# Financial Statements

## Management's Responsibility For Financial Reporting

The accompanying ASC financial statements along with all other information relating to the ASC contained in this annual report have been prepared and presented by management, who is responsible for the integrity and fair presentation of the information.

These financial statements are prepared in accordance with Canadian public sector accounting standards. The financial statements necessarily include certain amounts based on the informed judgments and best estimates of management. The financial information contained elsewhere in this annual report is consistent with that in the financial statements.

In fulfilling its responsibilities and recognizing the limits inherent in all systems, the ASC has developed and maintains a system of internal control to produce reliable information to meet reporting requirements. The systems are designed to provide reasonable assurance that ASC transactions are properly authorized, assets are safeguarded from loss and the accounting records are a reliable basis for the preparation of the financial statements.

The Auditor General of Alberta, the ASC's external auditor appointed under the *Auditor General Act*, performed an independent external audit of these financial statements in accordance with Canadian generally accepted auditing standards and has expressed his opinion in the accompanying Independent Auditor's Report.

ASC Commission members are responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The members exercise this responsibility through the Audit Committee. In both the presence and absence of management, the Audit Committee meets with the external auditors to discuss their audit, including any findings as to the integrity of financial reporting processes and the adequacy of our systems of internal controls. The external auditors have full and unrestricted access to the members of the Audit Committee.

T.W. Cotter

**TOM COTTER**
Interim Chair and Chief Executive Officer

**DAVID C. LINDER, Q.C.**
Executive Director

*June 8, 2016*

# Independent Auditor's Report

To the Members of the Alberta Securities Commission

## REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of the Alberta Securities Commission, which comprise the statement of financial position as at March 31, 2016, and the statements of operations, remeasurement gains and losses, change in net financial assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

## AUDITOR'S RESPONSIBILITY

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

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## OPINION

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

[Original signed by Merwan N. Saher FCPA, FCA]

Auditor General

June 8, 2016

Edmonton, Alberta

| Statement of Financial Position | | |
|---|---|---|
| *thousands of dollars* | **At March 31, 2016** | At March 31, 2015 |
| **Financial Assets** | | |
| Cash (Note 3) | **10,013** | 7,064 |
| Accounts receivable | **402** | 135 |
| Restricted cash (Note 4) | **696** | 1,068 |
| Investments (Note 5) | **20,970** | 26,065 |
| | **32,081** | 34,332 |
| **Liabilities** | | |
| Accounts payable and accrued liabilities | **4,613** | 5,714 |
| Lease inducements | **2,116** | 2,391 |
| Accrued pension liability (Note 7) | **8,000** | 7,134 |
| | **14,729** | 15,239 |
| | | |
| **Net Financial Assets** | **17,352** | 19,093 |
| | | |
| Non-Financial Assets | | |
| Capital assets (Note 6) | **5,965** | 6,787 |
| Prepaid expenses | **261** | 291 |
| | **6,226** | 7,078 |
| | | |
| **Accumulated Surplus** | **23,578** | 26,171 |
| | | |
| Accumulated surplus is comprised of: | | |
| Accumulated operating surplus | **23,135** | 24,447 |
| Accumulated remeasurement gains | **443** | 1,724 |
| | **23,578** | 26,171 |

*Commitments and contingent liabilities (Note 10)*

*The accompanying notes and schedule are part of these financial statements.*

*Approved by the Members*

T.N. Cotter

**TOM COTTER**
Interim Chair and Chief Executive Officer

**FRED R.N. SNELL, FCA**
Member

*June 8, 2016*

| Statement of Change in Net Financial Assets | | | |
|---|---|---|---|
| *thousands of dollars* | **For the twelve months ended March 31, 2016** | **For the twelve months ended March 31, 2016** | For the twelve months ended March 31, 2015 |
| | **Budget** | **Actual** | Actual |
| **Operating Deficit** | **(6,785)** | **(1,312)** | (6,245) |
| | | | |
| Acquisition of capital assets | **(846)** | **(434)** | (666) |
| Amortization of capital assets | **1,280** | **1,255** | 1,081 |
| Losses on sale of capital assets | | **1** | 39 |
| | **434** | **822** | 454 |
| Acquisition of prepaid expenses | | **(397)** | (302) |
| Use of prepaid expenses | | **427** | 224 |
| | | **30** | (78) |
| | | | |
| Net remeasurement gains (losses) | | **(1,281)** | 1,041 |
| | | | |
| Decrease in net financial assets | **(6,351)** | **(1,741)** | (4,828) |
| Net financial assets, beginning of year | **19,093** | **19,093** | 23,921 |
| Net financial assets, end of year | **12,742** | **17,352** | 19,093 |

*The accompanying notes and schedule are part of these financial statements.*

| Statement of Operations | | | |
|---|---|---|---|
| *thousands of dollars* | | **For year ended March 31** | |
| | **2016** | **2016** | 2015 |
| | **Budget** (Note 11) | **Actual** | Actual |
| **Revenue** | | | |
| Fees (Note 8) | **30,635** | **33,571** | 31,369 |
| Investment income (Note 5) | **1,245** | **1,226** | 1,568 |
| Other enforcement receipts (Note 8) | **1,250** | **972** | 155 |
| Administrative penalties (repayments) (Note 4) | **250** | **276** | (855) |
| Conference and other | **20** | **13** | 13 |
| | **33,400** | **36,058** | 32,250 |
| **Regulatory Expenses** | | | |
| Salaries and benefits | **28,705** | **27,571** | 28,198 |
| Premises | **3,660** | **3,411** | 3,098 |
| Administration | **3,103** | **2,648** | 2,920 |
| Professional services | **2,356** | **1,996** | 2,694 |
| Amortization of capital assets | **1,280** | **1,255** | 1,081 |
| Investor education (Note 4) | **520** | **489** | 504 |
| | **39,624** | **37,370** | 38,495 |
| **Budget contingency** | **561** | **–** | – |
| **Operating deficit** | **(6,785)** | **(1,312)** | (6,245) |
| Accumulated operating surplus, beginning of year | **24,447** | **24,447** | 30,692 |
| Accumulated operating surplus, end of year | **17,662** | **23,135** | 24,447 |

*The accompanying notes and schedule are part of these financial statements.*

| Statement of Remeasurement Gains and Losses (Notes 2 and 5) | | |
|---|---|---|
| *thousands of dollars* | **For year ended March 31** | |
| | **2016** | 2015 |
| Accumulated remeasurement gains, beginning of year | **1,724** | 683 |
| Unrealized gains (losses) on investments during the year | **(1,098)** | 1,232 |
| Less: Amounts reclassified during the year to the Statement of Operations | **(183)** | (191) |
| Net remeasurement gains (losses) for the year | **(1,281)** | 1,041 |
| Accumulated remeasurement gains, end of year | **443** | 1,724 |

*The accompanying notes and schedule are part of these financial statements.*

| Statement of Cash Flows | | |
|---|---|---|
| *thousands of dollars* | **For year ended March 31** | |
| **Operating transactions** | **2016** | 2015 |
| Fees and other | **33,562** | 31,404 |
| Payments to and on behalf of employees | **(27,318)** | (26,271) |
| Payments to suppliers for goods and services | **(9,508)** | (9,955) |
| Investment income | **1,226** | 1,568 |
| Other enforcement receipts (Note 8) | **972** | 155 |
| Administrative penalties (repayments) (Note 4) | **276** | (855) |
| Cash used in operating transactions | **(790)** | (3,954) |
| **Capital transactions** | | |
| Cash used to acquire capital assets | **(447)** | (653) |
| Cash used in capital transactions | **(447)** | (653) |
| **Investing transactions** | | |
| Decrease in restricted cash | **372** | 1,148 |
| Purchases of investments | **(1,186)** | (1,517) |
| Disposals of investments | **5,000** | 4,500 |
| Cash received from investing transactions | **4,186** | 4,131 |
| **Increase (Decrease) in cash** | **2,949** | (476) |
| **Cash, beginning of year** | **7,064** | 7,540 |
| **Cash, end of year** | **10,013** | 7,064 |

*The accompanying notes and schedule are part of these financial statements.*

# Notes to the Financial Statements

*March 31, 2016*
*in thousands of dollars unless otherwise noted*

## NOTE 1 NATURE OF OPERATIONS

The Alberta Securities Commission (ASC), a provincial corporation operating under the *Securities Act* (Alberta), is the regulatory agency responsible for administering the province's securities laws.

The ASC, as an Alberta provincial corporation, is exempt from income tax under the *Income Tax Act* (Canada).

## NOTE 2 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements are prepared in accordance with Canadian public sector accounting standards (PSAS).

### a) INVESTMENTS

The Alberta Investment Management Corporation (AIMCo) invests the ASC's assets in pooled investment funds in accordance with the investment policy asset mix approved by the ASC. AIMCo controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the ASC does not participate in capital market investment decisions or transactions.

AIMCo manages and reports all ASC investments and cash balances using the accounting policies outlined in (i), (ii), and (iii). Fixed-income securities and equities consist of units in pooled investment funds. The units are recorded at fair value based on the fair value of the financial instruments held in the pools.

#### i. Valuation of Investments

Fair values of investments managed and held by AIMCo in pooled investment funds are determined as follows:

- public fixed-income securities and equities are valued at the year-end closing sale price, or, if not actively traded, any price point between the bid/ask spread that is deemed to be the most representative of fair value;
- private fixed-income securities are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market; and
- the pools include derivative contracts that contain equity and bond index swaps, interest rate swaps, cross-currency interest rate swaps, credit default swaps, forward foreign exchange contracts, interest rate swaps and equity index futures contracts. The value of derivative contracts is included in the fair value of the pools.

#### ii. Investment Income and Expenses

Income from investment in units of the pools and total expense and transaction costs incurred by the pools are allocated to the ASC based on the ASC's pro-rata share of units in each pool. Investment services provided by AIMCo are charged directly to the pools on a cost-recovery basis. Investment services provided by external managers are charged to the pools based on a percentage of net assets under management. Investment income, including that from derivative contracts and expenses, is recorded on the accrual basis.

Gains and losses arising as a result of disposal of investments and related pool units are included in the determination of investment income and reported in investment income on the Statement of Operations. The cost of disposal is determined on an average-cost basis.

Interest income attributable to interest-bearing financial assets held by the pools is recognized using the effective interest method.

Dividend income attributable to equities held by the pools is recognized on the ex-dividend date.

#### iii. Remeasurement Gains and Losses

Accumulated remeasurement gains represent the excess of the fair value of the pool units at year-end over the cost of the pool units. Changes in accumulated remeasurement gains are recognized in the statement of remeasurement gains and losses. Changes in accumulated remeasurement gains during the year include unrealized increases and decreases in fair value of the pooled units and realized gains and losses on sale of the pool units. When the pool units are sold (derecognized), any accumulated unrealized gain or loss associated with the investment becomes realized and is included in the Statement of Operations.

### b) CHANGE IN ACCOUNTING POLICY

Adoption of the Net Debt Model
The net debt model (with reclassification of comparatives) has been adopted for the presentation of financial statements. Net financial assets is measured as the difference between the financial assets and liabilities.

The effect of this change results in changing the presentation of the Statement of Financial Position and adding the Statement of Change in Net Financial Assets.

### c) VALUATION OF FINANCIAL ASSETS AND LIABILITIES

Cash, restricted cash, accounts receivable, accounts payable and accrued liabilities are measured at cost or amortized cost. The fair values of each of these line items approximate their carrying values due to their short-term nature. See Notes 2(a) and (g) for the valuation of investments and accrued pension liability, respectively.

### d) CAPITAL ASSETS

Capital assets are recorded at cost and are written down when conditions indicate that they no longer contribute to ASC's ability to provide goods and services, or when the value of future economic benefits associated with the capital assets are less than their net book value. The net write-downs are accounted for as expenses in the Statement of Operations.

Assets are amortized on a straight-line basis over their estimated useful lives as follows:

| | |
|---|---|
| Computer equipment and software | 3 years |
| Furniture and equipment | 10 years |
| Leaseholds | one 15-year lease term to November 2025 |

### e) FEES, ADMINISTRATIVE PENALTIES (REPAYMENTS) AND OTHER ENFORCEMENT RECEIPTS RECOGNITION

Fees are recognized when earned, which is upon cash receipt.

Administrative penalties and other enforcement receipts, including disgorgements, settlement payments and cost recoveries, are recognized when the decision is issued or agreement reached and collectability is assured, which is generally upon cash receipt.

### f) EXPENSES

Expenses are reported on an accrual basis. The costs of all goods consumed and services received during the year are expensed.

#### g) EMPLOYEE FUTURE BENEFITS

The ASC participates in the Public Service Pension Plan, a multi-employer defined benefit pension plan. This plan is accounted for as a defined contribution plan as the ASC has insufficient information to apply defined benefit plan accounting to this pension plan. Pension costs included in these financial statements are comprised of the cost of employer contributions related to the current service of employees during the year and additional employer contributions for service relating to prior years.

The ASC established a retirement plan for one employee at the time of the transition to a provincial corporation. The employee is retired and the plan costs are fully provided for.

The ASC maintains a supplemental pension plan for certain designated executives of the ASC. The cost of the pension is actuarially determined using the projected unit credit cost method pro-rated on service as well as management's best estimate of economic assumptions. Past service costs and actuarial losses arising from assumption changes are amortized on a straight-line basis over the average remaining service period of employees active at the date of commencement of the Supplemental Pension Plan. The average remaining service period of active employees of the supplemental pension plan is five years.

The ASC also maintains a plan whereby it makes Registered Retirement Savings Plan contributions on behalf of certain employees of the ASC. The contributions are calculated based on a fixed percentage of the employee's salary to a maximum of the Registered Retirement Savings Plan contribution limit as specified in the *Income Tax Act* (Canada). The expense included in these financial statements represents the current contributions made on behalf of the employees.

#### h) LEASE INDUCEMENTS

Cash payments received as lease inducements are deferred and amortized on a straight-line basis over the lease term (15 years ending November 30, 2025).

#### i) MEASUREMENT UNCERTAINTY

Financial statements prepared in conformity with PSAS require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Estimates include uncollectible amounts of accounts receivable, including administrative penalties and related cost recoveries, the useful lives of capital assets, and the value of accrued employee benefit liabilities. Actual results could differ from those estimates.

The estimated provision for uncollectible administrative penalties and cost recoveries is based on an assessment of the ability to pay at the time of penalty assessment. Subsequent collection actions and changes in the ability to pay may result in recovery of amounts previously considered uncollectible. However, it is not possible to estimate what, if any, subsequent recoveries may occur.

#### j) RESTRICTED CASH

The *Securities Act* (Alberta) restricts the use of revenue the ASC receives from administrative penalties to certain operating expenditures that educate investors and enhance the knowledge of securities market operation.

#### k) FUTURE ACCOUNTING CHANGES

In 2015 the Public Sector Accounting Board issued the following accounting standards:

**i. PS2200 Related Party Disclosures and PS3420 Inter-Entity Transactions (effective April 1, 2017)**

PS2200 defines a related party and establishes disclosures required for related party transactions; PS3420 establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective.

**ii. PS3210 Assets, PS3320 Contingent Assets, and PS3380 Contractual Rights** (**effective April 1, 2017**)

PS3210 provides guidance for applying the definition of assets set out in FINANCIAL STATEMENT CONCEPTS, Section PS1000, and establishes general disclosure standards for assets; PS3320 defines and establishes disclosure standards on contingent assets; PS3380 defines and establishes disclosure standards on contractual rights.

**iii. PS3430 Restructuring Transactions** (**effective April 1, 2018**)

This standard provides guidance on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities, together with related program or operating responsibilities.

Management is currently assessing the impact of these standards on the financial statements. At this time, management does not anticipate any material changes.

## NOTE 3 CASH

| | **2016** | 2015 |
|---|---|---|
| **Cash** | **10,013** | 7,064 |
| **Restricted Cash (Note 4)** | **696** | 1,068 |

Cash, including restricted cash, consists of demand deposits in the Consolidated Cash Investment Trust Fund (CCITF). The CCITF is managed by AIMCo with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. As at March 31, 2016, the ASC received an annualized return of 0.8 per cent (1.2 per cent in F2015).

## NOTE 4 RESTRICTED CASH

Net financial assets include $696 of accumulated net administrative penalty revenue ($1,068 in F2015) represented as restricted cash. The change in restricted cash is comprised of:

| | **2016** | 2015 |
|---|---|---|
| **Administrative penalties** | **2,595** | 2,810 |
| Less provision for uncollectible amounts | **(2,350)** | (2,789) |
| Less repayments | **(284)** | (985) |
| Plus recoveries of prior-year assessments | **307** | 101 |
| | **268** | (863) |
| Interest income and other | **8** | 8 |
| **Administrative penalties (repayments)** | **276** | (855) |
| Plus education conference | **12** | 12 |
| Less eligible restricted cash expenses | **(489)** | (479) |
| Plus funds transferred due to Alberta Court of Appeal decision | **(171)** | 174 |
| **Restricted cash decrease** | **(372)** | (1,148) |
| **Restricted cash, beginning of year** | **1,068** | 2,216 |
| **Restricted cash, end of year** | **696** | 1,068 |

## NOTE 5 INVESTMENTS

### a) SUMMARY

| | 2016 | | | | 2015 | | |
|---|---|---|---|---|---|---|---|
| **Investments** | **Cost** | **Remeasurement Gain** | **Fair Value** | **%** | Cost | Fair Value | % |
| CCITF deposit | **80** | **–** | **80** | **0.4** | 79 | 79 | 0.3 |
| Fixed-income securities | **15,366** | **259** | **15,625** | **74.5** | 18,496 | 19,675 | 75.5 |
| Canadian equities | **5,081** | **184** | **5,265** | **25.1** | 5,766 | 6,311 | 24.2 |
| | **20,527** | **443** | **20,970** | **100.0** | 24,341 | 26,065 | 100.0 |

At March 31, 2016, the carrying amounts of the ASC's investments are recorded on a fair-value basis. The ASC's investments are held in pooled investment funds established and managed by AIMCo. Pooled investment funds have a market-based unit value that is used to allocate income to participants and to value purchases and sales of pool units.

The fixed-income pool includes a mix of high-quality government and corporate (public and private) fixed-income securities and debt-related derivatives. The fund is actively managed to minimize credit and market risk through the use of derivatives, portfolio duration and sector rotation.

Equity investments include publicly traded Canadian large cap and market index participant equities. The equity pools participate in derivative transactions to simulate index composition and minimize investment risk.

#### Fair Value Hierarchy

The table below provides a summary of management's estimate of the relative reliability of data or inputs to measure the fair value of the ASC's investments. The measure of reliability is determined based on the following two levels:

i. **Level one:** Fair value is based on quoted prices in an active market.

ii. **Level two:** Fair value is based on model-based valuation methods for which all significant inputs are market-observable other than quoted prices.

| **Investments** | Level One | Level Two | **Total** |
|---|---|---|---|
| CCITF deposit | – | 80 | **80** |
| Fixed-income securities | – | 15,625 | **15,625** |
| Canadian equities | 4,107 | 1,158 | **5,265** |
| | 4,107 | 16,863 | **20,970** |
| | 19.6% | 80.4% | **100.0%** |

### b) INVESTMENT RISK MANAGEMENT

The ASC is exposed to a variety of financial risks associated with the underlying securities held in the investment funds. These financial risks include credit risk, market risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is the risk of loss from unfavourable change in fair value or future cash flows of a financial instrument causing financial loss. Market risk is comprised of currency risk, interest rate risk and price risk. Liquidity risk is the risk the fund will not be able to meet its obligations as they fall due.

### i. Credit Risk

Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations with the ASC. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies, usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments is directly or indirectly impacted by credit risk to some degree. The majority of the ASC's investments in debt securities are with counterparties considered to be investment grade.

The ASC is exposed to credit risk associated with the underlying debt securities held in investment funds managed by AIMCo. The following table summarizes the ASC's investment in debt securities by counterparty credit rating at March 31:

| **Credit Rating** | **2016** | 2015 |
|---|---|---|
| Investment Grade (AAA to BBB-) | **99.7%** | 99.2% |
| Speculative Grade (BB+ or lower) | **–** | 0.7% |
| Unrated | **0.3%** | 0.1% |
| | **100.0%** | 100.0% |

### ii. Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. While the ASC does not have direct foreign currency exposure, through investments in fixed income securities and Canadian equities, there are small positions in inter-listed companies that pay dividends in foreign currency. The following table summarizes the foreign currency exposure for each of the investment categories at March 31:

| | **2016** | | 2015 | |
|---|---|---|---|---|
| Currency | **U.S. dollar** | **British pound sterling** | U.S. dollar | British pound sterling |
| Fixed income securities | **$1,549** | **$81** | $3,148 | – |
| Canadian equities | **$42** | **–** | $49 | – |
| Total | **$1,591** | **$81** | $3,197 | – |

### iii. Interest Rate Risk

The ASC is exposed to interest rate risk associated with the underlying interest-bearing securities held in the investment funds. Interest rate risk relates to the possibility that the fair value of investments will change due to future fluctuations in market interest rates. In general, investment returns from bonds are sensitive to changes in the level of interest rates, with longer-term interest-bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1.0 per cent, and all other variables are held constant, the potential loss in fair value to the ASC would be approximately 5.0 per cent of total investments (7.0 per cent in F2015).

The following table summarizes the terms to maturity of interest-bearing securities at March 31, 2016.

| | **<1 year** | **1-5 years** | **Over 5 years** | **Repurchase Agreements*** |
|---|---|---|---|---|
| Interest bearing securities | 15.6% | 44.7% | 70.8% | (31.1)% |

**All repurchase agreements are less than 1 year.*

#### iv. Price Risk

The ASC is exposed to price risk associated with the underlying equity investments held in investment funds in Canadian Equities. Price risk relates to the possibility that equity investments will change in fair value due to future fluctuations in market prices caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. If equity market indices declined by 10.0 per cent, and all other variables are held constant, the potential loss in fair value to ASC would be approximately 2.3 per cent of total investments (2.5 per cent in F2015).

#### v. Liquidity Risk

Liquidity risk is the risk that ASC will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements are met through income generated from investments and by investing in liquid assets that are publicly traded in an active market and easily sold and converted to cash. These sources of cash are used to pay operating expenses, purchase new investments, and settle derivative transactions with counterparties and margin calls on future contracts.

### c) INVESTMENT INCOME

The ASC's investment income included $1,220 from interest-bearing securities ($914 in F2015) and $6 from equities ($654 in F2015). The ASC's investments had a realized market value loss of 0.1 per cent for the year ended March 31, 2016 (10.0 per cent gain in F2015). This performance compares to a benchmark (composite of FTSE TMX 91 Day T-Bill, FTSE TMX Canada Universe Bond and S&P/TSX indexes) loss of 0.8 per cent in F2016 and a benchmark gain of 9.6 per cent in F2015.

## NOTE 6 CAPITAL ASSETS

| | **Computer Equipment & Software** | **Furniture & Equipment** | **Leaseholds** | **2016 Total** | 2015 Total |
|---|---|---|---|---|---|
| **Estimated useful life** | 3 years | 10 years | Lease duration | | |
| **Cost** | | | | | |
| Beginning of year | **2,967** | **2,695** | **6,504** | **12,166** | 11,578 |
| Additions | **243** | **18** | **173** | **434** | 666 |
| Disposals | **(1)** | **–** | **–** | **(1)** | (78) |
| | **3,209** | **2,713** | **6,677** | **12,599** | 12,166 |
| **Accumulated amortization** | | | | | |
| Beginning of year | **2,143** | **1,226** | **2,010** | **5,379** | 4,337 |
| Amortization expense | **489** | **255** | **511** | **1,255** | 1,072 |
| Disposals | **–** | **–** | **–** | **–** | (30) |
| | **2,632** | **1,481** | **2,521** | **6,634** | 5,379 |
| **Net book value** | **577** | **1,232** | **4,156** | **5,965** | 6,787 |

Leaseholds relate to a 15-year lease commenced December 1, 2010. A 3.5-year lease that commenced October 2012 was fully depreciated during fiscal 2016.

## NOTE 7 ACCRUED PENSION LIABILITY AND PENSION EXPENSE

The accrued pension liability is comprised of:

| | **2016** | 2015 |
|---|---|---|
| Retirement Plan | **38** | 57 |
| Supplemental Pension Plan | **8,258** | 7,315 |
| Less accounts payable | **(296)** | (238) |
| | **8,000** | 7,134 |

The following pension expense for the plans is included in the Statement of Operations under salaries and benefits.

| | **2016** | 2015 |
|---|---|---|
| Public Service Pension Plan | **1,288** | 1,275 |
| Registered Retirement Savings Plan | **634** | 684 |
| Supplemental Pension Plan | **1,143** | 918 |
| | **3,065** | 2,877 |

### a) RETIREMENT PLAN

The Retirement Plan is unfunded and the benefits will be paid to August 2017. For the year ended March 31, 2016, the ASC paid $27 ($27 in F2015).

### b) PUBLIC SERVICE PENSION PLAN

The ASC participates in the Public Service Pension Plan. At December 31, 2015, the Public Service Pension Plan reported a deficiency of $133,000 ($803,000 as at December 31, 2014). The ASC is not responsible for future funding of the plan deficit other than through contribution increases.

### c) REGISTERED RETIREMENT SAVINGS PLAN

The ASC makes contributions on behalf of employees who do not participate in the Public Service Pension Plan to employee Registered Retirement Savings Plans.

### d) SUPPLEMENTAL PENSION PLAN

The ASC has a Supplemental Pension Plan for certain designated executives of the ASC. The provisions of the Plan were established pursuant to a written agreement with each designated executive.

The Supplemental Pension Plan provides pension benefits to the designated executives based on pensionable earnings that are defined by reference to base salary in excess of the limit imposed by the *Income Tax Act* (Canada) on registered pension arrangements.

Pension benefits from the Supplemental Pension Plan are payable on or after attainment of age 55 and are equal to 1.75 per cent of the highest average pensionable earnings (average over five years) for each year of service with the ASC. Members of the Supplemental Pension Plan become vested in the benefits of the plan after two years of service.

The Supplemental Pension Plan is unfunded and the benefits will be paid as they come due from the assets of the ASC.

Actuarial valuations of the Supplemental Pension Plan are undertaken every three years. At March 31, 2015, an independent actuary performed a Supplemental Pension Plan valuation. The next valuation is scheduled for March 31, 2018. The results of the actuarial valuation and management's cost estimates as they apply to the Supplemental Pension Plan are summarized below:

| *Supplemental Pension Plan* | **2016** | 2015 |
|---|---|---|
| Accrued benefit and unfunded obligation | **9,505** | 8,951 |
| Unamortized actuarial loss | **(1,247)** | (1,636) |
| Accrued benefit liability | **8,258** | 7,315 |

| *Accrued benefit obligation* | **2016** | 2015 |
|---|---|---|
| Accrued benefit obligation at beginning of year | **8,951** | 7,226 |
| Service cost | **449** | 441 |
| Interest cost | **305** | 311 |
| Benefits paid | **(200)** | (142) |
| Actuarial Loss – experience & assumptions | **–** | 1,115 |
| Accrued benefit obligation at end of year | **9,505** | 8,951 |

| *Pension Expense for the Supplemental Pension Plan* | **2016** | 2015 |
|---|---|---|
| Service cost | **449** | 441 |
| Interest cost | **305** | 311 |
| Amortization of actuarial losses during the year | **389** | 166 |
| | **1,143** | 918 |

The assumptions used in the actuarial valuation of the Supplemental Pension Plan and three-year projections are summarized below. The discount and other economic assumptions were established as management's best estimate in collaboration with the actuary. Demographic assumptions were selected by the actuary based on a best estimate of the future experience of the plans.

| *Assumptions* | **2016** | 2015 |
|---|---|---|
| Discount rate, year-end obligation | **3.25%** | 3.25% |
| Discount rate, annual pension expense | **3.25%** | 3.25% |
| Rate of inflation, year-end obligation | **2.25%** | 2.25% |
| Salary increases, year-end obligation* | **3.00%** | 3.00% |
| Remaining service life, year-end obligation | **5 years** | 5 years |

**Based on long-term assumptions and management's best estimate.*

## NOTE 8 FEES AND OTHER ENFORCEMENT RECEIPTS

| *Fees* | **2016** | 2015 |
|---|---|---|
| Distribution of securities | **16,422** | 14,943 |
| Registrations | **11,235** | 10,895 |
| Annual financial statements | **4,825** | 4,945 |
| SEDI, exempt distributions & registration late fees | **907** | 394 |
| Orders (applications) | **182** | 192 |
| Fees | **33,571** | 31,369 |

| *Other enforcement receipts* | **2016** | 2015 |
|---|---|---|
| Settlement payments, disgorgements and cost recoveries assessed | **1,833** | 785 |
| Less provision for uncollectible amounts | **(1,274)** | (488) |
| Plus recoveries of prior-year assessments | **413** | 5 |
| Less repayment | **–** | (147) |
| Other enforcement receipts | **972** | 155 |

## NOTE 9 CSA NATIONAL SYSTEMS

The CSA National Systems are comprised of the following: System for Electronic Document Analysis and Retrieval (SEDAR), National Registration Database (NRD) and System for Electronic Disclosure by Insiders (SEDI). These systems are administered under a CSA National Systems operations management and governance agreement (the Agreement). The Agreement empowers the ASC, jointly with three other CSA members, to manage the systems and to engage an external service provider to operate the systems. The ASC, as one of the agreement signatories, commits to pay 25 per cent of any shortfall from approved system operating costs that exceeds revenue. Alternatively, any revenue in excess of system operating costs (surplus) is accumulated for future systems operations including possible revenue shortfalls, fee adjustments and system enhancements. The surplus is not divisible; the CSA owns it as a group. As at March 31, 2016 the accumulated operating surplus totalled $139.9 million ($128.8 million at March 31, 2015), primarily made up of $96.5 million cash held by the Ontario Securities Commission earning interest at a rate of 1.85 per cent below the prime rate and $40 million marketable securities earning 1.7 per cent expiring in November 2017.

## NOTE 10 COMMITMENTS AND CONTINGENT LIABILITIES

Details of commitments to organizations outside the ASC are set out below.

### a) COMMITMENTS

*Premises Leases and Equipment Rental*
Commitments arising from contractual obligations are associated primarily with the lease of premises to November 30, 2025 and rental of office equipment to 2021 totalling $35,146 ($51,064 in F2015). These commitments become expenses of the ASC when the terms of the contracts are met.

| | |
|---|---|
| 2016–17 | 3,438 |
| 2017–18 | 3,460 |
| 2018–19 | 3,388 |
| 2019–20 | 3,412 |
| 2020–21 | 3,529 |
| Thereafter | 17,919 |
| Total | 35,146 |

*Canadian Securities Administrators*
The ASC shares, based on an agreed-upon cost-sharing formula, the costs incurred for the maintenance of the CSA Secretariat and any third-party costs incurred in the development of harmonized rules, regulations and policies. The CSA Secretariat was established to assist in the development and harmonization of rules, regulations and policies across Canada.

### b) CONTINGENT LIABILITIES

There are appeals involving the ASC that arise in the normal course of business. The outcomes of these matters are not determinable at this time; therefore the impact to operating deficit cannot be determined. However, management does not expect the impact to be material.

## NOTE 11 BUDGET

The ASC's F2016 budget was originally approved by the Commission on January 14, 2015, and subsequently amended and approved on April 15, 2015.

## NOTE 12 RELATED PARTY TRANSACTIONS

The ASC is related through common ownership to all provincial government ministries, agencies, boards, commissions and Crown corporations. The ASC conducted all transactions with these entities as though they were unrelated parties and recorded transaction costs of $72 in administration expenses primarily for insurance and postage ($49 in F2015).

## NOTE 13 COMPARATIVE FIGURES

Certain F2015 figures have been reclassified to conform to the F2016 presentation.

# Schedule of Salaries & Benefits – Schedule A

| *thousands of dollars* | | | | **2016** | 2015 |
|---|---|---|---|---|---|
| | **Base salary**[1] | **Cash benefits**[2] | **Non-cash benefits**[3] | **Total** | Total |
| Chair, Securities Commission[4,5] | **286** | **45** | **95** | **426** | 791 |
| Executive Director | **379** | **64** | **216** | **659** | 619 |
| Vice-Chair, Securities Commission[4] | **375** | **59** | **202** | **636** | 560 |
| Vice-Chair, Securities Commission[4,6,7] | **412** | **65** | **49** | **526** | 469 |
| Independent Members[8] | **491** | **–** | **–** | **491** | 474 |

[1] *Base salary includes regular base pay and Independent Member compensation.*

[2] *Cash benefits include variable pay, Chair and Executive Director's automobile allowances, transit allowances and memberships.*

[3] *Employer's share of all employee non-cash benefits includes: health, insurance, pension, professional memberships, Registered Retirement Savings Plan and current and prior service cost for the unfunded Supplemental Pension Plan for designated executives as described in Note 7(d) of the financial statements and summarized in the accounting narrative.*

[4] *The Chair and Vice-Chairs are full-time Commission Members.*

[5] *The Chair retired on September 30, 2015.*

[6] *This Vice-Chair assumed the role of Interim Chair & CEO from October 1, 2015 to present.*

[7] *This Vice-Chair does not participate in the Supplemental Pension Plan, but participates in the RRSP program. This RRSP benefit is reported on Schedule A, Non-Cash Benefits.*

[8] *The Independent Members' compensation includes total fees paid for governance responsibilities of $349 ($302 in F2015) and hearing and application panel participation of $142 ($172 in F2015). Independent Member fees include:*

| | **2016** |
|---|---|
| Annual retainer | **$ 10,000** |
| Committee memberships (other than Audit Committee) | **$ 2,500** |
| Committee memberships (Audit Committee) | **$ 4,000** |
| Committee chairing (other than Audit Committee) | **$ 5,000** |
| Committee chairing (Audit Committee) | **$ 8,000** |
| Lead Independent Member | **$ 5,000** |
| Meeting attendance fee | **$1,000 per day for an ASC meeting; $750 for a Committee meeting** |
| Hearing fees | **$1,500 per hearing day; and $200 per hour of related preparation, review and decision writing** |
| Hearing fees (Panel Chair) | **$2,000 per hearing day; and $250 per hour of related preparation, review and decision writing** |

## Supplemental Retirement Benefits

Under the terms of the Supplemental Pension Plan as described in Note 7(d) of the ASC financial statements, executive officers may receive supplemental retirement payments. Supplemental Pension Plan costs, as detailed below for the four most highly paid executives of the ASC, are not cash payments in the period, but are the period expense for rights to future compensation. Costs shown reflect the total estimated cost to provide annual pension income over an actuarially determined post-employment period. The Supplemental Pension Plan provides future pension benefits to participants based on years of service and earnings as described in Note 7(d). The cost of these benefits is actuarially determined using the projected benefit method pro-rated on services, a cost of borrowing interest rate and management's best estimate of expected inflation, salary costs and the remaining service period for benefit coverage. Net actuarial gains and losses of the benefit obligations are amortized over the average remaining service life of the employee group. Current service cost is the actuarial present value of the benefits earned in the fiscal year. Prior service and other costs include amortization of past service costs on plan initiation, amortization of actuarial gains and losses, and interest accruing on the actuarial liability.

**Annual Expense**

| *thousands of dollars* | | | **2016** | 2015 |
|---|---|---|---|---|
| | **Current service costs** | **Prior service and other costs** | **Total** | Total |
| Chair, Securities Commission[1] | **53** | **29** | **82** | 139 |
| Executive Director | **77** | **107** | **184** | 149 |
| Vice-Chair, Securities Commission | **77** | **95** | **172** | 112 |
| Vice-Chair, Securities Commission[2,3] | **–** | **–** | **–** | – |

The accrued obligation for each of the four highest-paid executives under the Supplemental Pension Plan is outlined in the following table:

**Accrued Obligations**

| *thousands of dollars* | Accrued obligation April 1, 2015 | Changes in accrued obligation | **Accrued obligation March 31, 2016** |
|---|---|---|---|
| Chair, Securities Commission[1] | 1,030 | 56 | **1,086** |
| Executive Director | 1,438 | 127 | **1,565** |
| Vice-Chair, Securities Commission | 923 | 110 | **1,033** |
| Vice-Chair, Securities Commission[2,3] | – | – | **–** |

[1] *The Chair retired on September 30, 2015.*

[2] *This Vice-Chair does not participate in the Supplemental Pension Plan, but participates in the RRSP program. This benefit is reported on Schedule A, Non-Cash Benefits.*

[3] *This Vice-Chair assumed the role of Interim Chair & CEO from October 1, 2015 to present.*