 13.6	\$ 13.4	\$ 13.4	\$ 13.2	\$ 13.2
Unrestricted operating surplus	25.5	28.5	30.1	31.5	31.7
Restricted operating surplus	40.7	43.5	45.0	45.0	45.0
Local capital expenditures	1.2	2.0	2.2	2.0	2.0
Partnership capital expenditures	1.0	6.4	5.7	6.9	6.9

Note: We round totals.

Breakdown of Other Local Expenses

	2017/18	2018/19	2019/20	2020/21	2021/22
(millions)	Actual	Forecast	Budget	Projection	Projection
Occupancy	\$ 3.3	\$ 3.8	\$ 3.8	\$ 3.9	\$ 4.1
Depreciation	2.8	2.6	2.2	2.2	2.2
Professional services	2.1	2.5	2.3	2.4	2.4
Information management	1.8	2.2	2.7	2.5	2.5
Education	1.4	1.7	1.5	1.5	1.5
Administration	0.6	0.7	0.6	0.6	0.7
Staff training	0.5	0.6	0.5	0.5	0.5
Business travel	0.3	0.4	0.5	0.5	0.5
External communications	0.1	0.2	0.2	0.2	0.2
Telecommunications	0.1	0.2	0.2	0.2	0.2
Other local expenses	\$ 13.0	\$ 14.8	\$ 14.5	\$ 14.5	\$ 14.8

Key Assumptions and Risks

Key Assumptions

Key assumptions for the 2018/19 forecast are:

- BCSC regulatory fee changes that became effective in December 2018 will increase fee revenue by \$1.8M versus 2017/18
- Market activity will remain stable through to the year end
- New staff positions will be filled by year-end to increase our enforcement capacity and support regulatory innovation

Sanctions revenue of \$3.9M is unusual as it includes \$3.2M for the receipt of administrative penalty relating to one case. We designate sanctions revenue to our Education reserve (a component of accumulated operating surplus) which we spend only to educate securities market participants and the public about investing, financial matters, or the operation or regulation of securities markets.

Key assumptions for the 2019/20 budget are:

- BCSC regulatory fee changes that became effective in December 2018 will increase fee revenue by \$7.6M versus 2017/18
- Sanction receipts will be consistent with historical experience prior to 2018/19. Actual receipts will depend on the nature and timing of cases resolved during the year
- National systems revenues will remain stable and Partnership expenses will increase \$1.5M due to expenditures for development of new systems that do not qualify for capitalization
- Investment income will be consistent with 2018/19; we expect interest rates to increase only modestly
- The average number of staff will increase by 10% primarily to increase enforcement capacity, to support regulatory innovation that addresses market changes, to respond to heightened cyber security risk, and to accommodate shared national filing and payment systems technology changes
- The position vacancy rate will be 4%

- Merit-based salary increases averaging 5% will address some positions where the salaries are below the median market rate
- Local capital expenditures will be \$2.2M to upgrade internal systems and for information management tools to upgrade local systems and respond to heightened cyber security risk

Key assumptions for the projections for each of the 2020/21 and 2021/22 are:

- BCSC regulatory fee changes that became effective in December 2018 will increase fee revenue by approximately \$8.2M compared to 2017/18
- There will be no growth in National systems revenues compared to 2019/2020 and a \$1.5M increase in Partnership expenses from implementing and depreciating new systems
- Investment income will be consistent with 2019/2020; we expect interest rates to increase modestly, if at all
- The average number of staff will be unchanged from 2019/20
- The position vacancy rate will be 4%, and merit-based salary increases will average 3%
- Local capital expenditures will be \$2.0M to maintain and upgrade internal systems and information management tools

Risks

The national filing system partnership (CSA partnership) contracts with CGI Information Systems and Management Consultants Inc. (CGI) to operate several national electronic filing systems through which we collect most of our fee revenue. CGI maintains comprehensive business continuity plans for these systems.

The CSA partnership has contracted with CGI to replace several shared filing systems, with the first phase becoming operational in 2020/21. The project may take longer than expected or cost more than planned; the CSA partnership has implemented project management controls to monitor and manage this risk.

We rely on the CSA partnership projections to estimate our net contribution from the national systems operations. Actual results will likely differ.

We forecast a \$5.8M surplus for 2018/19, budget a surplus of \$3.1M for 2019/20, project surpluses of \$1.4M and \$0.2M for 2020/21 and 2021/22, respectively. Projected surpluses will decline through 2020/21 as we implement the key initiatives set out in this service plan.

Overview of Operations and Management's Perspective

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*. In most years, a small portion of our revenue is investment income and enforcement sanctions. Compensation, occupancy, and asset depreciation expenses account for about 84% of local expenses.

By fiscal 2020/21, we expect local revenue to increase by \$8.2M annually following regulatory fee changes implemented in December 2018. We anticipate offsetting expense increases to implement the initiatives described in this service plan, in particular to increase enforcement, maintain cyber security, update local IT systems, expand investor education programs, and to pursue regulatory innovations that reduce the cost of capital while maintaining or increasing investor protection.

Capital markets activity can be volatile, so we hold accumulated reserves to fund operations through market downturns.

We prepare an annual budget for approval by the Board, monthly budget variance reporting to management, and request Board approval of significant expense variances.

In addition to our local operations, in accordance with Canadian public sector accounting standards, we proportionately consolidate twenty-five percent of the assets, liabilities, net assets, revenues and expenses of the CSA partnership. CGI operates several shared national filing and information systems on behalf of a government partnership between the BCSC, Ontario Securities Commission, *Autorité des marchés financiers*, and Alberta Securities Commission.

We expect CSA partnership operating costs to increase over the projection period as CSA implements expected new systems. In 2019/20 we budget operating expenses of \$5.5M compared to revenues from CSA partnership user fees, interest, and other partnership revenue of \$7.0M.

The participants in the CSA partnership have agreed to restrict the use of national system surplus funds to benefit only national filing system users through system enhancements or usage fee adjustments.

Appendix A: Hyperlinks to Additional Information

Corporate Governance

- [BCSC's governance policy, and the role of the Board of Directors and of each Board Committee](#)
- [Membership list of the Board of Directors](#)
- [Membership list of each Board Committee](#)
- [Names and job titles of senior management](#)
- [Key accountability relationships with Ministers, ministries, and any other significant reporting relationships](#)
- Per Appendix 1 of B.C.'s "[Governance and Disclosure Guidelines for Governing Boards of B.C. Public Sector Organizations](#)": These guidelines do not apply to the BCSC.

Organizational Overview

- [Enabling statute](#)
- [Mandate provided in enabling statute, vision, values, and overall benefit](#)
- [BCSC's business areas](#)
- [BCSC stakeholders and partners](#)
- [Location of BCSC operations](#)