

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

For the Nine Months Ended December 31, 2020
(unaudited)

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ASC REPORTS FISCAL 2021 (F2021) THIRD QUARTER RESULTS

STATEMENT OF FINANCIAL POSITION

<i>thousands of dollars</i>	At December 31, 2020 (unaudited)	At March 31, 2020
Financial Assets		
Cash	6,136	26,833
Accounts receivable	10	27
Investments	86,731	60,138
	92,877	86,998
Liabilities		
Accounts payable and accrued liabilities	3,343	3,524
Lease inducements	1,221	1,324
Accrued pension liability	10,287	10,285
	14,851	15,133
Net Financial Assets	78,026	71,865
Non-Financial Assets		
Capital assets	3,921	4,791
Prepaid expenses	418	269
	4,339	5,060
Accumulated Surplus	82,365	76,925
Accumulated surplus is comprised of:		
Accumulated operating surplus	78,410	79,288
Accumulated remeasurement gains (losses)	3,955	(2,363)
	82,365	76,925

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

STATEMENT OF CHANGE IN NET FINANCIAL ASSETS
(unaudited)

<i>thousands of dollars</i>	For the nine months ended December 31		
	2020	2020	2019
	Budget	Actual	Actual
Operating Surplus (Deficit)	(8,138)	(878)	(4,973)
Acquisition of capital assets	(820)	(198)	(356)
Amortization of capital assets	1,082	1,067	990
Prepayment of expenses		(701)	(579)
Reduction of prepaid expenses		553	478
Net remeasurement gains		6,318	48
Increase (Decrease) in net financial assets	(7,876)	6,161	(4,392)
Net financial assets, beginning of period	71,865	71,865	61,562
Net financial assets, end of period	63,989	78,026	57,170

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

**STATEMENT OF OPERATIONS
(unaudited)**

<i>thousands of dollars</i>	For the three months ended December 31			For the nine months ended December 31		
	2020 Budget	2020 Actual	2019 Actual	2020 Budget	2020 Actual	2019 Actual
Revenue						
Fees and other	5,864	6,263	5,900	21,546	21,980	21,913
Investment income	950	1,696	1,483	2,850	5,526	3,347
Other enforcement receipts	122	66	101	357	1,374	294
Administrative penalties	54	31	34	143	84	91
Conference fees and other	33	1	-	34	1	-
	7,023	8,057	7,518	24,930	28,965	25,645
Regulatory Expenses						
Salaries and benefits	8,025	7,647	7,618	24,076	22,564	22,590
Premises	1,136	1,098	1,104	3,409	3,300	3,377
Administration	877	613	806	2,660	1,753	2,266
Amortization of capital assets	361	338	323	1,082	1,067	990
Professional services	443	191	306	1,348	637	929
Investor education	223	202	207	343	350	318
Investment expense	50	59	47	150	172	148
	11,115	10,148	10,411	33,068	29,843	30,618
Operating Deficit	(4,092)	(2,091)	(2,893)	(8,138)	(878)	(4,973)
Accumulated operating surplus, beginning of period	75,242	80,501	63,602	79,288	79,288	65,682
Accumulated operating surplus, end of period	71,150	78,410	60,709	71,150	78,410	60,709

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

**STATEMENT OF REMEASUREMENT GAINS AND LOSSES
(unaudited)**

<i>thousands of dollars</i>	For the three months ended December 31		For the nine months ended December 31	
	2020	2019	2020	2019
Accumulated remeasurement gains (losses), beginning of period	2,398	1,849	(2,363)	1,166
Unrealized gains (losses) on investments during the period	1,557	(635)	6,318	48
Accumulated remeasurement gains, end of period	3,955	1,214	3,955	1,214

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

STATEMENT OF CASH FLOWS
(unaudited)

	For the three months ended December 31		For the nine months ended December 31	
	2020	2019	2020	2019
<i>thousands of dollars</i>				
Operating Transactions				
Fees and other	6,119	5,968	21,863	22,110
Payments to and on behalf of employees	(7,240)	(7,100)	(22,343)	(22,172)
Payments to suppliers for goods and services	(2,090)	(2,480)	(6,315)	(7,433)
Investment income	6	38	80	157
Other enforcement receipts	66	101	1,374	294
Administrative penalties	31	34	84	91
Cash used in operating transactions	(3,108)	(3,439)	(5,257)	(6,953)
Capital Transactions				
Cash used to acquire capital assets	(34)	(225)	(440)	(330)
Cash used in capital transactions	(34)	(225)	(440)	(330)
Investing Transactions				
Purchases of investments	-	-	(15,000)	-
Cash used in investing transactions	-	-	(15,000)	-
Decrease in cash	(3,142)	(3,664)	(20,697)	(7,283)
Cash, beginning of period	9,278	10,480	26,833	14,099
Cash, end of period	6,136	6,816	6,136	6,816

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

Notes to the Interim Financial Statements

(in thousands of dollars unless otherwise noted)

Note 1 Significant Accounting Policies

These interim financial statements have been prepared in accordance with Canadian public sector accounting standards. The accounting policies and methods of application adopted are consistent with those disclosed in note 2 of the Alberta Securities Commission's (ASC) annual audited financial statements for the year ended March 31, 2020. These interim financial statements do not contain all the disclosures required for annual financial statements and should be read in conjunction with the most recent annual audited financial statements.

Note 2 Investments

The ASC's investments are independently managed by the Alberta Investment Management Corporation (AIMCo). AIMCo is a provincial corporation responsible to the Minister of Finance. AIMCo invests the ASC's assets in pooled investment funds in accordance with the investment policy asset mix approved by the ASC. The ASC does not participate in specific capital market investment decisions or transactions.

The following summarizes the ASC's investments.

<i>thousands of dollars</i>							
December 31, 2020							
March 31, 2020							
Investments	Cost	Remeasurement Gains	Fair Value	%	Cost	Fair Value	%
Fixed-income securities	55,057	2,903	57,960	66.8	42,261	43,679	72.6
Global equities	20,880	1,005	21,885	25.2	15,664	12,892	21.4
Canadian equities	6,432	47	6,479	7.5	4,263	3,254	5.4
CCITF deposit	407	–	407	0.5	313	313	0.6
	82,776	3,955	86,731	100.0	62,501	60,138	100.0

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

Note 3 Canadian Securities Administrators (CSA) National Systems

The CSA National Systems include the System for Electronic Document Analysis and Retrieval (SEDAR), the National Registration Database (NRD) and the System for Electronic Disclosure by Insiders (SEDI). These systems are administered under a CSA National Systems operations management and governance agreement (the Agreement). The Agreement empowers the ASC, jointly with three other CSA members, to manage the systems and to engage an external service provider to operate the systems. Though not expected to occur, as one of the agreement signatories, the ASC commits to pay 25.0 per cent of any shortfall from approved system operating costs that exceeds revenue. Any revenue in excess of system operating costs (surplus) is accumulated for future systems operations, including possible revenue shortfalls, fee adjustments and system enhancements. The surplus is not divisible; the CSA owns it as a group. As at December 31, 2020, the accumulated operating surplus totalled \$178.7 million (\$183.6 million at March 31, 2020). This was primarily made up of \$126.8 million of investments comprised of a notice account earning Bank of Canada overnight rate plus 0.5 per cent, guaranteed investment certificates ranging from one-to-three years earning from 2.4 to 2.7 per cent; \$37.3 million in intangible assets; and \$10.9 million in cash held by the Ontario Securities Commission (the Designated Principal Administrator) earning Prime rate less 1.85 per cent. In management's judgment, this arrangement is not an interest in a partnership and the ASC does not control or have significant influence over how the net assets are managed.

Note 4 Budget for the year ending March 31, 2021

The budget was approved by the Commission on December 11, 2019.

thousands of dollars

Revenue	
Fees and other	53,212
Investment income	3,800
Administrative penalties and other enforcement receipts	870
Total revenue	57,882
Regulatory Expenses	
Salaries and benefits	32,102
Premises	4,546
Administration	3,536
Professional services	2,391
Amortization of capital assets	1,442
Investor education	813
Total regulatory expenses	44,830
Operating Surplus	13,052

Quarterly budget allocations are determined as follows:

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis (**MD&A**), prepared as of February 10, 2021, for the nine months ended December 31, 2020, should be read in conjunction with the annual MD&A and financial statements reported in the Alberta Securities Commission's (**ASC**) March 31, 2020 annual report, as well as the December 31, 2020 interim financial statements.

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

Since March 2020, the COVID-19 pandemic has continued to have a significant effect on the Canadian and global economy. While the financial impact from the pandemic for the nine months ended December 31, 2020 did not have a significant impact on fee revenue, investment income increased primarily in the fixed-income and global equity investments due to market recovery from March 31, 2020. Regulatory expenditures had an overall decrease primarily due to COVID-19 restrictions, such as deferred hiring of new employees, reduced travel, and cost reductions resulting from remote work activities.

Because of the uncertainty of the duration and ongoing developments in the pandemic, it is still difficult to estimate the extent this disruption may materially impact ASC's financial results. Nevertheless, ASC will continue its practice of fiscal discipline as we continue to closely monitor and assess the effects and potential consequences of the COVID-19.

Comparison to prior year – For the three months ended December 31, 2020 (**Q3 F2021**) the ASC incurred an operating deficit of \$2.1 million compared to an operating deficit of \$2.9 million for the three months ended December 31, 2019 (**Q3 F2020**). For the nine months ended December 31, 2020 (**YTD F2021**) the ASC reported an operating deficit of \$878,000 compared to an operating deficit of \$5.0 million for the nine months ended December 31, 2019.

Q3 F2021 revenue was \$539,000 (7.2 per cent) higher than the prior year, primarily due to investment income, fees from distribution of securities sold in Alberta, registration revenue, annual financial statement and late filing fees.

YTD F2021 revenue was \$3.3 million (12.9 per cent) higher than the prior year, primarily due to investment income, other enforcement receipts and higher fees from distribution of securities sold in Alberta. This increase was partially offset by lower annual financial statement filing fees, registration revenue and late filing fees.

YTD F2021 regulatory expenses decreased by \$775,000 (2.5 per cent) compared to the prior year. This was primarily due to lower administration and professional services costs resulting from COVID-19 restrictions.

Comparison to budget – The operating deficit for YTD F2021 was \$878,000 compared to a budgeted deficit of \$8.1 million.

Q3 F2021 revenue exceeded budget by \$1.0 million (14.7 per cent), primarily due to higher investment income, annual financial statement filing fees, fees from distribution of securities sold in Alberta and registration revenue.

YTD F2021 revenue exceeded budget by \$4.0 million (16.2 per cent), primarily due to higher investment income, other enforcement receipts and higher fees from distribution of securities sold in Alberta. This increase was partially offset by lower registration, annual financial statement and late filing fees.

YTD F2021 regulatory expenses were \$3.2 million (9.8 per cent) lower than the budgeted regulatory expenses of \$33.0 million. This was primarily due to lower salaries and benefits on account of a higher employee vacancy rate, lower administration expenses and professional services costs.

Cash flow and liquidity – The majority of annual fee revenue is received in the fourth quarter of each fiscal year primarily due to annual registration renewals in January and annual financial statement filing fees from February to April, while expenses are incurred relatively evenly over the fiscal year. This timing difference typically results in negative operating cash flow for the first three quarters and positive cash flow in the fourth quarter. Consistent with this, there was a negative operating cash flow of \$5.3 million during the nine months ended December 31, 2020.

Capital assets – The fiscal 2021 capital budget is \$1.1 million, including \$863,000 for information technology (IT) with the remainder for furniture replacements and leasehold improvements. The ASC incurred capital additions of \$198,000 during the nine months ended December 31, 2020, primarily relating to IT purchases and furniture replacements.