

# Consumer Protection in New Brunswick: the Evolving Landscape

2019-2020 Annual Report



FINANCIAL AND  
CONSUMER SERVICES  
COMMISSION

regulation • education • protection

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## Regulation

Proper regulation is at the heart of consumer protection and safeguarding New Brunswickers' money. It requires balancing public interests with efficient financial marketplaces.

In addition to registering and licensing individuals or firms in the industries we regulate, we conduct compliance reviews and educate industry on compliance issues to help preserve the integrity of the financial marketplaces. When developing regulatory proposals, we consult industry and stakeholders, and work collaboratively with provincial, national and international regulatory and industry associations on global regulatory concerns, trends and initiatives. The Minister of Finance provides oversight by approving the rules made by FCNB.

## Education

We believe informed consumers are better able to protect themselves from frauds and scams and to make decisions that improve their financial well-being. We offer financial literacy presentations, community engagement programs, professional development workshops, educational brochures and online tools on a wide range of topics. All of our resources and programs are free and available in both official languages.

## Protection

We research and evaluate information from our own surveillance efforts and from our crime detection partners to identify trends. We make the public aware of frauds and scams targeting New Brunswickers through our website, through fraud alerts sent directly to our subscribers and on our social media channels.

We work with law enforcement and maintain relationships with national and international consumer protection groups, which is particularly important to protect New Brunswickers from scams and frauds.

We enforce our rules and hold those who violate them accountable. If sanctions or financial penalties are warranted, we have the option to take a case before the Financial and Consumer Services Tribunal or the provincial courts, depending on the circumstances.





# Our impact

**780,000  
CONSUMERS**

We protect over 780,000 New Brunswick consumers through regulation and financial education.

**34,000  
INDUSTRY  
PARTICIPANTS**

We regulate industries and individuals who make their living working with New Brunswickers' money.

**30 BILLION  
DOLLARS**

Industry participants that we regulate handle over \$30 billion of New Brunswick consumers' money.











































































Stakeholder engagement

# Compliance reviews

Related Act	Completed Reviews	Focus of Review
<i>Collection and Debt Settlement Services Act</i>	35	Financial statements reviews
<i>Pre-arranged Funeral Services Act</i>	23	Trust account compliance reviews
<i>Mortgage Brokers Act</i>	20	Compliance reviews
<i>Insurance Act</i>	84	Compliance reviews
	1	Solvency testing of life insurance companies
<i>Securities Act</i>	1	Investment fund manager/portfolio manager compliance review
	1	Scholarship plan dealer (NB location) compliance review
	1	Sweep of NB based registered individuals subject to terms and conditions
	1	Continuous disclosure review
	467	Report of Exempt Distribution reviews
	4	Annual Filing reviews for NB Registrants, Co-ops and CEDCs
<i>Direct Sellers Act</i>	95	Compliance reviews of direct seller contracts
<i>Cost of Credit Disclosure and Payday Loans Act</i>	156	Compliance reviews of cost of credit disclosure contracts
	6	Payday lender compliance reviews
	1	Payday lender pre-licensing inspections

# Consumer Affairs

Licence Type	2019-2020	2018-2019	2017-2018
Auctioneers Licence	52	62	55
Collection - Agency Licence	52	62	66
Branch Licence	51	52	49
Collector Licence	3,007	3,144	2,853
Commissioner of Oaths - Provincial	656	619	664
Foreign	-	1	1
Cost of Credit Disclosure - Company Registration	418	459	439
Branch Registration	296	353	388
Individual Registration	18	7	3
Payday Lenders Licence	6	7	5
Credit Reporting Agency Licence <sup>1</sup>	2	2	-
Direct Sellers - Vendor Licence	86	90	87
Salesperson Licence	650	766	895
Mortgage Brokerage Licence	39	38	34
Mortgage Associate Licence	51	38	60
Mortgage Broker Licence	82	77	87
Mortgage Administrator Licence	10	8	6
Pre-arranged Funeral - Provider Licence	52	52	56
Manager Licence	59	61	63
Real Estate - Agent Licence	93	102	90
Branch Licence	34	38	31
Manager Licence	154	165	154
Salesperson Licence	989	980	849
<b>Total</b>	<b>6,857</b>	<b>7,181</b>	<b>6,935</b>

1. Credit reporting services legislation came into effect 1 October 2018.

# Enforcement activity

Investigations	2019-2020	2018-2019
Number of cases opened	26	33 <sup>1</sup>
Number of cases concluded	24	30 <sup>1</sup>
Cases opened by regulatory area:		
Direct Sellers	2	0
Financial Institutions	0	0
Insurance	0	3
Mortgage Brokers	0	6
Pensions	0	1
Pre-arranged Funerals	1	0
Real Estate	4	4
Securities (including MFDA/IIROC)	16	18
Matters involving 2+ regulatory areas	3	0
Investigation orders issued	7	6
Enforcement	2019-2020	2018-2019
Proceedings commenced before the Tribunal	1	1
Other matters before the Tribunal	11	6
Matters heard at the Court of Appeal	2 <sup>2</sup>	0

1. Restated to remove compliance activity files
2. Includes one matter to which the Commission was an intervenor

## Cooperatives summary<sup>1</sup>

Category	Reporting	Total Assets (\$)	Total Revenue (\$)	Members equity to assets (%)	Employees	Members
Agriculture/Forestry	7	1,990,424	6,320,357	41.72%	13	502
Consumer	8	31,202,257	133,701,898	22.64%	518	39,489
Fishery	0	-	-	-	-	-
Housing	6	31,283,440	8,551,025	20.50%	7	677
Services	25	11,038,083	6,834,825	55%	85	2,077
Worker	1	74,523	186,385	30.98%	3	3
<b>Total</b>	<b>47</b>	<b>\$75,588,727</b>	<b>\$155,594,490</b>	<b>N/A</b>	<b>626</b>	<b>42,748</b>

1. Due to the COVID-19 Pandemic, many of these numbers are lower than previous years related to the cancellation of AGMs and scheduled audits.

# Loans and Trust companies summary

Primary Jurisdiction	2019-2020	2018-2019	2017-2018	2016-2017
Total Provincial	0	0	0	0
Alberta	1	1	1	1
Quebec	1	1	1	1
Federal	45	44	45	44
Total Extra-Provincial	47	46	47	46

# Insurance companies operating in New Brunswick

Category	Our role	2019-2020	2018-2019	2017-2018
Companies based in NB	Primary regulator (licensing, solvency and market conduct)	6	6	6
Companies that were federally or internationally headquartered	Licensing and market conduct	171	172	171
Companies based in another province	Licensing and market conduct	39	40	39

# Insurance

Licence Type	2019-2020	2018-2019	2017-2018
Life Insurance Agents/Brokers	2,503 <sup>1</sup>	2,222 <sup>1</sup>	2,919 <sup>1</sup>
Other than Life Agents/Brokers	1,783	1,551	1,910
Non-resident Brokers	3,506	2,955	3,538
Accidental and Sickness Agents	374	408	472
Travel Agents	299	363	432
Special Insurance Brokers	9	12	16
Damage Appraisers	104	115	97
Adjusters	1,873	1,900	1,701
<b>Total number of licences produced</b>	<b>10,451 <sup>2,3</sup></b>	<b>9,526 <sup>2,3</sup></b>	<b>8,865 <sup>2,3</sup></b>
<b>Total number of licensees</b>	<b>11,643</b>	<b>10,789 <sup>4</sup></b>	<b>11,085</b>

- Life Agents  
2017-2018: Resident - 1,505; Non-Resident - 1,421  
2018-2019: Resident - 1,075; Non-Resident - 1,147  
2019-2020: Resident - 1,116; Non-Resident - 1,387
- Includes intermediaries holding more than one licence and licence transfers.
- Number of licences produced reflects the number of licences issued from 1 April-31 March 2020. The number is less than the total number of intermediaries, as some intermediaries hold two-year licences issued in the previous year.
- This number was previously reported as 8,669 licensees for 2018-2019 fiscal year.

# Securities

Corporate Finance Activity	2019-2020	2018-2019	2017-2018	2016-2017
Reporting issuers	5,298	5,256	5,172	5,058
Reporting issuers (New Brunswick-based)	8	8	8	8
Prospectus filings (non-mutual funds)	305	399	332	394
Mutual fund prospectus filings	3,919	3,732	3,837	3,725
Annual Information forms	1,020	1,018	1,047	1,103
Reports of exempt distribution	467	446	431	479
Exemption applications (non-passport)	7	4	2	26
Cease-trade order	0	0	0	0
Management cease-trade order	0	0	0	0
Registration Activity	2019-2020	2018-2019	2017-2018	2016-2017
Registered firms	448	440	430	413
Registered firms (New Brunswick-based)	5 <sup>1</sup>	5 <sup>2</sup>	4	4
Branches/Sub-branches in New Brunswick	483	494	508	516
Registered individuals	11,681	11,419	10,941	10,523
Registered individuals (New Brunswick residents)	1,607	1,586	1,651	1,705

- As of 31 March 2020, 1 firm is in process of surrendering registration and 1 firm is suspended.
- As of 31 March 2019, 1 firm is suspended.

# Report on governance practices







# Role of Commission Members

The Commission is a corporate entity created for the purpose of administering financial and consumer services legislation in New Brunswick. Commission staff discharge the responsibilities prescribed by legislation and are overseen by Commission Members.

Commission Members, led by the independent Chair, are accountable to the government through the Minister of Finance for the proper administration of the financial and consumer services legislation. In addition to their responsibilities with respect to management oversight, regulatory policy making and governance, Members review the Commission's annual strategic direction and supporting business plan, annual budget, resource allocation, risk management, financial reporting policies and the effectiveness of internal controls and management information systems. Further details of this oversight are contained in the *Governance Policy*, which can be found on the Commission's website.

The Chair presides over Commission meetings and is ultimately responsible for providing strong leadership to the Members. The Chair is also responsible to ensure that a number of legislated annual deliverables, which form part of a work plan, are approved by Members and submitted to the Minister and Treasury Board within the set timeframes. The Chair's detailed responsibilities are contained in the *Governance Policy*.

## Independence

Members, including the Chair, are independent of the staff of the Commission. Members do not have a direct or indirect association with the Commission's operations, which would interfere with exercising their independent judgment.

# Financial and Consumer Services Commission Members

The Commission's Members for 2019-2020 were:



**Peter Klohn (Chair),  
LL.B, ICD.D**

**Residence:** Rothesay  
**Appointed:** 1 January 2014  
**Reappointed:** 1 January 2019  
**Term Ends:** 31 December 2023

**Professional and industry  
experience:**

- Securities law
- Corporate law
- Franchise law
- Pension law



**Yves Gagnon (Vice Chair),  
BBA, PMP, ICD.D**

**Residence:** Campbellton  
**Appointed:** 6 February 2014  
**Reappointed:** 16 August 2018  
**Term Ends:** 15 August 2021

**Professional and industry  
experience:**

- Financial
- Accounting
- Auditing
- Management

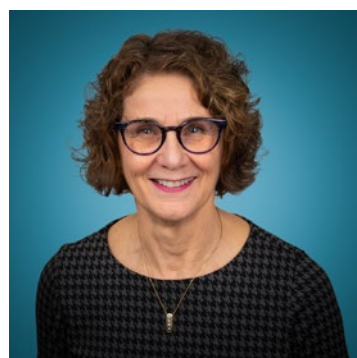


**Michael D. Wennberg,  
LL.B**

**Residence:** Rothesay  
**Appointed:** 21 August 2013  
**Reappointed:** 21 August 2018  
**Term Ends:** 20 August 2022

**Professional and industry  
experience:**

- Commercial
- Business/industrial contracting
- Insolvency
- Technology/outsourcing



**Céline Robichaud-Trifts,  
MBA, ICD.D**

**Residence:** Moncton  
**Appointed:** 27 September 2017  
**Term Ends:** 26 September 2020

**Professional and industry  
experience:**

- Governance and human resources
- Risk management
- Strategic planning
- Health care
- Regulation



**Vincent L. Duff,  
CA**

**Residence:** Hampton  
**Appointed:** 16 August 2018  
**Term Ends:** 15 August 2021

**Professional and industry  
experience:**

- Accounting
- Auditing
- Insolvency
- Automobile insurance



**Norma Kelly,  
CPA, CMA, CIA**

**Residence:** Saint John  
**Appointed:** 31 October 2019  
**Term Ends:** 30 October 2022

**Professional and industry  
experience:**

- Accounting
- Internal auditing
- Risk management
- Credit unions
- Management
- Corporate strategy



# Code of conduct

The Commission's *Governance Policy* states that the highest ethical standards are expected of our Members and staff. In addition, the Commission has a *Conflict of Interest Rule* (CO-001) and a *Code of Conduct and Conflict of Interest Policy* in place. These documents stipulate that all Members and staff must act in a manner that ensures that public confidence and trust in the integrity, objectivity and impartiality of the Commission are conserved and enhanced.

Members and staff are exposed to confidential information. As such, they are required to immediately report actual or perceived conflicts that might be seen to influence decisions. Each year, Members and staff are provided with an annual reminder of the requirements contained in the rule and in the policy. They must provide written confirmation to their supervisor, or the Chair in the case of Members, that they have received the reminder and reviewed the rule and its supporting policy.

## Disclosure

The Commission places high value on transparent disclosure practices and has created an annual report on governance practices to reflect that value. The Commission publishes that annual report on its website, in addition to its various governance-related policies, including the *Governance Policy* and the *Conflict of Interest Rule*.

## Public interest disclosure

The *Public Interest Disclosure (PID) Act* encourages employees in the provincial public service to report any wrongdoing that has occurred or is about to occur in the workplace that is potentially unlawful, dangerous to the public or harmful to the public interest. The *PID Act* protects employees from reprisal for disclosing these wrongdoings and provides a fair and objective process for those employees who are alleged to have committed a wrongdoing.

As a Crown corporation, the Commission is required to disclose in its annual report the number of complaints received, and the action taken; the number of investigations begun as a result of a disclosure; the number of claims referred from the Ombudsman and the action taken; and, the number of investigations begun as a result of such claims.

We are pleased to report that there were no disclosures or claims made against any employee of the Commission under the *PID Act* in 2019-2020.

# Member orientation and continuing education

New Members must participate in an extensive and mandatory orientation program. This orientation provides an overview of the Canadian and New Brunswick financial and consumer services regulatory, compliance and enforcement landscape. The program is led by senior management and includes a detailed overview of our legal framework, strategic direction, operations and key initiatives, financial affairs, governance practices, as well as information technology, cybersecurity and training on the use of the Commission's board portal. Four new Members underwent an orientation in the 2019-2020 fiscal year, which was held over two days in November. Members received detailed documentation about the organization in preparation for and throughout the program.

The Commission places high value on continuing education and its programs are comprised of mandatory individual and common education sessions. Over the years, Members have taken courses to enhance their knowledge of the areas regulated by the Commission and their governance skills in the boardroom.

A description of the common education sessions offered to Members during fiscal year 2019-2020 is set out on the following pages:

Continuing Education			
Date	Topic	Presenters	Attendees
12-13 June 2019 (12.25 hours)	<p>Risk-Based Regulation</p> <ul style="list-style-type: none"> <li>• Performance management and measurement in a risk-control setting</li> <li>• Management of Discretion</li> <li>• Executive Leadership and Member workshop</li> </ul>	<p>Professor Malcolm K. Sparrow, <i>Professor of the Practice of Public Management at Harvard's John F. Kennedy School of Government</i></p>	<p>Peter Klohn Paulette Robert Michael D. Wennberg Yves Gagnon Ginette Verret-Morin Jim Dunlap Céline Robichaud-Trifts Lisa Taylor Vincent L. Duff</p>
26-27 June 2019 (4.75 hours)	<p>Financial Institutions information sessions covering:</p> <ul style="list-style-type: none"> <li>• the credit union regulatory structure between FCNB, NBCUDIC, and RMA; and the deposit protection fund;</li> <li>• the role and mandate of Atlantic Central and League Savings;</li> <li>• the role and services of League Data;</li> <li>• the role of the Credit Union Managers Association; and</li> <li>• the roles of the Canadian Credit Union Association</li> </ul>	<p>Etienne LeBoeuf, <i>Director, Financial Institutions and Designate Superintendent of Credit Unions - FCNB</i>, Jean-Guy LeBlanc, <i>CEO - NBCUDIC</i> and Jeff Harriman, <i>Supervisor - RMA</i></p> <p>Joe Malek, <i>VP Strategic Change - Atlantic Central and League Savings</i></p> <p>Ian MacNeil, <i>CEO - League Data</i></p> <p>Lisa Loughery, <i>Chair - Credit Union Managers Association</i></p> <p>Jennifer English, <i>Director, Government Relations - (Atlantic) Canadian Credit Union Association</i></p>	<p>Peter Klohn Paulette Robert Michael D. Wennberg Yves Gagnon Ginette Verret-Morin Jim Dunlap Céline Robichaud-Trifts Lisa Taylor Vincent L. Duff</p>

Continuing Education			
Date	Topic	Presenters	Attendees
11 December 2019 (1 hour)	Human Resource Policies	Jackie Gomes, <i>Human Resources Officer - FCNB</i>	Peter Klohn Paulette Robert Michael D. Wennberg Yves Gagnon Céline Robichaud-Trifts Vincent L. Duff Donald French Paul Van Iderstine Norma Kelly
4 February 2020 (3 hours)	Insights Discovery Personal and Team Effectiveness Session	Donald Arsenault, <i>Insights Atlantic</i>	Peter Klohn Vincent L. Duff Donald French Paul Van Iderstine Norma Kelly Marilyn Evans Born
5 February 2020 (1 hour)	Suitability and Licensing Decisions	Catherine Haines, <i>Deputy Director of Licensing - Insurance Division - FCNB</i>	Peter Klohn Michael D. Wennberg Céline Robichaud-Trifts Vincent L. Duff Donald French Paul Van Iderstine Norma Kelly Marilyn Evans Born
6 February 2020 (1 hour)	Overview of the Senior's Initiative	Deborah Gillis, <i>Senior Legal Counsel, Legal Services - FCNB</i>	Peter Klohn Michael D. Wennberg Yves Gagnon Céline Robichaud-Trifts Vincent L. Duff Donald French Paul Van Iderstine Norma Kelly Marilyn Evans Born

The total amount of hours allocated to group sessions for fiscal 2019-2020 was 23 hours.



In addition to the group sessions offered by the Commission, Members are encouraged to pursue individual learning initiatives relevant to the work of the Commission. Our *Professional Development for Members Policy* provides a yearly allotment of \$4,000 per Member to support Members' learning activities. Below is a list of the courses that Members attended throughout the year:

Member	Date	Course
Peter Klohn	16-17 April 2019	2019 Biennial Canadian Securities Administrators Commissioners Conference
	21-22 January 2020	The Canadian Institute - 15 <sup>th</sup> Annual Crown Corporate Governance Conference (Co-chair)
	23-28 February 2020	Harvard Kennedy School of Government - Leadership Decision Making
Paulette Robert	15 May 2019	Institute of Corporate Directors - Board Oversight of Harrassment
	19 September 2019	Institut des administrateurs de sociétés - La gouvernance dans le modèle coopératif
Yves Gagnon	16-17 April 2019	2019 Biennial Canadian Securities Administrators Commissioners Conference
	15 May 2019	Institute of Corporate Directors - Board Oversight of Harrassment
	21-22 January 2020	The Canadian Institute - 15 <sup>th</sup> Annual Crown Corporate Governance Conference
Michael D. Wennberg	20 November 2019	Institute of Corporate Directors - Harrassment, Social Media and the Fireworks When Both Intersects
	21-22 January 2020	The Canadian Institute - 15 <sup>th</sup> Annual Crown Corporate Governance Conference
Céline Robichaud-Trifts	19 September 2019	Institut des administrateurs de sociétés - La gouvernance dans le modèle coopératif
	30 October 2019	Institute of Corporate Directors - Cyber Time: Cybersecurity Crash Course for Directors and Executives
Vincent L. Duff	21-22 January 2020	The Canadian Institute - 15 <sup>th</sup> Annual Crown Corporate Governance Conference

# Attendance

Attendance at Commission and committee meetings is reflected in the chart below:

Members	Meetings				
	Commission <sup>1</sup> (12)	Audit and Risk Management Committee (5) <sup>2</sup>	Human Resources and Governance Committee (5)	Joint Committee (1)	CEO Search Committee (5) <sup>2</sup>
Peter Klohn	12	5	5	1	5
Yves Gagnon	12	5	N/A	1	5
Paulette Robert <sup>3</sup>	9	4	N/A	1	N/A
Michael D. Wennberg <sup>4</sup>	12	2	5	1	5
Ginette Verret-Morin <sup>4</sup>	2	1	1	N/A	N/A
Jim Dunlap <sup>4</sup>	2	1	1	N/A	N/A
Lisa Taylor <sup>5</sup>	4	3	N/A	1	4
Céline Robichaud-Trifts <sup>6</sup>	12	4	1	1	4
Vincent L. Duff	12	2	5	1	N/A
Norma Kelly <sup>7</sup>	5	1	N/A	1	N/A
Donald French <sup>7</sup>	5	N/A	1	1	N/A
Paul Van Iderstine <sup>7</sup>	5	1	N/A	1	N/A
Marilyn Evans Born <sup>8</sup>	3	1	N/A	N/A	N/A

1. Commission meetings include special meetings as well as the business planning session.
2. The CEO Search Committee was established in July 2019 in anticipation of the Spring 2020 CEO retirement.
3. Ms. Robert's term ended on 31 December 2019. She was a member of the Audit and Risk Management Committee until such date.
4. Non-Committee Members were invited to attend the June and October 2019 Audit and Risk Management Committee meetings to review the Annual Audit Report and Selection of the Auditor respectively. Ms. Verret-Morin and Mr. Dunlap's terms ended on 11 July 2019.
5. Ms. Taylor served as chair of the Audit and Risk Management Committee until she resigned effective 13 September 2019 to pursue other professional opportunities outside of the province. Mr. Klohn assumed the chairing responsibilities on an interim basis until Ms. Kelly took on the role on 11 December 2019.
6. Ms. Robichaud-Trifts was a member of the Audit and Risk Management Committee until she became a member of the Human Resources and Governance Committee on 11 December 2019.
7. Mr. Van Iderstine, Ms. Kelly and Mr. French were appointed to the Commission on 31 October 2019. On 11 December, Mr. Van Iderstine and Ms. Kelly were appointed to the Audit and Risk Management Committee and Mr. French was appointed to the Human Resources and Governance Committee.
8. Ms. Evans Born was appointed to the Commission with an effective date of 1 January 2020. She also became a member of the Audit and Risk Management Committee on 1 January 2020.

# Committees

The Commission's structure is comprised of two standing committees: Audit and Risk Management; and Human Resources and Governance. The terms of reference for each of the committees are available in our *Governance Policy*. Committee Members are expected to have the time, experience and education to serve on a committee. A member's ability to participate must not be compromised by service on other external boards or committees. Members of the standing committees are all independent from the Commission. The Commission Chair attends committee meetings as an ex officio and non-voting member.

## Audit and Risk Management Committee

The Audit and Risk Management Committee is responsible for financial reporting and public disclosure, internal controls, audits and risk management of the Commission. It meets at least five times each year.

The Members of the Audit and Risk Management Committee are required to be financially literate and able to understand the financial statements of the Commission.

## Human Resources and Governance Committee

The Human Resources and Governance Committee is responsible for compensation and human resources policies and procedures. It is also responsible for the governance-related matters. It meets at least four times each year.

Committee	Committee Members	Committee Chair
Audit and Risk Management Committee	Peter Klohn (ex officio) Paulette Robert (until 31 December 2019) Yves Gagnon Lisa Taylor (until 13 September 2019) Céline Robichaud-Trifts (until 11 December 2019) Marilyn Evans Born (from 1 January 2020) Norma Kelly (from 11 December 2019) Paul Van Iderstine (from 11 December 2019)	Lisa Taylor (Chair until 13 September 2019)  Norma Kelly (Chair from 11 December 2019)
Human Resources and Governance Committee	Peter Klohn (ex officio) Michael D. Wennberg Ginette Verret-Morin (until 11 June 2019) Jim Dunlap (until 11 June 2019) Vincent L. Duff Céline Robichaud-Trifts (from 11 December 2019) Donald French (from 11 December 2019)	Michael D. Wennberg

## CEO Search Committee and New CEO

In July 2019, the Commission established an ad hoc CEO search committee in response to the CEO's planned retirement. The Committee consisted of Mr. Peter Klohn (Chair), Mr. Yves Gagnon (Vice-Chair), Ms. Lisa Taylor (Chair of the Audit and Risk Management Committee) and Mr. Michael Wennberg (Chair of the Human Resources and Governance Committee). Mr. Wennberg acted as Committee Chair and Ms. Manon Losier (VP, Legal, Education & Regulatory Support Services) acted as Committee Secretary. Following the announcement of Ms. Taylor's departure scheduled for September 2019, Ms. Céline Robichaud-Trifts joined the Committee in July 2019. The Committee met five times and developed the selection criteria and a position description based on required competencies. The position was advertised both internally and externally at a national level. The Committee reviewed applications, conducted interviews and made a recommendation to the Commission for appointment of a CEO. The successful candidate, Mr. Kevin Hoyt, was appointed CEO on 1 November 2019, effective 1 January 2020.

# Remuneration

FCNB Bylaw No. 3, *Commission and Tribunal Remuneration*, provides the remuneration, retainers and service fees, as applicable, for the Chair, Members, Vice-Chair and committee Chairs as set out below:

	Remuneration	Annual Retainer	Service Fees
Chair	Up to \$137,000	N/A	N/A
Members	N/A	\$ 10,000	\$350

Note: The Vice-Chair and committee Chairs each receive an additional retainer of \$2,000 per year.

## Chair

The *Act* bifurcates the positions of Chair and Chief Executive Officer to align more closely with modern corporate governance practices. At the time of the establishment of FCNB in 2013, based on its mandate and the requirement to oversee the integration of diverse regulatory units and a large complement of employees from different parts of Government, FCNB retained a Chair who would assume a hybrid role with elements of an executive chair position. This governance design is unique among New Brunswick Crown entities which follow a non-executive chair model.

Mr. Klohn received an annual compensation of \$137,000 for his services for the period 1 April 2019 to 31 March 2020. He is eligible to be reimbursed by the Commission for a health and dental plan up to the amount that the Commission pays for an employee’s participation in the Commission’s health and dental plan. In lieu of pension, he received a payment of \$12,330 (on an annual basis, nine percent of the total annual compensation earned for the period to a maximum of 50% of the registered retirement savings plan annual contribution limit as established by the Canada Revenue Agency for the taxation year). The Chair’s annual expenses, which mainly include business travel and training, were in the amount of \$17,993.

## Members' remuneration and expenses

The Members' retainers, service fees and expenses related to travel, meals, hotel, parking and education for the fiscal year 2019-2020 are included below. Members receive a service fee for each activity performed on behalf of the Commission, which includes preparation for each Commission meeting.

Members	Appointed or reappointed	Term end	Retainer	Service fees	Allotment for travel time	Total remuneration <sup>1</sup>	Expense reimbursement and allowances
Paulette Robert (Losier Settlement)	21 August 2013, reappointed on 27 September 2017	31 December 2019	\$7,500	\$8,750	\$2,300	\$18,550	\$6,669
Michael D. Wennberg (Rothsay)	21 August 2013, reappointed on 21 August 2018	20 August 2022	\$12,000	\$19,775	\$300	\$32,075	\$5,349
Yves Gagnon (Campbellton)	6 February 2014; reappointed on 16 August 2018	15 August 2021	\$12,000	\$13,475	\$2,900	\$28,375	\$12,726
Ginette Verret-Morin (Edmundston)	12 July 2016	11 July 2019	\$2,826	\$3,500	\$1,100	\$7,426	\$2,868
Jim Dunlap (St. Stephen)	12 July 2016	11 July 2019	\$2,826	\$2,975	\$600	\$6,401	\$2,195
Lisa Taylor (Upper Kingsclear)	27 September 2017	13 September 2019	\$5,446	\$5,075	\$400	\$10,921	\$1,482
Céline Robichaud-Trifts (Moncton)	27 September 2017	26 September 2020	\$10,000	\$14,175	\$1,500	\$25,675	\$8,106
Vincent L. Duff (Hampton)	16 August 2018	15 August 2021	\$10,000	\$13,475	\$500	\$23,975	\$7,331
Norma Kelly (Saint John)	31 October 2019	30 October 2022	\$4,799	\$5,600	\$200	\$10,599	\$1,254
Donald French (Dieppe)	31 October 2019	30 October 2023	\$4,185	\$5,600	\$600	\$10,385	\$2,022
Paul Van Iderstine (Moncton)	31 October 2019	30 October 2021	\$4,185	\$5,600	\$600	\$10,385	\$2,158
Marilyn Evans Born (Fredericton)	1 January 2020	31 December 2021	\$2,500	\$3,850	\$400	\$6,750	\$1,133

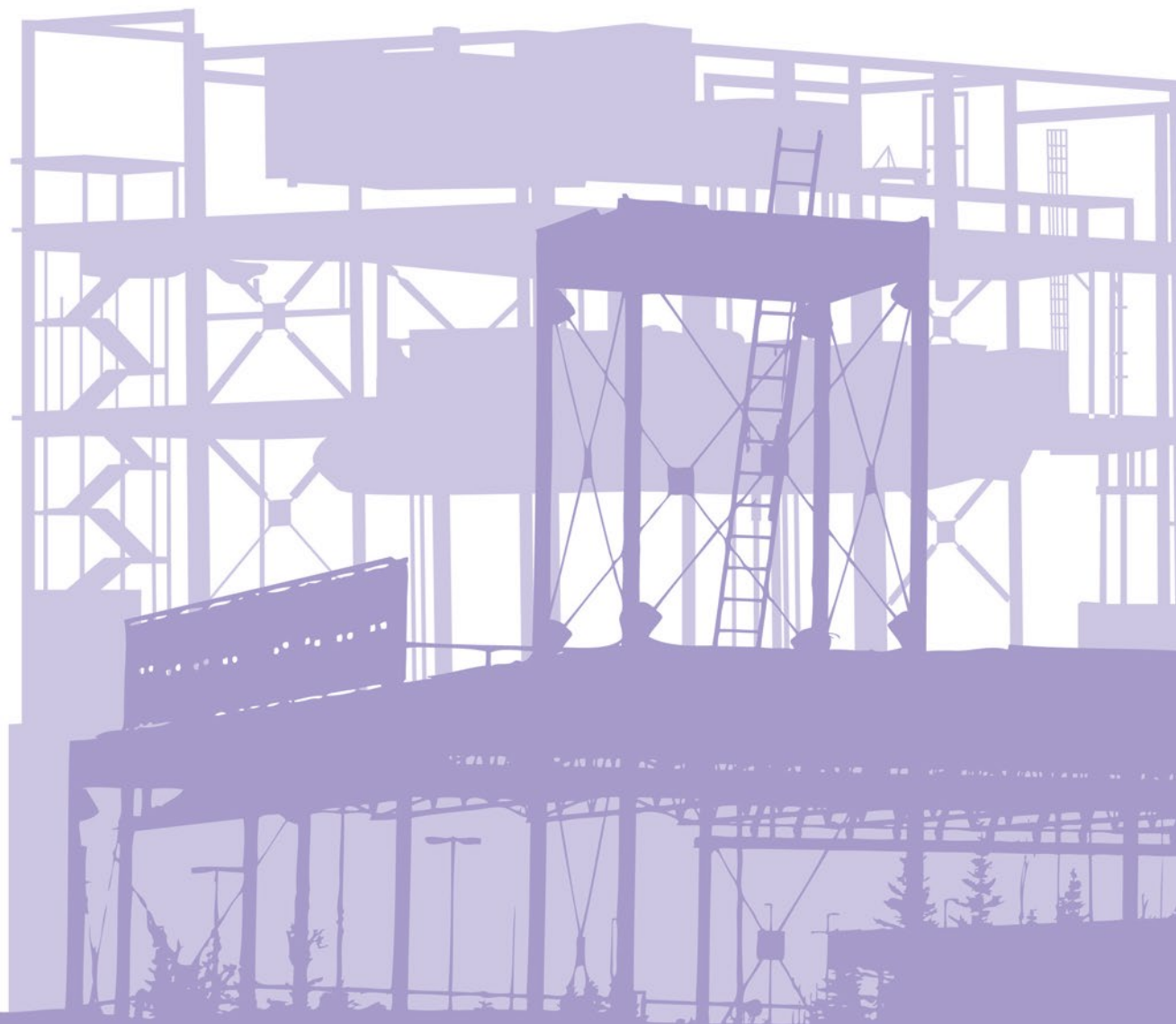
1. Variation in expenses reflects in part the distance to travel to Commission-related events.

# Executive Management and Division Heads

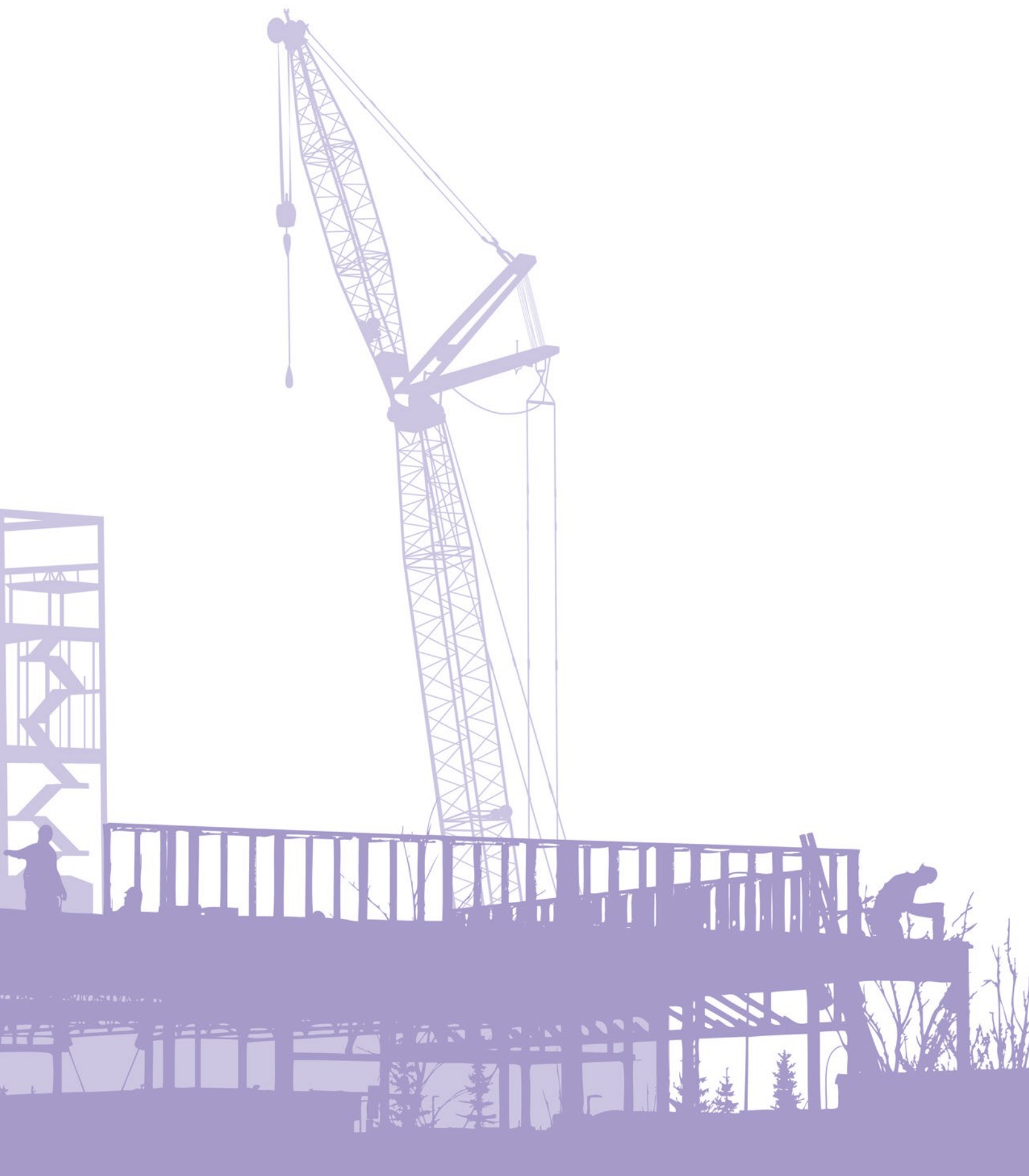
Name	Title	Start Date
Rick Hancox	Chief Executive Officer (until 31 December 2019)	1 September 2004 (New Brunswick Securities Commission)
Kevin Hoyt	Chief Executive Officer (effective 1 January 2020)	12 October 2004 (New Brunswick Securities Commission)
Manon Losier	Vice President, Legal, Education and Regulatory Support Services	25 April 2005 (New Brunswick Securities Commission)
Angela Mazerolle	Vice President, Regulatory Operations; Superintendent of Insurance, Pensions, Credit Unions and Loan and Trust Companies; Director of Mortgage Brokers, Consumer Affairs and Cooperatives	26 April 2002 (Department of Training and Employment Development with GNB. In 2005, transferred to Department of Justice with GNB.)
Jake van der Laan	Director, Information Technology and Regulatory Informatics and Chief Information Officer	20 March 2006 (New Brunswick Securities Commission)
To-Linh Huynh	Executive Director, Securities Division	17 February 2014
Jeff Harriman	Director, Corporate Services Division	25 June 2007 (New Brunswick Securities Commission)
Erin Toole	Director, Legal Services Division	10 April 2006 (New Brunswick Securities Commission)
Jennifer Sutherland Green	Director, Pensions and Insurance Division	13 January 2014
Marissa Sollows	Director, Education and Communications Division	17 July 2006 (New Brunswick Securities Commission)
Sara Wilson	Acting Co-Director, Education and Communications Division	29 September 2011 (New Brunswick Securities Commission)
Erin King	Acting Co-Director, Education and Communications Division	1 May 2017
Alaina Nicholson	Director, Consumer Affairs Division	5 October 2005 (Department of Justice with GNB)
Étienne LeBoeuf	Director, Financial Institutions Division	13 April 2015
Andrew Nicholson	Director, Unclaimed Properties	23 August 1999 (Department of Justice with GNB)
Susan Powell	Director, Enforcement Division	28 February 2005 (New Brunswick Securities Commission)

FCNB was created in July 2013. The New Brunswick Securities Commission and Divisions of the Department of Justice were predecessor organizations of FCNB.

# Management's discussion and analysis







# For the fiscal year ended 31 March 2020

Dated 25 June 2020

This Management's Discussion and Analysis (MD&A) is intended to help the reader understand the Financial and Consumer Services Commission (FCNB), our operations, financial performance and the present and future regulatory environment. While the financial statements reflect actual financial results, the MD&A explains these results from management's perspective and sets out FCNB's plans and budget for the year ahead.

This MD&A should be read in conjunction with FCNB's 2020 financial statements, including related notes, for the fiscal year ended 31 March 2020. Unless otherwise noted, reference to a year means FCNB's year ending 31 March. For example, "2020" means the fiscal year ending 31 March 2020. All financial information related to 2019 and 2020 has been prepared according to International Financial Reporting Standards (IFRS).

The terms "we", "us", "our", and "FCNB" refer to the Financial and Consumer Services Commission and references to the "Act" refer to the *Financial and Consumer Services Commission Act*.

Assumptions made throughout this MD&A, although reasonable at the date of publication, are not a guarantee of future performance. Certain statements outlining 2021 expectations are forward-looking and subject to risks and uncertainties.

# Overview

FCNB is an independent regulatory agency, responsible for administering a broad range of financial and consumer legislation in New Brunswick. With offices in Saint John and Fredericton, FCNB's operations are funded through a variety of fees and assessments paid by those we regulate. We have never borrowed from the Province of New Brunswick. As a provincial Crown Corporation, we are exempt from income taxes.

We operate under the direction of appointed commission members who establish rules and policies governing our regulated sectors. Commission members, in conjunction with our Audit and Risk Management Committee, have an oversight role regarding the integrity of reported information.

The *Act* also established The Financial and Consumer Services Tribunal. This independent administrative tribunal performs adjudicative functions independently from the activities of the Commission. We show the results of the Tribunal's operations in our financial statements.

New Brunswick has joined British Columbia, Saskatchewan, Ontario, Prince Edward Island, Yukon Territory, Canada and more recently Nova Scotia in the proposed cooperative capital markets regulatory system (Cooperative System) for securities. In the event that the Cooperative System is implemented, this initiative will have a significant impact on the Commission, as an integrated regulator. The agreement to join outlines the transfer of 37 positions and revenue related to the regulation of securities to this new cooperative capital markets regulator when implemented. Because this initiative would drive a significant loss of revenue to FCNB, we have established a restructuring reserve (\$10 million) and increased our stabilization reserve to \$4 million. These measures would allow us to maintain our self-funded status which is a legislative requirement and provide the time necessary to restructure, develop operational efficiencies and consult with the Province and regulated sectors regarding any required fee rule changes. With the reserves fully funded, a significant portion of the 2020 operating surplus generated by FCNB was allocated back to the Province.

FCNB staff maintains accounting and internal control systems to provide reasonable assurance that financial information is complete, reliable and accurate, and that assets are adequately protected.

## Selected Financial Information

	Budget 2021	Actual 2020	Actual 2019	Actual 2018
Revenue	\$22,564,140	\$21,400,813	\$21,059,487	\$20,644,285
Expenses	15,066,256	12,812,515	12,237,694	11,640,427
Excess of revenue over expenses	7,497,884	8,588,298	8,821,793	9,003,858
Total assets		23,791,484	21,869,408	22,099,897
Total liabilities		7,235,690	5,930,041	5,974,865
Total equity balance		16,555,794	15,939,367	16,125,032
Distributions to government		\$7,422,407	\$9,007,458	\$9,769,693

## Excess Revenue Over Expenses

Net income for the year ended 31 March 2020 was \$8,588,298, a decrease over the previous year by \$233,495. Revenues of \$21,400,813 were under budget by \$522,685 due, in large part, to the timing of the implementation of the new *Credit Union Act*. Also, budgeted growth in investment fund filings did not materialize and growth was below historical trends offset somewhat by the increase in registration revenue. Expenses of \$12,812,515 were below budget by \$1,587,111 due, in part, to fewer tribunal matters requiring review, governance and general administration expenses which were directly impacted late in the fiscal year by COVID-19 and unfilled budgeted staff positions.

# Revenue

FCNB's revenue comes from four sources:

- filing, registration, licence and application fees paid by regulated entities and persons;
- assessments charged to the insurance and credit union sectors;
- amounts collected from disgorgement orders for breaches of the *Securities Act*, as well as associated cost recoveries; and
- investment income and miscellaneous charges

In 2020, revenue totalled \$21,400,813, a 1.6% increase from 2019 revenue of \$21,059,487. The securities sector represents the largest source of revenue for FCNB, at 77% of total revenue.

A direct relationship exists between revenue and expenses for the insurance sector. According to the *Insurance Act* (“*Act*”), all costs for administering the *Act* must be assessed and recovered from licensed insurers. When expenses are budgeted or incurred for this sector, an equivalent amount of revenue is budgeted or incurred. A reduction in expenses produces an equivalent drop in revenue, although the net impact is neutral. So, although the insurance sector assessment was below budget for 2020, this corresponds to an equivalent decrease in insurance sector expenses. This relationship also applies to the administration of the *Credit Union Act* as FCNB is recovering costs associated with work required to administer the regulatory system for Credit Unions.

## Analysis of total revenue (by nature)

Category	Description	2020 Amount	2020 % of Revenue	2019 Amount	2019 % of Revenue	Change
Prospectus and distribution filings	Paid by securities issuers when filing distribution documents. Most of this is paid by mutual funds for their ability to be sold in New Brunswick.	\$10,158,300	47.5%	\$10,119,500	48.1%	\$38,800
Registration fees	Paid by individuals and firms registering with FCNB to sell or advise on securities.	4,314,523	20.2	4,205,893	20.0	108,630
Financial filing fees	Paid by companies and mutual funds when filing annual financial statements and annual information forms.	1,951,800	9.1	1,903,050	9.0	48,750
Licences and fees	Paid by a variety of sectors to be registered or compliant with legislation, including fees from insurance agents, loan and trust companies, pension filings, as well as a variety of consumer affairs fees.	1,942,016	9.1	1,834,776	8.7	107,240
Exemptions and orders	Paid by market participants primarily to request exemptions from <i>Securities Act</i> requirements.	24,150	0.1	23,500	0.1	650
Other fees	Paid by regulated entities for late filing and other miscellaneous fees.	24,145	0.1	34,838	0.2	(10,693)
<b>Total fees</b>		<b>\$18,414,934</b>	<b>86.1%</b>	<b>\$18,121,557</b>	<b>86.0%</b>	<b>\$293,377</b>

## Analysis of total revenue (by nature) continued

Category	Description	2020 Amount	2020 % of Revenue	2019 Amount	2019 % of Revenue	Change
Assessments	Paid by licensed insurers to administer the <i>Insurance Act</i> and by credit unions to administer the <i>Credit Unions Act</i> .	\$2,400,699	11.2%	\$2,281,648	10.8%	\$119,051
Disgorged funds	Paid subsequent to a hearing panel ruling.	3,000	0.0	12,000	0.1	(9,000)
Investment Income	Earned on bank balances and short-term investments.	446,082	2.1	399,410	1.9	46,672
Miscellaneous Income	Primarily a recovery of costs for providing assistance to the Risk Management Agency (RMA), a secondment to the cooperative capital markets regulatory system (Cooperative System), and the New Brunswick Credit Union Deposit Insurance Corporation (NBCUDIC).	136,098	0.6	244,872	1.2	(108,774)
<b>Total revenue</b>		<b>\$21,400,813</b>	<b>100.0%</b>	<b>\$21,059,487</b>	<b>100.0%</b>	<b>\$341,326</b>

## Analysis of total revenue (by function)

Division	Description	2020 Amount	2020 % of Revenue	2019 Amount	2019 % of Revenue	Change
Securities	Paid by market participants under the <i>Securities Act</i> for distributing mutual funds, issuing offering documents, making required financial filings, and for the registration of firms and individuals.	\$16,487,314	77.0%	\$16,437,058	78.1%	\$50,256
Insurance	Paid by licensed insurers as an assessment for administering the <i>Insurance Act</i> (\$2,096,233) and for the provision of insurance licences and miscellaneous minor revenue (\$1,093,232).	3,189,465	14.9	3,134,568	14.9	54,897
Consumer Affairs	Licences and fees paid under a variety of consumer protection legislation, such as collection agents (\$113,482), real estate agents (\$83,373), cost of credit disclosure (\$55,645), commissioners of oaths (\$39,925), pre-arranged funerals (\$27,821), direct sellers (\$61,732), auctioneers (\$5,654), mortgage brokers (\$73,500), payday loans (\$15,000) and miscellaneous (\$6,685).	482,817	2.2	486,685	2.3	(3,868)



## Analysis of total revenue (by function) continued

Division	Description	2020 Amount	2020 % of Revenue	2019 Amount	2019 % of Revenue	Change
Financial Institutions	Paid by credit unions as an assessment for administering the <i>Credit Unions Act</i> (\$304,466) and for fees paid by loan and trust companies (\$141,785) and fees paid by co-operatives and a minor miscellaneous fee (\$65,692).	511,943	2.4	265,294	1.2	246,649
Pensions	Paid by pension plans to register pension plans, amend pension plans, submit annual information forms, register standard contracts and other minor fees and charges.	268,809	1.3	275,174	1.3	(6,365)
Investment and Miscellaneous	Primarily investment income.	460,465	2.2	460,708	2.2	(243)
<b>Total revenue</b>		<b>\$21,400,813</b>	<b>100.0%</b>	<b>\$21,059,487</b>	<b>100.0%</b>	<b>\$341,326</b>

## Expenses by nature<sup>1</sup>

Category	2020	% of 2020 Expenses	2019	% of 2019 Expenses	Change
Salaries and benefits	\$9,434,785	73.7%	\$8,967,134	73.3%	\$467,651
Administration	1,479,311	11.5	1,400,971	11.4	78,340
Professional services	488,363	3.8	471,485	3.9	16,878
Travel	385,790	3.0	340,326	2.8	45,464
Premises <sup>2</sup>	368,554	2.9	697,832	5.7	(329,278)
Depreciation and amortization	652,712	5.1	347,946	2.8	304,766
Disgorged funds	3,000	0.0	12,000	0.1	(9,000)
<b>Total expenses</b>	<b>\$12,812,515</b>	<b>100.0%</b>	<b>\$12,237,694</b>	<b>100.0%</b>	<b>\$574,821</b>

1. See note 23 of the Notes to our Financial Statements for expenses by function.

2. See Note 1 (g) and Note 14 of our Financial Statements for the impact on our premises.

## Analysis of total expenses

Managing expenses over the fiscal year is important to FCNB. Various measures are taken to drive fiscal responsibility, including:

- preparing an annual budget and strategic plan that is approved by the commission members;
- converting the annual budget into monthly budgets;
- reporting actual versus budget amounts to management every month;
- providing a budget variance analysis each month to the Audit and Risk Management Committee and commission members;
- preparing quarterly financial forecasts for management and commission members;
- requiring commission member approval of significant expenses or contracts; and
- continually improving our processes;

In 2020, our total expenses were \$12.81 million, up \$0.57 million (4.7%) from \$12.24 million in 2019. This increase was predominantly due to the increase in salary and benefits, general administration and travel, offset somewhat by depreciation and amortization, which collectively accounted for the majority of the total increase in expenditures.

## Operating costs

Salaries and benefits expenses increased from \$9 million in 2019 to \$9.4 million and were 73.6% of operating costs (73.3% in 2019). At year end, 91 staff were on payroll vs 87 last year. The increase in staff complement related to our preparing for increased obligations related to the administration of the *Credit Unions Act*, and increased spending on Information and technology related to cybersecurity and other system improvements.

In 2020, FCNB's administration expenses remained similar to the prior year with a slight increase from \$1.40 million in 2019 to \$1.48 million, and were 11.5% of operating costs (11.4% in 2019). Education and communications expenses were the largest category of expenses at \$463,995 (\$523,371 in 2019), and funded an online and television fraud prevention campaign, capital market development initiatives, stakeholder support and various outreach initiatives, such as those related to financial literacy. Members and staff development costs were \$305,322 (\$244,060 in 2019), and funded group leadership and professional development and individual development.

Professional services expenses, increased by \$16,878 (3.9%) to \$488,363 for 2020, these costs cover general consulting, translation, legal and other expenses. General consulting totaled \$174,897 for 2020 (\$97,242 in 2019). Other expenses captured under this line item include information technology consulting, the financial audit, and other consulting activities associated with regulatory matters.

Translation expenses decreased to \$79,475 in 2020 from \$81,223 in 2019, a 2% decrease.

Travel costs were \$45,464 (13.4%) higher than the previous year, and reflect increased investigation-related travel, new oversight of the credit union system as of 1 January 2020 and additional regulatory activity. Travel was primarily related to attendance at policy and other regulatory meetings with partners in the securities, insurance and pension sectors, compliance work and training purposes.

Due to changes in accounting rules related to leases, the premises costs relate only to our Fredericton office as we currently do not have a long-term lease. Costs associated with our Saint John office are included in depreciation and amortization. We are reviewing the opportunity to sign a long-term lease in Fredericton, which would change the status of that lease into a right-of-use asset and the lease value would then be capitalized and costs would flow through depreciation and amortization and interest expenses. Our premises costs have decreased by \$329,278, while our amortization and depreciation costs increased by \$304,766.

Depreciation and amortization expenses were \$652,712 (5%) of our total expenses, a much higher proportion than in prior years due to the change in our accounting policy related to leases. However, other items remain lower than the previous year due to office furniture and equipment at our Fredericton location being fully depreciated in the previous year

The amortization of intangible assets decreased by \$3,272 to \$204,384 in 2020, decreasing the expense line item to 5.1%.

Disgorged funds represent money recovered from enforcement actions. This money is turned over to specific investors who were financially harmed by those found to have violated the *Securities Act*. In 2020, \$3,000 was collected and \$3,000 paid to nine investors as a result of a 2008 decision.

## Market enhancement reserve

Funds in the market enhancement reserve are to be spent only on endeavours or activities that enhance the financial marketplace or consumer protection in New Brunswick. These funds are maintained in a separate bank account and generate their own bank interest. No administrative penalties were assessed in 2020 (\$0 in 2019). The balance in the market enhancement reserve stands at \$157,029 (\$153,624 in 2019).

## Liquidity and financial position

FCNB has sufficient liquidity to finance its operations and capital purchases. During the fiscal year, the net increase in cash from operating activities was \$9,975,191, an increase of \$1,329,757 (15.4%) from 2019. The cash and cash equivalents held for designated purposes at the end of the year total \$5,444,498, the increase relates primarily to a payment due to the province that was provided in April. The remainder of the increase from 2019 of \$3,914,557 is mostly due to changes in working capital and depreciation. Our investment strategy includes staggering our short-term investments, such that an investment matures every three months and represents an available source of liquidity.

## Disposition of surplus operating funds

FCNB made a series of payments totaling \$7,422,407 (\$9,007,458 in 2019) to the Province of New Brunswick. A payment related to the current year was paid in April, 2020 totalling \$549,464.

## Stabilization reserve

FCNB maintains a stabilization reserve. The maximum value of the reserve is set at \$4 million. The stabilization reserve allows us to maintain an operating contingency to absorb revenue shortfalls or unexpected expenditures that could arise from assuming a large regulatory mandate. Revenue generated from the reserve is moved into general operations. The reserve was fully funded at year-end.

The \$4 million (\$4 million in 2019) reserve balance was invested in a one-year guaranteed investment certificate.

## Restructuring reserve

The Province of New Brunswick's participation in the proposed cooperative capital markets regulatory system (Cooperative System) (see **Risks and Uncertainties** section below) would shift responsibility for securities regulation from FCNB to the Cooperative System. It would also require the transfer of FCNB staff to the Cooperative System. FCNB's revenue would be significantly affected as FCNB would no longer collect fees from the securities sector which represents 77% of its revenue. The loss of securities revenue would leave us in a deficit position, mainly because securities revenue has, thus far, largely contributed to our ability to develop and deliver consumer protection initiatives in all of our regulated sectors. The fees in many of our regulated sectors have not been updated for decades. They no longer reflect the cost of regulation and are out of step with similar fees charged in other jurisdictions. We have developed new fee schedules and will continue to work with the Government to have the existing outdated fee regulations repealed so that our new fee schedules can be implemented. The cumulative deficits that are expected to be incurred may exceed the capacity of the stabilization reserve before we

anticipate being in a position to restructure to meet our revised mandate. FCNB will need time to develop operational efficiencies and to consult with the Province and our regulated sectors for any required rule changes necessary to maintain our self-financing legislative requirements. As a result, a restructuring reserve was established and funded.

The restructuring reserve is contemplated to be temporary in nature. We anticipate that it will be wound down by the end of the first five full fiscal periods if the Cooperative System becomes operational. Any balance of the reserve at wind-up will likely be paid to the consolidated fund of the Province of New Brunswick.

In 2015, the restructuring reserve was funded by a one-time charge to retained earnings in the amount of \$10,000,000. In 2020, \$2.5 million of the reserve balance was re-invested every three months in a one-year guaranteed investment certificate as each investment matures.

## Accounts receivable

Assessments that will be levied to the insurance and the credit union system through NBCUDIC largely make up the accounts receivable. These amounts are assessed subsequent to year-end and they appear as accrued revenue with a corresponding receivable. This accounts for about 79.2% of the receivable balance in 2020 (85.3% in 2019). General fee receivables and HST receivables make up the majority of the remaining balance.

## Risks and uncertainties

### Securities regulatory reform

New Brunswick has joined British Columbia, Saskatchewan, Ontario, Prince Edward Island, Yukon Territory, Canada and more recently Nova Scotia in an attempt to establish a cooperative capital markets regulatory system (Cooperative System) for securities. The remaining provinces and territories have been invited to participate in this system. The decision to join this initiative would have a significant impact on the Commission, as an integrated regulator, at such time as the Cooperative System is implemented. This implementation would ultimately result in the transfer of 37 positions and revenue related to the regulation of securities to this new cooperative capital markets regulator. This revenue is very material to FCNB, as discussed in the restructuring reserve section of this MD&A. The intent would be to create a full-service capability for that organization with its office in Saint John.

Participating jurisdictions are reviewing the timelines for the launch of the Cooperative System. The uncertainty of the timeline does present challenges for FCNB's organizational planning. Once a firm timeline is established additional resources will be allocated to prepare for implementation of the new regime.

## Operational and infrastructure risks

We are exposed to various types of operational risks, including the risk of fraud by employees or others, unauthorized transactions by employees and operational or human error. Another risk is a computer or telecommunications systems failure, despite efforts to maintain these systems in working order.

Shortcomings or failures of internal processes, employees or systems, including financial, accounting or other data processing systems, could lead to financial loss and damage to our reputation. Our ability to conduct business may be adversely affected by a disruption in the infrastructure that supports our operations and the communities in which we do business. We have policies and processes in place to manage and control these risks. Key components include:

- Commission members operating as a board of directors who place a priority on sound corporate governance;
- an active and effective Audit and Risk Management Committee;
- a strong internal control environment, with staff from the Communications and the Legal Services divisions participating in managing reputation risk;
- an annual review of internal controls and legislative compliance;
- a Risk Management Policy, with a quarterly review of risks we face;
- the effective communication of policies to staff and new commission members on matters such as privacy and conflicts of interest, with various channels for reporting concerns;
- mitigation of risk to assets through insurance; and
- tracking measures (like turnover and compensation surveys, and an employee engagement survey) to manage our ability to attract and retain people as a way to improve our ability to retain corporate memory and to ensure effective knowledge transfer.

FCNB is involved in various legal actions arising from the ordinary course and conduct of business. Settlements, if any, concerning these contingencies will be accounted for in the period in which the settlement occurs. The outcome and ultimate disposition of these actions are not determinable at this time.

## Fee revenue

We fund operations primarily from filing fees paid by market participants and regulated entities. Fee revenue is generally not sensitive to market conditions and have not substantially changed this year.

## National electronic filing system for the Securities sector

Under various agreements with the Canadian Securities Administrators (CSA), CGI Information Systems and Management Consultants Inc. (CGI) operates the following electronic systems:

- System for Electronic Document Analysis and Retrieval (SEDAR), an electronic system for securities market participants to file regulatory documents and pay fees
- National Registration Database (NRD), an electronic system for registrants to register and pay fees
- System for Electronic Disclosure by Insiders (SEDI), an Internet-based system for insiders to report their trades

About 77% of our total revenue is collected through SEDAR and NRD. CGI maintains a comprehensive business continuity plan for each system and the CSA requires a third-party audit report (CSAE 3416) each year. These national systems are currently in a multi-year renewal project. CGI was awarded the contract. CGI will assume responsibility for preparing, configuring, testing, deploying, and then running and maintaining a new system to replace the CSA National Systems (e.g. SEDAR, SEDI, Cease-Trade Order Database, National Registration Database, National Registration Search and Disciplined List) with a modernized solution.



# Critical accounting estimates

Management must make estimates and assumptions when preparing our financial statements. Management makes those assumptions based on experience and current conditions and believes that they are reasonable. However, actual results may differ from management’s estimates. In our financial statements, management has estimated the portion of accounts receivable we will receive, the useful lives of our capital assets and the value of employee leave liabilities.

We accrue amounts due when they meet generally accepted revenue recognition criteria. We have not recognized any provisions for legal challenges in the financial statements.

# Changes in accounting policies

Management is responsible for selecting the significant accounting policies and preparing the financial statements, including the accompanying notes, in accordance with Canadian generally accepted accounting principles (GAAP).

The new standard for leases (IFRS 16) had a significant impact on our annual financial statements this past year.

IFRS 16, Leases replaced IAS 17 and requires that we include on the balance sheet current finance leases, such as long-term rental agreements.

The lease obligations are now equal to the present value of the remaining lease payments, discounted using the interest rate implicit in the lease. We now refer to these leases as right of use (ROU) assets and they generally will be equal to the lease liabilities at adoption, adjusted by the amount of any prepaid lease payments and/or lease incentives.

The impact on the financial statements are as follows:

	31 March 2019	Opening Adjustment	1 April 2019
Property, plant and equipment including right of use assets	\$209,539	\$638,650	\$848,189
Lease obligations – current	8,403	342,754	351,157
Lease obligations – long term	26,366	322,340	348,706

## 2021 outlook

Budgeted revenue is \$22.5 million for 2021. This 2.8% increase over 2020 revenue is primarily due to an estimated increase in cost recoveries associated with administering the *Credit Unions Act* of \$666,000 and the insurance assessment of \$336,000.

Operating expenses are budgeted to be \$15 million for 2021, an increase of \$2.3 million over 2020 actual expenses. This increase is mainly due to adding resources to our information and technology capacity and to salary costs associated with the revised regulatory structure for the credit union system. The first is driven by increasing demand for IT services, particularly to develop an IT solution for our new Unclaimed Property regime, improve our capacity to manage cyber security risk, continue development of our regulatory systems, and add in-house capacity to transition to, and manage Office365 and SharePoint Online systems in the near term.

These additional items flow from a recognition by both management and the Board that information technology and cybersecurity are increasingly critical to the mandate and reputation of the Commission and thus required additional resourcing.

Our budgeted surplus for 2021 is about \$7.5 million. Given the funded stabilization and restructuring reserves, although not precluding any subsequent determinations by the Commission to increase these reserves, we intend to transfer ongoing surpluses to the Province of New Brunswick until the revenue associated with securities regulation is forgone in the event of a Cooperative System.

However, we may undertake interim measures in 2021 to transition toward our post-securities responsibility model, which may drive deviations of actual results to budget.

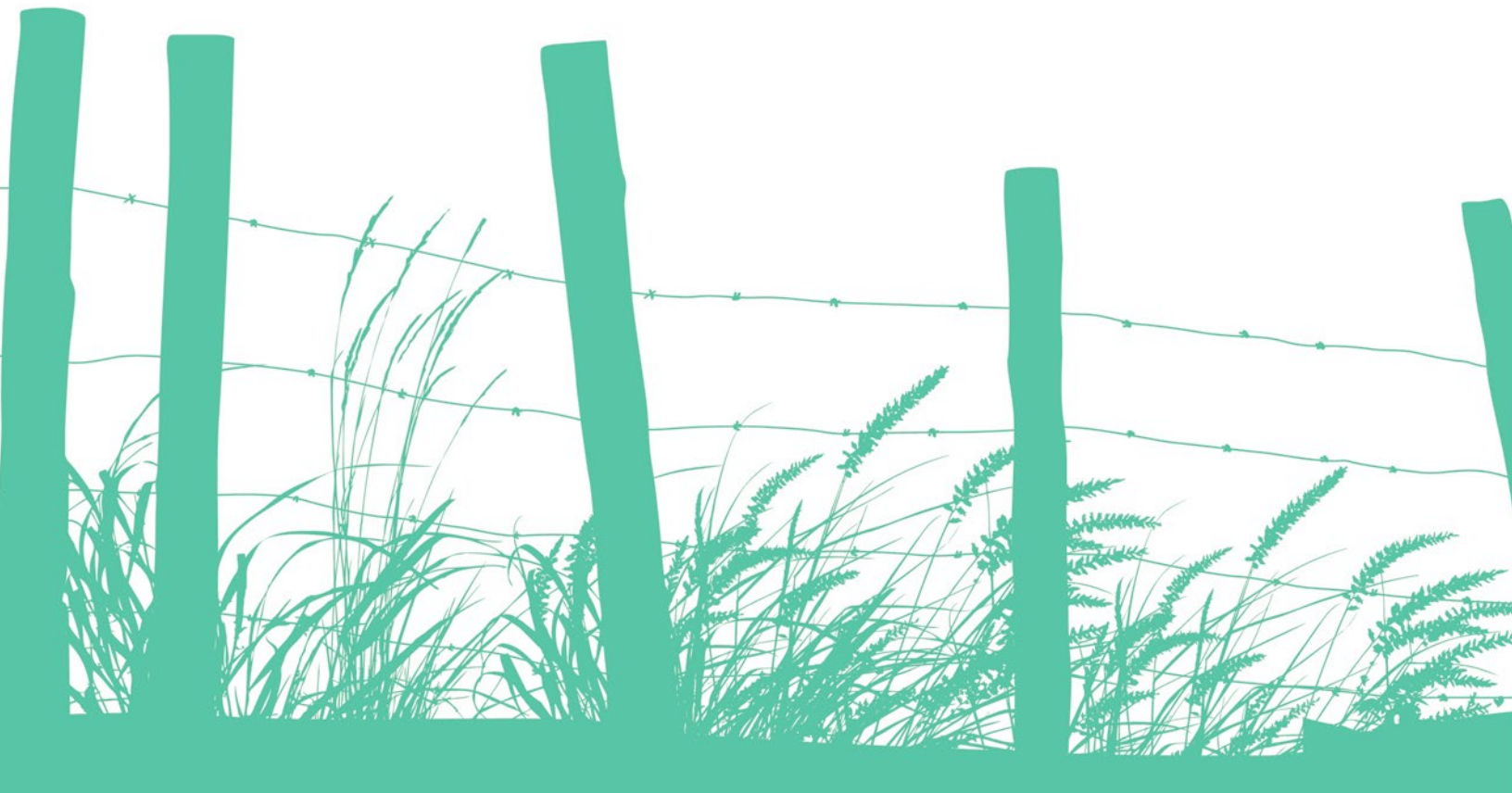
## MD&A supplement – Compensation disclosure – Senior management remuneration

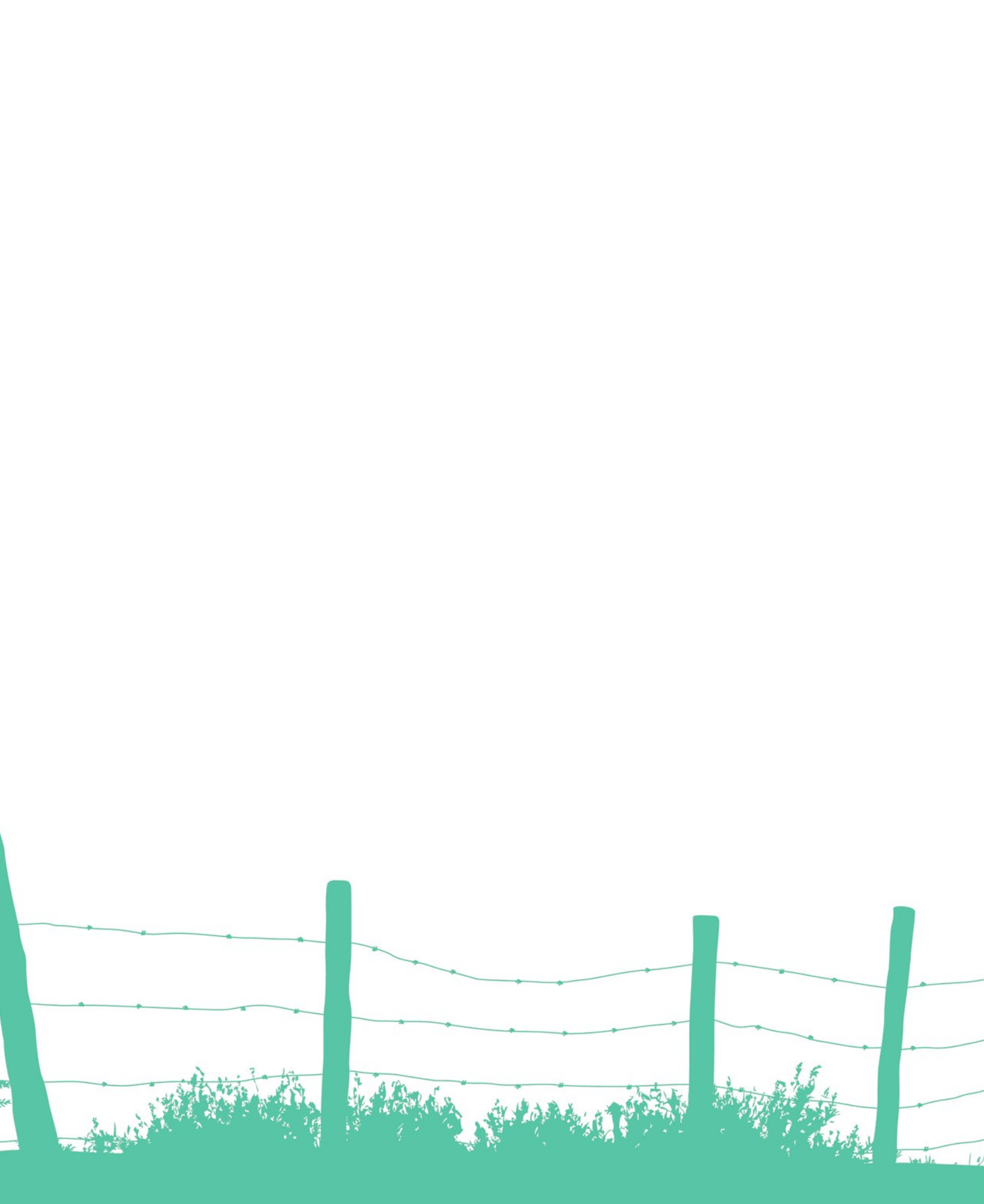
Senior management includes the Chief Executive Officer (CEO), two Vice Presidents, Chief Information Officer (CIO) and nine division heads. Their compensation and benefits are determined by FCNB and are based on advice of an independent consultant. Senior management also receive the same employment benefits received by all staff, which includes health, dental and life insurance, pension, leave and parking. The CEO also has the use of a vehicle.

### Senior management remuneration

Position	Salary range (\$) as at March 2020
Chief Executive Officer	\$150,395 - \$187,994
Vice Presidents (2) and Director (1), Information Technology and Regulatory Informatics and Chief Information Officer	\$131,252 - \$164,064
Directors (9)	\$112,321 - \$140,401

# Management's responsibility and certification









## Independent auditor's report

To the Chairperson and Members of Financial and Consumer Services Commission

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### Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Financial and Consumer Services Commission (the Commission) as at March 31, 2020 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

#### What we have audited

The Commission's financial statements comprise:

- the statement of financial position as at March 31, 2020;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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### Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

#### Independence

We are independent of the Commission in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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### Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

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

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

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### *Auditor's responsibilities for the audit of the financial statements*

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

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

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





- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

**(signed) PricewaterhouseCoopers LLP**

Chartered Professional Accountants

Saint John, New Brunswick  
July 10, 2020



# Financial and Consumer Services Commission

Statement of Comprehensive Income (by nature)  
for the year ended 31 March 2020 (in Canadian \$)

	2020	2019
<b>REVENUE</b>		
Fees		
Prospectus and distribution filings	\$ 10,158,300	\$ 10,119,500
Registrations	4,314,523	4,205,893
Financial filings	1,951,800	1,903,050
Licences and fees	1,942,016	1,834,776
Exemptions and orders	24,150	23,500
Other	24,145	34,838
Assessments	2,400,699	2,281,648
Disgorged funds	3,000	12,000
Investment income	446,082	399,410
Miscellaneous	136,098	244,872
	21,400,813	21,059,487
<b>EXPENSES</b>		
Salaries and benefits (Note 21)	9,434,785	8,967,134
Administration (Note 22)	1,479,311	1,400,971
Professional services	488,363	471,485
Travel	385,790	340,326
Premises	368,554	697,832
Depreciation and amortization	652,712	347,946
Disgorged funds (Note 11)	3,000	12,000
	12,812,515	12,237,694
<b>COMPREHENSIVE INCOME</b>	<b>\$ 8,588,298</b>	<b>\$ 8,821,793</b>

The accompanying notes are part of these financial statements.

# Financial and Consumer Services Commission

## Statement of Changes in Equity for the year ended 31 March 2020 (in Canadian \$)

	General	Restructuring reserve	Stabilization reserve	Market enhancement and consumer protection reserve	Disgorgement reserve	Total
Balance, 31 March 2018	\$ 1,974,315	\$ 10,000,000	\$ 4,000,000	\$ 150,527	\$ 190	\$ 16,125,032
Comprehensive income	8,821,793	-	-	-	-	8,821,793
Disposition of surplus operating funds (Note 15)	(9,007,458)	-	-	-	-	(9,007,458)
Investment income reallocation	(3,097)	-	-	3,097	-	-
Allocation from general (Note 11)	(12,000)	-	-	-	12,000	-
Allocation to general (Note 11)	12,000	-	-	-	(12,000)	-
Balance, 31 March 2019	1,785,553	10,000,000	4,000,000	153,624	190	15,939,367
Comprehensive income	8,588,298	-	-	-	-	8,588,298
Disposition of surplus operating funds (Note 15)	(7,971,871)	-	-	-	-	(7,971,871)
Investment income reallocation	(3,405)	-	-	3,405	-	-
Allocation from general (Note 11)	(3,000)	-	-	-	3,000	-
Allocation to general (Note 11)	3,000	-	-	-	(3,000)	-
Balance, 31 March 2020	\$ 2,398,575	\$ 10,000,000	\$ 4,000,000	\$ 157,029	\$ 190	\$ 16,555,794

The accompanying notes are part of these financial statements.

# Financial and Consumer Services Commission

## Statement of Cash Flows for the year ended 31 March 2020 (in Canadian \$)

	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Comprehensive income	\$ 8,588,298	\$ 8,821,793
Adjustment for depreciation and amortization	652,712	347,946
	9,241,010	9,169,739
Changes in non-cash working capital		
Accounts receivable	(259,864)	(427,583)
Prepaid expenses	32,537	(48,420)
Accounts payable and accrued liabilities	640,328	(126,784)
Accrued salaries and benefits	148,411	(103,996)
Employee future benefits	23,722	(103,275)
Accrued vacation liabilities	43,312	8,111
Deferred registration fee revenue	105,735	277,642
	9,975,191	8,645,434
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Disposition of surplus operating funds	(7,971,871)	(9,007,458)
Repayment of lease liability	(348,917)	(8,122)
	(8,320,788)	(9,015,580)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of property and equipment and intangible assets	(124,462)	(102,700)
Investments held for designated purposes	-	(1,500,000)
	(124,462)	(1,602,700)
<b>NET INCREASE IN CASH</b>		
	1,529,941	(1,972,846)
<b>CASH, BEGINNING OF YEAR</b>		
	3,914,557	5,887,403
<b>CASH, END OF YEAR</b>		
	\$ 5,444,498	\$ 3,914,557
<b>Represented by:</b>		
Cash	\$ 5,287,277	\$ 3,760,742
Cash held for designated purposes	157,221	153,815
	\$ 5,444,498	\$ 3,914,557
	<b>2020</b>	<b>2019</b>
Note: Cash flow from interest received is included in comprehensive income.	\$ 317,528	\$ 207,931

The accompanying notes are part of these financial statements.

# Financial and Consumer Services Commission

Notes to the Financial Statements  
for the year ended 31 March 2020 (in Canadian \$)

## 1. Nature of the corporation

The Commission is a body corporate without share capital under the name Financial and Consumer Services Commission (FCNB) as of 1 July 2013 under the provisions of the *Financial and Consumer Services Commission Act (New Brunswick) (Act)*.

The *Act* enables FCNB to be New Brunswick's integrated financial and consumer services regulator. With offices in both Fredericton and Saint John, FCNB is responsible for the administration and enforcement of provincial legislation regulating mortgage brokers, payday lenders, real estate, securities, insurance, pensions, credit unions, trust and loan companies, cooperatives, and a wide range of consumer legislation.

FCNB will develop and conduct educational programs on financial and consumer services and administers financial and consumer services legislation.

Financial and consumer services legislation means the:

<i>Auctioneers Licence Act</i>	<i>Direct Sellers Act</i>
<i>Collection and Debt Settlement Services Act</i>	<i>Franchises Act</i>
<i>Commissioners for Taking Affidavits Act</i>	<i>Gift Cards Act</i>
<i>Consumer Product Warranty and Liability Act</i>	<i>Insurance Act</i>
<i>Cooperatives Act</i>	<i>Loan and Trust Companies Act</i>
<i>Cost of Credit Disclosure and Payday Loans Act</i>	<i>Mortgage Brokers Act</i>
<i>Credit Reporting Services Act</i>	<i>Nursing Homes Pension Plans Act</i>
<i>Credit Unions Act</i>	<i>Pension Benefits Act</i>
	<i>Pre-arranged Funeral Services Act</i>
	<i>Real Estate Agents Act</i>
	<i>Securities Act</i>
	<i>Securities Transfer Act</i>

In support of the regulatory endeavours associated with the financial and consumer services legislation, the *Act* sets out a Commission and an adjudicatively independent Tribunal.

Certain comparative figures have been reclassified to conform with the financial presentation adopted for the current year

FCNB maintains its registered office at 85 Charlotte Street, Suite 300, Saint John, New Brunswick, E2L 2J2.

As a Crown corporation, FCNB is exempt from income taxes.

## **2. Basis of preparation and statement of compliance with International Financial Reporting Standards (IFRS)**

Management have prepared these financial statements according to IFRS as issued by the International Accounting Standards Board (IASB).

The financial statements are presented in Canadian dollars, which is also the functional currency of FCNB.

The financial statements have been prepared under the historical cost convention, as modified by financial assets and financial liabilities reported at fair value through the statement of comprehensive income.

The principal accounting policies applied in the preparation of these financial statements are set out in Note 3 below. These policies have been consistently applied to all the years presented.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying FCNB's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

## **3. Summary of significant accounting policies**

### **a) Revenue recognition**

FCNB recognizes revenue to depict the transfer of promised services to market participants in an amount that reflects the consideration to which FCNB expects to be entitled in exchange for those services by applying the following steps:

- Identify the legislation and regulation i.e. contract with the market participant;
- Identify the performance obligations in the legislation and regulation i.e. contract;
- Determine the transaction price;
- Allocate the transaction price; and
- Recognize revenue when, or as, FCNB satisfies a performance obligation.

Assessments are recognized in the period in which the costs to administer the specific financial and consumer services legislation are incurred.

Licensing and registration fees are deferred and recognized as revenue over the year to which they relate.

Activity fees are triggered by certain activities requested of staff by market participants (prospectus and private placement filings), by pension plans (registration of pension plans) and by loan and trust companies (review and issue of letters patent). The activities undertaken are normally completed in a relatively short period of time and are recognized as revenue when the associated services have been rendered.

Cost recovery of investigations and administrative penalty revenue are recognized at the decision date unless management determines no reasonable assurance as to ultimate collection exists, in which case they are recognized when cash is received.

Investment income is recorded as earned.

#### **b) Property and equipment and intangible assets**

Property and equipment and intangible assets are stated at cost less accumulated depreciation/amortization and impairment allowances. Cost includes expenditures that are directly attributable to the asset's acquisition. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to FCNB and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the statement of comprehensive income during the period in which they are incurred.

Depreciation and amortization are calculated to write off the cost, less estimated residual value, on a straight-line basis over the expected useful economic lives. The rates used are:

- Office furniture and equipment: 4 years
- Information technology infrastructure: 4 years
- Software: 4 years
- Automobile: 5 years
- Leasehold improvements: over term of lease
- Finance lease: over term of lease
- Right-of-use assets: over term of lease
- Website: 4 years
- Regulatory information data system (internally generated): 5 years



FCNB allocates the amount initially recognized in respect of an item of property and equipment to its significant parts and depreciates separately each such part. Residual values, the method of depreciation, and the useful lives of the assets are reviewed annually and adjusted, if appropriate.

Gains and losses on disposals of property and equipment and intangible assets are determined by comparing the proceeds with the carrying amount of the asset and are included as part of other gains and losses in the statement of comprehensive income.

#### **c) Impairment of property and equipment and intangible assets**

At each financial year end, FCNB reviews the carrying value of its property and equipment and intangible assets to determine whether those assets have suffered any impairment loss. If so, the asset's recoverable amount is estimated to determine the extent of the impairment loss.

The recoverable amount is the higher of fair value less costs to sell and value in use. An impairment loss is recognized as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately.

#### **d) Provisions**

Provisions are recognized when FCNB has a present legal or constructive obligation as a result of past events. It is more likely than not that a resource outflow will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period and are discounted to present value where the effect is material.

On occasion, legal proceedings are threatened or initiated against FCNB. FCNB provides for the estimated full cost of any such challenges where at the end of the year it is more likely than not that there is an obligation to be settled. The amount provided is discounted to present value.

#### **e) Cash**

Cash includes cash on hand and deposits held with banks.

## f) Financial instruments

Financial assets and liabilities are recognized when FCNB becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and FCNB has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset, and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

FCNB recognizes financial instruments based on their classification. Depending on the financial instruments' classification, changes in subsequent measurements are recognized in net income or comprehensive income.

### **Financial assets**

Financial assets are measured at amortized cost if both of the following criteria are met: the object of FCNB's business model for these financial assets is to collect their contractual cash flows; and the asset's contractual cash flows represent solely payments of principal and interest on the principal amount outstanding. They are initially measured at the amount expected to be received less, when material, a discount to reflect the time value of money. Subsequent to initial measurement, they are carried at amortized cost using the effective interest method less appropriate provisions for impairment.

FCNB applies the simplified method of the expected credit loss (ECL) model required under IFRS 9. Under this method, FCNB estimates a lifetime expected loss allowance for all receivables. Receivables are written off when there is no reasonable expectation of recovery. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

Financial assets are measured at fair value through other comprehensive income (FVTOCI) if both of the following criteria are met: the objective of FCNB's business model is achieved by both holding financial assets

in order to collect contractual cash flows and selling financial assets; and the contractual terms of the financial asset gave rise on specified dates to cashflows that are solely payments of principal and interest on the principal amount outstanding. They are initially recognized at fair value and transaction costs are expensed. Subsequent to initial measurement, they are carried at fair value and all gains and losses realized and unrealized are recognized in the statement of comprehensive income.

FCNB assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor is experiencing significant financial difficulty and where observable data indicate that there is a measurable decrease in the estimated future cash flows.

Financial assets are derecognized when their rights to receive cash flows have expired or have been transferred and FCNB has transferred substantially all risks and rewards of ownership.

### **Financial liabilities**

Financial liabilities measured at amortized cost are initially recognized at fair value less directly attributable transaction costs and after initial measurement are recognized at amortized cost. The difference between the initial carrying amount of the financial liabilities and their redemption value is recognized in the statement of income over the contractual term using the effective interest rate method.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of comprehensive income.

The fair value of a financial instrument is the amount of which the financial instrument could be exchanged in an arm's length transaction between knowledgeable and willing parties under no compulsion to act. Fair values are determined by reference to quoted bid or ask prices, as appropriate, in the most advantageous market for that instrument to which FCNB has immediate access. If market prices are not available, fair value is based on prevailing market rates for instruments with similar characteristics and risk profiles or internal or external valuation models that require inputs.

FCNB's financial instruments comprise cash, cash held for designated purposes and investments held for designated purposes, accounts receivable, accounts payable and accrued liabilities, accrued salaries and benefits, accrued vacation liabilities and lease obligations.

FCNB's financial assets were included in "fair value through income" and all FCNB's financial liabilities were carried at amortized cost.

### **Fair value hierarchy**

Financial assets and liabilities that are recognized on the statement of financial position at fair value are to be classified into a hierarchy of three levels based on the significance of the impacts used in making the measurement:

Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly (as prices) or indirectly (i.e. derived from prices)

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs)

### **g) Recently adopted accounting standards**

The following standards have been adopted by FCNB for the first time in the year beginning April 1, 2019.

#### **IFRS 16 Leases**

IFRS 16 replaces IAS 17, Leases and its associated interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract based on whether the customer controls the assets being leased. For those

assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting with limited exceptions for short-term leases or leases of low-value assets.

Prior to the adoption of IFRS 16, leases were classified as finance leases whenever the lease's terms transferred substantially all the ownership risks and rewards to the lessee. All other leases were treated as operating leases. Operating lease payments were charged to the statement of comprehensive income on a straight-line basis over the lease term.

### Transitional impact

FCNB has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17. Upon adoption, FCNB recognized right-of-use ("ROU") assets and corresponding lease obligations, except for certain low value and short-term leases. Right-of-use assets received and receivable, if any, as an incentive to enter into an a right-of-use lease are netted against the initial capitalization of the right-of-use asset. The lease obligations equal the present value of the remaining lease payments, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The ROU assets will generally be equal to the lease liabilities at adoption, adjusted by the amount of any prepaid lease payments and/or lease incentives.

	31 March 2019	Opening Adjustment	1 April 2019
Property, plant and equipment including right of use assets	\$209,539	\$638,650	\$848,189
Lease obligations - current	8,403	342,754	351,157
Lease obligations - long term	26,366	322,340	348,706

The ROU assets are depreciated using the straight-line method and the lease liabilities are measured at amortized cost using the effective interest rate method. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Depreciation expense on ROU assets and interest expense on lease liabilities replaces operating lease expense, which was recognized on a straight-line basis under IAS 17.

IFRS 16 permits the use of recognition exemptions and practical expedients. The Company applied the following recognition exemptions and practical expedients:

- Maintain lease classification assessment made under previous standards
- Apply a single discount rate to a portfolio of leases with similar contract length and economic environment
- Exclude low-value and/or short-term (less than 12 months) leases from IFRS 16 lease accounting
- Exclude the initial direct costs from the measurement of the right-of-use assets
- Use of hindsight on transition for renewable leases

#### **h) Future accounting and reporting changes**

The IASB is continually working toward improving and developing new accounting standards. The IASB has issued a number of exposure drafts of new standards that are expected to come into effect within future reporting periods. FCNB monitors the IASB work plans and publications to assess any potential impact on the organization. There are no standards issued but not yet adopted that are expected to have a significant impact on the FCNB.

#### 4. Significant accounting estimates and judgments

FCNB makes estimates and assumptions concerning the future that will, by definition, seldom equal actual results. The following are management's estimates and judgments that most significantly affect FCNB's financial statements. These estimates and judgments have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

##### a) Significant accounting estimates

###### **Property and equipment and intangible assets**

Management estimates the useful lives of property and equipment and intangible assets based on the period during which the assets are expected to be available for use. The amounts and timing of recorded expenses for depreciation of property and equipment and amortization of intangible assets for any period are affected by these estimated useful lives. The estimates are reviewed at least annually and are updated if expectations change as a result of physical wear and tear, technical or commercial obsolescence and legal or other limits to use. It is possible that changes in these factors may cause significant changes in the estimated useful lives of FCNB's property and equipment and intangible assets in the future.

###### **Sick leave credits benefit**

Upon retirement, FCNB employees are eligible to receive 20 per cent of the accumulated sick leave balance to a maximum of 48 days as a payout. The significant accounting estimates used to determine the liability are outlined in Note 19 (c).

###### **Supplemental pension benefit**

FCNB estimates the defined benefit liability for a retired Chief Executive Officer associated with a supplemental pension benefit. The estimate is reviewed at least annually. FCNB does not use a qualified actuary in the calculation of this estimate.

###### **Assessments**

Management estimates the amount of indirect administrative overhead and indirect support cost required to administer the *Insurance Act* and the *Credit Unions Act*, and includes these amounts in an assessment to these specific sectors, as is authorized in those two pieces of financial and consumer services legislation.

## b) Significant accounting judgments

Management exercises its judgment in the process of applying FCNB's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions are significant to the financial report have been disclosed above. The determination of the collectability of administrative penalty and disgorgement revenue represents a significant policy judgment area.

## 5. Financial risk management

### Financial risk factors

FCNB's objectives are to protect itself against various financial risks. These include credit, liquidity and interest rate risks.

#### *Credit risk*

FCNB's financial assets exposed to credit risk consist of cash, cash held for designated purposes, investments held for designated purposes and accounts receivable. This risk is minimal since the majority of FCNB's revenue is received when due. Accounts receivable are current and collectable. Its three bank accounts are held with a Schedule 1 Canadian financial institution.

#### *Liquidity risk*

All financial liabilities, except for the lease obligations, are due within one year and have been classified as current and presented as such on the statement of financial position. FCNB generates enough cash from operating activities to fund its operations and fulfill its obligations as they become due. FCNB has a stabilization reserve and a restructuring reserve in place in the event that cash requirements exceed cash generated from operations.

#### *Interest rate risk*

This risk is minimal since FCNB did not incur any interest-bearing long-term debt except on the lease obligations during the year. Cash deposits earn interest at a floating rate, and this revenue is impacted by the current low, short-term interest rates, while cash held for designated purposes and investments held for designated purposes earn interest at a fixed rate, and this revenue is impacted by the interest rate paid on one-year guaranteed investment certificate. A 25-basis-point change in the interest rate would have an immaterial impact on the financial statements.



## **6. Capital management**

FCNB's objective when it manages capital is to ensure it continues as a going concern to fulfill its mandate. FCNB has established a stabilization reserve of \$4,000,000 (\$4,000,000 in 2019) and a restructuring reserve of \$10,000,000 (\$10,000,000 in 2019) to manage its capital risk. FCNB ensures that any payment of surplus funds to the Province of New Brunswick will not impair FCNB's ability to pay its liabilities, to meet its obligations as they become due or to fulfil its contractual commitments.

## **7. Financial instruments**

FCNB's financial instruments consist of cash, accounts receivable, cash held for designated purposes, investments held for designated purposes, accounts payable and accrued liabilities, accrued salaries and benefits, accrued vacation liabilities and lease obligations. These financial instruments do not include any rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement. The fair values of these financial instruments approximate their carrying values due to their short-term nature and negligible credit losses.

## **8. Cash and cash held for designated purposes**

FCNB maintains three separate bank accounts. The first is comprised of the operating account and those monies attributable to the reserves and not otherwise invested and monies received from disgorgement orders. The second account is maintained for the market enhancement reserve. The third account is maintained for monies held in trust, as securities for licences issued under various financial and consumer services legislation. The balance for the third account as of 31 March 2020 was \$17,936 (\$17,547 in 2019) and is included in cash. Under the terms of FCNB's banking agreement, these accounts earn interest at prime less 1.70 per cent.

## **9. Investments held for designated purposes**

FCNB invested \$14,000,000, \$10,000,000 attributable to the restructuring reserve and \$4,000,000 attributable to the stabilization reserve (\$14,000,000 in 2019, \$10,000,000 attributable to the restructuring reserve and \$4,000,000 attributable to the stabilization reserve) in one-year guaranteed investment certificates. The interest earned on these investments varies from 1.50 per cent to 3.00 per cent. The amounts attributable to the restructuring reserve and stabilization reserve have been disclosed on the statement of financial position as investments held for designated purposes.

## 10. Accounts receivable

FCNB charges assessments as per specific financial and consumer services legislation to the credit union system and to insurance sector participants. The outstanding assessments owing totalled \$2,684,917 of the total accounts receivable as of 31 March 2020 (\$2,672,340 in 31 March 2019).

No provision for expected credit loss is required.

## 11. Reserve

### *Restructuring reserve*

FCNB has established a reserve consistent with section 21(8) of the *Financial and Consumer Services Commission Act* to allow the Commission to meet its revised mandate following the establishment of the proposed cooperative capital markets regulatory system, while providing sufficient time to develop operational efficiencies and to consult with its regulated sectors for any required fee rule changes necessary to maintain its self-financing legislative requirements. The reserve was funded in 2015 through a one-time charge of \$10,000,000 to the general fund. The value of the reserve is \$10,000,000 (\$10,000,000 in 2019).

### *Stabilization reserve*

FCNB has established a reserve consistent with subsection 21(8) of the *Financial and Consumer Services Commission Act* to finance extraordinary expenses for isolated and unanticipated purposes that are regulatory in nature, and for changes in market activity affecting revenue. The reserve is funded through charges to the general fund. The maximum value of the reserve has been set at \$4,000,000 (\$4,000,000 in 2019).

### *Market enhancement and consumer protection reserve*

FCNB collects administrative penalties under section 186 of the *Securities Act* and under subsection 21(5) of the *Financial and Consumer Services Commission Act*. Consistent with subsection 21(5) of the *Financial and Consumer Services Commission Act*, these amounts are not used for FCNB's normal operating expenditures. Instead, they are used for endeavours or activities that enhance New Brunswick's capital markets or consumer protection. Market enhancement reserve funds are maintained separate from FCNB's normal operating funds and generate their own investment revenue. The value of the reserve is \$157,029 (\$153,624 in 2019).

### *Disgorgement reserve*

FCNB can issue disgorgement orders under section 184 of the *Securities Act*, or the Court of Queen's Bench may do so under section 187 of the *Securities Act*. Disgorgement orders permit FCNB to order a person be divested from the benefits obtained as a result of failure to comply with

securities law. These amounts are not used for FCNB's normal operating expenditures as described in subsection 21 (6) of the *Financial and Consumer Services Commission Act* and will generally be used to return funds to negatively impacted investors consistent with Local Rule 15-502, *Procedure for the Distribution of Disgorged Funds*. During the period, \$3,000 was collected and paid to nine investors as a result of a 2008 decision and the value of the reserve is \$190 (\$190 in 2019).

## 12. Property and equipment

	Office furniture and equipment	Finance lease	Information technology infrastructure	Software	Auto-mobile	Leasehold improvements	Right-Of-Use Asset	Total
<b>Cost</b>								
As at 31 March 2018	\$ 439,146	\$ 52,795	\$ 267,374	\$ 11,780	\$ 32,775	\$ 799,029	\$ -	\$ 1,602,899
Additions	-	11,600	95,350	-	-	-	-	106,950
Dispositions	-	-	-	-	-	-	-	-
As at 31 March 2019	\$ 439,146	\$ 64,395	\$ 362,724	\$ 11,780	\$ 32,775	\$ 799,029	\$ -	\$ 1,709,849
Additions	-	-	43,616	-	35,155	-	693,057	771,828
Dispositions	-	-	188,620	-	32,775	-	-	221,395
As at 31 March 2020	\$ 439,146	\$ 64,395	\$ 217,720	\$ 11,780	\$ 35,155	\$ 799,029	\$ 693,057	\$ 2,260,282
<b>Accumulated depreciation</b>								
As at 31 March 2018	\$ 392,334	\$ 20,248	\$ 220,036	\$ 11,780	\$ 32,775	\$ 682,848	\$ -	\$ 1,360,021
Depreciation	42,260	8,442	34,992	-	-	54,595	-	140,289
Dispositions	-	-	-	-	-	-	-	-
As at 31 March 2019	\$ 434,594	\$ 28,690	\$ 255,028	\$ 11,780	\$ 32,775	\$ 737,443	\$ -	\$ 1,500,310
Depreciation	3,956	8,618	41,645	-	5,859	32,132	356,117	448,327
Dispositions	-	-	188,620	-	32,775	-	-	221,395
As at 31 March 2020	\$ 438,550	\$ 37,308	\$ 108,053	\$ 11,780	\$ 5,859	\$ 769,575	\$ 356,157	\$ 1,727,242
<b>Net book value</b>								
As at 31 March 2019	\$ 4,552	\$ 35,705	\$ 107,696	\$ -	\$ -	\$ 61,586	\$ -	\$ 209,539
As at 31 March 2020	\$ 596	\$ 27,087	\$ 109,667	\$ -	\$ 29,296	\$ 29,454	\$ 336,940	\$ 533,040

### 13. Intangible assets

	Website	Regulatory information data system (internally developed)	Total
<b>Cost</b>			
As at 31 March 2018	\$ 47,860	\$ 1,018,397	\$ 1,066,257
Additions	7,350	-	7,350
Dispositions	-	-	-
As at 31 March 2019	\$ 55,210	\$ 1,018,397	\$ 1,073,607
Additions	45,691	-	45,691
Dispositions	-	-	-
As at 31 March 2020	\$ 100,901	\$ 1,018,397	\$ 1,119,298
<b>Accumulated amortization</b>			
As at 31 March 2018	\$ 43,178	\$ 374,571	\$ 417,749
Amortization	3,977	203,680	207,657
Dispositions	-	-	-
As at 31 March 2019	\$ 47,155	\$ 578,251	\$ 625,406
Amortization	705	203,679	204,384
Dispositions	-	-	-
As at 31 March 2020	\$ 47,860	\$ 781,930	\$ 829,790
<b>Net book value</b>			
As at 31 March 2019	\$ 8,055	\$ 440,146	\$ 448,201
As at 31 March 2020	\$ 53,041	\$ 236,467	\$ 289,508

## 14. Lease obligations

FCNB's leases entered into in 2019, for photocopy equipment, had terms of five and half years. FCNB has an option to purchase the equipment for a nominal amount at the end of the lease term. Lease liability is effectively secured as the rights to the leased asset revert to the lessor in the event of default.

FCNB entered into a 10-year lease for office space in Saint John effective 15 February 2006. On 11 August 2014, this lease was extended to 28 February 2021.

	Minimum lease payments		Present value of minimum lease payments	
	2020	2019	2020	2019
Not later than 1 year	\$ 367,736	\$ 9,492	\$ 361,237	\$ 8,403
Later than 1 year and not later than 5 years	18,371	27,863	17,672	26,366
	\$ 386,107	\$ 37,355	378,909	34,769
Less: Current portion			361,237	8,403
Lease obligations			\$ 17,672	\$ 26,366

## 15. Disposition of surplus operating funds

The disposition of surplus operating funds consists of payments to the Consolidated Fund of the Government of New Brunswick subject to the approval of the Treasury Board and consistent with subsection 21(7) of the *Financial and Consumer Services Commission Act*. FCNB paid \$7,422,407 in 2020 (\$9,007,458 in 2019) and has a payable of \$549,464 in 2020 (\$0 in 2019).

## 16. Provisions

A provision is recognized if, as a result of a past event, FCNB has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. FCNB has no provisions recorded at 31 March 2020 (\$0 at 31 March 2019).

## 17. Operating lease commitments

Operating lease commitments primarily relate to leases of the premises in Fredericton.

FCNB entered into a 54-month lease for office space in Fredericton, effective 1 October 2014, with the Department of Transportation and Infrastructure for the Government of New Brunswick. The lease expired during the last fiscal year and is currently a short-term lease.

Payments are recognized as an expense in the statement of comprehensive income:

	2020	2019
Minimum lease payments	\$ 280,753	\$ 615,317
Contingent rentals	-	-
Sub-lease payments received	-	-
	\$ 280,753	\$ 615,317

## 18. Commitments and contingencies

NBSC (which was continued as FCNB) was named as a defendant in two statements of claim, filed in 2011 and 2013 respectively. The 2011 claim has progressed slowly and is nearing the end of the discovery stage. Aside from the filing of the pleadings, there has been no activity in the 2013 action. The outcome and ultimate disposition of these actions are not yet determinable. An expense, if any, concerning this contingency will be accounted for in the period in which the payment or provision occurs.

## 19. Employee future benefits

### a) Pension plan

FCNB provides pension benefits to its employees through participation in the Public Service Shared Risk Plan (the "Plan"), which is a shared risk pension plan. Annually, FCNB receives notification of the required contributions from the Board of Trustees of the Plan, which administrates the Plan.

Pension costs included in these financial statements comprise the cost of employer contributions for current service of employees during the year. For the year ended 31 March 2020, FCNB expensed contributions of \$879,491 (\$845,463 in 2019) under the terms of the Plan.

## **b) Supplemental pension benefit**

A retired Chief Executive Officer receives a supplemental pension benefit in which supplemental pensionable service of one year for each year of service as Chief Executive Officer to the maximum of five years was earned. This benefit is unfunded as no assets have been set aside in a separate legal entity, and payments are made as they become due. For the year ended 31 March 2020, these statements reflect a liability of \$143,611 (\$166,005 in 2019), FCNB recovered expenses of \$6,106 (recovered expense of \$2,646 in 2019) under the terms of the Supplemental Benefit Agreement and paid out benefits of \$16,287 (\$15,977 in 2019).

## **c) Sick leave credits**

In concert with the elimination of the retiring allowance program, changes were made to the sick leave policy such that employees could receive a payout of 20 per cent of their unused sick leave credits at layoff, retirement or death. These statements reflect a liability of \$351,947 (\$305,831 in 2019) for this benefit and a current year expense of \$46,116 (\$25,142 in 2019). This liability is discounted as follows: employees over the age of 50, FCNB applies a three per cent discount factor to adjust for the age of each eligible employee for each year that the employee is under the age of 55; and for employees under the age of 50, FCNB applies a three per cent discount factor to adjust for the age of each eligible employee for each year that the employee is under the age of 65. For liability calculation purposes, management estimates that half of employees under the age of 40 will retire from FCNB, 75 per cent of employees between the ages of 40 and 50 will retire from FCNB, and all employees over the age of 50 will retire from FCNB.

## 20. Related party transactions

Service New Brunswick (SNB), a related party to FCNB, provides certain services in the normal course of operations that are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. SNB provided information technology services to FCNB, such as data storage, data backup, data protection and support. FCNB expensed \$118,821 (\$125,396 in 2019) during the reporting period on these services. As of 31 March 2020, an accounts payable of \$103,691 (\$135,268 at 31 March 2019) was owed to SNB and was subject to normal terms. This amount is included in accounts payable and accrued liabilities.

The Translation Bureau for the Government of New Brunswick provides services to FCNB that are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Total expenditures during the period were \$41,997 (\$64,765 in 2019). As of 31 March 2020, an accounts payable of \$3,590 (\$10,704 at 31 March 2019) was owed to the Translation Bureau and is subject to normal terms. This amount is included in accounts payable and accrued liabilities.

New Brunswick Deposit Insurance Corporation (NBCUDIC) utilizes the resources of the Financial Institutions Division of the Commission to provide human resource and administration support for administering the act. The Commission assumes the salaries and overhead costs which are billed to the NBCUDIC. Prior to 2020, NBCUDIC was responsible for their human resource costs and administration costs however required support from the Commission. NBCUDIC expensed \$204,466 for the three months ending 31 March 2020 (31 December 2019 expensed \$0, however the estimate value of the services provided was \$121,941).

On 1 October 2014, FCNB entered into an agreement with the Department of Transportation and Infrastructure (“DTI”) for leased office space. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. FCNB expensed \$290,196 (\$290,196 in 2019). As of 31 March 2020, an accounts payable of \$23,039 (\$0 at 31 March 2019) was owed to DTI and subject to normal terms.



The Chair of FCNB has a personal services contract with FCNB that is measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. This is in-lieu of an employment contract and facilitates the Chair's independence from the operations of the Commission. FCNB expensed \$152,317 (\$152,317 in 2019) during the reporting period. As of 31 March 2020, an accounts payable of \$19,327 (\$0 at 31 March 2019) was owed to the Chair and subject to normal terms.

FCNB provides certain administrative services for the Government of New Brunswick associated with assessments or recoveries from the insurance sector and that are for the benefit of the Consolidated Revenue Fund of the Government of New Brunswick. These services include the invoicing and updating receivables under the *Premium Tax Act* (\$60,970,944 in 2020, \$57,609,710 in 2019); the invoicing and updating receivables under the *Medical Services Payment Act*, the *Hospital Services Act* and the *Family Services Act* (\$39,046,256 in 2020, \$36,582,096 in 2019); and the updating receivables under the *Fire Prevention Act* (\$4,360,565 in 2020, \$3,734,375 in 2019). These transactions do not flow through FCNB's financial statements and are recorded directly in the financial information system of the Government of New Brunswick. FCNB performs these functions without any financial consideration or payment from the Government of New Brunswick. Effective 1 January 2018, FCNB is no longer responsible for the depositing function associated with these activities.

In addition, FCNB recovers costs incurred by the Government of New Brunswick when it intervenes at insurance rate hearings. In 2020, these costs were \$403,009 (\$390,283 in 2019). FCNB now treats these costs as a recoverable from the insurance sector. Prior to 2018, FCNB recorded professional services expenses and equivalent assessment revenue.

### Key management personnel

Key management of FCNB includes members of the board of directors and the executive committee:

	2020	2019
Salaries and other short-term employee benefits	\$ 1,091,838	\$ 1,048,352
Post-employment benefits	87,459	97,829
	\$ 1,179,297	\$ 1,146,181

The salary amount includes the relevant expenses associated with the Chair's personal services contract.

### 21. Salaries and benefits

	2020	2019
Salaries	\$ 7,711,911	\$ 7,405,559
Benefits	843,383	716,112
Pension expenses (Note 19)	879,491	845,463
	\$ 9,434,785	\$ 8,967,134

### 22. Administration

	2020	2019
Investor protection and education	\$ 463,995	\$ 523,372
Members and staff development	383,045	311,101
Information technology	185,918	174,548
Other administration	446,353	391,950
	\$ 1,479,311	\$ 1,400,971

## 23. Alternative presentation – Income statement by function

	2020	2019
<b>REVENUE</b>		
Securities	\$ 16,487,314	\$ 16,437,058
Insurance	3,189,465	3,134,568
Financial Institutions	511,943	265,294
Consumer Affairs	482,817	486,685
Pensions	268,809	275,174
Investment income	450,291	400,152
Miscellaneous	10,174	60,556
	21,400,813	21,059,487
<b>EXPENSES</b>		
Governance and Corporate Management	4,396,085	3,945,893
Insurance	2,038,925	2,117,407
Education and Communications	1,090,373	1,141,653
Securities	1,511,598	1,461,018
Enforcement	852,590	726,177
Financial Institutions	729,994	621,475
Consumer Affairs	1,094,888	1,065,467
Pensions	723,108	768,572
Tribunal	374,954	390,032
	12,812,515	12,237,694
<b>COMPREHENSIVE INCOME</b>	<b>\$ 8,588,298</b>	<b>\$ 8,821,793</b>

## 24. Subsequent event

The COVID-19 outbreak has been declared a pandemic by the World Health Organization. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on the Commission is not known at this time.

## 25. Authorization of financial statements

The financial statements for the year ended 31 March 2020 (including comparatives) were approved by the board of directors on 25 June 2020.

