

2018 ANNUAL REPORT

# Strong investor protection through intelligent regulation



**A|S|C**

Alberta Securities Commission

2018 ANNUAL REPORT



*Downtown Calgary, Alberta*

*Cover Photo: Three Sisters Mountain Range - Canmore, Alberta*

Three strategic pillars guide our priorities to 2020: delivering intelligent regulation to support a thriving capital market; advancing proactive and comprehensive compliance, enforcement and education; and fostering a culture of engagement with all of our stakeholders.

## TABLE OF CONTENTS

---

02	Message from the Chair
08	Pillar One: Intelligent regulation that supports a thriving capital market
12	Pillar Two: Proactive and comprehensive compliance, enforcement and education
16	Pillar Three: Foster a culture of engagement
18	Executive Management Team
20	ASC's 2018 Members
24	Management's Discussion & Analysis
36	Financial Statements
54	Glossary
55	2018 Advisory Committees

# Message from the Chair

The pace of change in the global capital markets continues to accelerate. Geopolitical dynamics, advances in technology, new and developing industries and evolving globalization are contributing to the growing disruption of the status quo.

Alberta continues to have the second-largest capital market in the country (as determined by market capitalization of listed issuers). Our largest industries continue to be oil and gas, pipelines and related businesses, which are critical economic drivers for Alberta and all of Canada. Issuers in these industries are experiencing unprecedented challenges across a broad range of factors, including economic, social, political, regulatory and market access. As a result, there is a continued effort to diversify Alberta's economy.

To ensure the Alberta Securities Commission (ASC) keeps pace with these changes, protects investors and maintains a fair and efficient capital market, we remain committed to delivering on our strategic plan. We are now one year into a three-year plan that prioritizes intelligent regulation supporting a thriving capital market; proactive and comprehensive compliance, enforcement and education; and fostering a culture of engagement.

I will highlight just a few of our achievements below; I encourage you to explore the information contained in the rest of this report for a broader review of our fiscal 2018 (F2018) accomplishments.

## INTELLIGENT REGULATION IN A DYNAMIC LANDSCAPE

Intelligent regulation requires the creation and maintenance of a regime that is appropriate to the needs of our market, and that promotes strong investor protection while not unduly burdening issuers or other market participants.

Progress was made in several policy matters this year that are important to our market. From an investor's perspective, the client-adviser relationship is one of the most critical. Canadians deserve the best investment advice available. The Canadian Securities Administrators (CSA), after extensive consultation with both retail investors and industry, agreed this year to

advance a suite of targeted reforms that we believe are practical, meaningful and effective ways to raise the standards of adviser conduct, ultimately improving investor protection. We believe we have made significant progress this year and look forward to providing more information in the near future.

One of the backbones of a fair and efficient capital market is high-quality disclosure from issuers. This year, we co-led a CSA project on climate change-related disclosure in response to growing investor demand for this information. The project included broad consultation with investors, issuers and other market participants, and a critical analysis of existing international frameworks and the current state of disclosure in Canada. This is a complex issue with many viewpoints, and we know we must strike the right balance between ensuring that investors have the information they need to make informed investment and voting decisions and being mindful of the impact on issuers. I believe the CSA has a well-calibrated path forward, which will include further guidance to issuers about what constitutes good disclosure around risks, opportunities and financial impacts. We will also consider new disclosure requirements that emphasize discussion of the governance around a broader range of emerging material risks and opportunities, including potential barriers to free trade, cybersecurity and disruptive technologies.

The CSA is also acting to reduce the regulatory burden for public companies in Canada. Based on information we gathered during an extensive consultation process last year, we are moving forward on several projects intended to streamline required information and facilitate capital raising while continuing to provide investors with appropriate disclosure.



In March, the Government of Alberta intervened in the hearing at the Supreme Court of Canada relating to the constitutionality of the proposed pan-Canadian securities regulator. It is Alberta's view that our Constitution should be upheld, with the result that securities regulation continues to be recognized as a matter falling within provincial jurisdiction.

This approach has allowed provincial knowledge and experience, including Alberta's, to enhance securities regulation. At the same time, the CSA passport system has resulted in a coordinated and harmonized securities regulatory regime that reflects the best ideas and perspectives from across the country. In addition, the CSA's participation in the Heads of Agencies contributes to a high level of collaboration among the provinces and federal government. Furthermore, the system has proved its effectiveness by weathering the global financial crisis extraordinarily well – unlike other jurisdictions that had a national securities regulator. The Court's decision is expected later this year.

### **EXPANDING ENFORCEMENT TOOLS FOR ENHANCED INVESTOR PROTECTION**

Great strides were taken this year in augmenting and utilizing an array of enforcement tools to support the early identification and disruption of securities misconduct, and to better enable us to address the range of securities misconduct that exists within our market. When appropriate, we froze assets of those under investigation as a means of preserving investor capital at risk and we also cease-traded securities and individuals to prevent investor loss. To enhance our intelligence capability and harness the power of large volumes of data, we recently implemented new software that allows us to discover networks, patterns and trends that enable us to detect and disrupt securities misconduct at earlier stages. Additionally, we announced the *Credit for Exemplary Cooperation in Enforcement Matters* policy to encourage individuals and entities to self-report and provide timely and full cooperation. We further enhanced this new policy by adding the flexibility to negotiate no-contest settlement agreements in limited and specific circumstances.

The Alberta Ministry of Justice and Solicitor General also approved the ASC to become an authorized employer of peace officers. With peace officer status, our team can now investigate

certain offences under the Criminal Code in partnership with police services, which broadens our ability to investigate serious securities-related offences.

Holding serious securities offenders accountable for their misconduct is a critical function of our Enforcement team. This past year, Jeremy (Jay) Peers was sentenced to three and a half years of imprisonment after pleading guilty to fraud, misrepresentations, and dealing and advising in securities without registration. Kenneth Charles Fowler was sentenced to three years of imprisonment after pleading guilty to fraud, trading in securities without registration and illegal distribution of securities. These outcomes are among the lengthiest jail terms imposed by the courts in ASC cases to date and send a strong deterrence message. Looking ahead, we will continue our efforts to pursue securities offenders and to hold them accountable.

One of the highlights for me this year was the collective enforcement and policy action taken to thwart binary options scams. These scams became more prevalent last year, causing significant harm to Canadian victims. In true collaboration, we moved quickly with our CSA colleagues to implement a prohibition on advertising, offering or selling binary options shorter than 30 days to any individual. To promote effective enforcement, we also worked with companies like Apple, Google, Facebook and Twitter to ban retail binary options online advertising on their platforms. As a result, we have protected Canadian investors and become a global leader, working with other jurisdictions to take action against the operators of fraudulent binary options websites.

### **PROVIDING BETTER FINANCIAL LITERACY TOOLS FOR ALBERTANS**

Protecting investors is a critically important part of our work at the ASC. Some Albertans lack necessary financial literacy skills and knowledge, which can put them at risk of investing in scams or a product unsuitable for them. To support Albertans, we launched our new and improved CheckFirst.ca website, which includes a broad range of helpful financial literacy information, including a series of Investing 101 videos, retirement planning tools and a personal risk-tolerance assessment. We will continue to enhance this free and valuable resource for the benefit of all Albertans.

**ENGAGEMENT AS A CORNERSTONE**

In order to effectively fulfill our mandate and to adapt quickly to rapidly changing markets, we must foster a strong sense of collaboration with all of our stakeholders. Consultation and engagement are a part of everything we do, and we continue to hold town halls, educational sessions and extensive public consultations. This year we introduced our signature ASC Connect conference, a successful day-long event that enabled us to engage with market participants and provide an update on what's new and what's next in Alberta's capital market. We hope you will join us in fall 2018 for this event.

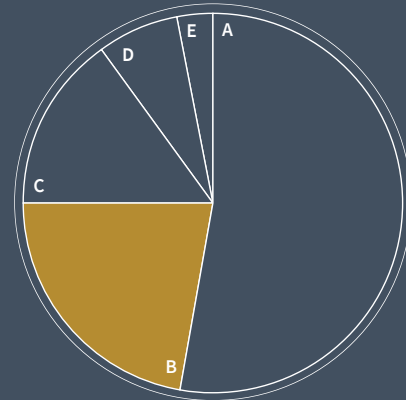
On behalf of the ASC's senior management team, I extend my thanks to our Commission members for their insightful guidance and support. In particular, I would like to recognize with gratitude the exemplary service of Terry Allen and Webster Macdonald, who each completed their terms with the ASC this year. Their knowledge, experience and wisdom will be missed, and the ASC is better for their contributions.

It has certainly been a tumultuous year for Alberta's capital market and I understand the forecast is for more of the same. While change is constant, it is encouraging to see the continued efforts of market participants to innovate, engage and embrace the new normal. I am confident that our strategic initiatives will serve the needs of our market going forward and I appreciate the efforts of our staff who consistently go above and beyond to help the ASC be a practical, intelligent and best-in-class regulator.



**STAN MAGIDSON**  
Chair and Chief Executive Officer

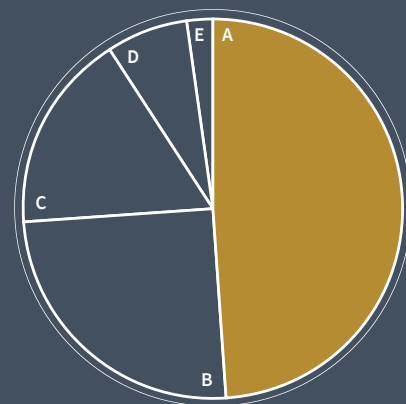
**ALBERTA IS THE SECOND-LARGEST CAPITAL MARKET IN CANADA\***



53% ONTARIO (A)      7% BRITISH COLUMBIA (D)  
22% ALBERTA (B)      3% OTHER (E)  
15% QUEBEC (C)

*\* Measured by aggregate market capitalization of listed issuers.*

**OIL AND GAS, UTILITIES AND PIPELINES CONTINUE TO BE THE MOST SIGNIFICANT INDUSTRIES IN ALBERTA'S ECONOMY\***



49% OIL AND GAS (A)      7% DIVERSIFIED INDUSTRIES (D)  
25% UTILITIES AND PIPELINES (B)      2% MINING (E)  
17% ALL OTHER INDUSTRIES (C)

*\* Measured by aggregate market capitalization of listed issuers.*

## In F2018 the ASC launched a three-year strategic plan that outlined our path forward as an agile and responsive securities regulator.

The plan addresses the opportunities as well as the challenges that we face. It outlines where we are at the end of year one, where we intend to be at the end of fiscal 2020 and how we plan to achieve our goals.

The following is not intended to be an exhaustive list of the initiatives undertaken by the ASC over the past year, but rather a glimpse into the various themes and actions that signify the forward momentum of our organization.

### CAPITAL MARKET STATISTICS 2018

---

~\$22.2B

RAISED BY ALBERTA-BASED ISSUERS IN THE PROSPECTUS-EXEMPT MARKET

---

\$17.0B

RAISED BY ALBERTA-BASED ISSUERS ON THE TSX OR TSXV IN THE PUBLIC MARKET

---

ALBERTA IS CANADA'S 2<sup>ND</sup> LARGEST CAPITAL MARKET, REPRESENTING

\$904B

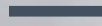
IN MARKET CAPITALIZATION

---

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

<p><b>MISSION</b></p>	<p>To foster a fair and efficient capital market in Alberta and to protect investors.</p>		
<p><b>VISION</b></p>	<p>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.</p>		
<p><b>STRATEGY</b></p> <p>The pillars of our strategy to realize our mission and vision are:</p>	<p><b>Intelligent regulation that supports a thriving capital market</b></p>	<p><b>Proactive and comprehensive compliance, enforcement and education</b></p>	<p><b>Foster a culture of engagement</b></p>
<p><b>VALUES</b></p> <p>The values that guide employee action at the ASC are:</p>	<p><b>Stakeholder Responsiveness</b></p> <p><b>Quality Results</b></p> <p><b>Continuous Improvement</b></p> <p><b>Teamwork</b></p> <p><b>Principled Environment</b></p>		

# Pillar 01



**INTELLIGENT REGULATION THAT SUPPORTS  
A THRIVING CAPITAL MARKET**



*Muttart Conservatory - Edmonton, Alberta*

## QUESTIONING THE REGULATORY STATUS QUO

As regulators we must adapt to changing market conditions while providing a level of stability on which issuers, investors and other market participants can depend.

As part of our effort to make meaningful improvements to the client-adviser relationship, the ASC participated in the analysis and summary of 140 comment letters to CSA Consultation Paper 81-408 *Consultation on the Option of Discontinuing Embedded Commissions*. This paper sought input on the option of discontinuing embedded commissions and the potential impacts of such a change on Canadian investors and market participants. Given the significance of this topic, the ASC also hosted in-person consultations in Calgary and Edmonton to discuss key issues. This feedback is being considered alongside the targeted reform consultation feedback obtained in fiscal 2017 (F2017). Our objective is to make changes to the client-adviser relationship that places the interests of all investors first.

We introduced the *Securities Amendment Act, 2017*, including amendments that give the Investment Industry Regulatory Organization of Canada (IIROC) and the Mutual Fund Dealers Association of Canada (MFDA) greater investigative powers, such as the power to compel evidence, the authority to require witnesses to give testimony under oath, and the ability to compel the production of documents and records. Alberta was one of the first jurisdictions in Canada to provide IIROC and the MFDA with this investigative authority. In addition, Alberta was one of the first jurisdictions in Canada to grant IIROC and the MFDA the legal ability to enforce, through the courts, fines that are levied against individuals and firms that transgress the laws that IIROC and the MFDA administer.

Alberta has a relatively large and evolving exempt market dealer community. Historically, this community had little to no regulatory oversight; however, with the advent of registration reform in 2010, the Exempt Market Dealer (EMD) category of registration was born. More recently, the ASC engaged in a comprehensive review of the registered EMDs headquartered in Alberta and published a staff notice summarizing compliance findings and providing guidance to assist registrants in improving their compliance. This year we provided educational seminars to our registrants, and focused our oversight on the highest-risk registrants. We also have ongoing dialogue with our Exempt Market Dealers Advisory Committee. Through our engagement with this committee we've published ASC Notice 31-701 *Account Opening Assistance*, which included a sample know-your-client (KYC) form and an investor brochure to explain the reason for the KYC process. Our intention is to increase compliance with KYC requirements with respect to information collected by EMDs.

## INTELLIGENT REGULATION

All new laws, rules, policies and projects were assessed in F2018 to determine whether they add value to Alberta's unique capital market. As a leading participant in the CSA's reduction of regulatory burden project, we are keenly aware of our need to streamline requirements and facilitate capital raising, while also protecting investors. ASC staff participated in several initiatives that were determined to be accretive and prudent for Alberta's market participants, including:

Amendments to National Instrument 45-102 *Resale of Securities*, intended to provide Canadian investors with greater certainty when it comes to participating in the global capital market and reselling securities of foreign issuers. These amendments came into force in June 2018. Further work is underway to reconsider resale restrictions in respect of reporting issuers more generally.

Multilateral Instrument 61-101 *Protection of Minority Security Holders in Special Transactions* underwent extensive consultation and analysis by the ASC prior to its adoption. This rule is designed to facilitate the fair treatment of all security holders by addressing potential conflicts of interest on the part of insiders and related parties in certain transactions. The instrument contains requirements for enhanced disclosure, independent valuations and majority of minority security holder approvals for transactions such as insider bids, issuer bids, business combinations and related party transactions.

Part of the ASC's role in fostering a fair and efficient capital market is recognizing the variety of large and small participants within the Alberta market. This includes consideration of the public venture market to facilitate capital formation, and the small dealers that support that market and service investors. Smaller issuers are a key part of the equation and, as a result, we have continued to advance policy and oversight initiatives with a view to making issuer compliance with disclosure requirements more manageable and size appropriate.

## ADDRESS EMERGING REGULATORY FRONTIERS

The ASC has identified a number of emerging areas to focus on over the next two years as we stay abreast of rapidly changing financial markets.

Technology continues to evolve and emerging applications such as robo-advisors, blockchain and online crowdfunding portals are disruptive to the status quo and continue to test our regulatory framework.

The ASC continues its work with the CSA regulatory sandbox committee, an initiative that allows fintech firms to use innovative products, services and applications, as long as investor protection is maintained. The ASC has met with many Alberta participants either already engaged in, or interested in joining, the fintech business. The committee has granted a number of novel exemptive relief applications and has been addressing issues relating to developing technology, such as initial token (or coin) offerings. CSA Staff Notice 46-307 *Cryptocurrency Offerings* was published and provides a high-level overview of when these products may be securities and trigger the application of securities laws. In June 2018 further guidance was provided with CSA Staff Notice 46-308 *Securities Law Implications for Offerings of Tokens*. Work will continue in this arena and additional guidance is possible in the future.

With an active energy commodity derivatives market in Alberta, fostering fairness and efficiency in this market is a priority and we strive to be a best-in-class regulator in this area. In the past year we have continued to develop and implement balanced over-the-counter derivatives regulatory reform and oversight programs designed to promote fairness and confidence in the Alberta market.

The prevalence of non-GAAP financial measures and other performance indicators has grown in the oil and gas industry of late. In late 2017, the ASC provided guidance on key performance indicators (KPIs) in the oil and gas industry to assist preparers of financial information in ensuring that investors are not confused or misled. Additionally, we are co-chairing a CSA non-GAAP financial measures committee, which is working on developing a national rule. There has been a renewed focus on the relevance of audited financial statements and how non-GAAP and other financial measures impact investor decision making.

## ENGAGE EFFECTIVELY

As businesses become more global, and investors look to markets beyond where they live to achieve investing success, capital markets become more global in nature. Our primary responsibility is to oversee the Alberta capital market, but we must do so cooperatively with national and international jurisdictions. There is great benefit in leveraging the experience of our counterparts and ensuring consistency when it comes to regulation. It is also critical to Alberta market participants that national rules be harmonized, yet reflect the circumstances in our local jurisdiction.

The ASC continues to be a participant and an active leader within the CSA, the North American Securities Administrators Association (NASAA), the International Organization of Securities Commissions (IOSCO), the Heads of Agencies and other national and international organizations. Each of our divisions participates in committees, leads or co-leads projects, or has a place at the board table of relevant organizations. Our focus with these activities is to provide our knowledge and expertise for the betterment of global capital markets, and to acquire knowledge that is critical to our being a best-in-class regulator. Beyond those already mentioned in this report, further examples of this participation include the CSA committees on systemic risk, the chief accountants committee, the legislative and regulatory coordination committee, and investor education. The ASC chairs the NASAA committee on litigation and investigation training. IOSCO committee participation includes collaboration on emerging risk and a committee that develops policy concerning commodity derivatives regulation, including a new mandate of over-the-counter derivatives regulation. We also strive to collaborate and engage with organizations such as the Canadian Association of Petroleum Producers, the Accounting Standards Board (Canada), the International Auditing and Assurance Standards Board, Alberta Investment Management Corporation, the Auditor General of Alberta, and Alberta Treasury Board and Finance, among others.



# Pillar 02



**PROACTIVE AND COMPREHENSIVE  
COMPLIANCE, ENFORCEMENT AND EDUCATION**



*Hoodoos - Drumheller, Alberta*

We must anticipate needs or future challenges in the market and act decisively in order to promote public confidence in our capital markets, protect investors and support market integrity.

### EXPAND ENFORCEMENT TOOLS

As securities fraud and misconduct become ever more complex, crossing borders and incorporating new technologies to mislead investors and escape detection, it is imperative that we have access to the right information, expertise and technology to detect transgressions, quickly turn data into intelligence and take steps to disrupt misconduct and hold people and entities accountable.

The ASC is actively engaged with other CSA members in assessing how innovative technologies are being used in securities offences, as well as how we can exploit technology to enhance our own efforts. We have embraced new intelligence software and have conducted successful mock hearings using electronic evidence. We anticipate being able to report on the results of the adoption of current technology, as well as further advancement in the use of new technologies, in the years to come.

Our enforcement toolbox continues to expand in support of our efforts to keep pace with change, to address the range of securities misconduct that exists and to investigate and prosecute securities violations. We created a policy to encourage individuals and entities to self-report securities misconduct and to provide full and timely cooperation in investigations and proceedings. ASC Policy 15-601 *Credit for Exemplary Cooperation in Enforcement Matters* outlines the factors ASC staff will consider in exercising their discretion to grant credit for cooperation above and beyond what is required under Alberta securities laws. We further enhanced this policy by including the flexibility to negotiate no-contest settlement agreements in limited and specific circumstances.

Protecting investors who are senior citizens is particularly important to the ASC. Seniors are a potentially vulnerable population that is often disproportionately targeted and impacted by securities-related misconduct. Furthermore, retirees have limited opportunity to meaningfully recoup any losses. The ASC's Enforcement team worked with multiple financial institutions in F2018 to increase awareness and understanding of senior victimization. This included holding education sessions for bank personnel, providing investor education materials to be shared with bank clients and offering ongoing engagement with

the Enforcement division when suspicious activities arise. Overall, this is resulting in increased efforts to improve the protection of seniors by financial institutions.

### ENSURE 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 and regulatory impact. We will make any necessary changes to our internal infrastructure to ensure that we are optimally positioned to respond to an increasingly complex and diversified economy.

We also continue to proactively identify emerging issues, trends and risks in equities and derivatives market structures, and in trading, dealing and advising. The ASC has formalized a Market Intelligence group for the purpose of collecting and analyzing data on various aspects of the market to support the Systemic Risk Committee and policy initiatives, as well as gathering information on emerging topics. Our goal is to provide thought leadership and intelligent policy in areas relevant to the Alberta capital market.

In F2018 the ASC entered into the first compliance settlement agreement in our history. This new mechanism comes from the partnership between our compliance and enforcement teams, and enables the ASC to quickly and efficiently address investor protection issues when the respondent has demonstrated a strong commitment to compliance moving forward.

Recently, we published ASC Notice 45-703 *Report on the Use of the Family, Friends and Business Associates Prospectus Exemption*. The notice published the results of an extensive survey on the use of the family, friends and business associates prospectus exemption, as well as guidance to issuers that intend to rely on it. This exemption has historically been a key grassroots funding vehicle for Alberta issuers, and it is critical that this is balanced by appropriate investor protection.

## REACHING A BROADER AUDIENCE

---

~2,300

INQUIRIES INTO THE PUBLIC INFORMATION OFFICE

---

10,700+

ALBERTANS REACHED THROUGH GRASSROOTS EFFORTS

---

22,000

ALBERTAN SENIORS REACHED THROUGH TARGETED CAMPAIGNS AND INITIATIVES

---

500

ALBERTANS REACHED THROUGH ONE OF OUR INVESTING 101 CLASSES THROUGH THE CALGARY BOARD OF EDUCATION'S CONTINUING EDUCATION DEPARTMENT AND MACEWAN UNIVERSITY IN EDMONTON

---

33 MILLION IMPRESSIONS

ADVERTISING, ONLINE, MEDIA AND GRASSROOTS IMPRESSIONS

---

## ENHANCE INVESTOR EDUCATION EFFORTS TO REACH A BROADER AUDIENCE

Financial literacy is a life skill that helps investors protect and grow their hard-earned money. With longer life spans and fewer companies offering defined-benefit pensions, it is increasingly important that Canadians become knowledgeable about how to invest for a safe and secure future.

The ASC is committed to investor education, and in the past year our efforts included launching a redesigned CheckFirst.ca website to provide a variety of free tools and resources, including retirement savings calculators and a quiz to help investors identify their risk tolerance. Alongside the new website, we developed a series of online videos to teach Albertans about investing. The videos are based on our Investing 101 course, but are free to use and are accessible via computer or smartphone to any Albertan. These new resources were highlighted within our Fraud Prevention Month campaign in March, *The F-Word* ("F" meaning finance). Bringing humour to what many perceive as a dry and intimidating topic, the campaign featured a tongue-in-cheek video and social media messaging to encourage Albertans to visit the newly relaunched CheckFirst.ca site.

While our online efforts reach a significant number of individuals in a cost-effective manner, the ASC recognizes the impact of personal, one-to-one interaction. In addition to hosting CheckFirst pop-up cafés at trade shows in Edmonton and Calgary, the investor education team conducted outreach activities across the province at events and organizations, reaching over 10,000 Albertans during the last year.



*Jasper, Alberta*

# Pillar 03



**FOSTER A CULTURE OF ENGAGEMENT**



We must continue to build strong relationships with a variety of stakeholders in order to make informed decisions that are appropriate to our capital ecosystem, and to enable us to adapt quickly to rapidly changing financial markets. This includes obtaining input from market participants and encouraging a two-way flow of information. In addition, our staff's collective knowledge and expertise is the foundation for our success, now and in the future; we will support them to ensure we achieve our best-in-class vision.

### ENGAGE STAKEHOLDERS

Regular, timely and relevant engagement with all of our stakeholders is critical to effective administration of Alberta's securities laws. Our priority is to increase two-way communication with stakeholders, addressing their needs and incorporating valuable commentary into future endeavours.

We host town halls, numerous events and surveys to seek regular feedback from employees. Additionally, we engage with Alberta's issuers, dealers, registrants, investors, academics and experts in a broad range of outreach activities such as speaking engagements, town halls, consultations, in-person information sessions, webinars and publications. Our aim is to ensure that all market participants are up to date on current issues, and that we gather feedback about what matters most.

Conducting formal stakeholder research is a key element of our approach. Along with regular policy consultations, in F2018 we conducted a research study of Albertans' attitudes and thoughts on embedded fees charged by mutual funds. This research was complemented by town halls to gain further insight from industry stakeholders. We also conducted our annual Investor Index, which provides insight into the attitudes and behaviours of Albertans when it comes to investing and shapes our investor education efforts.

### OUTREACH IN F2018

# 90+

PRESENTATIONS, SESSIONS AND CONSULTATIONS HELD BY ASC STAFF ON TIMELY TOPICS SUCH AS CRYPTOCURRENCY, CLIMATE CHANGE AND INVESTMENT FRAUD

OUR ENFORCEMENT DIVISION CONDUCTED EXTENSIVE OUTREACH WITH OTHER REGULATORS, INSTITUTIONS AND LAW ENFORCEMENT AGENCIES. THIS SERVED TO INFORM KEY AUDIENCES ABOUT THE ASC, EDUCATE OUR STAKEHOLDERS ON CURRENT ISSUES, AND BUILD PARTNERSHIPS THAT RESULT IN THE SHARING OF INFORMATION ABOUT SECURITIES MISCONDUCT, SO WE CAN PROTECT ALBERTANS.

# ~300

PARTICIPANTS ATTENDED OUR SIGNATURE CONFERENCE, ASC CONNECT

IN F2018 WE PUBLISHED THE *ALBERTA CAPITAL MARKET REPORT*, *CORPORATE FINANCE DISCLOSURE REPORT* AND *OIL AND GAS REVIEW*, AS WELL AS PUBLICATIONS ON SPECIFIC SUBJECTS SUCH AS KEY PERFORMANCE INDICATORS IN THE OIL AND GAS INDUSTRY. FOLLOWING DISTRIBUTION OF THESE PUBLICATIONS, WE HOSTED MARKET PARTICIPANTS AT INFORMATION SESSIONS TO CLARIFY AND DISCUSS THE INFORMATION PROVIDED. THESE EFFORTS PROVIDE HIGH-QUALITY GUIDANCE AND CLARITY TO MARKET PARTICIPANTS.

### STAFF RETENTION AND IMPROVEMENT

To ensure we maintain our position as one of Alberta's top employers, we must continue to provide a challenging, rewarding and equitable workplace. In order to be responsive and provide expertise to our stakeholders, we ensure that our staff are striving for continuous improvement through ongoing learning and development. We also aim to provide them with the right tools and resources to carry out their duties with proficiency and efficiency.

# Executive Management Team



From left to right.

### LARA GAEDE

Chief Financial Officer and Chief Accountant

The Chief Financial Officer and Chief Accountant (CFO) is the ASC's senior financial officer and 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 also provides expert knowledge in the areas of accounting, auditing and financial reporting matters to ASC staff as well as guidance to reporting issuers and their advisors. This division is involved in policy initiatives that relate to these areas of expertise. This Office also provides training as needed to the professional accountants within the organization.

### TOM GRAHAM

Director, Corporate Finance

The Corporate Finance division is the primary interface for issuers and their advisors when participating in the capital market in Alberta, and 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 requirements. 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 the Alberta and Canadian capital markets for issuers, including investment funds and over-the-counter derivatives. Given the significance of the oil and gas industry, Corporate Finance places a considerable emphasis on reviewing the public disclosure of oil and gas reserves information and overseeing the relevant disclosure policies for these issuers.

### ALISON TROLLOPE

Director, Communications and Investor Education

The Communications and Investor Education division provides strategic communications counsel and support to all areas of the ASC to engage and educate 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 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 communication to support efficient and effective securities regulation in Alberta and throughout Canada.

### LYNN TSUTSUMI

Director, Market Regulation

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 the Investment Industry Regulatory Organization of Canada and the Mutual Fund Dealers Association of Canada. 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, equity and energy exchanges, and clearing agencies conducting business in Alberta.

### WAYNE OLMSTEAD

Director, Corporate Resources

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 information 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.

### 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 & 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.

### KARI HORN

General Counsel

The General Counsel reports to the Chair and oversees the Office of the General Counsel (OGC). The OGC provides specialized legal advisory services to the Commission Members, the Chair, the Executive Director and staff on a broad range of operational, transactional and policy projects. The OGC provides research, analysis and advice on emerging issues as well as guidance to market participants on the interpretation of securities laws and policies. Staff in the OGC deal with policy initiatives related to corporate governance and projects requiring a broad assessment of existing regulation. The OGC is also responsible for the corporate secretarial and legislative functions at the ASC.

Effective May 8, 2018 Kari Horn was appointed Vice-Chair.

### CYNTHIA J. CAMPBELL

Director, Enforcement

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 future misconduct. Through proactive, fair and visible enforcement action locally, and through collaboration with the Commission's compliance divisions and with securities regulators and police forces, Canadian and foreign, the Enforcement division seeks to foster investor confidence and promote the integrity of Alberta's capital market, thereby protecting the investing public.

### DAVID LINDER

Executive Director

The Executive Director reports to the Chair and Chief Executive Officer, is the ASC's Chief Administrative Officer, and as such 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, 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 matters. 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\*.

\*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.

# ASC's 2018 Members



The ASC has two operational levels: ASC Members and staff, including the executive management team. During F2018, there were 12 Members.

Alberta's Lieutenant Governor in Council appoints ASC Members.

The Members act as the ASC's board of directors, overseeing the management of the Commission. They also adjudicate enforcement proceedings and disputes among market participants and determine policy, consider and approve new rules or amend existing rules. Members' combined credentials and experience in accounting, law, securities and industry represent the appropriate talents to support the achievement of the ASC's objectives. The public rely on the Members of the ASC to be both qualified and empowered to deal with matters that affect the public interest in Alberta's capital market.

For a current list of active Commission Members, including details of credentials and experience, visit our website. They are listed under About the ASC – Organization & Governance – ASC Members.

## ABOUT THE MEMBERS

*From left to right.*

**TERRY ALLEN, CFA, ICD.D**

**BRADLEY NEMETZ, Q.C.**

**DR. IAN BEDDIS**

**TOM COTTER** *Vice-Chair*

**JAMES (JIM) OOSTERBAAN, ICD.D**

**TRUDY CURRAN, ICD.D**

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

**WEBSTER (WEB) MACDONALD, Q.C.**

**KAREN KIM, CA, CFA**

**ANN ROONEY, FCA, ICD.D**

**STAN MAGIDSON, ICD.D**

*Chair and Chief Executive Officer*

**MARYSE SAINT-LAURENT, ICD.D**

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, and are therefore not classified as Independent. Alberta's Lieutenant Governor in Council designates one of the ASC's Independent Members as the “Lead Independent Member.” 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 on the ASC website at [www.albertasecurities.com](http://www.albertasecurities.com).

## DIVERSITY

The Commission appreciates the benefits that diversity can bring to the Board and to the Executive. The Commission seeks to maintain a Board and Executive comprised of talented and dedicated individuals with a diverse mix of expertise, experience, skills and backgrounds relevant to the mission, vision and strategy of the Commission. In addition to diversity of skills, knowledge, experience and backgrounds necessary to support the Commission's mandate, diversity of age, ethnicity and gender are also considered in the appointment of Members and Executive Officers. The Commission's ability to administer the *Securities Act* (Alberta) depends on the competence, integrity, capability and commitment of its Members and Executive Officers.

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 a gender-diverse Board and Executive while simultaneously ensuring that the Members and Executive Officers collectively possess the required mix of skills and experience necessary to enable the Commission to carry out its mandate. 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 below. The ASC will continue to consider gender diversity in the recruitment process for Board and Executive Officer positions.

	F 2018				F 2017			
	Male		Female		Male		Female	
	#	%	#	%	#	%	#	%
Independent Members	4	40	6	60	5	55.6	4	44.4
Chair, Vice-Chairs	2	100	0	0	3	100	0	0
Executive Management	3	37.5	5	62.5	3	37.5	5	62.5

**ATTENDANCE <sup>(1)</sup>****Stan Magidson, Chair**

Term Expiry – June 30, 2021  
 Currently in Term – 1  
 Commission – 11/11 (100%)  
 Audit Committee – 6/6 (100%)  
 Governance Committee – 2/3 (66.7%)  
 Human Resources Committee – 3/3 (100%)

**Tom Cotter, Vice-Chair**

Term Expiry – March 31, 2020  
 Currently in Term – 1  
 Commission – 11/11 (100%)

**Ann Rooney, FCA, ICD.D**

Term Expiry – March 31, 2019  
 Currently in Term – 2  
 Commission – 11/11 (100%)  
 Audit Committee – 6/6 (100%)  
 Governance Committee – 3/3 (100%)  
 Human Resources Committee – 3/3 (100%)

**Terry Allen, CFA, ICD.D**

Term Expiry – March 31, 2018  
 Completed Term – 2  
 Commission – 10/11 (90.9%)  
 Audit Committee – 6/6 (100%)

**Dr. Ian Beddis**

Term Expiry – March 31, 2019  
 Currently in Term – 2  
 Commission – 11/11 (100%)  
 Audit Committee – 6/6 (100%)

**Kate Chisholm, Q.C., ICD.D**

Term Expiry – March 31, 2021  
 Currently in Term – 2  
 Commission – 10/11 (90.9%)  
 Governance Committee – 3/3 (100%)  
 Human Resources Committee – 2/2 (100%)

**Trudy Curran, ICD.D**

Term Expiry – March 31, 2020  
 Currently in Term – 1  
 Commission – 8/9 (88.9%)  
 Human Resources Committee – 2/2 (100%)

**Karen Kim, CA, CFA**

Term Expiry – March 31, 2020  
 Currently in Term – 1  
 Commission – 9/9 (100%)  
 Audit Committee – 5/5 (100%)

**Web Macdonald, Q.C.**

Term Expiry – March 31, 2018  
 Completed Term – 2  
 Commission – 10/11 (90.9%)  
 Human Resources Committee – 3/3 (100%)

**Brad Nemetz, Q.C.**

Term Expiry – March 31, 2019  
 Currently in Term – 2  
 Commission – 9/11 (81.8%)  
 Governance Committee – 3/3 (100%)

**Jim Oosterbaan, ICD.D**

Term Expiry – March 31, 2020  
 Currently in Term – 1  
 Commission – 9/9 (100%)  
 Audit Committee – 4/5 (80%)

**Maryse Saint-Laurent, ICD.D**

Term Expiry – March 31, 2019  
 Currently in Term – 1  
 Commission – 11/11 (100%)  
 Human Resources Committee – 3/3 (100%)

**COMMISSION MEMBER COMMITTEES**

The F2018 Board Committees were made up of the members listed below. All were independent except Stan Magidson and Kari Horn, who sat as *ex officio* members where indicated.

**Audit Committee**

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

**HR Committee**

Webster (Web) Macdonald (Chair)  
 Kate Chisholm  
 Trudy Curran  
 Maryse Saint-Laurent  
 Stan Magidson (*ex officio*)  
 Ann Rooney (*ex officio*)

**Governance Committee**

Brad Nemetz (Chair)  
 Kate Chisholm  
 Ann Rooney  
 Stan Magidson (*ex officio*)  
 Kari Horn (*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. In June of 2017, the Commission changed the composition of the Committees to reflect the onboarding of newly appointed members.

### THREE-YEAR STATISTICAL SUMMARY 2018

<i>As of March 31, 2018</i>	F2018	F2017	F2016
<b>Enforcement Activity</b>			
Complaints received	278	351	374
Concluded investigations	297	328	467
Current cases	139	139	124
Interim cease trade orders	3	4	1
Halt trade orders	1	2	1
Settlement agreements	2	8	6
Hearings commenced	5	6	7
Settlements agreed to	\$ 105,000	\$ 583,802	\$ 485,744
Settlements collected	\$ 125,110	\$ 484,802	\$ 485,744
Administrative penalties levied	\$ 780,275	\$ 1,040,311	\$ 2,595,000
Administrative penalties recovered	\$ 64,783	\$ 340,524	\$ 551,672
Prosecutions initiated in Provincial Court	0	1	0
Appeal hearings	1	2	6
Cease trade orders*	28	44	113
<b>Active Reporting Issuers</b>			
Principal Regulator – Alberta	565	605	669
Principal Regulator – Other	6,817	6,691	6,679
Total	7,382	7,296	7,348
<b>Prospectuses and Mutual Funds</b>			
Principal Regulator – Alberta	77	108	102
Principal Regulator – Other	689	625	557
Total	766	733	659
<b>Rights Offerings</b>			
Principal Regulator – Alberta	7	10	2
Principal Regulator – Other	21	25	13
Total	28	35	15
<b>Exemption Applications (Corporate Finance)</b>			
Principal Regulator – Alberta	83	109	126
Principal Regulator – Other	1	23	95
Total	84	132	221
<b>Continuous Disclosure Reviews (Principal Regulator – Alberta)</b>			
Full	34	52	75
Issue-Oriented	213	165	71
Total	247	217	146
<b>Total Registered Firms</b>	<b>912</b>	894	871
<b>Total Registered Individuals**</b>	<b>30,234</b>	29,842	29,192

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

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

\*\* Amounts do not include permitted individuals (CEO, CFO, COO or shareholders that own 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 6, 2018, should be read in conjunction with the Alberta Securities Commission's March 31, 2018 audited financial statements and the accompanying notes, prepared in accordance with Canadian public sector accounting standards. Certain statements outlining fiscal 2019 expectations are forward-looking and are subject to risks and uncertainties. Furthermore, assumptions in the "Fiscal 2019 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 F2018, 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, an industry-funded provincial corporation without share capital, is the regulatory agency responsible for administering the province's securities laws. It is entrusted with fostering a fair and efficient capital market in Alberta and 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.



**SELECTED ANNUAL INFORMATION**

<i>thousands of dollars</i>	<b>F2018</b>	<b>F2018</b>	F2017	F2016
	<b>Budget</b>	<b>Actual</b>	Actual	Actual
Revenue	<b>47,223</b>	<b>55,392</b>	50,947	36,058
Regulatory expenses	<b>41,011</b>	<b>39,740</b>	38,382	37,370
Operating surplus (deficit)	<b>6,212</b>	<b>15,652</b>	12,565	(1,312)
<b>Financial assets</b>				
Cash		<b>17,691</b>	16,815	10,013
Investments		<b>45,273</b>	29,198	20,970
<b>Liabilities</b>				
Lease inducements		<b>1,792</b>	1,898	2,116
Accrued pension liability		<b>9,814</b>	9,098	8,296
Net financial assets		<b>45,781</b>	30,635	17,352
Accumulated surplus		<b>51,388</b>	36,305	23,578
Capital assets		<b>5,410</b>	5,429	5,965
Capital additions	<b>1,010</b>	<b>1,050</b>	580	434

**HIGHLIGHTS**

The ASC had a \$15.7 million operating surplus in F2018 compared with an operating surplus of \$12.6 million in F2017. The ASC's budgeted surplus for F2018 was \$6.2 million.

Total revenue increased by \$4.4 million in F2018 and exceeded budget by \$8.2 million. During F2017, the ASC implemented a new fee rule, ASC Rule 13-501 *Fees* (Fee Rule) after completing a public consultation process; F2018 was the first full year of the Fee Rule. This rule was one of the primary reasons for the increase in total revenue; specifically, revenue related to annual financial statements filings and registration fees. Prior to this, the last significant fee increase was over 10 years ago. Over the years, regulatory obligations have increased and evolved. From F2011 to F2016, the ASC operated at a structural deficit, at which time we drew down our investments to our minimum sustainable balance, thereby forestalling a fee increase for as long as possible. An operating surplus from the Fee Rule was expected and necessary to ensure that the ASC is appropriately funded to meet its existing and future capital and operating requirements; execute its strategic plan; protect investors through education and enforcement initiatives; and continue to have a strong presence to advocate effectively for Alberta's unique capital market in national initiatives.

Administrative penalties and other enforcement receipts were \$586,000 and \$176,000 lower than the prior year and budget, respectively. Enforcement receipts fluctuate annually because of variability in types of cases, the timing of their resolution and success in collections efforts. Investment income increased by \$379,000 from the prior year, primarily the result of an improving capital market, an increase in the investment balance and a new investment policy permitting investment in a global equity pool.

Total F2018 expenses were lower than budget by \$1.3 million due to effective cost controls and a higher than expected staff vacancy rate. This was partially offset by higher premises costs resulting from additional space and the reinstatement of property tax due to a change in legislation that required the ASC to resume paying property tax starting January 2018. Expenses increased by \$1.4 million from F2017 due to higher salaries and benefits expenses resulting from a lower vacancy rate in F2018, higher premises costs and increased funds for investor education efforts.

## ANALYSIS OF FISCAL 2018 OPERATING RESULTS

### REVENUE

<i>thousands of dollars</i>	<b>F2018</b>	<b>F2018</b>	F2017
	<b>Budget</b>	<b>Actual</b>	Actual
Fees			
Annual financial statements	<b>15,000</b>	<b>19,581</b>	16,363
Registration	<b>15,557</b>	<b>16,382</b>	14,889
Distribution of securities	<b>14,313</b>	<b>16,239</b>	16,195
SEDI, exempt distributions & registration late filing fees	<b>400</b>	<b>656</b>	748
Orders (applications)	<b>190</b>	<b>107</b>	141
Total fees	<b>45,460</b>	<b>52,965</b>	48,336
Other revenue			
Investment income	<b>1,000</b>	<b>1,818</b>	1,439
Other enforcement receipts	<b>500</b>	<b>503</b>	813
Administrative penalties	<b>250</b>	<b>71</b>	347
Conference and other	<b>13</b>	<b>35</b>	12
Total revenue	<b>47,223</b>	<b>55,392</b>	50,947

The ASC collects 95.6 per cent (94.9 per cent in F2017) 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. The Fee Rule was implemented to ensure that the ASC has adequate resources to sustain operations for a number of years.

### Annual Financial Statements

Effective December 1, 2016, annual financial statement filing fees for non-investment fund reporting issuers changed from a fixed fee model to a participation fee model based on average market capitalization. F2018 was the first full year the Fee Rule was effective. Annual financial statement filing fees totalled \$19.6 million (\$16.4 million in F2017), which was higher than budget due to a growth in the average market capitalization of Alberta reporting issuers. These fees accounted for 37.0 per cent of the ASC's total fee revenue (33.9 per cent in F2017). The total number of active reporting issuers in Alberta at March 31, 2018 was 7,382 (7,296 at March 31, 2017), with an average market capitalization during F2018 of \$3,808.4 billion (\$3,434.9 billion in F2017).

### Registration

Fee receipts of \$16.4 million in F2018 (\$14.9 million in F2017) were received from registered firms and individuals. This accounted for 30.9 per cent of fees (30.8 per cent in F2017). In total 912 firms and 30,234 individuals paid registration fees in Alberta (894 firms and 29,842 individuals in F2017). Registration fees were higher than the prior year primarily due to new fees for international dealers and specified regulated entities under the Fee Rule. Approximately 80 per cent of these fees were received from registration renewals.

### 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 (\$6.7 million in F2017) and 13.4 per cent (13.9 per cent in F2017) 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 \$9.1 million in F2018 (\$9.5 million in F2017) and 17.2 per cent (19.6 per cent in F2017) of total fees. The increase in F2018 was due to an increase in filing fee rates for prospectus-exempt filings and prospectus filings for reporting issuers that are not investment funds. This was partially offset by eliminating the variable component of distribution fees for reporting issuers that are not investment funds.

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 \$656,000 (\$748,000 in F2017), 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)

In F2018, 108 applications were received (173 in F2017) for various orders from the ASC. Fewer applications were received in F2018 for cease trade orders, cease to be a reporting issuer orders and exemptive relief orders, primarily due to the expansion of the passport system to allow issuers to file a single application with their principal regulator to cease to be a reporting issuer.

## OTHER REVENUE SOURCES

### Investment Income

In F2018, investment income totalled \$1.8 million (\$1.4 million in F2017). This included investment income from interest-bearing securities of \$832,000 (\$1.0 million in F2017) and investment income from equities of \$986,000 (\$432,000 in F2017).

### Other Enforcement Receipts

<i>thousands of dollars</i>	<b>F2018</b>	F2017
<b>Disgorgements</b>		
Assessed	-	1,602
Uncollectible	-	(1,602)
Recoveries of prior-year assessments	<b>351</b>	-
<b>Settlement receipts</b>		
Assessed	<b>105</b>	584
Uncollectible	-	(99)
Recoveries of prior-year assessments	<b>20</b>	-
<b>Cost recoveries</b>		
Assessed	<b>257</b>	627
Uncollectible	<b>(251)</b>	(359)
Recoveries of prior-year assessments	<b>21</b>	60
<b>Total</b>	<b>503</b>	813

Disgorgements represent orders to be paid based on amounts made from actions that violated the *Securities Act* (Alberta). Settlement receipts arise from negotiated settlements that include a financial payment. Cost recovery receipts can either be agreed in settlements or ordered by an ASC panel. Other enforcement receipts depend on the circumstances of specific cases and vary from year to year.

## Administrative Penalties

<i>thousands of dollars</i>	<b>F2018</b>	F2017
Administrative penalties		
Assessed penalties	<b>780</b>	1,040
Uncollectible	<b>(773)</b>	(1,005)
Recoveries of prior-year assessments	<b>58</b>	306
Interest income & other	<b>6</b>	6
<b>Total</b>	<b>71</b>	347

Administrative penalties are financial penalties imposed by an ASC panel. Similar to other enforcement receipts, the amount of these penalties depends on the circumstances of specific cases and vary 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) restricts the use of revenue the ASC receives from administrative penalties to certain operating expenditures that educate investors and enhance participants' knowledge of how securities markets operate.

The decrease in restricted cash of \$535,000 was the result of a transfer of \$640,000 to fund eligible expenditures (\$519,000 in F2017), partially offset by prior and current year collections of \$65,000 (\$341,000 in F2017), \$34,000 of conference fees (\$11,000 in F2017) and interest income of \$6,000 (\$6,000 in F2017). See Note 3 of the March 31, 2018 annual audited financial statements for the change in restricted cash.

Current year administrative penalties and other enforcement receipts totalled \$574,000 (\$1.2 million in F2017) and compare to a five-year average of \$1.1 million 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 \$450,000 in F2018 (\$366,000 in F2017) 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 F2018: ASC Connect and a 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 F2018, expenses were 3.1 per cent less than budget.

### REGULATORY EXPENSES

<i>thousands of dollars</i>	<b>F2018</b>	<b>F2018</b>	F2017
	<b>Budget</b>	<b>Actual</b>	Actual
Salaries and benefits	<b>29,530</b>	<b>28,719</b>	27,971
Premises	<b>3,400</b>	<b>3,693</b>	3,318
Administration	<b>3,287</b>	<b>3,006</b>	2,697
Professional services	<b>2,809</b>	<b>2,540</b>	2,762
Amortization of capital assets	<b>1,250</b>	<b>1,067</b>	1,115
Investor education	<b>735</b>	<b>715</b>	519
	<b>41,011</b>	<b>39,740</b>	38,382

### Salaries and Benefits

Compensation expenses accounted for 72.3 per cent of total costs in F2018 (72.9 per cent in F2017) and increased by \$748,000 from the prior year due to a lower staff vacancy rate and increased use of contractors in F2018. ASC staff was comprised of an average of 183 full-time employees during the year (180 in F2017). While the staff vacancy rate was lower than the prior year, it was higher than budgeted. Compensation costs were lower than budget by \$811,000 because of a higher staff vacancy rate than budgeted, including a vice-chair vacancy for the entire fiscal year. Compensation also includes a variable pay program that represented 7.4 per cent (7.6 per cent in F2017) of total salaries and benefits expenses.

### Premises

Premises costs comprised 9.3 per cent of total costs (8.6 per cent in F2017). These costs increased by \$375,000 in F2018 due to the reinstatement of property tax starting January 2018, leasing additional office space starting August 2017, and an annual increase in operating costs. Premises costs were higher than budget by \$293,000, primarily due to the reinstatement of property tax payments.

### Administration

Administration costs increased by \$309,000 in F2018. These costs were \$281,000 less than budget and accounted for 7.6 per cent of total costs (7.0 per cent in F2017). The administration cost category includes office operations, independent member fees and travel.

Office operating costs increased by \$232,000 compared with the prior year; however, they were \$109,000 less than budget due to effective cost control efforts within repairs and maintenance, communications, technology licences, supplies, library, job advertising and equipment rental. Travel expenses were consistent with the prior year, but \$165,000 less than budget. Travel expenses are required primarily for participation in CSA matters and for enforcement activities. Independent member fees increased by \$72,000 in F2018 because there were additional members who participated in hearings due to a vice-chair vacancy and one additional independent member compared with the prior year. Independent member fees were consistent with budget.

### Professional Services

Professional services costs accounted for 6.4 per cent of total costs (7.2 per cent in F2017). These costs were lower than the prior year and budget by \$222,000 and \$269,000, respectively, primarily due to lower contract services expenses resulting from cost control efforts. This was partially offset by higher service charges from the Investment Industry Regulatory Organization of Canada (IIROC).

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 basis by CSA members; the ASC paid \$227,000 or 11.7 per cent (\$227,000 or 11.8 per cent in F2017) of these costs.

### Amortization of Capital Assets

Amortization expense accounted for 2.7 per cent of total costs (2.9 per cent in F2017). Amortization expense decreased by \$48,000 and \$183,000 compared to the prior year and budget, respectively. This was a result of lower capital additions during F2017 and a significant portion of capital additions occurring in the second half of F2018.

## Investor Education

Investor education costs were \$196,000 higher than the prior year and \$20,000 lower than budget. Investor education activities included public awareness campaigns, such as fraud prevention month, binary options education and elder abuse awareness. The ASC also engaged in cost-effective TV and radio advertisements and made improvements to its CheckFirst.ca website.

### EXPENSES BY DIVISION

<i>thousands of dollars</i>	<b>F2018</b>	<b>F2018</b>	F2017
	<b>Budget</b>	<b>Actual</b>	Actual
Enforcement	<b>8,433</b>	<b>8,022</b>	7,647
Corporate Finance	<b>6,841</b>	<b>6,732</b>	6,610
Market Regulation	<b>6,422</b>	<b>6,138</b>	5,736
Corporate Resources	<b>4,886</b>	<b>5,040</b>	4,844
Office of the Chair and Members	<b>3,357</b>	<b>2,865</b>	3,085
Communications and Investor Education	<b>2,554</b>	<b>2,390</b>	2,485
Office of the Chief Accountant and Financial Services	<b>1,438</b>	<b>1,446</b>	1,329
Office of the General Counsel	<b>1,272</b>	<b>1,232</b>	1,218
Office of the Executive Director	<b>1,158</b>	<b>1,115</b>	995
Expenses not allocated <sup>1</sup>	<b>4,650</b>	<b>4,760</b>	4,433
<b>Total</b>	<b>41,011</b>	<b>39,740</b>	38,382

<sup>1</sup> Expenses not allocated include amortization of capital assets and premises.

Division expenses are primarily for staff and professional services.

Independent member fees are recorded in the 'Office of the Chair and Members' section. These fees vary due to the number and duration of hearings. See Salary & Benefits Disclosure in the March 31, 2018 annual audited financial statements for further information.

### CAPITAL EXPENDITURES

<i>thousands of dollars</i>	<b>F2018</b>	<b>F2018</b>	F2017
	<b>Budget</b>	<b>Actual</b>	Actual
Computer equipment and software	<b>650</b>	<b>601</b>	516
Leaseholds	<b>285</b>	<b>301</b>	26
Furniture and equipment	<b>75</b>	<b>148</b>	38
<b>Total</b>	<b>1,010</b>	<b>1,050</b>	580

In F2018, capital expenditures were primarily related to technology projects. In addition, the ASC leased additional office space, resulting in leasehold and furniture expenditures.

## 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 includes guidance relating to governance, asset mix and minimum target balance. On August 1, 2017, the ASC implemented a new investment policy and acquired investments in the Global Equities Master Pool.

The ASC's investment manager, 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:

- Fixed-income pool securities (market value) – a gain of 1.8 per cent in F2018, compared with a gain of 1.1 per cent in F2017.
- Global equities pool funds (market value) – a gain of 11.0 per cent in F2018 (not invested in F2017).
- Canadian equities pool funds (market value) – a gain of 2.5 per cent in F2018, compared with a gain of 17.9 per cent in F2017.
- Money market funds – a gain of 1.6 per cent in F2018, compared with a gain of 1.1 per cent in F2017.

Fixed-income pool securities are sensitive to interest rate fluctuations. At March 31, 2018, ASC fixed-income pool security investments of \$31.6 million market value had maturities that range from under one year (16.7 per cent) to greater than 10 years (27.3 per cent) with an average duration of 7.4 years (6.9 years in F2017). 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 5.0 per cent (6.4 per cent in F2017).

### Liquidity

The minimum target balance for the combined investments and cash balances is 50.0 per cent of the average forecast annual expenses for the current fiscal year and budgeted annual expenses for the next fiscal year. This target for F2019 is \$22.0 million. The F2019 year-end balance of investments and cash is expected to be \$71.3 million compared with the March 31, 2018 balance of \$63.0 million.

The ASC has sufficient resources to fund future operations and capital purchases with cash of \$17.7 million (\$16.8 million in F2017) and investments with a market value of \$45.3 million (\$29.2 million in F2017).

## QUARTERLY VARIANCE ANALYSIS

### QUARTERLY RESULTS SUMMARY

<i>thousands of dollars</i>	F2018				F2017			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	(Jan-Mar)	(Oct-Dec)	(July-Sept)	(Apr-June)	(Jan-Mar)	(Oct-Dec)	(July-Sept)	(Apr-June)
Revenue								
Fees & other	32,274	5,697	5,106	10,497	31,794	5,276	4,009	8,429
Investment income	277	472	777	292	240	353	400	446
	32,551	6,169	5,883	10,789	32,034	5,629	4,409	8,875
Regulatory expenses								
Salaries & benefits	7,294	7,073	7,127	7,225	7,451	6,859	6,824	6,837
Other	4,250	2,517	2,088	2,166	3,993	2,480	1,976	1,962
	11,544	9,590	9,215	9,391	11,444	9,339	8,800	8,799
Operating surplus (deficit)	21,007	(3,421)	(3,332)	1,398	20,590	(3,710)	(4,391)	76
Investments	45,273	30,236	29,312	29,348	29,198	20,740	22,296	21,721
Cash	17,691	9,693	12,445	15,873	16,815	3,092	4,478	8,487
Restricted cash	-	544	543	541	535	701	699	698

### Fee Revenue

Quarterly fee revenue is variable due to the timing of fee-related filings among 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 IIROC a portion of IIROC members' annual registration renewal fees. Approximately \$1.3 million was paid in F2018 (\$1.2 million in F2017).

Other expenses vary from quarter to quarter because of the timing of expenditures. For example, professional services for enforcement activities depend on the nature of investigations and the timing of expert reports, and on testimony required for hearings and trials. Investor education activities generally correspond with investor education and fraud prevention month.

### CONTRACTUAL OBLIGATIONS

Commitments to outside organizations as at March 31, 2018 totalled \$37.0 million (\$31.4 million in F2017). Commitments include leases of premises to 2025 and rental of office equipment to 2022. See Note 9(A) of the March 31, 2018 annual audited financial statements for the commitments schedule.

The ASC also has contractual commitments to maintain a supplemental pension plan for certain senior executives. The expected payment amounts are recorded as liabilities.

## FINANCIAL INSTRUMENTS

The ASC's financial instruments include cash, accounts receivable, restricted cash, investments, and accounts payable and accrued liabilities. AIMCo manages investments that include derivative contracts for effective investment risk and return management. Details of these financial instruments are described in the Investments section of the MD&A and the notes to the March 31, 2018 annual audited financial statements.

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

## RELATED PARTY TRANSACTIONS

The ASC is related to all provincial government ministries, agencies, boards, commissions and Crown corporations through the common Government of Alberta reporting entity. See Note 11 of the March 31, 2018 annual audited financial statements for related party transactions.

## CSA NATIONAL SYSTEMS

See Note 8 of the March 31, 2018 annual audited financial statements for 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 on-site at Centennial Place. Should any or all systems running at the primary site fail, the secondary data centre will take over. The ASC can run indefinitely using the secondary data centre until primary services are restored. Remote access capability exists for all priority ASC systems, which enables ASC staff to continue critical work, supported through information technology, if ASC offices are not accessible.

### Risk Assessment and Mitigation

Key risks to the effective operations of the ASC include loss of key personnel, disruption and loss of computing systems, crises beyond our control, or loss of public confidence in the ASC. The ASC has a comprehensive crisis management program in place including systems, protocols and controls designed to lessen the impact on business processes and minimize the risks. During F2017, the ASC performed an extensive review of key risks to the organization, including identification of controls and activities to address those risks and estimation of the remaining risk exposure. The comprehensive F2017 risk review was updated through a targeted risk review in F2018. 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. During F2017, the ASC engaged an independent contractor to undertake a comprehensive cybersecurity maturity and vulnerability assessment to understand the current state of the ASC's cybersecure capability and controls against industry-leading practices, and to provide remediation advice to enhance security further. The ASC has implemented measures to respond to the recommendations in the report. Some have been fully addressed in F2018 and steps are underway to address the remainder.

### 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 2019 OUTLOOK

### Revenue

F2019 revenue is anticipated to be \$51.7 million, compared with budgeted revenue in F2018 of \$47.2 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.

### Expenses

F2019 expenses are expected to be \$43.7 million, an increase of \$2.7 million over F2018 budgeted expenses of \$41.0 million. This is expected to result in a forecasted operating surplus of \$8.0 million. This surplus will address a prior structural deficit and is intended to retain a solid financial base from which to execute our strategic plan.

### Liquidity and Cash Flow

The cash requirements for F2019 operations and capital budgets can be met from existing cash and investment balances.

### Risks and Uncertainties

The F2019 budget is based on the ASC's experience, our assessment of historical and future trends and the application of key assumptions relating to future events. These assumptions include fee income trends consistent with that of the 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.

# Financial Statements

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying 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 6, 2018



# Independent Auditor's Report

To the Members of the Alberta Securities Commission

## REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of the Alberta Securities Commission, which comprise the statement of financial position as at March 31, 2018, and the statements of change in net financial assets, operations, remeasurement gains and losses, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

## AUDITOR'S RESPONSIBILITY

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## OPINION

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Securities Commission as at March 31, 2018, 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.

[Original signed by W. Doug Wylie FCPA, FCMA, ICD.D]

**W. DOUG WYLIE FCPA, FCMA, ICD.D**

Auditor General

*June 6, 2018*

*Edmonton, Alberta*

**STATEMENT OF FINANCIAL POSITION**

<i>thousands of dollars</i>	<b>At March 31, 2018</b>	At March 31, 2017
<b>Financial Assets</b>		
Cash (Note 3)	<b>17,691</b>	16,815
Accounts receivable	<b>29</b>	32
Restricted cash (Note 3)	<b>-</b>	535
Investments (Note 4)	<b>45,273</b>	29,198
	<b>62,993</b>	46,580
<b>Liabilities</b>		
Accounts payable and accrued liabilities	<b>5,606</b>	4,949
Lease inducements	<b>1,792</b>	1,898
Accrued pension liability (Note 6)	<b>9,814</b>	9,098
	<b>17,212</b>	15,945
<b>Net Financial Assets</b>	<b>45,781</b>	30,635
<b>Non-Financial Assets</b>		
Capital assets (Note 5)	<b>5,410</b>	5,429
Prepaid expenses	<b>197</b>	241
	<b>5,607</b>	5,670
<b>Accumulated Surplus</b>	<b>51,388</b>	36,305
Accumulated surplus is comprised of:		
Accumulated operating surplus	<b>51,352</b>	35,700
Accumulated remeasurement gains	<b>36</b>	605
	<b>51,388</b>	36,305

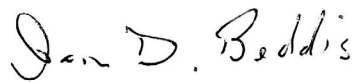
*Commitments and contingent liabilities (Note 9)*

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

*Approved by the Members*



**STAN MAGIDSON**  
Chair and Chief Executive Officer



**IAN BEDDIS**  
Chair of the Audit Committee

June 6, 2018

**STATEMENT OF CHANGE IN NET FINANCIAL ASSETS**

<i>thousands of dollars</i>	For year ended March 31		
	<b>2018</b>	<b>2018</b>	2017
	<b>Budget (Note 10)</b>	<b>Actual</b>	Actual
<b>Operating Surplus</b>	<b>6,212</b>	<b>15,652</b>	12,565
Acquisition of capital assets	<b>(1,010)</b>	<b>(1,050)</b>	(580)
Amortization of capital assets	<b>1,250</b>	<b>1,067</b>	1,116
Losses (Gains) on sale of capital assets		<b>1</b>	(1)
Proceeds on sale of capital assets		<b>1</b>	1
Prepayment of expenses		<b>(467)</b>	(439)
Reduction of prepaid expenses		<b>511</b>	459
Net remeasurement gains (losses)		<b>(569)</b>	162
Increase in net financial assets	<b>6,452</b>	<b>15,146</b>	13,283
Net financial assets, beginning of year	<b>30,635</b>	<b>30,635</b>	17,352
Net financial assets, end of year	<b>37,087</b>	<b>45,781</b>	30,635

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

**STATEMENT OF OPERATIONS**

<i>thousands of dollars</i>	For year ended March 31		
	2018 Budget (Note 10)	2018 Actual	2017 Actual
<b>Revenue</b>			
Fees (Note 7)	45,460	52,965	48,336
Investment income (Note 4(C))	1,000	1,818	1,439
Other enforcement receipts (Note 7)	500	503	813
Administrative penalties (Note 3)	250	71	347
Conference and other	13	35	12
	47,223	55,392	50,947
<b>Regulatory Expenses</b>			
Salaries and benefits	29,530	28,719	27,971
Premises	3,400	3,693	3,318
Administration	3,287	3,006	2,697
Professional services	2,809	2,540	2,762
Amortization of capital assets (Note 5)	1,250	1,067	1,115
Investor education	735	715	519
	41,011	39,740	38,382
<b>Operating Surplus</b>	6,212	15,652	12,565
<b>Accumulated Operating Surplus, beginning of year</b>	35,700	35,700	23,135
<b>Accumulated Operating Surplus, end of year</b>	41,912	51,352	35,700

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

**STATEMENT OF REMEASUREMENT GAINS AND LOSSES (NOTE 4)**

<i>thousands of dollars</i>	For year ended March 31	
	2018	2017
Accumulated remeasurement gains, beginning of year	605	443
Unrealized gains (losses) on investments during the year	(304)	206
Less: Amounts reclassified during the year to the Statement of Operations	(265)	(44)
Net remeasurement gains (losses) for the year	(569)	162
Accumulated remeasurement gains, end of year	36	605

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

**STATEMENT OF CASH FLOWS**

<i>thousands of dollars</i>	For year ended March 31	
	<b>2018</b>	2017
<b>Operating Transactions</b>		
Fees and other	<b>53,474</b>	48,510
Payments to and on behalf of employees	<b>(28,052)</b>	(27,047)
Payments to suppliers for goods and services	<b>(9,894)</b>	(8,968)
Investment income (Note 4(C))	<b>1,818</b>	1,439
Other enforcement receipts (Note 7)	<b>503</b>	813
Administrative penalties (Note 3)	<b>71</b>	347
Cash received from operating transactions	<b>17,920</b>	15,094
<b>Capital Transactions</b>		
Cash used to acquire capital assets	<b>(939)</b>	(388)
Proceeds on sale of capital assets	<b>1</b>	1
Cash used in capital transactions	<b>(938)</b>	(387)
<b>Investing Transactions</b>		
Decrease in restricted cash (Note 3)	<b>535</b>	161
Purchases of investments	<b>(16,641)</b>	(9,366)
Disposals of investments	<b>-</b>	1,300
Cash used in investing transactions	<b>(16,106)</b>	(7,905)
Increase in cash	<b>876</b>	6,802
Cash, beginning of year	<b>16,815</b>	10,013
Cash, end of year	<b>17,691</b>	16,815

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

# Notes to the Financial Statements

March 31, 2018

## NOTE 1 NATURE OF OPERATIONS

The Alberta Securities Commission (ASC), a provincial corporation operating under the *Securities Act* (Alberta), is the regulatory agency responsible for administering the province's securities laws. The ASC, as an Alberta provincial corporation, 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 of the pools and the 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;
- 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; and
- the pools include derivative contracts that contain 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. The value of derivative contracts is included in the fair value of the pools.

#### 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 the pooled units and realized gains and losses on sale of the pool units. When the 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, restricted cash, accounts receivable, accounts payable and accrued liabilities are recognized at cost or amortized cost. 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, 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 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 established a retirement plan for one employee at the time of the transition to a provincial corporation. The employee is retired and the plan costs are fully provided for. During F2018, the ASC fulfilled its obligations under this plan.

The ASC maintains a supplemental pension plan for certain designated executives of the ASC. 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 of 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 (8.3 years and 15 years, both ending November 30, 2025).

### 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 what, if any, subsequent recoveries may occur.

### J) Restricted Cash

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

### K) Change in Accounting Policies

The ASC has prospectively adopted the following standards effective April 1, 2017: PS 2200 Related Party Disclosures, PS 3420 Inter-Entity Transactions, PS 3210 Assets, PS 3320 Contingent Assets (PS 3320) and PS 3380 Contractual Rights (PS 3380). These are reflected in Notes 2 and 11. PS 3320 and PS 3380 did not have any impact to the ASC's financial statements.

### L) Future Accounting Changes

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

#### PS3430 Restructuring Transactions (effective April 1, 2018)

This standard provides guidance on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities, together with related program or operating responsibilities.

#### PS3280 Asset Retirement Obligations (effective April 1, 2021)

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

Management is currently assessing the impact of these standards on the ASC's financial statements. At this time, management does not anticipate any material changes.

## NOTE 3 CASH AND RESTRICTED CASH

<i>thousands of dollars</i>	<b>2018</b>	2017
Cash	<b>17,691</b>	16,815
Restricted Cash	-	535

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>	2018	2017
<b>Administrative Penalties</b>		
Assessed penalties	780	1,040
Less provision for uncollectible amounts	(773)	(1,005)
Plus recoveries of prior-year assessments	58	306
	65	341
Interest income and other	6	6
<b>Administrative penalties</b>	71	347
Plus conference fees	34	11
Less eligible restricted cash expenses (investor education)	(640)	(519)
Decrease in restricted cash	(535)	(161)
<b>Restricted cash, beginning of year</b>	535	696
<b>Restricted cash, end of year</b>	-	535

Cash and restricted cash consist 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. As at March 31, 2018, the ASC received an annualized return of 1.1 per cent (0.9 per cent in F2017).

## NOTE 4 INVESTMENTS

### A) Summary

<i>thousands of dollars</i>	2018				2017		
Investments	Cost	Remeasurement Gains (Losses)	Fair Value	%	Cost	Fair Value	%
Fixed-income securities	31,885	(298)	31,587	69.8	21,870	21,785	74.6
Global equities	10,150	181	10,331	22.8	-	-	-
Canadian equities	2,974	153	3,127	6.9	6,642	7,332	25.1
CCITF deposit	228	-	228	0.5	81	81	0.3
	45,237	36	45,273	100.0	28,593	29,198	100.0

At March 31, 2018, 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. The Canadian and global equities pools hold units in these equity pools.

### Fair Value Hierarchy

The table below provides a summary of management's estimate of the relative reliability of data or inputs used to measure the fair value of the ASC's investments. The measure of reliability is determined based on the following:

**I. LEVEL ONE:**

Fair value is based on unadjusted quoted prices in active markets for identical assets or liabilities traded in active markets. Level one primarily includes publicly traded listed equity investments.

**II. LEVEL TWO:**

Fair value is based on valuation methods that make use of inputs, other than quoted prices included within level one, that are observable by market participation either directly through quoted prices for similar but not identical assets or indirectly through observable market information used in valuation models. Level two primarily includes debt securities and derivative contracts not traded on a public exchange and public equities not traded in an active market. For these investments, fair values are either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.

**III. LEVEL THREE:**

Fair value is based on valuation methods where inputs that are based on non-observable market data have a significant impact on the valuation. For these investments, trading activity is infrequent and fair values are derived using valuation techniques.

<i>thousands of dollars</i>	Level One	Level Two	Level Three	Total
Fixed-income securities	–	31,587	–	<b>31,587</b>
Global equities	7,728	623	1,980	<b>10,331</b>
Canadian equities	2,376	142	609	<b>3,127</b>
CCITF deposit	–	228	–	<b>228</b>
	10,104	32,580	2,589	<b>45,273</b>
	22.3%	72.0%	5.7%	<b>100.0%</b>

<i>thousands of dollars</i>	March 31, 2018
<b>Reconciliation of Level 3 Investments</b>	
Balance, beginning of year	<b>1,332</b>
Unrealized gains	<b>76</b>
Purchases of Level 3 pooled fund units	<b>1,279</b>
Sales of Level 3 pooled fund units	<b>(98)</b>
Balance, end of year	<b>2,589</b>

**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 at March 31:

Credit Rating	2018	2017
Investment Grade (AAA to BBB-)	99.2%	99.9%
Speculative Grade (BB+ or lower)	0.7%	0.3%
Unrated	0.1%	(0.2%)
	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:

thousands of dollars Currency	March 31, 2018		March 31, 2017	
	Fair Value	Sensitivity*	Fair Value	Sensitivity*
U.S. Dollar	6,270	627	(23)	(2)
Euro	1,240	124	69	7
Japanese Yen	870	87	(17)	(2)
British Pound Sterling	630	63	(24)	(2)
Swiss Franc	270	27	(48)	(5)
Australian Dollar	240	24	5	1
Other Foreign Currency	430	43	33	3
Total Foreign Currency Investments	9,950	995	(5)	-

\*Sensitivity refers to the fair value impact when the value of the Canadian dollar increases by 10% 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 5.0 per cent of total investments (4.8 per cent in F2017).

The following table summarizes the terms to maturity of interest-bearing securities held in pooled investment funds at March 31, 2018.

	<1 year	1-5 years	Over 5 years	Repurchase Agreements **
Interest-bearing securities	16.7%	47.9%	64.3%	(28.9%)

\*\*All repurchase agreements are less than 1 year.

## 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 3.3 per cent of total investments (2.5 per cent in F2017).

## V. LIQUIDITY RISK

Liquidity risk is the risk that 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 included \$832,000 from interest-bearing securities (\$1.0 million in F2017) and \$986,000 from equities (\$432,000 in F2017). The ASC's investments earned a return of 3.9 per cent for the year ended March 31, 2018 (7.1 per cent in F2017). 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 3.1 per cent in F2018 and a benchmark return of 5.7 per cent in F2017.

### NOTE 5 CAPITAL ASSETS

<i>thousands of dollars</i>	<b>Computer Equipment &amp; Software</b>	<b>Furniture &amp; Equipment</b>	<b>Leaseholds</b>	<b>2018 Total</b>	2017 Total
<b>Estimated useful life</b>	3 years	10 years	Lease duration		
<b>Cost</b>					
Beginning of year	<b>3,572</b>	<b>2,745</b>	<b>6,703</b>	<b>13,020</b>	12,599
Additions	<b>601</b>	<b>148</b>	<b>301</b>	<b>1,050</b>	580
Disposals	<b>(368)</b>	-	-	<b>(368)</b>	(159)
	<b>3,805</b>	<b>2,893</b>	<b>7,004</b>	<b>13,702</b>	13,020
<b>Accumulated amortization</b>					
Beginning of year	<b>2,910</b>	<b>1,730</b>	<b>2,951</b>	<b>7,591</b>	6,634
Amortization expense	<b>354</b>	<b>253</b>	<b>460</b>	<b>1,067</b>	1,116
Disposals	<b>(366)</b>	-	-	<b>(366)</b>	(159)
	<b>2,898</b>	<b>1,983</b>	<b>3,411</b>	<b>8,292</b>	7,591
<b>Net book value</b>	<b>907</b>	<b>910</b>	<b>3,593</b>	<b>5,410</b>	5,429

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>	<b>2018</b>	2017
Supplemental Pension Plan	<b>9,814</b>	9,088
Retirement Plan	-	10
	<b>9,814</b>	9,098

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

<i>thousands of dollars</i>	<b>2018</b>	2017
Public Service Pension Plan	<b>1,316</b>	1,286
Registered Retirement Savings Plan (RRSP)	<b>674</b>	662
Supplemental Pension Plan	<b>1,050</b>	1,098
	<b>3,040</b>	3,046

### A) Retirement Plan

The Retirement Plan was fully paid out in August 2017.

### B) Public Service Pension Plan

The ASC participates in the Public Service Pension Plan. At December 31, 2017, the Public Service Pension Plan reported a surplus of \$1.3 billion (a surplus of \$303.0 million as at December 31, 2016). The ASC is not responsible for future funding of any plan deficit other than through contribution increases.

### C) RRSP

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

### D) 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 with the ASC. Members of the Supplemental Pension Plan become vested in the benefits of 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>	2018	2017
<b>Supplemental Pension Plan</b>		
Accrued benefit and unfunded obligation	9,262	9,934
Unamortized actuarial gain (loss)	552	(846)
Accrued benefit liability	9,814	9,088

<i>thousands of dollars</i>	2018	2017
<b>Accrued Benefit Obligation</b>		
Accrued benefit obligation at beginning of year	9,934	9,505
Service cost	300	370
Interest cost	350	327
Benefits paid	(325)	(268)
Actuarial gain – experience & assumptions	(997)	–
Accrued benefit obligation at end of year	9,262	9,934

<i>thousands of dollars</i>	2018	2017
<b>Pension Expense for the Supplemental Pension Plan</b>		
Service cost	300	370
Interest cost	350	327
Amortization of actuarial losses during the year	400	401
	1,050	1,098

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	2018	2017
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%	2.25%
Salary increases, year-end obligation*	2.50%	3.00%
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>	2018	2017
<b>Fees</b>		
Annual financial statements	19,581	16,363
Registration	16,382	14,889
Distribution of securities	16,239	16,195
SEDI, exempt distributions & registration late filing fees	656	748
Orders (applications)	107	141
	<b>52,965</b>	<b>48,336</b>

<i>thousands of dollars</i>	2018	2017
<b>Other Enforcement Receipts</b>		
Settlement payments, disgorgements and cost recoveries assessed	362	2,813
Less provision for uncollectible amounts	(251)	(2,060)
Plus recoveries of prior-year assessments	392	60
	<b>503</b>	<b>813</b>

## NOTE 8 CSA NATIONAL SYSTEMS

The CSA National Systems are comprised of the following: System for Electronic Document Analysis and Retrieval (SEDAR), National Registration Database (NRD) and System for Electronic Disclosure by Insiders (SEDI). These systems are administered under a CSA National Systems operations management and governance agreement (the Agreement). The Agreement empowers the ASC, jointly with three other CSA members, to manage the systems and to engage an external service provider to operate the systems. As one of the agreement signatories, the ASC commits to pay 25.0 per cent of any shortfall from approved system operating costs that exceeds revenue. Alternatively, any revenue in excess of system operating costs (surplus) is accumulated for future systems operations, including possible revenue shortfalls, fee adjustments and system enhancements. The surplus is not divisible; the CSA owns it as a group. As at March 31, 2018 the accumulated operating surplus totalled \$162.9 million (\$151.7 million at March 31, 2017). This was primarily made up of \$115.3 million of marketable securities held in one-year and 15-month term deposits earning 1.8 per cent to 2.4 per cent and an investment account which pays interest at Bank of Canada overnight rate plus 0.5 per cent, \$22.6 million cash held by the Ontario Securities Commission earning interest at 1.85 per cent below the prime rate and \$18.4 million in intangible assets. In management's judgment, this arrangement is not a government partnership and the ASC does not control or have significant influence over how the net assets are managed.

## NOTE 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 are associated primarily with the lease of premises to November 30, 2025 and rental of office equipment to 2022 totalling \$37.0 million (\$31.4 million in F2017). These commitments become expenses of the ASC when the terms of the contracts are met.

<i>thousands of dollars</i>	
2018-19	4,490
2019-20	4,578
2020-21	4,719
2021-22	4,892
2022-23	4,934
Thereafter	13,420
<b>Total</b>	<b>37,033</b>

#### *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 F2018 budget was approved by the Commission on December 14, 2016.

## 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. The total transaction costs of \$69,000 (\$55,000 in F2017) were recognized in administration and investor education expenses, primarily for transcript and postage services as well as insurance. As at March 31, 2018, \$500 (\$8,000 in F2017) related to these transactions was outstanding in accounts payable.

## NOTE 12 COMPARATIVE FIGURES

Certain F2017 figures have been reclassified to conform to the F2018 presentation.

## Schedule 1 – Salary & Benefits Disclosure

<i>thousands of dollars</i>				2018	2017
	Base salary <sup>1</sup>	Other Cash benefits <sup>2</sup>	Other Non-cash benefits <sup>3</sup>	Total	Total
Chair and Chief Executive Officer (CEO), Alberta Securities Commission <sup>4</sup>	491	-	14	505	381
Executive Director, Alberta Securities Commission	379	64	235	678	651
Vice-Chair, Alberta Securities Commission <sup>4,5</sup>	375	59	49	483	504
Vice-Chair, Alberta Securities Commission <sup>4,6</sup>	-	-	-	-	592
Independent Members of the Alberta Securities Commission (aggregate) <sup>7</sup>	597	-	-	597	518

<sup>1</sup> Base salary includes regular salary or independent members' compensation.

<sup>2</sup> Other cash benefits may include variable pay, transit allowance, memberships and automobile allowance.

<sup>3</sup> Other non-cash benefits may include 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, fair market value of parking, professional memberships and tuition fees.

<sup>4</sup> The Chair and Vice-Chairs are full-time Commission Members. The Chair and CEO's term commenced on July 4, 2016, which fell in fiscal 2017.

<sup>5</sup> This Vice-Chair does not participate in the Supplemental Pension Plan (SPP), but participates in the RRSP program. This RRSP benefit is reported under Other Non-cash benefits. This Vice-Chair assumed the role of interim Chair & CEO from October 1, 2015 to July 3, 2016.

<sup>6</sup> This Vice-Chair retired on March 31, 2017. This position was vacant during F2018.

<sup>7</sup> The Independent Members' compensation includes total fees paid for governance responsibilities of \$328,000 (\$308,000 in F2017) and hearing and application panel participation of \$269,000 (\$210,000 in F2017).

Independent Member fees include:

	2018
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 supplemental pension plan (SPP), executive officers may receive supplemental pension payments. SPP 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 and 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 Pension Benefits

### ANNUAL EXPENSE

<i>thousands of dollars</i>			2018	2017
	Current service costs	Prior service and other costs	Total	Total
Chair and CEO, Alberta Securities Commission <sup>1</sup>	-	-	-	-
Executive Director, Alberta Securities Commission	82	101	183	176
Vice-Chair, Alberta Securities Commission <sup>2</sup>	-	-	-	-
Vice-Chair, Alberta Securities Commission <sup>3</sup>	-	-	-	173

The accrued obligation for each executive under the SPP is outlined in the following table:

### ACCRUED OBLIGATIONS

<i>thousands of dollars</i>	Accrued obligation March 31, 2017	Changes in accrued obligation	Accrued obligation March 31, 2018
Chair and CEO, Alberta Securities Commission <sup>1</sup>	-	-	-
Executive Director, Alberta Securities Commission	1,698	(162)	1,536
Vice-Chair, Alberta Securities Commission <sup>2</sup>	-	-	-
Vice-Chair, Alberta Securities Commission <sup>3</sup>	-	-	-

<sup>1</sup> The Chair and CEO does not participate in the SPP.

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

<sup>3</sup> This Vice-Chair retired on March 31, 2017. This position was vacant during F2018. An expense of \$173,000 in F2017 and an accrued obligation of \$1,149,000 as at March 31, 2017 relates to this Vice-Chair.

## 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 is a way to fund projects or ventures by raising money, generally small amounts from a large number of people. It is typically done via the internet. In Alberta, small and medium-sized businesses can raise money under rules set out in Multilateral Instrument 45-108 *Crowdfunding* and ASC Rule 45-517 *Prospectus Exemption for Start-Up Businesses*.

### **Cryptocurrency**

Cryptocurrencies are digital coins, tokens or currencies that rely on distributed ledger technology and cryptography to permit the decentralized and secure holding and transfer of the value or interest represented by the coin, token or currency. Cryptocurrencies may act as a store of value (like money), perform a function or represent an interest in an asset or enterprise.

### **Disciplined List (DL)**

The DL is the CSA's national internet search engine that allows the public to research if a person or company has been disciplined by a Canadian securities regulator, the MFDA or IIROC.

### **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 and Registration 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.

### **Heads of Agencies (HoA)**

The major financial regulators in Canada participate in meetings of the Heads of Agencies. The HoA includes the chairs of the four largest provincial securities regulators in Canada (Alberta, British Columbia, Ontario and Quebec), the Governor of the Bank of Canada, the Superintendent of Financial Institutions and senior government officials from the federal Department of Finance. The HoA serves as a forum for regulators to coordinate policy in areas of shared responsibility.

### **International Organization of Securities Commissions (IOSCO)**

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.

### **National Registration Search (NRS)**

The NRS is the CSA's national internet search engine that allows investors to check if an individual or firm is registered to sell investments.

### **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.

### **Regulatory Sandbox**

A CSA initiative, the regulatory sandbox allows business to apply to benefit from a more tailored approach to regulation while developing innovative financial products, services and applications while ensuring appropriate investor protection. Examples of business models potentially eligible for the CSA regulatory sandbox initiative include crowdfunding and robo-advisors, among others.

### **Robo-advisor**

Also sometimes known as an automated adviser, a robo-advisor is a digital platform that provides automated, algorithm-driven financial planning services.

### **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)**

The TSX is Canada's senior equities market, providing domestic and international investors with access to the Canadian marketplace.

### **TSX Venture Exchange (TSXV)**

The TSXV is the largest Canadian junior market, providing companies in the early stages of growth the opportunity to raise capital.

## 2018 ADVISORY COMMITTEES

The ASC has six advisory committees of industry representatives to provide advice concerning the development of new or amended securities regulation. These expert committees help keep staff up to date on industry views and current business practices. As the market evolves, so do the terms of reference for these committees, as we work to ensure their efforts best serve the Alberta capital market. The ASC would like to thank committee members for their insights and contributions over the past year.

### DERIVATIVES ADVISORY COMMITTEE

This committee advises Corporate Finance and Market Regulation staff on various policy issues and other matters of concern to Alberta derivatives marketplace participants.

**Cameron Bowman**  
ATB Financial

**Priscilla Bunke**  
PetroChina International (Canada) Trading Ltd.

**Jason Comandante**  
Capital Power

**Stephen Connelley**  
BP Canada Energy Group ULC

**Kara L. Dutta**  
Intercontinental Exchange

**Tim Elliott**  
CME Group

**Krista Friesen**  
Husky Energy Inc.

**Kerri L. Howard**  
DLA Piper (Canada) LLP

**Kerrie J. Logan**  
Retired

**Darren McAdoo, CMA**  
Suncor Energy Inc.

**Kari Olesen**  
Enbridge Inc.

**Daryck Riddell**  
TransAlta Corporation

**Rajeev Thakur**  
ICE NGX Canada Inc.

### EXEMPT MARKET DEALER ADVISORY COMMITTEE

This committee advises and provides views on proposed policy and market developments related to exempt market dealers.

**Sandra Bautz**  
ROQ Capital Partners Ltd.

**Philip du Heaume**  
Philip du Heaume Professional Corporation

**Jarrold Isfeld**  
DLA Piper (Canada) LLC

**Dean Koeller**  
Calvert Home Mortgage Investment Corporation

**Brian Koscak**  
Pinnacle Wealth Brokers Inc.

**Darcy Lake**  
Canoe Financial LP

**Joseph Lavoie**  
UMC Financial Management Inc.

**Brian Menges**  
Caplink Financial Corporation

**Craig Skauge**  
PCMA

**Kevin Wolfe**  
Richmond Equity Management Ltd.

### FINANCIAL ADVISORY COMMITTEE

This committee assists and advises the Office of the Chief Accountant on current and proposed accounting, auditing and securities matters.

**Scott Bandura, CPA, CA**  
PricewaterhouseCoopers LLP

**Catherine Best, FCA, ICD.D**  
Corporate Director

**Terry Booth, FCPA, FCA, CF**  
Collins Barrow Calgary LLP

**Matt Bootle, FCA**  
Ernst & Young LLP

**Denise Bright, CA, CF**  
Bennett Jones LLP

**Sean Du Plessis, CA**  
Meyers Norris Penny LLP

**Imam Hasan, CPA, CA**  
KPMG LLP

**Chris Johnston, CA**  
Enbridge Energy Partners, LP

**Mike Mazar, CA, CFA**  
BMO Capital Markets

**Patricia Newson, FCA, ICD.D**  
Corporate Director

**Christopher Webster, CGA, CFA**  
PENGROWTH Energy Corporation

**Ward Zimmer, CA**  
Deloitte LLP

### MARKET ADVISORY COMMITTEE

The purpose of this committee is to advise and serve as a vehicle for communication of ideas, issues and concerns, proposed policy and developments from a market structure, trading and dealing perspective.

**Leslee Altin**  
Peters & Co. Limited

**Derrick Auch**  
DLA Piper (Canada) LLC

**Jocelyn Beckett**  
AltaCorp Capital Inc.

**Jim Dale**  
Leede Jones Gable Inc.

**Brady Fletcher**  
TSX Venture Exchange Inc.

**Warren Funt**  
IIROC

**Steven Harvey**  
Fidessa

**Brett Kimak**  
ATB Investment Management Inc.

**Myja Miller**  
Acumen Capital Finance Partners Limited

### PETROLEUM ADVISORY COMMITTEE

This committee provides views and advice on issues and developments with respect to oil and gas regulatory policies, guidance and disclosure.

**Caralyn P. Bennett, P.Eng.**  
GLJ Petroleum Consultants Ltd.

**David P. Carey, P.Eng.**  
Retired

**Harry Helwerda, P.Eng., FEC**  
Retired

**Dr. John Lacey, P.Eng.**  
Enjay Holdings Alberta Ltd.

**Jeff Meunier, P.Eng.**  
RBC Capital Markets

**Keith McCandlish, P.Geol., P.Geo.**  
DMT Geosciences Ltd.

**Ian McDonald, P.Eng.**  
Nexen Energy ULC

**Rob Morgan, P.Eng.**  
Cona Resources Ltd.

**James Surbey, B.Eng.**  
Birchcliff Energy Ltd.

**Philip A. Welch, P.Eng.**  
McDaniel & Associates Consultants Ltd.

**John Zahary, P.Eng.**  
Altex Energy Ltd.

### SECURITIES ADVISORY COMMITTEE

This committee is comprised of lawyers with securities law expertise who review and comment on proposed legislation, rules and policies, and provide general advisory services to the ASC.

**Keith Chatwin**  
Stikeman Elliott LLP

**Scott Clarke**  
Blake, Cassels & Graydon LLP

**Nicholas (Nick) Fader**  
Bennett Jones LLP

**Jamie L. Gagner**  
Norton Rose Fulbright Canada, LLP

**Leanne C. Krawchuk**  
Dentons Canada Ltd.

**David R.J. Lefebvre**  
Dentons Canada Ltd.

**William Maslechko**  
Burnet, Duckworth & Palmer LLP

**David Taniguchi**  
Enbridge Inc.

**Bryce Tingle**  
N. Murray Edwards Chair in Business Law, University of Calgary

**Andrea Whyte**  
Osler, Hoskin & Harcourt, LLP



[ALBERTASECURITIES.COM](http://ALBERTASECURITIES.COM)

[CHECKFIRST.CA](http://CHECKFIRST.CA)

SUITE 600, 250-5TH ST. SW, CALGARY, ALBERTA, T2P 0R4