

# 2004 Annual Report

Annual



THE MANITOBA  
SECURITIES  
COMMISSION



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## MISSION

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

## MANDATE

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



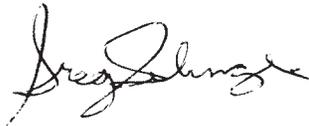
## LETTERS OF TRANSMITTAL

The Honourable John Harvard  
Lieutenant Governor of Manitoba  
Room 235, Legislative Building  
Winnipeg, Manitoba  
R3C 0V8

**May it Please Your Honour:**

I have the privilege of presenting for the information of Your Honour the Annual Report of The Manitoba Securities Commission for the fiscal year ended March 31, 2004.

Respectfully submitted,



**Honourable Gregory Selinger**  
Minister



Honourable Gregory Selinger  
Minister of Finance  
Room 103 Legislative Building  
Winnipeg, Manitoba  
R3C 0V8

**Dear Mr. Selinger:**

I have the honour to submit for your consideration the Annual Report of The Manitoba Securities Commission for the fiscal year ended March 31, 2004.

Respectfully submitted,



**Donald G. Murray**  
Chair  
The Manitoba Securities Commission



### National Initiatives

Activities on the national scene provided the backdrop to The Manitoba Securities Commission's day to day activities in the 2003/04 fiscal year as simultaneous initiatives to reform securities regulation came to the fore.

The work of the provincial/territorial ministers responsible for securities regulation has gone ahead and plans have been developed for the implementation of a passport system together with the eventual adoption of uniform or highly harmonized securities legislation across the country. At the same time, the Ministers' Committee is also reviewing the possibility of the eventual creation of a joint provincially constituted regulator.

The report of the Wiseperson's Committee, published December 2003, resulted in a significant amount of discussion on the possibility of a single national regulator created by the provinces, the federal government or a combination of the two.

In the meantime, the Canadian Securities Administrators moved ahead with its agenda of streamlining and harmonizing the regulatory system while continuing to deal with ongoing and new market issues requiring resolution.

The Uniform Securities Legislation was published in December 2003 and comments were still being received and reviewed at year-end. National electronic systems designed to improve disclosure and streamline the regulatory framework were introduced or fine tuned during the fiscal year including the National Registration Database, System for Electronic Disclosure by Insiders and the Cease Trade Orders Database. The Commission also co-operated in the continued refinement of the Mutual Reliance Review System, the ongoing development of the national registration system and new rules for auditor oversight, financial disclosure and corporate governance to name a few. In addition, the Commission, while implementing its own Continuous Disclosure Review Program, continued to co-operate in the development of a similar national program to ensure that all issuers across the country are subject to consistent standards of review.

There were significant improvements achieved in the Canadian regulatory system in 2003/04. The Commission looks forward to the greater improvements in structure and process that can be achieved through the implementation of the passport system being proposed by the Ministers' Committee in tandem with the adoption of uniform rules.



## Local Initiatives

The Commission maintained its existing programs and continued to improve on them during 2003/04. In addition, new programs and initiatives were developed including:

- a new program, for full implementation in the next fiscal year, was developed for the systematic review of insider trading activity;
- the Compliance Officers Forum was instituted, allowing Commission staff to regularly liaise with those responsible for monitoring compliance at their firm;
- a new interactive Internet educational tool was developed as a part of the Commission's participation at the Wedding Show with the intention of introducing young couples to the capital markets. The public response was significant and the Commission is developing expanded versions for implementation in the next fiscal year; and
- the real estate section introduced credit card registration as a customer service and completed the bulk of the work for a new electronic registration system for implementation in the next fiscal year.

As of March 31, 2004, The Commission completed the second cycle of operation of its Balanced Scorecard performance measurement system and was successful in meeting the majority of its stated goals. A further report is set out in Part IV.

## Real Estate

The real estate division performs a similar role to the securities division in the regulation of the real estate industry, performing the functions of registration, compliance review, investigation and enforcement and policy development. The Registrar and his staff also continue to partner with the industry in the development of industry association rules, policies, educational courses and new initiatives.



Real estate division staff continues to cooperate in the development and presentation of the Mandatory Continuing Education program for industry practitioners. The program has been a major success in that it not only assists industry practitioners in maintaining and improving their skills and knowledge but also serves to enhance the public's view of the professionalism of the industry.

The Registrar worked with the Real Estate Council to draft significant proposed amendments to The Real Estate Brokers Act. One draft was completed during 2003/04 and will be reviewed and finalized for consideration by the provincial government in the next fiscal year.

## Sustainable Development

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

Operating in an office environment, the Commission procures a variety of recycled items including paper products and various other office materials. The Commission sets goals and objectives towards sustainable development procurement and financial management. Through training and education, the Commission intends to continue to develop a sustainable development process that is continuous and balanced.

## Acknowledgements

As in past reports, it is important to recognize the contributions to the Commission's work made by the members of the three advisory groups – Securities Advisory Committee, Real Estate Advisory Council and Real Estate Advisory Committee – who volunteer their time to both divisions of the operation. Their work provides a significant benefit to Commission staff and the industry and public that it serves.

Ken Kristjanson, one of our Commissioners, retired during the year. Kristjanson was a long-standing member of the investment community in Manitoba. He brought a wealth of insight and practical knowledge to the deliberations of the Commission and his work is greatly appreciated. In addition, Donald Smith was appointed as a new Commissioner in 2003/04. A professional Accountant with a high level of experience in the securities industry and general business, Smith is a welcome addition to The Manitoba Securities Commission.



As always, I must recognize the great work of Commission staff. Our people are our only asset and their excellent work allows the Commission to fulfill its mandate. Their efforts within the Commission can never be adequately acknowledged. In addition to their joint contribution to protecting the public interest within the scope of the Commission they must also be recognized for their efforts outside of the office in various areas of community service and charitable activities. They are a credit to the Commission and the community at large.

A handwritten signature in black ink, appearing to read 'D. Murray', with a large, stylized flourish at the end.

**Donald G. Murray**  
Chair  
The Manitoba Securities Commission



## PART I – COMMISSION OVERVIEW

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

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

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

### Administrative Arm

The administrative arm of the Commission is comprised of two operating divisions, the securities division and the real estate division consisting of 33 full-time staff.

### Securities Division

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

#### Investigations

The investigation section is comprised of three investigators and one administrative support person. This section receives inquiries and complaints, conducts investigations and assists legal staff in the preparation of matters for hearings. Members of the investigation section report to the Director of Legal, Enforcement and Registrations.

#### Legal

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



## Registration

The registration section is made up of the Registration Officer and three full-time registration clerks. During 2003/04 there were also two additional term positions attached to the section assisting in the transition to the National Registration Database. This section is responsible for the registration of firms and individuals operating in the investment markets in Manitoba. The members of the registration section report to the Director of Legal, Enforcement and Registrations.

## Compliance

The Compliance Officer is an auditor who supports the registration function by conducting compliance audits of the industry. This position also assists in the investigation and legal functions of the Commission by analyzing financial and trading information arising from investigations or from claims made by investors for compensation for financial loss. This staff member reports to the Director of Legal, Enforcement and Registrations.

## Corporate Finance and Continuous Disclosure

This section includes the senior analyst and analyst (both of which are professional accountants), an administrative assistant, corporate finance clerk and continuous disclosure clerk. This section reviews offering documents and applications as well as required continuous corporate disclosure and takes part in policy development and presentations to the Commission meetings. Staff in this section report to the Director of Corporate Finance and Chief Administrative Officer, also a professional accountant.

## Finance and Administration

The finance and administration section is comprised of the controller (a professional accountant), an accounting clerk, a web developer/analyst, a receptionist and an administrative clerk. In consultation with management, this section prepares the Commission's budgets and financial reports, and develops and implements office and personnel policies for both the securities and real estate divisions. Staff in this section report to the Director of Corporate Finance and Chief Administrative Officer.

## Education/Information

The Education/Information Officer is the sole staff member in this section. This individual, who has a degree in education, is responsible for the development and implementation of educational programs for the general public and industry. The Education/Information Officer reports to the Chair.

## Additional Staff

An Administrative Assistant, who reports directly to the Chair, is the other full-time staff position.



## Real Estate Division

The real estate division is made up of the Registrar, Deputy Registrar, Auditor/Investigator and two administrative support positions. The real estate division is responsible for the administration of *The Real Estate Brokers Act* and *The Mortgage Dealers Act* and, in general, the regulation of the real estate industry in the Province of Manitoba. Employees in this section report to the Registrar.

## Management

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

## Commission Members

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

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

During 2003/04, the Commission Members were as follows:

### Donald G. Murray (Chair)

Appointed to the Commission in 1993, Murray spent 20 years in the private practice of law. In 1994, he was appointed Vice Chair and became Chair in 1997. As Chair and CEO, Murray represents the Commission as the Manitoba representative at the meetings of the Canadian Securities Administrators and North American Securities Administrators Association.

### W. John A. Bulman C.M.

Appointed to the Commission in 1994, Bulman spent most of his business career in the printing industry. He is an active community leader especially with health and education groups. He has been Chancellor Emeritus of the University of Winnipeg and a council member of the Royal College of Physicians and Surgeons. Bulman was appointed to the Order of Canada in 1999.



### Ken S. Kristjanson

Appointed to the Commission in March 1999, Kristjanson has 40 years experience in the financial services industry, the last 30 years being spent as a full-service broker. He is retired from Richardson Greenshields, where he held the position of Vice-President, and is Vice-Chairman of the Canada-Iceland Foundation.

### Lynne M. McCarthy

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

### Robert G. McEwen

Appointed to the Commission in 1992, McEwen is a retired chartered accountant and was a Deputy Director of the Commission.

### Rocky L. Pollack, Q.C

Appointed to the Commission in 2002, Pollack is a partner in the Winnipeg law firm of Myers Weinberg where he practices criminal trial and appellate law as well as education and professional governance law. He is a Clinical Criminal Law sessional lecturer at Robson Hall and past president of the Manitoba Bar Association. Pollack is a board member of The Jewish Foundation of Manitoba.

### Kathleen E. Hughes

Reappointed to the Commission in 2002, Hughes worked for Department of Justice, Court Services for 20 years and was the former Legal Information Services Coordinator for Manitoba Law Libraries Inc. She was a member of The Manitoba Securities Commission from 1975 to 1981.

### Donald H. Smith

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



## Advisory Groups

### Securities Advisory Committee

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

- Greg Bieber, *Richardson Partners Financial Limited/Investment Dealers Association*
- Tony Catanese, *PricewaterhouseCoopers*
- Dave Cheop, *Investors Group*
- Ron Coke, *Taylor McCaffrey*
- Patrick Cooney, *Jory Capital Inc.*
- Ken Cooper, *formerly Winnipeg Stock Exchange*
- Alan Dunnett, *RBC Investments/Investment Dealers Association*
- Michael Guttormson, *Aikins MacAuley & Thorvaldson*
- Bruce Jack, *Deloitte & Touche*
- Tom Kormylo, *Pitblado*
- Linda Vincent, *Winnipeg Commodity Exchange*
- Tom Rice, *Rice Financial Group Inc. (Alternate)*
- Bruce Thompson, *Thompson Dorfman Sweatman (Alternate)*



## Real Estate Advisory Council

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

- Brad Walker (Chair), *Gill & Schmall Agencies, Neepawa*
- Brian Baker, *Royal LePage Martin Liberty Realty*
- Bill Baluk, *The Manitoba Securities Commission*
- Brian Collie, *Manitoba Real Estate Association*
- Claude Davis, *Royal LePage Dynamic Real Estate*
- Roy Fondse, Salesperson, *Re/Max Real Estate Inc.*
- Guy Hobman, *Manitoba Home Builders Association*
- Cliff King, *Century 21 Bachman & Associates*
- Robert F. Shaer, *Professional Property Managers' Association*
- Robert L. Tyler, *Manitoba Bar Association*

## 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 the Commission receives from real estate brokers' trust accounts.

- John Froese, (Chair), *Royal LePage Prime Real Estate*
- Ernie Friesen, *Re/Max Real Estate Inc.*
- Florence M. Zawadsky, *Royal LePage Martin Liberty Realty, Brandon*
- Ute Vann, *Royal LePage Dynamic Real Estate*
- Robert Giesbrecht, *Pitblado (member of the public)*



### Overview

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

- Registration;
- Corporate Finance and Continuous Disclosure;
- Private Placement and Exempt Offerings;
- Exemptions and Orders;
- Legislation and Policy Development;
- Investigation and Enforcement; and
- Education and Information.

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

### Registration

The Registration section reviews and determines whether it is in the public interest to register a person or company to trade or advise in the trading of securities or commodity exchange contracts. Applicants for registration must meet educational requirements, individuals must be supervised and companies must meet capital requirements.

New and renewed registrations, together with registration changes from mergers and acquisitions, have resulted in continued significant activity. During the period there were 12,426 registrations issued under *The Securities Act*.

In December 2001, the Commission began an expedited renewal process that eliminated the requirement to file renewal applications where there were no changes to a registration. With the conversion to the National Registration Database, the Commission further improved the renewal process by relying on the payment of renewal fees as proof of a firm or individual's intention to renew registration. These additional improvements in the renewal process were widely supported by the industry.



## Compliance Examination

The Compliance officer performs ongoing reviews of the operations of persons and companies registered with the Commission to ensure they are conducting business in a manner that does not pose a risk to the public. This is done through the review of financial reports submitted by registrants and by performing compliance examinations. Compliance reviews are an effective way of identifying risks before there is a loss to investors. During the fiscal period four examinations were performed.

## Compliance Officers Forum

Identifying and preventing problems within a firm before there is a loss is the most effective way to protect the public. The Commission established the Compliance Officers Forum to provide a way for compliance officers of registered firms to meet and discuss matters of common interest in an informal and informative atmosphere.

Meetings were held throughout 2003/04.

## National Registration Database

The National Registration Database became operational on March 31, 2003. Most of the paper-based registration system was changed to a secure electronic system accessible on the Internet. This permits registered firms and individuals to apply for registration to one or more jurisdiction by way of a single electronic application submitted from the firm. A significant amount of time was spent in 2003/04 educating industry on the use of NRD and dealing with transitional issues.

Although there are transitional issues that continue to be addressed by both the Commission and industry, NRD has led to substantial improvements in the processing of most day-to-day registration activities.

## Registrations under The Commodity Futures Act

The Commission registers all dealers, advisors and salespeople who trade on exchanges in commodity futures contracts and options in Manitoba. During 2003/04 there were 2,383 registrations under The Commodity Futures Act.



## Corporate Finance and Continuous Disclosure

The Corporate Finance section reviews prospectus filings and rights offerings to ensure that they contain full, true and plain disclosure of all material facts that are necessary to make an informed investment decision. Multijurisdictional offering documents are reviewed in accordance with the Mutual Reliance Review System for Prospectuses and Annual Information Forms. The MRRS system is effective and efficient in that the issuer deals only with the principal regulator and receives one receipt with respect to the offering.

Reporting issuers are required to file continuous disclosure materials such as financial statements, material change reports, proxy materials and annual information forms with the Commission. Also, insiders of reporting issuers are required to file insider trading reports with the Commission. These filings are monitored and reviewed by staff to ensure they are filed on time and materials are in the proper form and content.

### Continuous Disclosure Review Program

The Commission has implemented its own continuous disclosure review program and is participating, with other members of the CSA, in the development of a national program to ensure that all reporting issuers are subject to ongoing review, and that the reviews are performed efficiently and consistently. It is expected that the national continuous review program will be fully implemented in the near future.

This new focus on continuous disclosure filings reflects the fact that over 90 per cent of all trades take place in the secondary market and the quality and timeliness of information disclosed to capital market participants by reporting issuers is of utmost importance to the market. Commission staff still reviews prospectus offerings, but its primary focus will be on the review of continuous disclosure filings.

### Insider Trading

The CSA successfully relaunched the System for Electronic Disclosure by Insiders (SEDI). SEDI provides easy public access to insider reporting information and will allow Corporate Finance staff to effectively monitor insider reporting activity for the first time. Staff has recently commenced the review of insider reports and will continue to develop its review process in the coming year.



## National Electronic Filing Systems

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

- **SEDAR** – a System for Electronic Document Analysis and Retrieval has been in use since January 1997 and provides for the electronic filing of securities-related documents with the Commission and other CSA jurisdictions. SEDAR allows for the efficient filing of documents with all regulators simultaneously and provides for secure electronic communication between issuers and regulators. SEDAR has greatly enhanced the efficiency of the Canadian capital markets and, when combined with the MRRS process, has resulted in the Canadian capital markets being one of the most efficient in the world. In addition, its website ([www.sedar.com](http://www.sedar.com)) allows for the timely dissemination of information to the public.
- **SEDI** – the System for Electronic Disclosure by Insiders has experienced ongoing development and Manitoba continues to participate. SEDI is a national insider reporting database that was relaunched early in the 2003/04 fiscal year. The system provides ease of reporting to insiders and public access to insider trading information.
- **National CTO database** – the national Cease Trade Order database continues to be developed and maintained with the help of corporate finance staff in participation with other CSA jurisdictions. This database has proven to be highly effective and allows members of the public and industry participants easy access to information relating to CTOs issued by securities regulatory authorities in Canada.



## Policy Development

Corporate Finance was involved in the development and implementation of a number of national rules of great significance to the markets. In particular, National Instrument 51-102 Continuous Disclosure Obligations was finalized and implemented in the current year. This rule, for the first time, harmonized continuous disclosure obligations across the country and will result in greater efficiency in the marketplace. Staff also participated in the development of a number of rules aimed at restoring investor confidence in the securities markets.

## Filings Processed

	Prospectus **	Prospectus Amendments	Annual Information Forms	Rights Offerings	Take-over Bid Circulars
2000/2001	668	207	591	18	114
2001/2002	710	179	480	19	71
2002/2003	588	321	553	13	56
2003/2004	812	169	527	11	33

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

As evidenced by the above table, the level of prospectus and continuous disclosure filings remains at a high level and it is anticipated that these levels will continue, at least for the near future.

From the point of view of industry education, Corporate Finance staff, in partnership with the Securities Subsection of The Manitoba Bar, made a presentation to industry on the new continuous disclosure regime.



## Private Placement and Exempt Offerings

The Commission recognizes the benefit to the Manitoba economy and the public in providing an environment that encourages the development of business and the need of those businesses to raise capital. Where the size of the business or the amount of capital to be raised does not warrant the use of a prospectus, securities regulation provides ways to assist businesses and make new offerings of securities available to Manitobans.

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

During 2003/04, the Commission enacted a new rule for exempt offerings. This rule is in effect in all Canadian jurisdictions except Ontario and Quebec and is a positive step in the coordination of the Canadian securities regulatory system.

## Exemptions and Orders

### Exemption Applications

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

### National and Regional Applications

The Commission processes national and regional applications through the Mutual Reliance Review Systems for Exemptive Relief Applications, which allows for an application to be processed in several or all Canadian jurisdictions with a single decision document. The efficiency of the system benefits both issuers and the investing public and results in a wider range of product being offered in Manitoba.



## Manitoba Applications

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

The total number of orders issued under *The Securities Act* for fiscal 2003/04 is as follows:

	2003/2004	2002/2003	2001/2002
Exemption Orders	147	189	274
Takeover Bid Orders	24	20	36
Inside Reporting Orders	39	19	20
Financial Reporting Orders	62	50	48
Cease Trade Orders*	50	90	124
Miscellaneous Orders	65	43	39

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



## Legislation and Policy Development

The dual mandate of the Commission of investor protection and facilitating fair and efficient capital markets requires continuous monitoring and review of securities regulations. It is important to ensure that any new or revised requirements do not inadvertently create barriers to market activity in Manitoba, are unnecessarily inconsistent with other jurisdictions or create unacceptable levels of risk for investors.

Some of the projects the Commission has been involved in during 2003/04.

### Uniform Securities Act

The Commission has been actively involved in the development of a single uniform securities legislation. It is proposed that a Uniform Securities Act be enacted to further coordinate securities laws and rules throughout Canada.

### Financial Loss Claims

The Commission has the ability to order repayment to an investor for losses arising from illegal or improper conduct relating to the trading of securities, up to \$100,000 per claim. This authority, the first of its kind in Canada, provides investors with an alternative to the civil court system and is a powerful tool for investor protection.

The Commission received 30 claims from investors during 2003/04, totaling \$749,760.

### Policy

On a local basis, the Commission continues to strive for policy development to benefit investors and maintain fairness in the marketplace. Nationally, the Commission continues to work with other CSA jurisdictions on the development of a governance regime for mutual funds, a new point of sale document for mutual funds, harmonized continuous disclosure rules and an integrated disclosure system for public companies.



National policy developments take place through CSA staff committees. The Commission was represented in 2003/04 on the following CSA committees:

Capital Markets	MRRS Applications
Enforcement	MRRS for Continuous Disclosure Review
Executive Directors	MRRS for Prospectus Filings
Investor Education	Integrated Disclosure System
Takeover bids	Exchange Oversight
Financial Planning	Legislative Coordination Committee
Mutual Funds	National Registration Data Base
SEDAR Working Group	Long Form Prospectus Committee

## Rules

The Commission has the legislative authority to enact rules that have the same force and effect as regulations under the legislation. In 2003/04, most rules enacted by the Commission were national instruments representing rules implemented on a Canada wide basis. The Commission enacted 26 rules during the period.

Legislative and policy matters and rules that were published for comment or adopted by the Commission during the past year are posted on the Commission's web site ([www.msc.gov.mb.ca](http://www.msc.gov.mb.ca)).

## Winnipeg Commodity Exchange Inc.

The Winnipeg Commodity Exchange Inc. is registered as a commodity futures exchange under *The Commodity Futures Act*. It is also recognized as a self-regulatory organization under the Act.

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

Continued changes and challenges to futures markets and products have required the Exchange to explore new opportunities by developing new products and attracting new participants. The Commission has been required to respond to these challenges in order to protect and promote Manitoba's role in an active and efficient futures market.



## 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 trading activities of people not registered to trade securities in Manitoba. Complaints may also involve securities products that may or may not have been approved for trading in Manitoba.

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

In many cases, Commission 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 Dealers Association of Canada or the Mutual Fund Dealers Association for investigation and resolution.

During the fiscal year 2003/04, the number of complaints received relating to fraudulent schemes such as prime bank instruments and pension plan loans remained high. These illegal activities represent millions of dollars and continue to target all segments of the population. These fraudulent schemes continue to be a focal point in the Commission's public education initiative.

The Commission received 160 general investigation and enforcement inquiries. In addition, 101 investigation files were opened.

### The Hearing Process

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

After a complaint has been investigated a determination is made whether there is sufficient evidence to justify holding a hearing before the Commission or to conduct a prosecution in 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; and
- to decide whether trading of security should be halted.

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

Details of pending and completed Commission hearings and prosecutions are provided on the Commission's web site under the heading Investigation & Enforcement.

### Investor Alert

The Commission believes that informing investors is often the best way to avoid losses through illegal or improper trading of securities. The Commission will issue an Investor Alert in situations when necessary to warn the public about activities that may be illegal or that pose a risk to the public.

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

## Education and Information

### Education and Information Programs

The Education program at the Commission has continued to expand following the strategic plan presented in November 2003.

The goals of the Education area are:

- increase public awareness about the existence and function of the Commission;
- provide programming to meet the needs of the public and industry;



- increase strategic partnerships with industry educational organizations;
- establish ties with the media in order to disseminate information to the public in a quick and unbiased manner;
- work with other provincial regulators to increase investor knowledge on a national level; and
- keep abreast of programming by working with national and international regulators.

During the fiscal year, national and local events were organized in conjunction with the 2003 Investor Education month:

- **National**

Five segments aired on the CBC television program *Street Cents* on financial issues ranging from “What is a Mutual Fund?” to “Saving for School.” Web site content complemented the television segments. During the television season, 10 investor tips were also posted on the *Street Cents* web site.

The national “Test Your Financial I.Q.” essay contest attracted 40 Manitoba youth. Sean Donald, a high school student from Brandon, won the \$750 provincial prize.

- **Local**

Commission staff spent an evening with a local scout troop where they completed activities that entitled them to obtain their “Investing Crest.”

The Manitoba Securities Commission, together with the Investment Dealers Association, hosted a Lunch and Learn event for the general public on the importance of the “Know your Client” form.

The Commission distributed a series of five brochures to the five major banks. The banks were invited to display the information for their clients and encouraged to reorder the brochures as needed. Brochures were also distributed to libraries, churches and Manitoba schools. Approximately 10,000 brochures were distributed.

Information packages containing brochures on “The Basics of Investing”, “Choosing a Financial Adviser” and a budgeting worksheet were developed for couples about to be married. These were distributed at Welcome Wagon bridal shows.



The Commission partnered with the IDA and the MFDA on an industry breakfast. Industry participants discussed Uniform Securities Legislation, Compensation for Financial Loss, IDA Complaint Issues and the Growth of the MFDA.

Over the course of a year, the following educational activities were undertaken:

- The Commission's corporate look was refined and incorporated into all marketing/education materials.
- A database was developed with blast e-mail capability so the Commission can disseminate information to its stakeholders in a timely, cost-efficient manner.
- A data collection process for teachers in Manitoba was completed.
- A newsletter for teachers was designed and distributed. Called "Student Focus", it provides teachers with information on accessing resources for teaching financial concepts.
- The Commission attended several trade shows over the course of the year.
- Commission staff attended the Special Area Groups teachers' conference, where programs for teaching financial concepts were distributed.
- The Commission partnered with Winnipeg Public Library and delivered a series of evening workshops to the general public. Topics included: "The Basics of Investing", "Investment Scams", "Choosing a Financial Adviser" and "The Prospectus".
- Commission staff delivered information sessions through WED, the RCMP and the University of Manitoba.
- The Commission assisted with the planning and coordination of the financial component for the Junior Achievement World of Choices conference that attracted for 400 young women ages 14-18. Participants learned about different career opportunities, the importance of financial planning for the future and how to network.



- The Commission held a new registrant presentation for individuals who had recently registered with the MSC.
- The Commission worked with other government departments to design and distribute the “Protect Yourself” calendar. The calendar featured April as Investor Education month and highlighted what steps they should be taken with a securities related complaint. 1,000 calendars were distributed to family resource centres around the province.
- The Commission launched a new web site at the Wonderful Wedding Show 2004 called “Honey I Shrunk the Money”, an interactive education tool for young couples about to be married. The site featured 10 general investment questions covering topics such as choosing an adviser, information about student loans, saving for retirement, raising children, buying a house etc. It was designed to build learning, not just awareness. It was geared to 750 people that attended the show, who were invited to access the web site. An email campaign about the site targeted an additional 15,000 people. The site attracted over 5,300 (or 33 per cent) visitors.



## Overview

The Real Estate Division administers *The Real Estate Brokers Act* and *The Mortgage Dealers Act*. The Real Estate Division is responsible for the registration of real estate brokers, mortgage dealers, and real estate and mortgage salespersons, investigation of complaints involving the alleged violation of the statutes, and provides public protection by raising and maintaining industry standards.

## Education

The pre-licensing courses and exams for application are prescribed by the Commission and administered by The Manitoba Real Estate Association (MREA) under the direction of the Real Estate Division. Education standards are monitored by the Registrar who serves as a member of the MREA's Education and Examination Review Committee.

During 2003/04 there were 653 enrolments in the pre-licensing courses.

The Real Estate Division administered 17 examinations during the year all relating to new home salespeople.

In total 1,615 registrants completed six hours of Mandatory Continuing Education (MCE3) entitled Industry and Legal Issues. This was the third year for the industry's continuing education course. The course material is reviewed and approved by the Education Committee of which the Registrar is a member.

During the year the MREA and Commission staff continued to work together to upgrade pre-licensing courses. Online courses for persons wishing to become salespeople came into effect during the year.

## Registrations

A total of 2,147 registrations were issued for salespersons, authorized officials and real estate brokers, and mortgage dealers.

During the year, numerous amendments involving name, address or corporate changes were processed under *The Real Estate Brokers Act* together with businesses reorganizing their affairs. In addition, 10 reinstatements and 125 salespersons transfers were processed.



## Financial Filings and Compliance Audits

Commission staff review brokers' Annual Trust Account Reports and mortgage dealers' financial statements and Trust Compliance Reports filed with the Registrar and advise broker and mortgage dealers on compliance with the trust accounting provisions of the statutes. The compliance program consists of field audits and follow-up field audit visits and providing information to professional accountants who prepare the statutory reports.

During the year, staff reviewed 391 reports filed by brokers and dealers and 31 final reports for brokers who ceased their operation. The Commission suspended one broker for failing to file their Annual Trust Account Report on time and prosecuted three brokers for this offence.

## Investigation and Enforcement

The enforcement program addresses the following areas of investigation:

- investigation of complaints alleging infractions of the statutes and improper conduct;
- the background of applicants and conduct of registrants; and
- investigation of alleged unregistered trading.

In addition to a number of verbal complaints and inquiries handled on a daily basis, there were 94 formal written complaints under investigation during 2003/04. The investigation of 40 of these complaints is still ongoing with the following outcome of the finalized complaints.

- 39 complaints were unsubstantiated or were resolved with the assistance of Commission staff;
- five resulted in a warning and/or a reprimand;
- three complaints resulted in suspension or cancellation of the registration;
- three registrants were prosecuted; and
- four complaints resulted in other action being taken.



## Legislation and Policy

### Policy Development

The Real Estate Division enforces the Commission's real estate registration, education and general policies.

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

During 2003/04, the Council dealt with the following issues.

- proposed amendments to the *Real Estate Brokers Act*;
- developed and implemented an Electronic Forms Practice Directive;
- established a task force to review the new home sales and *Real Estate Brokers Act* exemption proposal; and
- categories of registration.

### Trust Accounts

#### Interest earned on Brokers' Trust Accounts

The Commission receives interest earned on real estate brokers trust accounts not claimed by clients. The Real Estate Advisory Committee established by the regulations under the Real Estate Brokers Act recommends real estate related projects for funding from the interest the Commission receives. Funds that are not designated for projects are paid to the Minister of Finance on March 31 of every year.

The results of the program for 2003/04 are:

Receipts	
Received	\$ 110,000
Paid Out:	
MREA Prelicensing Education	\$ 46,000
Minister of Finance	\$ 39,000
Sub total:	\$ 85,000
Balance allocated to Housing Opportunity Partnership	\$ 25,000



## Unclaimed Trust Money

Section 26 of the *Real Estate Brokers Act* allows brokers to pay unclaimed trust money in their trust accounts to the Commission to clear the funds from their trust accounts. Trust money paid to the Commission is held in trust pending receipt of a claim by the rightful claimant. On March 31 of each year, the balance in the Commission's account, less a reserve for refunds, is paid to the Minister of Finance.

Results of the program for 2003/04 are:

Receipts	
Accounted for as follows:	
Balance in account March 31/03	\$ 25,000
Received during year	\$ 16,000
Balance	\$ 41,000
Paid out:	
Minister of Finance	\$ 16,000
Balance in account March 31/04	\$ 25,000



## PART IV – PERFORMANCE MEASUREMENT

The Commission's planning process is set out in three documents. At the top, the Commission has a multi-year Strategic Plan that notes the main challenges to the organization and maps out strategies to respond.

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

The Balanced Scorecard, which was developed by Commission staff with some outside consultation, is a dual-purpose document that outlines goals/objectives of the Commission and actions required to achieve them as well as the means of measuring the agency's success. In other words, in addition to being a performance measurement document, the Balanced Scorecard doubles as an overall work plan for the Commission's various functional areas for carrying out most aspects of the Business Plan.

The Balanced Scorecard template breaks down the Commission's broad goals into four perspectives: financial, stakeholder, internal, and learning and growth. Under each of the perspectives, in addition to goals or objectives, measures are set out as a means of determining as to whether the Commission has successfully achieved its goals for the year. The two types of measurements are quantitative and qualitative.

Quantitative measures lend themselves easily to determination and comparison. These are generally matters that can be physically counted such as the number of field audits completed in a year, the number of staff that are cross-trained for other jobs, the number of hours of staff training completed and the number of educational programs delivered to the public.

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

Each year, the Commission's Balanced Scorecard Committee reviews the items in the overall Scorecard template for continued relevance and makes necessary changes. Each of the operational sections meets to apply the template to their specific areas and actions to be undertaken by each to achieve the goals are determined. Each action is directly related to an organizational goal or objective. Every staff member takes part in this exercise. The section templates are collected, reviewed and placed in the scorecard document. Those actions that are



overall organizational actions or require the co-operation of several of the operational sections are marked on the document, which is 30 to 35 pages long.

The template includes baselines, targets and a column for results. The entire staff reviews the Scorecard on a regular basis and following year-end, a final report on the organization's performance success is distributed. The Commission has now completed its second Balanced Scorecard cycle and has completed its third Scorecard for fiscal year 2004/05. In each of the 2002/03 and 2003/04 fiscal years, the organization has generally met the performance goals it set. This is particularly the case regarding quantitative measures where performance targets were laid out. In the few areas where performance targets were not met during the fiscal year, valid reasons were presented and goals and targets were identified for completion during the subsequent fiscal year.

The Commission has found the Balanced Scorecard to be a useful tool in the planning/reporting process and a valuable method of identifying agency objectives and utilizing the talents of all staff in determining actions to meet those goals and setting measures for performance. This document is a unique creation of Commission staff and while there are always different ways to view and measure performance, the team performing the Commission's Effectiveness Evaluation in 2002 considered it to be comprehensive, reasonable and appropriate.



### Overview

As of March 31, 2004, the Commission had the following internal systems in place:

- Manitoba Securities Commission Information System (MSCIS);
- Securities & Commodities Registration System (SCRS); and
- Real Estate Information System (REIS).

During the year, considerable time, effort and expense were incurred to enhance the capabilities of MCSIS and SCRS, which will be merged into one database. The project should be finalized in early 2004/05.

The Commission uses Microsoft Great Plains Dynamics, an accounting and financial reporting software package.

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

- System for Electronic Data Analysis and Retrieval (SEDAR);
- National Cease Trade Order Database (CTO);
- System for Electronic Disclosure by Insiders (SEDI); and
- National Registration Database (NRD).

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

The Commission has a standing IT Committee that meets regularly to evaluate and prioritize the Commission's information systems requirements.



## PART VI – FINANCIAL DISCUSSION

### Management's Discussion and Analysis

This discussion and analysis presents the operating results of The Manitoba Securities Commission for the year ended March 31, 2004. It should be read in conjunction with the Commission's audited financial statements.

### Results of Operations

#### Net Income

Net income for the year ended March 31, 2004 was \$5.8 million, an increase of 8.3 per cent over the previous fiscal year total of \$5.4 million. Expenses of \$3.2 million came in under budget by \$160,000. The net result was net income that exceeded budgeted income of \$4.2 million by 38 per cent or \$1.6 million.

#### Revenue

The Commission exceeded its revenue targets by 20 per cent or \$1.5 million due to the fact an anticipated decline in market activity did not materialize. This year's revenue totaled \$9.1 million, as compared to last year's total of \$8.6 million (see Table 1 for details).

Table 1

Revenue	2004	% of Total	2003	% of Total	2004 % Increase (Decrease) From 2003
Filing Fees	\$ 4,429,000	49 %	\$ 4,312,000	50 %	3 %
Registration Fees	\$ 3,631,000	40 %	\$ 3,233,000	38 %	13 %
Financial Statement Fees	\$ 370,000	4 %	\$ 346,000	4 %	7 %
Application Filing Fees	\$ 197,000	2 %	\$ 318,000	4 %	(62)%
Real Estate Fees	\$ 316,000	4 %	\$ 233,000	3 %	36 %
Investment Income	\$ 121,000	1 %	\$ 130,000	1 %	(8)%
Miscellaneous	-	-	\$ 4,000	-	-
	<b>\$ 9,064,000</b>	<b>100 %</b>	<b>\$ 8,576,000</b>	<b>100 %</b>	<b>6 %</b>

The primary sources of revenue (filing and registration fees) for the Commission in fiscal 2004, contributed 89 per cent of the total.

Filing Fees are made up of fees for new and renewal prospectus filings, prospectus amendments, annual information forms and rights offerings. An increase of 3 per cent in filing fees over the previous year, to \$4.4 million, was primarily due to an increase in the number of long-form prospectus filings.

Registration fees, comprised of fees for registration of advisors, dealers and salespersons, were \$3.6 million, 13 per cent greater than the previous year. The reason for this is that registration volumes continued their upward trend.



## Expenses

Total expenses were slightly higher in the fiscal year 2004 over fiscal year 2003.

A summary of fiscal year's expenses is presented in Table 2.

Table 2

Expenses	2004	% of Total	2003	% of Total	2004 % Increase (Decrease) From 2003
Salaries and Benefits	\$ 2,048,000	64 %	\$ 2,101,000	66 %	(3)%
Operating Expenses*	\$ 1,007,000	31 %	\$ 910,000	29 %	11 %
Amortization	\$ 186,000	5 %	\$ 185,000	5 %	0 %
	<b>\$ 3,241,000</b>	<b>100 %</b>	<b>\$ 3,196,000</b>	<b>100 %</b>	<b>2 %</b>

\*See Schedule of Operating Expenses in the Notes to the Financial Statements

Against a budget of \$3.4 million, actual expenses were 5 per cent lower than expected. Variances in salaries and benefits and operating expenses are explained below.

### Salaries and Benefits

Overall, salaries and benefits decreased by \$60,000 (or 3 per cent) over the previous year. Salaries and benefits were \$187,000 (or 8 per cent) below budget due to in-house vacancies and the utilization of the Voluntary Reduced Work Week program.

### Operating Expenses

Operating expenses for the fiscal year were slightly higher than last year and exceeded budget by \$34,000 (or 3.6 per cent). This variance was due to contract service costs exceeding budget by \$42,000, largely attributable to the costs of database upgrades exceeding the budgeted amounts.

### Capital Expenditures & Liabilities

Capital expenditures for the year totaled \$4,396, including \$1,663 for office furniture acquired, \$1,787 for office equipment and \$947 for computer software. Capital expenditures were financed by operations funds.

Accrued liabilities were \$32,000 compared to \$6,000 in the last fiscal. At March 31, 2004 the balance represents accrued vendor obligations and CSA cost sharing. Accrued vacation and severance liabilities were \$173,000 and \$154,000 at March 31, 2004 compared to \$195,000 and \$164,000 in the previous fiscal year. The decrease in accrued vacation and severance is a direct result of retirements.



### Disposition of Surplus Operating Funds

The Commission made the required quarterly payments to the Province of Manitoba totaling \$5.7 million. The payment amount is calculated annually and is included in the Commission's business plan as a disposition of surplus operating funds in the Statement of Retained Earnings.

### Liquidity

Liquidity can be defined as an organization's ability to meet financial obligations as they come due. Liquidity management provides the certainty that funds will be available to honor all commitments and involves continuous forecasting and monitoring of expected cash flows. The Commission 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. At March 31, 2004, the Commission has \$1,000,000 in its reserve fund to accommodate for any unforeseen changes in cash flows. These funds are invested with the Province of Manitoba Treasury Division and allow the Commission flexibility to access these funds when needed.

### Outlook 2004/2005

The Commission hopes to generate \$4.5 million in net income in fiscal year 2005. This translates into budgeted revenue of \$8.2 million and budgeted expenses of \$3.7 million. With the Commission having no control over market activity, budgeted revenues are subject to variability.



## RESPONSIBILITY FOR FINANCIAL REPORTING

The Manitoba Securities Commission's management is responsible for preparing the financial statements and other financial information in the Annual Report. These financial statements were prepared by management in accordance with Canadian generally accepted accounting principles. The financial statements include amounts that are based on management's best estimates and judgments. BDO Dunwoody, independent external auditors, audited the Commission's financial statements.

The Commission maintains accounting and internal control systems to provide reasonable assurance that its financial information is reliable and accurate and that its assets are adequately protected.

The Commission's management meets regularly to review the financial statements and accounting practices. The auditors are given free and full access to management, if required to discuss results of their audit and their views on the adequacy of internal controls and the quality of financial reporting.

On behalf of management,



**Donald G. Murray**  
Chair and C.E.O.



**Robert B. Bouchard**  
Chief Administrative Officer



**Marlene Nemes**  
Controller



## Auditors' Report

### To The Special Operating Agencies Financing Authority:

We have audited the balance sheet of The Manitoba Securities Commission, An Agency of the Special Operating Agencies Financing Authority, Province of Manitoba as at March 31, 2004 and the statements of income, retained earnings, reserve fund and cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

**Chartered Accountants**

*BDO Dunwoody LLP*

Winnipeg, Manitoba

May 18, 2004



## The Manitoba Securities Commission

<b>BALANCE SHEET</b> <i>(in thousands) March 31</i>	<b>2004</b>	<b>2003</b>
<b>Assets – Current Assets</b>		
Cash and short-term deposits <i>(Note 2)</i>	\$ 3,314	\$ 3,080
Accounts receivable <i>(Note 3)</i>	14	35
Prepaid expenses	37	25
	<b>3,365</b>	<b>3,140</b>
Restricted short-term deposits <i>(Note 4)</i>	1,000	1,000
Receivable from the Province of Manitoba <i>(Note 5)</i>	269	269
Capital assets <i>(Note 6)</i>	214	302
	<b>\$ 4,848</b>	<b>\$ 4,711</b>
<b>Liabilities and Equity – Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 31	\$ 6
Accrued vacation entitlements <i>(Note 7)</i>	174	195
Accrued salaries and benefits	67	47
	<b>272</b>	<b>248</b>
<b>Severance pay liability</b> <i>(Note 8)</i>	<b>154</b>	<b>164</b>
	<b>426</b>	<b>412</b>
<b>Commitments and contingency</b> <i>(Notes 9 and 12)</i>		
Reserve Fund <i>(Note 10) (Page 41)</i>	1,000	1,000
Retained earnings <i>(Page 41)</i>	3,422	3,299
	<b>4,422</b>	<b>4,299</b>
	<b>\$ 4,848</b>	<b>\$ 4,711</b>



## The Manitoba Securities Commission

<b>STATEMENT OF INCOME</b>		
<i>(in thousands) For the year ended March 31</i>	2004	2003
<b>Revenue</b>		
Fees	\$ 8,942	\$ 8,442
Interest	121	130
Miscellaneous	1	4
	<b>9,064</b>	<b>8,576</b>
<b>Expenses</b>		
Salaries and benefits	2,048	2,101
Operating expenses <i>(Page 47)</i>	1,007	910
Amortization - <i>capital assets</i>	186	185
	<b>3,241</b>	<b>3,196</b>
<b>Net earnings for the year</b> <i>(Page 41)</i>	<b>\$ 5,823</b>	<b>\$ 5,380</b>

<b>STATEMENT OF RETAINED EARNINGS</b>		
<i>(in thousands) For the year ended March 31</i>	2004	2003
Retained earnings, beginning of year	\$ 3,299	\$ 3,514
Net earnings for the year <i>(Page 41)</i>	5,823	5,380
Disposition of surplus operating funds <i>(Note 11)</i>	(5,700)	(5,500)
Allocation to Reserve Fund	-	(95)
<b>Retained earnings, end of year</b> <i>(Page 40)</i>	<b>\$ 3,422</b>	<b>\$ 3,299</b>

<b>STATEMENT OF RESERVE FUND</b>		
<i>(in thousands) For the year ended March 31</i>	2004	2003
Balance, beginning of year	\$ 1,000	\$ 905
Allocation from retained earnings	-	95
<b>Balance, end of year</b> <i>(Page 40)</i>	<b>\$ 1,000</b>	<b>\$ 1,000</b>



## The Manitoba Securities Commission

<b>STATEMENT OF CASH FLOWS</b>		
<i>(in thousands) For the year ended March 31</i>	2004	2003
<b>Cash Flows from Operating Activities</b>		
Net earnings for the year	\$ 5,823	\$ 5,380
Adjustment for Amortization - <i>capital assets</i>	186	185
	<b>6,009</b>	<b>5,565</b>
<b>Changes in non-cash working capital</b>		
Accounts receivable	21	52
Prepaid expenses	(12)	5
Accrued liabilities	25	(41)
Accrued vacation entitlements	(21)	36
Accrued salaries and benefits	20	9
Severance pay liability	(10)	1
	23	62
	<b>6,032</b>	<b>5,627</b>
<b>Cash Flows from Investing Activities</b>		
Acquisition of capital assets	(98)	-
Transfer to restricted short-term deposits	-	(95)
	<b>(98)</b>	<b>(95)</b>
<b>Cash Flows from Financing Activities</b>		
Disposition of surplus operating funds	(5,700)	(5,500)
Net increase in cash and cash equivalents	234	32
Cash and cash equivalents, beginning of year	3,080	3,048
<b>Cash and cash equivalents, end of year</b>	<b>\$ 3,314</b>	<b>\$ 3,080</b>
<b>Supplementary information:</b>		
Interest received	\$ 118	\$ 127



# Summary of Significant Accounting Policies

March 31

## Basis of Reporting

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

## Capital Assets

Capital assets are recorded at cost and amortized over their estimated lives as follows:

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

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

## Revenue Recognition

Fees and cost recoveries are recognized when received. Investment income is recorded on the accrual basis.

## Financial Instruments

The Commission's financial instruments consist of cash and short-term deposits, accounts receivable, restricted short-term deposits, amounts due from related parties, and accounts payable and accrued liabilities. It is management's opinion that the Commission is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values.

## Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.



# Notes to Financial Statements

(in thousands) March 31

## 1. Nature of Organization

Effective April 1, 1999 the Lieutenant Governor in Council designated the The Manitoba Securities 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.

## 2. Cash and Short-term Deposits

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

## 3. Accounts Receivable

ACCOUNTS RECEIVABLE	2004	2003
Accrued interest	\$ 12	\$ 9
Trade	2	26
	\$ 14	\$ 35

## 4. Restricted Short-term Deposits

The Commission maintains separate short-term deposits with the Province of Manitoba to fund expenses which may arise with respect to the Reserve Fund (Note 10).

## 5. Receivable from the Province of Manitoba

The receivable from the Province of Manitoba is made up of vacation and severance pay entitlement earned by employees of the Commission prior to creation of the SOA as at April 1, 1999. This receivable, or portion thereof for the Commission, will be collected in the event there is a cash shortfall. However, this is only likely to happen on the dissolution of the Commission.



## 6. Capital Assets

CAPITAL ASSETS	2004		2003	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Office equipment	\$ 28	\$ 16	\$ 26	\$ 10
Furniture and fixtures	126	86	124	61
Leasehold improvements	113	46	113	34
Computer hardware	117	117	117	93
Computer software	604	603	603	483
Computer system conversion - work in progress	94	-	-	-
	<b>\$ 1,082</b>	<b>\$ 868</b>	<b>\$ 983</b>	<b>\$ 681</b>
Cost less accumulated amortization	-	\$ 214	-	\$ 302

## 7. Accrued Vacation Entitlements

The Commission follows the policy of the Department of Finance to recognize the vacation entitlement liability accumulated to March 31, 1999. The liability at this date is offset by a receivable from the Province and was \$117 as at March 31, 1999. Any subsequent changes to the entitlement are reflected as a current year expense to the Commission. As at March 31, 2004 there was a decrease to the entitlement in the amount of \$21. The accrued vacation entitlement was \$174 as of March 31, 2004 (2003 - \$195).

## 8. Severance Pay Liability

Effective April 1, 1999, the Commission began recording accumulated severance pay benefits for its employees. The estimate of the liability at that time was based on an actuarial valuation report.

The Province has accepted responsibility for the severance benefits accumulated by the Commission's employees to March 31, 1999. Accordingly, the opening severance pay liability balance as at April 1, 1999 calculated at \$152 was completely offset by a receivable from the Province.

The report provides a formula to update the liability on an annual basis. In accordance with the formula, the Commission's actuarial liability has been calculated to be \$154 as at March 31, 2004 (2003 - \$164).

## 9. Lease Commitment

The Commission has not entered into a lease agreement with the Province of Manitoba for rental of facilities at 405 Broadway. Occupancy charges for the year ended March 31, 2004 were \$143.



## 10. Reserve Fund

The Commission has established a Reserve Fund to finance extraordinary expenses for isolated and unanticipated purposes that are regulatory in nature, and for changes in market activity that have an effect on revenues.

## 11. Disposition of Surplus Operating Funds

The disposition of surplus operating funds consists of payments made to the Consolidated Revenue Fund of the Province of Manitoba according to Treasury Board Directives.

## 12. Contingency

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



## The Manitoba Securities Commission

<b>SCHEDULE OF OPERATING EXPENSES</b>				
<i>(in thousands) For the year ended March 31</i>				
	2004	%	2003	%
Contract services	\$ 394	39	\$ 332	37
Premises	147	15	140	15
Office materials and supplies	100	10	88	10
Professional services	72	7	87	10
Travel	72	7	66	7
Telecommunications	58	6	59	6
CSA initiatives	36	4	41	5
Research resources	34	3	30	3
Education/Information initiatives	36	3	26	3
Staff development	21	2	18	2
Miscellaneous	27	3	13	1
Professional membership and dues	10	1	10	1
	<b>\$ 1,007</b>	<b>100</b>	<b>\$ 910</b>	<b>100</b>

<b>SCHEDULE OF PUBLIC SECTOR COMPENSATION DISCLOSURE</b>		
<i>(in thousands) For the year ended March 31, 2004</i>		
<b>Employee</b>	<b>Title</b>	<b>Compensation</b>
Don Murray	Chairman & CEO	\$ 120
Bob Bouchard	CAO & Director of Capital Markets	88
Doug Brown	Director of Legal & Enforcement & Secretary to the Commission	103
Chris Besko	Assistant Legal Counsel	80
Kim Laycock	Assistant Legal Counsel	82
Steven Gingera	Assistant Legal Counsel	77
Marlene Nemes	Controller	50
Wayne Bridgeman	Senior Analyst	58
William Baluk	Deputy Registrar - Compliance	62
Chris Kowalski	Deputy Registrar - Real Estate	54
Jan Banasiak	Senior Investigator	54
Jason Roy	Investigator	57
Isilda Tavares	Registration Officer	57

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



