




FINANCIAL AND  
CONSUMER SERVICES  
COMMISSION

# Building a Modern Regulatory Framework for Financial and Consumer Services

**IN NEW BRUNSWICK**



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## **FCNB ANNUAL REPORT 2016-2017**

**“Good regulation must balance business interest with public interest. Balanced regulation is good for New Brunswick business. It builds confidence in the financial and consumer marketplaces.”**

**— Rick Hancox**

Chief Executive Officer

## **CONTENTS**

- 04** Letters from the Chair and CEO
  - 10** About Us
  - 21** Strategic Priorities
  - 46** Report on Governance Practices
  - 55** Management's Discussion and Analysis
  - 71** Financial Statements
- 

# Letter from the Chair

On behalf of the Members of the Commission and our staff, I am pleased to present the 2016-17 Annual Report for the Financial and Consumer Services Commission (FCNB). We are New Brunswick's independent and self-funded financial and consumer services regulator.

At a recent conference I attended on innovation in financial technology, one of the most successful financial entrepreneurs in the United States offered an unexpected insight. He told the assembled crowd that, contrary to the view of many business people, good regulation is actually good for business. In his view, the choice of a jurisdiction from which to establish and operate should be significantly influenced by the presence of a responsive, innovative and stable regulatory environment.

Frequently, when I hear complaints about regulators, it strikes me that the problem with regulation is not that there is too much, but rather there is not enough emphasis on open and transparent policy development that considers business interests while protecting public interests. This transparency forces regulators to address the hard questions, collect data and avoid regulatory processes that have no identifiable and defensible purpose.

I am proud that FCNB, and the national and international regulatory groups in which it participates, allocate a lot of time and resources to meaningful consultation and research. FCNB is committed to encouraging open discussion, fresh ideas and innovative regulation. This is the case, whether it is in addressing the unique issues facing seniors; the dangers of declining financial literacy; the challenge of constantly changing financial and insurance markets; or, establishing a new securities regulatory structure for Canada. The process will never be perfect, but the continuing efforts by our staff will hopefully further our goal of being a leading regulator among our peers.

New Brunswick has an entrepreneurial culture that encourages economic growth and job creation. As we work with government to modernize the legislation that governs the industries we regulate, our goal is to ensure that we



## Letter from the Chair continued

develop a balanced and modern regulatory framework. We strive toward this as we consider the goals of our business community and work to protect public interests. As a result, we hope New Brunswick will be the destination of choice for businesses seeking smart, balanced and stable regulation. Similarly, we hope other regulators will continue to engage with us in improving the regulatory environment and promoting data-driven policy development.

In the coming year, FCNB will, among many other initiatives, continue to modernize its technology systems, look for efficiencies in its operations, actively participate in the establishment of a collaborative securities regulator for Canada and engage with other regulators (especially those in Atlantic Canada) to advance harmonized regulation.

The Members of our Commission provide oversight on the 21 pieces of legislation for which we are statutorily responsible. It is a daunting task which requires significant effort. I would like to thank my fellow Commission Members for their hard work. Special thanks to Kenneth Savage, who left the Commission in June. His dedication and commitment to our work and thoughtful observations as Chair of our Audit and Risk Management Committee have been invaluable. I would also like to welcome our newest Members, Ginette Verret-Morin and Jim Dunlap, who joined the Commission in July.

I would like to acknowledge the excellence of our staff members, many of whom have once again been chosen by their peers to take leadership positions in national and international organizations and committees. Finally, I again wish to recognize our entire staff for their tireless efforts on behalf of FCNB and to thank our stakeholders for their interest in, and support of, our mandate.



Peter Klohn  
Chair

# Letter from the CEO

The Financial and Consumer Services Commission has the mandate to protect consumers and enhance public confidence in the financial and consumer marketplaces through the provision of regulatory and educational services. During our third full year of operating as a consolidated regulator, we've made significant strides in furthering our mandate.

The world we operate in is defined by change. Changing demographics, shifts in consumer preferences, more complex product offerings, technological advances and globalization are forcing industry regulators to look beyond our local borders and embrace innovation.

This year's annual report gives an overview of who we are; what we do; the landscape we are operating in and the challenges presented by that landscape. As well, it summarizes the progress we've made towards achieving our three strategic priorities.

Our objective is to be a leading small regulator in Canada and this requires being a modern and effective regulator. Good regulation must balance business interest with public interest. Balanced regulation is good for New Brunswick business in that it builds confidence in the financial marketplace. To meet this objective, we've been working to help build a modern regulatory framework for the financial and consumer marketplaces in New Brunswick. This work requires being tuned-in to what is going on around us and in the areas that impact our day-to-day work.

During the 2016-17 year, we strengthened our regulatory capability by working with government to have nine of our *Acts* updated with modernized investigative, compliance and enforcement powers. We also were able to advance initiatives that will enhance our operational effectiveness by preparing the organization for the transition to the Capital Markets Regulatory Authority. Our participation on national and internal working groups is setting the ground work for two strong regulatory presences in the province for financial services. This will help further New Brunswick's consumer and investor protection, while also enhancing public confidence in the areas that we regulate.



## Letter from the CEO continued

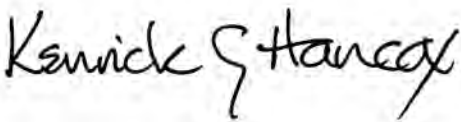
We worked diligently to deliver on our mandate to provide programs to regulate, educate and protect New Brunswickers through our community and industry outreach. We used strategic collaboration with other partners in the areas of preventing financial abuse of seniors and promoting financial literacy initiatives to further our reach both in the province and nationally.

The goals we have achieved over the past year position us to improve our ability to protect New Brunswickers and improve confidence in our financial and consumer marketplaces. There is still more work to do. Many of the initiatives we take on are multi-year projects and require collaboration with government and other stakeholders both nationally and internationally. We are continuously working on improving our resources and skillsets, staying on the cusp of industry trends to ensure we will continue to be able to meet the mark in achieving our mandate.

We will miss our colleagues Shauna Hay and Margaret Thompson. Both passed away after battling illnesses, and their absence is felt in our offices. Both were dedicated and hard workers, with a quick wit. Both were an inspiration to all of us.

I am proud of the hard work, dedication and commitment to our mandate by Commission staff whose efforts have helped us move closer to building a modernized regulatory framework for the province. I look forward to continuing to work with them as we strive for balanced and good regulation.

Sincerely,

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

Kenrick Hancox  
CEO



## Our Provincial Footprint

2,921 Collection Agency Licences

61 Auctioneers' Licences

633 Commissioners of Oaths Appointments

877 Cost of Credit Registrations

1,313 Direct Sellers Licences

121 Funeral Providers and Managers Licences

1,077 Real Estate Licences

174 Mortgage Broker Licences

98 Co-operatives

10 Credit Unions - 66,500 Members

46 Loan and Trust Companies

224 Insurance Companies

11,083 Insurance Licencees

267 Registered Pension Plans - 87,064 Active Members (not including retirees)

5,058 Reporting Issuers in Securities

10,523 Securities Registrants

4,950 Attendees at 165 Consumer and Investor Educational Events



# FCNB Numbers at a Glance



**95.3%**  
of strategic  
initiatives  
completed



**109**  
presentations  
to  
**2,403**  
students



**31** events  
reaching  
**1,004**  
participants related  
to Capital Markets  
Development -  
an increase of 37.5%  
from 2015-16



**27**  
provincial, national  
and international  
groups/committees  
that have FCNB  
staff participation



# About Us

The Financial and Consumer Services Commission (FCNB) is New Brunswick's financial and consumer services regulator. We are responsible for the regulation of securities, insurance, pensions, credit unions, mortgage brokers, loan and trust companies and a wide range of consumer protection legislation.

The *Acts* administered by FCNB include the:

- *Financial and Consumer Services Commission Act*
- *Auctioneers Licence Act*
- *Collection Agencies Act*
- *Commissioners for Taking Affidavits Act*
- *Consumer Product Warranty and Liability Act*
- *Co-operative Associations Act*
- *Credit Unions Act*
- *Cost of Credit Disclosure Act*
- *Direct Sellers Act*
- *Franchises Act*
- *Gift Cards Act*
- *Insurance Act*
- *Loan and Trust Companies Act*
- *Mortgage Brokers Act*
- *Nursing Home Pension Plans Act*
- *Pension Benefits Act*
- *Pre-arranged Funeral Services Act*
- *Real Estate Agents Act*
- *Securities Act*
- *Securities Transfer Act*
- *Teachers' Pension Plan Act*

## BOARD OF DIRECTORS

Our board of directors consists of an independent Chair with seven independent Members. The Commission, acting as a board, must have Members with the appropriate mix of background, skills, diversity and experience required to guide our strategy and ongoing business operations. Members also establish rules and policies governing the regulated sectors within our defined authority. Members have to have a reputation for integrity to generate public confidence in the Commission. The Lieutenant-Governor in Council appoints the Chair and Members for terms up to five years and they can be reappointed. For more information, please see our report on Corporate Governance Practices (page 46).

FCNB is an independent, arm's length, self-funded Crown Corporation.

## THE FINANCIAL AND CONSUMER SERVICES TRIBUNAL

The Financial and Consumer Services Tribunal is the administrative tribunal with responsibility for adjudicating on various financial and consumer services statutes. The Tribunal conducts enforcement proceedings and hears appeals and reviews decisions of regulators and other decision-makers. Although funded by the Commission, the Tribunal is adjudicatively independent of the Commission.

The Tribunal issues its own annual report, which can be found at: <http://fcbtribunal.ca/annual-reports.html>.



# BEING AN EFFECTIVE REGULATORY AGENCY

As a regulator, we set standards for the industries we regulate. To instill confidence and credibility in the regulatory environment, we hold ourselves to high standards. We strive to be a leading-edge, innovative regulator and a leader among regulators both in the province and across the country.

## WE HAVE EXPERTISE IN THESE AREAS:

Policy Development  
Rule-Making  
Registration/Licensing  
Compliance  
Enforcement  
Education  
Capital Markets Development

## Regulation ~ Education ~ Protection

An effective regulatory framework and structure has three key requirements:

- legislated and legitimate foundation to achieve its public purpose of consumer protection
- sustainable, operational and financial capacity to deliver on its mandate
- creates and delivers value to the public

We are focused on developing our capacity and expertise in these three key areas.

It is only by establishing ourselves as an effective regulatory agency that we can execute on our public purpose of effective consumer protection and education.

## FACTORS AFFECTING OUR OPERATIONS

Given our global environment, we face a wide variety of external and internal factors. The external factors predominantly relate to demographics and to changes in our regulatory sectors. Internal factors relate to our structure and our ability to respond to a changing environment. They influence how we operate. As part of our strategic planning, we assess the environment to ensure we are able to be proactive and responsive.

**“I am impressed by the innovative approach taken by FCNB to provide a fun and practical tool to help Canadians grow their money savvy.”**

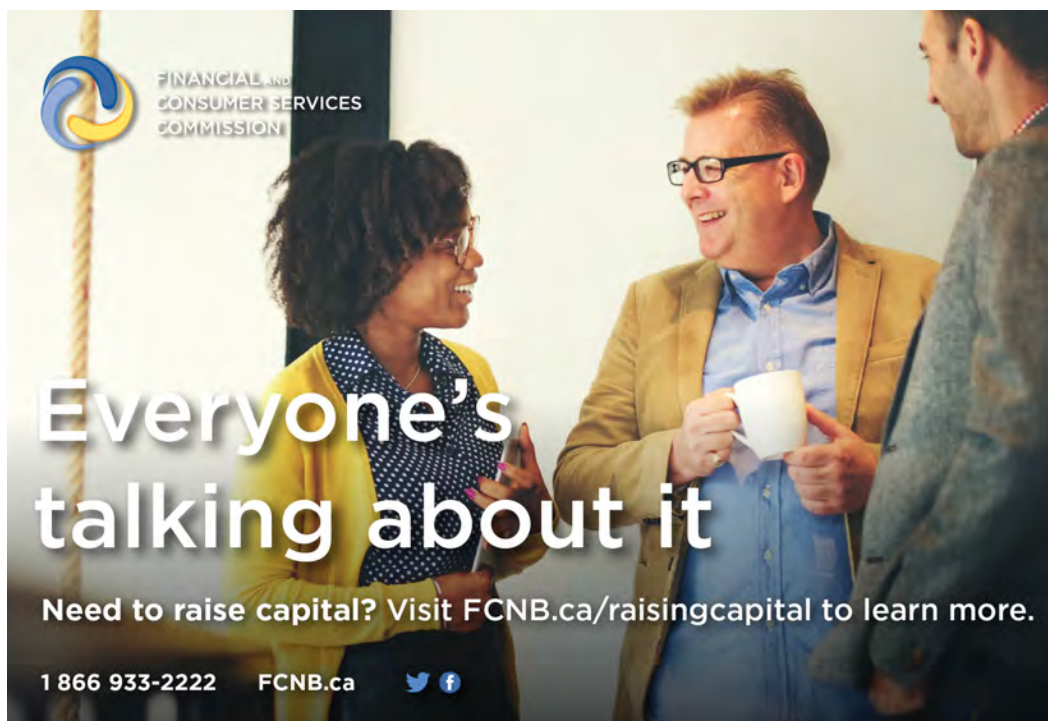
**JANE ROONEY**  
FINANCIAL LITERACY LEADER OF CANADA  
IN RESPONSE TO FCNB'S WEB-BASED  
TRIVIA GAME, FORTUNE

## The Regulatory Landscape

### Global and Technological Changes

Business operates in an increasingly borderless and technologically advanced world. The rising predominance of cybersecurity and the Fintech industry are good examples of this. The changing pace of technology impacts financial markets and traditional business models. The regulator must respond to changes in G20 financial regulatory reforms, Basel III, the Financial Stability Board and International Financial Reporting Standards. A number of regulated sectors under our jurisdiction are undergoing fundamental changes either to the way they are regulated or changes within their sector that will result in changes to how they are regulated.

Regulators have to keep current to be effective. We stay current by working collaboratively with other financial and consumer services regulators in Canada and North America. This approach enables us to stay current and keep on top of global and technological developments in these sectors.



The advertisement features a photograph of three people in a professional setting. A woman in a yellow jacket and glasses is smiling and talking to a man in a tan blazer and glasses who is holding a white mug. Another man in a grey jacket is partially visible on the right. In the top left corner, the FCNB logo is displayed next to the text 'FINANCIAL AND CONSUMER SERVICES COMMISSION'. The main text reads 'Everyone's talking about it' in large white font. Below that, it says 'Need to raise capital? Visit [FCNB.ca/raisingcapital](http://FCNB.ca/raisingcapital) to learn more.' At the bottom left, the phone number '1 866 933-2222' and the website 'FCNB.ca' are listed, along with social media icons for Twitter and Facebook.

*An ad for our capital markets initiatives*



### **Capital Markets Regulatory Authority (CMRA)**

One of the most significant changes we face as a regulator results from New Brunswick's decision to join British Columbia, Saskatchewan, Ontario, Prince Edward Island, Yukon and the Federal Government in establishing a cooperative capital markets regulatory system for securities. The other provinces and territories have been invited to participate in this system.

For the Commission, this decision will ultimately result in the transfer of staff related to regulating this industry to the new capital markets regulator.



We have dedicated significant effort contributing to the design and development of this new regulatory regime for securities. Our reason for participating is to ensure that the new structure adequately represents the needs of smaller jurisdictions and their capital markets. Under this new model, our ultimate objective is to ensure a competent, capable presence exists in the province for the regulation of securities.

### Transition to FCNB 2.0

Since our consolidation as a Commission in 2013, we have been involved in significant change. This is expected to continue. The foundational impact to FCNB of the move of staff to a new regulatory structure for securities cannot be underestimated. Transition considerations continue to be a priority as we build teams and infrastructure.

This changing environment has a significant impact on our organizational structure and our operational budget. We need to be nimble and adaptable to this reality. Our ultimate objective is to ensure that a competent, capable, independent, self-funded regulator exists to protect consumers in New Brunswick. During the transition, we continue the work to modernize and harmonize our legislative framework and develop tools for effective regulation and optimum service delivery.

Even though there are some significant developments in the overall scope of our regulatory responsibilities, the vision and mandate to regulate, educate and protect New Brunswick consumers still apply. Our history as an independent commission and an innovative and responsive regulator stands us in good stead to adapt and meet the challenges ahead.



**Money Lessons for your Classroom:  
An E-book for Teachers**

Download your free copy for teacher-tested  
tips on talking to your students about money  
— no matter what you teach!

Available in French and English at [fcnb.ca/youth](http://fcnb.ca/youth).



*An ad for our financial literacy initiatives*

**FINANCIAL AND CONSUMER SERVICES COMMISSION**

## Redeem for one classroom presentation

**We offer free money management presentations to students of all ages.**

**Call 1 866 933-2222**

  **#spendsmart**

**Bring financial literacy into your classroom. Help your students form responsible money habits and build the life skills they need to make smart spending decisions throughout their lives.**

**Presentations are available in French and English.**

**Visit [FCNB.ca](http://FCNB.ca) for more classroom resources.**

*An ad for our financial literacy initiatives*

## THE PROVINCIAL LANDSCAPE

In addition to looking globally, we are diligent in evaluating the New Brunswick landscape for matters of importance to our key stakeholders. We face some unique challenges in our province.

### Literacy Matters

The overall state of reading literacy and financial literacy in New Brunswick is low. In New Brunswick, 53 percent of those over the age of 16 do not have the literacy skills they need to function in everyday life<sup>1</sup>. Literacy and financial literacy are tied hand in hand. Innovations in technology have made financial products and services more complex than before. If an individual is unable to read or understand a financial document, they become more vulnerable to financial exploitation. This presents a challenge to the effectiveness of our educational initiatives in the areas of consumer protection and fraud prevention.

Improving financial literacy skills is about helping people understand they have choices, and providing the knowledge and resources to help them navigate those choices. Consumers need to reach a minimum level of understanding of reading and basic financial matters before the more complex educational topics can be introduced and understood. Initiatives that support literacy within the province can help improve financial literacy. Both literacy and financial literacy are important tools for consumer protection.

Financial literacy is a key priority of FCNB. We want to create an environment in New Brunswick where it's easy to talk about and understand financial matters. Financial concepts can be intimidating when individuals do not have support. Improving the state of financial literacy in the province will continue to require the coordinated efforts of a number of stakeholders.

<sup>1</sup> According to Statistics Canada 2015 CANSIM table 477-0079.



**“We tend to become more dependent on others as we age, which makes us more vulnerable to potential financial abuse. The effects of financial abuse and exploitation go well beyond the pocketbook and can lead to social isolation, depression, anxiety and other negative health effects.”**

RICK HANCOX  
CEO

### **New Brunswick’s Seniors**

New Brunswick’s aging population is a concern for FCNB and many of our stakeholders. People are living longer, healthier lives and the proportion of persons aged 65 years or older in the province is increasing. This trend is expected to continue, and over the next 20 years it is expected that the province’s population will age faster than the rest of Canada.

These changes highlight the need for a focus on seniors’ issues. As the province’s population of seniors increases, we are also seeing a growing number of seniors becoming targets for fraud and victims of financial abuse. As part of our enforcement initiatives, we continue to hear devastating accounts of seniors who were victims of financial abuse, stripped of their life savings by those who preyed on their vulnerability.

We all become more dependent on others as we age, making us more vulnerable to potential financial abuse. As baby boomers become seniors, they are migrating their associated wealth into retirement savings. Challenges arise because seniors can be more vulnerable due to aging, general trust factors and potential diminished mental capacity. If seniors lose all or part of their life savings, they have less time to recover their financial stability.

Meeting these challenges requires focused and coordinated consumer protection objectives that extend beyond our mandate. This is an initiative in which we are actively involved and requires the efforts of a number of stakeholders.



**Myths on senior financial abuse:**

**“It only happens to little old ladies.”**

**Actually, research shows that victims of investment fraud are more likely to be:**

The infographic features a central figure of a man in a suit with arms crossed. To his right, the text '55-65' is displayed in large white font. Below the figure, the words 'Male' and 'Years Old' are written. To the left of the figure is a diamond ring icon with the word 'Married' below it. To the right is a diploma icon with a red ribbon seal and the words 'College Educated' below it.

**Call us at 1 866 933-2222 or visit our website for more information.**

 **FCNB.ca/seniors** 

*An ad for our fraud prevention initiatives*



## Communication and Education

We believe that informed consumers are better able to protect themselves from frauds and scams and to make decisions that improve their financial well-being. However, a few factors influence and challenge our communication efforts.

The marketplace for financial and consumer information and education is a noisy one. Unscrupulous “experts” and multiple legitimate outside influencers vie for consumers’ attention and money. FCNB’s challenge is to break through the noise and provide information that is credible, unbiased and trustworthy; and, more importantly, is believed to be such by our audiences.

The range of *Acts* that we regulate can also present a challenge when we seek to clearly demonstrate who we are, what we do and why we are relevant to our stakeholders. Finally, we face unique communication opportunities, as our intended audiences rely on varied methods depending on their geographic location and internet accessibility. According to Statistics Canada’s 2011 census, 48 percent of New Brunswickers live in rural areas and 52 percent live in urban areas. With half the population living in rural communities, we need to use various communication channels.

Meeting these challenges requires an innovative, coordinated and strategic approach to our communication and education efforts, not only with consumers but also with government, industry and our partners in financial literacy.

### HIGHLIGHT

According to FCNB’s annual awareness survey, 25 percent of respondents reported they personally knew someone who has (or whom they suspect has) been a victim of senior financial abuse. Yet, only 22 percent of them reported it.

# Report Financial Fraud

Unreported fraud means the scammer is free to target your friends and family as their new victims. You can help protect your community.

Visit [fcnb.ca/how-to-report-fraud.html](http://fcnb.ca/how-to-report-fraud.html) or call  
1 866 933-2222

# Signalez la fraude financière

Ne pas signaler un cas de fraude, c'est permettre au fraudeur de cibler vos amis et vos proches. Vous pouvez aider à protéger votre communauté.

Visitez [fr.fcnb.ca/comment-signaler-une-fraude.html](http://fr.fcnb.ca/comment-signaler-une-fraude.html) ou  
composez le 1 866 933-2222

# The Big Picture

## OUR VISION

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

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## OUR 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; we listen to, understand and address the needs of our stakeholders and staff.

*Commitment:* we invest in our staff by encouraging innovation and developing expertise and leadership.

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## OUR MANDATE

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



# Strategic Priorities

## OUR STRATEGIC DIRECTION



Our focus is protecting New Brunswick consumers and fostering New Brunswick financial services markets. Protecting consumers requires the right balance of regulation, compliance and enforcement, in combination with effective education and outreach to inform consumers about their rights and responsibilities.

Being an effective regulatory agency allows us to better protect consumers. Having this focus allows us to determine how we may better concentrate our energy in order to make a significant difference in New Brunswick.

We have planned a number of multi-year initiatives for each of our identified strategic priorities. Considerable emphasis is placed on implementing those critical initiatives that will have an impact and support our mandate.

These three priorities are the foundation of our day-to-day work and provide the structure for goals, performance measurement and multi-year initiatives.

## STRENGTHEN OUR REGULATORY CAPABILITY

Position ourselves as an effective, independent, self-funded regulator.

## ENHANCE OUR OPERATIONAL EFFECTIVENESS

Implement an effective organizational structure and work processes.

## DELIVER ON OUR MANDATE

Provide programs to regulate, educate and protect.

# The Plan

## STRENGTHEN OUR REGULATORY CAPABILITY

to position ourselves as an effective, independent, self-funded regulator.

### Objective

Modernize our regulatory framework to include updated investigative, compliance, enforcement and rule-making authority in all regulatory sectors

### Timing

Multi-year, by March 2019

### Measure

Consistent regulatory platform in place for all regulatory sectors

Implement Mortgage Broker regulatory regime

### Timing

By April 2016

### Measure

Mortgage Broker legislation operationalized

Implement Payday Lender regulatory regime

### Timing

By March 2017

### Measure

Payday Lender legislation operationalized

Prepare proposal for restructuring Credit Union regulatory framework

### Timing

By March 2017

### Measure

Complete proposal submitted to Government for approval

Prepare proposal for updating *Co-operative Associations Act*

### Timing

By March 2018

### Measure

Complete proposal submitted to Government for approval

Implement revenue neutral self-funding structure

### Timing

By March 2019

### Measure

Balanced budget without use of transitional fund

# The Progress

# 2016-2017 Year at a glance

- 🕒 **MORTGAGE BROKER** regulatory regime rolled out across the province 1 April 2016 with modernized powers. Mortgage brokers now need to be licensed to operate in the province.
- 🕒 **APPROVED** amalgamation of 15 caisses populaires and their transfer to federal jurisdiction, a first in Canada.
- 🕒 **MODEL RULES** and regulations developed to support a new Payday Lender regulatory regime for the province. Proclamation pending receipt of federal designation.
- 🕒 **PRELIMINARY** consultation and research done to complete a report for government to update the *Co-operatives Associations Act*.
- 🕒 **WORKING GROUPS** established and work is underway to develop a neutral self-funding organizational structure to prepare for FCNB 2.0.
- 🕒 **LEGISLATION** introduced to regulate *Credit Reporting Agencies, Credit Repair Companies and Debt Settlement Companies* in the province.
- 🕒 **LEGISLATIVE** and regulatory amendments submitted and approved to allow for use of electronic forms for credit unions.
- 🕒 **ENHANCEMENTS** made to the securities regulatory regime by means of the adoption of four new rules, seven new blanket orders, as well as amendments to 13 existing rules and one blanket order. Additionally, we published two consultation papers respecting potential future regulatory developments.

## HIGHLIGHT

Legislative changes to enhance investigative, compliance and enforcement powers in nine pieces of consumer legislation via the passing of the *Act Respecting the Enforcement of Financial and Consumer Services Legislation*.



# An In-depth Look

## STRENGTHEN OUR REGULATORY CAPABILITY

### ***An Act Respecting the Enforcement of Financial and Consumer Services Legislation***

*(Multi-Year Initiative by March 2019)*

In July 2016, a number of legislative changes were passed that harmonized compliance, investigation and enforcement provisions across nine *Acts* administered by FCNB. These changes were modeled after the already existing robust compliance, investigative and enforcement provisions found in the *Securities Act* and the *Mortgage Brokers Act*, both of which are administered by FCNB.

The goal of the changes is to provide FCNB with consistent, investigative and enforcement authority across all regulated sectors, and as a result increase consumer protection. Also key to these changes is the expansion of the scope of the Financial and Consumer Services Tribunal, which allows enforcement staff to bring certain matters before the Tribunal for administrative sanctions.

The compliance changes ensure that each regulated individual and/or entity maintains satisfactory books, records or documents, and provide the ability for staff to review these records for compliance purposes.

The investigative changes provide FCNB investigators the ability to remove property as needed for evidence.

The enforcement changes allow for increased penalties to be levied in quasi-criminal proceedings for offences under the *Acts*, and for public interest orders such as suspensions, bans and restitution to be made by the Tribunal.



**"We've been working to help build a modern regulatory framework for the financial and consumer marketplaces in New Brunswick. This work requires being tuned-in to what is going on around us and in the areas that impact our day-to-day work."**

**RICK HANCOX**  
CEO



# Mortgage Broker Regulatory Regime

The new *Mortgage Brokers Act* came into effect 1 April 2016. It introduced licensing and educational requirements and standards of practice for those who are brokering or administering mortgages in New Brunswick. The goal of the new obligations under the *Mortgage Brokers Act* is to ensure that those operating in the mortgage brokering sector are qualified and meet minimum standards. This also requires that mortgage brokers inform consumers about their mortgage transaction, including full disclosure of the costs, prior to agreeing to the services. The rules also aim to prevent consumers from being subject to hidden brokerage fees and ensure the broker is recommending the most suitable mortgage for the consumer.

The new rules require all mortgage brokerages, administrators, brokers and associates to obtain a licence from FCNB. Leading up to this, staff worked behind the scenes to ensure that the online licensing portal would be ready to receive online applications, as well as allow those who had applied to check the status of their application through the system. During the year, we approved 174 licence applications under the *Mortgage Brokers Act*.

We also have resources available to help consumers understand the costs involved with using a mortgage broker, including questions to ask when choosing a mortgage broker.

For more information, visit: <http://fcnb.ca/mortgagebroker.html>



**"The *Mortgage Brokers Act* will help consumers by requiring mortgage brokers to provide timely and complete disclosure. Consumers will have the confidence that they are using the services of a licensed broker who meets the qualifications and has completed specified education requirements."**

SUZANNE BONNELL-BURLEY  
DIRECTOR OF CONSUMER AFFAIRS



# The Plan

## ENHANCE OUR OPERATIONAL EFFECTIVENESS

to implement an effective organizational structure and work processes.

### Objective

Implement revised organizational structure

### Timing

By March 2017

### Measure

New organizational structure in place

Transition designated staff to Capital Markets Regulatory Authority

### Timing

By March 2017

### Measure

Staff operating under new Capital Markets Regulatory Authority

Implement electronic licensing system in all regulatory sectors

### Timing

Multi-year by March 2019+

### Measure

Fully functional electronic systems operational

Implement staff training development and succession plan

### Timing

Multi-year by March 2019

### Measure

Competent, well-trained staff

Improve internal and external work processes

### Timing

Multi-year by March 2019

### Measure

Operational efficiencies and standards in place

# The Progress

# 2016-2017 Year at a glance

- 🔄 **WORKING** toward a revised organizational structure with staff participating in FCNB 2.0 and CMRA working groups. CMRA implementation rescheduled from October 2016 plan to December 2018.
- 🔄 **IMPLEMENTED** electronic licensing system for new insurance intermediaries licences and renewals.
- 🔄 **IMPLEMENTED** electronic licensing system for mortgage broker licensing.
- 🔄 **DEVELOPED** electronic system for Pensions administration.
- 🔄 **TRAINING** to promote staff development using multiple delivery channels implemented. Training includes: French language, leadership development, communication skills development and internal education sessions on regulatory changes.
- 🔄 **ONLINE** eLearning system in place to enable staff to meet their professional and personal learning and development objectives.
- 🔄 **EVALUATION** of internal and external work processes to establish standards and find operational efficiencies.
- 🔄 **ORGANIZATIONAL** roll-out of Cybersecurity Plan.
- 🔄 **INTERNAL**, online portal developed in-house to replace a paper absence request process. This portal is an employee self-service system, which allows staff to request time off and report absences weekly, and provides reporting for supervisors, human resources and payroll.

## HIGHLIGHT

Seven inter-divisional professional groups continued this year, meeting regularly to share best practices and improve operational policies, establish and implement service standards as well as find efficiencies. Groups include: legal professionals, administrative professionals, accountants, regulators, compliance officers, licensing and registration officers and IT professionals.

# An In-depth Look

## ENHANCE OUR OPERATIONAL EFFECTIVENESS

### IT Systems Development

*(multi-year initiative by March 2019)*

In 2015, we undertook the first phases of our IT renewal initiative as laid out in our 2014 IT strategy. Our primary objective in developing a new system was, and continues to be, to harmonize all of our distinct legacy systems into one harmonized online accessible solution. The priority was to ensure we have the internal capacity to manage, maintain and evolve the system to respond to the continuously and rapidly changing regulatory landscape.

In 2016, we further advanced our strategy by migrating legacy data into our new system and offering new online licence application, renewal and filing functionality in our insurance and mortgage broker regulatory sectors. Development and data migration were also completed for our pension regulatory system, which was rolled out in early 2017.

Our new system is creating efficiencies, which benefit both our regulated communities as well as FCNB staff. Delays due to incomplete paper forms are largely eliminated. Application and filing processes can be accessed online at any time and are processed faster. As a result, staff is freed up to focus on other regulatory work.



# 3,662

NUMBER OF APPLICATIONS AND RENEWALS  
HANDLED THROUGH OUR ONLINE  
INSURANCE PORTAL

**“Sam, (FCNB’s Education Coordinator), is knowledgeable, interesting, funny and students really enjoy her discussions. She engages students and has a lot of materials for them to learn about money and she always has interesting stories that captivate their attention (not easy in middle school!).”**

**GRETCHEN MURRAY**  
GRADE 8 MATH, BLISS CARMAN MIDDLE SCHOOL



# The Plan

## DELIVER ON OUR MANDATE

to provide programs to regulate, educate and protect New Brunswickers.

### Objective

Implement regulatory compliance strategy

### Timing

By March 2017

### Measure

Compliance reviews in all sectors in accordance with plan

Prepare proposal for multi-stakeholder initiative to address financial abuse of seniors

### Timing

By March 2017

### Measure

Complete proposal submitted to Government for approval

Advance multi-stakeholder initiative to address financial literacy

### Timing

Multi-year by March 2017

### Measure

Increase reach of financial literacy materials

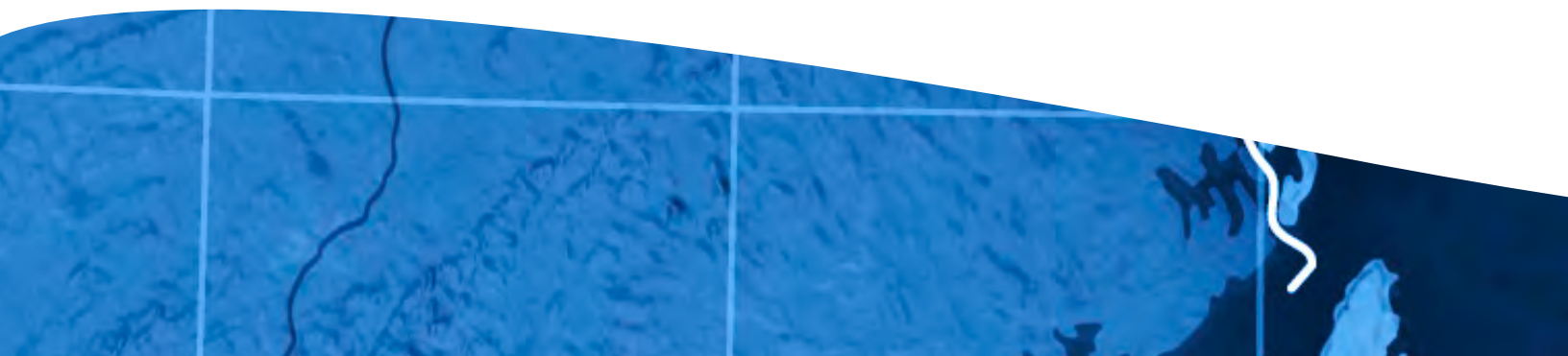
Deliver effective public awareness programs

### Timing

Multi-year by March 2019

### Measure

Increase awareness of consumer protection information





# The Progress

## 2016-2017 Year at a glance

- 🔄 **UPDATED** regulatory compliance strategies to reflect extended investigative, compliance and enforcement authority.
- 🔄 **LED** Financial Education Network ([www.fcnb.ca/FEN-objectives.html](http://www.fcnb.ca/FEN-objectives.html)) to promote cooperation and sharing of resources among organizations delivering financial literacy programs.
- 🔄 **LAUNCHED** Fortune, our web-based financial literacy trivia game.
- 🔄 **HELD** a Spend Smart Café in Caraquet during Fraud Prevention Month.
- 🔄 **PROVIDED** approximately 2,907 New Brunswickers with face-to-face fraud prevention tips and financial literacy materials through our Community Awareness Program.
- 🔄 **DELIVERED** industry education sessions to cover information on our new insurance portal system, our modernized regulatory and compliance authority as well as presentations on proper trust account practices to the Chartered Professional Accountants Association and the New Brunswick Bar Association.
- 🔄 **DEVELOPED** curriculum for entrepreneurship programs for high schools.
- 🔄 **REPORT** delivered to Members, which proposed education, communication and regulatory initiatives to address financial abuse of seniors. The report's proposals are being used to build our seniors' strategy with multi-year initiatives with collaborating agencies.

### HIGHLIGHT

150 percent increase in traffic to our online fraud related content one month after launching our Frauds and Scams page.

# An In-depth Look

## DELIVER ON OUR MANDATE

### Senior Initiative *(By March 2017)*

Our Senior Initiative, which started in 2014-15, is focused on preventing financial abuse. Stakeholders told us their concerns about New Brunswick's aging population and the financial abuse that could arise in this demographic segment. We responded with a number of actions. We partnered with a local lawyer to deliver presentations on recognizing frauds and scams and the importance of proactive estate planning. We also hosted engagement sessions across the province to hear from seniors directly about the issues they face.

We continued our work across the province in seeking to better understand the issues seniors face when using financial services. We hosted a forum, which brought together experts in the field of financial abuse of seniors and more than 60 participants. The result was a report identifying priorities for program and policy development to protect New Brunswick's seniors.

In June 2016, we released our FCNB Report on Seniors' Initiatives. The report's proposals are being used to build our seniors' strategy comprised of multi-year initiatives in conjunction with other collaborating agencies. We also identified multi-disciplinary initiatives with other government departments and agencies, laying the foundation for future senior initiatives. To date, we have made strides in delivering education and raising awareness of the problem of financial abuse of seniors and fostering change in the areas that FCNB regulates.

In addition, we are collaborating with numerous stakeholders, including the Public Legal Education and Information Service of New Brunswick, the Canadian Bar Association, New Brunswick Branch of the Financial and Consumer Agency of Canada (FCAC), Crime Stoppers and more. FCNB has developed and delivered presentations, toolkits and web resources to recognize the signs of increased vulnerability and signs of early decline in financial capabilities, as well as a Financial Fraud Checklist to help families and professionals start the conversation if they have concerns about an individual's financial well-being.

Staff will be conducting further research and use the insight gained to develop and adopt new processes and initiatives designed to increase deterrence of the financial abuse of seniors.



**“Fraud has impacts that go beyond the pocketbook. It is important to realize the role that financial health plays in our overall wellbeing. We have resources to help people make informed and safe money decisions. We can all take steps to spend smart and spend safe.”**

**MARISSA SOLLOWS**  
SENIOR EDUCATION COORDINATOR

# Financial Literacy Education

Our financial literacy education offerings are available for both youth and adults in both official languages. We visit classrooms to promote healthy money skills at a young age, and we reach adult audiences through presentations in the workplace, senior groups and wellness fairs. We also have a significant number of online resources available to provide teachers with the tools to bring money lessons into their classrooms, as well as resources for consumers and investors to help manage their financial resources effectively.

Visit <http://www.fcnb.ca/resources.html> for our online tools and resources.

	2016-2017		2015-2016		2014-2015	
	Attendance	Total Events	Attendance	Total Events	Attendance	Total Events
<i>Investor and Consumer Education Presentations</i>	3,946	134	2,721	144	1,709	89

## OUR EDUCATION COORDINATORS DO PRESENTATIONS ON:

### FINANCIAL LITERACY:

- **Making Money Make Sense** (*for elementary, middle and high school levels*)
- **Budgeting 101** (*for adults and students*)
- **I'm Worth It** (*for women*)
- **Credit Smarts** (*for students*)
- **Smart Spending – Consumerism** (*for students*)
- **Financial Literacy training session for teachers** (*delivered in collaboration with the Financial Education Network members*)

### FRAUD PREVENTION AND FINANCIAL ABUSE:

- **Become a Master of Spotting Fraud** (*tailored frauds and scams presentation for newcomers*)
- **Spotting Frauds and Scams** (*frauds and scams presentation for adults*)
- **Recognize, Report, Respond – Addressing concerns of senior financial abuse in clients** (*for health-care and financial professionals*)
- **The Anatomy of a Scam** (*recognizing fraud and financial abuse presentation for seniors*)

### INVESTING

- **Smart Saving – Investing for your future** (*for adults*)
- **Investing 101 Series** (*for adults*):
  - Investing Basics
  - Working with a Financial Adviser
  - Recognizing Investment Frauds and Scams

All of our presentations can be customized depending on the audience.



## MAKING FINANCIAL LITERACY FUN

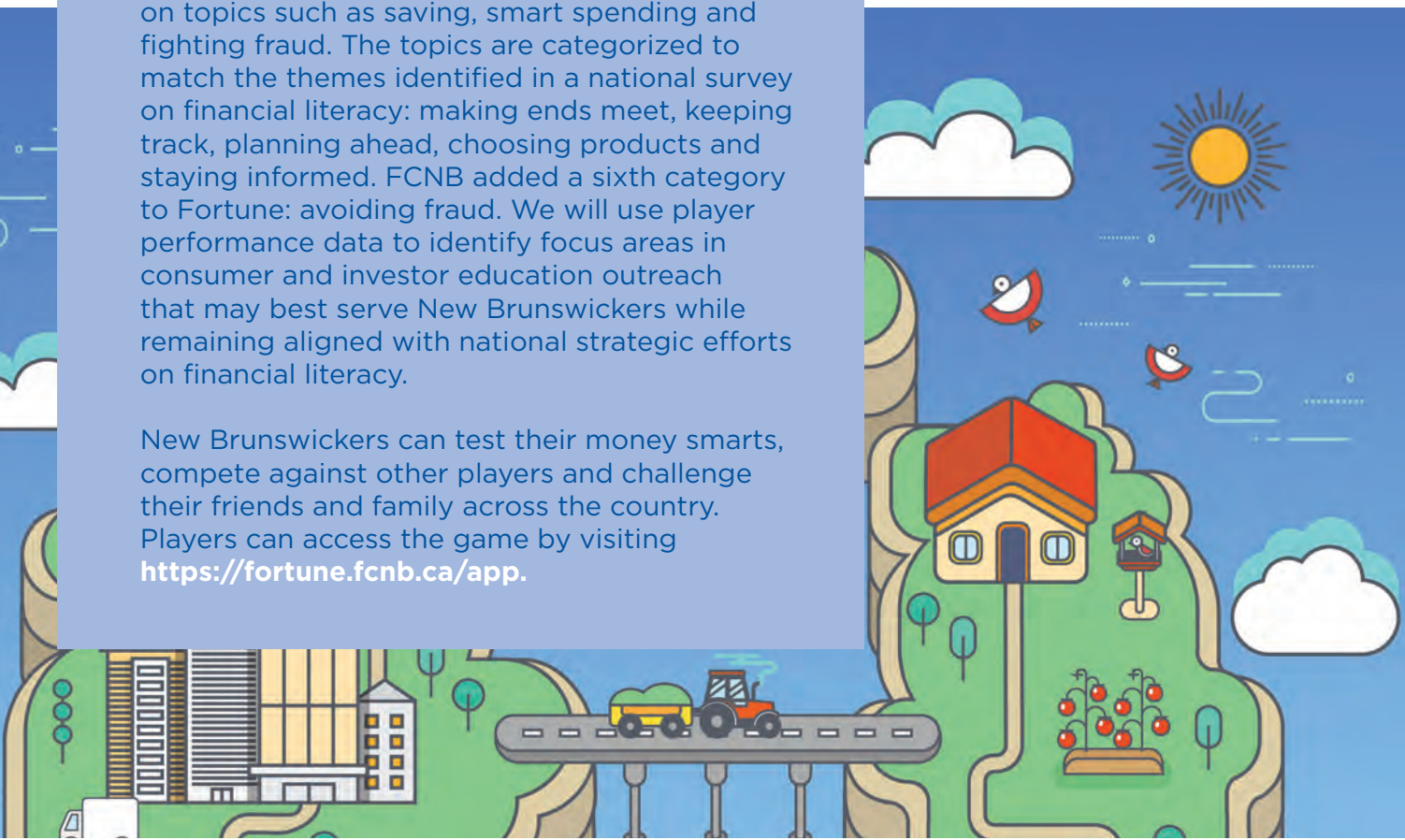
Throughout the fall, we developed our interactive web-based trivia game, Fortune, which launched in January 2017. Learning about important money topics in a game setting takes a topic that many might find unexciting or even overwhelming and makes it more fun and accessible. With mobile gaming being an increasing part of our reality, Fortune presents FCNB with the opportunity to reach and engage New Brunswickers of all ages.

Fortune has trivia questions for adults and youth on topics such as saving, smart spending and fighting fraud. The topics are categorized to match the themes identified in a national survey on financial literacy: making ends meet, keeping track, planning ahead, choosing products and staying informed. FCNB added a sixth category to Fortune: avoiding fraud. We will use player performance data to identify focus areas in consumer and investor education outreach that may best serve New Brunswickers while remaining aligned with national strategic efforts on financial literacy.

New Brunswickers can test their money smarts, compete against other players and challenge their friends and family across the country. Players can access the game by visiting <https://fortune.fcnb.ca/app>.

**239**  
FORTUNE USERS  
LOGGED IN

**3,455**  
VISITS SINCE  
THE GAME  
LAUNCHED IN  
JANUARY



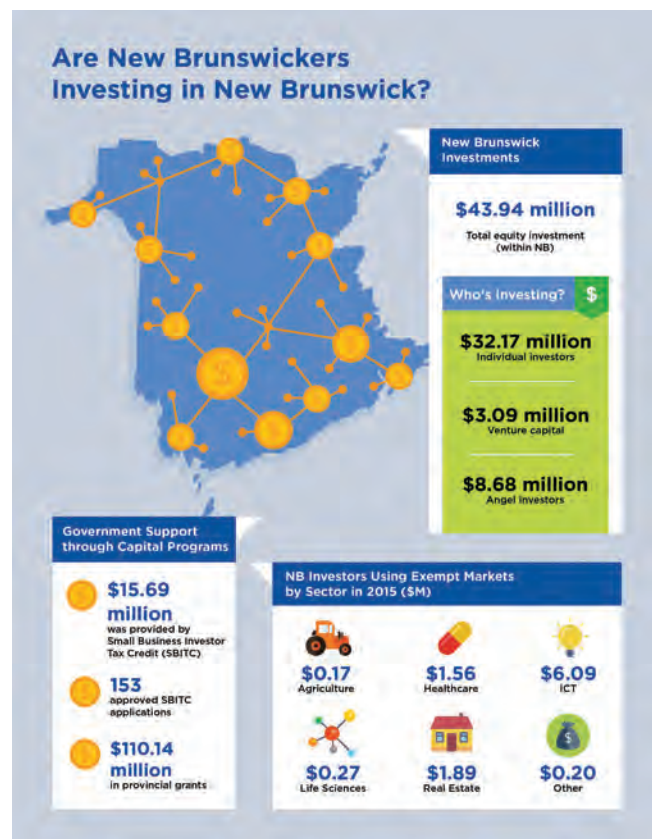
# Capital Markets Education

Our focus in the Capital Markets development arena was on Community Economic Development Corporations (CEDC), which were introduced to the province 1 April 2016. A CEDC enables New Brunswickers to channel their investment dollars into their local community. In addition to doing a number of Learning the Ropes face-to-face education sessions, we developed website content. Both were designed to help investors better understand how to invest in a CEDC and the benefits and risks involved when pursuing these opportunities. We also produced a three-part CEDC video series: one with general information, one geared to investors and one for companies looking to raise funds.

We also collaborated with Invest Atlantic to bring the Building Capital and Partnerships event to the province. The event brought together some of North America’s most noted investors with the region’s newest and fastest growing companies to engage in focused discussions on raising capital, collaboration to partnerships and succession planning.

We continued our Making Headway newsletter throughout the year, touching on topics of interest to our entrepreneurial and business community. As well, we published our 6th Annual Capital Markets Report, which identified trends in funding and raising money and compared annual results that showed longer term trends in our markets.

Learning the Ropes is the name of our educational program offered as part of our Fullsail capital markets development initiative. We present various capital market topics around the province in both official languages. These presentations focus on topics relevant to entrepreneurs.



## EXAMPLES OF LEARNING THE ROPES PRESENTATIONS INCLUDE:

- Are you investment ready?
- Crowdfunding
- Equity Financing
- Offering Memorandum Exemption
- Small Business Investor Tax Credit
- Community Economic Development Corporations

	2016-2017		2015-2016		2014-2015	
	Attendance	Total Events	Attendance	Total Events	Attendance	Total Events
Capital Markets: <i>Learning the Ropes</i>	779	30	610	26	555	22
Capital Markets: <i>Fullsail</i>	225	1	120	1	225	2

# Making Headway



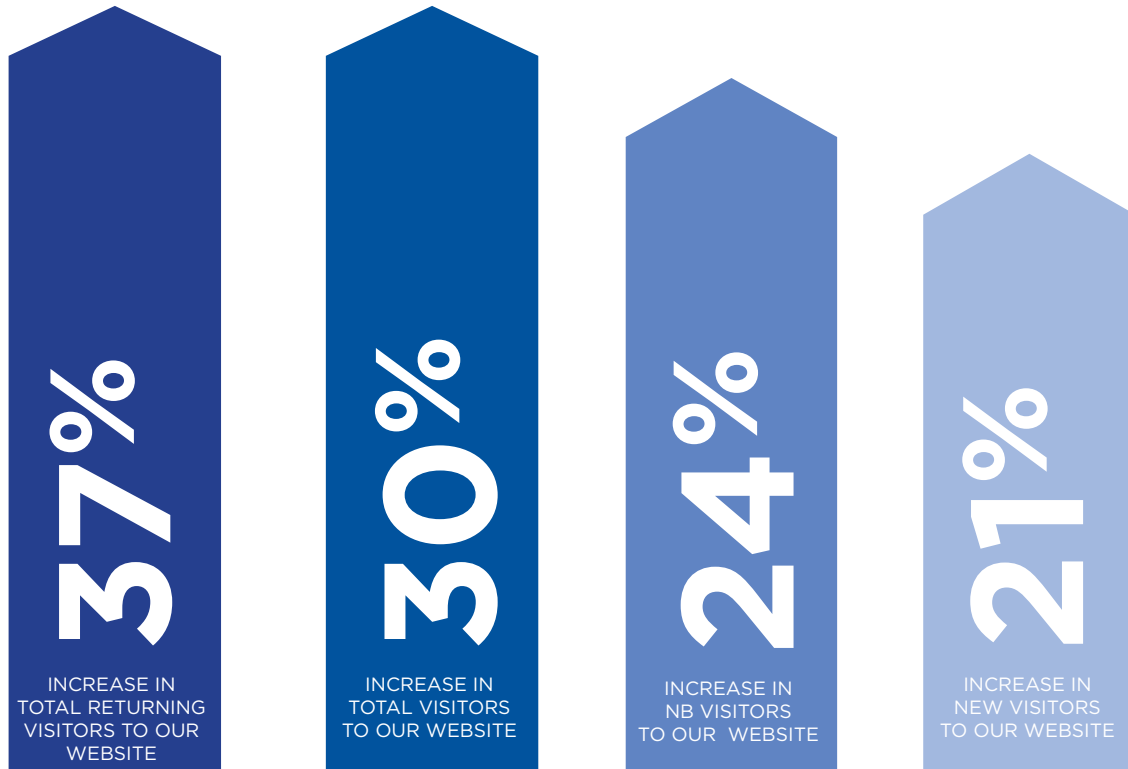
## Investing in New Brunswick



**FINANCIAL AND  
CONSUMER SERVICES  
COMMISSION**

Reporting on the Financial and Consumer Services  
Commission's Fullsail Capital Markets Initiative

# FCNB.ca Engagement



## PYRAMID SCHEMES

### Watch out for these red flags

- 

Promises of high returns in a short time period
- 

No genuine product or service
- 

Primary emphasis on recruiting

 FCNB.ca

An ad for our fraud prevention initiatives



# Compliance Reviews

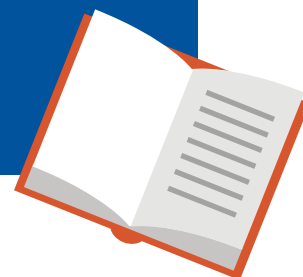
Related Act	Completed Reviews	Focus of Review
<i>Credit Unions Act</i>	1	Inspection of the stabilization board, Risk Management Agency
<i>Co-operatives Association Act</i>	1	Inspection of a co-operative
<i>Pre-Arranged Funeral Service Act</i>	27	Trust account inspections
<i>Collections Agencies Act</i>	59	Financial statements reviews
<i>The Insurance Act</i>	7	Solvency desk examinations of NB insurance companies
<i>The Insurance Act</i>	55	Compliance inquiries*
	42	Compliance reviews**
	10	On-site market conduct visits of agencies and brokerages
<i>The Securities Act</i>	2	Review of a Scholarship Plan Dealer and review of a Portfolio Manager/ Investment Fund Manager/ Exempt Market Dealer
	2	Continuous disclosure review of NB-based reporting issuers

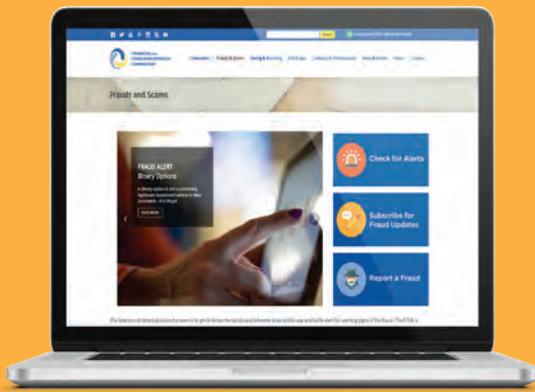
\* An inquiry is a file that warrants more than one action/intervention but is not significant enough to be considered a review

\*\* Includes responding to consumer complaints, reports from sponsoring insurance companies, reports from licensing staff and self-reported matters

FCNB organized and hosted the Insurance Regulators' Compliance Managers Meeting in June 2016 and the Canadian Securities Administrators' Compliance Conference in September 2016.

# 206 compliance reviews





## FRAUD PREVENTION – JOB #1

For Fraud Prevention Month, we introduced a new Frauds and Scams feature page for our website. This new page highlights consumer fraud trends, encourages reporting of financial fraud and allows people to subscribe for fraud updates. It is updated regularly as we learn of new fraud trends.

Visit <http://fcnb.ca/frauds-scams.html> to explore the resources available.

## Consumer Affairs

LICENCE TYPE	2016-2017	2015-2016	2014-2015
Auctioneers Licence	61	64	68
Collection Agency Licence	63	66	64
Collection Agency Branch Licence	47	48	71
Collection Agency Collector Licence	2,811	3,485	3,571
Commissioner of Oaths ( <i>Foreign</i> )	1	0	1
Commissioner of Oaths ( <i>Provincial</i> )	632	651	712
<i>Cost of Credit Disclosure Act:</i> Branch Registration	428	406	428
<i>Cost of Credit Disclosure Act:</i> Company Registration	449	457	511
<i>Cost of Credit Disclosure Act:</i> Individual Registration	0	1	4
<i>Direct Sellers Act:</i> Salesperson Licence	1,232	859	537
<i>Direct Sellers Act:</i> Vendor Licence	81	75	66
<i>Pre-arranged Funeral Services Act:</i> Manager Licence	65	68	67
<i>Pre-arranged Funeral Services Act:</i> Provider Licence	56	58	58
Real Estate Agent Licence	94	103	113
Real Estate Branch Licence	33	32	33
Real Estate Manager Licence	155	168	180
Real Estate Salesperson Licence	795	768	793
<i>Mortgage Brokers Act - Mortgage Brokerages</i>	38	n/a	n/a
<i>Mortgage Brokers Act - Mortgage Associates</i>	41	n/a	n/a
<i>Mortgage Brokers Act - Mortgage Brokers</i>	88	n/a	n/a
<i>Mortgage Brokers Act - Mortgage Administrators</i>	7	n/a	n/a
<b>Total</b>	<b>7,177</b>	<b>7,309</b>	<b>7,277</b>

*Mortgage Brokers Act* only came into effect 1 April 2016.

# Enforcement Activity

	2016-2017	2015-2016	2014-2015
Complaints received	12	19	15
New files from other sources (referrals, surveillance, etc.)	10	14	17
Requests for assistance from other regulators	3	1	1
Requests for internal legal/ investigative assistance	8	2	6
New matters	39	34	37
Matters concluded	47	8	46
<b>Matters dealt with in Provincial Court</b>			
Quasi-criminal charges laid	0	0	0
Individuals charged	0	0	0
Findings of guilt or guilty pleas	0	1	0
Jail sentences imposed	0	0	0
<b>Financial Remedies (\$)</b>			
Costs levied	2,500	0	0
Costs recovered	2,500	0	0
Administrative penalties levied	0	0	27,000
Administrative penalties recovered	0	0	27,000
Disgorgement ordered	0	0	0
Disgorgement received	12,000	12,000	12,190

**TODAY'S FEATURED ITEMS**  
**LOST DREAM LATTE**

One part manipulation  
Une part de manipulation

One part trust  
Une part de confiance

Two parts financial loss  
Deux parts de perte financière

**EN VEDETTE AUJOURD'HUI**  
**CAFÉ AVEC CRIME FOUETTÉ**

FCNB.ca

**TODAY'S FEATURED ITEMS**  
**RED FLAG BREW**

Half high pressure  
Demi-portion d'haute pression

Half scare tactics  
Demi-portion de tactique alarmistes

**EN VEDETTE AUJOURD'HUI**  
**CAFÉ VOL-UPTEUX**

FCNB.ca

**TODAY'S FEATURED ITEMS**  
**UNCERTAIN-TEA**

100% too good to be true  
100 % trop beau pour être vrai

**EN VEDETTE AUJOURD'HUI**  
**AL-THÉ-RATION**

FCNB.ca

Collateral for our 'Spend Smart Café' coffee shop takeover

# Co-operatives Summary

CATEGORY	Reporting	Total assets (\$)	Total revenue (\$)	Members equity to assets (%)	Employees	Members
Agriculture/Forestry	18	37,182,083	23,267,590	89.39%	176	3,190
Consumer	14	53,784,459	189,112,691	32.03%	913	72,194
Fishery	2	1,505,726	4,771,068	74.42%	19	37
Housing	11	30,237,674	6,791,047	30.67%	7	456
Services	51	22,925,568	16,978,476	27.59%	167	16,580
Worker	2	501,254	2,009,648	85.37%	72	45
<b>Total</b>	<b>98</b>	<b>\$146,136,764</b>	<b>\$242,930,520</b>	<b>N/A</b>	<b>1,354</b>	<b>92,502</b>

From 1 January 2016 to 31 December 2016, five co-ops dissolved.

From 1 January 2016 to 31 December 2016, 13 co-ops were incorporated.

# Loans and Trusts Companies Summary

LOCATION	2016-2017	2015-2016	2014-2015
Total Provincial	0	0	0
Alberta	1	1	1
Quebec	1	1	1
Federal	44	46	46
<b>Total Extra-Provincial</b>	<b>46</b>	<b>48</b>	<b>48</b>

# Insurance Companies Operating in New Brunswick

CATEGORY	Our Role	2016-2017	2015-2016	2014-2015
Companies based in NB	Primary regulator (licensing, solvency and market conduct)	7	7	7
Companies that were federally or internationally headquartered	Licensing and market conduct	179	181	184
Companies based in another province	Licensing and market conduct	38	41	42

# Insurance

LICENCE TYPE	2016-2017	2015-2016	2014-2015
Life Insurance Agents/Brokers	2,940 <sup>1</sup>	2,711 <sup>1</sup>	2,620 <sup>1</sup>
Other than Life Agents/Brokers	1,939	1,852	1,761
Non-resident Brokers	3,490	3,003	2,707
Accidental and Sickness Agents	551	508	459
Travel Agents	298	279	281
Special Insurance Brokers	14	14	11
Damage Appraisers	101	87	72
Adjusters	1,750	1,630	1,362
<b>Total number of Licensees</b>	<b>11,083</b>	<b>10,084</b>	<b>9,273</b>
<b>Total number of licences produced</b>	<b>9,355<sup>2 3</sup></b>	<b>8,871<sup>2 3</sup></b>	<b>7,796<sup>2 3</sup></b>

1. Life Agents  
2014-2015: Resident - 1,490; Non-Resident - 1,130  
2015-2016: Resident - 1,491; Non-Resident - 1,220  
2016-2017: Resident - 1,591; Non-Resident - 1,349
2. Includes intermediaries holding more than one licence and licence transfers.
3. Number of licences produced reflects the number of licences issued from 1 April-31 March. The number is less than the total number of intermediaries as some intermediaries hold two-year licences issued in the previous year.

# Securities

CORPORATE FINANCE ACTIVITY	2016-2017	2015-2016	2014-2015
Reporting issuers <sup>1</sup>	5,058	4,987	4,891
Reporting issuers ( <i>New Brunswick-based</i> )	8	8	8
Prospectus filings ( <i>non-mutual funds</i> )	394	305	386
Mutual fund prospectus filings	3,725	3,680	3,549
Annual information forms	1,103	1,155	1,170
Exempt distribution reports	479	390	389
Exemption applications ( <i>non-passport</i> )	26	72	63
Cease-trade order	0	0	0
Management cease-trade order	0	0	0
REGISTRATION ACTIVITY	2016-2017	2015-2016	2014-2015
Registered firms	413	399	406
Registered firms ( <i>New Brunswick Head Office</i> )	4	3	3
Branches/Sub-branches in New Brunswick	516	531	526
Registered individuals	10,523	10,113	9,988
Registered individuals ( <i>New Brunswick residents</i> )	1,705	1,745	1,757

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

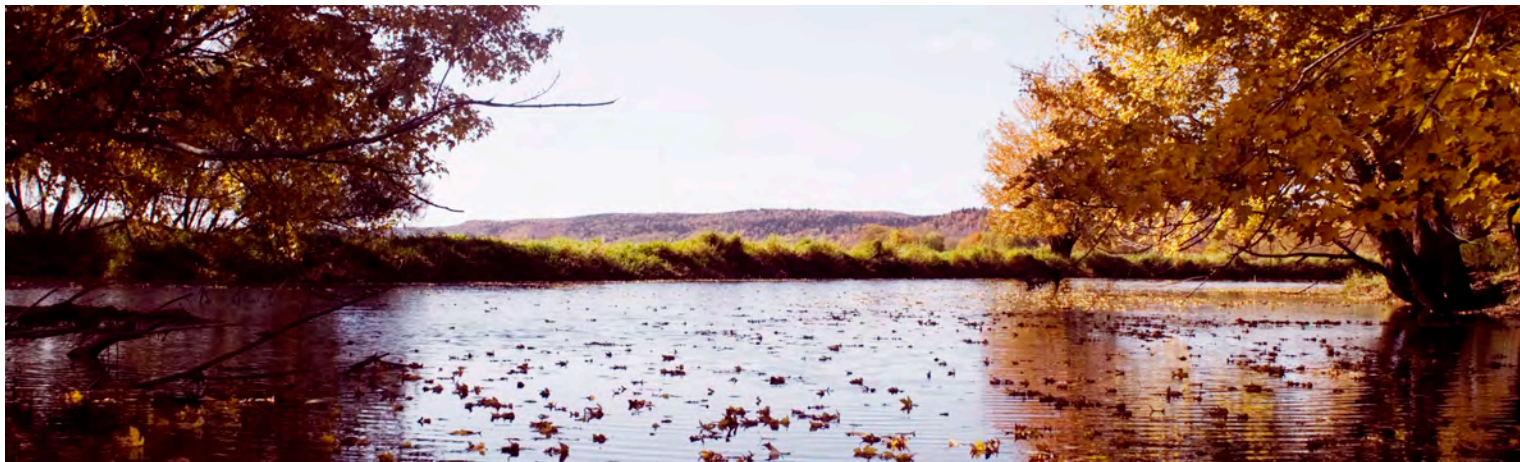
# Report On Governance Practices

## ROLE OF COMMISSION MEMBERS

Commission Members, through the independent Chair, are accountable to the government through the Minister of Finance for the proper administration of the financial and consumer services legislation, including policy matters and the governance of the Commission. Members apply their expertise in the areas of management oversight and policy development. They review the Commission's annual strategic business plan and annual budget, resource allocation, risk management, financial reporting policies and the effectiveness of internal controls and management information systems. Further details of this oversight are contained in the Governance Policy, which can be found on the Commission's website.

## INDEPENDENCE

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



**“We are also involved in what we believe is the most proactive automation and technology implementation project among small regulators in Canada. Our aim is to have the most robust, modern, scalable and user friendly technology backbone to support the challenge of increasing regulatory complexity and shrinking budgets.”**

**PETER KLOHN**  
CHAIR OF THE BOARD

## FINANCIAL AND CONSUMER SERVICES COMMISSION MEMBERS

The Commission's Members for 2016-2017 were:



**PETER KLOHN**  
(Chair), LL.B, ICD.D

**Residence:** Rothesay  
**Appointed:** 1 January 2014  
**Term Expires:**  
31 December 2019

**Professional and industry experience:**

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



**MICHAEL D. WENNBERG**  
LL.B

**Residence:** Rothesay  
**Appointed:** 21 August 2013  
**Term ends:** 20 August 2018

**Professional and industry experience:**

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



**JIM DUNLAP**

**Residence:** St. Stephen  
**Appointed:** 12 July 2016  
**Term ends:** 11 July 2019

**Professional and industry experience:**

- Financial Services
- Hospitality
- Automotive sales



**YVES GAGNON**  
PMP, ICD.D

**Residence:** Campbellton  
**Appointed:** 6 February 2014  
**Term ends:** 5 February 2018

**Professional and industry experience:**

- Financial
- Accounting
- Auditing
- Management



**PAULETTE ROBERT**  
(Vice-Chair)

**Residence:** Losier Settlement  
**Appointed:** 21 August 2013  
**Term ends:** 20 August 2017

**Professional and industry experience:**

- Banking
- Securities law



**IAN S. PURVIS**  
Q.C., LL.B

**Residence:** Woodstock  
**Appointed:** 21 August 2013  
**Term ends:** 20 August 2017

**Professional and industry experience:**

- Business law
- Mediation



**J. DOUGLAS BAKER**  
CPA, CA

**Residence:** Riverview  
**Appointed:** 6 February 2014  
**Term ends:** 5 February 2017

**Professional and industry experience:**

- Financial Planning
- Accounting
- Auditing
- Management
- Corporate Governance
- Business Planning



**GINETTE VERRET-MORIN**

**Residence:** Edmundston  
**Appointed:** 12 July 2016  
**Term ends:** 11 July 2019

**Professional and industry experience:**

- Accounting
- Auditing
- Management
- Corporate Governance
- Business Planning

The term of Mr. Ken Savage, who had been a member of the Commission since 2007, ended on 30 June 2016.

FOR FULL BIOS, VISIT [FCNB.CA/COMMISSION-MEMBERS\\_1.HTML](http://FCNB.CA/COMMISSION-MEMBERS_1.HTML)

## CODE OF CONDUCT

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

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

## DISCLOSURE

The Commission places high value on transparent disclosure practices and produces an annual *Report on Governance Practices*, which is published on its website to reflect that value. In addition, the Commission also publishes its various governance-related policies, including the *Governance Policy and Conflict of Interest Rules*, as well as the Members' biographies.

## MEMBER ORIENTATION AND CONTINUING EDUCATION

New Members must participate in an extensive orientation program. This mandatory orientation provides an overview of the Canadian and New Brunswick financial and consumer services regulatory, compliance and enforcement landscape. The program includes a detailed overview of our operations, financial affairs, legal framework, including privacy, governance practices and current trends and issues in the financial services marketplace. The two-day session is provided in half-day modules for flexibility. Members receive detailed documentation about our operations. They also meet senior management and tour our offices.

Two new Members underwent an orientation in the 2016-2017 fiscal year. In September 2016, the Chair of the Human Resources and Governance Committee was also provided with a specific orientation session pertaining to his new role as chair of the committee.

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



According to FCNB's annual awareness survey, 74 percent of New Brunswickers say that the financial decisions they are making today will help them achieve their financial goals.



A description of the common education sessions offered to Members during fiscal year 2016-2017 is set out below:

## CONTINUING EDUCATION

Date	Topic	Presenters	Attendees
26 April 2016	<ul style="list-style-type: none"> <li>• Gift Cards</li> <li>• Credit Union System Improvements</li> <li>• Board Portals</li> </ul>	<ul style="list-style-type: none"> <li>• Suzanne Bonnell-Burley</li> <li>• Étienne LeBoeuf</li> <li>• Manon Losier</li> </ul>	<ul style="list-style-type: none"> <li>• Peter Klohn</li> <li>• Paulette Robert</li> <li>• Ken Savage</li> <li>• Ian S. Purvis, Q.C.</li> <li>• Michael D. Wennberg</li> <li>• Yves Gagnon</li> <li>• J. Douglas Baker</li> </ul>
22 June 2016	<ul style="list-style-type: none"> <li>• FCNB Seniors' Initiative</li> <li>• Legislative and Regulation Making Process</li> <li>• Supervision of Insurance Market Conduct</li> <li>• Human Development Council of Saint John</li> </ul>	<ul style="list-style-type: none"> <li>• Susan Powell and Ella-Jane Loomis</li> <li>• Manon Losier and Erin Toole</li> <li>• Angela Mazerolle</li> <li>• Randy Hatfield, HDCSJ</li> </ul>	<ul style="list-style-type: none"> <li>• Peter Klohn</li> <li>• Paulette Robert</li> <li>• Ken Savage</li> <li>• Ian S. Purvis, Q.C.</li> <li>• Michael D. Wennberg</li> <li>• Yves Gagnon</li> <li>• J. Douglas Baker</li> </ul>
5 October 2016	<ul style="list-style-type: none"> <li>• Risk Management Agency</li> <li>• New Governance Structure of Vestcor Companies</li> </ul>	<ul style="list-style-type: none"> <li>• Fred Hutchinson and Mark Flewwelling, RMA</li> <li>• John Sinclair, Vestcor</li> </ul>	<ul style="list-style-type: none"> <li>• Paulette Robert</li> <li>• Ian S. Purvis, Q.C.</li> <li>• Michael D. Wennberg</li> <li>• Yves Gagnon</li> <li>• J. Douglas Baker</li> <li>• Ginette Verret-Morin</li> <li>• Ian Dunlap</li> </ul>
25 January 2017	<ul style="list-style-type: none"> <li>• IT Procurement System</li> <li>• Commission's Communication Protocol</li> <li>• Crown Corporation Relationship with Government</li> </ul>	<ul style="list-style-type: none"> <li>• Jake van der Laan</li> <li>• Rick Hancox</li> <li>• Ed Barrett, NB Power</li> </ul>	<ul style="list-style-type: none"> <li>• Peter Klohn</li> <li>• Paulette Robert</li> <li>• Ian S. Purvis, Q.C.</li> <li>• Michael D. Wennberg</li> <li>• Yves Gagnon</li> <li>• J. Douglas Baker</li> <li>• Ginette Verret-Morin</li> <li>• Ian Dunlap</li> </ul>

The total amount of hours allocated to group sessions for fiscal 2016-2017 was 12.75 hours.

In addition to the group sessions offered by the Commission, Members are encouraged to pursue individual learning initiatives that are relevant to the work of the Commission. Our *Professional Development for Members Policy* provides a yearly allotment of \$3,500 per member to support Members' learning activities.

Below is a list of the courses that Members attended throughout the year:

Member	Date	Course
Peter Klohn	26 May 2016	<ul style="list-style-type: none"> <li>• TSX Equities Trading Conference</li> </ul>
	19-20 September 2016	<ul style="list-style-type: none"> <li>• Financial Technology Conference</li> </ul>
Paulette Robert	16 November 2016	<ul style="list-style-type: none"> <li>• Canadian CED Network Webinar</li> </ul>
	13-14 July 2016 and 7 September 2016	<ul style="list-style-type: none"> <li>• Training - Securities regulation with Senior Legal Counsel, Securities Division</li> </ul>
Ian S. Purvis, Q.C.	26 September 2016	<ul style="list-style-type: none"> <li>• ICD Webinar: The Board Evaluation Process - The Cornerstone of Board Effectiveness</li> </ul>
Michael D. Wennberg	26 September 2016	<ul style="list-style-type: none"> <li>• ICD Webinar: The Board Evaluation Process - The Cornerstone of Board Effectiveness</li> </ul>
	15-17 November 2016	<ul style="list-style-type: none"> <li>• Rotman's Institute: Board Human Resources Committee Program</li> </ul>
J. Douglas Baker	20 June 2016	<ul style="list-style-type: none"> <li>• ICD Conference: Director's Insight</li> </ul>
	11-14 October 2016	<ul style="list-style-type: none"> <li>• CPA's Fall Continuing Education Development Conference</li> </ul>



**The Commission places high value on continuing education and its programs are comprised of mandatory individual and common education sessions.**

## ATTENDANCE

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

Members <sup>1</sup>	MEETINGS				
	Commission (9)	Special (1) <sup>2</sup>	Audit and Risk Management Committee (6)	Human Resources and Governance Committee (13)	Joint Human Resources and Governance Committee and Audit and Risk Management Committee (1)
Peter Klohn	9/9	1/1	6/6	13/13	1/1
Paulette Robert	9/9	1/1	6/6	n/a	n/a
Ian S. Purvis, Q.C.	9/9	1/1	n/a	13/13	1/1
Michael D. Wennberg <sup>3</sup>	8/9	1/1	2/6	9/13	1/1
Yves Gagnon <sup>4</sup>	8/9	1/1	3/6	6/13	1/1
J. Douglas Baker	9/9	1/1	6/6	n/a	1/1
Ginette Verret-Morin <sup>5</sup>	5/9	1/1	3/6	n/a	1/1
Jim Dunlap	6/9	1/1	n/a	6/13	1/1

<sup>1</sup> Mr. Savage's term expired on 30 June 2016. For the period of 1 April 2016 to 30 June 2016, he attended three Commission meetings and chaired two Audit and Risk Management Committee meetings.

<sup>2</sup> Special Meetings included ad hoc Commission meetings and strategic planning sessions.

<sup>3</sup> Mr. Wennberg became a member of the Human Resources and Governance Committee in April 2016 and remained a member of the Audit and Risk Management Committee until September 2016.

<sup>4</sup> Mr. Gagnon was unable to attend the December 2016 Commission meeting. He attended his last HRG meeting in September before becoming a member of the Audit and Risk Management Committee.

<sup>5</sup> Ms. Verret-Morin was unable to attend the September Commission meeting.

## COMMITTEES

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

## AUDIT AND RISK MANAGEMENT COMMITTEE

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

The Members of the Audit and Risk Management Committee are required to be financially literate and have the ability to understand the financial statements of the Commission. All committee Members have attested to their financial literacy. During the fiscal year 2016-2017, the Audit and Risk Management Committee held four regular meetings, one special meeting with the external auditors to review the audit plan, and one joint meeting with the Human Resources and Governance Committee. For a full report of this committee's activities for the fiscal year 2016-2017, please refer to the Report on Governance Practices on our website.

## HUMAN RESOURCES AND GOVERNANCE COMMITTEE

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

The Committee held a total of 14 meetings during the fiscal year, consisting of four regular meetings, nine special meetings and one joint meeting with the Audit and Risk Management Committee. The Human Resources and Governance Committee's work covered seven major areas. For a full report of this committee's activities for the fiscal year 2016-2017, please refer to the *Report on Governance Practices* on our website.

## REMUNERATION

Bylaw No. 3, *Commission and Tribunal Remuneration*, provides the remuneration, retainers and service fees, as applicable, for the chair, Members, and committee chairs as set out below:

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

*Note:* The committee chairs each receive an additional retainer of \$2,000 per year.

## CHAIR

Mr. Klohn received a remuneration of \$137,000 for the period 1 April 2016 to 31 March 2017. He is eligible to be reimbursed by the Commission for a health and dental plan up to the amount that the Commission pays for an employee's participation in the Commission's health and dental plan. In lieu of pension, he received a payment of \$12,330 (on an annual basis, nine percent of the total annual compensation earned for the period to a maximum of 50 percent of the registered retirement savings plan annual contribution limit as established by the Canada Revenue Agency for the taxation year). The Chair's expenses, which mainly include business travel and training, were in the amount of \$15,668.

## MEMBERS' REMUNERATION AND EXPENSES

The Members' retainers, service fees and expenses related to travel, meals, hotel, parking and education for the fiscal year 2016-2017 are included below. Members receive a service fee for each activity performed on behalf of the Commission, which includes preparation for each Commission meeting.

Member	Appointed or reappointed	Term end	Retainer	Service Fees	Allotment for Travel time	Total Remuneration <sup>1</sup>	Expense Reimbursement and Allowances
Paulette Robert <i>(Losier Settlement)</i>	21 August 2013	20 August 2017	\$12,000	\$11,200	\$2,100	\$25,300	\$3,853
Kenneth Savage <i>(Fredericton)</i>	16 August 2007 reappointed: 1 July 2015	30 June 2016	\$3,000	\$3,500	\$200	\$6,700	\$572
Ian S. Purvis, Q.C. <i>(Woodstock)</i>	21 August 2013	20 August 2017	\$10,000	\$12,950	\$1,400	\$24,350	\$3,033
Michael D. Wennberg <i>(Rothesay)</i>	21 August 2013	20 August 2018	\$11,120	\$13,475	\$600	\$25,195	\$6,239
Yves Gagnon <i>(Campbellton)</i>	6 February 2014	5 February 2018	\$10,880	\$10,850	\$2,200	\$23,930	\$6,378
J. Douglas Baker <i>(Riverview)</i>	6 February 2014	5 February 2017	\$11,120	\$10,500	\$1,400	\$23,020	\$4,367
Ginette Verret-Morin <i>(Edmundston)</i>	12 July 2016	11 July 2019	\$7,201	\$7,000	\$1,700	\$15,901	\$2,504
Jim Dunlap <i>(St. Stephen)</i>	12 July 2016	11 July 2019	\$7,201	\$9,450	\$1,600	\$18,251	\$1,758

<sup>1</sup> Variation in expense may reflect the location of the Commission member.

## PUBLIC INTEREST DISCLOSURE

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

As a Crown corporation, we are obligated to disclose in our annual report the number of complaints received and the action taken; the number of investigations begun as a result of a disclosure; the number of claims referred from the Ombudsman and the action taken; and, the number of investigations begun as a result of such claims.

We are pleased to report that there were no disclosures or claims made against any employee of the Commission under the *PID Act* in 2016-2017.

# Division Heads

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

NAME	TITLE	START DATE
RICK HANCOX	<b>Chief Executive Officer</b>	1 September 2004 <i>(New Brunswick Securities Commission)</i>
KEVIN HOYT	<b>Executive Director, Securities and Chief Financial Officer</b>	12 October 2004 <i>(New Brunswick Securities Commission)</i>
MANON LOSIER	<b>General Counsel and Secretary to the Commission</b>	25 April 2005 <i>(New Brunswick Securities Commission)</i>
ANGELA MAZEROLLE	<b>Director and Superintendent of Insurance and Pensions</b>	26 April 2002 <i>(Department of Training and Employment Development with GNB. In 2005 transferred to Department of Justice with GNB)</i>
JAKE VAN DER LAAN	<b>Director, Enforcement and Chief Information Officer</b>	20 March 2006 <i>(New Brunswick Securities Commission)</i>
ANDREW NICHOLSON	<b>Director, Education and Communications</b>	1 July 2004 <i>(New Brunswick Securities Commission)</i>
SUZANNE BONNELL-BURLEY	<b>Director, Consumer Affairs</b>	27 January 1984 <i>(Department of Justice with GNB)</i>
ETIENNE LEBOEUF	<b>Director, Financial Institutions</b>	13 April 2015



 FCNB.ca

## Did you know?

A legitimate charity should be able to tell you about their mission, how your donation will be used and proof that your contribution is tax deductible.

Ask before you donate. To learn about the red flags of fraud, visit [FCNB.ca](http://FCNB.ca) or call 1 866 933-2222



 FCNB.ca

## Did you know?

Door-to-door salespeople need to be licensed with FCNB.

Stay safe when a door-to-door seller comes knocking. Visit [fcnb.ca/door-to-door.html](http://fcnb.ca/door-to-door.html) or call 1 866 933-2222 to learn about your rights as a consumer.

*Ads for our fraud prevention initiative*

# Management's Discussion and Analysis



For the fiscal year ended 31 March 2017  
Dated 27 June 2017

This Management's Discussion and Analysis (MD&A) contains management's interpretation of the Financial and Consumer Services Commission's (FCNB) financial performance for the 2016-2017 fiscal year ended 31 March 2017. While the financial statements reflect actual financial results, the MD&A explains these results from management's perspective and sets out FCNB's plans and budget for the year ahead.

This MD&A should be read in conjunction with FCNB's 2017 financial statements including related notes. Together, this MD&A and our financial statements provide key information about FCNB's performance and ability to meet our objectives.

Unless otherwise noted, reference to a year means FCNB's year ending 31 March. For example, "2017" means the fiscal year ending 31 March 2017. All financial information related to 2016 and 2017 has been prepared in accordance with International Financial Reporting Standards (IFRS).

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

Assumptions made throughout this MD&A, although reasonable at the date of publication, are not a guarantee of future performance. Certain statements outlining 2018 expectations are forward-looking and subject to risks and uncertainties.

## OVERVIEW

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

The changes that came into effect on 1 July 2013 were much broader than a mere name change. It brought together the previous securities sector regulatory functions performed by NBSC with the regulatory functions that were performed by the Justice Services Division of the Department of Justice and Attorney General. These functions include the insurance, pension, credit union, loan and trust company, and

co-operatives sectors as well as a wide variety of consumer legislation. See Note 1 of the notes to the financial statements for a complete list of financial and consumer services legislation that we administer.

We have offices in Saint John and Fredericton.

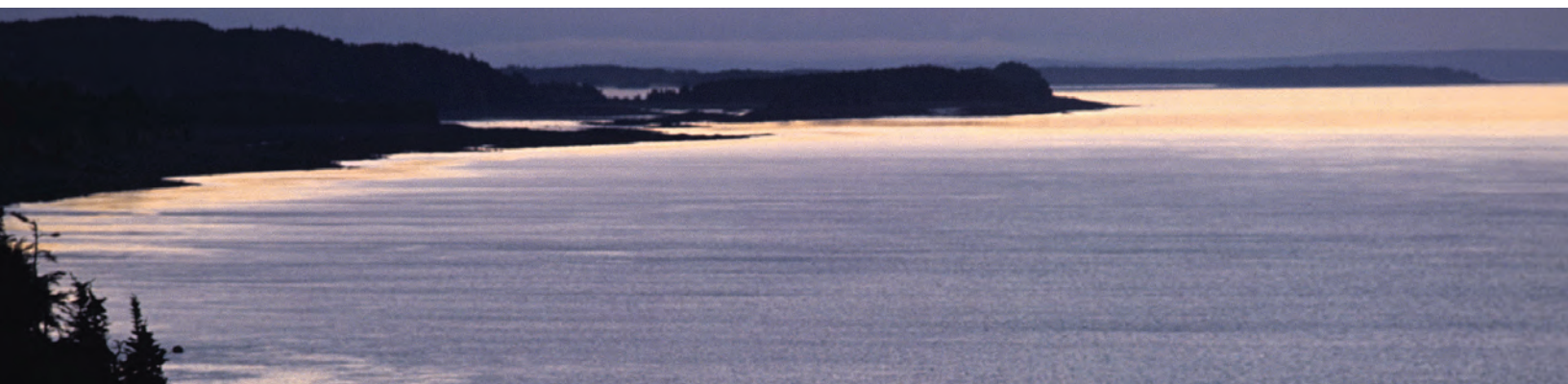
The operations of FCNB are funded through a variety of fees and assessments paid by those we regulate. We have broad rule-making authority under the *Securities Act*, *Mortgage Brokers Act* and *Payday Loans Act*, as well as rule-making authority for fees and forms in our other financial and consumer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

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

FCNB is not an appropriation-dependent Crown Corporation, and we had no borrowings from the Province of New Brunswick at 31 March 2017 nor at any previous time in our existence.

As a result of inter-provincial securities regulatory reform initiatives, which includes New Brunswick's participation, and which will drive a consequent loss of significant revenue to FCNB, the establishment and funding of a Restructuring Reserve (\$10M) and increase to the Stabilization Reserve (additional \$1M) was completed in 2015. These measures will allow us to maintain our self-funding legislative requirement and provide the time necessary to restructure, develop operational efficiencies and consult with the Province and regulated sectors regarding any required fee rule changes. With the reserves fully funded, a significant portion of the 2017 surplus was allocated back to the Province.

FCNB staff maintains accounting and internal control systems to provide reasonable assurance that financial information is complete, reliable and accurate, and that assets are adequately protected. Commission Members, in conjunction with our Audit and Risk Management Committee, have an oversight role regarding the integrity of reported information.





## SELECTED FINANCIAL INFORMATION

	Budget 2017	Actual 2017	Actual 2016	Actual 2015
Revenue	\$20,192,171	\$20,697,169	\$20,109,748	\$18,710,793
Expense	11,601,477	11,478,755	10,654,703	9,906,451
Excess of revenue over expenses	8,590,694	9,218,414	9,455,045	8,804,342
Total assets		22,628,766	21,991,324	21,583,809
Total liabilities		5,737,899	5,256,053	5,284,282
Total equity balance		16,890,867	16,735,271	16,299,527
<b>Distributions to government</b>		<b>\$9,062,818</b>	<b>\$9,019,301</b>	<b>0</b>

Total revenue in 2017 exceeded the budget on the strength of investment fund filings and insurance sector assessments. Expenses were below budget because of a positive variance in tribunal and governance expenses.

## REVENUES

FCNB's revenues consist of:

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

The securities sector represents the largest source of revenue for us, at over 78.0% of total revenue.

There is an interesting dynamic with respect to FCNB's budget, revenues and expenses for the insurance sector. *The Insurance Act* provides that all of the costs associated with administering that *Act* shall be assessed and recovered from licensed insurers. To the extent expenses are budgeted or incurred for this sector, an equivalent amount of revenue is budgeted or incurred. A reduction in expenses produces an equivalent drop in revenue, although the net impact is neutral. So, although the insurance sector assessment was above budget for 2017, this corresponds to an equivalent increase in insurance sector expenses.

## ANALYSIS OF TOTAL REVENUE (BY NATURE)

Category	Description	2017 Amount	2017 % of Revenue	2016 Amount	2016 % of Revenue	Change
Prospectus and distribution filings	Paid by securities issuers when filing distribution documents. Most of this is paid by mutual funds for their ability to be sold in New Brunswick.	\$10,306,000	49.8	\$9,758,250	48.5	\$547,750
Registration fees	Paid by individuals and firms to register with FCNB to sell or advise on securities.	3,862,870	18.7	3,843,907	19.1	18,963
Financial filing fees	Paid by companies and mutual funds when filing annual financial statements and annual information forms.	1,909,100	9.2	1,937,900	9.6	(28,800)
Licences and fees	Paid by a variety of sectors in order to be registered or compliant with legislation. Insurance intermediary licensing fees, loan and trust company fees, pension filing fees and a variety of consumer affairs fees comprise this list in descending order.	1,722,770	8.3	1,633,152	8.1	89,618
Exemptions and orders	Paid by market participants primarily to request exemptions from <i>Securities Act</i> requirements.	44,800	0.2	54,750	0.3	(9,950)
Other fees	Paid by regulated entities for late filing and other miscellaneous fees.	29,867	0.1	19,150	0.1	10,717
<b>Total fees</b>		<b>\$17,875,407</b>	<b>86.3%</b>	<b>\$17,247,109</b>	<b>85.8%</b>	<b>\$628,298</b>



## ANALYSIS OF TOTAL REVENUE (BY NATURE)(CONTINUED)

Category	Description	2017 Amount	2017 % of Revenue	2016 Amount	2016 % of Revenue	Change
Assessments	Paid by licensed insurers to administer the <i>Insurance Act</i> and by credit unions to administer the <i>Credit Unions Act</i> .	\$2,538,832	12.3	\$2,627,073	13.1	(\$ 88,241)
Administrative penalties and settlements	Paid subsequent to a hearing panel ruling.	0	0	0	0	0
Disgorged funds	Paid subsequent to a hearing panel ruling.	12,000	0.1	12,000	0.1	0
Enforcement cost recoveries	Paid subsequent to a hearing panel ruling.	2,500	0	0	0	2,500
Investment income	Earned on bank balances and short-term investments.	222,464	1.1	176,423	0.9	46,041
Miscellaneous income	Primarily a recovery of costs for a legal articling student who was shared with two other government agencies and costs recovered from the New Brunswick Credit Union Deposit Insurance Corporation (NBCUDIC).	45,966	0.2	47,143	0.2	(1,177)
<b>Total revenue</b>		<b>\$20,697,169</b>	<b>100.0%</b>	<b>\$20,109,748</b>	<b>100.0%</b>	<b>\$587,421</b>

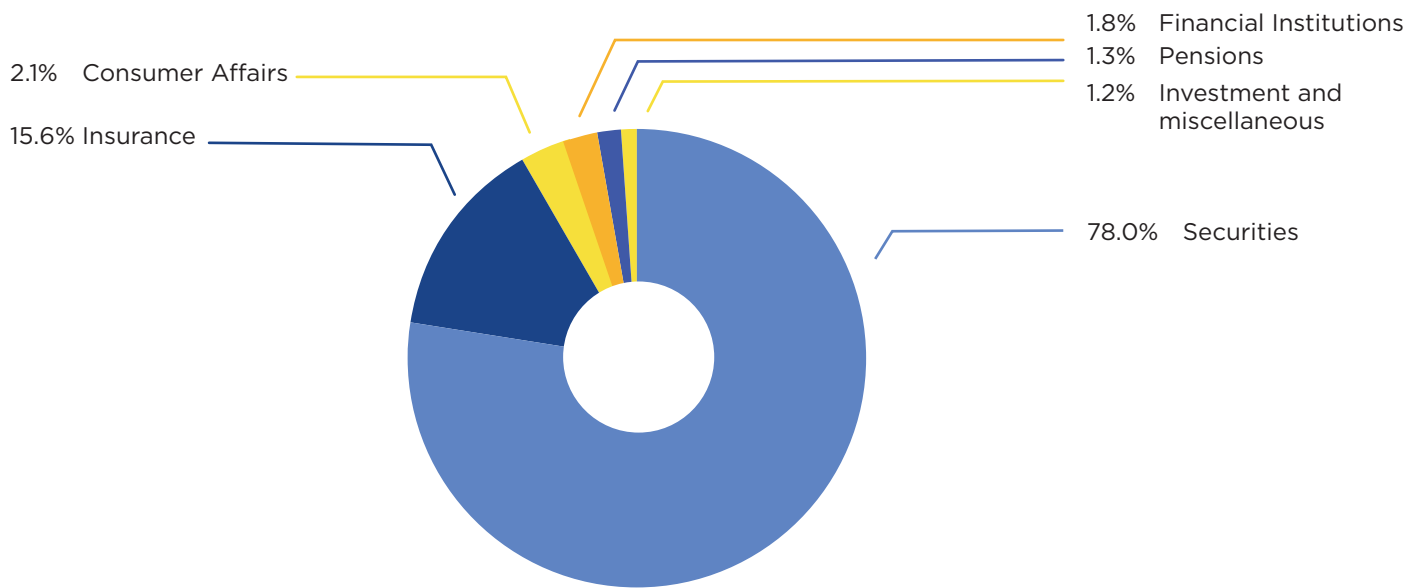


## ANALYSIS OF TOTAL REVENUE (BY FUNCTION)

Division	Description	2017 Amount	2017 % of Revenue	2016 Amount	2016 % of Revenue	Change
Securities	Paid by market participants under the <i>Securities Act</i> for distributing mutual funds, issuing offering documents, making required financial filings and for the registration of firms and individuals.	\$16,143,793	78.0	\$15,610,157	77.6	\$533,636
Insurance	Paid by licensed insurers as an assessment for administering the <i>Insurance Act</i> (\$2,335,799) and for the provision of insurance licences and miscellaneous minor revenue (\$891,727).	3,227,526	15.6	2,837,522	14.1	390,004
Consumer Affairs	Licences and fees paid under a variety of consumer protection legislation such as collection agents (\$105,424), real estate agents (\$69,474), cost of credit disclosure (\$48,201), commissioners of oaths (\$40,000), pre-arranged funerals (\$30,958), direct sellers (\$55,801), auctioneers (\$7,352), mortgage brokers (\$79,100) and miscellaneous (\$245).	436,555	2.1	396,424	2.0	40,131
Financial Institutions	Paid by credit unions as an assessment for administering the <i>Credit Unions Act</i> (\$203,033 <sup>1</sup> ) and for fees paid by loan and trust companies (\$149,150) and fees paid by co-operatives and a minor miscellaneous fee (\$24,839).	377,022	1.8	753,827	3.7	(376,805)
Pensions	Paid by pension plans to register pension plans, amend pension plans, submit annual information forms, register standard contracts and other minor fees and charges.	275,246	1.3	304,491	1.5	(29,245)
Investment and miscellaneous	Primarily investment income	237,027	1.2	207,327	1.0	29,700
<b>Total revenue</b>		<b>\$20,697,169</b>	<b>100.0%</b>	<b>\$20,109,748</b>	<b>100.0%</b>	<b>\$587,421</b>

<sup>1</sup>Financial Institutions assessment for administering the *Credit Unions Act* has decreased by \$383,041 because effective 1 July 2016 UNI Financial Cooperation is federally regulated and the *Credit Unions Act* no longer applies.

## SECTORIAL REVENUES FOR 2017



## EXPENSES BY NATURE<sup>2</sup>

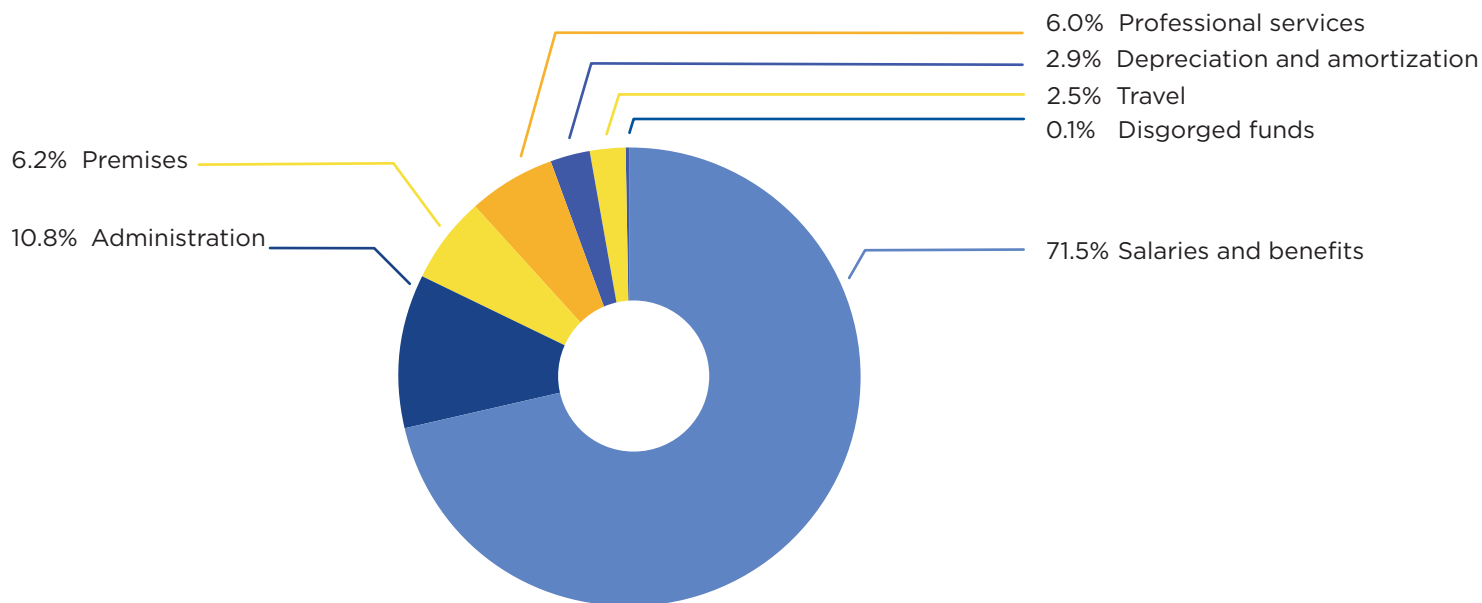
Category	2017	% of 2017 Expenses	2016	% of 2016 Expenses	Change
Salaries and benefits	\$8,210,476	71.5	\$7,753,705	72.8	\$456,771
Administration	1,238,413	10.8	1,309,142	12.3	(70,729)
Professional services	683,910	6.0	477,107	4.5	206,803
Travel	288,959	2.5	272,127	2.6	16,832
Premises	713,201	6.2	643,403	6.0	69,798
Depreciation and amortization	331,796	2.9	187,219	1.8	144,577
Disgorged funds	12,000	0.1	12,000	0.1	0
<b>Total expenses</b>	<b>\$11,478,755</b>	<b>100.0%</b>	<b>\$10,654,703</b>	<b>100.0%</b>	<b>\$824,052</b>

<sup>2</sup> See Note 23 of the Notes to our Financial Statements for expenses by function.



The operations of FCNB are funded through a variety of fees and assessments paid by the sectors we regulate.

## EXPENSES FOR 2017



## ANALYSIS OF TOTAL EXPENSES

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

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

In 2017, our total expenses were \$11.5 million, up \$0.8 million (7.7%) from \$10.7 million in 2016. This increase was predominantly attributed to the increase in salary and benefits and professional services, which collectively accounted for 80.5% of the total increase in expenditures.

Salaries and benefits expenses account for 71.5% of operating costs (72.8% in 2016) and

**FCNB has offices in Saint John and Fredericton serving the sectors we regulate.**





increased by \$456,771 from 2016. This increase accounted for 55.4% of the total increase in expenditures in 2017. There were 85 staff on payroll at year-end (82 prior year) and on an annualized or person-year basis, there were 82 person-years of employment in 2017 (77 in 2016).

Administration expenses account for 10.8% of operating costs for 2017 (12.3% in 2016) and were \$70,729 lower than the prior year. These costs include investor and consumer education and Commission awareness expenses, information technology, training, communications, printing, and other general office expense items. Education and communications expenses were the largest category of expenses at \$471,604 (\$502,015 in 2016). These expenses funded the online and television awareness campaigns, capital market development initiatives, stakeholder support and various outreach initiatives such as fraud awareness or financial literacy. Information technology costs were \$161,917 in 2017 (\$168,970 in 2016), and were used for non-capitalized acquisitions, network support, data security and back-up, website costs and software licenses.

Professional services expenses increased by \$206,803 (43.3%) to \$683,910 for 2017. These expenses include general consulting, translation, legal and other expenses. General consulting totaled \$421,821 for 2017 (\$289,870 in 2016) with the largest increase in this line item, approximately \$90,000 of this total, attributed to a solvency review of an insurance company and an increase in intervener cost (≈\$41,000) by the Attorney General at a hearing of the New Brunswick Insurance Board regarding proposed automobile insurance rate increases. These costs were recovered by assessments authorized under the *Insurance Act*. Other expenses captured under this line item included information technology consulting, the financial audit, and other consulting activities associated with regulatory matters.

Translation expenses increased by 21.8% or \$26,757 in 2017, going from \$122,594 to \$149,351 in 2016 and 2017,

respectively. FCNB continues its leadership role in French language translation services for the co-operative capital markets regulatory system.

Travel costs were \$16,832 (6.2%) higher than the previous year and are reflective of increased enforcement and regulatory activity. Travel was primarily related to attendance at policy and other regulatory meetings of partners of the securities, insurance and pension regulators, and for training purposes.

Premises costs increased by \$69,798 to \$713,201, an increase of 10.8% from the prior year. This represents 6.2% of total expenses for the year.

While there was an increase of \$87,500 in office lease as per our lease agreement, it was partially offset by a \$18,760 reduction in tenant improvement charges, moving charges and parking expenses. Following the significant renovations in 2016 for Saint John and in 2015 for Fredericton, our current leases should accommodate our operations going forward and costs should stabilize as detailed in Note 17 of the Financial Statements.

Depreciation and amortization expenses were \$144,577 (77.2%) higher than the prior year due to the new regulatory information data system going live. Consistent with our strategic plan, the development of electronic regulatory licensing systems was a focal point during the year with a significant investment of money and staff resources. Phase 2 and 3 of the Insurance Licensing system went online in the fall of 2016 as well as phase 1 of the Mortgage Broker system in April 2016. Part 2 of Phase 1 of the Pension IT system is scheduled to go online in May 2017 and Phase 2 will go live in July 2017. All projects should facilitate cost savings and efficiencies going forward and will be supplemented with further development activity.

The largest depreciable asset expense involves office furniture and equipment, which was approximately \$70,458, while leasehold improvements, information technology infrastructure, vehicle, and a





photocopier finance lease make up the remainder of the depreciation expense, in descending order.

The amortization of intangible assets increased by \$136,883 to \$165,355 in 2017 and its significance is evident by its impact on the increase in the expense line item going from 6.0% to 17.5% in 2017.

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 2017, \$12,000 was collected and \$18,000 paid to nine investors as a result of a 2008 decision.

(The additional \$6,000 reflects the 2016 balance paid during 2017).

## **MARKET ENHANCEMENT RESERVE**

As required by the *Act*, funds in the Market Enhancement Reserve are to be spent only on endeavours or activities that enhance the financial marketplace or consumer protection in New Brunswick. The funds associated with the reserve are maintained in a separate bank account and generate their own bank interest. No administrative penalties were assessed in 2017 (\$2,000 in 2016). The balance in the Market Enhancement Reserve stands at \$148,640 (\$147,385 in 2016).

## **LIQUIDITY AND FINANCIAL POSITION**

FCNB has sufficient liquidity to finance its operations and capital purchases. During the fiscal year, the net increase in cash from operating activities was \$10,156,656, which was an increase of \$916,354 (9.9%) from 2016. The cash and cash held for designated purposes at the end of the year totals \$6,123,329, which includes \$1.5 million in the Stabilization Reserve. This is a reduction from the 2016 balance of \$7,958,863, mostly due to the \$2.5 million of the \$4 million Stabilization Reserve being allocated to investments held for designated purposes. Our investment strategy includes staggering our short-term investments, such that an investment matures every three months and represents an available source of liquidity.

## **DISPOSITION OF SURPLUS OPERATING FUNDS**

FCNB made a series of payments totaling \$9,062,818 (\$9,019,301 in 2016) to the Province of New Brunswick during the year.

## **STABILIZATION RESERVE**

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

In 2017, \$2.5 million of the \$4 million reserve balance was invested in a one year guaranteed investment certificate.

## RESTRUCTURING RESERVE

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

Almost 80% of FCNB's revenue is generated by the securities sector. The loss of this revenue will initially create a structural deficit for us. The cumulative deficits that are expected to be incurred may exceed the capacity of the Stabilization Reserve before we anticipate being in a position to restructure to meet our revised mandate. FCNB will need time to develop operational efficiencies and to consult with the Province and our regulated sectors for any required rule changes necessary to maintain our self-financing legislative requirements. As such, a Restructuring Reserve was established and funded.

The Restructuring Reserve is contemplated to be temporary in nature. We anticipate that it will be wound-down by the later of 31 March 2022, or at the end of the first five full fiscal periods after the CMRA becomes operational. It is contemplated that the balance of the reserve at wind-up will be paid to the Consolidated Fund of the Province of New Brunswick.

In 2015, the Restructuring Reserve was funded by a one-time charge to retained earnings in the amount of \$10,000,000. In 2017, the reserve balance was invested in short term investments ranging from three to twelve months.

## ACCOUNTS RECEIVABLE

The accounts receivable balance is largely comprised of assessments that will be levied to the insurance and the credit union sectors consistent with their legislation. While these amounts have traditionally been assessed subsequent to year-end, this year the credit union sector was partially assessed in 2017. Where accruals are applicable, they appear as accrued revenue with a corresponding receivable. This accounts for about 90.4% of the receivable balance in 2017 (89.6% in 2016). The majority of the remaining balance comprises general fee receivables and HST receivables.

**FCNB is an independent, arm's length,  
self-funded Crown corporation.**



# Risks And Uncertainties

## SECURITIES REGULATORY REFORM

On 19 September 2013, the Ministers of Finance for Ontario, British Columbia and Canada announced that they had signed an Agreement in Principle (Agreement) to establish a co-operative capital markets regulatory system. The Agreement specifically contemplated the opportunity for participation by other provincial and territorial jurisdictions. On 9 July 2014, the Province of New Brunswick became a signatory to a revised Agreement for the same purpose (along with Saskatchewan). That revised Agreement contemplated that the CMRA would be operational in the fall of 2015. This date was revised in the summer of 2016 and the CMRA now expects to be operational no earlier than the end of calendar year 2018.

Prince Edward Island joined the co-operative capital markets regulatory system on 9 October 2014 and the Yukon Territory joined on 16 April 2015.

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

## OPERATIONAL AND INFRASTRUCTURE RISK

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

We are exposed to various types of operational risks, including the risk of fraud by employees or others, unauthorized transactions by employees and operational or human error. There is also the risk that computer or telecommunications systems could fail, despite efforts to maintain these systems in good working order.

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

- Commission Members operating as a board of directors who place a priority on sound corporate governance;
- an active and effective Audit and Risk Management Committee;
- a strong internal control environment;
- an annual review of internal controls and legislative compliance;
- a Risk Management Policy, with a quarterly review of risks facing us;
- the effective communication of policies to staff and new Commission Members on matters such as conflict of interest, with various channels for reporting concerns; and
- mitigation of risk to assets through insurance.



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

## REPUTATION RISK

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

## PEOPLE RISK

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

## FEE REVENUE

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

## NATIONAL ELECTRONIC FILING SYSTEMS FOR THE SECURITIES SECTOR

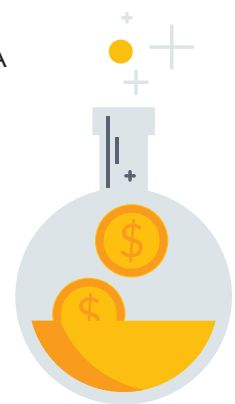
Under various agreements with the Canadian Securities Administrators (CSA), CGI Information Systems and Management Consultants Inc. (CGI) operates the following electronic systems:

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

About 80% of our total revenue is collected through SEDAR and NRD. CGI maintains a comprehensive business continuity plan for each system and the CSA requires a third-party audit report (CSAE 3416) each year. These national systems are currently in the midst of a multi-year renewal project. CGI was awarded the contract. The Canadian Securities Administrators announced that it has entered into an agreement with CGI Information Systems and Management Consultants Inc. (CGI) to renew the CSA National Systems. CGI will assume responsibility for preparing, configuring, testing, deploying, and then running and maintaining a new system to replace the CSA National Systems (e.g. SEDAR, SEDI, Cease-Trade Order Database, National Registration Database, National Registration Search and Disciplined List) with a single integrated solution.

## CRITICAL ACCOUNTING ESTIMATES

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



We accrue amounts due when they meet generally accepted revenue recognition criteria.

We have not recognized any provisions for legal challenges in the financial statements

## **CHANGES IN ACCOUNTING POLICIES**

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

There were no significant accounting policy changes in 2016-2017.

## **2018 OUTLOOK**

Budgeted revenue is \$20.5 million for 2018. This represents a decrease of about 1.0% from 2017 actual revenue of \$20.7 million. This decrease is primarily attributable to an estimated reduction in investment fund filings of \$129,000 and prospectus filings of \$107,000.

Operating expenses are budgeted to be \$13.3 million for 2018. This represents an increase of \$1.8 million over 2017 actual expenses. This increase is attributable to salary cost, general administration and amortization increases. The budgeted staff complement for 2018 is 91, which includes additional required staff to back fill staff that will be moving on to CMRA, as compared to 85 that were on our payroll on 31 March 2017.

Our budgeted surplus for 2018 is about \$7.2 million. Given the funded Stabilization and Restructuring Reserves, although not precluding any subsequent determinations by the Commission to increase these reserves, we intend to transfer on-going surpluses to the Province of New Brunswick until the revenue associated with securities regulation is forgone as a result of the launch of the CMRA.

However, we may undertake interim measures in 2018 to facilitate the transition into our post-securities responsibility model that may drive deviations of actual results to budget.

## **MD&A SUPPLEMENT — COMPENSATION DISCLOSURE — SENIOR MANAGEMENT REMUNERATION**

Senior Management includes the Chair, Chief Executive Officer (CEO), and our seven Division Heads. Their compensation and benefits are determined by FCNB, and are based on advice of an independent consultant. The CEO and the Division Heads are eligible for variable pay of up to 9.375% of base pay (12.5% for the CEO). The variable pay program was introduced in 2013 and has been eliminated with the conclusion of 2017. Senior management, with the exception of the Chair, also receives the same employment benefits received by all staff, which includes health, dental and life insurance, pension, leave, and parking. The CEO also has the use of a vehicle. The Chair is not an employee of the Commission and is paid through a personal services contract. The Chair is specifically excluded, by legislation, from participating in the pension plan.



**SENIOR MANAGEMENT REMUNERATION**

Position	Salary Range (\$) as at March 2017	Variable Pay (% of Salary)
Chair	up to \$137,000	-
Chief Executive Officer	131,957 – 164,703	Up to 12.5%
General Counsel and Secretary to the Commission	117,689 – 147,034	Up to 9.375%
Director, Securities	117,689 – 147,034	Up to 9.375%
Director, Enforcement	117,689 – 147,034	Up to 9.375%
Director, Pensions & Insurance	117,689 – 147,034	Up to 9.375%
Director, Corporate Services & Chief Financial Officer	100,640 – 125,852	Up to 9.375%
Director, Education & Communications	100,640 – 125,852	Up to 9.375%
Director, Financial Institutions	100,640 – 125,852	Up to 9.375%
Director, Consumer Affairs	100,640 – 125,852	Up to 9.375%

## What happens to bond prices when interest rates change?

The interest payments that a bond offers are fixed. So even if the current market rate changes, the bond will always pay the same dollar amount in annual interest payments. In order to buy or sell the bond, the price has to be adjusted to make up for these market changes.

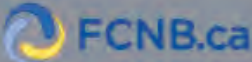


Bond price (value) goes up because the original interest rate of the bond is now more attractive to buyers than the current market rate.

Bond price (value) goes down because the original lower interest rate of the bond is now less attractive to buyers than the current market rate.

**How does that change the price?**  
If interest rates drop to 4%, a buyer would need to invest \$1250 at 4% to earn \$50 in interest. This means the bond's value increases by \$250.

**How does that change the price?**  
If interest rates increased to 6% a buyer could invest \$833 at 6% to earn \$50 in interest. This means the bond's value decreases by \$167.



# 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:

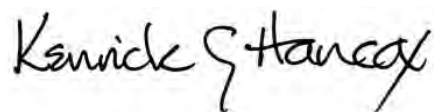
- a) the financial statements do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the financial 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 Financial and Consumer Services Commission as at the dates and for the periods presented.

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

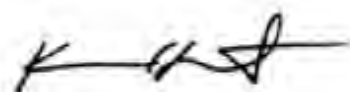
The Commission maintains an accounting system and related controls designed to provide the Commission with reasonable assurance that reliable financial information is available on a timely basis. The members of the Commission ensure that management fulfills its responsibility for financial information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

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

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



Kenrick G. Hancox  
Chief Executive Officer  
Executive Director, Securities



Kevin Hoyt,  
FCPA, FCGA,  
Chief Financial Officer

27 June 2017



June 27, 2017

## **Independent Auditor's Report**

### **Chairperson and Members Financial and Consumer Services Commission**

We have audited the accompanying financial statements of the Financial and Consumer Services Commission, which comprise the statement of financial position as at March 31, 2017 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the financial statements**

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

#### **Auditor's responsibility**

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

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

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

#### **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Financial and Consumer Services Commission as at March 31, 2017 and the results of its operations, and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

#### **Chartered Professional Accountants**

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PricewaterhouseCoopers LLP

300 Brunswick House, 44 Chipman Hill, PO Box 789, Saint John, New Brunswick, Canada E2L 4B9  
T: +1 (506) 632 1810, F: +1 (506) 632 8997



**FINANCIAL and CONSUMER SERVICES COMMISSION**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 MARCH 2017**  
**(in Canadian \$)**

<b>ASSETS</b>	<b>2017</b> 31 March	<b>2016</b> 31 March
Current Assets		
Cash (Note 8)	\$ 4,474,499	\$ 3,805,287
Accounts receivable (Note 10)	2,691,094	2,817,259
Prepaid expenses	98,578	93,510
	<u>7,264,171</u>	<u>6,716,056</u>
Cash held for designated purposes (Notes 8, 11)	1,648,830	4,153,576
Investments held for designated purposes (Notes 9, 11)	12,500,000	10,000,000
Property and equipment (Note 12)	353,251	497,064
Intangible assets (Note 13)	862,514	624,628
	<u>\$ 22,628,766</u>	<u>\$ 21,991,324</u>
<b>LIABILITIES AND EQUITY</b>		
Current Liabilities		
Accounts payable and accrued liabilities (Note 20)	\$ 856,690	\$ 769,936
Accrued salaries and benefits	491,439	446,448
Current portion of employee future benefits (Note 19)	76,178	15,456
Accrued vacation liabilities	84,283	99,818
Current portion of obligation under finance lease (Note 14)	2,684	3,503
Deferred revenue	3,742,030	3,413,324
	<u>5,253,304</u>	<u>4,748,485</u>
Obligation under finance lease (Note 14)	-	2,684
Employee future benefits (Note 19)	484,595	504,884
	<u>484,595</u>	<u>507,568</u>
Total liabilities	<u>5,737,899</u>	<u>5,256,053</u>
Equity balances		
General	2,742,037	2,581,696
Restructuring reserve (Note 11)	10,000,000	10,000,000
Stabilization reserve (Note 11)	4,000,000	4,000,000
Market enhancement reserve (Note 11)	148,640	147,385
Disgorgement reserve (Note 11)	190	6,190
	<u>16,890,867</u>	<u>16,735,271</u>
	<u>\$ 22,628,766</u>	<u>\$ 21,991,324</u>

*Commitments and contingencies (Notes 17, 18)*

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

APPROVED BY THE COMMISSION

*Originally signed by Peter Klohn*

Chair

*Originally signed by J. Douglas Baker*

Member

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**FINANCIAL and CONSUMER SERVICES COMMISSION**  
**STATEMENT OF COMPREHENSIVE INCOME (by nature)**  
**FOR THE YEAR ENDED 31 MARCH 2017**  
**(in Canadian \$)**

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	2017	2016
<b>REVENUE</b>		
Fees		
Prospectus and distribution filings	\$ 10,306,000	\$ 9,758,250
Registrations	3,862,870	3,843,907
Financial filings	1,909,100	1,937,900
Licences and fees	1,722,770	1,633,152
Exemptions and orders	44,800	54,750
Other	29,867	19,150
Assessments	2,538,832	2,627,073
Administrative penalties and settlements	-	-
Disgorged funds	12,000	12,000
Enforcement cost recoveries	2,500	-
Investment income	222,464	176,423
Miscellaneous	45,966	47,143
	<u>20,697,169</u>	<u>20,109,748</u>
<b>EXPENSES</b>		
Salaries and benefits (Note 21)	8,210,476	7,753,705
Administration (Note 22)	1,238,413	1,309,142
Professional services	683,910	477,107
Travel	288,959	272,127
Premises	713,201	643,403
Depreciation and amortization	331,796	187,219
Disgorged funds	12,000	12,000
	<u>11,478,755</u>	<u>10,654,703</u>
<b>COMPREHENSIVE INCOME</b>	<u>\$ 9,218,414</u>	<u>\$ 9,455,045</u>

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

**FINANCIAL and CONSUMER SERVICES COMMISSION**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 MARCH 2017**  
**(in Canadian \$)**

	General	Restructuring Reserve	Stabilization Reserve	Market Enhancement Reserve	Disgorgement reserve	Total
Balance, 31 March 2015	\$ 2,140,669	\$ 10,000,000	\$ 4,000,000	\$ 158,668	\$ 190	\$ 16,299,527
Comprehensive income	9,455,045	-	-	-	-	9,455,045
Disposition of surplus operating funds (Note 15)	(9,019,301)	-	-	-	-	(9,019,301)
Investment income reallocation	(1,479)	-	-	1,479	-	-
Allocation from general (Note 11)	(14,000)	-	-	2,000	12,000	-
Allocation to general (Note 11)	20,762	-	-	(14,762)	(6,000)	-
Balance, 31 March 2016	2,581,696	10,000,000	4,000,000	147,385	6,190	16,735,271
Comprehensive income	9,218,414	-	-	-	-	9,218,414
Disposition of surplus operating funds (Note 15)	(9,062,818)	-	-	-	-	(9,062,818)
Investment income reallocation	(1,255)	-	-	1,255	-	-
Allocation from general (Note 11)	(12,000)	-	-	-	12,000	-
Allocation to general (Note 11)	18,000	-	-	-	(18,000)	-
Balance, 31 March 2017	\$ 2,742,037	\$ 10,000,000	\$ 4,000,000	\$ 148,640	\$ 190	\$ 16,890,867

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

**FINANCIAL and CONSUMER SERVICES COMMISSION**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 MARCH 2017**  
**(in Canadian \$)**

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Comprehensive income	\$ 9,218,414	\$ 9,455,045
Adjustment for depreciation and amortization	331,796	187,219
	9,550,210	9,642,264
Changes in non-cash working capital		
Accounts receivable	126,165	(335,709)
Prepaid expenses	(5,068)	(41,441)
Accounts payable and accrued liabilities	86,754	(153,494)
Accrued salaries and benefits	44,991	65,897
Employee future benefits	40,433	(69,822)
Accrued vacation liabilities	(15,535)	3,068
Deferred registration fee revenue	328,706	129,540
	10,156,656	9,240,303
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Disposition of surplus operating funds	(9,062,818)	(9,019,301)
Payment of finance lease liability	(3,503)	(3,418)
	(9,066,321)	(9,022,719)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of property and equipment and intangible assets	(425,869)	(870,144)
Investments held for designated purposes	(2,500,000)	(10,000,000)
	(2,925,869)	(10,870,144)
<b>NET DECREASE IN CASH</b>	(1,835,534)	(10,652,560)
<b>CASH, BEGINNING OF YEAR</b>	7,958,863	18,611,423
<b>CASH, END OF YEAR</b>	\$ 6,123,329	\$ 7,958,863
<b>Represented by:</b>		
Cash	\$ 4,474,499	\$ 3,805,287
Cash held for designated purposes	1,648,830	4,153,576
	\$ 6,123,329	\$ 7,958,863

	2017	2016
<b>Note:</b>		
Cash flow from interest received is included in comprehensive income.	\$ 131,498	\$ 170,543

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

**FINANCIAL and CONSUMER SERVICES COMMISSION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2017**  
**(in Canadian \$)**

**1. Nature of the Corporation**

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

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

Financial and consumer services legislation means the:

<i>Financial and Consumer Services Commission Act</i>	<i>Auctioneers Licence Act</i>
<i>Collection Agencies Act</i>	<i>Commissioners for Taking Affidavits Act</i>
<i>Consumer Product Warranty and Liability Act</i>	<i>Co-operative Associations Act</i>
<i>Cost of Credit Disclosure Act</i>	<i>Credit Unions Act</i>
<i>Direct Sellers Act</i>	<i>Franchises Act</i>
<i>Gift Cards Act</i>	<i>Insurance Act</i>
<i>Loan and Trust Companies Act</i>	<i>Mortgage Brokers Act</i>
<i>Nursing Homes Pension Plans Act</i>	<i>Payday Loans Act</i> (not proclaimed)
<i>Pension Benefits Act</i>	<i>Pre-arranged Funeral Services Act</i>
<i>Real Estate Agents Act</i>	<i>Securities Act</i>
<i>Securities Transfer Act</i>	

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

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

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

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

Management have prepared these financial statements in accordance with IFRS as issued by the International Accounting Standards Board (IASB).

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

**FINANCIAL and CONSUMER SERVICES COMMISSION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2017**  
**(in Canadian \$)**

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

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

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

**3. Summary of significant accounting policies**

**(a) Revenue recognition**

Revenue is recognized when earned.

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

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

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

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

Investment income is recorded as earned.

**FINANCIAL and CONSUMER SERVICES COMMISSION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2017**  
**(in Canadian \$)**

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

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

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

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

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

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

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

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

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

**FINANCIAL and CONSUMER SERVICES COMMISSION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2017**  
**(in Canadian \$)**

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

**(d) Leasing**

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

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

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

**(e) Provisions**

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

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



**FINANCIAL and CONSUMER SERVICES COMMISSION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2017**  
**(in Canadian \$)**

**(f) Employee benefits**

**Post-employment benefit obligations**

The FCNB provides pension benefits to its employees through participation in the Public Service Shared Risk Plan (the "Plan"), which is a shared risk pension plan. There is no contractual agreement or stated policy for charging the net defined benefit cost for the plan to the FCNB; accordingly the FCNB recognizes a cost equal to the contribution payable for the period. The FCNB receives notification on an annual basis of the required contributions from the Board of Trustees of the Public Services Shared Risk Plan, which administers the Public Service Shared Risk Plan.

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

**(g) Cash**

Cash includes cash on hand and deposits held with banks.

**(h) Financial instruments**

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

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

- I. Cash, cash held for designated purposes and investments held for designated purposes are classified as "fair value through income". These financial assets, carried at fair value, are marked-to-market through net earnings each period end.
- II. Accounts receivable 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.

**FINANCIAL and CONSUMER SERVICES COMMISSION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2017**  
**(in Canadian \$)**

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

**(i) Recently adopted accounting standards**

The following standards are required to be applied for periods beginning on or after 1 January 2016 and, unless otherwise indicated, had no effect on our financial performance:

In December 2014, the IASB published "Disclosure Initiative (Amendments to IAS 1)". The amendments aim at clarifying IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports

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

The IASB is continually working towards improving and developing new accounting standards. The IASB has issued a number of exposure drafts of new standards that are expected to come into effect within future reporting periods. The FCNB monitors the IASB work plans and publications to assess any potential impact on the FCNB.

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

IFRS 15 specifies how and when an IFRS reporter will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with earlier application permitted. It is not expected that this new standard will have a material impact on the financial statements.

In January 2016 the IASB published IFRS 16 Leases. IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. Our leased premises in Saint John and Fredericton will be recognized as assets and liabilities. IFRS 16 is effective for annual periods beginning on or after 1 January 2019, with earlier application permitted. It is expected that this new standard will have a material impact on the financial statements.

**FINANCIAL and CONSUMER SERVICES COMMISSION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2017  
(in Canadian \$)**

**4. Significant accounting estimates and judgments**

The FCNB 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 FCNB's financial statements. These estimates and judgments have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

**(a) Significant accounting estimates**

**Property and equipment and intangible assets**

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

**Retirement allowances**

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

**Sick leave credits benefit**

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

**Supplemental pension benefit**

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

**FINANCIAL and CONSUMER SERVICES COMMISSION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2017**  
**(in Canadian \$)**

**Assessments**

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

**(b) Significant accounting judgments**

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

**5. Financial risk management**

**Financial risk factors**

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

*Credit risk*

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

*Liquidity risk*

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

*Interest rate risk*

*This risk is minimal* since the FCNB did not incur any interest bearing long-term debt except on the finance lease during the year. Cash deposits earn interest at a floating rate and this revenue is impacted by the current low short-term interest rates. A 25 basis point change in the interest rate would have an immaterial impact on the financial statements.

**FINANCIAL and CONSUMER SERVICES COMMISSION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2017**  
**(in Canadian \$)**

**6. Capital management**

The FCNB's objective when it manages capital is to ensure it continues as a going concern in order to fulfill its mandate. The FCNB has established a stabilization reserve of \$4,000,000 (\$4,000,000 in 2016) and a restructuring reserve of \$10,000,000 (\$10,000,000 in 2016) to manage its capital risk. The FCNB ensures that any payment of surplus funds to the Province of New Brunswick will not impair the FCNB's ability to pay its liabilities, to meet its obligations as they become due or to fulfil its contractual commitments.

**7. Financial instruments**

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

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

The FCNB maintains three separate bank accounts. The first is comprised of the operating account and those monies attributable to the stabilization reserve and monies received from disgorgement orders. The second account is maintained for the market enhancement reserve. The third account is maintained for monies held in trust, as securities for licences issued under various financial and consumer services legislation. The balance for the third account as of 31 March 2017 was \$57,816 (\$17,592 in 2016) and is included in cash. Under the terms of the FCNB's banking agreement, these accounts earn interest at prime less 1.85% calculated daily.

**9. Investments held for designated purposes**

During the year, the FCNB invested the \$12,500,000 (\$10,000,000 in 2016); \$10,000,000 (\$10,000,000 in 2016) attributable to the restructuring reserve and \$2,500,000 of the \$4,000,000 (\$0 in 2016) attributable to the stabilization reserve, in short term investments ranging from three to 12 months. The interest earned on these investments varies from 1.15% to 1.50%. The amounts attributable to the restructuring reserve and stabilization reserve have been disclosed on the statement of financial position as investments held for designated purposes.

**10. Accounts receivable**

The FCNB charges assessments as per specific financial and consumer services legislation to the credit union system and to insurance sector participants. The outstanding assessments owing totalled \$2,432,261 of the total accounts receivable as of 31 March 2017 (\$2,525,019 in 31 March 2016).

No provision for allowance for doubtful accounts is required.

**FINANCIAL and CONSUMER SERVICES COMMISSION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2017**  
**(in Canadian \$)**

**11. Reserve**

*Restructuring reserve*

The FCNB has established a reserve consistent with section 21(8) of the *Financial and Consumer Services Commission Act* to allow the Commission to meet its revised mandate associated with the establishment of the proposed cooperative capital markets regulatory system, while providing sufficient time to develop operational efficiencies and to consult with its regulated sectors for any required fee rule changes necessary to maintain its self-financing legislative requirements. The reserve was funded in 2015 through a one-time charge of \$10,000,000 to the general fund. The value of the reserve is \$10,000,000 (\$10,000,000 in 2016).

*Stabilization reserve*

The FCNB has established a reserve consistent with subsection 21(8) of the *Financial and Consumer Services Commission Act* to finance extraordinary expenses for isolated and unanticipated purposes that are regulatory in nature, and for changes in market activity that have an effect on revenue. The reserve is funded through charges to the general fund. The maximum value of the reserve has been set at \$4,000,000 (\$4,000,000 in 2016).

*Market enhancement reserve*

The FCNB collects administrative penalties under section 186 of the *Securities Act*. Consistent with subsection 21(5) of the *Financial and Consumer Services Commission Act*, these amounts are not used for the normal operating expenditures of the FCNB. Instead, they are used for endeavours or activities that enhance the capital markets or consumer protection in New Brunswick. Market enhancement reserve funds are maintained separate from the normal operating funds of the FCNB and generate their own investment revenue. The value of the reserve is \$148,640 (\$147,385 in 2016).

*Disgorgement reserve*

The FCNB has the authority to issue disgorgement orders under section 184 of the *Securities Act* or the Court of Queen's Bench may do so under section 187 of the *Securities Act*. Disgorgement orders permit the FCNB to order that a person be divested from the benefits obtained as a result of failure to comply with securities law. These amounts are not used for the normal operating expenditures of the FCNB as described in subsection 21 (6) of the *Financial and Consumer Services Commission Act* and will generally be used to return funds to negatively impacted investors consistent with Local Rule 15-502, *Procedure for the Distribution of Disgorged Funds*. The value of the reserve is \$190 (\$6,190 in 2016).

**FINANCIAL and CONSUMER SERVICES COMMISSION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2017**  
**(in Canadian \$)**

**12. Property and equipment**

	Office furniture and equipment	Finance lease	Information technology infrastructure	Software	Automobile	Leasehold improvements	Total
<b>Cost</b>							
As at 31 March 2015	\$ 381,853	\$16,995	\$ 216,824	\$11,780	\$ 32,775	\$614,270	\$ 1,274,497
Additions	52,511	-	15,728	-	-	184,759	252,998
Dispositions	-	-	-	-	-	-	-
<b>As at 31 March 2016</b>	<b>\$ 434,364</b>	<b>\$ 16,995</b>	<b>\$ 232,552</b>	<b>\$ 11,780</b>	<b>\$ 32,775</b>	<b>\$ 799,029</b>	<b>\$ 1,527,495</b>
Additions	4,782	-	17,846	-	-	-	22,628
Dispositions	-	-	-	-	-	-	-
<b>As at 31 March 2017</b>	<b>\$ 439,146</b>	<b>\$ 16,995</b>	<b>\$ 250,398</b>	<b>\$ 11,780</b>	<b>\$ 32,775</b>	<b>\$ 799,029</b>	<b>\$ 1,550,123</b>
<b>Accumulated Depreciation</b>							
As at 31 March 2015	\$ 183,185	\$7,363	\$ 114,926	\$11,780	\$ 21,304	\$533,126	\$ 871,684
Depreciation	68,495	3,399	32,780	-	6,555	47,518	158,747
Dispositions	-	-	-	-	-	-	-
<b>As at 31 March 2016</b>	<b>\$ 251,680</b>	<b>\$ 10,762</b>	<b>\$ 147,706</b>	<b>\$ 11,780</b>	<b>\$ 27,859</b>	<b>\$ 580,644</b>	<b>\$ 1,030,431</b>
Depreciation	70,458	3,399	36,566	-	4,916	51,102	166,441
Dispositions	-	-	-	-	-	-	-
<b>As at 31 March 2017</b>	<b>\$ 322,138</b>	<b>\$ 14,161</b>	<b>\$ 184,272</b>	<b>\$ 11,780</b>	<b>\$ 32,775</b>	<b>\$ 631,746</b>	<b>\$ 1,196,872</b>
<b>Net book value</b>							
As at 31 March 2016	\$ 182,684	\$ 6,233	\$ 84,846	\$ -	\$4,916	\$ 218,385	\$ 497,064
<b>As at 31 March 2017</b>	<b>\$ 117,008</b>	<b>\$ 2,834</b>	<b>\$ 66,126</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 167,283</b>	<b>\$ 353,251</b>

**FINANCIAL and CONSUMER SERVICES COMMISSION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2017**  
**(in Canadian \$)**

**13. Intangible Assets**

	Website	Regulatory information data system (internally generated)	Total
<b>Cost</b>			
As at 31 March 2015	\$ 45,870	\$ -	\$ 45,870
Additions	-	617,146	617,146
Dispositions	-	-	-
<b>As at 31 March 2016</b>	<b>\$ 45,870</b>	<b>\$ 617,146</b>	<b>\$ 663,016</b>
Additions	1,990	401,251	403,241
Dispositions	-	-	-
<b>As at 31 March 2017</b>	<b>\$ 47,860</b>	<b>\$ 1,018,397</b>	<b>\$ 1,066,257</b>
<b>Accumulated Amortization</b>			
As at 31 March 2015	\$ 9,916	\$ -	\$ 9,916
Amortization	11,467	17,005	28,472
Dispositions	-	-	-
<b>As at 31 March 2016</b>	<b>\$ 21,383</b>	<b>\$ 17,005</b>	<b>\$ 38,388</b>
Amortization	11,468	153,887	165,355
Dispositions	-	-	-
<b>As at 31 March 2017</b>	<b>\$ 32,851</b>	<b>\$ 170,892</b>	<b>\$ 203,743</b>
<b>Net Book Value</b>			
As at 31 March 2016	\$ 24,487	\$ 600,141	\$ 624,628
<b>As at 31 March 2017</b>	<b>\$ 15,009</b>	<b>\$ 847,505</b>	<b>\$ 862,514</b>

**14. Finance lease liability**

In 2013, the FCNB entered into a lease for photocopy equipment with a term of five years. The FCNB has an option to purchase the equipment for a nominal amount at the end of the lease term. Lease liability is effectively secured as the rights to the leased asset revert to the lessor in the event of default.

	Minimum lease payments		Present value of minimum lease payments	
	2017	2016	2017	2016
Not later than 1 year	\$ 2,718	\$ 3,623	\$ 2,684	\$ 3,503
Later than 1 year and not later than 5 years	-	2,718	-	2,684
	<u>\$ 2,718</u>	<u>\$ 6,341</u>	2,684	6,187
Less: Current portion			2,684	3,503
Finance lease liability			<u>\$ -</u>	<u>\$ 2,684</u>



**FINANCIAL and CONSUMER SERVICES COMMISSION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2017**  
**(in Canadian \$)**

**15. Disposition of surplus operating funds**

The disposition of surplus operating funds consists of payments to the Consolidated Fund of the Government of New Brunswick subject to the approval of the Board of Management and consistent with subsection 21(7) of the *Financial and Consumer Services Commission Act*. The FCNB paid \$9,062,818 in 2017 (\$9,019,301 in 2016).

**16. Provisions**

A provision is recognized if, as a result of a past event, the FCNB has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. The FCNB has no provisions recorded at 31 March 2017 (\$0 at 31 March 2016).

**17. Operating lease commitments**

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

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

The FCNB entered into a 54-month lease for office space in Fredericton, effective 1 September 2014 with the Department of Transportation and Infrastructure for the Government of New Brunswick.

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

	<b>2017</b>	<b>2016</b>
Minimum lease payments	\$ 619,174	\$ 554,206
Contingent rentals	-	-
Sub-lease payments received	-	-
	<u>\$ 619,174</u>	<u>\$ 554,206</u>

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

	<b>2017</b>	<b>2016</b>
Not later than 1 year	\$ 628,580	\$ 626,395
Later than 1 year and not later than 5 years	1,355,592	1,976,715
Later than 5 years	-	-
	<u>\$ 1,984,172</u>	<u>\$ 2,603,110</u>

**FINANCIAL and CONSUMER SERVICES COMMISSION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2017  
(in Canadian \$)**

**18. Commitments and contingencies**

NBSC (which was continued as FCNB) was named as a defendant in two statements of claim, filed in 2011 and 2014 respectively. The 2011 claim has progressed slowly, and is still in early stages. There has been no activity in the 2014 action. The outcome and ultimate disposition of these actions are not yet determinable. An expense, if any, concerning this contingency will be accounted for in the period in which the payment or provision occurs.

**19. Employee future benefits**

**(a) Pension plan**

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 2017, the FCNB expensed contributions of \$756,314 (\$703,966 in 2016) under the terms of the Plan.

**(b) Supplemental pension benefit**

A retired Chief Executive Officer receives a supplemental pension benefit whereby supplemental pensionable service of one year for each year of service as Chief Executive Officer to the maximum of five years was earned. This benefit is unfunded as no assets have been set aside in a separate legal entity and payments are made as they become due. For the year ended 31 March 2017, the FCNB expensed \$13,533 (\$13,042 in 2016) under the terms of the Supplemental Benefit Agreement and paid out benefits of \$18,086 (\$13,979 in 2016).

**(c) Retiring Allowances**

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

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

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

**FINANCIAL and CONSUMER SERVICES COMMISSION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2017**  
**(in Canadian \$)**

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

During prior reporting periods, most eligible employees took a pay-out in lieu of a deferral. Management estimates that the remaining employees will work until retirement and be eligible for the pay-out and, therefore, a liability of \$87,095 (\$86,236 in 2016) has been reflected in the financial statements.

For the year ended 31 March 2017, the FCNB expensed \$859 for this program (\$559 in 2016). The FCNB paid out benefits of \$0 (\$58,673 in 2016).

**(d) Sick leave credits**

In concert with the elimination of the retiring allowance program, changes were made to the sick leave policy such that employees could receive a pay-out of 20% of their unused sick leave credits at lay-off, retirement or death. These statements reflect a liability of \$278,112 (\$233,986 in 2016) for this benefit and a current year expense of \$44,126 (\$16,616 in 2016). This liability is discounted as follows: employees over the age of 50, the FCNB applies a 3% discount factor to adjust for the age of each eligible employee for each year that the employee is under the age of 55; and for employees under the age of 50, the FCNB applies a 3% discount factor to adjust for the age of each eligible employee for each year that the employee is under the age of 65. For liability calculation purposes, management estimates that 50% of employees under the age of 40 will retire from the FCNB, 75% of employees between the ages of 40 and 50 will retire from the FCNB, and all employees over the age of 50 will retire from the FCNB.

**20. Related party transactions**

As part of the transition arrangements associated with the transfer of responsibilities from the Department of Justice and Attorney General, certain payments totalling \$5,185 (\$6,475 in 2016) that were the property of the FCNB were deposited to the Minister of Finance with the understanding that these amounts would be remitted to the FCNB after a reconciliation process. These payments were for services provided by the FCNB. As of 31 March 2017, an account receivable of \$1,705 (\$1,450 at 31 March 2016) was owed to FCNB with no expectation of earning interest.

Service New Brunswick (SNB), formally the New Brunswick Internal Services Agency, a related party to the FCNB, provides certain services in the normal course of operations that are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Information technology services were provided, such as data storage, data back-up, data protection and support for the FCNB. The FCNB expensed \$131,571 (\$132,671 in 2016) during the reporting period on these services. As of 31 March 2017, an accounts payable of \$123,326 (\$111,783 at 31 March 2016) was owed to the SNB and was subject to normal terms. This amount is included in accounts payable and accrued liabilities.

**FINANCIAL and CONSUMER SERVICES COMMISSION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2017**  
**(in Canadian \$)**

The Translation Bureau for the Government of New Brunswick provides translation services to the FCNB that are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Total expenditures during the period were \$94,818 (\$116,960 in 2016). As of 31 March 2017, an accounts payable of \$20,314 (\$27,079 at 31 March 2016) was owed to the Translation Bureau for the Government of New Brunswick and is subject to normal terms. This amount is included in accounts payable and accrued liabilities.

On 1 October 2014, the FCNB entered into an agreement with the Department of Transportation and Infrastructure (“DTI”) for permanent office space. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The FCNB expensed \$317,362 (\$248,320 in 2016). As of 31 March 2017, an accounts payable of \$63,943, which includes harmonized sales tax (\$46,078 at 31 March 2016) was owed to the DTI and subject to normal terms. This amount is included in accounts payable and accrued liabilities.

The Chair of the FCNB has a personal services contract with the FCNB that is measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. This is in-lieu of an employment contract and facilitates the Chair’s independence from the operations of the Commission. The FCNB expensed \$152,317 (\$152,122 in 2016) during the reporting period. As of 31 March 2017, an accounts payable of \$0 (\$0 at 31 March 2016) was owed to the Chair and subject to normal terms.

The FCNB provides certain administrative services for the Government of New Brunswick associated with assessments or recoveries from the insurance sector and that are for the benefit of the Consolidated Revenue Fund of the Government of New Brunswick. These services include the invoicing, receipting and depositing of payments under the *Premium Tax Act* (\$52,681,795 in 2017, \$50,147,904 in 2016); the invoicing, receipting and depositing of payments under the *Medical Services Payment Act*, the *Hospital Services Act* and the *Family Services Act* (\$34,462,319 in 2017, \$28,574,679 in 2016); and the receipt and depositing of payments under the *Fire Prevention Act* (\$3,415,998 in 2017, \$3,237,666 in 2016). These transactions do not flow through the FCNB’s financial statements and are recorded directly in the financial information system of the Government of New Brunswick. The FCNB performs these functions without any financial consideration or payment from the Government of New Brunswick.

**Key management personnel**

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

	<b>2017</b>	<b>2016</b>
Salaries and other short-term employee benefits	\$ 1,011,193	\$ 1,003,591
Post-employment benefits	78,662	80,526
	<u>\$ 1,089,855</u>	<u>\$ 1,084,116</u>

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

**FINANCIAL and CONSUMER SERVICES COMMISSION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2017**  
**(in Canadian \$)**

**21. Salaries and benefits**

	<b>2017</b>	<b>2016</b>
Salaries	\$ 6,807,190	\$ 6,451,462
Benefits	646,972	585,235
Pension expense (Note 19)	756,314	717,008
	<u>\$ 8,210,476</u>	<u>\$ 7,753,705</u>

**22. Administration**

	<b>2017</b>	<b>2016</b>
Investor protection and education	\$ 471,604	\$ 502,015
Members and staff development	248,815	249,816
Information technology	161,917	168,970
Other administration	356,077	388,341
	<u>\$ 1,238,413</u>	<u>\$ 1,309,142</u>

**23. Alternative presentation – Income statement by function**

	<b>2017</b>	<b>2016</b>
<b>REVENUE</b>		
Securities	\$ 16,143,793	\$ 15,610,157
Insurance	3,227,526	2,837,522
Financial Institutions	377,022	753,827
Consumer Affairs	436,555	396,424
Pensions	275,246	304,491
Investment income	222,527	182,273
Miscellaneous	14,500	25,054
	<u>20,697,169</u>	<u>20,109,748</u>
<b>EXPENSES</b>		
Governance and Corporate Management	3,773,403	3,193,063
Insurance	2,324,697	2,035,205
Education and Communications	1,145,974	1,168,811
Securities	1,241,748	1,161,746
Enforcement	537,957	693,409
Financial Institutions	877,071	823,543
Consumer Affairs	568,527	562,497
Pensions	682,708	725,668
Tribunal	326,670	290,761
	<u>11,478,755</u>	<u>10,654,703</u>
<b>COMPREHENSIVE INCOME</b>	<u>\$ 9,218,414</u>	<u>\$ 9,455,045</u>

**FINANCIAL and CONSUMER SERVICES COMMISSION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2017  
(in Canadian \$)**

**24. Authorization of financial statements**

The financial statements for the year ended 31 March 2017 (including comparatives) were approved by the board of directors on 27 June 2017.

