

ALBERTA SECURITIES COMMISSION  
Interim Financial Statements and Management's Discussion and  
Analysis

For the Three Months Ended June 30, 2018  
(unaudited)

Management's Discussion and Analysis

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## ASC REPORTS FISCAL 2019 (F2019) FIRST QUARTER RESULTS

### MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis (**MD&A**), prepared as of August 8, 2018, for the three months ended June 30, 2018, should be read in conjunction with the annual MD&A and financial statements reported in the Alberta Securities Commission's (**ASC**) March 31, 2018 annual report, as well as the June 30, 2018 interim financial statements.

The ASC is the regulatory agency responsible for administering the province's securities laws. It is entrusted to foster a fair and efficient capital market in Alberta and to protect investors. As a member of the Canadian Securities Administrators, the ASC works to improve, coordinate and harmonize the regulation of Canada's capital markets.

**Comparison to prior year** – For the three months ended June 30, 2018 (**Q1 F2019**) the ASC netted an operating surplus of \$1.5 million compared to a surplus of \$1.4 million for the three months ended June 30, 2017 (**Q1 F2018**). Q1 F2019 revenue was \$355,000 (3.3 per cent) higher than the prior year, primarily due to higher investment income, distribution fees from mutual fund reporting issuers and registration fees. This was partially offset by lower other enforcement receipts.

Q1 F2019 regulatory expenses increased by \$260,000 (2.8 per cent) compared to the prior year. This was primarily due to the reinstatement of property tax, partially offset by lower benefits expenses.

**Comparison to budget** – The operating surplus for Q1 F2019 was \$1.5 million compared to a budgeted deficit of \$721,000. Q1 F2019 revenue exceeded budget by \$1.4 million (14.1 per cent), primarily due to higher distribution fees contributed by a strong performance in mutual fund sales; annual financial statement filing fees as a result of an increase in average market capitalization and the timing of the filings received; investment income; and registration fees. This was partially offset by lower enforcement receipts.

Q1 F2019 regulatory expenses were \$839,000 (8.0 per cent) lower than the budgeted regulatory expenses of \$10.5 million, primarily due to a higher staff vacancy rate, and lower professional services and administration expenses.

The ASC's fiscal 2019 year-end operating surplus is currently estimated to be \$8.0 million, which is consistent with budget. From F2011 to F2016, the ASC operated at a structural deficit, at which time the investment balance was drawn down to the minimum sustainable balance, thereby forestalling a fee increase for as long as possible. An operating surplus from the new fee rule was expected and necessary to ensure that the ASC is appropriately funded to meet its existing and future capital and operating requirements; execute its strategic plan; protect investors through education and enforcement initiatives; and continue to have a strong presence to advocate effectively for Alberta's unique capital market in national initiatives.

**Cash flow and liquidity** – The majority of annual fee revenue is received in the fourth quarter of each fiscal year primarily due to annual registration renewals in January and annual financial statement filing fees from February to April, while expenses are incurred relatively evenly over the fiscal year. This timing difference typically results in negative operating cash flow for the first three quarters and positive cash flow in the fourth quarter. Consistent with this, there was a negative operating cash flow of \$451,000 during the three months ended June 30, 2018.

**Capital assets** – The fiscal 2019 capital budget is \$860,000 including \$650,000 for information technology (**IT**) with the remainder for furniture replacements and leasehold improvements. The ASC incurred capital

additions of \$89,000 during the three months ended June 30, 2018, primarily relating to IT purchases and furniture replacements.

The unaudited interim financial statements for the period ended June 30, 2018 follow.

## STATEMENT OF FINANCIAL POSITION

<i>thousands of dollars</i>	At June 30, 2018 (unaudited)	At March 31, 2018
<b>Financial Assets</b>		
Cash	16,174	17,691
Accounts receivable	8	29
Restricted cash	1	-
Investments	46,077	45,273
	<b>62,260</b>	62,993
<b>Liabilities</b>		
Accounts payable and accrued liabilities	3,111	5,606
Lease inducements	1,733	1,792
Accrued pension liability	9,874	9,814
	<b>14,718</b>	17,212
<b>Net Financial Assets</b>	<b>47,542</b>	45,781
<b>Non-Financial Assets</b>		
Capital assets	5,214	5,410
Prepaid expenses	291	197
	<b>5,505</b>	5,607
<b>Accumulated Surplus</b>	<b>53,047</b>	51,388
Accumulated surplus is comprised of:		
Accumulated operating surplus	52,845	51,352
Accumulated remeasurement gains	202	36
	<b>53,047</b>	51,388

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

**STATEMENT OF CHANGE IN NET FINANCIAL ASSETS  
(unaudited)**

<i>thousands of dollars</i>	For the three months ended June 30		
	2018	2018	2017
	Budget	Actual	Actual
<b>Operating Surplus (Deficit)</b>	<b>(721)</b>	<b>1,493</b>	1,398
Acquisition of capital assets	(109)	(89)	(202)
Amortization of capital assets	270	285	256
Gains on sale of capital assets		-	(1)
Proceeds on sale of capital assets		-	1
Prepayment of expenses		(204)	(164)
Reduction of prepaid expenses		110	110
Net remeasurement gains (losses)		166	(111)
Increase (Decrease) in net financial assets	(560)	1,761	1,287
Net financial assets, beginning of period	45,781	45,781	30,635
Net financial assets, end of period	45,221	47,542	31,922

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

**STATEMENT OF OPERATIONS  
(unaudited)***thousands of dollars***For the three months ended June 30**

	<b>2018</b>	<b>2018</b>	<b>2017</b>
	<b>Budget</b>	<b>Actual</b>	<b>Actual</b>
<b>Revenue</b>			
Fees and other	9,151	10,353	10,092
Investment income	375	700	292
Other enforcement receipts	181	74	386
Administrative penalties	62	17	19
	<b>9,769</b>	<b>11,144</b>	<b>10,789</b>
<b>Regulatory Expenses</b>			
Salaries and benefits	7,610	7,171	7,225
Premises	1,125	1,087	831
Administration	876	717	737
Professional services	517	347	284
Amortization of capital assets	270	285	255
Investor education	92	44	59
	<b>10,490</b>	<b>9,651</b>	<b>9,391</b>
<b>Operating Surplus (Deficit)</b>	<b>(721)</b>	<b>1,493</b>	<b>1,398</b>
<b>Accumulated operating surplus, beginning of period</b>	<b>51,352</b>	<b>51,352</b>	<b>35,700</b>
<b>Accumulated operating surplus, end of period</b>	<b>50,631</b>	<b>52,845</b>	<b>37,098</b>

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

**STATEMENT OF REMEASUREMENT GAINS AND LOSSES  
(unaudited)***thousands of dollars***For the three months ended June 30**

	<b>2018</b>	<b>2017</b>
Accumulated remeasurement gains, beginning of period	36	605
Unrealized gains (losses) on investments during the period	166	(111)
Accumulated remeasurement gains, end of period	202	494

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

**STATEMENT OF CASH FLOWS**  
**(unaudited)**

*thousands of dollars*

**For the three months ended June 30**

	<b>2018</b>	<b>2017</b>
<b>Operating Transactions</b>		
Fees and other	<b>10,216</b>	10,072
Payments to and on behalf of employees	<b>(8,787)</b>	(8,784)
Payments to suppliers for goods and services	<b>(2,671)</b>	(2,355)
Investment income	<b>700</b>	292
Other enforcement receipts	<b>74</b>	386
Administrative penalties	<b>17</b>	19
Cash used in operating transactions	<b>(451)</b>	(370)
<b>Capital Transactions</b>		
Cash used to acquire capital assets	<b>(428)</b>	(307)
Proceeds on sale of capital assets	-	1
Cash used in capital transactions	<b>(428)</b>	(306)
<b>Investing Transactions</b>		
Increase in restricted cash	<b>(1)</b>	(6)
Purchases of investments	<b>(637)</b>	(260)
Cash used in investing transactions	<b>(638)</b>	(266)
<b>Decrease in cash</b>	<b>(1,517)</b>	(942)
Cash, beginning of period	<b>17,691</b>	16,815
Cash, end of period	<b>16,174</b>	15,873

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

## Notes to the Interim Financial Statements

(in thousands of dollars unless otherwise noted)

### Note 1 Significant Accounting Policies

These interim financial statements have been prepared in accordance with Canadian public sector accounting standards. The accounting policies and methods of application adopted are consistent with those disclosed in note 2 of the Alberta Securities Commission's (ASC) annual audited financial statements for the year ended March 31, 2018. These interim financial statements do not contain all the disclosures required for annual financial statements and should be read in conjunction with the most recent annual audited financial statements.

### Note 2 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. AIMCo invests the ASC's assets in pooled investment funds in accordance with the investment policy asset mix approved by the ASC. The ASC does not participate in specific capital market investment decisions or transactions.

The following summarizes the ASC's investments.

<i>thousands of dollars</i>							
June 30, 2018							
Investments	Cost	Remeasurement Gains			March 31, 2018		
		(Losses)	Fair Value	%	Cost	Fair Value	%
Fixed-income securities	32,172	(349)	31,823	69.1	31,885	31,587	69.8
Global equities	10,421	267	10,688	23.2	10,150	10,331	22.8
Canadian equities	3,053	284	3,337	7.2	2,974	3,127	6.9
CCITF deposit	229	-	229	0.5	228	228	0.5
	45,875	202	46,077	100.0	45,237	45,273	100.0

CCITF (Consolidated Cash Investment Trust Fund) is an AIMCo managed demand deposit cash and cash equivalents withdrawal account.

### Note 3 Canadian Securities Administrators (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. As one of the agreement signatories, the ASC commits to pay 25.0 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 June 30, 2018 the accumulated operating surplus totalled \$161.9 million (\$162.9 million at March 31, 2018). This was primarily made up of \$115.5 million of marketable securities held in one-year and 15-month term deposits earning 1.8 per cent to 2.4 per cent and an investment account which pays interest at Bank of Canada overnight rate plus 0.5 per cent, \$23.1 million cash held by the Ontario Securities Commission earning interest at 1.85 per cent below the prime rate and \$18.7 million in intangible assets. In management's judgment, this arrangement is not a government partnership and the ASC does not control or have significant influence over how the net assets are managed.



**Note 4 Budget for the year ended March 31, 2019**

The budget was originally approved on December 13, 2017; subsequently amended and approved on June 6, 2018.

Revenue	
Fees and other	\$49,186
Investment income	1,500
Administrative penalties and other enforcement receipts	975
Total revenue	<u>51,661</u>
Regulatory Expenses	
Salaries and benefits	30,568
Premises	4,500
Administration	3,478
Professional services	3,113
Amortization of capital assets	1,200
Investor education	835
Total regulatory expenses	<u>43,694</u>
Operating surplus	<u>7,967</u>

Quarterly budget allocations are determined as follows:

Revenues are prorated based on historical monthly cash receipt experience and anticipated changes in these patterns.

Enforcement receipts result from settlements and monetary orders (cost recoveries, disgorgements and administrative penalties). The budget amount reflects an estimate of cash receipts based on a historical average of annual enforcement receipts.

Expenses are generally amortized on a straight-line basis over twelve months except for certain expenses that have time specific forecasts such as IIROC registration fees and investor education expenses.

The timing variability of contract expenditures results in non-salary expenditure variances.