INDEPENDENT AUDITOR'S REPORT

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

I have audited the accompanying financial statements of the British Columbia Securities Commission ("the entity"), which comprise the statement of financial position as at March 31, 2013, and the statement of operations and change in accumulated surplus, statement of remeasurement gains and losses, statement of change in net financial assets and statement of 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 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 audit. I conducted my audit 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 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, 2013, and the results of its operations, changes in its net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Victoria, British Columbia
May 9, 2013

John Doyle, MAcc, FCA
Auditor General

Management Discussion & Analysis

For the Year Ended March 31, 2013

We prepared this discussion and analysis of financial position and results of operations of the British Columbia Securities Commission (BCSC) on May 9, 2013. Read it in conjunction with our audited financial statements and related notes for the year ended March 31, 2013.

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.

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, 2013, we had an average of 221 full-time equivalent employees (fiscal 2012 – 210).

As a government agency, we are exempt from income taxes. We pay HST but receive a 100% rebate on taxable purchases. Effective April 1, 2013, BC returned to the PST/GST tax structure. Beginning in fiscal 2014, we pay both the PST (7%) and GST (5%) on taxable purchases. We will receive a 100% rebate on GST, but PST-taxable purchases, most significantly professional fees, will cost 7% more.

Management Discussion & Analysis
For the Year Ended March 31, 2013

Financial Highlights

($ millions)		Year ended March 31 Budget	2013	2012
Revenues				
	Regulatory fees	$ 36.8	$ 34.2	$ 34.9
	Enforcement sanctions	0.3	1.0	0.3
	Investment income	2.2	2.2	1.6
		$ 39.3	$ 37.4	$ 36.9
Expenses				
	Salaries and benefits	$ 26.7	$ 27.0	$ 25.9
	Education program disbursements	2.3	2.2	1.5
	Other expenses	9.7	9.3	8.9
		$ 38.7	$ 38.5	$ 36.2
Surplus (deficit), for the year		**$ 0.6**	**$ (1.1)**	**$ 0.6**
Assets				
Cash			$ 20.6	$ 6.5
Investments			$ 16.6	$ 36.1
Capital assets			$ 6.5	$ 3.2
Accumulated surplus			$ 31.4	$ 33.6
Other information				
Capital additions			$ 4.2	$ 2.2
Debt			$ -	$ -

Operations generated a $1.1 million deficit for 2013, versus a $0.6 million budgeted surplus for 2013 and a $0.6 million surplus for 2012.

Revenues increased $0.5 million (1%), but were $1.9 million (5%) lower than expected. Expected investment gains and higher than expected enforcement sanction receipts were offset by lower fee revenue. Registration fees grew significantly less than expected, and the timing of financial filing deadlines and mutual fund prospectus renewals pushed more than $0.6 million of financial filings and distribution revenue into the coming fiscal year.

Operating costs increased $2.3 million (6%), slightly below budget. Net of consulting effort, average FTEs increased 8%, to implement a case management system, to begin developing risk models for our key regulatory functions, to upgrade our IT infrastructure, to begin the redesign of our public website, and to add enforcement capacity. However, salaries and professional fees increased only a net $0.7 million (2%) because we capitalized $2.1 million of project effort. Education spending increased $0.8 million (52%) because we expanded our Be Fraud Aware investor education campaign to additional mediums.

We remain financially strong, ending the year with $37.2 million in cash and investments.

Revenue sources

More than 90% 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 periods of lower market activity.

We collect the following fees:

		Proportion of fee revenue	
Category	**Source**	**Fiscal 2013**	**Fiscal 2012**
Distribution fees	Public companies, private companies and mutual funds, to file disclosure documents	53%	55%
Registration fees	Firms and individuals, to register with us to sell or advise on securities	32%	31%
Financial filing fees	Public companies and mutual funds, to file annual and interim financial statements	14%	13%
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.

Percent of proceeds fees account for about half of distribution fee revenues and fluctuate based upon market activity.

[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.

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 activity.

Registration fees

Firms and individuals register with us to sell or advise on securities. Registration fee revenue has low volatility and grows modestly most years.

Financial filing fees

Companies and mutual funds (reporting issuers) pay a fee to file their financial statements, and pay a higher fee if they file late. The reporting issuer population 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, and the operation and regulation of securities markets.

($ millions)	Year ended March 31	
Enforcement sanctions	2013	2012
Sanctions	$22.2	$55.9
Uncollectible portion not recognized	(21.6)	(55.7)
Recovery of prior year sanctions	0.4	0.1
Sanction revenue	$1.0	$0.3

Collecting sanctions is difficult. Collection targets often have limited assets, have poor credit, or have left BC. We have collected $15.0 million (7%) of $220.9 million sanctioned since our incorporation on April 1, 1995. We continue to pursue the outstanding amounts vigorously. However, of the $205.9 million outstanding sanctions, only $0.4 million is likely collectible and accrued in our financial statements. About 81% ($167.0 million) of the outstanding sanctions relates to eight cases. About 49% ($100.1 million) of the outstanding sanctions 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 liquid, high quality money market instruments, government securities, and investment-grade corporate debt securities.

Detailed revenue analysis

Revenues increased $0.5 million (1%) from the prior year. Unexpectedly high enforcement sanction receipts, expected gains from investments, and modest registration growth was partly offset by 5% lower distribution fee revenue from lower capital-raising activity.

Revenues were $1.9 million (5%) below budget. The lower market activity noted above, 8% lower registration revenues from expected but unrealized exempt market dealer registrations, and 8% lower financial filing revenues, due to the timing of receiving filing fees, were only partly offset by high enforcement sanction receipts.

(thousands)	Year ended March 31, 2013							
	Actual versus Budget				Actual versus Last Year			
	Mar. '13	Budget	Variance	%	Mar. '13	Mar. '12	Variance	%
Revenues								
Distribution	$ 18,260	$ 19,500	$ (1,240)	-6%	$ 18,260	$ 19,198	$ (938)	-5%
Registration	11,094	12,038	(944)	-8%	11,094	10,860	234	2%
Fin. Filing	4,683	5,070	(387)	-8%	4,683	4,668	15	0%
Other	163	184	(21)	-11%	163	171	(8)	-5%
Enforcement sanctions	998	300	698	233%	998	345	653	189%
Inv. Income	2,220	2,200	20	1%	2,220	1,630	590	36%
	$ 37,419	$ 39,292	$ (1,873)	-5%	$ 37,419	$ 36,872	$ 546	1%

Revenue analysis versus last year

We have not increased fee rates in over a decade. Fee revenue declines reflect lower market activity. Overall, revenue increased $0.5 million (1%):

- Distribution revenue was $0.9 million lower due to $0.4 million lower non-mutual fund fees, $0.2 million lower annual information form fees, and $0.1 million lower exempt distribution fees because of lower market activity, and $0.3 million lower mutual fund fees because of the timing of prospectus renewals.
- Registration revenue, which relates primarily to individual registrations, increased $0.2 million due to an increase in the number of registrants, consistent with historical growth.
- Enforcement sanctions increased $0.7 million due to higher receipts.
- Investment income increased $0.6 million due to realizing gains on investments. Our annualized real return on investable assets was 6.1% (2012 - 6.9%).

Management Discussion & Analysis
For the Year Ended March 31, 2013

Revenue analysis versus budget

Revenue was $1.9 million (5%) below budget:

- Distribution revenue was $1.2 million lower than expected. We expected non-mutual fund prospectus and exempt distribution fees to increase over the prior year. Instead, lower than expected market activity generated below budget results of $0.5 million in non-mutual fund filing fees, $0.5 million lower exempt distribution fees and $0.2 million lower annual information form fees.
- Registration revenue was $0.9 million lower than expected. We budgeted for new exempt market dealer registrations that did not materialize.
- Financial filing revenue was $0.4 million lower than budget because a key date fell on a holiday, pushing the filing deadline into fiscal 2014.
- Enforcement sanctions increased $0.7 million due to higher receipts.

Key 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

Staff salaries account for over 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, our compensation package includes performance-based salary increases. To remain competitive, we conduct salary surveys annually and make adjustments as appropriate. We estimate the following allocation of our staff effort (with overhead allocated proportionately):

	Fiscal 2013	Fiscal 2012
Promote a culture of compliance (Goal 1)	38%	41%
Act decisively against misconduct (Goal 2)	40%	39%
Educate investors (Goal 3)	7%	7%
Advance cost effective regulation (Goal 4)	15%	13%

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
- 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 or 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, and 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.

Information management

We spend significant amounts on information systems and management annually 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 and hardcopy materials
- physical record scanning and storage costs

Detailed expense analysis

Expenses increased 6%. We added 9% organizational capacity, both employed and contracted, to begin implementing four risk management models and several infrastructure projects. However, we capitalized most of the increased effort. We significantly increased education spending to expand our investor fraud awareness education program. Occupancy costs increased because of rent increases and depreciation increased because of higher IT capital spending over the last two years.

Expenses were 1% below budget. Severance caused a salaries variance and higher software licensing, scanning, and records storage costs caused an information management variance, but these were more than offset by strong management control of travel and training expenses and lower than budget depreciation due to the timing of projects.

Year Ended March 31, 2013

(thousands)	Actual versus Budget				Actual versus Last Year			
	Mar. '13	Budget	Variance	%	Mar. '13	Mar. '12	Variance	%
Expenses								
Salaries	$ 27,023	$ 26,710	(313)	-1%	$ 27,023	$ 25,914	1,109	4%
Prof. Fees	2,861	3,050	189	6%	2,861	3,325	(464)	-14%
Occupancy	2,659	2,604	(55)	-2%	2,659	2,272	387	17%
Deprec.	938	1,250	312	25%	938	652	286	44%
Info. Mgmt.	1,179	919	(260)	-28%	1,179	977	202	21%
Education	2,212	2,325	113	5%	2,212	1,452	760	52%
Other	1,653	1,880	227	12%	1,653	1,653	-	0%
	$ 38,526	$ 38,738	$ 213	1%	$ 38,526	$ 36,244	$ 2,280	6%

Expenses versus last year

Expenses increased $2.3 million (6%):

- Salaries increased $1.1 million. Staff increased 8% to support strategic initiatives, non-management salaries increased an average 2% from merit increases, and severance rose. We partly offset these increases by capitalizing $1.2 million of project effort.
- Professional fees declined $0.5 million. Last year we expensed $0.7 million to design four risk models. This year, we began implementing those models, capitalizing the $0.9 million of related consulting. Partly offsetting the decline were $0.1 million one-time security costs and $0.1 million higher legal and other expert consulting.
- Occupancy increased $0.4 million due to rent increases.
- Depreciation increased $0.3 million due to higher IT capital spending during the last two years.
- Information management increased $0.2 million due to higher software licensing and evidence scanning costs.
- Education spending increased $0.8 million, as previously noted.

Expenses versus budget

Expenses were $0.2 million (1%) below budget:

- Salaries were $0.3 million higher than budget due to higher than expected severance.
- Professional fees were $0.2 million lower than budget because privacy law concerns prevented an on-line monitoring project from proceeding.
- Depreciation was $0.3 million lower than budget primarily due to implementing a case management system later than planned.
- Information management expense was $0.3 million higher than budget due to $0.2 million higher software licensing costs to upgrade to Windows 7, and $0.1 million higher evidence scanning costs.
- Other expenses were $0.2 million lower than budget due to strong management of travel and training expenses being partly offset by higher recruitment costs.

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 demand deposits and in pooled fund units redeemable within two weeks without penalty. The underlying assets in the pooled fund units are also highly liquid.

Our pooled fund 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, 2013 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 $1.2 million. However, we expect interest rates to remain unchanged over the coming year. In addition, future investment income earned on variable rate cash deposits and maturing fixed rate securities would increase after an interest rate increase. We manage interest rate risk by monitoring portfolio duration and yields with the fund administrator, bcIMC. The current investment duration of the Canadian Universe Bond Fund is 7.2 years.

Liquidity

Cash flow was positive at $14.0 million (fiscal 2012 - negative $9.9 million) because we sold $20.5 million of investments, built and acquired $4.2 million of capital assets, and used a net $2.3 million to run operations.

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 $37.2 million in cash and investments, a $5.4 million reduction 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 increased $0.4 million to $0.9 million (March 31, 2012 - $0.5 million). About 43% of the balance relates to enforcement sanctions receivables, 37% to HST receivables, 3% to national project recoveries and 9% to ongoing cost recoveries due from the Canadian Securities Regulation Regime Transition Office.

Capital assets increased $3.2 million (100%) to $6.5 million, net of $0.9 million depreciation. Capital spending related primarily to IT improvements, totalled $4.2 million for the year, as follows:

Project	($ millions)
Case management	$0.9
Risk models	$0.9
Windows 7	$0.8
General IT infrastructure	$0.6
Network storage	$0.5
Public website	$0.3
Office renovations	$0.2
	$4.2

Prepaid expenses remained unchanged at $0.5 million (March 31, 2012 - $0.5 million), and relate primarily to prepaid software licenses and registration processing fees paid in advance.

We ended the year with $31.4 million surplus (March 31, 2012 - $33.6 million). We have internally designated $15 million of the surplus to a fee stabilization reserve as noted above. We have internally designated $0.5 million of the surplus to our education reserve because we believe sanction receipts should fund investor and industry education, not our operations.

Liabilities

Accounts payable increased $0.3 million to $2.2 million (March 31, 2012 - $2.0 million), reflecting a significant increase in project-related consulting work completed but not paid at year-end.

Accrued salaries increased $0.2 million to $3.1 million (March 31, 2012 - $2.9 million). We paid out fiscal 2012 performance incentives in June 2012 and accrued towards fiscal 2013 performance incentives.

Deferred revenue increased to $7.7 million (March 31, 2012 - $7.6 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 significant contractual obligations at March 31, 2013 relate to our office lease, and are:

($millions)	Total	< 1 year	2 - 3 years	4 - 5 years	> 5 years
Rent and operating costs	27.7	2.9	6.1	6.3	12.4

Subsequent to year-end, we expanded our space by 13% at terms similar to our existing lease.

Internal control over financial reporting (ICFR)

During the year, we reviewed our ICFR processes and updated documentation where necessary. Our internal auditors tested operating effectiveness of our ICFR as at March 31, 2013 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, 2013, that have materially affected, or are reasonably likely to materially affect, our ICFR.

Risk management

Risk management approach

We practice enterprise risk management (ERM) to identify and manage our business risks. We follow an Australian risk management standard (AS/NZS 4360:2004, or AS 4360). Our ERM process updates the Board semi-annually on key risks and supports our strategic planning process. We maintain a business continuity plan and can restore critical functions within one day.

Fee revenue

We fund operations primarily from filing fees paid by market participants. Fee revenue fluctuates with market activity, rising during periods of strong market activity and falling during periods of weak market activity. 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, 2013, CDS Inc. (CDS) operates three national electronic filing systems:

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

We collect about 90% of our fee revenue through SEDAR and NRD. CDS maintains a comprehensive business continuity plan for each system.

National electronic filing systems and operating agreements

BCSC, together with the Alberta Securities Commission, Ontario Securities Commission, the l'Autorité des marchés financiers (collectively, the Principal Administrators or PAs), and the Investment Industry Regulatory Organization of Canada Inc. (IIROC) contract with CDS to operate SEDAR, SEDI, and NRD.

CDS charges user fees to cover budgeted system operating costs. The PAs, and IIROC for NRD, are responsible for any operating cost shortfalls. The PAs, and IIROC for NRD, share an undivided interest in system surpluses to April 1, 2013. We have agreed to use these system surpluses only for the benefit of national filing system users

The OSC is holding $94.4 million (March 31, 2012 - $80.5 million) in trust, on behalf of the PAs and IIROC. These funds are the systems' accumulated surpluses, including investment income thereon and net of $5.0 million spent since fiscal 2010 to maintain and improve the systems.

Effective April 2, 2013, the PAs entered into agreements with IIROC, CDS and CGI Information Systems and Management Consultants Inc. (CGI) to consolidate national electronic filing system governance under the PAs and transition system management from CDS to CGI.

Under the arrangements, each of the four PAs has one vote on national electronic filing system matters. This arrangement is a government partnership, and results in our proportionate consolidation of twenty-five percent of national filing system assets and operations effective April 2, 2013.

We estimate that this change will increase our consolidated net assets by $23.5 million and will increase consolidated operating results by $3.5 million. These net assets and operating results related to the national electronic filing systems are restricted to fund CSA systems operations, future system enhancements and fee adjustments and will not be available to fund our operations.

Management Discussion & Analysis
For the Year Ended March 31, 2013

Selected annual information and financial outlook

The table below summarizes results for the last five years, our fiscal 2014 forecast, and projected results for fiscals 2015 and 2016. We prepared the results, forecast, and projections using Canadian generally accepted accounting principles for fiscals 2009 through 2010, and using Canadian public sector accounting standards for fiscals 2011 through 2016.

The fiscal 2014 forecast assumptions reflect our planned actions given our judgment as to the most probable set of economic conditions. Fiscal 2015 and 2016 projection assumptions reflect our planned actions for those periods given our judgment as to the most probable set of economic conditions, together with one or more hypotheses. The hypotheses are assumptions that are consistent with the purpose of the information, but are not necessarily the most likely to occur. Actual results achieved for the fiscal 2014 – 2016 periods will vary from the information presented and those variations may be material.

(in millions $)	Audited					Forecast	Projected	
	2009	2010	2011	2012	2013	2014	2015	2016
Operations								
Regulatory fees	30.5	30.8	33.5	34.9	34.2	39.6	40.4	41.2
Enforcement sanctions	0.3	0.3	0.4	0.3	1.0	0.4	0.4	0.4
Investment income	1.3	0.3	1.0	1.6	2.2	0.8	0.8	0.9
	32.1	31.4	34.9	36.9	37.4	40.8	41.6	42.5
Expenses								
Salaries and benefits	22.6	23.1	23.5	25.9	27	25.8	26.3	26.8
Education	0.7	0.9	0.6	1.5	2.2	2.3	1.7	1.0
Other expenses	7.2	6.9	7.0	8.9	9.3	12.7	13.2	12.7
	30.4	30.8	31.2	36.2	38.5	40.8	41.2	40.5
Surplus (deficit)	1.6	0.6	3.7	0.6	(1.1)	0	0.4	2.0
Accumulated surpluses								
Unrealized gains/(losses)	-	-	(0.3)	0.8	(0.3)	-	-	-
Undesignated surplus	9.1	10.3	14.4	16.1	16.2	13.2	10.1	8.6
Fee stabiliation reserve	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
National systems	-	-	-	-	-	27.5	31.0	34.5
Education reserve	3.7	3.1	2.8	1.7	0.5	-	-	-
	27.8	28.3	32	33.6	31.4	55.7	56.1	58.1
Other information								
Capital purchases	0.7	0.3	0.6	2.2	4.2	7.6	2.8	2.0
Debt	-	-	-	-	-	-	-	-

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

MD&A Supplement – Compensation Disclosure

For the Year Ended March 31, 2013

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 compensation.
- The chair and executive director consult the Human Resources Committee on the compensation of 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 salary increases. In fiscal 2013, compensation included performance-based incentives.

Incentive principles (fiscal 2013)

Employees participated 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 (fiscal 2013)

Incentive targets varied depending on positions' potential impact on commission performance. Named officers (Chair, Vice Chair, Executive Director, Manager, Special Investigations Unit, and the General Counsel) had incentive targets ranging from 20 – 40%. In addition, a personal achievement factor, ranging from nil to 1.75, was applied. In some cases, total compensation was subject to government compensation maximums.

MD&A Supplement – Compensation Disclosure

For the Year Ended March 31, 2013

Fiscal 2013 compensation summary (in dollars, except for meetings attended)

Position	Name	Base	Incentive	Pension	Other[1]	2013	2012	2011	Meetings attended[2]
Executive Commissioners									
Chair	Brenda M. Leong	381,780	55,393	40,962	21,116	499,251	499,251	499,251	16
Vice Chair	Brent W. Aitken	325,452	99,499	-	11,202	436,153	440,773	443,631	16
Senior Management									
Executive Director	Paul Bourque	257,500	93,852	27,378	21,270	400,000	400,000	343,496	n/a
Manager, Special Investigation Unit	Langley E. Evans	206,590	36,277	21,814	10,543	275,224	276,747	273,959	n/a
General Counsel	David M. Thompson	181,452	44,608	19,081	16,420	261,561	252,709	242,353	n/a

Position[3]	Name	Fees	Other[4]	2013	2012	2011	Meetings attended[2]
Independent Commissioners							
Commissioner	Bradley Doney	62,488	2,323	64,811	61,250	54,298	16
Commissioner	Kenneth G. Hanna	97,825	134	97,959	57,340	58,643	16
Commissioner	Don Rowlatt	89,800	121	89,921	55,888	49,413	15
Commissioner	David J. Smith	25,350	38	25,388	59,644	56,598	7
Commissioner	Shelley C. Williams	33,525	1,532	35,057	63,631	58,461	11
Commissioner	Suzanne K. Wiltshire	86,823	2,828	89,651	48,780	57,687	16
Commissioner	George C. Glover, Jr.	15,842	14	15,856	n/a	n/a	3
Commissioner	Audrey T. Ho	11,897	359	12,256	n/a	n/a	3
Commissioner	Judith Downes	8,222	319	8,541	n/a	n/a	3

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

Compensation consultants

During the year, we hired Towers Watson to review incentive design and we hired Western Compensation & Benefits Consultants to perform a salary survey.

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[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, and fitness reimbursements.

[2] During fiscal 2013, the Board scheduled, and held during the year, 12 regular monthly board meetings, 2 SRO meetings and 2 special meetings.

[3] These are part-time positions.

[4] 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 (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
Chair and Chief Executive Officer

Paul C. Bourque
Executive Director

British Columbia Securities Commission
Statement of Financial Position
(audited)

		March 31 2013		March 31 2012
Financial assets				
Cash (note 4)	$	20,579,704	$	6,548,751
Investments (note 5)		16,633,044		36,060,975
Amounts receivable (note 6)		939,404		528,362
		38,152,152		43,138,088
Liabilities				
Accounts payable and accrued liabilities	$	2,222,358	$	1,961,933
Accrued salaries		3,083,046		2,885,106
Deferred registration fee revenue		7,664,623		7,577,482
Employee leave liability (note 7)		792,065		844,993
		13,762,092		13,269,514
Net financial assets		24,390,060		29,868,574
Non-financial assets				
Tangible capital assets (note 8)	$	6,466,674	$	3,236,381
Prepaid expenses (note 9)		541,645		496,586
		7,008,319		3,732,967
Accumulated Surplus		31,398,379		33,601,541
Accumulated Surplus is comprised of:				
Accumulated surplus (note 10)	$	31,738,790	$	32,845,839
Accumulated remeasurement gains / (losses)		(340,411)		755,702
		31,398,379		33,601,541

Commitments and contingencies (note 16)

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

Approved by the Board:

Brenda M. Leong
Chair and Chief Executive Officer

Suzanne K. Wiltshire
Chair, Audit Committee

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

	2013 Budget (note 18)	For the Year Ended March 31 2013 Actual	2012 Actual
Revenues			
Regulatory fees			
Prospectus and other distributions	$ 19,500,000	$18,260,489	$19,198,328
Registration	12,038,000	11,094,312	10,859,686
Financial filings	5,070,000	4,682,779	4,667,986
Exemptive orders and other	184,000	163,409	170,652
Enforcement sanctions (note 11)	300,000	998,179	344,935
Investment income (note 12)	1,000,000	1,016,487	1,545,189
Realized gains on investments (note 12)	1,200,000	1,203,315	85,091
	$ 39,292,000	$37,418,970	$36,871,867
Expenses			
Regulatory operations (note 13)	$ 38,738,000	$38,526,019	$36,244,181
Surplus (deficit), for the year	$ 554,000	$ (1,107,049)	$ 627,686
Accumulated surplus, beginning of year		$32,845,839	$32,218,153
Accumulated surplus, end of year		$31,738,790	$32,845,839

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	
	2013	**2012**
Accumulated remeasurement gains (losses), beginning of year	$ 755,702	$ (261,252)
Unrealized gain on investments	107,202	1,102,045
Realized (gain) on investments, reclassified to operations (note 12)	(1,203,315)	(85,091)
Accumulated remeasurement gains (losses), end of year	$ (340,411)	$ 755,702

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

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

	2013 Budget (Note 18)	For the Year Ended March 31 2013 Actual	2012 Actual
Surplus (deficit), for the year	$ 554,000	$ (1,107,049)	$ 627,686
Acquisition of tangible capital assets	$ (3,928,000)	$ (4,168,615)	$ (2,171,469)
Amortization of tangible capital assets	1,250,000	938,322	652,416
	$ (2,678,000)	$ (3,230,293)	$ (1,519,053)
Acquisition of prepaid expense		$ (926,127)	$ (658,279)
Use of prepaid expense		881,068	485,614
		$ (45,059)	$ (172,665)
Effect of net remeasurement gains (losses) for the year		$ (1,096,113)	$ 1,016,954
(Decrease) in net financial assets		$ (5,478,514)	$ (47,078)
Net financial assets, beginning of year		29,868,574	29,915,652
Net financial assets, end of year		$24,390,060	$29,868,574

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	
	2013	**2012**
Operating transactions		
Cash received from:		
Fees	$ 34,247,965	$ 35,475,627
Enforcement sanctions	691,843	333,433
Interest	51,620	68,003
	$ 34,991,428	$ 35,877,063
Cash paid for:		
Cash paid to and on behalf of employees	$ (26,846,274)	$ (26,016,465)
Cash paid to suppliers and others	(10,445,586)	(8,996,111)
	$ (37,291,860)	$ (35,012,576)
Cash provided (used) by operating transactions	$ (2,300,432)	$ 864,487
Capital transactions		
Cash used to acquire tangible capital assets	$ (4,168,615)	$ (2,171,469)
Investing transactions		
Proceeds from disposals of investments	$ 93,484,333	$ 27,817,131
Investments	(72,984,333)	(36,417,131)
	$ 20,500,000	$ (8,600,000)
Increase (decrease) in cash	$ 14,030,953	$ (9,906,982)
Cash, beginning of year	$ 6,548,751	$ 16,455,733
Cash, end of year	$ 20,579,704	$ 6,548,751

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

British Columbia Securities Commission
Notes to the Financial Statements
For the Year Ended March 31, 2013
(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 Harmonized Sales Tax (HST) and receive a 100% rebate. Effective April 1, 2013, BC returned to the PST/GST tax structure. Beginning in fiscal 2014, we pay both the PST (7%) and GST (5%) on taxable purchases. We will receive a 100% rebate on GST, but PST-taxable purchases, most significantly professional fees, will cost 7% more.

2. 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 (PSAB). 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 *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 realized gains and losses in net income, in the period that they arise. We record 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.

2. 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 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.

3. 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 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, 2013 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 $1.2 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 remain unchanged 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 Canadian Universe Bond Fund is 7.2 years.

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.

British Columbia Securities Commission
Notes to the Financial Statements
For the Year Ended March 31, 2013
(audited)

4. Cash

Cash is demand deposits, as follows:

	31-Mar-13		31-Mar-12	
	Market Value	Cost	Market Value	Cost
Cash	$ 20,579,704	$ 20,579,704	$ 6,548,751	$ 6,548,751

5. Investments

Investments are carried at fair value, and consist of:

	31-Mar-13		31-Mar-12	
bcIMC pooled funds	Market Value	Cost	Market Value	Cost
Short Term Bond Fund	$ -	$ -	$ 12,971,511	$ 12,976,668
Canadian Universe Bond Fund	16,633,044	16,973,455	23,089,464	22,328,605
	$ 16,633,044	$ 16,973,455	$ 36,060,975	$ 35,305,273

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

6. Amounts receivable

Amounts receivable consists of:

	31-Mar-13	31-Mar-12
Enforcement sanctions (note 11)	$ 401,620	$ 95,284
Late insider report filing fees	44,076	31,600
Due from CSTO (a)	88,572	118,380
National project recoveries	26,400	-
Harmonized sales tax (HST)	347,466	250,157
Employee advances and other	31,270	32,941
	$ 939,404	$ 528,362

(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.

7. 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.

8. Tangible capital assets

Tangible capital assets consists of:

31-Mar-13

	Information technology*	Leasehold improvements	Office furniture and equipment	Total
Cost				
Opening balance	4,019,787	4,608,691	2,400,059	11,028,537
Additions	3,908,968	212,703	46,944	4,168,615
Disposals	174,396	-	10,368	184,764
Write-downs	-	-	-	-
Closing balance	7,754,359	4,821,394	2,436,635	15,012,388

* $1.4 million of information technology assets are not being amortized because they are under development.

	Information technology*	Leasehold improvements	Office furniture and equipment	Total
Accumulated amortization				
Opening balance	1,912,891	3,719,806	2,159,459	7,792,156
Amortization	797,326	98,679	42,317	938,322
Disposals	174,396	-	10,368	184,764
Write-downs	-	-	-	-
Closing balance	2,535,821	3,818,485	2,191,408	8,545,714
Net book value	5,218,538	1,002,909	245,227	6,466,674

31-Mar-12

	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

9. Prepaid expenses

Prepaid expenses consists of:

	31-Mar-13	31-Mar-12
IIROC registration processing fees	$ 288,512	$ 287,223
Staff training and development	-	29,478
Information technology maintenance contracts	253,133	179,885
	$ 541,645	$ 496,586

10. Accumulated surplus

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

	General	Fee Stabilization (a)	Education (b)	Total
Balance, March 31, 2012	$16,099,409	$ 15,000,000	$ 1,746,430	$ 32,845,839
Additions and appropriations	(2,105,228)	-	998,179	(1,107,049)
Investment income allocation	(15,251)	-	15,251	-
Disbursements	2,211,936	-	(2,211,936)	-
Balance, March 31, 2013	$16,190,866	$ 15,000,000	$ 547,924	$ 31,738,790

	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

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.

11. 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 $22.2 million (fiscal 2012 - $55.9 million) during the year, of which we did not recognize $21.5 million (fiscal 2012 - $55.7 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.

12. Investment income

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

For the Year Ended March 31, 2013

	Average balance	Investment income	Realized Gains (Losses)	Total Income	Unrealized Gains (Losses)	Annualized return
Cash	$ 6,854,013	$ 51,620	$ -	$ 51,620	$ -	0.8%
Pooled Canadian Money Market Fund	-	-	-	-	-	-
Short Term Bond Fund	11,078,000	164,359	15,585	179,944	-	1.6%
Canadian Universe Bond Fund	20,001,995	800,508	1,187,730	1,988,238	107,202	10.5%
	$ 37,934,008	$ 1,016,487	$ 1,203,315	$ 2,219,802	$ 107,202	6.1%

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%

British Columbia Securities Commission
Notes to the Financial Statements
For the Year Ended March 31, 2013
(audited)

13. Expenses by object

Expenses by object are as follows:

	For the year ended March 31					
Expenses		**Budget**		**2013**		**2012**
Salaries and benefits	$	26,710,000	$	27,022,765	$	25,913,577
Professional services		3,050,000		2,861,416		3,324,940
Occupancy		2,604,000		2,659,208		2,271,689
Depreciation		1,250,000		938,322		652,416
Information management		919,000		1,179,341		976,945
Education disbursements (note 10)		2,325,000		2,211,936		1,451,642
External communication		372,000		456,382		303,506
Administration		503,000		520,413		478,082
Staff training		556,000		339,995		478,475
Travel		354,000		211,536		271,589
Telecommunications		95,000		124,705		121,320
Regulatory operations	$	38,738,000	$	38,526,019	$	36,244,181

14. Related party transactions

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

15. Post-retirement employee benefits

We, and our employees, contribute to the Public Service Pension Plan, a multi-employer plan. The plan is contributory, and its basic benefits are defined. The plan has about 56,000 active members and approximately 39,000 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 $2.0 million to expense for employer contributions during the period (fiscal 2012 - $1.9 million).

16. Commitments and contingencies

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

December 1, 2011 - November 30, 2013	$1,395,000 per year
December 1, 2013 - November 30, 2015	$1,455,000 per year
December 1, 2015 - November 30, 2017	$1,525,000 per year
December 1, 2017 - November 30, 2019	$1,605,000 per year
December 1, 2019 - November 30, 2021	$1,690,000 per year

We will pay our share of building operating and maintenance costs.

b) *National electronic filing systems and operating agreements*
BCSC, together with the Alberta Securities Commission, Ontario Securities Commission, the l'Autorité des marchés financiers (collectively, the Principal Administrators or PAs), and the Investment Industry Regulatory Organization of Canada Inc. (IIROC) contract with CDS Inc. (CDS) to operate the following 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 these systems.

CDS charges user fees to cover budgeted system operating costs. The PAs, and IIROC for NRD, are responsible for any operating cost shortfalls. The PAs, and IIROC for NRD, share an undivided interest in system surpluses to April 1, 2013. We have agreed to use these system surpluses only for the benefit of national filing system users.

The OSC is holding $94.4 million (March 31, 2012 - $80.5 million) in trust, on behalf of the PAs and IIROC. These funds are the systems' accumulated surpluses, including investment income thereon and net of $5.0 million spent since fiscal 2010 to maintain and improve the systems.

17. Subsequent events

a) *National filing system arrangement*
Effective April 2, 2013, the PAs entered into agreements with IIROC, CDS and CGI Information Systems and Management Consultants Inc. (CGI) to consolidate national electronic filing system governance under the PAs and transition system management from CDS to CGI during fiscal 2014.

Under the arrangements, each of the four PAs has one vote on national electronic filing system matters. This arrangement meets the Public Sector Accounting Standards definition of a government partnership, and results in the BCSC proportionately consolidating twenty five percent of national filing system assets and operations effective April 2, 2013.

We estimate that this change will increase our consolidated net assets by $23.5 million and will increase consolidated operating results by $3.5 million. These net assets and related operating results related to the national electronic filing systems are restricted to fund CSA systems operations, future system enhancements and fee adjustments and will not be available to fund our operations.

17. Subsequent events (cont'd)

b) Lease expansion

In April, we contracted to increase our leased office space effective June 1, 2013, to accommodate staff growth. The expansion is coterminous with our main lease, and rent over the term will be as follows:

June 1, 2013 – December 31, 2013	$127,000
January 1, 2014 – November 30, 2015	$190,000 per year
December 1, 2015 – November 30, 2017	$200,000 per year
December 1, 2017 – November 30, 2019	$210,000 per year
December 1, 2019 – November 30, 2021	$220,000 per year

We will pay our share of building operating and maintenance costs.

18. Budgeted figures

Budgeted figures are for comparison purposes and flow from the BCSC fiscal 2013 Service Plan.