



FINANCIAL AND
CONSUMER SERVICES
COMMISSION

Regulation • Education • Protection
FOR NEW BRUNSWICKERS



General Information:
Toll Free: 1 866 933 2222
Facsimile: 506 658 3059
info@fcnb.ca

Mailing Address:
Financial and Consumer
Services Commission
85 Charlotte Street, Suite 300
Saint John, NB
E2L 2J2

Office Locations:
85 Charlotte Street, Suite 300
Saint John, NB
E2L 2J2

225 King Street, Suite 200
Fredericton, NB
E3B 1E1

fcnb.ca

FCNB ANNUAL REPORT 2015-2016

**Change is the law of life
and those who look only
to the past or present are
certain to miss the future.**

— John F. Kennedy

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About FCNB

The Financial and Consumer Services Commission, known as FCNB, has the mandate to protect consumers and enhance public confidence in the financial and consumer marketplace through the provision of regulatory and educational services.

We help people protect themselves from frauds, scams, and other consumer concerns by keeping them informed.

FCNB is a self-funded, independent Crown Corporation, responsible for the administration and enforcement of provincial legislation that regulates securities, insurance, pensions, credit unions, caisses populaires, trust and loan companies, co-operatives, and a wide range of consumer legislation.

Highlights of 2015-2016

- Significant updates to legislative and regulatory framework
- New regulatory regime for Mortgage Brokers
- New IT systems for Pensions, Insurance, and Mortgage Brokers
- Senior, Youth and Newcomer anti-fraud and money management initiatives
- Education presentations to industry to support regulatory initiatives

Administration of the Following Acts

- *Financial and Consumer Services Commission Act*

Consumer Protection

- *Auctioneers Licence Act*
- *Collection Agencies Act*
- *Commissioners for Taking Affidavits Act*
- *Consumer Product Warranty and Liability Act*
- *Cost of Credit Disclosure Act*
- *Direct Sellers Act*
- *Franchises Act*
- *Gift Cards Act*
- *Mortgage Brokers Act*
- *Pre-arranged Funeral Services Act*
- *Real Estate Agents Act*

Financial Institutions

- *Co-operative Associations Act*
- *Credit Unions Act*
- *Loan and Trust Companies Act*

Pensions and Insurance

- *Insurance Act*
- *Nursing Homes Pension Plans Act*
- *Pension Benefits Act*
- *Teachers' Pension Plan Act*

Securities

- *Securities Act*
- *Securities Transfer Act*

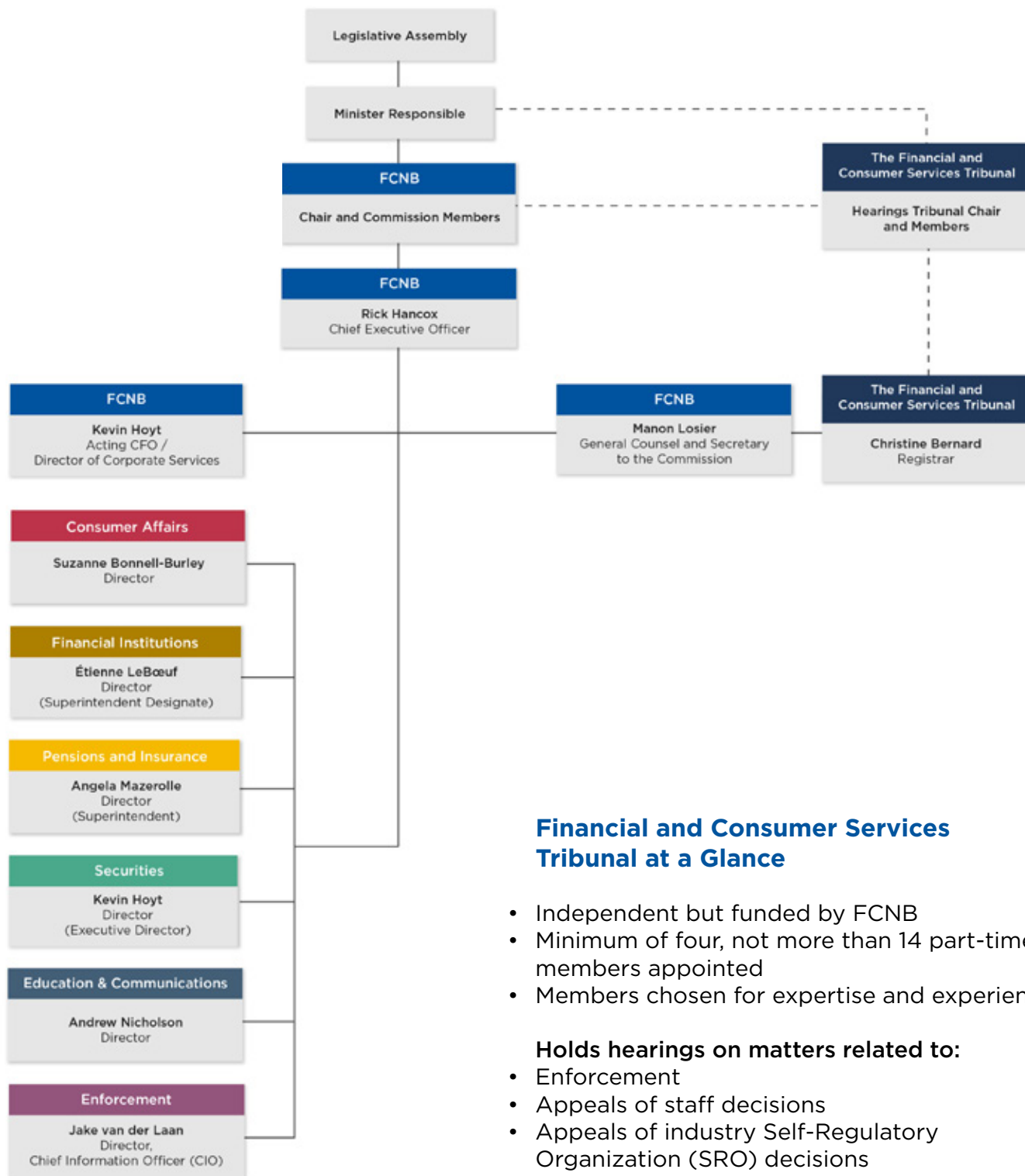
Did you know?

For 42% of Canadians, financial stress tops the worry list.

FINANCIAL PLANNING STANDARDS COUNCIL (FPSC)



FCNB Organizational Chart



Financial and Consumer Services Tribunal at a Glance

- Independent but funded by FCNB
- Minimum of four, not more than 14 part-time members appointed
- Members chosen for expertise and experience

Holds hearings on matters related to:

- Enforcement
- Appeals of staff decisions
- Appeals of industry Self-Regulatory Organization (SRO) decisions
- Tribunal decisions may be appealed to the Court of Appeal with leave of the Court



OUR VISION

A confident, dynamic and informed financial and consumer marketplace for New Brunswick.

Letter from the Chair

On behalf of the Members of the Commission and our staff, I am pleased to present the 2015-2016 Annual Report for the Financial and Consumer Services Commission (FCNB). This Annual Report outlines the operational and business results of the Commission's efforts to achieve its mandate.

The independent Members of the Commission oversee our operations and set our strategic direction. We continue the important work of integrating the activities of our regulatory divisions which began with the Commission's establishment in July 2013. In doing so, we have advanced significant legislative initiatives for consideration by the Government which have resulted in the adoption of "state-of-the-art" regulatory regimes for mortgage brokers and payday lenders. We will continue to work collaboratively with the Government in advancing the interests of our stakeholders and pursuing our mandate.

Our involvement with groups such as: the Canadian Securities Administrators (CSA); the North American Securities Administrators Association (NASAA); the Canadian Association of Pension Supervisory Authorities (CAPSA); the Canadian Council of Insurance Regulators (CCIR); the General Insurance Statistical Agency (GISA); and the Canadian Insurance Services Regulatory Organizations (CISRO); among many others, continues to give us a truly national and global perspective in the various areas that we regulate. I would like to acknowledge the excellence and dedication of many of our staff members who have been chosen by their peers to take leadership positions in these national and international organizations. They are the reason that the positive reputation of our Commission continues to grow in the regulatory community.

We aspire to be a leader among regulators in Canada and believe that our collective technical and policy expertise, diversity of regulatory responsibilities, increasingly efficient operations, responsiveness, and close collaboration with government and stakeholders will permit us to further advance this goal. This past year we have seen major improvements to our in-house technical systems and electronic licensing capability. Our staff has embraced leadership roles in promoting research and policy development on issues affecting seniors, community economic development funds, crowdfunding and many other topics. We have been active participants in advancing regulatory collaboration and harmonization.




We remain heavily involved with our colleagues in British Columbia, Ontario, Saskatchewan, Prince Edward Island, Yukon and in the Government of Canada, in the creation and launch of the Capital Market Regulatory Authority (CMRA)—a national securities and systemic risk regulatory agency. Although CMRA will continue to have a significant operational presence in New Brunswick, FCNB will, at that time, no longer be directly responsible for securities regulation in New Brunswick. As a result, in anticipation of CMRA launch, we are gradually implementing a new organizational structure and work processes which we refer to as “FCNB 2.0”. The resulting organization will be a dynamic, cost effective and stable regulator that will continue to occupy a leadership role in national regulatory matters while fulfilling its statutory mandate.

I remain confident in our success in this endeavour because of the hard work and dedication of our staff and the thoughtful planning that is taking place in anticipation of these events. Our Commission will constantly strive to maintain the highest standards of integrity and vigilance on behalf of the people it is our privilege to serve.

I would like to thank my fellow Commission Members for their hard work and thoughtful oversight. Special thanks to Gregory Thompson who left the Commission in January 2016. His dedication to our work and thoughtful participation was very much appreciated. I would also like to thank the past Chair of our independent Tribunal, Monica Barley, and congratulate the new Chair, Louise Cassie, and her excellent Tribunal Members for their commitment to impartial adjudication.

As always, I wish to commend our entire staff for their efforts and dedication and thank our stakeholders for their interest in, and support of, our diverse mandate.



Peter Klohn
Chair

Letter from the CEO

The Financial and Consumer Services Commission completed its second full year operating as a consolidated regulator in 2015-2016. This year's annual report summarizes the progress related to our three strategic priorities:

- Deliver on our mandate
- Solidify our infrastructure
- Transition our organization

Our objective is to be an effective regulator—to *regulate, to educate and to protect*. Our focus has been on developing our talent and ensuring that staff are fully prepared to meet the challenges of regulating industries in today's environment. We have devoted significant effort to reviewing and updating much of the legislation that we administer.

We have launched a series of technology projects to implement electronic licencing systems and on-line forms for the sectors we regulate. As well, we continue to improve our compliance and enforcement capabilities across all of our regulatory sectors. We have entered into a number of information sharing agreements among national and international regulators to help us better protect consumers.

Financial literacy continues to be one of our most important initiatives; one that requires plain language, accuracy and creative outreach. On the education front, our roundtables and research on preventing the financial abuse of seniors addressed this vulnerable cohort; our summer radio station cruiser engagement program was very successful in starting conversations about smart spending and saving, as were our recently piloted *Spend Smart Café* events which reached out to hundreds.



Two of our long-serving staff members retired last year: Suzanne Cormier, Senior Administrative Officer in our Consumer Affairs Division, and Normand Lewicki, who served as an Investigator in our Enforcement Division and as a Compliance Officer in our Insurance Division. They were longstanding, experienced employees and we were fortunate to have had them working with us. We will miss our colleague Gisèle Thébeau who passed away after battling a long illness. She had a great outlook on life and a wonderful sense of fun. We also welcome several new staff that joined us in the past year.

I am grateful for the hard work and dedication of Commission staff for their help in delivering on our mandate.

Sincerely,

A handwritten signature in black ink that reads "Kenrick Hancox". The signature is written in a cursive, flowing style.

Kenrick Hancox
Chief Executive Officer

Thriving in a Changing Environment

Our focus is to ensure we have the infrastructure and capacity to be an effective regulator and fulfill our mandate. We have three strategic priorities to help us face our challenges and carry out our regulatory responsibilities.

- Deliver on our mandate
- Solidify our infrastructure
- Transition our organization

We plan a number of multi-year initiatives in each of these priority areas. We use an annual work planning process to identify the specific undertakings, assigned responsibilities, and associated timeframes planned for the year.

As the provincial regulator for the financial and consumer services sectors, we provide the one place for consumers and industry to go for regulation, education and protection. Our efforts will help build a confident, dynamic and informed financial and consumer marketplace for New Brunswick.

This annual report for 2015-2016 highlights the initiatives we have undertaken towards meeting these strategic priorities.

Did you know?
According to FCNB's 2015 annual awareness survey, 80% of respondents felt that senior financial abuse is a problem, yet only 20% of those who suspected senior fraud actually reported it.



OUR MANDATE

Protect consumers and enhance public confidence in the financial and consumer marketplace through the provision of regulatory and educational services.



Deliver on our Mandate

Effective regulation, education and protection is essential for New Brunswickers to have confidence in our financial and consumer services markets. Our initiatives in this area include implementing a regulatory compliance strategy, public awareness activities, and educational programs.

Enforcing Compliance

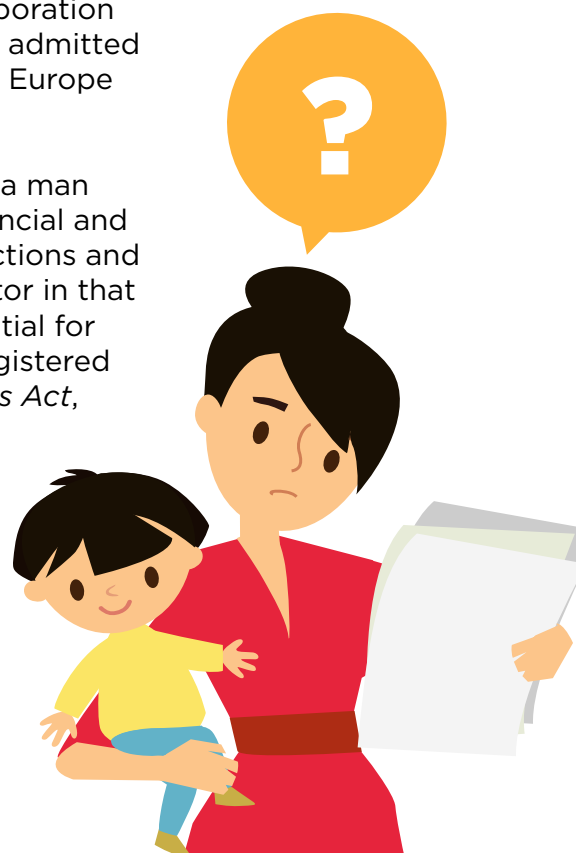
Last year, the Consumer Affairs Division completed an extensive review into the activities of a real estate agent which resulted in the cancellation of that agent’s licence. “Consumers need to know that they can call us if they have questions about their transactions,” emphasizes Suzanne Bonnell-Burley, Director of Consumer Affairs. “Consumers can also contact us to see if the people that they are dealing with, such as door-to-door sellers, are appropriately licensed.”

The Insurance Division held a hearing to revoke an insurance broker’s licence as a result of a consumer complaint. FCNB determined that this individual was not suitable to operate in the industry. Measures were taken to make sure he was no longer selling insurance and that alternate arrangements were made for his clients.

In December, a cease-trade order was granted against a corporation for trading in violation of the *Securities Act*. The corporation admitted to selling securities to an investor in Canada and investors in Europe through unregistered trading and illegal distributions.

Also in December, FCNB sought a market ban order against a man living in New Brunswick. This followed a decision of the Financial and Consumer Affairs Authority of Saskatchewan to impose sanctions and restrictions on him. The man had defrauded an elderly investor in that province by making exaggerated claims regarding the potential for profit in a particular investment. Furthermore, he was not registered to solicit or sell investments. This is a breach of the *Securities Act*, both in Saskatchewan and New Brunswick.

Consumer and Investor Alerts were published cautioning against unregistered companies promoting other risky investments such as binary options. Binary options are similar to bets on whether the value of an asset will increase or decrease in a fixed—and often very short—period of time. No firm is registered to trade in binary options in Canada.



“Co-operation among regulators is a key element in effective regulation and investor protection.”

MANON LOSIER

GENERAL COUNSEL AND SECRETARY TO THE COMMISSION

Regional, National & International Co-operation

FCNB keeps current with global developments in the financial and consumer services sectors. We regularly co-operate with other regulators in Canada and North America.

In the insurance sector, FCNB signed the Canadian Council of Insurance Regulators (CCIR) Memorandum of Understanding and Protocol on Co-operation and the Exchange of Information (MOU) in September 2015. The MOU enables greater collaboration and information sharing in the oversight of market conduct risk in the insurance industry. This allows insurance regulators to undertake co-operative supervision activities, for regulated entities that are active in more than one province or territory.

Reaching Out with Effective Public Awareness

In February, a pyramid scheme described as a “pay it forward cloud”, targeted mainly northern New Brunswick women. Members of FCNB’s enforcement team traveled to the community to meet with citizens affected by the scheme.

Brian Maude, Senior Legal Counsel, and Investigator Joleen Dable, presented the perils of pyramid schemes and answered questions. Maude spoke with news media about the “red flags of fraud”. With the help of FCNB’s in-house graphic designer, Kasie Wilcox, notices were placed with similar messages in the community’s daily newspaper. Social media posts also raised awareness of pyramid schemes and other scams plaguing New Brunswick.

FCNB also partnered with New Brunswick Crime Stoppers to release two public service announcements on video, one on senior fraud protection, and the other on Ponzi schemes. See these videos and more at YouTube [FCNB CA](#).

Windfall? Wait a Minute!

Last January, FCNB extended cautionary messages to the community of Sussex and surrounding areas impacted by the closure of a local mine. “Recognizing the potential vulnerability of the workers, FCNB posted social media messages and inserted notices in the county’s weekly newspaper,” said Andrew Nicholson, Director, Education and Communications. “The messages advised those receiving severance packages to not rush to make any financial decision, and allow time to consult experts about safe ways to invest and protect their earnings.”

Protecting Seniors

In addition to the day-to-day administration of the *Securities Act*, the Securities Division played an important role in FCNB's senior's initiative by improving detection, prevention, and response to senior financial abuse in New Brunswick," says Kevin Hoyt, Executive Director of Securities. "New Brunswick's increasing senior population—many of them baby boomers with significant savings—are susceptible to financial abuse," observes Hoyt. "Older victims are especially at risk of investment fraud; the impact of lost savings at this stage of their lives is generally devastating."

Taking Action

FCNB embarked on a series of roundtable dialogues with seniors throughout the province to better understand the issues they face when using financial services.

A team of FCNB staff led a Forum on Senior Financial Abuse last fall in Fredericton bringing together over 60 participants. The final report, due out in 2016, will allow FCNB and Forum participants to identify priorities for program and policy development to protect seniors in New Brunswick. A popular seniors' toolkit of information has been redesigned and is being distributed through a partnership with the Public Legal Education and Information Service of New Brunswick.

Interdivisional Team on Senior Financial Abuse Initiatives

- Pensions & Insurance: Lynne Martin, Gert Lawlor
- Education & Communications: Marissa Sollows
- Securities: Ella-Jane Loomis, Susan Powell
- General Counsel: Deborah Gillis
- Consumer Affairs: Catherine Haines, Roxane Gunning
- Financial Institutions: Joel Leitner

Welcoming Newcomers

Newcomers are another group FCNB focused on protecting. After hearing of at least one Syrian family being victim of a direct selling scam claiming to offer language training, FCNB collaborated with the YMCA to develop fraud prevention handouts and presentations. Fraud awareness tips were translated into Arabic as New Brunswick welcomed hundreds of Syrian refugees to the province. FCNB's free handout highlights frauds and scams that specifically target newcomers and provides them with the tools to recognize scams.

“Regardless of your stage of life, having the tools and resources you need to make informed financial decisions will help you build a solid foundation for financial success.”

MARISSA SOLLOWS

SENIOR EDUCATION COORDINATOR

Presenting Face-to-Face to Young People

Samantha Richard, FCNB’s Education Coordinator, presented to myriad community groups and schools last year. She gave 108 in-person presentations to 2,545 New Brunswick youths. Richard covered smart spending decisions, knowing the difference between wants and needs, budgeting, and setting financial goals.

Learning the “CEDC” Ropes

FCNB staff developed an educational program to support the New Brunswick Department of Finance’s launch of a new initiative known as Community Economic Development Corporations (CEDC). “This is an opportunity for New Brunswickers to channel investment dollars into their local economy,” says Jeff Harriman, Capital Markets Specialist at FCNB. Educational information was published about CEDCs under the Industry & Professionals tab of the FCNB website.

Harriman also hosted 26 *Learning the Ropes* educational presentations across the province last year. “Offered as part of FCNB’s *Fullsail* capital markets development initiative, the presentations focused on informing entrepreneurs how to grow their businesses with capital raising opportunities,” Harriman said. FCNB also gave *Learning the Ropes* presentations on capital raising exemptions as well as exit strategies. His presentations reached 730 attendees. Harriman also publishes a magazine titled *Making Headway* in hard copy and online. It reports to stakeholders on the progress made in capital market development in the province and supports capital markets education.

Crowdfunding Comes to New Brunswick

FCNB approved rules to allow for equity-based crowdfunding in May 2015. In response to the new rules, FCNB hosted *Learning the Ropes* around the province and one in Nova Scotia, bringing in tax and securities law experts to discuss how to benefit from these new rules.

“We have worked with stakeholders across the province like Connexion Works, Planet Hatch, Venn and local chambers of commerce,” adds Harriman. “Working together, these organizations help us educate entrepreneurs on the ins-and-outs of raising capital in the markets.”



Wake Up and Smell the Coffee!

In addition to topical publications, robust website content, blogs, brochures, infographics, social media, and television advertising, we bring the message to people in their communities. FCNB continued its radio station summer cruiser engagement program in four New Brunswick communities. New Brunswickers were asked what tips they would share with children about money and hundreds of replies were received.

In March, FCNB piloted a new outreach project in Saint John and Rothesay entitled *Spend Smart Cafés* as part of its Fraud Prevention Month activities. These events were a unique way to get fraud prevention messages out through a partnership with Java Moose. FCNB offered free coffee, treats and fraud prevention tips.

“Our goal was to use the relaxed atmosphere of popular local coffee shops to answer questions and create awareness,” said Marissa Sollows. “In three days, FCNB staff chatted with over 700 people face-to-face about their personal financial health and how to recognize signs of fraud.” FCNB also posted free fraud prevention information and blog posts on the FCNB.ca website, with links on Facebook, Twitter, Pinterest and YouTube.

The Audience is Listening

“Clear communication is fundamental to FCNB’s mandate to reach so many diverse audiences,” adds Andrew Nicholson. “Financial concepts can be intimidating when you don’t have clear information.”

“One in five New Brunswickers has a literacy level that is below average, putting us below the national average. This makes them more vulnerable to being taken advantage of financially. We are trying to address that problem through our various initiatives.”

RICK HANCOX
CEO

FCNB focused on making meaningful connections with consumers last year through different online sources including social media, guest blogging, videos, and podcasts. By delivering messages in an engaging format, FCNB grew its Facebook audience by 10% and Twitter by 8%. Pinterest and Instagram were also used for specific campaigns. Approximately 4% of traffic to the FCNB website was referred by social channels in fiscal 2015-2016, compared to approximately 1% in 2014-2015.

“Animated videos posted this year sharing information about capital raising and crowdfunding resulted in 15,000 views on Facebook and over 3,000 on Twitter,” said Nicholson. “Podcasts were also launched to allow those who could not participate in person at the November *Fullsail* event to take advantage of the learning opportunity. Since December, the series has been downloaded 275 times.”

The FCNB awareness campaign, *Asking Financial Questions Can be Tough*, included online promotion of the television ad, garnering 19,000 video views on YouTube.

In total, the Education and Communications Division delivered 171 in-person presentations to 3,451 people.

Education & Communications Presentations and Events

	2015-2016		2014-2015		2013-2014	
	Attendance	Total Events	Attendance	Total Events	Attendance	Total Events
Investor and Consumer Education	2,721	144	1,709	89	732	26
Capital Markets: <i>Learning the Ropes</i>	610	26	555	22	419	20
Capital Markets: <i>Fullsail</i>	120	1	225	2	150	1

Solidify our Infrastructure

FCNB enhanced its operational effectiveness in fiscal 2015-2016 with a number of key initiatives related to new systems development, and modernizing our regulatory framework. We implemented an information technology (IT) strategy to develop electronic systems for our regulatory sectors and improve our internal and external delivery processes. Reviewing and modernizing our regulatory framework was a major component of this strategic priority.

IT Renewal Projects Launched

As the result of changes to the *Pension Benefits Act*, the *Insurance Act*, and the *Financial and Consumer Services Commission Act*, FCNB has been able to implement the use of electronic forms in support of the IT renewal projects. This led to the most visible enhancement across FCNB which was the design and launch of a new online registration and licensing portal for a number of industry sectors. Staff continue to phase in this system which offers new, user-friendly, online functionality for stakeholders.

“We are building our new system on a solid foundation provided by using off-the-shelf solutions,” states Jake van der Laan, Chief Information Officer. “With this system we are able to easily add custom features and functionality, thus maintaining continuous flexibility to respond to the needs of our external stakeholders as well as our staff.”

Brodie Shannon, Technology Specialist with Corporate Services, led the set-up of the architecture and databases. Brennan Phoenix, IT Analyst/Developer, is in charge of managing the customer relationship management (CRM) and portal functionality. Theresa Hughes, IT Administrative Support Officer, manages all support functionality, including Frequently Asked Questions, guides, and inquiries from users. Leanne Kinnear, Information and Records Management Coordinator, ensures that IT systems comply with record-keeping policies and standards. FCNB staff in every Division have been involved in designing, testing and launching the various phases of the IT renewal project.

New Online Insurance Portal

FCNB launched portal functionality for individuals applying for new insurance intermediary licences in the fall of 2015. They can now complete and submit online new applications, forms, and payments required to become licensed. Later phases will cover renewals for existing licence holders, insurer registration, and other processes.





“We are excited about the new functionality that this system will bring to our stakeholders,” said David Weir, Deputy Director of Insurance. “The new system will reduce delays and make licensing easier for those wishing to sell insurance products to New Brunswickers.”

Pensions Portal Underway

FCNB completed a new Pension Division IT system in December to enhance its operational effectiveness. It was tested and prepared for launch in 2016. “The new system for Pensions will bring a number of significant improvements in our ability to process filings within the Pensions Division,” says Angela Mazerolle, Director of Pensions and Insurance. “This past fiscal year, we’ve gone from studying, to designing, and testing. As with insurance, online tools are very beneficial to us when it comes to regulating in the 21st century.”

For all of the new registration and licensing IT systems, industry stakeholders were asked to conduct testing and provide feedback prior to the official launch.

IT Upgrades Create Corporate Services Efficiencies

Launching new software and online portals in several Divisions has significantly upgraded FCNB’s financial information system to produce financial statements and the annual budget. “Investing in IT has to make business sense, so we applied cost benefit analysis,” says Pierre Thibodeau, Controller. “By moving away from paper we improved our internal processes. Self-service reduces time for entering monthly journals, and triggering invoices electronically saves staff from typing everything.”

Insurance Companies Operating in New Brunswick (unaudited)

Category of Company	Our role	2015-2016	2014-2015	2013-2014
Companies based in NB	Primary regulator (solvency and market conduct)	7	7	7
Companies that were federally or internationally headquartered	Licensing and market conduct	181	184	183
Companies based in another province	Licensing and market conduct	41	42	44

The intermediaries licensed during the fiscal year were as follows:

Licence Type	2015-2016	2014-2015	2013-2014
Life Insurance Agents/Brokers	2,711 ³	2,620 ³	2,598 ³
Other Than Life Agents/Brokers	1,852	1,761	1,677
Non-Resident Brokers	3,003	2,707	2,524
Accident & Sickness Agents	508	459	364
Travel Agents	279	281	304
Special Insurance Brokers	14	11	13
Damage Appraisers	87	72	69
Adjusters	1,630	1,362	1,122
Total number of Licensees	10,084	9,273	8,671
Total number of licences produced	8,871^{1,2}	7,796^{1,2}	7,532^{1,2}

¹ Life Agents:

2013-2014: Resident: 1544; Non-Resident - 1054

2014-2015: Resident: 1490; Non-Resident - 1130

2015-2016: Resident: 1491; Non-Resident - 1220

² Includes intermediaries holding more than one licence and licence transfers

³ Number of licences produced reflects the number of licences issued from 1 April - 31 March. The number is less than the total number of intermediaries as some intermediaries hold two-year licences which were issued in the previous year.



Solidifying Processes with Fresh Eyes

Big Developmental Year for Staff

“With the arrival of new people, the Consumer Affairs Division has looked at its activities with fresh eyes,” says Suzanne Bonnell-Burley, Director of Consumer Affairs. “Staff reviewed processes to determine whether there was a more effective way to operate. We are using key performance indicators to track projects and have identified metrics and service standards for the issuance of licences, and response time to inquiries, to gauge performance in terms of meeting operational goals.”

Life Licensing Qualification Enhanced

David Weir noted that in addition to changes enhancing the registration experience of users, the insurance staff also participated in a Canada-wide initiative through the Canadian Insurance Services Regulatory Organization (CISRO) to solidify the national Life Licensing Qualification Program (LLQP).

“The LLQP exam has been enriched,” states Weir, noting that previously a person could fail one of the key aspects and still be granted a licence. “Now, a grade of 60% is required on each of four 75-minute modules.” The modules cover life insurance, annuities and investments, accident and sickness, as well as ethics and professional practice. “We have also assumed responsibility for organizing the exams twice monthly. Previously this was conducted by the New Brunswick Department of Post-Secondary Education, Training and Labour,” Weir adds. The new regime became effective 1 January 2016.

“We are a regulator of multiple industries, with a consumer focus.”

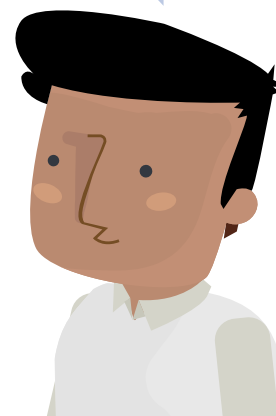
CATHERINE HAINES
COMPLIANCE OFFICER

Improving the National Registration Search Tool

Marissa Sollows, FCNB’s Senior Education Coordinator, co-led a project to enhance the National Registration Search tool for securities registrants. The enhancements were made to improve protection by better serving investors as they perform their due diligence before investing. Search results now include a streamlined view, including Terms and Conditions and an easier provincial registration breakdown. View the new tool here: <http://www.securities-administrators.ca/nrs/nrsearchprep.aspx?ID=1325>

“Solidifying our infrastructure is about designing the tools and creating the roles that allow us to do the work that we really need to do,” simplifies Jake van der Laan, Chief Information Officer. For example, FCNB adapted Case Management tools this year to streamline workflow through compliance, investigation and litigation, and applied those to other areas where FCNB holds legislative powers. “We also took different investigative and legal staff functions and combined them into broader roles. That let us focus more on meeting demand while getting the most out of our resources,” says van der Laan. He adds that a cybersecurity plan was approved in December 2015 to protect the large amount of data maintained by FCNB, including the existing and new IT systems.

Did you know?
A direct seller must show you
their licence at your request.



“As a result of our new legislation, we now have one of the best mortgage broker regulatory systems in Canada.”

SUZANNE BONNELL-BURLEY
DIRECTOR OF CONSUMER AFFAIRS

Consumer Affairs, Licences Issued

Licence Type	2015-2016	2014-2015	2013-2014
Auctioneers Licence	64	68	59
Collection Agency Licence	66	64	64
Collection Agency Branch Licence	48	71	70
Collection Agency Collector Licence	3,485	3,571	3,691
Commissioner of Oaths (Foreign)	0	1	2
Commissioner of Oaths (Provincial)	651	712	667
<i>Cost of Credit Disclosure Act: Branch Registration</i>	406	428	313
<i>Cost of Credit Disclosure Act: Company Registration</i>	457	511	498
<i>Cost of Credit Disclosure Act: Individual Registration</i>	1	4	10
<i>Direct Sellers Act: Salesperson Licence</i> ¹	859	537	451
<i>Direct Sellers Act: Vendor Licence</i>	75	66	68
<i>Pre-arranged Funeral Services Act: Manager Licence</i>	68	67	68
<i>Pre-arranged Funeral Services Act: Provider Licence</i>	58	58	58
Real Estate Agent Licence	103	113	110
Real Estate Branch Licence	32	33	41
Real Estate Manager Licence	168	180	190
Real Estate Salesperson Licence	768	793	953
Total	7,309	7,277	7,313

¹ Significant increase due to 2015 compliance initiative.

Modernizing Legislative Framework

Mortgage Broker Regulations Improved

Major efforts were undertaken in preparation for new mortgage broker legislation which came into force 1 April 2016, requiring licensing for the mortgage brokerage industry. Individual mortgage brokers and associates will need to be licensed and take an approved education course under the new legislation. Potential licensees were given nine months to complete the required course.

Alaina Nicholson, Senior Compliance Officer, says the new legislation requires that consumers are provided better information about their mortgage transaction, including the cost, prior to agreeing to the services of a mortgage broker. “The rules aim to provide more disclosure to prevent consumers from being subject to hidden fees,” Nicholson reinforces.

Broad expertise across the organization was combined as Divisions worked together to develop and launch FCNB’s online Mortgage Broker licensing functionality—another phase of the IT renewal project.

Developing a Regulatory Regime for Payday Loans

FCNB has been working with Government on implementing a regulatory regime for payday loans. New legislation will require all payday lenders operating in the province to have a licence and will enable FCNB to conduct compliance and enforcement activities. This will provide additional rights, better disclosure and enhanced protection for consumers in addition to those that are presently provided under the *Cost of Credit Disclosure Act*.

Enhancing Compliance, Investigations and Enforcement Legislation

Another transformative initiative created by FCNB staff was to update and harmonize compliance, investigative and enforcement authorities across the various Acts that FCNB administers. “The main objective is to provide a consistent regulatory framework across all regulatory sectors for improved consumer protection,” explains Gordon Fortner, Senior Investigator. “It will also enable proceedings before the Financial and Consumer Services Tribunal as an enforcement option and add more robust administrative as well as quasi-criminal prosecution options,” says Fortner.

Enforcement Activity	2015-2016	2014-2015	2013-2014
Complaints received	19	15	15
New files from other sources (referrals, surveillance, etc.)	14	17	19
Requests for assistance from other regulators	1	1	1
Requests for internal legal/investigative assistance	2	6	0
New matters	34	37	35
Matters concluded	8	46	25
Matters dealt with by the Financial and Consumer Services Tribunal			
Interim cease-trade orders	0	0	1
applicable to # of parties	0	0	4
Permanent/final cease-trade orders	3	4	4
applicable to # of parties	6	10	12
Reciprocal cease-trade orders	1	0	1
applicable to # of parties	2	0	2
Reprimands	0	0	1
applicable to # of parties	0	0	4
Exemption bans	4	4	4
applicable to # of parties	8	10	12
Registrants limited/banned from market	2	0	1
Settlements approved	0	3	2
Hearing days (Commission only)	11	12	9
Appeal and other legal support matters ¹	7	2	0
Matters dealt within Provincial Court			
Quasi-criminal charges laid	0	0	0
# Individuals charged	0	0	0
Findings of guilt or guilty pleas	1	0	0
Jail sentences imposed	0	0	0
Financial remedies (\$)			
Costs levied	0	0	3,660
Costs recovered	0	0	500
Administrative penalties levied	0	27,000	7,000
Administrative penalties recovered	0	27,000	2,000
Disgorgement ordered	0	0	594,997
Disgorgement received	12,000	12,190	12,000

¹ The Enforcement Division provides support to other divisions in relation to matters before the Financial and Consumer Services Tribunal. These matters do not necessarily involve enforcement type work, but may relate to assisting the decision maker in responding to an appeal or a request for a review being brought before the Tribunal.

“We see our Enforcement Division as a service provider and partner across the whole organization, building relationships and effectively interacting with the various compliance functions of FCNB.”

GORDON FORTNER
SENIOR INVESTIGATOR

Evolving Caisses populaires, Credit Unions and Co-ops

FCNB’s Financial Institutions Division worked closely with our General Counsel Division on two sets of amendments to the *Credit Unions Act* to allow the entire caisse populaire system to operate under a federal charter. “The changes enabled a credit union to submit an application for federal continuance in order to be continued as a federal credit union under the *Bank Act (Canada)*,” says Étienne LeBœuf, Director of Financial Institutions. “As well, they allowed the Fédération des caisses populaires acadiennes and L’Office de stabilisation to amalgamate their assets with those of the 15 caisses populaires for the purpose of federal continuance.”

FCNB continued to find efficiencies for the credit union system. The legislative amendments mentioned above included the ability of the Superintendent of Credit Unions to determine the format and content of fillable forms to be used in the administration of the *Credit Unions Act*. This continued FCNB’s harmonization strategy to standardize the format and content of forms used in all the pieces of legislation it administers.

The Division is also working on the modernization of the *Co-operative Associations Act*. Claire Gagnon, Senior Regulatory Officer, says, “we are working with the Co-op sector to help identify needed changes.”

Credit Unions and Caisses populaires (unaudited) ¹

	2016		2015		2014	
	Credit Unions	Caisses populaires	Credit Unions	Caisses populaires	Credit Unions	Caisses populaires
Number	10	15	10	15	10	15
Members	67,876	155,000	69,000	161,000	71,000	155,000
Assets (\$)	965.9 million	3.3 billion	0.9 billion	3.2 billion	0.9 billion	3.1 billion
Stabilization funds (\$)	21.9 million	114.2 million	20 million	96.7 million	18.1 million	87.4 million
NBCUDIC funds (\$)	4.1 million		4.2 million		4.3 million	

¹ The fiscal year-end for Credit Unions and Caisses populaires is 31 December.

Co-operatives Summary ¹

Category	Reporting	Total assets (\$)	Total revenue (\$)	Members equity to assets (%)	Employees	Members
Agriculture/ Forestry	19	43,600,157	12,874,533	96.02	121	3,179
Consumer	12	41,587,205	177,883,893	39.66	686	52,699
Fishery	1	60,127,421	89,420,570	71.12	520	177
Housing	11	13,387,237	4,810,370	24.75	4	400
Services	40	10,101,664	7,713,856	50.73	129	11,088
Worker	1	139,281	752,209	44.66	11	10
Total	84	168,942,965	293,455,431	N/A	1,471	67,553

¹ There were 175 co-ops at 31 December 2015. One co-op was dissolved. Seven co-ops were incorporated.

Loans and Trusts Companies Summary

Location	2015-2016	2014-2015	2013-2014
Total Provincial	0	0	0
Alberta	1	1	1
Québec	1	1	1
Federal	46	46	46
Total Extra-Provincial	48	48	48

“The Financial Institutions Division continues to introduce best practices to improve our role in protecting depositors.”

ÉTIENNE LEBŒUF

DIRECTOR, FINANCIAL INSTITUTIONS

Optimizing OTC Derivatives Rules

Wendy Morgan, Senior Legal Counsel with FCNB’s Securities Division, says two new rules create an improved reporting regime for Canadian parties trading in “over-the-counter” (OTC) derivatives.

“The two rules work together,” she explains. “The purpose of the Scope Rule is to define the types of OTC derivatives that will be subject to the reporting requirements under the Trade Reporting Rule (TR). The TR Rule has three main purposes. First, it will improve transparency in the OTC derivatives markets for regulators by requiring that derivatives trades be reported to a recognized trade repository.” Morgan says data is essential for effective oversight of OTC derivatives markets, including the ability to identify and address systemic risk and market abuse. “Second, it provides for release of certain data to market participants about OTC derivatives markets. Finally, the TR rule imposes requirements relating to the governance and operation of trade repositories.”

The trading rules were developed in co-operation with the Canadian Securities Administrator’s (CSA) Derivatives Committee of which Morgan is a member. The final version of the trade reporting rules was published on 22 January 2016, with an effective date of 1 May 2016.

Did you know?

Couples who share details about their personal finances argue significantly less about money than those who are less transparent (58% vs 30%).

CREDIT CANADA DEBT SOLUTIONS





Corporate Finance Activity and Registration Activity

Corporate Finance Activity	2015-2016	2014-2015	2013-2014
Reporting issuers ¹	4,987	4,891	4,757
Reporting issuers (New Brunswick-based)	8	8	8
Prospectus filings (non-mutual funds)	305	386	401
Mutual fund prospectus filings	3,680	3,549	3,572
Annual information forms	1,155	1,170	1,256
Exempt distribution reports	390	389	345
Exemption applications (non-passport)	72	63	83
Cease-trade order	0	0	0
Management cease-trade order	0	0	0
Registration Activity¹	2015-2016	2014-2015	2013-2014
Registered firms	399	406	398
Registered firms (New Brunswick Head Office)	3	3	3
Branches/sub-branches in New Brunswick	531	526	546
Registered individuals	10,113	9,988	9,781
Registered individuals (New Brunswick residents)	1,745	1,757	1,749

¹The number reported is as of 31 March of each fiscal year.

Transition our Organization

FCNB as an effective, independent, self-funded regulator

Transition considerations continue to be a priority as FCNB responds to external influences and builds teams, infrastructure and harmonizes its framework and tools for optimum service delivery and regulatory effectiveness.

Developing Talented Staff

Staff across all divisions are provided training opportunities to develop necessary expertise. “FCNB has staff from a variety of employment backgrounds and we have recently brought together our professional groups to identify and offer specific technical learning and development opportunities,” says Jackie Gomes, FCNB’s Human Resources Officer. “Fiona Boffa, our other Human Resources Officer, manages the learning and development within the organization and also leads our Training Management Committee.” Training has covered topics such as Privacy Law, Compliance, and Investor Education. We also offer French language training to support the organization’s commitment to deliver on its mandate in both official languages of New Brunswick.

“People are always surprised to see a regulator out speaking in normal places, in normal language, where people are not intimidated to ask questions. The response has been very positive.”

ANGELA MAZEROLLE

DIRECTOR, PENSIONS AND INSURANCE

Angela Mazerolle, FCNB’s Superintendent of Insurance, serves as the Vice-Chair of the General Insurance Statistical Agency. Mazerolle, who is also FCNB’s Superintendent of Pensions, was appointed Chair of the Canadian Association of Pension Supervisory Authorities (CAPSA) in March 2015. As the Chair of CAPSA, she is Canada’s representative on the International Organisation of Pension Supervisors and spoke at two of their meetings last year in Paris and Berlin. In this role Mazerolle Chaired a Joint Forum of Financial Market Regulators in Montreal. She is also active within the International Pension and Employee Benefits Lawyers Association. Additionally, a number of Pensions and Insurance Division staff participate in sub-committees of CCIR, CAPSA, and the Canadian Insurance Services Regulatory Organizations (CISRO).



Marissa Sollows, Senior Education Coordinator, served as the Canadian Liaison to the Investor Education Section and as the Chair of the Online Outreach and Social Media Project Group with the North American Securities Administrators Association (NASAA).

Staff of our Securities and Enforcement Divisions are also active on: NASAA committees; Canadian Securities Administrators (CSA) committees; the International Law Enforcement Association; the New Brunswick Association of Chiefs of Police; the High Tech Crime Investigation Association; and the National White Collar Crime Center.

Staff of the Financial Institutions Division continue to participate on the Federal, Provincial and Territorial Working Group (FTP) to share information and collaborate on matters related to non-financial co-operatives. The FTP Working Group is sponsored by Innovation, Science and Economic Development Canada.

Organizational Transition

Staff are planning for the transition of the organization in anticipation of the Capital Markets Regulatory Authority (CMRA). This change involves the creation of a national regulator for securities and the transition of a significant number of staff to a new organization. FCNB will continue to regulate insurance, pensions, credit unions, caisses populaires, trust and loan companies, co-operatives, and a wide range of consumer legislation. Our objective is to operate as an effective, independent, self-funded regulator.

MYTHS AND FACTS

Myth

You can be arrested if you don't pay a debt.

Fact

Failure to pay a debt is a civil matter, not a criminal matter. You cannot be arrested, but if the debt is "secured" the creditor may seize your property. Defaulting on unsecured debt may result in you being taken to a civil, but not a criminal court.

Myth

A Ponzi scheme can make you rich if your timing is right.

Fact

The classic Ponzi scheme takes money from new investors to pay returns to prior investors, thereby creating the illusion that the scheme is profitable. This can motivate more investors to get involved. Once the scheme has achieved a certain level of credibility, fraudsters usually keep new investment money for themselves. The scheme eventually collapses as the demand for returns from investors outweighs the availability of new funds.

Myth

I operate a New Brunswick company. I can issue securities to investors across Canada as long as I comply with New Brunswick securities laws.

Fact

New Brunswick-based issuers may issue securities to investors throughout Canada. However, they must comply with securities laws in New Brunswick and also the securities laws of the province in which the investor resides.

Myth

Men pay more for automobile insurance than women.

Fact

In New Brunswick, the Automobile Rating Classification Regulation prohibits insurance companies from setting premiums that distinguish between drivers based on their gender. They are also prohibited from setting premiums that distinguish between drivers based on their age or marital status. Premiums need to be determined based on other factors such as driving experience, driving record, and average annual mileage.

Myth

An insurance company can cancel my automobile insurance at any time.

Fact

Under the *Insurance Act*, an insurance company cannot cancel an automobile insurance policy that has been in place for more than 60 days unless it has specific reasons, such as non-payment of the premium or a material change in the risk. If the insurance company cancels the policy, it must give you prior notice as described in the *Act* and your insurance policy.

Myth

All the personal property in my home is covered by my home insurance policy.

Fact

Most home insurance policies come with contents coverage for personal property. However, there can be limitations and exclusions. In particular, high-value items such as jewelry, art, musical instruments, bicycles and electronics usually have a limit on what the insurers are willing to cover and the amount that they are willing to pay. To cover these high-value items to their actual value, a home owner is often required to obtain additional coverage. It's also important to note that business equipment owned by a company is not generally covered under an individual's personal home policy.

03 Report on Governance Practices



Role of Commission Members

Commission Members, through the independent Chair, are accountable to the government through the Minister responsible for the Commission for the proper administration of the financial and consumer services legislation. They are also responsible for policy matters and the governance of the Commission. Members apply their expertise in the areas of management oversight and policy development. They review the Commission's annual strategic business plan and 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* on our website.

Independence

Members, including the Chair, are independent of the operational 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 judgement.

Commission Members

Hon. Gregory F. Thompson, P.C.
Peter Klohn, (Chair) LL.B, ICD.D
J. Douglas Baker, CPA, CA
Ian S. Purvis, Q.C., LL.B
Paulette Robert (Vice-chair)
Kenneth Savage, CPA, CA, CFP
Michael D. Wennberg, LL.B
Yves Gagnon, PMP, ICD.D

Pictured above, from left to right.

Member Orientation and Continuing Education

New Members must participate in an extensive orientation program. This mandatory orientation provides an overview of the Canadian and New Brunswick financial and consumer services regulatory, compliance and enforcement landscape. The program includes a detailed overview of our operations, financial affairs, legal framework, governance practices and current trends and issues in the financial services marketplace. The two-day session is provided in half-day modules for flexibility. Members are given detailed documentation about our operations. They also meet senior management and tour our offices. No general orientation session was provided in the 2015-2016 fiscal year due to the fact that no new Members were appointed during that period. The orientation binder for new Members was updated during the fiscal year in preparation for upcoming appointments.

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 that enhance their performance in both the boardroom and the regulated subject matter context.

A description of the common education sessions offered to Members during fiscal year 2015-2016 is set out below:

Continuing Education

Date	Topic	Presenters	Attendees
27 April 2015	Change Management	Andrea Johnson, Horizon Health	Peter Klohn Hon. Gregory F. Thompson, P.C.
22 June 2015	Consumer Protection Warranties	Suzanne Bonnell-Burley	J. Douglas Baker Ian S. Purvis, Q.C.
1 September 2015	Overview of new social media tools and their use by the Commission	Marissa Sollows	Paulette Robert Kenneth Savage Michael D. Wennberg Yves Gagnon
1 September 2015	Credit Unions / Caisses populaires	Étienne LeBœuf	
26 October 2015	Privacy Update	Wendy Morgan, Sarah Dever Letson	
26 October 2015	Modernizing the New Brunswick Insurance Licensing Framework	David Weir	
21 December 2015	Cybersecurity	Jake van der Laan	
14 March 2016	CSA Committee Processes	Susan Powell	

Skills and Experience

The Commission maintains and regularly reviews a profile for the Commission as a whole. The profile sets out the mix of backgrounds, skills and experience required to guide the Commission's strategy and on-going business operations. When there is a vacancy, the skills for a replacement candidate are set by doing an analysis of that profile.

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

Members	Commission	Special ¹	Audit and Risk Management Committee	Human Resources and Governance Committee	Joint Human Resources and Governance Committee and Audit and Risk Management Committee
Peter Klohn	10/10	3/3	6/6	7/7	1/1
J. Douglas Baker	10/10	3/3	6/6	n/a	1/1
Yves Gagnon	10/10	3/3	n/a	7/7	1/1
Ian S. Purvis, Q.C.	10/10	3/3	n/a	7/7	1/1
Paulette Robert	10/10	3/3	6/6	n/a	1/1
Kenneth Savage	10/10	3/3	6/6	n/a	1/1
Hon. Gregory F. Thompson, P.C. ²	8/10	2/3	n/a	5/7	1/1
Michael D. Wennberg	10/10	3/3	6/6	n/a	1/1

¹ Special Meetings included ad hoc Commission meetings, education and strategic planning sessions.

² Mr. Thompson resigned on 8 January 2016.

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. The Chair attends committee meetings as an *ex officio* 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. It meets at least five times each year. The members of the Audit and Risk Management Committee are required to be financially literate and have the ability to understand the financial statements of the Commission. All committee members have attested to their financial literacy.

During the fiscal year 2015-2016, the Audit and Risk Management Committee held a total of seven meetings, consisting of five regular meetings, one special meeting with the external auditors to review the audit plan and one special joint meeting with the Human Resources and Governance Committee. For a full report of this committee's activities for the fiscal year 2015-2016, please refer to the *Report on Governance Practices* on our website.

Human Resources and Governance Committee

The Human Resources and Governance Committee is responsible for the following human resources-related matters: compensation and human resources policies and procedures. It is also responsible for the following governance-related matters: succession planning, performance assessment of the Commission, its committees and individual members, and corporate governance practices and procedures.

The committee held a total of eight meetings during the fiscal year, consisting of four regular meetings, three special meetings and one special joint meeting with the Audit and Risk Management Committee. The Human Resources and Governance Committee's work covered six major areas. For a full report of this committee's activities for the fiscal year 2015-2016, please refer to the *Report on Governance Practices* on our website.

Remuneration

Financial and Consumer Services Commission Bylaw No. 3, *Commission and Tribunal Remuneration*, provides the remuneration, retainers and service fees, as applicable, for the Chair, Members, 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 committee Chairs each receive an additional retainer of \$2,000 per year.

Chair

Mr. Klohn received a remuneration of \$137,000 for the period 1 April 2015 to 31 March 2016. 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 \$12,328 (on an annual basis, nine percent of the total annual compensation earned for the period to a maximum of 50 percent of the registered retirement savings plan annual

contribution limit as established by the Canada Revenue Agency for the taxation year). The Chair's expenses, which mainly include business travel and training, were in the amount of \$16,737.

Members' Remuneration and Expenses

The Members' retainers, service fees and expenses related to travel, meals, hotel, parking and education for the fiscal year 2015-2016 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 ²	Expense Reimbursement and Allowances
J. Douglas Baker	6 February 2014	5 February 2017	\$10,000	\$10,850	\$1,200	\$22,050	\$1,931
Yves Gagnon	6 February 2014	5 February 2018	\$12,000	\$12,250	\$3,700	\$27,950	\$8,368
Ian S. Purvis, Q.C.	21 August 2013	20 August 2017	\$10,000	\$11,900	\$2,100	\$24,000	\$7,304
Paulette Robert	21 August 2013	20 August 2017	\$12,000	\$10,850	\$2,400	\$25,250	\$6,724
Kenneth Savage	16 August 2007 Reappointed: 1 July 2015	30 June 2016	\$12,000	\$10,850	\$600	\$23,450	\$1,056
Hon. Gregory Thompson, P.C. ¹	6 February 2014	8 January 2016	\$7,720	\$8,750	\$2,000	\$18,470	\$1,855
Michael D. Wennberg	21 August 2013	20 August 2018	\$10,000	\$10,850	\$800	\$21,650	\$2,482

¹ Mr. Thompson resigned on 8 January 2016.

² Variation in expenses may reflect the location of the Commission Member.

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. This *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, we are required to disclose 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; 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 2015-2016.

FCNB

**We are New Brunswick's
financial and consumer
services regulator.**

04 Management's Discussion and Analysis

For the fiscal year ended 31 March 2016
Dated 7 September 2016

This Management's Discussion and Analysis (MD&A) contains management's interpretation of the Financial and Consumer Services Commission's (FCNB) financial performance for the 2015-2016 fiscal year ended 31 March 2016. 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 2016 financial statements including related notes. Together, this MD&A and our financial statements provide key information about FCNB's performance and ability to meet our objectives.

Unless otherwise noted, reference to a year means FCNB's year ending 31 March. For example, "2016" means the fiscal year ending 31 March 2016. All financial information related to 2015 and 2016 has been prepared in accordance with International Financial Reporting Standards (IFRS).

The terms "we", "us", "our", "FCNB" and "FCSC" refer to the Financial and Consumer Services Commission and references to the "Act" refers 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 2017 expectations are forward-looking and subject to risks and uncertainties.

Overview

FCNB is a corporation without share capital, first established under the *Securities Act* as the New Brunswick Securities Commission (NBSC). It began operations on 1 July 2004 and was continued under the *Financial and Consumer Services Commission Act* (the *Act*) as the Financial and Consumer Services Commission on 1 July 2013. FCNB functions as an independent regulatory agency and administrative tribunal, responsible for overseeing a broad range of financial and consumer legislation in New Brunswick.

The changes that came into effect on 1 July 2013 were much broader than a mere name change. It brought together the previous securities sector regulatory functions performed by NBSC with the regulatory functions that were performed by the Justice Services Division of the

Department of Justice and Attorney General. These functions include the insurance, pension, credit union, loan and trust company, and co-operatives sectors as well as a wide variety of consumer legislation. See Note 1 of the notes to the financial statements for a complete list of financial and consumer services legislation that we administer.

We have offices in Saint John and Fredericton.

The operations of FCNB are funded through a variety of fees and assessments paid by those we regulate. We have broad rule-making authority under the *Securities Act*, *Mortgage Brokers Act* and *Payday Loans Act*, as well as rule-making authority for fees and forms in our other financial and consumer services legislation. We operate under the direction of appointed Commission Members who oversee our various divisions' regulators and administer financial and consumer services legislation.

The *Act* also established an adjudicative independent Tribunal that may exercise powers and hold hearings on matters imposed on the Tribunal by financial and consumer services legislation. We show the results of the Tribunal's operations in our financial statements. As a provincial Crown Corporation, we are exempt from income taxes.

FCNB is not an appropriation-dependent Crown Corporation, and we had no borrowings from the Province of New Brunswick at 31 March 2016 nor at any previous time in our existence.

As a result of inter-provincial securities regulatory reform initiatives, which includes New Brunswick's participation, and which will drive a consequent loss of significant revenue to FCNB, the establishment and funding of a Restructuring Reserve (\$10M) and increase to the Stabilization Reserve (additional \$1M) was completed in 2015. These measures will allow us to maintain our self-funding 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 2016 surplus 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. Commission Members, in conjunction with our Audit and Risk Management Committee, have an oversight role regarding the integrity of reported information.

Limitations to Comparisons of Financial Information

There are some inherent limitations in comparing financial information between fiscal periods arising from the transition to FCNB. Financial information for 2014 reflects the results of operations for the former NBSC for 12 months and the other sectors, staff and locations for nine months. Financial information for 2015 and 2016 reflects a full 12 months of operations for the integrated regulator.

Selected Financial Information

	Budget 2016	Actual 2016	Actual 2015	Actual 2014
Revenue	\$19,492,668	\$20,109,748	\$18,710,793	\$17,424,344
Expense	11,054,762	10,654,703	9,906,451	7,971,022
Excess of revenue over expenses	8,437,906	9,455,045	8,804,342	9,453,322
Total assets		21,991,324	21,583,809	12,603,638
Total liabilities		5,256,053	5,284,282	5,108,453
Total equity balance		16,735,271	16,299,527	7,495,185
Distributions to government		\$9,019,301	0	\$5,500,000

Total revenue in 2016 exceeded the budget on the strength of investment fund filings and assessments. Expenses were below budget because of a reduction in general and administrative expenses, driven predominantly by education and communications, and legal services expenditures.

Revenues

FCNB's revenues consist of:

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

The securities sector represents the largest source of revenue for us, at over 77.6% of total revenue.

There is an interesting dynamic with respect to FCNB's budget, revenues and expenses for the insurance sector. The *Insurance Act* provides that all of the costs associated with administering that *Act* shall be assessed and recovered from licensed insurers. To the extent 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 above budget for 2016, this corresponds to an equivalent increase in insurance sector expenses.

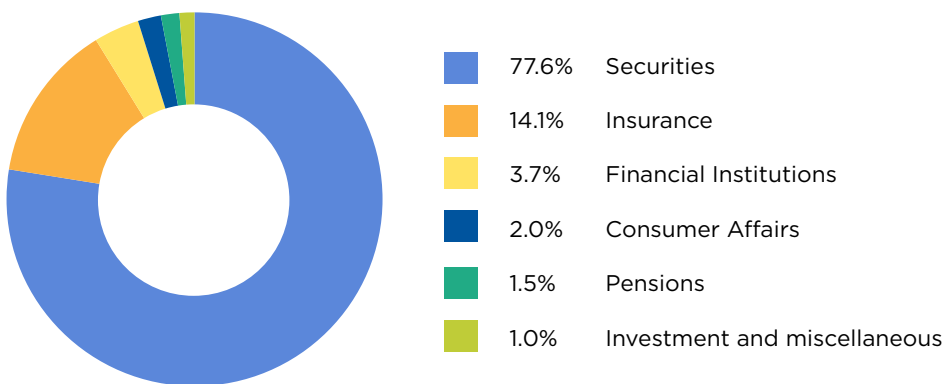
Analysis of Total Revenue (by Nature)

Category	Description	2016 Amount	2016 % of Revenue	2015 Amount	2015 % 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.	\$9,758,250	48.5	\$8,718,050	46.6	\$1,040,200
Registration fees	Paid by individuals and firms to register with FCNB to sell or advise on securities.	3,843,907	19.1	3,786,998	20.2	56,909
Financial filing fees	Paid by companies and mutual funds when filing annual financial statements and annual information forms.	1,937,900	9.6	1,951,450	10.4	(13,550)
Licences and fees	Paid by a variety of sectors in order to be registered or compliant with legislation. Insurance agent fees, loan and trust company fees, pension filing fees and a variety of consumer affairs fees comprise this list in descending order.	1,633,152	8.1	1,643,475	8.8	(10,323)
Exemptions and orders	Paid by market participants primarily to request exemptions from <i>Securities Act</i> requirements.	54,750	0.3	49,150	0.3	5,600
Other fees	Paid by regulated entities for late filing and other miscellaneous fees.	19,150	0.1	15,661	0.1	3,489
Total fees		\$17,247,109	85.8%	\$16,164,784	86.4%	\$1,082,325
Assessments	Paid by licensed insurers to administer the <i>Insurance Act</i> and by credit unions to administer the <i>Credit Unions Act</i> .	\$2,627,073	13.1	\$2,301,397	12.3	\$325,676
Administrative penalties and settlements	Paid subsequent to a hearing panel ruling.	0	0	27,000	0.1	(27,000)
Disgorged funds	Paid subsequent to a hearing panel ruling.	12,000	0.1	12,190	0.1	(190)
Enforcement cost recoveries	Paid subsequent to a hearing panel ruling.	0	0	0	0	0
Investment income	Earned on bank balances and short-term investments.	176,423	0.9	160,293	0.9	16,130
Miscellaneous income	Primarily a recovery of costs for a legal articling student who was shared with two other government agencies and costs recovered from the New Brunswick Credit Union Deposit Insurance Corporation (NBCUDIC).	47,143	0.2	45,129	0.2	2,014
Total revenue		\$20,109,748	100.0%	\$18,710,793	100.0%	\$1,398,955

Analysis of Total Revenue (by Function)

Division	Description	2016 Amount	2016 % of Revenue	2015 Amount	2015 % 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.	\$15,610,157	77.6	\$14,517,481	77.6	\$1,092,676
Insurance	Paid by licensed insurers as an assessment for administering the <i>Insurance Act</i> (\$2,040,999) and for the provision of insurance licences and miscellaneous minor revenue (\$796,520).	2,837,522	14.1	2,542,073	13.6	295,449
Financial Institutions	Paid by credit unions as an assessment for administering the <i>Credit Unions Act</i> (\$586,074) and for fees paid by loan and trust companies (\$144,650) and fees paid by co-operatives and a minor miscellaneous fee (\$23,103).	753,827	3.7	746,949	4.0	6,878
Consumer Affairs	Licences and fees paid under a variety of consumer protection legislation such as collection agents (\$125,816), real estate agents (\$71,822), cost of credit disclosure (\$57,810), commissioners of oaths (\$41,575), pre-arranged funerals (\$31,227), direct sellers (\$54,746), auctioneers (\$7,128) and miscellaneous (\$6,336).	396,424	2.0	376,763	2.0	19,661
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.	304,491	1.5	307,700	1.6	(3,209)
Investment and miscellaneous	Primarily investment income.	207,327	1.0	219,827	1.2	(12,500)
Total revenue		\$20,109,748	100.0%	\$18,710,793	100.0%	\$1,398,955

Sectoral Revenues for 2016

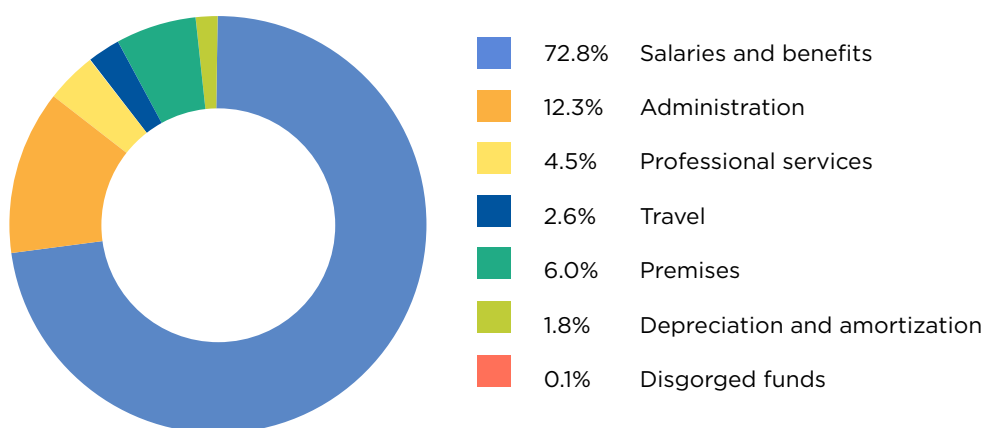


Expenses by Nature¹

Category	2016	% of 2016 Expenses	2015	% of 2015 Expenses	Change
Salaries and benefits	\$7,753,705	72.8	\$7,217,002	72.9	\$536,703
Administration	1,309,142	12.3	1,270,452	12.8	38,690
Professional services	477,107	4.5	388,495	3.9	88,612
Travel	272,127	2.6	240,048	2.4	32,079
Premises	643,403	6.0	636,036	6.4	7,367
Depreciation and amortization	187,219	1.8	142,228	1.4	44,991
Disgorged funds	12,000	0.1	12,190	0.1	(190)
Total expenses	\$10,654,703	100.0%	\$9,906,451	100.0%	\$748,252

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

Expenses for 2016



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 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 2016, our total expenses were \$10.6 million, up \$0.7 million (7.6%) from \$9.9 million in 2015. This increase was predominantly attributed to the increase in salary and benefits and professional services, which collectively accounted for 83.6% of the total increase in expenditures.

Salaries and benefits expenses account for 72.8% of operating costs (72.9% in 2015) and increased by \$536,703 from 2015. This increase accounted for 71.7% of the total increase in expenditures in 2016. There were 82 staff on payroll at year-end (80 prior year) and on an annualized or person-year basis, there were 77 person-years of employment in 2016 (71.9 in 2015).

Administration expenses account for 12.3% of operating costs for 2016 (12.8% in 2015) and were \$38,690 higher than the prior year. These costs include investor and consumer education and Commission awareness expenses, information technology, training, communications, printing, and other general office expense items. Education and communications expenses were the largest category of expenses at \$502,015 (\$568,553 in 2015). These expenses funded the online and television awareness campaigns, capital market development initiatives, stakeholder support and various outreach initiatives such as fraud awareness or financial literacy. Information technology costs were \$168,970 in 2016 (\$116,792 in 2015), and were used for non-capitalized acquisitions, network support, data security and back-up, website costs and software licenses.

Professional services expenses increased by \$88,612 (22.8%) to \$477,107 for 2016. These expenses include general consulting, translation, legal and other expenses. General consulting totaled \$289,870 for 2016 (\$169,414 in 2015) with the largest increase in this line item, approximately \$114 thousand of this total, attributed to the intervention of the Attorney General at a hearing of the New Brunswick Insurance Board regarding proposed automobile insurance rate increases. These costs were recovered by assessments authorized under the *Insurance Act*. Other expenses captured under this line item included information technology consulting, the financial audit and other consulting activities associated with regulatory matters.

Translation expenses were reduced by 34.4% or \$64.3 thousand in 2016, going from \$186.9 to \$122.6 thousand in 2015 and 2016, respectively. Although FCNB continues its leadership role in French language translation services for the co-operative capital markets regulatory system, cost savings were achievable through staff resourcing.

Travel costs were \$32,079 (13.4%) higher than the previous year and are reflective of increased enforcement and regulatory activity. Travel was primarily related to attendance at policy and other regulatory meetings of partners of the securities, insurance and pension regulators, and for training purposes.

Premises costs increased by \$7,367 to \$643,403, an increase of 1.2% from the prior year. This represents 6.0% of total expenses for the year.

While there was an increase of \$22.5 thousand in office lease and tenant improvement charges, they were partially offset by a \$15.3 thousand reduction in moving charges and parking expenses. Following the significant renovations in 2016 for Saint John and in 2015 for Fredericton, our current leases should accommodate our operations going forward and costs should stabilize as detailed in Note 17 of the Financial Statements.

Depreciation and amortization expenses were \$44,991 (31.6%) higher than the prior year due to an increase in the capital asset base, driven mainly by leasehold improvement acquisitions and the partial development of a new regulatory information data system, totaling \$184.7 thousand and \$617.1 thousand respectively. Consistent with our strategic plan, the development of electronic regulatory licensing systems was a focal point during the year with a significant investment of money and staff resources. Phase 1 of the Insurance Licensing system went online in November 2015, followed by phase 1 of the Mortgage Broker system in April 2016. A new Pension IT system is scheduled to go online in the summer of 2016. All projects should facilitate cost savings and efficiencies going forward and will be supplemented with further development activity.

The largest depreciable asset expense involves office furniture and equipment, which was approximately \$68.5 thousand, while leasehold improvements, information technology infrastructure, vehicle, and a photocopier capital lease make up the remainder of the depreciation expense, in descending order.

The amortization of intangible assets increased by \$20.2 thousand to \$28.5 thousand in 2016 and its significance is evident by its impact on the expense line item going from 5.8% to 15.2% in 2016.

Disgorged funds represent money recovered from individuals or companies arising from enforcement actions. This money is turned over to specific investors that were financially harmed by those found to have violated the *Securities Act*. In 2016, \$12,000 was collected and \$6,000 paid to nine investors as a result of a 2008 decision. (The remainder was paid after year-end).

Market Enhancement Reserve

This year, approximately \$14.7 thousand was transferred from the Market Enhancement Reserve towards a seniors' outreach and stakeholders forum dealing with Senior Financial Abuse. As required by the *Act*, 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. The funds associated with the reserve are maintained in a separate bank account and generate their own bank interest. In 2016, administrative penalties from the prior

year totaling \$2,000 were assessed and determined to be collectible (\$27,000 in 2015). No other administrative penalties were assessed in 2016. The balance in the Market Enhancement Reserve stands at \$147,385 (\$158,668 in 2015).

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 \$9.2 million which was a decrease of \$157,597 (1.7%) from 2015. The cash, and cash held for designated purposes at the end of the year totals \$7,958,863, which includes \$4 million in the Stabilization Reserve. This is a significant reduction from the 2015 balance of \$18.6 million, due to the \$9 million payment to the Province of New Brunswick and \$10 million being allocated to investments in the restructuring reserve.

Disposition of Surplus Operating Funds

FCNB made a series of payments totaling \$9,019,301 to the Province of New Brunswick during the year. This was in contrast to the previous year, where no funds were transferred to the Province of New Brunswick, as they were allocated to the various reserves.

Stabilization Reserve

FCNB maintains a Stabilization Reserve. The maximum value of the reserve was increased in 2015 to \$4 million from its previous value of \$3 million. The Stabilization Reserve allows us to maintain an operating contingency to absorb revenue shortfalls or unexpected expenditures. The increase reflects an assessment of the significantly larger regulatory mandate assumed by FCNB as well as the increased fee risk profile. Revenue generated from the reserve is moved into general operations. The reserve was fully funded at year-end.

Restructuring Reserve

The Province of New Brunswick is a participant in a proposed co-operative capital markets regulatory system (CMRA) (see Risks and Uncertainties section below) that is expected to be operational in 2018. New Brunswick's participation in the CMRA affects FCNB as it will shift responsibility for securities regulation from FCNB to the CMRA. This will affect certain FCNB staff, who will transfer to the CMRA; and it will also significantly affect FCNB revenue, as we will no longer collect fees from the securities sector.

Almost 80% of FCNB's revenue is generated by the securities sector. The loss of this revenue will create a structural deficit for us. The cumulative deficits that are expected to be incurred will 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.

The Restructuring Reserve is contemplated to be temporary in nature. We anticipate that it will be wound-down by the later of 31 March 2022 or at the end of the first five full fiscal periods after the CMRA becomes operational. It is contemplated that the balance of the reserve at wind-up will 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 2016, the reserve balance was invested in short term investments ranging from three to twelve months.

Accounts Receivable

The accounts receivable balance is largely comprised of assessments that will be levied to the insurance and the credit union sectors consistent with their legislation. While these amounts have traditionally been assessed subsequent to year-end, this year the credit union sector was assessed in 2016. Where accruals are applicable, they appear as accrued revenue with a corresponding receivable. This accounts for about 89.6% of the receivable balance in 2016 (92.6% in 2015). The majority of the remaining balance comprises general fee receivables and HST receivables.

Risks and Uncertainties

Securities Regulatory Reform

On 19 September 2013, the Ministers of Finance for Ontario, British Columbia and Canada announced that they had signed an Agreement in Principle (Agreement) to establish a co-operative capital markets regulatory system. The Agreement specifically contemplated the opportunity for participation by other provincial and territorial jurisdictions. On 9 July 2014, the Province of New Brunswick became a signatory to a revised Agreement for the same purpose (along with Saskatchewan). That revised Agreement contemplated that the CMRA would be operational in the fall of 2015; however, a further revision is expected to be released prior to the end of 2016. The Agreement was further amended on 9 October 2014 with the participation of Prince Edward Island and on 16 April 2015 with the participation of the Yukon Territory.

The Province's participation in the CMRA will affect FCNB as certain staff will transition to this new regulatory authority. In addition, we will forgo revenue associated with administering the *Securities Act*. This revenue is very material to us, as discussed in the Restructuring Reserve section of this MD&A.

Operational and Infrastructure Risk

Operational risk is the risk of direct or indirect loss resulting from the organizational environment or external events, or from inadequate internal processes, staff resources, or supporting systems. Management is responsible for the day-to-day control of operational risk through the use of appropriate procedures, internal controls and processes.

We are exposed to many types of operational risks, including the risk of fraud by employees or others, unauthorized transactions by employees and operational or human error. There is also the risk that computer or telecommunications systems could fail, despite efforts to maintain these systems in good 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;
- an annual review of internal controls and legislative compliance;
- a Risk Management Policy, with a quarterly review of risks facing us;
- the effective communication of policies to staff and new Commission Members on matters such as conflict of interest, with various channels for reporting concerns; and
- mitigation of risk to assets through insurance.

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.

Reputation Risk

We actively manage our reputational risk through our corporate governance practices, including conflict of interest and risk management policies. The activities of communications staff and the General Counsel's office are key participants in managing reputation risk.

People Risk

As a knowledge-based entity, our ability to attract and retain people is critical to our success. A range of measures is tracked (e.g. turnover and compensation surveys) to manage this risk. Knowledge management is a key focus, and initiatives are regularly pursued to improve our ability to retain corporate memory and to ensure effective knowledge transfer.

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.

National Electronic Filing Systems 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 80% 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.

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 that 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).

There were no significant accounting policy changes in 2015-2016.

2017 Outlook

Budgeted revenue is \$20.2 million for 2017. This represents an increase of about 0.4% from 2016 actual revenue of \$20.1 million. This increase is primarily attributable to general growth in the regulated sectors and the budgeted provision of some fee increases in certain sectors.

Operating expenses are budgeted to be \$11.6 million for 2017. This represents an increase of \$0.9 million over 2016 actual expenses. This increase is attributable to both salary cost and general administration increases. The budgeted staff complement for 2017 is 84, as compared to 82 that were on our payroll on 31 March 2016.

The *Mortgage Brokers Act* was proclaimed and came into force on 1 April 2016. This is a new piece of Financial and Consumer Services legislation and has some impact on revenues and expenses for the Commission going forward.

Our budgeted surplus for 2017 is about \$8.6 million. Given the funded Stabilization and Restructuring Reserves, we intend to transfer on-going surpluses to the Province of New Brunswick until the revenue associated with securities regulation is forgone as a result of the launch of the CMRA.

However, we may undertake interim measures in 2017 to facilitate the transition into our post-securities responsibility model that may drive deviations of actual results to budget.

MD&A Supplement – Compensation Disclosure – Senior Management Remuneration

Senior Management includes the Chair, Chief Executive Officer (CEO), and our seven Division Heads. Their compensation and benefits are determined by FCNB, and are based on advice of an independent consultant. The CEO and the Division Heads are eligible for variable pay of up to 9.375% of base pay (12.5% for the CEO). The variable pay program was introduced in 2013. Senior management, with the exception of the Chair, also receives 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. The Chair is not an employee of the Commission and is paid through a personal services contract. The Chair is specifically excluded, by legislation, from participating in the pension plan.

Senior Management Remuneration

Position	Salary Range (\$) as at March 2016	Variable Pay (% of Salary)
Chair	up to \$137,000	-
Chief Executive Officer	131,957 - 164,703	Up to 12.5%
General Counsel and Secretary to the Commission	117,689 - 147,034	Up to 9.375%
Director, Securities	117,689 - 147,034	Up to 9.375%
Director, Enforcement	117,689 - 147,034	Up to 9.375%
Director, Pensions & Insurance	117,689 - 147,034	Up to 9.375%
Director, Corporate Services & Chief Financial Officer	100,640 - 125,852	Up to 9.375%
Director, Education & Communications	100,640 - 125,852	Up to 9.375%
Director, Financial Institutions	100,640 - 125,852	Up to 9.375%
Director, Consumer Affairs	100,640 - 125,852	Up to 9.375%



FCNB

**Empowering you to make
the right financial decisions.**

Management's Responsibility and Certification

Management is responsible for the integrity, consistency and reliability of the financial statements and other information presented in the Annual Report. The financial statements have been prepared by management in accordance with International Financial Reporting Standards.

We certify that we have reviewed the financial statements and other information contained in the Annual Report. Based on our knowledge:

- a) the financial statements do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the financial statements and Annual Report;
- b) the financial statements and financial information contained in the Annual Report fairly present in all material respects the financial condition, results of operations and cash flows of the Financial and Consumer Services Commission as at the dates and for the periods presented.

The preparation of financial statements involves transactions affecting the current period which cannot be finalized with certainty until future periods. Estimates and assumptions upon which the financial statements have been prepared are based on historical experience and current conditions, and are believed to be reasonable.

The Commission maintains an accounting system and related controls designed to provide the Commission with reasonable assurance that reliable financial information is available on a timely basis. The Members of the Commission ensure that management fulfills its responsibility for financial information and internal control.

The financial statements and Annual Report have been reviewed by the Audit Committee and approved by the Commission.

The report of the independent auditors, PricewaterhouseCoopers LLP, outlines the scope of the Auditor's examination and opinion on the financial statements.

Originally signed by

Kenrick G. Hancox
Chief Executive Officer

Originally signed by

Kevin Hoyt, FCPA, FCGA, CPA (DE)
Chief Financial Officer
Director, Securities

31 August 2016



September 20, 2016

Independent Auditor's Report

Chairperson and Members Financial and Consumer Services Commission

We have audited the accompanying financial statements of the Financial and Consumer Services Commission, which comprise the statement of financial position as at March 31, 2016 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Financial and Consumer Services Commission as at March 31, 2016 and the results of its operations, and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

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

FINANCIAL and CONSUMER SERVICES COMMISSION
STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2016
(in Canadian \$)

ASSETS	2016 31 March	2015 31 March
Current Assets		
Cash (Note 8)	\$ 3,805,287	\$ 4,452,565
Accounts receivable (Note 10)	2,817,259	2,481,550
Prepaid expenses	93,510	52,069
	<u>6,716,056</u>	<u>6,986,184</u>
Cash held for designated purposes (Notes 8, 11)	4,153,576	14,158,858
Investments held for designated purposes (Notes 9, 11)	10,000,000	-
Property, plant and equipment (Note 12)	497,064	402,813
Intangible assets (Note 13)	624,628	35,954
	<u>\$ 21,991,324</u>	<u>\$ 21,583,809</u>
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities (Note 20)	\$ 769,936	\$ 923,430
Accrued salaries and benefits	446,448	380,551
Current portion of employee future benefits (Note 19)	15,456	99,666
Accrued vacation liabilities	99,818	96,750
Current portion of obligation under finance lease (Note 14)	3,503	3,418
Deferred revenue	3,413,324	3,283,784
	<u>4,748,485</u>	<u>4,787,599</u>
Obligation under finance lease (Note 14)	2,684	6,187
Employee future benefits (Note 19)	504,884	490,496
	<u>507,568</u>	<u>496,683</u>
Total liabilities	<u>5,256,053</u>	<u>5,284,282</u>
Equity balances		
General	2,581,696	2,140,669
Restructuring reserve (Note 11)	10,000,000	10,000,000
Stabilization reserve (Note 11)	4,000,000	4,000,000
Market enhancement reserve (Note 11)	147,385	158,668
Disgorgement reserve (Note 11)	6,190	190
	<u>16,735,271</u>	<u>16,299,527</u>
	<u>\$ 21,991,324</u>	<u>\$ 21,583,809</u>

Commitments and contingencies (Notes 17, 18)

The accompanying notes are part of these financial statements.

APPROVED BY THE COMMISSION

Originally signed by Peter Klohn

Chair

Originally signed by J. Douglas Baker

Member

FINANCIAL and CONSUMER SERVICES COMMISSION
STATEMENT OF COMPREHENSIVE INCOME (by nature)
FOR THE YEAR ENDED 31 MARCH 2016
(in Canadian \$)

	2016	2015
REVENUE		
Fees		
Prospectus and distribution filings	\$ 9,758,250	\$ 8,718,050
Registrations	3,843,907	3,786,998
Financial filings	1,937,900	1,951,450
Licences and fees	1,633,152	1,643,475
Exemptions and orders	54,750	49,150
Other	19,150	15,661
Assessments	2,627,073	2,301,397
Administrative penalties and settlements	-	27,000
Disgorged funds	12,000	12,190
Investment income	176,423	160,293
Miscellaneous	47,143	45,129
	<u>20,109,748</u>	<u>18,710,793</u>
EXPENSES		
Salaries and benefits (Note 21)	7,753,705	7,217,002
Administration (Note 22)	1,309,142	1,270,452
Professional services	477,107	388,495
Travel	272,127	240,048
Premises	643,403	636,036
Depreciation and amortization	187,219	142,228
Disgorged funds	12,000	12,190
	<u>10,654,703</u>	<u>9,906,451</u>
COMPREHENSIVE INCOME	<u>\$ 9,455,045</u>	<u>\$ 8,804,342</u>
<i>The accompanying notes are part of these financial statements.</i>		

FINANCIAL and CONSUMER SERVICES COMMISSION
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2016
(in Canadian \$)

	General	Restructuring Reserve	Stabilization Reserve	Market Enhancement Reserve	Disgorgment reserve	Total
Balance, 31 March 2014	\$ 4,365,120	\$ -	\$ 3,000,000	\$ 130,065	\$ -	\$ 7,495,185
Comprehensive income	8,804,342	-	-	-	-	8,804,342
Disposition of surplus operating funds (Note 15)	-	-	-	-	-	-
Investment income reallocation	(1,603)	-	-	1,603	-	-
Allocation from general (Note 11)	(11,039,190)	10,000,000	1,000,000	27,000	12,190	-
Allocation to general (Note 11)	12,000	-	-	-	(12,000)	-
Balance, 31 March 2015	2,140,669	10,000,000	4,000,000	158,668	190	16,299,527
Comprehensive income	9,455,045	-	-	-	-	9,455,045
Disposition of surplus operating funds (Note 15)	(9,019,301)	-	-	-	-	(9,019,301)
Investment income reallocation	(1,479)	-	-	1,479	-	-
Allocation from general (Note 11)	(14,000)	-	-	2,000	12,000	-
Allocation to general (Note 11)	20,762	-	-	(14,762)	(6,000)	-
Balance, 31 March 2016	\$ 2,581,696	\$ 10,000,000	\$ 4,000,000	\$ 147,385	\$ 6,190	\$ 16,735,271

The accompanying notes are part of these financial statements.

FINANCIAL and CONSUMER SERVICES COMMISSION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2016
(in Canadian \$)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Comprehensive income	\$ 9,455,045	\$ 8,804,342
Adjustment for depreciation and amortization	187,219	142,228
	<u>9,642,264</u>	<u>8,946,570</u>
Changes in non-cash working capital		
Accounts receivable	(335,709)	(623,745)
Due from Province of New Brunswick	-	903,171
Prepaid expenses	(41,441)	(6,454)
Accounts payable and accrued liabilities	(153,494)	82,538
Accrued salaries and benefits	65,897	14,551
Employee future benefits	(69,822)	(62,860)
Accrued vacation liabilities	3,068	1,654
Deferred registration fee revenue	129,540	142,475
	<u>9,240,303</u>	<u>9,397,900</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Disposition of surplus operating funds	(9,019,301)	-
Payment of finance lease liability	(3,418)	(2,529)
	<u>(9,022,719)</u>	<u>(2,529)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment and intangible	(870,144)	(395,600)
Investments held for designated purposes	(10,000,000)	-
	<u>(10,870,144)</u>	<u>(395,600)</u>
NET INCREASE IN CASH	<u>(10,652,560)</u>	<u>8,999,771</u>
CASH, BEGINNING OF YEAR	<u>18,611,423</u>	<u>9,611,652</u>
CASH, END OF YEAR	<u>\$ 7,958,863</u>	<u>\$ 18,611,423</u>
Represented by:		
Cash	\$ 3,805,287	\$ 4,452,565
Cash held for designated purposes	4,153,576	14,158,858
	<u>\$ 7,958,863</u>	<u>\$ 18,611,423</u>

	2016	2015
Note:		
Cash flow from interest received is included in comprehensive income.	\$ 170,543	\$ 160,293

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 2016

(in Canadian \$)

1. Nature of the Corporation

The body corporate previously constituted under the name New Brunswick Securities Commission (NBSC) was continued as a body corporate without share capital under the name Financial and Consumer Services Commission (FCNB) on 1 July 2013 under the provisions of the *Financial and Consumer Services Commission Act* (New Brunswick) (Act).

The purpose of the Act is to enable the FCNB to provide regulatory services that protect the public interest, enhance public confidence in the regulated sectors, to disseminate knowledge, promote understanding of the regulated sectors, and develop and conduct educational programs. The FCNB may develop and conduct educational programs with respect to financial and consumer services and shall administer financial and consumer services legislation.

Financial and consumer services legislation means the:

<i>Financial and Consumer Services Commission Act</i>	<i>Auctioneers Licence Act</i>
<i>Collection Agencies Act</i>	<i>Commissioners for Taking Affidavits Act</i>
<i>Consumer Product Warranty and Liability Act</i>	<i>Co-operative Associations Act</i>
<i>Cost of Credit Disclosure Act</i>	<i>Credit Unions Act</i>
<i>Direct Sellers Act</i>	<i>Franchises Act</i>
<i>Gift Cards Act</i>	<i>Insurance Act</i>
<i>Loan and Trust Companies Act</i>	<i>Mortgage Brokers Act</i> (proclaimed 1 April 2016)
<i>Nursing Homes Pension Plans Act</i>	<i>Payday Loans Act</i> (not proclaimed)
<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.

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

As a Crown corporation, the 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 in accordance with 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 the FCNB.

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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 judgement in the process of applying the FCNB's accounting policies. The areas involving a higher degree of judgement 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

Revenue is recognized when earned.

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 (e.g. prospectus and private placement filings), by pension plans (e.g. registration of pension plans) and by loan and trust companies (e.g. 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.

Recovery of the costs of investigations and administrative penalty revenue are recognized upon the date of decision unless management determines there is no reasonable assurance as to ultimate collection, in which case they are recognized when cash is received.

Investment income is recorded as earned.

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(b) Property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are stated at costs less accumulated depreciation/amortization and impairment allowances. Cost includes expenditures that are directly attributable to the acquisition of the asset. 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 the 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 is calculated to write off the cost, less estimated residual value, on a straight-line basis over the expected useful economic lives. The principal useful economic lives used for this purpose 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
Website: 4 years
Regulatory information data system (internally generated): 5 years

The FCNB allocates the amount initially recognized in respect of an item of property, plant 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, plant 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, plant and equipment and intangible assets

At each financial year end, the FCNB reviews the carrying value of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered impairment loss. If any such indication exists, the recoverable amount of the asset 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.

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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) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are treated as operating leases.

Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the term of the lease. Benefits received and receivable, if any, as an incentive to enter into an operating lease are netted against the associated lease payments on a straight-line basis over the lease term.

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.

(e) Provisions

Provisions are recognized when the FCNB has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources 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 the FCNB. The 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.

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(f) Employee benefits

Post-employment benefit obligations

The 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. There is no contractual agreement or stated policy for charging the net defined benefit cost for the plan to the FCNB; accordingly the FCNB recognizes a cost equal to the contribution payable for the period. The FCNB receives notification on an annual basis of the required contributions from the Board of Trustees of the Public Services Shared Risk Plan, which administers the Public Service Shared Risk Plan.

Up until 31 March 2013, the NBSC also provided supplemental benefits in the form of retirement allowances to certain employees. Employees who were participating in this program (hired prior to 1 April 2011) were offered a choice of a pay-out in lieu of a retirement allowance or, for those with more than five years of a service, an option to defer the pay-out until retirement. The FCNB provides for a cash pay-out of 20% of unused sick leave at time of retirement.

(g) Cash

Cash includes cash on hand and deposits held with banks.

(h) Financial instruments

Financial instruments are initially recognized at fair value and their subsequent measurement is dependent on their classification. The classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the FCNB’s designation of such instruments.

The FCNB’s financial assets and financial liabilities are classified and measured as follows:

- I. Cash, cash held for designated purposes and investments held for designated purposes are classified as “fair value through income”. These financial assets, carried at fair value, are marked-to-market through net earnings each period end.
- II. Accounts receivable and amounts due from the Province of New Brunswick are classified as “loans and receivables”. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment. They are included in current assets, except for maturities greater than 12 months after the reporting period. These are classified as non-current assets.

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- III. Accounts payable and accrued liabilities, accrued salaries and benefits, accrued vacation liabilities and obligation under finance lease are classified as “other financial liabilities”. These payables are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, these payables are measured at amortized cost using the effective interest method.

(i) Recently adopted accounting standards

The FCNB reviewed the new accounting standards that were effective for the current year and determined that there were no new accounting standards that impacted the FCNB.

(j) Future accounting and reporting changes

The IASB is continually working towards 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. The FCNB monitors the IASB work plans and publications to assess any potential impact on the FCNB.

In December 2014 the IASB published "Disclosure Initiative (Amendments to IAS 1)". The amendments aim at clarifying IAS 1 to address perceived impediments to preparers exercising their judgement in presenting their financial reports. The amendments are effective from 1 January 2016. It is not expected that this new standard will have a material impact on the financial statements.

IFRS 9 Financial Instruments issued on 24 July 2014 is the IASB's replacement of IAS 39 Financial Instruments: Recognition and Measurement. The Standard includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018; however, it is available for early adoption. In addition, the own credit changes can be early adopted in isolation without otherwise changing the accounting for financial instruments. The FCNB is yet to assess the full impact of IFRS 9 and has not yet determined when it will adopt the new standard.

IFRS 15 specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. IFRS 15 is effective for annual periods beginning on or after 1 January 2017, with earlier application permitted. It is not expected that this new standard will have a material impact on the financial statements.

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4. Significant accounting estimates and judgements

The FCNB makes estimates and assumptions concerning the future that will, by definition, seldom equal actual results. The following are the estimates and judgements applied by management that most significantly affect the FCNB's financial statements. These estimates and judgements 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, plant and equipment and intangible assets

Management estimates the useful lives of property, plant 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, plant 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 the FCNB's property, plant and equipment and intangible assets in the future.

Retirement allowances

The NBSC made changes to its retirement allowance program during the 2013 fiscal year and effective 31 March 2013 employees no longer accumulate retirement allowance credits. The significant accounting estimates used to determine the liability are outlined in Note 19 (c).

Sick leave credits benefit

Upon retirement, employees of the FCNB are eligible to receive 20% of the accumulated sick leave balance to a maximum of 48 days as a pay-out. The significant accounting estimates used to determine the liability are outlined in Note 19 (d).

Supplemental pension benefit

The 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. The FCNB does not use a qualified actuary in the calculation of this estimate.

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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 judgements

Management exercises its judgement in the process of applying the FCNB's accounting policies. The areas involving a higher degree of judgement 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 judgement area.

5. Financial risk management

Financial risk factors

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

Credit risk

The FCNB's financial assets that are 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 the FCNB's revenue is received when due. Accounts receivable are current and collectable. Its three bank accounts are held with a Canadian financial institution which has a credit rating of AA or higher.

Liquidity risk

All financial liabilities except for the obligation under finance lease are due within one year and have been classified as current and presented as such on the statement of financial position. The FCNB generates enough cash from operating activities to fund its operations and fulfill its obligations as they become due. The 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 the FCNB did not incur any interest bearing long-term debt except on the finance lease during the year. Cash deposits earn interest at a floating rate and this revenue is impacted by the current low short-term interest rates. A 25 basis point change in the interest rate would have an immaterial impact on the financial statements.

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6. Capital management

The FCNB's objective when it manages capital is to ensure it continues as a going concern in order to fulfill its mandate. The FCNB has established a stabilization reserve of \$4,000,000 (\$4,000,000 in 2015) and a restructuring reserve of \$10,000,000 (\$10,000,000 in 2015) to manage its capital risk. The FCNB ensures that any payment of surplus funds to the Province of New Brunswick will not impair the FCNB's ability to pay its liabilities, to meet its obligations as they become due or to fulfil its contractual commitments.

7. Financial instruments

The 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 obligation under finance lease. 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

The FCNB maintains three separate bank accounts. The first is comprised of the operating account and those monies attributable to the stabilization reserve 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 licenses issued under various financial and consumer services legislation. The balance for the third account as of 31 March 2016 was \$17,592 (\$1,007 in 2015) and is included in cash. Under the terms of the FCNB's banking agreement, these accounts earn interest at prime less 1.85% calculated daily.

9. Investments held for designated purposes

During the year, the FCNB invested the \$10,000,000 (\$0 in 2015) attributable to the restructuring reserve in short term investments ranging from three to twelve months. The interest earned on these investments varies from 1.15% to 1.45%. The amounts attributable to the restructuring reserve have been disclosed on the statement of financial position as investments held for designated purposes.

10. Accounts receivable

The 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 \$2,525,019 of the total accounts receivable as of 31 March 2016 (\$2,298,523 in 31 March 2015).

No provision for allowance for doubtful accounts is required.

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11. Reserve

Restructuring reserve

The 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 associated with 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 2015).

Stabilization reserve

The 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 that have an effect on 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 2015).

Market enhancement reserve

The FCNB collects administrative penalties under section 186 of the *Securities Act*. Consistent with subsection 21(5) of the *Financial and Consumer Services Commission Act*, these amounts are not used for the normal operating expenditures of the FCNB. Instead, they are used for endeavours or activities that enhance the capital markets or consumer protection in New Brunswick. Market enhancement reserve funds are maintained separate from the normal operating funds of the FCNB and generate their own investment revenue. The value of the reserve is \$147,385 (\$158,668 in 2015).

Disgorgement reserve

The FCNB has the authority to 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 the FCNB to order that a person be divested from the benefits obtained as a result of failure to comply with securities law. These amounts are not used for the normal operating expenditures of the FCNB 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*. The value of the reserve is \$6,190 (\$190 in 2015).

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12. Property, plant and equipment

	Office furniture and equipment	Finance lease	Information technology infrastructure	Software	Automobile	Leasehold improvements	Total
Cost							
As at 31 March 2015	\$ 381,853	\$16,995	\$ 216,824	\$11,780	\$ 32,775	\$614,270	\$ 1,274,497
Additions	52,511	-	15,728	-	-	184,759	252,998
Dispositions	-	-	-	-	-	-	-
As at 31 March 2016	\$ 434,364	\$ 16,995	\$ 232,552	\$ 11,780	\$ 32,775	\$ 799,029	\$ 1,527,495
Accumulated Depreciation							
As at 31 March 2015	\$ 183,185	\$7,363	\$ 114,926	\$11,780	\$ 21,304	\$533,126	\$ 871,684
Depreciation	68,495	3,399	32,780	-	6,555	47,518	158,747
Dispositions	-	-	-	-	-	-	-
As at 31 March 2016	\$ 251,680	\$ 10,762	\$ 147,706	\$ 11,780	\$ 27,859	\$ 580,644	\$ 1,030,431
Net book value							
As at 31 March 2015	\$ 198,668	\$ 9,632	\$ 101,898	\$ -	\$ 11,471	\$ 81,144	\$ 402,813
As at 31 March 2016	\$ 182,684	\$ 6,233	\$ 84,846	\$ -	\$4,916	\$ 218,385	\$ 497,064

13. Intangible Assets

	Website	Regulatory information data system (internally generated)	Total
Cost			
As at 31 March 2015	\$ 45,870	\$ -	\$ 45,870
Additions	-	617,146	617,146
Dispositions	-	-	-
As at 31 March 2016	\$ 45,870	\$ 617,146	\$ 663,016
Accumulated Amortization			
As at 31 March 2015	\$ 9,916	\$ -	\$ 9,916
Amortization	11,467	17,005	28,472
Dispositions	-	-	-
As at 31 March 2016	\$ 21,383	\$ 17,005	\$ 38,388
Net Book Value			
As at 31 March 2015	\$ 35,954	\$ -	\$ 35,954
As at 31 March 2016	\$ 24,487	\$ 600,141	\$ 624,628

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14. Finance lease liability

In 2013 the FCNB entered into a lease for photocopy equipment with a term of five years. The 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.

	Minimum lease payments		Present value of minimum lease payments	
	2016	2015	2016	2015
Not later than 1 year	\$ 3,623	\$ 3,623	\$ 3,503	\$ 3,418
Later than 1 year and not later than 5 years	2,718	6,341	2,684	6,187
	<u>\$ 6,341</u>	<u>\$ 9,964</u>	<u>6,187</u>	<u>9,605</u>
Less: Current portion			3,503	3,418
Finance lease liability			<u>\$ 2,684</u>	<u>\$ 6,187</u>

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 Board of Management and consistent with subsection 21(7) of the *Financial and Consumer Services Commission Act*. The FCNB paid \$9,019,301 in 2016 (\$0 in 2015).

16. Provisions

A provision is recognized if, as a result of a past event, the 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. The FCNB has no provisions recorded at 31 March 2016 (\$0 at 31 March 2015).

17. Operating lease commitments

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

The 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.

The FCNB entered into a 54 month lease for office space in Fredericton, effective 1 September 2014 with the Department of Transportation and Infrastructure for the Government of New Brunswick. During the year the FCNB was in an over-hold lease position for Fredericton office space and paid \$18,309 per month to the Department of Transportation and Infrastructure until the end of September 2014.

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

	2016	2015
Minimum lease payments	\$ 554,206	\$ 419,451
Contingent rentals	-	-
Sub-lease payments received	-	-
	<u>\$ 554,206</u>	<u>\$ 419,451</u>

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2016	2015
Not later than 1 year	\$ 626,395	\$ 589,466
Later than 1 year and not later than 5 years	1,976,715	2,278,597
Later than 5 years	-	324,513
	<u>\$ 2,603,110</u>	<u>\$ 3,192,576</u>

18. Commitments and contingencies

The FCNB has been named as a defendant in two statements of claim. The claims are in the early stages and 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

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 2016, the FCNB expensed contributions of \$703,966 (\$655,522 in 2015) under the terms of the Plan.

(b) Supplemental pension benefit

A retired Chief Executive Officer receives a supplemental pension benefit whereby 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 2016, the FCNB expensed \$13,042 (\$9,615 in 2015) under the terms of the Supplemental Benefit Agreement and made 11 monthly payments totalling \$13,979 (made 12 monthly payments totalling \$15,050 in 2015).

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(c) Retiring Allowances

Previously, the FCNB had an unfunded retirement allowance program for employees with five or more years of continuous service. This benefit was unfunded as no assets were set aside in a separate legal entity and payments were made as they became due, which was upon retirement, death or lay-off.

The program was structured such that each employee was entitled to receive five days of pay for each year of service up to a maximum of 125 days, plus an additional 20% of accumulated sick leave. In total, this benefit could not exceed 166 days. The employee's rate of pay was used to calculate the estimated allowance liability.

The estimated benefit was calculated on those employees with five or more years of service and was represented at the aggregate amount with the application of a 3% discount factor for each year that the eligible employee was below the earliest possible retirement age of 55.

The FCNB discontinued this program, effective 31 March 2013, and employees no longer accumulate retirement allowance credits. Employees hired prior to 1 April 2011, who were participating in this program (eligible employees), were offered a choice of a pay-out in lieu of a retirement allowance or, for those with more than five years of a service, an option to defer the pay-out until retirement.

During prior reporting periods most eligible employees took a pay-out in lieu of a deferral. Management estimates that the remaining employees will work until retirement and be eligible for the pay-out and, therefore, a liability of \$86,236 (\$144,350 in 2015) has been reflected in the financial statements.

For the year ended 31 March 2016, the FCNB expensed \$559 for this program (\$4,088 in 2015). The FCNB paid out benefits of \$58,673 (\$61,036 in 2015).

(d) 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 pay-out of 20% of their unused sick leave credits at lay-off, retirement or death. These statements reflect a liability of \$233,986 (\$244,757 in 2015) for this benefit and a current year expense of \$16,616 (\$16,013 in 2015). This liability is discounted as follows; employees over the age of 50, the FCNB applies a 3% 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 the FCNB applies a 3% 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 50% of employees under the age of 40 will retire from the FCNB, 75% of employees between the ages of 40 and 50 will retire from the FCNB and all employees over the age of 50 will retire from the FCNB.

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20. Related party transactions

As part of the transition arrangements associated with the transfer of responsibilities from the Department of Justice and Attorney General, certain payments totalling \$6,475 (\$4,800 in 2015) that were the property of the FCNB were deposited to the Minister of Finance with the understanding that these amounts would be remitted to the FCNB after a reconciliation process. These payments were for services provided by the FCNB. As of 31 March 2016 an account receivable of \$1,450 (\$4,800 at 31 March 2015) was owed to FCNB with no expectation of earning interest.

Service New Brunswick (SNB), formally the New Brunswick Internal Services Agency, a related party to the 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. Information technology services were provided, such as data storage, data back-up, data protection and support for the FCNB. The FCNB expended \$132,671 (\$98,007 in 2015) during the reporting period on these services. As of 31 March 2016 an accounts payable of \$111,783 (\$86,816 at 31 March 2015) was owed to the 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 translation services to the 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 \$116,960 (\$126,945 in 2015). As of 31 March 2016 an accounts payable of \$27,079 (\$48,278 at 31 March 2015) was owed to the Translation Bureau for the Government of New Brunswick and is subject to normal terms. This amount is included in accounts payable and accrued liabilities.

On 1 October 2014 the FCNB entered into an agreement with the Department of Transportation and Infrastructure (“DTI”) for permanent office space. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The FCNB expended \$248,320 (\$276,234 in 2015) and capitalized \$0 (\$48,565 in 2015) during the reporting period. As of 31 March 2016 an accounts payable of \$46,078, which includes harmonized sales tax (\$341,215 at 31 March 2015) was owed to the DTI and subject to normal terms. This amount is included in accounts payable and accrued liabilities.

The Chair of the FCNB has a personal services contract with the 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. The FCNB expended \$152,122 (\$152,410 in 2015) during the reporting period. As of 31 March 2016 an accounts payable of \$0 (\$15,807 at 31 March 2015) was owed to the Chair and subject to normal terms. This amount is included in accounts payable and accrued liabilities.

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The FCNB provides certain administrative services for the Government of New Brunswick associated with assessments or recoveries from the insurance sector and which are for the benefit of the Consolidated Revenue Fund of the Government of New Brunswick. These services include the invoicing, receipting and depositing of payments under the *Premium Tax Act* (invoiced \$46,900,160 in 2016, \$46,230,982 in 2015), the invoicing, receipting and depositing of payments under the *Medical Services Payment Act*, the *Hospital Services Act* and the *Family Services Act* (\$29,644,609 in 2016, \$28,496,736 in 2015) and the receipt and depositing of payments under the *Fire Prevention Act* (\$3,237,666 in 2016, \$3,043,600 in 2015). These transactions do not flow through the FCNB's financial statements and are recorded directly in the financial information system of the Government of New Brunswick. The FCNB performs these functions without any financial consideration or payment from the Government of New Brunswick.

Key management personnel

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

	2016	2015
Salaries and other short-term employee benefits	\$ 1,003,591	\$ 1,072,959
Post-employment benefits	80,526	83,767
	<u>\$ 1,084,116</u>	<u>\$ 1,156,726</u>

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

21. Salaries and benefits

	2016	2015
Salaries	\$ 6,451,462	\$ 6,026,634
Benefits	585,235	525,230
Pension expense	717,008	665,138
	<u>\$ 7,753,705</u>	<u>\$ 7,217,002</u>

22. Administration

	2016	2015
Investor protection and education	\$ 502,015	\$ 568,553
Members and staff development	249,816	193,894
Information technology	168,970	116,792
Other administration	388,341	391,213
	<u>\$ 1,309,142</u>	<u>\$ 1,270,452</u>

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23. Events after the reporting period

On 22 July 2016, The Government of New Brunswick, as represented by the Minister of Finance, signed an amended “Memorandum of Agreement Regarding the Cooperative Capital Markets Regulatory System” (MOA) with the governments of British Columbia, Canada, Ontario, Prince Edward Island, Saskatchewan, and Yukon. The MOA commits the jurisdictions to use their respective best efforts to enact the uniform provincial-territorial Capital Markets Act and the complementary federal Capital Markets Stability Act by 30 June 2018, with the Authority expected to be operational in 2018. The governments also announced the board of directors for the Capital Markets Authority Implementation Organization, which will assist in the transition to and implementation of the Capital Markets Regulatory Authority.

The extent of the impact on these financial statements as a result of this event has not yet been determined.

24. Alternative presentation – Income statement by function

	2016	2015
REVENUE		
Securities	\$ 15,610,157	\$ 14,517,481
Insurance	2,837,522	2,542,073
Financial Institutions	753,827	746,949
Consumer Affairs	396,424	376,763
Pensions	304,491	307,700
Investment income	182,273	161,007
Miscellaneous	25,054	58,820
	<u>20,109,748</u>	<u>18,710,793</u>
EXPENSES		
Governance and Corporate Management	3,193,065	3,007,671
Insurance	2,035,205	1,775,905
Education and Communications	1,168,811	1,142,799
Securities	1,161,746	1,134,172
Enforcement	693,409	647,196
Financial Institutions	823,543	686,581
Consumer Affairs	562,497	524,133
Pensions	725,668	693,704
Tribunal	290,761	294,290
	<u>10,654,705</u>	<u>9,906,451</u>
COMPREHENSIVE INCOME	<u>\$ 9,455,043</u>	<u>\$ 8,804,342</u>

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25. Authorization of financial statements

The financial statements for the year ended 31 March 2016 (including comparatives) were approved by the board of directors on 7 September 2016.