



3rd Session, 37th Parliament

REPORT OF PROCEEDINGS
(HANSARD)

SELECT STANDING COMMITTEE ON
CROWN CORPORATIONS

Victoria

Wednesday, October 30, 2002

Issue No. 11

KEN STEWART, MLA, CHAIR

ISSN 1499-4186

Published under the authority of the Speaker

In addition to printed transcripts, Hansard Services publishes transcripts
on the Internet and broadcasts Chamber debates on television.

www.legis.gov.bc.ca/cmt

**SELECT STANDING COMMITTEE ON
CROWN CORPORATIONS**

Victoria
Wednesday, October 30, 2002

Chair: * Ken Stewart (Maple Ridge-Pitt Meadows L)

Deputy Chair: * Bill Bennett (East Kootenay L)

Members: * Pat Bell (Prince George North L)
* Ida Chong (Oak Bay-Gordon Head L)
* Dave Hayer (Surrey-Tynehead L)
* Daniel Jarvis (North Vancouver-Seymour L)
* Ken Johnston (Vancouver-Fraserview L)
* John Nuraney (Burnaby-Willingdon L)
* John Wilson (Cariboo North L)
Tony Bhullar (Surrey-Newton Ind L)
Joy MacPhail (Vancouver-Hastings NDP)

** denotes member present*

Clerk: Kate Ryan-Lloyd

Committee Staff: Audrey Chan (Assistant Researcher)

Witnesses: Martin Eady (B.C. Securities Commission)
Douglas Hyndman (Chair, B.C. Securities Commission)
Steve Wilson (B.C. Securities Commission)

CONTENTS

Select Standing Committee on Crown Corporations

Wednesday, October 30, 2002

	Page
Review of Crown Corporations: B.C. Securities Commission.....	159
D. Hyndman	
S. Wilson	
M. Eady	

MINUTES

SELECT STANDING COMMITTEE ON CROWN CORPORATIONS



Wednesday, October 30, 2002
9 a.m.
Douglas Fir Committee Room
Parliament Buildings, Victoria

Present: Ken Stewart, MLA (Chair); Bill Bennett, MLA (Deputy Chair); Pat Bell, MLA; Ida Chong, MLA; Dave Hayer, MLA; Daniel Jarvis, MLA; Ken Johnston, MLA; John Nuraney, MLA; John Wilson, MLA

Unavoidably Absent: Tony Bhullar, MLA; Joy MacPhail, MLA

1. The Chair called the Committee to order at 9:08 a.m.
2. The following witnesses appeared before the Committee and answered questions:
Douglas Hyndman, Chair, British Columbia Securities Commission
Steve Wilson, Executive Director, British Columbia Securities Commission
Martin Eady, Director, Corporate Planning and Management Services,
British Columbia Securities Commission
3. The Committee recessed from 11:16 a.m. to 11:23 a.m.
4. **Resolved**, that the Committee meet in-camera to consider the presentation made by the witnesses appearing on behalf of the British Columbia Securities Commission and to review the Committee's revised draft report to the Legislative Assembly. (D. Jarvis, MLA)
5. The Committee met in-camera from 11:23 a.m. to 11:43 a.m.
6. **Resolved**, that the Chair present the report to the House at the earliest opportunity. (D. Jarvis, MLA)
7. **Resolved**, that the Committee accept and adopt the report as presented. (D. Jarvis, MLA)
8. The Committee adjourned to the call of the Chair at 11:44 a.m.

Ken Stewart, MLA
Chair

Kate Ryan-Lloyd
Clerk Assistant and
Committee Clerk

WEDNESDAY, OCTOBER 30, 2002

The committee met at 9:08 a.m.

[K. Stewart in the chair.]

K. Stewart (Chair): I'd like to call the meeting to order. This morning we have before us the British Columbia Securities Commission. I'd just like to take a moment to first go over our agenda for today. Then we'll do some introductions and then get right into the presentation.

The plan is to have until approximately 10 o'clock or one hour, whatever comes first — or whatever takes longer, I guess, in this case — seeing as how we're ten minutes late starting. If you can keep your presentation around the one-hour mark, then we're going to put aside an hour for questions. We may or may not need that long. At that point, we will then excuse the witnesses today, and we're going to spend half an hour on reviewing today's presentation. Then for the last half-hour, from 11:30 to 12, we'll go in camera and do our draft report for the four Crowns that we're going to be presenting to the House.

Without any further ado, I would like to do introductions. I'll start to my left with Kate, if you could introduce yourself.

K. Ryan-Lloyd: Good morning, everyone. My name is Kate Ryan-Lloyd. I'm serving as Clerk to the committee this morning.

A. Chan: Audrey Chan, committee researcher.

J. Wilson: John Wilson, Cariboo North.

J. Nuraney: John Nuraney, Burnaby-Willingdon.

D. Jarvis: Daniel Jarvis from North Vancouver-Seymour.

K. Johnston: Ken Johnston, Vancouver-Fraserview.

P. Bell: Pat Bell, Prince George North.

B. Bennett (Deputy Chair): Bill Bennett, East Kootenay. Good morning.

M. Eady: Good morning. I'm Martin Eady. I'm director of corporate planning and management services at the B.C. Securities Commission.

[0910]

D. Hyndman: I'm Doug Hyndman, chair of the B.C. Securities Commission.

S. Wilson: Steve Wilson, the executive director of the B.C. Securities Commission.

D. Hayer: Dave Hayer, MLA for Surrey-Tynehead.

K. Stewart (Chair): My name is Ken Stewart, and I'm the Chair of the Select Standing Committee on Crown Corporations.

Just to let you know what it is we do here, the Crown Corporations Committee hadn't sat for quite a number of years. I believe 1983 was the last time they sat. Our task from the Legislature is to review the accountability and objectives of the Crown corporations, to improve the public performance and reporting of the Crown corporations to the legislative committee. In a thumbnail that's what we do, and we look forward to your presentation, which you can start at any time. Thank you.

Review of Crown Corporations: B.C. Securities Commission

D. Hyndman: Thank you very much, Mr. Chairman. We'll each do part of the presentation, and I'll start off. I think you each have hard copies of the slides we're going to be running through, but before we get into what's on the slides, I thought I would just make a couple of introductory comments about the Securities Commission, which is, perhaps, a little different type of Crown corporation than many of the others you've been reviewing.

I guess they're all unique in their own way, but I think we're the only one that has a function as a regulatory body, at least as our primary function. When we meet with other Crown corporations, we're a bit of an odd duck because we're a regulatory body, unlike many of them, and when we meet with other regulatory bodies, we're an odd duck in that group because we're a Crown corporation. But we have found it a very effective structure for carrying out our functions as a securities commission, and it's equivalent to the structures that are used in Ontario, Alberta and Quebec. As well, we've all gone with that Crown corporation structure for securities regulation.

Because of the functions we have, the members of the Securities Commission really perform three roles. They are the board of directors of the commission as an organization and perform the typical functions of a board in overseeing the management of the agency. They are also a regulatory policy-setting body. We have the authority to make rules, subject to the approval of the minister, and to make policies to allow for the interpretation and an application of the Securities Act and the rules. Thirdly, the commission members act as an administrative tribunal in hearing matters that are brought before them, either on application from people in the market or, and a more typical case, on an application from our own commission staff for enforcement actions against people who are alleged to have contravened the securities legislation.

One of the things that's an extremely important feature of what we do is work with our counterpart regulatory bodies in the other jurisdictions in Canada. We have an organization called the Canadian Securities Administrators, through which we attempt to coordinate the regulation of the securities markets in Canada. Most of the business we regulate is not really confined to one province. It crosses provincial boundaries. Most of the dealers that are registered with us have opera-

tions in more than one province. Almost all of the publicly traded companies are what are called reporting issuers. They are effectively registered with securities commissions in at least two — and in many cases many more and a lot of them, all — of the provinces and territories in Canada. As a result, it's important that we coordinate our efforts with our counterparts. We devote a lot of time and energy to doing that, and that presents some challenges, as I'll outline as we go through.

[0915]

Turning to our presentation, we thought we'd explain up front what it is that we do as a securities regulator. We see ourselves as having a dual mandate. First of all, our responsibility is to foster fair and efficient securities markets in the province and, secondly, to protect investors — and I don't put those in order of priority.

Traditionally securities commissions were viewed as investor protection agencies. The original securities legislation early in the last century used to be called the Securities Fraud Prevention Act, which sort of indicated the thinking of legislators at the time when securities regulations started. It's evolved from pure fraud prevention into a broader mandate to protect the integrity of the securities markets and to try to ensure that the market operates fairly and efficiently. This involves a bit of a balancing act between focusing on things that would protect investors from being misled or defrauded and doing it in a way that doesn't unduly restrict the activity of the industry and its freedom to carry on business in a way that makes sense.

Just continuing on with what we do, we've devised this simple equation of how we think securities regulation works to the benefit of the province. If we do our jobs properly, investors will have confidence and, also if we do our jobs properly, companies will have easy access to capital. If you add those two together, that should ensure that we have active securities markets which will contribute to economic growth in the province.

Doing all that, how do we regulate? We've got six broad themes or areas of activity that we carry out in regulating the securities markets. First, we set rules for fair play in the markets. Examples of those are rules governing conflicts of interest for brokers and advisers. The securities business is one that is just loaded with conflicts of interest. People are advising clients on their investments. In cases where the adviser derives his income from commissions on investments or various types of fees, there's obviously a high risk of self-interest. There are also cross-ownership relationships between different institutions and so forth, so there are a lot of conflicts of interest. We have rules that attempt to deal with that to protect the interests of the clients.

We have rules prohibiting market manipulation so that people aren't allowed to go into the market and conduct fictitious transactions to try and create an illusion of trading and thereby defraud the investor. We have rules against insider trading to try and prevent people with privileged access to information from using

that information to their personal benefit and to the disadvantage of other investors. There are a lot of rules, and I'll talk later about how many we have. Generally, that's what they attempt to do.

Second, we screen the participants in the market. Anyone who wants to be in the business of trading securities or advising on securities has to be registered with the Securities Commission, and we have some conditions that people have to meet in order to be and to remain registered. Firms have to have adequate capital to ensure that investors' money that's left with them is safe. There are educational requirements for people who are in a position of advising investors, and we review the conduct, including the past conduct, of anyone who wants to be in the business to ensure that those with unsavoury reputations or histories of defrauding investors are not allowed to participate as brokers in the industry.

Another thing we do is mandate the provision of quality information by publicly traded companies to help investors make their investment decisions. That includes, of course, a prospectus. When a company first goes public or when it does a public offering it provides a prospectus which is intended to disclose all material facts about the business so that investors can make a decision. They are required to provide audited financial statements annually and interim financial statements quarterly. They're required to disclose any material changes in their business on a current basis so that investors know when something happens in the company that's likely to affect the value of their investment. We require the insiders of a company to disclose their trading so that the general investor will know what the people who have privileged access are doing with their own investments in the company.

[0920]

Fourth, we police the markets to deal with misconduct. This is the aspect of our business that gets the most publicity. We conduct investigations when things come to our attention, whether by way of complaints or through our own surveillance or tips from other agencies, where those indicate that someone may have violated the securities legislation or abused or misled investors. Those investigations can lead to regulatory orders made by the commission after a hearing or imposed by staff by way of a settlement with the individual. Those orders include, essentially, prohibitions on participating in the market and financial penalties.

We have some scope to have civil penalties, civil remedies imposed on people by the commission going and applying to court to have orders for funds to be disgorged or damages paid. That's not a power we have found easy to use or that we've used much, but it's something we are trying to focus on more. We can refer matters to the criminal justice authorities for criminal prosecution, either for offences against the Securities Act or, in some cases, for offending the Criminal Code prohibitions on securities fraud.

Fifth, we educate market participants. This is something that might not have traditionally been thought of as part of securities regulation, but we consider it a

very important part of what we do. We spend a lot of time now, as Steve will describe later, trying to educate investors to give them the tools to protect themselves. The best form of investor protection is investor skepticism — investors investigating before they invest their own money — because usually by the time we find out about something going wrong, it's too late for the poor investor.

We're also trying to educate the brokers and the advisers in the industry and the directors and the officers of the public companies about their obligations and our expectations of them, to try to raise the general level of compliance and the fair treatment of investors.

Finally, we oversee a series of self-regulatory organizations that operate in the securities industry. They are the front-line regulators of the dealers and the markets. They do so under the general supervision of ourselves and the other securities commissions. This is one area where we have to coordinate our efforts, particularly with the other regulators in Canada. There's the Investment Dealers Association of Canada, which oversees the full-service brokerage community; the Mutual Fund Dealers Association of Canada, which is a new self-regulatory organization just getting going to oversee the mutual fund dealers; and an even newer one called Market Regulation Services, which has taken over the regulation of trading on the stock exchanges in Canada. The stock exchanges used to do that themselves, and it's now into a separate SRO.

That's a quick description of how we regulate what we do. I'm just going to describe briefly why securities regulation is important to British Columbia by focusing on the economic impact of the securities markets. The market is, of course, important as an intermediary for getting capital from investors into businesses. It's also an important economic activity in its own right. There are more than 21,000 sales people who are registered with us to trade and to advise clients. We have more than 6,200 companies that raise capital in our markets, what we call "reporting issuers" in our regulatory jargon. Of those, about 2,000 are based in British Columbia. The others are based across Canada and around the world.

[0925]

We have, actually, in this province a large number of public companies in comparison with other provinces. Many of them are small junior venture capital companies which aren't large economic entities in themselves but always have the potential of growth.

We also looked at some comparative investment figures over the last couple of years, just to look at some trend information. We looked at the filings with our commission for the first six months of the current fiscal year in comparison with the same period last year for money raised through private placements in three categories.

Just by way of brief background, when someone does a private placement, what they do is rely on an exemption from the requirements in the Securities Act to file a prospectus. They're required to make filings

with us so we have some indications of what's going on in that private placement market.

We looked at three of them. The first one is what we call our offering memorandum exemption, which allows people, by providing a simplified form of disclosure document, to go and raise money from the public. In the previous fiscal year's first six months \$102 million was raised under that exemption, and this year \$103 million — not really any change. That, when I first looked at it, surprised me, because we've considerably liberalized that exemption. I couldn't understand why we didn't get a lot more raised under it.

I think the explanation comes when we look at the next two. We liberalized some other exemptions, one called the family, friends and business associates exemption. In the previous year \$15 million was raised under that exemption, and this year \$45 million — over a 200 percent increase there. I think what's happened is some things that were raised under the offering memorandum exemption in the previous year may have flipped over into the family and friends exemption so that there's sort of overall growth between the two but the mix has changed a bit.

That shows up even more in the next one, which is what we call our accredited investor exemption. The previous year just under one and a half billion dollars was raised under that, and this year just over \$2.1 billion — a half-billion dollar increase or 43 percent. Again, I think some of the things that would have been done under the offering memorandum in previous years are now done under this accredited investor exemption, which is much more flexible now than what we had before.

Overall, from those private placement exemptions the increase in activity in the first six months of this year compared with last year was up from \$1.8 billion to \$2.6 billion, about 43 percent. Given all the talk of doom and gloom in the markets and downturns, I think that's quite an interesting number. It indicates that although the public securities markets are not very active right now, there's still a lot of underlying strength in capital-raising in this province.

I just want to turn now to some of the elements of our service plan. I'll start with our vision. This is a vision we developed as we were going through the core services review process. We set for ourselves a target that by 2005 British Columbia would be considered the best place to invest and raise capital in North America and that British Columbia by then would be a recognized leader in securities regulation by having regulation perceived as innovative, low cost and tough but fair.

We've identified five things we need to do to move us down the path to achieving that vision. First, we want to focus our attention on the most significant threats to investors, which maybe sounds obvious, but it requires a change in approach and thinking from the commission as a regulatory body. Traditionally as regulators we pass rules and then we administer those rules, and we sort of think of regulation as carrying out

our functions in the various departments we have. We review prospectuses, we do investigations, we consider investor exemption applications, and so forth.

[0930]

What we are trying to do now is reorient ourselves as a problem-focused organization, looking out into the market, identifying what the real risks to the integrity of the market are, the real threats to investors, and bringing all of the tools we have to bear on those problems in whatever mix is appropriate for the particular problem. Sometimes it may be a new rule to change behaviour, but often it's not a new rule; often it's education or using our enforcement powers and existing rules, maybe working with partners in the industry and those kinds of things. It's changing the traditional focus of regulation to a problem-focus rather than a process-focus.

Second, we think it's important that we limit the volume of our rules. I'll talk a bit more about this later, but I think securities regulation in the last decade has become too rule-focused. We need to get back more to having clear and simple rules — not too many of them, but ones that are effective and well focused — and then rigorously enforce those. To do that, we want to foster a culture of compliance among the people in the industry, and a lot of our efforts are devoted to trying to raise the standards of conduct and compliance in the securities industry, and Steve will talk about that a bit later.

We're trying to act decisively against misconduct in the industry. I think one of our problems, frankly, in Canadian securities regulation is that it does take us too long to deal with misconduct, and we're trying to shorten the time between bad things happening, our discovering them and the consequences following for the perpetrators.

Finally, as I've said before, we want to educate and inform both investors and public companies and the securities industry about our expectations, their roles, their responsibilities and how to protect themselves and comply in the securities markets.

Turning to the current service plan, we set out in our 2002-03 service plan five major challenges for the current planning period. We'll go through each of these but just a summary: excessive regulatory burden on the securities market; the costs to the market of delays in regulatory processes; a lack of compliance by some of our registered dealers and advisers; deficiencies in the continuous disclosure by some of our public companies and their insiders; and Internet scams and illegal distributions of securities, which have caused a lot of investor losses in this province.

Turning to the first challenge, the excessive regulatory burden on the securities market. In addressing this challenge, we've set ourselves some goals. We want to reduce the regulatory burden on the industry. We want to make our regulation and the regulatory system more clear and more effective at achieving its true purposes, which are to provide effective protection of investors and of market integrity. To ensure to back up this reduced regulatory burden and a simpler system, we need

our decisive enforcement activities as a necessary tool to balance some of the deregulation and streamlining of the system.

In pursuing an objective of reducing the regulatory burden, we have to deal with some realities of Canadian securities regulation. I talked earlier about the importance of cooperating with our counterparts in the other jurisdictions. One of the things we try to achieve through that is a greater degree of uniformity in regulatory requirements. The people that we regulate place a high value on having uniform legislation. They don't want to have to figure out what to do in ten provinces and three territories by reading different rules that say different things which might or might not mean different things and having to hire lawyers in each jurisdiction to advise them as to whether they're in compliance and so forth. Of course, this is why you hear lots of talk about a national securities commission but also about a uniform act. That's what those people are getting at.

[0935]

Secondly, we have to recognize that the Ontario Securities Commission, because Ontario is the home of the Toronto Stock Exchange and it's the biggest capital market in Canada, is able to make rules that have national reach. Most of the public companies in British Columbia, one way or another, have to deal with the Ontario Securities Commission, and that means, when they make rules, our market participants are often stuck with them.

Thirdly, there are some philosophical differences within the Canadian securities administrators. These perhaps get played up more than is warranted in the press, but there are important differences in priorities and in approach among securities commissions. I think I can say that we are a commission that is most focused on streamlining and simplifying regulation, on bringing a problem-focused approach. Some other commissions are more interested in making sure that we have a robust rule book, a very strong and comprehensive set of rules that will stack up against any in the world. We think we can make regulation more effective by streamlining it, simplifying it, but not everyone has bought into that view.

Finally, an important part of our cooperation with the other securities commissions is what we call our system of mutual reliance, where they will rely on us to regulate our market participants, and we'll rely on them to regulate theirs when they're doing cross-border business. The effectiveness of mutual reliance really depends on an underlying uniformity in the regulatory system. All of that presents an extra challenge in trying to pursue our agenda of streamlining and simplifying regulation. Nevertheless, we are pressing forward.

We've set up what we call our deregulation team. We have 12 staff assigned to this on a full-time basis as a special project for two years. They are going through extensive consultation with the public, with the industry, with our regulatory colleagues. They have set for themselves, or we have set for them, success criteria of developing a new Securities Act and a new set of rules

to be presented to the government for the spring of 2004, rules that are intended to minimize the regulatory burden while maintaining effective investor protection and not unduly compromising uniformity. That's a tall order.

I can't tell you today exactly what it's going to look like when we get there, but we are working very hard. They've been working around the clock and weekends to meet some of their deadlines of getting a package that meets those objectives. Of course, in all of that we expect to meet the government's target of reducing by one-third the number of regulatory requirements we impose.

I thought I would point out, when I said the Securities Commission had become too rule focused in the last decade.... I have here the rules that were in effect between 1977 and 1983. There were 207 pages of rules at that time. By the year 2000 it got a little thicker. It got up to 1,922 pages. We started our first streamlining program in the summer of 2000, and we've managed to reduce it by about 30 percent by 2002. We're down a little bit. We're not back to where we were in 1980. At least we got the trend in the right direction. If we're successful in our deregulation program, I'll be able to come back here in a couple of years with a book that's another 30 percent thinner than this.

With that, I'm going to turn it over to my colleague Steve Wilson to talk about the rest of the challenges.

S. Wilson: Thanks, Doug.

The next challenge is the too-slow challenge. Doug's first challenge was: "We've got too many rules. We're too burdensome on the industry." The second challenge or problem that we perceive is that we need to be faster.

We need to be faster in two areas in particular. Number one, as a regulator we're really charged with changing market behaviour for the better. If we're going to do that effectively, we have to deal quickly with today's problems, not with the problems that were happening two years ago. Secondly, we can't slow industry down; we can't get in industry's way of getting things done. We recognize that there is truth to the fact that many of our processes are too lengthy, too slow, for today's world. Examples of those are in our rule-making. Another example would be in our enforcement activities. We're too slow in certain of our basic processes, like registration processing and prospectus reviews, so we have to address those.

[0940]

In order to address them, we've developed a number of solutions. We have a commitment to leverage technology much better to speed up our processes and reduce costs. These include both enhancements to some of the existing technology applications we have — for example, the electronic disclosure system known as SEDAR for public company filings — and our website, which is in a constant state of evolution and improvement both from a content point of view and an efficiency point of view.

We also have three new technology applications that, hopefully, will speed up our basic processes, including an Internet-based insider reporting system, a new registration system for registrants and a national cease-trade order system for brokers to know whether companies have been cease-traded or not. I might mention, too, that we also have made substantial upgrades in our internal systems within the commission, including, for example, our system for processing the exemption applications that firms make for exemptions from certain provisions of the Securities Act.

Secondly, we feel we have to increasingly be better at managing our operations like a business, focusing on efficiency, utilizing our staff resources and just getting things done. To do this, we have a commitment to provide top-quality service to our stakeholders. We use this term "stakeholders" as synonymous with customers. I'm not sure yet if we can include some of the respondents in our enforcement actions as stakeholders. We constantly debate that. They don't seem to consider themselves customers, but they're on the fringe. We don't do as well in enforcement in customer service in the perception of those stakeholders as we do in other areas.

We've also instituted financial budgeting and management accountability for cost control, and we've embarked on a process of imbuing in the commission a culture of getting things done, a culture of a sense of urgency. Our recognition and rewards systems now reward results, problem-solving, better communications and teamwork within the commission to achieve our regulatory goals.

You might ask how we're going to measure all that. We had embarked in the last few years on a process of surveying — conducting independent surveys by an outside firm — how we're doing. They actually contact our stakeholders and ask them what they thought of the commission in various areas. The firm is Marktrend, and they produce a report for us every year on the results of their survey that gives us a quantitative measure of our performance. This feeds into our incentive compensation plan not just for individual staff but for the divisions and for the commission as a whole.

We found that to be a rewarding process. It has been successful in achieving our culture change, so we've decided to take that one step further. Instead of once-a-year surveys, we've applied some new technology called ResponseTek. That's the firm that offers it. By way of this technology, we get feedback all the time — real time, every day — on what we're doing in terms of complaints by our stakeholders, in terms of comments about how we can do things better or assessments of how we're performing in certain areas. Management can react right at the time we get complaints as opposed to waiting until a survey can be done.

Some examples of the kinds of things that are asked in our surveys are these. Are our staff professional and courteous? Do they demonstrate that we're knowledgeable about their business? Are we conducting our work efficiently? By that, we mean reducing paperwork for the industry participants that we regulate and keeping

our fees reasonable for the things that we do. They also ask if we focus on important issues or whether we're meandering around with detailed accounting stuff and legal requirements, and of course, whether we're providing prompt service and fair treatment.

[0945]

To give you a brief overview of how we've been doing on that in the past couple of years, in 2000, I would describe the results as being unsatisfactory, at least by a business standard. Sixty-nine percent of our respondents, the people that responded to our survey, rated their overall level of satisfaction with us. The survey firm uses the 7 out of 10 range or higher as being good, and 69 percent, in their judgment and ours, is unacceptable. By the following year, however, with some of the culture change improvements that we had put in place, 80 percent of the respondents rated us as being satisfactory on a 7 out of 10 level or higher.

In addition, in 2001 we asked them whether our services had improved or deteriorated in their view, and 36 percent indicated they thought our service levels had improved, and only 4 percent said it had deteriorated. The rest indicated that it had either stayed the same, or they didn't know. That's, frankly, what we're looking for. We're looking for steady, consistent improvement. We don't expect to turn the ship around overnight. We look for steady improvement every year, and that's what our recognition and reward system is based on.

Also last year we included in the survey a brief peer review among our customers who deal with not only us but with other securities commissions. In this case they have compared us with the Ontario Securities Commission, the OSC, and the Alberta Securities Commission. As you can see from these statistics, there is some evidence that we are performing at or above our peer level in the areas that we measure through the customer service surveys.

I'd like to turn now to challenge three, which is more of a compliance enforcement-type challenge. Doug mentioned earlier that one of our perceived systemic problems in the securities business is a general lack of compliance among certain of our registered firms. Our registrants.... Basically, we use that term to denote securities dealers, mutual funds dealers, portfolio advisers — anybody who is involved in advising or trading in securities.

Some aspects of non-compliance that I'd just like to cover quickly are the "know your client" requirement. There has been a tendency over the past few years for some firms to take their eye off the ball in terms of knowing exactly who their customers are. You might wonder how this could possibly be, but people open accounts in various names for various purposes, and often this involves what we call "piercing the corporate veil" to find out exactly who is behind the account and who is the beneficial owner — who is directing the money. This is important for two reasons. One is, obviously, we want them to be sure they're not letting crooks into the industry. Second, if they don't know exactly who the client is, how can they possibly pro-

vide them with good advice? There is a direct relationship between your knowledge of your individual customer and the quality of advice that you're able to give them. That has been one of the keystones of our compliance drive of certain of these registrants.

How have we done that? We embarked last year on a partnership with the industry regulator, the Investment Dealers Association, to identify who in their minds and ours were the firms most likely to deserve special treatment. In conjunction with them, we went to each of these individual firms and worked out how they were going to improve their compliance. Then we went back six months later to determine whether or not they had in fact fulfilled their obligations. We have seen significant improvement in that regard, but I won't tell you today that that job is done yet.

We have also undertaken to produce what we call compliance report cards, which, based on surveys of securities market participants, establish the best practice in compliance. This is a means by which firms can gauge themselves against their competitors. It's still largely anonymous, but they see where they rank overall with respect to their competitors. It puts the ones who are low on the scale under some pressure to explain why they stack up worse than their competitors. It also gives their compliance people some arguments to obtain resources from within the firm to improve.

Finally, we've embarked on some industry education programs — direct industry education initiatives — to help industry define exactly what we feel is good compliance. The same thing, in a different way, applies to reporting issuers — companies raising money on our markets in terms of the information they provide to investors.

[0950]

We use the term "continuous disclosure" as our indicator of how a company is being honest with investors. That term is used to describe the ongoing information provided by public companies — the information on which investors make decisions every day in the marketplace. Examples of a company's continuous disclosure regime would include, obviously, their quarterly reports, but also any press releases they issue, webcasts — anything that the company puts in the public domain that could be considered to potentially have an impact on the market price for the company or on which investors would base investment decisions.

This is a bit different from our previous practice of focusing on prospectuses as being our major information disclosure quality control check in the sense that we're not just looking at the time a company goes public initially, but we're looking at their investment information provided in the market on a continuous basis. Obviously, we can't do this in total, but we do a significant sampling on a continuous basis to measure the quality of various companies' continuous disclosure to determine whether or not there are systemic problems with the disclosure and to deal with them. In the past it's been clear from customer complaints that many of our issuing companies have provided, actually, quite poor disclosure. The complaints we get are

to the effect that a company's disclosure is misleading, and it often concerns fairly junior companies who, in their zeal to grow and develop, tend to oversell their prospects or some of the qualities of their assets.

We began this continuous disclosure review program in 1998 to sample in certain high-risk areas that we perceived, to identify, as I mentioned, recurring disclosure problems. We deal with individual cases of major disclosure deficiencies using enforcement action, but we also log the problems that we see, and through our industry education initiatives we try and work to systemically help industry to improve their continuous disclosure, in conjunction with their accountants.

By this year we had noticed some positive improvement as a result of that program in that 56 per cent of the companies we have surveyed so far this year have shown a noticeable improvement in their continuous disclosure over prior years. We intend to try and drive that number up continuously over the coming years.

Turning to another enforcement-related challenge, there are two specific areas we have seen over recent years in terms of what I call systemic problems in enforcement. One is what we call affinity fraud. Affinity fraud is a type of fraud perpetrated by perpetrators whose intention is to obtain access to people through their affinity with another group. These people will either deliberately or in the normal course join local church groups or charitable organizations, or they'll become affiliated with the chamber of commerce in some way, with the specific underlying purpose of winning their way into the confidence of other people in the community. Ultimately, after a period of time goes by, they will begin to move in, in terms of soliciting investments.

Many of these people are very, very compelling. They're not all tremendously sophisticated, but they are usually very compelling people, and they will be very good at winning the confidence of those with whom they have this common bond of affinity, with a certain way of thinking. These kinds of things, we find, generally happen outside the major urban areas. They are very common in the Fraser Valley and Vancouver and very common in rural British Columbia.

It's very difficult to deal with a systemic problem like this with enforcement alone. The reason is that these relationships are very hard to break down. I have to confess to you that in most of these cases, we end up being perceived as the bad guys, because the loved member of the church group could never have taken them for their money; it's just a question of time before they get it back. In many cases, the witnesses will never give negative testimony against the perpetrator, even though they've been bilked of many thousands of dollars.

[0955]

We've adopted a different approach: using our investor education tools targeted at vulnerable groups around the province to try and convince them of how to protect themselves from these kinds of people by exposing their *modus operandi* by way of things like a

documentary video we have produced that focuses on various types of affinity fraud and the artists who perpetrate them, which we have taken around to church groups and other organizations. We've also provided it to other organizations such as local chambers of commerce. We've provided it to a number of Rotary clubs. They use it as an instructional tool in their local community to help people avoid succumbing to this kind of scam.

A second and completely different systemic problem that we've seen arise in the last couple of years is Internet scams. The Internet, of course, is a wonderful source of information. It's perceived by many to be a wonderful place to make investment decisions, but I can tell you that it's a dangerous place. The Internet has enabled perpetrators of investment scams to run their scams far more easily than they were ever able to run them before.

A classic case is what we call the "pump and dump," which is the simple case of somebody buying a lump of a small company's stock. They then go on the Internet and put out hundreds and hundreds of positive messages about this company. The messages will be that they're about to be taken over by IBM; they're about to get approval for a great new drug; they're about to launch a great new venture. All of them are completely fictitious, and any knowledgeable investor wouldn't act on them, but there are people on the Internet who believe this stuff, and they buy the stock. Of course, what happens is that the stock price goes up, and the perpetrator sells their stock after a couple of months at a huge profit. Of course, shortly after that, all the information is proved to be false, and the stock plummets, and the legitimate investors are left holding the bag.

This is nothing new. This is what used to go on in our sell-right junior markets all the time, perpetrated by professionals. Now the difference is that anybody can do this. You don't have to have any training or anything. All you have to have is a computer and a modem.

We find this one particularly hard to deal with because the Web is ubiquitous, and it's very hard to get a handle on. We have, however, developed Web-crawling software that crawls around. It looks for certain phrases, key words, topics that we know are of interest and are commonly used in this kind of scam, and we get on to them as quickly as we can. We have a special unit now in our enforcement group called the securities investigation unit. It focuses on crime, on securities fraud that uses technology in various ways. They also survey the Internet on a regular basis.

Those are examples of specific systemic threats and risks to investors that we are trying to tackle with a range of regulatory solutions. It's not just enforcement, but they almost always include enforcement as one of the options. Hopefully we'll make progress in those.

Our general strategy is to enforce compliance using both our legislative and enforcement powers to sanction market misconduct. The process we use will involve staff, who fall under my jurisdiction, issuing al-

legations as a result of an investigation. Those allegations can lead either to a hearing in front of the commission, at which the commission will decide on appropriate sanctions, if any, or in most cases, the respondents will settle before a hearing. They'll settle with staff and agree to whatever sanctions we're able to negotiate.

Some examples of the enforcement actions that are included in our annual report.... These are just some samples we pulled out of the over 200 cases that we have underway at any one time. Fraud and manipulation. Mr. Hogan is a young boy who is an example of what I was talking about earlier, the Internet scam. He did exactly what I was describing to you before. Mr. Hogan is 20 years old. He has no formal training whatsoever. If you saw him, you would just think he was another teenage kid. But he made a lot of money by bilking investors on the Internet.

We have a lot of illegal distributions all the time in our market. These are people who simply go around and raise money. They will usually say that they relied on some of the exemptions, which Doug was talking about earlier, that enable private placements, but in most cases they just totally ignored them and had no intention of ever complying. In most cases — the ones we see, of course — the business ventures that they're raising money for are either fictitious or never had any sound business merit to begin with. They were simply shells, means of raising money for the personal use of the people raising the money.

[1000]

Finally, an example of market misconduct by dealers was the Canadian Global Securities case. This was an interesting combination of an affinity fraud and a very severe case of failure to meet what would be considered, by any standards, to be reasonable client suitability requirements in terms of the kinds of investments they were promoting to their clients. This is a fairly common thing we've seen in recent years: mutual fund dealers deciding there's a lot more money in selling investments in ostrich farms and dude ranches and everything else to their mutual fund clients without regard to the risk profile or the suitability requirements of their clients.

K. Stewart (Chair): Steve, if I could just interrupt for a second, we've got approximately 17 slides left, and I'd like to wind up in about ten minutes, if we could — just to give you a bit of a time issue there.

S. Wilson: All right, I'll speed it up.

K. Stewart (Chair): I just want to make sure there's time for questions within the second hour. That's all.

S. Wilson: I won't go into the other enforcement actions we've got listed here, including insider violations. I'll just mention very briefly that we do refer serious cases of breaches of the act and consistent offenders to the Attorney General's office for criminal prosecution. We have had a few successful prosecutions.

Finally, I'll talk a little bit about our investor and industry education activities. I've mentioned some of them already. We conduct these activities on two levels. We have an ongoing staff activity. We consider it an important part of our normal regulatory activities, and we conduct these all across the province by way of these "Investigate Before You Invest" seminars.

Secondly, we have a special fund that consists of the fines and penalties we raise as a result of our enforcement activities. They all go into an investor education fund, and we use that to fund third-party activities that we think are consistent with our investor and industry education goals in the securities markets.

An example of a direct program is the "Investigate Before You Invest" series. This fall we've undertaken partnerships with a number of organizations, including VanCity, the Seniors' Foundation, the Canadian Association of Retired Persons and the North Peace Savings and Credit Union. They all run these "Investigate Before You Invest" seminars, and they all target mainly seniors and more mature investors, who tend to be, in most cases, the victims of securities fraud.

Examples of places where we have held seminars in the past year are shown there. Our undertaking is to do this on a provincewide basis, because frankly, our scams are all over the province. They're not concentrated in any one place, and many of the potentially vulnerable sections of society are in the rural communities.

I'll mention just quickly in passing that we can't do this kind of program with the four staff we have in investor education, so we've had very strong participation from all of our staff, who, on their own time and in their own interest, support this program by participating in and running these seminars across the country.

Examples of the second category of investor education activity, where we have funded other people's initiatives with respect to our target markets, which include seniors and youth. We provided the grant to the Junior Achiever of B.C. for the development and implementation of their dollars and cents program in grade 8. We provided \$100,000 to the Investor Learning Centre to distribute self-help books to 250 libraries across British Columbia. We have given the Seniors Foundation \$75,000 to help them set up the infrastructure for their estate planning and investor protection seminars. As an example of an industry initiative, we provided Simon Fraser University with a \$75,000 grant to seed fund the development of the wealth management MBA course.

With that, I'll turn it over to Martin.

[1005]

M. Eady: I'm going to provide you with a quick summary of our major sources of revenue and expenses over the past two years. First of all, people are often surprised to hear that all of our revenue comes from securities market participants. We're a self-financing agency, and we are not funded by the government. When we became a Crown agency in 1985, the province contributed to us a contributed surplus of

\$1.4 million. You'll see that on our balance sheet. In fact, that also effectively came from securities market participants through the payment of fees.

Indirectly, you'll see up there that all B.C. investors financially support the Securities Commission, either because we are a cost that, for example, investment dealers must pay for or through fees we may receive when people purchase investments.

I'll get to the sources of revenue in a minute, but in 2001-02 revenues declined by \$5 million. That was not an alarming decline, because most of it was due to fee reduction. We've had, in the past two years, two fee-reduction initiatives: one in January 2001 and one in January 2002. The one in January 2001 was a permanent decrease, where we eliminated 14 fees that reduced our revenue to our break-even point. The main beneficiaries of those reductions were listed companies on the Venture Exchange, mutual funds and mutual fund companies. The value of that going forward is approximately \$4 million annually. In January 2002 we temporarily decreased fees by another \$12 million, most of which affects the industry in the calendar year 2002. The purpose of that reduction was to return a portion of our surplus funds back to the industry, back to those who originally paid the fees in the first place.

We've also experienced in the past year a reduction in enforcement income. Enforcement income is highly volatile from year to year. It depends upon collectibility. It depends also upon the nature and extent of the cases from year to year. It's an unpredictable amount. The amount in fiscal 2001 was about \$800,000 higher than last year.

Just moving on to the next slide, unlike many of the Crowns that strive to earn a return for their owners, the shareholders, our financial aim is to break even. We believe we are accomplishing that over the planning period. You'll see on the chart in front of you that we do have a reported surplus and deficit in the past year of \$400,000. That's a surplus. Due to the impact of temporary fee reductions and the impact of our deregulation project, the service plan called for a reported deficit of \$6.7 million in the current year and \$4.2 million in 2003-04. Once the main effects of the temporary fee reductions end, in 2004-05, and our deregulation project is completed, we believe we'll return to an effectively break-even position.

To give you an idea of where our fee revenues come from, 53 percent of our distribution fees come from prospectuses; 29 percent come from registration fees, such as fees paid by salespeople and their dealers; 14 percent come from filing fees that public companies pay; and 4 percent are miscellaneous.

Moving on to the expense side of the ledger, salaries and benefits account for the lion's share of our operating expenses. Seventy-one percent of our expenses are salaries and benefits. Put into real life, that is 208 full-time staff at March 31, 2002. It's now down slightly, to 203. Of that amount, two-thirds of those people are professionals in one shape or form. Examples are lawyers, accountants, geologists, former brokers, IT pro-

fessionals. Those are good examples of some of the professionals we have.

[1010]

Staffing expenses, the areas on which our people expenses are spent: 24 percent in the enforcement area; 24 percent in public company disclosure; 18 percent on adjudication — that's on the main operations of the commission itself; 14 percent on exemptions and rules; 13 percent for dealer and SRO oversight; 4 percent is spent on our deregulation staff; and 3 percent is spent on our industry and investor education specialists.

Finally, to talk about the financial stability of the commission. We have three reserves at March 31, 2002. The general reserve was \$12.9 million, which will be substantially reduced in the coming two years as a result of the government's approved fee reduction of this year. There's also a fee stabilization reserve. It's basically there to provide us with a cushion, so that we do not have to raise fees immediately if there's an economic downturn and we have fiscal needs that exceed our revenues. Finally, we have an education reserve of \$3.9 million, which relates to enforcement revenue, which, by statute and also by commission regulation, we can only spend on education initiatives.

D. Hyndman: Just to wrap up, I'll remind you of the vision we set for ourselves for 2005. I won't read it again, but it's there on the screen. The question everyone will be asking themselves is: how do we know if we've achieved that vision when we get to 2005? We have set out what we call some measurables — ways of determining if we've achieved what we set out to do.

First, of course, we'll have met the government's commitment to reduce our regulatory requirements by a third. On the investor protection side we'll be looking for improved continuous disclosure, improved compliance by dealers in the areas Steve discussed earlier and a reduced number of illegal distributions. We'll be monitoring those things through the period by surveys to measure that. On the other side of the ledger, we'll be looking for increased capital investment, both through private placements and public offerings. Again, we'll be surveying that and providing a report to the minister about it.

With that, I'll invite questions.

K. Stewart (Chair): Thank you very much. That was a fairly thorough overview of what the British Columbia Securities Commission does. It's been very informative for me. Now I will open it up to questions. I'll start with Dave Hayer, and then we'll just move around with the panel members, going around in a circle.

D. Hayer: Thank you very much for coming and providing a very detailed presentation. It's good to see that.

One of the questions I have is on page 7 of your slides, where you talk about how in 1983 you had 207 pages in a rule book, and by year 2002 it was up to

1,550. That's about a 750 percent increase over not that long a period of time. Why did it happen?

The second thing is that once you try to bring it down by cutting it one-third, will that affect your job, which is also to make sure the consumers are protected and your customers are protected? Will it affect any of that? Can you do the job without having an impact on that?

D. Hyndman: All those are good questions. I think the reason for the increase reflects a number of factors. One is that the industry has just gotten a lot more complicated than it was 20 or 25 years ago — a lot bigger, more complicated. New types of investment products have been introduced — more conflicts of interest because of cross-ownership now that banks have entered the industry, for example. We used to have a separation between banking and securities, and now the largest dealers are all owned by banks, which creates new conflicts of interest, which require regulatory attention.

I think some of it is attributable to the fact that securities commissions in the early to mid-nineties were given additional rule-making authority. We had this shiny, new tool, and we decided rules were the way to answer all of the problems of the world. I would suggest we overused it.

[1015]

When I say "we," I mean not only our commission but commissions in Canada generally. We did a lot of work on making our rules uniform and, in the course of doing that, tended to make them longer and more complicated as we worked out compromises — you know, Ontario wants this in, Alberta wants this, and B.C. wants this. We put them all in and ended up with longer and more complicated rules than probably were necessary to do the job.

I don't think we could have survived with the 207 pages. I think we probably could have done with less than the almost 2,000 we had a couple of years ago. To answer your second question, I think that, in fact, by streamlining and simplifying the rule book, we can make regulation more effective.

It does present some new challenges in that one of the ways we're trying to get to a shorter and clearer rule book is to move to more of a principle-based approach rather than a detailed rule-based approach to regulating the industry. In other words, where we might have been heading down the path of saying, "Let's design a rule to deal with every conceivable eventuality, every different type of conflict of interest," we're trying to say, "Let's raise the focus a little bit and deal more on the principle of conflicts of interest." We know them when we see them. There are some general characteristics. We don't have to define every particular relationship. And we'll expect people to comply with that.

It does require a higher level of sophistication by both the people complying and by our staff in examining whether they're complying. I think the result of that will be better regulation, because the rule-based approach has the unfortunate side effect of causing the

industry to adopt a loophole mentality: "Here's a whole bunch of detailed rules. Now how do I figure out my way through these rules to do what I really want to do?" A lot of what you've seen in some of the recent U.S. scandals, the Enrons and WorldComs of the world, reflected that kind of thinking — "Let's design these investment products to fit inside these rules, and we'll have a 3 percent investment from somebody else so we don't have to report this on our financial statements," and those kinds of things. That's what we're trying to get away from with a more principle-based approach. I'm sorry — a long answer to a short question, but I hope that addresses it.

K. Stewart (Chair): Do you have a supplementary to that, Dave?

D. Hayer: Just one, then I'm going to leave for the meeting.

When you're making these rule changes, are you also taking into consideration how you're comparing to the other best exchanges in North America? Also, do they all have the same mandate to break even, or are there some that are different that actually do make some surplus and turn it back to the taxpayer or somebody else?

D. Hyndman: On the first question, we work very closely with the other jurisdictions, although one of the challenges we're having with our deregulation program is that, as I said earlier, there are some philosophical differences. Not to name any particular commission, but some of the other commissions aren't as sold as we are on the possibility....

D. Hayer: Compared to the best ones.

D. Hyndman: Well, I mean, we primarily deal with.... Ontario, Alberta and Quebec are the other major commissions in the game. They're the other ones that have similar structures to ours and have substantial operations. The Ontario commission is also committed to making the industry competitive and having rules that are enforceable and so forth, but I think they are skeptical that we can simplify the rules as much as we say we are going to be able to. That's where some of the tension is, but absolutely, we're spending a lot of time looking at their rules. We're also looking at other jurisdictions like Australia and the U.K., where there's some interesting regulatory innovation going on, and picking up some ideas from there. We always look at the U.S., although the U.S. is a very rule-focused regulatory system. I could take these three things and probably ten times that much, and that would be the U.S. federal rule book, and then they've got one for each state as well. They have some things that are worth copying and some things that are worth avoiding.

As far as the financial objectives go, the Alberta Securities Commission has the same objective as ours, of breaking even. Ontario is heading that way, al-

though they have been contributing a surplus to their government, sort of on a declining balance thing. I think by next year, although I stand to be corrected on that, they're supposed to be moving into a break-even mode. They've cut their fees fairly substantially, and they've got one more round to do. I'm not sure about Quebec. They're changing their whole structure now, and I'm not quite sure where they're going to end up at the end of that.

[1020]

K. Stewart (Chair): Just prior to moving on to Bill, a couple of quick points. I don't know if it was on or off air, but I mentioned to you that these proceedings are recorded in *Hansard*, so that in a day or so you'll be able to go to the legislative site and read what it is you had to say to us today.

D. Hyndman: See if it's the same as what we thought we said.

K. Stewart (Chair): Secondly, as we're continuing on through this, there is coffee and tea and water back there if you want to grab yourself one as we continue on.

B. Bennett (Deputy Chair): In terms of fostering a culture of compliance, when we talk about going to a performance-based regulatory system in other areas of government, often people start to talk about increasing penalties as a way of almost balancing the fact that you're not as prescriptive as you were. You haven't really used words like "prescriptive" and "results-based" and that sort of thing, but you're simplifying your regulation, so I'm assuming there's some of that involved in the direction you're headed in.

D. Hyndman: Absolutely.

B. Bennett (Deputy Chair): Are you, in fact, increasing penalties to help with compliance?

D. Hyndman: We had legislation passed in the spring session that increased the financial penalties the commission can impose. The maximum penalty went up from \$100,000 to \$500,000 for a company or \$250,000 for an individual, so we got some additional penalties that way.

We're also, as part of our deregulation proposals, looking for an additional power that would authorize the commission to order people to — and I use this term — disgorge ill-gotten gains. If they come before the commission and they've earned profits from not complying with the legislation, we would be able to order them to pay that out and then have the court either distribute it to the victims or have it paid into the consolidated revenue fund.

Also, I think we probably want to look at the quasi-criminal penalties in the Securities Act. The maximum fine for someone convicted of an offence under the Securities Act now, I think, is \$1 million dollars or three

years in jail. The Ontario minister just announced that she's going to be introducing legislation to raise theirs, which are now a little lower than ours, to \$5 million for those penalties. I think that's probably something we should think about proposing here as well.

B. Bennett (Deputy Chair): Just a quick follow-up. Does the proceeds-of-crime legislation impact securities?

D. Hyndman: It does. Securities dealers are caught by the financial reporting requirements in there. Steve was talking earlier about the know-your-client issues and piercing the corporate veil and the issues of clients of investment dealers not being identified. In addition to the things we're telling them to do, they've got the proceeds-of-crime legislation affecting them even more so in terms of account identification and so forth.

S. Wilson: I might just add to that. We met with the federal agency that is controlling that. It's called FinTrack. It's a central data collection agency. They are looking at the flow of mainly drug money around the world. They came to talk to us, and it was a sobering conversation. I won't go into any more details, but we learned a lot.

P. Bell: Mr. Chair, just for clarification, are we going to go around a couple of times, or do you want us to ask all our...?

K. Stewart (Chair): Yes, we'll go around until we run out of questions or run out of time.

P. Bell: In your comments on how we know when we will have arrived at our objectives, you've stated more private capital investment, more public company distributions. Have you established a percentage or a number? I mean, more could be 0.0001 percent more than this year, or it could be double. Is there a concrete objective, or are we just staying general at this point?

[1025]

D. Hyndman: Well, at this point we are staying general. I mean, you're right. We could, I suppose, get to the end and say: "Well, it went up by a dollar, so we achieved our objective." That's not what we have in mind. We shied away from setting a specific target, mainly because we're only one factor and, in some ways, maybe not the major factor in determining what happens to investment in the province. I mean, you're well aware of everything else that's going on that's intended to improve the investment climate in the province and that would probably have a much larger effect than anything we do. Probably if it doubles, I doubt that we could fairly take the credit for that. We might try.

We just found it difficult to sort of pick a number and say: "Well, that's the right number for this." We'll do a survey at the end and see if we can identify the factors that led to whatever increase occurs, assuming

there's going to be an increase, and see how much of that can relate back to securities regulation. It was very hard to try and put a specific number on it.

P. Bell: I have more questions, but that's okay. I'll wait until next time.

K. Johnston: I was interested in continuous disclosure, which is one of your challenges. It's challenge 4 on your slide. I just wonder if you could give me a sense of how that works. I assume there must be minimum standards of continuous disclosure — you know, in between sort of financial report filing, I guess, once a year or whatever it is. I just wondered if you could let me know what that is. A lot of information could come to light between fiscal reporting periods, so to speak. How does that work? Is somebody on the hook if they don't let you know that the whole business has collapsed or whatever?

D. Hyndman: Yes. In the legislation there are periodic reporting requirements. You have to file annual audited financial statements plus unaudited statements quarterly, or on the other three quarter ends. We're in the process of raising the standards of the periodic disclosure to have more of what's called management discussion and analysis to accompany the financial statements, to explain through the eyes of management what the financial statements are and how they relate to what's really going on in the business, to try and give investors a better appreciation for what the business is all about. There are some basic standards there.

At the lowest level people get into non-compliance by not filing at all, and we take action against them. We also get filings that are deficient in one way or another — whether the auditor has qualified the statements, or our staff look at them and they're clearly not in accordance with generally accepted accounting principles, or the management discussion and analysis simply doesn't meet any reasonable standard.

In addition to the periodic filing requirements, there is a requirement in the Securities Act for a public company to disclose what's defined as a material change in its business. It's required to disclose that as soon as practicable. Of course, what's a material change? It's a change in the business operations that would significantly affect the price or value of the securities. There's judgment involved at the margin there as to whether something is material. A lot of discussion goes on in the industry among lawyers and corporate management about it — "What's the threshold of materiality? When do I have to disclose?" — although in practical terms, in most cases there's not much doubt. When something happens in a company in the kind of case you describe — the business is collapsing, or a takeover bid that was announced is not going to proceed, to pick an example we ran into — that should be disclosed promptly by the company.

This is one area, just as an example, of the difference between a rule-based and a principle-based approach. In the United States they're cranking up their

continuous-disclosure requirements. Their legislation actually isn't as robust as ours. They don't have, today, a timely disclosure requirement. They have a requirement that you can't disclose to one person what you haven't disclosed generally, but there's no requirement, other than a specified list of things, to disclose material changes on a prompt basis. They disclose them next time they do a regular filing.

They're now making their list of things you actually have to disclose longer, and they've shortened the time period. They say you have to disclose within two days. From our perspective, we think our requirement is still better, because it's generically described. You know, you can't go down and say: "Well, this particular change doesn't happen to be on the list, so I don't have to disclose it." We didn't pick a particular time period because I think what is a practicable time for disclosing depends on the circumstances. Sometimes it should be disclosed in five minutes, and you should halt your stock and put a news release out right away. Other times it's not that critical, and it may be reasonable to take a couple of days until the situation gels and you can accurately describe what happened. Sometimes two days might be too long, and some days it might be too short, depending on the particular circumstances. When you look at the particular circumstances, it's challenging, but it is quite possible to apply the principle. We've tested that in enforcement actions.

[1030]

K. Johnston: I have one other question. I understand your goal to operate at break even, but Steve said something to the effect that you only had four people on the education side. It would seem to me that if you wanted to sort of cut down on your workload, you might want to spend more money on the education side in terms of the public. You're doing some of that. I was kind of wondering why, if you felt that way, more of your resources didn't actually go into public education. As I say, you might not have as many enforcement cases to deal with.

D. Hyndman: That could well be. It's one of those things where you'd have to invest the money in education first, and it would take a while to pay off, but you're quite right.

Interestingly, we have a committee of the commission right now, a special investor and industry education committee, who are conducting a project and doing some work on expanding our educational activities. I suspect they're going to come back to us and propose that we expand it some. We'll have to see how that fits into our financial plans.

There are some exciting things going on now. Of course, the Ministry of Education is reviewing the whole curriculum. One of the things that's proposed in the current curriculum proposal that's out there for comment is a new module for grade 9s, I think it is, to teach them financial skills — skills in investing. Something we have long thought would be really useful is to get into the schools, get people before they're out in the

workplace and equip them with just some basic understanding of the financial markets and the trade-offs between risk and reward — the kind of healthy skepticism you need to have to really survive in today's society.

We're looking to work in partnership with the Ministry of Education to help design the curriculum for that program. It's too late for my son, who's in grade 12 now, but hopefully, other kids coming along will take advantage of that.

D. Jarvis: It's sort of a double-barrelled question, I guess. Was it the Securities Commission's sort of decision to...? Were they doing the recommendations that caused the change of the VSE to the TSX? At the same time, do you think that has affected our development dollar-wise in British Columbia as far as exploration and development — especially, say, in our mining industry, where we were sort of the cowboy wild west outfit?

D. Hyndman: Of course, the change in the exchange status was a two-stage change. Originally there was the merger between the Vancouver Stock Exchange and the Alberta Stock Exchange to create CDNX. That happened just under three years ago now, at the end of November '99. Then in the summer of 2001 the Toronto Stock Exchange bought CDNX and turned it into a subsidiary now called the TSX Venture Exchange.

Both of those transactions were approved by the commission. The initiative in both cases came from the industry. They came to us and proposed it. We considered it and concluded that it wouldn't be appropriate not to let it go ahead.

I think there were some problems, probably more from the way the merger of the Vancouver and Alberta stock exchanges was handled rather than the TSX takeover, although it's too soon to say, I think, how that's going to turn out.

[1035]

I think that in retrospect, if you look back, what happened was that the industry, the management and the boards of the exchanges put a lot of time and effort into designing the merger transaction that made the Alberta and Vancouver stock exchanges merger happen. There was some very good — brilliant — legal work and some business plans done and everything to make the merger happen. Where I think they failed in the execution is that they thought their job was done once they'd done the legal merger, and of course, as anyone who's merged two organizations knows, that's when the real work starts. It's merging organizational cultures, developing a vision, building a team out of two separate teams. Quite frankly, I don't think that was ever really done very well.

I think one of the reasons for that was that when the merger first happened.... If you recall, this was the tail end of the dot-com boom, the tech boom. CDNX was formed in November. Their index doubled in the next three months, so I thought: "What a huge success.

The market's taken off." Well, that was just being in the right place at the right time. Then, of course, the market turned against them, and everybody looked pretty bad after that, which I suspect led to the desire to sell it out to the Toronto Exchange.

The Toronto Exchange made some significant commitments, when it acquired CDNX, about maintaining a presence in the province. In fact, in addition to maintaining the presence of the Venture Exchange here, the Toronto Stock Exchange itself has now opened an office in Vancouver to provide services to their listed companies in this region. I think there have been some benefits to listed companies out of it.

The risk that everyone in the business is worried about is that we will lose the good aspects, if I can put it that way, of the old VSE culture — the entrepreneurial spirit, the flexibility and so forth — and that it will be smothered by excessive conservatism, being too worried about the risks of the venture business. I can't say yet that that's going to be a problem. They're certainly making the right noises. I have met several times with the new president of the Venture Exchange, Linda Hohol. Although she doesn't have a background in the industry, I think she's learning fast, and I think she's certainly saying the right things about what they're trying to do.

When they merged the two exchanges, in effect they merged their rule books without.... When they ended up, it was worse than this. They made their rule book even more complicated because they got bits of two sets of rules that had somewhat different philosophies. What they should have done then — and what they are doing now — was to go through and say: "Do we really need all of this stuff? Can we shorten this down and simplify the rule book for the listed companies?" There certainly are a lot of angry listed companies who think their lives have gotten worse as a result of the merger. There's no doubt about that.

K. Stewart (Chair): Does that answer your question, Dan?

D. Jarvis: Yeah, pretty well.

J. Nuraney: Now that you were saying something about this, just a quick question. You, as a regulatory body, approve the local venture capitalists or new companies that come on the TSX.

D. Hyndman: Yes.

J. Nuraney: Is there a duplication of the approval process between you and the TSX?

D. Hyndman: The exchange approves the company for listing. What we do is review their prospectus disclosure. We had a system with the VSE where we relied on them to review the prospectuses for initial public offerings so that we minimized the amount of duplication. They reviewed the prospectus, and they reviewed the listing application and approved it. We

would just essentially do our part, which was the background checks on the directors, and away they went.

That carried on, actually, until a few months ago under the Venture Exchange. We were the only province that was willing to do that, the only provincial Securities Commission. In the end, the Venture Exchange said: "We don't really want to do this in just one province. We're a national organization. In the other provinces, the securities commissions are doing the prospectus reviews." So they tossed it back to us, as I say, a few months ago.

I guess you could say there's some duplication of process. We're not duplicating the actual work that's done, and I think we coordinate it pretty well between the two organizations to try and avoid a whipsaw effect for the people that are applying. If you're hearing differently from people, I guess I'd be interested to hear anything specific.

J. Nuraney: The other question I wanted to ask was in terms of the salespeople you have — about 21,000 here in this province.

D. Hyndman: Yes.

J. Nuraney: Is there a prerequisite qualification before you become a broker or a salesperson, or are you just regulating the industry and pointing out misconducts?

[1040]

D. Hyndman: They have some fairly rigorous course requirements that they have to go through and pass before they can be registered, and we do background checks on them, of course — police record checks and those kinds of things.

J. Wilson: You have a reasonably healthy reserve — \$31 million, is it?

D. Hyndman: Is \$31 million our cash balance? I don't have the numbers in front of me. Our reserve is technically about \$27 million or \$28 million, I think. The cash may be a bit higher than that.

M. Eady: Once the impact of the temporary fee reductions is felt, we'll have basically a reserve of \$12 million, which we call the fee stabilization reserve. It's our cushion for the rainy day when, if, revenue falls. We'll be able to draw upon it at that point.

J. Wilson: Do you have any other reserves there floating around?

M. Eady: No, it's all here.

S. Wilson: There is the education fund that I was talking about before. That's a special, one-purpose reserve. We allocate all the fines and penalties we levy

into that fund. That fund must be used for investor education purposes. That's all.

J. Wilson: This money you have on reserve — what's the status of it? Is it invested? If so, where?

D. Hyndman: It's invested by, I guess, the British Columbia Investment Management Corporation. That's who invests it for us now, in one of their pooled funds they invest for Crown agencies.

J. Wilson: You're actually putting it back into the market.

D. Hyndman: Yeah, we don't invest in equities, because we thought that might not be advisable for us to be doing. It's in one of their money market and debt portfolios.

J. Wilson: Can you be a little more clear on where it is?

M. Eady: I think it's called ST2.

D. Hyndman: Short-term investment.

M. Eady: It's a short-term investment fund.

At year-end it was 4.14 units of the short-term bond fund and 3.26 units of the pooled Canadian money market fund ST2.

K. Stewart (Chair): Does that answer your question, John?

Ida had a question. She's running between here and the Finance Committee, so she asked me to.... It refers to, I believe, slide 46 on page 16 of our copy, with regards to meeting the government's commitment of a one-third reduction in regulatory requirements. Her question was: how do you plan to do this, and what are your benchmarks for that as you move along?

D. Hyndman: Like other regulatory agencies, we were required to do a regulatory count of the number of requirements we imposed as of June 2001. In fact, we just recently completed that count. We did an original sample and projection and came up with a number that turned out to be too high, so we actually did a more detailed count and finished that in September. I don't have the exact number in front of me, but it was in the order of 21,000 regulatory requirements that we impose.

The target is that at the end of our deregulation project, we will have proposals that will reduce that to 14,000 at least, although to be quite frank, the count is not the primary driver in our program. It's a constraining factor. It's something we see ourselves as having an obligation to meet, but we are more interested in making sure we have substantive streamlining and simplification so that the people who are required to comply with our rules will look at it at the end of the day and say: "Yeah, that's better. That's a simpler set of rules,

less onerous requirements, more effective." We hope to be able to say, at the same time, that it also meets the one-third reduction requirement.

K. Stewart (Chair): That one-third reduction requirement came from your core review, where you were directed to do that.

[1045]

D. Hyndman: That's right. Well, it's a general requirement that the government is imposing through the Minister of State for Deregulation. It factored into our core review.

Unlike some other agencies, we went through the core review, and we combined sort of the general mandate review, core review process and our deregulation process. We said: "We're a regulatory agency. Our business is regulation. There's not much point in doing the core review without looking at the regulation side." It was a combined process.

K. Stewart (Chair): That's where the direction was given to you, though.

D. Hyndman: Yes.

K. Stewart (Chair): Thank you. I have a couple of questions with regard to.... I have before me the financial statements for the first three-month period, ending June 30, 2002. In there, comparing 2001 and 2002, there is, as mentioned — I think Martin mentioned it — \$2.5 million down in revenues. That, I understand, is from the change in fees.

D. Hyndman: Primarily.

M. Eady: Primarily. In the current year, what we're experiencing is, yes, a deficit as a result of the temporary fee reduction. That's basically on track. We have also noted further weakness in the mutual fund industry. We receive a significant portion of our fees from mutual fund investments. Now that we're six months in, we're down about a little over a million dollars from where we thought we'd be in terms of receipts from mutual funds.

K. Stewart (Chair): How much of that would you say is due to 9/11? Does that have a significance in mutual fund growth and the fees associated with it, or not?

D. Hyndman: It's a whole stew of factors that have affected investor confidence and the activity in the market. It's 9/11, the dot-com bubble bursting, the Enron-WorldCom scandal.

K. Stewart (Chair): It's market factors, not just the....

D. Hyndman: It's market factors.

K. Stewart (Chair): Just one further question on this, then. I also noted that in the same period of time,

although your revenues were down \$2.5 million, your salaries and benefits over that period of time were up about 10½ percent, approximately half a million dollars in salary swings. Do you want to comment on that?

S. Wilson: Maybe I'll tackle that one. The bulk of that increase has been the commitment we've made to the deregulation project.

K. Stewart (Chair): Those 12 staff.

S. Wilson: Yeah. It's the 12 staff and a lot of expenses in terms of cross-country travel, coordination with other commissions. If you take that out — which was a completely new initiative, completely new to the commission, outside of our strategic plan for last year — I think our growth in expenses is about 2 percent.

K. Stewart (Chair): Okay. That brought up the question of part-time employees, contract employees. If you have those swings, you're not stuck with them forever.

S. Wilson: That's right. Our strategy in the deregulation project has been to effect the net increase in staffing required by that project with two-year contract staff. It's not a built-in infrastructure.

M. Eady: The staffing figure I gave you of 208 is 185 permanent employees and about 23 auxiliaries and contractors.

K. Stewart (Chair): Bill, do you want to go a round too?

B. Bennett (Deputy Chair): Under "Manage Our Operations Like a Business," you talk about a culture change, instilling a sense of urgency, rewarding results, problem-solving, communication and teamwork. I'm curious how you do that, specifically. It would be useful for us to know that in government, and it would be useful for the other Crown corporations.

[1050]

S. Wilson: I'm not a regulator by background. I've only been with the commission for three and a half years. I'll give you a perception that I have from when I came to the commission. When I came to the commission, I would describe it as an organization that was institutional/union influenced. It had, and frankly it still does have, a hangover from the days when it was closely aligned with government. Those kinds of organizations have certain characteristics. They tend to have a lot of rules. Our personnel rule book was about this thick. Just like our rules and regulations, many of our staff had the underlying cultural idea that their role in life was to see how much they could get away with by utilizing that rule book. It was so complex, it occupied a lot of time. It occupied a lot of their time figuring out how to maximize the number of days off, how to maximize their performance increases, etc. We had

to get rid of all that. We had to move to a system whereby the interests of all of our staff and the interests of the commission were aligned.

You have to try and get everybody pulling on the oars at the same time. In business you would often do that by giving employees the ability to buy into the business or options or something like that where you try and align their interests with the interests of the organization. We couldn't do that, so what we had to do was start with a multifaceted approach — firstly, have a strategic plan that's easily communicable to employees so they know where we're going and they know their role in the process; and secondly, build into the recognition and reward systems that we have in place in the commission recognition and reward for going there, to deflect away from this idea: "In order for me to get ahead, I have to figure out how I fit into this big rule book."

It's now clear, I think, to all of our employees that the way you get ahead is you contribute to the overall goals of the commission. These are quite specific. They're laid out. Our strategic plan carries right through to the personal objectives of every employee in the commission. Every employee in the commission has personal objectives, and included in those are what they are going to do in their role that is consistent with the overall strategic objectives of the commission.

The third component, of course, is the compensation plan. You can't have a disconnect between the way you pay and the way you want people to behave. Our compensation plan has moved away from straight salary and benefits to a much more highly incentive-based compensation. Very little of your increased compensation now in the commission will come from a salary increase. Much more can come from a bonus for your performance in relationship to the goals — your personal goals, the goals of your department, your division and the commission. Our compensation plan takes our goals and filters them right through to the individual objectives.

Every individual knows, well before their annual review time comes along, whether they've met their goals and how the commission has done overall — because we measure it all — and they know what their bonus is going to be or is not going to be. In that way, we've tried to tie in what we want to do and the kind of changes we want to make and imbue it in the culture of the commission by, I guess you'd say, infrastructuralizing it, building a whole infrastructure within the commission that gets people thinking the same way, working towards the same objectives. If we don't get there, none of us do very well — not only the employees, but I don't do very well, and Doug doesn't do very well.

It's quite clear what you have to do to get your bonus and get ahead. People know what the expectations of them are. So far it seems to be working a lot better.

B. Bennett (Deputy Chair): Just quick follow-up. You said you've been there, I think, three and a half years.

S. Wilson: Yes.

B. Bennett (Deputy Chair): Did this process start when you first came?

S. Wilson: No, I don't take credit for it. I put in a lot of the stuff, because I've been through this a number of times before. The process began — and Doug would know more about this — when the commission actually broke away from government. We were under the government aegis up until 1995. That was the beginning of it, when we no longer had to.... All of our support staff, for example, weren't unionized, but we had no choice but to give them everything the government employees union got, otherwise we'd have had a union, so it was the same.

The compensation and the recognition and reward systems of all the other staff were all completely bureaucratized. There was no logic to it other than it was subjective. If people thought other people had done a good job, they got raises and increases. I would say the mentality, the culture, was that of an institutional one. It was highly process oriented — you know: "Well, my job is to come in and process six prospectuses and go home at night. That's my job."

B. Bennett (Deputy Chair): You've got about 250 employees, I think you said.

D. Hyndman: It's 208.

B. Bennett (Deputy Chair): It's 208. How long does it take to have this process work?

S. Wilson: I wish I could say it happened overnight, but it doesn't.

[1055]

D. Hyndman: Steve's being a bit too modest. This has been an evolutionary process for some time, even before we became a Crown corporation. We've been through a lot of change in the three and a half years since Steve has come in and brought a more private sector management approach to the commission. Steve's predecessors were people from regulatory backgrounds who were good at regulation and didn't necessarily have management skills. That's not to criticize them; they're all friends of mine. Steve has brought a different culture, a different expectation.

It does take time. We've had a lot of turnover, and we've had new people come in who aren't burdened with the old attitudes, but even a lot of the people who've been there longer have made some quite remarkable changes in their approach. It's a process of years, not weeks.

K. Stewart (Chair): Does that answer your question, Bill?

B. Bennett (Deputy Chair): Thank you very much.

P. Bell: How do your fees compare to other jurisdictions — Ontario, Alberta and so on — if you could

draw a direct relationship on a fee-to-fee basis, or if you have to look at the bigger picture in terms of total number of dollars invested and then fees collected as a percentage of that?

D. Hyndman: I don't know if we've done a recent comparison. Before our fee reductions two years ago we were on the high side, lower in some fees than Ontario, higher in some others. Maybe comparable to Ontario and higher than Alberta, I guess I would have said a couple of years ago. We've cut them some. Now Ontario has cut their fees as well, and they're going through a massive restructuring, which will make them very hard to compare. We're probably still, apart from our temporary fee reduction, a little higher than Alberta, but they're quite comparable in most instances.

P. Bell: Could you provide the committee with those numbers?

D. Hyndman: Sure.

P. Bell: I'd be interested. I'm not sure where else you might like to compare to.

D. Hyndman: Those are the key jurisdictions.

P. Bell: I'd be interested in it either from the perspective of, as I said, if you could draw a fee-to-fee basis.... Perhaps that may not work. What would work for me, I think, is total dollars invested to total fees collected as a percentage. That would work, I think.

D. Hyndman: We can certainly do the fee-to-fee thing, and I'll see whether we can do an overall one.

P. Bell: Okay. The other question I had probably just displays my ignorance of your organization, so it may be a relatively simple answer. You indicated earlier that the total investment from 2001 to 2002, or for the six-month period April to September — or whatever that is; that doesn't strike me as a six-month period — increased by 43 percent. How much of that money actually stayed in B.C., to B.C. companies? Is that all of it? Is there a way of calculating that?

D. Hyndman: There is way of calculating it. Actually, I'm not sure. I suspect that's an overall number. That would be the amount raised from B.C. investors.

S. Wilson: We have to get you that. We can get you that.

P. Bell: Is that something we track — the amount of money that's invested?

D. Hyndman: It's not something that's easily trackable or tracked on an ongoing basis, but we did a survey a few years ago to kind of get a picture.

Did we just do that for one year, that study Margaret did?

I think it was. We took a snapshot for one year to see what the breakdown was. We can do a bit of a sample.

K. Stewart (Chair): This is a good opportunity for me to interject that we do have the ability, and we encourage it.... If there are questions the members have that you may not have the information or data for today, we certainly would appreciate your sending that through to the Clerk's office, and they will get it to us before we do our final reports. Thanks.

Did that pretty much conclude your question?

K. Johnston: I just want to ask a question out of interest. It might be a little off topic. Do you folks have any kind of input into this Nigerian mail scam that every business in B.C. has been bombarded with for the last three years, including us? There's another one kicking around off the Internet as well. I'm just kind of wondering. I know it's not in your jurisdiction, but is there any way you have any input into that in terms of the police or anything like that?

S. Wilson: Interestingly, in one segment of our educational program we partner with the Better Business Bureau. They go beyond the kinds of things we do and just highlight for people what the scams are that are happening today. They could be business scams, or they could be businesses operating fraudulently. The Nigerian scam is one of them. Some of the Internet scams are others. They highlight those in our presentations to investors.

We do work closely with various law enforcement agencies, but we are not a law enforcement agency. We're a securities regulator, so our powers end, but we do share information with them when they need it. I think the one you're talking about is actually under investigation by the RCMP.

[1100]

K. Stewart (Chair): I'd just like to make a quick comment on that. In my business life, prior to this, I got maybe one or two of those from Nigeria. Since I've been an MLA, I think I've gotten six. I don't know if they're targeting us for some reason.

A Voice: They think you've got more money.

K. Stewart (Chair): I still haven't got my million-dollar letter from Nigeria yet.

Anyway, we can move on to Dan.

D. Jarvis: They're probably dealing on the basis of intelligence now.

I guess it must be over 45 years ago on a lunch hour that I walked into the Hastings Street exchange and some guy said to me: "Look, I've got a deal for you," and "This is going up," and all the rest of it. It has continued to today. I still get calls from different people —

I won't mention any names or anything like that — and they know what's going on and what's not going on. So what, really, is insider trading? How do they do it? Is there any definition for it?

D. Hyndman: Oh, yeah.

D. Jarvis: As I say, I have people phone me and say, "Look, this stock is going to move up to \$2," or \$5 or \$10 or whatever it may be. Invariably they don't.

D. Hyndman: Yeah. That's probably touting, not insider trading.

D. Jarvis: On the double-barrelled thing, are you or your offices or the commissioners allowed to buy stocks? If so, do you have to make declarations, etc.?

D. Hyndman: There are restrictions and reporting requirements on investments by commissioners and staff. We're actually in the process of getting them revised. That's another area where we've got rules that are too complicated and impractical, and we're trying to move more to a principle base there as well.

To answer your first question, insider trading is an often-misused term. Insiders of companies are allowed to trade, and they're required to report their trading. As Steve mentioned, we're designing a new electronic system so that they can do it more efficiently and make it more available. What they're not allowed to do is trade when they have knowledge of material changes in the company's business that haven't been disclosed to the general public.

That applies not only to the insiders of the company but to other people who are doing business with the company and would have access to that information or to people they tip off. That larger group is what is technically called in the legislation "persons in a special relationship with the company." If you obtain information from the company through a special relationship, you're not allowed to go out and trade by using that knowledge to make a profit in the market, either by selling in advance of bad information or buying in advance of good information.

It's relatively easy to define. It's hard to find and hard to prove, even when you know you've got it. We have a group that's working nationally among the securities commissions and with Market Regulation Services, the SRO that I mentioned, trying to come up with a better approach to identifying and responding to insider trading, trying to catch people, trying to look at it. I talked earlier about a problem-focused approach, looking at it as a problem that's not going to be dealt with just by catching people and pursuing enforcement.

We need to change the culture of companies so that they control information if they're in a takeover bid mode or in negotiations for a new property or something, to make sure they keep track of everybody who knows that information and they are not telling their friends and family about it so they can go out and

profit, essentially, at the expense of the other shareholders of the company. It's a difficult problem, but it's an important one for the confidence of investors and the integrity of the market.

D. Jarvis: It's virtually impossible, then, for us to stop it. Actually, the other day I had a broker talk to me about a stock and say they were involved directly in that stock and that it was going to move in the market and all the rest of it. If I had bought some of those stocks and they had gone up and I had sold, knowing full well I was....

D. Hyndman: The person who should really be in trouble there is the broker — right? They shouldn't be doing that. The firm would be in trouble for not.... I mean, the front-line salespeople, the investment advisers, aren't supposed to know what's going on over in the corporate finance department if they're cooking up a deal. Of course, it happens. It's a very difficult problem and one we're trying to come up with some new strategies for.

[1105]

D. Jarvis: I have one more question, Mr. Chair. Can I continue with that, and then we'll...?

K. Stewart (Chair): You might as well finish it up now then, Dan.

D. Jarvis: On the revenue aspect of the Securities Commission I was wondering: is there any underlying tax or fee that we actually pay and that goes to you from our purchase of a stock?

D. Hyndman: Not directly. Our fees come primarily from three sources. Companies and mutual funds pay a fee when they file a prospectus with us. There's a basic fee, and then there's an ad valorem fee, a fee based on the value if it's a large distribution. The standard fee is 0.03 percent of the amount distributed. It's a small slice of the amount raised. I think that's our biggest source of revenue. We charge fees to brokers and advisers for registering the firms and the salespersons — that's our second-largest source. Public companies and mutual funds pay annual fees when they do their annual financial statement filings. Those three account for the bulk of our revenues. Then we have other things, like exemption application fees and other kinds of minor transactional-based fees.

Now, ultimately, investors pay for all of that, because it's the only source of the money.

D. Jarvis: Thank you.

J. Nurany: Just two quick questions. One is the revenue-based thing again. You get your fees from companies wanting to be listed and those that are listed.

D. Hyndman: Yes.

J. Nuraney: Is there any split with the...? Again, I get confused with TSX. How does the TSX make their revenue?

D. Hyndman: Our fees, just to be clear, aren't related to whether you're listed on an exchange or not. We have a different concept here, called "being a reporting issuer," which means you've filed a prospectus or raised money from the public. Most of them are listed, but not all. There are other companies that are unlisted — special project financings or companies that trade over the counter. All of those pay our fees. The exchange charges fees to its listed companies. I can't say I know exactly what all their fees are, but they have an annual sustaining fee, and then they have transactional-based fees for when companies have to go and get private placements approved or various types of transactions approved.

The exchange also makes a lot of money from trading fees paid for by the brokerage firms who do transactions through the exchange. They take a little slice off every trade. Their third source of revenue is fees they get for selling the trading information to information vendors. The Bloomberg terminals and all those sorts of things pay the exchanges for that information.

J. Nuraney: Your revenue, then, comes from all companies incorporated in British Columbia?

D. Hyndman: No, from all companies that are reporting issuers in British Columbia, which means they have sold securities to investors here. Most of the money would come from companies that are not incorporated in British Columbia, actually.

J. Nuraney: Interesting. Just one more final question.

D. Hyndman: I'm sorry, if I could just elaborate, it's paid when they do a.... On a prospectus, they pay in relation to the amount of money they raise from investors in British Columbia.

J. Nuraney: Your total capital-raising activity figures show an increase of 43 percent from last year. Could this be an economic indicator?

D. Hyndman: Well, I hope so. I mean, I found it surprising. I think there are probably a couple of reasons for it. This is private placement money, and I suspect some of it is displacement from the public markets, where people are having trouble raising money now so they're going and raising in private placements. Some of it, we think, results from the fact that we liberalized our exemptions and made it easier to raise money privately.

I don't know whether those two could explain the whole 43 percent. I would like to think it's also an indicator of optimism in the business community — that people are out raising money and, you know, growing their businesses.

J. Nuraney: Thank you.

[1110]

K. Stewart (Chair): I have a couple of quick questions too. With regards to education, you mentioned on that one slide that there was approximately \$358,000 of educational fees that you gave out to various agencies, etc. For you, when you go out, is education a cost? Is it revenue-neutral when you go out to some of these other agencies? Or is there a profit potential here with that? That's my first question.

D. Hyndman: As I mentioned, we operate on two levels. We have our own educational initiatives that we run with our staff. That's a cost. We also have the education fund that we build up through the fines and penalties. That's the source of the \$358,000 you're talking about. We don't get any markup on that. Those are just grants we make to organizations to use the fund.

K. Stewart (Chair): When you use your staff and people — there was a group of partners you used in an earlier slide — to go out and provide information, do you charge them for that information? Again, that's a service to educate to make your life easier down the road.

D. Hyndman: Yeah. We're trying to push out education.

S. Wilson: Our partners are invariably distribution organizations. We have the message and the expertise, but we don't have any distribution, so we rely on people to do....

K. Stewart (Chair): You go to other agencies to partner.

S. Wilson: That's right.

D. Hyndman: One thing we do charge for is we have an annual conference every June we call Capital Ideas, where we try and get people from the industry in to tell them what our strategic plan is. It's kind of our accountability session but also a bit of an educational opportunity for the industry. We charge a fee for that to try and cover part of the cost of doing it, but it's still a net loss. Frankly, we're going to reduce that fee because we're trying to get more people to come to it.

K. Stewart (Chair): Again, it's education, so it's less than neutral.

D. Hyndman: Yeah. It's to help achieve other objectives.

K. Stewart (Chair): Do you see any potential for a profit in education, or are you even going there?

D. Hyndman: No, I don't see any.

K. Stewart (Chair): Okay. That's fine. My last question is with regards to slide 41, I believe it is, "Operate

at Break-even," with the normalized surplus moving ahead. I noticed that for 2002-03, I guess — it's hard to read on this — you show a reported surplus or deficit of 6.7. I trust that's for the year 2002-03. We looked at the first quarter, and you're down \$3 million. That's one-quarter of four, and you're halfway there. Do you want to comment on that?

M. Eady: The largest impact of any year is felt in the first quarter, for fees. Mutual funds tend to pay in the early part. They either pay in the early part or just at the very end of the year.

K. Stewart (Chair): March 29.

M. Eady: Yes. Occasionally we're surprised when a cheque for \$1 million arrives on March 29.

K. Stewart (Chair): You see this as expected.

D. Hyndman: Yes.

K. Stewart (Chair): It's not an even plan. It cycles through the year, and there are highs and lows.

D. Hyndman: There's definitely a seasonal factor there. Depending on what happens in the market, we may be higher or lower than the 6.7.

K. Stewart (Chair): My question was: are you nervous about your forecast?

D. Hyndman: I guess I'd say we're not so much this year, but looking out into the future, we're a little uncertain, like everybody else, about how long this bear market is going to continue. That does have an effect on our revenue. I don't think we're anywhere near pushing the panic buttons yet. We're just kind of raising our antenna and trying to get a sense as to when things turn around.

K. Stewart (Chair): Okay. Thank you.

Now, we won't go in sequence anymore, but if anyone has a final question they'd like to ask, great. If you can think of any questions that weren't asked today and you'd like to do them in writing, we will ensure that the agency gets those.

B. Bennett (Deputy Chair): Just one brief comment. I would think you'd want feedback on the service plan. I thought the way the commission organized the challenges and then matched up the challenges with the responses to the challenges was a good way to organize the information. I thought it was useful, and it made it a bit easier for me to sort of rate the service plan and fill out the form we use here to evaluate the Crown corporations.

D. Hyndman: Thank you.

K. Stewart (Chair): Again, just in closing, what we will be doing is deliberating on the presentation of the

witnesses today. We will be compiling a report. What we've done in our first one, which is not quite complete yet and which we should be presenting to the House within the next week or so, is we've combined four Crowns. I'm not sure when the next reporting-out will be, but it probably will not be before Christmas with your group. It'll be early in the spring session that you'll get reported out.

[1115]

You do have the information you presented today in *Hansard*. As soon as the final report is presented to the Legislature, it's available to you. Our intention is to do this on an ongoing basis, so we're really looking to benchmark at this point in time.

Thank you very much for your presentation. We will look forward to completing the report and getting you a copy of that. Again, if there are any further questions, we will get them to you.

D. Hyndman: Thank you for the opportunity of coming today.

K. Stewart (Chair): If you just want to take a, say, five-minute recess, then we can come back in once the room's cleared out, and we can move on with reviewing the group today. Then we will have an opportunity to do what I would like to end with today — that is, going over the draft report for the outstanding Crowns.

The committee recessed from 11:16 a.m. to 11:23 a.m.

[K. Stewart in the chair.]

K. Stewart (Chair): It was the intention of the agenda to go through this again. It was suggested at the last meeting that we go through it at the end of the meeting. Then I would like to move right into the draft of the earlier report. As this is information that is going to be a basis of the report, I would certainly entertain a motion to move in camera.

Motion approved.

The committee continued in camera from 11:23 a.m. to 11:43 a.m.

K. Stewart (Chair): We're just back out of in camera. We have come out of in camera from our discussions on the draft report. Are there are motions from the floor?

D. Jarvis: There's a motion from the floor, from Mr. Bell, that the Chair present the report to the House at the earliest possible opportunity, and a motion that the committee accept and adopt the report as presented.

K. Stewart (Chair): On the first motion.

Motion approved.

K. Stewart (Chair): On the second motion.

Motion approved.

K. Stewart (Chair): Any further business? I move that we adjourn. We're trying to schedule our next group, and we haven't done it yet. As soon as we have

confirmation, we will schedule the next meeting as and when needed.

Thank you, and we'll see you then.

The committee adjourned at 11:44 a.m.