

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

For the Nine Months Ended December 31, 2019
(unaudited)

Management's Discussion and Analysis

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ASC REPORTS FISCAL 2020 (F2020) THIRD QUARTER RESULTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis (**MD&A**), prepared as of February 12, 2020, for the nine months ended December 31, 2019, should be read in conjunction with the annual MD&A and financial statements reported in the Alberta Securities Commission's (**ASC**) March 31, 2019 annual report, as well as the December 31, 2019 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 December 31, 2019 (**Q3 F2020**) the ASC incurred an operating deficit of \$2.9 million compared to an operating deficit of \$3.4 million for the three months ended December 31, 2018 (**Q3 F2019**). For the nine months ended December 31, 2019 (**YTD F2020**) the ASC incurred an operating deficit of \$5.0 million compared to an operating deficit of \$5.2 million for the nine months ended December 31, 2018 (**YTD F2019**).

Q3 F2020 total revenue was \$887,000 (13.4 per cent) higher than the prior year, primarily due to higher investment income. This was partially offset by lower distribution fees from mutual fund reporting issuers.

YTD F2020 revenue was \$1.5 million (6.3 per cent) higher than the prior year, primarily due to higher investment income and annual financial statement filing fees. This was partially offset by lower registration fees, distribution fees from mutual fund reporting issuers, late filing fees and other enforcement receipts.

Q3 F2020 regulatory expenses were higher by \$356,000 (3.5 per cent) compared to the prior year, primarily due to higher salaries and benefits expense. This was partially offset by lower professional services expenses. YTD F2020 regulatory expenses increased by \$1.3 million (4.4 per cent) compared to the prior year. This was primarily due to higher salaries and benefits expenses as a result of a lower employee vacancy rate, increased amortization on capital assets and increased premises expenses due to additional leased space in the current year.

Comparison to budget – Q3 F2020 and YTD F2020 revenue exceeded budget by \$507,000 (7.2 per cent) and \$2.8 million (12.4 per cent), respectively, primarily due to higher investment income, annual financial statement filing fees and proceeds realized in Alberta from mutual fund reporting issuers.

Q3 F2020 and YTD F2020 regulatory expenses were less than budget by \$160,000 (1.5 per cent) and \$1.1 million (3.6 per cent), respectively. This was primarily due to lower professional services and investor education expenses.

The operating deficit for Q3 F2020 was \$2.9 million compared to a budgeted deficit of \$3.6 million. The operating deficit for YTD F2020 was \$5.0 million compared to a budgeted deficit of \$8.9 million. The fiscal 2020 year-end operating surplus is currently estimated to be \$12.6 million.

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 \$7.0 million during the nine months ended December 31, 2019.

Capital assets –The ASC incurred capital additions of \$356,000 during the nine months ended December 31, 2019 relating to IT purchases, camera replacements and hearing room upgrades.

The unaudited interim financial statements for the period ended December 31, 2019 follow.

STATEMENT OF FINANCIAL POSITION

<i>thousands of dollars</i>	December 31, 2019 (unaudited)	At March 31, 2019
Financial Assets		
Cash	6,816	14,099
Accounts receivable	8	37
Investments	65,292	62,202
	72,116	76,338
Liabilities		
Accounts payable and accrued liabilities	3,331	3,163
Lease inducements	1,383	1,558
Accrued pension liability	10,232	10,055
	14,946	14,776
Net Financial Assets	57,170	61,562
Non-Financial Assets		
Capital assets	4,376	5,010
Prepaid expenses	377	276
	4,753	5,286
Accumulated Surplus	61,923	66,848
Accumulated surplus is comprised of:		
Accumulated operating surplus	60,709	65,682
Accumulated remeasurement gains	1,214	1,166
	61,923	66,848

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 nine months ended December 31		
	2019	2019	2018
	Budget	Actual	Actual
Operating Deficit	(8,936)	(4,973)	(5,205)
Acquisition of capital assets	(1,005)	(356)	(545)
Amortization of capital assets	1,050	990	874
Prepayment of expenses		(579)	(496)
Reduction of prepaid expenses		478	364
Net remeasurement gains (losses)		48	(1,425)
Decrease in net financial assets	(8,891)	(4,392)	(6,433)
Net financial assets, beginning of period	61,562	61,562	45,781
Net financial assets, end of period	52,671	57,170	39,348

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 December 31			For the nine months ended December 31		
	2019	2019	2018	2019	2019	2018
	Budget	Actual	Actual	Budget	Actual	Actual
Revenue						
Fees and other	6,268	5,900	6,282	20,594	21,913	21,895
Investment income	500	1,483	129	1,500	3,347	1,757
Other enforcement receipts	184	101	204	551	294	401
Administrative penalties	59	34	16	177	91	63
	7,011	7,518	6,631	22,822	25,645	24,116
Regulatory Expenses						
Salaries and benefits	7,454	7,618	7,053	22,371	22,590	21,292
Premises	1,103	1,104	1,131	3,306	3,377	3,324
Administration	792	806	899	2,364	2,266	2,293
Amortization of capital assets	350	323	297	1,050	990	874
Professional services	668	306	418	2,057	929	1,111
Investor education	204	207	222	610	318	322
Investment expense	-	47	35	-	148	105
	10,571	10,411	10,055	31,758	30,618	29,321
Operating Deficit	(3,560)	(2,893)	(3,424)	(8,936)	(4,973)	(5,205)
Accumulated operating surplus, beginning of period	60,306	63,602	49,571	65,682	65,682	51,352
Accumulated operating surplus, end of period	56,746	60,709	46,147	56,746	60,709	46,147

The accompanying notes and schedule are part of these financial statements.
 Certain F2019 figures have been reclassified to conform to the F2020 presentation.

STATEMENT OF REMEASUREMENT GAINS AND LOSSES
(unaudited)

<i>thousands of dollars</i>	For the three months ended December 31		For the nine months ended December 31	
	2019	2018	2019	2018
Accumulated remeasurement gains (losses), beginning of period	1,849	(533)	1,166	36
Unrealized gains (losses) on investments during the period	(635)	(856)	48	(1,425)
Accumulated remeasurement gains (losses), end of period	1,214	(1,389)	1,214	(1,389)

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 December 31		For the nine months ended December 31	
	2019	2018	2019	2018
Operating Transactions				
Fees and other	5,968	6,092	22,110	21,651
Payments to and on behalf of employees	(7,100)	(6,361)	(22,172)	(21,772)
Payments to suppliers for goods and services	(2,480)	(2,657)	(7,433)	(7,577)
Investment income	38	55	157	180
Other enforcement receipts	101	204	294	401
Administrative penalties	34	16	91	63
Cash used in operating transactions	(3,439)	(2,651)	(6,953)	(7,054)
Capital Transactions				
Cash used to acquire capital assets	(225)	(141)	(330)	(791)
Cash used in capital transactions	(225)	(141)	(330)	(791)
Investing Transactions				
Purchases of investments	-	-	-	1
Increase in restricted cash	-	-	-	(1)
Cash used in investing transactions	-	-	-	-
Decrease in cash	(3,664)	(2,792)	(7,283)	(7,845)
Cash, beginning of period	10,480	12,638	14,099	17,691
Cash, end of period	6,816	9,846	6,816	9,846

The accompanying notes and schedule are part of these financial statements.
 Certain F2019 figures have been reclassified to conform to the F2020 presentation.

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, 2019. 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>		December 31, 2019				March 31, 2019		
Investments	Cost	Remeasurement Gains	Fair Value	%	Cost	Fair Value	%	
Fixed-income securities	43,323	1,167	44,490	68.1	42,214	43,076	69.2	
Global equities	15,861	13	15,874	24.3	14,421	14,526	23.4	
Canadian equities	4,582	34	4,616	7.1	4,092	4,291	6.9	
CCITF deposit	312	-	312	0.5	309	309	0.5	
	64,078	1,214	65,292	100.0	61,036	62,202	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 include the 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. Though not expected to occur, 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 December 31, 2019 the accumulated operating surplus totalled \$169.5 million (\$173.4 million at March 31, 2019). This was primarily made up of \$124.9 million of investments comprised of a notice account earning 2.25 per cent, marketable securities held in a one-year term deposit earning 3.0 per cent and a guaranteed investment certificate that pays interest at 2.95 per cent; \$9.2 million in cash held by the Ontario Securities Commission earning interest at 2.1 per cent; and \$31.6 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, 2020

The approved budget was delivered to the ASC on September 26, 2019.

thousands of dollars

Revenue	
Fees and other	51,961
Investment income	2,000
Administrative penalties and other enforcement receipts	971
Total revenue	54,932
Regulatory Expenses	
Salaries and benefits	29,828
Premises	4,407
Administration	3,145
Professional services	2,778
Amortization of capital assets	1,400
Investor education	813
Total regulatory expenses	42,371
Operating Surplus	12,561

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.