

Discussion of Results

For the Year Ended March 31, 2016

We prepared this discussion of financial position and results of operations of the British Columbia Securities Commission (BCSC) on May 5, 2016. Read it in conjunction with our audited financial statements for the year ended March 31, 2016.

We prepared the financial information in this report in accordance with Canadian public sector accounting standards. We report in Canadian dollars. We round totals and percentages. Year references are to fiscal years ending March 31.

BCSC is the provincial crown corporation responsible for regulating BC capital market activity. Effective April 2, 2013, results include 25% of a government partnership (Partnership) that operates certain national electronic filing and payment systems. We refer to all other operating results as local (Local).

Financial Resource Summary

(millions)	2011	2012	2013	2014	2015	2016	2016	Fiscal 2016	
	Actual	Actual	Actual	Actual	Actual	Budget	Actual	vs Budget	vs 2015
Revenue									
<i>Local filing fees</i>									
Prospectus and other distributions	\$ 17.8	\$ 19.2	\$ 18.3	\$ 20.9	\$ 20.5	\$ 21.5	\$ 23.7	\$ 2.2	\$ 3.2
Registration	10.6	10.9	11.1	11.1	11.4	11.7	11.6	-	0.2
Financial filings	4.9	4.7	4.7	5.0	4.8	4.6	4.9	0.3	0.1
Other fees	0.2	0.2	0.2	0.2	0.2	0.2	0.2	-	-
	<u>\$ 33.5</u>	<u>\$ 34.9</u>	<u>\$ 34.2</u>	<u>\$ 37.2</u>	<u>\$ 36.9</u>	<u>\$ 38.0</u>	<u>\$ 40.4</u>	<u>\$ 2.5</u>	<u>\$ 3.6</u>
<i>Other revenue</i>									
National systems filing and data fees	\$ -	\$ -	\$ -	\$ 36.3	\$ 6.4	\$ 6.4	\$ 6.4	\$ -	\$ -
Enforcement sanctions	0.4	0.3	1.0	0.7	1.0	0.3	0.2	(0.1)	(0.8)
Investment income	1.0	1.6	2.2	0.9	1.2	0.7	1.4	0.7	0.3
	<u>\$ 1.4</u>	<u>\$ 2.0</u>	<u>\$ 3.2</u>	<u>\$ 37.9</u>	<u>\$ 8.5</u>	<u>\$ 7.4</u>	<u>\$ 8.0</u>	<u>\$ 0.6</u>	<u>\$ (0.5)</u>
Total revenue	<u>\$ 34.9</u>	<u>\$ 36.9</u>	<u>\$ 37.4</u>	<u>\$ 75.1</u>	<u>\$ 45.4</u>	<u>\$ 45.3</u>	<u>\$ 48.4</u>	<u>\$ 3.1</u>	<u>\$ 3.0</u>
Expenses									
Salaries and benefits	\$ 23.5	\$ 25.9	\$ 27.0	\$ 28.8	\$ 30.8	\$ 31.4	\$ 30.6	\$ (0.8)	\$ (0.2)
Other expenses	7.7	10.3	11.5	12.0	11.0	12.0	11.8	(0.2)	0.9
National filing systems expenses				7.6	3.5	4.5	4.0	(0.5)	0.5
Total expenses	<u>\$ 31.2</u>	<u>\$ 36.2</u>	<u>\$ 38.5</u>	<u>\$ 48.5</u>	<u>\$ 45.3</u>	<u>\$ 48.0</u>	<u>\$ 46.5</u>	<u>\$ (1.4)</u>	<u>\$ 1.2</u>
Surplus (deficit)	<u>\$ 3.7</u>	<u>\$ 0.6</u>	<u>\$ (1.1)</u>	<u>\$ 26.6</u>	<u>\$ 0.1</u>	<u>\$ (2.7)</u>	<u>\$ 1.9</u>	<u>\$ 4.6</u>	<u>\$ 1.8</u>
SUPPLEMENTARY INFORMATION									
Unrestricted surplus	\$ 32.0	\$ 33.6	\$ 31.4	\$ 28.8	\$ 26.6	\$ 21.3	\$ 24.9	\$ 3.6	\$ (1.7)
Restricted surplus				28.9	32.2	34.4	35.0	0.6	2.8
Local capital expenditures	0.6	2.2	4.2	5.2	2.9	1.2	1.6	0.4	(1.3)
Partnership capital expenditures				0.2	0.2		0.3	0.3	0.1
Debt	-	-	-	-	-	-	-	-	-

Discussion of Results

For the Year Ended March 31, 2016

Consolidated results were \$1.9 million, \$4.6 million above budget.

The key budget variances were:

- Exempt market (EDER) filing revenues were \$0.9 million (23%) above budget. Most of the increase was from higher fees paid by private funds that report annually. This revenue stream is volatile and we receive most fees in the last quarter every year.
- Public distribution filing revenues were \$1.1 million (7%) above budget. We budgeted for a \$1.3 million increase in mutual fund (MF) fee revenue. Actual growth was even higher, at \$2 million (19%) over fiscal 2015 results. In addition, the non-mutual fund (NMF) issuer population shrank, as expected, but related capital raising fees did not decline.
- We managed cash and investments to maximize income and avoided a budgeted investment loss, so investment income was \$0.7 million (294%) above budget.
- Compensation costs were \$0.8 million (2%) below budget, through modest staff attrition and higher than expected capital effort. Average full-time equivalent (FTE) employees fell seven FTEs (3%).
- Net contribution from a national filing system partnership (CSA partnership) was \$0.5 million (20%) higher than budget, due to the timing of expenses related to two systems renewal projects.

Capital spending was \$0.4 million (33%) above budget, due to the type of work completed, not from adding unbudgeted or unplanned resources. The timing of CMRA work (expense) enabled us to focus on approved internal projects (often capital). As a result, capital additions and salary costs were higher and lower, respectively. Fiscal 2016 capital projects include e-filing system changes to support a CSA project to harmonize the Exempt Distribution filing form, IT system security improvements, risk model enhancements to refine data analysis, new databases to give staff greater access to BCSC information, and networking equipment replacements.

Revenues

The BCSC does not receive taxpayer funding. Most of our revenue comes from local filing, registration, and application fees paid by market participants under the *Securities Act*. A portion of our revenue is a 25% interest in the CSA partnership. The remainder of our revenue is investment income and enforcement sanctions.

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

Discussion of Results

For the Year Ended March 31, 2016

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

Revenue source/Year	2011	2012	2013	2014	2015	2016
Distributions	51%	52%	49%	41%	45%	49%
Registrations	30%	30%	30%	22%	25%	25%
Financial filings	14%	13%	13%	10%	11%	10%
Interest	3%	4%	5%	1%	2%	2%
Sanctions and other	2%	1%	3%	1%	2%	0%
Partnership	0%	0%	0%	25%	15%	14%
Total	100%	100%	100%	100%	100%	100%

Local fee revenue

We collect the following fees:

- *Distribution fees*, from public companies, private companies, and mutual funds, to file disclosure documents, which can include fees related to the amount, called proceeds, of the offering
- *Registration fees*, from firms and individuals, to register with us to sell or advise on securities
- *Financial filings fees*, from public companies and mutual funds, to file annual and interim financial statements
- *Other fees*, from market participants, primarily to request *Securities Act* exemptions

Capital markets activity can be volatile, so we hold accumulated reserves to fund operations through market downturns. We designed our fee model to generate sufficient revenue to fund our operations through market cycles, so that our regulatory capacity is not compromised during a sustained downturn. The nature of the markets has changed over the years to a point where we need to adjust our fee model and fee rate structure to ensure sufficient funding going forward.

Enforcement sanctions

We can order respondents to pay to us administrative penalties, and under section 161(1)(g) also money obtained by contravening the *Securities Act*. We also negotiate settlements, which include monetary sanctions. We recognize administrative penalties and settlements that are collectible, and unclaimed 161(1)(g) payments, as revenue and appropriate these revenues to our education reserve, an internally restricted fund. We spend education reserve funds only to educate securities market participants and the public about investing, financial matters, and the operation and regulation of securities markets.

Collecting sanctions is difficult. Respondents often have limited assets, have poor credit, or have left BC. We have collected less than 5% of the amount sanctioned since our incorporation on April 1, 1995. We pursue outstanding amounts vigorously. However, of the \$425 million outstanding, only \$0.1 million is likely collectible and accrued in our financial statements. About 77% (\$329 million) of the outstanding sanctions relates to eleven cases. Over 37% (\$159 million) of the outstanding sanctions relates to 161(1)(g) orders.

Enforcement sanctions vary significantly between periods.

Discussion of Results

For the Year Ended March 31, 2016

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 liquid, high quality, money market instruments; government securities; and investment-grade corporate debt securities.

Local revenue analysis

Revenues were \$3.1 million (8%) above budget, primarily due to higher fees from exempt market, mutual fund, public issuer distributions, and higher investment income.

Distribution revenue was \$2.2 million (10%) higher than budget. The positive variance was from \$0.9 million (23%) higher fees from exempt market capital raising, \$0.7 million (6%) higher MF proceeds fees from higher than expected growth in mutual fund sales, and \$0.4 million (13%) higher fees from non-mutual fund prospectuses.

Investment income was \$0.7 million (294%) higher than budget due to realizing a gain on investments, higher than anticipated investment balances that generated higher returns, and avoiding an expected investment loss through cash management.

The reporting issuer population fell, but financial filings revenue was \$0.3 million (7%) higher than budget due to timing.

Local revenues (thousands)	2016 versus Budget				2016 versus 2015			
	Actual	Budget	Variance	%	2016	2015	Variance	%
Distribution	\$ 23,693	\$ 21,500	2,193	10%	\$ 23,693	\$ 20,519	\$ 3,174	15%
Registration	11,633	11,650	(17)	0%	11,633	11,384	249	2%
Financial filings	4,899	4,600	299	7%	4,899	4,764	135	3%
Exemptions and other	216	200	16	8%	216	190	26	14%
Sanctions	199	300	(101)	-34%	199	1,027	(828)	-81%
Investment income	984	250	734	294%	984	764	220	29%
	<u>\$ 41,625</u>	<u>\$ 38,500</u>	<u>3,125</u>	<u>8%</u>	<u>\$ 41,625</u>	<u>\$ 38,648</u>	<u>\$ 2,977</u>	<u>8%</u>

Revenues increased \$3.0 million (8%) versus 2015, for the reasons noted above, and from continued growth in individual registration fees. Lower sanction receipts only partly offset the other revenue increases.

Discussion of Results

For the Year Ended March 31, 2016

Expenses

Expenses relate to local operations and a proportionate interest in the CSA partnership.

Compensation and occupancy costs account for about 80% of Local expenses. As described elsewhere in this annual report, we focus our effort on four goals:

1. Promoting a culture of compliance
2. Acting decisively against misconduct
3. Educating investors
4. Advancing cost-effective regulation

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

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

Local and Partnership operations are exempt from income taxes. Locally, we pay PST (7%) and GST (5%) on taxable purchases, but recover the GST. Partnership fees are HST-exempt and the Partnership pays recoverable HST on taxable purchases.

Local salaries and benefits

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

Local occupancy costs

We run Local operations from a downtown Vancouver office to be close to the reporting issuers and registrants that we regulate. Our 61,000 square feet of space cost us about \$49 per square foot for 2016, under a lease that expires in November 2021.

Local professional services

We engage consultants when outsourcing is more cost-effective than performing the work ourselves. Fiscal 2016 professional service costs related primarily to the following:

- Legal services
- 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 and external audit services

Discussion of Results

For the Year Ended March 31, 2016

Local education

We educate securities market participants and the public about financial literacy, investment fraud, and the operation and regulation of securities markets. Most 2016 education spending was on investor education.

Local depreciation and capital spending

Our Local capital spending and related depreciation relate primarily to information systems.

Local information management

We spend on information systems and management to improve access to our services and information, to increase our capacity to monitor and analyze market activity, and to increase the efficiency of our processes. Information management has three main components:

- Software licensing and maintenance fees
- Electronic information services
- Physical record storage costs

Local expense analysis

Expenses were \$0.9 million (2%) below budget, primarily due to lower compensation costs, partly offset by higher professional fees.

Salaries and benefits costs were \$0.8 million (2%) lower than budget from higher position vacancies and project effort capitalization.

Professional fees were \$0.3 million (12%) higher than budget, primarily due to the nature and timing of external legal support and because we now net CSA website project cost recoveries, usually time spent by staff, against salaries.

Other operating expenses are comprised of administration, telecommunications, business travel, training, and external communications.

Local expenses (thousands)	2016 versus Budget				2016 versus 2015			
	Actual	Budget	Variance	%	2016	2015	Variance	%
Salaries	\$ 30,649	\$ 31,400	\$ 751	2%	\$ 30,649	\$ 30,821	\$ 172	1%
Professional services	2,358	2,100	(258)	-12%	2,358	1,955	(403)	-21%
Occupancy	3,117	3,270	153	5%	3,117	3,046	(71)	-2%
Depreciation	2,780	2,850	70	2%	2,780	2,394	(386)	-16%
Information management	1,456	1,550	94	6%	1,456	1,313	(143)	-11%
Education	762	750	(12)	-2%	762	728	(34)	-5%
Other	1,357	1,485	128	9%	1,357	1,533	176	11%
	<u>\$ 42,478</u>	<u>\$ 43,405</u>	<u>\$ 927</u>	<u>2%</u>	<u>\$ 42,478</u>	<u>\$ 41,788</u>	<u>\$ (690)</u>	<u>-2%</u>

Discussion of Results

For the Year Ended March 31, 2016

Expenses increased \$0.7 million (2%) from 2015, primarily due to higher professional fees and depreciation expenses.

Professional fees increased \$0.4 million (21%) for the reasons described above.

Depreciation was \$0.4 million (16%) higher due to increased capital spending in prior fiscal years.

Salaries expense decreased \$0.2 million (1%). Non-management staff received an average 3% merit increase, costing \$0.6 million, effective April 1, 2015. A drop in employees through attrition, from 245 to 238 full-time equivalents, offset the compensation cost increases.

National filing systems partnership

Effective April 2, 2013, the BCSC, together with the Alberta Securities Commission, Ontario Securities Commission, and the l' Autorité des marchés financiers (collectively, the Principal Administrators or PAs), agreed to govern certain national electronic filing and payment systems on behalf of the Canadian Securities Administrators. Under the arrangements, each of the four PAs has one vote on national electronic filing systems matters. This arrangement is a government partnership and we consolidate twenty-five percent of national filings systems assets and operations.

Partnership operations (millions)	2015 Actual	2016 Budget	2016 Actual	Fiscal 2016	
				vs Budget	vs 2015
Operations					
National filing systems revenues	\$ 6.8	\$ 6.8	\$ 6.8	\$ -	\$ -
National filing systems expenses	3.5	4.5	4.0	0.5	(0.5)
Surplus	\$ 3.3	\$ 2.3	\$ 2.8	\$ 0.5	\$ (0.5)

Partnership results for the year were \$0.5 million (22%) higher than budget primarily due to the timing of professional services expenditures related to two national filing system renewal projects.

Discussion of Results

For the Year Ended March 31, 2016

Financial position and liquidity

Use of financial instruments

Local and Partnership operations do not use or invest in complex or higher risk financial instruments, so we do not face significant credit or material market risk. Liquidity risk is also low because our investments are in demand deposits and redeemable, pooled fund units.

Our Local pooled fund investments expose us to interest rate risk because their fair value fluctuates with interest rate changes. An immediate 1% interest rate increase would decrease our investment portfolio value by about \$1.3 million. However, we expect rates to increase slowly, if at all, over the coming year, and rate increases would also increase future investment income. We manage interest rate risk by monitoring portfolio duration and yields with the fund administrator, bcIMC. The current investment duration of the Short-term Bond Fund is 2.8 years and of the Canadian Universe Bond Fund is 7.9 years.

Consolidated liquidity

Cash flow for the period was positive \$16.4 million (fiscal 2015 – negative \$20.6 million). Positive cash flows were due to \$13.8 million net sales of investments and a \$4.5 million cash inflow provided by operations partly offset by \$1.9 million of capital asset acquisitions. We ended the year with \$29.5 million (March 31, 2015 - \$13.1 million) in cash.

Consolidated assets

Amounts receivable remained unchanged at \$1.1 million (March 31, 2015 - \$1.1 million). Partnership receivables relate primarily to systems usage fees. Local receivables relate primarily to enforcement sanctions, GST receivable, national project cost recoveries, and administrative support cost recoveries due from the Canadian Securities Transition Office.

Capital assets decreased \$1.0 million to \$10.1 million, net of \$2.9 million depreciation. Local capital spending related primarily to e-filing system changes to support a CSA project to harmonize the Exempt Distribution filing form, IT system security improvements, risk model enhancements to refine data analysis, new databases to give staff greater access to BCSC information, and networking equipment replacements, and totalled \$1.6 million, as follows:

Project	(\$ millions)
E-services filing system changes	\$ 0.5
IT security improvements	0.4
Databases	0.2
Risk model enhancements	0.2
Network equipment upgrades	0.2
Other	0.1
	<u>\$ 1.6</u>

Prepaid expenses increased slightly to \$1.0 million (March 31, 2015 - \$0.9 million). Prepaid expenses relate primarily to prepaid software licenses and registration processing fees paid in advance.

Discussion of Results

For the Year Ended March 31, 2016

We ended the year with a \$59.9 million surplus (March 31, 2015 - \$58.8 million).

Local contractual obligations

Our significant Local contractual obligations at March 31, 2016 relate to our office lease and multi-function devices. Our commitments under those contracts total approximately \$18.5 million (March 31, 2015 - \$21.6 million), as follows:

(\$millions)	2017	2018-2019	2020-2021	2022	Total
Leased space and equipment	3,146,436	6,421,022	6,668,255	2,265,649	18,501,361

Internal control over financial reporting (ICFR)

During the year, we reviewed our ICFR processes and updated documentation where necessary. No changes occurred during the year ended March 31, 2016, that materially affected, or are likely to materially affect, our ICFR. Our internal auditors tested operating effectiveness of our ICFR as at March 31, 2016 and concluded that the ICFR was operating effectively and that there are no material weaknesses.

Risk management

Risk management approach

We practice enterprise risk management (ERM) to identify and manage our risks. Our ERM process updates the Board on key risks and supports our strategic planning process. We maintain a business continuity plan to restore critical functions within hours.

Local fee revenue

Capital markets activity can be volatile, so we hold accumulated reserves to fund operations through market downturns. We designed our fee model to generate sufficient revenue to fund our operations through market cycles, so that our regulatory capacity is not compromised during a sustained downturn. The nature of the markets has changed over the years to a point where we need to adjust our fee model and fee rate structure to ensure sufficient funding going forward.

Partnership revenue

The Partnership funds operations primarily from fees paid by market participants. Market volatility does not significantly affect fees. In addition, the Partnership has an accumulated surplus sufficient to fund operations through a sustained period of no or low usage fees.

Discussion of Results
For the Year Ended March 31, 2016

Reliance on CGI

Under an agreement with CGI Information Systems and Management Consultants Inc. (CGI) that ends on January 13, 2019, CGI operates several national electronic filing systems through which we collect most of our fee revenue. CGI maintains a comprehensive business continuity plan for these systems.

Discussion of Results

For the Year Ended March 31, 2016

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 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 compensation
- The chair and executive director consult the Human Resources Committee on the compensation of other executives and senior managers

Compensation philosophy

Our compensation philosophy reflects the following principles:

- Compensation decisions should be objective
- Compensation should reflect job attributes
- Compensation should reflect performance
- Employees and the public should understand our compensation program

We strive to offer median compensation.

For roles that require securities industry expertise, we benchmark against law and accounting firms, the securities industry, and other securities regulators. For other roles, we benchmark against competing public sector organizations including the Financial Institutions Commission, other provinces, and against private sector organizations when comparable public sector benchmarks are not available. To remain competitive, we conduct periodic salary surveys and propose adjustments when surveyed position salaries are significantly below the median.

We award performance-based salary increases. We meet with employees to review and formally document their performance, at least annually.

We maintain a comprehensive compensation and performance management policy for employees. We publish our policy for compensating independent commissioners, an annual Financial Information Act report, and annual executive compensation disclosure.

Discussion of Results
For the Year Ended March 31, 2016

Fiscal 2016 compensation summary (in dollars)

Executive and Senior Management Compensation

Name and Position	Salary	Benefits ¹	Pension	All Other Compensation (expanded below)	2016 Total	Previous Two Years Totals	
						2015	2014
Brenda Leong, Chair	\$ 434,748	\$ 8,643	\$ 46,694	\$ 9,166	\$ 499,251	\$ 499,251	\$ 499,251
Nigel Cave, Vice Chair ²	\$ 327,000	\$ 10,264	\$ -	\$ 2,057	\$ 339,321	\$ 340,000	\$ 28,022
Paul Bourque, Executive Director	\$ 334,312	\$ 9,890	\$ 35,717	\$ 9,584	\$ 389,503	\$ 390,293	\$ 387,326
Teresa Mitchell-Banks, Director, Enforcement ³	\$ 162,862	\$ 3,946	\$ 17,801	\$ 429,331	\$ 613,940	\$ 283,824	\$ 286,048
Peter Brady, Director, Enforcement ⁴	\$ 229,935	\$ 10,162	\$ 24,308	\$ 6,472	\$ 270,877	\$ 268,010	\$ 268,729
John Hinze, Director, Corporate Services	\$ 218,275	\$ 10,056	\$ 23,102	\$ 2,390	\$ 253,823	\$ 253,210	\$ 253,818

Executive and Senior Management Other Compensation

Name and Position	All Other Compensation	Severance	Vacation payout	Parking	Professional Membership Fees
Brenda Leong, Chair	\$ 9,166	\$ -	\$ -	\$ 6,384	\$ 2,782
Nigel Cave, Vice Chair	\$ 2,057	\$ -	\$ -	\$ -	\$ 2,057
Paul Bourque, Executive Director	\$ 9,584	\$ -	\$ -	\$ 6,384	\$ 3,200
Teresa Mitchell-Banks, Director, Enforcement	\$ 429,331	\$ 416,858	\$ 7,335	\$ 3,081	\$ 2,057
Peter Brady, Director, Enforcement	\$ 6,472	\$ -	\$ -	\$ 4,415	\$ 2,057
John Hinze, Director, Corporate Services	\$ 2,390	\$ -	\$ -	\$ -	\$ 2,390

Independent Commissioner Compensation⁵

Name and Position	Fees	Benefits ⁶	2016	2015	2014
Judith Downes, Commissioner	\$ 85,125	\$ 2,085	\$ 87,210	\$ 142,726	\$ 87,537
George C. Glover, Jr., Commissioner	\$ 112,750	\$ 111	\$ 112,861	\$ 128,335	\$ 119,606
Audrey T. Ho, Commissioner	\$ 103,025	\$ 2,279	\$ 105,304	\$ 129,806	\$ 85,407
Gordon Holloway, Commissioner	\$ 73,963	\$ 2,652	\$ 76,615	\$ 71,173	\$ 59,666
Don Rowlett, Commissioner	\$ 79,100	\$ 122	\$ 79,222	\$ 96,802	\$ 66,907
Suzanne K. Wiltshire, Commissioner	\$ 134,275	\$ 2,672	\$ 136,947	\$ 146,177	\$ 132,730
Retired Commissioners	\$ 4,658	\$ 854	\$ 5,513	\$ 62,785	\$ 52,390

Total Commissioner compensation is fees for all activities including attendance at meetings and hearings. Our Independent Commissioner compensation policy is located on the BCSC website.

¹ Benefits includes long-term disability plan premiums, Canada Pension Plan premiums, extended health and dental plan premiums, Medical Services Plan premiums, Employment Insurance premiums, Worksafe premiums, group life insurance premiums, and fitness reimbursements.

² Appointed February 28, 2014

³ Appointment ended November 27, 2015

⁴ Appointed Director of Enforcement February 3, 2016; previously Director of Corporate Finance

⁵ These are part-time positions

⁶ Benefits includes Canada Pension Plan 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 (Report) are complete and accurate. Management has prepared the financial statements according to Canadian public sector accounting standards (PSAS).

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

The Board is responsible for establishing prudent rules of business and staff conduct. It is the BCSC's policy to maintain the highest standards of ethics in all its activities. The BCSC 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 BCSC. 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 responsible for reviewing and evaluating the adequacy of and compliance with the BCSC'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 BCSC's financial position, results of operations and cash flows in accordance with PSAS. 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 that the Board approve them.

The BCSC has appointed BDO Canada LLP (BDO) to be the independent auditor of the Commission. BDO has examined the financial statements and its report follows.



Brenda M. Leong
Chair and Chief Executive Officer



Paul C. Bourque
Executive Director



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INDEPENDENT AUDITOR'S REPORT

To the Commissioners of the British Columbia Securities Commission

We have audited the accompanying financial statements of the British Columbia Securities Commission, which comprise the Statement of Financial Position as at March 31, 2016, and the Statements of Operations and Change in Accumulated Surplus, Remeasurement Gains and Losses, Change in Net Financial Assets and Cash Flows for the year then ended, and 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we 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 consolidated 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 consolidated 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly in all material respects, the financial position of the British Columbia Securities Commission as at March 31, 2016 and its results of operations, changes in net financial assets, remeasurement gains and losses and cash flows for the year then ended, in accordance with Canadian public sector accounting standards.



Chartered Professional Accountants

Vancouver, British Columbia
May 5, 2016


British Columbia Securities Commission
Statement of Financial Position
As at March 31, 2016
(audited)

	Notes	<u>March 31 2016</u>	<u>March 31 2015</u>
Financial assets			
Cash	4	\$ 29,379,432	\$ 13,016,690
Restricted cash - 161(1)(g) payments	5	151,781	131,781
Investments	6 a)	30,365,341	44,102,667
Amounts receivable	7	1,067,682	1,119,495
		<u>\$ 60,964,236</u>	<u>\$ 58,370,633</u>
Liabilities			
Accounts payable and accrued liabilities	8	\$ 1,831,268	\$ 1,705,188
Accrued salaries		1,105,136	1,006,332
Deferred registration fee revenue		8,031,547	7,894,828
Employee leave liability	9	998,994	825,339
161(1)(g) liabilities	5	151,781	131,781
		<u>\$ 12,118,726</u>	<u>\$ 11,563,468</u>
Net financial assets		<u>\$ 48,845,510</u>	<u>\$ 46,807,165</u>
		<u>\$ 48,845,510</u>	<u>\$ 46,807,165</u>
Tangible capital assets	10	\$ 10,063,752	\$ 11,122,693
Prepaid expenses	11	968,090	918,412
		<u>\$ 11,031,842</u>	<u>\$ 12,041,105</u>
Accumulated Surplus		<u>\$ 59,877,352</u>	<u>\$ 58,848,270</u>
Accumulated Surplus is comprised of:			
Unrestricted surplus	12	\$ 25,401,883	\$ 26,254,886
Restricted surplus	12	34,963,992	32,198,293
		<u>60,365,875</u>	<u>58,453,179</u>
Accumulated remeasurement gains (losses)		(488,523)	395,091
		<u>\$ 59,877,352</u>	<u>\$ 58,848,270</u>

Commitments and contingencies (note 18)

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

Approved by the Board:



Brenda M. Leong
Chair and Chief Executive Officer



Suzanne K. Wiltshire
Chair, Audit Committee

British Columbia Securities Commission
Statement of Operations and Change in Accumulated Surplus
For the Year Ended March 31, 2016
(audited)

	Notes	Year Ended March 31		
		2016 Budget (note 19)	2016 Actual	2015 Actual
Revenues				
Regulatory and other fees				
Prospectus and other distributions		\$ 21,500,000	\$ 23,693,491	\$ 20,519,116
Registration		11,650,000	11,633,154	11,384,090
Financial filings		4,600,000	4,898,652	4,763,870
Exemptive orders and other		200,000	369,541	312,430
National filing systems access and usage fees	6 b)	6,800,000	6,230,310	6,243,860
Enforcement sanctions	13	300,000	199,472	1,026,813
Investment income	6 b), 14	250,000	1,039,678	1,179,873
Realized gains (losses) on investments	14	-	368,229	(27,587)
		<u>\$ 45,300,000</u>	<u>\$ 48,432,527</u>	<u>\$ 45,402,465</u>
Expenses				
Local operations	15	43,405,000	42,477,950	41,788,482
National filing systems operations	6 b), 15	4,550,000	4,041,881	3,501,010
		<u>\$ 47,955,000</u>	<u>\$ 46,519,831</u>	<u>\$ 45,289,492</u>
Annual surplus (deficit)		<u>\$ (2,655,000)</u>	<u>\$ 1,912,696</u>	<u>\$ 112,973</u>
Accumulated surplus, beginning of year			<u>\$ 58,453,179</u>	<u>\$ 58,340,206</u>
Accumulated surplus, end of year			<u>\$ 60,365,875</u>	<u>\$ 58,453,179</u>

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

British Columbia Securities Commission
Statement of Remeasurement Gains and Losses
For the Year Ended March 31, 2016
(audited)

	Notes	Year Ended March 31	
		2016	2015
Accumulated remeasurement gains (losses), beginning of year		\$ 395,091	\$ (620,401)
Unrealized gain (loss) on investments	14	(515,385)	987,905
Realized (gain) loss on investments, reclassified to operations	14	(368,229)	27,587
Accumulated remeasurement gains (losses), end of year		<u>\$ (488,523)</u>	<u>\$ 395,091</u>

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

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

	Notes	Year Ended March 31		
		2016 Budget (note 19)	2016 Actual	2015 Actual
Surplus (deficit), for the year		\$ (2,655,000)	\$ 1,912,696	\$ 112,973
Acquisition of tangible capital assets	10	\$ (1,200,000)	\$ (1,876,113)	\$ (3,145,809)
Write-off of intangible capital assets	10	-	52,500	-
Amortization of tangible capital assets	10	2,850,000	2,882,554	2,461,076
		<u>\$ 1,650,000</u>	<u>\$ 1,058,941</u>	<u>\$ (684,733)</u>
Acquisition of prepaid expenses	11		\$ (1,040,104)	\$ (852,570)
Use of prepaid expenses	11		990,426	768,855
			<u>\$ (49,678)</u>	<u>\$ (83,715)</u>
Effect of net remeasurement gains (losses) for the year			<u>\$ (883,614)</u>	<u>\$ 1,015,492</u>
Increase in net financial assets, for the year			<u>\$ 2,038,345</u>	<u>\$ 360,018</u>
Net financial assets, beginning of year			<u>\$ 46,807,165</u>	<u>\$ 46,447,148</u>
Net financial assets, end of year			<u>\$ 48,845,510</u>	<u>\$ 46,807,165</u>

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

British Columbia Securities Commission
Statement of Cash Flows
(audited)

	Notes	Year Ended March 31	
		2016	2015
Operating transactions			
Cash received from:			
Fees	6 b)	\$ 47,013,247	\$ 43,522,878
Enforcement sanctions	13	152,368	1,147,123
Interest		475,071	443,124
		<u>\$ 47,640,686</u>	<u>\$ 45,113,125</u>
Cash paid for:			
Cash paid to and on behalf of employees		\$ (30,364,110)	\$ (30,608,500)
Cash paid to suppliers and others		(12,824,269)	(13,436,064)
		<u>\$ (43,188,379)</u>	<u>\$ (44,044,564)</u>
Cash provided by operating transactions		<u>\$ 4,452,307</u>	<u>\$ 1,068,561</u>
Capital transactions			
Cash used to acquire tangible capital assets	10	<u>\$ (1,876,113)</u>	<u>\$ (3,145,809)</u>
Investing transactions			
Proceeds from disposals of investments		\$ 46,368,218	\$ 9,000,000
Investments		(32,581,669)	(27,500,000)
		<u>\$ 13,786,549</u>	<u>\$ (18,500,000)</u>
Increase (decrease) in cash		<u>\$ 16,362,742</u>	<u>\$ (20,577,248)</u>
Cash, beginning of year		<u>\$ 13,016,690</u>	<u>\$ 33,593,938</u>
Cash, end of year		<u>\$ 29,379,432</u>	<u>\$ 13,016,690</u>

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

British Columbia Securities Commission
Notes to the Financial Statements
For Year Ended March 31, 2016
(audited)

1. Nature of operations

The British Columbia Securities Commission (BCSC) is a Crown corporation created by the Province of British Columbia on April 1, 1995. We are responsible for the administration of the *Securities Act*. As a Crown corporation, the BCSC is exempt from income taxes. We pay PST (7%) and GST (5%) on taxable purchases but recover the GST.

Effective April 2, 2013, the BCSC, the Alberta Securities Commission, Ontario Securities Commission, and the l'Autorité des marchés financiers (collectively, the Principal Administrators, or PAs), agreed with Investment Industry Regulatory Organization of Canada (IIROC), CDS Inc. (CDS) and CGI Information Systems and Management Consultants Inc. (CGI) to consolidate national electronic filing systems governance under the PAs and transition systems management from CDS to CGI during fiscal 2014. Under the arrangements, each of the four PAs has one vote on national electronic filing systems matters. This arrangement is a government partnership under Public Sector Accounting Standards (PSAS). Accordingly, these financial statements include 25% of the assets, liabilities, net assets, revenues and expenses of the Partnership, effective April 2, 2013.

2. Significant accounting policies

Management has prepared these financial statements in accordance with PSAS using guidance developed by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants Canada. Significant accounting policies followed in the preparation of these financial statements are:

a) Interest in Partnership

We record the BCSC interest in the Partnership using proportionate consolidation, whereby we record our pro-rata share of each of the assets, liabilities, net assets, revenues and expenses of the Partnership.

b) Financial instruments

Our financial instruments include cash, restricted cash, investments, amounts receivable, accounts payable, accrued liabilities, accrued salaries, and 161(1)(g) liabilities. Under the *Securities Act*, we must invest any BCSC 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. The Partnership's surplus cash and our restricted cash are on deposit with Schedule 1 chartered banks. Surplus cash earns interest at prime minus 1.85%. Our restricted cash earns interest at prime minus 1.70%. The Partnership's term deposits are held with credit unions in redeemable term deposits at fixed interest rates. The term deposits earn interest at a rate of 1.70% (2015 - 1.25% to 2.00%).

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

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

We recognize realized gains and losses in annual surplus/deficit, in the period that they arise. We record unrealized gains and losses separately in the statement of accumulated remeasurement gains / (losses). We reinvest any investment earnings in the portfolio and returns adjust the carrying value of the units we own.

British Columbia Securities Commission
Notes to the Financial Statements
For Year Ended March 31, 2016
(audited)

2. Significant accounting policies (con't)

c) 161(1)(g) payments

The Commission can order respondents to pay to the Commission money obtained as a result of contravening the Securities Act. If the Commission receives money under such an order, we must

- issue a press release
- post a notice on the BCSC website that we have collected money
- receive and consider applications for payment to eligible claimants from the money collected

We allocate funds to eligible claimants after adjudicating all claims, and retain any funds not disbursed after adjudicating all claims. We hold these funds in a segregated bank account where they earn interest at prime minus 1.70%.

d) Tangible capital assets

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

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

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

e) Prepaid expenses

Prepaid expenses include calendar year registration processing fees and prepaid IT hardware and software maintenance. We charge prepaid expenses to expense over the periods of expected benefit.

f) 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 almost all filings are paid for immediately.

We receive registration fees in advance, so we defer and recognize them in revenue over the calendar year to which they relate.

We recognize enforcement sanctions when we determine they are collectible.

British Columbia Securities Commission
Notes to the Financial Statements
For Year Ended March 31, 2016
(audited)

2. Significant accounting policies (con't)

g) Expenses

We report expenses on an accrual basis. We expense the cost of all goods consumed and services received during the year.

h) Measurement uncertainty

PSAS require management to make estimates and assumptions for certain amounts disclosed in the financial statements.

In our financial statements, management has estimated the:

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

Estimates reflect the best information available when we prepare the financial statements. We review estimates of employee leave liability annually. We review all other estimates on a quarterly basis.

Actual results may differ from these estimates. Any adjustments to these estimates will be recorded in the period that additional information becomes available.

British Columbia Securities Commission
Notes to the Financial Statements
For Year Ended March 31, 2016
(audited)

3. Financial instruments

Cash and restricted cash consists of demand deposits held at Schedule 1 Canadian chartered banks.

Our investments are in units of bcIMC investment pools. Our investment policy allows us 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
- Short Term Bond Fund
Canadian federal and provincial government bonds and Canadian dollar fixed income securities that are 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
- 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 expose the BCSC 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, 2016 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 \$1.3 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 rise slightly, if at all, over the coming year. We manage interest rate risk by monitoring portfolio duration and yields with the fund administrator, bcIMC. The current investment duration of the Short Term Bond Fund is 2.8 years and of the Canadian Universe Bond Fund is 7.9 years.

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

British Columbia Securities Commission
Notes to the Financial Statements
For Year Ended March 31, 2016
(audited)

4. Cash

Cash is demand deposits, as follows:

	<u>March 31, 2016</u>	<u>March 31, 2015</u>
Operating cash	\$ 5,256,918	\$ 4,169,063
Partnership cash	24,122,514	8,847,627
	<u>\$ 29,379,432</u>	<u>\$ 13,016,690</u>

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

Case	<u>March 31, 2016</u>	<u>March 31, 2015</u>
Keith Henry Alexander	\$ 20,000	\$ -
Canada Pacific Consulting Inc. and Michael Robert Shantz	131,781	131,781
	<u>\$ 151,781</u>	<u>\$ 131,781</u>

British Columbia Securities Commission
Notes to the Financial Statements
For Year Ended March 31, 2016
(audited)

6. Investments

a) bcIMC and national filing system investments

Investments are carried at fair value, and consist of:

	March 31, 2016		March 31, 2015	
	Market Value	Cost	Market Value	Cost
<i>bcIMC pooled funds</i>				
Short Term 2 Fund	\$ -	\$ -	\$ 5,073,118	\$ 5,076,033
Short Term Bond Fund	5,994,644	6,011,633	-	-
Canadian Universe Bond Fund	14,370,697	14,842,231	16,529,549	16,131,544
	<u>\$ 20,365,341</u>	<u>\$ 20,853,864</u>	<u>\$ 21,602,667</u>	<u>\$ 21,207,577</u>
<i>National filing systems partnership</i>				
2 year term deposit	\$ 10,000,000	\$ 10,000,000	\$ -	\$ -
1 year term deposit	-	-	16,250,000	16,250,000
1 year GIC	-	-	6,250,000	6,250,000
	<u>\$ 10,000,000</u>	<u>\$ 10,000,000</u>	<u>\$ 22,500,000</u>	<u>\$ 22,500,000</u>
	<u>\$ 30,365,341</u>	<u>\$ 30,853,864</u>	<u>\$ 44,102,667</u>	<u>\$ 43,707,577</u>

bcIMC investment distributions, net of management fees, are reinvested in the portfolio and adjust the carrying value of the units we own.

British Columbia Securities Commission
Notes to the Financial Statements
For Year Ended March 31, 2016
(audited)

6. Investments (cont'd)

b) National filing systems partnership

Summarized statements of financial position, operations and cash flows as at March 31, 2016, and for the period then ended, are as follows:

	March 31, 2016		March 31, 2015	
	Partnership	25% share	Partnership	25% share
<i>Financial Position</i>				
Financial assets	\$ 139,736,757	\$ 34,934,189	\$ 129,066,938	\$ 32,266,735
Liabilities	1,743,570	435,893	1,673,941	418,485
Net Financial assets	\$ 137,993,187	\$ 34,498,297	\$ 127,392,997	\$ 31,848,249
Non-financial assets	1,862,781	465,695	1,400,176	350,044
Accumulated surplus	\$ 139,855,968	\$ 34,963,992	\$ 128,793,173	\$ 32,198,293
<i>Operations</i>				
Revenue	\$ 27,230,319	\$ 6,807,580	\$ 27,018,131	\$ 6,754,533
Expenses	16,167,524	4,041,881	13,910,550	3,501,008
Surplus	\$ 11,062,795	\$ 2,765,699	\$ 13,107,581	\$ 3,276,895
<i>Cash flows</i>				
Cash provided by (used in):				
Operating	\$ (11,062,795)	\$ (2,765,699)	\$ (13,107,581)	\$ (3,276,895)
Capital	1,084,317	271,079	961,824	240,456
Investing	74,201,800	18,550,450	(64,569,589)	(16,142,397)
Increase (decrease) in cash	\$ 64,223,322	\$ 16,055,830	\$ (76,715,346)	\$ (19,178,837)

British Columbia Securities Commission
Notes to the Financial Statements
For Year Ended March 31, 2016
(audited)

7. Amounts receivable

Amounts receivable consists of:

	<u>March 31, 2016</u>	<u>March 31, 2015</u>
National filing systems user fees	\$ 637,553	\$ 750,880
Enforcement sanctions (note 13)	142,938	95,834
Late insider report filing fees	16,800	18,000
Due from CSTO (a)	74,519	80,530
National project recoveries (b)	82,469	21,631
GST rebates	74,222	104,673
Employee advances and other	39,181	47,947
	<u>\$ 1,067,682</u>	<u>\$ 1,119,495</u>

- (a) We seconded employees to, and provide 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.
- (b) We incur IT costs on behalf of the Partnership. The balance reflects cost recoveries due from the other partners.

8. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consists of:

	<u>March 31, 2016</u>	<u>March 31, 2015</u>
Trade accounts payable	\$ 1,393,765	\$ 1,241,332
National filing systems payables	435,893	418,485
CSA payables	-	45,000
Other	1,610	371
	<u>\$ 1,831,268</u>	<u>\$ 1,705,188</u>

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.

British Columbia Securities Commission
Notes to the Financial Statements
For Year Ended March 31, 2016
(audited)

10. Tangible capital assets

Tangible capital assets consists of:

	March 31, 2016					March 31, 2015				
	Information technology	Leasehold improvements	Office furniture and equipment	Partnership Information technology	Total	Information technology	Leasehold improvements	Office furniture and equipment	Partnership Information technology	Total
Cost										
Opening balance	\$ 13,467,227	\$ 5,924,423	\$ 2,920,760	\$ 427,956	22,740,366	\$ 12,071,220	\$ 5,441,510	\$ 2,740,383	\$ 187,500	\$ 20,440,613
Additions	1,590,145	-	14,890	271,079	1,876,113	1,972,920	708,156	224,277	240,456	3,145,809
Disposals	(687,696)	(12,474)	(76,660)	-	(776,830)	(576,913)	(225,243)	(43,900)	-	(846,056)
Write-downs	-	-	-	(52,500)	(52,500)	-	-	-	-	-
Closing balance	\$ 14,369,675	\$ 5,911,949	\$ 2,858,990	\$ 646,535	\$ 23,787,149	\$ 13,467,227	\$ 5,924,423	\$ 2,920,760	\$ 427,956	\$ 22,740,366
Accumulated amortization										
Opening balance	\$ 5,327,289	\$ 3,943,337	\$ 2,269,135	\$ 77,912	\$ 11,617,673	\$ 3,820,052	\$ 3,934,526	\$ 2,237,658	\$ 10,417	\$ 10,002,653
Amortization	2,387,032	298,915	93,679	102,928	2,882,554	2,084,150	234,054	75,377	67,495	2,461,076
Disposals	(687,696)	(12,474)	(76,660)	-	(776,830)	(576,913)	(225,243)	(43,900)	-	(846,056)
Write-downs	-	-	-	-	-	-	-	-	-	-
Closing balance	\$ 7,026,625	\$ 4,229,778	\$ 2,286,154	\$ 180,840	\$ 13,723,397	\$ 5,327,289	\$ 3,943,337	\$ 2,269,135	\$ 77,912	\$ 11,617,673
Net book value	\$ 7,343,051	\$ 1,682,171	\$ 572,836	\$ 465,695	\$ 10,063,752	\$ 8,139,939	\$ 1,981,086	\$ 651,625	\$ 350,044	\$ 11,122,693

British Columbia Securities Commission
Notes to the Financial Statements
For Year Ended March 31, 2016
(audited)

11. Prepaid expenses

Prepaid expenses consists of:

	<u>March 31, 2016</u>	<u>March 31, 2015</u>
IIROC registration processing fees	\$ 299,531	\$ 295,320
National filing systems prepaid contracts	174,123	168,227
Hardware and software maintenance contracts	494,437	454,865
	<u>\$ 968,090</u>	<u>\$ 918,412</u>

12. Accumulated surplus

	<u>March 31, 2016</u>				<u>March 31, 2015</u>			
	General	Education (a)	National Systems (b)	Total	General	Education (a)	National Systems (b)	Total
Opening balance	\$ 25,955,887	\$ 298,999	\$ 32,198,293	\$ 58,453,179	\$ 29,395,436	\$ -	\$ 28,944,770	\$ 58,340,206
Additions and appropriations	(1,051,343)	198,340	2,765,699	1,912,696	(4,167,363)	1,026,813	3,253,523	112,973
Investment income allocation	-	-	-	-	-	-	-	-
Education disbursements paid from reserve	497,339	(497,339)	-	-	727,814	(727,814)	-	-
Closing balance	<u>\$ 25,401,883</u>	<u>\$ -</u>	<u>\$ 34,963,992</u>	<u>\$ 60,365,875</u>	<u>\$ 25,955,887</u>	<u>\$ 298,999</u>	<u>\$ 32,198,293</u>	<u>\$ 58,453,179</u>

a) Education reserve (internally-restricted)

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

b) National systems (restricted)

Canadian Securities Administrators (CSA) jurisdictions share an undivided interest in Partnership surpluses. The Partnership agreement specifies that the Partnership will use these systems' surpluses only for the benefit of national filing systems users.

British Columbia Securities Commission
Notes to the Financial Statements
For Year Ended March 31, 2016
(audited)

13. Enforcement sanctions

Enforcement sanctions include administrative penalties, settlements and unclaimed 161(1)(g) payments, if any. Revenues depend on the timing of enforcement actions completed during the year and on our ability to collect assessed amounts.

We assessed enforcement sanctions of \$84.9 million (fiscal 2015 - \$172.0 million) during the year, of which we did not recognize \$84.7 million (fiscal 2015 - \$171.0 million) as revenue because we do not expect to receive payment.

Collecting enforcement sanctions is 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 Year Ended March 31, 2016
(audited)

14. Investment income

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

	For the Year Ended March 31, 2016					
	Average balance	Investment income	Realized Gains (Losses)	Total Income	Unrealized Gains (Losses)	Annualized return
Cash	\$ 37,267,726	\$ 473,565	\$ -	\$ 473,565	\$ -	1.3%
Restricted cash - 161(1)(g) payments	145,657	1,506	-	1,506	-	1.0%
Pooled Cdn Money Market Fund (ST2)	1,812,521	14,234	(3,718)	10,516	(804)	0.5%
Short Term Bond Fund	921,865	11,633	-	11,633	(16,989)	(0.6%)
Cdn Universe Bond Fund	15,654,861	538,740	371,947	910,687	(497,592)	2.6%
	<u>\$ 55,802,631</u>	<u>\$ 1,039,678</u>	<u>\$ 368,229</u>	<u>\$ 1,407,907</u>	<u>\$ (515,385)</u>	<u>1.6%</u>
	For the Year Ended March 31, 2015					
	Average balance	Investment income	Realized Gains (Losses)	Total Income	Unrealized Gains (Losses)	Annualized return
Cash	\$ 36,725,095	\$ 443,123	\$ -	\$ 443,123	\$ -	1.2%
Restricted cash - 161(1)(g) payments	131,781	-	-	-	-	0.0%
Pooled Cdn Money Market Fund (ST2)	3,907,601	41,626	-	41,626	(2,914)	1.0%
Short Term Bond Fund	-	-	(27,587)	(27,587)	-	0.0%
Cdn Universe Bond Fund	16,859,747	695,124	-	695,124	990,819	10.0%
	<u>\$ 57,624,224</u>	<u>\$ 1,179,873</u>	<u>\$ (27,587)</u>	<u>\$ 1,152,286</u>	<u>\$ 987,905</u>	<u>3.7%</u>

British Columbia Securities Commission
Notes to the Financial Statements
For Year Ended March 31, 2016
(audited)

15. Expenses by object

	Budget	Year ended March 31	
	2016	2016	2015
Local operations			
Salaries and benefits	\$ 31,400,000	\$ 30,649,438	\$ 30,820,677
Professional services	2,100,000	2,357,592	1,954,676
Occupancy	3,270,000	3,116,547	3,046,399
Amortization	2,850,000	2,779,626	2,393,581
Information management	1,550,000	1,456,182	1,312,676
Education disbursements	750,000	761,531	727,814
External communication	125,000	119,818	171,806
Administration	550,000	510,798	531,840
Staff training	400,000	320,285	457,841
Travel	225,000	239,106	226,297
Telecommunications	185,000	167,027	144,875
Total local operations	<u>\$ 43,405,000</u>	<u>\$ 42,477,950</u>	<u>\$ 41,788,482</u>
National filing systems operations			
Salaries and benefits	\$ 661,000	\$ 723,407	\$ 635,652
Professional services	3,551,000	3,060,048	2,703,111
Amortization	202,000	102,928	67,495
Information management	-	155,498	94,753
Administration	136,000	-	-
Total National filing systems operations	<u>\$ 4,550,000</u>	<u>\$ 4,041,881</u>	<u>\$ 3,501,010</u>
	<u>\$ 47,955,000</u>	<u>\$ 46,519,831</u>	<u>\$ 45,289,492</u>

British Columbia Securities Commission
Notes to the Financial Statements
For Year Ended March 31, 2016
(audited)

16. 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.

17. 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 56,000 active members and approximately 43,000 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, 2014, indicated a \$194 million surplus for basic pension benefits. In addition to basic benefits, the plan also provides supplementary benefits, including inflation indexing. These supplementary benefits are paid only to the extent that they have been funded, which is currently done on a "pay-as-you-go" basis. The next scheduled valuation is scheduled for March 31, 2017 and the results will be announced in 2018.

The plan trustees monitor the impact of the financial environment on plan health. Plan surpluses and deficits are not attributable to individual employers, but affect future contribution levels. We charged \$2.4 million to expense for employer contributions during the period (fiscal 2015 - \$2.5 million).

British Columbia Securities Commission
Notes to the Financial Statements
For Year Ended March 31, 2016
(audited)

18. Commitments and contingencies

a) Office and equipment leases

We have lease agreements for office space and equipment. Our total lease commitments as at March 31, 2016 are \$18.5 million (fiscal 2015 - \$21.6 million)

	2017	2018-2019	2020-2021	2022	Total
Leased space and equipment	\$3,146,436	\$6,421,022	\$6,668,255	\$2,265,649	\$18,501,361

b) National electronic filing systems

The CSA is an umbrella organization of Canada's ten provincial and three territorial securities regulators, whose objective is to improve, coordinate and harmonize regulation of the Canadian capital markets. The Partnership oversees several national electronic filing systems, on behalf of the CSA.

The PAs govern the systems, under agreements with the other CSA members. The CSA Chief Information Officer manages vendors and systems architecture. The OSC manages funds and accounting. The ASC manages intellectual property, filer agreements, and data dissemination agreements. The Partnership contracted CGI to provide IT services, to January 13, 2019.

We collect about 90% of our fee revenue through the filing systems. CGI maintains a comprehensive business continuity plan for each system.

The Partnership charges user fees to recover systems development and operating costs, and the CSA jurisdictions share an undivided interest in the systems and related surpluses. As at March 31, 2016, the Partnership's accumulated surpluses totalled \$139.9 million. The Partnership has agreed to use these surpluses only for the benefit of national filing systems users.

c) Contingent 161(1)(g) payments and liabilities

Upon favourable resolution of two legal actions, we expect to receive payments totalling approximately \$12.5 million related to 161(1)(g) orders.

19. Budgeted figures

Budgeted figures are for comparison purposes.