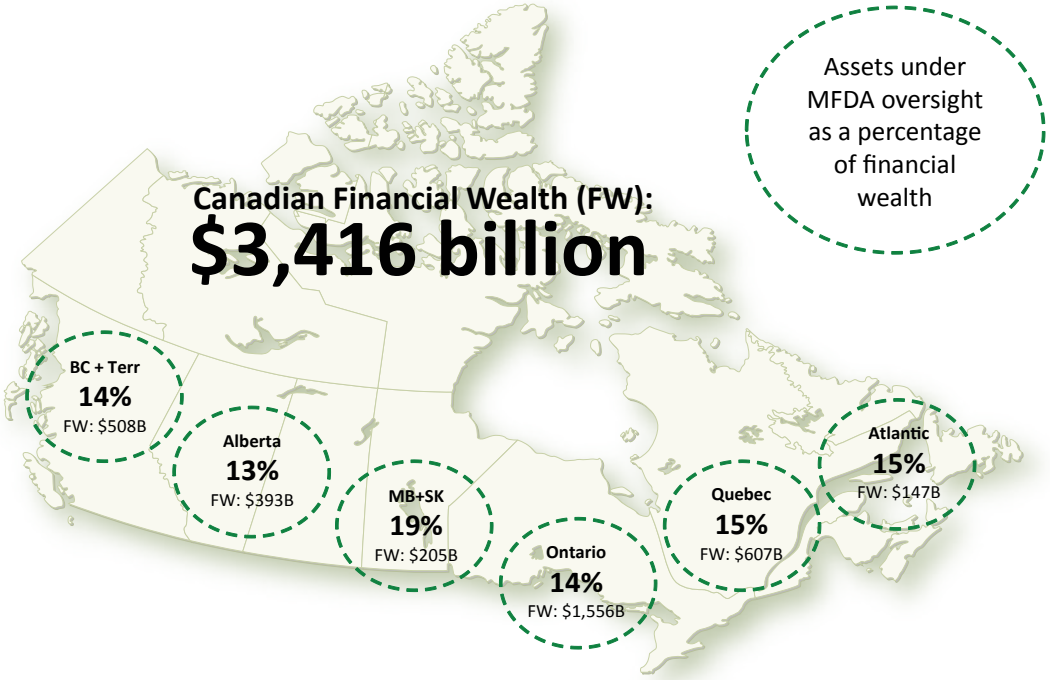
Regulating in a Dynamic Environment

2015 ANNUAL REPORT

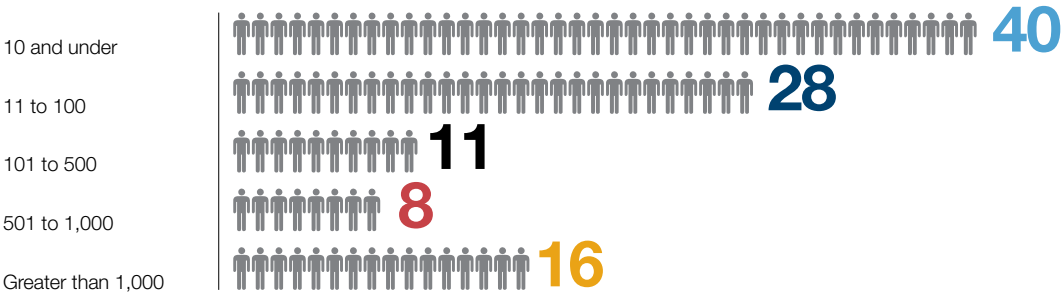
Mutual Fund Dealers Association of Canada
Association canadienne des courtiers de fonds mutuels

Member Information At A Glance



Number of Members by AUA

Members by Number of Approved Persons



Membership Profile

103
Total Number of MFDA Members

83,000
Number of Approved Persons

$605 billion
Total Mutual Fund Assets Under Administration of All Members

$1,219 billion
Total Industry Mutual Fund Assets Under Administration

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As a self-regulatory organization that oversees mutual fund dealers in Canada, the Mutual Fund Dealers Association of Canada ("MFDA") regulates the operations, standards of practice and business conduct of Members and Approved Persons with a focus on retail clients.

Senior Management Group

Mark T. Gordon, LL.B.
President & CEO

Karen L. McGuinness, CPA, CA
Senior Vice-President,
Member Regulation – Compliance

Shaun Devlin, LL.B.
Senior Vice-President,
Member Regulation – Enforcement

Paige Ward, LL.B.
General Counsel, Corporate
Secretary and Vice-President, Policy

Paul Reid, CFA, CPA, CMA
Vice-President, Finance and Administration

Jeff Mount, CA
Vice-President, Pacific Region

Mark Stott, CA-IFA
Vice-President, Prairie Region

Our Vision

We protect the investing public by:

- **Delivering responsible and effective regulation**
- **Strengthening collaboration, knowledge and expertise**
- **Promoting investor confidence**

Our Values

We believe that all our actions must be executed professionally and honestly.

We have INTEGRITY.

We believe that the best result is one that includes meaningful engagement of all stakeholders.

We COLLABORATE.

We believe that all our actions should be fair, balanced and practical while achieving appropriate outcomes.

We are REASONABLE.

Message from the Chair of the Board

It is my pleasure to present this Annual Report which provides an update of MFDA's accomplishments over the past fiscal year as well as insight into the strategic direction of the MFDA for the coming three years.

MFDA's 2015–2017 Strategic Plan was finalized in June 2015. The new Strategic Plan builds on our current Vision and Goals with continued emphasis on promoting a culture of compliance through responsible regulation, collaboration with Members, investors and other regulators.

On behalf of the Board of Directors, I wish to acknowledge Lea Hansen, Dawn Russell and Vince Valenti, retiring Board Members, for their tremendous contributions during their terms in office. I also wish to thank the continuing board members with whom I have had the privilege to serve. Thank you for your service, your leadership and your guidance.

As my tenure as Chair of the Board draws to a close, my sincere gratitude goes to the management team and all MFDA staff for their efforts over the past six years. The MFDA's public interest focus and commitment is unwavering. With the ongoing leadership of the MFDA Board and management team and the hard work of all staff, we will continue to respond to the needs of our Members and the investing public while fulfilling our investor protection mandate. I am confident that the MFDA is well positioned to do so as it continues to regulate in a dynamic and evolving regulatory environment.

Wishing everyone the best,

Roderick M. McLeod, Q.C.
Chair of the Board of Directors

Message from the President & Chief Executive Officer

By June 30, 2015, the mutual fund industry had experienced a one-year growth of 11% increasing total industry assets to over $1 trillion. MFDA Members' growth in assets under administration has kept pace with the industry and MFDA Members were responsible for overseeing approximately $630 billion in client assets.

The MFDA's role as a self-regulatory organization is important not just because Members are responsible for a significant portion of the Canadian wealth management landscape but because Members primarily service mass market retail investors who represent approximately 80% of Canadian households. Because of this, we must achieve our mandate of protecting investors while at the same time fostering a healthy and diverse distribution channel to make sure retail investors continue to have access to advice. We aim to meet these objectives by being a responsible regulator and pursuing new approaches that help us meet our mandate while adapting to the changing regulatory and economic conditions.

Being a responsible regulator in a dynamic environment is the theme of our new 2015–2017 Strategic Plan. In developing the Strategic Plan, we held numerous consultations across Canada with our various stakeholders. Our new Plan was developed with the most stakeholder input we have obtained to date with over 77% of Members participating in the process. Our activities this year demonstrate our commitment to achieving our strategic objectives of increasing education and guidance, collaborating with stakeholders, obtaining operational efficiencies and improving the overall investor experience.

Member Education and Guidance

All MFDA departments participated in the development of guidance and educational materials for Members, Approved Persons and investors this year. The new Client Relationship Model Phase 2 ("CRM2") resulted in significant amendments to our Rulebook and subsequent discussion and outreach to Members and their service providers to address questions and implementation issues. We also organized a working group tasked with developing a consultation paper on implementing a continuing education requirement for our 83,000 Approved Persons.

Collaboration

We expanded our consultation efforts this year with our various stakeholders. We organized several consultative groups to provide input into such things as a continuing education program, proficiency to sell exchange-traded funds and senior investor issues. We have been active in partnering with others to collaborate on investor education initiatives as well as holding regular meetings with investor advocates. We have continued to identify opportunities to share information with regulators in other financial sectors as well as with law enforcement agencies to employ a coordinated and harmonized approach to dealing with those who do not comply with the rules and pose a risk to the public.

To be an efficient regulator, we continually seek ways to focus our resources to achieve the greatest impact.

Operational Efficiencies

To be an efficient regulator, we continually seek ways to focus our resources to achieve the greatest impact. This year we made changes to our financial examination process in order to be more risk-based. In Enforcement, we developed guidance and educational materials for Members on high risk issues arising from enforcement cases which will assist them in prioritizing their compliance efforts.

Improving the Investor Experience

Given the aging Canadian demographic, we have and will continue to focus on seniors in our enforcement and compliance activities. We performed a sweep of Member trading in Deferred Sales Charge ("DSC") Funds with a specific focus on client age and time horizon to assess the suitability of DSC trades with senior investors. We have also planned our second National Seniors Summit which will be held in October 2015. The Summit will bring together leading experts in various disciplines to discuss relevant issues and provide best practices for servicing senior investors. We also participated in a joint Mystery Shopping project with the Ontario Securities Commission ("OSC") and Investment Industry Regulatory Organization of Canada ("IIROC"). The purpose of the Mystery Shopping project was to gain insight into retail investor experiences and assess sales practices of advisors. The information obtained through this project will be considered in our future regulatory initiatives.

Going forward, we will continue to focus on delivering responsible and effective regulation, strengthening collaboration, knowledge and expertise and improving the investor experience to achieve our mandate of protecting investors and maintaining public confidence in the Canadian mutual fund industry.

On behalf of the MFDA Board, I would like to acknowledge and thank the outgoing Chair, Rod McLeod, for his service over the past six years. We wish him well for the future.

Finally, I would like to thank MFDA staff for their contribution in achieving our objectives this year. It is through their hard work and professionalism that we are able to achieve our regulatory mandate. I am proud of their efforts and accomplishments in this regard.

Mark T. Gordon
President & Chief Executive Officer

Vision Framework

MFDA Members and their Approved Persons provide the most accessible advice-driven distribution model to retail investors in Canada. Mutual funds are also the most commonly held security of retail investors. Accordingly, the MFDA's primary focus since its inception 15 years ago has been regulating the distribution of mutual funds to these investors.

VISION

We protect the investing public by:

- Delivering responsible and effective regulation
- Strengthening collaboration, knowledge and expertise
- Promoting investor confidence

GOAL

DELIVER RESPONSIBLE and EFFECTIVE REGULATION	STRENGTHEN COLLABORATION, KNOWLEDGE and EXPERTISE	PROMOTE INVESTOR CONFIDENCE
STRATEGY		
We must proactively employ our regulatory expertise and use risk-based, balanced and transparent processes **so that** we are a responsible and effective regulator	**We must** engage the industry in sharing our collective knowledge and expertise **so that** together we achieve high standards of conduct	**We must** focus on improving the investor experience and providing investors with key information to make informed decisions **so that** they are well protected
OUTCOMES		
• Appropriate balance between Member regulatory cost and investor protection • Efficient and cost effective regulatory operations • Proactive in identifying and addressing industry trends and regulatory issues • Professional and expert staff	• Promote awareness and understanding of regulatory requirements • Demonstrate value of compliance in risk management decisions • Promote investor trust and confidence through high standards of conduct	• Improved investor knowledge, understanding and engagement • Increased investor awareness of and confidence in the MFDA • Increased regulatory protection and complaint resolution
KEY INITIATIVES		
• Assess internal processes and improve efficiency and effectiveness • Enhance risk assessment • Identify and address emerging industry trends and issues • Continue to enhance staff development, education and engagement	• Member education • Stakeholder collaboration • Approved Person education and proficiency standards	• Provide investors with access to meaningful information • Partner with others for investor initiatives • Improved processes for complaint resolution

STAFF EXCELLENCE: Professional and Expert Staff Equipped to Regulate in a Dynamic Environment

Strategic Plan 2015–2017

Strategic Goal 1

DELIVER RESPONSIBLE AND EFFECTIVE REGULATION

Our core regulatory functions and processes are intended to protect the investing public in an efficient and effective manner using a risk-based approach to allocate our resources in a manner that addresses risks on both a proactive basis and where harm has occurred to investors. The MFDA will continue to look for ways to enhance and refine the risk-based approaches to our compliance and enforcement activities as well as our policy initiatives to identify emerging risks and new developments that might require a regulatory response.

The Canadian capital markets are constantly changing and innovating through the introduction of new product offerings, services and business models. The MFDA will continue to monitor and proactively assess industry developments to ensure that investor protection and confidence is maintained. As governments and the securities regulators contemplate changes to regulatory structures in Canada, we will contribute our expertise and unique understanding of the mutual fund distribution channel to help make informed decisions to ensure that the Canadian capital markets are regulated in an effective and efficient manner that protects the investing public.

Recruiting and retaining qualified, professional and motivated staff is critical to fulfilling our mandate and accomplishing our goals. We will continue to evaluate the skills and knowledge of our staff with a view to providing training in specific areas, as needed, to support our mandate.

Strategic Goal 2

STRENGTHEN COLLABORATION, KNOWLEDGE AND EXPERTISE

Member Education has been and will continue to be an area of strategic focus for the MFDA. We will increase the number of formal educational training sessions for Members and their supervisory staff and Approved Persons. Additionally, we will develop and mandate a continuing education requirement for all Approved Persons. We will continue to develop best practice guidance and practical tools for Members to use as a resource in their day-to-day operations.

MFDA Members and Approved Persons offer a diverse range of products and services beyond trading in mutual funds. Accordingly, MFDA initiatives may overlap with the objectives of other regulatory organizations and industry associations. To promote greater harmonization and regulatory efficiency, we will seek to collaborate with relevant stakeholders on initiatives of mutual interest.

We will assess existing proficiency requirements to determine if they have kept pace with industry and regulatory developments as well as implementing a continuing education standard. The MFDA will also act as a resource to Members and Approved Persons in their training and education efforts.

Strategic Goal 3

PROMOTE INVESTOR CONFIDENCE

MFDA regulatory activities are driven by the fundamental goals of protecting investors and ensuring investor confidence in the Canadian capital markets. As we continue to pursue this goal, we will provide investors more meaningful educational materials distributed in a manner that ensures they are broadly available.

We will broaden the scope of our partnerships with regard to obtaining input from an investor perspective and to develop and distribute information on key topics of interest relating to the investment process. MFDA will continue to work with Members to maintain fair complaint handling standards. We will continue to work with our Members, the CSA and other partners to ensure clients have an effective dispute resolution service for circumstances where clients are not able to resolve a complaint with a Member.

Board of Directors

The Board establishes broad corporate policies for the MFDA, sets the strategic direction and oversees management with a focus on enhancing investor protection and strengthening public confidence in the Canadian mutual fund industry. The Board is also responsible for the corporate governance of the Company.

The composition of the Board of Directors at June 30, 2015 was as follows:

Public Directors

Roderick McLeod, Q.C.
(Chair)
Corporate Director, Consultant & Retired Lawyer
(Markham, Ontario)

Lea Hansen, CFA
Consultant
(Toronto, Ontario)

Steven Glover, FCA, MBA
Chief Financial Officer
Clearview Resources Ltd.
(Canmore, Alberta))

Christopher Nicholls, BA, LL.B., L.M., MPA
Professor of Business Law
Western University
(London, Ontario)

Dawn Russell, Q.C.
President & Vice-Chancellor
St. Thomas University
(Fredericton, New Brunswick)

Ross Stringer, CPA CA
Corporate Director
(Vancouver, British Columbia)

Industry Directors

Steven Donald, FCPA, FCA
(Vice-Chair)
President
Assante Wealth Management (Canada) Ltd.
(Toronto, Ontario)

Rick Annaert, CPA, CMA
President & Chief Executive Officer
Manulife Securities Investment Services Inc.
(Toronto, Ontario)

Tuula Jalasjaa, Int'l MBA, CFA
Managing Director & Head
HollisWealth, Scotia Wealth Management
(Toronto, Ontario)

Frank Laferriere, CPA, CA, CF
Senior Vice-President & Chief Operating Officer
Mandeville Wealth Management Inc.
(Toronto, Ontario)

David Losier, CPA, CGA
General Manager
Acadia Financial Services Inc.
(Caraquet, New Brunswick)

Vince Valenti, MBA
Consultant
(Manotick, Ontario)

Ex Officio

Mark T. Gordon, LL.B.
President & Chief Executive Officer
Mutual Fund Dealers Association of Canada
(Toronto, Ontario)

Board Committees

Audit & Finance

Steven Glover, Chair
Rick Annaert
Steven Donald
Lea Hansen
Ross Stringer

Governance

Dawn Russell, Chair
Steven Donald
Rod McLeod
Vince Valenti

Regulatory Issues

Christopher Nicholls, Chair
Lea Hansen
Tuula Jalasjaa
Frank Laferriere
David Losier
Dawn Russell
Vince Valenti

Director Attendance and Compensation

Each Public Director on the MFDA Board receives an annual retainer of $15,000. Provided that they are Public Directors, the Chairs of the Governance Committee and Regulatory Issues Committee each receive a $4,000 annual retainer, while the Chair of the Audit & Finance Committee receives a $6,000 annual retainer. Public Directors also receive a fee of $1,500 for attending each Board of Directors meeting and $1,500 for each Committee meeting in excess of two hours ($1,000 for Committee meetings less than two hours). Out-of-town Public Directors who attend meetings in person receive a supplementary travel fee of $1,000 per meeting. The annual retainer for a Public Director who serves as Chair of the Board is set by the Board of Directors and reviewed annually. The annual retainer for the Chair of the Board is $20,000.

Industry Directors are not compensated for their participation on the MFDA Board or its Committees, however, all Directors are reimbursed for related travel and out-of-pocket expenses. The following is a breakdown of attendance and total compensation by Directors at Board and Committee meetings held during the fiscal year ended June 30, 2015.

Director	Board	Audit & Finance	Governance	Regulatory Issues	Term Expires	Total Compensation
Rick Annaert[1]	6 of 6	4 of 4			2016	n/a
Steven Donald[1][2]	6 of 6	4 of 4	5 of 6		2016	n/a
Stephen Geist[3] (stepped down December 3, 2014)	1 of 3			1 of 2	n/a	n/a
Steven Glover[1] (joined December 3, 2014)	3 of 3	2 of 2			2017	$24,250
Mark Gordon	6 of 6	4 of 4	6 of 6	4 of 4	n/a	n/a
Sandy Grant[1][3] (stepped down December 3, 2014)	3 of 3	2 of 2		2 of 2	n/a	$16,416.67
Lea Hansen[1][3]	6 of 6			4 of 4	2015	$30,000
Tuula Jalasjaa[3] (joined December 3, 2014)	3 of 3			2 of 2	2016	n/a
Frank Laferriere[3]	6 of 6			4 of 4	2015	n/a
David Losier[3]	6 of 6			4 of 4	2015	n/a
Rod McLeod[2]	6 of 6		5 of 6		2015	$48,000
Christopher Nicholls[3] (joined December 3, 2014)	3 of 3			2 of 2	2017	$17,083.33
Dawn Russell[2][3]	6 of 6		6 of 6	4 of 4	2015	$46,000
Ross Stringer[1] (joined December 3, 2014)	3 of 3	2 of 2			2017	$20,750
Doug Thomson[1] (stepped down December 3, 2014)	3 of 3	2 of 2			n/a	$18,250
Vince Valenti[2][3]	6 of 6		6 of 6	3 of 4	2015	n/a
Janet Woodruff[1] (stepped down December 3, 2014)	3 of 3	2 of 2			n/a	$14,750

[1] Member of Audit & Finance Committee
[2] Member of Governance Committee
[3] Member of Regulatory Issues Committee

Regulatory Operations

This section represents a snapshot of the regulatory work undertaken by MFDA staff during the year.

Enforcement

The MFDA continues to focus on protecting Canadian investors through robust enforcement activity against Members and Approved Persons who fail to comply with MFDA requirements. The MFDA completed 90 investigations and commenced 48 disciplinary proceedings in 2014. The MFDA places an emphasis on cases involving seniors and other vulnerable groups, and 33% of disciplinary proceedings commenced in 2014 involved these groups. Complaints from seniors and other vulnerable groups continue to be flagged and prioritized appropriately, and Enforcement staff continues to offer assistance to seniors in filing and documenting their complaints.

Enforcement staff place a particular focus on effectively dealing with cases involving significant client harm and approximately 80% of disciplinary proceedings completed in 2014 involved a permanent prohibition or suspension being levied against the Approved Person. In addition to enforcement action under MFDA By-laws and Rules, the MFDA continues to refer cases to, and work cooperatively with, law enforcement agencies where the activity we identify involves potential breaches of criminal law. In addition, the MFDA continues to focus on Member complaint handling and supervision. Members must handle all client complaints promptly and fairly, and the MFDA successfully concluded its first disciplinary hearing against a Member for failing to maintain that standard. Further enforcement case highlights, statistics and achievements can be found in the Enforcement Annual Report which is now in its third year of publication.

Investor Education

As part of its goal to enhance regulatory transparency, the MFDA has increased the information regarding a Respondent's disciplinary history available to investors, and has begun publishing the fine payment status for all Respondents ordered to pay a fine, which is updated quarterly.

In October 2014, the MFDA launched an Investor Education Section on the MFDA website. The Investor Education section contains educational resources created by the MFDA and other national and international regulatory organizations, and is meant to serve as a comprehensive source for investors seeking to learn more about mutual funds and mutual fund investing. Visitors to the Investor Education section can get information to help them better understand topics such as the general nature of mutual funds and specific issues such as the mutual fund information disclosed to clients in the Fund Facts document.

The MFDA also created an online interactive Fraud Awareness Quiz for investors that was launched during Fraud Prevention Month. Topics covered include the relationship between risk and reward, red flags of fraud, why signing a blank form may expose a client to fraud and the importance of reporting fraud.

Sales and Financial Compliance

The Sales Compliance Department performed 30 Head Office and 63 Branch examinations during the fiscal year. For the same period, the Financial Compliance Department performed 31 full examinations of 25 Level 4 dealers and 6 Level 2/3 dealers with 6 specified procedures examinations of Level 4 dealers also being undertaken. The Department also performed approximately 1,250 unaudited monthly financial report reviews and 105 audited annual financial report reviews.

The Sales Compliance Department also commenced a target examination sweep of Member DSC trading activity to assess Member's supervisory procedures and the suitability of DSC trades. As part of the MFDA's continued focus on protecting seniors, the sweep included specific focus on the suitability of DSC purchases considering client age and time horizon.

Related parties can impact the financial viability of MFDA Members and it is important that cost-sharing agreements are sufficiently detailed and accurately reflect the costs incurred by the MFDA Member Firm. In December 2014, the MFDA completed its review of cost-sharing arrangements among related parties and issued guidance to its Members relating to the concepts and principles that should be considered when entering into these types of arrangements to mitigate potential risks.

MFDA staff completed a review of all Members registered as Investment Fund Managers ("IFM"). Through this initiative, MFDA staff took a more holistic view of these Members' activities in order to better assess the potential impact of risk factors relating specifically to the fund manager function on the overall financial operations and position of these firms. As at December 31, 2014, MFDA staff had completed their reviews of all Members' IFM activities and no major concerns were identified.

Member Education and Outreach

In the last fiscal year, MFDA staff presented at 45 Member, industry association, and other regulatory events on various topics including Senior Investors, Suitability, Supervision, Outside Business Activities, CRM2, and MFDA Regulatory Priorities.

In 2015, MFDA staff finalized the 2015–2017 MFDA Strategic Plan. As part of this process, the MFDA engaged in an extensive in-person consultation process with Members and other key stakeholders across Canada. With respect to MFDA Member input, the MFDA held numerous consultation sessions with over 77% of MFDA Members participating.

Two of our key priorities in the Strategic Plan are to collaborate with stakeholders and provide guidance and education to Members and Approved Persons. In that regard, during the last year MFDA staff commenced several initiatives to improve areas of education and proficiency. Specifically, in 2015 MFDA staff issued a discussion paper on the development and implementation of a continuing education requirement for advisors in order to keep their industry knowledge current and maintain a high standard of professionalism. MFDA staff also issued a consultation document on the proficiency standard for Approved Persons selling exchange-traded funds and a consultation paper on proficiency standards for use of the title "Financial Planner."

MFDA staff also participated in a joint Mystery Shopping project with the OSC and IIROC. The purpose of the Mystery Shopping project was to gain insight into retail investor experiences and assess sales practices of advisors.

Regulatory Operations

Policy

Instrument	Status	Description
• Proposed amendments to **Rule 1.2 (Individual Qualifications) and proposed new Rule 1.3 (Outside Activity)**	**Published for Comment June 18, 2015**	Amendments required to be consistent with similar requirements under securities legislation by addressing situations where additional education, training and proficiency may be appropriate and adopting a definition of "outside activity" that includes activities involving any officer, director and other equivalent positions and positions of influence.
• Revised **MFDA Staff Notice MSN-0040 *Outside Activity***	**Published for Comment July 22, 2015**	Revisions to clarify staff guidance to Members and Approved Persons with respect to their obligations to disclose, approve and supervise outside activities.
• Proposed amendments to **Rule 5.3.2 (Content of Account Statement)**	**Published for Comment June 18, 2015**	Amendments would require Members to disclose to clients, on account statements, that they are Members of, and regulated by, the MFDA.
• Amendments to **Rule 2.8.3 (Rates of Return), 5.3 (Client Reporting) and 5.4 (Trade Confirmations) and MFDA *Financial Questionnaire and Report* (Form 1)**	**CSA and Member approvals granted in December 2014.** Transition periods of one, two or three years have been provided for most of the new requirements.	Amendments required to MFDA Rules to conform with new client reporting requirements established under the CRM2 amendments in NI 31-103.
• Housekeeping amendments to **Rule 5.3 (Client Reporting) and Policy No. 7 *Performance Reporting***	**Effective June 25, 2015**	Housekeeping amendments made to MFDA Rule 5.3 (Client Reporting) and MFDA Policy No.7 (Performance Reporting) and an extension of the transition period applicable to new account statement requirements under Rule 5.3 to provide more time for Members to address implementation and technical issues.
• New **MFDA Staff Notice MSN-0083 – Account Statement Disclosure respecting MFDA IPC Coverage**	**Issued November 25, 2014**	Sets out wording approved by the MFDA IPC to satisfy disclosure requirements under MFDA Rule 5.3.2(e).

Communications & Membership Services

The Communications and Membership Services Department responded to a total of 1,506 inquiries in FY 2015. The majority of the inquiries were from Members and their Approved Persons and relate to registration issues such as the currency of examinations, proficiency requirements and the status of an individual's registration. MFDA staff also received inquiries relating to accessing MFDA systems and financial filings.

The majority of inquiries from the public related to ongoing enforcement cases and from individuals seeking clarification on the requirements for re-entering the mutual fund industry as an Approved Person.

Management's Discussion and Analysis

This Management Discussion and Analysis ("MD&A") is presented in order to assist in the assessment of the financial condition and results of operations of the Mutual Fund Dealers Association of Canada ("MFDA") for the year ended June 30, 2015. This MD&A should be read in conjunction with the audited financial statements and the accompanying notes for the fiscal year ("FY") ended June 30, 2015.

The MFDA is recognized as a self-regulatory organization for mutual fund dealers in Canada regulating the operations, standards of practice and business conduct of its Members and their 83,000 Approved Persons with a mandate to protect investors and the public interest. As a not-for-profit corporation, MFDA is exempt from income taxes under the Income Tax Act (Canada). MFDA regulates the activities of its 103 Members and the Approved Persons sponsored by them through regulatory activities which include developing rules and policies to govern the business conduct and operations of its Members and their Approved Persons, monitoring compliance with these requirements and applicable securities laws, and enforcement through disciplinary proceedings conducted before impartial and independent MFDA hearing panels.

These financial statements have been prepared in accordance with Part III of the Chartered Professional Accountants ("CPA") Canada Handbook – Accounting Standards for Not-for-Profit Organizations, which sets out generally accepted accounting principles for not-for-profit organizations in Canada.

Adoption of New Accounting Standard

For the FY beginning July 1, 2014, MFDA adopted Section 3463 – "Reporting Future Benefits by Not-for-Profit Organizations of the CPA Handbook Part III." The most significant impact of the new standard is that it replaced the deferral and amortization approach for the recognition of actuarial gains and losses of employee future benefits with immediate recognition. Under the new standard actuarial gains and losses and past service costs of employee future benefits which were previously deferred and amortized through the Statements of Revenues and Expenses are now recorded directly to the Unrestricted Net Assets Fund in the Statements of Changes in Fund Balances.

MFDA had approximately $2.8 million in unamortized net actuarial losses at the transition date which has been recorded on the Statements of Changes in Fund Balances. As a result the accrued employee benefit plans liability increases and unrestricted net assets decrease by this amount.

For FY 2014 this change has been applied retrospectively resulting in a net reduction of $2,789,300 in 2014 of the unrestricted net assets component of the Operating Fund which is comprised of the following two components:

- $2,002,000 – for the years ending June 30, 2013 and prior, and
- $787,300 – related to the year ended June 30, 2014.

For FY 2015 the pension remeasurements reduced unrestricted net assets by $3,519,300.

Financial and Operating Summary ($000s)

	2015	2014	Change	Change
Operating Revenues	**$**	$	$	(%)
Membership Fees	**31,522**	32,053	(531)	(1.7)
Other	**389**	561	(171)	(30.7)
Total Revenues	**31,911**	32,614	(703)	(2.2)
Expenses				
Salaries & benefits	**22,338**	22,314	24	0.1
Occupancy	**2,723**	2,785	(62)	(2.2)
Other	**5,673**	5,788	(115)	(2.0)
Total Expenses	**30,734**	30,887	(153)	(0.5)
Excess of revenue over expenses	**1,177**	1,727	(550)	(31.9)
Assets	**25,320**	22,786	2,534	11.1
Liabilities	**21,922**	17,425	4,497	25.8
Net Assets	**3,398**	5,361	(1,963)	36.6
Full-time Employees (FTEs)	**160**	160		

Revenue

The principal source of revenue for MFDA is membership fees which are assessed to Members in order to provide sufficient funding to meet annual budgeted expenses and to maintain adequate net assets (refer to policy for managing unrestricted net assets on page 14).

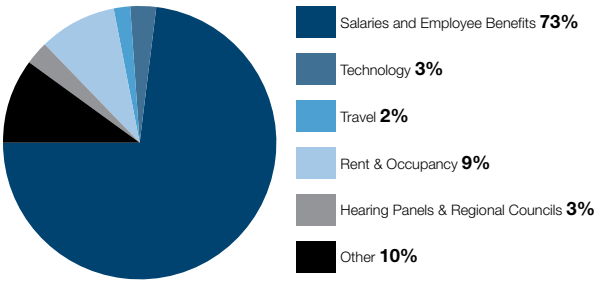
Fees charged to individual Member firms are calculated using a sliding scale formula that takes into account the amount of assets under administration ("AUA") of each Member firm with a minimum fee amount applicable to all Members.

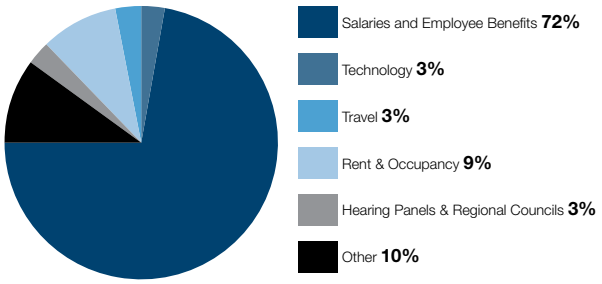
Such Member fees are payable in quarterly installments.

Other revenue is minor and typically is less than 2% of total revenues. Such revenue includes:

- Cost recoveries awarded by MFDA Regional Council Hearing Panels at the conclusion of MFDA disciplinary hearings or settlements and which have been collected by MFDA,
- fees charged for enforcement activity history requests,
- fines and late filing fees assessed against Members that have missed information filing deadlines,
- Investment income derived from the investment of surplus cash in accordance with MFDA's General Investment Policy Statement, and
- Recoveries from MFDA Investor Protection Corporation for administrative services provided by MFDA.

Expenses





Total expenses declined marginally from 2014, being lower by $153,000 or 0.5%. However, there were both increases and decreases in the individual categories of such costs, as well as measures undertaken to contain cost increases, as explained in the following paragraphs.

Compensation

Salary and employee benefits, excluding benefit plans remeasurements which are recorded directly against Fund balances, represent 73% of FY 2015 operating expenses. Employee related expenses were contained for FY 2015 by:

- Keeping headcount unchanged from FY 2014 at 160 FTE,
- Increasing the level of employee contributions to the Registered Pension Plan ("RPP") as of October 2014,
- Closing the RPP to new employees as of January 1, 2014, and
- Implementing changes to the employee health benefits plan.

Post-retirement benefits which represent benefits to be provided to employees in the future are determined using the accrual basis of accounting based on services provided in the current year. The amounts recorded in the financial statements will vary significantly from the actual cash funding amounts which are determined based on periodic actuarial reviews.

In calculating the liability and expense related to the post-retirement benefit plans, assumptions are made about the expected rate of return on plan assets, the discount rate, future salary increases, mortality, turnover, retirement ages and the medical expense trend rate.

Occupancy

MFDA has offices in Toronto, Calgary and Vancouver. Rent and occupancy costs experienced a 2.2% decline in FY 2015 due to variation in building operating expenses.

Technology

Technology costs may vary significantly from year to year due to special projects, e.g. a component of the 10.1% decline in FY 2015 is a result of the 2014 expense which included early stage planning costs for the Compliance Electronic Working Papers ("EWP") system. Costs incurred on this system in 2015 were capitalized as those costs related to the development stage. Additionally, savings resulting from network environment changes and software licensing negotiations completed in the previous FY began to be realized in FY 2015.

Other

Office supplies and services increased 3.0% in FY 2015 due to cost increases across a broad category of products and services, including the first time procurement of cyber insurance to protect the organization from financial losses due to data breaches.

Professional and consulting fees include legal, audit, and other fees charged by external service providers and may vary significantly from year to year depending on what external expertise is required for special projects. The latter explains part of the decline in 2015 as 2014 expense included consulting fees for a compliance related research project that concluded in that year. Additionally, legal expenses were lower in 2015.

Hearing panel costs vary from year to year depending upon the number, nature, location, and complexity of hearings. Transfers from MFDA's Discretionary Fund, may be applied against hearing panel costs. The Discretionary Fund began FY 2015 with a nil balance as the entire balance was transferred in FY 2014 to the Operating Fund. No funds were transferred in FY 2015.

Travel for MFDA pertains primarily to conducting Compliance reviews and Enforcement investigations and hearings. Travel costs can vary from year to year depending on the location and duration of these activities. Travel expenses declined 5.1% in FY 2015.

Excess of Revenues over Expenses

The excess of revenue over expenses is added to unrestricted net assets consistent with MFDA unrestricted net assets policy as described on page 14. MFDA ended FY 2015 with an excess of revenues over expenses of $1,176,994 of which $710,000 was budgeted and the balance was the result of minor differences between actual revenues and expenses and the amounts budgeted.

Financial Position

Investments

Investments totaled $12,423,639 at June 30, 2015 (compared to $9,322,630 at June 30, 2014) and consisted of money market funds and treasury bills, which are managed by an external fund manager. The buildup of the investments relates to the planned increase of unrestricted net assets in accordance with the policy described below plus the funding for non-pension related post-retirement benefits which are not funded through a formal plan.

Capital Expenditures

Capital expenditures totaled $219,606 in FY 2015 (compared to $465,941 in FY 2014) and consisted of necessary technology hardware replacement expenditures, purchase of office equipment and leasehold improvements and software development pertaining to the Compliance EWP system and enhancements to the Member Events Tracking System ("METS") and the Electronic Filing System ("EFS").

MFDA Discretionary Fund

The Discretionary Fund is an internally restricted fund, established and operated pursuant to policies approved by MFDA Board of Directors. Revenues consist of monies from the collection of enforcement fines and the surrender of profits imposed by order of an MFDA hearing panel. The Fund began FY 2015 with a nil balance, having been fully depleted through transfers to the Operating Fund in FY 2014 to be applied towards the costs incurred for hearing panels. For FY 2015 the Fund received fines of $378,807 (FY 2014 – $109,250). No transfers were made from the Discretionary Fund in FY 2015.

MFDA Investor Protection Corporation

MFDA bills and collects assessments by MFDA Investor Protection Corporation ("IPC"). For the year ended June 30, 2015 MFDA billed $3,625,624 (FY 2014 – $2,932,698) to its Members on behalf of the IPC. As at June 30, 2015, $11,688 of IPC assessments remained due to the IPC (FY 2014 – $87,610).

Employee Future Benefits Plans Asset and Liability

MFDA has an accrued employee benefit plans liability of $12,191,586 (FY 2014 – $7,348,100). This amount is comprised of a $6,587,684 liability (FY 2014 – $2,983,200) pertaining to the RPP and a $5,603,902 liability (FY 2014 – $4,364,900) with respect to the post-retirement benefits plan. Primary factors contributing to the year-over-year increase in the liability were a decline in the discount rate used to calculate the liability, a decline in the expected return on plan assets, the use of new mortality tables issued by the Canadian Institute of Actuaries and remeasurements costs that can no longer be deferred and amortized under the new accounting standard for employee future benefits. The post-retirement benefits plan is not funded through a formal fund but MFDA's actuarially determined obligation is recognized on the Statements of Financial Position and the amount factored into the annual budget and fee assessments to Members. The surplus cash generated is invested in accordance with the Board approved investment policy.

Unrestricted Net Assets and Liquidity

MFDA's regulatory and administrative activities constitute the Operating Fund. This Fund includes unrestricted net assets and net assets invested in capital assets.

MFDA's objectives when managing its unrestricted net assets are to safeguard MFDA's ability to continue as a going concern, so it can provide regulation of the mutual fund dealers for the benefit of clients of its Members, and to maintain the Operating Fund reserve target as set out by MFDA Board of Directors.

MFDA has a policy to maintain the unrestricted net asset balance at three months of operating expenses. At June 30, 2015, this target was $7.7 million. If the balance of unrestricted net assets is less than the target amount, the Board of Directors may, over a period of years, assess annual membership fees in excess of budgeted expenses in order to restore the fund balance to the established target.

For FY 2015, due to the adoption of Section 3463 – "Reporting Employee Future Benefits by Not-for-Profit Organizations," the opening balance of unrestricted net assets experienced a non-cash charge of $2,789,300. A further non-cash charge of $3,519,300, again related to the adoption of Section 3463, was taken for FY 2015. Partially offsetting these charges, unrestricted net assets increased by an excess of revenues over expenses of $1,176,994 for FY 2015. This new accounting policy will likely result in future volatility in the unrestricted net assets.

Use of Estimates

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, related amounts of revenues and expenses and disclosure of contingencies. Significant areas requiring the use of management estimates relate to the assumptions used in the determination of amortization periods for capital assets, the valuation of pension and other retirement benefit obligations and the recording of contingencies. Actual results could differ from those estimates.

Risk

Enterprise Risk Management program ("ERM")

In FY 2014, MFDA retained a consultant to advise the organization on refreshing the ERM program and benchmark it to peer organizations. Senior management oversees the administration of the ERM program with the Audit and Finance Committee receiving risk reporting.

Litigation Risk

In the normal course of executing its regulatory mandate and in its capacity as an employer, MFDA may face claims by employees, the public, its Members or other third parties. MFDA mitigates the risk of these claims arising by having appropriate policies, procedures and controls in place and seeking legal counsel accordingly. MFDA also maintains insurance coverage through various policies to mitigate the financial impact of such claims should they arise.

Funding Risk

Funding risk relates to MFDA's ability to anticipate and manage factors that may affect the level of MFDA's revenue through Membership fees. The majority of funding for MFDA operations is provided by its largest Members representing a small percentage of its membership. This risk is mitigated by maintaining appropriate liquid cash reserves and available credit.

Regulatory Compliance

Failure of MFDA to comply with the terms and conditions of recognition set by the recognizing securities commissions of Canada would have serious consequences for the organization. MFDA uses robust processes and controls to ensure compliance with these terms and conditions for recognition.

Data Security

Data security and the preservation of confidential information is a key consideration for all organizations today. MFDA takes the custodianship of all personal and confidential information it receives very seriously. To date, MFDA has undertaken a number of measures as part of its ongoing efforts to enhance the security and integrity of its data and information systems in order to meet legal requirements and mitigate the risk of data loss. MFDA has also obtained cyber insurance to mitigate the financial impact of a data breach. Data security efforts require ongoing attention and adaption to emerging threats and MFDA is committed to maintaining a focus in this area.

Business Continuity

MFDA maintains a Business Continuity Plan ("BCP") to ensure that the organization can recover from business disruptions and keep its critical regulatory activities functioning. MFDA's BCP is tested periodically and updated on an ongoing basis.

Credit Risk

Credit risk arises from other parties' inability to discharge their financial obligations to MFDA. MFDA's credit risk derives from cash, membership fees receivable and investments. MFDA maintains cash balances with a major Canadian financial institution, although the amounts on deposit are in excess of Canada Deposit Insurance Corporation limits. Cash not required for current activities is invested in short-term Canada Government treasury bills or a money market pooled fund in accordance with the General Investment Policy Statement. MFDA believes the credit risk associated with membership fees receivable is minimal as all fees billed are to Members whose registration is in good standing.

Liquidity Risk

Liquidity risk is the risk of holding assets that cannot be readily converted into cash to meet liabilities. The financial instruments that are exposed to liquidity risk are membership fees receivable and investments. Liquidity risk is mitigated through effective cash management and by investing in highly liquid investments readily converted into cash. MFDA's General Investment Policy Statement also restricts the term of the investments. MFDA maintains a line of credit available with a financial institution.

Interest Rate Risk

Interest rate risk is the risk of the change in the financial instrument's fair value due to fluctuations in the current interest rate. MFDA mitigates interest rate risk by investment in short-term holdings that are not significantly impacted by current rate fluctuations. Investment income is not a significant amount of the overall revenues of MFDA.

Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The MFDA minimizes exposure to market risk by investing in a portfolio of Canadian treasury bills with maturities of less than one year and a money market pooled fund. Pension Fund assets are invested in a diversified Balanced Fund.

Outlook

FY 2016 Budgeted Expenses vs. 2015 Results ($000s)

	2016	% of Total	2015	% of Total
	$	%	$	%
Salaries & Benefits Expense	22,836	74	22,338	73
Occupancy	2,942	9	2,723	9
Office Supplies & Services	1,014	4	1,077	3
Technology	885	3	900	3
Other	3,025	10	3,696	12
Total Operating Expenses	30,702	100	30,734	100
Full-time Employees	160		160	

In order to mitigate the rising costs of pension obligations, MFDA implemented an increase in employee pension contributions for the RPP effective October 2014. This reduced the normal cost of funding the RPP for MFDA. The RPP was also closed to new hires effective January 1, 2014. New employees are eligible for a 5% RRSP contribution program that provides for their retirement needs but limits the cost and funding risk to MFDA.

The MFDA continues to monitor the implications of the proposed Ontario Retirement Pension Plan ("ORPP"), including the recent announcements intended to clarify how the Plan would be applied. Ontario employees who participate in a pension plan comparable to the ORPP will be exempt from ORPP participation. The ORPP is still subject to legislative approval. MFDA is currently assessing the comparability of its pension plans to the ORPP, how current pension arrangements (including implications to benefits provided to MFDA employees in other provinces) may be integrated with the ORPP.

MFDA's Toronto office lease renews on March 1, 2016 for a 10-year term. Inducements such as a period of free rent and a leasehold improvement allowance will be amortized over the life of the lease. Rental costs for the regional offices in Calgary and Vancouver will remain unchanged for FY 2016 subject to the usual adjustment to operating costs passed on by the landlords.

Technology costs are anticipated to be in line with those of FY 2015 with no significant technology changes planned. Network environment changes and software licensing negotiations undertaken in FY 2014 have been effective in containing MFDA's technology costs.

Capital spending is anticipated to total $716,000 in FY 2016 and will consist of:

- technology hardware replacements
- continued development of the Compliance EWP system
- a refresh of MFDA's website
- ongoing enhancements to the systems that currently serve our Membership such as EFS and METS
- replacement of office equipment currently under capital leases.

Lastly, MFDA has developed a new Strategic Plan that spans the 2015–17 fiscal years. This new Strategic Plan is outlined in more detail elsewhere in the Annual Report.

Management's Responsibility for Financial Reporting

The accompanying financial statements and all other information contained in this Annual Report are the responsibility of the MFDA management. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and necessarily include some amounts based on the estimates and judgments of management.

In discharging its responsibilities for the integrity and reliability of the financial statements, management maintains and relies upon a system of internal controls. These internal controls are designed to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The MFDA also maintains formalized policies and procedures and an organizational structure that segregates duties. The MFDA employs standards and procedures for hiring employees who are required to abide by a business code of conduct and receive ongoing training regarding the proper execution of their duties. Mechanisms also exist that enable reporting to the Audit & Finance Committee of any perceived unethical behavior by employees.

In order to provide their opinion on the MFDA's financial statements, Deloitte LLP reviews the MFDA's system of internal controls and conducts such tests and other audit procedures that they consider appropriate. The auditors also meet in-camera with the Audit & Finance Committee, without management present, to discuss the results of their work. The independence of the auditors as well as the effectiveness of their work is assessed by the Audit & Finance Committee annually.

The Audit & Finance Committee reviews the effectiveness of the company's financial reporting and internal control systems, any significant financial reporting issues, the presentation and impact of significant risks, and key estimates and judgments of management that may be material for financial reporting purposes. Additionally, the Audit & Finance Committee meets periodically with the MFDA management and the auditors, and reports to the Board of Directors thereon. The Audit & Finance Committee also reviews the annual financial statements and recommends them for approval by the Board of Directors.

The accompanying financial statements have been audited by the auditors who are engaged by the Board of Directors on the recommendation of the Audit & Finance Committee. The appointment of the auditor is ratified at the Annual General Meeting of MFDA Members.

Mark T. Gordon
President & Chief Executive Officer

Paul Reid
Vice-President, Finance & Administration

Independent Auditor's Report

To the Members of the Mutual Fund Dealers Association of Canada

We have audited the accompanying financial statements of the Mutual Fund Dealers Association of Canada, which comprise the statements of financial position as at June 30, 2015 and 2014, and the statements of operations, changes in net assets and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, 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 audits. We conducted our audits 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 in our audits 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 Mutual Fund Dealers Association of Canada as at June 30, 2015 and 2014 and the results of its operations and its cash flows for the years then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Deloitte LLP

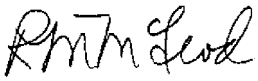
Chartered Professional Accountants
Licensed Public Accountants
September 30, 2015
Toronto, Ontario

Statements of Financial Position

as at June 30	Notes	2015	2014 (Restated – Note 6)
		$	$
ASSETS			
Current			
Cash		**2,071,560**	1,970,316
Investments	4	**12,423,639**	9,322,630
Membership fees receivable		**7,165,620**	7,925,518
Prepaid expenses and deposits		**815,100**	370,531
Membership fees receivable – MFDA Investor Protection Corporation	7	**4,934**	2,835
Administrative costs receivable	7	**17,591**	16,931
		22,498,444	19,608,761
Non-current			
Employee future benefits	6	**1,542,800**	1,856,200
Capital assets	5	**899,551**	1,220,261
Restricted – Discretionary Fund			
Cash	10	**378,472**	100,617
Investments	10	**335**	331
		25,319,602	22,786,170
LIABILITIES AND FUND BALANCE			
Current			
Accounts payable and accrued liabilities	12	**1,865,311**	1,948,168
Deferred membership fee revenue		**7,783,581**	7,923,914
Membership application deposits		**6,000**	–
Due to MFDA Investor Protection Corporation	7	**11,688**	87,610
Capital lease obligations	8	**31,865**	53,444
		9,698,446	10,013,136
Non-Current			
Employee future benefits	6	**12,191,586**	7,348,100
Capital lease obligations	8	**31,772**	63,636
		21,921,803	17,424,872
FUND BALANCES			
Operating Fund			
Unrestricted net assets		**2,183,078**	4,258,117
Invested in capital assets		**835,914**	1,103,181
		3,018,992	5,361,298
Discretionary Fund		**378,807**	–
		3,397,799	5,361,298
		25,319,602	22,786,170

The accompanying notes are an integral part of these financial statements.

Approved on behalf of the Board



Roderick M. McLeod, Q.C.
Chair, Board of Directors

Mark T. Gordon
President & Chief Executive Officer

Statements of Revenues and Expenses

for the year ended June 30	Notes	2015	2014
		$	$
OPERATING FUND			
Revenues			
Membership fees		**31,521,517**	32,052,868
Hearing cost recoveries from Discretionary Fund	10	**–**	296,236
Investment income	4	**143,651**	131,772
Cost recoveries and late filing fees		**186,102**	72,976
Administration recoveries	7	**60,000**	60,000
Total revenues		**31,911,270**	32,613,852
Expenses			
Salaries and employee benefits		**22,337,857**	22,313,707
Rent and occupancy		**2,723,292**	2,785,366
Office supplies and services		**1,076,938**	1,045,683
Technology		**900,100**	1,001,369
Professional and consulting fees		**842,792**	875,254
Hearing panels and regional councils		**829,848**	797,119
Travel		**750,498**	791,152
Amortization of capital assets		**539,954**	589,584
Board of Directors' fees and expenses		**312,328**	279,083
Staff training and development		**236,378**	222,528
Meetings, seminars and communication		**184,290**	186,482
Total expenses		**30,734,275**	30,887,327
Excess of revenues over expenses		**1,176,994**	1,726,525
DISCRETIONARY FUND			
Revenues			
Fines	11	**378,807**	109,250
Investment income		**–**	1,222
Total revenues		**378,807**	110,472
Expenses			
Hearing cost reimbursement to Operating Fund		**–**	296,236
Investment management fees		**–**	30
Total expenses		**–**	296,266
Excess (deficiency) of revenues over expenses		**378,807**	(185,794)

The accompanying notes are an integral part of these financial statements.

Statements of Changes in Fund Balances

for the year ended June 30				2015	2014 (Restated Note 6)
	Operating Fund		Discretionary Fund		
	Invested in Capital Assets	Unrestricted Net Assets		Total	Total
	$	$	$	$	$
FUND BALANCES					
Balance, beginning of year, as previously stated	**1,103,181**	**7,047,417**	**–**	**8,150,598**	6,609,867
Restatement (Note 6)	**–**	**(2,789,300)**	**–**	**(2,789,300)**	(2,002,000)
FUND BALANCES					
Balance, beginning of year, restated	**1,103,181**	**4,258,117**	**–**	**5,361,298**	4,607,867
Excess of revenues over expenses	**–**	**1,176,994**	**378,807**	**1,555,801**	1,540,731
Employee benefit plans – remeasurements (Note 6)		**(3,519,300)**	**–**	**(3,519,300)**	(787,300)
Purchase of capital assets	**219,606**	**(219,606)**	**–**	**–**	–
Principal payments on capital lease	**53,443**	**(53,443)**	**–**	**–**	–
Proceeds on disposal of capital assets	**(362)**	**362**	**–**	**–**	–
Amortization of capital assets	**(539,954)**	**539,954**	**–**	**–**	–
Fund balance, end of year	**835,914**	**2,183,078**	**378,807**	**3,397,799**	5,361,298

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flows

for the year ended June 30	**2015**	2014
	$	$
OPERATING ACTIVITIES		
Excess of revenue over expenses – Operating Fund	**1,176,994**	1,726,525
Excess (deficiency) of revenue over expenses – Discretionary Fund	**378,807**	(185,794)
Add (deduct) non-cash items:		
Amortization of capital assets	**539,954**	589,584
Employee benefit plan expense	**2,984,340**	2,824,100
Loss on disposal of capital assets	**362**	–
Net change in non-cash balances		
Membership fees receivable	**759,898**	87,581
Prepaid expenses and deposits	**(444,569)**	63,258
Administrative costs receivable	**(660)**	1,467
Membership fees receivable – MFDA IPC	**(2,099)**	8,659
Other membership receivables	**–**	6,697
Accounts payable and accrued liabilities	**(82,857)**	211,104
Deferred membership fee revenue	**(140,333)**	(92,435)
Membership application deposits	**6,000**	(2,250)
Due to MFDA IPC	**(75,922)**	76,116
Contributions to employee benefit plans	**(1,346,758)**	(2,388,400)
Cash provided by operating activities	**3,753,157**	2,926,212
INVESTING ACTIVITIES, NET		
Purchase of investments	**(3,101,009)**	(2,635,618)
Purchase of capital assets	**(219,606)**	(465,941)
Principal payments on capital lease	**(53,443)**	(49,591)
	(3,374,058)	(3,151,150)
Increase (decrease) in cash during the year	**379,099**	(224,938)
Cash, beginning of year	**2,070,933**	2,295,871
Cash, end of year	**2,450,032**	2,070,933
Cash – Operating Fund	**2,071,560**	1,970,316
Cash – Discretionary Fund	**378,472**	100,617
Cash, end of year	**2,450,032**	2,070,933

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

(June 30, 2015 and 2014)

1. Nature of the organization

The Mutual Fund Dealers Association of Canada ("MFDA") is a not-for-profit corporation incorporated without share capital. The MFDA was incorporated on June 19, 1998 under the Canada Corporations Act and was continued under the Canada Not-for-Profit Corporations Act on July 24, 2014. As a not-for-profit organization, the MFDA is exempt from income taxes under Section 149(1) of the Income Tax Act (Canada).

The MFDA is the national self-regulatory organization for the distribution side of the Canadian mutual fund industry. The MFDA does not provide trade association activities for its members ("Members"). Its Members are firms that have been registered by provincial securities commissions to carry on business as mutual fund dealers. The MFDA regulates the activities of its Members and the approximately 82,800 Approved Persons sponsored by them. The MFDA's regulatory activities include developing rules and policies to govern the business conduct and operations of its Members and their Approved Persons, monitoring compliance with these requirements and applicable securities laws, and enforcing them through disciplinary proceedings conducted before impartial and independent MFDA hearing panels.

As at June 30, 2015, the MFDA had 103 Members (2014 – 110 Members).

2. Nature of the financial statements

These financial statements present the financial position and operations of the MFDA and include the Operating Fund and the Discretionary Fund.

The Operating Fund accounts for the regulatory and administrative activities of the MFDA. The Unrestricted Net Assets Fund reports operating funds available without specific restrictions and the Invested in Capital Assets Fund records transactions related to the MFDA's capital assets, specifically additions, amortization and disposals, less related debt.

The Discretionary Fund is an internally restricted fund established by the MFDA Board of Directors which collects enforcement fines, imposed by order of a MFDA hearing panel, and related investment income. Disbursements and transfers from the Discretionary Fund must be approved by the MFDA Board of Directors and are currently restricted to the funding of third party costs related to MFDA Enforcement Hearings, funding for the MFDA Investor Protection Corporation, and funding for special projects that are in the public interest and beneficial to the public or Canadian capital markets.

These financial statements do not include the assets, liabilities and operations of the MFDA Investor Protection Corporation ("MFDA IPC"), which is a separate, non-controlled corporate entity with separate financial statements.

3. Significant accounting policies

Basis of accounting

These financial statements have been prepared in accordance with Part III of the Chartered Professional Accountants of Canada ("CPA Canada") Handbook – Accounting, which sets out generally accepted accounting principles for not-for-profit organizations in Canada ("GAAP") and includes the significant accounting policies summarized below.

Cash

Cash includes balances with banks, net of any overdrafts. Cash maintained in investment accounts for investment in short-term vehicles are included in investments.

Investments

The MFDA invests cash balances in accordance with the guidelines outlined in the General Investment Policy Statement. Treasury bills are valued at cost which approximates fair value and investments in pooled funds are valued at their reported net asset value per unit provided by the fund manager.

Transactions are recorded on a trade date basis. Investment income, consisting of interest and income distributions from pooled funds, is recorded as revenue in the statement of revenues and expenses.

3. Significant accounting policies *(continued)*

Other financial instruments

Other financial instruments, including membership fees receivable and accounts payable and accrued liabilities are initially recorded at their fair value and are carried at amortized cost less any applicable impairments.

Capital assets

Capital assets are recorded at cost. Amortization is charged to expenses on the straight-line basis over the estimated useful lives of the assets as follows:

Computers and software development	3 to 5 years
Office furniture and equipment	10 years
Leasehold improvements	Over lease term
Equipment under capital lease	Over lease term

Employee future benefits

The MFDA maintains two defined benefit plans, a registered pension plan ("RPP") for eligible employees and a supplementary executive retirement plan ("SERP") for designated executive employees. The MFDA also provides other post-retirement benefits ("PRB") for eligible employees.

The cost of pensions and other retirement benefits earned by employees is determined using the projected benefit method prorated on service and management's best estimates regarding assumptions about a number of future conditions, including investment returns, salary changes, withdrawals, mortality rates and expected health care costs. The fair market value of pension plan assets of the RPP and the SERP are used for disclosure and calculation of pension costs, effective on the measurement date which is June 30 of each year. The PRB is an unfunded plan and does not hold any assets.

The MFDA has adopted Section 3462 "Employee Future Benefits" of the CPA Canada Handbook Part II and Section 3463 "Reporting Employee Future Benefits by Not-For-Profit Organizations" of the CPA Handbook Part III. The standard requires the use of the immediate recognition method to account for employee future benefits. The MFDA has elected to account for each of its employee future benefit plan obligations using accounting assumptions.

Under the new standard, the MFDA recognizes the amount of the accrued obligation, net of the fair value of the assets in the Statements of Financial Position. Current service and finance costs are expensed during the year. Remeasurements and other items which represent the total of the difference between actual and expected return on plan assets, actuarial gains and losses, and past service costs, are recognized directly in the Statements of Changes in Fund Balances as a separately identified line item.

Revenue recognition

The MFDA follows the deferral method of accounting for revenue recognition. Membership fees are calculated annually for the period July 1 to June 30 using a defined formula that is based on the Member's assets under administration. Membership fees are billed quarterly and are reflected in the fiscal year due. The membership fee receivable amount represents invoices issued in June for the first quarter of the next fiscal year. The fees are deferred and are recognized as revenue in the next fiscal year.

Membership application deposits are a non-refundable deposit required to be submitted with an application for membership. The deposit is recognized as membership fee revenue when the applicant is accepted for membership.

Investment income, cost recoveries and late filing fees, and administrative recoveries are recorded as revenues when receivable.

Use of estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

4. Investments

The MFDA's investments are governed by a General Investment Policy Statement approved by the MFDA Board of Directors and managed by an external investment manager. The MFDA's investments consist of Canada Government treasury bills maturing in less than one year and units in the CIBC Imperial Money Market Pooled Fund. The MFDA's investments are carried at fair value.

Investments at June 30 at fair value:

	2015	2014
	$	$
Canada Government Treasury Bills	**5,982,060**	2,991,270
CIBC Imperial Money Market Pooled Fund	**6,298,652**	6,231,915
Cash on hand for investment	**142,927**	99,445
Total investments	**12,423,639**	9,322,630

The Statements of Revenues and Expenses reports the investment income. Details are as follows:

	2015	2014
	$	$
Distributions from money market pooled fund	**68,978**	60,326
Interest from treasury bills	**39,940**	29,211
	108,918	89,537
Bank interest	**34,733**	42,235
Total investment income	**143,651**	131,772

5. Capital assets

			2015	2014
	Cost	**Accumulated Amortization**	**Net Book Value**	Net Book Value
	$	**$**	**$**	$
Computers and software development	**2,993,471**	**2,481,855**	**511,616**	557,674
Office furniture and equipment	**1,509,443**	**1,315,766**	**193,677**	254,704
Leasehold improvements	**2,438,838**	**2,309,329**	**129,509**	292,749
Equipment under capital lease	**267,814**	**203,065**	**64,749**	115,134
	7,209,566	**6,310,015**	**899,551**	1,220,261

6. Employee benefit plans

The MFDA maintains two defined benefit plans, a registered pension plan ("RPP") for eligible employees and a supplementary executive retirement plan ("SERP") for designated executive employees. The MFDA also provides other post-retirement benefits ("PRB") for eligible employees.

Employee benefit plan asset and liabilities

Information about the MFDA's employee benefit plans is as follows:

	2015		2014 (Restated)	
	Asset	**Liability**	Asset	Liability
	$	**$**	$	$
RPP	**–**	**6,587,684**	–	2,983,200
SERP	**1,542,800**	**–**	1,856,200	–
PRB	**–**	**5,603,902**	–	4,364,900
	1,542,800	**12,191,586**	1,856,200	7,348,100

The following table provides a reconciliation of the net assets as at July 1, 2014 as previously reported, compared with those after adopting Section 3462.

	Statements of Changes in Fund Balances	Employee Future Benefits Asset	Employee Future Benefits Liability
	$	$	$
As previously presented, June 30, 2014	8,150,598	2,435,800	5,138,400
Employee future benefits restatement			
Transitional adjustment, prior periods	(2,002,000)	(520,100)	1,481,900
Remeasurement	(787,300)	(59,500)	727,800
As restated, June 30, 2014	5,361,298	1,856,200	7,348,100

(a) RPP

The MFDA provides a contributory defined benefit pension plan to eligible employees based on earnings and years of service. The defined benefit pension plan was closed to new or rehired employees commencing employment on or after January 1, 2014.

The latest actuarial valuation for funding purposes for the RPP was performed as at July 1, 2013. The next required actuarial valuation for funding purposes for the RPP will be as at July 1, 2016.

The MFDA measures its accrued benefit obligation and the fair value of Fund assets for accounting purposes as at June 30 of each year. As of June 30, the details of the RPP are as follows:

	2015	2014
	$	$
Reconciliation of fair value of Fund assets		
Fair value of Fund assets – beginning of year	**17,299,700**	13,047,300
Net contributions	**1,452,100**	1,926,100
Actual return on Fund assets	**1,022,200**	2,326,300
Fair value of Fund assets – end of year	**19,774,000**	17,299,700
Reconciliation of the accrued benefit obligation		
Accrued benefit obligation – beginning of year	**20,282,900**	15,772,700
Net current service cost and benefits paid during the year	**2,311,584**	1,745,700
Interest on accrued benefit obligation	**1,094,000**	902,300
Actuarial (gain)/loss during year	**2,673,200**	1,862,200
Accrued benefit obligations – end of year	**26,361,684**	20,282,900
Fund deficit	**(6,587,684)**	(2,983,200)
Accrued benefit liability		
Balance, beginning of year	**2,983,200**	2,725,400
Net contributions and pension cost during the year	**3,604,484**	257,800
Balance, end of year	**6,587,684**	2,983,200
Pension cost		
Current service cost	**1,951,784**	1,989,800
Finance cost	**227,200**	54,600
Remeasurement and other items	**2,517,800**	383,600
Pension cost expensed during the year	**4,696,784**	2,428,000

Plan assets

The plan assets are invested in the Beutel Goodman Balanced Fund. At June 30, the Fund was invested in the following categories:

	2015	2014
	%	%
Cash and short-term notes	**2.4**	2.3
Bonds	**31.9**	31.8
Canadian equities	**31.2**	31.7
Foreign equities	**34.5**	34.2
	100.0	100.0

6. Employee benefit plans *(continued)*

Employee benefit plan asset and liabilities *(continued)*

(a) RPP *(continued)*

Actuarial assumptions

The following rates were used in the calculations:

	2015	2014
	%	%
Discount rate	**4.25**	4.75
Expected rate of return on plan assets	**4.25**	4.75
Rate of compensation increase	**3.50**	3.75

(b) SERP

The MFDA provides to an eligible executive a funded SERP. The SERP is based on earnings and years of service. The latest actuarial valuation for funding purposes for the SERP was performed as at July 1, 2012.

The MFDA measures its accrued benefit obligation and the fair value of Fund assets for accounting purposes as at June 30 of each year. At June 30, the details of the SERP are as follows:

	2015	2014
	$	$
Reconciliation of fair value of Fund assets		
Fair value of Fund assets, beginning of year	**6,342,700**	5,743,900
Net contributions and benefits during the year	**53,600**	47,600
Actual return on Fund assets	**236,500**	551,200
Fair value of Fund assets, end of year	**6,632,800**	6,342,700
Reconciliation of the accrued benefit obligation		
Accrued benefit obligation, beginning of year	**4,486,500**	3,889,000
Net current service cost and benefits paid during the year	**(14,900)**	(36,800)
Interest on accrued benefit obligation	**216,200**	196,600
Actuarial gain (loss) during the year	**402,200**	437,700
Accrued benefit obligation, end of year	**5,090,000**	4,486,500
Fund surplus	**1,542,800**	1,856,200
Accrued benefit asset		
Balance, beginning of year	**1,856,200**	1,830,300
Net contributions and pension cost during the year	**(313,400)**	25,900
Balance, end of year	**1,542,800**	1,856,200
Pension cost		
Current service cost	**146,500**	124,600
Finance cost	**(86,400)**	23,600
Remeasurement and other items	**468,300**	34,900
Pension cost expensed during the year	**528,400**	183,100

6. Employee benefit plans *(continued)*

Employee benefit plan asset and liabilities *(continued)*

(b) SERP *(continued)*

Plan assets

The plan assets are invested in the Beutel Goodman Balanced Pooled Fund. At June 30, the Fund was invested in the following categories:

	2015	2014
	%	%
Cash and short-term notes	**1.3**	1.2
Bonds	**16.7**	16.7
Canadian equities	**16.3**	16.5
Foreign equities	**18.0**	17.9
Deposit with CRA	**47.7**	47.7
	100.0	100.0

Actuarial assumptions

The following rates were used in the calculations:

	2015	2014
	%	%
Discount rate	**4.25**	4.75
Expected rate of return on plan assets	**4.25**	4.75
Rate of compensation increase	**3.25**	3.25

(c) PRB

The MFDA provides eligible retired employees a non-contributory health care and dental plan and funds the plan on a pay-as-you-go basis.

	2015	2014
	$	$
Reconciliation of the accrued benefit obligation		
Accrued benefit obligation – beginning of year	**4,364,900**	3,401,200
Net current service cost and benefits paid during the year	**475,302**	427,700
Interest on accrued benefit obligation	**230,500**	191,800
Actuarial gain during year	**533,200**	344,200
Accrued benefit obligations – end of year	**5,603,902**	4,364,900
Accrued benefit liability		
Balance, beginning of year	**4,364,900**	3,401,200
Net contributions and plan cost during the year	**1,239,002**	963,700
Balance, end of year	**5,603,902**	4,364,900
Plan cost		
Current service cost	**495,102**	436,900
Finance cost	**230,500**	191,800
Remeasurement and other items	**533,200**	344,200
PRB Plan cost expensed during the year	**1,258,802**	972,900

6. Employee benefit plans *(continued)*

Employee benefit plan asset and liabilities *(continued)*

(c) PRB *(continued)*

Actuarial assumptions

The following rates were used in the calculations:

	2015	2014
	%	%
Discount rate	**4.25**	4.75
Rate of compensation increase	**3.50**	3.75

To measure the accrued benefit obligation for the PRB plan as at June 30, 2014, the medical trend rates were set at 10% grading down to 5% over 5 years and the drug trend rates were set at 11% grading down to 5% over 6 years. The dental benefit trend rates are assumed to increase at an annual rate of 3.5%. There were no changes to these trend rates in measuring the obligation for the year ended June 30, 2015.

(d) Change in accounting policy

Effective July 1, 2014, the MFDA adopted Section 3463, "Reporting Employee Future Benefits by Not-for-Profit Organizations," of the CPA Canada Handbook – Accounting, on a retrospective basis. Section 3463.01 provides that a not-for-profit organization applies Section 3462, "Employee Future Benefits," except as otherwise provided for in Section 3463.

In accordance with Section 3463, remeasurements and other items are recognized directly in fund balances in the statement of financial position, rather than in the statement of revenues and expenses, and are presented as a separately identified item in the statement of changes in fund balances.

7. MFDA Investor Protection Corporation

The MFDA IPC was established to administer an investor protection fund for the benefit of clients of mutual fund dealers that are members of the MFDA. The MFDA IPC began offering coverage on July 1, 2005. The MFDA assesses and collects fees from its Members on behalf of the MFDA IPC and subsequently transfers these funds to the MFDA IPC. The MFDA does not use these funds in its operations and the fees are not reflected in the statement of operations of the MFDA.

The MFDA provides the MFDA IPC administration, corporate, secretarial and other support as part of a service agreement between the two entities. The administration costs charged to the MFDA IPC for the year amounted to $60,000 (2014 – $60,000) plus applicable taxes. As at June 30, 2015, an amount of $17,591 (2014 – $16,931) was due from the MFDA IPC and is non-interest bearing.

The MFDA has an economic interest in MFDA IPC as it provides a guarantee of a $30 million line of credit granted to the MFDA IPC by its bank in the event of default. The credit facility is secured by a general security agreement charging all property of the MFDA excluding the RPP and SERP assets in trust. At June 30, 2015, no obligation exists under the agreement.

8. Commitments and contingent liabilities

Capital leases

The MFDA has entered into four capital leases for office equipment. The capital leases expire in December 2015, May 2017, December 2017, and May 2018, respectively. Interest expense incurred on the capital leases for the year amounted to $7,080.

Operating leases

The MFDA has entered into various operating leases for its office premises in Toronto, Calgary and Vancouver.

The MFDA's Toronto office lease will expire on February 29, 2016. In June 2015, the MFDA extended the lease on the current location to August 31, 2026 with an option to extend the term for an additional 10 years.

Operating lease obligations, excluding operating costs for future years and sales taxes, are as follows:

	$
2016	**858,522**
2017	**1,088,364**
2018	**1,214,100**
2019	**1,157,235**
2020	**1,099,170**
Thereafter	**7,185,315**
	12,602,706

9. Credit facility

The MFDA has a demand credit facility in the amount of $6,000,000 (2014 – $6,000,000). The credit facility bears an interest rate of prime plus 0.75% per annum (2014 – prime plus 0.75%). The MFDA has granted a general security interest to the bank in connection with this facility. During the years ended June 30, 2015 and June 30, 2014 the credit facility was not utilized.

10. Discretionary Fund

Enforcement fines collected during the year amounted to $378,807 (2014 – $109,250). There was no investment income earned and no investment management fees incurred during the year as the Fund balance was depleted at June 30, 2014.

During the year, the MFDA did not transfer any funds from the Discretionary Fund to the Operating Fund.

At June 30, 2015, the Discretionary Fund balance was $378,807 (2014 – nil). $378,472 was held in cash and $335 was held in the CIBC Money Market Pooled Fund.

11. Financial instruments

The MFDA is exposed to various financial risks through transactions in financial instruments.

Credit risk

Credit risk is the risk of other parties' inability to discharge their financial obligations to the MFDA. The MFDA's credit risk derives from cash, membership fees receivable and investments.

The MFDA maintains cash balances with a major Canadian financial institution, although the amounts on deposit are in excess of Canada Deposit Insurance Corporation limits. Cash not required for current activities is invested directly in short-term Canada Government treasury bills or a money market pooled fund as stipulated in the General Investment Policy Statement.

The MFDA believes the credit risk associated with membership fees receivable is minimal as all fees billed are to Members whose registration is in good standing. As at June 30, 2015, there are no outstanding membership fees due from fiscal 2015 assessments.

Liquidity risk

Liquidity risk is the risk of holding assets that cannot be readily converted into cash and also the risk of the MFDA's inability to meet its liabilities. The financial instruments that are exposed to liquidity risk are membership fees receivable, investments, and accounts payable and accrued liabilities.

The MFDA minimizes liquidity risk by investing only in highly liquid investments that can be readily converted into cash. The MFDA's General Investment Policy Statement further addresses this risk by restricting the term of the investments the MFDA may invest in.

The MFDA manages liquidity risk of liabilities by effective cash management to ensure there is sufficient cash available to meet its commitments.

In addition, the MFDA has a line of credit available with a financial institution to draw cash from, refer to note 9.

Interest rate risk

Interest rate risk is the risk of the change in the financial instrument's fair value due to fluctuations in the current interest rate.

The MFDA mitigates interest rate risk by investment in short-term holdings that are not significantly impacted by current rate fluctuations. Investment income is not a significant amount of the overall revenues of the MFDA.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The MFDA minimizes exposure to market risk by investing in a portfolio of Canadian treasury bills with maturities of less than one year and a money market pooled fund. Pension Fund assets are invested in a diversified Balance Fund.

12. Accounts payable and accrued liabilities

Included in accounts payable and accrued liabilities are government remittances payable of $3,321 (2014 – $8,695) for harmonized sales tax.

Executive Officers

Roderick M. McLeod, Q.C.	Chair of the Board
Steven Donald	Vice-Chair of the Board
Mark T. Gordon	President & Chief Executive Officer

Officers

Karen McGuinness	Senior Vice-President, Member Regulation, Compliance
Shaun Devlin	Senior Vice-President, Member Regulation, Enforcement
Paige Ward	General Counsel, Corporate Secretary & Vice-President, Policy
Jeff Mount	Vice-President, Pacific Regional Office
Mark Stott	Vice-President, Prairie Regional Office
Paul Reid	Vice-President, Finance & Administration
David Burmudzija	Controller
Sarah Rickard	Legal Counsel & Director of Regional Councils
Bernadette Devine	Assistant Corporate Secretary & Manager, Board Administration

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