



THE MANITOBA
SECURITIES
COMMISSION



FINANCIAL
INSTITUTIONS
REGULATION BRANCH

Manitoba Financial Services Agency

ANNUAL REPORT 2014

Revised

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 Manitoba Securities 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 brokers to ensure adequate standards are maintained for the protection of the public.

FINANCIAL INSTITUTIONS REGULATION BRANCH

Mission

The mission of the Financial Institutions Regulation Branch 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.

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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 second annual report of the Manitoba Financial Services Agency for the fiscal year ended March 31, 2014.

Respectfully submitted,

A handwritten signature in black ink that reads "Jennifer Howard".

Honourable Jennifer Howard
Minister



Honourable Jennifer Howard
Minister of Finance
Room 103 Legislative Building
Winnipeg, Manitoba
R3C 0V8

Dear Minister:

I have the honour to submit for your consideration the second annual report of the Manitoba Financial Services Agency for the fiscal year ended March 31, 2014.

Respectfully submitted,



Donald G. Murray
Chief Administrative Officer
Manitoba Financial Services Agency





Donald G. Murray

REPORT FROM THE CHIEF ADMINISTRATIVE OFFICER

This is the second annual report of the Manitoba Financial Services Agency, a Special Operating Agency (SOA) of the Government of Manitoba. The former Manitoba Securities Commission (MSC) SOA was renamed as the Manitoba Financial Services Agency (MFSA) as of October 1, 2012, at which time the Financial Institutions Regulation Branch (FIRB) was merged with the MSC. Since that date, the MSC and FIRB have operated as divisions of the MFSA.

The merger brought the regulation of the majority of Manitoba's financial service industries into a single organization. The MFSA is now responsible for regulating the securities, real estate, insurance, cooperatives, credit union and trust industries in the province.

The MFSA's goal is to develop synergies and efficiencies between the MSC and FIRB with a view to cooperatively utilize resources, including industry expertise and physical premises. Efforts in these areas will enhance the level of regulation in the several industries. After months of planning, concrete arrangements are now in place to relocate FIRB at the same premises now occupied by the MSC in the summer of 2014. The proximity of premises will allow both divisions to operate in close connection and assist each other in protecting and serving financial product consumers of Manitoba, as well as the affected markets and industries.

The Manitoba Securities Commission

Over the last several years the MSC has worked cooperatively with its colleagues in the Canadian Securities Administrators (CSA) on regulatory improvements at both the national and international level, as well as on local initiatives. As a group, we continue to enhance the CSA's Passport system, and CSA member jurisdictions have kept pace with international regulators in implementing many of the G20 and IOSCO regulatory initiatives.

On a national level, the MSC continues to work with its CSA counterparts to modernize and harmonize the Canadian regulatory system, including its electronic filing systems.

The MSC's registration area continues to see growing numbers of registrations under *The Securities Act* and continued high registrations under *The Commodity Futures Act*.

The compliance area continues to conduct compliance examinations of registrants, both locally and in cooperation with our CSA colleagues through joint examinations of firms registered in several provinces.

The corporate finance area continues to be involved in policy development at a national level, as well as developing a harmonized approach to continuous disclosure reviews, and is active in the

ongoing development and maintenance of our national electronic filing systems.

Enforcement staff continues to be diligent in proactively uncovering illegal market activity, while our legal team actively prosecutes the cases developed by enforcement staff at both the Commission level and in the Provincial Court of Manitoba.

The education and communications area continues to bring our messages to the public for its edification and protection while also significantly improving internal policies and communications within the MFSA.

The MSC's Real Estate Division continues to provide oversight of the real estate and mortgage broker industries through cooperative efforts, field audits, investigations and the development of industry education programs. A large scale rewrite of the former *The Real Estate Brokers Act* has been completed for introduction in the spring 2014 legislative session.

Financial Institutions Regulation Branch

The Financial Institutions Regulation Branch 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 then, FIRB has been part of various departments due to government restructuring, and 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 2014, a number of regulations related to amendments of the act have been drafted and discussed with insurance stakeholders. These regulations are expected to be in effect and all act amendments proclaimed by the end of 2014.

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 in 2014 to improve the member appeal process for 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 other office materials. The MFSA intends to maintain a continuous and balanced sustainable development process.

Acknowledgements

As in past years, the Commission benefits from the volunteer efforts of the members of its three advisory groups: the Securities Advisory Committee, the Real Estate Advisory Council and Real Estate Advisory Committee. Acknowledgement must also 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), which guarantees deposits of credit unions and caisses populaires, and the Insurance Council of Manitoba (ICM), which 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.

MFSA staff must be acknowledged for their continuing hard work and professionalism. Over the past few years, they have been called upon to not only continue their regulatory efforts but also take steps to realize efficiencies and closer connections between the MSC and FIRB. We have always been able to rely on our staff to rise to the occasion and are fully confident that they will continue to fulfill their public mandate while assisting in the efficient merger of the two divisions.



Donald G. Murray

*CAO of the Manitoba Financial Services Agency;
Chair and CEO of The Manitoba Securities Commission*

AGENCY OVERVIEW



The MFSA is comprised of two divisions: **The Manitoba Securities Commission** and the **Financial Institutions Regulation Branch**.

The Manitoba Securities Commission

The Manitoba Securities 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 MSC was structured in its present form in 1968, and became a Special Operating Agency on April 1, 1999.

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

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

The administrative arm of the MSC consists of two operating divisions, the Securities Division and the Real Estate Division, with a combined 40 permanent full-time staff positions, of which all but two were filled as of March 31, 2014.



Securities Division

The securities division is organized into the following seven operational areas.

Investigations

There are four staff members in this section: the Manager of Investigations, two investigators and one administrative support employee. The investigations area receives inquiries and complaints about registrant

conduct, performs investigations and assists legal staff in preparing for hearings. The members of the investigation area report to the Director of Legal, Enforcement and Registrations.

Legal

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

Registration

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

Compliance and oversight

The compliance and oversight area is made up of the Manager of Compliance and Oversight, two compliance auditors and one administrative support employee. Compliance staff are professional accountants. The compliance and oversight area conducts compliance reviews of industry participants, and is responsible for market and self-regulatory organization oversight. Staff also participate in policy development and make presentations at MSC meetings. The area also assists in the investigation and legal functions of the MSC by analyzing financial and trading information arising from investigations or from claims made by investors for compensation of financial loss.

Corporate finance and continuous disclosure

There are five staff members in this area: a senior analyst, analyst, an administrative assistant, a corporate finance clerk and a continuous disclosure clerk. Both analysts are professional accountants. This area 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 MSC meetings. Staff members report to the Deputy Director of Corporate Finance, who is also a professional accountant. An additional analyst position has been approved by Treasury Board and will be filled in fiscal year 2014/15.

Finance and administration

There are five staff members assigned to this area, including the Deputy Director of Finance and Administration (a professional accountant), an accounting clerk, a web developer/analyst, a receptionist and an administrative clerk. This section, in consultation with management, prepares the MSC's budgets and financial reports, and develops and implements office and personnel policies for both the Securities and Real Estate Divisions.

Education and communications

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

Additional staff

There is an additional full time staff position: an administrative assistant reporting directly to the Chair.

Real Estate Division

The Real Estate Division is made up of the Registrar, Deputy Registrar of Registrations, Deputy Registrar of Compliance, an investigator and two administrative support employees. 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 Manitoba. Employees in this section report to the Registrar.

Management

The Director of the Securities Division and the Registrar of the Real Estate Division report to the Chair, who is the Chief Executive Officer of the MSC. This group comprises the senior management team. Additionally, there is an extended management committee, which has membership from all operational areas.

The Commission

In addition to the Chair, there are up to six part-time Commission members. The

Commission meets regularly to formulate policy and regulation, consider applications for exemption from regulation requirements, and to determine if granting various orders authorized by legislation is in the public interest. Commission members also serve a quasi-judicial function by sitting as adjudicators in Commission hearings. The Chair presides at Commission member meetings.

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

ADVISORY GROUPS

Securities Advisory Committee

The Securities Advisory Committee was established by the Chair of the Commission to consult on regulatory matters and provide advice on new policy initiatives developed by the Commission. The committee is also called upon to advise on how the Commission can best approach changes in the securities industry.

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

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.

- » Ray Brownlee, *Century 21 Westman*
- » Shirley Przybyl, *Century 21 Bachman & Associates*
- » Cliff King, *RE/MAX Executives Realty*
- » Ute Vann, *Royal LePage Dynamic Real Estate*
- » John Neufeld, *Smith Neufeld Jodoin LLP*

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 of trends or developments arising in the real estate industry.

- » Claude Davis, *Royal LePage Dynamic Real Estate*
- » Tom Fulton, *RE/MAX Performance*
- » Michael Barrett, *Century 21 Westman*
- » Brian Canart, *HomeLife Home Professional Realty*
- » Ron Tardiff, *Trinkl Realty Ltd.*
- » Robert Giesbrecht, *Canadian Condominium Institute, Manitoba Chapter*
- » Mario Lopes, *Professional Property Managers Association*
- » Robert L. Tyler, *Manitoba Bar Association*
- » Brian Collie, *Manitoba Real Estate Association*
- » Terry Kirkham, *The Manitoba Securities Commission*

COMMISSION MEMBERS



Donald G. Murray, Chair

Appointed to the Commission in 1993, Donald 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 presides at Commission member meetings, sits on hearing panels and represents the MSC at CSA and North American Securities Administrators Association (NASAA) meetings. He has been the Vice-chair of the CSA and is a former member of NASAA's board of directors.



Lynne M. McCarthy, Vice-chair

Lynne McCarthy was appointed to the Commission in 1994, and holds a Master of Business Administration degree from the University of Western Ontario as well as a 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, Donald 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

James 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 is also a co-founder, and the Manitoba Sports Hall of Fame and Museum.



Glenn J. Lilles

Glenn Lillies was appointed to the Commission in 2006. Mr. Lillies is a Chartered Accountant who retired as a partner with KPMG LLP 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 treasurer to several service organizations.



Brian P. Cyncora

Brian Cyncora was appointed to the commission in 2013. He retired after a 31-year professional career and senior management position serving and protecting the community. He holds Master of Business Administration degree, a Graduate Diploma in Management and a Bachelor of Commerce Honours degree, and has received several awards and accolades including an Eagle Feather award and the Minister of Justice and Attorney General's Urban Police Officer Award. Mr. Cyncora's continues to serve the public by volunteering on not-for-profit boards and participating on community committees.

Financial Institutions Regulation Branch

The Financial Institutions Regulation Branch 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.

FIRB has 9.2 permanent full-time staff, which includes the Superintendent, Deputy Superintendent of Insurance and Deputy Superintendent of Deposit Taking. The administrative arm consists of three financial services officers, a part-time insurance complaints officer and 2.6 administrative support employees. As of March 31, 2014, 1.6 positions were vacant.

Deposit Guarantee Corporation of Manitoba

DGCM was created under *The Credit Unions and Caisses Populaires Act* to guarantee the deposits of credit unions and caisses populaires, 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. A seven-person board of directors, appointed by the Lieutenant Governor in Council of Manitoba, oversees the DGCM.

Insurance Council of Manitoba

The Insurance Council of Manitoba 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 of Finance.

DGCM BOARD OF DIRECTORS

- » Sheryl Feller, *Chair*
- » John Klassen
- » Paul Gilmore
- » Brian Mayes
- » Monica Girouard
- » Bryan Rempel
- » Charles Golfman

LIFE INSURANCE COUNCIL

- » Nelson Hoe, *Chair*
- » Nancy Streuber, *Vice-chair*
- » Emmie Joaquin
- » Donna Winstone
- » Paul Brett
- » Jim Wilson
- » Sonja Doran

GENERAL INSURANCE COUNCIL

- » Keith Jordan, *Chair*
- » Jeffrey Coleman, *Vice-chair*
- » Wendy Gilroy
- » Donald Storjord
- » Janine Oliver
- » Treena Piasta
- » Wendy Stumpf

INSURANCE ADJUSTERS COUNCIL

- » Fred Dixon, *Chair*
- » Shelley Werner
- » Timothy Bromley
- » Grant Rerie

THE MANITOBA SECURITIES COMMISSION



Overview

The operational areas of the MSC's Securities Division work in eight functional areas:

1. Registrations
2. Compliance and oversight
3. Corporate finance and continuous disclosure
4. Private placement and exempt offerings
5. Exemptions and orders
6. Legislation and policy development
7. Investigation and enforcement
8. Education and communications

Each functional area holds unique duties and responsibilities which requires a high degree of cooperation, coordination and collaboration.

Registration

The registration area 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 area must review whether a registration is in the public interest:

1. 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.
2. 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.
3. 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 his or her 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 offering services to clients in Manitoba.

The registration area also continues to be involved in initiatives locally and through the CSA to enhance the registration process.

National Registration Database

The National Registration Database (NRD) permits an individual or company to submit registration information and requests to the MSC 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 MSC'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 MSC 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.

NUMBER OF REGISTRATIONS

Fiscal year	2014	2013	2012	2011
<i>The Securities Act</i>	20,012	19,743	19,318	18,281
<i>The Commodity Futures Act</i>	421	450	432	401

Compliance and oversight

The compliance and oversight area reviews the operations of individuals and companies registered with the MSC to ensure they are conducting business in a manner that does not pose a risk to the public. This is done by reviewing various documents that registrants are required to submit and performing compliance examinations of a registrant's operations. Compliance reviews are an

effective way of identifying risks before there is a loss to investors. These reviews may be conducted locally, or in cooperation with other securities regulators.

One new registrant review, one limited scope review and two full compliance examinations were conducted in 2013/14. Compliance staff also participated with other CSA members in conducting a joint examination of a firm registered in several provinces.

The compliance and oversight area is responsible for the oversight of self-regulatory organizations (SROs) that are recognized by the MSC as required by *The Securities Act*. The area maintains contact with SROs to coordinate and conduct compliance examinations when required. In 2013/14, compliance staff, along with other recognizing regulators, participated in the oversight review of the Investment Industry Regulatory Organization of Canada (IIROC).

The compliance and oversight area also conducts oversight activities related to ICE Futures Canada and ICE Clear Canada under *The Commodity Futures Act*.

Compliance and oversight also oversees the operations of various entities involved in the securities and derivatives markets in Manitoba, including exchanges, marketplaces, clearing agencies, trade repositories and investor protection funds.

The compliance and oversight area also assists in the investigation of complaints by providing financial analysis of trading records and other financial information. In addition, the area provides a financial analysis of investor claims for financial loss, determining what dollar amounts can be presented in a Commission hearing.

Corporate finance and continuous disclosure

The corporate finance and continuous disclosure area reviews prospectus filings and rights offerings for compliance with securities rules and 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, which improves efficiency of capital markets by ensuring that an issuer only deals with its principal regulator and only receives one receipt for 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 MSC. Securities legislation sets out the content requirements of these documents, as well as the time periods in which they have to be filed. Reporting issuers use the System for Electronic Document Analysis and Retrieval (SEDAR).

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

FILINGS PROCESSED

Fiscal year	2014	2013	2012	2011	2010
Prospectuses filed*	705	729	780	917	849
Issuers included	4,000	3,972	3,892	3,725	3,575
Amendments and supplements	1,380	1,071	950	759	696
Offerings	6	10	10	8	20

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

Continuous disclosure review program

The MSC has implemented a continuous disclosure review program and is participating with other CSA members in developing a harmonized system that ensures all reporting issuers are subject to ongoing reviews that are performed efficiently and consistently. Manitoba is one of eight jurisdictions participating in the Passport 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 that the quality and timeliness of information disclosed by reporting issuers is of the utmost importance to the capital markets. Commission staff continue to review

prospectus offerings, but equal emphasis is placed on the review of continuous disclosure filings.

Insider trading

SEDI provides easy public access to insider reporting information and allows for effective and efficient monitoring of insider trading activity by ensuring that filings are in the proper form and are made in a timely fashion. For Manitoba reporting issuers, corporate finance staff review filings for compliance with form and timeline requirements, with late filing fees being collected as required.

National electronic filing systems

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

1. SEDAR – The System for Electronic Document Analysis and Retrieval has been in use since 1997 and facilitates the electronic filing of securities-related documents with the MSC and other CSA jurisdictions. SEDAR allows documents to be filed with all regulators simultaneously and provides for secure electronic communication between issuers and regulators. SEDAR has greatly enhanced the efficiency of Canadian capital markets

and, in conjunction with the Passport system, has resulted in those markets being among the most efficient in the world. In addition, SEDAR's website (sedar.com) allows for timely dissemination of information to the public.

2. SEDI – Manitoba continues to participate in the ongoing maintenance of the System for Electronic Disclosure by Insiders which is a national insider reporting database. The system provides ease of reporting to insiders and public access to insider trading information.
3. National CTO database – Corporate finance staff continue to participate with other CSA jurisdictions in developing and maintaining a national cease trade order (CTO) database. This highly effective database allows members of the public and industry participants easy access to information relating to CTOs issued by Canadian securities regulators

Policy development

The corporate finance and continuous disclosure area is involved in the development and implementation of a number of significant national rules and policies, such matters as:

- » Point of Sale for mutual funds
- » proposed amendments to modernize investment fund rules and policies
- » review of mutual fund fees in Canada
- » proposed amendments to improve venture issuers disclosure
- » adoption of International Financial Reporting Standards for investment funds
- » proposed amendments to include gender diversity in corporate governance

- » proposed amendments to a new prospectus-exempt rights offering regime

Private placement and exempt offerings

The MSC recognizes the benefit of fostering 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 available to Manitobans. *The Securities Act*, regulations and rules provide exemptions from the requirements to use a prospectus and trade in securities through someone registered under the act. Exemptions are determined by the nature of the security sold, the dollar amount of the purchase and the knowledge of the purchaser. Limited offering exemptions are based on a securities offering 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 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 are unique to the province. Feedback received from MSC stakeholders indicates that these Manitoba-specific options continue to provide methods for raising capital that balance the interests of businesses and investors.

MSC 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 as these rules are highly harmonized across other Canadian jurisdictions.

Exemptions and orders

Exemption applications

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

National and regional applications

The MSC participates in the CSA's Passport system for exemption applications. This 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 MSC continues to support local projects that focus on businesses that provide benefits to a community. While the MSC does not create business plans or proposals for local

Fiscal year	2014	2013	2012
45-106F1* capital raising forms	1,230	1,264	1,277
Offering memorandums	89	97	118
Private placement	0	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.

projects, staff often work with applicants to ensure that they have the tools required to raise capital in a manner that does not compromise the investor protection objectives of securities regulation.

Legislation and policy development

Laws and rules developed and administered by the MSC need to achieve a balance between investor protection and facilitating fair and efficient capital markets. As markets are constantly changing, the MSC 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 that the MSC has been involved in during 2013/14 include:

Highly harmonized securities legislation

Working with the Ministers responsible for securities regulation and their respective staff, the MSC and other members of the CSA continue to identify and implement legislation and rules that can be harmonized among 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

The MSC continues to strive for policy development to benefit Manitoba investors and maintain fairness in the province's marketplace. On a national level, the MSC continues to work with other CSA jurisdictions on:

- » implementing 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
- » proposed amendments concerning take-

ORDERS ISSUED

	2014	2013	2012
Exemption orders	8	8	11
Take-over bid orders	0	0	1
Insider reporting orders	0	0	0
Financial reporting orders	83	75	82
Cease trade orders	96	63	79
Miscellaneous orders	93	60	97

over bids, issuer bids and early warning requirements

- » proposed rules for security holder rights plans (commonly referred to as "poison pill" plans)
- » proposed exemptions to facilitate crowdfunding
- » amendments to enhance client reports by securities dealers and investment advisers
- » proposed amendments concerning short term debt
- » proposed amendments concerning securitized products
- » proposed rules for regulating derivatives products

The bulk of this and other national policy developments are carried out by various CSA staff committees, which saw significant representation from the MSC in 2013/14.

Rules, policies and notices

The MSC has the legislative authority to enact rules that have the same force and effect as regulations under the legislation. In fiscal year 2013/14, most rules enacted by the MSC were national instruments representing rules implemented nationally in coordination with other jurisdictions.

The MSC also issues policies and notices to give guidance to markets about the application of securities laws. In 2013/14, 89 rules, notices and policy statements were issued, 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 MSC in the past year are posted on the Commission's website.

ICE Futures Canada

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

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

Investigation and enforcement

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, MSC staff must review all complaints received both on the basis of potential harm to the markets and the potential for harm to have been caused to an individual member of the public.

In many cases, MSC staff will 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 (IIROC) or the Mutual Fund Dealers Association (MFDA) for investigation and resolution.

The number of complaints received relating to fraudulent schemes such as prime bank instruments and pension plan loans remained a concern throughout 2013/14. These illegal activities continue to target all segments of the population amounting to millions of dollars, and their persistent nature has continued to be a focal point in the MSC's public education programming.

Investigations

Investigation staff proactively review websites and other publications to identify potentially illegal investment schemes before their operators are able to take money from the public. In some cases, promoters offer legitimate investment opportunities but are unaware of the requirements of securities law. In other cases, operators of illegitimate schemes stop their activities once they become aware that MSC staff are monitoring their activities.

Once an investigation commences, MSC staff attempt to gather evidence by obtaining

COMPLAINTS AND INQUIRIES

Fiscal year	2014	2013	2012
Investigation/enforcement inquiries	394	392	405
Investigation files opened	25	56	65

documents and interviewing witnesses. In situations where this evidence cannot be gathered voluntarily, an investigation order can be issued to compel involved parties to produce the required materials.

Investigation staff also works closely with other regulators and law enforcement agencies. MSC 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, staff determine whether there is sufficient evidence to justify holding a hearing before members of 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 a 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 2013/14, 71 reciprocal orders were issued by the Commission based on orders issued in other jurisdictions.

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

At the end of fiscal year 2013/14, 55 notices of hearings were issued, 80 orders were filed and one decision document published. In addition, MSC staff have completed one Court of Queen's Bench hearing for breaches of *The Securities Act*, with one additional provincial court hearing pending. Details of pending and completed Commission hearings and prosecutions are provided on the MSC website, in the Hearings and Proceedings section.

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, but not with an expectation that there will be a decrease in value caused by illegal or improper activity.

The MSC was the first regulator in Canada to obtain authority in legislation to order repayment to an investor for losses from illegal or improper conduct relating to the trading of securities. This authority provides investors with an alternative to the civil court system and is a powerful tool for investor protection. This option permits claims of up to \$250,000, and allows for all regulatory and financial loss matters dealt with in a single proceeding. It also creates a strong incentive to resolve client complaints involving financial

losses at an early stage and avoid the need for the client to make a complaint to the MSC or spend money to have a matter determined by the courts.

The MSC publishes a report describing the number and status of claims under the Enforcement section of its website.

Investor alerts

Informing investors is often the best way to avoid losses through illegal or improper trading of securities. The MSC will issue an investor alert in situations where it is necessary to warn the public about illegal or potentially risky activities. 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 distributed through news releases to the media and posted on the MSC website. They are issued throughout Manitoba, but in some cases are targeted to specific areas in the province where the deemed improper activities are occurring.

Education and communications

In September 2013, the MSC hired a communications coordinator. The incumbent holds both a Bachelor of Arts in communications and a Creative Communications Diploma. This individual works with all three divisions of the MFSA and is primarily responsible for managing the MFSA's traditional and social media channels, developing marketing materials for campaigns, participating on various local and national committees and leading internal office communications.

Since September, the communications coordinator has developed several policies, procedures and strategies to formalize the MSC's external communications and expand relationships with media outlets across the province. He has also taken an active role on the CSA's communications and investor education committees, participating in various project groups that direct the CSA's national print and online media campaigns.

Both members of the education and communications area supported numerous CSA education initiatives, including the second annual Check Registration Day on March 19, 2014, which encouraged Canadian investors to use CSA tools to confirm the registration status and disciplinary history of their financial adviser or firm as a means of better protecting themselves from investment fraud.

The MSC soft-launched its RecognizeInvestmentFraud.ca campaign in the spring of 2013. The campaign was primarily concerned with recent research data that indicated one in three Manitobans were unable to recognize potential investment fraud, and that many feel as though reporting fraud is more trouble than it is worth. Through RecognizeInvestmentFraud.ca, users learn how to spot the red flags of fraud, understand common types of scams, follow four easy steps to check the registration and history of their financial adviser, test their investor knowledge and report suspicious activity to the MSC.

In partnership with the Winnipeg Police Service, the MSC held the full launch of the RecognizeInvestmentFraud.ca campaign during October's Investor Education Month. Both organizations hosted a pair of pop-up events in downtown Winnipeg to get investors talking about where and how investment scams can happen. On October 23 at City Place and October 29 at Winnipeg Square, Winnipeggers visited the pop-up kiosk to speak with investigators and Winnipeg Police Service officers about where and how investment scams can happen. More than 3,000 pieces of marketing collateral were distributed between the two events, with an additional 4,000 sent to a number of professional organizations around the province, including the College of Physicians and Surgeons and the Manitoba Association of Architects.

The success of the October campaign launch led to another partnership between the Commission and Winnipeg Police Service for March's Fraud Prevention Month. In addition to a two-day pop-up kiosk at Polo Park Shopping Centre, Commission Chair Donald

Murray and investigator Len Terlinski made several promotional appearances, including spots on local broadcast radio and television, to discuss the steps investors can take to prevent becoming a victim of investment fraud.

The MSC continues to take a lead role in the operations and initiatives of the Manitoba Financial Literacy Forum. In 2013, the Forum began the process of incorporating itself as a non-profit and registering an official name. Sub-committees worked on the 2014 *Money Matters: Financial Literacy for Life* calendar (which saw 30,000 copies distributed across Manitoba) and began developing a Manitoba Financial Literacy website that features Forum member resources pertaining to financial literacy. Members of the committee also participated in speaking engagements around the city and at the national launch of November's Financial Literacy Month in Ottawa.

The Make it Count youth money management program continues to be used extensively. In May 2013, the Surrey School District, British Columbia's largest school district, identified Make it Count as a program of choice in elementary schools and piloted it with several teachers who have continued to use it in their respective classrooms. Several additional instructor training sessions were hosted with the help of local teachers and the Credit Counselling Society of British Columbia. Coordinators provided the MSC with exceptional feedback for updating and improving the program, and in cooperation with the Department of Education and Advanced Training and Community Financial Counselling Services, Make it Count will be revised for continued use in Manitoba and other provinces and re-launched in the fall of 2014.

The MSC continued to deliver several educational presentations throughout the year. Notable audiences included clients of Assiniboine Credit Union, the Manitoba Bar Association, Manitoba teachers at the Special Area Group of Educators (SAGE) 2013 conference, and to the Department of Finance and *The Freedom of Information and Protection of Privacy Act* information officers.

PERFORMANCE MEASUREMENT AND SERVICE STANDARDS



Performance measurement

The MSC's planning process is set out in three documents:

- » A multi-year strategic plan that notes the main challenges to the organization and maps out strategies to respond.
- » An annual business plan, based on the strategic plan, which develops a one-year roadmap for strategy implementation

while developing a budget for MSC operation.

- » A planning document*, which serves a dual purpose in outlining the MSC's goals and actions required to achieve them as well as the means of measuring the organization's successes.

In addition to being a performance measurement document, the planning document doubles as a work plan for the MSC

in the various functional areas for carrying out most aspects of the business plan.

The planning document provides a template for breaking down the MSC's broad goals into four perspectives: financial, stakeholder, internal and learning and growth. In addition to goals or objectives, measures are set out under each perspective to determine whether the MSC has successfully achieved its goals for the year. Measures can be either

**Previously called the balanced scorecard, which was developed by MSC staff with external consultation and introduced in the 2002/03 fiscal year. The balanced scorecard document was reviewed and updated by staff in 2006/07 and was renamed as the planning document.*

quantitative or qualitative. Quantitative measurements easily lend themselves to determination and comparison, and are typically matters that can be tangibly evaluated, 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 staff training hours completed, and the number of educational programs delivered to the public.

Qualitative measurements don't rely on concrete figures, but are still valid indicators of objectives that the MSC has fulfilled. For example, the first stated goal under the internal perspective is "developing and maintaining a superior knowledge base." An action aimed at furthering this goal is preparing written procedure and policy manuals. Completing this action can be measured qualitatively, since availability of these manuals increases operational understanding and communication among staff. With qualitative measurements, the timely completion of an action is a measurement of how MSC goals are being achieved.

Each year, staff from each of the eight functional areas apply the planning document template to their specific functions and outline the actions required 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 final planning document.

The planning document also includes target dates, proposed results and a status column to track results. Staff review the status of the planning document on a quarterly basis and compile a final report at the end of each fiscal year, which is made available to all employees. As with previous years, the organization has generally met the performance goals that were set, particularly in areas where quantitative performance targets were laid out. In the few areas where performance targets were not met during the fiscal year, valid reasons were given and the goals and targets were reevaluated and identified for completion during the subsequent planning cycle.

The MSC has found the planning document to be a useful tool in the planning and reporting process. It has proven to be a valuable method of identifying agency objectives and determining both the actions and measurements required to meet those goals. While there will always be different ways to view and measure organizational performance, the team performing the MSC's effectiveness evaluation in 2002 considered this document to be comprehensive, reasonable and appropriate. The MSC recognizes the importance of keeping its performance measurement outlook current, and therefore senior management and the extended management committee review the planning document on a regular basis.

Service standards

Service standards in operation include timely reviews of applications and delivery of decisions following administrative hearings, issuing comment letters for prospectus filings within Passport guidelines and meeting annual CSA continuous disclosure review targets.

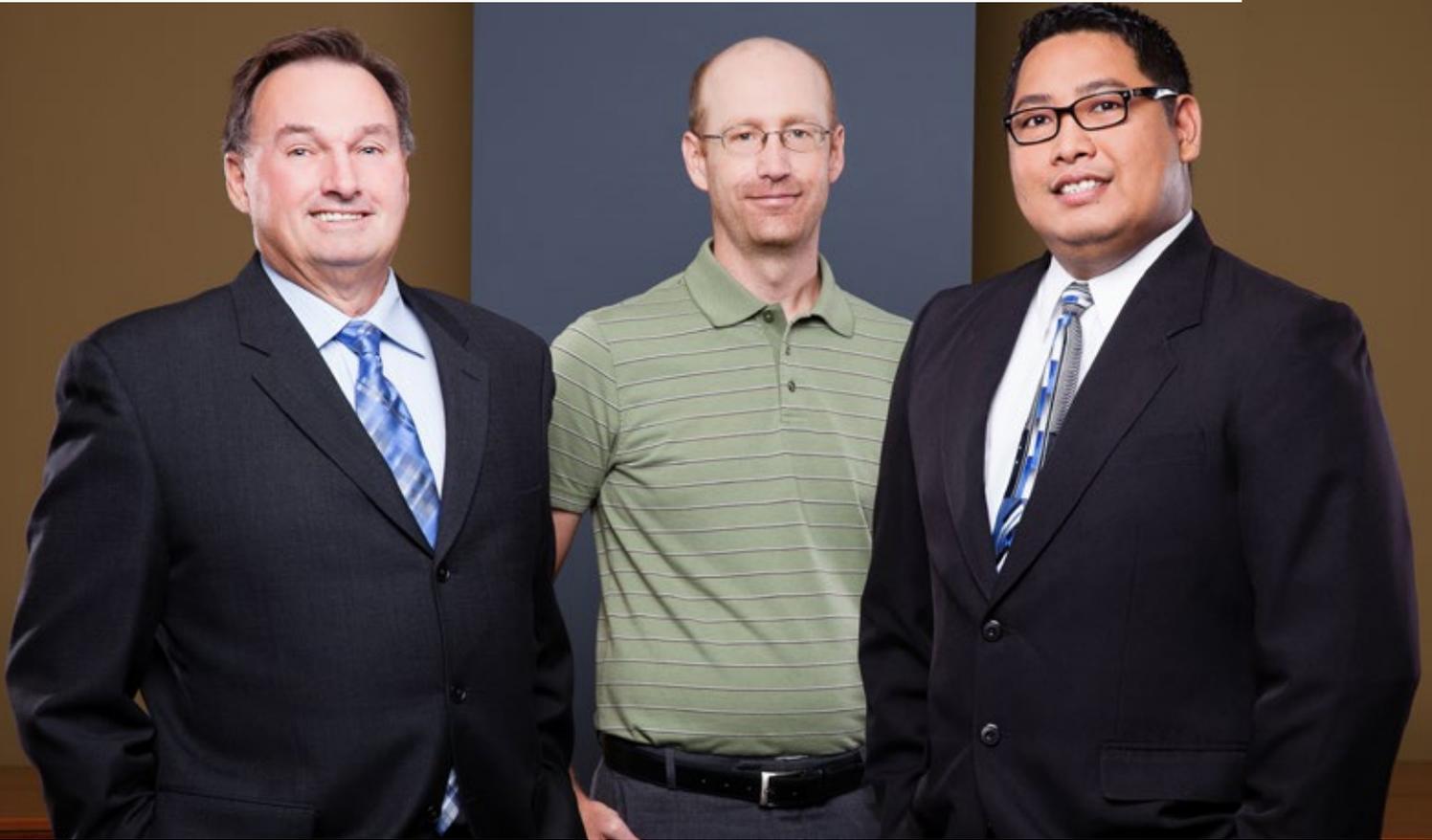
For hearings of one week (five days) or less, the MSC will provide written reasons for decision within six weeks of the close of the hearing. Commission members, when assigned to panels, will endeavour to produce written decisions in a timely fashion for longer hearings, which depend upon the amount of evidence to be reviewed in rendering a decision. This service standard was implemented at the end of fiscal year 2006/07.

When reviewing prospectuses, staff ensure that all Passport standards set out for the review and comment of prospectuses and prospectus amendments are met when acting as principal regulator. This includes:

- » review preliminary long form prospectuses and issue a comment letter within 10 working days
- » review preliminary short form or shelf prospectuses and issue a comment letter within three working days
- » review amendments to preliminary long form prospectuses and issue comments within five working days
- » review amendments to preliminary short form prospectuses and issue comments within two working days
- » review amendments to final long form prospectuses within three working days, or two working days for short form prospectuses

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

REAL ESTATE DIVISION



Overview

The Real Estate Division of the MSC administers *The Real Estate Brokers Act* and *The Mortgage Brokers Act* (formerly *The Mortgage Dealers Act*). The division is responsible for the registration of real estate brokers, which includes property managers, mortgage brokers and real estate and mortgage salespersons. It is also responsible for conducting investigations into complaints involving alleged violations of the statutes related to either of these acts, and providing public protection by raising and maintaining established governance standards for both the real estate and mortgage brokerage industry.

Registration

The division gives those registered under *The Real Estate Brokers Act* or *The Mortgage Brokers*

Act access to an online registration system that allows them to complete the annual renewal registration application. As the division is currently transitioning to this online system, members are still permitted to file the renewal registrations in hard copy form. Approximately 46% of industry members currently renew their registrations online.

In addition to being able to validate renewal registrations and initiate changes online, industry members can also use the system to obtain up-to-date information about educational requirements as well as their licensing history. This online registration system has been available to real estate industry members since 2010, and was made available to the mortgage broker industry in 2011 after the MSC began regulating this industry group.

The division's goal for future years is to make a concerted effort toward increasing the percentage of online use by its members and encourage them to take advantage of the benefits and efficiencies that this system offers.

There were 2,812 registrations issued for real estate salespersons, authorized officials and brokers. The MSC also deals with re-licensing and transferring of members. There were 418 renewal registrations issued for mortgage brokers including salespersons, authorized officials and brokers.

Education

New entrants into the real estate industry are required to complete pre-licensing courses and examinations that are prescribed by the MSC and administered and delivered by the Manitoba Real Estate Association.

The educational standards fall under the governance of the Registrar, who confers with the MREA and serves as a member of the MREA's education and examination review committee.

As a result of the collaborative efforts between the MSC and MREA, a completely revamped real estate salesperson pre-licensing course was introduced in January 2014. This new pre-licensing course consists of three home study modules and a fourth that requires the student to attend and satisfactorily complete an in-class component. The new pre-licensing education course now includes the integration of the elements of the Real Property Law and Principles of Appraisal courses into the home study modules

During the 2013/14 fiscal year, there were a total of 873 enrolments in both versions of the real estate pre-licensing education courses. There were 726 registrations in the older version of the pre-licensing education course as of December 31, 2013, and 147 registrations as of March 31, 2014 in the new version of the program. This new version of the program has become the new standard, and individuals must successfully complete all elements of the course before they can obtain registration with the MSC.

Registrants must also complete six hours of re-licensing education annually through the MREA as a requirement for retaining their registration. The re-licensing course, previously referred to as Mandatory Continuing Education (MCE), was renamed as Re-Licensing Education (RLE). In 2013/14, there were 2,186 registrants. The course material is compiled with the assistance and input of a number of industry experts and reviewed and approved by the education committee, of which the Registrar is a member.

MSC and MREA staff rigorously review the educational course materials to determine if they continue to meet industry standards. Part of this review has resulted in the complete revamping of the salesperson educational program, and the MREA is currently undertaking a review of the

broker educational course with the intent to modernize the material to reflect the contemporary position and role of a broker.

The MSC values its relationship with the MREA as an education provider, and both organizations are committed to ensuring that the level of the education material continues to address the demands expected by the real estate industry and public.

For the mortgage broker industry, the MSC continues to partner with the Canadian Association of Accredited Mortgage Professionals (CAAMP) for education requirements. The MSC currently has a mortgage salesperson competency course offered through CAAMP for those wishing to become a salesperson, but does not have its own mortgage broker competency course. With CAAMP's assistance, the MSC has developed an learning platform that has been designed to meet competency standards expected in a Manitoba broker course while continuing to work closely with CAAMP to formalize a course for Manitoba.

Financial filings and compliance audits

The Registrar reviews the annual trust account reports filed annually by registered real estate brokers as well as the mortgage broker trust compliance reports (including financial statements) filed annually by mortgage brokers. These reports contain a certificate that must be completed by industry accounting professionals attesting that their review met proficiency standards. The details of these reports are intended to provide the MSC with a compilation of their findings, including instances where requirements of *The Real Estate Brokers Act* or *The Mortgage Brokers Act* and their respective regulations were not met.

The internal structured compliance program is a further test procedure that consists of field audits and follow-up field audit visits completed by MSC's compliance auditors to address situations where additional reviews are required.

During 2013/14, staff reviewed 457 reports filed by registered real estate and mortgage

brokers as well as 17 brokers that filed final close-out reports. There were no suspensions this past year for any broker's failure to file his or her report within the prescribed time periods. However, numerous reprimands and warnings were 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 68 formalized written complaints received during 2013/14. There was a carryover of complaints that had been filed with the department from previous years that are still the subject of ongoing investigation. This, coupled with the complaints received over the course of this past year, has placed the number of investigations at various stages of completion within the investigative process at a higher level than normal. This matter will be addressed in the 2014/15 fiscal year.

Of the complaints where an investigation has been finalized, the results are as follows:

- » 10 complaints were dealt with by not having to carry out an extensive investigation or were resolved with the assistance or intervention of MSC staff
- » six complaints resulted in some form of warning or reprimand action being taken against a registrant
- » two complaints resulted in other action (MSC staff discussion with the broker or salesperson will sometimes result in resolution of a complaint)

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 MSC and MREA on real estate issues. The council consists of 10 members representing various stakeholders, with the Registrar acting as the MSC representative.

The council met formally on two occasions throughout 2013/14 as part of the council's commitment to meet at least once annually (and more often if necessary). The main focus for this past year was rewriting and modernizing *The Real Estate Brokers Act*. The act will be renamed as *The Real Estate Services Act*.

Trust accounts

Interest earned on brokers' trust accounts

The MSC receives interest earned on the balances held in brokers' trust accounts from various financial institutions. As established by the regulations under *The Real Estate Brokers Act*, the Real Estate Advisory Committee recommends projects to be funded. Funds that are not designated for projects are forwarded to the Government of Manitoba by March 31 of each year.

The results related to 2013/14 are as follows: (all figures in \$/thousands)

Interest earned:	190
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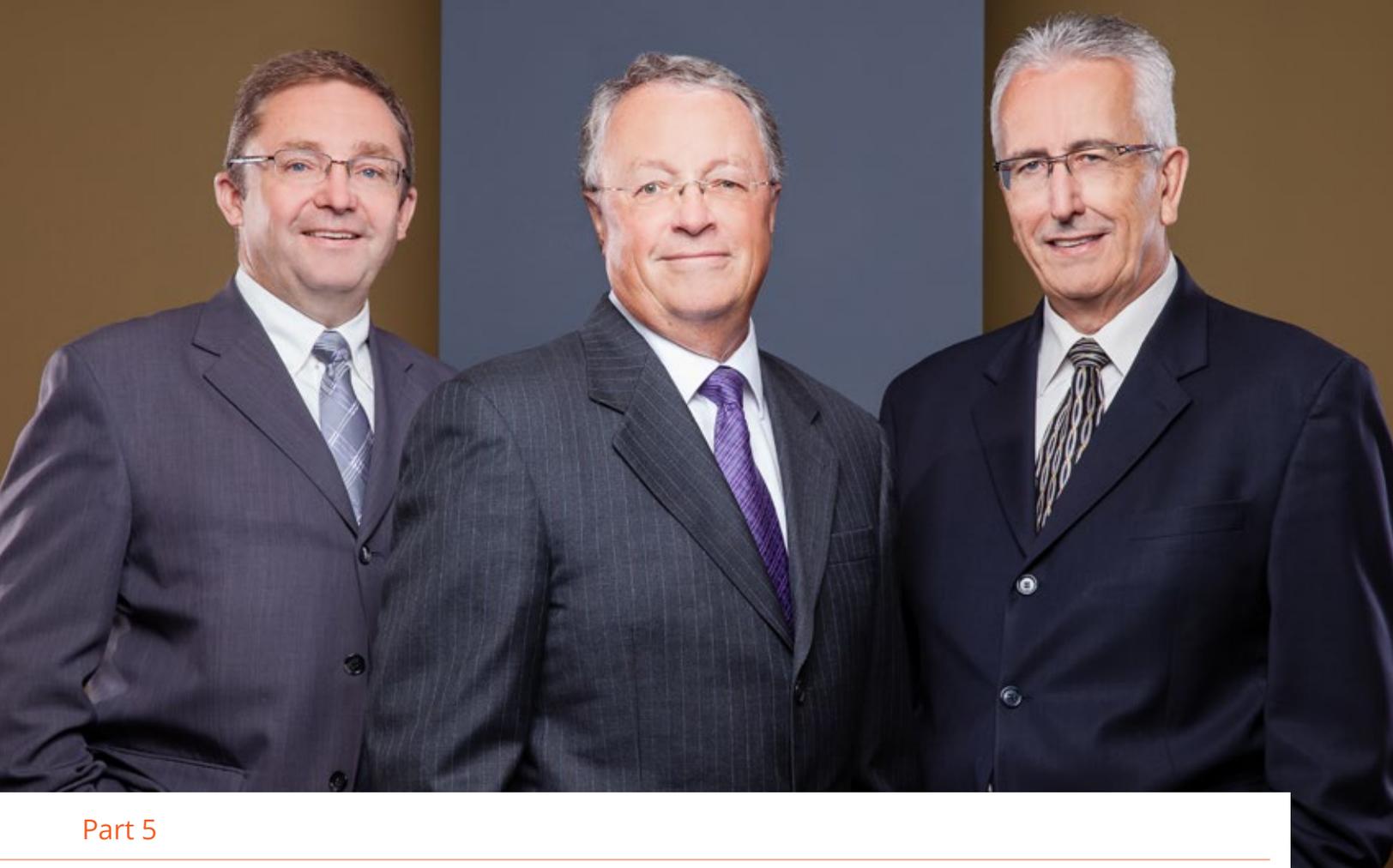
<i>Disbursement upon application Habitat for Humanity</i>	28
<i>Salesperson education licensing course (module 4)</i>	42
<i>Online salesperson education licensing course (modules 1, 2 and 3)</i>	27
<i>New Manitoba broker education licensing course</i>	93

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 two years, into the MSC for retention in a consolidated trust account. Trust monies received by the MSC are held under trust conditions pending receipt of a claim by the rightful owner. This account maintains a stipulated annual reserve balance at the fiscal year end, with all monies in excess being paid to the Government of Manitoba.

The results related to 2013/14 are as follows: (all figures in \$/thousands)

<i>Balance forward at April 1/13</i>	25
<i>Received during the fiscal year</i>	1
<i>Subtotal</i>	26
<i>Disbursement to the Minister of Finance</i>	1
<i>Residual (reserve) balance</i>	25



Part 5

FINANCIAL INSTITUTIONS REGULATION BRANCH

The Financial Institutions Regulation Branch 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, regulating insurers established in Manitoba and managing consumer and policyholder complaints with respect to insurers.

Additionally, 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 FIRB's research is done in cooperation with the Canadian Council of Insurance Regulators and trade associations representing the insurance industry locally and nationally.

In 2013/14, five insurers ceased operations in Manitoba. As of March 31, 2014, there were 230 insurers licensed in Manitoba including 183 federally regulated and 47 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. As of March 31, 2014, there were four special insurance broker licences; 679 accident and baggage and miscellaneous licences; and 240 hail agent and adjuster licences.

For a six month period ending March 31, 2014, FIRB opened 58 compliant files, closed 68 files and still had five complaints in process.

Insurance Council of Manitoba

In 1992, the Insurance Council of Manitoba (ICM) was created and operates under delegated authority from the Superintendent of Insurance to deal with agents, brokers and adjusters. ICM's is responsible for issuing or refusing a licence, attaching limitations or conditions to a licence, investigating complaints, cancelling or suspending a licence and fining or assessing costs. In addition, ICM may make rules for its own procedure; may prescribe educational or 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.

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

During 2013/14, ICM administered 669 examinations for insurance agent, broker and adjuster licences. The pass rate was 65 per cent, or 433 applicants.

ICM issued 12,363 agent, broker and adjusters licences in the year throughout 2013/14.

During the fiscal year, ICM opened 86 new complaint files against agents, brokers and adjusters, closed 99 files and had 21 not yet resolved as of March 31, 2014. There were 17 closed files presented to council for a decision. One council decision was appealed.

Trust and loan companies

As set out in Part XXIV of *The Corporations Act*, FIRB is responsible for issuing business authorizations to all trust and loan companies operating in Manitoba. In 2013/14, there were 52 trust and loan corporations authorized to operate in Manitoba, a reduction of two from the previous year.

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

The credit union sector

FIRB administers *The Credit Unions and Caisses Populaires Act*, and under this legislation oversees compliance and ensure the public interest is protected. FIRB is also responsible for reviewing policy matters and legislation, as well as providing direct oversight to the Credit Union Central of Manitoba (CUCM) and the Deposit Guarantee Corporation of Manitoba (DGCM).

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

DGCM guarantees the deposits of credit unions and caisses populaires (CUCP) and promotes the development of sound financial practices to protect against financial loss. DGCM is the prime regulator of the CUCP systems, including monitoring the financial health of the system, inspecting loans and taking remedial action. DGCM administers approximately one per cent 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. FIRB also seeks input from other provincial regulators of credit unions to ensure consistency throughout Canada. Recent discussions have included 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.

As of March 31, 2014, the CUCP sector included 37 credit unions and one caisse populaire, with combined assets of \$24.2 billion, member deposits of \$22.5 billion and members' equity of \$1.5 billion.

In 2013, the Registrar approved and issued eight receipts for securities offering statements.

The cooperatives sector

FIRB administers *The Cooperatives Act*, which provides a framework for cooperatives and cooperative members operating in Manitoba. Under the act, FIRB provides assistance to persons incorporating a cooperative, produces 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 recommended legislative changes. In 2014, FIRB will recommend amendments to *The Cooperative Act* regulation to improve the appeal process when dealing with the termination of membership for housing cooperatives.

As of March 31, 2014, there were 363 cooperatives with over 442,000 active members operating in Manitoba. Cooperatives represent many sectors of the economy, with the two largest categories being housing cooperatives (59) and consumer cooperatives (58).

In 2013/14, there were six new cooperatives incorporated and six cooperatives dissolved.

The Registrar approved one securities offering document.

INFORMATION TECHNOLOGY



As of March 31, 2014, the MFSA had the following internal systems in place:

- » Manitoba Securities Commission Information System 2.0 (MSCIS 2.0)
- » Real Estate Online Registration System, a system that gives registrants the ability to register online and make payments via credit card
- » CATS database for entering insurance agents, companies and adjusters
- » ISM database for all cooperatives and credit unions

The MFSA uses Microsoft 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 MFSA uses SAP with the Department of Finance.

As well, the MSC's Securities Division uses and interfaces with the following national CSA systems:

- » System for Electronic Data Analysis and Retrieval
- » National Cease Trade Order database
- » System for Electronic Disclosure by Insiders
- » National Registration Database
- » Disciplined Persons List

These systems allow the MSC to receive, store and access pertinent information and documentation filed under *The Securities Act*, *The Commodity Futures Act*, *The Real Estate Brokers Act* and *The Mortgage Brokers Act*. Maintenance and development of these systems ensures that daily operations run effectively and efficiently.

The Securities Division also participates in the maintenance of the SEDAR Regulatory Fee Guide and the CSA SharePoint staff website. The SEDAR Regulatory Fee Guide is a web-based application that identifies the relevant regulatory filing fees for SEDAR filers. The CSA SharePoint staff website allows CSA members and staff to share information privately, including access to committee work and exemptive relief granted.

The MFSA has a standing IT committee that evaluates and prioritizes the agency's information systems requirements. The MFSA uses Request Tracker to track the various changes that are requested and made to MSCIS 2.0.

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 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 2013/14.



Information required (per section 18 of the act) 2013 / 2014

<p><i>Subsection 18(2)(a)</i> The number of disclosures received, and the number acted on and not acted on.</p>	<p>NIL</p>
<p><i>Subsection 18(2)(b)</i> The number of investigations commenced as a result of a disclosure.</p>	<p>NIL</p>
<p><i>Subsection 18(2)(c)</i> 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.</p>	<p>NIL</p>

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, 2014. 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 MSC was merged with FIRB to form the new agency. The MSC and FIRB now operate as divisions of the MFSA.

Operation results

Net income

Net income for the year ended March 31, 2014 was \$2.8 million, a decrease over the prior year by \$88,000. Revenues of \$18.1 million exceeded budget by \$2.6 million.

Expenses of \$5 million came in under budget by \$890,000. The net result was net income exceeded budgeted net loss of (702,000) by \$3.5 million.

Revenue

The MSC exceeded its revenue targets by \$2.6 million or 17% because of increased market activity. This year's revenue totalled \$18.1 million, as compared to last year's total of \$16.2 million. See the table below for details.

Revenue (000's)	2014	% of total	2013	% of total	Increase/Decrease
Corporate finance fees	\$10,277	57%	\$9,310	57%	10%
Registration fees	\$5,451	30%	\$5,314	33%	3%
Application filing fees	\$121	1%	\$167	1%	(38)%
Real estate fees	\$508	3%	\$472	3%	1%
Investment income	\$161	1%	\$131	1%	23%
Miscellaneous	\$20	-	\$2	-	900%
FIRB fees	\$1,581	8%	\$795*	5%	99%
	\$18,119	100%	\$16,191	100%	12%

Corporate finance fees and registration fees accounted for 87% of the agency's 2014 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 advisers, dealers and representatives.

FIRB fees compare a full year in 2014 to 6 months in 2013. The fees consist of insurance fees, co-op regulation fees and trust and loan fees.

Expenses

Overall, total expenses for fiscal year 2014 were \$5 million, an 11% increase over fiscal year 2013 (\$4.5 million).

Total expenses were 18% below budget.

Variances in salaries and benefits and operating expenses are explained in the table on page 28.

Salaries and benefits

Overall, salaries and benefits increased by 20% or \$619,000 over the previous year. For the fiscal year ending March 31, 2014, salaries and benefits were 12% below budget due to 1.6 vacancies and the impact of the Voluntary Reduced Work Week program.

*Based on 6 months of revenues

Expenses (000's)	2014	% of total	2013	% of total	Increase/Decrease
Salaries and Benefits	\$3,739	75%	\$3,120	69%	20%
Operating Expenses*	\$1,266	25%	\$1,367	31%	(8)%
Amortization	\$7	-	\$9	-	(29)%
	\$5,012	100%	\$4,496	100%	11%

* For details of expenses refer to the Statement of Operations and Accumulated Surplus in the audited financial statements.

Operating Expenses

Operating expenses for the fiscal year were 8% lower than last year and were under budget by \$427,000 or 34% primarily due to:

- » Contract services under budget by \$82,000 due to lower than expected website development costs.
- » CSA initiative spending under budget by \$16,000 due to lower than expected expenditures for national initiatives.
- » Travel under budget by \$35,000 due to lower than expected number of trips and timing of meetings.
- » Premises under budget by \$88,000 due to the delay in acquiring additional space for MSC and the moving of FIRB to 400 St. Mary Avenue.
- » Office materials and supplies under budget by \$16,000 due to lower than expected printing costs.
- » Education initiatives under budget by \$89,000 due to timing of some initiatives.
- » Staff development and professional dues under budget by \$9,000 due to lower than expected staff development.
- » Professional services under budget by \$76,000 due to lower than expected consulting costs.
- » Research resources under budget by \$13,000 due to lower than expected library resource costs.

Capital expenditures

Capital expenditures for the year were \$11,000, which consisted of office furniture for two new employees and Adobe Acrobat software for several employees. Capital expenditures are financed by funds provided through operations.

Liabilities

Accrued liabilities were \$89,000 for the year ending March 31, 2014. This balance represents accrued vendor obligations. Accrued vacation and severance liabilities were \$334,000 and \$451,000 respectively as at March 31, 2014 (March 31, 2013 - \$301,000 and \$403,000). Accrued salaries and benefits were \$87,000 for the year ending March 31, 2014 compared to \$65,000 at March 31, 2013. 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 \$10.3 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 \$18.6 million as of March 31, 2014 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 used to repay employee vacation and severance balances which existed at the time the MSC became a Special Operating Agency.

As at March 31, 2014 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 2014/15

For the fiscal year ending March 31, 2015, the agency has budgeted revenue of \$15.5 million and budgeted expenses of \$6.1 million. Transfers to the Province of Manitoba for the fiscal year 2014/15 are set at \$11.8 million.

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

MANITOBA FINANCIAL SERVICES AGENCY

Financial statements

For the year ended March 31, 2014

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THE MANITOBA
SECURITIES
COMMISSION

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,

Donald G. Murray
Chair and CEO

Marlene Nemes, CMA
Controller

June 5, 2014



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Independent Auditor's Report

To the Special Operating Agency 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, 2014, and the statements of operations and accumulated surplus, change in net financial assets and cash flows for the year then ended, 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, 2014, and the results of its operations and its cash flows for the year then ended in accordance with Public Sector Accounting Standards.

BDO Canada LLP

Chartered Accountants

Winnipeg, Manitoba

June 5, 2014

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Manitoba Financial Services Agency

Statement of financial position (in thousands)

March 31	2014 actual	2013 actual
Financial assets		
Cash and cash equivalents (Note 5)	\$ 18,639	\$ 15,518
Accounts receivable (Note 6)	77	233
Portfolio investments	1,019	1,019
	19,735	16,770
Liabilities		
Accounts payable and accrued liabilities	89	46
Accrued vacation entitlements	334	301
Accrued salaries and benefits	87	65
Employee future benefits (Note 7)	451	403
Deferred revenue	15	-
	976	815
Net financial assets	18,759	15,955
Non-financial assets		
Tangible capital assets (Note 8)	27	23
Prepaid expenses	51	52
	78	75
Accumulated surplus	\$ 18,837	\$ 16,030

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	2014 revised budget	2014 actual	2013 actual
Revenue			
Fees	\$ 15,421	\$ 17,938	\$ 16,058
Interest	79	161	131
Miscellaneous	-	20	2
	15,500	18,119	16,191
Expenses			
Amortization – capital assets	9	7	9
CSA initiatives*	85	69	66
Contract services	376	294	308
Education / Information initiatives	197	108	88
Miscellaneous	29	22	17
Office materials and supplies	123	107	65
Premises	428	340	307
Professional services	172	96	290
Research resources	55	42	49
Salaries and benefits	4,200	3,739	3,120
Staff development and professional dues	37	28	29
Telecommunications	73	77	66
Travel	118	83	82
	5,902	5,012	4,496
Annual operating surplus	9,598	13,107	11,695
Transfer to the Province of Manitoba (Note 11)	10,300	10,300	8,800
Annual surplus (deficit)	(702)	2,807	2,895
Accumulated surplus, beginning of year	16,030	16,030	13,135
Accumulated surplus, end of year	\$ 15,328	\$ 18,837	\$ 16,030

*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	2014 revised budget		2014 actual		2013 actual
Annual surplus (deficit)	\$	(702)	\$	2,807	\$ 2,895
Tangible capital assets					
Acquisition of tangible capital assets		-		(11)	(4)
Amortization of tangible capital assets		9		7	9
Net change in tangible capital assets		9		(4)	5
Other non-financial assets					
Increase (decrease) in prepaid expense		-		1	(5)
Net acquisition of other non-financial assets		-		1	(5)
Increase (decrease) in net financial assets		(693)		2,804	2,895
Net financial assets, beginning of year		15,955		15,955	13,060
Net financial assets, end of year	\$	15,262	\$	18,759	\$ 15,955

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	2014 actual	2013 actual
Cash provided by (applied to):		
Cash flows from operating activities		
Annual surplus	\$ 2,807	\$ 2,895
Amortization of tangible capital assets	7	9
	2,814	2,904
Changes in non cash working capital balances		
Accounts receivable	157	(205)
Prepaid expenses	1	(5)
Accounts payable and accrued liabilities	42	(2)
Accrued vacation entitlements	33	65
Accrued salaries and benefits	22	15
Deferred revenue	15	-
Employee future benefits	48	124
	3,132	2,896
Cash flows from capital activities		
Acquisition of capital assets	(11)	(4)
	3,121	2,892
Increase in cash and cash equivalents	3,121	2,892
Cash and cash equivalents, beginning of year	15,518	12,626
Cash and cash equivalents, end of year	\$ 18,639	\$ 15,518
Supplementary information:		
Interest received	\$ 159	\$ 128

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

For the year ended March 31, 2014

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.

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.

For the year ended March 31, 2014

3. Significant accounting policies *(continued)*

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:

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

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.

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.

For the year ended March 31, 2014

4. Financial instruments and financial risk management (continued)

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:

	2014	2013
Cash and cash equivalents	\$ 18,639	\$ 15,518
Accounts receivable	77	233
Portfolio investments	1,019	1,019
	19,735	16,770

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.

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, 2014 (nil in 2013).

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.

For the year ended March 31, 2014

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.

6. Accounts receivable

	2014	2013
Accrued interest	\$ 19	\$ 21
FIRB severance and vacation liability receivable	-	161
Trade	58	51
	\$ 77	\$ 233

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 2014 was \$200 (\$172 in 2013). 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, 2014 is \$451 (\$403 in 2013). The actuarial loss of \$32 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, 2014

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, 2014 present value of the accrued severance benefit obligation were:

Annual rate of return:

Inflation component	2.00 %
Real rate of return	4.00 %
	6.00 %

Assumed salary increase rate:

Annual productivity increase	1.00 %
Annual general salary increase	2.75 %
	3.75 %

The severance liability at March 31 includes the following components:

	2014	2013
Accrued benefit liability	\$ 483	\$ 335
Add: FIRB accrued benefit liability	-	103
Less: unamortized actuarial (losses)	(32)	(35)
Severance benefit liability	\$ 451	\$ 403

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

	2014	2013
Interest on obligation	\$ 29	\$ 21
Current period benefit cost	17	(2)
Amortization of actuarial gain over EARSL	2	2
Total expense related to severance benefit	\$ 48	\$ 21

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.

For the year ended March 31, 2014

8. Tangible Capital Assets

2014	Opening balance	Additions	Disposals	Closing balance
Cost				
Office equipment	\$ 42	\$ -	\$ -	\$ 42
Furniture and fixtures	153	7	-	160
Leasehold improvements	41	-	-	41
Computer hardware	142	1	-	143
Computer software	863	3	-	866
	1,241	11	-	1,252
Accumulated Amortization				
Office equipment	40	-	-	40
Furniture and fixtures	152	1	-	153
Leasehold improvements	23	4	-	27
Computer hardware	140	1	-	141
Computer software	863	1	-	864
	1,218	7	-	1,225
Net book value	\$ 23	\$ 4	\$ -	\$ 27
<hr/>				
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

For the year ended March 31, 2014

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 2013) of its portfolio investments as designated assets for the following purposes:

The Agency maintains separate deposits of \$750 (\$750 in 2013) 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 2013) 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. Occupancy charges for the year ended March 31, 2014 were \$329, which includes lease charges for FIRB at 405 Broadway. Minimum annual lease payments total \$279 per year for each of the next five years.

The Agency has entered into new lease agreements 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. Lease payments will be finalized in the new fiscal year.

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 \$10,300 (\$8,800 in 2013). The Treasury Board has approved payments of \$10,300 for the year ended March 31, 2014.

12. Contingency

The Commission has been named as defendant in one complaint. At the time of preparation of these financial statements, the outcome of this complaint was undeterminable. The cost of a future settlement, if any, will be reflected as an expense in the year paid.

13. 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, 2014 (nil in 2013).

The Agency incurred no interest charges during the year (nil in 2013).



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Auditor's Comments on Supplementary Financial Information

To the Special Operating Agency Financing Authority,

We have audited the financial statements of March 31, 2014 which comprise the statement of financial position as at March 31, 2014 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 5, 2014 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 LLP

Chartered Accountants

Winnipeg, Manitoba
June 5, 2014

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Manitoba Financial Services Agency

Schedule of operating income, The Manitoba Securities Commission *(in thousands)*

For the year ended March 31	2014 revised budget	2014 actual	2013 actual
Revenue			
Fees	\$ 13,768	\$ 16,356	\$ 15,263
Interest	79	161	131
Miscellaneous	-	2	2
	13,847	16,519	15,396
Expenses			
Amortization – capital assets	9	7	9
CSA initiatives*	85	69	66
Contract services	342	265	288
Education / Information initiatives	197	108	88
Miscellaneous	26	21	16
Office materials and supplies	110	100	59
Premises	361	271	273
Professional membership and dues	14	13	-
Professional services	122	94	290
Research resources	54	40	47
Salaries and benefits	3,359	3,059	2,776
Staff development and professional dues	20	12	28
Telecommunications	62	66	61
Travel	105	80	81
	4,866	4,205	4,082
Annual operating surplus	\$ 8,981	\$ 12,314	\$ 11,314

*Canadian Securities Administrators

Manitoba Financial Services Agency

Schedule of operating income, Financial Institutions Regulation Branch *(in thousands)*

For the period ended March 31	2014 revised budget <i>(12 months)</i>	2014 actual <i>(12 months)</i>	2013 actual <i>(6 months)</i>
Revenue			
Fees	\$ 1,653	\$ 1,600	\$ 795
Expenses			
Contract services	34	29	20
Miscellaneous	3	1	1
Office materials and supplies	13	7	6
Premises	67	69	34
Professional services	50	2	-
Research resources	1	2	2
Salaries and benefits	841	680	344
Staff development and professional dues	3	3	1
Telecommunications	11	11	5
Travel	13	3	1
	1,036	807	414
Annual operating surplus	\$ 617	\$ 793	\$ 381



THE MANITOBA
SECURITIES
COMMISSION



FINANCIAL
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