

Management's Discussion & Analysis

This Management Discussion & Analysis (MD&A), prepared as of June 8, 2016, should be read in conjunction with the Alberta Securities Commission's March 31, 2016 audited financial statements and the accompanying notes, prepared in accordance with Canadian public sector accounting standards. Certain statements outlining F2017 expectations are forward-looking and are subject to risks and uncertainties. Furthermore, assumptions in the "Fiscal 2017 Outlook and Assumptions" section, although reasonable at the date of publication, are not guarantees of future performance. The results or events predicted in these statements and assumptions may differ materially from actual results or events. Factors that could cause results or events to differ from current expectations are described in the "Risks and Uncertainties" section of this MD&A.

References to "we," "our," or "the ASC" refer to the Alberta Securities Commission. In this MD&A, references to years, such as F2016, refer to the fiscal years of the ASC ending March 31. All amounts are in Canadian dollars.

The ASC maintains accounting and internal control systems to provide reasonable assurance that its financial information is complete, reliable and accurate and that its assets are adequately protected. The Commission Members, in conjunction with the Audit Committee, have an oversight role to ensure the integrity of the reported information. Specific processes that enhance the ASC's financial accountability and oversight include:

- preparation of an annual budget that is reviewed by the Audit Committee and approved by Commission Members;
- quarterly reports of actual versus budget performance and updated full-year forecasts;
- the requirement for Commission approval of significant unbudgeted expenses or reallocations; and
- quarterly testing of the design and effectiveness of critical financial controls.

The ASC's annual budget is approved by Alberta's Minister of Finance and is consolidated with the Government of Alberta budget.

Overview

The ASC, an industry-funded provincial corporation without share capital, is the regulatory agency responsible for administering the province's securities laws. It is entrusted with fostering a fair and efficient capital market in Alberta and with protecting investors. As a member of the Canadian Securities Administrators (CSA), the ASC works to improve, coordinate and harmonize the regulation of Canada's capital markets. As a provincial corporation, the ASC is exempt from income taxes and GST/HST.

The ASC is also an administrative tribunal with quasi-judicial powers. Panels, comprised of Commission Members, hear enforcement proceedings and consider applications for discretionary exemptions from the requirements of Alberta securities laws. ASC panels also sit as appeal bodies to hear appeals from decisions of the Executive Director, the TSX Venture Exchange (TSXV), the Natural Gas Exchange Inc. (NGX) and recognized self-regulatory organizations, including the Investment Industry Regulatory Organization of Canada (IIROC) and the Mutual Fund Dealers Association of Canada (MFDA).

MANAGEMENT'S DISCUSSION & ANALYSIS

Financial Highlights

■ F2016
■ F2015

thousands of dollars

Revenue

Distribution of securities		16,422 14,943
Registrations		11,235 10,895
Annual financial statements		4,825 4,945
Investment income		1,226 1,568
Other enforcement receipts		972 155
SEDI, exempt distributions & registration late fees		907 394
Orders (applications)		182 192
Administrative penalties (repayments)		276 (855)
Conference and other		13 13

Division Expenses

Office of the Chair and Members		3,170 3,381
Office of the Executive Director		997 930
Enforcement		7,782 7,964
Corporate Finance		6,080 6,951
Market Regulation		4,369 3,820
Office of the General Counsel		1,277 1,274
Office of the Chief Accountant		760 744
Administration		6,828 7,774
Expenses not allocated ¹		6,107 5,657

Expenses

Salaries and benefits		27,571 28,198
Premises		3,411 3,098
Administration		2,648 2,920
Professional services		1,996 2,694
Amortization of capital assets		1,255 1,081
Investor education		489 504

¹ Expenses not allocated include: amortization of capital assets, premises including insurance, IIROC contract services and investor education.

Selected Annual Information				
<i>thousands of dollars</i>	F2016	F2016	F2015	F2014
	Budget	Actual	Actual	Actual
Revenue	33,400	36,058	32,250	35,296
Regulatory Expenses	39,624	37,370	38,495	35,766
Budget Contingency	561	-	-	-
Operating Deficit	(6,785)	(1,312)	(6,245)	(470)
Financial Assets				
Cash		10,013	7,064	7,540
Investments		20,970	26,065	28,006
Liabilities				
Lease inducements		2,116	2,391	2,666
Accrued pension liability		8,000	7,134	6,458
Net financial assets		17,352	19,093	23,921
Capital assets		5,965	6,787	7,241
Accumulated surplus		23,578	26,171	31,375
Capital additions	846	434	627	604

Highlights

The ASC had a \$1.3 million operating deficit in F2016 compared to a budgeted deficit of \$6.8 million and an actual deficit of \$6.2 million in F2015.

Total revenue increased by \$3.8 million in F2016 and exceeded budget by \$2.7 million. This increase was largely due to a fee revenue increase of \$2.2 million, exceeding budget by \$2.9 million. This was primarily the result of sales growth in mutual fund and prospectus-exempt market distribution fees, and increased late filing and registration fees. Administrative penalties and other enforcement receipts were \$1.9 million higher than the prior year but were \$252,000 under budget. The increase in administrative penalties and other enforcement receipts was partially offset by a \$284,000 repayment of previously collected administrative penalties. This repayment, as well as a repayment of \$1.0 million in F2015, were the result of an ASC panel reassessment of a specific enforcement matter following an Alberta Court of Appeal decision. Enforcement receipts fluctuate annually because of the variability in cases, the timing of their resolution and success in collectability efforts. Investment income decreased by \$342,000 from the prior year, primarily the result of a weaker capital market and a lower investment balance.

Total expenses in F2016 were \$1.1 million and \$2.8 million less than the prior year and budget, respectively. Cost decreases included a lower salaries and benefits expense due to an absence of termination payments and retirement allowances incurred in the prior year. The expenditure decrease also included lower administration and professional services expenses in F2016 due to budget cuts requested by the Alberta government and effective cost control efforts. Premises costs were higher than the prior year primarily due to an increase in the annual square footage rate, the end of a rental incentive, and increased operating costs and property taxes. Total expenses were lower than budgeted due to a higher staff vacancy rate, operational cost reductions primarily in contract services, office operation costs, travel and member fees. The F2016 budget included a contingency of \$561,000 that was unused.

MANAGEMENT'S DISCUSSION & ANALYSIS

Analysis of Fiscal 2016 Operating Results

Revenue			
<i>thousands of dollars</i>	F2016	F2016	F2015
	Budget	Actual	Actual
Fees			
Distribution of securities	13,882	16,422	14,943
Registrations	10,776	11,235	10,895
Annual financial statements	5,367	4,825	4,945
SEDI, exempt distributions & registration late fees	400	907	394
Orders (applications)	210	182	192
Total fees	30,635	33,571	31,369
Other revenue			
Investment income	1,245	1,226	1,568
Other enforcement receipts	1,250	972	155
Administrative penalties (repayments)	250	276	(855)
Conference and other	20	13	13
Total revenue	33,400	36,058	32,250

The ASC collects 93.2 per cent (97.3 per cent in F2015) of its total revenue from fees paid by those who participate in the system. These participant transaction fees, in addition to certain enforcement receipts and investment income, fund our operations. The ASC does not receive transfers from government tax revenue. ASC funding requirements are modelled on a cost recovery basis.

DISTRIBUTION OF SECURITIES

These fees are paid by issuers for the distribution of securities. Distribution fees have both a fixed and variable component. The fixed component is charged for each prospectus or prospectus-exempt distribution filing by an Alberta issuer. The fixed transaction fee component of distribution fees totalled \$6.0 million (\$5.7 million in F2015) and 17.9 per cent (18.2 per cent in F2015) of total fees. The variable fee component is calculated based on the proceeds obtained from public (prospectus) and private (prospectus-exempt) distributions of securities sold in Alberta. The variable fee component accounted for \$10.4 million in F2016 (\$9.2 million in F2015) and 31.0 per cent (29.4 per cent in F2015) of total fees. The increase in fee revenue in F2016 was the result of sales growth in mutual fund and exempt market securities.

Distribution fee revenue vary with the level of capital market activity, equity value changes and mutual fund sales. ASC distribution fee revenue increase or decrease because of changes in public and private securities distributions and mutual fund sales. While equity market volatility has an impact on ASC revenue, the majority of fees are relatively stable.

REGISTRATIONS

Fee receipts of \$11.2 million in F2016 (\$10.9 million in F2015) from registered firms and individuals accounted for 33.4 per cent of fees (34.7 per cent in F2015). Registration fees were paid by approximately 871 firms and 29,192 individuals (855 firms and 28,300 individuals in F2015) registered in Alberta. Over 85 per cent of fees were received from registration renewals in January.

ANNUAL FINANCIAL STATEMENTS

Reporting issuers pay financial statement filing fees, which totalled \$4.8 million in F2016 (\$4.9 million in F2015). These fees accounted for 14.3 per cent of the ASC's total fee revenue (15.6 per cent in F2015). The total number of active reporting issuers in Alberta at March 31, 2016 was 7,348 (7,470 at March 31, 2015). The number of short-form-eligible reporting issuers also decreased from 1,310 to 1,242 in F2016, which contributed to the decrease in these fees.

Other Revenue Sources

INVESTMENT INCOME

In F2016 investment income totalled \$1.2 million (\$1.6 million in F2015). This includes investment income from interest-bearing securities of \$1.2 million (\$914,000 in F2015) and investment income from equities of \$6,000 (\$654,000 in F2015).

SEDI, EXEMPT DISTRIBUTION & REGISTRATION LATE FILING FEES

Changes in late insider filing fees and the introduction of new late filing fees on exempt distribution and registration filings commenced during F2015. This contributed to an increase in late fees of \$513,000 compared to the prior year, as this was the first full fiscal year since the new late filing fees were implemented.

ORDERS (APPLICATIONS)

Generally, only issuers that are reporting issuers in Alberta pay application fees to the ASC. In F2016, 252 applications were received (256 in F2015). Fewer applications for Cease Trade Orders, Cease to be a Reporting Issuer Orders and Exemptive Relief Orders were received in F2016 than during the prior year.

Other Enforcement Receipts		
<i>thousands of dollars</i>	F2016	F2015
Disgorgements		
Assessed	918	–
Uncollectible	(894)	–
Recoveries from prior years	54	
Repayments	–	(97)
Settlement receipts		
Assessed and collected	486	265
Cost recoveries		
Assessed	429	520
Uncollectible	(380)	(488)
Recoveries from prior years	359	5
Repayments	–	(50)
Total	972	155

Administrative penalties (repayments)		
<i>thousands of dollars</i>	F2016	F2015
Administrative penalties (repayments)		
Assessed penalties	2,595	2,810
Uncollectible	(2,350)	(2,789)
Repayments	(284)	(985)
Recoveries from prior years	307	101
Interest income & other	8	8
Total	276	(855)

MANAGEMENT'S DISCUSSION & ANALYSIS

Penalties and enforcement receipts depend on the circumstances of specific cases and vary from year to year. An administrative penalty receipt occurs following collection of a financial penalty imposed by an ASC hearing decision. Disgorgements represent orders to respondents to disgorge amounts made from actions that violated the Securities Act (Alberta). A settlement receipt arises from a negotiated settlement that includes a financial payment. Cost recovery receipts arise on collection of assessed costs. Cost recoveries arise in both settlements and hearing decisions.

Current year receipts totalled \$1.2 million (compared to net repayments of \$700,000 in F2015) and compare to a five-year average of \$1.2 million in receipts. The ASC actively pursues unpaid amounts through the use of external legal counsel, writ filing and questionings in aid of execution. Recoveries are often limited because respondents have minimal resources at the time of assessment. However, the ASC collected \$720,000 (\$106,000 in F2015) of prior-year assessments and costs in F2016.

The ASC annually transfers administrative penalties revenue, less eligible expenditures, to a restricted cash account. Restricted cash is segregated from other assets because of statutory limitations on the use of these funds. The Securities Act (Alberta) restricts the use of revenue the ASC receives from administrative penalties to certain operating expenditures that educate investors and enhance participants' knowledge of how securities markets operate.

The decrease in restricted cash of \$372,000 was the result of a repayment of \$284,000 (\$985,000 in F2015), transfer of \$489,000 to fund eligible expenditures (\$479,000 in F2015), and transfer of \$171,000 previously held in trust (transfer of \$174,000 to hold in trust in F2015), partially offset by prior and current year collections of \$552,000 (\$122,000 in F2015), \$12,000 of conference fees (\$12,000 in F2015), and interest income of \$8,000 (\$8,000 in F2015).

CONFERENCE & OTHER

The majority of fees in this category were collected from two annual conferences held during F2016: the Corporate Finance Review, and the Oil and Gas Information Session.

Comparative and Budget Expense Analysis

Regulatory Expenses			
<i>thousands of dollars</i>	F2016	F2016	F2015
	Budget	Actual	Actual
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	520	489	504
	39,624	37,370	38,495
Budget contingency	561	-	-
	40,185	37,370	38,495

In F2016, expenses decreased to \$37.4 million from \$38.5 million and were 7 per cent less than budget of \$40.2 million. Details by expense category follow.

SALARIES AND BENEFITS

Compensation expenses accounted for 73.8 per cent of operating costs in F2016 (73.3 per cent in F2015) and decreased by \$627,000 year over year. Decreases were due to absence of termination payments and retirement allowances incurred in the prior year, partially offset by annual salary adjustments at the beginning of the fiscal year averaging 1.0 per cent. ASC staff was comprised of an average of 179 full-time employees during the year (177 in F2015). Compensation costs were lower than budget by \$1.1 million because of a higher staff vacancy rate than budgeted. Compensation also includes a performance-based variable pay program that represented 7.6 per cent (7.1 per cent in F2015) of total salaries and benefits expenses.

PREMISES

Premises costs were 9.1 per cent of total costs (8.0 per cent in F2015). These costs increased in F2016 because of an increase in the annual square footage rate, the end of a rent incentive, and increased operating costs and property taxes. However, premises costs were lower than budget by \$249,000 due to expected refunds as a result of property tax and year-end operating adjustments.

ADMINISTRATION

Administration costs decreased by \$272,000 in F2016. These costs were \$455,000 less than budget and accounted for 7.1 per cent of total costs (7.6 per cent in F2015). The administration cost category includes office operations, member fees, travel, recruitment advertising and business consultation.

Office operating costs were down \$223,000 and \$204,000 compared with the prior year and budget, respectively. This was due to effective cost control efforts. These costs include repairs and maintenance, communications, technology licences, supplies, library and equipment rental. Travel expenses decreased \$59,000 and \$130,000 relative to the prior year and budget, respectively. Travel expenses are required primarily for coordination with other CSA jurisdictions, enforcement activities and exempt market dealer reviews. Member fees increased by \$10,000 in F2016 but were \$121,000 less than budget because there were fewer hearing days than anticipated.

PROFESSIONAL SERVICES

Professional services costs represented 5.3 per cent of total costs in F2016 (7.0 per cent in F2015). These costs were lower than the prior year by \$698,000 primarily due to a reduction in expenses as requested by the Alberta government. Professional services were less than budget mostly due to lower legal contract services and cost control efforts. All CSA projects, including the development of harmonized securities policies and rules and shared CSA information systems, are coordinated through a permanent Secretariat located in Montreal, Quebec. The operating costs are borne on a formula basis by CSA members; the ASC pays 11.7 per cent of these costs. In F2016 the ASC's share of CSA costs was \$215,000 (\$186,000 in F2015).

AMORTIZATION OF CAPITAL ASSETS

Amortization expense increased by \$174,000 compared to the prior year due to capital additions from the prior and current years. Amortization expense was as budgeted.

INVESTOR EDUCATION

Investor education costs were slightly lower than budget and the prior year due to lower than anticipated costs relating to public education campaigns.

MANAGEMENT'S DISCUSSION & ANALYSIS

Expenses by Division			
<i>thousands of dollars</i>	F2016	F2016	F2015
	Budget	Actual	Actual
Office of the Chair and Members	3,476	3,170	3,381
Office of the Executive Director	1,037	997	930
Enforcement	8,059	7,782	7,964
Corporate Finance	6,723	6,080	6,951
Market Regulation	4,569	4,369	3,820
Office of the General Counsel	1,258	1,277	1,274
Office of the Chief Accountant	802	760	744
Administration			
Corporate Resources	4,883	4,749	5,155
Communications	1,741	1,543	1,743
Financial Services	684	536	876
Expenses not allocated ¹	6,953	6,107	5,657
Total	40,185	37,370	38,495

¹ Expenses not allocated include: amortization of capital assets, premises including insurance, IIROC contract services and investor education.

Division expenses are primarily for staff and professional services. Expenses not allocated were less than budget primarily due to the budget contingency not being required.

Independent Member fees are recorded in the 'Office of the Chair and Members' section. Fees are variable due to difficulty in forecasting the number and duration of hearings. See Schedule A of the March 31, 2016 annual audited financial statements for Member fees.

Capital Expenditures			
<i>thousands of dollars</i>	F2016	F2016	F2015
	Budget	Actual	Actual
Computer equipment and software	580	243	486
Leaseholds	80	173	30
Furniture and equipment	186	18	111
Total	846	434	627

In F2016, capital expenditures were primarily related to technology projects including server upgrades and additions, desktops, software licences and leasehold improvements on office space construction. F2016 computer equipment and software expenditures were lower than budget due to certain IT projects being deferred to F2017. The leaseholds expenditures exceeded budget by \$93,000 due to office space construction; however, this was fully offset by a decrease in planned furniture and equipment purchases.

Liquidity and Financial Position

LIQUIDITY

The ASC has sufficient resources to fund future operations and capital purchases with cash of \$10.0 million (\$7.1 million in F2015) and investments at market value of \$21.0 million (\$26.1 million in F2015).

ACCOUNTS RECEIVABLE

Accounts receivable as at March 31, 2016 were \$402,000 (\$135,000 in F2015), comprised of \$341,000 (nil in F2015) due to expected refunds on property tax and annual operating adjustments, \$51,000 of CSA-related expenses (\$120,000 in F2015) and \$10,000 of employee loans for computer acquisitions (\$15,000 in F2015).

INVESTMENTS

The ASC's investments are independently managed by the Alberta Investment Management Corporation (AIMCo). AIMCo is a provincial corporation responsible to the Minister of Finance. The ASC does not participate in specific capital market investment decisions or transactions. The ASC's investment policy provides guidance relevant to the governance, purpose, size, access, management and annual income of the investments.

The target balance for the combined investments and cash balances is 50 per cent of the average forecast annual expenses for the current fiscal year and budgeted annual expenses for the next fiscal year, exclusive of contingency provisions. This target for F2017 is \$20.3 million. The F2017 year-end balance of investments and cash is expected to be \$23.6 million compared to the March 31, 2016 balance of \$31.0 million. The \$7.4 million reduction in F2017 is due to estimated cash expenditures for capital additions of \$665,000 and operations of \$6.7 million.

RATES OF RETURN ON INVESTMENTS

Investments include fixed-income and equity investments. The fixed-income pool includes a mix of high-quality government and corporate (public and private) fixed-income securities and debt-related derivatives. 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. Investments can be accessed on two weeks' notice and are available to fund ASC cash requirements.

The rates of return on the ASC's investments are:

- Fixed-income securities (market value) – a gain of 1.6 per cent in F2016, compared with a gain of 10.6 per cent in F2015.
- Equity funds (market value) – a loss of 5.2 per cent in F2016, compared with a gain of 7.9 per cent in F2015.
- Money market funds – gains of 0.8 per cent in F2016 and 1.2 per cent in F2015.

Fixed-income securities are sensitive to interest rate fluctuations. At March 31, 2016, ASC fixed-income security investments of \$15.6 million market value had maturities that range from under one year (15.6 per cent) to greater than 10 years (34.1 per cent) with an average duration of 7.1 years (7.0 years in F2015). A 1.0 per cent increase in the interest rate, assuming no other changes, would reduce the market value of the ASC's fixed-income securities by 5.0 per cent (7.0 per cent in F2015).

MANAGEMENT'S DISCUSSION & ANALYSIS

Investment Risk Management and the Use of Derivatives

AIMCo uses several types of derivatives across most product areas to cost-effectively manage asset exposure, hedge interest rate and foreign currency risk, and enhance return. Current credit exposure is represented by the current replacement cost of all outstanding derivative contracts in a favourable position (positive fair value).

Quarterly Variance Analysis

Quarterly Results Summary								
<i>thousands of dollars</i>								
	F2016				F2015			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	(Jan-Mar)	(Oct-Dec)	(July-Sept)	(Apr-June)	(Jan-Mar)	(Oct-Dec)	(July-Sept)	(Apr-June)
Revenue								
Fees & other	17,741	5,037	4,572	7,482	15,225	4,494	3,501	7,462
Investment income	442	199	146	439	118	231	576	643
	18,183	5,236	4,718	7,921	15,343	4,725	4,077	8,105
Regulatory expenses								
Salaries & benefits	7,022	6,592	6,981	6,976	7,503	6,853	6,848	6,994
Other	3,192	2,429	2,023	2,155	3,299	2,507	2,290	2,201
	10,214	9,021	9,004	9,131	10,802	9,360	9,138	9,195
Operating surplus (deficit)	7,969	(3,785)	(4,286)	(1,210)	4,541	(4,635)	(5,061)	(1,090)
Investments	20,970	20,505	21,409	25,719	26,065	25,154	25,243	28,924
Cash	10,013	1,653	3,761	3,272	7,064	575	3,884	4,580
Restricted cash	696	792	1,073	1,070	1,068	2,131	2,229	2,223

FEE REVENUE

Quarterly fee revenue is variable due to the timing of fee-related filings among reporting issuers and the variable portion of prospectus fees, which fluctuate with market activity. Approximately 50 per cent of total fee revenue is received in the fourth quarter each year, primarily due to annual registration renewal and annual financial statement filing fees. Annual registration renewal fees are received in January and the majority of annual financial statement filing fees are received from February to April.

REGULATORY EXPENSES

ASC pays IIROC a portion of the annual registration renewal fees discussed above. Approximately \$924,000 was paid in F2016 (\$912,000 in F2015).

Other expenses vary from quarter to quarter because of the timing of expenditures. For example, professional services for enforcement activities depend on the nature of investigations and the timing of expert reports and testimony required for hearings and trials.

Contractual Obligations

Commitments to outside organizations with contracts in place as at March 31, 2016 amounted to \$35.1 million (\$51.1 million in F2015). Commitments include leases of premises to 2025 and rental of office equipment to 2021. See Note 10(a) of the March 31, 2016 annual audited financial statements for the commitments schedule.

The ASC also has contractual commitments for a supplemental pension plan maintained for certain senior executives. Payment amounts are dependent on the future decisions of plan participants and are not included in the summary of contractual obligations as they are recorded as liabilities.

Financial Instruments

The ASC's financial instruments include cash, accounts receivable, restricted cash, investments, and accounts payable and accrued liabilities. AIMCo manages investments that include derivative contracts for effective investment risk and return management. Details of these financial instruments are described in the Investments section of the MD&A and in the Notes to the ASC's financial statements.

The ASC reports all of its investments at fair value, consistent with how they are evaluated and managed by AIMCo. Investments are reported on the Statement of Financial Position at fair value. Realized and unrealized investment gains and losses are reported separately. Only realized gains and losses are reported in the Statement of Operations. Unrealized gains and losses are reported in the Statement of Remeasurement Gains and Losses. Investment risks are disclosed, including credit, market risk and liquidity risk.

Related Party Transactions

The ASC is related, through the common Government of Alberta reporting entity, to all provincial government ministries, agencies, boards, commissions and Crown corporations. See Note 12 of the March 31, 2016 annual audited financial statements for related party transactions.

CSA National Systems and Operating Agreements

See Note 9 of the March 31, 2016 annual audited financial statements for the CSA National Systems and Operating Agreements.

Risk Management Initiatives

BUSINESS CONTINUITY

The ASC has emergency response plans and processes in place that are tested annually. Key systems and data are replicated between two data centres – a primary data centre located at a secure off-site facility and a secondary, backup data centre on-site at Centennial Place. Should any or all systems running at the primary site fail, the secondary data centre will take over. The ASC can run indefinitely using the secondary data centre until primary services are restored. Remote access capability exists for all critical ASC systems, which enables ASC staff to continue critical work, supported through information technology, if ASC offices are not accessible.

RISK ASSESSMENT AND MITIGATION

Key risks to the effective operations of the ASC include loss of key personnel, disruption and loss of computing systems, crises beyond our control, or loss of public confidence in the ASC. The ASC has a comprehensive crisis management program in place including systems, protocols and controls designed to lessen the impact on business processes and minimize the risks. During F2015, the ASC updated its list of key risks to the organization, identified controls and activities to address

MANAGEMENT'S DISCUSSION & ANALYSIS

those risks, and estimated the remaining risk exposure. The review concluded that all reasonable steps have been taken, or are being taken, to mitigate risks to the extent they are within the control of the organization. The ASC will continue to monitor its risk exposure with another comprehensive review planned for F2017.

MINISTERIAL BUDGET APPROVAL

In November 2010, the ASC and the Minister of Finance and Enterprise executed a Mandate and Roles Document (MRD) as per the requirements of the *Alberta Public Agencies Governance Act* (APAGA). The MRD became effective on proclamation of the APAGA on June 12, 2013. The MRD outlines the ongoing roles, responsibilities and accountability relationships between the two parties. Significant MRD financial requirements include Ministerial approval of annual ASC budgets, any subsequent changes that materially modify the budget, and quarterly reporting to the Minister of actual financial results and budget amendments.

Fiscal 2017 Outlook and Assumptions

REVENUE

Anticipated F2017 revenue of \$32.1 million assumes:

- fee receipts and other income remain largely consistent with the F2016 budget of \$33.4 million; and
- a decreased projection of annual financial statement filing fees, enforcement receipts and investment income.

In May 2016 the ASC published ASC Rule 13-501 Fees (Fee Rule). This Fee Rule will replace sections 8 and 9 and the Fee Schedule in the Securities Regulation (Alta. Reg. 115/95). Subject to obtaining the necessary Ministerial approval, the Fee Rule will come into force on December 1, 2016. The ASC's current F2017 revenue outlook did not incorporate the Fee Rule changes.

EXPENSES

Expenses are expected to be \$40.1 million, a decrease of \$81,000 over F2016 budgeted expenses of \$40.2 million. This will result in a forecasted operating loss of \$8.0 million.

LIQUIDITY AND CASH FLOW

In addition to cash from operations, cash requirements for F2017 operations and capital budgets are estimated at \$7.4 million. This requirement can be met from existing cash and investment balances.

RISKS AND UNCERTAINTIES

This budget is based on the ASC's experience and assessment of historical and future trends, and the application of key assumptions relating to future events that include fee income growth consistent with that of the capital markets, assumptions concerning investment income, a 6.0 per cent staff vacancy rate and specific project costs for information technology, training and recruitment. Factors that could lead to higher risk to the ASC include:

- capital market volatility and the impact on fees paid in connection with the distribution of securities and investment income;
- Ministerial approval of the Fee Rule;
- business plan changes and their impact on cost assumptions; and
- disruption of CSA national systems fee processing that delays fee receipts at the ASC's year-end.