



MFDA Investor Protection Corporation
Corporation de protection des investisseurs de l'ACFM

2010 Annual Report

Information about the MFDA Investor Protection Corporation

The MFDA Investor Protection Corporation ("IPC") is a not-for-profit corporation established by the Mutual Fund Dealers Association of Canada ("MFDA") to administer an investor protection fund ("Fund") for the benefit of clients of mutual fund dealers that are members of the MFDA ("Member Firms"). The Fund protects client assets held by a Member Firm in the event that the Member Firm becomes insolvent.

The MFDA is the sole self-regulatory organization that is a sponsor of the IPC. The IPC began offering coverage on July 1, 2005. At June 30, 2010, 139 mutual fund dealers across Canada participated in the Fund.

IPC Coverage Policy and Limits

The IPC covers customers who incur losses of their assets as a result of the insolvency of a Member Firm. Loss of customer assets may take the form of shortfalls in the amount and type of assets which are held by the Member Firm at the time of insolvency. The IPC's objective is to return assets to customers or compensate customers when the assets are not available because the Member Firm has become insolvent.

Coverage is available in the amount of up to \$1 million for each of a customer's general and separate accounts. Most customers will have two "accounts" for coverage purposes, the aggregate of their trading accounts (general account) and the aggregate of their registered retirement accounts, such as RRSPs and RIFs (separate account). Securities, cash and

other property of the customer that are unavailable due to the insolvency of the Member Firm are covered by the IPC.

Customer losses which do not result from the insolvency of a Member Firm such as losses that result from changing market values of securities, unsuitable investments or the default of an issuer of securities, are not covered.

The IPC's coverage of losses sustained by customers of insolvent Member Firms is within the discretion of the IPC Board of Directors (the "Board"). The policy that has been adopted to define the way in which the Board uses its discretion to determine whether a customer is eligible for protection and the amount of that protection is available on the MFDA's website at www.mfda.ca.

Funding and Fund Size

The IPC is funded through the levy of quarterly assessments on MFDA Member Firms. Presently, Member Firms collectively contribute approximately \$5 million to the Fund annually and will continue to do so until the initial funding target of \$30 million is reached.

As at June 30, 2010, the balance in the Fund stood at \$27.8 million. In addition, the IPC has obtained a credit facility from a Canadian chartered bank with a maximum limit of \$30 million. This facility is guaranteed by the MFDA.

The IPC is engaged in continuous evaluation of the risk to the Fund and may reset the size of the Fund as appropriate. Barring any payouts, the Fund is expected to reach its initial funding target of \$30 million at the end of December 2010. With this in mind, in late 2009 the Board put forward a proposal to the MFDA Board to continue to build the Fund once this initial target is reached. MFDA Board agreement is required whenever changes regarding the Fund size and assessment methodology are proposed.

The MFDA Board established the IPC Issues Committee ("IPCIC") to consider the various proposals put forward by IPC. IPCIC also sought Member Firms' input on these proposals by holding two open meetings of Member Firms and a Request for Comments seeking their feedback. After considering the issues raised during this consultation process, the MFDA Board and the Board agreed to increase the Fund size to \$50 million. The additional \$20 million will be accumulated over 7 years with the assessment period for raising these additional funds commencing July 1, 2011.

Year in Review

Insolvencies and Payments from the Fund

There were no new insolvencies of Member Firms during fiscal 2010. There were two insolvencies of Member Firms during the fiscal year ended June 30, 2009. Both Member Firms were based in Ontario. In the first case, Farm Mutual Financial Services Inc.'s, client accounts were transferred to another dealer and no claims to IPC have arisen. The second insolvency was ASL Direct Inc. In this case, the Receiver delivered all of the

positions to clients where it could, but there was a shortfall in the amount of cash owed to clients. IPC has paid out \$63,300 to date in respect of these claims. The Receiver was discharged on June 28, 2010.

Board Initiatives in 2009-2010

The IPC Board met four times in the fiscal year ended June 30, 2010. These meetings were the regularly scheduled quarterly meetings of the Board and had 100% participation by Board members. Some highlights of the Board's work undertaken during the year, include:

- Formalizing and publishing the IPC's Claims Procedures,
- Conducting a search for two new Public Directors,
- Following up on matters arising from the CSA Oversight Review,
- Conducting the annual review of the size of the Fund,
- Participating in the deliberations of IPCIC,
- Reviewing and renewing IPC's credit facility,
- Conducting the annual review of IPC's investments, and
- Continuing its risk assessment and management efforts.

IPC Staff and Consultants

Joni Alexander was engaged throughout the year as a consultant to the IPC. Ms. Alexander has an ongoing role as President of the IPC.

Commentary on Financial Results

The IPC's excess of revenues over expenses for the year ended June 30, 2010 was \$4,934,953, compared to \$5,033,983 in the prior year. The IPC's revenues for the year ended June 30, 2010 were \$5,530,240. This compares to \$5,685,510 for 2009.

The IPC's chief source of revenue is Member Firm assessments, which are calculated based on the amount of assets under administration ("AUA") under the

Member Firm's control. Each year, the fees are reset based on updated reports of AUA numbers. Currently, the assessment rate is set to generate an annual total of approximately \$5 million. This year, IPC assessments to Member Firms totaled \$5,030,220, compared to \$5,139,406 for the previous year.

Investment revenue for the period ended June 30, 2010 was \$500,020, a decrease from the previous year's amount of \$546,104. Within the objectives of capital preservation and liquidity, the IPC's Investment Policy requires that all investments are debt instruments issued by Canadian or provincial governments or Canadian or provincial Crown Corporations. A portion of the portfolio is kept in short-term instruments to ensure liquidity. The IPC Fund balance has grown through the accumulation of Member Firm assessments, but investment revenue was lower this year due to lower returns available in the market. Investment income covered almost 84% of operating expenses this year, compared to 93% of operating expenses last year.

Total expenses for the year were \$595,287, \$56,240 less than the previous year. This year, there were no claims paid out of the Fund for insolvent Member Firms, compared to a \$63,300 claim paid out of the Fund last year. The IPC experienced higher costs on its credit line standby fee and lower costs in legal and consulting fees from the prior year.

The balance in the Operating Fund increased by \$4,934,953 in fiscal 2009-2010, compared to an increase of \$5,033,983 during fiscal 2008-2009. The year-end balance was \$27,789,407 at June 30, 2010, compared to \$22,854,454 last year-end.

Summarized Balance Sheets as at June 30

	2010	2009
	\$	\$
Assets		
Cash	244,116	197,825
Investments	27,462,563	22,658,729
Assessments receivable from the MFDA	58,109	15,100
Interest receivable	121,635	60,242
	27,886,423	22,931,896
Liabilities		
Accounts payable and accrued liabilities	81,138	63,828
Support costs due to the MFDA	15,878	13,614
	97,016	77,442
Fund balance		
Operating Fund	27,789,407	22,854,454
	27,789,407	22,854,454
	27,886,423	22,931,896

Summarized Statements of Revenues and Expenses and Changes in Fund Balance for the year ended June 30

	2010	2009
	\$	\$
Revenues		
Assessments of MFDA Members	5,030,220	5,139,406
Investment income	500,020	546,104
	5,530,240	5,685,510
Expenses		
Claims paid from Investor Protection Fund	–	63,300
Operating expenses	595,287	588,227
	595,287	651,527
Excess of revenues over expenses and comprehensive income	4,934,953	5,033,983
Fund balance, beginning of year	22,854,454	17,820,471
Fund balance, end of year	27,789,407	22,854,454

Reference may be made to the complete set of IPC Financial Statements which are available on the IPC section of the MFDA website www.mfda.ca

Auditors' Report on Summarized Financial Statements

To the Members of the Board of Directors of MFDA Investor Protection Corporation

The accompanying summarized balance sheets and summarized statements of revenues and expenses and changes in fund balance (collectively the “summarized financial statements”) are derived from the complete financial statements of MFDA Investor Protection Corporation as at June 30, 2010 and 2009 and for the years then ended on which we expressed an opinion without reservation in our report dated August 20, 2010. The fair summarization of the complete balance sheets and statements of revenues and expenses and changes in fund balance is the responsibility of management. Our responsibility, in accordance with the applicable Assurance Guideline of The Canadian Institute of Chartered Accountants, is to report on the summarized financial statements.

In our opinion, the accompanying summarized financial statements fairly summarize, in all material respects, the related complete balance sheets and statements of revenues and expenses and changes in fund balance in accordance with the criteria described in the Guideline referred to above.

The summarized financial statements do not contain all the disclosures required by Canadian generally accepted accounting principles. Readers are cautioned that these summarized financial statements may not be appropriate for their purposes. For more information on the entity’s financial position, results of operations and cash flows, reference should be made to the related complete financial statements.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants
August 20, 2010

MFDA IPC Board of Directors and President

The MFDA IPC Board of Directors is comprised of three Public Directors and two Industry Directors.

Public Directors



Lawrence A. Wright, LL.B., Chair
Executive Vice-President
Multimatic Inc.
(Markham, Ontario)



Donald H. Page, FCGA
Former Executive
Toronto Stock Exchange
(Wallacetown, Ontario)



David A. Richards, C.A.
Former Executive
RBC Capital Markets
(Oakville, Ontario)

Industry Directors



Andrew H. Dalglish, C.A.
Chairman and Chief Executive Officer
MRS Inc., MRS Services Inc.,
MRS Correspondent Corporation
(Toronto, Ontario)



Robert M. Sellars, C.A., CFA
Executive Vice-President &
Chief Financial Officer
Dundee Private Investors Inc.
(Toronto, Ontario)

President



Joni A. Alexander, C.A.
(Toronto, Ontario)

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