

2019 ANNUAL REPORT

Intelligent regulation.
Investor protection.
Now, more than ever.

2019

Disruption, in addition to diversification and innovation, continued in 2019. As regulators, we must provide intelligent regulation that both anticipates and responds to these dynamics.

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MESSAGE FROM THE CHAIR

Alberta continues to be Canada's second-largest capital market in terms of total market capitalization of listed issuers. Oil and gas, utilities and pipelines remain our largest industries, at 69 per cent of total market capitalization. Yet the economic landscape has been challenging and subject to disruption.

Our energy industry, a key driver of revenue at both the provincial and national level, is experiencing significant upheaval due to unprecedented market access, product pricing and regulatory challenges. In addition, capital market dynamics are in flux due to powerful forces including globalization, advances in technology such as blockchain and changing geopolitical dynamics. While challenging, these market conditions are encouraging innovation and diversification. I believe that the coming years will be critical in defining how regulatory bodies contend with these disruptive forces.

To ensure the Alberta Securities Commission (ASC) continues to provide intelligent regulation that protects investors and maintains a fair and efficient capital market, we are carefully considering the impact of these forces and the significant efforts to diversify Alberta's economy. We remain steadfast in our vision to be a best-in-class regulator.

The ASC's three-year strategic plan plots our course until 2020 and sets the milestones by which we measure our success. It prioritizes intelligent

regulation to support a thriving capital market; proactive and comprehensive compliance, enforcement and education; and, the importance of stakeholder engagement. The following pages of this report highlight areas of focus in fiscal 2019 (F2019), the second year of our strategic plan. Overall I can report a year of solid achievement, with measurable progress on key initiatives.

INTELLIGENT REGULATION IN A DYNAMIC ENVIRONMENT

We created the New Economy division in F2019 to enhance our understanding of and to address regulatory issues related to capital formation of new and non-traditional businesses. In addition, this division coordinates our efforts within the ASC and with our Canadian Securities Administrators (CSA) colleagues to address the challenges and opportunities of emerging financial technologies employed by capital market participants. To foster a vibrant capital market in Alberta, we engage with market participants to help them better understand and navigate the securities regulatory regime. Working collectively, we approach regulation in a thoughtful

and balanced way, and seek to remove unnecessary barriers to capital access for Alberta businesses while continuing to protect investors and facilitate investment opportunities.

STRIKING THE RIGHT BALANCE

In fulfilling our commitment to intelligent regulation, we strive to find the right balance at all times. Significantly, our strategic plan requires that we assess the cost/benefit of our regulation. This means being deliberate in our actions to provide strong investor protection while not unduly burdening issuers or other market participants. Over the past year, we have made headway on a number of CSA projects, including the climate change-related disclosure project; client-focused reforms for registrants; projects focused on reducing regulatory burden; efforts to establish a regulatory framework for the over-the-counter derivatives market; and a new rule regarding the disclosure of non-GAAP and other financial measures. I believe that each of these, and more that are underway, supports our commitment to intelligent regulation.

ROBUST ENFORCEMENT, COMPLIANCE AND EDUCATION

Through enforcement, compliance and education, our ongoing goal is to protect the integrity of the market and deter those who might breach securities laws. To this end, I am able to report considerable progress on a number of fronts.

The Joint Serious Offences Team (JSOT), a partnership between the ASC, the Royal Canadian Mounted Police (RCMP) and Alberta Crown Prosecution Service (Crown), laid criminal or quasi-criminal charges in five cases, and we achieved our first conviction resulting from JSOT investigations. Additionally, ASC panels rendered decisions that included a stiff sanction in response to one of the worst frauds in Alberta (see page 17 for more details).

We continued to add to our enforcement toolbox in F2019, notably with the introduction of our new whistleblower program. This initiative makes it safe and easy for individuals working in organizations to report potential breaches of Alberta securities laws. It provides some of the most rigorous protections for whistleblowers among similar programs in Canada.

Education is an essential component of a financially literate society. Through our ongoing CheckFirst campaign, we provide free, unbiased resources to help Albertans learn about prudent investing and how to identify and avoid investment fraud. In F2019 we implemented investor education initiatives that included an eye-catching digital ad campaign, CheckFirst Café pop-ups and presentations to seniors in communities throughout Alberta. For Fraud Prevention Month we launched Kajillionaire — a board game where players learn how to recognize potentially fraudulent investments and make wise investment

decisions. We also launched our new albertasecurities.com site, improving user experience.

NATIONAL AND INTERNATIONAL COLLABORATION AND ENGAGEMENT

Collaboration and engagement are crucial to the work we do. We play a significant role within the CSA, participate within the North American Securities Administrators Association (NASAA) and support a number of initiatives within the International Organization of Securities Commissions (IOSCO). We interact with market participants through numerous industry education initiatives, including our annual ASC Connect conference.

In November 2018, the Supreme Court of Canada ruled that the proposed pan-Canadian securities regulator and the *Federal Stability Act* are constitutional. Importantly, however, the Supreme Court was equally clear that the choice to join the Cooperative Capital Markets Regulatory System is up to each individual province and territory. Historically, Alberta governments have affirmed their support of the current system: national coordination of securities regulation through the CSA that facilitates meeting international best practices while providing the flexibility to accommodate regional differences and needs. They noted that having access to an “on-the-ground” regulator that understands the unique aspects of the Alberta market is key to ensuring the protection of investors and the facilitation of a vibrant capital market.

On behalf of the ASC’s senior management team, I want to acknowledge and thank our Commission Members for their valuable and insightful guidance and support. In particular, I would like to recognize the many contributions of Ian Beddis, Brad Nemetz

and Ann Rooney. Each successfully completed their second term this year and I want to offer my gratitude for their dedication, wisdom and experience. I also want to thank the members of our seven advisory committees, industry representatives who share their knowledge and perspective with our staff throughout the year. These expert committees provide advice concerning the development of new or amended securities regulation.

I also want to take this opportunity to thank our dedicated and committed staff. We could not achieve our strategic priorities without their dedication and hard work. They make everything we do possible.

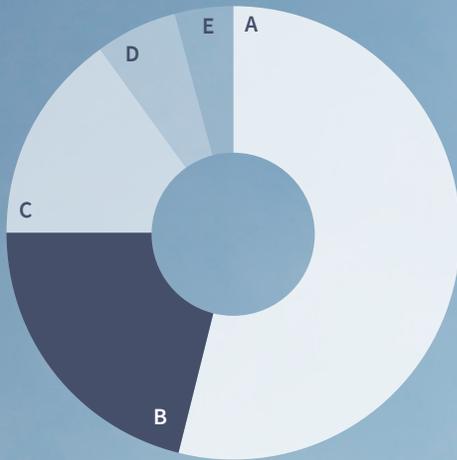
We are in the final year of our current three-year strategic plan. In the coming year we will consult with our stakeholders to develop our new three-year plan that will guide our future.

It has been another challenging year for Alberta. While the ongoing social, political and economic disruption is demanding for our capital markets, I am encouraged to see greater industrial diversification and renewed vigour among market participants who are innovating and advancing their businesses in spite of headwinds. Based on feedback I have received, I am confident that our current strategic plan, with its focus on intelligent regulation, including a cost/benefit assessment, gives Alberta a solid regulatory foundation as we plan for the future.



STAN MAGIDSON
Chair and Chief Executive Officer

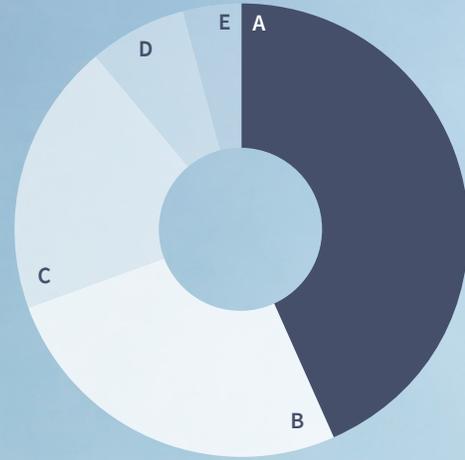
Alberta is the second-largest capital market in Canada.*



- 54% Ontario (A)
- 21% Alberta (B)
- 15% Quebec (C)
- 6% British Columbia (D)
- 4% Other (E)

* Measured by aggregate market capitalization of listed issuers.

Oil and gas, utilities and pipelines are the most significant industries in Alberta's economy.*



- 43% Oil and gas (A)
- 26% Utilities and pipelines (B)
- 19% Industrial products (C)
- 7% Diversified industries (D)**
- 4% Other (E)

* Measured by aggregate market capitalization of listed issuers.
**Diversified industries include consumer and other product and service companies.



CAPITAL MARKET STATISTICS 2019

~\$6.9B

Amount raised by
Alberta-based issuers in the
prospectus-exempt market.

\$14.0B

Amount raised by
Alberta-based issuers in
the public market.

\$778B

Alberta is Canada's
second-largest capital
market, representing more
than **\$778 billion** in
market capitalization.

REACHING A BROADER AUDIENCE

~1,980

Inquiries into the Public Information Office.

14,315+

Albertans reached through grassroots efforts such as presentations, trade shows, conferences and community events.

3,450

Alberta seniors reached through targeted campaigns and initiatives.

220

Albertans took one of our Investing 101 classes through the Calgary Board of Education's Continuing Education Department and MacEwan University in Edmonton.

65.4

Million impressions – advertising, online, media and grassroots.

OUTREACH IN F2019

133

Presentations, sessions and consultations held by ASC staff on timely topics such as cryptocurrency, climate change and investment fraud reached ~16,920 people.

300+

Participants attended our signature conference, ASC Connect.

MISSION, VISION, STRATEGY AND VALUES AT-A-GLANCE

Fiscal 2019 (F2019) marks the second year of our three-year strategic plan that guides our priorities through 2020. The plan is a blueprint for ASC’s operations, and addresses the challenges and opportunities we face in achieving our vision – to be a practical, best-in-class regulator and to protect investors from improper, misleading or fraudulent practices while allowing Alberta’s capital market to thrive.

This annual report gives an update on our progress and offers select highlights from F2019 within each of the three pillars of our strategic plan.

MISSION

VISION

STRATEGY

The pillars of our strategy to realize our mission and vision are:

VALUES

The values that guide employee action at the ASC are:

To foster a fair and efficient capital market in Alberta and to protect investors.

To be a practical, intelligent, best-in-class regulator. We strive to protect investors from improper, misleading or fraudulent practices while allowing our capital market to thrive.

Intelligent regulation that supports a thriving capital market

Proactive and comprehensive compliance, enforcement and education

Foster a culture of engagement

Stakeholder Responsiveness

Quality Results

Continuous Improvement

Teamwork

Principled Environment

PILLAR

01

INTELLIGENT REGULATION THAT SUPPORTS A THRIVING CAPITAL MARKET

The ASC regulates the Alberta capital market – and it must do so intelligently. This means ensuring that our regulatory regime is appropriate to the needs of our market, and that it promotes strong investor protection while not unduly burdening issuers and other market participants.

EXPLORING EMERGING REGULATORY FRONTIERS

In the face of recent adversity, concerted efforts are underway to strengthen and diversify Alberta's economy. At the same time, volatile global forces have encouraged the introduction of transformative financial technologies and products.

The ASC's New Economy division, established in F2019, reflects our continued commitment to ensuring a vibrant capital market that protects investors and supports both incumbent industries and new economy enterprises. Staff in our New Economy, Corporate Finance and Market Regulation divisions are actively engaged with those market participants to better understand the challenges they face and to help them navigate the securities regulatory regime. To ensure new regulations are coordinated across Canada, we collaborate with our colleagues in the CSA.

In F2019 we:

- Conducted research and consultations to understand challenges in capital formation in the province. This was done with a view to protecting investors while better facilitating access to capital for Alberta businesses and investment opportunities for Alberta investors.
- Advanced a new, harmonized national instrument to facilitate start-up crowdfunding.
- Considered early disclosure trends and increased our knowledge of new industries. For example, with the legalization of cannabis, CSA members reviewed 70 reporting issuers' continuous disclosure, and provided guidance through a staff notice that summarized common deficiencies and best practices.
- Participated in the CSA Regulatory Sandbox Committee. This cooperative initiative supports fintech businesses looking to offer innovative products, services and applications in Canada. It allows these firms the opportunity to seek exemptive relief from securities law requirements. The Committee engaged with a number of market participants and issued guidance and investor alerts with respect to crypto-assets.
- Published Consultation Paper 21-402 Proposed Framework for Crypto-Asset Trading Platforms. The CSA and the Investment Industry Regulatory Organization of Canada (IIROC) are seeking input from the fintech community, market participants, investors and other stakeholders on how regulatory requirements may be tailored for crypto-asset trading platforms operating in Canada.
- Provided Community Economic Development Corporations (CEDC) with a new exemption designed to reduce costly financial reporting obligations and facilitate their access to capital (ASC Blanket Order 45-520).
- Engaged with other Canadian regulators, the Bank of Canada, the federal Department of Finance, and with international securities and financial regulators to facilitate cross-border testing with respect to financial innovation in the capital markets. We entered into cooperation agreements with international regulators and joined networks such as IOSCO's ICO Consultation Network (ICO refers to Initial Coin Offering) and the Global Financial Innovation

Network (GFIN). GFIN comprises 29 regulatory organizations worldwide that enables information sharing and provides a more efficient way for innovative firms to operate in multiple countries.

A new regulatory framework is being developed to improve transparency, increase accountability and promote responsible business conduct by dealers and advisers in the over-the-counter derivatives market. In F2019, the CSA published a number of notices and two proposed instruments. The proposed framework is aimed at establishing both a registration and a business conduct regime for dealers and advisers. After careful review of the feedback received, the CSA made revisions and introduced changes that enhance investor protection while preserving market liquidity and access. The CSA will continue to advance the framework, including the necessary compliance and surveillance tools required to ensure a practical and effective regime.

Climate change-related disclosure has been an emerging topic for reporting issuers and investors in recent years. In F2019 the CSA published a report on its climate change-related disclosure project. The report reflects the CSA's consideration of key research findings, a review of the disclosure of large TSX-listed issuers, a survey of TSX-listed issuers and extensive consultation with investors, issuers and other stakeholders. The CSA compared how current Canadian securities disclosure requirements differ from or are consistent with international climate change-related disclosure requirements and voluntary frameworks. Looking ahead, the CSA intends to advance this project, which is co-led by the ASC.

Alberta has the second-largest capital market in Canada based on the market capitalization of its listed issuers and, despite prolonged challenges, our largest

industry continues to be oil and gas. As Alberta's capital market regulator, it is our responsibility to ensure the oil and gas rule NI 51-101 *Standards of Disclosure for Oil and Gas Activities*, and its underlying evaluation standards found in the Canadian Oil and Gas Evaluation Handbook (COGE Handbook) remain best-in-class. In F2019, the ASC contributed assistance and expertise to updates of the COGE Handbook (COGEH). Significant improvements were made to COGEH with regards to the determination of evaluation practices relating to abandonment and reclamation costs, development timing for reserves, and overall clarity and consistency.

REDUCING REGULATORY BURDEN

The ASC has always been an advocate for reducing regulatory burden, ensuring our market has proportionate regulation. As a leading participant in the CSA's reduction of regulatory burden project, the ASC strives to ensure we get the balance right between protecting investors and fostering efficient capital markets. CSA Staff Notice 51-353 *Update on CSA Consultation Paper 51-404 Considerations for Reducing Regulatory Burden for Non-Investment Fund Reporting Issuers* was published March 27, 2018 to outline the path forward on this initiative and set out six separate projects that the ASC and CSA have continued to advance in 2019. These projects cover the following areas:

- Further facilitating at-the-market distributions providing less costly access to capital for reporting issuers (led by ASC).
- Reducing or streamlining continuous disclosure obligations for reporting issuers (co-led by ASC).
- Revising rules to reduce the circumstances in which financial statements are triggered on acquisitions of other businesses.

- Enhancing electronic document distribution to investors for improved efficiencies.
- Revisiting the primary business requirements to provide greater clarity to issuers as to the financial statement requirements when preparing an IPO prospectus.
- Considering ways in which the existing prospectus system can be improved, as well as exploring potential alternative offering systems.

As outlined in CSA Staff Notice 81-329 *Reducing Regulatory Burden for Investment Funds*, the ASC is also exploring how it can streamline the disclosure requirements for investment funds and reduce unnecessary regulatory burden.

ASC Rule 72-501 *Distributions to Purchasers Outside Alberta* was adopted in F2019 and substantially improves the ability of Alberta issuers to access capital from foreign investors, providing prospectus and registration exemptions from Alberta securities law where the issuer is complying with the laws in the jurisdiction of the investor.

QUESTIONING THE REGULATORY STATUS QUO

In F2019, the CSA and its members proposed harmonized changes designed to materially improve outcomes for investors in their relationships with financial advisors. Three notices proposed amendments that, among other things, would require registered firms and individuals to prioritize the best interest of the client in the resolution of conflicts of interest, and to put clients' interests first in determining suitability. The comment and consultation process for the proposals is now closed, and CSA members are carefully considering all feedback. In F2020, we will work together to reach an outcome that addresses both investor protection and market

efficiency issues. These improvements build on a broad series of reforms completed in recent years relating to the advisor-client relationship, including increasing transparency in the cost and value of advice.

The ASC is co-leading the development of proposed National Instrument 52-112 *Non-GAAP and Other Financial Measures Disclosures*. Non-GAAP financial measures are used by many issuers to describe their financial and operational performance; however, extensive CSA compliance reviews reveal issues with these measures that may result in misleading disclosure. The proposed materials establish disclosure requirements for issuers that must be met to provide clarity to investors when using non-GAAP and other financial measures. The proposed framework would also give CSA staff stronger grounds to take appropriate regulatory action as needed. Staff are reviewing the comments received and will provide an update on this project in F2020.

Alberta has a significant exempt market dealer community. We work closely with our Exempt Market Dealer Advisory Committee to understand issues facing the community and to explore potential resolutions. Discussions with the committee provide opportunities to communicate regulatory policy positions and clarify the rationale behind our actions. We continue to evaluate the extent to which further regulation is required for both dealers and issuers, acknowledging that education, compliance and disciplinary measures result in greater integrity of the market.

The ASC is also co-leading a project revisiting the disclosure required of issuers in the exempt market to ensure it is better tailored to the types of businesses operating in this space, including real estate projects, mortgage syndications and funds, or collective investment vehicles.

The CSA is developing a new national records filing system. The new systems project, being developed in phases, will eventually be web-based and replace all existing national systems, including the System for Electronic Document Analysis and Retrieval (SEDAR), the System for Electronic Disclosure by Insiders (SEDI) and the National Registration Database (NRD). The result will be a more secure, cost-effective and simplified point of contact for filers and investors alike.

ENGAGING EFFECTIVELY WITH OTHER REGULATORS

The ASC benefits from collaboration with our regulatory counterparts across Canada and internationally.

Canadian securities regulators have worked with each other, the Bank of Canada, regulators from around the world, and other organizations to implement the G20 commitments for financial market reform, with a focus on systemic risk and improving our risk management practices. CSA members have adopted new rules designed to identify and mitigate potential risks, in line with global commitments and standards. Additionally, CSA members worked together to respond to a targeted review as part of the Financial Sector Assessment Program (FSAP). Created by the International Monetary Fund and the World Bank in 1999, the FSAP is a comprehensive and in-depth assessment of a country's financial sector, including its capital markets. FSAPs analyze the resilience of the financial sector, the quality of the regulatory and supervisory framework, and the capacity to manage and resolve financial crises.

The ASC continues to be an active participant within the CSA, NASAA, IOSCO and numerous other national and international organizations. Our focus with these activities is to share our experience in a way that enhances the capital markets, while

creating opportunities for our staff to acquire knowledge that is critical to our commitment to being a best-in-class regulator. We participated in the development of practices established by IOSCO for commodity storage and delivery infrastructures that were published earlier this year. We are also involved in an ongoing IOSCO project to assess the global impact of new policies imposed as a result of G20 requests for regulatory reform and transparency in the over-the-counter derivatives market. The ASC is a long serving member of the IOSCO Committee on Emerging Risk (CER), and its predecessors, which analyses emerging and systemic risks for the IOSCO board and standing committees. The CER has published several reports on emerging risk and practices to mitigate systemic risk, in support of IOSCO members meeting IOSCO principles on systemic risk. As well, we have submitted ongoing testimony on behalf of the CSA to the Canadian Senate Standing Committee on Banking, Trade and Commerce regarding progress toward mitigating systemic risk in the Canadian capital markets in the 10 years following the global financial crisis in 2008-2009. We also continue to collaborate and engage with organizations such as the Society of Petroleum Engineers, the Canadian Association of Petroleum Producers, Canadian and international accounting, audit and assurance standards boards, Alberta Investment Management Corporation and Alberta Treasury Board and Finance, among others.

PILLAR

02

PROACTIVE AND COMPREHENSIVE COMPLIANCE, ENFORCEMENT AND EDUCATION

The ASC fosters a fair and efficient capital market in Alberta, anticipating needs, addressing challenges and acting decisively in order to promote confidence, protect investors and support market integrity.

EXPANDING ENFORCEMENT TOOLS

An important development in the last fiscal year was the introduction of ASC Policy 15-602 *Whistleblower Program* and accompanying amendments to the *Securities Act* (Alberta). This program allows whistleblowers to safely and easily report potential breaches of Alberta securities laws, helping the ASC identify and address misconduct as early as possible. By providing information that might otherwise be difficult to obtain, employees and directors of organizations play an important role in identifying securities-related misconduct. Along with new mechanisms and processes to make reporting easier, the program provides rigorous protections for whistleblowers. These include heightened protection of the identity of whistleblowers and protection from reprisal. It is now against the law to retaliate against an employee, or a relative of the employee, for acting as a whistleblower to the ASC. This protection is further strengthened by the ASC's ability to take enforcement action in the event that a reprisal occurs. The *Securities Act* (Alberta)

establishes civil liability for an employer, or fellow employee, who retaliates against a whistleblower.

In F2019 we established an option for respondents to enter into no-contest settlement agreements in certain circumstances with ASC Policy 15-601 *Credit for Exemplary Cooperation in Enforcement Matters*. This policy provides clarity and detail on the circumstances in which ASC staff will give credit for exemplary cooperation and consider the option of a no-contest settlement agreement. Our goal is to offer, when possible, a new way to provide restitution and disgorgement to victims or those who have been harmed by securities misconduct.

Cooperation with other organizations is crucial to effective enforcement. The ASC has strong partnerships with Canadian law enforcement agencies, including the RCMP, other police services across Alberta and the Crown. Together with other CSA members, the RCMP, the U.S. Securities Exchange Commission, the Federal Bureau of Investigation, IIROC, the Financial Industry Regulatory

Authority and international regulators, the ASC plays a leadership role in the Cross-Border Market Fraud Initiative. This initiative brings these significant parties together to detect and disrupt market fraud, in particular pump-and-dump manipulations.

The ASC takes strategic enforcement action through regulatory proceedings, quasi-criminal prosecutions and, in partnership with the RCMP and the Crown, criminal prosecutions to ensure accountability for securities offenders and credible deterrence. Due in large part to collaboration and partnership, the ASC achieved effective outcomes in a number of important enforcement matters in the past year.

- JSOT laid criminal or quasi-criminal charges in five cases. In our first conviction resulting from JSOT investigations in Alberta, recidivist Neil McDonald of Calgary was convicted and sentenced to two years in jail and 18 months' probation, and was ordered to pay restitution of \$418,835.



- In a settlement, Calgary lawyer Norman Anderson admitted to conduct that resulted in or contributed to an artificial price for shares of a publicly listed company, demonstrating that professional advisors such as lawyers who participate in securities misconduct will be held accountable.
- An ASC Panel sanctioned Arnold Breitzkreutz, Susan Way and Base Finance Ltd. for orchestrating a fraud after they raised \$137 million by deceiving investors. This Ponzi scheme was described by the panel as among the worst frauds perpetrated in Alberta. Breitzkreutz was ordered to pay an administrative penalty of \$1 million and a disgorgement order of \$2.7 million, and Way was ordered to pay an administrative penalty of \$150,000 and a disgorgement order of \$362,049, among other penalties. In May 2018, the pair were arrested by the RCMP and now face criminal fraud charges in provincial court.

ENSURING EFFECTIVE COMPLIANCE OVERSIGHT

Delivering effective compliance oversight is central to the ASC's regulatory responsibilities. The ASC considers emerging trends and provincial, national and international issues that could have an economic or regulatory impact. We're positioned to respond effectively in an increasingly complex and diversified economy.

An example of effective compliance oversight and response was the F2019 settlement with West High Yield (W.H.Y.) Resources Ltd. in connection with a misleading news release that failed to include material information. As part of the agreement, W.H.Y. paid the ASC \$200,000 and has undertaken to ensure that its officers and directors are provided with training in best practices for public company governance and disclosure.

As part of our ongoing industry education efforts, we conducted information sessions this year in Edmonton, in Calgary and via webcast. Exempt Market seminar topics included the ASC's compliance review process, financial compliance requirements, performance reporting basics and know-your-product requirements. Our Corporate Finance seminars were designed to assist corporate issuers improve their disclosure, including forward-looking information, non-GAAP measures, oil and gas information, and more.

ENHANCING INVESTOR EDUCATION TO REACH A BROADER AUDIENCE

With a challenging economic environment, fewer employees with access to defined-benefit pensions, and longer lifespans for retirees, it is increasingly important that Canadians become more proficient investors as part of planning for retirement or other goals. In support of this, the ASC is committed to continually enhancing investor education programs and initiatives.

Our investor education website, CheckFirst.ca, is designed to improve the financial literacy of the general investing public. The site includes a variety of free tools and resources, including calculators and a series of online videos based on our Investing 101 course. Additionally, our "Spot the Odd" digital advertising campaign this year encourages people to recognize fraud when they see it. During Fraud Prevention Month, we launched Kajillionaire, a campaign that capitalizes on the popularity of board games to show Albertans how they can protect themselves from investment fraud. Using insights from a cognitive psychologist as well as from our Enforcement division, the Kajillionaire game features "can't-miss investments" that tap into the psychological factors behind human decision-making, demonstrating to players why scams are so enticing and why people fall victim to them. The campaign involved a live event, digital advertising and media outreach that resulted in widespread media coverage.

Seniors are of particular importance in our investor education efforts. Scam artists often target seniors because they have assets like a home or retirement funds. At the same time, this demographic has the least opportunity to recoup money lost to inappropriate or fraudulent investments. During the last fiscal year we made a number of presentations to seniors, shared information through community resources, and worked with financial professionals to recognize risks and implement strategies related to seniors' investments.

PILLAR

03

FOSTER A CULTURE OF ENGAGEMENT

The ASC is committed to building strong relationships with individuals and organizations that participate in the constantly evolving financial ecosystem in Alberta, in Canada and internationally. Engagement is part of each of our strategic pillars, and the feedback and input we receive help us make informed decisions and adapt where necessary.

ENGAGING OUR STAFF AND COLLEAGUES

The ASC is stronger when we work together. Recognizing this, we have implemented many initiatives to enhance internal communication, giving our people more opportunities to share their ideas, expertise and perspectives. As we look ahead, an increased emphasis on staff training, development and succession planning will support the ASC's efforts as a best-in-class regulator.

In F2019 we hosted the biennial CSA Corporate Finance Conference, which focused on change and innovation. We welcomed corporate finance professionals from across Canada for three days. In addition to important networking opportunities, a critical part of our program was the expert panel discussions designed to help build understanding of the unique and important contributions provided by Alberta's industries and capital market.

ENGAGING MARKET PARTICIPANTS

In October 2018, we hosted the second annual ASC Connect conference. Over 300 people attended, an increase of more than 20 per cent from 2017. The program focused on the main issues facing the

Alberta capital market, including Canada-U.S. trade relations and the changing face of financial technology. We were pleased to offer a wide range of speakers, including Gordon Giffin, the former U.S. Ambassador to Canada.

The ASC has seven advisory committees (see page 59) comprised of industry representatives who provide advice concerning the development of new or amended securities regulation. Each committee contributes insights into current industry views and business practices that inform our efforts in intelligent regulation. The ASC formed two new external advisory committees – the Market Advisory Committee and the New Economy Advisory Committee – to enhance its understanding of the changing capital market and to develop recommendations to foster vibrant public and private capital markets in Alberta.

In F2019 we published the Alberta Capital Market Report, the Corporate Finance Disclosure Report, the Oil and Gas Review Report and other bulletins and publications on specific subjects like the Adoption of IFRS 16: *Non-GAAP Financial Measures and Reserves Reporting Considerations*. To provide market participants with insight into key

issues, we host information sessions and educational seminars to provide useful, timely and straightforward guidance.

Our Enforcement division conducts extensive outreach with regulators, financial institutions, industry organizations, law enforcement agencies, and other stakeholders. These efforts inform key audiences about the ASC, provide education on the latest trends and issues, and build stronger relationships that result in greater information sharing and more effective enforcement.

CONNECTING WITH INVESTORS AND OTHER STAKEHOLDERS

The ASC strives to connect with retail investors, or those considering investing for the first time, in an effort to demonstrate we are an accessible resource for information and education. In addition to ongoing improvements in our digital investor resources, a number of grassroots events in F2019 gave us the opportunity to have meaningful, two-way conversations with over 14,315 Albertans.

EXECUTIVE MANAGEMENT TEAM



From left to right.

Denise Weeres, Tom Graham, Wayne Olmstead, Lara Gaede, Samir Sabharwal, Stan Magidson, Alison Trollope, Cynthia Campbell, Lynn Tsutsumi, David Linder

OFFICE OF THE CHAIR AND CHIEF EXECUTIVE OFFICER

Stan Magidson, Chair and Chief Executive Officer

The Chair and Chief Executive Officer is responsible for representing the ASC, addressing emerging issues in securities regulation, and leading the ASC in strategic planning and achieving its organizational objectives. The Chair has direct oversight responsibilities for the Communications and Investor Education division and the offices of the Executive Director and the General Counsel. The Chair is appointed by the Lieutenant Governor in Council and reports to the Members and to the Minister of Finance.

OFFICE OF THE EXECUTIVE DIRECTOR

David Linder, Executive Director

The Executive Director reports to the Chair and Chief Executive Officer, is the ASC's Chief Administrative Officer, and is responsible for ensuring that all business divisions of the ASC operate effectively and efficiently. The Executive Director is directly responsible for overseeing the divisions of Corporate Finance, Corporate Resources, Enforcement, Market Regulation, New Economy and the Office of the Chief Accountant and Financial Services. The Executive Director also participates in meetings of the ASC's Human Resources and Audit committees and chairs the Senior Management and Strategic Planning committees. Pursuant to the *Securities Act* (Alberta), the Executive Director conducts hearings into certain decisions made by Market Regulation and Enforcement staff. The Executive Director is also the chief officer of the ASC under the *Public Interest Disclosure (Whistleblower Protection) Act* (Alberta) that came into force on June 1, 2013*.

COMMUNICATIONS AND INVESTOR EDUCATION

Alison Trollope, Director

The Communications and Investor Education division provides strategic communications counsel and support to all areas of the ASC to engage and educate internal and external stakeholders in a manner that meets the ASC's organizational objectives. The division's award-winning CheckFirst consumer campaign aims to educate Albertans about investing, and explain how they can protect themselves from securities fraud. In addition, through media relations, corporate communications and internal communications, the team promotes transparent, relevant and timely information to support efficient and effective securities regulation in Alberta and throughout Canada.

CORPORATE FINANCE

Tom Graham, Director

The Corporate Finance division is the primary interface for issuers and their advisors when participating in the capital market in Alberta. It is responsible for reviewing offering documents and continuous disclosure, monitoring filings in respect of takeover bids and making recommendations on applications for exemptive relief from securities legislation. In addition to these day-to-day services, Corporate Finance is active in the formulation and development of appropriate rules, regulatory instruments and

policies used in the regulation of Alberta's and Canada's capital markets for issuers, including investment funds and over-the-counter derivatives. Given the significance of the oil and gas industry, Corporate Finance places considerable emphasis on reviewing the public disclosure of oil and gas reserves information and overseeing the relevant disclosure policies for these issuers. Corporate Finance is also responsible for the ASC's work on systemic risk.

CORPORATE RESOURCES

Wayne Olmstead, Director

The Corporate Resources division provides business, technical and human resource services to enable staff to fulfill the ASC's mandate. It provides services in the areas of information technology, human resources and corporate services (including purchasing, security and business continuity, health and safety, facility management and records management). Corporate Resources supports the needs of employees and management through the initiation, development, delivery and implementation of key strategies, programs and policies that are aligned to organizational objectives.

ENFORCEMENT

Cynthia Campbell, Director

The Enforcement division enforces Alberta securities laws by discovering, investigating and prosecuting breaches of those laws with a view to both stopping current misconduct and preventing it in the future. This division's goal is to protect investors and foster the integrity of Alberta's capital market through deterrence, disruption and accountability. It engages in proactive, fair and visible enforcement action locally and collaborates with the Commission's compliance divisions, other securities regulators, and Canadian and foreign police forces.

MARKET REGULATION

Lynn Tsutsumi, Director

Market Regulation develops and administers rules and policies relating to registrants (dealers, advisers and investment fund managers), equities and derivatives exchanges and clearing agencies, trade repositories and self-regulatory organizations (SROs), including IIROC and the MFDA. Staff register market participants that are in the business of trading and advising in securities and derivatives and managing investment funds, perform compliance examinations of registrants and review exemption applications. Staff conduct oversight of SROs, the TSX Venture Exchange, and energy exchanges and clearing agencies conducting business in Alberta, and trade repositories.

*The Public Interest Disclosure (Whistleblower Protection) Act (Alberta) applies to most public entities in the Province of Alberta, including the Alberta Securities Commission. The Act enables the disclosure and investigation of wrongdoings alleged to have occurred at a public entity in Alberta. It also protects individuals who report alleged wrongdoings from reprisal. Section 32 of the Act requires annual reporting on all disclosures that have been made in accordance with the Act. Since the Act came into force on June 1, 2013, there have been no disclosures received by the designated officer; accordingly, there were no disclosures acted upon or investigated.

NEW ECONOMY

Denise Weeres, Director

The New Economy division works closely with staff from across the ASC to coordinate efforts to facilitate capital-raising by new economy companies entering the capital market, as well as to anticipate and act on issues and opportunities relating to emerging financial technologies. A key focus of this division is engagement with market participants to better understand challenges new economy companies face in accessing capital or deploying new financial technologies, as well as to help market participants navigate the securities regulatory regime and enhance their awareness of relevant initiatives that may assist them.

OFFICE OF THE CHIEF ACCOUNTANT AND FINANCIAL SERVICES

**Lara Gaede, Chief Accountant and
Chief Financial Officer**

The Chief Financial Officer and Chief Accountant (CFO) is the ASC's senior financial officer. This office is responsible for effective internal control over financial reporting, annual budget preparation, administration of investment manager reporting and relations, coordination of risk management processes, and accurate and timely financial reporting to senior management, Commission Members and the Minister of Finance. The CFO provides expert knowledge in accounting, auditing and financial reporting matters to ASC staff as well as guidance to reporting issuers and their advisers. This division is involved in policy initiatives that relate to these areas of expertise and provides training as needed to the professional accountants within the organization.

OFFICE OF THE GENERAL COUNSEL

Samir Sabharwal, General Counsel

The General Counsel reports to the Chair and oversees the Office of the General Counsel (OGC). The OGC is the in-house legal, policy, strategy and risk management resource for the ASC. The OGC provides legal advice to the Commission Members, the Chair, the Executive Director and staff on a wide range of issues including statutory interpretation, administrative law, securities regulation, corporate/commercial law, information technology/intellectual property law, procurement law and privacy law. In addition, the OGC is responsible for the corporate secretarial and legislative functions, and provides advice on corporate governance matters and the application of the *Freedom of Information and Protection of Privacy Act* (Alberta) to the ASC.

ASC'S 2019 MEMBERS



During F2019, there were 13 Members, including the designated Chair and two full-time Vice-Chairs. The Chair acts as the ASC's Chief Executive Officer and is responsible for the overall operation of the Commission. Members act as the ASC's board of directors, overseeing the management of the ASC. They determine policy, consider and approve new rules, and recommend changes to the *Securities Act* (Alberta), the regulations made pursuant to this act, and ASC rules and policies. They act as an administrative tribunal and form panels that conduct hearings into matters in discharge of the ASC's mandate.

Alberta's Lieutenant Governor in Council appoints ASC Commission Members and designates one of the ASC's Independent Members as the "Lead Independent Member." A majority of the Members are "Independent" as that term is applied in National Instrument 52-110 *Audit Committees* (NI 52-110). The Chair and Vice-Chairs are involved in the day-to-day activities of the ASC, so are not classified as Independent.

Meetings of the Members are held on a monthly basis. Independent Members meet *in camera* (in private) following each meeting in the absence of the Chair

and Vice-Chairs. The ASC has three board committees: Governance, Human Resources and Audit. All three are made up exclusively of Independent Members.

All members of the Audit Committee are "financially literate" as that term is used in NI 52-110. As part of the ASC's orientation program, new Members are provided with a briefing book detailing the operations of the ASC and the duties and responsibilities of the Members. Each member of the ASC's senior management team meets with new Members to provide an overview of the operations of their respective divisions. In addition, Members are encouraged to attend appropriate courses or programs for further instruction relevant to their duties and responsibilities. The ASC's Governance Policy, which contains a description of the ASC's orientation program for new Members and continuing education for all Members, is available at albertasecurities.com.

For a current list of active Commission Members, including details of credentials and experience, visit albertasecurities.com.

DIVERSITY

The ASC is fortunate to have talented and dedicated leaders with varied experience, skills and backgrounds. In addition, its Members and Executive Officers are diverse in age, ethnicity and gender. This diversity is necessary to support the mission, vision and strategy of our organization.

With specific reference to the representation of women on the Commission and in Executive Officer positions, an objective in the recruitment process is to achieve gender diversity, while simultaneously ensuring that the Members and Executive Officers collectively possess the required mix of skills and experience necessary to fulfill the mandate of the organization. With respect to gender, although the ASC does not have targets for Board or Executive Officer positions, the representation of women in these groups is generally significant, as demonstrated in the table below. The ASC will continue to consider gender diversity in the recruitment process for Board and Executive Officer positions.

MEMBERS

From left to right.

RAYMOND CROSSLEY, CPA, CA, ICD.D

MARYSE SAINT-LAURENT, ICD.D

KATHRYN (KATE) CHISHOLM, Q.C., ICD.D

JAMES (JIM) OOSTERBAAN, ICD.D

STAN MAGIDSON, ICD.D

Chair and Chief Executive Officer

BRADLEY NEMETZ, Q.C.

KAREN KIM, CA, CFA

TRUDY CURRAN, ICD.D

ANN ROONEY, FCA, ICD.D

Lead Independent Member

STEVEN COHEN

KARI HORN *Vice-Chair*

TOM COTTER *Vice-Chair*

DR. IAN BEDDIS

| | F2019 | | | | F2018 | | | |
|----------------------|--------|------|------|------|--------|------|------|------|
| | Female | | Male | | Female | | Male | |
| | # | % | # | % | # | % | # | % |
| Independent Members | 5 | 50 | 5 | 50 | 6 | 60 | 4 | 40 |
| Chair, Vice-Chairs | 1 | 33.3 | 2 | 66.6 | 0 | 0 | 2 | 100 |
| Executive Management | 5 | 55.5 | 4 | 44.4 | 5 | 62.5 | 3 | 37.5 |

ATTENDANCE ⁽¹⁾

Stan Magidson, Chair

Term Expiry - June 30, 2021
 Currently in Term - 1
 Commission - 12/12 (100%)
 Audit Committee - 4/4 (100%)
 Governance Committee - 3/4 (75%)
 Human Resources Committee - 5/5 (100%)

Tom Cotter, Vice-Chair

Term Expiry - March 31, 2020
 Currently in Term - 1
 Commission - 11/12 (91.7%)

Kari Horn, Vice-Chair

Term Expiry - April 30, 2024
 Currently in Term - 1
 Commission - 11/11 (100%)

Ann Rooney, FCA, ICD.D

Lead Independent Member
 Term Expiry - March 31, 2019
 Completed Term - 2
 Commission - 11/12 (91.7%)
 Audit Committee - 4/4 (100%)
 Governance Committee - 4/4 (100%)
 Human Resources Committee - 5/6 (83.3%)

Dr. Ian Beddis

Term Expiry - March 31, 2019
 Completed Term - 2
 Commission - 12/12 (100%)
 Audit Committee - 4/4 (100%)

Kathryn (Kate) Chisholm, O.C., ICD.D

Term Expiry - March 31, 2021
 Currently in Term - 2
 Commission - 11/12 (91.7%)
 Governance Committee - 4/4 (100%)

Steven Cohen, LL.B

Term Expiry - March 31, 2021
 Currently in Term - 1
 Commission - 11/11 (100%)
 Human Resources Committee - 6/6 (100%)

Raymond Crossley, CPA, CA, ICD.D

Term Expiry - March 31, 2021
 Currently in Term - 1
 Commission - 10/11 (90.9%)
 Audit Committee - 4/4 (100%)

Trudy Curran, ICD. D

Term Expiry - March 31, 2020
 Currently in Term - 1
 Commission - 12/12 (100%)
 Human Resources Committee - 6/6 (100%)

Karen Kim, CA, CFA

Term Expiry - March 31, 2020
 Currently in Term - 1
 Commission - 12/12 (100%)
 Audit Committee - 4/4 (100%)

Brad Nemetz, O.C.

Term Expiry - March 31, 2019
 Completed Term - 2
 Commission - 9/12 (75%)
 Governance Committee - 4/4 (100%)

James (Jim) Oosterbaan, ICD.D

Term Expiry - March 31, 2020
 Currently in Term - 1
 Commission - 11/12 (91.7%)
 Audit Committee - 4/4 (100%)

Maryse Saint-Laurent, ICD.D

Term Expiry - March 31, 2019*
 Currently in Term - 1
 Commission - 12/12 (100%)
 Human Resources Committee - 6/6 (100%)
 *Term now expires March 31, 2022.

COMMISSION MEMBER COMMITTEES

The F2019 Board Committees were made up of the members listed below. All were independent except Stan Magidson, who sat as an *ex officio* member where indicated.

Audit Committee

Ian Beddis (Chair)
 Karen Kim
 Jim Oosterbaan
 Raymond Crossley
 Stan Magidson (*ex officio*)
 Ann Rooney (*ex officio*)

HR Committee

Maryse Saint-Laurent (Chair)
 Trudy Curran
 Steven Cohen
 Stan Magidson (*ex officio*)
 Ann Rooney (*ex officio*)

Governance Committee

Brad Nemetz (Chair)
 Kate Chisholm
 Ann Rooney
 Stan Magidson (*ex officio*)

(1) Commission Members are appointed to three-year terms, the Chair is appointed to a five-year term and the Vice-Chairs are appointed to six-year terms.

THREE-YEAR STATISTICAL SUMMARY 2019

| As of March 31, 2019 | F2019 | F2018 | F2017 |
|--|-------------|-----------|-------------|
| Enforcement Activity | | | |
| Complaints received | 382 | 278 | 351 |
| Concluded investigations | 318 | 297 | 328 |
| Current cases | 145 | 139 | 139 |
| Whistleblower tips received* | 22 | n/a | n/a |
| Interim cease trade orders | 2 | 3 | 4 |
| Halt trade orders | 0 | 1 | 2 |
| Settlement agreements | 7 | 2 | 8 |
| Hearings commenced | 3 | 5 | 6 |
| Settlements agreed to | \$470,000 | \$105,000 | \$583,802 |
| Settlements collected | \$524,000 | \$125,110 | \$484,802 |
| Administrative penalties levied | \$1,170,000 | \$980,275 | \$1,040,311 |
| Administrative penalties recovered | \$76,360 | \$64,783 | \$340,524 |
| Prosecutions initiated in Provincial Court | 5 | 0 | 1 |
| Companies and individuals banned** | 22 | 28 | 48 |
| Appeal hearings | 1 | 1 | 2 |
| Cease trade orders*** | 36 | 28 | 44 |
| Active Reporting Issuers | | | |
| Principal Regulator - Alberta | 557 | 565 | 605 |
| Principal Regulator - Other | 7,074 | 6,817 | 6,691 |
| Total | 7,631 | 7,382 | 7,296 |
| Prospectuses and Mutual Funds | | | |
| Principal Regulator - Alberta | 67 | 77 | 108 |
| Principal Regulator - Other | 760 | 689 | 625 |
| Total | 827 | 766 | 733 |
| Rights Offerings | | | |
| Principal Regulator - Alberta | 7 | 7 | 10 |
| Principal Regulator - Other | 19 | 21 | 25 |
| Total | 26 | 28 | 35 |
| Exemption Applications (Corporate Finance) | | | |
| Principal Regulator - Alberta | 68 | 73 | 96 |
| Principal Regulator - Other | 11 | 11 | 36 |
| Total | 79 | 84 | 132 |
| Continuous Disclosure Reviews (Principal Regulator - Alberta) | | | |
| Full | 40 | 34 | 52 |
| Issue-Oriented Reviews and Data Collections | 198 | 213 | 165 |
| Total | 238 | 247 | 217 |
| Total Registered Firms | | | |
| Principal Regulator - Alberta | 118 | 123 | 122 |
| Principal Regulator - Other | 796 | 789 | 772 |
| Total | 914 | 912 | 894 |
| Total Registered Individuals**** | | | |
| Alberta Resident | 11,653 | 11,470 | 11,640 |
| Non-Alberta Resident | 19,593 | 18,764 | 18,202 |
| Total | 31,246 | 30,234 | 29,842 |

Reciprocal orders are no longer reported. As of July 1, 2015, the ASC automatically reciprocates orders from other jurisdictions.

* The Office of the Whistleblower was implemented in November 2018.

** Includes Provincial Court-ordered bans (two in 2018 and four in 2017).

*** These orders are the result of failure to comply with ASC filing requirements.

**** Amounts do not include permitted individuals (CEO, CFO, COO or shareholders owning 10 per cent or more of the voting securities of a firm) who are tracked in the National Registration Database, but are not registrants.

MANAGEMENT'S DISCUSSION & ANALYSIS

This Management Discussion & Analysis (MD&A), prepared as of June 12, 2019, should be read in conjunction with the Alberta Securities Commission's March 31, 2019 audited financial statements and the accompanying notes, prepared in accordance with Canadian Public Sector Accounting Standards. Certain statements outlining fiscal 2020 expectations are forward-looking and are subject to risks and uncertainties. Furthermore, assumptions in the "Fiscal 2020 Outlook" 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.

References to "we," "our" or "the ASC" refer to the Alberta Securities Commission. In this MD&A, references to years, such as F2019, 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. Commission Members, through the Audit Committee, have an oversight role to ensure the integrity of the reported information. Specific processes to ensure 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;
- 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's budget.

Overview

The ASC is the industry-funded regulatory agency responsible for administering the province's securities laws. It is entrusted with fostering a fair and efficient capital market in Alberta and 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.

FINANCIAL HIGHLIGHTS

■ F2019
■ F2018

thousands of dollars

REVENUES

| | | |
|---|---|-------------------------|
| Annual financial statements fees |  | 19,381 19,581 |
| Registration fees |  | 16,924 16,382 |
| Distribution of securities fees |  | 16,691 16,239 |
| Investment income |  | 2,072 1,818 |
| SEDI, exempt distributions and registration late fees |  | 625 656 |
| Other enforcement receipts |  | 569 503 |
| Orders (applications) |  | 101 107 |
| Administrative penalties |  | 77 71 |
| Conference and other |  | 41 35 |
| Total F2019 | | 56,481 |
| Total F2018 | | 55,392 |

EXPENSES

| | | |
|--------------------------------|---|-------------------------|
| Salaries and benefits |  | 29,828 28,719 |
| Premises |  | 4,407 3,693 |
| Administration |  | 3,145 3,006 |
| Professional services |  | 2,778 2,540 |
| Amortization of capital assets |  | 1,180 1,067 |
| Investor education |  | 813 715 |
| Total F2019 | | 42,151 |
| Total F2018 | | 39,740 |

DIVISION EXPENSES

| | | |
|---|---|-----------------------|
| Enforcement |  | 8,697 8,022 |
| Corporate Finance |  | 6,521 6,732 |
| Market Regulation |  | 6,357 6,138 |
| Corporate Resources |  | 5,245 5,040 |
| Office of the Chair and Members |  | 3,239 2,865 |
| Communications and Investor Education |  | 2,797 2,390 |
| Office of the Chief Accountant and Financial Services |  | 1,372 1,446 |
| Office of the General Counsel |  | 1,067 1,232 |
| Office of the Executive Director |  | 994 1,115 |
| New Economy |  | 275 - |
| Expenses not allocated ¹ |  | 5,587 4,760 |
| Total F2019 | | 42,151 |
| Total F2018 | | 39,740 |

¹Expenses not allocated include amortization of capital assets and premises.

SELECTED ANNUAL INFORMATION

| <i>thousands of dollars</i> | F2019 | F2019 | F2018 | F2017 |
|-----------------------------|---------------|---------------|--------|--------|
| | Budget | Actual | Actual | Actual |
| Revenues | 51,661 | 56,481 | 55,392 | 50,947 |
| Regulatory expenses | 43,694 | 42,151 | 39,740 | 38,382 |
| Operating surplus | 7,967 | 14,330 | 15,652 | 12,565 |
| Financial assets | | | | |
| Cash | | 14,099 | 17,691 | 16,815 |
| Investments | | 62,202 | 45,273 | 29,198 |
| Liabilities | | | | |
| Lease inducements | | 1,558 | 1,792 | 1,898 |
| Accrued pension liability | | 10,055 | 9,814 | 9,098 |
| Net financial assets | | 61,562 | 45,781 | 30,635 |
| Accumulated surplus | | 66,848 | 51,388 | 36,305 |
| Capital assets | | 5,010 | 5,410 | 5,429 |
| Capital additions | 860 | 780 | 1,050 | 580 |

Highlights

The ASC had a \$14.3 million operating surplus in F2019 compared with an operating surplus of \$15.7 million in F2018. The ASC's budgeted surplus for F2019 was \$8.0 million. From F2011 to F2016, the ASC operated at a deficit, at which time the investment balance was drawn down to the minimum sustainable balance. Effective December 1, 2016, ASC Rule 13-501 Fees (Fee Rule) was implemented to ensure the ASC remains 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.

Total revenue increased by \$1.1 million in F2019 primarily due to higher registration fees and distribution fees from mutual fund reporting issuers. Investment income increased by \$254,000 from the prior year, primarily the result of higher returns on the ASC's fixed income pool securities, higher interest rates on cash balances and an increase in the investment balance. Total revenue exceeded budget by \$4.8 million primarily due to higher annual financial statement filing fees from a growth in the average market capitalization of Alberta reporting issuers over the past year, higher registration fees due to a greater number of registrants, and higher prospectus and prospectus-exempt distribution fees due to strong mutual fund issuer performance. Administrative penalties and other enforcement receipts were \$329,000 lower than the budget and \$72,000 higher than the prior year. Enforcement receipts fluctuate annually because of variability in types of cases, the timing of their resolution and success in collections efforts.

Total F2019 expenses were lower than budget by \$1.5 million due to effective cost controls and a higher-than-expected staff vacancy rate. Expenses increased by \$2.4 million from F2018 due to additional full-time equivalent staff, the use of additional contractors and the reinstatement of property tax payments.

Analysis of Fiscal 2019 Operating Results

REVENUES

| <i>thousands of dollars</i> | F2019 | F2019 | F2018 |
|--|--------|--------|--------|
| | Budget | Actual | Actual |
| Fees | | | |
| Annual financial statements | 17,440 | 19,381 | 19,581 |
| Registration | 15,624 | 16,924 | 16,382 |
| Distribution of securities | 15,414 | 16,691 | 16,239 |
| SEDI, exempt distributions and registration late filing fees | 500 | 625 | 656 |
| Orders (applications) | 150 | 101 | 107 |
| Total fees | 49,128 | 53,722 | 52,965 |
| Other revenues | | | |
| Investment income | 1,500 | 2,072 | 1,818 |
| Other enforcement receipts | 725 | 569 | 503 |
| Administrative penalties | 250 | 77 | 71 |
| Conference and other | 58 | 41 | 35 |
| Total revenue | 51,661 | 56,481 | 55,392 |

The ASC collects 95.1 per cent (95.6 per cent in F2018) of its total revenue from fees paid by those who participate in the Alberta capital market. These participant fees, in addition to other enforcement receipts and investment income, fund our operations. The ASC does not receive transfers from government tax revenue.

ANNUAL FINANCIAL STATEMENTS

Annual financial statement filing fees totalled \$19.4 million (\$19.6 million in F2018), which was higher than budgeted due to a growth in the average market capitalization of Alberta reporting issuers. These fees accounted for 36.1 per cent of the ASC's total fee revenue (37.0 per cent in F2018). The total number of active reporting issuers in Alberta at March 31, 2019 was 7,631 (7,382 at March 31, 2018), with an average market capitalization during F2019 of \$3,920.0 billion (\$3,808.4 billion in F2018).

REGISTRATIONS

Fee receipts of \$16.9 million in F2019 (\$16.4 million in F2018) were received from registered firms and individuals with 79.3 per cent of these fees received from registration renewals. This accounted for 31.5 per cent of fees (30.9 per cent in F2018). In total, 914 firms and 31,246 individuals paid registration fees in Alberta (912 firms and 30,234 individuals in F2018). Registration fees were higher than the prior year, primarily due to an increased number of annual renewals, new registrants and specified regulated entities.

DISTRIBUTION OF SECURITIES

Distribution fees have both fixed and variable components. The fixed component is charged for each prospectus or prospectus-exempt distribution filed by an Alberta issuer. The fixed transaction fee component of distribution fees totalled \$7.1 million (\$7.1 million in F2018) and 13.2 per cent (13.4 per cent in F2018) 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 \$9.6 million in F2019 (\$9.1 million in F2018) and 17.9 per cent (17.2 per cent in F2018) of total fees. The increase in F2019 was due to more proceeds being realized in Alberta from mutual fund reporting issuers, partially offset by lower proceeds from prospectus-exempt distributions.

Distribution fee revenue varies with the level of capital market activity, equity issuances and mutual fund sales. The primary drivers of variances in distribution fees are changes in public and private securities distributions and mutual fund sales. While equity market volatility has an impact on distribution of securities fees, the majority of this revenue is relatively stable.

LATE FILING FEES RELATING TO EXEMPT DISTRIBUTIONS, REGISTRATION AND THE SYSTEM FOR ELECTRONIC DISCLOSURE BY INSIDERS (SEDI)

The ASC collected late filing fees of \$625,000 (\$656,000 in F2018), mostly comprised of late fees on prospectus-exempt distributions and insider report filings. Introduced in F2015, late filing fees are expected to decline over time with increased awareness and compliance.

ORDERS (APPLICATIONS)

The F2019 revenue for orders was consistent with the prior year. In F2019, \$101,000 from 113 applications (\$107,000 from 108 applications in F2018) were received. The fee per application is dependent on the category of application filed.

Other Revenue Sources

INVESTMENT INCOME

In F2019, investment income totalled \$2.1 million (\$1.8 million in F2018); \$1.2 million (\$832,000 in F2018) of this was from interest-bearing securities with the remaining \$847,000 (\$986,000 in F2018) from equity investments. This income is net of investment fees of \$139,000 (\$89,000 in F2018).

OTHER ENFORCEMENT RECEIPTS

| <i>thousands of dollars</i> | F2019 | F2018 |
|--------------------------------------|----------------|-------|
| Settlement receipts | | |
| Assessed | 470 | 105 |
| Uncollectible | - | - |
| Recoveries of prior-year assessments | 54 | 20 |
| Cost recoveries | | |
| Assessed | 228 | 257 |
| Uncollectible | (183) | (251) |
| Recoveries of prior-year assessments | - | 21 |
| Disgorgements | | |
| Assessed | 3,154 | - |
| Uncollectible | (3,154) | - |
| Recoveries of prior-year assessments | - | 351 |
| Total | 569 | 503 |

Settlement receipts arise from negotiated settlements that include a financial payment. Cost recovery receipts can either be agreed to in settlements or ordered by an ASC panel. Disgorgements are orders to pay amounts relating to funds earned from actions that violate the Securities Act (Alberta). Other enforcement receipts depend on the circumstances of specific cases and vary from year to year.

ADMINISTRATIVE PENALTIES

| <i>thousands of dollars</i> | F2019 | F2018 |
|--------------------------------------|----------------|-------|
| Administrative penalties | | |
| Assessed penalties | 1,170 | 980 |
| Uncollectible | (1,170) | (973) |
| Recoveries of prior-year assessments | 76 | 58 |
| Interest income and other | 1 | 6 |
| Total | 77 | 71 |

Administrative penalties are financial penalties imposed by an ASC panel resulting from a hearing. Similar to other enforcement receipts, the amount of these penalties depends on the circumstances of specific cases and varies from year to year. 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) requires the use of revenue received from administrative penalties to be used towards operating expenditures that educate investors and enhance participants' knowledge of how securities markets operate.

In F2019, restricted cash remained at zero as a result of a transfer of \$117,000 to fund eligible expenditures (\$640,000 in F2018). This was comprised of prior and current year collections of \$76,000 (\$65,000 in F2018), \$40,000 of conference fees (\$34,000 in F2018) and interest income of \$1,000 (\$6,000 in F2018). See Note 3 of the March 31, 2019 annual audited financial statements for more information.

Current year administrative penalties and other enforcement receipts totalled \$646,000 (\$574,000 in F2018) and compare to a five-year average of \$586,000 in receipts. The ASC actively pursues unpaid amounts using external legal counsel, taking steps such as judgment and writ registration, asset seizures and questionings in aid of execution. Recoveries are often limited because respondents have minimal resources at the time of assessment. However, the ASC collected \$130,000 in F2019 (\$450,000 in F2018) of prior-year assessments, costs and other enforcement receipts.

CONFERENCE AND OTHER

The majority of fees in this category were collected from two conferences held during F2019: ASC Connect and the ASC Corporate Finance Information Session. Conference registration fees are collected in order to offset a portion of actual event costs.

Comparative and Budget Expense Analysis

In F2019, expenses were 3.5 per cent below budget. Details by expense category follow.

REGULATORY EXPENSES

| <i>thousands of dollars</i> | F2019 | F2019 | F2018 |
|--------------------------------|---------------|---------------|--------|
| | Budget | Actual | Actual |
| Salaries and benefits | 30,568 | 29,828 | 28,719 |
| Premises | 4,500 | 4,407 | 3,693 |
| Administration | 3,478 | 3,145 | 3,006 |
| Professional services | 3,113 | 2,778 | 2,540 |
| Amortization of capital assets | 1,200 | 1,180 | 1,067 |
| Investor education | 835 | 813 | 715 |
| | 43,694 | 42,151 | 39,740 |

SALARIES AND BENEFITS

Compensation expenses accounted for 70.8 per cent of total costs in F2019 (72.3 per cent in F2018) and increased by \$1.1 million from the prior year due to additional full-time employees and contractors in F2019. The ASC had an average of 187 full-time employees during the year (183 in F2018). Compensation costs were lower than budget by \$740,000 due to a higher-than-expected vacancy rate. Compensation includes a variable pay program that represented 6.8 per cent (7.4 per cent in F2018) of total salaries and benefits expenses. The variable pay program was eliminated in March 2019 pursuant to the *Reform of Agencies, Boards and Commissions Compensation Act*.

PREMISES

Premises costs made up 10.5 per cent of total costs (9.3 per cent in F2018). These costs increased by \$714,000 in F2019 due to the reinstatement of property tax payments starting January 2018 and leasing additional office space beginning in August 2017. Premises costs were consistent with budget.

ADMINISTRATION

Administration costs increased by \$139,000 in F2019. These costs were \$333,000 less than budget and accounted for 7.5 per cent of total costs (7.6 per cent in F2018). The administration cost category includes office operations, independent member fees and travel.

Office operating costs increased by \$134,000 compared with the prior year, but were \$71,000 less than budget mainly within supplies, job advertising, freight and postage, and equipment rental. Independent member fees were consistent with the prior year but \$123,000 lower than budget due to fewer hearing days than expected. Travel expenses, which were consistent with the prior year, were \$138,000 less than budget. Travel expenses are required primarily for participation in CSA matters, enforcement activities and professional development.

PROFESSIONAL SERVICES

Professional services costs accounted for 6.6 per cent of total costs (6.4 per cent in F2018). These costs were below budget by \$335,000 primarily due to lower contract services expenses resulting from cost control efforts. Professional services costs exceeded the prior year by \$238,000 due to greater use of contractors, CSA project costs and advertising expenses.

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. CSA operating costs are borne on a formula based on a percentage of population. The ASC paid \$278,000 or 11.7 per cent (\$227,000 or 11.7 per cent in F2018) of these costs.

AMORTIZATION OF CAPITAL ASSETS

Amortization expense accounted for 2.8 per cent of total costs (2.7 per cent in F2018) and increased by \$113,000 compared to the prior year. This was a result of more capital additions occurring in F2018 and F2019. Amortization expenses were consistent with budget.

INVESTOR EDUCATION

Investor education costs were \$98,000 higher than the prior year and consistent with budget. Investor education activities included public awareness campaigns, such as fraud prevention month and elder abuse awareness. The ASC also engaged in digital advertising and cost-effective TV and radio advertisements.

EXPENSES BY DIVISION

| <i>thousands of dollars</i> | F2019 | F2019 | F2018 |
|---|---------------|---------------|--------|
| | Budget | Actual | Actual |
| Enforcement | 8,913 | 8,697 | 8,022 |
| Corporate Finance | 7,022 | 6,521 | 6,732 |
| Market Regulation | 6,725 | 6,357 | 6,138 |
| Corporate Resources | 5,049 | 5,245 | 5,040 |
| Office of the Chair and Members | 3,422 | 3,239 | 2,865 |
| Communications and Investor Education | 2,691 | 2,797 | 2,390 |
| Office of the Chief Accountant and Financial Services | 1,373 | 1,372 | 1,446 |
| Office of the General Counsel | 1,278 | 1,067 | 1,232 |
| Office of the Executive Director | 1,195 | 994 | 1,115 |
| New Economy | 326 | 275 | - |
| Expenses not allocated ¹ | 5,700 | 5,587 | 4,760 |
| Total | 43,694 | 42,151 | 39,740 |

¹Expenses not allocated include premises and amortization of capital assets.

Division expenses are primarily for staff and professional services.

Independent member fees are recorded in the 'Office of the Chair and Members' division. These fees vary due to the number and duration of hearings. See Salary and Benefits Disclosure in the March 31, 2019 annual audited financial statements for further information.

CAPITAL EXPENDITURES

| <i>thousands of dollars</i> | F2019 | F2019 | F2018 |
|---------------------------------|---------------|---------------|--------|
| | Budget | Actual | Actual |
| Computer equipment and software | 650 | 618 | 601 |
| Furniture and equipment | 180 | 156 | 148 |
| Leaseholds | 30 | 6 | 301 |
| Total | 860 | 780 | 1,050 |

In F2019, capital expenditures were primarily related to information technology projects, including the website upgrade; as well as furniture purchases.

Financial Assets and Liquidity

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; however, the ASC's investment policy provides guidance relevant to the governance, purpose, size, access, management and annual income of the investments.

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), after adjusting for collateral received and pledged.

RATES OF RETURN ON INVESTMENTS

Investments include fixed-income and equity pool 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 pool investments include publicly traded equities from Canadian and global market index participants. The equity pools use derivatives as part of AIMCo's global strategy 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:

| | F2019 | F2018 |
|---|--------|--------|
| | Actual | Actual |
| Fixed-income pool securities (market value) | 6.2% | 1.8% |
| Global equities pool funds (market value) | 5.5% | 11.0% |
| Canadian equities pool funds (market value) | 6.2% | 2.5% |
| Money market funds | 2.3% | 1.6% |

Fixed-income pool securities are sensitive to interest rate fluctuations. At March 31, 2019, ASC fixed-income pool security investments of \$43.1 million market value had maturities that range from under one year (28.4 per cent) to greater than 10 years (64.7 per cent), with an average duration of 7.5 years (7.4 years in F2018). 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 pool securities by 5.6 per cent (5.0 per cent in F2018).

LIQUIDITY

The ASC has sufficient resources to fund future operations and capital purchases with cash of \$14.1 million (\$17.7 million in F2018) and investments with a market value of \$62.2 million (\$45.3 million in F2018).

Quarterly Variance Analysis

QUARTERLY RESULTS SUMMARY

| <i>thousands of dollars</i> | F2019 | | | | F2018 | | | |
|-----------------------------|-----------------|-----------------|-------------------|------------------|-----------------|-----------------|-------------------|------------------|
| | Q4 (Jan-Mar) | Q3 (Oct-Dec) | Q2 (July-Sept) | Q1 (Apr-June) | Q4 (Jan-Mar) | Q3 (Oct-Dec) | Q2 (July-Sept) | Q1 (Apr-June) |
| Revenue | | | | | | | | |
| Fees and other | 32,050 | 6,502 | 5,413 | 10,444 | 32,274 | 5,697 | 5,106 | 10,497 |
| Investment income | 420 | 94 | 858 | 700 | 277 | 472 | 777 | 292 |
| | 32,470 | 6,596 | 6,271 | 11,144 | 32,551 | 6,169 | 5,883 | 10,789 |
| Regulatory expenses | | | | | | | | |
| Salaries and benefits | 8,536 | 7,053 | 7,068 | 7,171 | 7,294 | 7,073 | 7,127 | 7,225 |
| Other | 4,399 | 2,967 | 2,477 | 2,480 | 4,250 | 2,517 | 2,088 | 2,166 |
| | 12,935 | 10,020 | 9,545 | 9,651 | 11,544 | 9,590 | 9,215 | 9,391 |
| Operating surplus (deficit) | 19,535 | (3,424) | (3,274) | 1,493 | 21,007 | (3,421) | (3,332) | 1,398 |
| Investments | 62,202 | 45,321 | 46,137 | 46,077 | 45,273 | 30,236 | 29,312 | 29,348 |
| Cash | 14,099 | 9,846 | 12,638 | 16,174 | 17,691 | 9,693 | 12,445 | 15,873 |
| Restricted cash | - | 1 | 1 | 1 | - | 544 | 543 | 541 |

FEE REVENUE

Quarterly fee revenue is variable due to the timing of fee-related filings from reporting issuers and the variable portion of prospectus and prospectus-exempt fees, which fluctuate with market activity. The majority 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 statements filing fees are received from February to April.

REGULATORY EXPENSES

The ASC pays the Investment Industry Regulatory Organization of Canada (IIROC) a portion of IIROC members' annual registration renewal fees. Approximately \$1.3 million was paid in F2019 (\$1.3 million in F2018).

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, the timing of expert reports, and testimony required for hearings and trials. Investor education activities generally correspond with investor education and fraud prevention months in October and March, respectively.

Contractual Obligations

Commitments to outside organizations as at March 31, 2019 totalled \$32.6 million (\$37.0 million in F2018). Commitments include leases of premises to 2025 and rental of office equipment to 2024. See Note 9(A) of the March 31, 2019 annual audited financial statements for the commitments schedule.

The ASC 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 recorded as liabilities.

Financial Instruments

The ASC's financial instruments include cash, accounts receivable, 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 this MD&A and the notes to the March 31, 2019 annual audited financial statements.

The ASC reports all of its investments at fair value, consistent with how they are evaluated and managed by AIMCo. 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, including credit risk, foreign currency risk, interest rate risk, price risk and liquidity risk, are disclosed in the notes to the March 31, 2019 annual audited financial statements.

Related Party Transactions

The ASC is related, through the Government of Alberta, to all provincial government ministries, agencies, boards, commissions and Crown corporations. See Note 11 in the March 31, 2019 annual audited financial statements for related party transactions.

CSA National Systems

See Note 8 in the March 31, 2019 annual audited financial statements for more information concerning the CSA National Systems.

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. 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 priority ASC systems, which enables key 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 the ASC's control, and 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 any negative impacts. During F2017, the ASC performed an extensive review of key risks to the organization, including identification of controls and activities to address key risks and estimation of the remaining risk exposure. The comprehensive F2017 risk review was updated through a targeted risk review in F2018 and F2019. The review confirmed 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. In addition to annual risk reviews, the ASC monitors risk on a real-time basis and continues to implement measures to improve the control environment.

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 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. A new MRD is currently being negotiated with officials at Treasury Board and Finance.

Fiscal 2020 Outlook

REVENUE

F2020 revenue is anticipated to be \$54.9 million, compared with budgeted revenue in F2019 of \$51.7 million. This increase primarily reflects a change in assumptions related to average market capitalization of Alberta reporting issuers and capital-raising activities in the Alberta market.

LIQUIDITY AND CASH FLOW

The cash requirements for F2020 operations and capital budgets can be met from existing cash and investment balances.

RISKS AND UNCERTAINTIES

The budget is based on the ASC's experience, assessment of trends and the application of key assumptions relating to future events. These assumptions include fee income trends consistent with that of Canadian capital markets, inputs used in the calculation of investment income, a modest staff vacancy rate and specific project costs for information technology, training and recruitment. Factors that could impact the ASC's financial performance include:

- capital market volatility and the impact on fees paid in connection with the distribution of securities, filing of annual financial statements and investment income;
- 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.

As of June 12, 2019, the ASC is awaiting governmental approval of the F2020 budget.

FINANCIAL STATEMENTS

Management's Responsibility For Financial Reporting

The accompanying Alberta Securities Commission (ASC) financial statements and 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 for 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 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 the 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.



STAN MAGIDSON
Chair and Chief Executive Officer



DAVID C. LINDER, Q.C.
Executive Director

June 12, 2019



INDEPENDENT AUDITOR'S REPORT

To the Members of the Alberta Securities Commission

Report on the Financial Statements

OPINION

I have audited the financial statements of the Alberta Securities Commission, which comprise the statement of financial position as at March 31, 2019, and the statements of change in net financial assets, operations, remeasurement gains and losses, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Alberta Securities Commission as at March 31, 2019, 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.

BASIS FOR OPINION

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Alberta Securities Commission in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

OTHER INFORMATION

Management is responsible for the other information. The other information comprises the information included in the *Annual Report*, but does not include the financial statements and my auditor's report thereon. The *Annual Report* is expected to be made available to me after the date of this auditor's report.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I will perform on this other information, I conclude that there is a material misstatement of this other information, I am required to communicate the matter to those charged with governance.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the 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 the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Alberta Securities Commission's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless an intention exists to liquidate or to cease operations, or there is no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Alberta Securities Commission's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Alberta Securities Commission's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Alberta Securities Commission's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Alberta Securities Commission to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

[ORIGINAL SIGNED BY W. DOUG WYLIE, FCPA, FCMA, ICD.D]

Auditor General

June 12, 2019
Edmonton, Alberta

STATEMENT OF FINANCIAL POSITION

| <i>thousands of dollars</i> | At March 31, 2019 | At March 31, 2018 |
|--|--------------------------|-------------------|
| Financial Assets | | |
| Cash (Note 3) | 14,099 | 17,691 |
| Accounts receivable | 37 | 29 |
| Investments (Note 4) | 62,202 | 45,273 |
| | 76,338 | 62,993 |
| Liabilities | | |
| Accounts payable and accrued liabilities | 3,163 | 5,606 |
| Lease inducements | 1,558 | 1,792 |
| Accrued pension liability (Note 6) | 10,055 | 9,814 |
| | 14,776 | 17,212 |
| Net Financial Assets | 61,562 | 45,781 |
| Non-Financial Assets | | |
| Capital assets (Note 5) | 5,010 | 5,410 |
| Prepaid expenses | 276 | 197 |
| | 5,286 | 5,607 |
| Accumulated Surplus | 66,848 | 51,388 |
| Accumulated surplus is comprised of: | | |
| Accumulated operating surplus | 65,682 | 51,352 |
| Accumulated remeasurement gains | 1,166 | 36 |
| | 66,848 | 51,388 |

Commitments and contingent liabilities (Note 9)

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

Approved by the Members



STAN MAGIDSON
Chair and Chief Executive Officer



KAREN KIM
Chair of the Audit Committee

June 12, 2019

STATEMENT OF CHANGE IN NET FINANCIAL ASSETS*thousands of dollars*

For year ended March 31

| | 2019 | 2019 | 2018 |
|---|-----------------------------|---------------|---------|
| | Budget (Note 10) | Actual | Actual |
| Operating Surplus | 7,967 | 14,330 | 15,652 |
| Acquisition of capital assets | (860) | (780) | (1,050) |
| Amortization of capital assets | 1,200 | 1,180 | 1,067 |
| Losses on sale of capital assets | | - | 1 |
| Proceeds on sale of capital assets | | - | 1 |
| Prepayment of expenses | | (573) | (467) |
| Reduction of prepaid expenses | | 494 | 511 |
| Net remeasurement gains (losses) | | 1,130 | (569) |
| Increase in net financial assets | 8,307 | 15,781 | 15,146 |
| Net financial assets, beginning of year | 45,781 | 45,781 | 30,635 |
| Net financial assets, end of year | 54,088 | 61,562 | 45,781 |

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

STATEMENT OF OPERATIONS*thousands of dollars*

For year ended March 31

| | 2019 | 2019 | 2018 |
|---|------------------|---------------|--------|
| | Budget | Actual | Actual |
| | (Note 10) | | |
| Revenues | | | |
| Fees (Note 7) | 49,128 | 53,722 | 52,965 |
| Investment income (Note 4(C)) | 1,500 | 2,072 | 1,818 |
| Other enforcement receipts (Note 7) | 725 | 569 | 503 |
| Administrative penalties (Note 3) | 250 | 77 | 71 |
| Conference and other | 58 | 41 | 35 |
| | 51,661 | 56,481 | 55,392 |
| Regulatory Expenses | | | |
| Salaries and benefits | 30,568 | 29,828 | 28,719 |
| Premises | 4,500 | 4,407 | 3,693 |
| Administration | 3,478 | 3,145 | 3,006 |
| Professional services | 3,113 | 2,778 | 2,540 |
| Amortization of capital assets (Note 5) | 1,200 | 1,180 | 1,067 |
| Investor education | 835 | 813 | 715 |
| | 43,694 | 42,151 | 39,740 |
| Operating Surplus | 7,967 | 14,330 | 15,652 |
| Accumulated Operating Surplus, beginning of year | 51,352 | 51,352 | 35,700 |
| Accumulated Operating Surplus, end of year | 59,319 | 65,682 | 51,352 |

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

STATEMENT OF REMEASUREMENT GAINS AND LOSSES (NOTE 4)*thousands of dollars*

For year ended March 31

| | 2019 | 2018 |
|---|--------------|-------|
| Accumulated remeasurement gains, beginning of year | 36 | 605 |
| Unrealized gains (losses) on investments during the year | 1,127 | (304) |
| Amounts reclassified during the year to the Statement of Operations | 3 | (265) |
| Net remeasurement gains (losses) for the year | 1,130 | (569) |
| Accumulated remeasurement gains, end of year | 1,166 | 36 |

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

STATEMENT OF CASH FLOWS*thousands of dollars*

For year ended March 31

| | 2019 | 2018 |
|--|-----------------|----------|
| Operating Transactions | | |
| Fees and other | 53,462 | 53,474 |
| Payments to and on behalf of employees | (31,348) | (28,052) |
| Payments to suppliers for goods and services | (11,538) | (9,894) |
| Investment income | 272 | 174 |
| Other enforcement receipts (Note 7) | 569 | 503 |
| Administrative penalties (Note 3) | 77 | 71 |
| Cash received from operating transactions | 11,494 | 16,276 |
| Capital Transactions | | |
| Cash used to acquire capital assets | (1,092) | (939) |
| Proceeds on sale of capital assets | - | 1 |
| Cash used in capital transactions | (1,092) | (938) |
| Investing Transactions | | |
| Decrease in restricted cash (Note 3) | - | 535 |
| Purchases of investments | (13,994) | (14,997) |
| Cash used in investing transactions | (13,994) | (14,462) |
| (Decrease) increase in cash | (3,592) | 876 |
| Cash, beginning of year | 17,691 | 16,815 |
| Cash, end of year | 14,099 | 17,691 |

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

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2019

Note 1: Nature of Operations

The Alberta Securities Commission (ASC) is the regulatory agency responsible for administering the province's securities laws and 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 in pooled investment funds in accordance with the asset mix approved by the ASC. AIMCo controls the creation, 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) below. Fixed-income securities and equities consist of units in pooled investment funds. The units are recognized 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 most representative of fair value; and
- 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.

The pools hold derivative contracts including equity and bond index swaps, interest rate swaps, cross-currency interest rate swaps, credit default swaps, forward foreign exchange contracts, and equity index futures contracts.

II. INVESTMENT INCOME AND EXPENSES

Income from investment in units of the pools and expenses 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 to AIMCo by external managers are charged to the pools based on the percentage of net assets under management. Investment income, including that from derivative contracts and expenses, is recognized on an accrual basis.

Gains and losses arising as a result of the disposal of investments and related pool units are included in the determination of investment income and reported 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 in 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 pooled units and realized gains and losses on sale of pool units. When 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) VALUATION OF FINANCIAL ASSETS AND LIABILITIES

Cash and accounts payable and accrued liabilities are recognized at cost. Accounts receivable are recognized at the lower of cost and net recoverable value. The fair values of each of these line items approximates their carrying values due to their short-term nature. See Notes 2(A) and (G) for the valuation of investments and the accrued pension liability, respectively.

C) CAPITAL ASSETS

Capital assets are recognized at cost less accumulated amortization, which includes amounts directly related to the acquisition, design, construction, development, improvement or betterment of the assets. Capital assets are written down when conditions indicate that they no longer contribute to the 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 8.3-year and one 15-year lease both ending November 2025 |

D) PREPAID EXPENSES

Prepaid expenses are recognized at cost and amortized based on the terms of the agreement.

E) FEES, ADMINISTRATIVE PENALTIES 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 by the ASC or an agreement is 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. Pension expenses are comprised 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 maintains a supplemental pension plan for certain designated executives of the ASC. This plan is limited to existing participants; no new participants have been added since 2014. 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 gains and losses arising from assumption changes are amortized on a straight-line basis over the average remaining service period of the related employee group in the Supplemental Pension Plan. The average remaining service period of active employees in the supplemental pension plan is five years.

The ASC also maintains a plan whereby it makes Registered Retirement Savings Plan (RRSP) 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 RRSP 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 these employees.

H) LEASE INDUCEMENTS

Cash payments received as lease inducements are deferred and amortized on a straight-line basis over the lease terms.

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 the value of investments, the value of accrued employee benefit liabilities and the useful lives of capital assets. Actual results could differ from these estimates.

The estimated provision for uncollectible administrative penalties and cost recoveries is based on an assessment of an 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. It is not possible to estimate the amount, if any, of subsequent recoveries.

J) RESTRICTED CASH

The *Securities Act* (Alberta) requires the use of revenue from administrative penalties to be used towards certain operating expenditures that educate investors and enhance participants' knowledge of how securities markets operate.

K) CHANGE IN ACCOUNTING POLICIES

PS3430 Restructuring Transactions was effective on April 1, 2018. The adoption of this standard did not affect the ASC's financial statements.

L) FUTURE ACCOUNTING CHANGES

The Public Sector Accounting Board has approved the following accounting standards:

PS3280 Asset Retirement Obligations (effective April 1, 2021)

Effective April 1, 2021, this standard provides guidance on how to account for and report liabilities for retirement of tangible capital assets.

PS3400 Revenue (effective April 1, 2022)

Effective April 1, 2022, this standard provides guidance on how to account for and report revenue. More specifically, it addresses revenue arising from exchange transactions and unilateral transactions.

Management is currently assessing the impact of these standards on the ASC's financial statements.

Note 3: Cash and Restricted Cash

| <i>thousands of dollars</i> | 2019 | 2018 |
|-----------------------------|--------|--------|
| Cash | 14,099 | 17,691 |

Net financial assets include accumulated net administrative penalty revenue represented as restricted cash. The change in restricted cash is comprised of:

| <i>thousands of dollars</i> | 2019 | 2018 |
|---|---------|-------|
| Administrative Penalties | | |
| Assessed penalties | 1,170 | 980 |
| Less provision for uncollectible amounts | (1,170) | (973) |
| Plus recoveries of prior-year assessments | 76 | 58 |
| | 76 | 65 |
| Interest income and other | 1 | 6 |
| Administrative Penalties | 77 | 71 |
| Plus conference fees | 40 | 34 |
| Less eligible restricted cash expenses (investor education) | (117) | (640) |
| Decrease in restricted cash | - | (535) |
| Restricted Cash, beginning of year | - | 535 |
| Restricted Cash, end of year | - | - |

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 appropriate security and liquidity of depositors' capital. The portfolio is comprised of high quality fixed income securities, with a maximum term-to-maturity of three years. As at March 31, 2019, the ASC received an annualized return of 1.8 per cent (1.1 per cent in F2018).

Note 4: Investments

A) SUMMARY

| <i>thousands of dollars</i> | 2019 | | | | 2018 | | |
|-----------------------------|--------|---------------------|------------|-------|--------|------------|-------|
| | Cost | Remeasurement Gains | Fair Value | % | Cost | Fair Value | % |
| Fixed-income securities | 42,214 | 862 | 43,076 | 69.2 | 31,885 | 31,587 | 69.8 |
| Global equities | 14,421 | 105 | 14,526 | 23.4 | 10,150 | 10,331 | 22.8 |
| Canadian equities | 4,092 | 199 | 4,291 | 6.9 | 2,974 | 3,127 | 6.9 |
| CCITF deposit | 309 | - | 309 | 0.5 | 228 | 228 | 0.5 |
| | 61,036 | 1,166 | 62,202 | 100.0 | 45,237 | 45,273 | 100.0 |

The carrying amounts of the ASC's investments are recognized 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 equities from Canadian and global market index participants. The equity pools use derivatives as part of AIMCo's global strategy.

FAIR VALUE HIERARCHY

The measure of reliability is determined based on the following:

I. LEVEL ONE:

Fair value is based on quoted prices in an active market. Although the pools may ultimately hold publicly traded listed equity investments, the pool units themselves are not listed in an active market and therefore cannot be classified as Level One for fair value hierarchy purposes. Pool units classified as Level Two may contain investments that may otherwise be classified as Level One.

II. LEVEL TWO:

Fair value is estimated using valuation techniques that make use of market observable inputs other than quoted market prices. This level includes pool units that hold public equities, debt securities and derivative contracts. All of the ASC's investments are in Level Two.

III. LEVEL THREE:

Fair value is estimated using inputs based on non-observable market data.

B) INVESTMENT RISK MANAGEMENT

The ASC is exposed to financial risks associated with the underlying securities held in the investment funds. These financial risks include credit risk, foreign currency risk, interest rate risk, price risk and liquidity risk.

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. Most 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 as at March 31:

| Credit Rating | 2019 | 2018 |
|----------------------------------|--------|--------|
| Investment Grade (AAA to BBB-) | 95.8% | 98.4% |
| Speculative Grade (BB+ or lower) | 0.6% | 0.6% |
| Unrated | 3.6% | 1.0% |
| | 100.0% | 100.0% |

II. FOREIGN CURRENCY RISK

The ASC is exposed to foreign currency risk associated with the underlying securities held in investment funds that are denominated in currencies other than the Canadian dollar. 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. The fair value of investments denominated in foreign currencies is translated into Canadian dollars using the reporting date exchange rate.

The following table summarizes the ASC's exposure to foreign currency investments held in investment funds at March 31:

| <i>thousands of dollars</i> | March 31, 2019 | | March 31, 2018 | |
|---|-----------------------|---------------------|-------------------|---------------------|
| Currency | Fair Value | Sensitivity* | Fair Value | Sensitivity* |
| U.S. Dollar | 8,697 | 870 | 6,270 | 627 |
| Euro | 1,381 | 138 | 1,240 | 124 |
| Japanese Yen | 1,208 | 121 | 870 | 87 |
| British Pound Sterling | 817 | 82 | 630 | 63 |
| Swiss Franc | 400 | 40 | 270 | 27 |
| Australian Dollar | 320 | 32 | 240 | 24 |
| Other Foreign Currency | 882 | 88 | 430 | 43 |
| Total Foreign Currency Investments | 13,705 | 1,371 | 9,950 | 995 |

*Sensitivity refers to the fair value impact when the value of the Canadian dollar increases by 10 per cent against all other currencies, with all other variables held constant.

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 5.6 per cent of total investments (5.0 per cent in F2018).

The following table summarizes the terms to maturity of interest-bearing securities held in pooled investment funds at March 31, 2019:

| | <1 year | 1-5 years | Over 5 years | Repurchase Agreements** |
|-----------------------------|-------------------|------------------|---------------------|--------------------------------|
| Interest-bearing securities | 28.4% | 39.4% | 67.4% | (35.2%) |

**All repurchase agreements are less than 21 months.

IV. PRICE RISK

The ASC is exposed to price risk associated with the underlying equity investments held in investment funds. 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 (S&P/TSX and MSCI ACWI and their sectors) declined by 10.0 per cent, and all other variables are held constant, the potential loss in fair value to ASC would be approximately 3.4 per cent of total investments (3.3 per cent in F2018).

V. LIQUIDITY RISK

Liquidity risk is the risk that the ASC will encounter difficulty in meeting obligations associated with its financial liabilities. Income generated from investments and by investing in publicly traded liquid assets traded in active markets that are easily sold and converted to cash contribute to the ASC's liquidity.

C) INVESTMENT INCOME

The ASC's investment income includes \$1.2 million from interest-bearing securities (\$832,000 in F2018) and \$847,000 from equities (\$986,000 in F2018). This income is net of investment fees of \$139,000 (\$89,000 in F2018). The ASC's investments earned a return of 6.0 per cent for the year ended March 31, 2019 (3.9 per cent in F2018). This performance compares to a benchmark (composite of FTSE TMX 91 Day T-Bill, FTSE TMX Canada Universe Bond, MSCI World index and S&P/TSX indexes) return of 6.2 per cent in F2019 and a benchmark return of 3.1 per cent in F2018.

Note 5: Capital Assets

| <i>thousands of dollars</i> | Computer Equipment & Software | Furniture & Equipment | Leaseholds | 2019 Total | 2018 Total |
|---------------------------------|--|----------------------------------|-------------------|-------------------|------------|
| Estimated useful life | 3 years | 10 years | Lease duration | | |
| Cost | | | | | |
| Beginning of year | 3,805 | 2,893 | 7,004 | 13,702 | 13,020 |
| Additions | 618 | 156 | 6 | 780 | 1,050 |
| Disposals | (728) | (1) | - | (729) | (368) |
| | 3,695 | 3,048 | 7,010 | 13,753 | 13,702 |
| Accumulated amortization | | | | | |
| Beginning of year | 2,898 | 1,983 | 3,411 | 8,292 | 7,591 |
| Amortization expense | 451 | 260 | 469 | 1,180 | 1,067 |
| Disposals | (728) | (1) | - | (729) | (366) |
| | 2,621 | 2,242 | 3,880 | 8,743 | 8,292 |
| Net book value | 1,074 | 806 | 3,130 | 5,010 | 5,410 |

Leaseholds relate to a 15-year lease commenced on December 1, 2010 and an 8.3-year lease commenced on August 1, 2017.

Note 6: Accrued Pension Liability and Pension Expense

The accrued pension liability is comprised of:

| <i>thousands of dollars</i> | 2019 | 2018 |
|-----------------------------|---------------|-------|
| Supplemental Pension Plan | 10,055 | 9,814 |

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

| <i>thousands of dollars</i> | 2019 | 2018 |
|---|--------------|-------|
| Public Service Pension Plan | 1,252 | 1,316 |
| Registered Retirement Savings Plan (RRSP) | 712 | 674 |
| Supplemental Pension Plan | 570 | 1,050 |
| | 2,534 | 3,040 |

A) PUBLIC SERVICE PENSION PLAN

The ASC participates in the Public Service Pension Plan. At December 31, 2018, the Public Service Pension Plan reported a surplus of \$519.2 million (a surplus of \$1.3 billion as at December 31, 2017). The ASC is not responsible for future funding of any plan deficit other than through contribution increases.

B) RRSP

The ASC makes RRSP contributions on behalf of employees who do not participate in the Public Service Pension Plan.

C) 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 as a designated executive. Members of the Supplemental Pension Plan become vested in 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.

An actuarial valuation of the Supplemental Pension Plan is undertaken every three years. In March 2018, an independent actuary performed a Supplemental Pension Plan valuation. The next valuation is scheduled for March 2021. The results of the actuarial valuation and management's cost estimates as they apply to the Supplemental Pension Plan are summarized below:

| <i>thousands of dollars</i> | 2019 | 2018 |
|---|--------|-------|
| Supplemental Pension Plan | | |
| Accrued benefit and unfunded obligation | 9,480 | 9,262 |
| Unamortized actuarial gain | 575 | 552 |
| Accrued benefit liability | 10,055 | 9,814 |

| <i>thousands of dollars</i> | 2019 | 2018 |
|---|-------|-------|
| Accrued Benefit Obligation | | |
| Accrued benefit obligation at beginning of year | 9,262 | 9,934 |
| Service cost | 242 | 300 |
| Interest cost | 304 | 350 |
| Benefits paid | (328) | (325) |
| Actuarial gain – experience and assumptions | - | (997) |
| Accrued benefit obligation at end of year | 9,480 | 9,262 |

| <i>thousands of dollars</i> | 2019 | 2018 |
|--|------|-------|
| Pension Expense for the Supplemental Pension Plan | | |
| Service cost | 242 | 300 |
| Interest cost | 304 | 350 |
| Amortization of actuarial losses during the year | 24 | 400 |
| | 570 | 1,050 |

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 | 2019 | 2018 |
|---|----------------|---------|
| Discount rate, year-end obligation | 3.25% | 3.25% |
| Discount rate, annual pension expense | 3.25% | 3.25% |
| Rate of inflation, year-end obligation | 2.00% | 2.00% |
| Salary increases, year-end obligation* | 2.50% | 2.50% |
| Remaining service life, year-end obligation | 5 years | 5 years |

*0.0 per cent per year for the fiscal years beginning April 1, 2018 and April 1, 2019, and 2.5 per cent thereafter.

Note 7: Fees and Other Enforcement Receipts

| <i>thousands of dollars</i> | 2019 | 2018 |
|--|---------------|--------|
| Fees | | |
| Annual financial statements | 19,381 | 19,581 |
| Registration | 16,924 | 16,382 |
| Distribution of securities | 16,691 | 16,239 |
| SEDI, exempt distributions and registration late filing fees | 625 | 656 |
| Orders (applications) | 101 | 107 |
| | 53,722 | 52,965 |

| <i>thousands of dollars</i> | 2019 | 2018 |
|---|----------------|-------|
| Other Enforcement Receipts | | |
| Settlement payments, disgorgements and cost recoveries assessed | 3,852 | 362 |
| Less provision for uncollectible amounts | (3,337) | (251) |
| Plus recoveries of prior-year assessments | 54 | 392 |
| | 569 | 503 |

Note 8: CSA National Systems

The CSA National Systems include the System for Electronic Document Analysis and Retrieval (SEDAR), the National Registration Database (NRD) and the 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. 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, 2019, the accumulated operating surplus totalled \$173.4 million (\$162.9 million at March 31, 2018). This was primarily made up of \$122.8 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; \$27.0 million in intangible assets; and \$20.3 million in cash held by the Ontario Securities Commission earning interest at 2.1 per cent. 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 9: 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 relate to the lease of premises to November 30, 2025 and rental of office equipment to 2024 totalling \$32.6 million (\$37.0 million in F2018). These commitments become expenses of the ASC when the terms of the contracts are met.

| <i>thousands of dollars</i> | |
|-----------------------------|---------------|
| 2019-20 | 4,717 |
| 2020-21 | 4,897 |
| 2021-22 | 5,169 |
| 2022-23 | 5,239 |
| 2023-24 | 5,308 |
| Thereafter | 8,986 |
| Total | 34,316 |

Canadian Securities Administrators

The CSA Secretariat assists in the development and harmonization of rules, regulations and policies across Canada. The ASC shares, based on an agreed-upon cost-sharing formula, costs incurred for the maintenance of the CSA Secretariat and any third-party costs incurred in the development of harmonized rules, regulations and policies.

B) CONTINGENT LIABILITIES

ASC panel or court decisions may be appealed. The outcomes of these matters are not determinable at this time; therefore, the impact to the operating surplus cannot be determined. However, management does not expect the impact to be material.

Note 10: Budget

The ASC's F2019 budget was originally approved on December 13, 2017 and was subsequently amended and approved by the Commission on June 6, 2018. The final budget included an additional \$390,000, mainly in salaries and benefits to enhance the ASC's collections efforts.

Note 11: Related Party Transactions

The ASC is related through common ownership to all Alberta provincial government ministries, agencies, boards, commissions and Crown corporations. Related parties also include key management personnel of the ASC and close family members of those individuals. The ASC conducted all transactions with these entities as though they were unrelated parties and recorded these transactions at exchange amounts. Total transaction costs of \$78,000 (\$79,000 in F2018) were recognized in administration and investor education expenses, primarily for transcript and postage services, insurance and investor education. Investment income is net of investment fees paid to AIMCo of \$139,000 (\$89,000 in F2018). As at March 31, 2019, \$10,000 (\$500 in F2018) related to these transactions was outstanding in accounts payable.

Note 12: Comparative Figures

Certain F2018 figures have been reclassified to conform to the F2019 presentation. The comparative figures from Note 4 related to the fair value hierarchy have been reclassified to conform to the presentation adopted in F2019. The current classification of investments within the hierarchy reflect the quality and reliability of the valuation of the pool units, while the previous presentation reflected the quality and reliability of the valuation of significant securities held within the pools.

SCHEDULE 1 – SALARY AND BENEFITS DISCLOSURE

| <i>thousands of dollars</i> | | | | 2019 | 2018 |
|---|--------------------------------|--|--|--------------|-------|
| | Base salary¹ | Other Cash benefits² | Other Non-cash benefits³ | Total | Total |
| Chair and Chief Executive Officer (CEO), Alberta Securities Commission ⁴ | 492 | - | 14 | 506 | 505 |
| Executive Director, Alberta Securities Commission | 379 | 134 | 123 | 636 | 678 |
| Vice-Chair, Alberta Securities Commission ^{4,5} | 375 | 123 | 50 | 548 | 483 |
| Vice-Chair, Alberta Securities Commission ^{4,6} | 271 | 33 | 80 | 384 | - |
| Independent Members of the Alberta Securities Commission (aggregate) ⁷ | 567 | - | - | 567 | 597 |

¹ Base salary includes regular salary or independent members' compensation.

² Other cash benefits may include vacation payouts, variable pay, transit allowance, memberships, study leave and automobile allowance.

³ Other non-cash benefits may include the employer's share of all employee benefits and contributions or payments made on behalf of employees, including RRSP, supplementary pension plans*, health care, dental coverage, group life insurance, long-term disability plan, parking, professional memberships and tuition fees.

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

⁵ This Vice-Chair does not participate in the Supplemental Retirement Plan (SRP), but participates in the RRSP program. This RRSP benefit is reported under Other Non-cash benefits.

⁶ This Vice-Chair's term commenced on May 8, 2018. This position was vacant in F2018.

⁷ The Independent Members' compensation includes total fees paid for governance responsibilities of \$321,000 (\$328,000 in F2018) and hearing and application panel participation of \$246,000 (\$269,000 in F2018).

Independent Member fees include:

| | 2019 |
|--|---|
| 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 |

*Under the terms of the SPP, executive officers may receive supplemental retirement payments. Retirement arrangement costs 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. SPP provides future pension benefits to participants based on years of service and earnings. The cost of these benefits is actuarially determined using the projected benefit method pro-rated on services, a market interest rate, management's best estimate of expected costs and the period of 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.

SUPPLEMENTAL RETIREMENT BENEFITS

ANNUAL EXPENSE

| | | | 2019 | 2018 |
|---|-----------------------|-------------------------------|-------|-------|
| | Current service costs | Prior service and other costs | Total | Total |
| Chair and CEO, Alberta Securities Commission ¹ | - | - | - | - |
| Executive Director, Alberta Securities Commission | 71 | 18 | 89 | 183 |
| Vice-Chair, Alberta Securities Commission ² | - | - | - | - |
| Vice-Chair, Alberta Securities Commission ³ | 42 | 2 | 44 | - |

ACCRUED OBLIGATIONS

| | Accrued obligation March 31, 2018 | Changes in accrued obligation | Accrued obligation March 31, 2019 |
|---|--------------------------------------|-------------------------------------|---|
| Chair and CEO, Alberta Securities Commission ¹ | - | - | - |
| Executive Director, Alberta Securities Commission | 1,536 | 123 | 1,659 |
| Vice-Chair, Alberta Securities Commission ² | - | - | - |
| Vice-Chair, Alberta Securities Commission ³ | 582 | 67 | 649 |

¹ The Chair and CEO does not participate in the SPP, but participates in the RRSP program. This benefit is reported under Other Non-cash benefits.

² This Vice-Chair does not participate in the SPP, but participates in the RRSP program. This benefit is reported under Other Non-cash benefits.

³ This Vice-Chair's term commenced on May 8, 2018. In both this role and her prior role at the ASC, she was a member of the SPP.

2019 GLOSSARY

Alberta Investment Management Corporation (AIMCo)

AIMCo is an Alberta government agency that is responsible for the investments of 27 pension, endowment and government funds in the province.

Canadian Securities Administrators (CSA)

The 10 provinces and three territories in Canada are responsible for securities regulations. Securities regulators from each province and territory have teamed up to form the CSA. The CSA is primarily responsible for developing a harmonized approach to securities regulation across the country.

Crowdfunding

Crowdfunding refers to raising money online, typically through a website or social media. There are different types of crowdfunding, such as raising money by donation, pre-selling of products or by the sale of securities. Crowdfunding by the sale of securities such as shares or loans must comply with securities laws. The businesses raising money will typically be subject to the prospectus requirement, but often rely on prospectus exemptions such as the accredited investor, offering memorandum or start-up exemptions. The crowdfunding portal/website that facilitates the securities crowdfunding offering is typically required to be registered as a dealer.

Cryptocurrency

Crypto-assets, commonly referred to as cryptocurrencies, coins or tokens, are digitally represented assets that typically rely on blockchain or distributed ledger technology and cryptography. Crypto-assets may act as a method of payment, a store of value (like money), perform a function or represent an interest in an asset or enterprise. Some crypto assets are securities or derivatives and the trading of them would be subject to securities laws.

Derivative

A financial product that derives its value from some underlying benchmark.

Exempt Market

A market where private companies sell their securities under various exemptions from the prospectus requirement to investors that meet specific criteria in National Instrument 45-106 *Prospectus Exemptions*.

Generally Accepted Accounting Principles (GAAP)

Generally accepted accounting principles are a common set of accounting principles, standards and procedures that companies must follow when they compile their financial statements. GAAP is a combination of authoritative standards (set by policy boards) and the commonly accepted ways of recording and reporting accounting information.

Group of Twenty (G20)

The G20 is an international forum for the governments and central bank governors from 20 major economies that was founded to study, review and promote high-level discussion of policy issues pertaining to the promotion of international financial stability.

International Monetary Fund (IMF)

The IMF is an organization of 189 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world. Its primary purpose is to ensure the stability of the international monetary system—the system of exchange rates and international payments that enables countries (and their citizens) to transact with each other.

International Organization of Securities Commissions (IOSCO)

IOSCO is the international body that brings together the world's securities regulators and is recognized as the global standard setter for the securities sector. IOSCO develops, implements and promotes adherence to internationally recognized standards for securities regulation.

Investment Industry Regulatory Organization of Canada (IIROC)

IIROC is the national self-regulatory organization that oversees all investment dealers and trading activity on debt and equity marketplaces in Canada.

Joint Serious Offences Team (JSOT)

JSOT is an enforcement partnership between the ASC and the RCMP. JSOT investigates and prosecutes quasi-criminal cases under the *Securities Act* (Alberta) and securities-related offences under the Criminal Code. JSOT targets repeat offenders, serious frauds and breaches of ASC or Court orders or bans.

Mutual Fund Dealers Association of Canada (MFDA)

The MFDA is a national self-regulatory organization for the distribution side of the Canadian mutual fund industry. The MFDA regulates the operations, standards of practice and business conduct of its members and their representatives.

National Registration Database (NRD)

The NRD is the CSA's national internet search engine that permits dealers, advisers and investment fund managers to file registration forms electronically.

North American Securities Administrators Association (NASAA)

A voluntary association whose membership consists of 67 state, provincial and territorial securities administrators in the 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Canada and Mexico.

Over-the-Counter (OTC)

The OTC is a quotation service that displays quotes, last-sale prices and volume information for equity securities trading over-the-counter in the United States.

Recidivist

In the securities law context, recidivist means a person who breaches securities laws after having previously been found liable for securities-related misconduct in regulatory, quasi-criminal, or criminal proceedings.

Registrant

A person or company registered or required to be registered under the *Securities Act* (Alberta) or the regulations.

Regulatory Sandbox

The regulatory sandbox is a committee of staff from across the CSA that coordinates the efforts to address applications for discretionary exemptive relief from securities laws from parties intending to provide innovative financial products, services and applications. Through the regulatory sandbox, the CSA endeavours to support innovation while ensuring appropriate investor protection. Applicants to the CSA regulatory sandbox have included crowdfunding portals, parties conducting initial token offerings, and crypto-asset trading platforms, among others.

System for Electronic Document Analysis and Retrieval (SEDAR)

SEDAR is the CSA's national electronic web-based filing system for disclosure by public companies and mutual funds.

System for Electronic Disclosure by Insiders (SEDI)

SEDI is the CSA's national electronic web-based system that facilitates the filing and public dissemination of insider reports.

Toronto Stock Exchange (TSX)

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