

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

For the Three Months Ended June 30, 2021
(unaudited)

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ASC REPORTS FISCAL 2022 (F2022) FIRST QUARTER RESULTS

STATEMENT OF FINANCIAL POSITION

<i>thousands of dollars</i>	At June 30, 2021 (unaudited)	At March 31, 2021
Financial Assets		
Cash	14,516	27,657
Accounts receivable	34	101
Investments	104,185	85,863
	118,735	113,621
Liabilities		
Accounts payable and accrued liabilities	3,258	3,876
Lease inducements	1,096	1,158
Accrued pension liability	10,321	10,287
	14,675	15,321
Net Financial Assets	104,060	98,300
Non-Financial Assets		
Capital assets	3,697	3,960
Prepaid expenses	492	371
	4,189	4,331
Accumulated Surplus	108,249	102,631
Accumulated surplus is comprised of:		
Accumulated operating surplus	106,775	102,153
Accumulated remeasurement gains	1,474	478
	108,249	102,631

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 three months ended June 30		
	2021	2021	2020
	Budget	Actual	Actual
Operating Surplus (Deficit)	(2,167)	4,622	1,869
Acquisition of capital assets	(144)	(27)	(107)
Amortization of capital assets	300	290	367
Prepayment of expenses		(361)	(247)
Reduction of prepaid expenses		240	166
Net remeasurement gains		996	5,212
Increase (Decrease) in net financial assets	(2,011)	5,760	7,260
Net financial assets, beginning of period	98,300	98,300	71,865
Net financial assets, end of period	96,289	104,060	79,125

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

STATEMENT OF OPERATIONS
(unaudited)

<i>thousands of dollars</i>	For the three months ended June 30		
	2021	2021	2020
	Budget	Actual	Actual
Revenue			
Fees and other	8,687	12,165	10,220
Investment income	258	2,429	922
Other enforcement receipts	96	15	795
Administrative penalties	23	36	28
	9,064	14,645	11,965
Regulatory Expenses			
Salaries and benefits	8,202	7,617	7,598
Premises	1,178	1,058	1,131
Administration	1,117	654	594
Professional services	330	257	272
Amortization of capital assets	300	290	367
Investor education	48	49	74
Investment expense	56	98	60
	11,231	10,023	10,096
Operating Surplus (Deficit)	(2,167)	4,622	1,869
Accumulated operating surplus, beginning of period	102,153	102,153	79,288
Accumulated operating surplus, end of period	99,986	106,775	81,157

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

STATEMENT OF REMEASUREMENT GAINS AND LOSSES
(unaudited)

<i>thousands of dollars</i>	For the three months ended June 30	
	2021	2020
Accumulated remeasurement gains (losses), beginning of period	478	(2,363)
Unrealized gains on investments during the period	996	5,212
Accumulated remeasurement gains, end of period	1,474	2,849

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

STATEMENT OF CASH FLOWS
(unaudited)

<i>thousands of dollars</i>	For the three months ended June 30	
	2021	2020
Operating Transactions		
Fees and other	12,092	10,257
Payments to and on behalf of employees	(7,730)	(7,706)
Payments to suppliers for goods and services	(2,514)	(2,248)
Investment income	6	60
Other enforcement receipts	15	795
Administrative penalties	36	28
Cash received in operating transactions	1,905	1,186
Capital Transactions		
Cash used to acquire capital assets	(46)	(355)
Cash used in capital transactions	(46)	(355)
Investing Transactions		
Increase in restricted cash	-	-
Purchases of investments	(15,000)	(15,000)
Cash used in investing transactions	(15,000)	(15,000)
Decrease in cash	(13,141)	(14,169)
Cash, beginning of period	27,657	26,833
Cash, end of period	14,516	12,664

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, 2021. 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>							
	June 30, 2021				March 31, 2021		
Investments	Cost	Remeasurement Gains	Fair Value	%	Cost	Fair Value	%
Fixed-income securities	71,193	65	71,258	68.4	59,187	58,650	68.3
Global equities	23,576	1,230	24,806	23.8	19,530	20,469	23.8
Canadian equities	7,424	179	7,603	7.3	6,264	6,340	7.4
CCITF deposit	518	–	518	0.5	404	404	0.5
	102,711	1,474	104,185	100.0	85,385	85,863	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 June 30, 2021, the accumulated operating surplus totalled \$192.2 million (\$192.7 million at March 31, 2021). This was primarily made up of \$127.4 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 1.1 to 2.7 per cent; \$40.5 million in intangible assets; and \$21.7 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, 2022

The budget was approved by the Commission on December 9, 2020.

thousands of dollars

Revenue	
Fees and other	50,094
Investment income	2,200
Administrative penalties and other enforcement receipts	700
Total revenue	52,994
Regulatory Expenses	
Salaries and benefits	32,809
Premises	4,710
Administration	4,373
Professional services	1,837
Amortization of capital assets	1,200
Investor education	813
Investment expense	225
Total regulatory expenses	45,967
Operating Surplus	7,027

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 August 11, 2021, for the three months ended June 30, 2021, should be read in conjunction with the annual MD&A and financial statements reported in the Alberta Securities Commission's (**ASC**) March 31, 2021 annual report, as well as the June 30, 2021 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.

The ASC continues to monitor the evolving situation of the COVID-19 pandemic and the potential impact on our financial results. COVID-19 did not impact ASC revenues for the first quarter of F2022; however, due to the COVID-19 restrictions in place during the quarter and remote work activities, administration expenditures were lower than budget expectations. The ASC's priority continues to be the safety and well-being of the public and its employees by following all health and safety protocols.

Comparison to prior year – For the three months ended June 30, 2021 (**Q1 F2022**) the ASC reported an operating surplus of \$4.6 million compared to an operating surplus of \$1.9 million for the three months ended June 30, 2020 (**Q1 F2021**). Q1 F2022 revenue was \$2.7 million (22.4 per cent) higher than the prior year, primarily due to investment income, higher fees from distribution of securities sold in Alberta, annual financial statements filing fees, registration revenue and late filing fees. This increase was partially offset by lower other enforcement receipts revenue.

Q1 F2022 regulatory expenses decreased by \$73,000 (0.7 per cent) compared to the prior year, primarily due to lower premises and amortization costs. This decrease was partially offset by higher administration costs.

Comparison to budget – The operating surplus for Q1 F2022 was \$4.6 million compared to a budgeted deficit of \$2.2 million. Q1 F2022 revenue exceeded budget by \$5.6 million (61.6 per cent), primarily due to the timing of fees from mutual fund reporting issuers for distribution of securities sold in Alberta and higher investment income.

Q1 F2022 regulatory expenses were \$1.2 million (10.8 per cent) lower than the budgeted regulatory expenses of \$11.2 million. This variance was primarily attributable to lower salaries and benefits due to a higher employee vacancy rate, lower premises costs and lower administration expenses. The timing of information technology (**IT**) expenditures, reduced travel, and other office expenditures resulting from continued remote work activities were the primary factors for the lower administration expenditures.

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. There was a positive operating cash flow of \$1.9 million for the three months ended June 30, 2021 (\$1.2 million – Q1 F2021) primarily due to lower regulatory expenses. The regulatory expenses were lower due to timing differences, COVID-19 restrictions and remote work activities.

Capital assets – The fiscal 2022 capital budget is \$576,000, including \$421,000 for IT with the remainder for furniture replacements and leasehold improvements. The ASC incurred capital additions of \$27,000 during the three months ended June 30, 2021, primarily relating to IT purchases.