

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

For the Three Months Ended June 30, 2016  
(unaudited)

Management's Discussion and Analysis

Statement of Financial Position

Statement of Change in Net Financial Assets

Statement of Operations

Statement of Remeasurement Gains and Losses

Statement of Cash Flows

Notes to the Interim Financial Statements

## ASC REPORTS FISCAL 2017 (F2017) FIRST QUARTER RESULTS

### MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis (**MD&A**), prepared as of August 10, 2016, for the three months ended June 30, 2016, should be read in conjunction with the annual MD&A and financial statements reported in the Alberta Securities Commission's (**ASC**) March 31, 2016 annual report, as well as the June 30, 2016 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, 2016 (**Q1 F2017**) the ASC incurred an operating surplus of \$76,000 compared to deficit of \$1.2 million for the three months ended June 30, 2015 (**Q1 F2016**). Q1 F2017 revenue was \$1.0 million higher than the prior year. This was driven by higher other enforcement receipts, strong distribution fees from mutual fund issuers, and late filing fees. This was partially offset by lower administrative penalties compared to the prior year.

Q1 F2017 regulatory expenses of \$8.8 million decreased by \$332,000 compared to the prior year. This was due to decreases in salaries and benefits, premises, administrative, and professional services expenses partially offset by increased investor education expenses.

**Comparison to budget** – The operating surplus for Q1 F2017 was \$76,000 compared to a budgeted deficit of \$2.5 million. Q1 F2017 revenue exceeded budget by \$1.6 million primarily due to strong distribution fees from mutual fund issuers, higher other enforcement receipts and investment income.

Q1 F2017 regulatory expenses were \$1.0 million lower than the budgeted regulatory expenses of \$9.8 million, partially due to a higher staff vacancy rate than budgeted and cost control efforts on administrative expenses. The premises expenses were also lower as a result of a property tax adjustment.

The fiscal 2017 year-end operating deficit is currently estimated to be \$8.0 million, which is consistent with budget.

**Cash flow and liquidity** – Approximately 50% of annual fee revenues are received in the fourth quarter of each fiscal year, primarily due to annual registration renewals in January, 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. The ASC forecasted an operating deficit of \$8.0 million for fiscal 2017. The ASC used \$1.1 million of operating cash flow for the three months ended June 30, 2016. A cash transfer, estimated at up to \$3 million is expected in the third quarter to provide funds for operations.

**Capital assets** – The fiscal 2017 capital budget is approximately \$665,000, \$560,000 for information technology (**IT**) with the remainder for leasehold additions and furniture replacements. During Q1 F2017 the ASC incurred capital additions of \$4,000, primarily relating to IT purchases.

The unaudited interim financial statements for the period ended June 30, 2016 follow.

## Statement of Financial Position

<i>thousands of dollars</i>	<b>As at June 30, 2016</b>	As at March 31, 2016
	<b>(unaudited)</b>	
<b>Financial Assets</b>		
Cash	<b>8,487</b>	10,013
Accounts receivable	<b>8</b>	402
Restricted cash	<b>698</b>	696
Investments (Note 2)	<b>21,721</b>	20,970
	<b>30,914</b>	32,081
<b>Liabilities</b>		
Accounts payable and accrued liabilities	<b>2,671</b>	4,613
Lease inducements	<b>2,062</b>	2,116
Accrued pension liability	<b>8,201</b>	8,000
	<b>12,934</b>	14,729
<b>Net Financial Assets</b>	<b>17,980</b>	17,352
<b>Non-Financial Assets</b>		
Capital assets	<b>5,665</b>	5,965
Prepaid expenses	<b>331</b>	261
	<b>5,996</b>	6,226
<b>Accumulated Surplus</b>	<b>23,976</b>	23,578
Accumulated surplus is comprised of:		
Accumulated operating surplus	<b>23,211</b>	23,135
Accumulated remeasurement gains	<b>765</b>	443
	<b>23,976</b>	23,578

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

### Statement of Changes in Net Financial Assets (unaudited)

<i>thousands of dollars</i>	For the three months ended June 30		
	2016	2016	2015
	Budget (Note 4)	Actual	Actual
Operating surplus (deficit)	(2,510)	76	(1,210)
Acquisition of capital assets	(166)	12	(23)
Amortization of capital assets	328	288	305
	162	300	282
Prepayment of expenses		(168)	(201)
Reduction of prepaid expenses		98	92
		(70)	(109)
Net remeasurement gains (losses)		322	(775)
Increase (Decrease) in net financial assets	(2,348)	628	(1,812)
Net financial assets, beginning of period	17,352	17,352	19,093
Net financial assets, end of period	15,004	17,980	17,281

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

## Statement of Operations (unaudited)

<i>thousands of dollars</i>	For the three months ended June 30		
	2016	2016	2015
	Budget (Note 4)	Actual	Actual
<b>Revenue</b>			
Fees	6,812	7,893	7,405
Investment income	252	446	439
Administrative penalties	63	31	62
Other enforcement receipts	124	505	15
	<b>7,251</b>	<b>8,875</b>	<b>7,921</b>
<b>Regulatory Expenses</b>			
Salaries and benefits	7,131	6,837	6,976
Premises	1,035	816	884
Administration	820	608	711
Amortization of capital assets	327	288	305
Professional services	407	179	225
Investor education	41	71	30
	<b>9,761</b>	<b>8,799</b>	<b>9,131</b>
<b>Operating surplus (deficit)</b>	<b>(2,510)</b>	<b>76</b>	<b>(1,210)</b>
Accumulated operating surplus, beginning of period	23,135	23,135	24,447
Accumulated operating surplus, end of period	20,625	23,211	23,237

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

## Statement of Remeasurement Gains and Losses (unaudited)

<i>thousands of dollars</i>	For the three months ended June 30	
	2016	2015
Accumulated remeasurement gains, beginning of period	443	1,724
Unrealized gains (losses) on investments during the period	322	(775)
Net remeasurement gains (losses) for the period	322	(775)
Accumulated remeasurement gains, end of period	765	949

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

## Statement of Cash Flows (unaudited)

<i>thousands of dollars</i>	For the three months ended June 30	
	2016	2015
<b>Operating transactions</b>		
Fees and other	7,897	7,382
Payments to and on behalf of employees	(8,305)	(8,813)
Payments to suppliers for goods and services	(1,644)	(2,374)
Investment income	446	439
Administrative penalties	31	62
Other enforcement receipts	505	15
Cash used in operating transactions	(1,070)	(3,289)
<b>Capital transactions</b>		
Cash used to acquire capital assets	(25)	(72)
Cash used in capital transactions	(25)	(72)
<b>Investing transactions</b>		
Purchases of investments	(429)	(429)
Increase in restricted cash	(2)	(2)
Cash from investing transactions	(431)	(431)
<b>Decrease in cash and cash equivalents</b>	<b>(1,526)</b>	<b>(3,792)</b>
<b>Cash, beginning of period</b>	<b>10,013</b>	<b>7,064</b>
<b>Cash, end of period</b>	<b>8,487</b>	<b>3,272</b>

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, 2016. 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.

	June 30, 2016				March 31, 2016			
	Cost	Remeasurement Gain	Fair Value	%	Cost	Remeasurement Gain	Fair Value	%
<b>Investments</b>								
CCITF deposit	80	-	80	0.4	80	-	80	0.4
Fixed-income securities	15,675	459	16,134	74.3	15,366	259	15,625	74.5
Canadian equities	5,201	306	5,507	25.3	5,081	184	5,265	25.1
	<b>20,956</b>	<b>765</b>	<b>21,721</b>	<b>100.0</b>	<b>20,527</b>	<b>443</b>	<b>20,970</b>	<b>100.0</b>

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. 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 June 30, 2016, the accumulated operating surplus totalled \$139.4 million (March 31, 2016 - \$139.9 million), primarily made up of \$22.7 million cash held by the Ontario Securities Commission earning interest at 1.85 per cent below the prime rate and \$115 million marketable securities held in one to two year term deposits earning 1.10 per cent to 1.70 per cent expiring in April and November 2017.

**Note 4 Budget for the year ended March 31, 2017**

Originally approved on January 13, 2016; subsequently amended and approved on April 13, 2016.

Revenue	
Fees and other	\$30,305
Investment income	1,000
Administrative penalties and other enforcement receipts	750
Total revenue	<u>32,055</u>
Regulatory Expenses	
Salaries and benefits	28,524
Premises	4,135
Administration	3,207
Professional services	2,408
Amortization of capital assets	1,310
Investor education	520
Total regulatory expenses	<u>40,104</u>
Operating deficit	<u>(\$8,049)</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.