Management's Discussion and Analysis

For the Year Ended March 31, 2010

We prepared this discussion and analysis of financial position and results of operations of the British Columbia Securities Commission (BCSC) on May 14, 2010. Read it in conjunction with our audited financial statements and related notes for the year ended March 31, 2010.

We prepared the financial information in this report in accordance with Canadian generally accepted accounting principles. We report in Canadian dollars.

Internal control over financial reporting

We believe that our internal practices should, when relevant, conform to the standards we require of public companies. Recognizing the importance of high quality, reliable and transparent financial reporting, the Audit Committee and management decided to implement the reporting issuer provisions of National Instrument 52-109 with respect to internal control over financial reporting (ICFR). This led to a process of research and planning, identification of risk areas, review and documentation of controls, testing of controls for effectiveness and identification of areas for improvement. This process involved BCSC staff and management, with the assistance of external resources.

We have revised our disclosure of management's responsibility for the financial statements to include an appropriate certification. Our evaluation of the effectiveness of ICFR uncovered one control gap with the potential to materially affect ICFR. The gap is an outdated business continuity plan. We are now updating the plan.

Nature of operations

We are the provincial crown corporation responsible for regulating BC capital market activity.

We do not receive transfers from government tax revenues. Instead, fees charged to securities market participants fund our operations. Revenues fluctuate with market activity while most of our costs are fixed. Salaries, benefits, and occupancy costs account for more than 85% of operating expenses.

As a government agency, we are exempt from income taxes and the GST. Effective July 1, 2010, we will be subject to the HST. The net effect of this change is not determinable at this time.

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

Strategic Goal	Fiscal 2010	Fiscal 2009
Promote a culture of compliance	36%	36%
Act decisively against misconduct	38%	37%
Educate investors	9%	10%
Advance cost effective regulation	17%	17%

Revenue sources (We discuss Education reserve revenues separately, on page XX)

More than 95% of our operational funding comes from filing, registration, and application fees paid by market participants under the *Securities Act*. The remainder of our operational funding comes from investment income and enforcement cost recoveries, if any.

A large part of our fee revenue comes from fees paid by mutual funds to distribute securities and file financial statements, and fees paid by the five largest Canadian banks to register their representatives.

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

We collect the following fees:

		Proportion of fee revenue	
Category	**Source**	**Fiscal 2010**	**Fiscal 2009**
Distribution fees	Public companies, private companies and mutual funds, to file disclosure documents	53%	53%
Registration fees	Firms and individuals, to register with us to sell or advise on securities	31%	32%
Financial filing fees	Public companies and mutual funds, to file annual and interim financial statements	15%	14%
Other fees	Market participants, primarily to request *Securities Act* exemptions	1%	1%

Distribution fees

Distribution fee revenues vary depending on the number and size of securities offerings. The largest share of distribution fee revenue comes from prospectuses[1], exempt distribution reports[2] and annual information forms[3]. Issuers pay fees to file these documents. When gross sales under a prospectus and an exempt offering exceed $7.5 million and $0.3 million, respectively, an additional fee, called a "percent of proceeds fee," may be payable.

Our revenue from distribution fees falls significantly during weaker markets because fees related to gross sales account for about half of distribution fee revenue.

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[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) permit investors to have access to all information about the proposed transaction that could affect their purchase decision.

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

More than half of distribution fee revenue relates to fees from 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 grow modestly most years.

Financial filing fees

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

Other fees

Other fees are mostly exemption application filing fees. Other fees account for a small proportion of fee revenue and are not growing.

Enforcement cost recoveries

Enforcement cost recoveries are comprised of hearing cost recoveries and amounts designated under settlements as cost recoveries. We no longer assess cost recoveries, but vigorously pursue outstanding amounts. Collecting cost recoveries is difficult because respondents often have limited assets, poor credit or have left BC. Since our incorporation on April 1, 1995, we have collected $4.1 million (68%) of $6.0 million assessed. We have not recognized as revenue any of the outstanding $1.9 million because collectability 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.

Expenses

Salaries, benefits, and occupancy costs account for about 85% of our expenses.

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 unbudgeted expenses, and continually improving our processes.

Management's Discussion and Analysis

For the Year Ended March 31, 2010

Consolidated highlights

(millions)	Three Months Ended March 31 2010	Budget	2009	For the year ended March 31 2010	Budget	2009
OPERATIONS						
Revenues						
Regulatory fees	7.9	6.2	7.2	30.8	27.4	30.5
Investment income and cost recoveries	0.1	0.1	0.1	0.3	0.5	1.2
	8.0	6.4	7.3	31.1	27.9	31.6
Expenses						
Salaries and benefits	6.0	5.6	6.0	23.1	22.5	22.6
Other expenses	1.9	1.7	2.1	6.9	7.0	7.2
	7.8	7.3	8.1	29.9	29.5	29.8
Excess (deficiency) of revenue - operations	**0.2**	**(1.0)**	**(0.8)**	**1.2**	**(1.7)**	**1.9**
EDUCATION RESERVE						
Enforcement sanctions and investment income	-	0.1	0.2	0.3	0.2	0.4
Education program disbursements	0.4	0.5	0.1	0.9	1.2	0.7
Deficiency of revenue - education	(0.4)	(0.4)	-	(0.6)	(1.0)	(0.2)
CONSOLIDATED EXCESS (DEFICIENCY) OF REVENUE	**(0.2)**	**(1.4)**	**(0.8)**	**0.6**	**(2.6)**	**1.6**

ACCUMULATED SURPLUSES	Mar '10	Mar '09
General	10.3	9.1
Fee stabilization reserve	15.0	15.0
Education reserve	3.1	3.7
	28.3	**27.8**

Quarterly consolidated deficiency was $0.2 million, $0.6 million better than last year and $1.2 million better than expected. The improvement was due primarily to higher than expected securities distribution activity.

Global economic events reduced BC capital market activity in the fall of 2008. Prospectus and other distribution activity dropped significantly and remained stagnant for several quarters. In preparing our fiscal 2010 budget, we lowered our revenue projections to reflect a much lower level of expected market activity, and lower investment income. As a result, we anticipated running operating deficits in each quarter of fiscal 2010. Investment income did decline, and more than expected. However, distribution revenue did not decline, buoyed by strong non-mutual fund and exempt market activity beginning in the second quarter.

Quarterly Education reserve activities generated a $0.4 million deficit, worse than the comparative quarter but in line with expectations. Most education spending relates to the development of financial literacy materials and an ongoing radio campaign.

Consolidated excess revenue for the year was $0.6 million, a $1.1 million decrease from last year but $3.2 million ahead of budget.

Operating results were negatively impacted by very weak market activity in the first quarter, by lower investment returns due to historically low interest rates, and by higher salary expenses. However, operating results for the year are $2.9 million stronger than anticipated, primarily due to higher than expected distribution activity in the second, third and fourth quarters.

Education spending for the year increased $0.3 million but was $0.3 million below expectations. The increase relates primarily to a redesign of financial literacy materials for youth. That work, which we had originally expected to complete in fiscal 2010, will continue into fiscal 2011.

We ended the year with $36.5 million in cash and cash equivalents, a $1.1 million (3%) increase from last year. Fiscal 2010 excess revenue net of depreciation, a non-cash item, offset accounts receivable increases and $0.3 million of capital additions.

Detailed analysis of quarterly operating results (See page XX for Education reserve discussion)

(thousands)	Quarter ended March 31							
	Actual versus Budget				Actual versus Last Year			
Operations	Mar. '10	Budget	Variance	%	Mar. '10	Mar. '09	Variance	%
Revenues	$ 8,014	$ 6,356	$ 1,658	26%	$ 8,014	$ 7,328	$ 686	9%
Expenses	7,829	7,317	512	7%	7,829	8,119	(290)	-4%
Excess (deficiency)	$ 185	$ (961)	$ 1,146	119%	$ 185	$ (791)	$ 976	123%

Quarterly operating results generated a $0.2 million surplus, $1.0 million higher than last year and $1.1 million better than expected. We expected distribution filing activity to decline significantly from the prior year due to soft market conditions. However, market activity was much stronger than anticipated and distribution fee revenue increased. This increase in revenue was partially offset by lower investment income. Expenses were lower than the prior year due to lower depreciation and software licensing costs. Expenses were higher than expected primarily due to a lower staff vacancy rate and higher legal consulting costs. We discuss revenues and expenses in more detail below.

Quarterly revenue

(thousands)	Quarter ended March 31							
	Actual versus Budget				Actual versus Last Year			
Operations	Mar. '10	Budget	Variance	%	Mar. '10	Mar. '09	Variance	%
Distribution	$ 3,741	$ 2,397	$ 1,344	56%	$ 3,741	$ 3,131	$ 610	19%
Registration	2,185	2,157	28	1%	2,185	2,143	42	2%
Fin. Filing	1,951	1,639	312	19%	1,951	1,880	71	4%
Other	57	50	7	14%	57	41	16	39%
Inv. Income	80	113	(33)	-29%	80	133	(53)	-40%
	$ 8,014	$ 6,356	$ 1,658	26%	$ 8,014	$ 7,328	$ 686	9%

Quarterly operating revenue was $1.7 million ahead of budget:

- Distribution revenue was $1.3 million higher than expected. We expected prospectus and exempt distribution fees to fall. Instead, exempt distribution and non-mutual fund prospectus activity increased significantly, while mutual fund activity fell less than expected.
- Financial filing revenue was $0.3 million higher than expected, due primarily to the timing of financial filings.

Quarterly operating revenue increased $0.7 million from the prior year:

- Distribution revenue increased $0.6 million due primarily to $0.3 million (33%) higher exempt distribution report fees, $0.1 million (24%) higher non-mutual fund prospectus fees, and $0.2 million (27%) higher annual information form fees. Capital raising activity in the mining sector drove much of the increases in exempt market and non-mutual fund prospectus fees. Fees from mutual fund prospectuses declined 3% to $0.8 million.

Quarterly expenses

(thousands)	Quarter ended March 31							
	Actual versus Budget				Actual versus Last Year			
Operations	Mar. '10	Budget	Variance	%	Mar. '10	Mar. '09	Variance	%
Salaries	$ 5,970	$ 5,603	$ 367	7%	$ 5,970	$ 5,971	$ (1)	0%
Prof. Fees	597	377	220	58%	597	603	(6)	-1%
Deprec.	255	263	(8)	-3%	255	386	(131)	-34%
Occupancy	464	537	(73)	-14%	464	483	(19)	-4%
Info. Mgmt.	148	165	(17)	-10%	148	308	(160)	-52%
Other	395	372	23	6%	395	368	27	7%
	$ 7,829	$ 7,317	$ 512	7%	$ 7,829	$ 8,119	$ (290)	-4%

Quarterly operating expenses were $0.5 million higher than budget:

- Salary costs were $0.4 million higher than expected due primarily to a lower vacancy rate.
- Professional fees were $0.2 million higher than expected due to higher enforcement litigation and national project costs.

Quarterly operating expenses decreased $0.3 million over the prior year:

- Depreciation is $0.1 million lower than the comparative quarter due to lower additions.
- Information management expenses are $0.2 million lower due to lower records storage and software licensing costs.

Detailed analysis of operating results for the year (We discuss Education reserve results separately, on page XX)

(thousands)

	Year Ended March 31							
	Actual versus Budget				Actual versus Last Year			
Operations	Mar. '10	Budget	Variance	%	Mar. '10	Mar. '09	Variance	%
Revenues	$ 31,120	$ 27,850	$ 3,270	12%	$ 31,120	$ 31,636	$ (516)	-2%
Expenses	29,933	29,535	398	1%	29,933	29,776	157	1%
Excess (deficiency)	$ 1,187	$ (1,685)	$ 2,872	170%	$ 1,187	$ 1,860	$ (673)	-36%

Excess of revenue

Excess revenue from operations fell $0.7 million (36%) versus last year, to $1.2 million. Results were $2.9 million higher than budgeted. In preparing our budget for fiscal 2010, we lowered our revenue projections to reflect a much lower level of expected market activity. Mutual fund activity fell. However, market activity recovered much more quickly than anticipated. Operating expenses increased $0.2 million (1%) versus last year, to $29.9 million. We discuss revenues and expenses in more detail below.

Revenues

(thousands)

	Year Ended March 31							
	Actual versus Budget				Actual versus Last Year			
Operations	Mar. '10	Budget	Variance	%	Mar. '10	Mar. '09	Variance	%
Distribution	$ 16,249	$ 12,900	$ 3,349	26%	$ 16,249	$ 16,019	$ 230	1%
Registration	9,619	9,700	(81)	-1%	9,619	9,636	(17)	0%
Fin. Filing	4,742	4,600	142	3%	4,742	4,599	143	3%
Other	227	200	27	14%	227	252	(25)	-10%
Inv. Income	283	450	(167)	-37%	283	1,130	(847)	-75%
	$ 31,120	$ 27,850	$ 3,270	12%	$ 31,120	$ 31,636	$ (516)	-2%

Operating revenue was $3.3 million higher than budget:

- Distribution revenue was $3.3 million higher than expected. We expected a significant drop in market activity during fiscal 2010. Instead, non-mutual fund prospectus and exempt distribution activity increased while mutual fund prospectus proceed fees did not decline as much as expected. Fees related to non-mutual fund prospectus, exempt distribution, and mutual fund prospectus filings are $1.6 million, $1.2 million, and $0.1 million higher than expected, respectively. Annual information form fees and prospectus amendment fees are each $0.2 million higher than expected.
- Financial filing revenue was $0.1 million higher than expected due to the timing of filings.
- Investment income was $0.2 million lower than expected because of lower returns achieved in our bond portfolio and lower interest rates earned on cash deposits and short term holdings.

Operating revenue was $0.5 million lower than the prior year:

- Investment income decreased $0.8 million because of lower returns achieved in our bond portfolio and lower interest rates earned on cash deposits and short term holdings. The effective yield on our investments was 0.9% in the current year, versus 3.7% for the prior year.
- Distribution revenue increased $0.2 million to $16.2 million. Every category of distribution revenue increased significantly except fees related to mutual fund distributions. As noted above, most of the increase in market activity relates to robust capital raising activity in the mining sector. Fees related to non-mutual fund prospectus and exempt distribution filings increased $0.6 million (20%) and $0.3 million (14%), respectively. Fees related to annual information form and prospectus amendment filings increased $0.3 million (14%) and $0.1 million (48%), respectively. Mutual fund prospectus fees declined $1.1 million (12%). Mutual fund distribution activity remained depressed through the first and second quarters of 2010 before beginning to recover in the last two quarters of the year.

Expenses

(thousands)	Year Ended March 31							
	Actual versus Budget				Actual versus Last Year			
Operations	Mar. '10	Budget	Variance	%	Mar. '10	Mar. '09	Variance	%
Salaries	$ 23,066	$ 22,500	$ 566	3%	$ 23,066	$ 22,576	$ 490	2%
Prof. Fees	2,066	1,600	466	29%	2,066	2,032	34	2%
Deprec.	1,038	1,050	(12)	-1%	1,038	1,000	38	4%
Occupancy	1,967	2,150	(183)	-9%	1,967	1,977	(10)	-1%
Info. Mgmt.	579	750	(171)	-23%	579	798	(219)	-27%
Other	1,217	1,485	(268)	-18%	1,217	1,393	(176)	-13%
	$ 29,933	$ 29,535	$ 398	1%	$ 29,933	$ 29,776	$ 157	1%

Operating expenses were $0.4 million (1%) higher than budget:

- Salary costs were $0.6 million higher than expected due primarily to a lower than expected vacancy rate and higher severance costs.
- Professional fees were $0.5 million higher than expected due to higher enforcement litigation and national project costs.
- Occupancy costs were $0.2 million lower than plan due to a reduction in building operating costs.
- Information management costs were $0.2 million lower than plan primarily due to lower enforcement records storage costs and lower software licensing costs.
- Other expenses were $0.3 million lower than plan due to lower external communication ($0.2 million) and training costs ($0.1 million). External communication costs declined because of lower securities policy publication costs and lower "Capital Ideas" industry conference expenses.

Operating expenses increased $0.2 million from the prior year:

- Salaries increased $0.5 million (2%). Average staff size increased 3% due to new compliance and investigation positions. Position vacancies declined. Performance-based merit increases effective April 1, 2009 averaged 2.5%.
- Information management expenses were $0.2 million lower primarily due to lower records storage costs and software licensing costs.
- Other expenses were $0.2 million lower primarily due to lower external communications and training costs as noted above.

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 weak market activity and higher operating costs, operating expenses exceeded operating revenue in all but the first quarter of fiscal 2009. Improving market activity in fiscal 2010 resulted in operating revenues exceeding operating expenses in all but the third quarter.

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

	Fiscal 2010				Fiscal 2009			
(thousands)	Mar.	Dec.	Sept.	June	Mar.	Dec.	Sept.	June
Operations								
Revenues	$ 8,014	$ 6,948	$ 7,345	$ 8,812	$ 7,328	$ 7,049	$ 6,861	$ 10,399
Expenses	7,829	7,382	7,304	7,417	8,119	7,283	7,134	7,240
Excess (deficiency)	$ 185	$ (434)	$ 41	$ 1,395	$ (791)	$ (234)	$ (273)	$ 3,159
Education Reserve								
Revenues	$ 32	$ 31	$ 219	$ 7	$ 159	$ 80	$ 110	$ 93
Disbursements	382	215	124	191	146	231	125	152
Excess (deficiency)	$ (350)	$ (184)	$ 95	$ (184)	$ 13	$ (151)	$ (15)	$ (59)
Consolidated								
Excess (deficiency)	$ (165)	$ (618)	$ 136	$ 1,211	$ (778)	$ (385)	$ (288)	$ 3,100

Education reserve

Reserve purpose

We use Education reserve funds only to educate securities market participants and 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 portion of investment portfolio income to the Education reserve.

Enforcement sanctions

We order administrative penalties and disgorgements[4] under the *Securities Act.* We also negotiate settlement amounts. Enforcement sanctions, which depend on the timing and nature of enforcement actions, vary significantly between periods. Of the $79.8 million sanctioned since our incorporation on April 1, 1995, $29.6 million relates to disgorgement orders.

We recognize in revenue sanctions we determine are collectible. We then appropriate these revenues to our Education reserve.

Collecting sanctions is difficult because respondents often have limited assets, have poor credit, or have left BC. Since our incorporation in April 1995, we have collected $9.4 million (12%) of $79.8 million sanctioned and pursue outstanding amounts vigorously. However, of the $70.4 million outstanding, only $0.1 million is likely collectible and accrued in our financial statements. About 84% of the $70.4 million outstanding relates to two cases.

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.

Education reserve revenue and expense summary

(thousands)	Quarter ended March 31		For the year ended March 31	
Enforcement sanctions	2010	2009	2010	2009
Current period sanctions	$ 29	$ 167	$ 42,291	$ 678
Uncollectible portion of sanctions not recognized as revenue	-	(70)	(42,037)	(512)
Recovery of uncollectible sanctions from prior periods	-	2	-	97
	$ 29	$ 99	$ 254	$ 263
Investment income allocated to education reserve	3	60	34	180
Total revenue appropriated to the education reserve	$ 32	$ 159	$ 288	$ 443
Education reserve disbursements	382	146	912	654
Net change in education reserve	$ (350)	$ 13	$ (624)	$ (211)
Education reserve ending balance	$ 3,054	$ 3,677	$ 3,054	$ 3,677

Education revenue is volatile and varies from period to period, for the reasons discussed above.

During the year, following a hearing, a commission panel permanently banned four BC residents from the market, and ordered them to pay $26 million in penalties and to disgorge $16 million for their misconduct. We are vigorously pursuing collection of these amounts, but the likelihood of collection is low, so we have not recognized these amounts in revenue.

For the quarter, the net education reserve outflow of $0.4 million was as expected. Education expenses related primarily to a continuing radio campaign, updating materials for a high school education program (Planning 10) and Investright.org website enhancements.

For the year, the net education reserve outflow of $0.6 million was lower than expected, but higher than the comparative period. Education expenses related primarily to projects noted above. Some Planning 10 expenses will occur in fiscal 2011 rather than fiscal 2010.

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. Our investments do not expose the BCSC to material credit or market risk because we invest in liquid, high quality money market instruments and government securities. Liquidity risk is low because our investments are in pooled fund units redeemable on demand and without penalty. We manage interest rate risk by monitoring portfolio duration and yields with the fund administrator, bcIMC.

Liquidity

Cash flow was positive for the year, at $1.1 million (fiscal 2009 - $2.4 million). Cash flow was lower than the previous year due primarily to lower investment income and higher staffing costs from salary increases and new positions. Capital purchases declined $0.4 million because we reduced capital spending to lessen the impact of the market downturn. We ended the year with $36.5 million (fiscal 2009 - $35.4 million) of cash and cash equivalents.

As discussed, our fee model results in surpluses and deficits over the business cycle because revenues fluctuate while our costs are mainly fixed. We have sufficient liquidity and capital resources to fund operations through a sustained market downturn:

- our cash equivalent assets are redeemable immediately without penalty
- we have working capital of $8.4 million (March 31, 2009 - $6.5 million)
- we can draw on our $15 million fee stabilization reserve if necessary

Assets

Amounts receivable increased to $0.7 million (March 31, 2009 - $0.3 million), due in part to cost recoveries due from the CSTO (Canadian Securities Regulation Regime Transition Office) for employee secondments, start-up expenses, and procurement and accounting support on a cost-recovery basis. The remainder of the receivables increase is due primarily to an increase in accrued late insider report filing fees, due to the timing of billing.

Capital assets were $1.9 million (March 31, 2009 - $2.7 million). The decrease is due to amortization ($1.0 million) being only partly offset by capital purchases ($0.3 million).

Liabilities

Accounts payable and accrued liabilities remained flat.

Accrued salaries increased $0.2 million to $2.9 million (March 31, 2009 – $2.7 million). We paid out fiscal 2009 performance incentives in May 2009 and accrued for fiscal 2010 performance incentives.

Deferred revenue increased to $6.7 million (March 31, 2009 – $6.6 million). Deferred revenue is calendar year registration fees received in advance and amortized to income over the calendar year to which they relate.

Contractual obligations

Our significant contractual obligations at March 31, 2010 are:

(millions)	Total	< 1 year	2 - 3 years	4 - 5 years	> 5 years
Rent and operating costs (net of sublease recoveries)	3.6	2.2	1.4	-	-

Risks and opportunities

Securities regulatory reform

We have 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 proposed a 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. Implementation of Passport-related changes did not materially affect operations.

The debate on restructuring Canadian securities regulation continues. We expect the BCSC to remain a going concern while participating governments consider whether to implement a different regulatory structure.

Fee revenue

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 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 electronic filing systems and operating agreements

CDS operates the SEDAR and SEDI national filing systems on behalf of the CSA under agreements with the Alberta Securities Commission, British Columbia Securities Commission, 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 $49.1 million (March 2009 - $35.2 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, 2010. 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.

In fiscal 2010, the CSA began a national project to redevelop SEDAR and SEDI. As at March 31, 2010, payments related to the systems redevelopment project totalled $82,184. The CSA has entered into a professional services contract, totalling $750,000, to design a national filing system Enterprise Architecture. The contractor (Fujitsu) has submitted an invoice for $187,600.

Accounting policy changes

Effective April 1, 2009, we retroactively adopted new handbook section 3064 "Goodwill and Intangible Assets". We describe this standard and the impact its adoption has on our financial disclosure in note 2 of the financial statements.

Effective January 1, 2010, we adopted amendments to Section 3862 "Financial Instruments – Disclosure". The amendments add disclosures about fair value measurements for financial instruments and liquidity risk. We added the required disclosures to note 3 of the financial statements.

Public Sector Accounting Standards (PSAB) transition

The BCSC is an "other government organization" (OGO) under public sector accounting rules. OGOs may follow either public sector (PSAB) or publicly accountable enterprise (Blue Book) GAAP. We currently follow Blue Book GAAP.

Blue Book GAAP will converge with IFRS (International Financial Reporting Standards) for fiscal years beginning on or after January 1, 2011. However, the BC government requires the BCSC to transition to PSAB instead of IFRS.

We have reviewed PSAB standards. Our review did not identify the need for material accounting adjustments to become PSAB compliant. We will report our fiscal 2012 financial results in compliance with PSAB.

Outlook

The actual impact of the market downturn on operations was not as severe as we forecast in our updated fiscal 2010 Service Plan. We expect market activity to retreat modestly in fiscal 2011 before strengthening in subsequent years. We plan no significant staff increases.

Selected annual information

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

	2006	2007	2008	2009	2010		2011	2012	2013
(millions)	Audited	Audited	Audited	Audited	Audited	Budget	Forecast	Projection	Projection
OPERATIONS									
Revenues									
Regulatory fees	28.2	30.5	32.5	30.5	30.8	27.4	30.0	31.5	33.8
Investment income and cost recoveries	0.5	1.1	1.3	1.1	0.3	0.5	0.5	1.0	1.3
	28.7	31.6	33.8	31.6	31.1	27.9	30.5	32.6	35.1
Expenses									
Salaries and benefits	20.2	21.2	21.6	22.6	23.1	22.5	24.1	24.3	25.5
Other operating expenses	7.2	7.3	6.8	7.2	6.9	7.0	7.4	7.5	7.7
	27.4	28.5	28.4	29.8	29.9	29.5	31.5	31.8	33.2
Excess (deficiency) of revenue - operations	**1.3**	**3.1**	**5.4**	**1.9**	**1.2**	**(1.7)**	**(1.1)**	**0.8**	**2.0**
EDUCATION RESERVE									
Revenues									
Enforcement sanctions and investment income	0.8	1.5	1.1	0.4	0.3	0.2	0.4	0.4	0.4
Education program disbursements	1.2	0.6	0.5	0.7	0.9	1.2	0.9	0.9	0.9
Excess (deficiency) of revenue - education	**(0.4)**	**0.9**	**0.6**	**(0.2)**	**(0.6)**	**(1.0)**	**(0.5)**	**(0.5)**	**(0.5)**
Consolidated excess (deficiency) of revenue	**0.9**	**4.0**	**6.0**	**1.6**	**0.6**	**(2.6)**	**(1.6)**	**0.3**	**1.5**
Assets									
General surplus	1.7	3.8	7.2	9.1	10.3	7.4	9.2	10.0	12.0
Fee stabilization reserve	12.0	13.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
Education reserve	2.4	3.3	3.9	3.7	3.1	2.7	2.5	1.9	1.4
	16.1	20.1	26.1	27.8	28.3	25.1	26.7	27.0	28.4
Total assets	25.8	30.0	36.7	38.7	39.6	35.9	37.4	37.9	39.7
Debt	-	-	-	-	-	-	-	-	-
Capital additions	0.3	0.2	0.7	0.7	0.3	0.3	0.5	0.7	0.7
Key statistics									
Fee revenue growth rate	6%	8%	6%	-6%	1%	-10%	-3%	5%	7%
Operating expense growth rate	3%	4%	0%	5%	1%	-1%	5%	1%	4%

The above information, including forecast information, was prepared based on Canadian Generally Accepted Accounting Principles.

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 x 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 her 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

Our goal is median compensation. 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%. In addition, a personal achievement factor, ranging from nil to 1.75, is applied. In some cases, total compensation is subject to government compensation maximums.

Fiscal 2010 compensation summary

Position	Name	Base	Incentive	Pension	Other[5]	2010	2009	2008	Meetings attended[6]
Executive Commissioners									
Chair[7]	Brenda M. Leong	319,636	125,853	32,151	21,611	499,251	388,132	379,415	7
Chair[8]	Douglas M. Hyndman	100,131	-	10,346	11,621	122,098	549,092	543,957	8
Vice Chair[9]	Brent W. Aitken	326,384	122,267	-	16,037	464,688	417,647	361,744	18
Senior Management									
Director of Enforcement	Langley E. Evans	204,728	40,765	20,338	12,167	277,998	262,431	242,345	N/A
Director of Corporate Finance	Martin D.C. Eady	194,839	38,334	19,321	11,486	263,980	245,557	230,051	N/A
General Counsel	David M. Thompson	177,350	26,934	17,524	17,152	238,960	238,014	222,721	N/A

Position	Name	Fees	Other[10]	2010	2009	2008	Meetings attended
Independent Commissioners							
Commissioner	Bradley Doney	64,563	2,642	67,204	41,968		17
Commissioner	Kenneth G. Hanna	61,450	-	61,450	70,275	39,950	17
Commissioner	Don Rowlatt	66,375	884	67,259	42,132		18
Commissioner	David J. Smith	75,650	-	75,650	59,625	36,300	19
Commissioner	Shelley C. Williams	64,925	1,965	67,515	55,842		19
Commissioner	Suzanne K. Wiltshire	64,125	2,557	66,682	73,209	51,424	18

Compensation consultants

During the year, we hired Western Compensation & Benefits Consultants to perform a salary survey.

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[5] Other compensation includes long-term disability plan premiums, Canada Pension Plan premiums, transportation allowances, parking and transit, 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 on interest-free computer purchase loans.
[6] During fiscal 2010, the Board scheduled, and held during the year, 12 regular monthly board meetings, 2 SRO meetings, 5 special meetings.
[7] Ms. Leong was Executive Director until appointed Chair on October 13, 2009.
[8] Mr. Hyndman was Chair until his secondment to the CSTO on July 13, 2009.
[9] Mr. Aitken was acting Chair July 13, 2009 to October 12, 2009. He did not participate in our incentive program in fiscal 2008.
[10] Other compensation includes Canada Pension Plan premiums.

Management's responsibility and certification

Management is responsible for ensuring that the financial statements and other financial information in this annual report are complete and accurate. Management has prepared the financial statements according to Canadian generally accepted accounting principles (GAAP).

We certify that:

- we oversaw the design of internal controls to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP
- we directed the evaluation of the effectiveness of these internal controls over financial reporting (ICFR) and, except for the gap disclosed in the Management's Discussion and Analysis (MD&A), we are not aware of any ICFR gap that has or is likely to materially affect our ICFR
- we have reviewed the financial statements and other information in this annual report (Reports)
- we believe the Reports reflect all material facts for the period they cover
- we do not believe the Reports misstate any material fact

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

The Board is responsible for 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 created 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.

Brenda M. Leong	John R. Hinze, CA
Chair and Chief Executive Officer	*Director, Chief Financial Officer*

Report of the Auditor General of British Columbia

To the Commissioners of
the British Columbia Securities Commission, and

To the Minister of Finance and Deputy Premier
Province of British Columbia:

I have audited the balance sheet of the *British Columbia Securities Commission* as at March 31, 2010, 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, 2010, 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 14, 2010

John Doyle, MBA, CA
Auditor General

BCSC

British Columbia Securities Commission

Financial Statements
For the Year Ended March 31, 2010
(audited)

British Columbia Securities Commission
Balance Sheet
At March 31, 2010
(audited)

	March 31 2010	March 31 2009
ASSETS		
Current assets:		
Cash and short term investments (note 4)	$ 18,490,586	$ 16,724,160
Amounts receivable (note 5)	734,239	311,319
Prepaid expenses (note 6)	367,613	303,889
	19,592,438	17,339,368
Investments held for designated purposes (note 7)	18,053,831	18,677,388
Capital assets (note 8)		
Tangible assets	1,588,951	2,464,057
Intangible assets	316,820	216,817
	1,905,771	2,680,874
	$ 39,552,040	$ 38,697,630
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	$ 711,337	$ 776,199
Accrued salaries	2,909,267	2,732,055
Deferred registration fee revenue	6,701,449	6,599,003
Employee leave liability (note 9)	853,821	753,377
	11,175,874	10,860,634
Deferred rent	40,778	65,245
SURPLUSES		
General	10,281,557	9,094,363
Fee stabilization reserve (note 11)	15,000,000	15,000,000
Education reserve (note 11)	3,053,831	3,677,388
	28,335,388	27,771,751
	$ 39,552,040	$ 38,697,630

Going concern basis of accounting (Note 1)
Commitments and contingencies (Note 16)

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

Approved by the Board:

Brenda M. Leong
Chair and Chief Executive Officer

David J. Smith
Member

British Columbia Securities Commission
Statement of Operations and Comprehensive Income
For the Year Ended March 31, 2010
(audited)

	2010	2009
REVENUES		
Fees		
Prospectus and other distributions	$ 16,249,208	$ 16,019,192
Registration	9,618,920	9,635,665
Financial filings	4,742,439	4,599,424
Exemptive orders and other	225,487	227,458
Enforcement sanctions (note 13)	254,212	262,716
Enforcement cost recoveries (note 13)	1,555	24,110
Investment income (note 10)	316,668	1,310,168
	$ 31,408,489	$ 32,078,733
EXPENSES		
Salaries and benefits (note 15)	$ 23,066,045	$ 22,576,223
Professional services	2,066,288	2,031,997
Occupancy	1,967,381	1,976,924
Depreciation	1,038,372	999,880
Information management	579,335	797,695
Education reserve(note 11)	911,580	654,236
External communications	175,158	258,632
Administration	354,773	265,766
Staff training	289,939	369,296
Business travel	269,741	364,346
Telecommunications	126,240	135,018
	$ 30,844,852	$ 30,430,013
EXCESS OF REVENUES and COMPREHENSIVE INCOME	$ 563,637	$ 1,648,720

Going concern basis of accounting (Note 1)

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

British Columbia Securities Commission
Statement of Surpluses
For the Year Ended March 31, 2010
(audited)

	General	Fee Stabilization Reserve (note 11)	Education Reserve (note 11)	Total
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
Excess of revenues	563,637	-	-	563,637
Appropriation during the year	623,557	-	(623,557)	-
Balance, March 31, 2010	$ 10,281,557	$ 15,000,000	$ 3,053,831	$ 28,335,388

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

British Columbia Securities Commission
Statement of Cash Flows
For the Year Ended March 31, 2010
(audited)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from fees	$ 30,709,671	$ 30,527,468
Cash receipts from enforcement sanctions	240,907	302,675
Cash paid to and on behalf of employees	(22,928,217)	(22,286,036)
Cash paid to suppliers and others	(6,942,891)	(6,778,580)
Investment income received	326,668	1,333,668
	$ 1,406,138	$ 3,099,195
CASH FLOWS USED FOR INVESTING ACTIVITIES		
Paid for capital assets	(263,269)	(684,147)
Net increase in cash and cash equivalents	$ 1,142,869	$ 2,415,048
Cash and cash equivalents, beginning of period	35,401,548	32,986,500
Cash and cash equivalents, end of period	$ 36,544,417	$ 35,401,548
Represented by:		
Cash and short term investments	$ 18,490,586	$ 16,724,160
Investments held for designated purposes	18,053,831	18,677,388
	$ 36,544,417	$ 35,401,548

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

British Columbia Securities Commission
Notes to Financial Statements
For the Year Ended March 31, 2010
(audited)

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. The debate on structuring Canadian securities regulation continues. We expect the BCSC to remain a going concern while participating governments consider and perhaps implement a different regulatory structure.

2. Significant accounting policies

Management has prepared these financial statements according to Canadian generally accepted accounting principles that are applicable to publicly accountable enterprises. 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 bonds and Canadian dollar fixed income securities maturing within five years and insured or guaranteed by sovereign governments and supranational debt securities.

Any earnings from our investments are reinvested in the same fund and returns adjust 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 because we can liquidate these investments immediately and without penalty. 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. See note 3 for more information about our financial instruments.

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:

Tangible
- Information technology assets – four years
- Leasehold improvements – the remaining lease term to November, 2011
- Office furniture and equipment – ten years

Intangible
- Software and development costs – four years

2. Significant accounting policies (con't)

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 defer registration fees and recognize them in revenue over the calendar year to which they relate.

We recognize enforcement sanctions when we determine they are collectible.

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*
We retroactively adopted new handbook section 3064 "*Goodwill and Intangible Assets*". This new section 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. To adopt the standard, we reclassified information technology assets having a net book value of $133,956 as intangible assets at April 1, 2008.

Effective January 1, 2010, we adopted amendments to Section 3862 "*Financial Instruments – Disclosure*". The amendments add disclosures about fair value measurements for financial instruments and liquidity risk. We added the required disclosures to note 3.

f) *Future accounting changes*
Public Sector Accounting Standards (PSAB)
The BCSC is an "other government organization" (OGO) under public sector accounting rules. OGOs may follow either public sector (PSAB) or publicly accountable enterprise (Blue Book) GAAP. We currently follow Blue Book GAAP.

Blue Book GAAP will converge with IFRS for fiscal years beginning on or after January 1, 2011. However, the BC government requires the BCSC to transition to PSAB instead of IFRS.

We have reviewed PSAB standards. Our review did not identify the need for material accounting adjustments to become PSAB compliant. We will report our fiscal 2012 financial results in compliance with PSAB.

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 categorize our cash and short-term investments and investments held for designated purposes as "held-for-trading". We categorize amounts receivable as "loans and receivables", and accounts payable and accrued liabilities, accrued salaries and employee leave liability as "other financial liabilities".

We report financial instruments, categorized as "held-for-trading", at fair value (fair value measurement hierarchy level one – quoted market prices) in our balance sheet and recognize any gains and losses in net income for the related period. We record financial instruments, categorized as "loans and receivables" and "other financial liabilities", at cost (fair value measurement hierarchy level three – not based on observable market data), which approximates fair value, and recognize gains and losses on these financial instruments in 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 financial 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 or material market risk because we invest in liquid, high quality money market instruments and government securities. Liquidity risk is low because our investments are in pooled fund units redeemable on demand and without penalty. The underlying assets in the pool are also highly liquid. We manage interest rate risk by monitoring portfolio duration and 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, 2010			March 31, 2009		
	Units	Expected Return	Market Value	Units	Expected Return	Market Value
Cash		0.35%	$ 11,058,703		0.60%	$ 10,212,684
Pooled Canadian Money Market Fund ST2	-	-	-	1.75	0.50%	6,511,476
Short Term Bond Fund	3.32	1.00%	7,431,883			-
		0.61%	$ 18,490,586		0.56%	$ 16,724,160

British Columbia Securities Commission
Notes to Financial Statements
For the Year Ended March 31, 2010
(audited)

5. Amounts receivable

Amounts receivable consist of:

	March 31, 2010	March 31, 2009
Enforcement sanctions	$ 126,380	$ 111,520
Late insider report filing fees	261,360	99,785
Due from CSTO (a)	299,679	-
National project recoveries	5,216	41,000
Employee advances and other	41,604	59,014
	$ 734,239	$ 311,319

(a) The BCSC seconded employees to, and provides procurement and accounting support to, the Canadian Securities Regulatory Regime Transition Office (CSTO) on a cost recovery basis. The balance reflects costs receivable from the CSTO as at March 31, 2010.

6. Prepaid expenses

Prepaid expenses consist of:

	March 31, 2010	March 31, 2009
IIROC registration processing fees	$ 270,621	$ 289,730
Information technology maintenance contracts	96,992	14,159
	$ 367,613	$ 303,889

7. Investments held for designated purposes

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

	March 31, 2010			March 31, 2009		
	Units	Expected Return	Market Value	Units	Expected Return	Market Value
Pooled Canadian Money Market Fund ST2	0.94	0.50%	$ 3,508,231	2.58	0.50%	$ 9,586,738
Short Term Bond Fund	6.51	1.00%	14,545,600	4.11	1.13%	9,090,650
		0.90%	$ 18,053,831		0.81%	$ 18,677,388

8. Capital assets

Capital assets consist of:

	March 31, 2010			March 31, 2009
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Tangible:				
Leasehold improvements	$ 4,115,892	$ 3,446,472	$ 669,420	$ 1,067,148
Office furniture	2,054,213	1,752,726	301,487	506,963
Office equipment	439,541	360,004	79,537	117,794
Information technology	1,271,649	733,142	538,507	769,129
	$ 7,881,295	$ 6,292,344	$ 1,588,951	$ 2,461,034
Intangible:				
Software	649,373	332,553	316,820	219,840
	$ 8,530,668	$ 6,624,897	$ 1,905,771	$ 2,680,874

During the year, additions to intangible assets were $212,796 (fiscal 2009 - $164,943), lower than reported at December 31, 2009, due to the BCSC returning software to a supplier. The amounts expensed as amortization were $112,794 (fiscal 2009 - $82,082).

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. Investment income

The investment income related to financial assets is as follows:

	For the Year Ended March 31, 2010			For the Year Ended March 31, 2009		
	Average balance	Investment income	Annualized return	Average balance	Investment income	Annualized return
Cash	$ 8,070,264	$ 29,818	0.37%	$ 10,380,158	$ 260,241	2.51%
Pooled Canadian Money Market Fund (ST2)	9,057,395	51,625	0.57%	15,498,917	689,421	4.45%
Short Term Bond Fund	18,418,896	235,224	1.28%	9,096,967	360,505	3.96%
	$ 35,546,555	$ 316,668	0.89%	$ 34,976,043	$ 1,310,168	3.75%

Investment income is net of management fees and a portion is allocated to the Education reserve.

11. Reserves

	Fee Stabilization (a)	Education (b)	Total
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
Additions and appropriations	-	254,212	254,212
Investment income allocation	-	33,811	33,811
Disbursements	-	(911,580)	(911,580)
Balance, March 31, 2010	$ 15,000,000	$ 3,053,831	$ 18,053,831

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 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.

12. 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 unbudgeted expenses
- Continually improving the efficiency of our processes

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

13. 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 year and on our ability to collect assessed amounts.

We assessed enforcement sanctions of $42.3 million (fiscal 2009 - $0.7 million) during the year, of which we did not recognize $42.0 million (fiscal 2009 - $0.5 million) as revenue because we do not expect to receive payment. We recognized an additional $nil (fiscal 2009 - $0.1 million) of cash receipts related to prior period sanctions as revenue.

Effective fiscal 2008, we stopped designating portions of settlement amounts as cost recoveries. Commission staff also stopped applying for hearing cost recoveries. Enforcement cost recoveries 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 British Columbia. We pursue outstanding amounts vigorously and indefinitely.

14. 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.

15. Post-retirement employee benefits

We, and our employees, contribute to the Public Service Pension Plan, a multi-employer plan. The plan is contributory, and its basic benefits are defined. The plan has about 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 monitor the impact of the financial environment on plan health. Plan surpluses and deficits are not attributable to individual employers, but affect future contribution levels. We charged $1,570,855 to expense for employer contributions during the period (fiscal 2009 - $1,492,206).

16. 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, British Columbia Securities Commission, 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 $49.1 million (March 2009 - $35.2 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, 2010. 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.

In fiscal 2010, the CSA began a national project to redevelop SEDAR and SEDI. As at March 31, 2010, payments related to the systems redevelopment project totalled $82,184. The CSA has entered into a professional services contract, totalling $750,000, to design a national filing system Enterprise Architecture. The contractor (Fujitsu) has submitted an invoice for $187,600.

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.

17. Comparative figures

We have reclassified certain comparative figures to conform to current presentation.