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

2013 ANNUAL REPORT

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Information about the MFDA Investor Protection Corporation

The MFDA Investor Protection Corporation (the "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 the sponsor of the IPC. The IPC began offering coverage on July 1, 2005. At June 30, 2013, 115 mutual fund dealers across Canada participated in the Fund. The IPC operates in all provinces except Québec, which has its own compensation fund.

IPC Coverage

The IPC covers customers who incur losses 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 value 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/ipc.

Fund Resources and Size

The IPC is funded through the levy of quarterly assessments on Member Firms. The balance of the Fund stood at $35.3 million as of June 30, 2013. This balance is subject to the contingency for W.H. Stuart Mutuals Ltd. ("WHS") as described below. In October 2010, the Boards of both the MFDA and the IPC approved an increase in the IPC fund size to $50 million to be reached over a seven year period commencing July 1, 2011. This results in an annual assessment of $2.857 million to be allocated among the membership.

In addition to the annual assessments, the IPC maintains a credit facility with a Canadian chartered bank with a maximum limit of $30 million and which is guaranteed by the MFDA. Additionally, the IPC has placed $20 million of Fund Insurance with international insurers. The insurance policy represents an additional resource to the IPC providing coverage in respect of losses in excess of $30 million in the event of a Member Firm insolvency while the policy is in effect.

2013 In Review

Insolvencies in 2013

In late fiscal 2013, the IPC was notified of one Member insolvency, WHS. WHS was suspended by the MFDA on May 31, 2013 and was determined by the Board to be insolvent as of that date for the purpose of claims by customers of WHS against the IPC. Effective June 1, 2013, the client accounts and approved persons of WHS were transferred to another MFDA Member. On September 18, 2013, WHS was placed under the administration of a bankruptcy trustee. It appears that some client accounts may have shortfalls in the amount of cash or mutual funds owed to these clients. To date, the IPC has received claims totaling $7.9 million. To date, no amounts have been paid in respect of these claims.

Board Initiatives in Fiscal 2013

Throughout fiscal 2013, the Board continued its work to ensure that the IPC had adequate resources to fulfill its mandate. Key Board initiatives included:

- Conducting a search for one new industry director. Sonny Goldstein joined the Board as an industry director effective February 25, 2013 replacing Robert Sellars.
- Completing its review and update of the Services Agreement between the MFDA and the IPC.

- Conducting the annual review of the IPC's investments. The Board reviews the composition and performance of the IPC's investments at each quarterly Board meeting. This year the Board reduced the exposure in treasury bills held with less than one year to maturity and increased the portfolio's exposure to provincial bonds. In addition, the Board performed its annual review of the investment policy.
- Reviewing the rules and regulations regarding client cash in trust for Member Firms.
- Implementing the IPC continuance by transitioning to the new *Canada Not-for-profit Corporations Act.*
- Reviewing the IPC coverage policy. No substantive changes were made to the policy.
- Annual review and renewal of excess fund insurance.
- Annual review and renewal of the IPC's credit facility.
- Continuing its risk assessment and management efforts.

The Board met five times in fiscal 2013, four regularly scheduled quarterly meetings and one special meeting. All Board members attended all meetings.

Financial Review and Outlook

Effective July 1, 2011, the IPC adopted the new Canadian accounting standards for Not-for-profit organizations contained in Part III of the Canadian Institute of Chartered Accountants Handbook. The adoption of these new standards had no financial impact on the IPC as at July 1, 2011.

Balance Sheet

The balance in the Operating Fund stood at $35.3 million as at June 30, 2013, an increase of $2.0 million over the previous year. The increase resulted from the excess of revenues over expenses of $2.0 million. This balance is subject to the contingency for WHS as described below.

Total assets of $36.0 million include investments recorded at amortized cost of $35.3 million. 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.

No accrual has been made for the WHS insolvency as at June 30, 2013 as the review and approval process for determining whether the claims are eligible under the IPC coverage policy is not yet complete. Included in liabilities is an accrual of $571,410 of known contingency expenses related to completing the administration of the WHS insolvency. These costs include trustee, legal and consulting expenses.

Revenues and Expenses

The IPC's excess of revenues over expenses for the year ended June 30, 2013 was $2.0 million, compared to $3.0 million in 2012. In accordance with the plan to build the Fund to a target of $50 million, assessments in 2013 were billed at an annual rate of approximately $2.9 million.

The IPC's chief source of revenue is Member Firm assessments, which are calculated based on the amount of assets under administration ("AUA") in Member Firm's control. Each year, the fees are reset based on updated reports of AUA numbers. The IPC 2013 assessments to Member Firms totalled $2.9 million, compared to $3.0 million for the previous year.

Investment income for the year ended June 30, 2013 was $764,423, a decrease from the previous year's amount of $818,773. Included in investment income in 2012 was a realized gain of $106,453. To maintain compliance with the IPC's investment policy criteria, two provincial bonds were sold in fiscal year 2012 and replaced with two Canada bonds with similar maturities. As it is the IPC's intention to hold its bond investments to maturity, the realized gain was not a recurring item in 2013. Income from bonds and treasury bills and notes was $764,423 in 2013 compared to $712,320 in 2012. Although the investment portfolio balance grew in 2013, slightly lower rates of returns were available.

Operating expenses, excluding contingency related expenses, for the year were $1,078,472, 34% more than the previous year. This increase is as a result of 2013 being the first full year of the excess fund insurance coverage. The full year's premium was $292,320; one month's premium was expensed in fiscal 2012. Excluding the change in insurance premium, operating expenses were $786,152 in 2013 compared to $783,050 in 2012. These amounts do not include the accrual for WHS expenses.

As required, known contingency costs for the completion of the administration of the WHS insolvency in the amount of $575,000 were expensed as at June 30, 2013. These expenses included trustee, legal and consulting expenses.

Financial Outlook for Fiscal 2014

Regular assessment revenue is expected to be about $2.9 million in 2013. This assessment amount is consistent with reaching the planned target of $50 million over seven years. A review of the planned target and rate of accumulation of funds will be required once the WHS insolvency matter is resolved.

The Fund is forecasting the regular 2013 operating expenses to be approximately $1.1 million. As the WHS matter progresses, additional costs beyond what has already been accrued may be incurred.

FINANCIAL STATEMENTS

2013

Independent Auditor's Report

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

We have audited the accompanying financial statements of the MFDA Investor Protection Corporation, which comprise the balance sheets as at June 30, 2013, June 30 2012 and July 1, 2011, and the statements of revenues and expenses and changes in fund balances and statements of cash flows for the years ended June 30, 2013 and June 30, 2012, 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 audits 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 MFDA Investor Protection Corporation as at June 30, 2013, June 30, 2012 and July 1, 2011, and the results of its operations and its cash flows for the years ended June 30, 2013 and June 30, 2012 in accordance with Canadian accounting standards for not-for-profit organizations.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
October 1, 2013
Toronto, Ontario

MFDA Investor Protection Corporation
Balance Sheets

	June 30, 2013	June 30, 2012	July 1, 2011 (Note 3)
	$	**$**	**$**
Assets			
Current			
Cash	242,712	218,737	200,652
Investments (Note 5)	35,348,176	32,784,988	30,071,976
Assessments receivable from the MFDA (Note 6)	11,494	11,385	-
Prepaid expenses	282,109	267,960	-
Interest and other receivable	115,650	118,753	144,953
	36,000,141	**33,401,823**	**30,417,581**
Liabilities and Fund balance			
Current			
Accounts payable and accrued liabilities	149,752	94,032	130,392
Contingency related expenses (Note 11)	571,410	-	-
Support costs due to the MFDA (Note 7)	18,398	16,956	16,969
	739,560	110,988	147,361
Fund balance			
Operating Fund			
Unrestricted net assets	35,260,581	33,290,835	30,270,220
Contingency (Note 11)			
	36,000,141	**33,401,823**	**30,417,581**

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

Approved on behalf of the Board

"David Richards"
Director

"Kevin Regan"
Director

MFDA Investor Protection Corporation
Statements of Revenues and Expenses and Changes in Fund Balance

for the years ended June 30

	2013	2012 (Note 3)
	$	**$**
Operating Fund		
Revenues		
Assessments of MFDA Members	2,858,795	3,009,252
Investment income (Note 9)	764,423	818,773
Total revenues	3,623,218	3,828,025
Expenses		
Insurance	331,404	63,444
Consultants	231,094	244,223
Bank charges (Note 8)	136,053	135,162
Legal	112,125	89,960
Board of Directors - fees and expenses	82,524	78,162
Investment management fees	80,563	80,748
MFDA support charges (Note 7)	67,800	67,800
Audit fees	21,159	21,159
Communications and annual report	10,947	6,610
Office and general	4,803	20,142
Total expenses	1,078,472	807,410
Excess of revenues over expenses before the undernoted item	2,544,746	3,020,615
Contingency related expenses (Note 11)	575,000	-
Excess of revenues over expenses	**1,969,746**	**3,020,615**
Fund balance, beginning of year	33,290,835	30,270,220
Fund balance, end of year	**35,260,581**	**33,290,835**

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

MFDA Investor Protection Corporation
Statements of Cash Flows

for the years ended June 30

	2013	2012 (Note 3)
	$	**$**
Operating activities		
Excess of revenues over expenses - Operating Fund	1,969,746	3,020,615
Changes in non-cash working capital		
Assessments receivable from the MFDA	(109)	(11,385)
Prepaid expenses	(14,149)	(267,960)
Interest and other receivable	3,103	26,200
Accounts payable and accrued liabilities	55,720	(36,360)
Contingency related expenses	571,410	-
Support costs due to the MFDA	1,442	(13)
	2,587,163	2,731,097
Investing activities		
Purchase of investments	(2,563,188)	(2,713,012)
Increase in cash during the year	23,975	18,085
Cash, beginning of year	218,737	200,652
Cash, end of year	**242,712**	**218,737**

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

MFDA Investor Protection Corporation
Notes to the Financial Statements

June 30, 2013 and 2012

1. Organization

The MFDA Investor Protection Corporation ("MFDA IPC") was incorporated as a not-for-profit corporation on November 14, 2002 under Part II of the Canada Corporations Act. The purpose of the MFDA IPC is to administer an investor protection fund for the benefit of clients of mutual fund dealers that are members of the Mutual Fund Dealers Association of Canada ("MFDA"). The MFDA IPC protects client assets held by a MFDA member firm in the event that the member firm becomes insolvent. The securities commissions approved the creation of MFDA IPC in May 2005, and the MFDA IPC began offering coverage on July 1, 2005.

2. Statement of compliance with Canadian accounting standards for not-for-profit organizations

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations.

3. Adoption of accounting standards for not-for-profit organizations

Effective July 1, 2012, MFDA IPC adopted the new accounting standards for not-for-profit organizations contained in Part III of the Handbook ("Part III"). These are MFDA IPC's first annual financial statements prepared in accordance with the new standards. In accordance with Section 1501 of the CICA Handbook, "First-time adoption", ("Section 1501"), the date of transition to the new standards is July 1, 2011 and the MFDA IPC has presented an opening balance sheet as at that date. The accounting policies set out in Note 4 have been consistently applied to the years ended June 30, 2013 and 2012.

There was no impact of the adoption of the standards in Part III on the Balance Sheet as at July 1, 2011.

Certain of the Fund's disclosures included in these financial statements reflect the new disclosure requirements of Part III.

4. Summary of significant accounting policies

Use of estimates and judgement

As the precise determination of the value of many assets and liabilities, such as accrued liabilities, is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates and approximations that have been made using judgment. Actual results could differ from those estimates. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

Fund accounting

The MFDA IPC uses the deferral method of accounting in the preparation of its financial statements. At this time there is only one fund, the Operating Fund. The Operating Fund accounts for the regular business and activities of the MFDA IPC.

Member assessments

MFDA members are assessed MFDA IPC dues annually and are invoiced on a quarterly basis. Assessment revenues are recorded monthly. The assessments are calculated using a defined formula based on each member's assets under administration. The assessments are invoiced and collected by the MFDA on behalf of the MFDA IPC. The funds are subsequently transferred to the MFDA IPC.

4. Summary of significant accounting policies (continued)

Provision for income taxes

The MFDA IPC is a not-for-profit organization within the meaning of the Income Tax Act (Canada). Accordingly, there is no provision for income taxes in these financial statements.

Cash

Cash includes cash on hand and balances with banks, net of bank overdrafts and excludes cash balances in investment accounts, which are presented as investments.

Investments

The MFDA IPC invests in highly rated federal and provincial government and Crown Corporation bonds with short-term to medium-term maturities and in Canadian provincial and federal treasury bills or notes with short-term maturities.

Investments in bonds are recorded at amortized cost. Any gains and losses are recognized in the Statements of Revenues and Expenses in the period that the asset is sold or becomes permanently impaired. Interest income from the bonds is accrued and recorded under Investment income in the Statements of Revenues and Expenses. Interest income includes the amortization of bond premiums or the accretion of bond discounts, calculated using the effective interest rate method.

Investments in Canadian federal or provincial treasury bills or notes are recorded at fair value with any unrealized gains and losses being recorded in the Statements of Revenues and Expenses. As these instruments are short term in nature, cost approximates fair value. Any realized gains and losses are recognized in the Statements of Revenues and Expenses in the period that the asset matures, is sold or becomes permanently impaired. Interest income from the bonds is accrued daily and recorded under investment income in the Statements of Revenues and Expenses.

Provision for claims and related expenses

Provision for claims from customers of insolvent MFDA members is made when the MFDA IPC is notified of potential claims and the MFDA IPC makes a determination that the claims are eligible under its coverage policy. Provision for related expenses is made when a reasonable estimate of the cost to administer the potential claims can be made. No amounts are provided as a contingency to cover possible losses and customer claims for claims not yet reported.

5. Investments

The following table lists the investment holdings and their carrying and fair values as at June 30, 2013.

Investment	Par value ($)/ number of units	Credit rating	Carrying value	Fair value
			$	$
Bonds				
Canada Housing Trust, 2.75%, Mat. Sep 15 2014	3,495,000	AAA	3,561,392	3,558,609
Canada Housing Trust, 2.45%, Mat. Dec 15 2015	3,500,000	AAA	3,590,601	3,581,585
Québec Provincial, 4.50%, Mat. Dec 01 2016	2,965,000	Ah	3,084,099	3,223,756
B.C. Provincial, 4.70%, Mat. Dec 01 2017	2,605,000	Aah	2,804,490	2,892,826
Canada Government, 4.25%, Mat. Jun 01 2018	2,865,000	AAA	3,107,854	3,191,180
Ontario Provincial, 4.40%, Mat. Jun 02 2019	2,905,000	AA1	3,098,228	3,189,429
Canada Housing Trust, 3.75%, Mat. Mar 15 2020	2,960,000	AAA	3,089,572	3,194,491
B.C. Provincial, 3.25%, Mat. Dec 18 2021	2,830,000	Aah	2,904,630	2,888,100
Alberta Provincial, 2.55%, Mat. Dec 15 2022	1,605,000	AAA	1,609,152	1,530,817
New Brunswick Provincial, 2.85%, Mat. Jun 2 2023	1,625,000	Ah	1,622,387	1,551,680
Canada Housing Trust, 2.35%, Mat. Sep 15 2023	920,000	AAA	899,414	873,292
Sub-Total Bonds			29,371,819	29,675,765
Cash on hand for bond investment	N/A	N/A	145,287	145,287
Treasury Bills and Notes				
Canada Government, 0.990%, Mat. Sep 12 2013	3,308,000	AAA	3,300,160	3,300,160
Canada Government, 0.997%, Mat. Aug 1 2013	800,000	AAA	797,864	797,864
Canada Government, 0.997%, Mat. Aug 15 2013	1,725,000	AAA	1,720,394	1,720,394
Sub-Total Treasury Bills and Notes			5,818,418	5,818,418
Cash on hand for T-Bills investment	N/A	N/A	12,652	12,652
Total Investments			35,348,176	35,652,122

5. Investments (continued)

The following table lists the investment holdings and their carrying and fair values as at June 30, 2012.

Investment	Par value ($)/ number of units	Credit rating	Carrying value	Fair value
			$	$
Bonds				
Canada Housing Trust, 2.45%, Mat. Dec 15 2015	3,030,000	AAA	3,118,836	3,136,050
New Brunswick Provincial, 5.875%, Mat. Dec 06 2012	2,780,000	A(H)	2,813,860	2,835,711
Québec Provincial, 4.50%, Mat. Dec 01 2016	2,550,000	A(H)	2,653,506	2,840,955
Canada Housing Trust, 3.60%, Mat. Jun 15 2013	2,785,000	AAA	2,833,537	2,852,202
Canada Housing Trust, 2.75%, Mat. Sep 15 2014	3,015,000	AAA	3,138,993	3,116,425
B.C. Provincial, 3.25%, Mat. Dec 18 2021	2,425,000	AA(H)	2,482,109	2,567,639
B.C. Provincial, 4.70%, Mat. Dec 01 2017	2,235,000	AA(H)	2,420,657	2,559,321
Ontario Provincial, 4.40%, Mat. Jun 02 2019	2,510,000	AA(Low)	2,677,282	2,845,462
Canada Government, 4.25%, Mat. Jun 01 2018	2,450,000	AAA	2,671,847	2,848,689
Canada Housing Trust, 3.75%, Mat. Sep 15 2020	2,520,000	AAA	2,612,291	2,829,127
Sub-Total Bonds			27,422,918	28,431,581
Cash on hand for bond investment	N/A	N/A	141,724	141,724
Treasury Bills and Notes				
Canada Government, 0.920%, Mat. Jul 5 2012	2,975,000	AAA	2,967,622	2,967,622
Canada Government, 0.921%, Mat. Jul 19 2012	1,725,000	AAA	1,720,584	1,720,584
Canada Government, 0.951%, Mat. Aug 30 2012	475,000	AAA	473,927	473,927
Sub-Total Treasury Bills and Notes			5,162,133	5,162,133
Cash on hand for T-Bills investment	N/A	N/A	58,213	58,213
Total Investments			32,784,988	33,793,651

5. Investments (continued)

The following table lists the investment holdings and their carrying and fair values as at July 1, 2011.

Investment	Par value ($)/ number of units	Credit rating	Carrying value	Fair value
			$	$
Bonds				
Canada Housing Trust, 4.60%, Mat. Sep 15 2011	1,700,000	AAA	1,700,210	1,711,645
New Brunswick Provincial, 5.875%, Mat. Dec 06 2012	1,600,000	Ah	1,633,810	1,696,896
Financement Québec, 4.50%, Mat. Dec 01 2016	1,600,000	Ah	1,592,830	1,730,832
Canada Housing Trust, 3.60%, Mat. Jun 15 2013	1,820,000	AAA	1,870,775	1,887,395
Financement Québec, 4.25%, Mat. Mar 01 2014	1,730,000	Ah	1,804,138	1,830,496
Ontario Provincial, 4.50%, Mat. Mar 08 2015	1,720,000	AA1	1,815,901	1,852,457
B.C. Provincial, 4.70%, Mat. Dec 01 2017	1,550,000	AAh	1,652,572	1,697,901
Ontario Provincial, 4.40%, Mat. Jun 02 2019	1,580,000	AA1	1,632,223	1,676,506
Canada Government, 4.25%, Mat. Jun 01 2018	1,500,000	AAA	1,585,777	1,646,220
Canada Housing Trust, 3.75%, Mat. Mar 15 2020	1,670,000	AAA	1,657,284	1,724,793
Sub-Total Bonds			16,945,520	17,455,141
Cash on hand for bond investment	N/A	N/A	297,242	297,242
Treasury Bills and Notes				
Canada Government, 0.986%, Mat. Aug 4 2011	3,775,000	AAA	3,765,034	3,765,034
Canada Government, 0.990%, Mat. Aug 18 2011	4,375,000	AAA	4,363,406	4,363,406
Canada Government, 1.024%, Mat. Sep 15 2011	2,625,000	AAA	2,618,280	2,618,280
Canada Government, 1.23%, Mat. Sep 29 2011	2,075,000	AAA	2,069,999	2,069,999
Sub-Total Treasury Bills and Notes			12,816,719	12,816,719
Cash on hand for T-Bills investment	N/A	N/A	12,495	12,495
Total Investments			30,071,976	30,581,597

6. Assessments receivable from the MFDA

The assessments to MFDA members billed by the MFDA are due to the MFDA IPC upon collection by the MFDA. The amount of $11,494 (2012 - $11,385; 2011 - $Nil) represents outstanding amounts from MFDA members on billings due at June 30, 2013, 2012 and 2011. Subsequent to year-end, $8,086 (2012 - $2,383) remains outstanding from MFDA members.

7. Support costs due to the MFDA

The MFDA provides the MFDA IPC administrative, corporate secretarial and other support to allow the MFDA IPC to operate without its own staff. The MFDA IPC and the MFDA have entered into a support agreement to define these areas of assistance. The amount of support costs for the year was $67,800 (2012 - $67,800) and was recorded at the agreed upon amount. Payments are made on a quarterly basis in accordance with the support agreement. The MFDA IPC owed the MFDA $18,398 (2012 - $16,956; 2011 - $16,969) in respect of support costs as at June 30, 2013 and 2012 and July 1, 2011.

8. Credit facilities and insurance

The MFDA IPC has been granted a credit facility limited to a maximum of $30 million (2012, 2011 - $30 million) by the Royal Bank of Canada (the "RBC"). The credit facility, in combination with the investments accumulated by the MFDA IPC, exists to provide protection to customers of members of the MFDA in the event of loss resulting from an insolvency of an MFDA member. The MFDA has guaranteed repayment of the $30 million line of credit to the RBC. To date, no amount has been drawn on the line of credit.

At June 30, 2013 the interest rate is prime + 0.75% per annum (2012, 2011 – prime + 0.75% per annum). In the absence of a drawdown, the RBC charges a standby fee on the credit line. This charge is included in Bank charges in the Statements of Revenues and Expenses in the amount of $136,053 (2012 - $135,162).

The MFDA IPC has arranged insurance in the amount of $20,000,000 in respect of losses to be paid by the MFDA IPC in excess of $30,000,000 in the event of a MFDA member insolvency while the policy is in effect.

9. Investment income

Investment and other income is comprised of the following:

	2013	2012
	$	$
Income from bonds		
Coupon interest	1,062,098	764,904
Accretion of the bond discount/premium	(331,128)	(164,543)
	730,970	600,361
Income from treasury bills and notes		
Coupon interest	33,453	111,959
Realized gains	-	106,453
Total investment income	764,423	818,773

10. Risk management

Risk management relates to the understanding and active management of risks associated with invested assets. Investments can be indirectly exposed to foreign currency, interest rate, market and credit risk. The MFDA IPC's investment policy sets out highly rated Federal and Provincial Government and Crown Corporation bonds as the allowable bonds for the MFDA IPC bond portfolio. Only Federal and Provincial notes are allowable for Treasury bill and note investments. The MFDA IPC's investment policy sets limits on the exposure to individual investments, such as limiting the maximum portfolio exposure to a single Province to 20%.

Risks that are relevant to the MFDA IPC's investments are as follows:

Interest rate risk

Interest rate risk refers to the adverse consequences of interest rate changes on the MFDA IPC's investments. The value of the MFDA IPC's investments is affected by changes in both nominal and real interest rates as they have a direct impact on the value of fixed income securities. The MFDA IPC's exposure to interest rate risk arises from its holding of medium-term bonds. The MFDA IPC does not engage in activities to mitigate this risk as it intends to hold these bonds to maturity.

Credit risk

Credit risk refers to the risk of financial loss due to a counterparty failing to meet its contractual obligations. The MFDA IPC is exposed to credit risk indirectly through its investment in bonds, treasury bills and notes. Credit risk is managed by these funds by limiting exposure to any single counterparty to a small percentage of net assets. Limiting investments to Canadian Federal and Provincial Government bonds and notes and Federal and Provincial Crown Corporation bonds helps to mitigate the credit risk by investment in high-grade investments. In addition, credit risk is managed by the MFDA IPC through dealing with reputable counterparties. As at June 30, 2013 and 2012 and July 1, 2011, the MFDA IPC's investments in fixed income securities are held with a Tier 1 banking institution.

Market risk

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market conditions, whether these changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market. This risk is mitigated by the MFDA IPC's policy of diversification of the investment portfolio as well as the narrow field of acceptable high-grade investments. Market risk is considered to be minimal.

Fair value

The fair value of cash, assessments receivable from the MFDA, interest receivable, accounts payable and accrued liabilities, contingency related expenses and support costs due to the MFDA, approximates their carrying values due to their short-term nature.

The fair value of investments in fixed income securities is based on quoted prices from active markets.

11. Contingency

At June 30, 2013 there was one member insolvency, W.H. Stuart Mutuals, Ltd. ("WHS"). WHS was suspended by the MFDA on May 31, 2013 and has been determined by the Board of Directors of the MFDA IPC to be insolvent as of that date for the purpose of claims by customers of WHS against MFDA IPC. WHS was placed under the administration of a bankruptcy trustee on September 18, 2013. The MFDA IPC initiated a claims process and as at September 20, 2013 had received claim forms totaling $7.9 million for WHS and expects to receive additional claims. Until such time as the claim forms for WHS are reviewed, assessed and the MFDA IPC completes its approval process to determine that the claims are eligible under its coverage policy, management does not believe it is possible to make a reliable estimate of the amount of potential claims payable by the Fund. As such, no provision for these claims has been made in these financial statements. No claim payments were made for this insolvency at June 30, 2013.

At June 30, 2013, a provision of $575,000 has been made for the known expenses related to the administration of the bankrupt member, of which $3,590 was paid as of that date.

12. Funding and management of assets

The MFDA IPC's capital is its unrestricted net assets.

The MFDA IPC's objectives when managing its unrestricted net assets are:

- To safeguard the MFDA IPC's ability to continue as a going concern, so it can provide protection for the benefit of clients of MFDA members, and
- To work toward Operating Fund reserve targets as set out by the MFDA IPC Board.

The MFDA IPC bills MFDA members annually to ensure operations are funded and to allocate the balance toward the accumulation of the investor protection fund. In the current year, the MFDA IPC billed MFDA members $2,858,795 (2012 - $3,009,252). As at June 30, 2013, the value of the operating fund unrestricted net assets was $35,260,581 (2012 - $33,290,835; 2011 – 30,270,220).

There are no external restrictions on the MFDA IPC's capital.

Board of Directors

The MFDA IPC Board of Directors is comprised of three public directors and two industry directors.

Public Directors

David A. Richards, C.P.A., C.A., Chair
Former Executive
RBC Capital Markets

Beat J. Guldimann
President
Tribeca Consulting Group

Clayton S. Manness, BSA, MSc.
Former Minister of Finance, Manitoba

Industry Directors

Kevin Regan, FCA, CFP
Executive Vice-President and Chief Financial Officer
IGM Financial Inc.

Sonny Goldstein, CFP
President
Goldstein Financial Investments Inc.
(Appointed effective February 25, 2013)

Officers

Joni A. Alexander, C.P.A., C.A., MBA
President

Jason Bennett, LL.B.
Corporate Secretary

Odarka Decyk, C.P.A., C.A.
Vice-President and Controller

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