

British Columbia Securities Commission

2018/19

ANNUAL SERVICE PLAN REPORT

July 2019



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Board Chair's Accountability Statement



The *British Columbia Securities Commission (BCSC) 2018/19 Annual Service Plan Report* compares the corporation's actual results to the expected results identified in the *2018/19 – 2020/21 Service Plan* created in February 2018. I am accountable for those results as reported. The report was prepared under my direction in accordance with the *Budget Transparency and Accountability Act*. The report is consistent with Government's strategic priorities and fiscal plan. I am accountable for the contents of the report, including what has been included in the report and how it has been reported. I am responsible for the validity and reliability of the information included in the report. 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 report have been determined based on an assessment of the BCSC's operating environment, forecast conditions, risk assessment and past performance.

A handwritten signature in black ink, consisting of stylized, overlapping loops and lines, representing the name Brenda M. Leong.

Brenda M. Leong
Chair and Chief Executive Officer

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Chair/CEO Report Letter

The BCSC is responsible for protecting investors and supporting fair, efficient and innovative capital markets.

We had a successful year by delivering substantively on all of the key strategies described in our Service Plan.

In 2018/19, the BCSC honoured government's commitment to delivering the services that people count on through vigorous and sustained enforcement and collections actions and our strategy to detect, disrupt and deter securities misconduct. We collected \$5.2 million in sanctions (administrative penalties, disgorgement orders and settlements) and returned an additional \$7 million to investors through a court-appointed receiver. Our expanded Criminal Investigations branch conducted more investigations and collaborated with Crown Counsel to obtain more convictions in 2018/19 than ever before. This commitment was further supported by the delivery of comprehensive public awareness campaigns about the potential for investment fraud, and the impact of fees on investment returns.

In keeping with government's commitments to making life more affordable for British Columbians and providing a strong, sustainable economy, we worked with other Canadian securities regulators in 2018/19 to develop harmonized regulations that increase opportunities for capital formation and reduce regulatory costs. Those efforts included creating a national regime for start-up crowdfunding based on current BC regulations, exploring alternative public financing models, and streamlining business acquisition reporting requirements for hundreds of BC-based public companies. The BCSC's Tech Team worked with colleagues across Canada to provide industry guidance on the application of securities laws to crypto-asset offerings, and launched a national consultation for a regulatory framework governing crypto-asset trading platforms.

These types of initiatives, and future initiatives, will be bolstered by anticipated revenue generated from a fee increase – the first in 24 years. The fee changes, which took effect December 30, 2018, will secure funding needed for effective market oversight and investor protection, including further expansion of the Criminal Investigations branch, enhanced investor education, regulation of financial technology (fintech) and crypto-assets, modernization of rules for capital formation, and hardening BCSC's cybersecurity defenses.

The BCSC proactively engages with the Ministry of Finance to ensure strategic alignment with the Ministry's objectives. We regularly communicate with and update the Ministry on the issues that affect British Columbians, including market trends, policy updates, major enforcement actions and investor education initiatives.

Purpose of the Annual Service Plan Report

The Annual Service Plan Report (ASPR) 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 in last 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 [Mandate Letter](#) from the Minister Responsible in 2018 shaped the [2018/19 Service Plan](#) and the results reported in this ASPR.

The following table highlights the key goals, objectives or strategies that support the key priorities of Government identified in the 2018/19 BCSC Service Plan:

Government Priorities	The BCSC Aligns with These Priorities By:
Making life more affordable	<ul style="list-style-type: none"> • Reviewing and modernizing regulations affecting reporting issuers
Delivering the services people count on	<ul style="list-style-type: none"> • Reducing securities fraud through detection, disruption, and deterrence • Implementing reforms to improve client-registrant relationships • Raising public awareness about investment fees
A strong, sustainable economy	<ul style="list-style-type: none"> • Regulating financial technologies to support innovation • Implementing a derivatives regime

Operating Environment

Regulating BC's capital markets within a national system significantly impacts how we approach and implement regulations in BC. While we endeavour to achieve highly harmonized regulations within the Canadian Securities Administrators (CSA), local priorities and imperatives in various jurisdictions may sometimes lead to the adoption of different regulations.

The cost of effective regulatory oversight is covered by fees paid by market participants. And while revenue has been stronger in recent years, it is cyclical in nature and highly dependent on market activity. There is a significant risk that a market downturn would result in lower than expected fee revenue. Therefore, we budget conservatively to limit the impact of a market downturn on our operating capacity.

In recent years, BC has been experiencing a vibrant and growing technology sector that provides employment and investment opportunities for British Columbians. Financial technology (fintech) is rapidly transforming many traditional financial services activities. Alongside the potential gains brought about by new technologies, come new risks and complexity. The adoption of blockchain technology in securities offerings and trading for example, poses new risks in custody, exchange regulation, trade oversight and investment disclosure.

And with the prevalence of new electronic platforms, some market participants have capitalized on the use of these platforms to conduct questionable investor relations activities that may not benefit investors or the public markets. Some of this activity has coincided with the massive growth of publicly traded cannabis and crypto-asset companies, but it crosses many industry sectors.

Certain roles in regulation require specialized expertise that is difficult to fill. In fiscal 2018/19 we faced challenges attracting a wide pool of qualified investigators and certain IT specialists.

Report on Performance

Goals, Objectives, Measures & Targets

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

Objective 1.1 Promote a culture of compliance

Investors are protected when firms and companies operating in the BC capital markets comply with their regulatory obligations. These entities must have systems and controls in place to ensure compliance. We apply risk-based reviews, register securities firms and their advisors, and refuse applications from unsuitable candidates. The BCSC also regulates public companies and companies raising money in private markets, and monitors filings to detect inadequate disclosure or compliance.

Key Highlights:

1. Implement a derivatives regime

In 2018/19, working with other members of the CSA, we made progress in implementing an OTC derivatives regime that meets Canada's G-20 commitments and international standards by continuing work on national instruments including National Instrument (NI) 93-101 – *Derivatives: Business Conduct*, NI 93-102 – *Derivatives: Registration*, NI 95-101 - *Margin and Collateral Requirements for Non-Centrally Cleared Derivatives*, and NI 25-102 - *Designated Benchmarks and Benchmark Administrators*. This work included developing and publishing for comment draft versions of instruments, reviewing comment letters, and consulting with key industry participants on the impacts of reform.

2. Implement reforms to improve client-registrant relationship

The CSA published the proposed amendments (Client Focused Reforms) to NI 31-103 on June 21, 2018, for a 120-day comment period that ended on October 19, 2018. The Client Focused Reforms proposed rule enhancements to conflicts of interest, know your client, know your product, suitability, and relationship disclosure requirements. The CSA is drafting revisions to the Client Focused Reforms in response to the key comments received.

3. Implement reforms to mutual fund fee structures

On September 13, 2018, the CSA published proposed rule amendments for comment, directed at managing conflicts of interest that arise from embedded commission structures. The rules would prohibit all forms of deferred sales charge options, including low-load options, upfront commissions, and trailing commissions in the discount broker channel. Coincident with the publication, Ontario's Ministry of Finance announced it disagreed with the CSA proposals as drafted. This has delayed the expected timing for completing the proposals.

4. Modernize the offering memorandum form

BC is co-leading a CSA project to modernize the disclosure required when issuers use the offering memorandum (OM) exemption to raise capital. Currently, issuers can use the OM exemption to raise money from any BC investor. Complex businesses are now using this exemption, so we are revisiting the disclosure requirements that would enhance the OM form so that it requires more tailored disclosure from these businesses. This will help investors make better investment decisions. We anticipate publishing the proposals for comment later this year.

Performance Measure(s)	2016/17 Actuals	2017/18 Actuals	2018/19 Target	2018/19 Actuals	2019/20 Target	2020/21 Target
1.1a Percentage of reviewed issuers that reduce deficiencies:	94%	94%	>95%	83%	>95%	>95%
i. Improve disclosure subsequent to a continuous disclosure review	88%	95%	>95%	82%	>95%	>95%
ii. Improve disclosure to minimum standards						
1.1b Percentage of randomly sampled mining companies that comply with standards for technical disclosure:	73%	78%	79%	74%	Improve on 18/19 actual	Improve on 19/20 actual
i. Filed disclosure (annual information forms, news releases, management discussion and analysis)	64%	69%	73%	68%	Increase average by 5% over 18/19	Increase average by 5% over 19/20
ii. Issuer websites and other voluntary disclosure						
1.1c Average number of repeat deficiencies per examination in Capital Markets Regulation	N/A	0.12	0.75	0.72	Improve on 18/19 actual	Improve on 19/20 actual

Data Source: 1.1a Internal evaluation of subsequent disclosure. 9 of 11 files showed improvement in their disclosure and 10 of 12 files met the basic standard for compliance.

1.1b Staff evaluation of compliance against criteria set out by staff and recorded year over year.

1.1c Our goal is to have registrants reduce repeat deficiencies. The number of repeat deficiencies is gathered from deficiency letters of completed examinations. We treat an examination as complete when we hold a closing meeting with the registrant. For examinations that have pending compliance or enforcement actions where we may not hold a closing meeting with registrants at the end of fieldwork, we included the repeat deficiencies in the calculation if the Director of Capital Markets Regulation has reviewed and agreed with the examination deficiencies. While we anticipate we will be able to reduce the average number of repeat deficiencies over the long term, we expect this measure to be volatile year over year. The number of examinations we conduct in a year changes (currently we conduct approximately 30-40), the number of examinations that are not initial exams varies (there are no repeat deficiencies in initial exams), and who we choose to examine during any given year changes to reflect regulatory priorities (which may increase or decrease repeat deficiencies). The Fiscal 2017/18 result was calculated using historical data and reflects this volatility. There was only one repeat deficiency in the year, which in our experience is an anomaly.

Discussion

- 1.1a One reviewed issuer represented it would correct minor deficiencies and it did not. Another issuer ceased filing after our review and was cease traded for failure to file. Absent these two issuers our Compliance rate would have been 100%.
- 1.1b Staff measures the degree to which 40 randomly selected mining companies comply with 20 disclosure requirements of NI 43-101. We assess compliance in required filings, such as new releases and Annual Information Forms (but excluding NI 43-101 technical reports), separately from voluntary disclosure such as websites and corporate presentations. In staff's view a score of 67% or better indicates a company is making a reasonable effort to comply. Fiscal 2018/19 results showed a decline in compliance over the previous year. These targets were not met. Exploration budgets grew for the second consecutive year in 2018 increasing 19% over 2017. Many companies that were in care and maintenance mode the preceding 4 years are generating technical disclosure from reactivated and new exploration initiatives. In many cases, these are in emerging new commodities related to growing demand for green energy and battery metals. Staff are evaluating new tools to more effectively focus reviews on disclosure at higher risk for non-compliance and potentially more harmful to investors.
- 1.1c This target was met. 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 the firm has allocated sufficient resources to its compliance function. Staff frequently refer firms with repeat deficiencies for enforcement or other remedial action.

Objective 1.2 Advance cost-effective regulation

The BCSC strives to provide strong investor protection and market integrity through smart regulation that is commensurate with the costs. We focus on three core areas:

- *Emphasizing evidenced-based solutions* – When the market cannot self-correct, we emphasize evidenced-based solutions to identified problems, and consider the full range of regulatory tools.
- *Using our resources efficiently* – We deploy our resources efficiently through risk management, cross-division collaboration, and relevant performance measures.
- *Delivering services reliably* – We deliver key regulatory services, on a timely basis, recognizing that delay can add to market participant cost.

Key Highlights:

5. CSA systems redesign

During the year, the CSA completed the following work on the National System Renewal Project (NSRP) for the first of three phases:

- Defined requirements describing the new system’s business processes and the data required for them.
- Completed the first of five development “sprints” to configure the system functionality that will consolidate most issuer-focused functionality in existing shared and local systems.
- Began migrating existing system data.

6. Regulate financial technologies to support innovation

In April 2018, the comment period closed for BC Notice 2018/01 *Consulting on the Securities Law Framework for Fintech Regulation*. The comments have led to, or contributed to, various initiatives over 2018/19, including the following:

- We worked with CSA to publish CSA/IIROC Consultation Paper 21-402 *Proposed Framework for Crypto-Asset Trading Platforms*.
- We are working with the CSA to develop a national instrument based on key features in the current BC start-up crowdfunding regime, amended to improve harmonization across Canada and promote greater usability.
- The BCSC Tech Team worked with members of the CSA Sandbox to provide further guidance on the regulation of offerings of digital coins or tokens, crypto-asset investment funds.

We have shared regulatory and technological expertise with other national and international securities regulators through IOSCO committees, participation in international conferences and regulator meetings, and membership in the Global Financial Innovation Network (GFIN). The GFIN provides opportunities for BC-based firms to test their products in a cross-border sandbox initiative that will run its first cohort in spring/summer 2019.

The BCSC Tech Team, Compliance, and Enforcement staff have also worked collaboratively on several fintech-related investigations and enforcement matters focused on securities law violations related to crypto-asset distributions and trading.

7. Review and modernize regulations affecting reporting issuers

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.

We are co-leading a CSA project to consider alternative prospectus models. This project incorporates our previous work on modernization of the resale regime. During fiscal 2018/2019, we consulted market participants, analyzed data on financings completed in 2017, researched prospectus regimes in foreign jurisdictions, including the U.S. and Australia, and considered alternatives to the current prospectus offering system.

We are also co-leading a CSA project to modify the business acquisition reporting requirements. During fiscal 2018/2019, we reviewed the current requirements for business acquisition reports, analyzed data on reports filed and exemptive relief granted over a three-year period. Based on this work we have recommended and drafted amendments to the requirements that will reduce regulatory burden for issuers.

In 2018, we adopted a new prospectus exemption for the resale of securities of a foreign issuer outside of Canada. It facilitates the resale of securities by certain issuers and eases the burden for those operating in multiple jurisdictions.

8. Support work to build the Capital Markets Regulatory Authority (CMRA)

We continued to work with Government to transition to the CMRA. The BCSC assisted with the transition and integration work necessary to establish it.

Performance Measure(s)	2016/17 Actuals	2017/18 Actuals	2018/19 Target	2018/19 Actuals	2019/20 Target	2020/21 Target
1.2a Average score on cost effective regulation scorecard	94%	93%	>90%	98%	>90%	>90%
1.2b Average approved project post implementation score	100%	100%	>80%	100%	>80%	>80%

1.2a **Data source:** Internal evaluations.

1.2b **Data source:** Internal accounting system, internal asset management systems and internal evaluation based on staff and management judgment, documented results in the post project review. In fiscal 2018/19, we assessed two IT-enabled projects.

Discussion

- 1.2a We met this target. We report the average score of all the projects completed each year. This analysis does not include rules that we adopt purely to harmonize with other jurisdictions, simple exemptions, or in 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.
- 1.2b We met this target. Our objective is to execute our IT-enabled projects efficiently and effectively. We recognize that there will frequently be issues from which we can learn. We consider an 80% post-implementation score evidence of a successful and well-run project.

Goal 2: Inspire investor confidence

Objective 2.1 Act decisively against misconduct

The BCSC's Enforcement division focuses on cases with a strong BC connection, including:

- Illegal distributions and fraud;
- Market misconduct, including market manipulation and insider trading;
- Compliance cases, including non-compliance by dealers and issuers;
- Criminal cases related to securities transactions.

Pursuing illegal distributions and fraud through both administrative and criminal enforcement is a critical component of protecting investors. We focus on deterring misconduct and mitigating investor losses through early disruption and timely enforcement. This includes:

- Conducting investigations leading to settlements or administrative hearings before the Commission.
- Identifying and freezing cash and other assets to preserve property for distribution to victims.
- Vigorously pursuing collection of financial sanctions to deter misconduct.
- Issuing temporary orders to stop misconduct immediately.
- Issuing investor alerts about suspected frauds to mitigate potential investor losses.
- Educating investors about the warning signs of investment fraud to mitigate investor harm, and encourage early reporting of suspicious activity.
- Pursuing criminal investigations and referring cases to Crown Counsel for prosecution.

Key Highlights:

9. Reduce securities fraud through detection, disruption, and deterrence

In fiscal 2018/19, the Criminal Investigations branch doubled its staff and initiated more investigations than any prior year. Prosecutions by Provincial Crown Counsel based on Criminal branch referrals also resulted in more convictions than any other year. The Criminal branch also launched a new [public-facing web page](#), the first of its kind among Canadian securities regulators, tracking current court proceedings and outcomes for Criminal branch cases, further raising public awareness of criminal market misconduct and assisting in detection and deterrence.

10. Improve market analytics capability for enforcement investigations

Together with other CSA jurisdictions, we continued to develop the first phase of a data analytics system – Market Analysis Platform (MAP) – that will include an equity data warehouse and priority enforcement tools for trade matching and trading data exploration. The system will launch later in 2019.

Performance Measure(s)	2016/17 Actuals	2017/18 Actuals	2018/19 Target	2018/19 Actuals	2019/20 Target	2020/21 Target
2.1a Actions taken to disrupt misconduct						
i. Number of actions	86	113	118	116	Increase 10% over 18/19	Increase 10% over 19/20
ii. Average duration of complaints to actions (days)	66	54	53	61	Decrease average by 10% over 18/19	Decrease average by 10% over 19/20
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)	31.9	32.1	31.9	36.2	Set according to review	Set according to review

Data Source: 2.1a Data recorded in BCSC case tracking system.

2.1b Data recorded in BCSC case tracking system. We updated the 2019/20 target compared to the September 2018 Service Plan based on the average duration of our current portfolio of cases plus the two-year average duration to issue a NOH or enter into Settlement Agreement.

Discussion

- 2.1a We measure the number of actions taken to disrupt active misconduct and we measure the average time between receiving the complaint and taking action. We did not meet our targets for the current fiscal year. We substantially met our target for the number of disruptive actions taken during the 2018/19 fiscal year. The average duration from complaint to action increased because of file specific issues, such as delays in obtaining evidence and competing priorities, although in some cases we took action to advance files that we do not record as disruptive action.
- 2.1b We measure the average case duration from complaint to issuance of an NOH or, absent an NOH, a settlement agreement. In fiscal 2018/19, we experienced an increase in the time taken to issue an NOH or settlement agreement. This was due, in part, to increases in case complexity, delays receiving documents, and delays obtaining testimony from witnesses.

Objective 2.2 Educate investors

We want BC investors to have the knowledge, attitudes, and behaviours they need to protect their financial interests and secure their financial futures. Through public awareness advertising, we empower investors to engage actively in their relationships with their investment advisors and understand the fees they pay and the impact of those fees on their investment returns. Using social media and other channels for investor education, we also help investors understand novel investment types, such as Initial Coin Offerings (ICOs), so they will know how to conduct adequate due diligence. We raise awareness about how to recognize, reject, and report investment fraud by reaching out to BC investors through regular social media posts and a concentrated fraud campaign during Fraud Prevention Month in March.

Key Highlights:

11. Raise public awareness about investment fees

We concluded our three-year public awareness and research activities this year, both supporting the Client Relationship Model Phase 2 (CRM2) policy initiative. The *Take a Look at Fees* advertising campaign reached BC investors through television, radio, and digital advertising, social media, and media partnerships. *The Investor Readiness for Better Investing* research study showed how BC investors use their CRM2 fee reports and identified barriers that keep investors from taking steps to secure better investment outcomes. During Fraud Prevention Month in March 2019, we ran the *Don't Be Part of a Fraud* campaign across BC using English, Chinese, and Punjabi radio, English-language digital advertising and some television promotion.

Performance Measure(s)	2016/17 Actuals	2017/18 Actuals	2018/19 Target	2018/19 Actuals	2019/20 Target	2020/21 Target
2.2a Percentage of BC investors who strongly agree they have a good understanding of how fees impact the returns on their investments	21%	22%	23%	22%	Increase 5% over 18/19	Increase 5% over 19/20
2.2b Number of video views of Investment Fraud Explained seminar	1,383	2,834	2,950	4,137	Improve on 18/19 actual	Improve on 19/20 actual
2.2c Percentage of BC public aware of BCSC	33%	37%	>45%	40%	>45%	>45%

Data Source: 2.2a Online investor survey.

2.2b Number of targeted advertised YouTube video views to British Columbians classified under Financial Services as “investment services” and Banking & Finance as “avid investors.” 11.07% of viewers seeking investment services, and 27.38% of avid investors watched the 9:46 video to the end.

2.2c Independent survey. Data received by BCSC in report form.

Discussion

2.2a This measure is an average of data gathered from BC investors in March and September, 2018. While the aggregate does not show an increase, the data does show a significant increase to 26% in March, just after RRSP season and our Take a Look at Fees advertising campaign, and a drop to 18% in the fall, when we expect people to be thinking less about their investments. We will shift our marketing communications focus away from investment fees in F2019/2020 and assess whether this remains a suitable measure for the work we do in this area.

- 2.2b The target was easily met through an online advertising campaign. In the campaign, we targeted people seeking information about financial services. The total number of views from the paid campaign was 6,154. The 4,137 views are a subset of the total number, as we want to be targeted in our approach in order to reach investors versus the general public. These views come from British Columbians classified by YouTube/Google as users specifically seeking “investment services” and users who are “avid investors.”
- 2.2c We collect this information as part of an annual online survey to measure awareness, recall and impact of our public awareness campaigns among 1,500 British Columbians aged 18 years and older. We report on aided awareness by asking the following 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?”* While awareness of the BCSC increased for the third year in a row, we still did not meet our target of >45%. Our ability to increase awareness is directly linked to the number of people we can reach, which is mostly a function of budget. We saw far greater awareness among the BCSC’s core target audiences of B.C. investors (45%), securities investors (48%), and investors who work with a registered investment advisor (49%).

Financial Report Discussion of Results For the Year Ended March 31, 2019

Highlights

We prepared this discussion of financial position and results of operations of the BCSC on May 9, 2019. Read it in conjunction with our audited financial statements for the year ended March 31, 2019.

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. capital 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, 2019 were a surplus of \$9.3 million, which is \$9.7 million above budget. The total surplus is comprised of \$6.8 million for local operations and \$2.5 million for Partnership operations.

The key budget variances were:

- Sanctions revenue was \$4.7 million higher than budget due to collection of \$4.9 million in administrative penalties relating to the Bossteam case
- Prospectus and other distribution revenue was \$3.3 million (14%) higher than budget, due primarily to \$2.1 million (18%) higher fees from prospectus base and proceeds fees and \$0.8 million (11%) higher fees from exempt market capital raising; the amount of proceeds raised was higher than expected
- Registration revenue was \$1.3 million (11%) higher than budget due primarily to the impact of approximately \$1.0 million relating to new fees that became effective December 30, 2018
- Local operations expenses were \$0.5 million (1%) above budget due primarily to higher than budgeted spending on education

Partnership capital spending on information technology was \$2.2 million compared to budget of \$7.9 million. Local capital on information technology was \$2.3 million compared to budget of \$3.0 million. These variances are due to timing of the work on the CSA national systems renewal project and related local systems.

Financial Results Summary

<i>(millions)</i>	2018	2019	2019	2019
	Actual	Budget	Actual	Variance
Revenue				
Regulatory and other local fees:				
Prospectus and other distributions	\$ 26.4	\$ 23.8	\$ 27.1	\$ 3.3
Registration	12.2	12.2	13.5	1.3
Financial filings	4.7	4.5	4.8	0.3
Exemptive orders and other fees	0.4	0.2	0.4	0.2
	\$ 43.7	\$ 40.7	\$ 45.7	\$ 5.0
Other revenue:				
National systems access and usage fees	\$ 6.2	\$ 6.3	\$ 6.5	\$ 0.2
Enforcement sanctions	0.2	0.5	5.2	4.7
Investment income	0.8	0.7	1.4	0.7
	\$ 7.2	\$ 7.5	\$ 13.1	\$ 5.6
Total revenue	\$ 50.8	\$ 48.2	\$ 58.8	\$ 10.6
Expenses				
Local salaries and benefits	\$ 29.6	\$ 31.3	\$ 31.0	\$ (0.3)
Other local expenses	13.0	13.0	13.7	0.7
National systems expenses	4.0	4.3	4.8	0.5
Total expenses	\$ 46.6	\$ 48.6	\$ 49.5	\$ 0.9
Surplus (deficit)	\$ 4.2	\$ (0.4)	\$ 9.3	\$ 9.7
Supplementary Information				
Unrestricted surplus	\$ 25.5	\$ 17.5	\$ 32.7	\$ 15.2
Restricted surplus	\$ 40.7	\$ 41.4	\$ 43.2	\$ 1.8
Local capital expenditures	\$ 1.2	\$ 3.0	\$ 2.3	\$ (0.7)
Partnership capital expenditures	\$ 1.0	\$ 7.9	\$ 2.2	\$ (5.7)
Debt	\$ -	\$ -	\$ -	\$ -

Variance and Trend Analysis

Revenues

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

The following table details the proportion of total revenue by source and year:

	2015	2016	2017	2018	2019
Prospectus and other distributions	45%	49%	50%	52%	46%
Registration	25%	25%	25%	24%	23%
Financial filings	11%	10%	10%	9%	8%
National systems access and usage fees	15%	14%	13%	12%	11%
Enforcement sanctions and other	2%	0%	2%	3%	12%
Total	100%	100%	100%	100%	100%

Local revenue

<i>(thousands)</i>	2019 Actual versus Budget				2019 versus 2018			
	Actual	Budget	Variance	%	2019	2018	Variance	%
Distributions	\$ 27,108	\$ 23,800	\$ 3,308	14%	\$ 27,108	\$ 26,383	\$ 725	3%
Registrations	13,513	12,200	1,313	11%	13,513	12,176	1,337	11%
Financial filings	4,756	4,500	256	6%	4,756	4,737	19	0%
Exemptions and others	363	220	143	65%	363	196	167	85%
Enforcement sanctions	5,207	450	4,757	1057%	5,207	222	4,985	2245%
Investment income	597	200	397	199%	597	304	293	96%
	\$ 51,543	\$ 41,370	\$ 10,173	25%	\$ 51,543	\$ 44,018	\$ 7,525	17%

We collect the following fees:

- *Distribution fees*, from companies and mutual funds, to file 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 securities
- *Financial filings fees*, from public companies and mutual funds, to file annual and interim financial statements
- *Other fees*, from market participants, primarily to request *Securities Act* exemptions

Prospectus and other distribution revenue was \$3.3 million (14%) higher than budget, due primarily to \$2.1 million (18%) higher fees from prospectus base and proceeds fees and \$0.8 million (11%) higher fees from exempt market capital raising. The primary reason for these increases was strong market activity, particularly prospectus fees in the third quarter and exempt distributions in the fourth quarter.

Registration revenue was \$1.3 million (11%) higher than budget due primarily to approximately \$1.0 million relating to a \$100 increase in the annual registration fee for a dealing or advising representative that became effective December 30, 2018.

Enforcement sanctions

We vigorously pursue outstanding sanctions arising from our enforcement actions. We register all our decisions with the Supreme Court and then use whatever tools we can to collect. For example, we seize and sell assets, garnish bank accounts, and compel debtors to enter into court ordered payment plans. We use external counsel to start lawsuits to recover assets and we renew our judgments so that we can attempt to collect as long as possible.

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.

During the year, we imposed sanctions of \$35.4 million. We collected \$5.2 million of which \$0.3 million related to sanctions imposed in the current year and \$4.9 million related to sanctions imposed in prior years. Most of the \$4.9 million relates to the Bossteam case.

The Commission must make available to investors any money it collects under disgorgement orders. In addition, the Commission starts or participates in court proceedings that return money to investors. For example, in fiscal 2019 a receiver appointed by the Commission returned approximately \$7.0 million to investors. The Commission had frozen more than \$13 million during its investigation relating to its investigation in the Bossteam case. Another receiver appointed in fiscal 2019 is in the process of returning \$1.0 million to investors. The Commission obtained this money after settling two lawsuits it started to collect from the debtor.

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

Investment income

Our prime 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, 2019 we had \$18.5 million in local demand deposits that currently earn higher interest than the short term investment pools. The Partnership's investments are in redeemable term deposits and guaranteed investment certificates.

Expenses

Expenses relate to local operations and Partnership operations.

Salaries and benefits and occupancy costs account for about 77 percent of local expenses.

Most Partnership expenses are fees paid to the contracted IT service provider, and 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.

The BCSC seconded certain employees and provides administrative support, on a cost recovery basis, to the Canadian Securities Regulation Regime Transition Office (CSTO) and Capital Markets Authority Implementation Organization (CMAIO). These arrangements support the B.C. government's work to build the CMRA. We net reimbursements of \$1.0 million in fiscal 2019 against the corresponding salaries and benefits costs.

Local expenses

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

We engage consultants when we need specialized services or when outsourcing is more cost-effective than performing the work ourselves. Fiscal 2019 professional service costs related primarily to legal services, our share of CSA project and management costs, legislative counsel services, interview and hearing transcription services, internal and external audit services, and HR consulting.

We run local operations from a downtown Vancouver office to be close to the market participants that we regulate. Our 68,000 square feet of space cost us about \$57 per square foot for 2019, under a lease that expires in November 2021.

We educate the public and securities market participants about investing, financial matters and the regulation of securities markets. Most of the education spending in 2019 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>	2019 versus Budget				2019 versus 2018			
	Actual	Budget	Variance	%	2019	2018	Variance	%
Salaries and benefits	\$ 31,049	\$ 31,300	\$ (251)	(1%)	\$ 31,049	\$ 29,606	\$ 1,443	5%
Professional services	2,461	2,400	61	3%	2,461	2,072	389	19%
Occupancy	3,463	3,400	63	2%	3,463	3,323	140	4%
Depreciation	2,442	2,300	142	6%	2,442	2,760	(319)	(12%)
Information management	1,955	2,105	(150)	(7%)	1,955	1,797	157	9%
Education	1,768	750	1,018	136%	1,768	1,394	374	27%
Other	1,592	2,010	(418)	(21%)	1,592	1,628	(36)	(2%)
	\$ 44,728	\$ 44,265	\$ 463	1%	\$ 44,728	\$ 42,580	\$ 2,148	5%

Total expenses for local operations were \$0.5 million above budget due primarily to higher than budgeted spending on education partly offset by savings in other areas including travel expenses and external communication.

Local salaries and benefits expense were \$1.4 million (5%) higher than in 2018 primarily due to higher costs for health benefits and merit-based salary increases. Professional fees increased by \$0.4 million (19%) compared to the prior year related to collection of sanctions. Education spending increased by \$0.4 million (27%) compared to the prior year due to an expanded investor education campaign.

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>	2019 versus Budget			2019 versus 2018		
	Actual	Budget	Variance	2019	2018	Variance
National systems access and usage fees	\$ 6,523	\$ 6,300	\$ 223	\$ 6,523	\$ 6,159	\$ 364
Partnership investment income and other	757	500	257	757	649	108
National systems expenses	4,790	4,300	490	4,790	4,024	766
Surplus	\$ 2,489	\$ 2,500	\$ (11)	\$ 2,489	\$ 2,784	\$ (295)

The surplus for Partnership operations was on budget and comparable to 2018. National systems expenses were higher in 2018 due to the timing of work on the national systems renewal project.

Tangible Capital Assets

Additions to local tangible capital assets of \$2.3 million were primarily for IT infrastructure upgrades. Additions to the Partnership information technology of \$2.2 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.

Capital 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, 2022, CGI hosts and operates several national systems through which we collect most of our fee revenue. CGI maintains a comprehensive business continuity plan for these systems.

Internal control over financial reporting (ICFR)

During the year, we reviewed our ICFR processes and updated documentation where necessary. No changes occurred during the year ended March 31, 2019 that materially affected, or are likely to materially affect, our ICFR. Our internal auditors tested operating effectiveness of our ICFR as at March 31, 2019 and concluded that the ICFR was operating effectively and that there are no material weaknesses.

Management's Responsibility for Financial Reporting

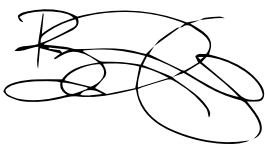
Management is responsible for the integrity and fair presentation of the financial statements and other financial information included in this annual service plan report. Management has prepared the financial statements in accordance with Canadian public sector accounting standards (PSAS).

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 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 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 financial statements and its report follows.



Brenda M. Leong
Chair and Chief Executive Officer



Peter J. Brady
Executive Director



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

Independent Auditor's Report

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 and controlled entities (the "Consolidated Entity"), which comprise the Consolidated Statement of Financial Position as at March 31, 2019, and the Consolidated Statements of Operations and Change in Accumulated Surplus, Remeasurement Gains and Losses, Change in Net Financial Assets and Cash Flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Consolidated Entity as at March 31, 2019, and its consolidated results of operations, remeasurement gains and losses, change in net financial assets, and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

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

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

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

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

Those charged with governance are responsible for overseeing the Consolidated 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 Consolidated 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 Consolidated 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 Consolidated Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Consolidated Entity to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

BDO Canada LLP

Chartered Professional Accountants

Vancouver, British Columbia
May 9, 2019

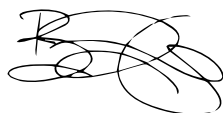
Statement of Financial PositionAs at March 31, 2019
(audited)

	March 31, 2019	March 31, 2018
Financial assets		
Cash (note 4)	\$ 23,582,821	\$ 9,822,092
Restricted cash - 161(1)(g) payments (note 5)	238,951	223,626
Investments (note 6)	55,473,526	55,660,041
Amounts receivable (note 7)	1,396,406	1,605,617
	\$ 80,691,704	\$ 67,311,376
Liabilities		
Accounts payable and accrued liabilities (note 8)	\$ 4,787,685	\$ 2,392,685
Accrued salaries and benefits	1,020,377	1,339,455
Deferred registration fee revenue	11,656,197	8,504,595
Employee leave liability (note 9)	985,668	1,109,141
161(1)(g) liabilities (note 5)	238,951	223,626
	\$ 18,688,878	\$ 13,569,502
Net financial assets	\$ 62,002,826	\$ 53,741,874
Tangible capital assets (note 10)	\$ 12,787,201	\$ 10,784,258
Prepaid expenses (note 11)	1,137,981	1,655,515
	\$ 13,925,182	\$ 12,439,773
Accumulated Surplus	\$ 75,928,008	\$ 66,181,647
Accumulated Surplus is comprised of:		
Unrestricted operating surplus (note 12)	\$ 32,982,457	\$ 26,167,401
Restricted operating surplus (note 12)	43,206,486	40,717,247
	76,188,943	66,884,648
Accumulated remeasurement losses	(260,935)	(703,001)
	\$ 75,928,008	\$ 66,181,647

Contractual obligations and contingencies (note 19)

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

Approved by the Board:


Brenda M. Leong
Chair and Chief Executive Officer

George C. Glover
Chair, Audit Committee

Statement of Operations and Change in Accumulated Surplus

For the Year Ended March 31, 2019

(audited)

	March 31, 2019 Budget (note 20)	March 31, 2019 Actual	March 31, 2018 Actual
Revenues			
Regulatory and other fees			
Prospectus and other distributions	\$ 23,800,000	\$ 27,107,545	\$ 26,383,044
Registration	12,200,000	13,513,120	12,176,017
Financial filings	4,500,000	4,755,996	4,736,801
Exemptive orders and other	220,000	362,528	376,536
National systems access and usage fees (note 13)	6,300,000	6,523,022	6,158,744
Enforcement sanctions (note 14)	450,000	5,206,676	222,067
Investment income (note 15)	700,000	1,421,222	910,970
Realized loss on investments (note 15)	-	(67,159)	(138,118)
	\$ 48,170,000	\$ 58,822,950	\$ 50,826,061
Expenses			
Local operations (note 16)	\$ 44,265,000	\$ 44,728,192	\$ 42,580,215
Partnership operations (note 16)	4,300,000	4,790,463	4,024,051
	\$ 48,565,000	\$ 49,518,655	\$ 46,604,266
Annual surplus (deficit)	\$ (395,000)	\$ 9,304,295	\$ 4,221,795
Accumulated operating surplus, beginning of year		\$ 66,884,648	\$ 62,662,853
Accumulated operating surplus, end of year		\$ 76,188,943	\$ 66,884,648

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

Statement of Remeasurement Gains and LossesFor the Year Ended March 31, 2019
(audited)

	March 31, 2019	March 31, 2018
Accumulated remeasurement losses, beginning of year	\$ (703,001)	\$ (525,956)
Unrealized (losses) gains on investments (note 15)	374,907	(315,163)
Realized losses on investments, reclassified to operations (note 15)	67,159	138,118
Accumulated remeasurement losses, end of year	\$ (260,935)	\$ (703,001)

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

Statement of Change in Net Financial Assets

For the Year Ended March 31, 2019
(audited)

	March 31, 2019 Budget (note 20)	March 31, 2019 Actual	March 31, 2018 Actual
Surplus for the year	\$ (395,000)	\$ 9,304,295	\$ 4,221,795
Acquisition of tangible capital assets	\$ (10,895,000)	\$ (4,522,469)	\$ (2,195,125)
Depreciation of tangible capital assets	2,450,000	2,519,526	2,833,887
	\$ (8,445,000)	\$ (2,002,943)	\$ 638,762
Acquisition of prepaid expenses		\$ (1,061,576)	\$ (1,777,415)
Use of prepaid expenses		1,579,110	1,002,937
		\$ 517,534	\$ (774,478)
Effect of net remeasurement gains (losses) for the year		\$ 442,066	\$ (177,045)
Increase in net financial assets, for the year		\$ 8,260,952	\$ 3,909,034
Net financial assets, beginning of year		\$ 53,741,874	\$ 49,832,840
Net financial assets, end of year		\$ 62,002,826	\$ 53,741,874

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

Statement of Cash FlowsFor the Year Ended March 31, 2019
(audited)

	March 31, 2019	March 31, 2018
Operating transactions		
Cash received from:		
Fees	\$ 55,682,972	\$ 50,155,917
Enforcement sanctions	5,151,876	252,129
Interest	867,406	544,267
	\$ 61,702,254	\$ 50,952,313
Cash paid to and on behalf of employees	\$ (31,420,297)	\$ (30,130,893)
Cash paid to suppliers and others	(13,113,996)	(14,309,407)
	(44,534,293)	(44,440,300)
Cash provided by operating transactions	\$ 17,167,961	\$ 6,512,013
Capital transactions		
Cash used to acquire tangible capital assets	\$ (4,522,469)	\$ (2,195,125)
Investing transactions		
Proceeds from disposals of investments	\$ 3,000,781	\$ 47,000,000
Purchase of investments	(1,885,544)	(51,565,382)
	\$ 1,115,237	\$ (4,565,382)
Increase (decrease) in cash	\$ 13,760,729	\$ (248,494)
Cash, beginning of year	\$ 9,822,092	\$ 10,070,585
Cash, end of year	\$ 23,582,821	\$ 9,822,092

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

Notes to the Financial Statements

For the Year Ended March 31, 2019
(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 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 80 percent of our fee revenue through the national systems. The Partnership contracted CGI Information Systems and Management Consultants Inc. (CGI) to provide IT services to January 12, 2022. CGI maintains a comprehensive business continuity plan for the national systems.

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

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

b) Financial instruments

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

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

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

Notes to the Financial Statements

For the Year Ended March 31, 2019
(audited)

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, 2021
- Local office furniture and equipment – ten years
- Partnership information technology – seven years

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 receive annual registration fees and recognize them in revenue in the calendar year to which they 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 second certain employees and 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). These arrangements support the B.C. government's work to build the Capital Markets Regulatory Authority (CMRA). We net reimbursements against corresponding salaries and benefits costs.

Notes to the Financial Statements

For the Year Ended March 31, 2019
(audited)

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.

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 Schedule 1 chartered banks.

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 that the British Columbia Investment Management Corporation (BCI), a B.C. government organization, administers.

We buy units of the following BCI pooled funds:

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

Notes to the Financial Statements

For the Year Ended March 31, 2019
(audited)

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

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

Our investments expose us to interest rate risk associated with the underlying interest-bearing securities held in the investment funds. Interest rate risk relates to the possibility that the fair value of 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, 2019 composition of our investment portfolio, an immediate 1 percent increase in interest rates across the entire yield curve, with all other variables held constant, would result in a decrease in market value of approximately \$1.0 million. In addition, future investment income earned on variable rate cash deposits and new investments would increase after an interest rate increase. We expect interest rates to rise slightly over the coming year. We manage interest rate risk by monitoring portfolio duration and yields with the fund administrator, BCI. The current investment duration of the Short Term Bond Fund is 2.7 years and of the Canadian Universe Bond Fund is 7.8 years.

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

Notes to the Financial Statements

For the Year Ended March 31, 2019
(audited)

4. Cash

	March 31, 2019	March 31, 2018
Local demand deposits	\$ 18,520,253	\$ 4,181,126
Partnership demand deposits	5,062,568	5,640,966
	\$ 23,582,821	\$ 9,822,092

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

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

Case	March 31, 2019	March 31, 2018
Canada Pacific Consulting Inc. and Michael Robert Shantz	\$ 131,781	\$ 131,781
Winston King-Loong Kuit	86,985	81,485
Jefferson Franklin Mesidor	6,030	6,030
Darren Scott Davidson	4,500	-
Weiqing Jane Jin	4,280	4,280
Paul Webster	4,000	-
Donald Weiss	700	50
Dennis Carl Weigel	600	-
Renee Michelle Penko	75	-
	\$ 238,951	\$ 223,626

Notes to the Financial Statements

For the Year Ended March 31, 2019

(audited)

6. Investments

	March 31, 2019		March 31, 2018	
	Market Value	Cost	Market Value	Cost
BCI pooled funds				
Canadian Money Market Fund	\$ -	\$ -	\$ 667	\$ 667
Short Term Bond Fund	17,008,282	17,033,149	19,485,585	19,748,429
Canadian Universe Bond Fund	7,764,318	8,000,386	7,358,406	7,798,563
	\$ 24,772,600	\$ 25,033,535	\$ 26,844,658	\$ 27,547,659
Partnership investments				
Notice account	\$ 16,781,776	\$ 16,781,776	\$ 11,315,383	\$ 11,315,383
Term deposit	8,919,150	8,919,150	7,500,000	7,500,000
Guaranteed Investment Certificate	5,000,000	5,000,000	10,000,000	10,000,000
	\$ 30,700,926	\$ 30,700,926	\$ 28,815,383	\$ 28,815,383
	\$ 55,473,526	\$ 55,734,461	\$ 55,660,041	\$ 56,363,042

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

7. Amounts receivable

	March 31, 2019	March 31, 2018
National systems user fees	\$ 747,688	\$ 859,922
GST refunds	198,876	122,971
National project recoveries	145,938	18,715
Enforcement sanctions	82,300	27,500
SEDAR filings	60,200	297,366
Due from CSTO	56,457	89,058
Due from CMAIO	44,407	107,013
Employee advances and other	39,740	51,372
Late insider report filing fees	20,800	31,700
	\$ 1,396,406	\$ 1,605,617

Notes to the Financial Statements

For the Year Ended March 31, 2019

(audited)

8. Accounts payable and accrued liabilities

	March 31, 2019	March 31, 2018
Local trade accounts payable	\$ 4,041,131	\$ 1,950,957
Partnership trade accounts payable	549,147	156,185
Other	197,408	285,543
	\$ 4,787,685	\$ 2,392,685

9. Employee leave liability

Employee leave liability is what we owe to our employees for their accumulated vacation time.

Notes to the Financial Statements

For the Year Ended March 31, 2019

(audited)

10. Tangible capital assets

	March 31, 2019				Total
	Local Information Technology	Local Leasehold Improvements	Local Furniture & Equipment	Partnership Information Technology	
Cost					
Opening balance	\$ 12,187,007	\$ 5,911,949	\$ 2,686,506	\$ 4,978,267	\$ 25,763,729
Additions	2,289,254	-	(565)	2,233,780	4,522,469
Disposals	(2,184,603)	-	-	-	(2,184,603)
Closing balance	\$ 12,291,658	\$ 5,911,949	\$ 2,685,941	\$ 7,212,047	\$ 28,101,595
Accumulated depreciation					
Opening balance	\$ 7,518,162	\$ 4,824,204	\$ 2,262,141	\$ 374,963	\$ 14,979,470
Depreciation	2,070,248	297,213	74,086	77,979	2,519,526
Disposals	(2,184,603)	-	-	-	(2,184,603)
Closing balance	\$ 7,403,807	\$ 5,121,417	\$ 2,336,227	\$ 452,942	\$ 15,314,393
Net book value	\$ 4,887,851	\$ 790,532	\$ 349,714	\$ 6,759,105	\$ 12,787,201
March 31, 2018					
	March 31, 2018				Total
	Local Information Technology	Local Leasehold Improvements	Local Furniture & Equipment	Partnership Information Technology	
Cost					
Opening balance	\$ 14,645,212	\$ 5,911,949	\$ 2,808,961	\$ 3,960,716	\$ 27,326,838
Additions	1,159,945	-	17,629	1,017,551	2,195,125
Disposals	(3,618,150)	-	(140,084)	-	(3,758,234)
Closing balance	\$ 12,187,007	\$ 5,911,949	\$ 2,686,506	\$ 4,978,267	\$ 25,763,728
Accumulated depreciation					
Opening balance	\$ 8,746,152	\$ 4,526,991	\$ 2,329,122	\$ 301,552	\$ 15,903,817
Depreciation	2,390,160	297,213	73,103	73,411	2,833,887
Disposals	(3,618,150)	-	(140,084)	-	(3,758,234)
Closing balance	\$ 7,518,162	\$ 4,824,204	\$ 2,262,141	\$ 374,963	\$ 14,979,470
Net book value	\$ 4,668,845	\$ 1,087,745	\$ 424,365	\$ 4,603,304	\$ 10,784,258

Notes to the Financial Statements

For the Year Ended March 31, 2019

(audited)

11. Prepaid expenses

	March 31, 2019	March 31, 2018
Local hardware and software maintenance contracts	\$ 455,656	\$ 465,459
Partnership information services	598,991	1,157,624
Partnership software maintenance	83,334	32,432
	\$ 1,137,981	\$ 1,655,515

12. Accumulated operating surplus

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

	March 31, 2018			
	General	Education (a)	Partnership (b)	Total
Opening balance	\$ 24,522,385	\$ 207,316	\$ 37,933,152	\$ 62,662,853
Additions and appropriations	1,215,633	222,067	2,784,095	4,221,795
Investment income allocation	(2,824)	2,824	-	-
Education expenses paid from reserve	432,207	(432,207)	-	-
Closing balance	\$ 26,167,401	\$ -	\$ 40,717,247	\$ 66,884,648

a) Education reserve (internally-restricted)

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

b) Partnership (restricted)

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

Notes to the Financial Statements
For the Year Ended March 31, 2019
(audited)

13. Partnership - summarized annual financial information

	March 31, 2019		March 31, 2018	
	Partnership	25% share	Partnership	25% share
Financial Position				
Financial assets	\$ 146,044,729	\$ 36,511,182	\$ 141,265,080	\$ 35,316,270
Liabilities	2,984,505	746,126	1,569,538	392,385
Net Financial assets	\$ 143,060,224	\$ 35,765,056	\$ 139,695,542	\$ 34,923,886
Non-financial assets	29,765,720	7,441,430	23,173,444	5,793,361
Accumulated surplus	\$ 172,825,944	\$ 43,206,486	\$ 162,868,986	\$ 40,717,247
Operations				
Revenues				
National systems access and usage fees	\$ 26,092,086	\$ 6,523,022	\$ 24,634,977	\$ 6,158,744
Investment income and other	3,026,718	756,680	2,597,606	649,402
Expenses	19,161,846	4,790,462	16,096,204	4,024,051
Surplus	\$ 9,956,958	\$ 2,489,240	\$ 11,136,379	\$ 2,784,095
Cash flows				
Cash provided by (used in):				
Operating	\$ (9,956,958)	\$ (2,489,240)	\$ (11,136,378)	\$ (2,784,095)
Capital	8,935,118	2,233,780	4,070,205	1,017,551
Investing	(1,291,752)	(322,938)	9,743,842	2,435,961
Increase (decrease) in cash	\$ (2,313,592)	\$ (578,398)	\$ 2,677,669	\$ 669,417

Notes to the Financial Statements

For the Year Ended March 31, 2019

(audited)

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 \$35.4 million (fiscal 2018 - \$6.0 million) during the year, of which we did not recognize \$34.8 million (fiscal 2018 - \$5.8 million) as revenue because we have not determined that the sanctions are collectible.

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

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

	For the Year Ended March 31, 2018						
	Average Balance	Investment Income	Realized Gains (Losses)	Total Income	Unrealized Gains (Losses)	Annualized Return	
Cash, term deposits and GIC	\$ 38,839,242	\$ 540,249	\$ -	\$ 540,249	\$ -	1.4%	
Restricted cash - 161(1)(g) payments	299,430	4,018	-	4,018	-	1.3%	
Canadian Money Market Fund	692,600	730	-	730	(113)	0.1%	
Short Term Bond Fund	12,946,509	177,611	-	177,611	(228,438)	(0.4%)	
Canadian Universe Bond Fund	8,247,807	188,362	(138,118)	50,244	(86,612)	(0.4%)	
	\$ 61,025,588	\$ 910,970	\$ (138,118)	\$ 772,852	\$ (315,163)	0.7%	

Notes to the Financial Statements
For the Year Ended March 31, 2019
(audited)

16. Expenses

	Budget 2019	Year Ended March 31	
		2019	2018
Local operations			
Salaries and benefits	\$ 31,300,000	\$ 31,048,503	\$ 29,605,683
Occupancy	3,400,000	3,462,981	3,322,796
Professional services	2,400,000	2,460,717	2,072,215
Depreciation	2,300,000	2,441,547	2,760,476
Information management	2,105,000	1,954,776	1,797,306
Education	750,000	1,767,827	1,393,987
Administration	670,000	550,597	605,588
Staff training	510,000	463,423	522,093
Travel	420,000	273,999	285,388
Telecommunications	200,000	215,757	121,871
External communication	210,000	88,065	92,812
Total local operations	\$ 44,265,000	\$ 44,728,192	\$ 42,580,215
Partnership operations			
Professional services	\$ 3,120,000	\$ 3,730,603	\$ 3,132,692
Salaries and benefits	850,000	779,724	636,497
Information management and administration	180,000	202,158	181,451
Depreciation	150,000	77,979	73,411
Total Partnership operations	\$ 4,300,000	\$ 4,790,463	\$ 4,024,051
	\$ 48,565,000	\$ 49,518,655	\$ 46,604,266

Notes to the Financial Statements

For the Year Ended March 31, 2019
(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 about 62,000 active members and approximately 48,000 retired members. A board of trustees, representing plan members and employers, is responsible for overseeing the management of the plan, including investment of assets and administration of benefits.

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

The plan trustees monitor the impact of the financial environment on plan health. Plan surpluses and deficits are not attributable to individual employers, but affect future contribution levels. We charged \$2.4 million (fiscal 2018 - \$2.2 million) to expense for employer contributions during the period.

19. Contractual obligations and contingencies

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

<i>Fiscal year</i>	2020	2021	2022	Total
	\$ 3,657,628	\$ 3,719,919	\$ 2,534,964	\$ 9,912,512

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

The Partnership has also contracted with CGI to redevelop several shared filing systems over the next several years. The Partnership has certain rights to terminate the agreement, with and without cause.

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.

Appendix A – Additional Information

Please refer to the following links for additional information about the BCSC.

Corporate Governance

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

Organizational Overview

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

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