

BRITISH COLUMBIA SECURITIES COMMISSION

'08/'09

Annual Report



BRITISH COLUMBIA
SECURITIES COMMISSION



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OUR PEOPLE

The success of the British Columbia Securities Commission depends on the skills and motivation of its staff, many of them professionals with specialized securities market expertise. The talent and diversity of the people working for the BCSC makes it a place where people like to stay and grow their skills. The BCSC attracts and retains qualified and dedicated staff members who are active and engaged in their communities. Our employees give their time to not-for-profit organizations outside of work, and many of them volunteer in our Staff Ambassador program, delivering investor and industry education seminars throughout the province.

Every year, BCSC staff members go beyond the call of duty to respond to the challenges posed by complex and dynamic securities markets. Their achievements and dedication are noted throughout this report.



MESSAGE FROM THE CHAIR



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TO THE EXTENT THAT MISJUDGEMENTS AND IMPRUDENCE BY SOPHISTICATED INVESTORS FED THE CRISIS, THOSE ARE EXACTLY THE KINDS OF ERRORS THAT THE MARKET ITSELF IS EFFECTIVE IN CORRECTING. WEIGHING IN WITH MORE REGULATION COULD UNDERMINE THE MARKET'S OWN CORRECTIVE MECHANISMS.

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Fiscal 2009 was a challenging but successful year for the British Columbia Securities Commission. The turmoil in the international credit markets, which began during the previous year, from causes dating back much further, spilled into the banking sector, the broader securities markets, and the economy generally.

The market downturn was faster and deeper than most forecasters had anticipated and it revealed some significant problems that were masked by the previous period of expansion. Many supposedly sophisticated market participants seriously underestimated the risks and volatility of new financial instruments, and even some old style instruments. They also found, when the trouble started, that some of these instruments were so complex and opaque that they did not know what they or their clients actually owned or what risks they faced. Many participants in the financial and real estate markets, particularly in the United States, had taken on excessive leverage based on unrealistic assumptions about continuing increases in asset values. When it became clear that asset values were falling, heavily indebted participants were forced to sell or default, accelerating the decline in values.

Sharp declines in the market values of securities caused significant losses for investors, both directly in retail accounts and indirectly through the value of investment funds and pension funds. Industry also faced losses on investments as well as reduced income from fees and commissions. As the fiscal year ended, the turmoil had subsided and market values were recovering, although they were still far below the high levels of the previous year.

Responding to market events

Securities regulators in Canada and around the world were challenged to deal with the market turmoil as it progressed. Commentators urged us to identify regulatory changes both to mitigate the current problems and to prevent a recurrence. Governments, through the international G-20 process, have agreed on the need for numerous changes, some of which are related to securities regulation. Through our work with the Canadian Securities Administrators (CSA) and the International Organization of Securities Commissions (IOSCO) we are considering how best to respond to the market crisis and the G-20 recommendations.

Circumstances like these require regulators to exercise considerable discipline. Sometimes quick action is necessary and appropriate, but it can be a mistake to act quickly. Market participants and media commentators often demand regulatory action in the heat of the moment, which is not necessarily conducive to the best interests of the market. Regulators must ensure that they understand the problems facing the market and respond, where appropriate, with measured interventions for those problems the market is not able to correct on its own.

For example, last fall, as markets dropped quickly and financial institutions came under stress, many blamed short-selling as a cause of instability. Securities regulators around the world adopted a variety of temporary measures to limit or ban short-selling of financial stocks or even all stocks on their markets. Canadian regulators concluded that we had no evidence to justify a broad ban on short-selling. We decided to take a more limited approach of banning short-selling of inter-listed securities for which short-selling was banned in the US. Our objective was to coordinate our regulatory actions and prevent Canadian markets from being used to avoid the US ban. In retrospect, our limited approach proved to be appropriate as evidence has shown that the short-selling bans likely exacerbated rather than mitigated market volatility.

It has been suggested that we need tough new rules to prevent major market disruptions from happening again, but is that really the right answer?

To the extent that misjudgements and imprudence by sophisticated investors fed the crisis, those are exactly the kinds of errors that the market itself is effective in correcting. Weighing in with more regulation could undermine the market's own corrective mechanisms.

To the extent that market professionals misrepresented the features or risks of investment products, or sold unsuitable investments to unsophisticated investors, we already have rules against that type of conduct. Rather than devising new rules for what is already illegal, we need to maintain and adapt our compliance and enforcement processes to detect and deter this activity.

This is not to say that we should not consider rule changes. We should, for example, deal with credit rating agencies, either by removing their current recognized status under various rules or, more likely, by imposing substantive requirements on their conduct and disclosure.

Any new rule, however, should be based on thorough analysis that shows it to be the best option for achieving a desired regulatory outcome. All too often, policymakers start with the presumption that a situation demands new rules, and they lose focus on other options like enforcing existing requirements that could deal with the problem more quickly and effectively. We need accurate rifle shots, not random shotgun blasts, to improve regulation of our markets.

Perhaps most important, we have to recognize the inherent limits on the ability of securities regulators and other government authorities to anticipate or prevent volatility. We can learn some important lessons from the credit market crisis and strengthen our processes for sharing information and identifying systemic risks, but we will never completely avoid market shocks and surprises. It is easy in hindsight to trace the causes of a crisis but almost impossible in advance to discern from the blizzard of imperfect and often contradictory information when and how a disruption will hit our extremely complex market system.

Non-bank asset-backed commercial paper

The most visible effect in Canada of the international credit market turmoil was the seizure of the Canadian market for non-bank asset-backed commercial paper (ABCP) in August 2007. About \$32 billion of these short-term debt instruments were sold under the commercial paper exemption, based on their high credit ratings. Because the assets backing the paper were instruments based on longer-term debt, it was necessary for the sponsors to find new investors or to persuade existing investors to re-invest to fund the regular maturities of the paper. When investors became unwilling to invest or re-invest because they were concerned that assets backing some of this paper might include US sub-prime mortgage loans, the sponsors were unable to redeem maturing paper.

Most of the paper was held by institutional investors, who worked together on a complex restructuring proposal, through which the short-term paper was replaced by longer-term instruments that better matched the terms of the underlying assets. This extremely complex process took more than 18 months, far longer than originally expected. This meant that retail investors and small companies, as well as the institutions, had their investments frozen for this extended period. These investors held a relatively small proportion of the paper but the amounts were significant for them. Most of the retail investors ultimately received their original investments back once the restructuring was complete, but they suffered from the lengthy period of illiquidity and uncertainty.

In October 2008, the CSA published a paper analyzing the ABCP problem and invited comment on some possible policy initiatives. CSA members are now reviewing the comments and developing specific policy proposals. In addition, CSA members and the Investment Industry Regulatory Organization of Canada (IIROC) are reviewing the conduct of some market participants with a view to possible enforcement action.

Expert panel and national regulator

In 2008, the federal Minister of Finance appointed an Expert Panel on Securities Regulation to make recommendations on the best way forward to improve securities regulation in Canada. The Expert Panel issued its report in January 2009 in Vancouver, recommending the establishment of a Canadian Securities Commission.

During the Expert Panel's deliberations, we provided a submission outlining the BCSC's views on the issues raised in the panel's consultation paper. The final report acknowledged the ground-breaking work of the BCSC in the areas of performance measurement and outcomes-based regulation. We found the report encouraging in its strong support for a more principles-based approach to regulation, although it provided little guidance on how to achieve that objective.

In response to the Expert Panel report, the provincial government announced that it now supports the concept of a national regulator as long as it is implemented in the right way. We understand that our government is prepared to work with others toward a national regulatory regime that preserves the benefits and strengths of the current decentralized system and meets the needs of BC's capital market participants.

WHAT IS THE PASSPORT SYSTEM?

- Governments and regulators in all Canadian provinces and territories except Ontario have established the securities regulatory passport to give market participants simpler, faster and cheaper access to Canada's capital markets.
- A market participant can get access to capital markets in all passport jurisdictions by dealing only with its principal regulator and complying with one set of harmonized laws.
- In March 2008, passport for issuers came into effect. A principal regulator's decision to receipt a prospectus or grant an exemption is automatically effective, by operation of law, in all passport jurisdictions where the market participant seeks access.
- Passport for registration should come into effect in fall 2009. Dealers, advisers, and their representatives will be able to register automatically in multiple jurisdictions by dealing only with their principal regulators.
- Ontario market participants have direct access to the markets in other jurisdictions by dealing only with the Ontario Securities Commission (OSC), even though Ontario has not adopted the passport rule. Other market participants gain access to the Ontario market through a streamlined interface.

The BCSC has always recognized that any decision to create a national securities regulator will be made by governments. If our government ultimately decides to move forward on this initiative, the BCSC will do its best to ensure that the design and implementation are done in a way that protects the interests of BC's investors and markets.

Efficient and effective securities regulation

For nearly five years we have been working with our colleagues in other provinces and territories to implement a passport system and highly harmonized legislation, as envisaged in the September 2004 Memorandum of Understanding among the ministers responsible for securities regulation. The signatory governments—all but Ontario—have obtained significant legislative amendments to enable the passport system, to provide the foundation for harmonization of rules, and to strengthen enforcement powers.

The full passport for issuers took effect just before the 2009 fiscal year began, along with some new harmonized rules, and was implemented very smoothly and efficiently during the year. At the end of fiscal 2009, we are close to finalizing the passport for registrants along with a new, harmonized registration rule. We plan to implement both in the fall of 2009.

Stronger enforcement

One of our goals is to act decisively against misconduct. As described in this annual report, we continued to pursue an active enforcement program. In addition, our service plan for fiscal 2009 highlighted securities fraud as a distinct risk to investors and set out some strategies to deal with it through better use of administrative enforcement powers, referral of cases to criminal justice authorities, and investor education. We also worked on greater inter-jurisdictional cooperation in enforcement through more coordinated efforts, a new national disciplined persons list, a new, more informative annual CSA enforcement report, and greater use of reciprocal order powers. The BCSC now makes reciprocal orders for almost all regulatory enforcement orders issued in other Canadian jurisdictions.

Read more about enforcement on pages 13, 15, and in the Enforcement Report, beginning on page 56.

Investor education

We continued to pursue new avenues for educating investors. We reached a major milestone in September when we launched with our partner, the Financial Consumer Agency of Canada (FCAC), a new web-based education resource called *The City*. This nationally-targeted, bilingual resource is based on the program the BCSC developed and supports for Grade 10 students in this province.

Financial picture

We fund our operations entirely from fees charged to securities market participants. Our fee model generates revenue that grows generally with the long-term growth in the market, providing the resources to regulate the increased market activity. Fee revenue fluctuates with short-term market movements so we aim to break even over the business cycle. We have also set aside a fee stabilization reserve, equal to about six months of expenses, to provide a cushion to allow us to maintain regulatory operations without raising fees during any protracted period of weakness.

During fiscal 2009, we generated an operating surplus of \$1.9 million. Operating revenue declined as expected, by \$2.2 million (6%), due primarily to a sharp fall in prospectus-exempt activity and significantly fewer and smaller public offerings. Operating expenses increased \$1.4 million (5%). Expenses were \$0.8 million lower than planned, because of staffing vacancies.

Thank you to BCSC staff and commissioners

Finally, I would like to thank the BCSC staff and my fellow commissioners for their dedication and perseverance in serving British Columbians. Securities regulation is a dynamic and high-pressure responsibility. Despite the rapidly evolving challenges of a world market crisis and the potential distractions of the national regulator debate, our staff have worked hard to deliver consistent service for investors and other market participants and to meet the objectives set out in our service plan.

We do not know exactly how securities regulation in BC will change in the years ahead, but we do know that British Columbians will need the services of people like those we have at the BCSC—people committed to serving the public interest, capable of handling difficult market problems, and willing to make the extra effort needed to deliver thoughtful and appropriate solutions. British Columbia is fortunate to have this team and I am proud to be working with them.

Statement of accountability

This report was prepared under my direction in accordance with the *Budget Transparency and Accountability Act* and the BC Reporting Principles. I am accountable for the contents of the report, including what has been included in the report and how it has been reported.

The information presented reflects the actual performance of the British Columbia Securities Commission for the 12 months ended March 31, 2009 in relation to the 2008/11 Service Plan. The measures presented are consistent with the BCSC's mandate, goals and strategies, and focus on aspects critical to the organization's performance. I am responsible for ensuring internal controls are in place to ensure performance information is measured and reported accurately and in a timely fashion.

The report contains estimates and interpretive information that represent the best judgment of management. In preparing it, we have considered all significant decisions, events, and identified risks, as of June 4, 2009.



DOUGLAS M. HYNDMAN
Chair and Chief Executive Officer

EXECUTIVE DIRECTOR'S COMMENTARY



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WE CONTINUE TO WORK WITH OTHER JURISDICTIONS TO IDENTIFY AND HELP PREVENT ILLEGAL AND ABUSIVE MARKET ACTIVITY. THIS YEAR, OUR COLLABORATIVE ENFORCEMENT WORK WITH THE SEC ALSO PAID OFF FOR VICTIMS OF AN INTERNATIONAL INVESTMENT FRAUD WHO WILL GET APPROXIMATELY US \$15.2 MILLION OF NEARLY US \$22.6 MILLION THAT THE BCSC FROZE IN VANCOUVER BANK AND BROKERAGE ACCOUNTS.

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The past year has been an interesting one for regulators to say the least. During a financial crisis of historic proportions, securities regulation has received heightened attention and scrutiny from the media, governments and the investing public. In these unprecedented times, BCSC staff continued to deliver on our core services and regulatory initiatives we set out in our 2008/11 Service Plan, while taking on new responsibilities and dealing with issues that arose quickly as the crisis became the focus of people's everyday lives.

A coordinated approach to securities regulation

BCSC staff continued to collaborate nationally with our CSA colleagues to deliver cost-effective regulation and investor protection. Over the year, we collaborated with our colleagues in other jurisdictions to make the second phase of passport (Passport 2) truly seamless, and we continued working toward a new registration regime that will benefit registrants across Canada. BCSC staff also took the lead in creating a new CSA website that features a National Disciplined Persons List. The list allows investors to access invaluable investor protection information, no matter where they live.

We continued to work with the Investment Industry Regulatory Organization of Canada (IIROC) and the Mutual Fund Dealers Association (MFDA) to strengthen our oversight and compliance programs to deal more effectively with the suitability risk we prioritized in our service plan. We are encouraged by the progress being made by both self-regulatory organizations to strengthen suitability compliance. Last year, the MFDA issued new guidance to its members about how to establish a suitability framework to comply with the “know your client” (KYC) and suitability rules. It also provided guidance on assessing suitability when investors borrow to make investments. At the same time, IIROC conducted a compliance sweep of asset-backed commercial paper (ABCP) distribution activity in member firms and issued recommendations to strengthen product due diligence, suitability, and supervisory obligations.

Locally, to deal with abusive junior market activity, we implemented new registration requirements for dealers active in the US over-the-counter (OTC) markets and a new rule for BC-connected issuers operating in that market. Prior to the rule's implementation, BCSC staff consulted with issuers and their advisers, and together with US Securities and Exchange Commission (SEC) and Integrated Market Enforcement Team (IMET) staff, visited many issuers to let them know about the new requirements. By March 31, 2009, we had issued cease trade orders against 143 non-compliant issuers.

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IN ITS FINAL REPORT, THE EXPERT PANEL ON SECURITIES REGULATION RECOGNIZED THE BCSC'S PERFORMANCE MEASUREMENT SYSTEM AS ONE OF THE MOST ADVANCED AMONG CANADA'S PROVINCIAL SECURITIES REGULATORS.

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Educating investors in uncertain economic times

In July 2008, we conducted an on-line survey of investors who were retired or nearing retirement to learn about their attitudes towards investing. In the fall, when the global financial crisis was beginning to hit in full force, we went back to these investors to update our findings. We learned that they were becoming more risk averse and concerned that their standard of living would be worse than at the time we first approached them in the summer. We also conducted a separate survey of Metro Vancouver's Chinese residents to gauge their investing knowledge and expertise. We found almost one-third (34%) of respondents relied on investment information from friends and family, making them potentially vulnerable to affinity fraud.

Armed with this information, we issued an InvestRight Investor Watch, used media opportunities to inform investors, and developed new tools to help investors protect themselves. In late October, we launched on our investor education website, InvestRight.org, a downloadable "e-book" that investors could use to understand the basics of making informed investment decisions. We worked with S.U.C.C.E.S.S., one of BC's largest non-government social services providers, to publish a Chinese-language webpage to provide valuable investor protection information to Chinese speaking individuals. We also continued to spread our investor education messages on Chinese and South Asian radio stations. Finally, we launched a blog on the InvestRight website that opened up a direct channel of communication to investors concerned about the financial crisis and other issues.

As the new economic reality sets in for investors, we expect to hear more from people who may be alive to investment scams and Ponzi schemes due to the intense media coverage around these issues. Our enforcement and education staff continue to look at innovative ways to disrupt, stop and prevent illegal investment activity in BC.

Expert panel recommendations and the BCSC

In its January 2009 report, the Expert Panel on Securities Regulation recognized and referenced our strategic planning work and focus on principles-based securities regulation. The panel's recommendation to model a Canadian Securities Commission on principles-based regulation reaffirms the BCSC's vision to be a leader among securities regulators.

We will provide support to government as necessary while it considers the recommendations of the Expert Panel. In the meantime, we will continue to deliver the effective and responsive regulation that industry and investors expect of the BCSC.

It is our creative, highly-motivated staff who rise to meet challenges in uncertain times that makes the BCSC an effective and well recognized organization. I am proud of staff's achievements and I look forward to continuing our important work to protect investors and the integrity of our markets in the year ahead.



BRENDA M. LEONG
Executive Director

ORGANIZATIONAL OVERVIEW

BCSC VISION

TO PLAY A LEADING ROLE IN SECURITIES REGULATION THAT INSPIRES INVESTOR CONFIDENCE AND SUPPORTS FAIR, EFFICIENT, AND INNOVATIVE CANADIAN CAPITAL MARKETS.

MISSION

The BCSC is the independent provincial government agency responsible for regulating securities trading in British Columbia through the administration of the *Securities Act*.

Our mission is to protect and promote the public interest by fostering:

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

ENABLING LEGISLATION

The BCSC's enabling legislation is the *Securities Act*, RSBC 1996, c. 418.

We are accountable to the provincial legislature and the public through the Minister of Finance, to whom we submit our annual report and audited financial statements. We submit our three-year service plan to the provincial Treasury Board as required by the *Securities Act* and the *Budget Transparency and Accountability Act*.

SHAREHOLDER'S LETTER OF EXPECTATIONS

The provincial government sets out the expectations of the BCSC in the Shareholder's Letter of Expectations. The specific directives we address in the annual report are:

- Propose legislation that streamlines, simplifies, and harmonizes current legislation with other jurisdictions to reduce regulatory burden on business while strengthening investor protection
- Develop and implement the interprovincial regulatory passport system
- Work with other provinces and the federal government to explore further opportunities to strengthen the Canadian securities regulatory framework and investor protection
- Support the government's climate action plan, and report on the steps taken to identify and reduce our carbon footprint

GOVERNANCE

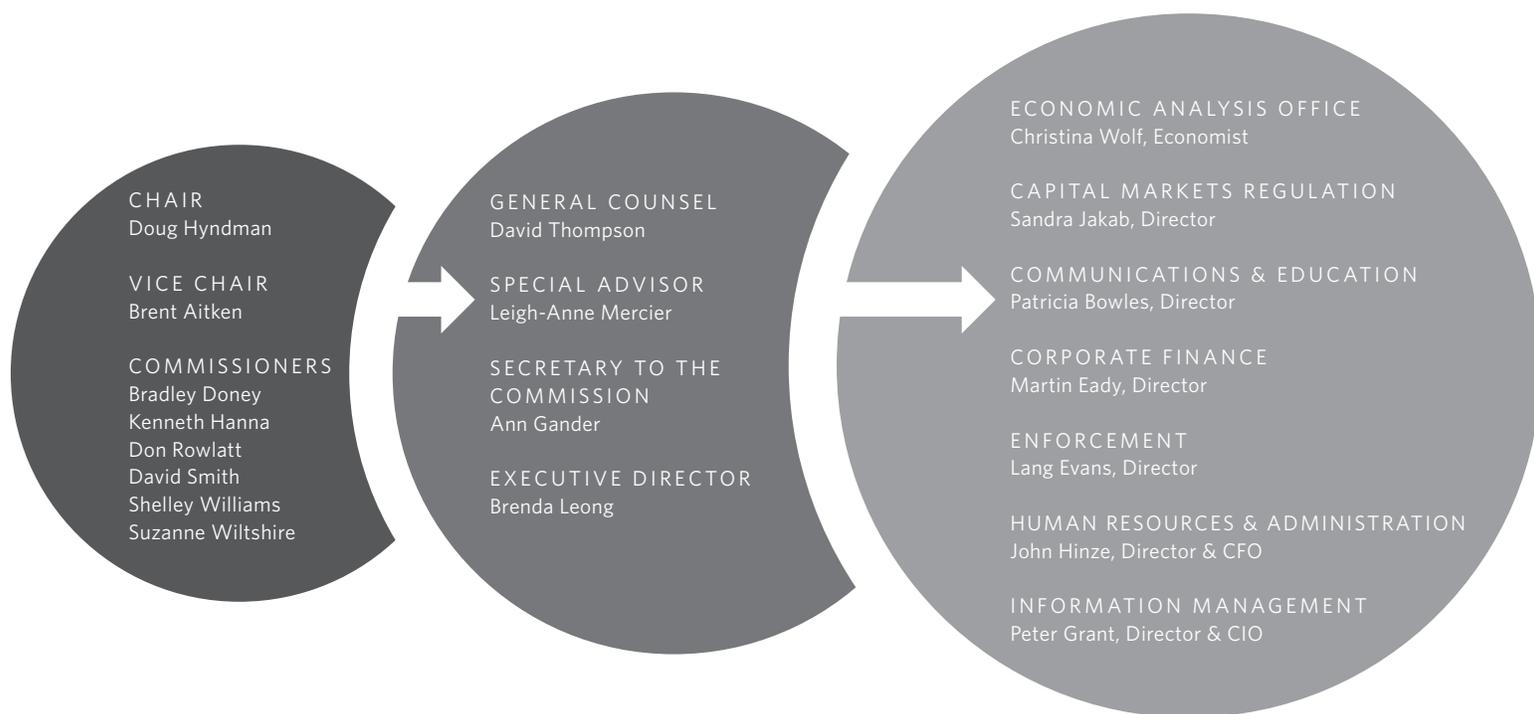
The BCSC is governed by a Board of up to 11 commissioners appointed under the *Securities Act*. The commissioners have three categories of responsibilities. They:

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

“OUR COMMITMENT TO APPROPRIATE, EFFECTIVE, AND FLEXIBLE REGULATION IS GUIDED BY OUR VALUES OF INTEGRITY, ACCOUNTABILITY, AND SERVICE. THIS COMMITMENT ALLOWS US TO KEEP PACE WITH QUICKLY EVOLVING CAPITAL MARKET CHANGES.”



ORGANIZATIONAL STRUCTURE



Commissioners also sit on one or more of three committees: the Governance Committee, the Audit Committee, and the Human Resources Committee.

Except where noted in the governance policy, the Board's governance practices meet the government's *Best Practice Guidelines—BC Governance and Disclosure Guidelines for Governing Boards of Public Sector Organizations* (2005, Board Resourcing and Development Office).

The governance policy requires that we disclose the following information about the Commission in the annual report:

WAIVERS The Commission has an ethics and conduct policy. The Board granted no waivers from that policy during the year.

COMMISSIONER COMPENSATION AND ATTENDANCE RECORDS Please refer to page 41 in the financial report for the names of the commissioners, their attendance records, and their compensation.

COMPENSATION CONSULTANTS Please see page 41 in the financial report for information on the consultants retained this year.

TEMPORARY COMMITTEES The Board formed an Ad Hoc Governance Committee (AHGC) during the year to review the Commission's governance practices. Based on the AHGC recommendation, the Board established a permanent Governance Committee effective April 1, 2009.

COMPLIANCE WITH GOVERNANCE POLICY AND PROCEDURES There were no material deviations from the governance policy this year.

More information on the membership and purpose of Board committees and our governance policy is available on the BCSC website.

ADVISORY COMMITTEES

We have four advisory committees that help us accomplish our mission:

Securities Law Advisory Committee

The Securities Law Advisory Committee (SLAC) advises the Commission on rules and policy initiatives and provides feedback on regulatory trends and emerging issues. SLAC is an important link for communication between the Commission and securities lawyers.

Securities Policy Advisory Committee

The Securities Policy Advisory Committee (SPAC) advises on administrative, regulatory, and legislative matters affecting the operation of the securities markets in the province, and provides feedback on emerging issues. The committee members represent a cross-section of expertise and cover a broad spectrum of securities market activities in BC.

Public Company Technical Forum of the Institute of Chartered Accountants of BC

This body of the Institute of Chartered Accountants of BC offers an opportunity for practicing accountants serving publicly-traded companies to discuss their observations and concerns with BCSC and TSX Venture Exchange (TSX-V) representatives. It also allows the BCSC and the exchange to consult with accounting professionals on future securities regulation policy directions and the possible impact on public companies and their auditors.

CSA Mining Technical Advisory & Monitoring Committee

This committee of mining industry technical representatives serves as a forum for continuing communications between the mining industry and the Canadian Securities Administrators (CSA). For example, the committee advises the regulators about issues related to National Instrument 43-101 *Standards of Disclosure for Mineral Projects*, mining industry and professional developments, and other matters related to securities regulation.

More information on committees is available on the BCSC website.

In addition to these advisory committees, we consult on a less formal basis during the year with stakeholders, including:

- directors and senior executives of public companies
- institutional investors
- dealers, advisers, and fund managers
- litigators who appear before the Commission

We also seek information on the needs and views of individual investors through our education programs and our InvestRight website.

ACTIVITY STATISTICS

FISCAL YEAR	2005	2006	2007	2008	2009
Registrants ¹	25,090	26,815	28,463	30,365	30,344
Active reporting issuers	6,366	6,245	6,316	6,505	6,960
Mutual fund prospectus filings	2,649	2,410	2,518	2,655	2,906
Prospectus filings (non-mutual fund)	634	699	851	878	515
Initial public offerings receipted ²	277	306	307	409	214
Continuous disclosure reviews	721 ³	204	289	168 ⁴	279
Annual information forms	1,039	1,691	1,913	1,979 ⁵	1,416
Cease trading orders (reporting issuers)	314	226	338	230	361 ⁶
Exemption applications	442	433	405	384	252 ⁷

1. Registration figures are drawn from the National Registration Database (NRD).

2. Initial public offerings (IPOs) are a subset of all prospectus filings.

3. The number of continuous disclosure reviews in fiscal 2005 was significantly higher because we conducted a special management discussion and analysis review. This figure is not comparable to subsequent years.

4. Continuous disclosure reviews declined in fiscal 2008 because staff were reassigned to handle the high volume of IPOs.

5. These filings are dependent on market conditions, and can fluctuate from year to year. Approximately 300 issuers filed two AIFs in the year because we changed the reporting cycle, which caused the due date to fall within fiscal 2008. This increase reduced the fiscal 2009 number. There were no changes in the reporting cycle in 2009.

6. Cease trade orders increased significantly due to the OTC initiative (Goal 2, Strategy 1) which resulted in numerous orders against new reporting issuers.

7. This number combines exemption applications submitted to our Corporate Finance and Capital Markets Regulation divisions. Overall applications were down because of market conditions.

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 THE BCSC TOOK THE LEAD IN PROPOSING
 AND ESTABLISHING A NATIONAL
 CANADIAN SECURITIES ADMINISTRATORS
 COMPLIANCE COMMITTEE. A BCSC STAFF
 MEMBER CHAIRS THE COMMITTEE. IT WILL
 PLAY AN IMPORTANT ROLE IN EFFECTIVELY
 ADMINISTERING THE NEW NATIONAL
 REGISTRATION REGIME TO FOSTER
 NATIONAL COMPLIANCE STANDARDS.
 ”



KEY STAKEHOLDERS

- *The public*—which relies on us to foster capital markets that contribute to the economic well being of BC
- *Investors*—both retail and institutional who seek to invest their savings in fair and efficient securities markets
- *Issuers*—public and private companies that rely on the capital markets to fund growth
- *Securities firms*—which advise investors and companies, and facilitate trades
- *Other Canadian regulators*—with which we develop and implement initiatives through the CSA
- *The provincial government*—to which we are accountable

CORE BUSINESS AREAS

Compliance

Our goal is to foster a culture of compliance. Investors are better protected if issuers, securities firms, and sales representatives registered under the *Securities Act* understand and comply with their regulatory obligations. We can achieve this in part by encouraging these organizations to have effective compliance systems and controls in place, thereby reducing the instances when we need to intervene.

Our Corporate Finance division monitors disclosure by issuers and insiders, and our Capital Markets Regulation division oversees firms that do not fall under SRO supervision and their employees, the SROs themselves, and marketplaces operating in BC.

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

- The Investment Industry Regulatory Organization of Canada (IIROC)¹ regulates investment dealers and equities trading on Canadian marketplaces, including the TSX, the TSX-V, the Canadian National Stock Exchange (CNSX)² and other marketplaces
- The Mutual Fund Dealers Association of Canada (MFDA) regulates mutual fund dealers

We directly regulate BC-based issuers, BC-based or BC branch offices of registered firms not under IIROC or MFDA supervision, and other market participants doing business in BC.

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

¹ Formerly the Investment Dealers Association and Market Regulation Services Inc., which merged on June 1, 2008.

² Formerly the Canadian Trading and Quotation System (CNQ), which changed its name in November 2008.

Enforcement

Our goal is to act decisively against misconduct. Decisive action depends on open channels for receiving tips, timely complaint reviews, targeted surveillance to detect misconduct, thorough investigation of suspected securities law breaches, and resolving cases through timely settlements and administrative hearings.

Our Enforcement division focuses on cases with a strong BC connection. When cases with national implications emerge involving a BC-based market participant, we usually take the enforcement lead. Cases involving SRO member misconduct are most often initially dealt with directly by the respective SRO.

The Enforcement Report, which begins on page 56, provides a detailed summary of our enforcement activity and initiatives in fiscal 2009.

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 SINCE APRIL 2008, THE BCSC HAS
 REFERRED FOUR CRIMINAL CASES TO
 CROWN COUNSEL. THE CROWN HAS
 USED SOME OF THE WORK FROM
 THESE INVESTIGATIONS IN POLICE
 TRAINING SEMINARS.
 ”



Investor Education

Our goal is to educate investors so that they can make informed investment decisions and protect their financial interests. We want investors to confidently research and critically assess potential investments before they invest. Research shows that many adults lack the knowledge and understanding they need to make sound investment decisions. For this reason, our Communications & Education division develops programs using a life-cycle approach, which recognizes that young people with a proper financial education become more confident and knowledgeable adult investors.

The BCSC supports the Planning 10 curriculum for BC high school students with a comprehensive financial life skills teaching resource that covers essential topics including budgeting, saving, investing, and investment fraud. Our adult education programs target seniors and pre-retirees, two groups we know to be particularly vulnerable to investment fraud. Finally, we offer tools and information to help investors avoid and report investment fraud and to understand the basics of making informed investment choices through our website resource, InvestRight.org.

The BCSC Education Fund report, which begins on page 61, gives a detailed summary of our investor education initiatives and activity in fiscal 2009.

Policy-making

Our goal is to advance cost-effective regulation, primarily through our work with the CSA. Policy-making is a key regulatory tool we use to protect investors and foster fair and competitive markets. We have the authority under the *Securities Act* to make rules. We also issue guidance to help market participants understand our requirements. Our Corporate Finance and Capital Markets Regulation divisions work to harmonize rules and guidance among all CSA jurisdictions and minimize compliance costs for market participants.

Recent market events affecting the worldwide economy challenged investors, market participants and regulators. Since we operate within a national regulatory system, we are working with the CSA to identify problems arising from or revealed by the financial crisis that warrant a national response. The CSA's responses during the past year have included proposals to strengthen securities regulation relating to non-bank asset-backed commercial paper (ABCP), credit rating agency regulatory oversight, and executive compensation disclosure.

Informed by the financial crisis, we prioritized our resources to deal with the most immediate risks. We stepped up some routine oversight controls, such as monitoring dealer capital adequacy and reviewing disclosure by public issuers in the financial services sector. We continued our work "on the ground" in BC to deliver effective securities regulation, coordinating our work with SROs and the CSA.

BCSC OPERATING CAPACITY

We support our core business areas by recruiting and retaining qualified staff, developing and maintaining reliable information management systems, and managing our operations cost-effectively. We rely on a disciplined approach to resource allocation and capacity management, which includes strategic planning and enterprise risk management to prioritize risks and opportunities, rigorous project approval standards for significant projects, and succession planning to safeguard key competencies.

Staffing & Funding

We are committed to operating the BCSC on a break-even basis over the business cycle, with a stable, relatively small, and highly efficient staff. The chart below compares staffing and funding over four years, along with our expectations for fiscal 2010.



FISCAL YEAR	2006 ACTUAL	2007 ACTUAL	2008 ACTUAL	2009 ACTUAL	2010 BUDGET
Average staffing	191	189	186	183	190
Operating expense	\$ 27.4 million	\$ 28.5 million	\$ 28.4 million	\$ 29.8 million	\$ 29.7 million

We plan to hire five additional employees in 2010 to increase the capacities of our intelligence and compliance teams.

“ THE HAY GROUP CONDUCTED EMPLOYEE SURVEYS IN 2008 AND 2009 TO GAUGE HOW STAFF PERCEIVE THE BCSC AS A PLACE TO WORK. THIS YEAR'S RESULTS SHOW THAT STAFF CONTINUE TO PERCEIVE THE BCSC AS A VERY GOOD PLACE TO WORK. RESULTS PUT US IN THE TOP 10% OF NORTH AMERICAN EMPLOYERS FOR EMPLOYEE SATISFACTION WITH THE WORKPLACE. ”



WORKING WITH GOVERNMENT

In 2008, the Federal government appointed an Expert Panel on Securities Regulation to provide advice and recommendations on the best way forward to improve securities regulation in Canada. On January 12, 2009, the panel released its recommendations, which included the creation of a Canadian Securities Commission.

The BCSC is supporting the BC government in its consideration of the recommendations.

In parallel, we continue to lead work with provincial ministries and the CSA on the passport system to make the Canadian securities regulatory system more efficient and effective. To date, all provinces and territories except Ontario have implemented passport for issuers that has significantly streamlined and harmonized the regulatory system. A broader group of market participants will soon realize similar benefits when passport for registrants is implemented in fiscal 2010.

We are also taking the initiative to help meet the government's climate action plan. As an information-driven organization, we receive and issue a lot of print information. Current print volumes are over two million pages per year. This year, we established our carbon baseline and made changes to reduce our carbon impact.

Significant initiatives include the following:

- Continue our transition to an electronic document management system
- Propose rule changes to require issuers to file their exempt distribution reports (more than 25,000 pages per year) electronically
- Collect more than 40 employee-generated carbon reduction suggestions for future action

ENFORCEMENT COOPERATION

In Canada, we routinely cooperate and coordinate domestic enforcement cases with other regulators through the CSA, exchanging information formally and informally on a near-daily basis to the full extent that the laws in each jurisdiction allow. Reciprocal orders, in which enforcement actions in one jurisdiction are upheld in another, are an important part of our enforcement landscape.

In North America, we regularly cooperate and coordinate with US federal and state regulators in enforcement matters.

Internationally, we are active in the following organizations that represent North American, pan-American, and international securities regulators, respectively:

- *North American Securities Administrators Association (NASAA)*—an organization of Canadian provincial, American state, and Mexican federal securities regulators
- *Council of Securities Regulators of the Americas (COSRA)*—a forum for mutual cooperation and communication among securities regulators in North, South, and Central America, and the Caribbean. COSRA focuses on investor protection, market integrity, regulatory cooperation, and information sharing
- *International Organization of Securities Commissions (IOSCO)*—the international authority for global cooperation on regulatory standards, surveillance, enforcement, and information exchange among securities regulators

In addition, we have formal bilateral memoranda of understanding (MOUs) with specific foreign regulators and a multilateral MOU (MMOU) with other IOSCO members. These establish processes and expectations for regulators assisting each other in gathering information for investigations.

“ IN DECEMBER 2008, THE BCSC BEGAN PUBLISHING AN INVESTMENT CAUTION LIST TO WARN INVESTORS ABOUT UNREGISTERED FIRMS OPERATING OUTSIDE OF THE PROVINCE THAT HAVE CONTACTED BC RESIDENTS TO OPEN BROKERAGE ACCOUNTS, OR BUY UNQUALIFIED INVESTMENTS THAT MAY NOT COMPLY WITH THE SECURITIES ACT. ”



REPORT ON PERFORMANCE

OUR MISSION IS TO PROTECT AND PROMOTE THE PUBLIC INTEREST BY FOSTERING A SECURITIES MARKET THAT IS FAIR AND WARRANTS PUBLIC CONFIDENCE AND BY FOSTERING A DYNAMIC AND COMPETITIVE SECURITIES INDUSTRY THAT PROVIDES INVESTMENT OPPORTUNITIES AND ACCESS TO CAPITAL.



This section describes our goals, and the measurable progress we made during the year towards achieving them. We identified three risks in our service plan that present a threat to our mission. Some of the strategies described in this section are a direct response to those risks, while others directly support the goals.

MEASUREMENTS

We design performance measurements for each goal to help us, and our stakeholders, to assess our progress in achieving the goals. We select measurements based on the following criteria:

- *Connection to our goals.* We choose measurements that will assess our progress in achieving our goals and, through them, our mission.
- *Longevity.* We choose measurements that we will be able to track over several years, and whose trends will provide valuable information for improving our performance.
- *Measurability.* We choose measurements for which we can collect accurate data and form baselines in a timely way.

Some measurements track the overall progress we are making towards achieving our goals. Others measure key operational processes critical to the delivery of an efficient and effective regulatory system. For a detailed review of our data sources, collection method and frequency, and controls, see the Summary of Performance Measurement Systems document available on the BCSC website.

Benchmarks

Each year we look for opportunities to benchmark and continue to test various methods for benchmarking competitiveness with other Canadian securities regulators. This has proved to be challenging since our measures focus on outcomes, as opposed to outputs. This makes benchmarking difficult as there is either no comparable data or similar data is tracked in different ways.

RISKS

We apply a disciplined risk management framework to help identify the most serious threats, or risks, to our mission. This framework gives us confidence that the following three risks—two carried forward from last year and a third that was introduced this year—deserved regulatory attention.

RISK

1

ABUSIVE JUNIOR MARKET PRACTICES

Abusive junior market practices undermine the confidence that investors have in BC companies. These activities damage the reputation of BC’s capital markets, harming the interests of legitimate issuers, investment dealers, and other market participants.

RISK

2

UNSUITABLE INVESTMENTS

When financial advisers make unsuitable investment recommendations and breach their suitability obligations under the *Securities Act*, investors end up with investment products that do not meet their financial needs or goals.

RISK

3

SECURITIES FRAUD

Investment fraud can negatively affect people’s financial and physical health, their relationships with others and their willingness to invest. For these reasons, we need to educate investors about investment fraud, and enforcement action must be timely, effective, and responsive.

GOAL

1

PROMOTE A CULTURE OF COMPLIANCE

Investors are better protected if securities firms and securities issuers understand and comply with their regulatory obligations. We promote compliance by setting clear expectations for market participants and conducting compliance and examination activities to oversee conduct.

STRATEGIES

STRATEGY 1 / REVIEW SUITABILITY RISKS AND REGISTRANT PERFORMANCE

To provide a suitable investment recommendation, a registrant must know the client, know the product, and match the client to the product. We adopted this strategy because the number of complaints SROs receive about unsuitable investments is consistently high relative to other types of complaints about registrants.

During the year, we explored new options to gather additional qualitative and quantitative data to achieve our objectives for this strategy. Last year, the MFDA published guidelines for its members to help them establish a suitability framework that is in keeping with their know-your-client (KYC) obligations. In addition, IIROC issued recommendations for product due diligence, suitability, and supervisory obligations following a compliance review of firms that sold ABCP.

STRATEGY 2 / INSIDER REPORTING COMPLIANCE

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

We launched an initiative to test the extent of compliance by insiders with their reporting obligations. We examined insider reports and compared them to information provided in other public disclosure and by the stock exchanges. Overall, we found a relatively high degree of compliance in reporting. Where we found minor discrepancies, we worked with issuers to improve the disclosure. In more serious cases, we followed up with compliance action.

STRATEGY 3 / LAUNCH AN IMPROVED DEFAULTING ISSUERS LIST

An issuer in default of its continuous disclosure obligations is an important signal to investors that there may be problems with the issuer's disclosure.

In the past, we published our list of defaulting issuers on weekly basis. This year, we streamlined our processes for identifying, communicating, and tracking disclosure defaults by reporting issuer. This resulted in the launch of an online, daily Defaulting Issuers List that includes current and historical information on cease trade orders.

MEASUREMENTS

MEASUREMENT 1 / PERCENTAGE OF REVIEWED ISSUERS THAT REDUCE DEFICIENCIES IN THEIR CONTINUOUS DISCLOSURE

Our Corporate Finance division reviews issuer disclosure for non-compliance. At the end of each fiscal year, we retain an independent accountant to analyze the subsequent continuous disclosure of a statistically significant random sample of issuers that received comment letters from us during that year. We determine our annual sample size by the number of full reviews we do during a fiscal year. The results of this review show the extent to which our detailed continuous disclosure review work motivated non-compliant issuers to improve their disclosure voluntarily.

STATUS: MET		RESULTS AND TARGETS			
FISCAL	2007 ACTUAL	2008 ACTUAL	2009 ³ TARGET	2009 ACTUAL	2010 TARGET
PERCENTAGE OF REVIEWED ISSUERS THAT REDUCE DEFICIENCIES IN THEIR CONTINUOUS DISCLOSURE					
Improved disclosure	100% ¹	100% ²	≥ 94%	100% ⁴	≥ 94%
Improved disclosure to minimum standards	81%	91%	≥ 85%	87%	≥ 90%

¹ All of the 27 issuers improved their accounting disclosure in some areas; 22 (81%) improved in all areas.

² All of the 23 issuers improved their accounting disclosure in some areas; 21 (91%) improved in all areas.

³ This target is lower than the fiscal 2008 actual to allow for our small sample size (around 15 reviews). The number of full reviews declined due to the re-assignment of resources to conduct national issue-oriented reviews and to review the increased volume of IPO prospectuses filed in 2007 and the first half of 2008.

⁴ All of the 15 issuers improved their disclosure in some areas; 13 (87%) improved in all areas.

NOTES ON MEASUREMENT: This measurement always lags by one year because we have to wait for the next filing cycle to evaluate improvements from a prior year's disclosure.

MEASUREMENT 2 / THE DEGREE TO WHICH RANDOMLY SAMPLED MINING ISSUERS COMPLY WITH STANDARDS FOR TECHNICAL DISCLOSURE

BC is home to the greatest number of Canadian mining issuers. For this measurement, we randomly selected companies from a list of BC-based mining issuers¹ and analyzed whether those issuers' most recent technical filings were compliant with various requirements of NI 43-101 *Standards of Disclosure for Mineral Projects*. To do this, we assess each issuer's level of compliance in up to twenty areas of NI 43-101. The result is a score that shows the extent to which each issuer is compliant in specific areas of their technical disclosure. The reported score is the sample's average score.

¹ We randomly selected issuers that were reasonably active and that we had not reviewed within the past two years. We also ensured we had a variety of issuers from the TSX, TSX-V (tier 1 and 2), and CNSX.

STATUS: MET		RESULTS AND TARGETS			
FISCAL	2007 ACTUAL	2008 ACTUAL	2009 TARGET	2009 ACTUAL	2010 TARGET
THE DEGREE TO WHICH RANDOMLY SAMPLED MINING ISSUERS COMPLY WITH STANDARDS FOR TECHNICAL DISCLOSURE					
News releases	71%	78%	70%		
Annual information forms	70%	85%	70%	73% ²	70%
Management discussion and analysis	42%	70%	50%		
Issuer websites	47%	57%	55%	65%	70%

² For fiscal 2009, we reported required filings in aggregate, including news releases, annual information forms, and management discussion and analysis (MD&A).
Comparable figures for 2007 and 2008 are 60% and 75% respectively.

NOTES ON MEASUREMENT: We believe that BC mining issuers that score 70% or better generally have an acceptable level of understanding of, and compliance with, the mining rules. On average, compliance is relatively good in filed disclosure such as news releases, MD&A, and annual information forms. We now look for improvement in the areas of voluntary disclosure such as websites, presentations, and investor relations information.

MEASUREMENT 3 / PERCENTAGE OF BC-PRIME REPORTING ISSUERS ON DEFAULTING ISSUERS LIST

The *Securities Act* requires reporting issuers to file certain information on time, in the required form, and with the appropriate fee. We put issuers on a list of defaulting issuers if they do not comply with a variety of filing requirements. We then track the total percentage of BC-prime reporting issuers that appear on the list at some point during each year. We expect the percentage of BC-prime issuers on the list to decrease over time.

STATUS: NOT MET		RESULTS AND TARGETS			
FISCAL	2007 ACTUAL	2008 ACTUAL	2009 TARGET	2009 ACTUAL	2010 TARGET
PERCENTAGE OF BC-PRIME REPORTING ISSUERS ON DEFAULTING ISSUERS LIST					
	22%	14%	Set new baseline	Baseline not set	10% improvement over 2009

NOTES ON MEASUREMENT: In December 2008, we moved from weekly to daily reporting of defaulting issuers and we expanded the list of noted defaults. Thus, the data we collected on defaulting issuers for the first eight months is not comparable to the results from the final four months. In addition, the desired measure is a cumulative percentage of unique issuers making the list in a given year. As a result, a statistical blending of the old and new processes yields an inadequate baseline to measure compliance in the coming year. To account for the lack of historical data, we will establish a new baseline measure in fiscal 2010 and measure compliance against that baseline in fiscal 2011.

MEASUREMENT 4 / AVERAGE NUMBER OF DEFICIENCIES PER EXAMINATION IN CAPITAL MARKETS REGULATION

Our Capital Markets Regulation division reviews securities firms that are not SRO members for compliance with their regulatory obligations. Using risk-based assessment criteria, we set our examination schedule of registered firms and report results using 57 categories of deficiencies.

STATUS: NOT MET		RESULTS AND TARGETS			
FISCAL	2007 ACTUAL	2008 ACTUAL	2009 TARGET	2009 ACTUAL	2010 TARGET
AVERAGE NUMBER OF DEFICIENCIES PER EXAMINATION IN CAPITAL MARKETS REGULATION ^{1, 2}					
	7.3	6.68	< 6.35	6.9	Decrease deficiency average by 5% over 2009

1 Based on 20 examinations in the year ending March 31, 2009, 19 in 2008, and 14 in 2007.

2 Our examination program is risk-based and depends on the type of firm audited and the methodology of our latest exam program. The number of categories change as we drop, consolidate, or add categories to capture current compliance concerns accurately.

NOTES ON MEASUREMENT:

Deficiencies are recorded during examinations to identify the common areas so that we can see how they compare with prior years' results. Common areas include policy manual deficiencies, KYC and suitability, conflicts of interest and capital monitoring. We take the number of overall deficiencies for all firms reviewed and come up with an average per firm. This number shows that on average, firms had 6.9 deficiencies cited. This is a small increase from 6.68 in fiscal 2008.

We believe that compliance will improve across our dealer base in part from new efforts in industry education and outreach we have planned. However, because many of our investment counsel and portfolio managers are small firms, we will not eliminate deficiencies. It is common to find compliance issues at small firms because they tend to have fewer and more stretched resources for record-keeping and internal control tasks.



ACT DECISIVELY AGAINST MISCONDUCT

Decisive action depends on a variety of factors, including:

- open channels for receiving tips
- complaints processed in a timely fashion
- targeted surveillance to detect misconduct
- thorough investigation of suspected securities laws breaches
- cases resolved through timely settlements and administrative hearings
- strong and effective enforcement also requires sharing information and proactive relations with other regulatory and policing agencies as well as Crown prosecutors

STRATEGIES

STRATEGY 1 / DISRUPT ABUSIVE JUNIOR MARKET PRACTICES IN BRITISH COLUMBIA

Our objective in this strategy is to make BC an unattractive place to engage in abusive market activity, such as illegal stock promotions, spam, and the creation of shell companies as vehicles for market manipulation.

In June 2008, we published new conditions of registration that increase investment dealers' accountability for their trading activities in securities quoted on the US OTC markets, such as the OTC Bulletin Board (OTCBB) and the Pink Sheets. In September 2008, we published a new rule for companies quoted on the US OTC markets. On January 20, 2009, we issued cease trade orders against 53 companies that were delinquent in their filings under the new rule. By March 31, 2009, we had issued a further 90 orders for non-compliance with the rule. We are encouraged that this initiative is having an impact on the problem of abusive junior market activity in these markets, but there is still more work to do.

STRATEGY 2 / DISRUPT AND STOP SECURITIES FRAUD

Our Communications & Education and Enforcement divisions work together on strategies to disrupt and stop securities fraud. Through this strategy, we aim to warn investors about abusive market activity and to encourage reporting of securities fraud.

During the year, staff members presented 15 seminars to policing agencies around the province. These seminars train police officers to recognize investment fraud and know when the BCSC can be an effective partner in stopping this activity. We also issued 10 Investor Watches—some of which generated local and national media interest. In December 2008, we launched an Investment Caution List to warn investors about unregistered companies that have contacted BC residents to open brokerage accounts, or buy unqualified investments that may not comply with securities laws.

STRATEGY 3 / BUILD STRONGER CRIMINAL INVESTIGATION CAPABILITY IN BC FOR FINANCIAL CRIME

Criminal convictions enable penalties that can strengthen deterrence of serious misconduct. Last year, we focused on referring cases to the Crown that involved a breach of Commission orders.

Since April 2008, the Enforcement division has referred four cases to Crown. In two of the cases, charges are approved and others are pending charge approval or trial. Since the program began, there has been one conviction in a case—a 12-month jail term and six months custodial to run concurrently.

MEASUREMENTS

MEASUREMENT 1/ ACTION IN RESPONSE TO ONGOING MISCONDUCT

Detecting active misconduct and then preventing, stopping, or disrupting it early benefits investors, especially since the amount of money investors lose in illegal distributions tends to increase exponentially over the life of the distribution. We track the cases accepted each year for enforcement action where the misconduct was ongoing when the BCSC learned of it. We calculate the percentage of those cases in which we issued a freeze order, a temporary order, or took some other step to formally or informally disrupt the distribution. This demonstrates how often we take early action to stop misconduct.

STATUS: MET	RESULTS AND TARGETS				
FISCAL	2007 ACTUAL	2008 ACTUAL	2009 TARGET	2009 ACTUAL	2010 TARGET
PERCENTAGE OF NEW CASES WITH ACTIVE MISCONDUCT WHERE WE INTERVENED	20%	56%	58%	88%	≥60%

NOTES ON MEASUREMENT:

In fiscal 2010 we are introducing a new program to proactively seek out these scams, which we expect will create more opportunities for early intervention.

MEASUREMENT 2/ TIMELY RESOLUTION OF ENFORCEMENT CASES

We want to be transparent about the average time our administrative enforcement process takes. For the cases we close by settlement or a decision in the fiscal year, we measure the average number of months a case is open from when we first learn of the conduct to the case's completion by settlement or decision. Reciprocal orders are not included.

STATUS: NOT MET		RESULTS AND TARGETS			
FISCAL	2007 ¹ ACTUAL	2008 ACTUAL	2009 TARGET	2009 ² ACTUAL	2010 TARGET
AVERAGE LIFE, IN MONTHS, OF CASES RESOLVED VIA SETTLEMENT OR DECISION					
	22.8	39.5	34	47	34

1 The 22.8 month actual from fiscal 2007 was unusual because one-third of our cases concluded in under a year under settlements.

2 Our fiscal 2009 achievement reflects:

- Closure of a number of old cases started before we introduced new case assessment and file management procedures in fiscal 2007
- The growing unwillingness of respondents to settle
- Absentee respondents who refuse to settle or participate in hearings prolong the process

NOTES ON MEASUREMENT: We initially set our targets to support our commitment to increase the timeliness of our actions. Those targets were set using internal performance expectations for various enforcement processes and assuming two thirds of cases settle. We now expect the majority of cases to go to hearing rather than settlement. Despite not meeting our expected targets, we are making progress on the timeliness of cases opened after fiscal 2007. We anticipate that we can continue to decrease this average. We will reassess targets in fiscal 2010.

GOAL 3 EDUCATE INVESTORS

Our goal is to help investors protect their financial interests. We want investors to have the confidence to research and assess potential investments, legitimate or not, before they invest. To create a successful investor education program, we focus on creating a greater public awareness to enhance investors' knowledge and skills in order to help them protect themselves. We focus our financial life skills programs to help investors spot unsuitable or fraudulent investments, and we work with partners to reach religious and ethnic communities throughout the province.

STRATEGIES

STRATEGY 1 / EXPAND FINANCIAL LIFE SKILLS EDUCATION PROGRAMS

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

In September 2008, the Financial Consumer Agency of Canada (FCAC) in partnership with the BCSC launched *The City*, a web-based, bilingual financial life skills education program based on the Planning 10: Finances resource we have been distributing to teachers across the province since 2004.

STRATEGY 2 / BUILD PUBLIC AWARENESS OF OUR INVESTOR EDUCATION PROGRAMS

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

In October 2008, we published *The 21st Century Investor*, a national survey that targeted the “Silver Tsunami”, a large group of Canadians who are currently in transition from working to retiring. Acting on the survey findings as well as other past research, we launched a new e-book called *Guide to Investing: How to Work with Your Investment Advisor*. This guide encourages investors to do their research even if they rely on a registered financial adviser for advice. We are also actively generating awareness about our investor education program through active media engagement and advertising.

During the year, we expanded our social media tools with the launch of a blog and new podcasts. We also added a new section on mutual funds to InvestRight.org.

STRATEGY 3 / DEVELOP MEDIA PARTNERSHIPS IN ETHNIC COMMUNITIES

The BCSC’s affinity fraud program is well established in religious communities in the Lower Mainland. We also know that fraud artists target ethnic communities, and we work to raise awareness in these communities with a variety of media initiatives.

To better understand affinity fraud in ethnic communities, we researched the investing attitudes of Chinese-language investors in Metro Vancouver. We collaborated with S.U.C.C.E.S.S., one of the largest social service providers in the province, to collect the survey data and announce the results at an event that resulted in extensive coverage in the Chinese media. We also advertise on three ethnic radio stations, do media outreach, and participate in community and investor events to create awareness about investment fraud in BC’s South Asian and Chinese communities. Finally, the S.U.C.C.E.S.S. website hosts InvestRight webpages that provides investor-protection information in both English and Chinese.

MEASUREMENTS

MEASUREMENT 1/ COMPLAINTS AND TIPS RECEIVED FROM INVESTRIGHT PROGRAMS

Through our public awareness and outreach programs, we aim to increase the flow of complaints and information we receive about possible investment frauds or illegal activities. This network of information will help us prevent, stop, or disrupt these activities. We track complaints and tips coming from our outreach programs to the public and policing agencies such as the RCMP.

STATUS: NOT MET		RESULTS AND TARGETS			
FISCAL	2007 ESTIMATE/ACTUAL	2008 ACTUAL	2009 TARGET	2009 ACTUAL	2010 TARGET
NUMBER OF COMPLAINTS AND TIPS RECEIVED AS A RESULT OF INVESTRIGHT INVESTOR EDUCATION AND OUTREACH PROGRAMS					
	48 ¹	92	97	87	97

¹ Annualized based on three months of data.

NOTES ON MEASUREMENT: There are many variables in generating tips, and this year’s numbers are still well ahead of fiscal 2007, which is our baseline. For example, a story in the media about a suspicious investment or a type of investment scam can generate a number of tips. We expect the numbers to fluctuate year-over-year.

MEASUREMENT 2/ WORKSHOP PARTICIPANT APPLICATION OF INVESTOR EDUCATION MESSAGES

We deliver investor education workshops to BC residents, primarily seniors. We hire a firm to survey seminar participants after each presentation, and a second time six months later, to measure the percentage of workshop participants who recall our investor education messages.

STATUS: PARTIALLY MET		RESULTS AND TARGETS			
FISCAL	2007	2008 ACTUAL	2009 TARGET	2009 ACTUAL	2010 TARGET
PERCENTAGE OF WORKSHOP PARTICIPANTS WHO APPLIED INVESTOR EDUCATION MESSAGES					
Created or updated financial plan	Not measured	62%	64%	69%	Discontinued
Reported possible scam	-	13%	15%	33%	Discontinued
Visited InvestRight website	-	24%	26%	11%	Discontinued
Identified Red Flags	-	17%	19%	11%	14%

NOTES ON MEASUREMENT: We are discontinuing three of four measurements for next year to focus on whether participants learn how to identify Red Flags, which we feel is the most important skill investors need to avoid investment fraud.

MEASUREMENT 3/ PERCENTAGE OF BC PUBLIC AWARE OF BCSC

BCSC investor education resources provide BC retail investors with valuable information to help them protect themselves from fraud and unsuitable investments. We aim to build awareness of the BCSC and our many investor education resources so that British Columbians will know where to turn and what to do when faced with a possible fraud or unsuitable investment opportunity.

STATUS: NOT MET		RESULTS AND TARGETS			
FISCAL	2007 ACTUAL	2008 ACTUAL	2009 TARGET	2009 ACTUAL	2010 TARGET
PERCENTAGE OF BC PUBLIC AWARE OF BCSC					
	42%	30% ¹	47%	43% ²	≥45%

¹ This is an actual number from the October 2007 investor study, which surveyed roughly 800 BC residents. We cannot explain the 12-point drop in unaided awareness between 2007 and 2008. Statistical variation might explain the difference.

² From the July 2008 investor survey.

NOTES ON MEASUREMENT: When you take into consideration the fact that just over 50% of BC residents are investors, this year's 43% unaided awareness of BCSC is very good.

We apply a disciplined, problem-focused approach to dealing with market issues. Our approach to regulation focuses on problem definition, regulatory tool selection, and effective regulation design. We apply this approach in responding to local and national risks and opportunities. Our goal is to advance cost-effective regulation, largely through our CSA work, providing strong investor protection and market integrity for the least cost.

STRATEGIES

STRATEGY 1 / WORK WITH GOVERNMENT AND OTHER REGULATORS TO IMPLEMENT HARMONIZED LEGISLATION AND THE PASSPORT SYSTEM

We continue to lead work with government and other securities regulators in Canada to make the Canadian securities regulatory system more efficient and effective through the passport system, which is based on highly harmonized and streamlined securities regulation across Canada.

In March 2008, Canadian securities regulators announced passport for issuers—the first phase of the system—had come into effect. All CSA members, including the Ontario Securities Commission, implemented new national policies for filing and review of prospectuses and exemptive relief applications that benefit businesses and investors across Canada.

In fiscal 2009, we continue to lead the work to implement the second phase of the system—passport for registrants, and interfaces for Ontario. This phase of the passport system will significantly streamline the registration process for dealer firms and will be implemented at the same time as the national rule harmonizing registration requirements.

STRATEGY 2 / REVIEW FEE MODELS ACROSS CSA JURISDICTIONS

We are leading a review of the fees and fee structures across CSA jurisdictions in support of the passport initiative. The objective is for jurisdictions to retain authority to set and collect fees, while harmonizing and streamlining the fee structures.

STRATEGY 3 / IMPLEMENT NEW CSA IT GOVERNANCE MODEL

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

This year, we took the lead in creating a new CSA website that features a National Disciplined Persons List and allows staff from any jurisdiction to maintain the website's content. BCSC staff were involved in all aspects of the process, including developing and issuing the request for proposals, engaging and managing vendors, and hosting the new website.

MEASUREMENTS

MEASUREMENT 1/ AVERAGE SCORE ON COST-EFFECTIVE REGULATION SCORECARD

To measure cost-effective regulation, we use a scorecard that tracks the important steps and outcomes in responding to market problems. We apply the scorecard to CSA and local projects. For CSA projects, the scorecard reports on the extent to which we took steps to advocate our cost-effective regulation principles. For all projects, the scorecard gives credit for outcomes-focused results.

This measure reports the average score of projects completed each year.

STATUS: NOT MET	RESULTS AND TARGETS				
FISCAL	2007	2008 ACTUAL	2009 TARGET	2009 ACTUAL	2010 TARGET
AVERAGE SCORE ON COST-EFFECTIVE REGULATION SCORECARD	Not measured	88%	90%	89%	90%

NOTES ON MEASUREMENT: This year we had eight policy projects that qualified for review, six of which were national rules. We do not review rules we adopt purely to harmonize with other jurisdictions. While there is no consistent area lowering our ratings across all projects, the area we most frequently did not meet our standard was in having a concrete plan in place to measure the impact of our rule once it comes into force. Despite this, CSA rule committees generally continue to monitor the impact of any rule that they adopt for at least a one-year period following rule implementation. This gives the CSA the opportunity to assess whether the new rule, or rule changes, are working as intended. This piece was built in to the one local policy project that completed last year, related to our strategic priority to address the US OTC markets.

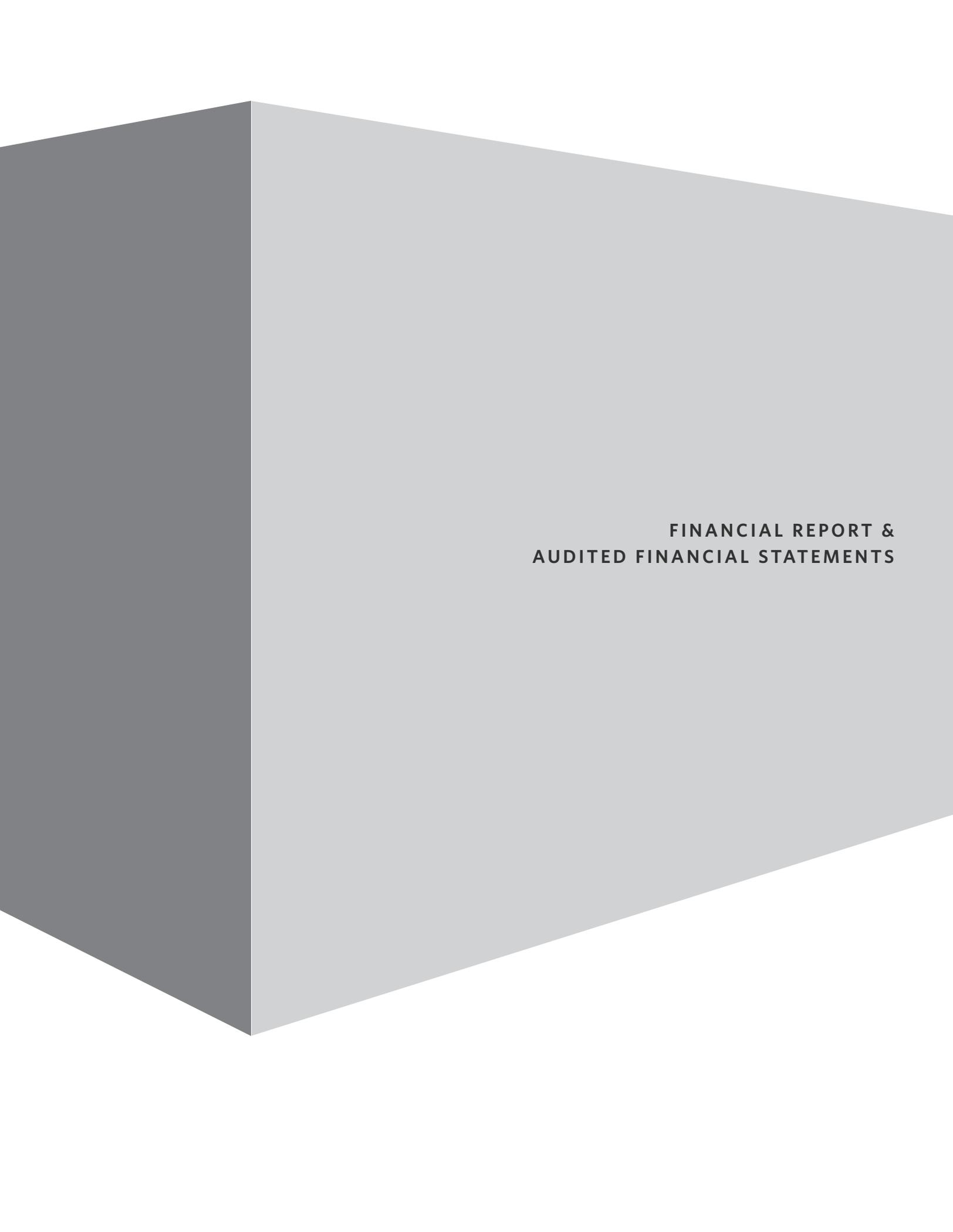
MEASUREMENT 2/ AVERAGE APPROVED PROJECT POST-IMPLEMENTATION SCORE

For this measurement, we define a "project" as an initiative that requires executive director approval, and either costs more than \$10,000 or takes more than 25 person days. We justify these local projects in writing and include a description of the expected benefits. Some projects will forecast a return on investment generated by cost savings or cost avoidance that "pays" for the project within a reasonably short period (typically up to three years). Other projects promise efficiency improvements or improved quality, accuracy or control.

STATUS: MET	RESULTS AND TARGETS				
FISCAL	2007 ACTUAL	2008 ACTUAL	2009 TARGET	2009 ACTUAL	2010 TARGET
AVERAGE APPROVED PROJECT POST-IMPLEMENTATION SCORE	Not measured	100%	80%	95%	80%

NOTES ON MEASUREMENT: This year we measured six projects that completed between October 1, 2007 and October 31, 2008. Four of the projects met their measurement targets of 100%, the other two fell short, but we still met our overall target with a 95% measurement.

We assess each local IT project at a predetermined time after the project's completion (as documented in the project proposal), and score the project's success relative to its proposed benefits. This assessment normally occurs after six months, but for reasons of complexity or novelty may be conducted as early as three months or as late as 12 months after a project completes.



**FINANCIAL REPORT &
AUDITED FINANCIAL STATEMENTS**

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended March 31, 2009

WE PREPARED THIS DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS OF THE BRITISH COLUMBIA SECURITIES COMMISSION (BCSC) ON MAY 15, 2009. READ IT IN CONJUNCTION WITH OUR AUDITED FINANCIAL STATEMENTS AND RELATED NOTES FOR THE YEAR ENDED MARCH 31, 2009.

WE PREPARED THE FINANCIAL INFORMATION IN THIS REPORT IN ACCORDANCE WITH CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES. WE REPORT IN CANADIAN DOLLARS.

OVERVIEW

We are the self-funded provincial crown corporation responsible for regulating BC capital market activity. We do not receive transfers from government tax revenues. Instead, we collect fees charged to securities market participants to fund our operations. Our revenues fluctuate with market activity. Most of our costs are fixed. During fiscal 2009, we employed, on average, 183 full-time equivalent staff (fiscal 2008 - 186). Salary, benefit, and occupancy costs are 82% (fiscal 2008 - 83%) of operating expenses.

We focus our staff effort (with overhead allocated proportionately) on our strategic goals:

STRATEGIC GOAL	FISCAL 2009	FISCAL 2008
Promote a culture of compliance	36%	35%
Act decisively against misconduct	37%	39%
Educate investors	10%	11%
Advance cost effective regulation	17%	15%

REVENUE SOURCES

(We discuss Education reserve revenues separately, on page 35)

We maintain a regulatory system and collect sufficient fees from those who access and use the system to fund our operations. More than 95% of our operational funding comes from filing, registration and application fees paid by market participants under the *Securities Act*. The remainder comes from enforcement cost recoveries, if any, and investment income.

FEES

Most of our regulatory costs are not easy to attribute to individual activities or entities, so filing fees are not, in general, associated with the costs of servicing those specific filings. We have not increased fee rates since 1994. We reduced or eliminated 14 fees in December 2000 because existing fee rates were generating too much revenue. Those changes reduced filing costs for mutual funds and public companies by more than \$4 million per year. In 2002, we returned over \$12 million of accumulated surplus to industry through additional temporary fee reductions.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended March 31, 2009

Our fee model is working as designed. It generates sufficient revenue to allow us to break even over the business cycle. We generate surpluses during high points in the market's cycle, and deficits during bear market periods.

We are most dependent on fees paid by mutual funds to distribute securities and file their financial statements with us, and on fees paid by the five largest Canadian banks to register their representatives with us.

We collect the following fees:

CATEGORY	SOURCE	Proportion of fee revenue	
		FISCAL 2009	FISCAL 2008
Distribution fees	Public companies, private companies and mutual funds, to file disclosure documents	53%	56%
Registration fees	Firms and individuals, to register with us to sell or advise on securities	32%	28%
Financial filing fees	Public companies and mutual funds, to file annual and interim financial statements	14%	14%
Other fees	Market participants, primarily to request <i>Securities Act</i> exemptions	1%	2%

Distribution fees

Distribution fee revenues vary depending on the number and size of offerings. The largest share of distribution fee revenue comes from prospectuses¹ (73%, fiscal 2008 – 66%), exempt distribution reports² (14%, fiscal 2008 – 22%), and annual information forms³ (11%, fiscal 2008 – 10%). Issuers pay fees to file these documents. Also:

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

Our revenue from distribution fees falls significantly during weaker markets because fees related to gross sales account for about half (51%, fiscal 2008 – 53%) of distribution fee revenue. About 65% (fiscal 2008 – 59%) of distribution fee revenue is fees related to mutual fund sales in BC. We receive the majority of revenue related to mutual fund sales in arrears, so distribution revenue changes lag market events.

Registration fees

Firms and individuals register with us to sell or advise on securities. The number of registered firms has not grown significantly in the last several years. In contrast, individual registrations, particularly those related to mutual fund sales, grow moderately most years (see page 12 for registration statistics). Annual salesperson turnover averaging 15% provides additional fee revenue.

¹ Companies and mutual funds must normally prepare a prospectus before raising money from the public. A prospectus gives details of the operations, financial status, and management of the company or fund.

² Prospectus exemptions allow companies to sell securities without a prospectus when other factors (like relationship or financial sophistication) ensure investors have access to all information about the proposed transaction that could affect their purchase decision.

³ Annual information forms give details of the operations, financial status, and management of the company.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended March 31, 2009

Financial filing fees

Companies and mutual funds (reporting issuers) pay a fee to file their financial statements with us, and they pay a higher fee if they file late. The reporting issuer population has increased slowly over the last several years (see page 12 for issuer statistics).

Other fees

Other fees, comprised primarily of fees related to exemption applications, fluctuate annually depending on market participants' requirements. Harmonization efforts eliminated the need to file most exemption applications in BC after March 2008. Other fees now account for only a small proportion of fee revenue.

ENFORCEMENT COST RECOVERIES

Enforcement cost recoveries are comprised of hearing cost recoveries and amounts designated under settlements as cost recoveries. Effective fiscal 2008, we stopped designating portions of settlement amounts as cost recoveries. Commission staff also stopped applying for hearing cost recoveries.

Revenue from enforcement cost recoveries depends on our ability to collect assessed amounts. Collecting cost recoveries is difficult because respondents often have limited assets, have poor credit, or have left BC. Since our incorporation on April 1, 1995, we have collected \$4.0 million (67%) of \$6.0 million assessed. We pursue outstanding amounts vigorously and indefinitely. However, we have not recognized as revenue any of the outstanding \$2.0 million because collectibility is unlikely.

INVESTMENT INCOME

Our prime investment objectives for surplus funds are capital preservation and sufficient liquidity so we can meet our expenditure commitments. Our conservative approach, investing in highly liquid, high quality money market instruments and government securities, generates modest returns. We mix Education reserve funds with operating funds for investment purposes, so we allocate a portion of our investment income to the Education reserve.

CONSOLIDATED HIGHLIGHTS

Excess revenue for the year was \$1.6 million, a \$4.4 million decrease from last year, but \$0.8 million ahead of budget. Operating revenue declined as expected, by \$2.2 million (6%), due primarily to a sharp fall in prospectus-exempt activity and significantly fewer, and smaller, public company offerings. Operating expenses increased \$1.4 million (5%), \$0.8 million less than expected, because increased vacancies partly offset salary adjustments that averaged 4.8%. Education reserve activities generated a \$0.3 million deficit, \$0.9 million lower than last year, due to lower enforcement sanctions.

We ended the year with \$35.4 million in cash and cash equivalents. The \$2.4 million (7%) increase from last year is due primarily to fiscal 2009 excess revenue.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended March 31, 2009

SELECTED ANNUAL INFORMATION

The following table summarizes actual and expected results of operations, the Education reserve, and financial position by year.

(millions)	2005	2006	2007	2008	2009	
	AUDITED	AUDITED	AUDITED	AUDITED	AUDITED	BUDGET
OPERATIONS						
REVENUES						
Filing fees	26.6	28.2	30.5	32.5	30.5	30.3
Investment income and cost recoveries	0.7	0.5	1.1	1.3	1.1	1.1
	27.3	28.7	31.6	33.8	31.6	31.4
EXPENSES						
Salaries and benefits	19.7	20.2	21.2	21.6	22.6	23.1
Other operating expenses	7.0	7.2	7.3	6.8	7.1	7.5
	26.7	27.4	28.5	28.4	29.7	30.6
Excess (deficiency) of revenue - operations	0.6	1.3	3.1	5.4	1.9	0.8
EDUCATION RESERVE						
Enforcement sanctions and investment income	1.0	0.8	1.5	1.1	0.5	0.8
Education program disbursements	2.1	1.2	0.6	0.5	0.8	0.8
Excess (deficiency) of revenue - education	(1.1)	(0.4)	0.9	0.6	(0.3)	-
CONSOLIDATED EXCESS (DEFICIENCY) OF REVENUE	(0.5)	0.9	4.0	6.0	1.6	0.8
FINANCIAL POSITION						
General surplus	0.7	1.7	3.8	7.2	9.1	6.3
Fee stabilization reserve	11.8	12.0	13.0	15.0	15.0	15.5
Education reserve	2.8	2.4	3.3	3.9	3.6	3.7
	15.3	16.1	20.1	26.1	27.7	25.5
Total assets	24.6	25.8	30.0	36.7	38.7	35.3
Capital additions	0.4	0.3	0.2	0.7	0.7	0.7
KEY STATISTICS						
Fee revenue growth rate	8%	6%	8%	6%	-6%	-7%
Average full-time equivalent workforce	195	191	189	186	183	190
Operating expense growth rate	-1%	3%	4%	0%	5%	8%

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended March 31, 2009

ANALYSIS OF OPERATING RESULTS FOR THE YEAR

(We discuss Education reserve results separately, on page 35)

Year ended March 31

(thousands)	ACTUAL VERSUS BUDGET				ACTUAL VERSUS LAST YEAR			
	MAR '09	BUDGET	\$ DIFF	% DIFF	MAR '09	MAR '08	\$ DIFF	% DIFF
OPERATIONS								
Revenues	\$ 31,636	\$ 31,410	\$ 226	1%	\$ 31,636	\$ 33,782	\$ (2,146)	-6%
Expenses	29,776	30,604	(828)	-3%	29,776	28,373	1,403	5%
Excess of revenue	\$ 1,860	\$ 806	\$ 1,054	131%	\$ 1,860	\$ 5,409	\$ (3,549)	-66%

EXCESS OF REVENUE

Excess revenue from operations fell \$3.5 million (66%) versus last year, to \$1.9 million. Results were \$1.1 million higher than budgeted. Declining market activity reduced fee revenue as expected. Operating expenses increased \$1.4 million (5%) versus last year, to \$29.8 million. Expense increases related primarily to salary adjustments and higher collection expenses. Expense growth was significantly below plan, due primarily to higher than expected vacancies. We discuss revenues and expenses in more detail below.

REVENUES

Year ended March 31

(thousands)	ACTUAL VERSUS BUDGET				ACTUAL VERSUS LAST YEAR			
	MAR '09	BUDGET	\$ DIFF	% DIFF	MAR '09	MAR '08	\$ DIFF	% DIFF
OPERATIONS								
Distribution	\$ 16,019	\$ 16,500	\$ (481)	-3%	\$ 16,019	\$ 18,268	\$ (2,249)	-12%
Registration	9,636	9,146	490	5%	9,636	9,227	409	4%
Financial filings	4,600	4,600	-	0%	4,600	4,531	69	2%
Exemptions and other	227	114	113	99%	227	518	(291)	-56%
Cost recoveries	24	-	24	100%	24	2	22	1100%
Investment income	1,130	1,050	80	8%	1,130	1,236	(106)	-9%
	\$ 31,636	\$ 31,410	\$ 226	1%	\$ 31,636	\$ 33,782	\$ (2,146)	-6%

Distribution revenue fell 12%, \$0.5 million more than expected. This is because fees related to non-prospectus (exempt market) filings declined 46% (\$1.8 million), \$0.3 million more than expected. In addition, fees related to prospectus filings declined 3% (\$0.3 million), \$0.1 million more than expected because higher than expected fees related to money market (i.e. short-term) mutual fund sales only partly offset a 37% drop in public company prospectus filings.

Registration fee revenue was 5% (\$0.5 million) higher than plan and 4% (\$0.4 million) higher than last year, due to unexpected growth in registrant numbers. We had expected the registrant population to decline modestly given declining market activity.

Passport project harmonization efforts reduced exemption application revenue by 56% (\$0.3 million), which was less than expected. CSA changed exemption application requirements in March 2008 to enable applicants to deal solely with their home jurisdiction.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended March 31, 2009

EXPENSES

Salaries, benefits, and occupancy costs account for over 80% of our expenses. As a government agency, we are exempt from income taxes and the GST.

We are committed to managing our expenses so they do not exceed expected revenue over the business cycle. We do this by preparing an annual budget approved by the Board, monthly budget variance reporting to management, requiring Board approval of significant expenses, and continually improving our processes.

Year ended March 31

(thousands)	ACTUAL VERSUS BUDGET				ACTUAL VERSUS LAST YEAR			
	MAR '09	BUDGET	\$ DIFF	% DIFF	MAR '09	MAR '08	\$ DIFF	% DIFF
OPERATIONS								
Salaries	\$ 22,576	\$ 23,124	\$ (548)	-2%	\$ 22,576	\$ 21,667	\$ 909	4%
Professional fees	2,032	2,098	(66)	-3%	2,032	1,694	338	20%
Depreciation	1,000	715	285	40%	1,000	843	157	19%
Occupancy	1,977	1,954	23	1%	1,977	1,911	66	3%
Information management	798	762	36	5%	798	785	13	2%
Administration	266	376	(110)	-29%	266	314	(48)	-15%
External communications	259	462	(203)	-44%	259	308	(49)	-16%
Training	369	555	(186)	-34%	369	358	11	3%
Travel	364	423	(59)	-14%	364	349	15	4%
Telecommunications	135	135	-	0%	135	144	(9)	-6%
	\$ 29,776	\$ 30,604	\$ (828)	-3%	\$ 29,776	\$ 28,373	\$ 1,403	5%

Salaries and benefits expense increased 4% (\$0.9 million), less than expected, because April 2008 salary adjustments, which averaged 4.8%, were partly offset by higher than expected vacancies, due primarily to staff leaves left unfilled.

Professional expenses increased 20% (\$0.3 million) because of higher legal costs related to enforcing outstanding sanctions.

Depreciation was 40% (\$0.3 million) higher than budget, due to a budgeting error.

Administration expense decreased 15% rather than increasing as budgeted. Improved cost control and the timing of enforcement investigations reduced these expenses.

External communication costs decreased 16% rather than increasing as budgeted. We outsourced less communications work and switched from newspaper to on-line recruitment advertising.

Training costs were \$0.2 million under budget. We reconsidered some training initiatives and deferred some training to fiscal 2010 to accommodate operating priorities.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended March 31, 2009

SELECTED QUARTERLY INFORMATION

Operating revenues normally exceed operating expenses in quarters one and three, and operating expenses normally exceed operating revenues in quarters two and four, because of filing patterns. Due to strong market activity, operating revenues exceeded operating expenses throughout fiscal 2008. Due to weak market activity and higher operating costs, operating expenses exceeded operating revenue in all but the first quarter of fiscal 2009.

Education revenues and disbursements depend on the timing and nature of enforcement actions and education programs, and vary every period.

(thousands)	FISCAL 2009				FISCAL 2008			
	MAR.	DEC.	SEPT.	JUNE	MAR.	DEC.	SEPT.	JUNE
OPERATIONS								
Revenues	\$ 7,328	\$ 7,049	\$ 6,861	\$ 10,399	\$ 8,827	\$ 7,518	\$ 7,458	\$ 9,979
Expenses	8,119	7,283	7,134	7,240	7,229	7,130	6,969	7,045
Excess (deficiency)	\$ (791)	\$ (234)	\$ (273)	\$ 3,159	\$ 1,598	\$ 388	\$ 489	\$ 2,934
EDUCATION RESERVE								
Revenues	\$ 159	\$ 80	\$ 110	\$ 93	\$ 396	\$ 144	\$ 295	\$ 206
Disbursements	(146)	(231)	(125)	(152)	(197)	(65)	(166)	(66)
Excess (deficiency)	\$ 13	\$ (151)	\$ (15)	\$ (59)	\$ 199	\$ 79	\$ 129	\$ 140
CONSOLIDATED								
Excess (deficiency)	\$ (778)	\$ (385)	\$ (288)	\$ 3,100	\$ 1,797	\$ 467	\$ 618	\$ 3,074

ANALYSIS OF OPERATING RESULTS FOR THE QUARTER

(We discuss Education reserve results separately, on page 35)

(thousands)	ACTUAL VERSUS LAST YEAR			
	MAR '09	MAR '08	\$ DIFF	% DIFF
OPERATIONS				
Revenues	\$ 7,328	\$ 8,827	\$ (1,499)	-17%
Expenses	8,119	7,229	890	12%
Excess (deficiency) of revenues	\$ (791)	\$ 1,598	\$ (2,389)	-149%

Quarterly operating results declined \$2.4 million versus last year.

Distribution fee revenues declined 27% (\$1.2 million) primarily due to 42% (\$0.8 million) lower non-prospectus (exempt market) filing fees and 16% (\$0.2 million) lower prospectus filing fees. Investment income declined 70% (\$0.3 million), reflecting falling yields on our investment portfolio.

Expenses increased 12% (\$0.9 million), due primarily to merit increases (\$0.3 million), retroactive benefits changes paid out during the fourth quarter (\$0.1 million), \$0.2 million higher depreciation, and \$0.2 million higher information technology expenses due to higher network service provider charges and the timing of expenses.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended March 31, 2009

EDUCATION RESERVE

Reserve purpose

We use reserve funds only to educate securities market participants and members of the public about investing, financial matters, or the operation and regulation of securities markets.

We fund education projects both directly and in partnership with others. We evaluate each proposed project against criteria that assess a potential partner's background and experience, the need for the project, the project's design and success measures, and the degree to which the project's goals align with our service and operating plans.

Revenue sources

We appropriate enforcement sanction revenue to our Education reserve. We mix Education reserve funds with other funds for investment purposes, so we allocate a pro-rata portion of investment portfolio income to the Education reserve.

Enforcement sanctions

We order administrative penalties and disgorgements⁴ under the *Securities Act*. We also negotiate settlement amounts. We appropriate these revenues to our Education reserve. Enforcement sanctions, which depend on the timing and nature of enforcement actions, vary significantly between periods.

Legislative changes in May 2006 increased the maximum administrative penalty under the *Securities Act* to \$1.0 million per contravention and, in November 2007, introduced the disgorgement of funds provision. Of the \$37.5 million sanctioned since our incorporation on April 1, 1995, \$13.6 million relates to disgorgement orders.

We recognize in revenue enforcement sanctions we determine are collectible. Collecting enforcement sanctions can be difficult because respondents often have limited assets, have poor credit, or have left BC. Since our incorporation, we have collected \$9.3 million (25%) of \$37.5 million sanctioned. We pursue all outstanding amounts vigorously and indefinitely. However, of the \$28.2 million outstanding, only \$0.1 million is likely collectible and accrued in our financial statements. Approximately 60% of the \$28.2 million outstanding relates to one case.

Investment income

Our prime investment considerations for Education reserve funds are capital preservation and sufficient liquidity to meet education program commitments. Our conservative approach, investing in highly liquid, high quality money market instruments and government securities, generates modest returns.

⁴ Disgorgement is designed to return ill-gotten gains to victims. We allocate to the Education reserve disgorgements not claimed within three years of collection.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended March 31, 2009

Revenue analysis

(thousands)	QUARTER ENDED MARCH 31		YEAR ENDED MARCH 31	
	2009	2008	2009	2008
ENFORCEMENT SANCTIONS				
Current period sanctions	\$ 167	\$ 16,958	\$ 678	\$ 18,128
Uncollectible portion of sanctions not recognized as revenue	(70)	(16,602)	(512)	(17,645)
Recovery of uncollectible sanctions from prior periods	2	5	97	404
	\$ 99	\$ 361	\$ 263	\$ 887
Investment income allocated to education reserve	60	35	180	154
Total revenue appropriated to the education reserve	\$ 159	\$ 396	\$ 443	\$ 1,041
Education reserve disbursements	146	197	654	494
Net change in education reserve	\$ 13	\$ 199	\$ (211)	\$ 547
Education reserve ending balance	\$ 3,677	\$ 3,889	\$ 3,677	\$ 3,889

As noted previously, enforcement sanctions, which depend on the timing and nature of enforcement actions, vary significantly between periods. We assessed \$23.9 million of sanctions in fiscal 2008. However, a BC Court of Appeal decision reduced fiscal 2008 sanctions by \$5.75 million. The court's decision did not affect our financial results. We had not accrued the affected sanction due to collectibility concerns. The table above reflects the revised amounts.

Education disbursements and financial position

Fiscal 2009 education disbursements related primarily to InvestRight print media (\$0.2 million), radio (\$0.1 million), and ethnic media (\$0.1 million) projects.

The Education reserve balance decreased 5% (\$0.2 million) because we spent more on education than we collected from enforcement sanctions and investment portfolio income.

FINANCIAL POSITION AND LIQUIDITY

Use of financial instruments

The principal financial instruments affecting our financial condition and results of operations are cash and short-term investments and investments held for designated purposes. In our opinion, our investments do not expose the BCSC to significant credit, liquidity, or market risk because we invest in short-term, liquid, high quality money market instruments and government securities. We manage interest rate risk by maintaining a short-term duration in our investment portfolio, and monitoring portfolio yields with the fund administrator, British Columbia Investment Management Corporation (bcIMC).

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended March 31, 2009

Liquidity

Cash flow was positive for the year, at \$2.4 million (fiscal 2008 - \$6.9 million). Cash flow was lower than the previous year due to decreased filing activity, lower enforcement sanctions and higher operating costs. We ended the year with \$35.4 million (fiscal 2008 - \$33.0 million) of cash and cash equivalents.

We have sufficient liquidity and capital resources to fund operations through a sustained market downturn:

- most of our cash equivalent assets are redeemable immediately without penalty
- we have working capital of \$6.5 million (March 31, 2008 - \$4.3 million)
- we can draw on our \$15 million fee stabilization reserve if necessary

Capital assets

Capital assets were \$2.7 million (March 31, 2008 - \$3.0 million) because additions (\$0.7 million) were offset by amortization (\$1.0 million). Additions were as follows:

(thousands)	FISCAL 2009	BUDGET	FISCAL 2008
ASSET CATEGORY			
Information technology	685	807	425
Leasehold improvements	(2)	20	87
Office equipment	1	15	29
Office furniture	-	15	196
	684	857	737

We spend significant amounts enhancing information systems annually to improve market participants' access to our services and the information we maintain, and to improve the speed with which we deliver services and the quality of our regulatory duties. Significant information technology projects during fiscal 2009 included replacing our phone system, increasing information storage capacity, implementing a data-mining tool to improve our compliance and enforcement capabilities, and upgrading components of our e-mail system.

Liabilities

Deferred revenue increased to \$6.6 million (March 31, 2008 - \$6.5 million). Deferred revenue is calendar year registrations received in advance.

Accrued salaries increased \$0.2 million to \$2.7 million (March 31, 2008 - \$2.5 million) primarily due to a higher incentive accrual and the timing of year-end payrolls.

Contractual obligations

Our material contractual obligations at March 31, 2009 are:

(millions)	TOTAL	< 1 YEAR	2 - 3 YEARS	4 - 5 YEARS	> 5 YEARS
Rent and operating costs (net of sublease recoveries)	5.3	2.0	3.3	-	-

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended March 31, 2009

RISKS AND OPPORTUNITIES

Securities regulatory reform

In fiscal 2008, the federal government set up the Expert Panel on Securities Regulation to review and make recommendations on the structure of the Canadian securities regulatory system. On January 12, 2009, the panel recommended the federal government create a "National Securities Regulator". This debate on structure continues. We will support the BC government in its consideration of the federal recommendations, and will operate in accordance with our Shareholder's Letter of Expectations in the meantime. We expect the BCSC to remain a going concern for the coming fiscal year.

We have also been supporting government's work to implement the regulatory reforms outlined in the September 2004 Provincial / Territorial Memorandum of Understanding Regarding Securities Regulation (Passport MOU) among all provinces and territories, except Ontario. The Passport MOU proposes single window access to capital markets in participating provinces and territories, and a review of the regulatory fees charged in the context of the passport system. Changes to date have not materially affected our operations even though exemption application fees have fallen as expected after Passport Phase II was implemented. We expect to implement the remaining phase of Passport during fiscal 2010. We do not expect the changes to affect our operations materially.

Fee revenue

As previously mentioned, we fund operations primarily from filing fees paid by market participants. Fee revenue fluctuates with market activity, rising in strong market conditions and falling in weak market conditions. We expect revenues to fall further based upon economic events. We continuously monitor our fee structure and may propose changes to government to ensure we break even over the business cycle.

Reliance on CDS Inc.

Under various agreements with the CSA that end on October 31, 2011, CDS Inc. (CDS) operates three national electronic filing systems:

- The System for Electronic Document Analysis and Retrieval (SEDAR)
- The System for Electronic Disclosure by Insiders (SEDI)
- The National Registration Database (NRD)

We collect about 90% of our fee revenue through SEDAR and NRD. CDS maintains a comprehensive business continuity plan for each system. However, should CDS become unable or unwilling to continue to operate them, the CSA would have to contract another party to host them.

National filing systems operating agreements

CDS operates the SEDAR and SEDI national filing systems on behalf of the CSA under agreements with the Alberta Securities Commission, BCSC, Ontario Securities Commission, and l'Autorité des marchés financiers, together called the CSA Principal Administrators. CDS operates the NRD national filing system under agreements with the CSA Principal Administrators and the Investment Industry Regulatory Organization of Canada Inc. Under the agreements:

- The CSA Principal Administrators must pay CDS if the SEDAR system budgeted operating costs exceed revenues ("shortfall"). Our portion of any SEDAR shortfall is limited to 15.4%.
- CDS must pay SEDAR revenues in excess of system budgeted operating costs ("surplus") to the CSA Principal Administrators. Any surplus is not divisible; the CSA Principal Administrators own it as a group.
- CDS and the CSA Principal Administrators agree to share actual versus budgeted system operating cost ("expense") variances equally.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended March 31, 2009

The OSC is holding \$35.2 million (fiscal 2008 - \$23.9 million) in trust, on behalf of the CSA Principal Administrators. The funds are the national filing systems' accumulated surpluses and expense variances and interest earned on those amounts to March 31, 2009. The CSA Principal Administrators have agreed that we will use these funds only for the benefit of national filing system users through system enhancements or usage fee adjustments.

ACCOUNTING POLICY CHANGES

Effective April 1, 2008, we adopted the following accounting standards issued by the Canadian Institute of Chartered Accountants (CICA): assessing going concern, capital disclosures, and financial instruments – disclosures and presentation. We describe these standards and the impact their adoption has on our financial disclosure in note 2 of the financial statements.

Effective April 1, 2009, we will adopt a new CICA standard dealing with intangible assets. The new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets and converges Canadian GAAP for goodwill and intangible assets with International Financial Reporting Standards. Adopting the new standard will not have a material impact on our financial statements.

International Financial Reporting Standards (IFRS) transition plan

Canadian publicly accountable enterprises must adopt IFRS for fiscal years beginning on or after January 1, 2011.

We have reviewed IFRS standards. Our review did not identify the need for material accounting adjustments to become IFRS compliant. We will report our March 31, 2011 financial results in compliance with IFRS.

We continue to develop our IFRS financial reporting expertise through training of key personnel and ongoing reviews of IFRS publications.

OUTLOOK

We expect continued market weakness through fiscal 2010 and moderate increases in market activity in fiscal 2011 and 2012. We plan no significant staff increases and project salary cost increases to average 2.5% annually.

MD&A SUPPLEMENT - COMPENSATION DISCLOSURE

For the Year Ended March 31, 2009

COMPENSATION STRUCTURE

We are accountable to the provincial legislature and the public through the Minister of Finance. Our compensation plan requires *Public Sector Employers' Council* approval.

The BCSC manages its compensation through effective internal governance policies (see page 10 for more information) and practices, including as follows:

- Our Audit and Human Resources committees comprise only independent commissioners appointed by the Lieutenant Governor-in-Council
- The Audit Committee oversees the BCSC's annual budget and the Human Resources Committee oversees the design and administration of BCSC performance management and compensation practices
- Semi-annually, the Human Resources Committee reviews the Chair's performance against his objectives. In consultation with the Chair, the Human Resources Committee reviews the performance of other executives and senior managers.
- The Human Resources Committee recommends, for Board approval, the Chair's incentive compensation for the preceding year and the Chair's salary for the ensuing year
- The Chair and Executive Director consult the Human Resources Committee on the incentive compensation and salaries of the other executives and senior managers

We compete with law and accounting firms, the securities industry, and other securities regulators to hire and retain professional staff with securities market expertise.

COMPENSATION PHILOSOPHY

We strive to offer remuneration comparable to that offered by competing organizations. To remain competitive, we conduct annual salary surveys and propose adjustments when surveyed position salaries are significantly below the median. Like most of our competitors, our compensation plan includes performance-based incentives.

INCENTIVE PRINCIPLES

Employees participate in an incentive plan, following these principles:

- Incentive awards depend on our ability to fund them
- Incentives are based on individual, divisional and Commission performance

INCENTIVE TARGETS

Incentive targets vary depending on positions' potential impact on Commission performance. Named officers (Chair, Vice Chair, Executive Director, Director of Enforcement, and the Director of Corporate Finance) have incentive targets ranging from 20 - 40%.

MD&A SUPPLEMENT - COMPENSATION DISCLOSURE

For the Year Ended March 31, 2009

FISCAL 2009 COMPENSATION SUMMARY

POSITION	NAME	BASE SALARY	PERFORMANCE INCENTIVE	DEFINED BENEFIT PENSION	ALL OTHER COMPENSATION ⁵	TOTAL FISCAL 2009	TOTAL FISCAL 2008 ⁶	MEETINGS ATTENDED ⁷
EXECUTIVE COMMISSIONERS								
Chair	Hyndman, Douglas M.	\$ 343,592	\$ 143,237	\$ 34,111	\$ 28,152	\$ 549,092	\$ 543,957	18
Vice Chair	Aitken, Brent W.	\$ 313,409	\$ 89,926	\$ -	\$ 14,312	\$ 417,647	\$ 361,744	17
SENIOR MANAGEMENT								
Executive Director	Brenda M. Leong	\$ 260,793	\$ 86,684	\$ 25,724	\$ 14,931	\$ 388,132	\$ 379,415	N/A
Director of Enforcement	Langley E. Evans	\$ 196,354	\$ 35,638	\$ 19,196	\$ 11,243	\$ 262,431	\$ 242,345	N/A
Director of Corporate Finance	Martin D.C. Eady	\$ 184,645	\$ 34,081	\$ 18,010	\$ 8,821	\$ 245,557	\$ 230,051	N/A

POSITION	NAME	FEES	ALL OTHER COMPENSATION ⁵	TOTAL FISCAL 2009	TOTAL FISCAL 2008	MEETINGS ATTENDED ⁷
INDEPENDENT COMMISSIONERS						
Commissioner	Doney, Bradley	\$ 40,771	\$ 1,197	\$ 41,968		16
Commissioner	Hanna, Kenneth G.	\$ 70,275	\$ -	\$ 70,275	\$ 39,950	18
Commissioner	Rowlatt, Don	\$ 40,927	\$ 1,205	\$ 42,132		15
Commissioner	Smith, David	\$ 59,625	\$ -	\$ 59,625	\$ 36,300	18
Commissioner	Williams, Shelley	\$ 53,990	\$ 1,852	\$ 55,842		17
Commissioner	Wiltshire, Suzanne K.	\$ 70,863	\$ 2,346	\$ 73,209	\$ 51,424	18

COMPENSATION CONSULTANTS

During the year, we hired Western Compensation & Benefits Consultants to perform a salary survey and L.D. Bell Consulting to review incentive plan design.

⁵ Other compensation includes long-term disability plan premiums, Canada Pension Plan premiums, transportation allowances, parking, extended health and dental plan premiums, professional membership fees, Medical Services Plan premiums, Employment Insurance premiums, Workers Compensation Plan premiums, group life insurance premiums, fitness reimbursements, and imputed interest benefit on interest-free computer purchase loans.

⁶ Mr. Aitken worked on contract until January 31, 2008 at which time he became an employee. He did not participate in the fiscal 2008 incentive plan.

⁷ During fiscal 2009, the Board scheduled, and held during the year, 12 monthly meetings, 4 enforcement policy meetings, and 2 strategic planning meetings.

STATEMENT OF MANAGEMENT RESPONSIBILITY

Management of the British Columbia Securities Commission is responsible for ensuring that the financial statements and other financial information in this annual report are complete and accurate.

Management, consisting of the Executive Director and her senior staff, has prepared the financial statements according to accounting principles that are generally accepted in Canada. 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. Management does not believe it is likely that any differences will be material.

Financial information contained throughout this annual report, including the management discussion and analysis and the charts and figures in the body of the annual report, is consistent with these financial statements.

Management develops and maintains systems of control that give the Board reasonable assurance that management has:

- operated within its authorized limits,
- safeguarded assets, and
- kept complete and accurate financial records.

The Board is responsible for establishing prudent rules of business and staff conduct. It is the Commission's policy to maintain the highest standards of ethics in all its activities. The Commission has an employee conduct policy, including conflict of interest rules for employees and commissioners, to achieve those standards.

The Board is also 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 committee members are independent commissioners who do not participate in the day-to-day operations of the Commission. The audit committee meets regularly throughout the year with management, the internal auditors and the external auditors to review the:

- financial statements,
- adequacy of financial reporting, accounting systems and controls, and
- internal and external audit functions.

The internal auditors are charged with the responsibility of reviewing and evaluating the adequacy of and compliance with the Commission's internal control standards. The internal auditors report the results of their reviews and make recommendations both to management and the audit committee. The external auditor's responsibility is to express an opinion on whether the financial statements, in all material respects, fairly present the Commission's financial position, results of operations and cash flows in accordance with accounting principles that are generally accepted in Canada. The internal and external auditors have full and open access to the audit committee, with and without the presence of management.

The audit committee has reviewed these financial statements and has recommended the Board approve them.

The British Columbia Lieutenant Governor in Council has appointed the Auditor General to be the independent auditor of the Commission. The Auditor General has examined the financial statements and his report follows.



DOUGLAS M. HYNDMAN
Chair and Chief Executive Officer



BRENDA M. LEONG
Executive Director



Report of the Auditor General of British Columbia

*To the Commissioners of
the British Columbia Securities Commission, and*

*To the Minister of Finance and Minister Responsible for the Olympics
Province of British Columbia:*

I have audited the balance sheet of the *British Columbia Securities Commission* as at March 31, 2009, and the statements of operations and comprehensive income, of surpluses and cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the *British Columbia Securities Commission* as at March 31, 2009, and the results of its operations and comprehensive income, its surpluses and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Victoria, British Columbia
May 15, 2009*

John Doyle, MBA, CA
Auditor General

BALANCE SHEET

At March 31, 2009 (audited)
British Columbia Securities Commission

	MARCH 31, 2009	MARCH 31, 2008
ASSETS		
Current assets:		
Cash and short term investments (note 4)	\$ 16,724,160	\$ 14,097,945
Amounts receivable (note 5)	311,319	283,773
Prepaid expenses (note 6)	303,889	383,444
	17,339,368	14,765,162
Investments held for designated purposes (note 7)	18,677,388	18,888,555
Capital assets (notes 8 and 2(b))	2,680,874	2,996,607
	\$ 38,697,630	\$ 36,650,324
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 776,199	\$ 747,212
Accrued salaries	2,732,055	2,517,104
Deferred registration fee revenue	6,599,003	6,514,029
Employee leave liability (note 9)	753,377	660,883
	10,860,634	10,439,228
Deferred rent	65,245	88,065
SURPLUSES		
General	9,094,363	7,234,476
Fee stabilization reserve (note 10)	15,000,000	15,000,000
Education reserve (note 10)	3,677,388	3,888,555
	27,771,751	26,123,031
	\$ 38,697,630	\$ 36,650,324

Going concern basis of accounting (note 1)

Commitments and contingencies (note 15)

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

Approved by the Board:



DOUGLAS M. HYNDMAN
Chair



DAVID J. SMITH
Member

STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

For the year ended March 31, 2009 (audited)
British Columbia Securities Commission

YEAR ENDED	MARCH 31, 2009	MARCH 31, 2008
REVENUES		
Fees		
Prospectus and other distributions	\$ 16,019,192	\$ 18,268,660
Registration	9,635,665	9,226,928
Financial filings	4,599,424	4,530,617
Exemptive orders and other	227,458	518,106
Enforcement sanctions (note 12)	262,716	886,719
Enforcement cost recoveries (note 12)	24,110	1,667
Investment income	1,310,168	1,389,906
	32,078,733	34,822,603
EXPENSES		
Salaries and benefits (note 14)	22,576,223	21,666,784
Professional services	2,031,997	1,694,144
Occupancy	1,976,924	1,910,742
Depreciation	999,880	842,502
Information management	797,695	785,377
Education reserve (note 10)	654,236	494,007
External communications	258,632	307,621
Administration	265,766	313,955
Staff training	369,296	358,380
Business travel	364,346	349,583
Telecommunications	135,018	144,250
	30,430,013	28,867,345
EXCESS OF REVENUES, AND COMPREHENSIVE INCOME	\$ 1,648,720	\$ 5,955,258

Going concern basis of accounting (note 1)

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

STATEMENT OF SURPLUSES

For the year ended March 31, 2009 (audited)
British Columbia Securities Commission

	GENERAL	FEE STABILIZATION RESERVE (NOTE 10)	EDUCATION RESERVE (NOTE 10)	TOTAL
BALANCE, MARCH 31, 2007	\$ 3,826,344	\$ 13,000,000	\$ 3,341,429	\$ 20,167,773
Excess of revenues	5,955,258	-	-	5,955,258
Appropriation during the year	(2,547,126)	2,000,000	547,126	-
BALANCE, MARCH 31, 2008	\$ 7,234,476	\$ 15,000,000	\$ 3,888,555	\$ 26,123,031
Excess of revenues	1,648,720	-	-	1,648,720
Appropriation during the year	211,167	-	(211,167)	-
BALANCE, MARCH 31, 2009	\$ 9,094,363	\$ 15,000,000	\$ 3,677,388	\$ 27,771,751

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

STATEMENT OF CASH FLOWS

For the year ended March 31, 2009 (audited)
British Columbia Securities Commission

YEAR ENDED	MARCH 31, 2009	MARCH 31, 2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from fees	\$ 30,527,468	\$ 32,886,384
Cash receipts from enforcement sanctions	302,675	950,513
Cash paid to and on behalf of employees	(22,286,036)	(21,408,978)
Cash paid to suppliers and others	(6,778,580)	(6,202,924)
Investment income received	1,333,668	1,370,406
	3,099,195	7,595,401
CASH FLOWS USED FOR INVESTING ACTIVITIES		
Paid for capital assets	(684,147)	(742,056)
Net increase in cash and cash equivalents	2,415,048	6,853,345
Cash and cash equivalents, beginning of year	32,986,500	26,133,155
Cash and cash equivalents, end of year	\$ 35,401,548	\$ 32,986,500
Represented by:		
Cash and short term investments	\$ 16,724,160	\$ 14,097,945
Investments held for designated purposes	18,677,388	18,888,555
	\$ 35,401,548	\$ 32,986,500

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

NOTES TO FINANCIAL STATEMENTS

For the year ended March 31, 2009 (audited)
British Columbia Securities Commission

1. NATURE OF OPERATIONS AND GOING CONCERN

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 have prepared these financial statements on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. We expect the BCSC to remain a going concern for the upcoming fiscal year.

2. SIGNIFICANT ACCOUNTING POLICIES

Management has prepared these financial statements according to Canadian generally accepted accounting principles. Significant accounting policies followed in the preparation of these financial statements are:

a) *Short-term and designated investments*

Under the BC *Securities Act*, we must invest any money that we receive, but do not immediately need, in an investment pool that the British Columbia Investment Management Corporation (bcIMC), a BC government organization, administers. We buy units in pooled investment funds that invest primarily in:

- Canadian money market investments maturing within 15 months, and
- Canadian federal and provincial government short-term bonds and Canadian dollar short-term fixed income securities issued, insured or guaranteed by sovereign governments and supranational debt securities.

Any earnings from our investments are reinvested in the same fund and add to the carrying value of the units we own.

We consider the fair value of our short-term investments and investments held for designated purposes to be market value given their short-term nature. Fair value is the amount that would be agreed upon by two unrelated parties to a transaction who have full knowledge of all relevant facts and who are under no obligation to act.

b) *Capital assets*

We record our capital assets at cost. We depreciate them using the straight-line method over their useful lives. We estimate the useful lives of our assets to be as follows:

- *Information technology assets*—four years
- *Leasehold improvements*—the length of the remaining lease term or the length of the estimated useful life of each improvement, whichever time is shorter
- *Office furniture and equipment*—ten years

c) *Revenue*

We accrue prospectus and other statutory filing fees when filings are made and collectibility is assured. The amounts due and their collectibility are normally determined simultaneously, as most filings are paid for immediately.

Registration fees are paid to us in advance. We recognize only the portion of fees that relate to the registration period falling in the current fiscal year as revenue. We treat the balance as deferred revenue and recognize it as income in the next year.

We recognize enforcement sanctions we determine are collectible.

NOTES TO FINANCIAL STATEMENTS

For the year ended March 31, 2009 (audited)

British Columbia Securities Commission

d) Estimates

Canadian generally accepted accounting principles 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 capital assets
- value of the employee leave liability

Results may differ from these estimates.

e) Accounting policy changes

Effective April 1, 2008, we adopted the revisions to CICA Handbook Section 1400 "*General Standards of Financial Statement Presentation*", and new Sections 1535 "*Capital Disclosures*", 3862 "*Financial Instruments - Disclosure*", and 3863 "*Financial Instruments - Presentation*".

Section 1400 "*General Standards of Financial Statement Presentation*" now requires management to disclose any material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. Note 1 reflects the new disclosure requirements.

Section 1535 "*Capital Disclosures*" establishes new standards for disclosing an entity's objectives, policies and processes for managing capital. Note 11 is our new capital management disclosure.

Section 3862 "*Financial Instruments - Disclosures*" and Section 3863 "*Financial Instruments - Presentation*" replace the disclosure and presentation requirements of Section 3861, "*Financial Instruments - Disclosure and Presentation*". The new sections enhance disclosure about the nature, extent, and management of risks arising from the use of financial instruments. Note 3 reflects the new disclosure requirements.

f) Future accounting changes

Goodwill and intangible assets

Section 3064 "*Goodwill and Intangible Assets*" provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets and converges Canadian GAAP for goodwill and intangible assets with International Financial Reporting Standards. Under the new standard, computer software that is not an integral part of the related hardware is an intangible asset and separately disclosed. The new standard applies to interim and annual financial statements for fiscal years beginning on or after October 1, 2008. We will adopt the new standard effective April 1, 2009, retroactively. Had we adopted this provision in fiscal 2009, we would have reclassified computer software having a net book value of \$219,840 from capital assets to intangible assets.

International Financial Reporting Standards (IFRS)

Canadian publicly accountable enterprises must adopt IFRS for fiscal years beginning on or after January 1, 2011.

We have reviewed IFRS standards. Our review did not identify the need for material accounting adjustments to become IFRS compliant. We will report our March 31, 2011 financial results in compliance with IFRS.

NOTES TO FINANCIAL STATEMENTS

For the year ended March 31, 2009 (audited)

British Columbia Securities Commission

3. FINANCIAL INSTRUMENTS

Our financial instruments include cash and short-term investments, amounts receivable, investments held for designated purposes, accounts payable and accrued liabilities, accrued salaries and employee leave liability.

We classify our cash and short-term investments and investments held for designated purposes as held-for-trading. We record these financial instruments at fair value in our balance sheet and recognize gains and losses in net income for the related period. We classify amounts receivable as loans and receivables, and accounts payable and accrued liabilities, accrued salaries and employee leave liability as other liabilities. We record these financial instruments at cost, which approximates fair value, and recognize gains and losses on these financial instruments in net income for the related period.

In management's opinion, amounts receivable, accounts payable and accrued liabilities, accrued salaries, and employee leave liability do not expose us to significant risk because of their small size and short-term nature. Our use of financial instruments in our investment portfolio exposes us to the following material risks:

- *credit risk*—the possibility that an underlying issuer will default, by failing to repay principal and interest in a timely manner
- *liquidity risk*—the possibility that we will not be able to sell our investments when we want to
- *market risk*—the possibility that our investments may decline over time because of economic changes or other events that affect large portions of the market
- *interest rate risk*—the possibility that the value of our investments and the related investment returns will fluctuate over time because of interest rate changes

In management's opinion, our investments do not expose the BCSC to significant credit, liquidity, or market risk because we invest in short-term, liquid, high quality money market instruments and government securities. We manage interest rate risk by maintaining a short-term duration in our investment portfolio, and monitoring portfolio yields with the fund administrator, bcIMC.

4. CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments are carried at fair value, and consist of:

	MARCH 31, 2009			MARCH 31, 2008		
	UNITS	EXPECTED RETURN	MARKET VALUE	UNITS	EXPECTED RETURN	MARKET VALUE
Cash		0.60%	\$ 10,212,684		3.35%	\$ 12,877,977
Pooled Canadian Money Market Fund ST2	1.75	0.50%	6,511,476	0.34	3.27%	1,219,968
			\$ 16,724,160			\$ 14,097,945

NOTES TO FINANCIAL STATEMENTS

For the year ended March 31, 2009 (audited)

British Columbia Securities Commission

5. AMOUNTS RECEIVABLE

Amounts receivable consist of:

	MARCH 31, 2009	MARCH 31, 2008
Enforcement sanctions	\$ 111,520	\$ 127,369
Late insider filing fees	99,785	-
Enforcement cost recoveries	-	106,185
National project recoveries	41,000	-
Employee advances and other	59,014	50,219
	\$ 311,319	\$ 283,773

6. PREPAID EXPENSES

Prepaid expenses consist of:

	MARCH 31, 2009	MARCH 31, 2008
IROC registration processing fees	\$ 289,730	\$ 283,023
Information technology maintenance contracts	14,159	93,421
Other	-	7,000
	\$ 303,889	\$ 383,444

7. INVESTMENTS HELD FOR DESIGNATED PURPOSES

Investments held for designated purposes are carried at fair value, and consist of:

	MARCH 31, 2009			MARCH 31, 2008		
	UNITS	EXPECTED RETURN	MARKET VALUE	UNITS	EXPECTED RETURN	MARKET VALUE
Pooled Canadian Money Market Fund ST2	2.58	0.50%	\$ 9,586,738	3.10	3.27%	\$ 11,173,618
Short Term Bond Fund	4.11	1.13%	9,090,650	3.75	3.28%	7,714,937
		0.81%	\$ 18,677,388		3.27%	\$ 18,888,555

NOTES TO FINANCIAL STATEMENTS

For the year ended March 31, 2009 (audited)

British Columbia Securities Commission

8. CAPITAL ASSETS

Capital assets consist of:

	MARCH 31, 2009			MARCH 31, 2008
	COST	ACCUMULATED DEPRECIATION	NET BOOK VALUE	NET BOOK VALUE
Leasehold improvements	\$ 4,115,892	\$ 3,048,744	\$ 1,067,148	\$ 1,466,772
Office furniture	2,054,213	1,547,250	506,963	716,041
Office equipment	439,541	321,747	117,794	160,531
Information technology	1,657,753	668,784	988,969	653,263
	\$ 8,267,399	\$ 5,586,525	\$ 2,680,874	\$ 2,996,607

During the year we wrote-off \$1,332,365 (fiscal 2008 - \$nil) of fully amortized, obsolete information technology and office equipment.

9. EMPLOYEE LEAVE LIABILITY

Employee leave liability is what we owe to our employees for their accumulated vacation time and other leave entitlements not yet taken.

10. RESERVES

	FEE STABILIZATION (a)	EDUCATION (b)	TOTAL
BALANCE, MARCH 31, 2007	\$ 13,000,000	\$ 3,341,429	\$ 16,341,429
Additions and appropriations	2,000,000	886,719	2,886,719
Investment income allocation	-	154,414	154,414
Disbursements	-	(494,007)	(494,007)
BALANCE, MARCH 31, 2008	\$ 15,000,000	\$ 3,888,555	\$ 18,888,555
Additions and appropriations	-	262,716	262,716
Investment income allocation	-	180,353	180,353
Disbursements	-	(654,236)	(654,236)
BALANCE, MARCH 31, 2009	\$ 15,000,000	\$ 3,677,388	\$ 18,677,388

a) Fee stabilization reserve

We appropriate amounts from our general surplus to the fee stabilization reserve so temporary revenue reductions will not immediately impair our ability to operate, or require immediate fee increases.

b) Education reserve

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

We mix education reserve funds with our other funds for investment purposes, so we allocate a portion of our investment income to the Education reserve.

NOTES TO FINANCIAL STATEMENTS

For the year ended March 31, 2009 (audited)
British Columbia Securities Commission

11. CAPITAL MANAGEMENT

Our capital management objective is to safeguard our ability to protect investors and foster fair and efficient markets. In order to maintain sufficient capital, we monitor our fee structure and propose fee changes to government to ensure we break even over the business cycle. In addition, we maintain a fee stabilization reserve of between 37.5% and 62.5% of prior year operating expenses. We also manage our expenses so that they do not exceed expected revenue over the business cycle. We do this by:

- Preparing an annual budget approved by the Board
- Monthly budget variance reporting to management
- Requiring Board approval for significant expenses
- Continually improving the efficiency of our processes

Our capital is comprised of accumulated surpluses, cash and short-term investments, and investments held for designated purposes. We invest our capital conservatively in highly liquid, high quality, money market investments to ensure capital preservation.

12. ENFORCEMENT SANCTIONS AND ENFORCEMENT COST RECOVERIES

Enforcement sanctions include administrative penalties, settlements and unclaimed disgorgements. Revenues depend on the timing of enforcement actions completed during the period and on our ability to collect assessed amounts.

We assessed enforcement sanctions of \$0.7 million (fiscal 2008 - \$18.1 million) during the year. We did not recognize \$0.5 million (fiscal 2008 - \$17.6 million) as revenue because collectibility was unlikely. Effective fiscal 2008, we stopped designating portions of settlement amounts as cost recoveries. Commission staff also stopped applying for hearing cost recoveries. Cost recoveries recognized since March 31, 2007 are cash collections of cost recoveries relating to years prior to fiscal 2008.

Collecting enforcement sanctions and cost recoveries can be difficult because respondents often have limited assets, poor credit or have left BC. We pursue all outstanding amounts vigorously and indefinitely.

13. RELATED PARTY TRANSACTIONS

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

14. POST-RETIREMENT EMPLOYEE BENEFITS

We, and our employees, contribute to the Public Service Pension Plan, a multi-employer plan established for the benefit of certain BC public service employees. The plan is contributory, and its basic benefits are defined. The plan has about 55,000 active members and approximately 33,000 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, 2008, indicated a \$487 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 are monitoring the impact of the current financial environment on plan health, and announced a modest premium increase effective April 1, 2009 to bolster plan assets. Plan surpluses and deficits are not attributable to individual employers, but affect future contribution levels. We charged \$1,492,206 to expense for employer contributions during the year (fiscal 2008 - \$1,457,741).

NOTES TO FINANCIAL STATEMENTS

For the year ended March 31, 2009 (audited)
British Columbia Securities Commission

15. COMMITMENTS AND CONTINGENCIES

a) Office lease

We have leased office space to November 30, 2011. Our annual rent, net of sublease recoveries is approximately \$925,000. We also pay our share of building operating and maintenance costs.

b) National electronic filing systems and operating agreements

Under various agreements with the Canadian Securities Administrators (CSA), CDS Inc. (CDS) operates three national electronic filing systems:

- The System for Electronic Document Analysis and Retrieval (SEDAR)
- The System for Electronic Disclosure by Insiders (SEDI)
- The National Registration Database (NRD)

We collect about 90% of our fee revenue through SEDAR and NRD. Should CDS become unable or unwilling to continue to operate them, the CSA would have to contract another party to host them.

CDS operates the SEDAR and SEDI national filing systems on behalf of the CSA under agreements with the Alberta Securities Commission, BCSC, Ontario Securities Commission (OSC), and l'Autorité des marchés financiers, together called the CSA Principal Administrators. CDS operates the NRD national filing system under agreements with the CSA Principal Administrators and the Investment Industry Regulatory Organization of Canada Inc. Under the agreements:

- The CSA Principal Administrators must pay CDS if the SEDAR system budgeted operating costs exceed revenues (shortfall). Our portion of any SEDAR shortfall is limited to 15.4%.
- CDS must pay SEDAR revenues in excess of system budgeted operating costs (surplus) to the CSA Principal Administrators. Any surplus is not divisible; the CSA Principal Administrators own it as a group.
- CDS and the CSA Principal Administrators agree to share actual versus budgeted system operating cost (expense) variances equally.

The OSC is holding \$35.2 million (fiscal 2008 - \$23.9 million) in trust, on behalf of the CSA Principal Administrators. The funds are the national filing systems' accumulated surpluses and expenses variances and interest earned on those amounts to March 31, 2009. The CSA Principal Administrators have agreed that we will use these funds only for the benefit of national filing system users through system enhancements or usage fee adjustments.

c) Legal actions

We are involved in legal actions arising from the operation of our business. The outcome and ultimate disposition of these actions are not yet determinable. We do not expect the outcome of any of these proceedings, individually or in total, to have a material impact on our financial position.

**ENFORCEMENT AND
EDUCATION FUND REPORTS**

ENFORCEMENT REPORT

EFFECTIVE ENFORCEMENT REQUIRES KNOWLEDGEABLE PROFESSIONALS WHO ARE ABLE TO DETECT AND RESPOND TO MARKET MISCONDUCT IN AN INCREASINGLY SOPHISTICATED GLOBAL MARKETPLACE.

Market misconduct, including investment fraud, poses a significant risk to the integrity of BC's capital markets. A credible enforcement program is a powerful tool to ensure compliance and deter inappropriate and illegal market conduct, and sends a strong message to the market and public.

PROTECTING INVESTORS AND MARKET INTEGRITY

Our Enforcement division aims to be effective through early intervention, and timely and vigorous pursuit of cases to deter future misconduct. BCSC staff investigate market misconduct, and bring cases forward before Commission panels at administrative hearings. Commission panels have broad powers under the *Securities Act* to take action against market misconduct, including ordering market bans, administrative penalties and the disgorgement of ill-gotten gains. Commission decisions and settlements act as a deterrent to those who seek to harm investors and our capital markets. We also take decisive action through temporary orders to intervene and stop ongoing misconduct. By doing so, we proactively protect investors who might fall victim to fraud or other abusive activity.

COLLABORATIVE ENFORCEMENT

We work with securities regulators in other jurisdictions to reciprocate market bans, share information and conduct investigations. Under BC law, we do not have the power to conduct prosecutions, so we must collaborate with other agencies that can pursue criminal cases in the courts. We also work with the police, Crown Counsel, and financial institutions to create awareness of investment fraud to increase the chances of identifying it in its early stages. By working with others, we attempt to deter misconduct that can damage our capital markets and harm BC and Canadian investors.

During the year, we received 12 formal requests for assistance from US federal and state authorities, including the SEC and the US Commodity Futures Trading Commission (CFTC). We extended six formal requests for assistance to the SEC and CFTC, and seven formal requests to the UK Financial Services Authority and other foreign authorities. We also assisted the Hong Kong Securities and Futures Commission with four registration reviews.

PUBLIC OUTREACH

Awareness and education can help detect, stop, and prevent investment fraud. The enforcement division plays an active role in the BCSC's InvestRight program. Enforcement staff participate in delivering investor fraud courses to police and take part in province-wide education seminars. They also work with Communications & Education staff to issue public warnings through InvestRight Investor Watches about possible fraudulent investment schemes. BCSC staff also communicate through the news media, internet, and face-to-face seminars to increase fraud awareness and reporting.

1

THE ENFORCEMENT PROCESS STARTS WITH A:

- Complaint from an investor or securities industry participant
- Referral from another agency
- Referral from the BCSC's Intelligence and Assessment branch
- Referral from another BCSC division

2

THE BCSC'S INTELLIGENCE AND ASSESSMENT BRANCH REVIEWS EACH COMPLAINT OR REFERRAL AND CAN THEN:

- Resolve and close the file with a caution letter
- Refer it to another agency, for example, a criminal case would be referred to a law enforcement agency
- Refer it to the executive director and Communications & Education division to issue an Investor Alert
- Refer it to the BCSC's Investigation branch
- Refer it to the BCSC's Capital Markets Regulation or Corporate Finance division if it involves a registrant or public company

3

AFTER INVESTIGATING A CASE, THE INVESTIGATION BRANCH CAN:

- Resolve and close the file with a caution letter
- Refer it to the Litigation branch
- Resolve it through a negotiated settlement

4

THE LITIGATION BRANCH REVIEWS EACH CASE AND CAN:

- Pursue it through a hearing before a panel of BCSC commissioners
- Resolve it through a negotiated settlement

In steps 2, 3, and 4, the BCSC can close the file without action if there is insufficient evidence or it is not in the public interest to pursue it.

WE HANDLED 137 COMPLAINTS LAST YEAR. MANY OF THESE REPRESENTED MULTIPLE VIOLATIONS INCLUDING:

- 69 related to unregistered activity
- 58 related to illegal sales of securities
- 36 related to fraud
- 9 related to registrant misconduct
- 64 related to director and officer misconduct
- 39 involved misrepresentations
- 15 related to insider trading
- 30 involved civil disputes outside our mandate
- 20 involved market manipulation allegations

WE BEGAN THE YEAR WITH 11 NOTICES OF HEARING OUTSTANDING. AT YEAR-END, WE HAD 11 NOTICES OF HEARING OUTSTANDING. HERE IS THE ENFORCEMENT ACTIVITY BEGINNING APRIL 1, 2008:

- 7 new notices of hearing (including 1 temporary order)
- 3 decisions finding liability
- 41 sanction decisions (including 38 reciprocal orders)
- 14 settlement agreements

ENFORCEMENT HIGHLIGHTS

We post all notices of hearing, decisions and settlements in the enforcement section of our website, where they are searchable by name and keyword.

Investor alerts and temporary orders

WE USE INVESTRIGHT ALERTS AND TEMPORARY ORDERS TO TRY TO DISRUPT, STOP, AND PREVENT ILLEGAL INVESTMENT ACTIVITIES.

Exchange Bank and Trust Inc.

Victims of two cross-border investment schemes will get a portion of nearly US \$22.6 million that the BCSC froze in Vancouver bank and brokerage accounts.

After a review of claims by a court-appointed receiver and a settlement among the valid claimants, a BC Supreme Court judge ordered that most of the money—approximately US \$15.2 million—go to the SEC for distribution back to victims of illegal investment schemes connected to Edward Durante and Stephen Sayre.

The remaining funds went to other parties in partial settlement of their valid claims, except for approximately US \$1 million that will be paid into the court pending a further order.

In 2000, the BCSC froze the Vancouver bank account of Exchange Bank and Trust Inc., a private investment bank based in Nevis, West Indies, and related accounts at several Vancouver brokerage firms.

The BCSC and SEC traced proceeds of manipulative trading by Durante and Sayre to the Vancouver accounts. The BCSC used this information to obtain the appointment of a receiver. The BCSC worked with the SEC during the court process to ensure money would flow back to investors.

Adcapital Industries Inc., AD Capital U.S. Inc. and Adis Golic

A BCSC panel issued a temporary cease trade order against a Burnaby man and two related companies after investigators seized call sheets, scripts and business records from a Burnaby phone room.

On May 7, 2008, BCSC staff executed simultaneous search warrants at the phone room and at Golic's home. The search teams included RCMP members from the Vancouver Integrated Market Enforcement Team (IMET) and the Burnaby detachment.

Vancouver-based Adcapital Industries Inc., AD Capital U.S. Inc. (Adcapital US)—a Nevada-based corporation with a business address in Burnaby, and Adis Golic, a Burnaby resident and president of Adcapital, were named as respondents in the order and notice of hearing issued on May 28, 2008.

The notice alleges that from November 2007 to May 7, 2008, Adcapital, Adcapital US and Golic operated a phone room that promoted Adcapital US securities to potential investors by telephone. It also alleges that the respondents, through their operation and management of the phone room, illegally traded and distributed securities without a prospectus and proper registration.

A temporary order was issued and extended until a hearing is held and a decision rendered. On March 24, 2009 the panel chair adjourned the hearing generally, pending the outcome of criminal charges against Golic related to the allegations in the notice of hearing.

Criminal cases

As part of our commitment to strengthen criminal enforcement, we continued our program of working with Crown Counsel to pursue criminal charges where warranted. We have dedicated two investigators to work solely on criminal and quasi-criminal cases, and other investigators are available to assist on an ad-hoc basis.

Since April 2008, the Enforcement division has referred four cases to Crown. In two of the cases, charges are approved and others are pending charge approval or trial. Since the program began, there has been one conviction in a case—a 12-month jail term with six months custodial to run concurrently. In fiscal 2009, eight search warrants were executed and nine Criminal Code production orders were issued.

Settlements

IN A SETTLEMENT AGREEMENT, THE PERSON SUBJECT TO THE ALLEGATIONS ADMITS TO MISCONDUCT AND CONSENTS TO AN ENFORCEMENT ORDER, A FINANCIAL PAYMENT, OR ANOTHER APPROPRIATE REMEDY.

Wellspring Capital Group Ltd. and Springpay Systems

Wellspring Capital Group Ltd. and Springpay Systems, two companies that had Vancouver offices, agreed to admit that about \$440,000 frozen by the BCSC is the proceeds of unlawful activity in any civil proceedings initiated by the Civil Forfeiture Office (CFO).

They also agreed to consent to court orders that would give the CFO custody of the money as well as consent to variations of the freeze orders as may be required for restitution to Canadian investors.

During a period of almost seven months in 2003, Wellspring offered investment programs to residents in BC and elsewhere in Canada that promised returns on people's investments through legitimate business transactions. Wellspring representatives told investors that the programs would generate investment returns through sophisticated investments, including overnight transactions with high interest rates. This was untrue. In fact, the companies made scheduled payments to the investors with subsequent investor funds, operating the programs as Ponzi schemes.

Canadian investors made payments for their investments through accounts managed by Springpay. In all, 38 BC residents and 153 people from other parts of Canada, invested about \$570,000 in the programs.

In addition to the fraud admission in the settlement, the two companies further admitted to trading and distributing securities without being registered or filing a prospectus. Both companies were ordered to cease trading in and are prohibited from purchasing any securities in BC.

Canadian Rockport Homes Int'l, Inc., William Malone and Nelson Riis

William Malone and Nelson Riis admitted that a start-up company they managed made unreasonable financial projections and misleading claims about its business prospects.

From January 2002 to September 2005, Canadian Rockport Homes Int'l, Inc. (Rockport) raised about US \$4.4 million from investors in BC and elsewhere. At the time of the distributions, Malone was the chairman, CEO and president, and Riis was an officer and director of Rockport.

In a settlement agreement with the BCSC, Malone and Riis admitted that Rockport made unreasonable financial projections in its offering documents. Rockport also made the projections in an executive summary and in business plans, which it provided to potential investors.

Malone and Riis also admitted Rockport made overly optimistic and misleading claims in its executive summary and business plans as well as in shareholder newsletters. As officers and directors of Rockport, Malone and Riis authorized, permitted or acquiesced in Rockport's contraventions.

Under the settlement agreement, Malone cannot act as a director or officer of any issuer or engage in investor relations for three years. He was permitted to remain an officer and director of Rockport subject to the approval of Rockport's shareholders. Malone must also pay \$50,000.

Riis is prohibited from acting as a director or officer of any issuer or engaging in investor relations for two years. Riis must also pay \$40,000.

FINDINGS, HEARINGS AND DECISIONS

FOLLOWING A HEARING, IF A COMMISSION PANEL FINDS THAT ALLEGATIONS OF MISCONDUCT ARE PROVEN, THE COMMISSIONERS CAN MAKE ENFORCEMENT ORDERS, IMPOSE FINANCIAL PENALTIES OR ORDER THE DISGORGEMENT OF ILL-GOTTEN FUNDS.

Hypo Alpe-Adria-Bank (Liechtenstein) AG

In May 2008, a BCSC panel ordered Hypo Alpe-Adria-Bank (Liechtenstein) AG, a European bank that held accounts at 11 BC investment dealers that the panel said were used for suspicious trading, to permanently cease trading in any securities or exchange contracts in BC.

From November 2006 through August 2007, Hypo Alpe-Adria-Bank (Liechtenstein) AG traded through its accounts at the 11 BC dealers a total volume of about 463 million shares, representing about \$165 million in value. Over 90 per cent of this volume was in shares of issuers quoted on the US OTCBB or the Pink Sheets, with almost all of the total volume in sales. Some of the trades were in securities of issuers that were the subject of unsolicited promotional emails, or “spam.”

During their investigation of this trading, BCSC staff were unable to identify the beneficial owners of the shares traded in the Hypo Bank accounts because the bank said Liechtenstein bank secrecy laws prevented it from providing BCSC staff investigators with that information.

The panel referred to an earlier Commission decision holding that the banking secrecy laws of foreign jurisdictions cannot serve as a shield against the legitimate exercise by the Commission of its powers to enforce securities regulation in BC.

Virtual Community Exhibitions Inc. and Ralph Kelly

On October 21, 2008, a BCSC panel found that Ralph Kelly, a Parksville resident and the former president of Virtual Community Exhibitions Inc. (VCE), committed a fraud when he deceived BC investors into buying VCE shares and then deliberately converted more than 50 per cent of the money for his own use.

Between May 2001 and June 2003, Kelly promoted, offered and sold \$418,000 worth of shares of VCE to 58 BC investors.

In promotional materials and direct discussions with investors, Kelly stated that VCE and its affiliated companies would create an online tradeshow and an advertising website with product purchasing and delivery features. Kelly presented materials to investors that projected revenues of \$38 million based on 35 virtual exhibition events scheduled between March 2002 and March 2003. These were all lies.

Kelly also represented to investors that VCE would buy back their shares, at their option, one year from the date of purchase at a 20 per cent premium. At the panel hearing, investors testified the repurchase agreement was the most important factor in their decision to invest.

In the end, VCE did not buy back the shares and BC investors lost their investment.

In its decision, the panel ordered that Kelly be permanently prohibited from trading or purchasing securities in BC, that Kelly pay a \$200,000 administrative penalty, and that Kelly disgorge for the benefit of the investors his ill-gotten gains of \$242,153.60.

Henry Jung, David John Allen and Reginald Clarke Handford

On Nov. 5, 2008, a Commission panel found that Henry Jung, a chartered accountant, failed to file insider trading reports for hundreds of trades totalling about 5.7 million shares of Bright Star Ventures Ltd., an issuer formerly listed on the TSX-V. The panel also found that Jung illegally traded in and distributed just under \$3 million of debentures to 130 investors in seven Canadian provinces.

Although Jung contended that he was merely Bright Star’s office manager, the panel found he was a *de facto* director and officer, as he made most of the management and operational decisions related to Bright Star, and did everything significant in connection with the issuer’s financing.

In addition to the \$70,000 administrative penalty, the panel ordered that Jung be prohibited, with limited exceptions, for 15 years from trading securities and from becoming or acting as a director or officer of any issuer, registrant or investment fund manager. The panel also banned Jung for 15 years from becoming or acting as a registrant, investment fund manager or promoter, engaging in investor relations activities, and acting in a management or consultative capacity in connection with the securities market.

The panel found that the other two respondents, David John Allen and Reginald Clarke Handford, did not contravene the *Securities Act*.

BCSC EDUCATION FUND

THE BCSC ESTABLISHED AN EDUCATION FUND IN 1991 TO RECEIVE REVENUE FROM ADMINISTRATIVE PENALTIES IMPOSED ON MARKET PARTICIPANTS WHO VIOLATE SECURITIES LEGISLATION. UNDER THE *SECURITIES ACT*, WE MAY SPEND THIS MONEY ONLY ON INVESTOR AND INDUSTRY EDUCATION.

During the year, we focused our investor education activity, and education fund disbursements, on three broad objectives:

- Creating awareness and reporting of investment fraud
- Encouraging people to protect themselves and invest wisely
- Promoting our role as an educator

We list education fund disbursements on our website.

CREATING AWARENESS AND REPORTING OF INVESTMENT FRAUD

During the year, we used advertising, social media, website optimization, and proactive media relations to reach investors and encourage them to visit our investor education website, InvestRight.org.

THIS YEAR, WE ADDED THE *LET'S TALK ABOUT INVESTING* BLOG TO THE INVESTRIGHT WEBSITE, AS WELL AS A NEW MUTUAL FUND SECTION AND *GUIDE TO INVESTING: HOW TO WORK WITH YOUR INVESTMENT ADVISOR*.

Our advertising campaigns targeted investors in BC regions known to have experienced investment fraud, as well as the large Chinese and South Asian communities in the Lower Mainland. We saw website visits nearly equal the previous year's totals¹ by fiscal year-end. There were also 5,276 downloads of the *Guide to Investing* from its launch on Oct. 21, 2008 to Mar. 31, 2009.

ENCOURAGING PEOPLE TO PROTECT THEMSELVES AND INVEST WISELY

We spend a significant proportion of our education fund disbursements to support the InvestRight seminar program and a variety of targeted partnerships with community-based organizations that help us take our investor protection message to many BC regions.

DURING THE YEAR, BCSC STAFF PRESENTED 31 INVESTRIGHT SEMINARS TO 1,754 PEOPLE AND ATTENDED EIGHT TRADE SHOWS.

Our partners include the Better Business Bureaus of Mainland BC and Vancouver Island, the BC Crime Prevention Society, the Canadian Conference of Mennonite Brethren Churches (Mennonite Brethren), the Smart Cookies, CUPE and two pastors known as "God's Fraud Squad".

PROMOTING OUR ROLE AS AN EDUCATOR

Teaching financial life skills and raising awareness about their importance is a priority for the BCSC. Financial life skills are the ability to manage money with knowledge and confidence throughout one's life.

¹ InvestRight visits are measured from October 1 to end September 30.

The website was launched in October 2006.

In September 2008, the Financial Consumer Agency of Canada (FCAC) and the BCSC launched *The City*, a web-based, bilingual financial education resource that is available to students, teachers and other interested persons across Canada. *The City* was modeled on the BCSC's award-winning teacher resource that was developed for educators who teach Grade 10 students the Planning 10: Finances course, which is mandatory in BC high schools. The resource is used in all 60 of BC's school districts and has been delivered to more than 1,400 teachers since it was introduced in November 2004.

To promote and market *The City*, we partnered with the Smart Cookies, five well-known television hosts and best selling authors. Members of the Smart Cookies gave financial literacy seminars to students, teachers, and future educators in communities around the province.

In fiscal 2009, we also continued our research partnership with the Okanagan School District to assess the long-term impact of Planning 10: Finances. The Graduate Outcomes Survey delivered a number of findings:

- The 2008 graduates said they learned more about managing their finances in high school compared to the 2006 graduates. On a scale of one to four (one being nothing and four being a great deal), the average for all graduates was 2.11. The average of the 2006 graduates was only 1.84, while the average for 2008 graduates was 2.33.
- Graduates were confident of their money management skills, but not overconfident. Asked to grade themselves as money managers on a scale of one to five, with five being excellent, the respondents averaged 3.58.
- When asked about their high school preparation for managing finances, graduates reported the highest satisfaction rating (30 per cent) in six years - 29 per cent were dissatisfied and 41 per cent were neutral.

RESOURCES FOR INVESTORS

If you have questions regarding your financial adviser, investment firm, or an investment type, or if you would like to make a complaint, please call our Inquiries Group at **604.899.6854**. Outside the greater Vancouver area: **1.800.373.6393**
Email: inquiries@bcsc.bc.ca.

The BCSC's **InvestRight** website (www.investright.org) offers a range of tools to help investors develop critical thinking skills. The site also enables visitors to conduct background checks, and provides information on a variety of investment products, and links to videos in which victims impacted by fraud tell their personal stories.

The **BCSC** corporate website (www.bcsc.bc.ca) offers information to promote understanding of the financial system and to help investors make financial decisions. The information is not a substitute for financial or other professional advice. Always consult a professional adviser if you need financial advice.

For information about public companies and mutual funds, visit the **SEDAR** website: www.sedar.com

For information about insider trading activity and viewing insider reports online, visit the **SEDI** website: www.sedi.ca

*You can download this annual report from the publications section of the website.
The online version of this report contains hyperlinks to BCSC databases, a glossary of terms, and further information pertaining to certain sections of the report.*



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BRITISH COLUMBIA SECURITIES COMMISSION

PO Box 10142, Pacific Centre
Suite 1200 - 701 West Georgia Street
Vancouver, BC V7Y 1L2
T. 604 899 6500
F. 604 899 6506