



Manitoba Financial Services Agency

2019 Annual Report





MINISTER OF
FINANCE

Legislative Building
Winnipeg, Manitoba, CANADA
R3C 0V8

Her Honour the Honourable Janice C. Filmon, C.M., 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 Annual Report of the Manitoba Financial Services Agency for the fiscal year ended March 31, 2019.

Respectfully submitted,

Original Signed by Scott Fielding

Honourable Scott Fielding
Minister



i.



THE MANITOBA
SECURITIES
COMMISSION



FINANCIAL
INSTITUTIONS
REGULATION BRANCH

The Honourable Scott Fielding
Minister of Finance
Room 103 Legislative Building
Winnipeg, Manitoba
R3C 0V8

Sir:

I submit for your approval the Annual Report of the Manitoba Financial Services Agency for the fiscal year ended March 31, 2019.

Respectfully submitted,

Original Signed by David Cheop

David Cheop
Chief Administrative Officer
Manitoba Financial Services Agency



ii.

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This report is available in alternate formats upon request to securities@gov.mb.ca
A PDF version is available at mbsecurities.ca

The Manitoba Financial Services Agency is a Special Operating Agency of the Province of Manitoba that administers and enforces legislation for the province's securities and insurance sectors, real estate and mortgage brokers, credit unions, *caisses populaires*, co-operatives, and trust and loan companies.

The Agency is comprised of The Manitoba Securities Commission (MSC) and Financial Institutions Regulation Branch (FIRB).

Mission

MSC's mission 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.

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

Mandate

The mandate of MSC 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.

The mandate of FIRB is to provide regulatory oversight in order to protect the public interest and foster business in the regulated sectors.

MFSA Numbers at a Glance



1 *Caisse Populaire*

1,149 Firms Registered Under *The Securities Act*

26 Credit Unions

2,390 Real Estate Brokers

52 Trust and Loan Corporations

5,814 Reporting Issuers Under *The Securities Act*

223 Insurance Companies

18,066 Insurance Agents, Brokers, and Adjusters

332 Co-operatives

21,130 Individuals Registered Under *The Securities Act*

415 Mortgage Brokers



CAO's Message



David Cheop

Change continues to drive the financial markets regulated by the Manitoba Financial Services Agency, raising challenges and opportunities. In conjunction with our regulatory colleagues across the country, we have worked hard to anticipate and respond to the trends propelling those markets, from addressing binary options fraud to considering what the framework governing cryptocurrency trading should be. At the same time, recognizing the importance of efficient capital markets to the health of the Canadian economy, we are working with the other members of the Canadian Securities Administrators to assess the regulatory burden on the investment industry and identify opportunities to reduce this, all the while ensuring that public protection and investor confidence are not compromised.

A key element of this is the relationship between consumers and the professionals who provide advice to them in the sectors

overseen by the Agency. In this regard, individual areas are fully engaged in the development of proposed rules intended to strengthen the relationship of regulated firms and their clients. In particular, the Registration department is part of the committee dealing with the "targeted reforms" initiative, which addresses the conflicts of interest that arise between firms and their clients to ensure they are resolved in a manner that is fair to those clients. Our Corporate Finance area is deeply involved in the development of a related proposal dealing with concerns over embedded commissions in investment products. Both of these initiatives respond to the evolution we are seeing in the investment industry and the expectations of clients. As part of this, the CSA has consulted extensively with public and industry participants at each stage. Although this has been a lengthy process, this engagement is important in attempting to ensure the rules balance the various interests of everyone involved in the investment process.

Similarly, over the past year our Compliance area has continued to be involved in two areas of increasing focus. The first is the development of guidance to address abuse of elders and vulnerable persons. The second is the creation of a regulatory framework regarding trading in over the counter derivatives. Although very different in terms of subject matter, both initiatives are responses to areas of significant importance in Canada's financial markets.

In the Fall of 2018, we launched MoneySmartManitoba.ca, our online initiative to provide information to consumers on a range of financial matters, ranging from securities to real estate transactions, reflecting the fact that encouraging financial literacy is a key element of our Agency's mandate. The positive response we have received to this initiative tells us this is filling a need that is out there.

During the past year, our Enforcement and Legal areas continued to respond to misconduct in the sectors overseen by the Agency. As in the previous year, initial coin offering and cryptocurrency fraud were a key focus, although complaints received from consumers covered a wide variety of activity. In addition, working with the Education and Communications area, Enforcement played an important role in our outreach activities during Fraud Prevention month and at other times during the year.

This has also been a year of significant change at the Manitoba Financial Services Agency itself. Don Murray – who served as Chair of the Commission with great distinction for

over two decades – opted to retire in November. I joined the organization in early January and am grateful for the support Don and the staff have shown me in easing the transition in taking on this role. The membership of the Manitoba Securities Commission also changed during the year, with the departure of the Honorable R.D. Bell, Q.C. and Ms. Anna Maria Magnifico and the appointment of Mr. Charles Burns and Mr. David Huberdeau-Reid in their place. I want to thank the former members for their valuable work over a number of years and appreciate the contributions the new commissioners are already making.

There is no doubt that the upcoming years will see more innovation and change in the financial services area and that the Agency, in partnership with our fellow regulators across Canada, will need to be nimble and flexible in our response. Balancing the Agency's key goals – facilitating fair and efficient markets while at the same time protecting consumers – is never easy, but doing so is of key importance to Manitoba's financial services sector.

Original Signed by David Cheop

David Cheop
Chief Administrative Officer,
Manitoba Financial Services Agency
Chair and CEO of the MSC

Commissioners

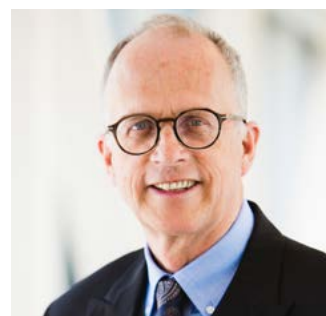
The Manitoba Securities Commission, a division of MFSA, was structured in its present form in 1968 as set out in *The Securities Act*.

The Commission is divided into two branches; the administrative or functional arm which is made up of full-time employees who conduct the day-to-day operations; and the policy-making group made up of a maximum of seven Order in Council appointees who meet regularly (Commission Members).

Commission Members deal with policy formulation, applications seeking exemptive or other special relief, and perform a judicial function in the hearing of disciplinary proceedings brought pursuant to the several Acts or for the determination of applications.

Commission Members are selected based on nomination or application to the Office of the Minister of Finance, vetted and approved by the Agencies, Boards and Commissions Committee of Cabinet and the Legislation and Strategic Policy Branch. An Order in Council is prepared, and once approved by the Cabinet, is signed by the Lieutenant Governor.

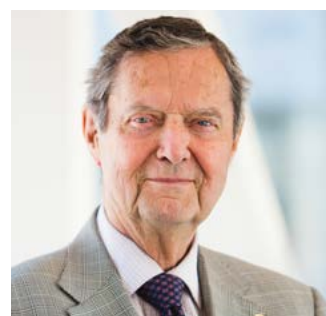
Members may serve up to ten years.



Mr. David Cheop, Q.C.
Chair



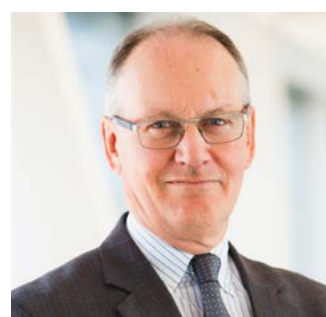
Ms. Deborah J. Metcalfe,
Vice-Chair



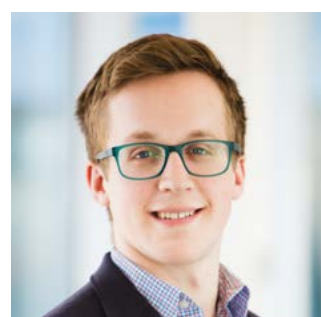
Mr. J.T. (Jack) McJannet, Q.C.



Ms. Andrea Martens



Mr. Charles Burns



Mr. David Huberdeau-Reid

Hearings and Commission Meetings

During the fiscal year 2018/2019, the Manitoba Securities Commission held a total of 17 Commission meetings, 20 hearings, and 14 special meetings. Hearing attendance by individual Commissioners is determined on a case by case basis by the Chair, factoring in a variety of considerations.

As of October 5, 2018, two new members were appointed to the Commission, Mr. Charles Burns and Mr. David Huberdeau-Reid, replacing Commissioners Ms. Anna Maria Magnifico and Mr. Ron Bell, whose terms had concluded.

	AMM	RDB	DJM	JTM	AEM	CDB	DHR
COMMISSION MEETINGS	9/10	8/10	13/17	13/17	8/17	7/7	5/7
HEARINGS	6	3	4	12	1	6	3
SPECIAL MEETINGS ¹	4	3	8	4	4	-	1

AMM - Anna Maria Magnifico
RDB - Ron D. Bell
DJM - Deborah J. Metcalfe
JTM - Jack McJannet

AEM - Andrea Martens
CDB - Charles Burns
DHR - David Huberdeau-Reid

¹Special meetings are also determined on a case by case basis, and typically do not need to involve all Commissioners.

Management Team



David Cheop
CAO, MFS
CEO & Chair, MSC



Chris Besko
Director
General Counsel



Scott Moore
Superintendent
FIRB



Keith Schinkel
Registrar
Real Estate Division



Wayne Bridgeman
Deputy Director
Corporate Finance



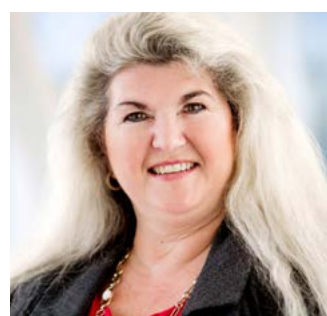
Ainsley Cunningham
Manager
Education & Communications



Djemal Halilagic
Deputy-Superintendent
FIRB



Sue Henderson
Deputy Director
Registrations



Marlene Nemes
Controller



Jason Roy
Senior Investigator
Investigations



Paula White
Deputy Director
Compliance

Gender Diversity in Management and FTE Staff Positions

As a member of the Canadian Securities Administrators, MFS works to maintain equitable representation of gender diversity within the organization's management structure comparable to national statistics.

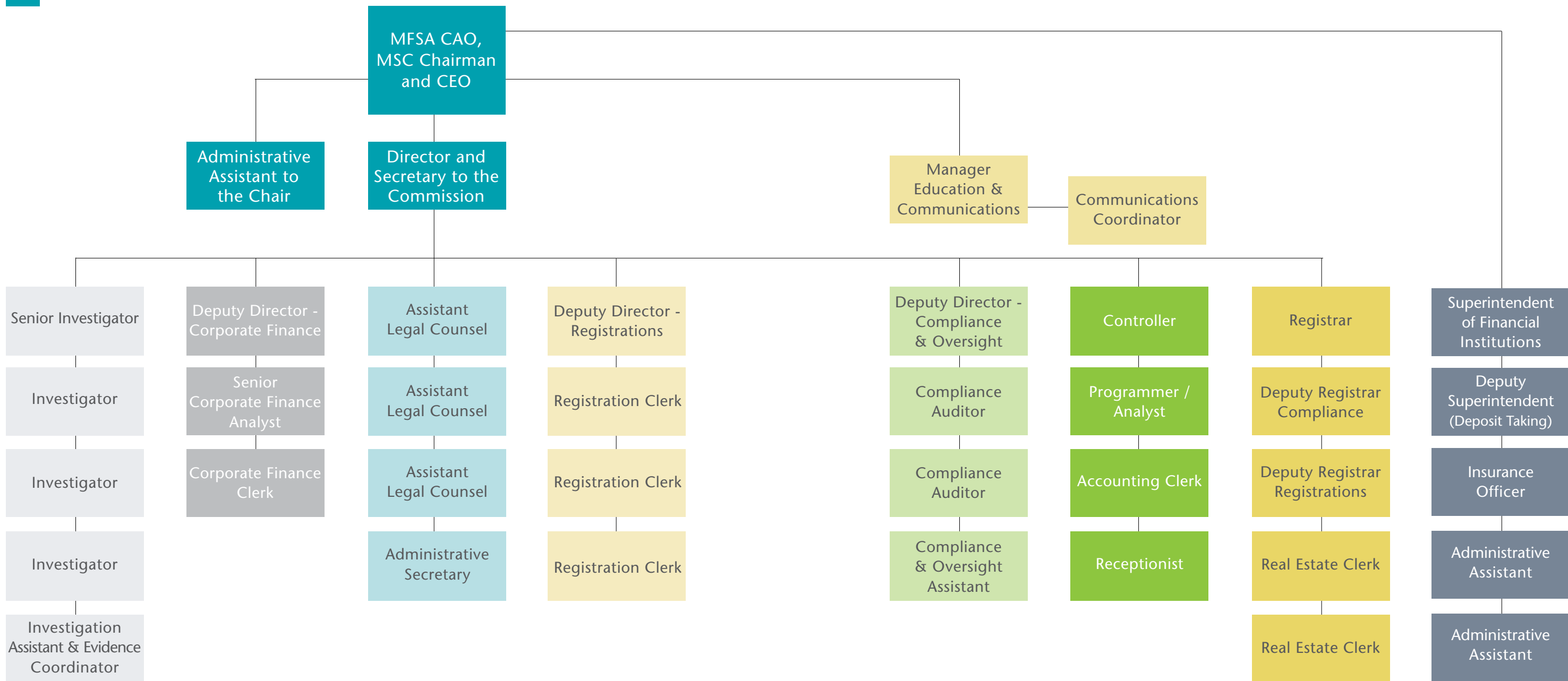
	F		M	
2018/19				
Commission Members	2	33%	4	66%
Management	4	36%	7	64%

The MFS employs a combined 48.6 Full-Time Equivalent (FTE) staff positions.

	FTE Staff Positions	Estimated Staff Expenditures (in thousands)	Actual Staff Expenditures (in thousands)	Variance* Over (Under) (in thousands)
2018/2019	48.6	\$4,241	\$3,446	(\$795)
2017/2018	48.6	\$4,196	\$3,659	(\$537)
2016/2017	48.6	\$4,355	\$3,806	(\$549)
2015/2016	48.6	\$4,355	\$3,756	(\$599)
2014/2015	48.6	\$4,398	\$3,661	(\$737)

*Variance (under) due to vacant positions and staff utilizing Voluntary Reduced Work-Week (VRW) days.

Organizational Chart



Compliance & Oversight

The Compliance and Oversight department has two main areas of responsibility. We develop and administer the MSC's compliance program to monitor the activities of registrants through audits, financial statement reviews and reviews of application for registration. In addition, we oversee self-regulatory organizations including the Investment Industry Regulatory Organization of Canada (IIROC) and the Mutual Fund Dealers Association of Canada (MFDA), and are responsible for the oversight of exchanges, clearing agencies, trade repositories and alternative trading systems in Manitoba. We work cooperatively with the CSA to develop and implement harmonized rules for registrants and marketplace participants.

During the past year, Compliance was involved with a number of initiatives, including seniors and vulnerable person's matters, Client Relationship rules, and administering a survey related to referral and compensation practices. The referral survey results will help the CSA gain an understanding of a registered firm's comprehension and application of the rules related to referral arrangements.

“[Compliance] welcomes open dialogue with registrants, and continues to work proactively with firms and individuals to help them meet their regulatory obligations.”

² Over the Counter derivatives are contracts that are privately negotiated and traded directly between two parties, without going through an exchange or other intermediary.

We continued with our program of conducting compliance reviews on portfolio managers, investment fund managers and exempt market dealers. We also recognize the importance of our role in assisting our Registration department with reviews of new firm registrations. These pre-registration reviews of firm documentation, along with a new registrant review completed shortly after registration, help to inform our understanding of a new firm's business model and assists us in achieving a preliminary understanding of the compliance issues surrounding the firm. Whether a new or existing firm, our department welcomes open dialogue with registrants, and continues to work proactively with firms and individuals to help them meet their regulatory obligations.

- As part of the oversight of SRO's, Staff of our department participated in conducting a joint oversight review of the MFDA. The CSA published the MFDA Oversight Review Report in July 2018.
- Along with other members of the CSA, we published proposed amendments to clearing agency and marketplace rules, which are intended to streamline requirements for participants.
- Work is ongoing on the further development of the OTC² derivatives regime. The CSA Derivatives Committee has developed proposed rules related to business conduct and registration. Once implemented, the two rules will provide a comprehensive regime for persons and firms that are in the business of trading or advising in OTC derivatives.

Investigations & Enforcement

Investigations are conducted based on inquiries and complaints generated internally or received from the public, industry, and other regulators. The Investigations team works closely with and assists the Legal department in preparing for hearings and court prosecutions, and to issue Investor Alerts and Cautions to warn the public about financial fraud trends or investment scams that have targeted Manitobans.

As previously reported in 2018, Investigations spent considerable time and attention throughout 2018-2019 on Cryptocurrency and ICO³ Fraud—an emerging fraud around the world. The Manitoba-led CSA Investment Fraud Task Force focussed its priorities on combatting this type of fraud and raising public awareness. The MSC also participated in the North American Securities Administrators Association (NASAA)'s Operation Crypto Sweep, where NASAA members from 40

jurisdictions, including Manitoba, coordinated a series of enforcement actions by state and provincial securities regulators to crack down on unregistered ICOs and cryptocurrency-related investment products.

Investigations is working proactively to stay ahead of fraud in Manitoba. One matter in particular related to questionable practices by house flippers and our concerns for homeowners being misled. As a result, investigation worked with our Real Estate Division and the Education & Communications team to issue a public alert titled, “MSC warns homeowners about underhanded flippers.” The release gained considerable traction with local media, and warned homeowners to be aware of certain dishonest methods used by some aggressive house flippers.

Additionally, MSC issued four Alerts and Cautions regarding Investment Frauds in 2018 - 2019.

³ Initial Coin Offering is somewhat similar to an Initial Public Offering in mainstream investing. An ICO acts as a sort of fundraiser for a company looking to create a new cryptocurrency coin or token, app, or service. Unregistered ICOs were a significant source of investment fraud in 2018-2019.

Education & Communications lead the MFSA's public engagement objectives, designing and implementing programs and materials to support financial education and fraud awareness across a wide range of media. This includes everything from infographics, public information campaigns, media outreach, and speaking engagements.

The MFSA successfully launched [MoneySmartManitoba.ca](https://www.money-smart.ca) in the fall of 2018, featuring helpful, unbiased information on securities, real estate, insurance, co-ops and credit unions, as well as basic financial literacy tips and resources. We also launched official MoneySmart Facebook and Twitter accounts to extend our message's reach.

The site launch coincided with the release of a 2019 MoneySmart calendar, featuring the playful MoneySmart animal graphics and tidbits of financial information. In February, we distributed the first MoneySmart newsletter, highlighting the importance of Registered Education Savings Plans. The quarterly publication had already attracted 300+ subscribers by the end of March. This project will continue into the 2019-2020 fiscal year with a focus on continued content development.

For Fraud Prevention Month 2019, the MFSA partnered with the Winnipeg Police Service Financial Crimes Unit, the Better Business Bureau and other community partners to present a first of its kind Financial Fraud Café at St. Vital Centre.

The team spoke with more than 230 individuals, offering tips and advice and answering questions about the many forms of fraud appearing in our community. Visitors were offered free coffee and refreshments, and a chance to win great prizes. Staff gave out MoneySmart tote bags containing useful information on fraud, cryptocurrency, and protecting seniors.

Staff of the commission led the CSA Cryptocurrency campaign for a second year in a row, participated on the National Registration Search (NRS) – *Are They Registered?* education campaign, and worked on the development of the CSA Enforcement Report. MFSA staff once again led the development and design of the CSA Investor Education Committee Annual Activity Report.

The Legal department assists all areas of the MFSA meet their individual mandates, including support in developing policy, rules, and legislation

Legal staff assist all areas of the MFSA in policy development. On the Securities side, we have been involved with CSA members in the review of capital raising exemptions, introducing new exemptions, implementing the Client Relationship Model: Phase 2 (CRM2) revisions to enhance the client relationship for investors, new custody rules, and in the development of new targeted reforms to registration requirements that will promote greater investor protections. We are also actively involved in putting forward proposals that reduce regulatory burden without compromising investor protections.

In the areas of capital formation and technology driven changes to financial markets, the Legal

department is actively engaged with CSA colleagues as part of the CSA Regulatory Sandbox, which is looking at new business models and technologies that are changing the financial markets and their impacts on regulation. We have been actively looking at cryptoassets and working with local participants who are involved in that area.

On the Real Estate and Mortgage Brokerage side, we have assisted in developing legislation and regulations, as well as enhancing the protection of consumers participating in the real estate and mortgage markets.

As part of its mandate to protect Manitobans in their dealings in the securities, real estate, and mortgage markets, the legal staff pursue enforcement proceedings, both before the Commission itself and in the provincial courts.

Registrations

MFSA's Registrations Department has primary responsibility for administering the Registration functions under *The Securities Act*, *The Commodity Futures Act*, Registration Rules, and The National Registration Database Rules.

Registrations also: reviews individual applications filed under National Instrument 31-103 (Passport), including a full review where Manitoba is the principal regulator; reviews categories of registration filed with the non-principal regulators; liaises with firms and the non-principal regulators regarding deficiencies relating to applications; and approves individual registrations.

The CSA issued a caution to firms and individuals about the potential consequences of submitting false or misleading applications for registration in CSA Staff Notice 33-320 The Requirement for True and Complete Applications for Registration on July 13, 2017.

The Registration department continues to see non-disclosure of, or incorrect and incomplete information on, individual filings.

MFSA Registration staff participated in and chaired the CSA Registrant Regulation Committee (RRC) along with the MFDA and IIROC, which was involved with the following activities in 2018 - 2019:

1. RRC helped coordinate the publication for comment on October 25, 2018 of proposed rule amendments to section 14.6.1 of NI 31-103 to reflect the recent amendments to subsection 6.8(2) of NI 81-102. The intent of the Proposed Custody Amendments is to give all clients and investment funds of registered firms the same ability to deposit assets with certain dealers in respect of cleared over-the-counter derivatives. In the absence of making the Proposed Custody Amendments, this option would only be

available to investment funds that are subject to NI 81-102.

2. RRC helped coordinate the publication for comment on June 21, 2018 of proposed amendments to NI 31-103 and the Companion Policy to NI 31-103 concerning client focused reforms for a 120 day comment period. The proposed amendments are meant to provide significant enhancements to the client registrant relationship. In general terms, under the Proposed Amendments, registrants will be required to:

- a) address conflicts of interest in the best interest of the client;
- b) put the client's interest first when making a suitability determination, and;
- c) do more to clarify for clients what they should expect from their registrants.

3. RRC monitored and discussed various operational issues that arise, including system changes to NRD, novel applications for exemptive relief, expectations on registered firms that propose trading or advising activities that can involve investment funds holding cryptoassets, terms and conditions for faith-based registrants, relief concerning MX

extended hours trading, new requirements concerning syndicated mortgages in Ontario, and day trading business models.

4. RRC worked jointly with the CSA Compliance Committee on various matters, including custodial issues, monitoring of online advising platforms, cyber-security, business continuity planning for small registrants, and providing interpretative support to that committee;

5. RRC coordinated publication of proposed amendments to NI 31-103 and NI 33-109 which may arise from the client focused reforms project;

6. RRC worked with the National Systems Renewal Project project to identify amendments required to support the system renewal;

7. RRC conducted ongoing reviews of online advising;

8. RRC provided support to other special projects which may involve registration requirements.

9. RRC established a new working group concerning titles use by registrants

Fee Amendments

The Government of Manitoba, through Cabinet, approved amendments to the fee Regulation under *The Securities Act* (the "Act") which have been enacted effective October 3, 2018.

The amendments have added a fee of \$1,150 to the International Dealer Exemption under Section 8.18 of Rule 31-103 and the International Adviser Exemption under Section 8.26 of Rule 31-103 under the Act for registration matters. If the firm is filing under both exemptions concurrently, the fee is \$1,150.

The fee collection is required upon filing an initial Form 31-103F2 Submission to Jurisdiction and Appointment of Agent for Service and upon filing of an annual notice for continued reliance.

Corporate Finance is responsible for the review and analysis of offering documents, continuous disclosure and exemptive relief applications; the participation in regulatory committees with respect to policy development or review initiatives; the polling of filings from the national System for Electronic Document Analysis and Retrieval (SEDAR) database; and the daily preparation and publishing of the Reporting Issuer List.

MFSAs Corporate Finance staff are currently participating in the initiative to renew the CSA's national electronic filing systems, including SEDAR, national CTO⁴ Database, the System for Electronic Disclosure by Insiders (SEDI) and NRD. The renewal is expected to be implemented in four phases. Phase 1 will include SEDAR, the national CTO Database and exemptive relief applications filed by issuers.

Corporate Finance staff are participating in many other important national initiatives within the CSA. The initiative to address corporate governance issues related to climate

change-related risks released a report in April 2018, outlining the need for mandatory continuous disclosure and sustainability reports related to climate change-related risk, financial impacts and related governance. Further research and reporting on this important topic is planned for the future.

The CSA's work to improve the ratio of women on boards⁵ and in executive officer positions began in 2015, with the most recent report in September 2018. The share of board seats held by women in participating jurisdictions (of which Manitoba is one), increased to 15 per cent in 2018 up from 11 per cent in 2015. However, nations like Australia, Belgium, France, Norway, Sweden, Italy and Finland all average more than 30 per cent, so there is still progress that needs to be made.

We are also participating in the initiative to reduce regulatory burden, such as considering: at-the-market offerings, business acquisition reports and electronic document delivery.

FIRB provides regulatory oversight to the insurance sector, credit unions and *caisses populaires*, trust and loan companies, and cooperatives operating in Manitoba, and is responsible for administering their respective Acts.

As part of the government's commitment to reduce the total number of agencies, boards and commissions, FIRB completed the merger of the Insurance Adjusters Council (IAC) into the General Insurance Council (GIC) effective Sept. 2018.

The amended Insurance Councils Regulation (227/91) harmonizes with other jurisdictions such as Saskatchewan where Adjusters are regulated under their General Insurance Council and in British Columbia where one Council regulates both general and life agents and adjusters. Additional amendments to the Regulation included increasing the maximum number of years Council members are permitted to serve from six to ten years in accordance with the Auditor General's 2012 Report on Appointment Process to ABCs. In addition, a new provision also allows Council members to overhold in their appointment until they are either re-appointed or replaced.

FIRB is an active member of the Canadian Council of Insurance Regulators (CCIR), and continues to work cooperatively with other Canadian insurance regulators through the administration of a supervisory framework that meets the requirements of the International Association of Insurance Supervisors' Insurance Core Principles. Examples of some of CCIR's significant initiatives include the Fair Treatment Customers Guidance released in September 2018, the Annual Statement on Market Conduct (which is a mandatory annual information return insurers are required to file) and the Annual Cooperative Supervisory Plan.

In addition, FIRB is also a member of the Credit Union Prudential Supervisors Association (CUPSA) an interprovincial association composed of credit union deposit insurers and prudential supervisors across Canada. CUPSA members have developed a number of regulatory principles that FIRB has adopted as part of its responsibility for the prudential oversight of Credit Union Central of Manitoba (CUCM). CUPSA member working groups continue to develop additional regulatory principles taking into consideration provincial, national and international best practices.

“The 2018 report outlines the need for mandatory continuous disclosure and sustainability reports related to climate change-related risk.”

⁴ Cease Trade Order is an order that prohibits trading in securities of a company by the people or companies identified in the order and for the period of time specified in the order. A CTO may prohibit all trading in the securities of a particular company.

⁵ For MFSAs' gender equity statistics, see Page 10.

Real Estate

MSC’s Real Estate Division provides regulatory oversight to the real estate and mortgage broker industries in Manitoba. The Real Estate Division is responsible for administering *The Real Estate Brokers Act* and *The Mortgage Brokers Act*.

Real Estate Division staff oversee the review and approval of applications for individuals and companies seeking registration under the Acts administered; maintenance of the public registry of individuals and companies entitled to do business in the real estate and mortgage broker industries in Manitoba; compliance and audit program to ensure registrants comply with regulatory requirements pertaining to handling trust monies; and

development of policy and regulation.

Staff of the Division are working towards completion of the regulations to accompany the new Real Estate Services Act (RESA). RESA will replace the existing Real Estate Brokers Act and will greatly modernize the regulatory structure that governs the real estate industry in Manitoba.

This past year, based on recommendations received from the Real Estate Advisory Committee, the Commission approved funding requests for three organizations whose work seeks to promote affordable home ownership and area revitalization.

Broker Trust Accounts

Every real estate broker in Manitoba must maintain an interest-bearing trust account at a branch of a bank, credit union or trust company in Manitoba. The accrued interest is payable to MSC.

MSC uses this interest to fund grants for education and best-practice initiatives for the Real Estate industry, as well as housing-focused charitable initiatives.

In the reporting year, interest earned on Broker Trust Accounts amounted to \$280,000.

Funds were distributed to the following in 2019:

	MREA – Update of Manitoba Education Courses	\$150,900
	Housing Opportunity Partnership	25,000
	Habitat for Humanity	30,000
	Manitoba Tipi Mitawa	\$74,100
<hr/>		
	Total	\$280,000

Management’s Discussion & Analysis

for the year ended March 31, 2019

Management's Discussion and Analysis

Management's Discussion and Analysis

The following is a discussion and analysis for the operating results of Manitoba Financial Services Agency (MFSA) for the year ended March 31, 2019. It should be read in conjunction with the Agency's audited financial statements beginning on page 31.

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.

Manitoba Financial Services Agency, 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 MFSA.

Result of Operations

Net Income

Net income for the year ended March 31, 2019 was \$4 million, a decrease over the prior year by \$1 million. Revenues of \$23 million exceeded budgeted revenue by \$2.7 million. Expenses of \$5 million came in under budget by \$1 million. The net result was net income exceeded budgeted net income by \$3.7 million.

Revenue

The Agency exceeded its revenue targets by \$2.7 million or 13% because of increased market activity. This year's revenue totaled \$23 million, as compared to last year's total of \$22 million. See table below for details.

Revenue (000's)	2019	% of Total	2018	% of Total	2019 % Increase/ (Decrease) from 2018
Corporate Finance Fees	\$ 12,771	56%	\$ 12,618	57%	1.2%
Registration Fees	6,474	28%	5,935	27%	9.1%
FIRB Fees	1,885	8%	1,801	8%	4.7%
Real Estate Fees	1,282	6%	545	3%	135%
Investment Income	399	2%	170	1%	135%
Legal Fees	95	-%	873	4%	(819%)
Miscellaneous Income	86	-%	98	-%	(14%)
	\$ 22,992	100%	\$ 22,040	100%	4.3%

Revenue (continued)

Corporate finance fees and registration fees accounted for 84% of the Agency's 2019 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 consist of Insurance fees, Coop/Credit Union Regulation Fees and Trust and Loan Fees.

Expenses

Overall, total expenses for fiscal year 2019 were \$5 million, a decrease of \$78 over fiscal year 2018. See table below for details.

Expenses (000's)	2019	% of Total	2018	% of Total	2019 % Increase/ (Decrease) from 2018
Salaries and Benefits	\$ 3,446	70%	\$ 3,659	73%	(5.8%)
Operating Expenses	1,504	30%	1,368	27%	9%
Amortization	24	-%	25	-%	-%
	\$ 4,974	100%	\$ 5,052	100%	(1.5%)

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

Total expenses were \$1 million (16.8%) below budget. Variances in salaries and benefits and operating expenses are explained below.

Salaries and Benefits

Overall, salaries and benefits decreased by 5.8% or \$213 over the previous year. For the fiscal year ending March 31, 2019, salaries and benefits were 18.7% below budget due to five vacancies and the impact of the Voluntary Reduced Workweek program.

Operating Expenses

Operating expenses for the fiscal year were 9% higher than last year and were under budget by \$216 or 12.6% primarily due to:

- CSA Initiatives - under budget by \$29 due to lower than expected expenditures for national initiatives
- Contract Services – under budget by \$65 due to lower than expected internet development costs, information systems costs and Government Records Storage costs.
- Office Materials and Supplies – under budget by \$28 due to lower than expected printing costs.

Management's Discussion and Analysis

Operating Expenses (continued)

- Staff Development & Professional Dues – under budget by \$63 due to lower than expected membership fees.
- Travel – under budget by \$50 due to the timing of committee meetings.
- Professional Services – over budget by \$14 due to higher than expected legal fees.

Capital Expenditures

Capital expenditures for the 2018-2019 fiscal year were \$11. Capital expenditures are financed by funds provided through operations.

Liabilities

Accrued liabilities were \$112 for the year ending March 31, 2019. This balance represents accrued vendor obligations. Accrued vacation and severance liabilities were \$254 and \$502 respectively as at March 31, 2019 (March 31, 2018 - \$310 and \$522). Accrued salaries and benefits were Nil for the year ending March 31, 2019 as was March 31, 2018. Public Sector Accounting 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 \$14 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 organization's 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 \$25,490 as of March 31, 2019.

The portfolio investment of \$269 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, 2019 the Agency has \$750 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.

2019/2020 Overview

For the fiscal year ending March 31, 2020, the Agency has budgeted revenue of \$21 million and budgeted expenses of \$6.1 million.

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

Information Technology

As of March 31, 2019, 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.
- The Agency uses Request Tracker to track the various changes that are requested for MSCIS 2.0.

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

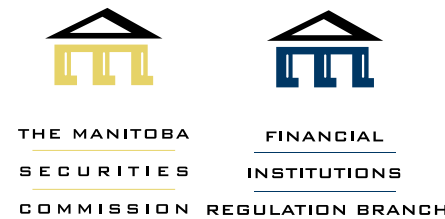
- System for Electronic Data Analysis and Retrieval (SEDAR)
- National Cease Trade Order database (CTO)
- System for Electronic Disclosure by Insiders (SEDI)
- National Registration Database (NRD)
- Disciplined Persons, and
- Regulatory Fee Guide for SEDAR

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 Brokers Act*. Maintenance and development of these internal and external systems insure that daily operations run effectively and efficiently.

MFSA Financial Statements

for the year ended March 31, 2019

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- 29. Independent Auditor's Report
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- 43. Schedule of Operating Income, MSC & FIRB



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 Canadian 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 Canadian 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

Original Signed by David Cheop

David Cheop
CAO, MFSA
Chair and CEO, MSC

May 14, 2019

Original Signed by Marlene Nemes

Marlene Nemes, CPA, CMA
Controller



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Independent Auditor's Report

To The Special Operating Agencies Financing Authority

Opinion

We have audited the financial statements of **MANITOBA FINANCIAL SERVICES AGENCY** (the "Agency"), which comprise the statement of financial position as at March 31, 2019, and the statements of operations and accumulated surplus, change in net financial assets, and cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Agency as at March 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Agency in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Agency's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Agency or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Agency's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if,

Independent Auditor's Report (continued)

individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Agency's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Agency's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Agency to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

BDO Canada LLP

Chartered Professional Accountants

Winnipeg, Manitoba

May 14, 2019

BDO Canada LLP, a Canadian limited liability partnership, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

Statement of Financial Position (in thousands)

March 31	2019	2018
Financial Assets		
Cash and cash equivalents (Note 5)	\$ 25,490	\$ 21,532
Accounts receivable (Note 6)	142	115
Portfolio investments	1,019	1,019
	<u>26,651</u>	<u>22,666</u>
Liabilities		
Accounts payable and accrued liabilities	112	77
Accrued vacation entitlements	254	310
Employee future benefits (Note 7)	502	522
	<u>868</u>	<u>909</u>
Net financial assets	<u>25,783</u>	<u>21,757</u>
Non-financial Assets		
Tangible capital assets (Note 8)	42	55
Prepaid expenses	66	61
	<u>108</u>	<u>116</u>
Accumulated surplus	<u>\$ 25,891</u>	<u>\$ 21,873</u>

Designated assets (Note 9)
Commitments (Note 10)

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

Statement of Operations and Accumulated Surplus (in thousands)

For the year ended March 31	2019	2019	2018
	Budget	Actual	Actual
Revenue			
Fees	\$ 20,169	\$ 22,506	\$ 21,772
Interest	108	399	170
Miscellaneous	15	87	98
	<u>20,292</u>	<u>22,992</u>	<u>22,040</u>
Expenses			
Amortization - capital assets	20	24	25
CSA initiatives*	116	87	70
Contract services	362	297	254
Education/Information initiatives	110	117	50
Miscellaneous	33	34	26
Office materials and supplies	77	49	69
Premises	557	554	557
Professional services	119	133	109
Research resources	61	66	68
Salaries and benefits	4,241	3,446	3,659
Staff development and professional dues	103	40	39
Telecommunications	80	75	75
Travel	102	52	51
	<u>5,981</u>	<u>4,974</u>	<u>5,052</u>
Annual operating surplus	<u>14,311</u>	<u>18,018</u>	<u>16,988</u>
Transfer to the Province of Manitoba (Note 11)	<u>14,000</u>	<u>14,000</u>	<u>12,000</u>
Annual surplus	<u>311</u>	<u>4,018</u>	<u>4,988</u>
Accumulated surplus, beginning of year	<u>17,547</u>	<u>21,873</u>	<u>21,885</u>
Additional Transfer to the Province of Manitoba (Note 11)	<u>-</u>	<u>-</u>	<u>5,000</u>
Accumulated surplus, end of year	<u>\$ 17,858</u>	<u>\$ 25,891</u>	<u>\$ 21,873</u>

* Canadian Securities Administrators

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

Statement of Change in Net Financial Assets (in thousands)

For the year ended March 31	2019	2019	2018
	Budget	Actual	Actual
Annual surplus	\$ 311	\$ 4,018	\$ 4,988
Tangible Capital Assets			
Acquisition of tangible capital assets	(12)	(11)	(8)
Amortization of tangible capital assets	20	24	25
Net change in tangible capital assets	8	13	17
Other Non-financial Assets			
Decrease (increase) in prepaid expense	1	(5)	(9)
Net acquisition of other non-financial assets	1	(5)	(9)
Increase in net financial assets	320	4,026	4,996
Net financial assets, beginning of year	17,459	21,757	21,761
Additional transfer to the Province of Manitoba	-	-	(5,000)
Net financial assets, end of year	\$ 17,779	\$ 25,783	\$ 21,757

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

Statement of Cash Flows (in thousands)

For the year ended March 31	2019	2018
Cash provided by (applied to):		
Cash Flows from Operating Activities		
Annual surplus	\$ 4,018	\$ 4,988
Amortization of tangible capital assets	24	25
	4,042	5,013
Changes in non-cash working capital balances		
Accounts receivable	(27)	(44)
Prepaid expenses	(5)	(9)
Accounts payable and accrued liabilities	35	44
Accrued vacation entitlements	(56)	8
Employee future benefits	(20)	22
	3,969	5,034
Cash Flows from Capital Activities		
Acquisition of capital assets	(11)	(8)
Cash Flows from Financing Activities		
Transfer to Province of Manitoba	-	(5,000)
Increase in cash and cash equivalents	3,958	26
Cash and cash equivalents, beginning of year	21,532	21,506
Cash and cash equivalents, end of year	\$ 25,490	\$ 21,532
Supplementary Information		
Interest received	\$ 377	\$ 147

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

Notes to Financial Statements (in thousands)

For the year ended March 31, 2019

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 Agency.

A 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 Manitoba Securities Commission subsequently came under the umbrella of the Finance Department with the Minister of Finance responsible for the Agency.

The Manitoba Financial Services Agency, 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 Manitoba Financial Services Agency (MFSA). The Commission and FIRB now operate as divisions of the MFSA. The Chief Administrative Officer of the MFSA is also the Chair of the Commission. The Minister of Finance continues to be responsible for the Agency.

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.

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.

For the year ended March 31, 2019

3. Significant Accounting Policies (continued)

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.

Notes to Financial Statements (in thousands)

For the year ended March 31, 2019

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, accounts receivable, and portfolio investments.

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

	2019		2018
Cash and cash equivalents	\$ 25,490	\$	21,532
Accounts receivable	142		115
Portfolio investments	1,019		1,019
	<u>\$ 26,651</u>	<u>\$</u>	<u>22,666</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.

For the year ended March 31, 2019

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, 2019 (Nil in 2018).

Liquidity Risk

Liquidity can be defined as an organization's ability 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.

Notes to Financial Statements (in thousands)

For the year ended March 31, 2019

6. Accounts Receivable

	2019	2018
Accrued interest	\$ 62	\$ 37
Trade	80	78
	<u>\$ 142</u>	<u>\$ 115</u>

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 2019 was \$205 (\$213 in 2018). 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, 2017. 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, 2019 is \$502 (\$522 in 2018). The actuarial loss of \$42 based on actuarial reports is being amortized over the 15 year expected average remaining service life (EARSL) of the employee group.

For the year ended March 31, 2019

7. Employee Future Benefits (continued)

Significant long-term actuarial assumptions used in the March 31, 2017 valuation, and in the determination of the March 31, 2019 present value of the accrued severance benefit obligation were:

Annual rate of return	<u>3.80%</u>
Assumed salary increase rate:	
Annual productivity increase	1.00%
Annual general salary increase	<u>2.75%</u>
	<u>3.75%</u>

The severance benefit liability at March 31 includes the following components:

	2019	2018
Accrued benefit liability		
Balance, beginning of year	\$ 568	\$ 539
Actuarial loss	-	12
Benefits accrued	22	23
Interest on accrued benefits	22	21
Severance paid	<u>(68)</u>	<u>(27)</u>
Balance, end of year	544	568
Less unamortized actuarial losses	<u>(42)</u>	<u>(46)</u>
Severance benefit liability	<u>\$ 502</u>	<u>\$ 522</u>

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

	2019	2018
Interest on obligation	\$ 22	\$ 21
Current period benefit cost	22	23
Amortization of actuarial losses over EARSL	<u>5</u>	<u>4</u>
Total expense related to severance benefit	<u>\$ 49</u>	<u>\$ 48</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.

Notes to Financial Statements (in thousands)

For the year ended March 31, 2019

8. Tangible Capital Assets	2019			
	Opening Balance	Additions	Disposals	Closing Balance
Cost				
Office equipment	\$ 61	\$ 7	\$ -	\$ 68
Furniture and fixtures	229	-	-	229
Leasehold improvements	74	-	-	74
Computer hardware	143	4	-	147
Computer software	869	-	-	869
	<u>1,376</u>	<u>11</u>	<u>-</u>	<u>1,387</u>
Accumulated Amortization				
Office equipment	55	5	-	60
Furniture and fixtures	203	14	-	217
Leasehold improvements	52	3	-	55
Computer hardware	143	1	-	144
Computer software	868	1	-	869
	<u>1,321</u>	<u>24</u>	<u>-</u>	<u>1,345</u>
Net book value	<u>\$ 55</u>	<u>\$ (13)</u>	<u>\$ -</u>	<u>\$ 42</u>
	2018			
	Opening Balance	Additions	Disposals	Closing Balance
Cost				
Office equipment	\$ 61	\$ -	\$ -	\$ 61
Furniture and fixtures	221	8	-	229
Leasehold improvements	74	-	-	74
Computer hardware	143	-	-	143
Computer software	869	-	-	869
	<u>1,368</u>	<u>8</u>	<u>-</u>	<u>1,376</u>
Accumulated Amortization				
Office equipment	51	4	-	55
Furniture and fixtures	188	15	-	203
Leasehold improvements	47	5	-	52
Computer hardware	143	-	-	143
Computer software	867	1	-	868
	<u>1,296</u>	<u>25</u>	<u>-</u>	<u>1,321</u>
Net book value	<u>\$ 72</u>	<u>\$ (17)</u>	<u>\$ -</u>	<u>\$ 55</u>

For the year ended March 31, 2019

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 \$1,019 (\$1,019 in 2018) of its portfolio investments as designated assets for the following purposes:

The Agency maintains separate deposits of \$750 (\$750 in 2018) 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 2018) 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. The principal of this note is re-invested annually and the interest is deposited in the Agency's trust account.

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.

The Agency has entered into a lease agreement as of December 31, 2013 which includes rental of 207 - 400 St. Mary Avenue (FIRB occupancy) and the remainder of the 5th floor for the Manitoba Securities Commission, which expires April 30, 2026.

Minimum annual lease payments for these agreements total \$545 per year for each of the next three 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 \$14,000 (\$17,000 in 2018). The Treasury Board approved a payment target of \$14,000 for the year ended March 31, 2019.

Schedule of Operating Income - The Manitoba Securities Commission
(Unaudited) (in thousands)

For the year ended March 31	2019	2019	2018
	Budget	Actual	Actual
Revenue			
Fees	\$ 18,209	\$ 20,621	\$ 19,971
Interest	108	399	170
Miscellaneous	-	2	2
	<u>18,317</u>	<u>21,022</u>	<u>20,143</u>
Expenses			
Amortization - capital assets	20	24	25
CSA initiatives*	116	87	70
Contract services	322	266	221
Education/Information initiatives	110	117	50
Miscellaneous	29	32	21
Office materials and supplies	65	43	54
Premises	443	462	451
Professional membership and dues	78	28	24
Professional services	84	104	71
Research resources	60	65	67
Salaries and benefits	3,462	2,959	3,017
Staff development and professional dues	20	11	13
Telecommunications	68	64	64
Travel	87	47	43
	<u>4,964</u>	<u>4,309</u>	<u>4,191</u>
Annual operating surplus	<u>\$ 13,353</u>	<u>\$ 16,713</u>	<u>\$ 15,952</u>

* Canadian Securities Administrators

Schedule of Operating Income - Financial Institutions Regulation Branch
(Unaudited) (in thousands)

For the year ended March 31	2019	2019	2018
	Budget	Actual	Actual
Revenue			
Fees	\$ 1,960	\$ 1,885	\$ 1,801
Miscellaneous	15	85	96
	<u>1,975</u>	<u>1,970</u>	<u>1,897</u>
Expenses			
Contract services	40	31	33
Miscellaneous	4	2	5
Office materials and supplies	12	6	15
Premises	114	92	106
Professional membership and dues	-	1	-
Professional services	35	29	38
Research resources	1	1	1
Salaries and benefits	779	487	642
Staff development and professional dues	5	-	2
Telecommunications	12	11	11
Travel	15	5	8
	<u>1,017</u>	<u>665</u>	<u>861</u>
Annual operating surplus	<u>\$ 958</u>	<u>\$ 1,305</u>	<u>\$ 1,036</u>

Agency Statistics

for the year ended March 31, 2019

	2018/2019	2017/2018	2016/2017
Registrations Under <i>The Securities Act</i>	22,279	21,578	21,079
Registrations Under <i>The Commodity Futures Act</i>	361	368	368
Prospectuses Filed	611	602	657
Issuers Included in Prospectuses	4,275	4,232	4,083
Classes of Securities Included	23,874	23,715	19,270
Amendments and Supplements	3,082	3,136	2,358
Issuers Included	4,227	4,878	4,575
Classes of Securities Included	4,855	5,232	7,756
Rights Offerings	12	17	22
45-106F1 Capital Raising Forms* Offering Memorandums	1,373 49	1,297 71	1,499 84
Annual Financial Statements	5,176	5,023	4,976
Annual Information Forms	1,067	1,090	1,162
Issuers Made Active (opened)	445	361	316
Issuers Made Inactive (closed)	312	294	296
Reporting Issuers Under <i>The Securities Act</i>	5,814	5,681	5,614
Takeover Bids and Issuer Bids	21	21	12
Exemptions Orders	16	5	11
Investigation Orders	5	3	2
Financial Reporting Orders	3	1	21
Cease Trade Orders**	1	14	56
Miscellaneous Orders	3	34	62
Notices of Hearing Issued	6	11	16
Statements of Allegations Issued	5	2	4
Orders Filed	5	10	2
Reciprocal Orders Filed***	0	7	29
Settlement Agreements Completed	1	3	0
Decision Documents Published	2	3	2
Completed Provincial Court Hearings	0	1	0
Pending Provincial Court Hearings	0	1	1
Completed Queen's Bench Hearings	0	0	0
Pending Queen's Bench Hearings	0	0	0
Complaints and Inquiries			
General Investigation and Enforcement	144	295	248
Formal Investigation Files Opened	15	19	29

* 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.

** Cease trade orders include both permanent and temporary orders.

*** Decrease in filings results from MSC Staff Notice 2017-34 - Automatic Reciprocation, via amendments to section 148.4 of the Securities Act, effective June 2, 2017.

	2018/2019	2017/2018	2016/2017
Registrations			
Registrations Under <i>The Real Estate Brokers Act</i>	2,390	2,394	2,433
Registrations Under <i>The Mortgage Brokers Act</i>	415	423	381
Education			
Old Phase Pre-Licensing Education Enrolments	0	0	0
Salesperson Pre-Licensing Education Enrolments*	350	352	325
Broker Pre-Licensing Education Enrolments	37	47	47
Re-Licensing Education Completions	2,092	2,165	2,288
Financial Filings and Compliance Audits			
Registered Broker Reports Reviewed	395	415	415
Final Close-Out Reports Reviewed	27	26	19
Brokers Suspended for Failure to File	6	1	4
Investigations and Enforcement			
General Investigations and Inquiries**	146	116	115
Formal Investigations**	10	8	11
Complaints Resulting in a Warning or Reprimand	3	3	6
Complaints Resulting in Further Action by MSC	4	3	3
Interest Earned on Broker Trust Accounts (In Thousands)			
Interest Earned	280	218	172
Total Disbursements to MREA***	280	218	172
Funds Held in Trust by MREA	397	254	0
Disbursement to the Minister of Finance	0	0	0
Balance Remaining After Disbursement to MREA	0	0	0
Unclaimed Trust Account Funds (In Thousands)			
Balance Forwarded at April 1, 2018	25	25	25
Received During the Fiscal Year	6	11	7
Sub-Total	31	36	32
Disbursement to the Minister of Finance	6	11	7
Residual Balance (Minimum Reserve)	25	25	25

	2018/2019	2017/2018	2016/2017
Insurance Sector			
Special Insurance Broker Licenses	8	9	8
Number of Licensed Insurers - Federal	175	175	180
Number of Licensed Insurers - Provincial	48	49	49
Complaint Files Opened	59	58	40
Complaint Files Closed	50	50	38
Complaint Files in Progress	44	35	25
Insurance Council of Manitoba			
Examinations for Agents, Brokers, and Adjusters	2,638	2,215	1,553
Pass Rate	80%	78%	73%
Successful Applications	2,111	1,731	1,135
Agent, Broker, and Adjuster Licences Issued	18,066	16,189	16,533
Complaint Files Against Agents, Brokers, Adjusters Opened	88	132	148
Complaint Files Against Agents, Brokers, Adjusters Closed	89	171	109
Presented to Council for Decision	19	28	16
Appealed Decisions	-	0	0
Complaints Filed Against Agents, Brokers, Adjusters in Progress	25	26	65
Credit Union Sector			
Credit Unions in Manitoba	26	31	34
<i>Caisses Populaires</i> in Manitoba	1	1	1
Combined Assets (Billions)	\$31.8	\$30.1	\$28.6
Member Deposits (Billions)	\$28.8	\$27.4	\$26.3
Member Equity (Billions)	\$2.2	\$2.0	\$1.8
Co-operatives Sector			
Co-operatives in Manitoba	332	338	341
Housing Co-operatives	61	60	60
Consumer Co-operatives	49	54	52
Active Members (Thousands)	570+	570+	570+
New Incorporated Co-operatives	10	5	6
Dissolved Co-operatives	13	9	13
Revived Co-operatives	1	1	0
Securities Offering			
Documents Approved	3	1	3
Trust and Loan Corporations			
Federal	49	47	48
Extra-Provincial	3	3	3

*Previously listed as "New Model Pre-Licensing Education Enrolments."
 **In prior reporting years, formal investigations were grouped with general complaints.
 ***See page 21, Real Estate, for the list of individual disbursements to MREA.

The MFSA's Planning Process is set out in three documents:

- A Planning Document, which serves dual purposes in outlining the MFSA's goals and action plan, as well as the means of measuring the organization's successes.
- A multi-year Strategic Plan that notes the main challenges to the organization and maps out strategies to respond.
- An annual Business Plan that establishes the year's roadmap for implementing the strategic plan and developing the MFSA's operational budget.

In addition to being a performance measurement document, the Planning Document doubles as a work plan for the MFSA's various functional areas carrying out most aspects of the Business Plan.

The Planning Document provides a template for breaking down broad MFSA goals into four perspectives: financial, stakeholder, internal, and learning and growth. Measures are set out under each perspective to determine how the MFSA will evaluate achievements against established goals.

Quantitative measurements are typically matters that can be tangibly evaluated, such as the number of field audits completed in a year, the number of staff members cross-trained for other jobs, the number of staff training hours completed, or the number of educational programs delivered to the public.

Qualitative measurements don't rely on concrete figures, but are still valid indicators of objectives the MFSA has fulfilled.

The planning document also includes target dates, proposed results and a status column to track results. It is reviewed on a quarterly basis and incorporated into a final report at the end of each fiscal year, which is made available to all employees.

As in previous years, MFSA has generally met the performance goals set, particularly in areas where quantitative targets were laid out. In the few areas where goals were not met during the fiscal year, valid reasons were given and the goals were re-evaluated for completion during the subsequent planning cycle.

MFSA service standards include standards set by the MSC and the CSA.

MSC service standards include reviewing applications for exemptive relief from legislative requirements within six weeks.

With respect to administrative hearings, the standard is to deliver decisions within six weeks on administrative hearings lasting less than five days.

CSA service standards include issuing

comment letters for prospectus filings within Passport guidelines. When reviewing prospectuses as the principal regulator, staff ensure all Passport guidelines for reviewing and commenting on prospectuses as well as amendments to prospectuses, are met.

MFSA service standards include the development and delivery of programs and resources for public and investment industry use. The Agency's standard response time is 24 to 48 hours for media inquiries or other information requests.

Sustainable Development / Climate and Green Plan

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.

In 2018, this Act was replaced with the *Climate and Green Plan Act*, which, while similar, focuses more on the move to a low-carbon economy in Manitoba as part of a long-term commitment to slowing climate change, and the protection of water resources and biodiversity within the province.

Principles and guidelines have been developed to assist departments and agencies in instituting objectives, integrating them into operations and reporting on their development.

Operating in an office environment, the MFSA practices recycling of paper, batteries, plastics, and procures a variety of recycled items, including paper products, and other office materials.

MFSA's Securities Division is also participating in the development of the new National System Renewal Program (NSRP) that will require all filings be made electronically, with few exceptions, which will greatly reduce the use of courier / postal services and the use of paper along with the resulting retention and/or destruction of paper filings.

The MFSA maintains a continuous and balanced sustainable development process.

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 of 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,
- knowingly directing or counselling 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 MFSA for the fiscal year 2018/19. (Information required annual, as per Section 18 of the Act)

Number of disclosures received, and the number acted on and not acted on.
(Subsection 18(2)(a)) -- **NIL**

Number of investigations commenced as a result of a disclosure.
(Subsection 18(2)(b)) -- **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.
Subsection 18(2)(c) -- **NIL**

Real Estate Advisory Council

This council represents a non-statutory advisory body established by the MSC and the Manitoba Real Estate Association. Its mandate is to advise and make recommendations to the MSC and MREA on real estate issues, review mutually beneficial ideas and give advance notice of trends arising in the real estate industry.

Claude Davis (Chair)	Royal LePage Dynamic Real Estate
Michael Barrett	Century 21 Westman Realty
Tom Fulton	RE/MAX Performance Realty
Robert Giesbrecht	Canadian Condominium Institute, Manitoba Chapter
David Powell	Powell Property Group
David Salvatore	Manitoba Real Estate Association
Keith Schinkel	MSC
Ron Tardiff	Trinkl Realty Ltd.
Robert L. Tyler	Manitoba Bar Association
Garret Wong	Professional Property Managers Association

MFSA STATUTES

The Agency administers the following Acts
of the Consolidated Statutes of Manitoba

The Securities Act, C.C.S.M. c.S50

The Commodity Futures Act, C.C.S.M. c.C152

The Real Estate Brokers Act, C.C.S.M. c.R20

The Mortgage Brokers Act, C.C.S.M. c. M210

The Insurance Act, C.C.S.M. c. 140

The Credit Unions and Caisse Populaires Act, C.C.S.M. c. C301

The Cooperatives Act, C.C.S.M. c. C223

The Corporations Act, C.C.S.M. c. C225, Part XXIV





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