

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

For the Six Months Ended September 30, 2022
(unaudited)

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ASC REPORTS FISCAL 2023 (F2023) SECOND QUARTER RESULTS

STATEMENT OF FINANCIAL POSITION

<i>thousands of dollars</i>	At September 30, 2022 (unaudited)	At March 31, 2022
Financial Assets		
Cash	7,183	31,983
Accounts receivable	228	112
Investments	113,238	101,713
	120,649	133,808
Liabilities		
Accounts payable and accrued liabilities	3,153	3,878
Lease inducements	786	911
Accrued pension liability	10,174	10,398
	14,113	15,187
Net Financial Assets	106,536	118,621
Non-Financial Assets		
Capital assets	2,834	3,330
Prepaid expenses	820	575
	3,654	3,905
Accumulated Surplus	110,190	122,526
Accumulated surplus is comprised of:		
Accumulated operating surplus	123,382	127,440
Accumulated remeasurement losses	(13,192)	(4,914)
	110,190	122,526

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 six months ended September 30		
	2022	2022	2021
	Budget	Actual	Actual
Operating (Deficit) Surplus	(5,815)	(4,058)	2,356
Acquisition of capital assets	(265)	(35)	(162)
Amortization of capital assets	536	530	566
Prepayment of expenses		(927)	(617)
Reduction of prepaid expenses		682	475
Net remeasurement (losses)		(8,278)	(320)
(Decrease) Increase in net financial assets	(5,544)	(12,086)	2,298
Net financial assets, beginning of period	118,621	118,621	98,300
Net financial assets, end of period	113,077	106,535	100,598

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 September 30			For the six months ended September 30		
	2022	2022	2021	2022	2022	2021
	Budget	Actual	Actual	Budget	Actual	Actual
Revenue						
Fees and other	5,089	5,311	5,621	16,577	18,711	17,786
Investment (loss) income	896	(149)	2,057	1,859	(902)	4,486
Administrative penalties	29	184	35	58	212	71
Other enforcement receipts	60	2	2	463	5	17
	6,074	5,348	7,715	18,957	18,026	22,360
Regulatory Expenses						
Salaries and benefits	9,125	8,223	7,458	18,250	16,033	15,075
Premises	1,190	1,162	1,177	2,380	2,288	2,235
Administration	1,213	1,043	572	2,468	1,859	1,226
Professional services	401	476	238	802	924	495
Amortization of capital assets	268	263	276	536	530	566
Investment expense	95	59	187	190	202	285
Investor education	88	144	73	146	248	122
	12,380	11,370	9,981	24,772	22,084	20,004
Operating (Deficit) Surplus	(6,306)	(6,022)	(2,266)	(5,815)	(4,058)	2,356
Accumulated operating surplus, beginning of period	127,931	129,404	106,775	127,440	127,440	102,153
Accumulated operating surplus, end of period	121,625	123,382	104,509	121,625	123,382	104,509

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 September 30		For the six months ended September 30	
	2022	2021	2022	2021
Accumulated remeasurement (losses) gains, beginning of period	(13,593)	1,474	(4,914)	478
Unrealized gains (losses) on investments during the period	401	(1,316)	(8,278)	(320)
Accumulated remeasurement gains, end of period	(13,192)	158	(13,192)	158

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

STATEMENT OF CASH FLOWS
(unaudited)
thousands of dollars

	For the three months ended September 30		For the six months ended September 30	
	2022	2021	2022	2021
Operating Transactions				
Fees and other	5,206	5,348	18,571	17,441
Payments to and on behalf of employees	(8,293)	(7,520)	(16,527)	(15,250)
Payments to suppliers for goods and services	(2,997)	(2,139)	(6,080)	(4,653)
Investment income	66	2	94	8
Administrative penalties	3	35	5	71
Other enforcement receipts	185	2	212	17
Cash used in operating transactions	(5,830)	(4,272)	(3,725)	(2,366)
Capital Transactions				
Cash used to acquire capital assets	(50)	(127)	(75)	(173)
Cash used in capital transactions	(50)	(127)	(75)	(173)
Investing Transactions				
Purchases of investments	-	-	(21,000)	(15,000)
Cash used in investing transactions	-	-	(21,000)	(15,000)
Decrease in cash	(5,880)	(4,399)	(24,800)	(17,539)
Cash, beginning of period	13,063	14,517	31,983	27,657
Cash, end of period	7,183	10,118	7,183	10,118

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, 2022. 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 Cash

Cash includes demand deposits in the Consolidated Liquidity Solution (CLS) account. Effective July 4, 2022, the CLS replaces the Consolidated Cash Investment Trust Fund (CCITF) as the Province's cash pooling structure. Under the CCITF, money was pooled to make investments (i.e. purchasing financial securities), whereas, under the CLS, money will be pooled notionally to reduce the amount of government debt outstanding. Operationally, CLS's current practice is no different than under the CCITF, except for the limitation on investment activity. Unlike the CCITF, the ASC will no longer be able to invest its surplus with the Alberta Investment Management Corporation (AIMCo). In return, the ASC will receive an interest payment from the Province based on a 12-week rolling average of the Province's 3-month cost of borrowing. ASC's access to its cash and bank accounts will remain unchanged, thus allowing ASC to meet all its operational needs, including short-term cash commitments.

In reviewing the terms of the CLS agreement (**Agreement**), ASC has concluded that the current accounting treatment and financial statement presentation of the ASC's demand deposits held in the CLS as cash are in line with the Public Sector Accounting Standard 1201 *Financial Statement Presentation* (**PS 1201**) unless current practices change the nature of the deposit in a way that it would no longer meet the definition of cash in PS 1201.

As such, ASC will monitor the Province's activity and reassess the proposed accounting treatment if any material changes in the current practice are noted.

Note 3 Investments

The ASC's investments are independently managed by 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 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>		30-Sep-22			31-Mar-22		
Investments	Cost	Remeasurement (Losses) Gains	Fair Value	%	Cost	Fair Value	%
Fixed-income securities	90,261	(10,191)	80,070	70.7%	74,095	68,491	67.3%
Global equities	27,326	(2,188)	25,138	22.2%	23,760	24,266	23.9%
Canadian equities	8,223	(814)	7,409	6.5%	8,259	8,443	8.3%
Money market deposit	619	2	621	0.6%	513	513	0.5%
	126,429	(13,191)	113,238	100.0%	106,627	101,713	100.0%

Money market is an AIMCo managed demand deposit cash and cash equivalents withdrawal account.

Note 4 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 September 30, 2022, the accumulated operating surplus totalled \$193.6 million (\$199.5 million at March 31, 2022). This was primarily made up of \$110.9 million of investments comprised of a notice account earning Bank of Canada overnight rate plus 0.5 per cent, guaranteed investment certificates ranging from two to three years earning from 1.65 to 2.7 per cent; \$82.2 million in intangible assets; and \$7.6 million in cash held by the Ontario Securities Commission (the Designated Principal Administrator) earning Prime rate less 1.9 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 5 Budget for the year ending March 31, 2023

The Commission approved the budget on December 14, 2021.

thousands of dollars

Revenue

Fees and other	61,157
Investment income	2,600
Administrative penalties and other enforcement receipts	710
Total revenue	64,467

Regulatory Expenses

Salaries and benefits	36,499
Premises	4,760
Administration	4,901
Professional services	2,126
Amortization of capital assets	1,072
Investor education	993
Investment expense	380
Total regulatory expenses	50,731

Operating Surplus

13,736

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 with 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 November 16, 2022, for the six months ended September 30, 2022, should be read in conjunction with the annual MD&A and financial statements reported in the Alberta Securities Commission's (**ASC**) March 31, 2022, annual report, as well as the September 30, 2022, interim financial statements.

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

Comparison to the prior year

For the three months ended September 30, 2022 (**Q2 F2023**), the ASC incurred an operating deficit of \$6.0 million compared to an operating deficit of \$2.3 million for the three months ended September 30, 2021 (**Q2 F2022**). For the six months ended September 30, 2022 (**YTD F2023**), the ASC incurred an operating deficit of \$4.1 million compared to an operating surplus of \$2.4 million for the six months ended September 30, 2021 (**YTD F2022**).

Q2 F2023 revenue was \$2.4 million (30.7 per cent) lower than the prior year, primarily due to lower investment income and fees from the distribution of securities sold in Alberta. This decrease was partially offset by higher administrative penalties, registration revenue and annual financial statements filing fees.

YTD F2023 revenue was \$4.3 million (19.4 per cent) lower than the prior year, primarily due to lower investment income and fees from the distribution of securities sold in Alberta. This decrease was partially offset by higher annual financial statements filing fees, registration revenue and administrative penalties.

Q2 F2023 and YTD F2023 regulatory expenses were higher by \$1.4 million (13.9 per cent) and \$2.1 million (10.4 per cent), respectively, compared to the prior year, primarily due to higher salaries and benefits, administration and professional services costs. This increase was partially offset by lower investment expense.

Comparison to budget

The operating deficit for YTD F2023 was \$4.0 million compared to a budgeted deficit of \$5.8 million, primarily due to lower than budgeted regulatory expenses.

Q2 F2023 revenue was lower than budget by \$726,000 (12 per cent), primarily due to lower investment income and fees from the distribution of securities sold in Alberta. This decrease was partially offset by higher registration revenue, administrative penalties and annual financial statements filing fees.

YTD F2023 revenue was lower than budget by \$932,000 (4.9 per cent), primarily due to lower investment income and other enforcement receipts. This decrease was partially offset by higher annual financial statements filing fees, fees from the distribution of securities sold in Alberta, registration revenue and administrative penalties.

Q2 F2023 regulatory expenses were \$1.0 million (8.2 per cent) lower than the budgeted regulatory expenses of \$12.4 million. This variance was primarily attributable to lower salaries and benefits on account of a higher employee vacancy rate and lower administration expenses. This decrease was partially offset by higher professional services and investor education costs.

YTD F2023 regulatory expenses were \$2.7 million (10.9 per cent) lower than the budgeted regulatory expenses of \$24.8 million, primarily due to lower salaries and benefits on account of a higher employee vacancy rate,

lower administration and premises costs. The timing of information technology (IT) expenditures, reduced travel and other office expenditures resulting from a hybrid work model, continued to be the primary factors for the lower administration expenditures. This decrease was partially offset by higher professional services and investor education costs.

Cash flow and liquidity - Most 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 for the fourth quarter. Consistent with this, there was a negative operating cash flow of \$3.7 million for the six months ended September 30, 2022 and a negative operating cash flow of \$2.4 million for YTD F2022.

Capital assets - The fiscal 2023 capital budget is \$530,000, including \$350,000 for IT, with the remainder for furniture replacements and leasehold improvements. The ASC incurred capital additions of \$35,000 during the six months ended September 30, 2022, primarily relating to furniture purchases.