

# ANNUAL REPORT

2012-2013

NEW BRUNSWICK  
SECURITIES COMMISSION

COMMISSION DES  
VALEURS MOBILIÈRES  
DU NOUVEAU-BRUNSWICK



28 June 2013  
The Honourable Marie-Claude Blais, Q.C.  
Minister of Justice and Attorney General  
Province of New Brunswick

NEW BRUNSWICK  
SECURITIES COMMISSION

COMMISSION DES  
VALEURS MOBILIÈRES  
DU NOUVEAU-BRUNSWICK



Dear Minister Blais,

I am pleased to deliver to you the Annual Report of the New Brunswick Securities Commission for the fiscal year 1 April 2012 to 31 March 2013 for submission to the Legislative Assembly of New Brunswick.

The Annual Report outlines the operational and business results of the Commission's efforts to achieve its mandate. Our organization is committed to providing protection to investors from unfair, improper or fraudulent practices, and to fostering fair and efficient capital markets and confidence in those markets here in New Brunswick.

Respectfully submitted,

*Original signed by*

David G. Barry, Q.C.  
Chair and Chief Executive Officer

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Sound investing,  
Confident markets



## INVESTOR PROTECTION

Last year, nearly half

**48%**

of New Brunswick residents were aware that they should call us if they have concerns about investments, marking three consecutive years of increases.

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We increased our participation at trade shows and gave more investor education presentations in locations around the province, resulting in a

**250% increase**

in the number of people with whom we were able to engage.

**96% of**

New Brunswickers consider reporting investment fraud to be important, and 10% would report suspicious activity to the Commission as opposed to other agencies.

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Awareness among New Brunswickers of our Invest in Knowing More campaign and its investor protection messages

**grew by 6%.**

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The number of Commission media mentions, including pickup of our news releases and investor alerts, increased by more than 25%.

## FOSTERING FAIR AND EFFICIENT CAPITAL MARKETS

The number of days required for the review of registration applications with New Brunswick as the principal regulator – including those from firms requiring an additional review by the Investment Industry Regulatory Organization of Canada (IIROC) – was

**reduced  
by 30%  
last year.**

In 2012-13 our turnaround time for clean submissions has been consistently less than

**ten days.**

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The number of attendees at our Fullsail Learning the Ropes educational events increased by 14.2% meaning even more entrepreneurs, accountants, lawyers, investors and business owners in the province received important capital-raising information.

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## MESSAGE FROM THE CHAIR AND CEO

On behalf of the members and staff of the New Brunswick Securities Commission, I am pleased to present our 2012-2013 Annual Report.

Fiscal 2012-2013 was a year of steady progress on a variety of fronts.

We continue to participate in discussions and initiatives that will shape the regulatory framework for securities administration on a provincial and national level. Our memberships in, and extensive involvement with the Canadian Securities Administrators (CSA) and the North American Securities Administrators Association (NASAA) give us a global perspective that is now so important in securities and financial services regulation.

Through the CSA we are exploring the potential benefits and competing considerations of introducing a statutory fiduciary, or 'best interest' standard for advisers and dealers when providing advice to retail clients. We have undertaken a comprehensive review of the exempt market, including crowdfunding; we are continuing the construction of a regulatory framework for derivatives as a means to enhance the control of systemic risk to our financial systems; and we have participated in the point of sale initiative responsible for

designing a summary document to inform mutual fund investors about proposed purchases before they acquire them. A summary document approach is also being applied to scholarship funds and will be applied to exchange traded funds.

As securities regulation has now been determined to be provincial jurisdiction, fiscal 2012-2013 saw a new mandate for the Canadian Securities Transition Office (CSTO), and a second extension to its existence in the 2013-14 federal budget. These extensions signify Ottawa's intention to continue to seek a co-operative approach to improving the national framework for securities regulation.

We continue to work with the CSA and the provincial Council of Ministers to improve our regulatory structure. Provincial and territorial governments have reacted to the Supreme Court of Canada decision and have initiated discussions with the CSA and federal government to improve our national framework.

An expression of that focus continues to be our commitment to good governance at all levels of our organization. We set the bar high in terms of achieving our mandate in a manner that controls risk, maintains transparency and promotes our organizational values.





I'd like to thank staff for their hard work and commitment to balancing our two mandates – protecting investors and fostering healthy and vibrant capital markets in New Brunswick. I'd also like to thank Commission Members for their ongoing support and efforts to guide our organization, and meet their adjudicative responsibilities. In particular I thank Anne La Forest, Harry Williamson and Sheldon Lee who will be leaving the Commission in July 2013. Their dedication and commitment to the work of the Commission has been unwavering, and their contributions significant.

Together we are contributing to the national securities landscape while we continue to support and serve New Brunswick's market participants.



David G. Barry, Q.C.  
Chair and Chief Executive Officer

## MAKEUP OF THE COMMISSION

The Commission Board of Directors is comprised of six members, who, together, are accountable to the government through the Minister of Justice and Attorney General for the proper administration of the *Securities Act*, and are responsible for providing and maintaining the Commission's system of governance.

### COMMISSION MEMBERS

David G. Barry, Q.C.  
Anne La Forest  
Sheldon Lee  
Kenneth Savage  
Céline Robichaud-Trifts  
Harry H. Williamson, Q.C.

Six Commission members apply their expertise in the areas of management oversight, policy development and adjudication. They review resource allocation, risk management, financial reporting policies and the effectiveness of internal controls and management information systems. As policy-makers, members consider regulatory initiatives and priorities, review and approve rules and policies, and recommend changes to the *Securities Act*. In their quasi-judicial role, members also adjudicate regulatory and enforcement matters.

### COMMISSION CHAIR

David G. Barry, Q.C.  
Appointed 2009

One member is Chair and Chief Executive Officer of the NBSC. Reporting to the Minister, the Chair presides over Commission meetings and is ultimately responsible for the overall performance and management of the organization.

### LEAD MEMBER

Anne La Forest  
Appointed 2004 and renewed two times.

Our Governance Policy provides that the five independent members designate a Lead Member to ensure that the Commission functions independently of management. The Lead Member convenes the members to meet in the absence of the Chair and management and, in consultation with the members, establishes the agenda, and presides at such meetings. The Lead Member presides and acts as Chair in the absence or inability of the Chair to act at any Commission meeting.

### SUPPLEMENTARY MEMBERS

Denise A. LeBlanc, Q.C.  
Tracey K. DeWare<sup>1</sup>  
Guy G. Couturier, Q.C.  
Enrico A. Scichilone<sup>2</sup>

The Commission also draws upon the expertise of three supplementary members, who serve on adjudicative panels as the need arises.

1. Tracey K. DeWare resigned her position as a supplementary member when she was appointed to the Court of Queen's Bench on 21 June 2012.
2. Enrico A. Scichilone was appointed a supplementary member on 21 November 2012.

### **Orientation and education for members**

New members must participate in a two-day orientation program. This mandatory training provides an overview of the Canadian and New Brunswick securities regulatory landscape, as well as an overview of our operations, financial affairs, legal framework, governance practices and role as a quasi-judicial adjudicative tribunal. There were no new members appointed during the 2012-2013 fiscal year.

New supplementary members must also participate in a one-day orientation session introducing them to the Commission's role as an adjudicative tribunal, hearings on enforcement matters, securities law and administrative law. A briefing is also given on our compliance and enforcement functions. One new supplementary member was provided with orientation in the 2012-2013 fiscal year.

The Commission places high value on continuing education and programs including mandatory group sessions which are held throughout the year.



Commission members:  
Anne La Forest, Kenneth Savage, David G. Barry, Q.C.,  
Harry H. Williamson, Q.C., Sheldon Lee, Céline Robichaud-Trifts

All six members participated in each of our 2012-2013 Continuing education sessions, which included:

April 2012	<b>Financial Services Regulation</b> Presenter: David Wild, Chairperson, Saskatchewan Financial and Consumer Affairs Authority
October 2012	<b>A Guide to Compliance with Laws, Policies and Fair Information Practices</b> Presenter: Robert P. Doherty, former Information Access and Privacy Co-ordinator for Nova Scotia
October 2012	<b>Reporting Issuer Management System (RIMS) and System for Electronic Document Analysis and Retrieval (SEDAR)</b> Presenters: Nathalie Thibodeau and Alex Wu, New Brunswick Securities Commission
February 2013	<b>Investor Engagement Report</b> Presenter: Andrew Nicholson, New Brunswick Securities Commission
February 2013	<b>Registration</b> Presenter: Alex Wu, New Brunswick Securities Commission

## Board committees

In 2012-2013, the Commission had three standing committees: Audit, Human Resources and Governance, and Adjudicative. The terms of reference for each committee are in our [Governance Policy available online](#). Membership on the Audit committee as well as the Human Resources and Governance committee is restricted to independent members. The Chair attends committee meetings by invitation, except for the Adjudicative Committee for which he is the Chair.

MEMBERS	MEETINGS					HEARINGS		
	Commission (11)	Special <sup>1</sup> (5)	Audit Committee (4)	Human Resources and Governance Committee (11)	Adjudicative Committee (2)	Hearing days	Hearing Preparation/ Deliberations/ Decision writing <sup>6</sup>	Exemptions and other applications
David G. Barry, Q.C.	11/11	5/5	4/4	11/11	2/2	1	0	9
Anne La Forest	10/11	4/5	3/3	6/6 <sup>3</sup>	2/2	3	9	0
Sheldon Lee	11/11	5/5	4/4	2/2 <sup>2</sup>	2/2	4	6.5	2
Kenneth Savage	11/11	5/5	3/4	11/11	2/2	5	6.5	2
Céline Robichaud-Trifts	11/11	6/6 <sup>5</sup>	N/A	11/11	2/2	2	9	2
Harry H. Williamson, Q.C.	11/11	5/5	1/1 <sup>3</sup>	7/7 <sup>2</sup>	2/2	0	0	3
SUPPLEMENTARY MEMBERS	MEETINGS					HEARINGS		
	Commission (0)	Special (1)	Audit Committee (0)	Human Resources and Governance Committee (0)	Adjudicative Committee (2)	Hearing days	Hearing Preparation/ Deliberations/ Decision writing	Exemptions and other applications
Denise A. LeBlanc, Q.C.	N/A	N/A	N/A	N/A	2/2	6	21.5	N/A
Tracey K. DeWare <sup>4</sup>	N/A	N/A	N/A	N/A	N/A	1	2	N/A
Guy G. Couturier, Q.C.	N/A	N/A	N/A	N/A	2/2	4	14.5	N/A
Enrico A. Scichilone	N/A	1 <sup>5</sup>	N/A	N/A	N/A	0	1	N/A

1. Special meetings included strategic planning and education sessions.

2. While not regular members of the Human Resources and Governance Committee, these members were invited to a specific meeting to participate in the Chair's evaluation.

3. In August 2012, Ms. La Forest resigned from the Audit Committee and was appointed to the Human Resources and Governance Committee and Mr. Williamson resigned from the Human Resources and Governance Committee and was appointed to the Audit Committee.

4. Tracey K. DeWare resigned her position as a supplementary member when she was appointed to the Court of Queen's Bench on 21 June 2012.

5. Mr. Scichilone participated in an orientation session following his appointment in November 2012. Ms. Robichaud-Trifts assisted with this orientation session.

6. Members and supplementary members who chair adjudicative panels have a more substantive role in drafting decisions.

### **Remuneration and expenses**

Bylaw No. 1, General Business Affairs, provides the salary, retainers and service fees, as applicable, for the Chair, members, supplementary members, Committee Chairs and the Lead Member as set out below:

Role	Salary	Annual retainer	Service fees <sup>1</sup>
Chair and CEO	Up to \$175,000	N/A	N/A
Members	N/A	\$10,000 plus an additional \$2,000 for Lead Member and Committee Chairs	\$350
Supplementary members	N/A	\$5,000	\$350

1. Service fees are paid to Commission members for preparation work completed in advance of each Commission meeting. They are also paid to Commission members and supplementary members for their adjudicative functions, including hearing preparation, deliberations and time spent drafting decisions.

### **CHAIR and CEO: remuneration and expenses detail**

In 2012-2013, the Chair and CEO received a basic salary of \$172,750 plus employment benefits including health, dental and life insurance, vacation leave, parking and the use of a vehicle. In lieu of pension, the Chair and CEO also received a payment of \$11,667 (the lesser of nine per cent of basic salary or one-half of the maximum allowable RRSP deduction limit).

In 2012-2013, the Chair and CEO's expenses, which include the operating costs of a vehicle, travel, meals, hotels, parking and education costs, were in the amount of \$21,332.

**MEMBERS: remuneration and expenses detail**

In 2012-2013, members received remuneration amounts including the annual retainer and service fees applicable to their activities on behalf of the Commission. Those costs, and expenses related to travel, meals, hotels, parking and education are included below.

Member	Appointed or reappointed	Term end	Retainer	Service Fees	Allotment for Travel	Total Remuneration	Expense Reimbursement and Allowances
Anne La Forest <sup>1</sup> <b>Lead Member</b>	1-Jul-04 15-Jul-08 15-Jul-12	14-Jul-13	\$12,000	\$15,575	\$1,600	\$29,175	\$2,680
Sheldon Lee	15-Jul-08	14-Jul-13	\$10,000	\$15,925	\$1,400	\$27,325	\$3,065
Kenneth Savage, CA <sup>1</sup> <b>Committee Chair</b>	16-Aug-07 1-Jul-10	30-Jun-15	\$12,000	\$18,200	\$1,800	\$32,000	\$2,822
Céline Robichaud-Trifts <sup>1</sup> <b>Committee Chair</b>	16-Aug-07 30-Jun-09	29-Jun-14	\$12,000	\$20,300	\$2,300	\$34,600	\$6,729
Harry H. Williamson, Q.C.	15-Jul-08	14-Jul-13	\$10,000	\$13,300	\$1,400	\$24,700	\$2,659

1. The Lead Member and committee chairs receive an additional retainer of \$2,000 per year.

**SUPPLEMENTARY MEMBERS: remuneration and expenses detail**

In 2012-2013, supplementary members received remuneration amounts including the annual retainer, service fees applicable to their activities on behalf of the Commission, and payment for participation in orientation or education sessions relevant to the adjudicative functions they perform. Those costs and expenses related to travel, meals, hotels and parking are included below.

Supplementary Member	Appointed or reappointed	Term end	Retainer	Service Fees	Allotment for Travel	Total Remuneration	Expense Reimbursement and Allowances
Denise A LeBlanc, Q.C.	15-Jul-08 15-Jul-11	14-Jul-14	\$5,000	\$9,450	\$1,000	\$15,450	\$1,418
Tracey DeWare <sup>1</sup>	1-Mar-11	21-Jun-12	\$1,126	\$1,250	\$0	\$2,376	\$159
Guy Couturier, Q.C.	18-Sep-08 18-Sep-10	17-Sep-13	\$5,000	\$7,175	\$1,200	\$13,375	\$4,599
Enrico Scichilone	21-Nov-12	20-Nov-15	\$1,167	\$1,050	\$200	\$2,417	\$150

1. Tracey K. DeWare resigned her position as a supplementary member when she was appointed to the Court of Queen's Bench on 21 June 2012.

## MESSAGE FROM THE EXECUTIVE DIRECTOR

Engagement is a word we hear a lot these days. It's an important tool organizations must use to build relationships with those audiences that are affected by what we do. That is especially important here in New Brunswick.

This past year saw NBSC staff and management engage our audiences in several meaningful ways.

We saw an increased uptake of our education programs and workshops among a variety of audiences and stakeholder groups. The number of sessions held and the number of attendees increased over previous years, demonstrating in concrete terms the need that investors have for impartial and reliable information on investing and fraud prevention.

We reconfigured our approach to our investor protection awareness campaign, and saw immediate benefits in terms of increased awareness about where investors should call if they have concerns about suspicious investment activity.

Our crowdfunding event at the Wu Centre in Fredericton was very well attended,

providing an opportunity for market participants to come together and share their views on this new capital-raising concept. Getting out ahead of this issue was important to us in terms of helping to foster healthy capital markets. It is also important to connect with stakeholders by building understanding and getting feedback on an emerging issue, its implications and related regulatory concerns.

This past year we obtained our first criminal convictions stemming from our investigations of those that violate the *Securities Act*. The cooperative relationships we maintain with law enforcement agencies and crown prosecutors in New Brunswick assist our investor protection mandate.

This past year also saw us strengthen our internal governance structures and enhance staff engagement through new communications vehicles, the implementation of a new privacy policy, and ongoing risk management initiatives.

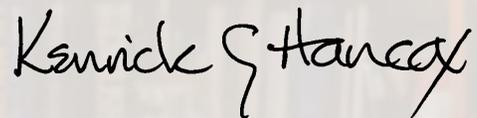
We continue to work diligently to build relationships with stakeholders and to research and advise on legislative issues. We participate in a variety of ways with committees and



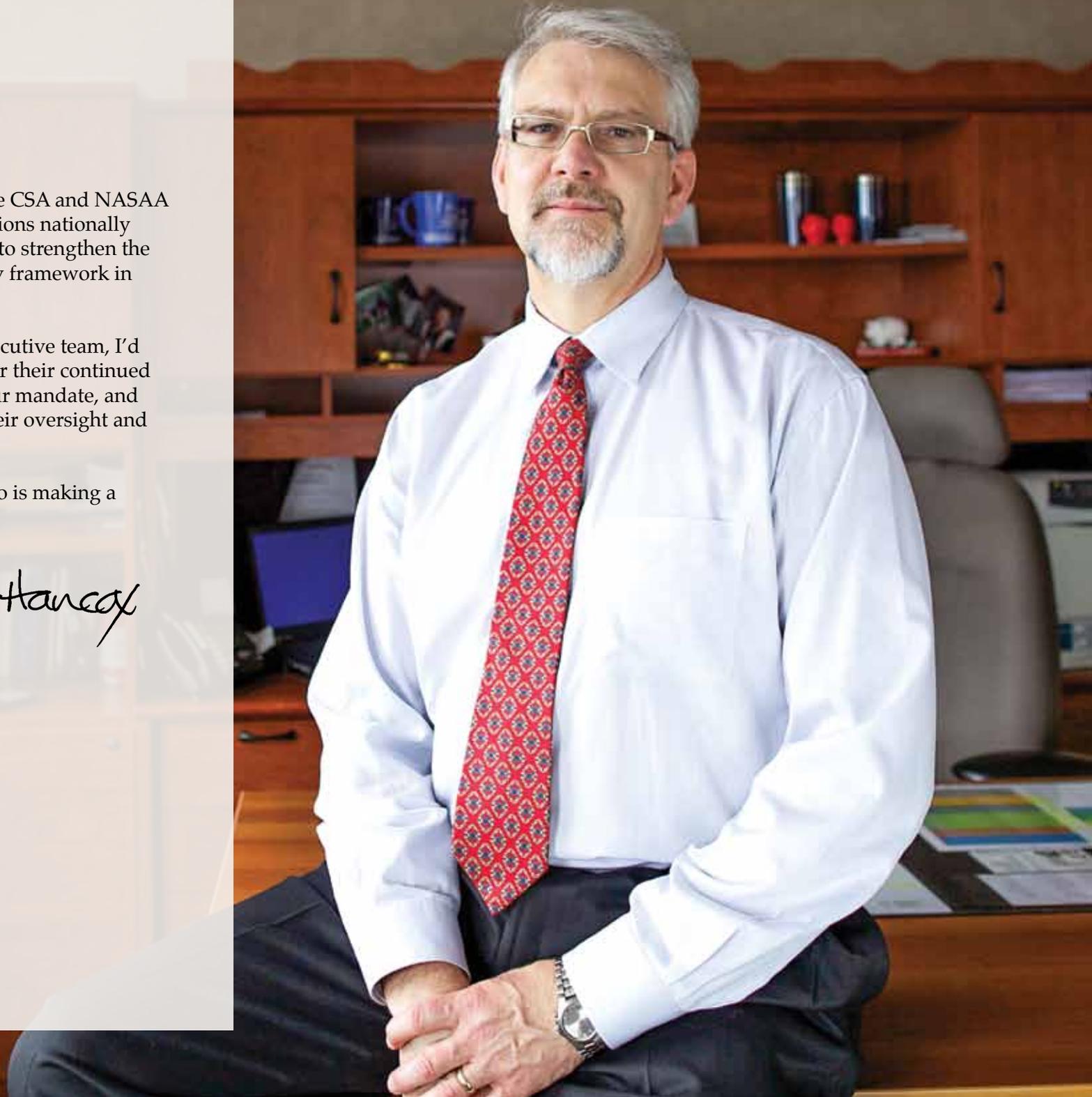
project groups at the CSA and NASAA and other organizations nationally and internationally to strengthen the securities regulatory framework in New Brunswick.

On behalf of the executive team, I'd like to thank staff for their continued efforts to achieve our mandate, and our members for their oversight and guidance this year.

The work that we do is making a difference.



Kenrick G. Hancox  
Executive Director



## ABOUT THE NEW BRUNSWICK SECURITIES COMMISSION

### ***Vision***

A confident, dynamic and informed investment environment for New Brunswick

### ***Mandate***

Our legislative mandate is to provide protection to investors from unfair, improper or fraudulent practices; and to foster fair, efficient capital markets and confidence in capital markets.

### ***Values***

Leadership – we adhere to best practices and high standards to ensure regulatory and organizational excellence.

Integrity – we are fair, ethical, transparent and accountable for our actions.

Responsiveness – we provide proactive, efficient and timely services to our stakeholders.

Commitment – we invest in our staff by encouraging innovation and developing expertise, leadership and collaborative teamwork.

## ORGANIZATIONAL PROFILE

Reporting through our Board of Directors to government, the Commission is organized into five functional areas, or Divisions, including: education and market development, regulatory affairs, enforcement, general counsel and executive management.

<b>Government</b> (Minister of Justice)				
<b>Commission – acting as the board</b> (Chair and Commission Members) Responsible for governance as well as independent adjudication of enforcement actions				
<b>Regulatory Affairs Division</b>	<b>Enforcement Division</b>	<b>Education and Market Development Division</b>	<b>General Counsel Division</b>	<b>Executive Management Division</b>
<p>Responsible for policy development, as well as direct oversight of issuers and registrants including registration, compliance and corporate finance.</p>	<p>Responsible for enforcing securities-related rules and regulations, including tip handling, investigations, and the legal work related to bringing proceedings before the Commission and preparing matters for prosecution in the Provincial Court.</p>	<p>Responsible for investor engagement, education and awareness. Also responsible for fostering and supporting capital market development in New Brunswick.</p>	<p>Responsible for supporting policy coordination, providing legal advice, and supporting the function and adjudicative responsibilities of the Commission.</p>	<p>Responsible for human resources, facilities, reception and records management.</p>

**Official languages**

We fully embrace and recognize our obligations under New Brunswick's *Official Languages Act*. We are committed to providing quality services to the public in their official language of choice and to promoting a balanced use of both official languages within the workplace. The Commission continues to support the advancement of staff's French language skills through regular French instruction at the beginner, intermediate and intermediate-plus level. We are also striving to meet the spirit of New Brunswick's Language of Work Policy and Guidelines and have developed our own internal Language of Work Directive. Although the language of service and the language of work have separate applications, we view them as two sides of the same coin, and central to our commitment to both official languages.

**Privacy**

Our privacy statement is posted on our website and reflects our commitment to manage and protect information according to the *Right to Information and Protection of Privacy Act*, the *Securities Act* and our own policies, directives and procedures.

**Public Interest Disclosure**

The *Public Interest Disclosure Act* (PID Act) encourages employees in the provincial public service to report any wrongdoing that has occurred or is about to occur in the workplace that is potentially unlawful, dangerous to the public or harmful to the public interest. The 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. There were no disclosures or claims made against a Commission employee under the PID Act in 2012-2013.

At right:  
Manon Losier, General Counsel,  
Ella-Jane Loomis, Legal Counsel,  
Brian Maude, Legal Counsel

# WHAT'S IMPORTANT TO US

## EFFICIENCY

To improve the efficiency of our registration process, in 2012-2013 we amended our procedures to streamline the background checking process, identify areas of focus based on the business category of the proposed registrant, and prioritize specific submission types. We reduced our review time for local applications by 30%. Our Regulatory Affairs Division has also continued its efforts to communicate the process and its requirements to sponsoring firms.

To improve the presentation of rules on our website, in 2012-2013 the General Counsel Division continued its efforts to provide consolidated rules and any amendments made to them by the CSA or the Commission. The consolidated versions are provided to ensure ease of reference by the public.

**WHAT'S IMPORTANT TO US: Proactivity**

- To maximize the pickup and exposure of our media releases – enhancing awareness of key issues and investor alerts among New Brunswickers – we re-tooled our approach to packaging this information in 2012-2013. We adapted our writing standards to match Canadian Press style, and adopted a storytelling approach that more closely matches the journalistic style of the provincial newspaper, i.e., including salient points up front, and creating a short and informative headline. Where possible, we continue to use statistics that quantify the issue at hand for New Brunswickers.

Our releases are also distributed through our subscription lists, and posted on our website and social media channels to enhance their reach to our various target audiences.

- In response to the G20's call for increased regulatory oversight on derivatives markets, the CSA created a Derivatives Committee with the goal of developing and implementing a regulatory framework and rules governing this risky market. Two representatives from our Regulatory Affairs Division currently participate on the committee.

Since November 2010, the CSA has published for comment a series of Consultation Papers that recommend proposals to regulate the Over The Counter (OTC) derivatives markets in Canada. In December 2012 the CSA published Model Provincial Rule Derivatives: Product Determination and Model Provincial Rule Trade Repositories and Derivatives Data Reporting. These Model Reporting Rules mark the first policy action resulting from the consultation and will pave the way for other future rules that are essential to the regulation of OTC derivatives transactions and the improvement of market transparency.

In addition to these Model Reporting Rules, a number of future proposed model rules will be published for comment that relate to the key areas addressed by the Consultation Papers. Together, all the model rules will formulate a proposed regime for the regulation of the OTC derivatives markets.

## WHAT'S IMPORTANT TO US: Teamwork

- Working together, the Education and Market Development Division and the Regulatory Affairs Division collaborated to develop a new Learning the Ropes presentation on capital raising in New Brunswick, called Accessing Capital. This idea, though always topical, was brought to the forefront in 2012-2013 when several provinces updated the rules regarding a specific exemption allowing companies to raise capital from anyone in their home province. The exemption, known as the Offering Memorandum exemption, was updated to allow companies to raise up to \$500,000 as long as they provide potential investors with a completed Offering Memorandum document and financial statements, and individual investors did not purchase more than \$2,000 of the company's stock. This allowed companies to forego the requirement and additional cost associated with procuring audited financial statements.

Our new presentation outlines how the exemption works, provides information on lessons learned from prior applicants, and includes details on the effect the process would have on the Offering Memorandum document. It also outlines the option of pre-filing the Offering Memorandum document with the Commission.

In 2012-2013, the Accessing Capital presentation was given in Moncton, Fredericton and Saint John, to almost 100 registered attendees.

**WHAT'S IMPORTANT TO US: Teamwork, cont'd.**

● Staff within the Education and Market Development Division collaborated to develop and launch Hot Topics, a blog associated with our Invest in Knowing More website. We also developed a comprehensive editorial calendar, based on research findings in the Canadian Securities Administrators (CSA) 2012 Investor Index, which will guide content development over time. The content of the posts ranges from fraud prevention alerts and tips to understanding the ins and outs of various types of investments, personal money management tips, and exploring why and how we make money decisions.

We also schedule the timing of posts to ensure our subject matter is top-of-mind for New Brunswickers i.e.: a series on mutual funds was posted during the month leading up to RRSP deadline.

Hot Topics posts, which can be found at [www.investinknowingmore.ca](http://www.investinknowingmore.ca), are shared and promoted on our social media channels, and have resulted in improved engagement results for our Facebook page and increased traffic to and time spent on our website.

At right:

Sara Wilson, Investor Services Coordinator

Gordon Fortner, Senior Investigator

Leanne Kinnear, Information and Records Management Coordinator



**2012-2013 Quick Facts**

Year ending 31 December	2012	2011
<b>CAPITAL MARKETS ACTIVITY*</b>		
<b>Small Business Investor Tax Credit (SBITC)</b>		
Number of approved applications	100	64
Amount of investments (\$)	17.6 M	16.6 M
Number of individual investors	397	372
<b>Angel investment</b>		
Number of angel investors in the First Angel Network (FAN)	92	92
Number of angel investors in FAN that were NB residents	32	31
Number of FAN investments in NB companies	0	1
Amount of FAN investments in NB companies	\$0	\$440,000
<b>Venture capital investment</b>		
Total Canadian venture capital investment (% change over year previous)	+73%	+32%
Total New Brunswick venture capital investment (% change over previous year)	+22%	+91%
Total invested in NB companies	\$8M	\$24M
Number of investments in NB companies	11	9

\*Although the NBSC is not the source of the numbers quoted above, they are an indication of the overall health of New Brunswick's capital markets - and the work we do contributes to the development of our capital markets.

Year ending 31 March	2012	2011
<b>EDUCATION ACTIVITY</b>		
Number of unique visitors on our websites	125,431	18,805
Number of investor education sessions/workshops conducted	45	25
Number of investor education session/workshop attendees	1,359-1,459	600-700
Number of Learning the Ropes capital markets education sessions held	22	17
Number of Learning the Ropes capital markets education session attendees	572	501

Year ending 31 MARCH	2012-2013	2011-2012	2010-2011	2009-2010	2008-2009
<b>REGISTRATION ACTIVITY</b>					
Registered firms	392	392	365	296	283
Registered firms (NB head office)	5	5	5	7	7
Branches/sub-branches in NB	522	536	539	535	551
Registered individuals	9,406	9,200	8,732	7,848	7,555
Registered individuals (NB residence)	1,724	1,725	1,718	1,707	1,809

Year ending 31 MARCH	2012-2013	2011-2012	2010-2011	2009-2010	2008-2009
<b>CORPORATE FINANCE ACTIVITY</b>					
Reporting issuers	4,696	4,581	4,289	4,053	4,011
Reporting issuers (NB-based) <sup>1</sup>	8	8	9	9	7
Prospectus filings (Non-mutual funds)	436	467	598	578	352
Prospectus filings (Mutual funds)	207	217	194	210	224
Annual information forms <sup>2</sup>	1,100/1,180	1,224	1,205	1,250	1,152
Exempt distribution reports	398	404	290	313	291
Exemption applications (Non-Passport)	84	83	79	135	218
Cease-trade orders	1	0	0	1	1
Management cease-trade orders	1	0	0	0	1

1. The eight reporting issuers listed include Landdrill International Inc., which was cease traded in October 2012.

2. Eighty forms were filed on April 1 and 2, 2013 due to the fact that the filing deadline for 2012-2013 fell on a Sunday.

Year ending 31 MARCH	2012-2013	2011-2012	2010-2011	2009-2010	2008-2009
<b>ENFORCEMENT ACTIVITY</b>					
Complaints received	10	25	31	60	41
New files from other sources	17	22	23	24	0
Requests for assistance from other regulators	3	1	0	5	0
New matters	29	48	54	89	53
Matters concluded	35	41	62	83	43
<b>MATTERS DEALT WITH BY ADJUDICATION (COMMISSION MEMBERS)</b>					
Interim cease-trade orders	2 (10 parties)	3 (9 parties)	2 (7 parties)	4 (13 parties)	5 (19 parties)
Permanent/final cease trade orders	5 (12 parties)	2 (4 parties)	4 (11 parties)	3 (9 parties)	4 (11 parties)
Reciprocal cease-trade orders	1 (3 parties)	0	0	6 (28 parties)	4
Reprimands	0	0	1 (2 parties)	0	0
Exemption bans	7 (14 parties)	4 (12 parties)	4 (12 parties)	0	0
Registrants limited/banned from market	2	2	2	3	15
Settlements approved	3	1	3	4	5
Hearing days	10	18	13	14	20
<b>MATTERS DEALT WITH IN PROVINCIAL COURT</b>					
Quasi-criminal charges laid	13	0	0	0	0
Number of individuals charged	3	0	0	0	0
Findings of guilt or guilty pleas	10	0	0	0	0
Jail sentences imposed	10	0	0	0	0
<b>FINANCIAL REMEDIES</b>					
NBSC costs levied	\$14,000	\$30,000	\$2,000	\$3,000	\$64,033
NBSC costs recovered	\$4,000	\$5,000	\$0	\$1,000	\$34,000
Administrative penalties levied	\$75,000	\$1,523,000	\$38,000	\$177,500	\$683,000
Administrative penalties recovered	\$25,000	\$50,000	\$30,000	\$7,500	\$238,000
Funds ordered returned to investors	\$1,787,000	\$22,600	\$33,000	\$0	\$160,000
Fund recovered to be returned to investors	\$25,000	\$11,000	\$45,000	\$12,000	\$25,090

PENALTIES								
Date of sanction	Matter	Manner of conclusion		Administrative penalties (\$)	Costs (\$)	Disgorgement (\$)		Unpaid Balance owing (\$)
		Settlement	Contested	Imposed	Imposed	Imposed	Collected	
2008-09	Oagles, James H.	X		10,000	2,500			0
2008-09	Tracy, Jeannie	X		2,500	500			0
2008-09	First Global Ventures S.A., et al		X	225,000	23,033.35			248,033.35
2008-09	Lane, Robert E., et al		X	160,000	2,000			162,000
2008-09	Park, Sang	X		15,000	3,000			0
2008-09	Locate Technologies Inc., et al	X		200,000	25,000			0
2008-09	Niles, Harry, et al	X		60,000	5,000	160,000	73,090	151,910
2008-09	Legacy Associates Inc.	X		15,000	5,000			0
2008-09	Barrie White Capital Corporation, et al	X		8,000	1,000			0
2009-10	Adams, Barry	X		20,000				20,000
2009-10	Cody, Michael, et al			150,000	2,000			152,000
2009-10	Assante Financial Management Ltd.		X	7,500	1,000			0
2010-11	Briand, Harrison & Associates Corporation, et al	X		8,000	2,000			9,000
2010-11	WFG Securities of Canada Inc., et al	X		20,000				0
2010-11	S & L Transactions Ltd., et al	X		10,000	1,000	33,000	33,000	0
2011-12	Locate Technologies Inc., et al		X	1,248,500	11,750			1,260,250
2011-12	Villabar Real Estate Inc., et al	X		50,000	5,000			0
2011-12	Weeres, Steven Vincent & Donszelmann, Rebekah		X	225,000	13,575	22,600		261,175
2012-13	Mallett, George Wayne	X		15,000	2,000			0
2012-13	Trites, Andrew J.	X		10,000	2,000	12,000	12,000	0
2012-13	Andrew Mitchell Holdings Ltd., et al	X		50,000	10,000	1,775,000		1,835,000
TOTAL				\$2,509,500	\$117,358.35	\$2,002,600	\$118,090	\$4,099,368.35

### PRESENTATIONS AND WORKSHOPS AVAILABLE

#### ***Youth and teacher classroom presentations***

- NBSC Education Programs for Your Classroom – (for teachers and instructors)
- Making Money Make \$ense – Youth Money Management (for elementary school students)
- Making Money Make \$ense – Youth Money Management (for middle school students)
- Making Money Make \$ense – Youth Money Management (for high school students)

#### ***Lunch and learn presentations for the workplace***

- Investing 101 – Back to Basics
- Investing 101 – Working With Financial Professionals
- Investing 101 – Investment Frauds and Scams Online and Offline

#### ***Healthcare professionals and senior outreach***

- Senior Financial Abuse and Exploitation – Recognizing the Signs and How You Can Stop It (for healthcare and senior care workers)
- Protecting Your Retirement – Recognizing, Avoiding and Reporting Fraud and Financial Abuse (for seniors and their families)

#### ***Interactive presentations for women's groups***

- I'm Worth It! – Financial Tips and Strategies for Women

#### ***Workshops and presentations for entrepreneurs, professionals and industry***

- Learning the Ropes – Offering Memorandum
- Learning the Ropes – Are You Investment Ready?
- Learning the Ropes – Crowdfunding
- Learning the Ropes – Accessing Capital

## **PUBLICATIONS AVAILABLE**

### **FRAUDS AND SCAMS**

- Fraud Among Friends (PDF)
- Check Before You Invest (PDF)
- How to Spot a Scam Artist (PDF)
- Financial Concerns Checklist (PDF)
- Pocket Guide on Elder Investment Fraud and Financial Exploitation (PDF)
- Protect Your Money (PDF)
- Protecting Your Retirement (PDF)
- “Boiler Room” Scams - Could You Be Vulnerable? (PDF)
- Investment Fraud Checklist (PDF)

### **GENERAL INVESTING**

- Investing Basics - Getting Started (PDF)
- Be an Informed Investor (PDF)
- Borrowing to Invest (PDF)

### **ABOUT US**

- Introduction to Mutual Funds (PDF)
- Bonds at a Glance (PDF)
- Shares at a Glance (PDF)
- Understanding Mutual Funds (PDF)
- Investments at a Glance (PDF)
- Investments 101 (Youth) (PDF)

### **FINANCIAL ADVISERS**

- Working With a Financial Adviser (PDF)
- Questions to Ask When Choosing a Financial Adviser (PDF)
- Financial Adviser Fees (PDF)
- When Your Broker Calls, Take Notes! (PDF)

### **FINANCIAL LITERACY**

- Make It Count: A Parents Guide to Youth Money Management (PDF workbook)
- Make It Count for the Instructor (PDF Workbook)
- Sandwich Generation - Are You Caught in the Middle (PDF)
- I’m Worth It! – Financial Stories, Ideas and Strategies for Women (PDF workbook)

### **COMPLAINTS AND COMPENSATION**

- Making a Complaint - A Guide for Investors (eMag format) or (PDF format)
- Seeking Compensation - A Guide for Consumers (external link)

### **MONEY MANAGEMENT WORKSHEETS AND WORKBOOK**

- Money and Values Worksheet (PDF)
- Financial Roadmap Goal Setting Chart (PDF)
- Interactive Budget (Excel)
- Investment Planning Workbook (Word)

## **MEMBERSHIP**

We are extensively involved with our Canadian and international regulatory partners, including Canadian Securities Administrators (CSA), North American Securities Administrators Association (NASAA) and Council of the Securities Regulators of the Americas (COSRA). We view these commitments as a way to build our knowledge base, reinforce inter-jurisdictional partnerships and relationships, and participate in regulatory thought-leadership activities designed to create a safer and more productive investment environment on a regional, national and international scale.

Because we have a finite pool of time and resources to dedicate to these organizations, we carefully evaluate each opportunity for participation. This allows us to effectively dedicate our resources according to the Commission's priorities, our operational context, and other criteria.

Our involvement includes but is not limited to:

### **CSA**

- Chair of the CSA Standing Committee on Enforcement
- Member of 17 CSA Standing Committees
- Member of 21 sub-committees related to CSA Standing Committees
- Participant in 18 of 35 active CSA Project Committees
- Monitoring 17 of 35 active CSA Project Committees

### **NASAA**

- Secretary of the NASAA Board of Directors
- Chair of the NASAA Canadian Zone Project Group – Enforcement Committee
- Chair of the Online Outreach and Social Media Project group
- Vice Chair of the NASAA Investor Education Committee
- Member of 4 other NASAA Committees or project groups

At right:

Jason Alcorn, Legal Counsel

Suzanne Ball, Associate General Counsel

Julie Lewicki, Receptionist and Administrative Support Officer

France Bouchard, Senior Administrative Support Officer



# ACTIVITIES

In 2012-2013, our day-to-day operations were complemented by a series of initiatives and accomplishments that illustrate:



the **collaborative** approach we take to crafting cross-functional teams within our own organization and building partnerships with our stakeholders.



the **diligence** with which we operationalize our legislation through consistent compliance and enforcement practices.



the priority we place on being authentically **engaged** with our audiences through community engagement, education and investor protection initiatives.



the emphasis we place on being **responsive** to new ideas that will help us foster efficient and vibrant capital markets here in New Brunswick.

# NEW

# BRUNSWICK SECURITIES COMMISSION



COMMISSION DES  
VALEURS MOBILIÈRES  
DU NOUVEAU-BRUNSWICK



## ***Establishing engagement with New Brunswick investors***

In 2012-2013 we established a set of six investor engagement objectives designed to help us develop a better understanding of New Brunswick investors, and to help investors build a genuine and beneficial relationship with the Commission. During the course of the fiscal year we held four events in three communities around the province.

Moving forward, it is our plan to combine investor engagement activities with other Commission activities, including tradeshow and education presentations, which already enjoy an established audience. We are also reaching out to established groups and organizations that host regular meetings, so we can give an About Us presentation as part of their agenda.

## Leadership in financial and securities education

We saw many successes related to the education products and services developed this past year. Uptake across stakeholder groups improved, we expanded both the type of programs available and the audiences reached, and we caught the attention of our inter-jurisdictional partners – who are now delivering NBSC materials in other provinces. A little context clearly illustrates the importance of this work. The CSA 2012 Investor Index revealed that New Brunswickers lag behind the national average in terms of their savings and investment habits:

- As a province, fewer of us are saving for the future, and those that are saving are putting aside less.
- Only 40% of us use an investment advisor, and only 35% of those have done a background check on them.
- Of those who have an investment advisor, 64% don't know how much they pay them for the work they do.
- Our confidence when it comes to making investment decisions lags nearly 10% behind the national average.



### Fraud Scene Investigator launch and contest

In March 2012, we launched the Fraud Scene Investigator website – a comic book-style educational tool allowing students the opportunity to role-play as an investigator and learn about protecting their money from frauds and scams. The launch was accompanied by a contest that ran until the end of May 2012. Students who completed a Fraud Scene Investigator Report after reading the comic had their name entered into a weekly draw, and also into a draw for a \$500 bursary at the end of the contest.

The website received 408 unique page views during the 2-month contest period, and 18 students were entered in the final bursary draw. The site was also shared on various student bursary and awards websites that are still referring traffic back to the Invest in Knowing More site even though the contest is over. The winner of the bursary was Jeremy Dussault.

*“It is with great pleasure that I write and thank you for financially supporting my educational endeavours...I am thrilled every day that I get to be in school, and I cannot thank you enough for your generous support, helping me achieve my dreams!”*

*Executive Director  
Rick Hancox presents  
Jeremy Dussault with  
his bursary.*





### **Collaboration with Nova Scotia Securities Commission**

Feedback on the Investing 101 Program has been positive overall, and this has resulted in various referrals to the Commission.

For instance, after a large international company located in Saint John participated in the program, the Nova Scotia office requested access. The Commission forwarded program materials to the Nova Scotia Securities Commission, which has now customized the program for their audiences.



### **Development and launch of the Financial Awareness program**

In 2012-2013, we developed an interactive and fun Financial Awareness program using a game-show approach, through which we provided a relaxed forum for discussing financial and investment behaviours. Designed to be presented at public events such as trade shows or conferences, the program engages with the public to increase awareness of our products, and to educate and inform potential investors about investment decisions.

The pilot Financial Awareness program took place from 15-17 March at the Atlantic National Home Show in Saint John. Following a series of trial events, staff will consider the results and determine how to deliver this type of investor awareness education going forward.



*Sara Wilson at the Atlantic National Home Show.*

**E** engaged      **R** responsive

**Elder Investment Fraud and Financial Exploitation program uptake**

The Elder Investment Fraud and Financial Exploitation program includes a presentation offered to healthcare workers outlining why financial abuse is especially serious when it involves someone with diminished mental capacity (such as dementia or Alzheimer’s). The presentation also references the additional resources available, including: a leave-behind pocket guide for healthcare professionals that includes the red flags of financial abuse, based on clinical and historical patient observation; a checklist that healthcare workers or family members can use to help start the conversation; resources for additional follow up; and contact information for reporting abuse.

In 2012-2013, in conjunction with World Elder Abuse Awareness Day, we promoted our program using a multi-faceted campaign including mailouts, news releases, social media outreach and new web content – including a dedicated section of the Invest in Knowing More website entitled Stop Financial Abuse. We were also able to run public service announcements on CBC radio in French and English, and post on the Rogers Community Bulletin Board in French and English. The campaign enhanced awareness of the program, and in the last fiscal year we delivered it to 100 participants at the Caraquet Hospital, the Miramichi Regional Hospital and Alzheimer’s New Brunswick’s “Alzheimer’s Café”.

**E** engaged      **R** responsive

**Development and launch of the Investing 101 program**

The Investing 101 program was created to address knowledge gaps revealed by the 2012 New Brunswick Investor Index survey. It was developed using a mixture of new and existing content, and packaged using a lunch and learn workshop complemented by online materials/quizzes and social sharing. It is presented in such a way to help people better visualize how they can incorporate what they learn into their everyday lives. The program targets busy professionals who can’t make it to a weekend or evening presentation. We have received 16 requests for the Investing 101 program – both from organizations and from individuals.

*Below: Marissa Rignanesi, Education Coordinator.*



## 2012-2013 Compliance activity

Our compliance review processes are an important tool we use to ensure registrants are operating in accordance with the *Securities Act* and regulations. In 2012-2013, we conducted the following reviews.



### **Exempt Market Dealers: 15 reviews**

The goal of our reviews of exempt market dealers was to gain an understanding of their investment practices in New Brunswick. Market participants included New Brunswick-based head offices of firms where the NBSC is the principal regulator; and branch office where the head office is located outside of New Brunswick, and for which we are not the principal regulator. We focused on reviewing dealer processes including Know Your Client, Know Your Product, relationship disclosure, marketing and referral arrangement processes.



### **Investment Dealers (IIROC Member Firms): 14 reviews**

The goal of these reviews was also to gain an understanding of their investment practices in New Brunswick. Market participants were the same as above: New Brunswick-based head offices of firms where the NBSC is the principal regulator; and branch office where the head office is located outside of New Brunswick, and for which we are not the principal regulator. We focused on reviewing processes including client intake, client discovery, Know Your Client, Know Your Product, and suitability processes.

## 2012-2013 Enforcement activity

Those who breach New Brunswick securities laws or otherwise conduct themselves in a manner contrary to the public interest are investigated by staff of the Commission and may be subject to administrative penalties or criminal charges. These can include administrative sanctions ordered by the NBSC adjudicative panels, quasi-criminal charges imposed by the New Brunswick Provincial Court, and criminal charges brought by the police in the Provincial or Court of Queen's Bench systems.



### **Administrative sanctions of note**

Full details about current and past hearing matters before NBSC adjudicative panels, including the matters listed below can be found on our website.

**Crainshaw International Ltd. and Osbourne Worldwide Limited**, both with purported offices in Belize, were permanently ordered to cease trading in December 2012 for unregistered sales solicitation and trading in the province of New Brunswick. The order was issued following a hearing into allegations that sales tactics used by the representatives of the companies were indicative of a possible boiler room operation. Staff's investigation into these companies was initiated following a complaint made by a New Brunswick resident who invested more than \$12,000 in purported gold options.

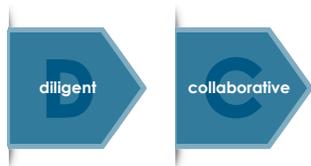
**James A. MacCallum**, formerly of Moncton, was banned from trading in securities directly with the public after defaulting on more than \$1.7 million in promissory notes issued to a small group of New Brunswick investors who loaned him money to be invested in exchange for interest payments. As part of a settlement agreement approved by the NBSC's adjudicative panel, he was also ordered to repay the losses to investors and pay \$50,000 in penalties and \$10,000 in costs. Neither MacCallum nor his company Andrew Mitchell Holdings (AMH) was registered to trade in securities in New Brunswick. The settlement agreement indicates that MacCallum has been suspended from the practice of law in New York, and that he is presently insolvent.

**Wayne Mallett**, a businessman from Little Shemogue near Moncton, was ordered to pay \$15,000 in administrative penalties and \$2,000 in costs as part of a settlement agreement approved by the NBSC's adjudicative panel in May 2012. Mallett agreed that he made misrepresentations to an NBSC investigator during a compelled interview. During the interview in question, he denied having a working relationship with a particular company selling investments in New Brunswick when, in fact, he was working on behalf of the company. Mallett is also prohibited from soliciting money for any investment-related activity until 2015.

**MI Capital Corporation** of Hong Kong and **One Capital Corp. Limited** of Singapore were permanently cease-traded in June 2012 for unregistered sales solicitation in the province of New Brunswick. The order was issued following a hearing into allegations that salespersons solicited at least five residents to invest in gold options, using repeated, persistent telephone calls. Staff's investigation was initiated following a series of complaints made by New Brunswick residents.

**NNR N.Natural Resources** and eight other companies incorporated at the same address in Shediac are subject to an interim order to cease trading issued in August 2012. Staff's investigation began following receipt of an inquiry about one of the companies, and then was expanded to include eight other companies – all registered at the same business address, a P.O. box hosted by a small and unrelated business service outlet. Staff alleged that none of these companies appear to have employees, operations or any material presence in the province, and that some of the information provided by these companies raised serious concerns about their legitimacy. During the initial investigation, staff found that several of the companies were trading or were applying to trade on the securities exchanges in Frankfurt, Berlin or Vienna. To protect the interests of investors overseas, staff notified regulators in the other jurisdictions. The interim order remains in place and staff's investigation is ongoing.

**Richard A. Scott**, a Woodstock resident, was temporarily ordered to cease trading in all securities in April 2012 for alleged violations of the *Securities Act*. In their motion for the temporary order, staff allege that Scott, who was not registered to trade in securities and had never filed a prospectus or report of exempt distribution with the NBSC, contravened securities laws by issuing 17 promissory notes to 13 investors in the Woodstock area for a total of \$1,217,650. Staff commenced their proceeding against Scott as they felt it would be contrary to the public interest to allow him to issue further securities pending completion of their investigation. The interim order remains in place and staff's investigation is ongoing.



## **Prosecutions: a powerful deterrent**

2012-2013 saw the first instances of both quasi-criminal and criminal proceedings related to New Brunswick matters.

**Michael Cody** was permanently banned from trading in securities in 2009, and was ordered to pay a \$50,000 penalty as a result of his involvement in the solicitation and sale of shares in Locate Technologies, Inc. and Tubtron Controls Corp. to New Brunswick residents. Notwithstanding this order, Cody continued to trade in securities, which led to a quasi-criminal charge before the Provincial Court in September 2012. Mr. Cody, a resident of Fredericton, pled guilty and was sentenced to 30 days in jail.

**William Watson Priest** was convicted of running a Ponzi scheme in the Nackawic area. A tip from one of the investors caused our Enforcement Division to launch an investigation that culminated in quasi-criminal charges being laid. He was charged with 9 counts of fraud under the *Securities Act*. Concurrently, the RCMP laid criminal charges against him for mortgage fraud. The charges were heard by a Provincial Court judge in September 2012. Mr. Priest pled guilty, was convicted, and sentenced to three years in jail. The administrative proceedings are scheduled to take place in spring 2013.

**Darlene Ryan** was terminated from her position as an investment advisor at Scotia McLeod in Moncton. Subsequently, a forensic audit unearthed evidence that she had misappropriated funds in the amount of \$1.3M from brokerage accounts belonging to her clients. The Investment Industry Regulatory Organization of Canada (IIROC) held a disciplinary hearing, levying a fine and banning her from becoming an IIROC representative in future. Criminal charges were laid, and the case was heard by the Provincial court in early 2013. Ms. Ryan pled guilty, was convicted, and was sentenced to three years in jail. We were first contacted with respect to this matter and subsequently coordinated the regulatory and law enforcement response by working with IIROC and the RCMP.

## Creative solutions designed to build vibrant capital markets



### *Establishing a framework for review of voluntarily pre-filed Offering Memoranda (OM)*

In 2012-2013, the NBSC conducted significant policy work and research on the subject of offering a review service for voluntarily pre-filed OM documents from companies looking to raise money in the exempt market. The result of that research was to formally offer the service to New Brunswickers, using a consistent framework of communication and review. In December, we issued Local Staff Notice 45-701 Voluntary Pre-Filing of Draft Offering Memoranda under National Instrument 45-106 Prospectus and Registration Exemptions, setting out our expectations for issuers and introducing a filing fee.

Allowing issuers to voluntarily pre-file their draft OM creates an educational opportunity – giving us the chance to clarify the OM exemption, point out deficiencies, improve disclosure and build a relationship with the issuer. When the review period is over, and the OM is found to comply with the required format, we remind the issuer of their obligation to file a Form 45-106F1 Report of Exempt Distribution within 10 days of any distribution.

The ultimate goal is to ensure that the OM will contain sufficient information to enable a prospective purchaser to make an informed investment decision. Issuers who do not take advantage of this service, and file a deficient OM after they have already made a distribution of securities will find themselves cease-traded until they have brought their OM up to standard. This situation is easily avoided by engaging with the NBSC at the pre-filing stage.

Since December 2012, we have received two voluntary pre-filings of draft OM documents.



**Providing a forum to discuss and explore the potential of crowdfunding**

Crowdfunding is an emerging idea in North America, flowing from the desire to raise capital for small businesses through Internet sales of securities. It will become a reality in the United States when the Securities and Exchange Commission (SEC) creates and implements the rules associated with the *Jumpstart Our Business Startups Act* or *Jobs Act* (2011) – some time in 2013. Crowdfunding is not presently allowed in Canada, but the discussion has certainly started.

We felt it was important to get out in front of the issue to evaluate the concept's ability to foster capital markets in New Brunswick. We invited panelists Norm Betts of the Canadian Advanced Technology Alliance; Peter Klohn, a partner at Stewart McKelvey; Brian Koscak, chair of the Exempt Market Dealer Association of Canada; and Jake van der Laan, director of our Enforcement Division to lead a lively discussion with investors of all kinds, entrepreneurs considering raising capital, professionals, academics and students. Dr. Devashis Mitra of UNB provided an introduction to the concept of



Crowdfunding, and Nancy Mathis, executive director of the Wallace McCain Institute at UNB moderated the panel discussion.

More than 100 participants spent three hours educating, listening and answering questions on the topic. And at the conclusion of the event, the Wallace McCain Institute volunteered to lead an initiative to propose a “Made in New Brunswick solution” for Crowdfunding.

“We hope this discussion is just the beginning as we work our way through the benefits and cautions of what we expect will be the newest form of raising capital in North America.”

**David Barry, Chair and CEO of the New Brunswick Securities Commission**

The November 27th event, held under our Fullsail banner, was open to the public, free of charge, and simultaneously translated. It was also recorded and streamed live for CSA members, using a webcast service.

Uptake was considerable: feedback from both on-site and on-line attendees was extremely positive; the Daily Gleaner published an article the next day which was republished in the Telegraph-Journal; and the crowdfunding event page on our website generated more than 1000 hits, more than half of whom were new visitors to our site. A video recording of the event in both official languages was posted on our [website](#) in December.

*At left: The panel at our Crowdfunding event in Fredericton.*

engaged responsive **Learning The Ropes event:  
“Are You Investment Ready”**

In 2012-2013 we developed “Are You Investment Ready”, a new Learning the Ropes event designed to provide a forum for a robust discussion on securities issues combined with actionable facts related to capital raising practices here in the province. Content included guidelines for keeping books and records, recommended preparatory work for meetings with angels and other investors, an introduction to term sheets, capitalization tables, patents, the Small Business Investor Tax Credit (SBITC), and more. Highlighting real world experiences wherever possible, the content was built through collaboration between internal experts and stakeholders including Ross Finlay, co-founder of the First Angel Network; Jeff White of East Valley Ventures; and Andrew Law of the New Brunswick Department of Finance’s SBTIC program.

“Are You Investment Ready” was presented 8 times in locations around the province, in partnership with the stakeholders mentioned above.

*Below: Jeff Harriman, Capital Markets Specialist.*



collaborative engaged **Capital Markets Study**

We make it a priority to keep tabs on specific trends that indicate the overall health of our capital markets. In 2012-2013, in collaboration with Dinesh Iyer, a Master’s in Business Administration candidate at the University of New Brunswick in Saint John and Dr. Dharendra Shukla, chair and associate professor at the Dr. J. Herbert Smith Centre for Technology, Management and Entrepreneurship at the University of New Brunswick, we published the Capital Markets Report 2012. The report identifies and analyses three years of data from various funding sources including venture capital, exempt markets, angel investment, credit unions and caisses populaires, as well as provincial and federal economic development agencies. The report this year showed a positive trend on many fronts, possibly indicating a rebound from the 2008 financial crisis.

The number of New Brunswick companies that received venture capital funding in 2012 increased by 22% signifying a growing core of investment-ready firms in the province.



**Retooling the Invest in Knowing More media buy  
for bigger impact**

The work that we do is making a difference. In 2012-2013, we increased the frequency of our Invest in Knowing More (IKM) media buy, spreading our budget evenly over four quarters instead of concentrating our investment in two quarters. We did this because we noticed a correlation between an increase in calls to the Commission and hits to our website while our campaign was in-market. So we re-tooled our media buy, reducing the frequency of our ads but spreading them out over a longer timeframe, and it paid off. Our IKM media survey, undertaken by an independent research company, provided the following important information:

**Recognition of the Commission's role and identity continues to grow.**

Nearly half (48%) of New Brunswick residents are aware of the Commission's role as the provincial regulator for securities - a share that has grown by 7 percentage points since 2010.

**Recall of the Commission's Fall 2012 campaign is healthy.**

Six in ten individuals recall seeing an ad campaign related to investment fraud in the Fall (aided and unaided) - up 6% from 2011.

**Residents are becoming more conscious of investment fraud, and are more likely to report it to the authorities.**

The vast majority of residents consider the act of reporting investment fraud to be important (96%); and a sizeable share (67%) say that they would likely report such behaviour to the authorities, if they encountered it. Respondents who would report suspicious investment activity specifically to the NBSC - as opposed to another agency - has risen to 10% from last year's figure of 5%.

While we still have work to do to improve these behaviours, the increase we have seen this year is significant and encouraging.



### Enhancing internal communications

In 2012-2013 we launched an internal newsletter we call Scuttlebutt. Scuttlebutt is a nautical term for the cask that was used to serve water on a ship. Similar to today's water-cooler discussions, the scuttlebutt was where the ship's news was exchanged as the crew congregated to get a drink. Scuttlebutt has also been used as a term referencing the latest news or word on the street, making it a fitting title for this publication.

The first newsletter was released in a digital format in November. Published to staff two times a month, Scuttlebutt has become a way to keep Commission staff informed on events and news that impact our daily work. Scuttlebutt also provides a forum for our Executive Director to share his priorities and his perspective on many key issues.



### Connecting with Capital Markets Stakeholders

We are working to effectively communicate with our capital markets stakeholders in part through our [Making Headway](#) publication. Published in both print and eMag formats, Making Headway reinforces key information, promotes resources available and advances the work we do to foster our capital markets. In 2012-2013, we published four issues, including one special issue covering our crowdfunding initiative – distributing 320 printed copies to 124 organizations throughout New Brunswick.



### Revamping our Capital Markets Dashboard

In 2011 we presented the 2010 [Capital Markets Dashboard](#) as a visual tool for evaluating progress in developing our province's capital markets. During 2012-2013, we evaluated the tool and amended some of its panels – specifically adding a public markets dimension to the 2011 Total Equity panel, and simplifying the Granting and Venture Capital Investment panels.

The new dashboard was augmented by a variety of infographics to provide even more clarity around our numbers – and together were incorporated into our annual [Capital Markets Report](#).

## Building a securities law knowledge base in New Brunswick's legal community



### ***Securing a new partner for our articling program***

The number of New Brunswick lawyers specializing in securities law is small. As a result, we have had a long-standing goal to assist members of the Law Society of New Brunswick with raising their awareness and/or knowledge of securities and administrative law. Five years ago we discussed the notion of targeting law students as a strategy for developing interest in securities law. We sought partnerships with three other government agencies, creating a rotating articling position that would see the selected student spend three months working at each organization. We have been pleased with the success of the program and feel that in future more members of the bar will have an increased knowledge level related to each of these specialized areas. The 2013-2014 program includes three partners instead of four, which will accommodate students working for four months at each of the NBSC, the Office of the Ombudsman and the Energy and Utilities Board.



### ***Presenting to the Canadian Bar Association's mid-winter meeting***

In February, the Canadian Bar Association held its mid-winter meeting in Fredericton. The event is designed to meet their members' annual requirement for continuing education. Our General Counsel Division reached out to organizers with several proposed presentations for their agenda. As a result of that request, three of our staff made separate individual presentations on the NBSC's structure and function, current hot topics in enforcement, and Corporate Secretary best practices.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

***For the fiscal year ended 31 March 2013***  
***Dated 17 June 2013***

The following discussion and analysis provides a summary of the operating results for the New Brunswick Securities Commission for the year ended 31 March 2013. This review should be read in conjunction with the financial statements and accompanying notes.

In this Management Discussion and Analysis (MD&A), references to years, for example F2013, means the fiscal year ending 31 March 2013.

Assumptions made throughout this section, although reasonable at the date of publication, are not a guarantee of future performance. Certain statements outlining F2014 expectations are forward-looking and subject to risks and uncertainties.

### **Overview**

The New Brunswick Securities Commission is a corporation without share capital. It was established under the New Brunswick *Securities Act* and began operations on 1 July 2004. The Commission functions as an independent regulatory agency and administrative tribunal, responsible for overseeing the securities industry in New Brunswick. As a provincial Crown corporation, it is exempt from income taxes. Commission operations are funded through fees paid by securities market participants.

The Commission is not an appropriation-dependent Crown corporation and had no borrowings from the Government of New Brunswick at 31 March 2013 or at any time in its existence.

Operational staff at the Commission maintain accounting and internal control systems to provide reasonable assurance that financial information is complete, reliable and accurate, and that assets are adequately protected. The Commission members, in conjunction with the Audit Committee, have an oversight role regarding the integrity of reported information.

The Commission budgets to generate a surplus with a planned distribution of surplus operating funds to the Government of New Brunswick. The surplus generated in the fiscal period F2013 exceeded the budgeted amount.

### **Selected financial information**

	<b>Budget F2013</b>	<b>Actual F2013</b>	<b>Actual F2012</b>	<b>Actual F2011</b>
Revenue	12,341,450	\$13,458,390	\$13,201,389	\$12,124,689
Expense	5,797,859	5,577,824	5,335,948	5,261,031
Excess of revenue over expenses	6,543,591	7,880,566	7,865,441	6,863,658
Total assets	-	7,503,815	4,939,863	4,199,213
Total liabilities	-	3,515,957	3,240,087	3,056,113
Total funds' balance	-	3,987,858	1,699,776	1,143,100
Distributions to government	\$5,500,000	\$5,592,484	\$7,308,765	\$6,624,333

### **Revenues**

The Commission's revenues consist of:

- filing, registration and application fees paid by securities market participants;
- 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.

Almost all revenue comes from fees paid by reporting issuers and registrants and relate primarily to capital-raising activities and securities trading in New Brunswick.

A significant part of our fee revenue comes from fees paid by mutual funds to distribute securities as well as fees paid by the five largest Canadian banks to register their representatives.

At right:  
Catherine Guerrier, Accounting Officer  
Jackie Gomes, Human Resources Officer  
Andrew Nicholson, Director, Education and Market Development



## Analysis of total revenue

Category	Description	F2013 Amount	F2013 % of Revenue	F2012 Amount	F2012 % of Revenue
Distribution fees	Paid by securities issuers when filing distribution documents	\$7,797,350	57.9%	\$7,354,400	55.7%
<p>Distribution fees for F2013 are up \$442,950 or 6.0% from F2012. These fees are primarily prospectuses filed by mutual funds and companies. Mutual fund filings comprise about 88% of the total. This fee source is based on a set fee for each filing and varies with market activity.</p>					
Registration fees	Paid by individuals and firms to register with the Commission to sell or advise on securities.	3,590,352	26.7	3,506,398	26.6
<p>Registration fees for F2013 are up \$83,954 or 2.4% from F2012. Individual registration account for the majority of the total amount and of the increase. The Passport system and the harmonized rules have facilitated registration between jurisdictions.</p>					
Financial filing fees	Paid by companies and mutual funds when filing annual financial statements and annual information forms.	1,848,850	13.7	1,977,250	15.0
<p>Financial filing fees are down by \$128,400, primarily due to year-end timing issues. A set fee is paid for filings such as annual financial statements or annual information forms.</p>					
Exemptions and orders	Paid by market participants primarily to request exemptions from <i>Securities Act</i> requirements.	62,300	0.5	71,650	0.5
Other fees	Paid by market participants for late filing and other miscellaneous fees.	19,275	0.1	24,552	0.2
Total fees		\$13,318,127	99.0%	\$12,934,250	98.0%

Category	Description	F2013 Amount	F2013 % of Revenue	F2012 Amount	F2012 % of Revenue
Administrative penalties and settlements	Paid subsequent to a hearing panel ruling.	\$25,000	0.2%	\$50,000	0.4%
<p>Administrative penalties and settlements are an unbudgeted revenue source and are subject to enforcement and hearing panel activity. There were two hearing panel decisions that met the threshold of our revenue recognition policy during the year. One other decision totalling \$50,000 was not recognized. Receipts from administrative penalties are for the benefit of the Market Enhancement Reserve, which is described further in this section.</p>					
Disgorged funds	Paid subsequent to a hearing panel ruling.	25,000	0.2	11,000	0.1
<p>Disgorgements are generally an unbudgeted revenue source and are subject to enforcement and hearing panel activity. A disgorgement order is intended to remove any amounts a wrongdoer has obtained as a result of contravening New Brunswick securities law. An additional disgorgement order in the amount of \$1,775,000 was not recognized.</p>					
Enforcement cost recoveries	Paid subsequent to a hearing panel ruling.	4,000	0.0	5,000	0.0
<p>A Hearing Panel may order costs if it is satisfied that a respondent has not complied with New Brunswick securities law and if it is of the opinion that a respondent has not acted in the public interest. Two cost orders of \$2,000 each were recognized and one costs order in the amount of \$10,000 has not been recognized.</p>					
Investment income	Earned on cash balances.	76,382	0.6	68,147	0.5
<p>Investment income is derived from our banking agreement and, consequently, it generates modest returns (prime less 1.9%). We do not make speculative investments with our surplus funds and we make periodic and orderly distributions of surplus funds to the Government of New Brunswick.</p>					
Miscellaneous income	Primarily a recovery of costs for assistance provided to another jurisdiction regarding an enforcement matter.	9,881	0.1	132,992	1.0
Total revenue		\$13,458,390	100.0%	\$13,201,389	100.0%

## Expense Summary

	Actual versus budget				
	F2013	Budget	\$ Diff	% Diff	% of Total
Expenses					
Salaries and benefits	\$3,989,050	\$3,804,934	\$184,116	4.8%	71.5%
Administration*	765,719	1,077,795	(312,076)	-29.0	13.7
Market enhancement	-	-	-	-	-
Disgorged funds	25,000	12,000	13,000	108.3	0.4
Professional services	209,375	264,750	(55,375)	-20.9	3.8
Travel	139,409	186,600	(47,191)	-25.3	2.5
CSA initiatives	42,206	83,800	(41,594)	-49.6	0.8
Premises	312,877	293,680	19,197	6.5	5.6
Amortization	94,188	74,300	19,888	26.8	1.7
	\$5,577,824	\$5,797,859	(\$220,035)	-3.8%	100.0%

	Actual versus last year			
	F2013	F2012	\$ Diff	% Diff
	\$3,989,050	\$3,688,586	\$300,464	8.1%
	765,719	804,834	(39,115)	-4.9
	-	-	-	-
	25,000	11,000	14,000	127.3
	209,375	201,659	7,716	3.8
	139,409	172,175	(32,766)	-19.0
	42,206	67,893	(25,687)	-37.8
	312,877	289,897	22,980	7.9
	94,188	99,904	(5,716)	-5.7
	\$5,577,824	\$5,335,948	\$241,876	4.5%

\*See note 18 to the financial statements for greater detail.

## EXPENSES

Managing expenses over the fiscal year is important to the Commission. 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.

Expenses increased by 4.5% or \$241,876 in F2013 to total \$5,577,824. This is \$220,035 (3.8%) less than the budgeted expense of \$5,797,859.

Salaries and benefits expenses account for 71.5% of operating costs (69.1% in F2012) and increased \$300,464 from F2012. Expense increments are attributable to: a salary increase of 2% that was applied to most employees (budgeted), a decision of the Board to follow the Government of New Brunswick's lead in eliminating and paying-out retiring allowances (unbudgeted) and the introduction of a variable pay system which resulted in performance awards of \$54,126 for senior management (unbudgeted). There were 40 staff on payroll at year-end (38 prior year) and on an annualized or person-year basis, there were 38.6 person-years of employment in F2013 (34.6 in F2012). Administration expenses account for 13.7% of operating costs for F2013 (15.1% in F2012) and were \$39,115 lower than the

prior year. These costs include investor education and awareness expenses, a contribution for the ABC's of Fraud program, information technology, training, communication, printing, and other general office expense items. The Invest in Knowing More campaign was the largest expense for this category at \$180,913 (\$153,390 in F2012). Information technology costs were \$78,579 (\$112,211 in F2012) during the period, and were used for network support, data security and back-up, website costs and software licenses. The large positive variance to budget was aided by the deferral of several initiatives pending resolution of potential mandate changes.

There were no expenses paid by the Market Enhancement Reserve in this year.

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 this case, \$13,000 was collected and paid to nine investors from a 2008 decision and \$12,000 was collected and paid to three investors. Professional services expenses increased by \$7,716 year over year. External legal fees were responsible for the largest increase (\$24,366). Legal fees were incurred for the retainer of external legal counsel for various administrative proceedings before the Commission. Other initiatives with associated fees were translation, transcription expenses, and human resource consultants. Most of these areas saw reduced spending in the year.

Travel costs were \$32,766 lower than the prior year and represented 2.5% of expenses. Travel was primarily related to attendance at policy and other regulatory meetings of partners

of the Canadian Securities Administrators (CSA), and for training purposes. Expenses for CSA initiatives were down \$25,687 from the prior year to total \$42,206 in F2013. These initiatives support Canada's national system of securities regulation through a cooperative approach with our provincial and territorial regulatory partners. CSA projects are coordinated through a permanent secretariat located in Montreal and operating costs are apportioned to CSA members based on a formula correlated to population. The Commission pays about 2.2% of the total costs as its share.

Premise costs increased by about \$22,980 (7.9%). This represents 5.6% of total expenses. Most of the increase is attributable to escalation in shared-costs of the building under lease. The office lease expires in February 2016.

Amortization expenses decreased by \$5,716. The largest depreciable asset involves leasehold improvements, which are being amortized over ten years for the original space and about eight years for additional space acquired in F2009. This accounts for about 63% (\$59,486) of the total expense. Information technology hardware, vehicle, furniture and a photocopier capital lease make up the remainder of the amortization expense, in descending order.

### **Market enhancement reserve**

This year no funds were transferred from the Market Enhancement Reserve towards eligible expenses. As required by the *Securities Act*, funds in the Market Enhancement Reserve are to be spent only on endeavours or activities that enhance the capital markets in New Brunswick. The funds associated with the reserve are maintained in a separate bank account and generate their own bank interest. In F2013, administrative penalties totalling \$25,000 were assessed and determined

to be collectible (\$50,000 in F2012). A further \$50,000 in administrative penalties was assessed in the year, but is not reflected on the financial statements as there is a reasonable probability that the amount will be uncollectible. The balance in the reserve stands at \$128,643.

### **Disposition of surplus operating funds**

The Commission made total payments of \$5,592,484 to the Government of New Brunswick during the year. The payment amount is calculated annually and is included in our strategic business plan. The total contribution included a budgeted amount of \$5,500,000 as well as an additional \$92,484 that represented the balance of the general surplus as at 31 March 2012. The contribution is payable each year provided that doing so does not impair the ability to pay liabilities, meet obligations as they become due or fulfill contractual commitments. With the transition to IFRS and the deferral of registration revenue, the 31 March 2012 general surplus was lower than usual. Since the Commission was established in July 2004, contributions of \$53,136,980 have been made to the Government of New Brunswick.

### **Liquidity and financial position**

The Commission has sufficient liquidity to finance its operations and capital purchases. During the fiscal year, the net increase in cash prior to the disposition of surplus operating funds was \$8,203,052. The combined cash balance at year end was \$7,222,156. This includes amounts from the Commission's reserves.

The Commission maintains a Stabilization Reserve. The maximum value of the reserve was maintained at \$1,500,000. The Stabilization Reserve allows us to maintain an operating

contingency to absorb revenue shortfalls or unexpected expenditures. Revenue generated from the reserve is moved into general operations. The reserve was fully-funded at year end.

## **RISKS AND UNCERTAINTIES**

### ***Securities regulatory reform***

The Supreme Court of Canada rendered a decision on 22 December 2011 that determined that legislation proposed by the Canadian Securities Transition Office (CSTO) was not constitutionally valid under the general branch of the federal power to regulate trade and commerce. Subsequent to the decision, the CSTO's mandate was extended. The federal budget for 2013 was released on 21 March 2013, and reconfirmed the federal government's desire for a common securities regulator and the extension of the CSTO's mandate. The implications of this revised initiative represent a source of uncertainty and could have a material impact on the Commission's operations. We expect the NBSC to remain a going concern through-out any discussions regarding the set-up of a national regulatory structure.

### ***Financial services reform in New Brunswick***

On 23 May 2013, the Government of New Brunswick announced that it is establishing a single, independent financial services regulatory agency to strengthen consumer protection in New Brunswick. The enabling legislation continues the body corporate of the New Brunswick Securities Commission under the name Financial and Consumer Services Commission (FCSC).

The FCSC will be dedicated to consumer protection and regulatory oversight. It will be responsible for the current mandate of the New Brunswick Securities Commission and will include responsibility for consumer affairs, credit unions, caisses popu-

lares, co-operatives, trust companies, insurance, pensions and enforcement. In addition, it will provide for an independent hearing tribunal.

The implementation date is set for 1 July 2013.

### ***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.

The Commission is 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 the Commission's reputation. The 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.

The Commission has 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 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 the Commission;
- the effective communication of policies to staff and new members on matters such as conflict of interest and code of conduct with various channels for reporting concerns; and
- mitigation of risk to assets through insurance.

The NBSC 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**

The Commission actively manages its reputational risk through its corporate governance practices, a code of conduct and risk management practices. The activities of communications staff and General Counsel's office are key participants in managing reputation risk.

#### **People risk**

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

#### **Fee revenue**

The Commission funds operations primarily from filing fees paid by market participants. Fee revenue is generally not sensitive to market conditions.

#### **National electronic filing systems**

Under various agreements with the CSA, CDS Inc. (CDS) 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; and
- System for Electronic Disclosure by Insiders (SEDI), an Internet-based system for insiders to report their trades.

Over 98% of total revenue is collected through SEDAR and NRD. CDS maintains a comprehensive business continuity plan for each system and the CSA requires a third-party audit report (CSAE 3416) at 31 December of each year.

The CSA has recently entered into a new service agreement with CGI Information Systems and Management Consultants Inc. (CGI) pursuant to which CGI will take over the hosting, operation and maintenance of the SEDAR, NRD and SEDI systems when the CDS agreement expires on 31 October 2013. This agreement is for five years with an allowable extension for three years.

#### **Critical accounting estimates**

Management must make estimates and assumptions when preparing the 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.

The Commission accrues amounts due when they meet generally accepted revenue recognition criteria. During the fiscal period F2013, a total of \$50,000 of administrative penalties, \$1,775,000 in disgorgements and \$10,000 in awarded costs were not recognized as revenue as the amounts appeared to be uncollectible.

The Commission has not recognized any provisions for legal challenges in these financial statements.

## **BALANCE SHEET - INCOME STATEMENT**

### ***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 was a significant change to the Commission's basis of accounting in F2012 as it transitioned to International Financial Reporting Standards (IFRS). Accompanying this transition was a material accounting policy change – the deferral of registration revenue over the calendar year to which it applied.

A second change dealt with the amortization of property, plant and equipment and the establishment of certain capital pools. This pooling of certain low cost but frequently purchased items, such as computers, had the impact of increasing the unamortized value of our capital assets.

There were no accounting policy changes in 2013.

## **F2014 OUTLOOK**

The 2014 budget submitted to the Minister of Justice and the Board of Management was prepared on the assumption that the NBSC was to be continued as the Financial and Services Commission (FCSC) on 1 April 2013. The FCSC would have a significantly increased mandate over that currently in place for the NBSC. The primary assumption of a 1 April conversion date did not happen. A straightforward budget comparison for 2014 compared to 2013 actual results is not meaningful and is being omitted.

## MD&A SUPPLEMENT - COMPENSATION DISCLOSURE

### Senior management remuneration

Senior Management includes the Chair and Chief Executive Officer, the Executive Director and the four division heads. Their compensation and benefits are determined by the Commission based on the advice from an independent consultant. The Executive Director and the Division Heads are eligible for variable pay of up to 7.5% of base pay (10.0% for Executive Director). The variable pay program was introduced in F2013. In addition to salary, senior management receives the same employment benefits received by all staff which includes health, dental and life insurance, pension, leave, and parking. The Chair and Chief Executive Officer also has the use of a vehicle.

Position	Salary Range (\$) As at 31 March 2013	Variable Pay (up to+)
Chair and Chief Executive Officer	139,600 - 175,000	-
Executive Director	127,500 – 159,400	10%
General Counsel and Secretary to the Commission	113,900 - 142,300	7.5%
Director, Regulatory Affairs and Chief Financial Officer	113,900 - 142,300	
Director, Enforcement	113,900 - 142,300	
Director, Education & Market Development	97,400 – 121,800	

**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; and
- 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 New Brunswick Securities Commission as at the dates and for the periods presented.

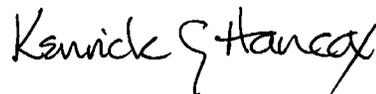
The preparation of financial statements involves transactions affecting the current period which cannot be finalized with certainty until future periods. Estimates and assumptions upon which the financial statements have been prepared are based on historical experience and current conditions, and are 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 Auditor General of New Brunswick outlines the scope of the Auditor's examination and opinion on the financial statements.



David G. Barry, Q.C.  
Chair and Chief Executive Officer



Kenrick G. Hancox  
Executive Director



Kevin Hoyt, FCGA  
Chief Financial Officer  
Director of Regulatory Affairs

June 17, 2013



AUDITOR GENERAL OF NEW BRUNSWICK

INDEPENDENT AUDITOR'S REPORT

Chairperson and Members  
New Brunswick Securities Commission

I have audited the accompanying financial statements of the New Brunswick Securities Commission, which comprise the statement of financial position as at March 31, 2013, and the statements of comprehensive income, changes in fund balance, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Opinion**

In my opinion, the financial statements present fairly, in all material respects, the financial position of the New Brunswick Securities Commission as at March 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Kim MacPherson, CA  
Auditor General

Fredericton, N.B.  
June 17, 2013

6<sup>th</sup> Floor, HSBC Place  
P.O. Box 758  
Fredericton, NB E3B 5B4

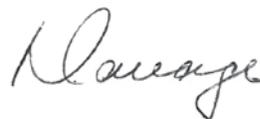
**NEW BRUNSWICK SECURITIES COMMISSION  
STATEMENT OF FINANCIAL POSITION  
AS AT 31 MARCH  
(in Canadian \$)**

<b>ASSETS</b>	<b>2013</b> 31 March	<b>2012</b> 31 March
Current Assets		
Cash (Note 8)	\$ 5,593,513	\$ 3,004,296
Accounts receivable	50,881	33,280
Prepaid expenses	21,788	42,059
	<u>5,666,182</u>	<u>3,079,635</u>
Investments held for designated purposes (Note 8)	1,628,643	1,607,292
Property, plant and equipment (Note 10)	208,990	252,936
	<u>\$ 7,503,815</u>	<u>\$ 4,939,863</u>
<b>LIABILITIES AND FUND BALANCES</b>		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 169,120	\$ 124,986
Accrued salaries and benefits	189,033	134,053
Current portion of accrued benefit liabilities (Note 16)	357,703	54,175
Accrued vacation liabilities	41,191	40,471
Current portion of finance lease liability (Note 11)	3,254	-
Deferred registration fee revenue	2,431,761	2,406,113
	<u>3,192,062</u>	<u>2,759,798</u>
Finance lease liability (Note 11)	12,940	-
Accrued benefit liabilities (Note 16)	310,955	480,289
	<u>323,895</u>	<u>480,289</u>
Total liabilities	<u>3,515,957</u>	<u>3,240,087</u>
Fund balances		
General	2,359,215	92,484
Stabilization reserve (Note 9)	1,500,000	1,500,000
Market enhancement reserve (Note 9)	128,643	102,292
Disgorgement reserve (Note 9)	-	5,000
	<u>3,987,858</u>	<u>1,699,776</u>
	<u>\$ 7,503,815</u>	<u>\$ 4,939,863</u>
Commitments and contingencies (Note 15)		
Events after the reporting period (Note 19)		

The accompanying notes are part of these financial statements.  
APPROVED BY THE COMMISSION



David G. Barry  
Chair and Chief Executive Officer



Kenneth Savage  
Member

**NEW BRUNSWICK SECURITIES COMMISSION  
STATEMENT OF COMPREHENSIVE INCOME (by nature)  
FOR THE YEAR ENDED 31 MARCH  
(in Canadian \$)**

	2013	2012
<b>REVENUE</b>		
Fees		
Distribution of securities	\$ 7,797,350	\$ 7,354,400
Registrations	3,590,352	3,506,398
Financial filings	1,848,850	1,977,250
Exemptions and orders	62,300	71,650
Other	19,275	24,552
Administrative penalties and settlements	25,000	50,000
Disgorged funds	25,000	11,000
Enforcement cost recoveries	4,000	5,000
Investment income	76,382	68,147
Miscellaneous	9,881	132,992
	<u>13,458,390</u>	<u>13,201,389</u>
<b>EXPENSES</b>		
Salaries and benefits	3,989,050	3,688,586
Administration (Note 18)	765,719	804,834
Disgorged funds	25,000	11,000
Professional services	209,375	201,659
Travel	139,409	172,175
Canadian Securities Administrators' initiatives	42,206	67,893
Premises	312,877	289,897
Depreciation	94,188	99,904
	<u>5,577,824</u>	<u>5,335,948</u>
<b>INCOME AND COMPREHENSIVE INCOME</b>	<u>\$ 7,880,566</u>	<u>\$ 7,865,441</u>

*The accompanying notes are part of these financial statements.*

**NEW BRUNSWICK SECURITIES COMMISSION  
STATEMENT OF CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED 31 MARCH  
(in Canadian \$)**

	General	Stabilization Reserve	Market Enhancement Reserve	Disgorgement Reserve	Total
Balance, 31 March 2012	\$ 92,484	\$ 1,500,000	\$ 102,292	\$ 5,000	\$ 1,699,776
Income and comprehensive income	7,880,566	-	-	-	7,880,566
Disposition of surplus operating funds (Note 12)	(5,592,484)	-	-	-	(5,592,484)
Investment income reallocation	(1,351)	-	1,351	-	-
Allocation from general (Note 9)	(50,000)	-	25,000	25,000	-
Allocation to general (Note 9)	30,000	-	-	(30,000)	-
Balance, 31 March 2013	\$ 2,359,215	\$ 1,500,000	\$ 128,643	\$ -	\$ 3,987,858

*The accompanying notes are part of these financial statements.*

**NEW BRUNSWICK SECURITIES COMMISSION  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 MARCH  
(in Canadian \$)**

	<b>2013</b>	<b>2012</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Comprehensive income	\$ 7,880,566	\$ 7,865,441
Adjustment for depreciation - property, plant and equipment	94,188	99,904
Accrued benefit liabilities	(169,334)	54,287
Gain on disposal of property, plant and equipment	-	(10,912)
	<u>7,805,420</u>	<u>8,008,720</u>
Changes in non-cash working capital		
Accounts receivable	(17,601)	(6,270)
Prepaid expenses	20,271	5,977
Accounts payable and accrued liabilities	44,134	(66,025)
Accrued salaries and benefits	54,980	3,181
Accrued benefit liabilities	303,528	24,028
Accrued vacation liabilities	720	12,601
Deferred registration fee revenue	25,648	155,902
	<u>8,237,100</u>	<u>8,138,114</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Disposition of surplus operating funds	(5,592,484)	(7,308,765)
Payment of finance lease liability	(801)	-
	<u>(5,593,285)</u>	<u>(7,308,765)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of property, plant and equipment	(33,247)	(68,556)
Proceed on disposal of property, plant and equipment	-	32,700
	<u>(33,247)</u>	<u>(35,856)</u>
<b>NET INCREASE IN CASH</b>	<b>2,610,568</b>	<b>793,493</b>
<b>CASH, BEGINNING OF YEAR</b>	<b>4,611,588</b>	<b>3,818,095</b>
<b>CASH, END OF YEAR</b>	<b>\$ 7,222,156</b>	<b>\$ 4,611,588</b>
<b>Represented by:</b>		
Cash	\$ 5,593,513	\$ 3,004,296
Investments held for designated purposes	1,628,643	1,607,292
	<u>\$ 7,222,156</u>	<u>\$ 4,611,588</u>
	<b>2013</b>	<b>2012</b>
<b>Note:</b>		
Cash flow from interest received is included in comprehensive income.	\$ 76,382	\$ 68,147

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**1. Nature of the Corporation**

The New Brunswick Securities Commission (Commission) is a provincial corporation operating under the *Securities Act* (New Brunswick) established on 1 July 2004. The business of the Commission is the regulation of the New Brunswick capital markets, including the administration of the *Securities Act*, the General Regulation and the New Brunswick Securities Commission rules. The Commission maintains its registered office at 85 Charlotte Street, Suite 300, Saint John, New Brunswick, E2L 2J2.

The purpose of the Commission is to foster fair and efficient capital markets in New Brunswick and confidence in those markets, and to provide protection to investors from unfair, improper or fraudulent practices.

As a Crown corporation, the Commission is exempt from income taxes.

**2. Basis of preparation and statement of compliance with IFRS**

We have prepared these financial statements in accordance with International Financial Reporting Standards ("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 Commission.

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

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

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

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**3. Summary of significant accounting policies**

**(a) Revenue recognition**

Revenue is recognized when earned, which is normally upon receipt.

Activity fees are triggered by certain activities requested of staff by market participants (e.g. prospectus and continuous disclosure filings). Because the activities undertaken are normally completed in a relatively short period of time, activity fees are recognized when services have been rendered.

Registration fees are deferred and recognized in revenue over the period to which they relate.

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 recovery is recognized when cash is received.

Investment income is recorded using the effective interest method.

**(b) Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. 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 Commission 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 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

The Commission 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, method of amortization and useful lives of the assets are reviewed annually and adjusted if appropriate.

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Gains and losses on disposals of property, plant and equipment 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**

At each financial year end, the Commission reviews the carrying value of its property, plant and equipment 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.

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 also spread 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 Commission 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.

Legal challenges – On occasion, legal proceedings are threatened or initiated against the Commission. The Commission 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 Commission provides pension benefits to its full-time employees through participation in the Public Service Superannuation Plan (the "Plan"), which is a defined benefit pension plan. There is no contractual agreement or stated policy for charging the net defined benefit cost for the plan to the Commission; accordingly the Commission recognizes a cost equal to the contribution payable for the period. The Commission receives from the Government of New Brunswick, the administrator and sponsor of the *Public Service Superannuation Act*, notification on an annual basis of the required contributions. A former Chief Executive Officer is receiving a supplemental pension consistent with Government of New Brunswick policies.

Up until 31 March 2013, the Commission 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. A provision for the pay-out of a 20% portion of unused sick leave credits is under review and may be continued or terminated without compensation.

**(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 Commission's designation of such instruments.

The Commission's financial assets and financial liabilities are classified and measured as follows:

- I. Cash 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 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 and accrued vacation liabilities 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.

Accounts payable and accrued liabilities, accrued salaries and benefits and accrued vacation liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

**(i) Future accounting and reporting changes**

The International Accounting Standards Board (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 Commission monitors the IASB work plans and publications to assess any potential impact on the Commission.

IFRS 9 (Financial Instruments) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

IFRS 9 (2010 and 2009) are effective for periods beginning on or after 1 January 2015 with early adoption permitted. It is not anticipated that the standard will have a material impact on the Commission's financial statements.

Amendments to IFRS 7 Financial Instruments: Disclosures requires entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement. The amendments to IFRS 7 are required for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should be provided retrospectively for all comparative periods. It is not anticipated that the standard will have a material impact on the Commission's financial statements.

IFRS 13 (Fair Value Measurement), effective for financial years beginning after 1 January 2013, establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.

IFRS 13 defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required by the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 (Financial Instruments: Disclosures) will be extended by IFRS 13 to cover all assets and liabilities within its scope. It is not anticipated that the standard will have a material impact on the Commission's financial statements.

IAS 19 (Employee Benefits) effective for financial years beginning after 1 January 2013. The amendments change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets.

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The amendments require the recognition of changes in defined benefit obligation and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognized immediately through other comprehensive income in order for the net pension asset or liability recognized in the statement of financial position to reflect the full value of the plan deficit or surplus. It is not anticipated that these amendments will have a material impact on the Commission's financial statements.

**4. Significant accounting judgments and estimation uncertainties****Critical accounting estimates and judgments**

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

**(a) Critical accounting estimates****Property, plant and equipment**

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

**Retirement allowances**

The Commission made changes to its retirement allowance program during the year and effective 31 March 2013 employees will no longer accumulate retirement allowance credits. 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 service, an option to defer the pay-out until retirement. Management estimates that all employees will take a pay-out in lieu of a deferral and, therefore, a liability for the full amount has been reflected in the financial statements. It is possible that some employees may elect to defer their payment, and should they leave the employ of the Commission before retirement, would forfeit their allowance.

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**Supplemental pension benefit**

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

**(b) Critical accounting judgments**

Management exercises its judgement in the process of applying the Commission's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions are significant to the financial report have been disclosed in Note 3. The determination of the collectability of administrative penalty and disgorgement revenue represents a significant policy judgment area.

**5. Financial risk management**

**Financial risk factors**

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

*Credit risk*

The Commission's financial assets that are exposed to credit risk consist of cash, investments held for designated purposes and accounts receivable. This risk is minimal since the majority of the Commission's revenue is received when due. Accounts receivable are current and collectable. Accordingly, no provision for allowance for doubtful accounts is required. Its two bank accounts are held with a Canadian financial institution which has a credit rating of AA or higher.

*Liquidity risk*

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

*Interest rate risk*

This risk is minimal since the Commission did not incur any interest bearing long term debt 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.

*Foreign exchange risk*

The Commission was not exposed to any significant foreign exchange risk since its operations are in Canada. From time to time, it receives payments and pays supplies in foreign currency. These amounts are minor.

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#### **6. Capital management**

The Commission's objective when it manages capital is to ensure it continues as a going concern in order to fulfill its mandate. The Commission has established a stabilization reserve of \$1,500,000 to manage its capital risk. The Commission ensures that any payment of surplus funds will not impair the Commission's ability to pay its liabilities, to meet its obligations as they become due or to fulfil its contractual commitments.

#### **7. Financial instruments**

The Commission's financial instruments consist of cash, accounts receivable, investments held for designated purposes, accounts payable and accrued liabilities, accrued salaries and benefits and accrued vacation liabilities. The fair values of these financial instruments approximate their carrying values due to their short-term nature and negligible credit losses.

IFRS 7 "Financial Instruments: Disclosures" requires additional disclosure requirements about fair value measurement for financial instruments. These requirements include a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

Level 1 – inputs are unadjusted quoted prices of identical instruments in active markets.

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – one or more significant inputs used in a valuation technique are unobservable in determining fair values of the instruments.

Determination of fair value and the resulting hierarchy require the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value.

The fair value of cash and investments held for designated purposes are considered level 1.

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**8. Cash and investments held for designated purposes**

The Commission maintains two 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. Under the terms of the Commission's banking agreement, both accounts earn interest at prime less 1.9% calculated daily. The amounts attributable to the stabilization reserve, disgorgement reserve and market enhancement reserve have been disclosed on the statement of financial position as cash.

**9. Reserve**

*Stabilization reserve*

The Commission has established a reserve consistent with subsection 25(6) of the *Securities 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 \$1,500,000, which is the value of the reserve as of 31 March 2013 and 31 March 2012.

*Market enhancement reserve*

The Commission collects administrative penalties under section 186 of the *Securities Act*. Consistent with subsection 25(4) of the *Securities Act*, these amounts are not used for the normal operating expenditures of the Commission. Instead, they are used for endeavours or activities that enhance the capital markets in New Brunswick. Market enhancement reserve funds are maintained separate from the normal operating funds of the Commission and generate their own investment revenue. The value of the reserve is \$128,643 (\$102,292 in 2012).

*Disgorgement reserve*

The Commission has the authority to issue disgorgement orders under section 184 of the *Securities Act*. Disgorgement orders permit the Commission 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 Commission and will generally be used to return funds to negatively impacted investors. The value of the reserve is nil (\$5,000 in 2012).

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**10. Property, plant and equipment**

	Office furniture and equipment	Finance Lease	Information technology infrastructure	Software	Automobile	Leasehold improvements	Total
<b>Cost</b>							
As at 31 March 2012	152,347	-	218,911	11,780	32,775	512,924	928,737
Additions	6,015	16,995	14,475	-	-	12,756	50,242
Dispositions	-	-	-	-	-	-	-
<b>As at 31 March 2013</b>	<b>\$ 158,362</b>	<b>\$ 16,995</b>	<b>\$ 233,387</b>	<b>\$ 11,780</b>	<b>\$ 32,775</b>	<b>\$ 525,680</b>	<b>\$ 978,979</b>
<b>Accumulated Depreciation</b>							
As at 31 March 2012	144,370	-	176,103	11,780	1,639	341,909	675,801
Depreciation	4,266	567	23,314	-	6,555	59,486	94,188
Dispositions	-	-	-	-	-	-	-
<b>As at 31 March 2013</b>	<b>\$ 148,636</b>	<b>\$ 567</b>	<b>\$ 199,418</b>	<b>\$ 11,780</b>	<b>\$ 8,194</b>	<b>\$ 401,395</b>	<b>\$ 769,989</b>
<b>Net book value</b>							
As at 31 March 2012	\$ 7,977	\$ -	\$ 42,808	\$ -	\$ 31,136	\$ 171,015	\$ 252,936
<b>As at 31 March 2013</b>	<b>\$ 9,726</b>	<b>\$ 16,429</b>	<b>\$ 33,969</b>	<b>\$ -</b>	<b>\$ 24,581</b>	<b>\$ 124,285</b>	<b>\$ 208,990</b>

**11. Finance lease liability**

During the year ended 31 March 2013 the Commission entered into a lease for photocopy equipment. The term of the lease is 5 years. The Commission 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.

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Gross finance lease liability – minimum lease payments

	Minimum lease payments		Present value of minimum lease payments	
	2013	2012	2013	2012
Not later than 1 year	\$3,623	-	\$3,254	-
Later than 1 year and not later than 5 years	13,587	-	12,940	-
Later than 5 years	-	-	-	-
	17,210	-	16,194	-
Less: future finance charges	(1,016)	-	-	-
Present value of minimum lease payments	16,194	-	16,194	-
Less: Current portion	3,623	-	3,623	-
Finance lease liability	\$12,940	-	\$12,940	-

**12. 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 25(5) of the *Securities Act*.

**13. Provisions**

A provision is recognized if, as a result of a past event, the Commission 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 Commission has no provisions recorded at 31 March 2013 (31 March 2012 – nil).

**14. Operating lease commitments**

Operating lease commitments primarily relate to leases of the premises. The Commission entered into a ten-year lease for office space effective 15 February 2006.

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

	<b>2013</b>	<b>2012</b>
Minimum lease payments	\$255,290	\$257,366
Contingent rentals	-	-
Sub-lease payments received	-	-
	\$255,290	\$257,366

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

	<b>2013</b>	<b>2012</b>
Not later than 1 year	\$253,214	\$253,906
Later than 1 year and not later than 5 years	485,327	738,541
Later than 5 years	-	-
	\$738,541	\$992,447

**15. Commitments and contingencies**

Details of commitments to organizations outside the Commission and legal actions are set out below. Any losses arising from the settlement of contingencies are treated as expenses in the year of settlement.

**(a) Legal actions**

The Commission has been named as a defendant in two statements of claim. The claims are in the early stage 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.

**16. 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 2013, the Commission expensed contributions of \$228,688 (\$217,496 in 2012) under the terms of the Plan.

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**(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 2013, the Commission expensed \$29,505 (\$20,673 in 2012) under the terms of the Supplemental Benefit Agreement and paid out benefits of \$16,258 (\$17,083 in 2012).

**(c) Retiring Allowances**

Previously, the Commission 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.

During the year the Commission discontinued the program, effective 31 March 2013, and now 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.

Management estimates that all eligible employees will take a pay-out in lieu of a deferral and, therefore, a liability for the full amount has been reflected in the financial statements. Accordingly, the application of a 3% discount factor for each year that the eligible employee is below the earliest possible retirement age of 55 has been eliminated from the benefit calculation. In addition, those employees with between two and five years of service have been included in the calculation.

For the year ended 31 March 2013, the Commission expensed \$138,361 for this program (\$60,897 in 2012) of which \$36,787 related to the change in eligibility, \$54,924 related to elimination of the 3% discount factor and \$46,650 related to retirement credits earned during the year. The Commission paid out benefits of \$32,038 (\$2,476 in 2012).

**(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. This change is under review and may be continued or terminated without compensation. These statements reflect a liability of \$114,409 (\$98,010 in 2012) for this benefit and a current year expense of \$16,399 (\$16,604 in 2012). This liability is discounted at 3% per year for each year that the eligible employee is below the early retirement age of 55 years.

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**17. Related party transactions**

The New Brunswick Internal Services Agency (NBISA), a related party to the Commission, 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 Commission. The Commission expended \$73,935 (\$99,088 in 2012) during the reporting period on these services. As of 31 March 2013 an accounts payable of \$72,814 (\$0 at 31 March 2012) was owed to the NBISA and was subject to normal terms. This amount is included in accounts payable and accrued liabilities.

The Commission has an agreement whereby the Department of Justice and Attorney General provides support for the policy and regulatory responsibilities of the Commission. The Commission expended \$25,000 (\$25,000 in 2012) during the reporting period on these services. As of 31 March 2013 and 31 March 2012, no amount was owed to the Department of Justice and Attorney General.

The Translation Bureau for the Government of New Brunswick also provides translation services to the Commission 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 \$68,595 (\$80,993 in 2012). As of 31 March 2013 an accounts payable of \$6,493 (\$18,189 at 31 March 2012) 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.

**Key management personnel**

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

	<b>2013</b>	<b>2012</b>
Salaries and other short-term employee benefits	\$ 811,574	\$ 797,061
Post-employment benefits	64,004	51,978
	<u>\$ 875,578</u>	<u>\$ 849,039</u>

**NEW BRUNSWICK SECURITIES COMMISSION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2013**  
**(in Canadian \$)**

**18. Administration**

	<b>2013</b>	<b>2012</b>
Investor protection and education	\$ 373,966	\$ 337,581
Members and staff development	100,379	137,825
Payment to Department of Justice and Attorney General under Agreement	25,000	25,000
Contribution for <i>ABC's of Fraud</i>	50,000	50,000
Information technology	78,579	112,211
Other administration	137,795	142,217
	<u>\$ 765,719</u>	<u>\$ 804,834</u>

**19. Events after the reporting period**

On 23 May 2013, the Government of New Brunswick announced that it is establishing a single, independent financial services regulatory agency to strengthen consumer protection in New Brunswick. The enabling legislation continues the body corporate of the New Brunswick Securities Commission under the name Financial and Consumer Services Commission (FCSC).

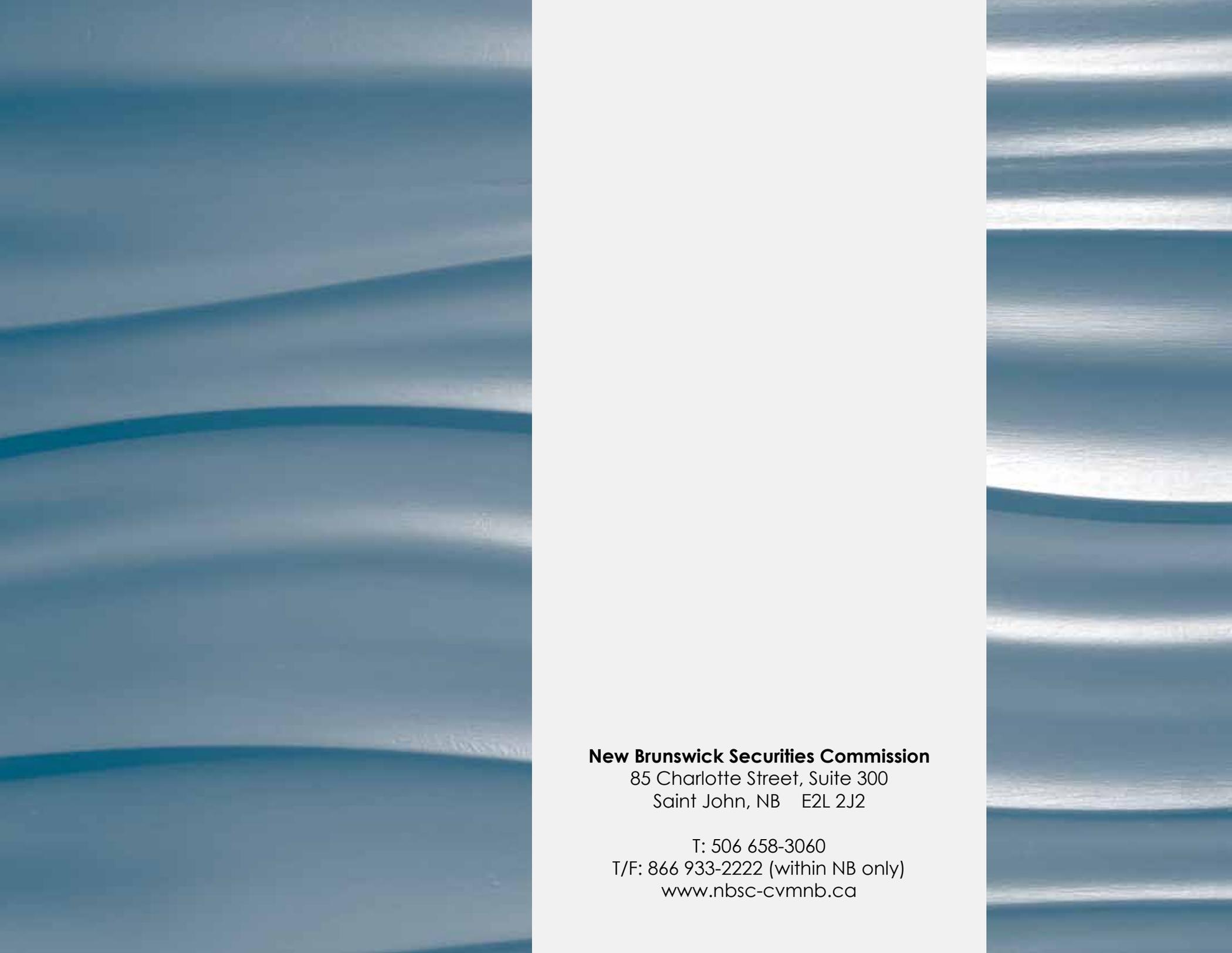
The FCSC will be dedicated to consumer protection and regulatory oversight. It will be responsible for the current mandate of the New Brunswick Securities Commission and will include responsibility for consumer affairs, credit unions, caisses populaires, co-operatives, trust companies, insurance, pensions and enforcement. In addition, it will provide for an independent hearing tribunal.

The implementation date is set for 1 July 2013.

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

**20. Authorization of financial statements**

The financial statements for the year ended 31 March 2013 (including comparatives) were approved by the board of directors on 17 June 2013.



**New Brunswick Securities Commission**

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