

THE MANITOBA FINANCIAL SERVICES AGENCY **2013** Annual Report



THE MANITOBA
SECURITIES
COMMISSION



FINANCIAL
INSTITUTIONS
REGULATION BRANCH

The Manitoba Securities Commission

Mission

The mission of The Manitoba Securities Commission is to protect and promote the public interest by facilitating dynamic and competitive capital and real estate markets that contribute to the economic development of Manitoba while fostering public confidence in those markets.

Mandate

The mandate of the Commission is to act in the public interest to protect Manitoba investors and to facilitate the raising of capital while maintaining fairness and integrity in the securities marketplace. Similarly, its real estate industry mandate is to regulate brokers, salespeople and mortgage dealers to ensure adequate standards are maintained for the protection of the public.

Financial Institutions Regulations Branch

Mission

The mission of FIRB is to provide a legislative and regulatory framework to promote the orderly growth and development of cooperatives, credit unions and caisses populaires, and the insurance industry in Manitoba and ensure adequate standards are maintained to protect the public.



THE MANITOBA
SECURITIES
COMMISSION

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MINISTER OF
FINANCE

Legislative Building
Winnipeg, Manitoba, CANADA
R3C 0V8

His Honour the Honourable Philip Lee, P.C., O.M.
Lieutenant Governor of Manitoba
Room 235, Legislative Building
Winnipeg, Manitoba
R3C 0V8

May it Please Your Honour:

I have the privilege of presenting for the information of Your Honour the First Annual Report of the Manitoba Financial Services Agency for the fiscal year ended March 31, 2013.

Respectfully submitted,

A handwritten signature in blue ink that reads "Stan Struthers".

Honourable Stan Struthers
Minister





THE MANITOBA
SECURITIES
COMMISSION

Honourable Stan Struthers
Minister of Finance
Room 103 Legislative Building
Winnipeg, Manitoba
R3C 0V8

Dear Mr. Minister:

I have the honour to submit for your consideration the First Annual Report of the Manitoba Financial Services Agency for the fiscal year ended March 31, 2013.

Respectfully submitted,

Donald G. Murray
Chief Administrative Officer
Manitoba Financial Services Agency





REPORT FROM THE CHIEF ADMINISTRATIVE OFFICER

National Initiatives

This is the fourteenth Annual Report of this Special Operating Agency (SOA), but the first under the new name of The Manitoba Financial Services Agency. The former Manitoba Securities Commission (the Commission) SOA was renamed the MFSA as of October 1, 2012 at which time the Financial Institutions Regulation Branch (FIRB) was merged with the Commission. For the period from October 1, 2012 to March 31, 2013, the MSC and FIRB have operated as divisions of the MFSA. This will continue going forward.

The intent of the merger is to bring into a single organization the regulation of the majority of the financial service industries in Manitoba. The MFSA is now responsible for the regulation of the securities, real estate, insurance, co-operatives, credit union and trust industries in this province.

While the Commission and FIRB divisions are currently operating separately the goal is to develop synergies and efficiencies between the agencies that will cooperatively utilize our resources to enhance the level and scope of regulation in all areas. These endeavors will be strengthened by the relocation of FIRB into premises contiguous with those occupied by the Commission. This is anticipated to take place during the next fiscal year.

The management and staff of both the Commission and FIRB are looking forward to the first full year of amalgamated operations and working toward developing a closer connection in our operations to better protect and serve financial product consumers of Manitoba as well as the affected markets and industries.

The Commission

As in the last several years the Commission has continued to work cooperatively with its colleagues in the Canadian Securities Administrators (the CSA) on regulatory improvements in the international and national arenas as well as on local initiatives. The CSA member jurisdictions have kept pace with international regulators in implementing many of the G20 and IOSCO regulatory initiatives and are currently striving to develop and implement necessary rules for the regulation of derivatives.

Nationally the Commission has worked with its CSA counterparts in the ongoing modernization and harmonization of the Canadian regulatory system and taken part in national compliance reviews of industry based regulators and market operatives including portfolio managers and exempt market dealers. Locally, compliance staff continue regular reviews of Manitoba registrants and in the area of enforcement staff have worked proactively to identify illegal market schemes before investors are victimized. Legal staff remain busy with administrative hearings and court prosecutions. At the same time Corporate Finance staff has handled increasing numbers of offering document reviews and continuous disclosure filings.

The Education and Communications department has maintained its level of creative output and keeps the Commission at the forefront of investor education in Canada. The Real Estate division has continued to expand the use of the on-line registration system and has commenced work on a proposed modernization and re-draft of *The Real Estate Brokers Act*.

FIRB

FIRB was established in April 2000 through the amalgamation of two branches under the Department of Consumers and Corporate Affairs, the Insurance Branch and the Trust, Cooperatives and Credit Union Regulation Branch. The current Superintendent was appointed in August 2000. Since 2000, FIRB has been part of various departments due to government restructuring. As of October 2012, FIRB was merged into the MFSA.

FIRB is responsible for administering *The Insurance Act*, *The Credit Unions and Caisses Populaires Act* and *The Cooperatives Act*.

In June 2012, Bill 27 – *The Insurance Amendment Act* was passed by the legislature. These amendments represent a significant modernization of insurance legislation in Manitoba consistent with changes made in other Canadian jurisdictions. In 2013, a number of Regulations related to the Act amendments have been drafted and discussed with insurance stakeholders. By the end of 2013, the Regulations are expected to be in effect and all Act amendments proclaimed.

As a result of the stress in the global banking markets, new international capital standards have been developed for banks and similar deposit taking institutions. FIRB is reviewing the application of Basel III capital adequacy requirements for credit unions along with credit union regulators from other Canadian jurisdictions. Any proposed capital adequacy changes will be phased in over a number of years.

In 2011, amendments to *The Cooperatives Act* were passed. Regulation amendments to the Act are underway and expected to be in place for 2014 to improve the member appeal process related to membership termination at a housing cooperative.

Sustainable Development

The Sustainable Development Act was enacted in 1997 for the purpose of promoting and implementing sustainable development in the provincial public sector, private industry and society in general. Principles and guidelines have been developed to assist departments and agencies in instituting objectives, integrating them into operations and reporting on their development. The MFSA remains committed to sustainable development.

Operating in an office environment, the MFSA practices recycling and procures a variety of recycled items including paper products and various other office materials. The MFSA intends to maintain a sustainable development process that is continuous and balanced.

Acknowledgements

The Commission continues to benefit from the volunteer efforts of the members of its three advisory groups being the Securities Advisory Committee, the Real Estate Advisory Council and Real Estate Advisory Committee. Also, as in past years, sincere thanks must be given to the part time members of the Commission who continue to apply their efforts and expertise to the benefit of the investing public.

FIRB has legislative responsibility for both the Deposit Guarantee Corporation of Manitoba (DGCM) that guarantees deposits of credit unions and caisses populaires and the Insurance Council of Manitoba (ICM) that provides regulatory oversight of insurance agents, brokers and adjusters. We would like to thank the board of DGCM and the ICM council members for their dedicated service.

It is always appropriate to acknowledge the dedication and professionalism of our staff. This is especially so over the last six months of 2012/13 which saw the merger of the Commission and FIRB under the banner of the Manitoba Financial Services Agency and the beginning of efforts to realize efficiencies and develop identifiable synergies between the agencies. I know that we can count on staff of both the Commission and FIRB to continue in their efforts to develop cooperative programs and cross-training initiatives going forward in furtherance of establishing a more complete merger of the agency.

Donald G. Murray
CAO of the Manitoba Financial Services Agency and
Chair and CEO of The Manitoba Securities Commission

Part I

Agency Overview



The MFSA is made up of two divisions being The Manitoba Securities Commission (Commission) and The Financial Institutions Regulation Branch (FIRB).

The Commission Division

The Manitoba Securities Commission (“the Commission”) is responsible for administering and enforcing *The Securities Act*, *The Commodity Futures Act*, *The Real Estate Brokers Act* and *The Mortgage Dealers Act*. The Commission was structured in its present form in 1968. The Commission became a Special Operating Agency on April 1, 1999.

A reference to “the Commission” can mean either of two bodies. These are:

1. The administrative or functional arm which is made up of full-time employees who conduct the day-to-day operations; and
2. The policy making group made up of a maximum of seven order-in-council appointees who meet regularly (the “Commission members”).

Administrative Arm

The administrative arm of the Commission is comprised of two operating divisions, the securities division and the real estate division, consisting of 37 permanent full-time staff positions of which all but two were filled as of March 31, 2013.

Securities Division

The securities division is organized into the following seven operational sections:

Investigations

There are four staff in this section being the Manager of Investigation, two investigators and one administrative support staff. The investigation section receives inquiries and complaints, conducts investigations and assists legal staff in the preparation of matters for hearings. The members of the investigation section report to the Director of Legal, Enforcement and Registrations.

Legal

The legal section is comprised of the Deputy Director-Legal, two legal counsel and one administrative support staff. The legal section provides legal advice to the Commission members and all other functional sections of the Commission, takes part in policy development and the creation of educational materials, presents applications to Commission meetings and prepares and argues enforcement cases at Commission hearings and in court. The members of the legal section report to the Director of Legal, Enforcement and Registrations.

Registration

The registration section is made up of the Deputy Director - Registrations and four full-time registration clerks. This section is responsible for the registration of firms and individuals operating in the investment markets in Manitoba. The members of the registration section report to the Director of Legal, Enforcement and Registrations.

Compliance

The Compliance section is made up of the Manager, Compliance & Oversight, Compliance Auditor and one administrative support staff. The Compliance section supports the registration function by conducting compliance audits of the industry. The Compliance section is also responsible for Self Regulating Organization (SRO) oversight. These staff members, who are both professional Accountants, also assist in the investigation and legal functions of the Commission by analyzing financial and trading information arising from investigations or from claims made by investors for compensation for financial loss. These staff members report to the Director of Legal and Enforcement and Registrations. An additional position being a Compliance Auditor has been approved by Treasury Board and will be filled in 2013/14.

Corporate Finance and Continuous Disclosure

There are five staff members in this section being senior analyst, analyst, administrative assistant, corporate finance clerk and continuous disclosure clerk. The analysts are professional accountants. This section reviews and monitors offering documents and applications, as well as continuous disclosure filings of reporting issuers. It also takes part in policy development and makes presentations at Commission meetings. Staff members report to the Director of Corporate Finance and Chief Administrative Officer, who is also a professional accountant. An additional Analyst position has been approved by Treasury Board and will be filled in 2013/14.

Finance and Administration

There are five staff members assigned to this section including the controller (a professional Accountant), an accounting clerk, a web developer/analyst, a receptionist and an administrative clerk. This section, in consultation with management, prepares the Commission's budgets and financial reports and develops and implements office and personnel policies for both the securities and real estate divisions. Staff members report to the Director of Corporate Finance and Chief Administrative Officer.

Education and Communications

The Manager, Education and Communications and one Communications Officer are assigned to this section. The Manager, Education and Communications, who has a Bachelor of Education and a Certificate in Management, is responsible for the development and implementation of educational programs and internal and external communications for the general public, industry and staff. The Education and Communications Manager reports to the Chair.

Additional Staff

There is an additional full time staff position, being an Administrative Assistant reporting directly to the Chair.

Real Estate Division

The real estate division is made up of the Registrar, Deputy Registrar - Registrations, Deputy Registrar-Compliance and two administrative support positions. The real estate division is responsible for the administration of *The Real Estate Brokers Act* and *The Mortgage Dealers Act* and, in general, the regulation of the real estate industry in the Province of Manitoba. Employees in this section report to the Registrar. One additional position being an Investigator has been approved by Treasury Board and will be filled in 2013/14.

Management

Both Directors of the securities division and the Registrar of real estate report directly to the Chair, who is the Chief Executive Officer of the Commission. This group comprises the senior management team. In addition there is an extended management committee which has membership from all operational areas.

Commission Members

In addition to the Chair there are a maximum of six part-time Commission members. The Commission meets regularly to deal with policy and regulatory formulation, applications seeking exemptions from the requirements of regulation, and to consider whether it is in the public interest to grant various types of orders authorized by legislation. Commission members also perform a quasi-judicial function by sitting as adjudicators in Commission hearings. The Chair presides at meetings of the Commission.

The Chair of the Commission reports to the legislature through the office of the Minister of Finance.

During 2012/13 the Commission Members were as follows:



Donald G. Murray (Chair)

Appointed to the Commission in 1993, Mr. Murray spent 20 years in the private practice of law. In 1994, he was appointed Vice Chairman and became Chairman in 1997. As Chair and CEO, Mr. Murray chairs the meetings of the Commission, sits on hearing panels and represents the Commission as the Manitoba representative at the meetings of the Canadian Securities Administrators (CSA) and North American Securities Administrators Association (NASAA). He has been the Vice-Chair of the CSA and is a former member of Board of Directors of NASAA.



Lynne M. McCarthy (Vice-Chair)

Appointed to the Commission in 1994, Ms. McCarthy has a Master of Business Administration degree from the University of Western Ontario and the Chartered Financial Analyst designation. Ms. McCarthy has over 20 years of experience in institutional investing.



Kathleen E. Hughes

Kathleen Hughes worked for the Department of Justice, Court Services for 20 years. She was formerly the Legal Information Services Coordinator for Manitoba Law Libraries Inc. Ms. Hughes was previously a member of The Manitoba Securities Commission from 1975-81 and has been involved in various volunteer boards and committees. She was re-appointed to the Commission in 2002.



Donald H. Smith

Appointed to the Commission in 2003, Mr. Smith is a Chartered Accountant with over 20 years experience in entrepreneurial and financial advisory services. Previously a chief executive officer of corporations providing a variety of financial services, he is currently president of a vehicle leasing company.



James W. Hedley

Jim Hedley was appointed to the Commission in 2006. He has practiced law, in a variety of fields for over 30 years. He has been active in recent years with arbitration and adjudications for The Law Society of Manitoba and the Sport Dispute Resolution Centre of Canada. His public service activities have included roles as president of Special Olympics Manitoba, of which he was also a co-founder, and the Manitoba Sports Hall of Fame and Museum.



Glenn J. Lillies

Glenn Lillies was appointed to the Commission in 2006. Mr. Lillies is a Chartered Accountant who retired as a partner with KPMG after 30 years in public practice. He was also employed with The Manitoba Securities Commission for four years as a Compliance Auditor. He donates his time as the treasurer of several service organizations.



Gerald S. Posner

Gerald Posner was appointed to the Commission in September 2007. He has been a lawyer practicing in the Provinces of Manitoba and Ontario for 40 years in the areas of real estate and estate planning. He served on the board of Riverview Hospital and as well is the past President of the Jewish Heritage Centre of Western Canada. Mr. Posner resigned from the Commission in July, 2012.



Brian P. Cyncora

Brian Cyncora was appointed to the commission on March 27th 2013. Brian retired after a 31-year professional career and senior management position of serving and protecting the community. Brian's commitment to serve the public interest continues through volunteering on Not-For-Profit boards and participation on community committees. Brian's professional management and leadership experience is accompanied academically with a 2010 Master of Business Administration Degree, a 2006 Graduate Diploma in Management and a 1980 Bachelor of Commerce Honors Degree. Brian has also received several awards and accolades over the years including being a recipient of an Eagle Feather in 2011 and the recipient of the Minister of Justice – Attorney General's Urban Police Officer Award in 1995

Advisory Groups

Securities Advisory Committee

The Committee was established by the Chair of the Commission to meet when required to provide advice on regulatory matters. The Committee has provided advice on new policy initiatives developed by the Commission. The Committee has also been called upon to advise on changes within the industry and how the Commission can best deal with those changes.

- Dave Cheop, Investors Group Inc.
- Ken Cooper, formerly Winnipeg Stock Exchange
- Linda Vincent, ICE Futures (Canada)
- Mike Guttormson, James Richardson & Sons, Limited
- Bruce Jack, Deloitte & Touche
- Tom Kormylo, Pitblado
- Tony Catanese, PricewaterhouseCoopers
- Ron Coke, Taylor McCaffrey
- Bruce Thompson, Thompson Dorfman Sweatman (Alternate)

Real Estate Advisory Council

The Real Estate Advisory Council is a non-statutory advisory body established by the Commission and The Manitoba Real Estate Association. The Mandate of the Council is to advise and make recommendations to the Commission and MREA on real estate issues; to review mutually beneficial ideas, policies or legislative reform; and give early warning or advance notice to the Commission of trends or developments arising in the real estate industry.

- Claude Davis, Chairman, Broker, Royal LePage Dynamic Real Estate
- Tom Fulton, Broker, Re/Max Performance
- Michael Barrett, Salesperson, Century 21 Westman
- Brian Canart, Salesperson, Homelife Home Professional Realty Inc.
- David Powell, Broker, Powell Property Group
- Robert Giesbrecht, President, Canadian Condominium Institute (Manitoba Chapter)
- Robert F. Shaer, Broker, Professional Property Managers' Association
- Robert L. Tyler, Solicitor, The Manitoba Bar Association
- Brian Collie, Executive Director, Manitoba Real Estate Association
- Terry Kirkham, Registrar, *The Real Estate Brokers Act*

Real Estate Advisory Committee

The Real Estate Advisory Committee was established by the Real Estate Advisory Committee Regulation (Manitoba Regulation 593/88) under *The Real Estate Brokers Act*.

The Committee reviews and recommends projects to the Commission for funding from the interest which the Commission receives from real estate brokers' trust accounts.

- John Froese, Chairperson, Royal LePage Prime Real Estate
- Cliff King, broker, Re/Max Executives Realty
- Ray Brownlee, Century 21 West-Man Realty Ltd., Brandon
- Ute Vann, salesperson, Royal LePage Dynamic Real Estate
- Ken Trinkl, retired, member of the public

FIRB Division

FIRB administers *The Insurance Act*, *The Credit Unions and Caisses Populaires Act* and *The Cooperatives Act*. Until September 30, 2012 FIRB operated as a separate branch of government. As of October 1, 2012 FIRB was merged with the MSC and now operates as a Division of the MFSA SOA.

Management

FIRB has 9.2 permanent full-time staff which include a Superintendent, Deputy Superintendent-Insurance, Deputy Superintendent-Deposit Taking.

Administrative Arm

FIRB's administrative arm consists of three financial services officers, a part-time insurance complaints officer and 2.6 administrative support positions. As at March 31, 2013, 1.6 positions were vacant.

DGCM Board

DGCM was created under *The Credit Unions and Caisses Populaires Act* to guarantee the deposits of credit unions (CU) and caisses populaires (CP) and to ensure and promote the development of sound financial practices to protect against financial loss. FIRB has oversight responsibility for DGCM and works closely with DGCM management. DGCM is governed by a seven person board appointed by Lieutenant Governor in Council from nominations from the credit union and cisse populaire systems and the Minister.

Members of the DGCM Board are:

- Sheryl Feller – Chairperson
- John Klassen
- Paul Gilmore
- Brian Mayes
- Monica Girouard
- Bryan Rempel
- Charles Golfman

ICM Council Members

ICM was created under *The Insurance Act* and operates under delegated authority of the Superintendent of Insurance to provide licensing and regulatory oversight of insurance agents, brokers and adjusters. Council members are appointed by the Minister and include:

Life Insurance Council

- Nelson Hoe – Chairperson
- Nancy Streuber – Vice-Chairperson
- Emmie Joaquin
- Donna Winstone
- Paul Brett
- Jim Wilson
- Sonja Doran

General Insurance Council

- Keith Jordan – Chairperson
- Jeffrey Coleman – Vice-Chairperson
- Wendy Gilroy
- Donald Storjord
- Janine Oliver
- Treena Piasta
- Wendy Stumpf

Insurance Adjusters Council

- James Magnan – Chairperson
- Fred Dixon – Vice-Chairperson
- Ron Tardiff
- Shelley Werner
- Timothy Bromley
- Grant Rerie

Part II

The Commission Division



Overview

The operational sections of the Commission work in eight functional areas. They are:

1. Registration;
2. Compliance;
3. Corporate Finance and Continuous Disclosure;
4. Private Placement and Exempt Offerings;
5. Exemption Orders;
6. Legislation and Policy Development;
7. Investigation and Enforcement;
8. Education and Communications.

Each functional area carries unique duties and responsibilities the performance of which requires a high degree of co-operation and co-ordination among the operational sections.

Registration

The Registration section reviews and determines whether it is in the public interest to register a person or company to trade or advise in the trading of securities or commodity exchange contracts. In general terms there are three situations where the registration section considers whether a registration is in the public interest:

- When an applicant initially applies for registration the applicant must meet education, integrity and solvency requirements. Companies must be financially viable and have appropriate supervision in place at all times
- When information comes to the attention of staff that raises a question whether continued registration is not in the public interest, a decision can be made to impose terms and conditions on the registration. Alternatively, the matter can be referred to a hearing to determine whether the registration should be suspended or cancelled
- When a registrant requests a transfer of his or her registration. In most cases a transfer of an individual's registration from one company to another can be completed quickly. However, in cases where there is information to suggest there is a problem with the conduct of a registrant, the registration section can either refuse the transfer, or impose a requirement that the individual be more closely supervised until it can be determined whether there should be a hearing to determine if the individual's registration should continue

The number of businesses and individuals registered reflects the strength of firms headquartered in Manitoba as well as the commitment of firms based in other jurisdictions to offer services to clients in Manitoba.

Number of registrations:

	2012-13	2011-12	2010-11
The Securities Act	19,743	19,318	18,281
The Commodity Futures Act	450	432	401

*The numbers for 2011/12 have been modified to correct a calculation error identified after the issuing of the 2011/12 report.

The registration section also continues to be involved in initiatives locally and through the Canadian Securities Administrators to improve the registration process.

National Registration Database

The National Registration Database (NRD) permits an individual or company to submit registration information and requests to the Commission and other Canadian securities regulators electronically using a secure Internet connection.

NRD has created efficiencies in the registration process through the single point of entry into the registration process and through an increased coordination of registration forms and procedures. These efficiencies have been achieved without compromising the Commission's ability to monitor and respond to activities in Manitoba markets.

Passport

The Passport system has significantly improved the efficiency of the Canadian securities regulatory system by permitting one regulator to make a decision regarding registrations that has application in other provinces and territories. A firm or individual in Manitoba can apply to the Commission in Manitoba and obtain the necessary approvals to operate in other provinces and territories. There is no longer a need to obtain separate approvals from each province and territory.

Although the Ontario Securities Commission does not participate in the Passport system at this time, registration submissions continue to be coordinated with Ontario to make the approval process required to access the Ontario market as efficient as possible.

Compliance

The Compliance section performs reviews of the operations of persons and companies registered with the Commission to ensure they are conducting business in a manner that does not pose a risk to the public. This is done through the review of various documents that registrants are required to submit and by performing compliance examinations of the operations of registrants. Compliance reviews are an effective way of identifying risks before there is a loss to investors. Compliance reviews may be conducted locally, or in cooperation with other securities regulators.

The Compliance section also assists in the investigation of complaints by providing financial analysis of trading records and other financial information. In addition, the compliance section provides a financial analysis of Investor Claims for Financial Loss, determining what dollar amounts can be presented to a hearing of the Commission.

The Compliance section maintains contact with self regulatory organizations to conduct and coordinate compliance examinations. The Compliance section also oversees the operations of those organizations as required by the Act. In 2012/13, Compliance staff participated in the Oversight Review of the Mutual Fund Dealers Association, along with other recognizing regulators.

The Compliance section also conducts oversight activities related to ICE Futures Canada and ICE Clear Canada, Inc. under *The Commodity Futures Act*.

Three full and five limited scope compliance examinations were conducted in 2012/13 by the Compliance section. Compliance Staff participated with other provinces from the Canadian Securities Administrators in conducting a joint examination of a firm registered in several provinces. Compliance Staff continued to conduct new registrant visits, which give Staff the opportunity to learn about the new firms, and assists the firm in understanding their regulatory responsibilities. Two new registrant reviews were conducted in 2012/13. Staff also participated in various oversight activities related to the self-regulatory organizations that are recognized by the MSC.

Corporate Finance and Continuous Disclosure

The Corporate Finance section reviews prospectus filings and rights offerings to ensure that they contain full, true and plain disclosure of all material facts necessary to make an informed investment decision. Multi-jurisdictional offering documents are reviewed in accordance with the Passport System. The Passport system improves the efficiency of the capital markets in that the issuer deals only with the principal regulator and receives one receipt with respect to its offering.

Reporting issuers are required to file continuous disclosure materials such as financial statements, management discussion and analysis, material change reports, proxy materials and annual information forms with the Commission. Securities legislation sets out the content requirements of these documents as well as the time periods in which they have to be filed.

Insiders of reporting issuers are required to file insider trading reports with the Commission within specified time frames, utilizing the System for Electronic Disclosure by Insiders (SEDI).

Continuous Disclosure Review Program

The Commission has implemented a continuous disclosure review program and is participating with other members of the CSA in the ongoing development of a harmonized approach to ensure that all reporting issuers are subject to ongoing review, and that the reviews are performed efficiently and consistently. The CSA continues to work towards a harmonized approach to the performance of continuous disclosure reviews. Manitoba is one of the eight Passport jurisdictions participating in this program.

The focus on continuous disclosure filings reflects the fact that over 90 per cent of all trades take place in the secondary market and the quality and timeliness of information disclosed to capital market participants by reporting issuers is of the utmost importance to the market. Commission staff continues to review prospectus offerings, but equal importance is placed on the review of continuous disclosure filings.

Insider Trading

SEDI provides easy public access to insider reporting information and also allows for effective and efficient monitoring of insider trading reporting activity to ensure that filings are in the proper form and content and are made in a timely fashion. For Manitoba reporting issuers, Corporate Finance staff ensures filings are form compliant, filed within required timelines and late filing fees are collected where required.

National Electronic Filing Systems

Corporate Finance staff continues to be involved with the maintenance and ongoing development of three electronic filing systems:

- SEDAR – a System for Electronic Document Analysis and Retrieval (SEDAR) has been in use since January 1, 1997 and provides for the electronic filing of securities-related documents with the Commission and other CSA jurisdictions. SEDAR allows for the efficient filing of documents with all regulators simultaneously and provides for secure electronic communication between issuers and regulators. SEDAR has greatly enhanced the efficiency of the Canadian capital markets and, when combined with the Passport system, has resulted in the Canadian capital markets being one of the most efficient in the world. In addition, through its website at www.SEDAR.com, it allows for the timely dissemination of information to the public.
- SEDI – Manitoba continues to participate in the ongoing maintenance of the System for Electronic Disclosure by Insiders (SEDI) which is a national insider reporting database. The system provides ease of reporting to insiders and public access to insider trading information.
- National CTO database – Corporate Finance staff continue to participate with other CSA jurisdictions in the ongoing development and maintenance of a national cease trade order (CTO) database. This database has proven to be highly effective and allows members of the public and industry participants easy access to information relating to CTOs issued by securities regulatory authorities in Canada.

Policy Development

Corporate Finance staff was involved in the development and implementation of a number of significant national rules and policies dealing with such matters as:

- Point of Sale for mutual funds
- Development of a prospectus rule for scholarship plans
- Potential regulation of proxy advisory firms
- Proposed amendments to prospectus rules with respect to pre-marketing and marketing
- Proposed amendments to modernize investment fund rules and policies
- Review of mutual fund fees in Canada Potential expansion of Passport System

Corporate Finance staff is also involved in the CSA Committee looking at systemic risk in the securities industry.

IFRS

Corporate Finance staff continued to expend considerable resources in 2012/2013 with respect to the adoption of IFRS in Canada as of January 1, 2011. Among other initiatives, staff participated in a national training initiative and the monitoring of reporting issuer compliance with IFRS.

Filings Processed

Prospectus ** (by year)	Prospectus Amendments	Annual Information Forms	Rights Offerings	Take-Over Bid Circulars
2008/2009 798	200	1335	21	65
2009/2010 853	244	1270	20	55
2010/2011 917	214	1352	8	39
2011/2012 780	244	1328	10	44
2012/2013 729	238	1169	10	33

** Prospectus documents filed – A single prospectus filing may contain multiple issuers (i.e.: a single mutual fund prospectus could contain as many as 100 funds).

As evidenced by the above table, the level of prospectus and continuous disclosure filings continues at a high level.

Private Placement and Exempt Offerings

The Commission recognizes the benefit to the Manitoba economy and the public in providing an environment that encourages the development of business and the need of those businesses to raise capital. The percentage of businesses that access financing through capital markets is consistently higher in Canada than in the United States, reflecting the importance of having rules that provide a variety of financing options to support new and developing businesses.

Where the size of the business or the amount of capital to be raised does not warrant the use of a prospectus, securities regulation provides ways to assist businesses and make new offerings of securities available to Manitobans.

The Act, regulations and rules provide exemptions from the requirement to use a prospectus and the requirement to trade in securities through someone registered under *The Securities Act*. They are based on the nature of the security sold, the dollar amount of the purchase, as well as the knowledge of the purchaser. Limited offering exemptions are based on an offering of securities being made to a limited, identifiable group of purchasers, and are used by new businesses that need capital to establish operations. Purchasers of securities in limited offering exemptions either have knowledge of the business they are investing in or are required to seek independent advice with respect to the investment prior to purchase.

The raising of capital in Manitoba can be done in various ways. Under Manitoba law options are available to market securities using requirements that have been in place for many years and that are unique to Manitoba. The Commission has been told by its stakeholders that these Manitoba options continue to provide methods to raise capital that balance the interests of businesses and investors.

Commission rules also provide capital raising options that are available throughout most of Canada. Using one of these rules permits a business to raise capital in a consistent manner in most provinces or territories. These rules are highly harmonized throughout Canada .

Commission rules also provide capital raising options that are available throughout most of Canada. Using one of these rules permits a business to raise capital in a consistent manner in most provinces or territories. These rules are highly harmonized throughout Canada.

	2012/13	2011/12
45-106F1 Capital Raising Forms*	1,264	1277
Offering Memorandum	97	118
Private Placement	0	0

(*This form is required to be filed with the Commission and sets out information about the business raising the capital as well as the capital raised during the offering.)

Exemptions and Orders

Exemption Applications

Applications are made to the Commission for exemptions from regulatory requirements in situations where the granting of an order is not contrary to the public interest. The Commission deals with national applications and local applications.

National and Regional Applications

The Commission is a participant in the Passport System for exemption applications. The Passport System permits an applicant to make a single application in multiple jurisdictions. The Principal Jurisdiction reviews the application, determines whether the relief requested in the application should be granted and issues a single decision document on behalf of all jurisdictions.

Manitoba Applications

The Commission continues to be supportive of local community-based projects that focus on businesses that will provide benefits to a community. While the Commission does not create business plans or proposals for local projects, staff works with applicants to satisfy themselves that each group has the tools required to raise capital in a manner that does not compromise the investor protection objectives of securities regulation.

The total number of orders issued under *The Securities Act* for the last three fiscal years:

ORDERS ISSUED	2012/13	2011/12	2010/11
Exemption Orders	8	11	21
Take-Over Bid Orders	0	1	0
Insider Reporting Orders	0	0	0
Financial Reporting Orders	75	82	80
Cease Trade Orders*	63	79	61
Miscellaneous Orders	60	97	41

(*Cease Trade Orders include both permanent and temporary orders)

Legislation and Policy Development

Laws and rules developed and administered by the Commission need to achieve a balance between investor protection and facilitating fair and efficient capital markets. As markets are constantly changing the Commission must continually monitor and review securities regulations. It is important to ensure that any new or revised requirements do not inadvertently create barriers to market activity in Manitoba, are unnecessarily inconsistent with other jurisdictions or create unacceptable levels of risk for investors.

Some of the projects the Commission has been involved in during 2012-2013:

Highly Harmonized Securities Legislation

Working with the Ministers responsible for securities regulation and their respective staff, the Commission and other members of the CSA continue to identify and implement legislation and rules that can be highly harmonized amongst the provinces and territories participating in the Council of Ministers for Securities Regulation. This work results in highly harmonized laws in existing areas as well as new areas of regulation such as the regulation of auditor oversight bodies and credit rating agencies.

Policy

On a local basis, the Commission continues to strive for policy development to benefit investors and maintain fairness in the marketplace. On a national basis, the Commission continues to work with other CSA jurisdictions on the implementation of new Point of Sale disclosure regime for mutual funds, amendments to the prospectus rule, the modernization of investment fund regulation and the review of mutual fund fees.

The bulk of national policy development takes place through CSA staff committees. The Commission was represented in 2012/13 on numerous CSA Committees and continues its commitment in this regard.

Rules, Policies and Notices

The Commission has the legislative authority to enact rules that have the same force and effect as regulations under the legislation. In fiscal year 2012/13, most rules enacted by the Commission were national instruments representing rules implemented on a Canada-wide basis.

The Commission also issues Policies and Notices to give guidance to markets about the application of securities laws.

The Commission issued 74 rules, notices and policy statements during the period which reflects the continuing harmonization of securities rules and regulations across the country.

All rules, notices and policy statements that were published for comment or adopted by the Commission during the past year are posted on the Commission's website.

ICE Futures Canada Inc.

ICE Futures Canada, Inc. (ICE) is headquartered in Winnipeg and is the only agricultural futures exchange in Canada. ICE is registered as an exchange under *The Commodity Futures Act*. It is also recognized as a self-regulatory organization under the Act.

The Commission oversees the operations of the exchange to ensure its business is being conducted in a manner that meets or exceeds international standards. The oversight program of the Commission includes ongoing review of the operations of the exchange and its clearinghouse, review of rules and policies of the exchange and the review and monitoring of products offered by the exchange.

Investigation And Enforcement

Complaints & Inquiries

Staff investigates complaints and inquiries from the public. A complaint may relate to the conduct of a person or company registered to trade in securities or to trading activities of people not registered to trade securities in Manitoba. Complaints may also involve securities products that may or may not have been approved for trading in Manitoba.

As with any investigative agency, Commission staff must review all complaints received both on the basis of potential harm to the markets generally, and on the basis there may have been harm caused to an individual member of the public.

Commission staff will in many cases facilitate resolution of a complaint by speaking with both the securities firm and the client. In some cases, matters that relate to the conduct of a registrant are referred to a self-regulatory organization such as the Investment Industry Regulatory Organization of Canada or the Mutual Fund Dealers Association for investigation and resolution.

During the fiscal year 2012/13 the number of complaints received relating to fraudulent schemes such as prime bank instruments and pension plan loans remained a concern. These illegal activities represent millions of dollars of illegal activity and continue to target all segments of the population. These fraudulent schemes continue to be a focal point in the Commission's public education initiative.

	2012/13	2011/12
Investigation and Enforcement Inquiries	392	405
Investigation files opened	56	65

Investigations

Investigation staff proactively reviews websites and other publications to identify potentially illegal investment schemes before the operators of those schemes are able to take money from the public. In some cases the promoters are offering legitimate investment opportunities but were unaware of the requirements of the securities laws. In other cases operators of illegitimate schemes stop their activities once they become aware staff are watching their activities.

Once an investigation is commenced Commission staff attempt to gather evidence through witness interviews and through the obtaining of documents. In situations where this evidence cannot be gathered voluntarily, an investigation order can be issued to compel the production of evidence during an investigation.

Investigation staff also works closely with other regulators and law enforcement investigators. Commission investigators may be asked to gather evidence to assist in an investigation based in another jurisdiction. Investigations arising in Manitoba may also be coordinated with investigations occurring in other jurisdictions.

The Hearing Process

After a complaint has been investigated a determination is made whether there is sufficient evidence to justify holding a hearing before the Commission or to conduct a prosecution in Provincial Court.

The Commission conducts hearings:

- to review whether a person or company should continue to be registered;
- to review a decision made by the director;
- to determine whether to deny someone the right to trade securities;
- to decide whether trading of security should be halted;
- to determine whether a financial loss compensation order should be issued and/or whether an administrative penalty should be assessed;
- to determine whether someone should be prohibited from being a director or officer of an issuer.

The Commission, following a hearing, also has the ability to issue an order based on an order issued by another securities regulator. Staff of the Commission maintain close contact with all other Canadian securities regulators to identify cases where it would be appropriate to issue a reciprocal order in Manitoba. In 2012/13, 43 reciprocal orders were issued by the Commission based on orders issued in other jurisdictions.

The Commission also conducts prosecutions in Provincial Court where there is an allegation of a violation of a law administered by the Commission. A conviction for these offences can result in a fine or imprisonment.

Concerning administrative hearings heard before a panel of the Commission during the year ending March 31, 2013, 59 Notices of Hearings were issued, 52 Orders were filed, one Settlement Agreement was completed and four Decision Documents published. In addition, Commission staff has one pending Court of Queen's Bench hearing for breaches of *The Securities Act* and as of March 31, 2013, two additional provincial court hearings were completed and one is pending. Details of pending and completed Commission hearings and prosecutions are provided on the Commission's web site under the heading *Hearings & Proceedings*.

Financial Loss Claims

A member of the public who chooses to invest in securities accepts the risk that the market value of the investment may increase or decrease. The public does not invest with an expectation that there will be a decrease in the value of an investment caused by illegal or improper activity.

The Commission was the first in Canada to obtain authority in legislation to order repayment to an investor for losses arising from illegal or improper conduct relating to the trading of securities. Claims of up to \$250,000 are permitted. This authority provides investors with an alternative to the civil court system and is a powerful tool for investor protection. By providing this option to investors, the investor and the subject of the Commission hearing can have all regulatory and financial loss matters dealt with in a single proceeding.

The ability of the Commission to order compensation to an investor also creates a strong incentive to resolve client complaints involving financial losses at an early stage, avoiding the need for the client to make a complaint to the Commission or spend money to have a matter determined by the courts.

The Commission publishes a report describing the number and status of claims under the Enforcement section of the Commission's website at www.msc.gov.mb.ca.

Investor Alert

The Commission believes that informing investors is often the best way to avoid losses through illegal or improper trading of securities. The Commission will issue an Investor Alert in situations where it is necessary to warn the public about activities that may be illegal or that pose a risk to the public. An Investor Alert may be issued even though there has not been sufficient time to assemble the evidence required to commence a Commission hearing or court prosecution.

Investor Alerts are issued through media outlets and posted on the Commission web site. They are issued throughout Manitoba, but in some cases have been targeted to specific areas in the Province where the deemed improper activities are occurring.

Education and Communication

In 2012-2013 the MSC Education Department took on several long term projects starting with a complete redevelopment of the Commission's Securities and Real Estate websites. The amount of work involved in upgrading the design, user functionality and establishing the use of a new backend SharePoint environment is extensive. This project is slated to span two fiscal years.

The Commission has been instrumental in Co-founding the Manitoba Financial Literacy Forum. The forum brings together both professionals and the public whose vision is to improve Financial Literacy for all Manitobans. "Financial Literacy is defined as having the knowledge, skills and confidence to make responsible financial decisions." As of the writing of this report there were 48 individuals representing 38 organizations participating on the Forum. In 2012, Forum members worked together to develop a financial literacy calendar to distribute free of charge to Manitobans.

In September 2012 the Education Department was invited to speak at Financial Forum 4, a conference for academics and professionals with backgrounds in home economics, human ecology, family studies or related fields who work with families on financial matters. The two day event covered topics such as: Abuse and the Economic Impacts on individuals, Credit Counselling and Gambling Addictions, Consumer Acculturation: How Immigrants Cope with Banks and Financial Education and Financial Exclusion in Winnipeg: Examining Bank Branch and Payday Loan Outlet Locations, 1980-2009. The Commission spoke as part of a panel on Current Issues in Financial Counseling and Financial Literacy.

In November the Commission conducted a survey of Manitobans that looked at their awareness of the commission, the profile of a typical Manitoba investor, the investor/adviser relationship, investor knowledge and investment fraud.

There were several concerning findings surrounding investment fraud such as one in three Manitobans don't recognize investment fraud and 25% agree that reporting investment fraud is more trouble than it is worth because they believe that it is time consuming, they are fearful of repercussions and there are no consequences to those perpetrating the fraud if caught. In response, the Commission began development on recognizeinvestmentfraud.com to help the public, recognize investment fraud, learn more about what they can do to protect themselves from becoming a victim of investment fraud and to

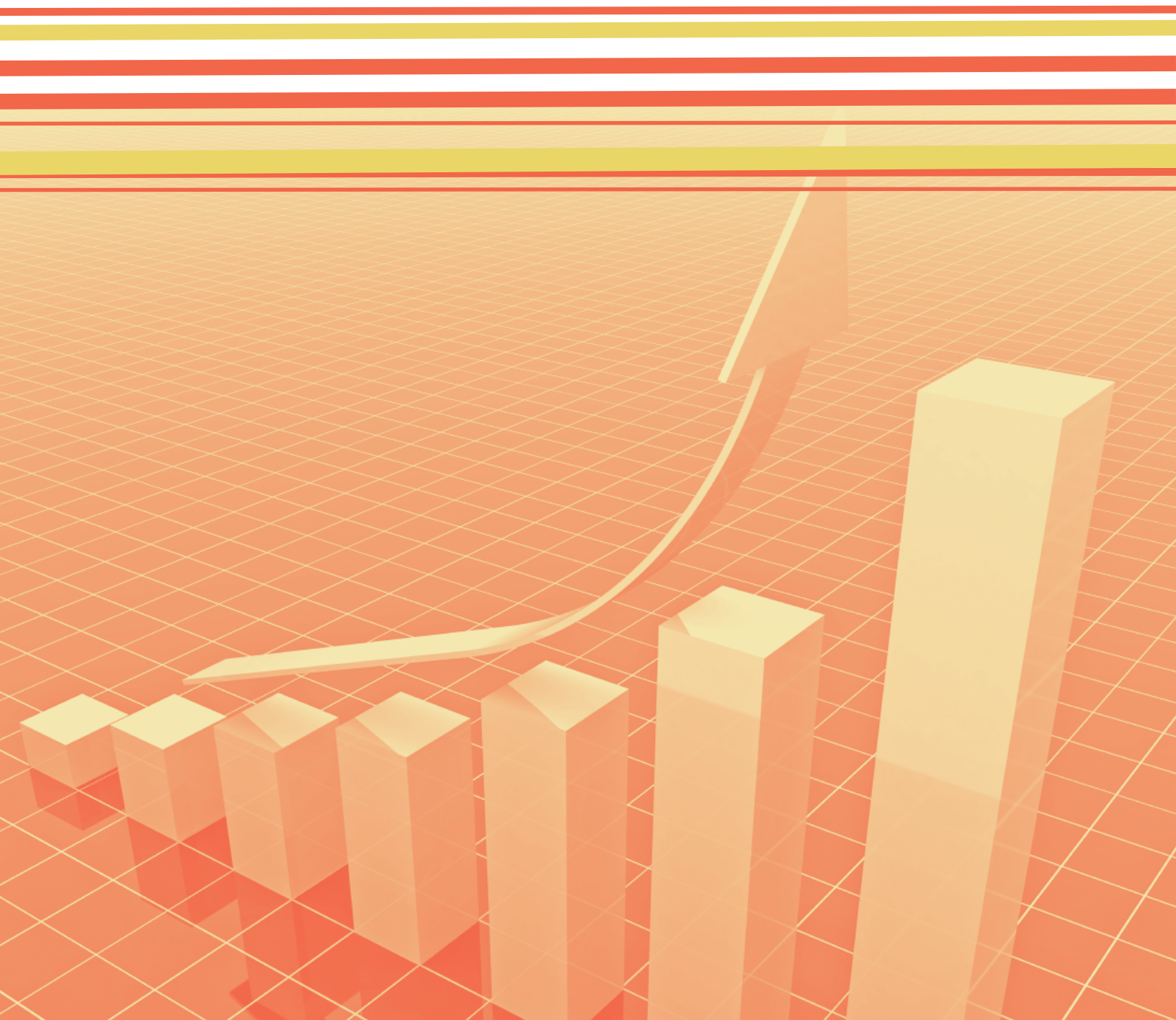
provide a simple fraud reporting mechanism. The public will now be able to report on line or by calling our 1-885-MBFRAUD intake line. The website will launch in the new fiscal year.

As in previous years the Commission worked with the Canadian Securities Administrators on Education and Communication initiatives. The MSC together with the CSA issued 30 Press Releases covering a variety of regulatory issues and also participated in the launch of the annual CSA Enforcement Report.

The Education Department continues to work alongside Real Estate on a few Real Estate projects. The first project was hosting focus groups with the public on the topic of Home Inspectors. The Commission was interested in finding out what the general public knows about Home Inspectors, the services that they provide, the costs of services, education requirements of service providers and consumer protections that come with having a home inspection completed. The sessions were very informative.

Part III

Performance Measurement and Service Standards



Performance Measurement

The Commission's planning process is set out in three documents. First, the Commission has a multi-year Strategic Plan that notes the main challenges to the organization and maps out strategies to respond. The other two documents are the annual Business Plan and the Planning Document.

The annual Business Plan is based on the Strategic Plan and develops a one-year road map for strategy implementation while developing a budget for the operations of the Commission.

The Planning Document, which was previously called the Balanced Scorecard, was originally developed by Commission staff with some outside consultation and was introduced in the 2002/2003 fiscal year. The balanced scorecard document was reviewed and updated by staff in 2006/07 and was renamed the Planning Document.

The Planning Document is a dual purpose document in that it outlines goals/objectives of the Commission and actions required to achieve them as well as the means of measuring the agency's successes. In other words, in addition to being a performance measurement document, the Planning Document doubles as a work plan for the overall Commission in the various functional areas for carrying out most aspects of the Business Plan.

The Planning Document template breaks down the Commission's broad goals into four perspectives being: financial, stakeholder, internal and learning and growth. Under each of the perspectives, in addition to goals or objectives, measures are set out as a means of determining as to whether the Commission has successfully achieved its goals for the year. There are two types of measurements, being "quantitative" and "qualitative". Quantitative measures are those that lend themselves easily to determination and comparison. These are generally matters that can be physically counted such as the number of field audits completed in a year, the number of staff that are cross-trained for other jobs, the number of hours of staff training completed, and the number of educational programs delivered to the public.

Qualitative measurements are those matters less prone to physical comparison but are still considered valid indicators of the fulfillment of Commission objectives. For example, under "internal perspective" the first stated goal in the Planning Document is "developing and maintaining a superior knowledge base". An action aimed at furthering this goal includes for all functional areas the preparation of written procedure and policy manuals. The completion of these manuals is considered a qualitative measure in that their availability will serve to increase operational understanding and communication. With qualitative measures the timely completion of the action, designed to further agency goals, is taken as a measurement in itself that the Commission's goals are being achieved.

Each year staff of the eight functional sections applies the template to their specific areas and the actions to be undertaken by each area to achieve their goals. Each action is directly related to an organizational goal or objective. Every staff member has the opportunity to participate in this exercise. The individual area templates are collected, reviewed and incorporated into the Planning Document.

The Planning Document also includes target dates, proposed results and a status column (which is used to track results). The status of the Planning Document is reviewed by staff on a quarterly basis, and following the year-end a final report on the organization's performance success is made available to all staff members. As has been the case with previous years, the organization has generally met the performance goals it had set. This is particularly so in those areas where quantitative performance targets were laid out. In those few areas where performance targets were not met during the fiscal year, valid

reasons were given and the goals and targets are reevaluated and identified for completion during the subsequent cycle.

The Commission has found the Planning Document to be a very useful tool in the planning/reporting process and a valuable method of identifying agency objectives and utilizing the talents of all staff in determining actions to meet those goals and setting measures for performance. This document is very much a creation of Commission staff and while there are always different ways to view and measure performance, the team performing the Commission's Effectiveness Evaluation in 2002 considered this document to be comprehensive, reasonable and appropriate. The Commission realizes the importance of remaining current in its performance measurement outlook and senior management and the extended management committee reviews the Planning Document on a regular basis.

Service Standards

Service Standards in operation include commitments to timely action in the review of applications as well as in the delivery of decisions following administrative hearings, the issuance of comment letters for prospectus filings within Passport guidelines, and meeting annual CSA continuous disclosure review targets.

In the area of hearings the Commission will, for hearings of one week (five days) or less provide written Reasons for Decision within six weeks of the close of the hearing. The Commission members, when assigned to panels, will endeavor to produce written Decisions in a timely fashion for longer hearings, which will depend upon the amount of evidence to be reviewed in rendering a Decision. This service standard was implemented at the end of fiscal year 2007 and has been complied with to date.

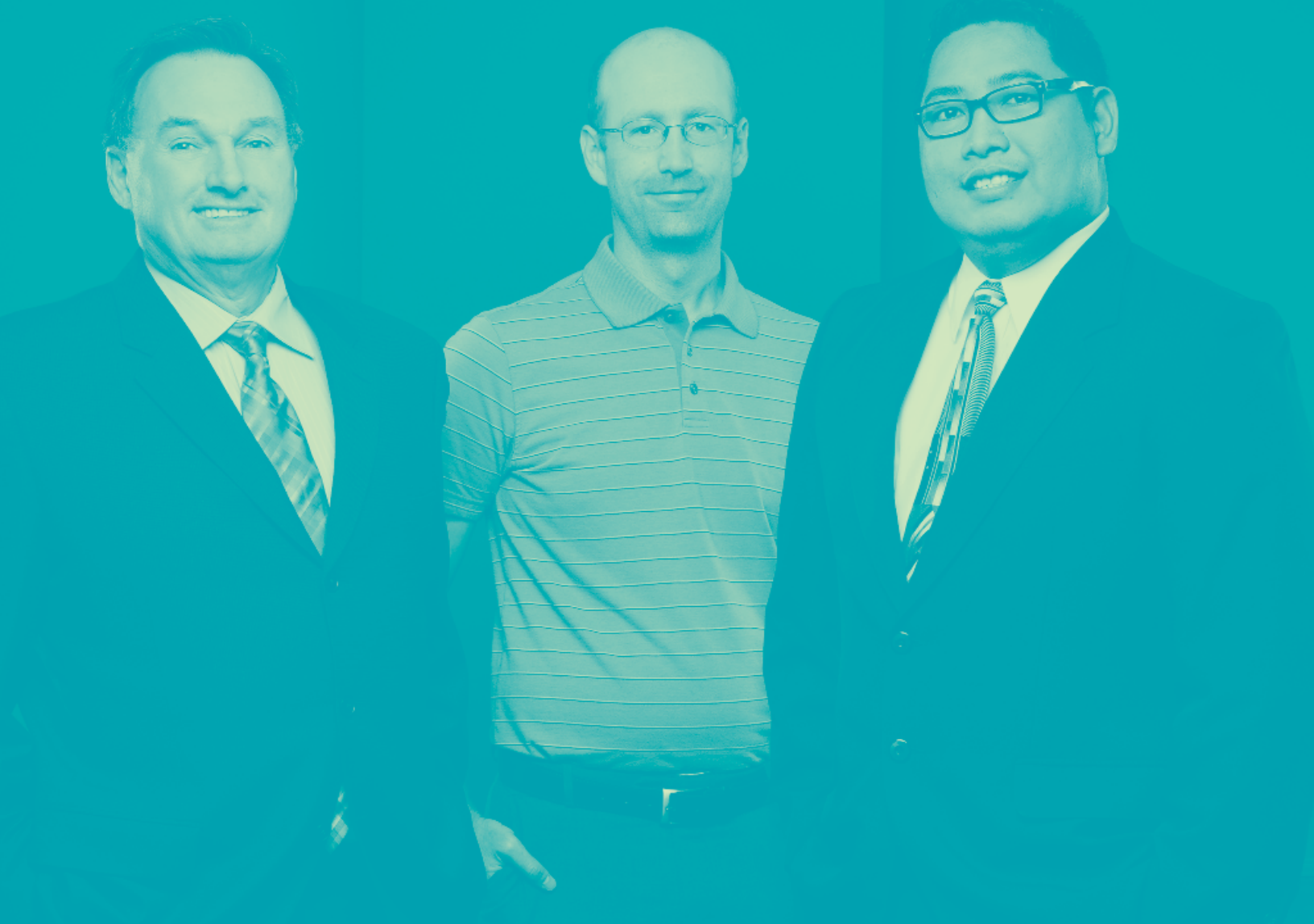
In the area of prospectus review Commission staff will ensure that all standards set out in the Passport for review and comment for preliminary prospectuses, long form prospectuses, short form prospectuses and amendments will be met or exceeded when acting as principal regulator. This includes:

- Preliminary and long form prospectuses – review and issue comment letter within 10 working days;
- Preliminary short form or shelf prospectus – review and issue comment letter within three working days;
- Amendments to preliminary long form prospectus – review and issue comments within five working days;
- Amendments to preliminary short form prospectus – review and issue comments within two working days;
- Final amendments to prospectus – three days for long form and two days for short form.

With respect to continuous disclosure reviews, staff will ensure that Manitoba meets the annual targets established by the CSA continuous disclosure review program.

Part IV

Real Estate



Overview

The Real Estate Division of The Manitoba Securities Commission administers *The Real Estate Brokers Act* and *The Mortgage Brokers Act* (formerly *The Mortgage Dealers Act*). The Real Estate Division is responsible for the registration of real estate brokers, mortgage brokers and real estate and mortgage salespersons, investigations of complaints involving the alleged violations of statutes, and to provide public protection by raising and maintaining the standards that have been established for governance of the real estate and mortgage brokerage industry.

On-Line Registration

The real estate industry has been utilizing an on-line registration system that was first introduced in February of 2010. This enhanced system allows industry members to complete their renewal licensing registrations on-line as well as certain other changes to the details of their registration information. There are currently close to 40% of the industry registrants utilizing the system. In addition to being able to validate renewal registrations and initiate changes on-line the industry members can also obtain up to date information pertaining to their status of educational requirements as well as their licensing history. This on-line registration system is also available for the mortgage broker industry for renewing registrations and obtaining personal information and since May of 2011 there has been a steady increase in usage.

Education

The real estate pre-licensing courses and examinations are prescribed by the Commission and administered by the Manitoba Real Estate Association (“MREA”). Educational standards are under the governance of the Registrar who serves as a member of the MREA’s Education and Examination Review Committee.

During the 2012/13 there were 862 enrolments in the real estate pre-licensing courses. Individuals wanting to become a qualified real estate salesperson must successfully complete all 3 phases of the pre-licensing course program before they can register with the Commission.

Through the MREA industry registrants must also complete 6 hours of a Mandatory Continuing Education (MCE 12) and Legal Update and Practices Guidelines course to retain their licensing. This past year, being the twelfth for the industry’s continuing education course, 2,248 registrants completed the continuing education course. The course material is compiled with the assistance and input of a number of the industry’s experts and reviewed and approved by the Education Committee, of which the Registrar is a member.

The MREA and Commission staff continuously review the content of the pre-licensing courses to determine whether they meet the needs of the industry and the public. Also, on-line courses have been established and have proven to be popular for individuals pursuing a career in real estate. Informational material can be obtained at various career symposiums as well as through the Commission and MREA websites. Our educational courses and material continue to be reviewed and upgraded. The Commission continues to partner with the Canadian Association of Accredited Mortgage Professionals (CAAMP) for its educational requirements and is currently working with them to develop a mortgage broker course.

Registrations

There were 2,616 registrations issued for real estate salespersons, authorized officials and brokers. In addition to the new and renewal registrations for members of the real estate industry the Commission also deals with re-licensing and transferring of the members licenses due to a variety of different circumstances.

Also, there were 414 renewal registrations issued for mortgage brokers that included mortgage salespersons, authorized officials and brokers. During the year there were numerous amendments completed by the Commission relative to registration information that included name, address and corporate information changes processed under *The Real Estate Brokers Act* and *The Mortgage Brokers Act*. These amendments also included changes to the status of registrant's licenses through re-instatements and transfers as well as suspensions.

Financial Filings and Compliance Audits

The Commission reviews the Annual Trust Account Reports and Mortgage Broker Trust Compliance Reports (includes financial statements) that brokers file with the Registrar and advise on compliance with the trust accounting provisions of the statutes. The compliance program consists of field audits and follow-up field audit visits and provides information to the professional accountants who prepare the statutory reports.

During the year staff reviewed 416 reports filed by brokers of the real estate and mortgage brokerage industry and from 29 brokers that filed final close-out reports having ceased business operations throughout the year. There were no suspensions this past year due to the failure by a broker to file their report within the prescribed time periods however there were numerous Reprimands and Warnings issued.

Investigation and Enforcement

The enforcement program addresses the following areas:

- Investigation of complaints alleging infractions of the statutes and improper conduct
- The background of applicants and conduct of registrants
- Investigation of alleged unregistered trading

In addition to the number of miscellaneous complaints and inquiries handled on a daily basis, there were 76 formalized written complaints received during 2012/13. The investigation of 60 of these complaints was still at some stage in the investigative process as at March 31/13. The complaints where the investigation had been finalized saw the following results:

- 20 complaints were dealt with by not having to carry out an extensive investigation or were resolved with the assistance or intervention of Commission staff
- 6 complaints resulted in some form of warning or reprimand action being taken against a registrant
- 2 complaints resulted in other action (Discussion by Commission staff with the broker or salesperson will sometimes result in a complaint being resolved)

Legislation And Policy

Policy Development

The Registrar serves on The Real Estate Advisory Council, a non-statutory body that advises and makes recommendations to the Commission and MREA on real estate issues. The Council consists of 10 members representing various stakeholders with the Registrar being the Commission’s representative.

The Council did meet formally during 2012/13 as part of the committee’s commitment to meet annually and more often if necessary. This past year saw the committee meet once and included a general overall review of the state of the real estate industry and comprehensive review of proposed amendments to *The Condominium Act*. The committee also touched briefly on a proposal that will possibly see a re-writing of *The Real Estate Brokers Act*.

Trust Accounts

Interest earned on Brokers’ Trust Accounts

The Commission receives interest earned on the balances held in brokers trust accounts from various financial institutions. The Real Estate Advisory Committee established by the Regulations under *The Real Estate Brokers Act* recommends uses for real estate related projects for this interest that the Commission receives. Monies that are not designated for projects are paid to the Minister of Finance on March 31st of every year.

The results related to 2012/13 are as follows: (RECEIPT in (000’s)

RECEIPT’S (in 000’s)

Interest earned		<u>\$177</u>
Disbursements to the MREA		
Habitat for Humanity	\$52	
Condominium Legislation & Offer to Purchase Seminars	30	
Virtual College Project t - Phase 2	<u>60</u>	
Sub Total	\$142	
Residual balance to the Minister of Finance (*see note below)	95	
Total Disbursements		<u>237*</u>

*Last fiscal year’s request of \$135,375 had included an allocation of funds of \$60,000 for a project that had not been approved by the Commission therefore the interest earned account had a surplus balance of this amount which was transferred to the most recent fiscal year and disbursed accordingly.

Unclaimed Trust Account

Section 26 of *The Real Estate Brokers Act* allows brokers to pay amounts of unclaimed trust monies, following the prescribed time period of 2 years, to the Commission for retention in a consolidated trust account. Trust monies received by the Commission are held under trust conditions pending receipt of a claim by the rightful owner. This account maintains a stipulated annual reserve balance as at the fiscal year end with all monies in excess being paid to the Minister of Finance

The Results related to 2012/13 are as follows: RECEIPT in (\$000's)

Balance forward at April 1/12	\$25	
Received during the fiscal year	<u>1</u>	
Sub Total		\$26
Disbursement to the Minister of Finance	\$ 1	
Residual (Reserve) Balance		<u>\$25</u>

Part V

FIRB DIVISION



Overview

FIRB provides regulatory oversight to the insurance sector, trust and loan companies, credit unions and caisses populaires and cooperatives operating in Manitoba.

Insurance Sector

Through its administration of *The Insurance Act*, FIRB is responsible for the licensing of all insurers operating in Manitoba, the prudential regulation of insurers established in Manitoba and deals with consumer and policyholder complaints with respect to insurers.

In addition, FIRB is responsible for insurance policy and recommendations for legislative changes. Harmonized legislative frameworks between jurisdictions are essential for insurers that often operate in many jurisdictions. Most of the FIRB research is done in cooperation with the Canadian Council of Insurance Regulators and trade associations representing the insurance industry nationally and locally.

In the 6 month period ending March 31, 2013, two insurers ceased operations in Manitoba. At March 31, 2013, there were 235 insurers licensed in Manitoba including 187 federally regulated and 48 extra-provincial insurers. Insurers offer comprehensive insurance coverage in a competitive market.

FIRB also licenses special insurance brokers that place unlicensed insurance; accident and baggage agents who sell travel related insurance; and, hail agents and adjusters that deal with hail related risks to crops. At March 31, 2013, there were 4 special insurance broker licences; 688 accident and baggage and miscellaneous licences; and, 248 hail agent and adjuster licences.

For the 6 month period ending March 31, 2013, FIRB opened 36 compliant files, closed 33 files and still had 15 complaints in process.

Insurance Council of Manitoba (ICM)

In 1992, ICM was created and operates under delegated authority from the Superintendent of Insurance to deal with agents, brokers and adjusters. ICM's is responsible to issue or refuse a licence; to attach limitations or conditions to a licence; to investigate complaints; to cancel or suspend a licence; and to fine or assess costs. In addition, ICM may make rules for its own procedure; may prescribe the educational and other standards for agents, brokers and adjusters; may initiate and engage in consumer protection programs; may make recommendations to the Minister; and, may establish ethical, operational and trade practices for licencees. ICM rules must follow provincial legislative drafting standards and are approved by the Superintendent of Insurance.

On a regular basis, ICM reports to Superintendent of Insurance on all its activities and shares a portion of its licensing fees and examination fees with FIRB.

For the 6 months ending March 31, 2013, ICM administered 153 examinations for insurance agent, broker and adjuster licences. The pass rate was 63% or 96 applicants.

ICM issued 1,147 agent, broker and adjusters licences in the 6 months leading up to March 31, 2013. Most of the renewal licenses are processed in April/May each year. In a normal 12 month period, ICM will issue more than 10,000 licences.

For the 6 months ending March 31, 2013, ICM opened 39 new complaint files against agents, brokers and adjusters, closed 27 files and had 34 not yet resolved at March 31, 2013. There were 10 closed files presented to Council for a decision. No decisions of Council were appealed.

Trust & Loan Companies

Pursuant to Part XXIV of *The Corporations Act*, FIRB is responsible for issuing business authorizations to all trust and loan companies doing business in Manitoba. In the 6 months ending March 31, 2013, there were 54 trust and loan corporations authorized to operate in Manitoba, one less than at October 1, 2012.

Trust and loan companies are federally regulated by the Office of the Superintendent of Financial Institutions (OSFI) or extra provincially regulated by other Canadian jurisdictions.

The Credit Union Sector

FIRB administers *The Credit Unions and Caisses Populaires Act*. Under this legislation, FIRB shall generally oversee compliance and ensure the public's interest is protected; be responsible to review policy matters and legislation; and, provide direct oversight to the Credit Union Central of Manitoba (CUCM) and the Deposit Guarantee Corporation of Manitoba (DGCM).

The CUCM acts as a trade association for credit unions and provides a liquidity pool and credit adjudication process to its members.

The DGCM guarantees the deposits of credit unions (CU) and caisses populaires (CP); promotes the development of sound financial practices to protect against financial loss. DGCM is the prime regulator of the CUCP systems that includes monitoring the financial health of the CUCP system, loan inspections and remedial action. DGCM administers a fund of approximately 1% of CUCP deposits to support its guarantee.

FIRB meets with both DGCM and CUCM on a regular basis to discuss policy matters and recommendations for legislative change. In addition, FIRB seeks input from other provincial regulators of credit unions to ensure consistency throughout Canada. Recent discussions relate to federal legislative developments concerning the authority to establish Federal credit unions and evolving international capital adequacy standards that will be applied to Manitoba credit unions in the future.

At March 31, 2013, the CUCP sector included 40 credit unions and 1 caisse populaire with combined assets of \$ 22.7 billion, member deposits of \$ 21.2 billion and members' equity of \$ 1.4 billion.

The Cooperatives Sector

FIRB administers *The Cooperatives Act* that provides a framework for cooperatives and cooperative members in Manitoba. Under the Act, FIRB provides assistance to persons incorporating a cooperative; makes available model forms of articles and by-laws for the use of cooperatives; provides a public registry; and, acts as an adviser to cooperatives.

FIRB consults with the local cooperative community on all policy matters and recommendations for legislative change. In 2013, FIRB will recommend amendments to the Cooperative Act Regulation to provide an improved appeal process to deal with the termination of membership for housing cooperatives.

As at March 31, 2013, there were 363 cooperatives with over 442,000 active members operating in Manitoba. Cooperatives represent many sectors of the economy with the two larger categories being 58 housing cooperatives and 57 consumer cooperatives.

In the 6 month period ending March 31, 2013, there were four new cooperatives incorporated, one previously dissolved cooperative was revived and four cooperatives were dissolved.

Part VI

Information Technology



Overview

As of March 31, 2013, the Agency had the following internal systems in place:

- Manitoba Securities Commission Information System 2.0 (MSCIS 2.0)
- Real Estate On-line Registration System - An on-line system that gives registrants the ability to register on-line and use a credit card option for payments.
- CATS - Data base for entering insurance agents, companies and adjusters
- ISM – Data base for all Co-ops and Credit Unions

The Agency uses Dynamics Great Plains and Management Reporter, an accounting and financial reporting software package for all its accounting and reporting needs. For Accounts Payable and Payroll the Agency utilizes SAP with the department of Finance.

As well, the Commission division interfaces with, and uses, the following national CSA systems:

- System for Electronic Data Analysis and Retrieval
- National Cease Trade Order Database
- System for Electronic Disclosure by Insiders, and
- National Registration Database

These systems allow the Commission to receive, store and access pertinent information and documentation filed with respect to *The Securities Act*, *The Commodity Futures Act*, *The Real Estate Brokers Act* and *The Mortgage Dealers Act*. Maintenance and development of these internal and external systems insure that daily operations run effectively and efficiently.

The Agency has a standing IT Committee that meets regularly to evaluate and prioritize the Agency's information systems requirements. The Agency uses Request Tracker to track the various changes that are requested and made to MSCIS 2.0.

Part VII

The Public Interest Disclosure (Whistleblower Protection) Act



The Public Interest Disclosure (Whistleblower Protection) Act came into effect in April 2007. This law gives employees a clear process for disclosing concerns about significant and serious matters (wrongdoing) in the Manitoba public service, and strengthens protections from reprisal. The Act builds on protections already in place under other statutes, as well as collective bargaining rights, policies, practices and processes in the Manitoba public service.

Wrongdoing under the Act may be: contravention of federal or provincial legislation; an act or omission that endangers public safety, public health or the environment; gross mismanagement; or, knowingly directing or counseling a person to commit a wrongdoing. The Act is not intended to deal with routine operational or administrative matters.

A disclosure made by an employee in good faith, in accordance with the Act, and with a reasonable belief that wrongdoing has been or is about to be committed is considered to be a disclosure under the Act, whether or not the subject matter constitutes wrongdoing. All disclosures receive careful and thorough review to determine if action is required under the Act, and must be reported in a department's annual report in accordance with Section 18 of the Act.

The following is a summary of disclosures received by The Manitoba Securities Commission for the fiscal year 2012/13.

Information Required Annually (per Section 18 of The Act)	Fiscal Year 2012/13
The number of disclosures received, and the number acted on and not acted on. <i>Subsection 18(2)(a)</i>	NIL
The number of investigations commenced as a result of a disclosure. <i>Subsection 18(2)(b)</i>	NIL
In the case of an investigation that results in a finding of wrongdoing, a description of the wrongdoing and any recommendations or corrective actions taken in relation to the wrongdoing, or the reasons why no corrective action was taken. <i>Subsection 18(2)(c)</i>	NIL

Part VIII

Financial Discussion



Management's Discussion and Analysis

The following is a discussion and analysis for the operating results of Manitoba Financial Services Agency (SOA) for the year ended March 31, 2013. It should be read in conjunction with the Agency's audited financial statements.

The financial statements are prepared in accordance with Canadian generally accepted accounting principles for the public sector as recommended by the Public Sector Accounting Board.

The Manitoba Financial Services Agency (MFSA), a Special Operating Agency (SOA), was established as of October 1, 2012 by Order in Council. The Manitoba Securities Commission (Commission) was merged with Financial Institutions Regulation Branch (FIRB) to form the new agency. The Commission and FIRB now operate as divisions of the MFSA.

Operation Results

Net Income

Net income for the year ended March 31, 2013 was \$2.9 million, an increase over the prior year by \$696,000. Revenues of \$16.2 million exceeded budget by \$3.2 million. Expenses of \$4.5 million came in under budget by \$594,000. The net result was net income exceeded budgeted net loss of (890,000) by \$3.8 million.

Revenue

The Commission exceeded its revenue targets by \$3.2 million or 25% because of increased market activity. This year's revenue totaled \$16.2 million, as compared to last year's total of \$15.1 million. See Table 1 below for details.

Table 1

Revenue (000's)	2013	% of Total	2012	% of Total	2013 % Increase/ (Decrease) from 2012
Corporate Finance Fees	\$ 9,310	57%	\$ 8,915	59 %	4%
Registration Fees	5,314	33%	5,405	36 %	(2)%
Application Filing Fees	167	1%	162	1 %	3%
Real Estate Fees	472	3%	474	3 %	.4%
Investment Income	131	1%	101	1 %	30%
Miscellaneous	2	-%	2	- %	-%
FIRB Fees	795	5%	-	-	100%
	\$ 16,191	100 %	\$ 15,059	100 %	8%

Corporate finance fees and registration fees accounted for 90% of the Agency's 2013 revenues. Corporate finance fees are made up of prospectus fees and fees related to filings such as financial statements, annual information forms and rights offerings. Registration Fees are comprised of fees for registration of advisors, dealers and representatives.

FIRB fees are revenue from October 1, 2012 to March 31, 2013. They consist of Insurance fees, Coop Regulation Fees and Trust and Loan Fees.

Expenses

Overall, total expenses for fiscal year 2013 were \$4.5 million, an 11% increase over fiscal year 2012 (\$4.1 million). See Table 2 below for details.

Table 2

Expenses (000's)	2013	% of Total	2012	% of Total	2013 % Increase/ (Decrease) From 2012
Salaries and Benefits	\$ 3,120	69%	\$ 2,796	69 %	12 %
Operating Expenses*	1,367	31%	1,248	31 %	10%
Amortization	9	- %	16	- %	(.8%)
	\$ 4,496	100 %	\$ 4,060	100 %	11%

* For details of expenses refer to the Statement of Operations and Accumulated Surplus in the Audited Financial Statements.

Total expenses were 13% below budget. Variances in salaries and benefits and operating expenses are explained below.

Salaries and Benefits

Overall, salaries and benefits increased by 12% (or \$324,000) over the previous year. For the fiscal year ending March 31, 2013, salaries and benefits were 14% below budget due to four vacancies and the impact of the Voluntary Reduced Work Week program.

Operating Expenses

Operating expenses for the fiscal year were 10% higher than last year and were under budget by \$143,000 or 10% primarily due to:

- Contract Services – under budget by \$17,000 due to lower than expected desktop support and information system support charges.
- CSA Initiative spending was under budget by \$34,000 due to lower than expected expenditures for national initiatives.
- Travel – under budget by \$9,000 due to lower than expected number of trips.
- Premises - under budget by \$17,000 due to the delay in acquiring additional space for MSC.
- Office Materials and Supplies – under budget by \$35,000 due to lower than expected publishing and printing costs.
- Education Initiatives – under budget by \$109,000 due to timing of some initiatives.
- Miscellaneous – under budget by \$10,000 due to lower than expected meeting costs.

Operating expenses also reduced by the impact of a government wide expenditure management program, to which the Agency was subject to.

Expenses over budget were:

- Professional Services - over budget by \$100,000 due to unforeseen costs related to an investigation.

Capital Expenditures

Capital expenditures for the year were \$4,000 which consisted of a scanner and a server. Capital expenditures are financed by funds provided through operations.

Liabilities

Accrued liabilities were \$46,000 for the year ending March 31, 2013. This balance represents accrued vendor obligations. Accrued vacation and severance liabilities were \$301,000 and \$403,000 respectively as at March 31, 2013 (March 31, 2012 - \$236,000 and \$279,000). Accrued salaries and benefits were \$65,000 for the year ending March 31, 2013 compared to \$50,000 at March 31, 2012. PSA Standards require the recognition of a liability for sick pay benefit obligations that accumulate but do not vest. The Agency has not recorded an accrued sick pay benefit obligation as it has been determined to be immaterial.

Transfer of Funds to the Province of Manitoba

The Agency made the required quarterly payments to the Province of Manitoba totaling \$8.8 million. The payment amount is calculated annually and is included in the Agency's business plan as a transfer to the Province of Manitoba in the Statement of Operations and Accumulated Surplus.

Liquidity

Liquidity can be defined as an organizations ability to meet financial obligations as they come due. Liquidity management provides the certainty that funds will be available to honour all commitments and involves continuous forecasting and monitoring of expected cash flows. The Agency requires liquidity principally to finance its operations and capital expenditures. Its objective is to have sufficient funds available to maintain its operations, without impairment, should revenue decrease below expenses.

The Agency had cash and cash equivalents of \$15.5 million as of March 31, 2013 and has access to a working capital advance of \$500,000 with the Special Operating Agencies Financing Authority.

The portfolio investment of \$269,000 is valued at cost and represents an investment held with the Province of Manitoba in a trust account earning a market rate of interest. The investment is to be utilized to repay employee vacation and severance balances which existed at the time the Commission became a Special Operating Agency.

As at March 31, 2013 the Agency has \$750,000 in its reserve fund to finance extraordinary expenses that are regulatory in nature and for unexpected changes in market activity that have a negative effect on revenues. These funds are invested with the Province of Manitoba Treasury Division and allow the Agency the flexibility to access these funds when needed.

Outlook 2013/2014

For the fiscal year ending March 31, 2014, the Agency has budgeted revenue of \$14.5 million and budgeted expenses of \$5.9 million. Transfers to the Province of Manitoba for the fiscal year 2013-14 are set at \$10.3 million.

With the Agency having no control over market activity, budgeted revenues are subject to variability.

MANITOBA FINANCIAL SERVICES AGENCY

Financial Statements

For the years ended March 31, 2013

MANITOBA FINANCIAL SERVICES AGENCY

Financial Statements

For the year ended March 31, 2013

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Management's Responsibility for Financial Reporting


The accompanying financial statements are the responsibility of the management of the **MANITOBA FINANCIAL SERVICES AGENCY** and have been prepared in accordance with Public sector accounting standards. In management's opinion, the financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgment regarding all necessary estimates and all other data available to the audit report date.

Management maintains internal controls to properly safeguard the assets and to provide reasonable assurance that the books and records from which the financial statements are derived accurately reflect all transactions and that established policies and procedures are followed.


The responsibility of the external audit is to express an independent opinion on whether the financial statements of the **MANITOBA FINANCIAL SERVICES AGENCY** are fairly represented in accordance with Public sector accounting standards. The Independent Auditor's Report outlines the scope of the audit examination and provides the audit opinion.

On behalf of Management

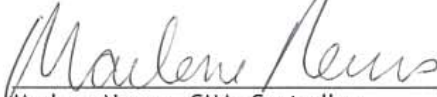
MANITOBA FINANCIAL SERVICES AGENCY



Donald G. Murray, Chair and CEO



R.B. Bouchard, CA, Director and CAO



Marlene Nemes, CMA, Controller

JUNE 6, 2013

Date



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Independent Auditor's Report

To The Special Operating Agencies Financing Authority

We have audited the accompanying financial statements of the **MANITOBA FINANCIAL SERVICES AGENCY** which comprise the statement of financial position as at March 31, 2013, and the statements of operations and accumulated surplus, change in net financial assets and cash flows for the year ended March 31, 2013, 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 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

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the **MANITOBA FINANCIAL SERVICES AGENCY** as at March 31, 2013, and the results of its operations and its cash flows for the year ended March 31, 2013 in accordance with Public Sector Accounting Standards.

BDO Canada LLP

Chartered Accountants

Winnipeg, Manitoba

June 6, 2013

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MANITOBA FINANCIAL SERVICES AGENCY
Statement of Financial Position
(in thousands)

March 31	2013	2012
	Actual	Actual
Financial Assets		
Cash and cash equivalents (Note 5)	\$ 15,518	\$ 12,626
Accounts receivable (Note 6)	233	28
Portfolio investments	1,019	1,019
	16,770	13,673
Liabilities		
Accounts payable and accrued liabilities	46	48
Accrued vacation entitlements	301	236
Accrued salaries and benefits	65	50
Employee future benefits (Note 7)	403	279
	815	613
Net Financial Assets	15,955	13,060
Non-financial Assets		
Tangible capital assets (Note 8)	23	28
Prepaid expenses	52	47
	75	75
Accumulated surplus	\$ 16,030	\$ 13,135

Designated assets (Note 9)
 Commitments (Note 10)

The accompanying notes are an integral part of these financial statements.

MANITOBA FINANCIAL SERVICES AGENCY
Statement of Operations and Accumulated Surplus
(in thousands)

For the year ended March 31	2013	2013	2012
	Budget	Actual	Actual
Revenue			
Fees	\$ 12,921	\$ 16,058	\$ 14,956
Interest	79	131	101
Miscellaneous	-	2	2
	13,000	16,191	15,059
Expenses			
Amortization - capital assets	10	9	16
CSA initiatives*	100	66	104
Contract services	325	308	270
Education/Information initiatives	197	88	166
Miscellaneous	27	17	20
Office materials and supplies	100	65	80
Premises	324	307	278
Professional services	190	290	142
Research resources	54	49	38
Salaries and benefits	3,570	3,120	2,796
Staff development and professional dues	34	29	28
Telecommunications	68	66	59
Travel	91	82	63
	5,090	4,496	4,060
Annual operating surplus	7,910	11,695	10,999
Transfer to the Province of Manitoba (Note 11)	8,800	8,800	8,800
Annual surplus (deficit)	(890)	2,895	2,199
Accumulated surplus, beginning of year	13,134	13,135	10,936
Accumulated surplus, end of year	\$ 12,244	\$ 16,030	\$ 13,135

* Canadian Securities Administrators

The accompanying notes are an integral part of these financial statements.

MANITOBA FINANCIAL SERVICES AGENCY
Statement of Change in Net Financial Assets
(in thousands)

For the year ended March 31	2013	2013	2012
	Budget	Actual	Actual
Annual surplus (deficit)	\$ (890)	\$ 2,895	\$ 2,199
Tangible Capital Assets			
Acquisition of tangible capital assets	-	(4)	-
Amortization of tangible capital assets	10	9	16
Net change in tangible capital assets	10	5	16
Other Non-financial Assets			
Increase (decrease) in prepaid expense	-	(5)	(5)
Net acquisition of other non-financial assets	-	(5)	(5)
Increase (decrease) in net financial assets	(880)	2,895	2,210
Net financial assets, beginning of year	13,060	13,060	10,850
Net financial assets, end of year	\$ 12,180	\$ 15,955	\$ 13,060

The accompanying notes are an integral part of these financial statements.

MANITOBA FINANCIAL SERVICES AGENCY
Statement of Cash Flows
(in thousands)

For the year ended March 31	2013	2012
	Actual	Actual
Cash provided by (applied to):		
Cash Flows from Operating Activities		
Annual surplus	\$ 2,895	\$ 2,199
Amortization of tangible capital assets	9	16
	2,904	2,215
Changes in non-cash working capital balances		
Accounts receivable	(205)	12
Prepaid expenses	(5)	(5)
Accounts payable and accrued liabilities	(2)	16
Accrued vacation entitlements	65	(2)
Accrued salaries and benefits	15	7
Employee future benefits	124	1
	2,896	2,244
Cash Flows from Capital Activities		
Acquisition of capital assets	(4)	-
Increase in cash and cash equivalents	2,892	2,244
Cash and cash equivalents, beginning of year	12,626	10,382
Cash and cash equivalents, end of year	\$ 15,518	\$ 12,626

The accompanying notes are an integral part of these financial statements.

MANITOBA FINANCIAL SERVICES AGENCY

Notes to Financial Statements

(in thousands)

For the year ended March 31, 2013

1. Nature of Organization

Effective April 1, 1999 the Lieutenant Governor in Council designated the Manitoba Securities Commission ("Commission") as a special operating agency under *The Special Operating Agencies Financing Authority Act* (C.C.S.M. c.S185) by Order in Council No. 144/1999. The Order also gave approval to the Special Operating Agencies Financing Authority and the Minister of Consumer and Corporate Affairs, being the Minister responsible for the Commission, at that time, to enter into a management agreement with respect to the Commission.

The Management Agreement between the Financing Authority and the Minister of Consumer and Corporate Affairs assigns responsibility to manage the assets transferred to the Manitoba Securities Commission in delivering regulated services to clients. The Minister of Finance is responsible for the Agency.

Treasury Board Secretariat issued a Program Portfolio Management Review (PPMR) Minute on September 22, 2012 which approved the transfer of the Financial Institutions Regulation Branch (FIRB) of the Department of Finance to the Manitoba Securities Commission a Special Operating Agency (SOA), effective October 1, 2012. Since that date, the SOA has been operating as the Manitoba Financial Services Agency ("Agency").

This change was subsequently reflected in Regulation 29/2013, which provides an updated listing of the special operating agencies, including the merger of Manitoba Securities Commission and FIRB. As well, it was reflected in the background to the Order in Council 77/2013.

2. Basis of Accounting

The financial statements are prepared in accordance with Canadian generally accepted accounting principles for the public sector as recommended by the Public Sector Accounting Board.

3. Significant Accounting Policies

Revenue

Fees and cost recoveries are recognized when received. Investment income is recorded in accordance with terms of the related investment.

MANITOBA FINANCIAL SERVICES AGENCY

Notes to Financial Statements

(in thousands)

For the year ended March 31, 2013

3. Significant Accounting Policies (continued)

Expenses

- (a) All expenses incurred for goods and services are recorded on an accrual basis.
- (b) Government transfers are recognized as expenditures in the period in which the transfers are authorized and all eligibility criteria have been met.

Financial Assets

Portfolio Investments are investments that are capable of reasonably prompt liquidation and are recognized at cost.

Liabilities

Liabilities are present obligations as a result of transactions and events occurring prior to the end of the fiscal year. The settlement of the liabilities will result in the future transfer or use of assets or other form of settlement. Liabilities are recorded at the estimated amount ultimately payable.

Non-financial Assets

- (a) Prepaid expenses are payments for goods or services which will provide economic benefit in future periods. The prepaid amount is recognized as an expense in the year the goods or services are consumed.
- (b) Tangible capital assets are recognized at cost. Cost includes the purchase price as well as other acquisition cost. Capital assets are recorded at cost and amortized over their useful lives as follows:

Office equipment	20% straight-line
Furniture and fixtures	20% straight-line
Leasehold improvements	10% straight-line
Computer hardware	20% straight-line
Computer software	20% straight-line

The half-year rule is used in the year of acquisition.

Measurement Uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingencies at the date of the financial statements, and the reported amount of revenues and expenses during the reporting period. Actual results could differ from these estimates.

MANITOBA FINANCIAL SERVICES AGENCY

Notes to Financial Statements

(in thousands)

For the year ended March 31, 2013

4. Financial Instruments and Financial Risk Management

Financial instruments are classified into one of the two measurement categories: (a) fair value; or (b) cost or amortized cost.

The Agency records its financial assets and liabilities at cost, which include cash and cash equivalents, accounts receivable and portfolio investments. The Agency also records its financial liabilities at cost, which include working capital advances and accounts payable.

Gains and losses on financial instruments measured at fair value are recorded in accumulated surplus as remeasurement gains and losses until realized. Upon disposition of the financial instruments, the cumulative remeasurement gains and losses are reclassified to the statement of operations. Gains and losses on financial instruments measured at cost or amortized cost are recognized in the statement of operations in the period the gain or loss occurs.

Financial Risk Management Overview

The Agency has exposure to the following risks from its use of financial instruments: credit risk; liquidity risk; market risk; interest risk; and foreign currency risk.

Credit Risk

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes financial loss to another party. Financial instruments which potentially subject the Agency to credit risk consist principally of cash and cash equivalents, portfolio investments, and accounts receivable.

The maximum exposure of the Agency to credit risk at March 31 is:

	<u>2013</u>		<u>2012</u>
Cash and cash equivalents	\$ 15,518	\$	12,626
Accounts receivable	233		28
Portfolio investments	1,019		1,019
	<u>\$ 16,770</u>	\$	<u>13,673</u>

Cash, cash equivalents and portfolio investments: The Agency is not exposed to significant credit risk as the cash and term deposits are primarily held by the Minister of Finance.

MANITOBA FINANCIAL SERVICES AGENCY

Notes to Financial Statements

(in thousands)

For the year ended March 31, 2013

4. Financial Instruments and Financial Risk Management (continued)

Accounts receivable: The Agency is not exposed to significant credit risk as receivables consist of accrued interest owing from the Province of Manitoba and trade amounts owed primarily from other entities within the Government of the Province of Manitoba and payment in full is typically collected when it is due. The Agency establishes an allowance for doubtful accounts that represents its estimate of potential credit losses. The allowance for doubtful accounts is based on management's estimates and assumptions regarding current market conditions, customer analysis and historical payment trends. These factors are considered when determining whether past due accounts are allowed for or written off.

Management has determined that no allowance for doubtful accounts is required as at March 31, 2013 (Nil in 2012).

Liquidity Risk

Liquidity risk is the risk that the Agency will not be able to meet its financial obligations as they come due.

The Agency manages liquidity risk by maintaining adequate cash balances and by review from the Province of Manitoba to ensure adequate funding will be received to meet the obligations.

Market Risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates, will affect the Agency's income or the fair values of its financial instruments. The significant market risk the Agency is exposed to is interest rate risk.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The interest rate exposure relates to funds on deposit.

Foreign Currency Risk

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 Agency is not exposed to significant foreign currency risk as it does not have any financial instruments denominated in foreign currency.

5. Cash and Cash Equivalents

The Agency invests all surplus cash in short-term deposits with the Province of Manitoba, which are made up of ninety day callable term deposits.

MANITOBA FINANCIAL SERVICES AGENCY
Notes to Financial Statements
(in thousands)

For the year ended March 31, 2013

6. Accounts Receivable

	2013		2012
Accrued interest	\$ 21	\$	16
FIRB severance and vacation liability receivable	161		-
Trade	51		12
	\$ 233	\$	28

7. Employee Future Benefits

Pension Benefits

Employees of the Manitoba Financial Services Agency are eligible for pension benefits in accordance with the provisions of the Civil Service Superannuation Act (CSSA), administered by the Civil Service Superannuation Board (CSSB). The CSSA established a defined benefit plan to provide benefits to employees of the Manitoba Civil Service and to participating agencies of the Government, including the Agency, through the Civil Service Superannuation Fund (CSSF).

Effective March 31, 2001, pursuant to an agreement with the Province of Manitoba, the Agency transferred to the Province of Manitoba the pension liability for its employees.

Commencing April 1, 2001, the Agency was required to pay to the Province an amount equal to its employees' current pension contributions. The amount paid for 2013 was \$172 (\$125 in 2012). Under this Agreement, the Agency has no further pension liability.

Severance Benefits

Effective April 1, 1998 or the date of their creation, whichever is later; SOAs began recording accumulated severance pay benefits for their employees. The amount of their severance pay obligations is based on actuarial calculations. The periodic actuarial valuations of these liabilities may determine that adjustments are needed to the actuarial calculations when actual experience is different from that expected and/or because of changes in actuarial assumptions used. The resulting actuarial gains or losses are amortized over the expected average remaining service life of the related employee group.

An actuarial report was completed for the severance pay liability as of March 31, 2011. The report provides a formula to update the liability on an annual basis. The special operating agencies' actuarially determined net liability for accounting purposes as at March 31, 2013 is \$403 (\$279 in 2012). The actuarial loss of \$36 based on actuarial reports is being amortized over the 15 year expected average remaining service life (EARSL) of the employee group.

MANITOBA FINANCIAL SERVICES AGENCY
Notes to Financial Statements
(in thousands)

For the year ended March 31, 2013

7. Employee Future Benefits (continued)

Significant long-term actuarial assumptions used in the March 31, 2011 valuation, and in the determination of the March 31, 2013 present value of the accrued severance benefit obligation were:

Annual rate of return:	
Inflation component	2.00 %
Real rate of return	4.00 %
	<u>6.00 %</u>
Assumed salary increase rate:	
Annual productivity increase	1.00 %
Annual general salary increase	2.75 %
	<u>3.75 %</u>

The severance liability at March 31 includes the following components:

	<u>2013</u>	<u>2012</u>
Accrued benefit liability	\$ 279	\$ 318
Add: FIRB accrued benefit liability	160	-
Less: unamortized actuarial losses	<u>(36)</u>	<u>(39)</u>
Severance benefit liability	<u>\$ 403</u>	<u>\$ 279</u>

The total expenses related to severance benefits at March 31 include the following components:

	<u>2013</u>	<u>2012</u>
Interest on obligation	\$ 21	\$ 21
Current period benefit cost	(2)	(23)
Amortization of actuarial gain over EARSL	<u>2</u>	<u>2</u>
Total expense related to severance benefit	<u>\$ 21</u>	<u>\$ -</u>

The Agency provides sick leave benefits for employees that accumulate but do not vest. The accrued benefit obligation related to sick leave entitlement earned by employees is determined using a valuation model developed by an actuary. The Agency has not recorded an accrued sick pay benefit obligation as it has been determined to be immaterial.

MANITOBA FINANCIAL SERVICES AGENCY
Notes to Financial Statements
(in thousands)

For the year ended March 31, 2013

8. Tangible Capital Assets

	2013			
	Opening Balance	Additions	Disposals	Closing Balance
Cost				
Office equipment	\$ 40	\$ 2	\$ -	\$ 42
Furniture and fixtures	153	-	-	153
Leasehold improvements	41	-	-	41
Computer hardware	140	2	-	142
Computer software	863	-	-	863
	1,237	4	-	1,241
Accumulated Amortization				
Office equipment	39	1	-	40
Furniture and fixtures	150	2	-	152
Leasehold improvements	19	4	-	23
Computer hardware	138	2	-	140
Computer software	863	-	-	863
	1,209	9	-	1,218
Net book value	\$ 28	\$ (5)	\$ -	\$ 23
				2012
	Opening Balance	Additions	Disposals	Closing Balance
Cost				
Office equipment	\$ 40	\$ -	\$ -	\$ 40
Furniture and fixtures	153	-	-	153
Leasehold improvements	41	-	-	41
Computer hardware	140	-	-	140
Computer software	863	-	-	863
	1,237	-	-	1,237
Accumulated Amortization				
Office equipment	36	3	-	39
Furniture and fixtures	147	3	-	150
Leasehold improvements	15	4	-	19
Computer hardware	135	3	-	138
Computer software	860	3	-	863
	1,193	16	-	1,209
Net book value	\$ 44	\$ (16)	\$ -	\$ 28

MANITOBA FINANCIAL SERVICES AGENCY

Notes to Financial Statements

(in thousands)

For the year ended March 31, 2013

9. Designated Assets

Designated assets are distinct from restricted assets. Unlike restricted assets, the Agency or the Government can readily change its by-law or resolution and use the designated assets for another purpose if the need arises. The Agency has allocated \$1019 (\$1,019 in 2012) of its portfolio investments as designated assets for the following purposes:

The Agency maintains separate deposits of \$750 (\$750 in 2012) to fund expenses which may arise with respect to its reserve fund. The Reserve Fund was established to finance extraordinary expenses for isolated and unanticipated purposes that are regulatory in nature and for changes in market activity that have a negative effect on revenues.

The Agency has received \$269 (\$269 in 2012) of cash from the Province of Manitoba for the purpose of settling certain of its vacation and severance liabilities in the future. This amount is held in an interest bearing account until the cash is required to discharge the related liabilities. Any unused balance is re-invested annually.

10. Commitments

The Agency has entered into a lease agreement commencing October 1, 2005 for rental of facilities at 400 St. Mary Avenue, which expires September 30, 2020 and 405 Broadway. Occupancy charges for the year ended March 31, 2013 were \$301. Minimum annual lease payments total \$279 per year for each of the next five years.

11. Transfer to the Province of Manitoba

Payments to the Consolidated Revenue Fund of the Province of Manitoba are set annually according to Treasury Board Directives, and paid in quarterly installments. Total transfers for the current year were \$8,800 (\$8,800 in 2012). The Treasury Board has approved payments of \$8,800 for the year ended March 31, 2013.

12. Working Capital Advances

These advances are provided to the Agency through the Special Operating Agencies Financing Authority pursuant to the Management Agreement. The Agency has an authorized line of working capital advance of \$500 which was unutilized at March 31, 2013 (Nil in 2012).

The Agency incurred no interest charges during the year (Nil in 2012).



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Auditor's Comments on Supplementary Financial Information

To The Special Operating Agencies Financing Authority

We have audited the financial statements of March 31, 2013 which comprise the statement of financial position as at March 31, 2013 and statements of operations and accumulated surplus, changes in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, and have issued a report thereon dated June 6, 2013 which contained an unmodified opinion on those financial statements. The audit was performed to form an opinion on the financial statements as a whole. The following supplementary schedule is presented for the purposes of additional analysis and are not a required part of the financial statements. Such supplementary information is the responsibility of management and was derived from the underlying accounting and other records used to prepare the financial statements.

The supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing such supplementary information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves.

BDO Canada

Chartered Accountants

Winnipeg, Manitoba

June 6, 2013

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MANITOBA FINANCIAL SERVICES AGENCY
Schedule of Public Sector Compensation Disclosure
(in thousands)

For the year ended March 31, 2013

Employee	Title	Compensation
Don Murray	Chairman and CEO	\$ 148
Doug Brown	Director and Secretary to the Commission	137
Steven Gingera	Assistant Legal Counsel	134
Chris Besko	Assistant Legal Counsel	134
Kim Laycock	Assistant Legal Counsel	134
James Scalena	Superintendent FIRB	113
Bob Bouchard	Director and CAO	106
Marlene Nemes	Controller	96
Kenneth Lofgren	Deputy Superintendent	91
Scott Moore	Deputy Superintendent	91
Paula White	Manager, Compliance and Oversight	84
Wayne Bridgeman	Senior Analyst	82
Carla L. Buchanan	Compliance Auditor	77
Terry Kirkham	Registrar	76
Jason Roy	Senior Investigator	74
Djemal Halilagic	Financial Services Officer	73
Isilda Tavares	Registration Officer	73
Ainsley Cunningham	Manager, Education and Communications	72
Andrew Moreau	Financial Services Officer	71
Patrick Weeks	Analyst	67
Leonard Terlinski	Investigator	59
Liz Klippenstein	Programmer Analyst	58
Keith Schinkel	Deputy Registrar - Registrations	55

The Public Sector Compensation Disclosure Act requires all publicly funded bodies to disclose compensation to any employee or board member when such compensation exceeds \$50 per annum.

MANITOBA FINANCIAL SERVICES AGENCY
Schedule of Operating Income
Manitoba Securities Commission
(in thousands)

For the year ended March 31	2013	2013	2012
	Budget	Actual	Actual
Revenue			
Fees	\$ 12,144	\$ 15,263	\$ 14,956
Interest	79	131	101
Miscellaneous	-	2	2
	12,223	15,396	15,059
Expenses			
Amortization - capital assets	10	9	16
CSA initiatives*	100	66	104
Contract services	305	288	270
Education/Information initiatives	197	88	166
Miscellaneous	26	16	20
Office materials and supplies	93	59	80
Premises	292	273	278
Professional services	139	290	142
Research resources	50	47	38
Salaries and benefits	3,230	2,776	2,796
Staff development and professional dues	32	28	28
Telecommunications	65	61	59
Travel	90	81	63
	4,629	4,082	4,060
Annual operating surplus	\$ 7,594	\$ 11,314	10,999

* Canadian Securities Administrators

MANITOBA FINANCIAL SERVICES AGENCY
Schedule of Operating Income
Financial Institutions Regulation Branch
(in thousands)

For the six month period ended March 31	2013	
	Budget	Actual
Revenue		
Fees	\$ 777	\$ 795
Expenses		
Contract services	20	20
Miscellaneous	1	1
Office materials and supplies	7	6
Premises	32	34
Professional services	51	-
Research resources	4	2
Salaries and benefits	340	344
Staff development and professional dues	2	1
Telecommunications	3	5
Travel	1	1
	461	414
Annual operating surplus	\$ 316	\$ 381



THE MANITOBA
SECURITIES
COMMISSION