Management Discussion & Analysis

For the Year Ended March 31, 2012

We prepared this discussion and analysis of financial position and results of operations of the British Columbia Securities Commission (BCSC) on May 10, 2012. Read it in conjunction with our audited financial statements and related notes for the year ended March 31, 2012.

We prepared the financial information in this report in accordance with Canadian public sector accounting standards. We report in Canadian dollars. Totals and percentages may not always add up due to rounding.

Transition to public sector accounting standards

This is our first report following our transition to public sector accounting standards. We applied accounting changes retroactively to our April 1, 2010 transition date. In addition, we adopted PS 3450 *Financial Instruments*, effective April 1, 2010 to enable us to continue accounting for investments using fair value. The transition resulted in the reclassification of cash and investments, the reclassification of intangible assets, the reclassification of unrealized investment gains and losses to a new category of accumulated surplus, and the amalgamation of previously designated accumulated surpluses. The transition reduced fiscal 2012 surplus by about $1 million and increased fiscal 2011 surplus by about $0.1 million, because we no longer immediately recognize investment portfolio market value changes.

Internal control over financial reporting

During the year, we reviewed our ICFR processes and updated documentation where necessary. Our internal auditors tested operating effectiveness of the BCSC's ICFR as at March 31, 2012 and concluded that the ICFR was operating effectively and that there are no material weaknesses.

There have been no changes that occurred during the most recent year ended March 31, 2012, that have materially affected, or are reasonably likely to materially affect, the BCSC's ICFR.

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 about 80% of operating expenses. For the year ended March 31, 2012, we had an average of 210 full-time equivalent employees (fiscal 2011 – 195).

As a government agency, we are exempt from income taxes. We pay HST but receive a 100% rebate on taxable purchases.

Revenue sources

About 95% of our funding comes from filing, registration, and application fees paid by market participants under the *Securities Act*. A small component of our funding comes from sanctions and penalties. The remainder of our operational funding comes from investment income.

Fee revenue

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 generate deficits during bear market periods.

We collect the following fees:

		Proportion of fee revenue	
Category	**Source**	**Fiscal 2012**	**Fiscal 2011**
Distribution fees	Public companies, private companies and mutual funds, to file disclosure documents	55%	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	13%	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.

[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 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.

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

About 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. Historically, registration fee revenue had low volatility and has grown steadily over the last decade.

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 increases modestly most 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 sanctions

We order administrative penalties and the return of ill-gotten gains to victims 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.

We recognize in revenue sanctions we determine are collectible. We spend these revenues only to educate securities market participants and the public about investing, financial matters, or the operation and regulation of securities markets.

(thousands)	Year ended March 31	
Enforcement sanctions	2012	2011
Current period sanctions	$55,934	$56,933
Uncollectible portion of sanctions not recognized	(55,652)	(56,548)
Recovery of prior year uncollectible sanctions	63	5
Sanction revenue	$345	$390

Collecting sanctions is difficult. Collection targets often have limited assets, have poor credit, or have left BC. We have collected $14.3 million (7%) of $192.7 million sanctioned since our incorporation on April 1, 1995. We continue to pursue the outstanding amounts vigorously. However, of the $182.5 million outstanding, only $0.1 million is likely collectible and accrued in our financial statements. About 80% ($155.0 million) of the $192.7 million outstanding relates to six cases. About 42% ($81.5 million) of the $192.7 million outstanding relates to disgorgement orders.

Investment income

Our prime investment objectives for surplus funds are capital preservation and sufficient liquidity so we can meet our expenditure commitments. We invest in highly liquid, high quality money market instruments, government securities and investment-grade corporate debt securities.

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.

Salaries and benefits

Salaries and benefits account for about 70% of our expenses. We compete for professional staff with law and accounting firms, the securities industry, and other regulators. Like most of our competitors, we offer a compensation package that includes performance-based salary increases. To retain and recruit staff and remain market competitive, we conduct salary surveys annually and make adjustments as appropriate. We focus our staff effort (with overhead allocated proportionately) on our strategic goals:

Strategic Goal	Fiscal 2012	Fiscal 2011
Promote a culture of compliance	38%	38%
Act decisively against misconduct	38%	38%
Educate investors	10%	9%
Advance cost effective regulation	14%	15%

Professional services

We engage consultants when outsourcing is more cost-effective than performing the work ourselves. Professional service costs relate primarily to the following:

- Risk model implementation consulting
- Legal services and expert opinions to support the Commission
- Fees paid to IIROC for registration services delegated to them
- Our share of CSA project and management costs
- Legislative counsel services
- Interview and hearing transcription services
- Data entry services
- Internal audit services

Education

Many British Columbians are not financially literate nor investment savvy. Knowing one's risk profile and understanding one's investments reduces the odds of falling victim to investment fraud. This makes education central to our mission of protecting investors. We expend funds 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.

Management Discussion & Analysis

For the Year Ended March 31, 2012

Financial Highlights

($ millions)	Budget	2012	2011
	Year ended March 31		
Revenues			
Regulatory fees	$ 33.0	34.9	33.5
Enforcement sanctions	0.3	0.3	0.4
Investment income	1.3	1.6	1.0
	$ 34.6	36.9	34.9
Expenses			
Salaries and benefits	$ 25.1	25.9	23.5
Education program disbursements	1.0	1.5	0.6
Other expenses	8.2	8.9	7.0
	$ 34.3	36.2	31.2
Surplus, for the year	**$ 0.3**	**0.6**	**3.7**
Assets			
Cash		$ 6.6	16.5
Investments		36.1	24.9
Capital assets		3.2	1.7
Total assets		46.9	43.9
Accumulated surplus		$ 33.6	32.0
Capital additions		$ 2.2	0.6

Surplus declined 83% to $0.6 million. Higher operating costs from more staff and higher project expenses offset revenue gains from strong market activity.

Revenues grew 6% due to increased securities distribution activity, expanded registration requirements, and higher investment income. Fees related to mutual fund prospectuses and gross sales were the highest ever, in part due to strong growth of "ETF" funds. Exempt distribution report fees increased 10% primarily because of higher pooled fund gross sales. Investment income increased 59% because we invested more of our surplus in longer-term government and high quality corporate debt to generate higher returns.

Expenses increased 16%. We increased expenses to expand organizational capacity and advance several key initiatives, and the Board then approved additional spending in the third and fourth quarters to expedite progress on those projects. Salaries and benefits expense grew 10% because of 2.6% merit increases, 8% more staff to expand compliance and enforcement capacity and to develop a case management system, and severance. Professional fees increased 62% from consulting related primarily to developing risk-based regulatory models in four areas, and developing an exempt distribution report database. Education spending increased 128% to expand our fraud awareness programs. Rent increased significantly following a ten-year extension of our lease.

We are financially sound, ending the year with $42.7 million in cash and investments, and expect to break even over the coming years, even as we expand our capacity and invest in our infrastructure to keep pace with financial industry and regulatory developments.

Actual versus budgeted results

We prepare an annual budget that the Board and government review and approve.

Surplus was $0.3 million better than expected. We expected lower market activity, but fee revenues and investment income grew $2.3 million above budget, for the reasons noted above. We planned a 10% expense increase to expand organizational capacity and advance several key initiatives. Actual expenses increased $1.9 million more than budget after the Board approved additional spending in the third and fourth quarters to expedite progress on those projects.

Analysis of fiscal 2012 revenue

(thousands)	Year Ended March 31, 2012							
	Actual versus Budget				Actual versus Last Year			
Revenues	Mar. '12	Budget	Variance	%	Mar. '12	Mar. '11	Variance	%
Distribution	$ 19,198	$ 17,300	$ 1,898	11%	$ 19,198	$ 17,775	$ 1,423	8%
Registration	10,860	10,300	560	5%	10,860	10,605	255	2%
Fin. Filing	4,668	5,090	(422)	-8%	4,668	4,861	(193)	-4%
Other	171	278	(107)	-39%	171	232	(61)	-26%
Designated	345	300	45	15%	345	390	(45)	-12%
Inv. Income	1,630	1,340	290	22%	1,630	1,027	603	59%
	$ 36,872	$ 34,608	$ 2,264	7%	$ 36,872	$ 34,889	$ 1,982	6%

Revenue analysis versus last year

We have not increased fee rates in over a decade. Fee revenue increases reflect higher market activity. Revenue increased $2 million:

- Distribution revenue was $1.4 million higher due to higher mutual fund and exempt distribution filing fees, as described above. In particular, twelve-month average non-money market mutual fund gross sales hit a plateau just before year-end, after more than two years of growth.
- Registration revenue, relating to both firms and individuals, increased $0.3 million due to an increase in the number of registrants caused by registration requirement changes and natural growth in the registrant population.
- Financial filing revenue fell $0.2 million. Companies transitioning to IFRS filed later, and we wrote off uncollectible late insider fees.
- Investment income was $0.6 million higher due to higher fixed income returns. Our average invested value increased 10%, and we held a larger proportion of our portfolio in fixed income securities versus demand deposits. In addition, our investment in the bcIMC Canadian Universe Bond Fund, which invests in Canadian dollar denominated government and investment-grade corporate debt, performed strongly. Our annualized real return on average cash and investment balances was 6.9% (2011 – positive 2.0%).

Revenue analysis versus budget

Revenue was $2.3 million ahead of budget:

- Distribution revenue was $1.9 million higher than expected. We expected mutual fund prospectus and exempt distribution fees to decline over the prior year. Instead, mutual fund revenues hit a record high, due in part to a significant number of new "ETF" funds, and exempt distribution revenue increased significantly. Non-mutual fund prospectus activity declined modestly, as expected.
- Registration revenue was $0.6 million higher than expected due to changes in registration requirements.
- Financial filing revenue was $0.4 million lower than budget for the reasons noted above.

Analysis of fiscal 2012 expenses

(thousands)	Year Ended March 31, 2012							
	Actual versus Budget				Actual versus Last Year			
Expenses	Mar. '12	Budget	Variance	%	Mar. '12	Mar. '11	Variance	%
Salaries	$ 25,914	$ 25,145	$ 768	3%	$ 25,914	$ 23,548	$ 2,366	10%
Education	1,452	975	477	49%	1,452	636	816	128%
Prof. Fees	3,325	2,529	796	31%	3,325	2,051	1,274	62%
Deprec.	652	700	(48)	-7%	652	786	(134)	-17%
Occupancy	2,272	2,271	1	0%	2,272	1,954	318	16%
Info. Mgmt.	977	820	157	19%	977	788	189	24%
Other	1,653	1,839	(186)	-10%	1,653	1,453	200	14%
	$ 36,244	$ 34,279	$ 1,965	6%	$ 36,244	$ 31,216	$ 5,028	16%

Expenses versus last year

Expenses increased $5 million:

- Salaries increased $2.4 million due to an 8% increase in staff complement to support strategic initiatives, average 2.6% merit increases, and because of severance.
- Education spending is up $0.8 million because of our Be Fraud Aware media campaign.
- Professional fees increased $1.3 million, to support work on four new regulatory risk models, an exempt distribution filings database, an MS Office software upgrade, a public website redesign, and a data governance framework.
- Occupancy increased $0.3 million because rent increased after extending our lease.
- Information management increased $0.2 million due to the timing of records storage expenses and because we increased our capitalization threshold.
- Other expenses increased $0.2 million because of survey work to assess public awareness of the BCSC, and because of higher administration and training costs.

Expenses versus budget

Expenses were $2 million higher than budget:

- Salaries were $0.8 million higher than budget, due to Board-approved additional staffing to further expand compliance and enforcement capacity and to expedite redevelopment of our enforcement file workflow system. We also accrued severance at year-end.
- Education spending was $0.5 million higher than budget because the Board approved expanding our South East Asian fraud awareness campaign to English language speakers.
- Professional fees were $0.8 million higher than budget, due to Board-approved additional spending to expedite work on the projects noted above.
- Information management expense was $0.2 million higher than budget due to the timing of records storage expenses.
- Other expenses, which includes administration, training, travel, external communications, and telecommunications, was $0.2 million lower than budget.

Financial position and liquidity

Use of financial instruments

The principal financial instruments affecting our financial condition and results of operations are cash and investments. Our cash and investments do not expose the BCSC to significant credit or material market risk because we invest in liquid, high quality money market instruments, government securities and investment-grade corporate debt securities. Liquidity risk is low because our investments are in pooled fund units redeemable within two weeks, without penalty. The underlying assets in the pool are also highly liquid.

Our investments are exposed to interest rate risk. The fair value of our investments in longer-term fixed rate securities fluctuates significantly with changes in interest rates. Based on the March 31, 2012 composition of our investment portfolio, an immediate 1% increase in interest rates across the entire yield curve, with all other variables held constant, would result in a decrease in market value of approximately $1.9 million. In addition, future investment income earned on variable rate cash deposits and maturing fixed rate securities would increase after an interest rate increase. We expect interest rates to increase modestly over the coming year. We manage interest rate risk by monitoring portfolio duration and yields with the fund administrator, bcIMC. Current investment durations for the Short Term Bond Fund and the Canadian Universe Bond Fund are 2.7 years and 6.9 years, respectively.

Liquidity

Cash flow was negative for the year, at $9.9 million (fiscal 2011 – positive $5.4 million). The cash outflow was due primarily to investing $8.6 million of cash, and spending $2.2 million on capital improvements, primarily information technology additions and office renovations.

Our fee model may result 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. We ended the year with $42.6 million in cash and investments, a $1.2 million increase over the comparative year. We have internally designated $15 million of the surplus to a fee reserve, so temporary revenue reductions will not immediately impair our ability to operate, or require immediate fee increases.

Assets

Amounts receivable declined $0.1 million to $0.5 million (March 31, 2011 - $0.6 million). About half of the balance relates to an HST receivable, about 20% are cost recoveries due from the Canadian Securities Regulation Regime Transition Office, and about 20% are enforcement sanctions receivable.

Capital assets were $3.2 million (March 31, 2011 - $1.7 million). The increase is because information technology additions totalling $1.6 million, and leasehold improvements totalling $0.5 million, were partly offset by $0.7 million amortization.

Prepaid expenses increased $0.2 million to $0.5 million (March 31, 2011 - $0.3 million) following the purchase of a multi-year Windows 7 / Office 2010 license.

We ended the year with $33.6 million surplus (March 31, 2011 - $32.0 million). We have internally designated $15 million of the surplus to a fee stabilization reserve as noted above. We have internally designated $1.7 million of the surplus to our education reserve because we believe enforcement sanction revenues should fund investor and industry education, not our operations.

Liabilities

Accounts payable increased $1 million to $2 million (March 31, 2011 - $0.9 million), reflecting a significant increase in project-related consulting work completed but not paid at year-end.

Accrued salaries decreased $0.1 million to $2.9 million (March 31, 2011 – $3 million). We paid out fiscal 2011 performance incentives in June 2011 and accrued towards fiscal 2012 performance incentives.

Deferred revenue increased to $7.6 million (March 31, 2011 – $7.2 million) because of higher registration volumes. 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 lease ends November 30, 2021.

Our significant contractual obligations at March 31, 2012 are:

(millions)	Total	< 1 year	2 - 3 years	4 - 5 years	> 5 years
Rent and operating costs	27.1	2.5	5.2	5.4	14

Risks and opportunities

Risk management

We practice enterprise risk management (ERM) to identify and manage our business risks. We follow the Australian risk management Standard (AS/NZS 4360:2004, or AS 4360) and the related Guideline. Our ERM process updates the Board semiannually on key risks and supports our strategic planning process. We also maintain a business continuity plan and can restore critical functions within 8 hours.

Securities regulatory reform

The BC government supports the concept of a national regulator. We are engaged in this process and providing resources as necessary. We expect the BCSC to remain a going concern while participating governments consider whether to implement a national 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 have sufficient liquidity and capital resources to fund operations through a sustained market downturn.

Reliance on CDS Inc.

Under various agreements with the CSA that end on October 31, 2012, 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 80% 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 share actual versus budgeted system operating cost (expense) variances.

The OSC is holding $80.5 million (March 31, 2011 - $64.9 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, 2012. The CSA Principal Administrators have agreed that we will use these funds only for the benefit of national filing system users.

In fiscal 2010, the CSA began a national project to rebid operation of, and then redevelop, the national systems. As at March 31, 2012, expenses related to the project totalled $2,729,885.

Selected annual information and financial outlook

The following table summarizes actual results for the five years ending fiscal 2012, our fiscal 2013 budget, and projected results for fiscals 2014 and 2015. We prepared the information below, including forecast information, using Canadian generally accepted accounting principles for fiscals 2008 through 2010, and using Canadian public sector accounting standards for fiscals 2011 through 2015.

	Audited					Budget	Projected	
Operations	2008	2009	2010	2011	2012	2013	2014	2015
Regulatory fees	32.5	30.5	30.8	33.5	34.9	36.8	37.2	37.6
Enforcement sanctions	0.9	0.3	0.3	0.4	0.3	0.3	0.3	0.3
Investment income	1.4	1.3	0.3	1.0	1.6	2.2	1.0	1.0
	34.8	32.1	31.4	34.9	36.9	39.3	38.5	38.9
Salaries and benefits	21.7	22.6	23.1	23.5	25.9	26.7	27.2	27.7
Education	0.5	0.7	0.9	0.6	1.5	2.3	1.2	1.7
Other expenses	6.7	7.2	6.9	7.0	8.9	9.7	10.1	9.5
	28.9	30.4	30.8	31.2	36.2	38.7	38.5	38.9
Surplus	6.0	1.6	0.6	3.7	0.6	0.6	-	-
Accumulated surpluses								
Unrealized gains / (losses)	-	-	-	(0.3)	0.8	-	-	-
Undesignated surplus	7.2	9.1	10.3	14.4	16.1	18.4	15.9	15.4
Fee stabilization reserve	15.0	15.0	15.0	15.0	15.0	15.0	17.5	18.0
Education reserve	3.9	3.7	3.1	2.8	1.7	-	-	-
	26.1	27.8	28.3	32.0	33.6	33.4	33.4	33.4
Other information								
Capital purchases	0.7	0.7	0.3	0.6	2.2	3.9	3.0	2.8
Debt	-	-	-	-	-	-	-	-

Read the BCSC Service Plan for more information about our Financial Outlook.

MD&A Supplement – Compensation Disclosure
For the Year Ended March 31, 2012

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.

MD&A Supplement – Compensation Disclosure
For the Year Ended March 31, 2012

Fiscal 2012 compensation summary

Position	Name	Base	Incentive	Pension	Other[1]	2012	2011	2010	Meetings attended[2]
Executive Commissioners									
Chair	Brenda M. Leong	381,780	55,499	38,497	23,475	499,251	499,251	499,251	15
Vice Chair	Brent W. Aitken	325,451	104,157	-	11,165	440,773	443,631	464,688	14
Senior Management									
Executive Director	Paul Bourque	257,500	67,686	25,723	49,091	400,000	343,496	N/A	N/A
Director, Corporate Finance	Martin D.C. Eady	197,351	-	19,538	429,715[3]	646,604	262,023	263,980	N/A
Director, Enforcement	Langley E. Evans	206,590	37,880	20,487	11,790	276,747	273,959	277,998	N/A

Position[4]	Name	Fees	Other[5]	2012	2011	2010	Meetings attended
Independent Commissioners							
Commissioner	Bradley Doney	58,569	2,681	61,250	54,298	67,204	14
Commissioner	Kenneth G. Hanna	57,250	90	57,340	58,643	61,450	15
Commissioner	Don Rowlatt	55,800	88	55,888	49,413	67,259	14
Commissioner	David J. Smith	59,550	94	59,644	56,598	75,650	15
Commissioner	Shelley C. Williams	61,000	2,631	63,631	58,461	67,515	15
Commissioner	Suzanne K. Wiltshire	46,575	2,205	48,780	57,687	66,682	15

Our Independent Commissioner compensation policy is located on the BCSC website.

Compensation consultants

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

[1] Other includes long-term disability plan premiums, Canada Pension Plan premiums, parking and transit, extended health and dental plan premiums, professional membership fees, Medical Services Plan premiums, Employment Insurance premiums, Worksafe premiums, group life insurance premiums, accommodation, fitness reimbursements, and imputed interest on interest-free computer purchase loans.
[2] During fiscal 2012, the Board scheduled, and held during the year, 12 regular monthly board meetings and three SRO meetings.
[3] Includes severance and vacation paid out.
[4] These are part-time positions.
[5] Other includes Canada Pension Plan premiums and Worksafe premiums.

Management's responsibility and certification

Management is responsible for ensuring that the financial statements and other financial information included in this annual report are complete and accurate. Management has prepared the financial statements according to Canadian public sector accounting standards.

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 PSAB
- We directed the evaluation of the effectiveness of these internal controls over financial reporting (ICFR) and 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 (Report)
- We believe the Report reflects all material facts for the period it covers
- We do not believe the Report misstates 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 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 Canadian public sector accounting principles. 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 May 16 2012 8:58 AM	John Hinze May 10 2012 2:00 PM
Brenda M. Leong *Chair and Chief Executive Officer*	John R. Hinze, CA *Director, Corporate Services*

INDEPENDENT AUDITOR'S REPORT

To the Commissioners of the British Columbia Securities Commission and
To the Deputy Premier and Minister of Finance, Province of British Columbia

Report on the Financial Statements

I have audited the accompanying financial statements of the British Columbia Securities Commission, which comprise the statements of financial position as at March 31, 2012, March 31, 2011, and April 1, 2010, and the statements of operations and change in accumulated surpluses, remeasurement gains and losses, change in net financial assets and cash flows for the years ended March 31, 2012, and March 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In my view, the audit evidence I have obtained in my audits is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the British Columbia Securities Commission as at March 31, 2012, March 31, 2011, and April 1, 2010, and the results of its operations, changes in accumulated surpluses, changes in its remeasurement gains and losses, changes in net financial assets and, its cash flows for the years ended March 31, 2012, and March 31, 2011, in accordance with Canadian public sector accounting standards.

Victoria, British Columbia
May 10, 2012

John Doyle, MAcc, CA
Auditor General

BCSC

British Columbia Securities Commission

Financial Statements
As at March 31, 2012 and March 31, 2011

(audited)

British Columbia Securities Commission
Statement of Financial Position
(audited)

	March 31 2012	March 31 2011 (restated - note 2)	April 1 2010 (restated - note 2)
Financial assets			
Cash (note 5)	$ 6,548,751	$ 16,455,733	$ 11,058,703
Investments (note 6)	36,060,975	24,881,744	25,485,714
Amounts receivable (note 7)	528,362	562,610	734,239
	43,138,088	41,900,087	37,278,656
Liabilities			
Accounts payable and accrued liabilities	$ 1,961,933	$ 939,216	$ 711,337
Accrued salaries	2,885,106	2,974,497	2,909,267
Deferred registration fee revenue	7,577,482	7,207,796	6,701,449
Employee leave liability (note 8)	844,993	846,615	853,821
Deferred rent	-	16,311	40,778
	13,269,514	11,984,435	11,216,652
Net financial assets	29,868,574	29,915,652	26,062,004
Non-financial assets			
Tangible capital assets (note 9)	$ 3,236,381	$ 1,717,328	$ 1,905,771
Prepaid expenses (note 10)	496,586	323,921	367,613
	3,732,967	2,041,249	2,273,384
Accumulated Surplus	33,601,541	31,956,901	28,335,388
Accumulated Surplus is comprised of:			
Accumulated surplus (note 11)	$ 32,845,839	$ 32,218,153	$ 28,544,471
Accumulated remeasurement gains / (losses)	755,702	(261,252)	(209,083)
	33,601,541	31,956,901	28,335,388

Going concern basis of accounting (note 1)
Commitments and contingencies (note 17)

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

Approved by the Board:

Brenda M Leong
May 16 2012 8:57 AM

CoSign

Brenda M. Leong
Chair and Chief Executive Officer

David J. Smith
May 10 2012 4:17 PM

CoSign

David J. Smith
Chair, Audit Committee

British Columbia Securities Commission
Statement of Operations and Change in Accumulated Surplus
(audited)

	For the Year Ended March 31		
	2012 Budget (note 19)	**2012 Actual**	**2011 Actual (restated - note 2)**
Revenues			
Regulatory fees			
Prospectus and other distributions	$ 17,300,000	$ 19,198,328	$ 17,775,056
Registration	10,300,000	10,859,686	10,604,904
Financial filings	5,090,000	4,667,986	4,860,902
Exemptive orders and other	278,000	170,652	231,529
Enforcement sanctions (note 12)	300,000	344,935	390,200
Investment income (note 13)	1,340,000	1,545,189	1,288,825
Realized gains (losses) on investments (note 13)	-	85,091	(262,010)
	$ 34,608,000	$ 36,871,867	$ 34,889,406
Expenses			
Regulatory operations (note 14)	$ 34,278,992	$ 36,244,181	$ 31,215,724
Surplus, for the year	$ 329,008	$ 627,686	$ 3,673,682
Accumulated surplus, beginning of year		$ 32,218,153	$ 28,544,471
Accumulated surplus, end of year		$ 32,845,839	$ 32,218,153

Going concern basis of accounting (note 1)

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

British Columbia Securities Commission
Statement of Remeasurement Gains and Losses
(audited)

	For the Year Ended March 31	
	2012	**2011**
Accumulated remeasurement (losses), beginning of year	$ (261,252)	$ (209,083)
Unrealized gain (loss) on investments (note 13)	1,102,045	(314,179)
Realized (gain) loss on investments, reclassified to operations (note 13)	(85,091)	262,010
Accumulated remeasurement gains (losses), end of year	$ 755,702	$ (261,252)

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

British Columbia Securities Commission
Statement of Change in Net Financial Assets
(audited)

	For the Year Ended March 31		
	2012 Budget (note 19)	**2012 Actual**	**2011 Actual (restated - note 2)**
Surplus, for the year	$ 329,008	$ 627,686	$ 3,673,682
(Acquisition) of tangible capital assets	$ (1,856,847)	$ (2,171,469)	$ (597,787)
Amortization of tangible capital assets	700,000	652,416	786,230
	$ (1,156,847)	$ (1,519,053)	$ 188,443
(Acquisition) of prepaid expense		$ (658,279)	$ (417,735)
Use of prepaid expense		485,614	461,427
		$ (172,665)	$ 43,692
Effect of net remeasurement gains (losses) for the year		$ 1,016,954	$ (52,169)
Increase (decrease) in net financial assets		$ (47,078)	$ 3,853,648
Net financial assets, beginning of year		29,915,652	26,062,004
Net financial assets, end of year		$ 29,868,574	$ 29,915,652

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

British Columbia Securities Commission
Statement of Cash Flows
(audited)

	For the Year Ended March 31	
	2012	**2011 (restated - note 2)**
Operating transactions		
Cash received from:		
Fees	$ 35,475,627	$ 34,038,321
Enforcement sanctions	333,433	414,798
Interest	68,003	78,616
	$ 35,877,063	$ 34,531,735
Cash paid for:		
Cash paid to and on behalf of employees	$ (26,016,465)	$ (23,304,777)
Cash paid to suppliers and others	(8,996,111)	(6,732,141)
	$ (35,012,576)	$ (30,036,918)
Cash provided by operating transactions	$ 864,487	$ 4,494,817
Capital transactions		
Cash used to acquire tangible capital assets	$ (2,171,469)	$ (597,787)
Investing transactions		
Proceeds from disposals of investments	$ 27,817,131	$ 23,589,765
Investments	(36,417,131)	(22,089,765)
	$ (8,600,000)	$ 1,500,000
(Decrease) / increase in cash	$ (9,906,982)	$ 5,397,030
Cash, beginning of year	$ 16,455,733	$ 11,058,703
Cash, end of year	$ 6,548,751	$ 16,455,733

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

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 pay Harmonized Sales Tax (HST) and receive a 100% rebate.

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. Our government continues to support the concept of a national regulator. We expect the BCSC to remain a going concern while participating governments consider and perhaps implement a different regulatory structure.

2. Conversion to public sector accounting standards

Effective April 1, 2010, BCSC adopted Canadian public sector accounting standards (PSAS) as issued by the Public Sector Accounting Board. These financial statements are the first annual financial statements for which we have applied PSAS.

We applied accounting changes retroactively to the transition date, which resulted in the reclassification of cash and investments, the reclassification of intangible capital assets, the amalgamation of designated accumulated surpluses, and the reclassification of $209,083 in unrealized investment losses to a new category of accumulated surplus called accumulated remeasurement gains / (losses). We implemented the following changes to comply with PSAS:

Statement of Financial Position

Retroactive Changes	Previously stated, March 31, 2010	Adjustment, effective April 1, 2010	Restated, April 1, 2010
Cash and investments			
Cash	$nil	$11,058,703	$11,058,703
Cash and cash equivalents	$18,490,586	($18,490,586)	$nil
Investments	$nil	$25,485,714	$25,485,714
Investments held for designated purposes	$18,053,831	($18,053,831)	$nil
Capital assets			
Tangible capital assets	$1,588,951	$316,820	$1,905,771
Intangible capital assets	$316,820	($316,820)	$nil
Accumulated surpluses			
General / accumulated operating surplus	$10,281,557	$18,262,914	$28,544,471
Fee stabilization reserve	$15,000,000	($15,000,000)	$nil
Education reserve	$3,053,831	($3,053,831)	$nil
Accumulated remeasurement gains / (losses)	$nil	($209,083)	($209,083)

We elected to adopt PS 3450 Financial Instruments effective April 1, 2010 to enable us to continue accounting for investments using fair value.

3. Significant accounting policies

Management has prepared these financial statements in accordance with generally accepted accounting principles for provincial reporting entities established by the Canadian Public Sector Accounting Board. Significant accounting policies followed in the preparation of these financial statements are:

a) *Financial instruments*

Our financial instruments include cash, investments, amounts receivable, accounts payable and accrued liabilities, accrued salaries and employee leave liability. Under the BC Securities Act, we must invest any money that we receive, but do not immediately need, in investment pools that the British Columbia Investment Management Corporation (bcIMC), a BC government organization, administers.

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

- We record cash and investments at fair value (fair value measurement hierarchy level one – quoted market prices). We consider the fair value of our investments to be market value because of their highly liquid nature.
- We record all other financial instruments at cost (fair value measurement hierarchy level three – not based on observable market data), which approximates fair value.

We recognize all realized gains and losses in net income for the related period in which they arise. We record any unrealized gains and losses separately in the statement of accumulated remeasurement gains / (losses).
Any investment earnings are reinvested in the portfolio and returns adjust the carrying value of the units we own.

b) *Tangible Capital assets*

We record our tangible capital assets at cost. We depreciate them using the straight-line method over their useful lives.

We estimate the useful lives of our tangible capital assets to be as follows:

- Information technology – four years
- Leasehold improvements – the remaining lease term to November 30, 2021
- Office furniture and equipment – ten years

c) *Prepaid expenses*

Prepaid expenses include calendar year registration processing fees and prepaid information technology maintenance contracts and are charged to expense over the periods of expected benefit.

3. Significant accounting policies (con't)

d) *Revenue Recognition*
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.

e) *Expenses*
We report expenses on an accrual basis. The cost of all goods consumed and services received during the year is expensed.

f) *Measurement Uncertainty*
Canadian public sector accounting standards require management to make estimates and assumptions for certain amounts disclosed in the financial statements.

In our financial statements, management has estimated the:

- portion of amounts receivable that we will collect
- useful lives of tangible capital assets
- value of the employee leave liability

Estimates are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available. Measurement uncertainty exists in these financial statements.

Actual results may differ from these estimates.

4. Financial instruments

Our financial instruments include cash, investments, amounts receivable, accounts payable and accrued liabilities, accrued salaries and employee leave liability.

Cash is demand deposits held at a Schedule 1 Canadian chartered bank.

Our investments are units of bcIMC investment pools. Our investment policy is to buy units of the following bcIMC pooled funds:

- Canadian Money Market Fund (ST1)
  Canadian money market investments with original maturities of less than 45 days
- Canadian Money Market Fund (ST2)
  Canadian money market investments with original maturities of less than 15 months (current investment duration is 0.4 of a year)
- Short Term Bond Fund
  Canadian federal and provincial government bonds and Canadian dollar fixed income and insured or guaranteed by sovereign governments, and supranational debt securities, all maturing within five years
- Canadian Universe Bond Fund
  Canadian federal and provincial government bonds, Canadian dollar fixed income securities insured or guaranteed by sovereign governments, and investment-grade corporate debt securities, all maturing within 30 years

Our use of financial instruments to invest exposes us to the following 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, government securities and investment-grade corporate debt securities. Liquidity risk is low because our investments are in pooled fund units redeemable within two weeks, without penalty. The underlying assets in the pool are also highly liquid.

Our investments are exposed to interest rate risk. The fair value of our investments in longer-term fixed rate securities fluctuates significantly with changes in interest rates. Based on the March 31, 2012 composition of our investment portfolio, an immediate 1% increase in interest rates across the entire yield curve, with all other variables held constant, would result in a decrease in market value of approximately $1.9 million. In addition, future investment income earned on variable rate cash deposits and maturing fixed rate securities would increase after an interest rate increase. We expect interest rates to increase modestly over the coming year. We manage interest rate risk by monitoring portfolio duration and yields with the fund administrator, bcIMC. Current investment durations for the Short Term Bond Fund and the Canadian Universe Bond Fund are 2.7 years and 6.9 years, respectively.

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.

5. Cash

Cash is demand deposits, as follows:

	March 31, 2012		March 31, 2011		April 1, 2010	
	Market Value	Cost	Market Value	Cost	Market Value	Cost
Cash	$ 6,548,751	$ 6,548,751	$ 16,455,733	$ 16,455,733	$11,058,703	$ 11,058,703

6. Investments

Investments are carried at fair value, and consist of:

	March 31, 2012		March 31, 2011		April 1, 2010	
bcIMC pooled funds	Market Value	Cost	Market Value	Cost	Market Value	Cost
Short Term Bond Fund	$ 12,971,511	$ 12,976,668	$ 3,285,236	$ 3,285,732	$ 21,969,868	$22,176,382
Canadian Universe Bond Fund	23,089,464	22,328,605	21,596,508	21,857,264	-	-
Pooled Canadian Money Market Fund ST2	-	-	-	-	3,515,846	$ 3,518,415
	$ 36,060,975	$ 35,305,273	$ 24,881,744	$ 25,142,996	$ 25,485,714	$25,694,797

Investment distributions are reinvested in the portfolio and adjust the carrying value of the units we own.

7. Amounts receivable

Amounts receivable consist of:

		March 31, 2012		March 31, 2011		April 1, 2010
Enforcement sanctions (note 12)	$	95,284	$	83,782		126,380
Late insider report filing fees		31,600		250,000		261,360
Due from CSTO (a)		118,380		106,637		299,679
National project recoveries		-		-		5,216
Harmonized sales tax (HST)		250,157		89,482		-
Employee advances and other		32,941		32,709		41,604
	$	528,362	$	562,610	$	734,239

(a) The BCSC seconded employees to, and provides technology and accounting support to, the Canadian Securities Regulatory Regime Transition Office (CSTO) on a cost recovery basis. The balance reflects cost recoveries due from the CSTO as at March 31, 2012.

8. 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.

British Columbia Securities Commission
Notes to the Financial Statements
For the Years Ended March 31, 2012 and March 31, 2011
(audited)

9. Capital assets

Capital assets consist of:

	March 31, 2012			
	Information technology	Leasehold improvements	Office furniture and equipment	Total
Cost				
Opening balance	$ 2,491,238	$ 4,115,892	$ 2,521,167	$ 9,128,297
Additions	1,617,072	492,799	61,598	2,171,469
Disposals	88,523	-	182,706	271,229
Write-downs	-	-	-	-
Closing balance	4,019,787	4,608,691	2,400,059	11,028,537
Accumulated amortization				
Opening balance	1,454,298	3,660,780	2,295,891	7,410,969
Amortization	547,116	59,026	46,274	652,416
Disposals	88,523	-	182,706	271,229
Write-downs	-	-	-	-
Closing balance	1,912,891	3,719,806	2,159,459	7,792,156
Net book value	$ 2,106,896	$ 888,885	$ 240,600	$ 3,236,381

	March 31, 2011			
	Information technology	Leasehold improvements	Office furniture and equipment	Total
Cost				
Opening balance	$ 1,921,022	$ 4,115,892	$ 2,493,754	$ 8,530,668
Additions	570,216	-	27,413	597,629
Disposals	-	-	-	-
Write-downs	-	-	-	-
Closing balance	2,491,238	4,115,892	2,521,167	9,128,297
Accumulated amortization				
Opening balance	1,065,695	3,446,472	2,112,730	6,624,897
Amortization	388,603	214,308	183,161	786,072
Disposals	-	-	-	-
Closing balance	1,454,298	3,660,780	2,295,891	7,410,969
Net book value	$ 1,036,940	$ 455,112	$ 225,276	$ 1,717,328

10. Prepaid expenses

Prepaid expenses consist of:

	March 31, 2012	March 31, 2011	April 1, 2010
IIROC registration processing fees	$ 287,223	$ 278,212	$ 270,621
Information technology maintenance contracts	179,885	45,709	96,992
Staff training and development	29,478	-	-
	$ 496,586	$ 323,921	$ 367,613

11. Accumulated surplus

We have internally designated components of accumulated operating surplus, as follows:

	General	Fee Stabilization (a)	Education (b)	Total
Balance, March 31, 2011	$ 14,383,798	$ 15,000,000	$ 2,834,355	$ 32,218,153
Additions and appropriations	282,751	-	344,935	627,686
Investment income allocation	(18,782)	-	18,782	-
Disbursements	1,451,642	-	(1,451,642)	-
Balance, March 31, 2012	$ 16,099,409	$ 15,000,000	$ 1,746,430	$ 32,845,839

	General	Fee Stabilization (a)	Education (b)	Total
Balance, March 31, 2010	$ 10,490,640	$ 15,000,000	$ 3,053,831	$ 28,544,471
Additions and appropriations	3,283,482	-	390,200	3,673,682
Investment income allocation	(26,357)	-	26,357	-
Disbursements	636,033	-	(636,033)	-
Balance, March 31, 2011	$ 14,383,798	$ 15,000,000	$ 2,834,355	$ 32,218,153

a)Fee stabilization reserve

We designate amounts from our operating 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 designate 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 also designate a portion of our investment income to the Education reserve.

12. Enforcement sanctions

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 $55.9 million (fiscal 2011 - $57.0 million) during the period, of which we did not recognize $55.7 million (fiscal 2011 - $56.6 million) as revenue because we do not expect to receive payment.

Collecting enforcement sanctions can be difficult because respondents often have limited assets, poor credit or have left British Columbia. We pursue outstanding amounts as appropriate, to maximize sanction receipts, net of collection costs.

British Columbia Securities Commission
Notes to the Financial Statements
For the Years Ended March 31, 2012 and March 31, 2011
(audited)

13. Investment income

Financial and real returns related to financial assets are as follows:

For the Year Ended March 31, 2012

	Average balance	Investment income	Realized Gains (Losses)	Total Income	Unrealized Gains (Losses)	Annualized return
Cash	$ 5,580,351	$ 68,003	$ -	$ 68,003	$ -	1.2%
Pooled Canadian Money Market Fund	2,371,410	30,036	(952)	29,084	-	1.2%
Short Term Bond Fund	8,354,312	261,852	-	261,852	-	3.1%
Canadian Universe Bond Fund	23,063,062	1,185,298	86,043	1,271,341	1,102,045	10.3%
	$ 39,369,135	$ 1,545,189	$ 85,091	$ 1,630,280	$ 1,102,045	6.9%

For the Year Ended March 31, 2011

	Average balance	Investment income	Realized Gains (Losses)	Total Income	Unrealized Gains (Losses)	Annualized return
Cash	$ 10,442,490	$ 78,616	$ -	$ 78,616	$ -	0.8%
Pooled Canadian Money Market Fund	3,347,723	29,628	-	29,628	2,073	0.9%
Short Term Bond Fund	6,790,136	175,393	(262,010)	(86,617)	(55,496)	-2.1%
Canadian Universe Bond Fund	15,058,913	1,005,188	-	1,005,188	(260,756)	4.9%
	$ 35,639,262	$1,288,825	$ (262,010)	$ 1,026,815	$ (314,179)	2.0%

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

14. Expenses by object

Expenses by object are as follows:

	For the Year Ended March 31		
Expenses	**Budget**	**2012**	**2011**
Salaries and benefits	$ 25,145,395	$ 25,913,577	$ 23,547,795
Professional services	2,528,921	3,324,940	2,051,160
Occupancy	2,270,716	2,271,689	1,953,892
Depreciation	700,000	652,416	786,230
Information management	820,185	976,945	788,023
Education disbursements (note 11)	975,000	1,451,642	636,033
External communication programs	388,350	303,506	209,418
Administration	467,288	478,082	410,048
Staff training	533,940	478,475	417,876
Business travel	320,926	271,589	301,545
Telecommunications	128,271	121,320	113,704
Regulatory operations	$ 34,278,992	$ 36,244,181	$ 31,215,724

15. 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.

16. 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 57,000 active members and approximately 36,000 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, 2011, indicated a $275 million deficit for basic pension benefits. In order to fund the liability, both employee and employer contribution rates increased, effective April 1, 2012. 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 $1.9 million to expense for employer contributions during the period (fiscal 2011 - $1.7 million).

17. Commitments and contingencies

a) *Office lease*
Our lease ends November 30, 2021. Rent over the lease term is as follows:

December 1, 2011 - November 30, 2013	$1,390,000 per year
December 1, 2013 - November 30, 2015	$1,455,000 per year
December 1, 2015 - November 30, 2017	$1,540,000 per year
December 1, 2017 - November 30, 2019	$1,620,000 per year
December 1, 2019 - November 30, 2021	$1,700,000 per year

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 share actual versus budgeted system operating cost (expense) variances.

The OSC is holding $80.5 million (March 31, 2011 - $64.9 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, 2012. The CSA Principal Administrators have agreed that we will use these funds only for the benefit of national filing system users.

In fiscal 2010, the CSA began a national project to rebid operation of, and then redevelop, the national systems. As at March 31, 2012, expenses related to the project totalled $2,729,885.

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.

18. Comparative figures

Certain comparative figures, as at March 31, 2011, and for the year ended March 31, 2011, have been restated to conform to current year's presentation.

19. Budgeted figures

Budgeted figures are for comparison purposes and flow from the BCSC fiscal 2012 Service Plan.