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

ANNUAL REPORT 2019

CONTENTS

WHO WE ARE

The Mutual Fund Dealers Association of Canada (the "MFDA"), is a self-regulatory organization that oversees mutual fund dealers in Canada, which regulates the operations, standards of practice and business conduct of over 80,000 Members and their Approved Persons with a focus on retail clients.

While the MFDA's regulatory mandate is to protect investors, we also support a regulatory compliant and diverse membership. Diversity benefits investors as it provides choices in advisory services and increases investor access to quality advice.

We contribute to the financial well-being of Canadian investors and uphold public confidence in Canada's mutual fund distribution industry.

WHAT WE DO

Every day the MFDA works to ensure that:

- Investors receive **suitable** advice
- Investors receive **accurate and complete** information to make informed decisions
- Investors are treated **fairly**

MFDA VISION

We protect investors by:

- **Delivering responsible and effective regulation**
  We use risk-based, balanced and transparent processes and employ our regulatory expertise in a proactive manner in addressing industry developments to be a responsible and effective regulator.
- **Strengthening collaboration, knowledge and expertise**
  We engage our stakeholders to share our collective expertise to ensure a culture of compliance.
- **Promoting investor confidence**
  We focus on providing access to information and improving the client relationship to better protect the investing public.

MFDA 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

Over the past year, the MFDA made significant progress in the implementation of its 2018-2022 Strategic Plan.

This Report highlights the MFDA's work on some of its major initiatives in the areas of Member and investor outreach and education, Approved Persons education and proficiency, regulatory collaboration and regulatory initiatives in the areas of cybersecurity, cost reporting and conflicts of interest.

The 2018-2022 MFDA Strategic Plan also notes our commitment to review our current processes and requirements to ensure that they continue to be relevant and appropriate. To help advance that commitment, the Governance Committee of the MFDA Board of Directors asked the law firm Borden Ladner Gervais LLP (BLG) to undertake a review of the MFDA's corporate governance structure. We want to ensure that the MFDA's corporate governance structure continues to reflect best governance practices for SROs, and I am pleased that the BLG review concluded that the MFDA's corporate governance structure is consistent with those best practices.

But corporate governance practices are continually evolving; so the BLG review also offered recommendations and suggestions for the MFDA's consideration that are aimed to ensure that we are at the forefront of best practices. Their advice is reflected in proposed By-law amendments that the MFDA published in March. These amendments aim to enhance the independence of the MFDA Governance Committee and support continued board engagement of experienced Directors from diverse backgrounds through increased terms. The terms proposed are not only consistent with industry standards currently in place at comparator organizations but, most importantly, are aimed at providing further continuity and experience on the MFDA Board to advance the continuing aim of improving board efficiency. Increased board efficiency will benefit the MFDA as it navigates an increasingly complex industry and regulatory environment, and we believe these amendments represent another positive step forward.

I would like to extend my sincere thanks to my colleagues on the MFDA Board for their continued diligence, dedication and seasoned judgment. I am also grateful to MFDA senior management and all staff for their hard work and unfailing commitment to the MFDA and its important mandate of protecting Canadian mutual fund investors. Thanks to all of their efforts, we have accomplished a great deal over the past year, and I look forward to moving from strength to strength in the coming year to continue delivering responsible and effective regulation and, in the words of the Strategic Plan, "achieving better outcomes for Canadians".

Christopher Nicholls, B.A., LL.B., LL.M., MPA
Chair, Board of Directors

MESSAGE FROM THE PRESIDENT & CEO

In 2019, industry and global developments continued to impact the MFDA and its Members, including changes in regulation, consumer expectations, demographics, industry economics and technologies.

Recognizing these changes, the three main goals of our 2018-2022 Strategic Plan – **(1) Innovate (2) Collaborate and Educate and (3) Update** - informed our regulatory activities and initiatives in FY 2019:

Innovate

MFDA staff have been assisting MFDA Members in bringing forward and implementing new technologies to facilitate the delivery of new products, such as exchange traded funds, and services such as electronic reporting, signatures, onboarding and advisory services, to clients. We understand that the MFDA has a role to play in ensuring that innovation and new technology are adopted in a manner that meets regulatory requirements and protects investors. We continue to dialogue with Members to provide guidance and assistance with respect to new products, services and technology. In 2019, the MFDA, through its cybersecurity assessment program, provided guidance and assistance to Members to strengthen their cybersecurity practices. MFDA staff also began a review of MFDA regulatory requirements to ensure that the current Rules remain sufficiently flexible to accommodate emerging business models.

Collaborate and Educate

In FY 2019, the MFDA conducted a Member Outreach Initiative and the MFDA received valuable feedback from Members about industry trends, innovation, regulatory issues and challenges for investors and Members. This valuable feedback will be used to inform our regulatory initiatives and approach going forward.

With respect to education and proficiency, over the past year, MFDA staff continued to develop its Continuing Education regime which will cover over 80,000 Approved Persons of MFDA Members. We also provided training to Members on matters such as senior investors, suitability, supervision, KYC information, outside activities, signature falsification and branch review programs. During the Member Outreach Initiative, many Members requested that the MFDA continue to provide guidance, education and other support to Members in dealing with issues pertaining to vulnerable clients and potential financial abuse, including support for temporary holds when there is a need to protect senior and vulnerable clients. In the fall of 2019, the MFDA will be holding its third Seniors Summit for Members which will build upon the foundation set by the previous two Seniors Summits and provide Members with guidance and updates on topics related to best serving and protecting seniors.

We continue to seek opportunities to provide meaningful tools and resources to investors in order to promote informed decision-making. Going forward, we will continue to seek opportunities to collaborate with other regulators, industry associations and investor associations and to share information and ideas to help further reach Canadian investors with relevant and timely information on investing and the advisory process.

Update

In FY 2019, the MFDA continued to engage in research initiatives with the objective of delivering data driven regulation focused on key risk areas. The 2016 MFDA Client Research Project provided the MFDA with valuable information and insight into Members' business, their Approved Persons and their clients. In 2018, the MFDA commenced an Approved Person Targeted Review utilizing information obtained from the Client Research Project. This initiative was part of our continued efforts to enhance suitability testing in examinations by further utilizing technology and data to help identify patterns or trends and target issues, such as concentration risk and unsuitable investments for seniors. We issued a report outlining our findings and recommendations in April 2019. In order to support the MFDA's ongoing compliance efforts, MFDA staff began conducting a second Client Research Project in 2018.

Looking Forward

The next fiscal year will likely bring more regulatory change and evolution for Members with anticipated finalization of several CSA policy initiatives. We remain committed to assisting Members in navigating and implementing these changes in a practical and efficient manner. In addressing regulatory issues, we will continue to look for solutions that achieve the objective of investor protection while avoiding undue regulatory costs and burden.

As I reflect on our activities and accomplishments during the past 12 months, it is obvious that the MFDA could not successfully serve its membership and Canadian investors if it were not for the dedication and engagement of the Board of Directors and MFDA staff. Thank you all for your continued support and guidance.

Mark T. Gordon, LL.B.
President & Chief Executive Officer

MAJOR INITIATIVES IN FY 2019

MFDA Member Outreach Initiative

In July 2018, as part of the MFDA's 2018-2022 Strategic Plan, the MFDA launched its Member Outreach Initiative to obtain Member feedback on a wide variety of matters, including issues to discuss with senior management, areas for additional guidance and interest in participating in focus groups. MFDA staff completed preliminary calls to Members in November 2018 and received feedback from Chief Compliance Officers of 88 Members. In April 2019, independent consultants held focus groups and one-on-one interviews with Chief Compliance Officers and Ultimate Designated Persons of MFDA Members. General topics discussed during the consultations included:

- current industry challenges and issues affecting Members, such as the evolution of business models, the impact of new technology, changing consumer expectations, and reduction of regulatory burden;
- areas for further guidance or other support from the MFDA; and
- ways to improve communication and engagement with the MFDA.

The independent consultants prepared a report outlining key themes identified during the consultations and recommendations. (MFDA Bulletin #0792-M *MFDA Member Outreach Initiative*].

Innovation Outreach and Collaboration

Members are, increasingly, adopting new technologies, which allow them to enhance operational efficiencies and offer new products and services to clients. The MFDA supports such innovation provided that issues related to investor protection, risk management, and the safety/security of client personal information continue to be appropriately addressed.

MFDA staff continues to encourage Members to proactively collaborate with MFDA staff to ensure the successful implementation of new technology. The MFDA has encouraged Members to contact their Compliance Manager to provide MFDA staff with demonstrations or discuss plans to implement new technologies. As part of this innovation outreach, the MFDA received requests from Members to consider business structures that would permit limited discretionary trading in mutual fund model portfolios.

Member and Approved Persons Education and Proficiency

Over the past year, the MFDA has continued to work towards the development and implementation of Continuing Education ("CE") requirements for Approved Persons of MFDA Members. The proposed CE requirements, which were developed and refined based on prior work and public consultations, will be brought forward to the 2019 Annual General and Special Meeting of Members. On July 19, 2019, MFDA staff issued a discussion paper seeking comment on a proposed accreditation process for CE credits. MFDA staff also continued to work on the development of the CE tracking system, which will include extensive testing and training for Members, advisors and education providers.

In FY 2019, MFDA staff presented at 23 Member, industry association, investor advocate and other regulatory events on various topics including:

- MFDA regulatory priorities;
- seniors;
- supervision;
- branch review programs;
- CE;
- KYC information;
- suitability;
- total cost reporting;
- lower MER series funds;
- promotional items;
- sales incentives;
- ETFs; and
- cybersecurity.

MFDA Member Regulation Forums were held by webcast in Fall 2018 and in person in Spring 2019 in Vancouver, Calgary, Toronto and Montreal. Both provided updates on compliance, enforcement and policy activities.

Approved Person Targeted Review

In 2018, MFDA staff commenced an Approved Person Targeted Review utilizing information obtained from the Client Research Project. This initiative was part of our continued efforts to enhance suitability testing in our examinations by further utilizing technology and data to help identify patterns or trends and target issues, such as concentration risk and unsuitable investments for seniors. In April 2019, a report was issued outlining findings and recommendations (MFDA Bulletin #0783-C *Approved Person Targeted Review*).

Conflicts of Interest - Promotional Items

In FY 2019, the MFDA continued its work on conflicts of interest by commencing a review of Member policies and procedures relating to Approved Persons' receipt of promotional items from mutual fund companies or participation in promotional activities that are funded by mutual fund companies. MFDA Bulletin #0776-C *Conflicts of Interest – Promotional Activities* which summarizes our findings and recommendations was issued on March 5, 2019. We will collaborate with other regulators, industry associations and other third parties going forward to seek harmonization in this area.

Total Cost Reporting

The MFDA published for a 90-day comment period, a Discussion Paper on Expanded Cost Reporting, the purpose of which was to promote further discussion in respect of expanded cost reporting requirements under Rule 5.3.3 in April 2018. On November 20, 2018, MFDA staff issued Bulletin #0764-P *Discussion Paper on Expanding Cost Reporting – Summary of Comments* providing a summary of the public comments and response of MFDA staff. Total cost reporting, provided on a consolidated basis, will be more helpful to investors, and communication between regulators will be an important part of exploring options and developing potential future directions for this initiative. We have collaborated with various stakeholders including regulators, industry associations and investor advocates in the past and will keep current on research being undertaken by such stakeholders. We also intend to undertake additional initiatives in the coming year.

Cybersecurity

Supporting Members in their effort to address cybersecurity risks continues to be a focus for the MFDA.

In FY 2019, MFDA staff engaged the services of a consultant to perform individualized detailed assessments of each Member's cybersecurity risks and related internal controls, on a voluntary basis. The assessments offered an evaluation of the Member's cybersecurity procedures and framework as well as the performing of penetration testing and vulnerability scans of the Member's systems. Members participating in this initiative received a comprehensive, individualized report from the consultant which will assist them in focusing resources, if necessary, on areas of greatest risk to the Member.

Client Research Project

The MFDA, in collaboration with the AMF, issued a request to all Members on November 29, 2018 for data relating to investments held in all client accounts. This client research provides the MFDA with valuable information and insight into Members, their Approved Persons and the clients they serve. We use this information in our examination process to better focus on risk areas and to understand the potential impact of regulatory change. We have built upon the last client research initiative in 2016 by adding performance and cost data to the request. These two new data elements will give us a better understanding of actual client outcomes. We anticipate issuing a summary report in 2020.

Investor Outreach and Education

In FY 2019, MFDA staff held meetings with investor advocates and organizations involved in investor engagement, outreach and the protection of vulnerable persons. These outreach meetings provide individuals and organizations an opportunity to dialogue with MFDA staff and share views on issues affecting Canadian investors. Feedback we receive from these meetings enables MFDA staff to better respond to investor needs.

In addition to its regular investor outreach meetings, MFDA staff directly sought out investor perspectives by presenting new policy initiatives directly to investor advocates. These presentations enable MFDA staff to clearly communicate the purpose and rationale of various policy initiatives, and provides investor advocates with an opportunity to ask questions and seek clarifications prior to submitting formal comment letters.

MFDA staff continues to provide investor education and assist investors in understanding the financial services industry, different investment products, and how investors can protect themselves from financial fraud. Educational materials are maintained on the investor education section of the MFDA website and communicated through Investor Bulletins published by MFDA staff.

In FY 2019, MFDA staff published a number of Investor Bulletins that focused on:

- **Seniors** and the actions the MFDA is taking to protect them, as well as an explanation of suitability and KYC requirements
- **Protecting investors from financial fraud** and steps investors can take to identify and protect themselves from common financial scams
- **Mutual fund fees** and how they impact investment returns, and actionable steps investors can take regarding the fees they pay.

The seniors section of the MFDA website was updated in order to enhance accessibility to investor education information relevant to seniors.

CORPORATE GOVERNANCE

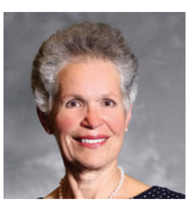
PUBLIC DIRECTORS

Steven Glover, MBA, FCPA, FCA
Corporate Director
(Canmore, Alberta)
Joined December 2014

Hugh McNabney, CPA (Retired)
Corporate Director
(Orillia, Ontario)
Joined December 2016

Christopher Nicholls, BA, LL.B., LL.M., MPA (Chair of the Board)
Professor of Business Law
Western University
(London, Ontario)
Joined December 2014

Les O'Brien, Q.C.
Former Chairman
Nova Scotia Securities Commission
(Halifax, Nova Scotia)
Joined December 2015



Barbara Shourounis, LL.B.
Former Director
Saskatchewan Financial Services Commission
(Regina, Saskatchewan)
Joined December 2015

Vince Valenti, MBA
President
Valenti Holdings Inc.
(Manotick, Ontario)
Joined December 2016

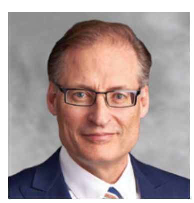
INDUSTRY DIRECTORS

Patricia Callon, LL.B., BA (Hons.)
(Vice-Chair of the Board)
Senior Vice-President & General Counsel
Sun Life Financial Canada
(Toronto, Ontario)
Joined December 2016

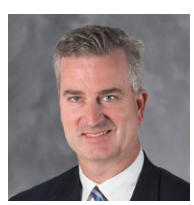
Katherine Dudtschak, MBA
Chair & CEO
Royal Mutual Funds Inc.
(Toronto, Ontario)
Joined December 2016

Susan Dujmovic, FICB, ICD.D
Head of Corporate Sustainability
HSBC Bank Canada
(Vancouver, British Columbia)
Joined November 2017

Sonny Goldstein, CFP
President
Goldstein Financial Investments Inc.
(Toronto, Ontario)
Joined December 2015



Mark Kinzel, BA
Executive Vice-President, Financial Services
Investors Group Inc.
(Winnipeg, Manitoba)
Joined December 2016



Michael Stanley
President
Sterling Mutuals Inc.
(Windsor, Ontario)
Joined November 2018

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

COMPENSATION OF DIRECTORS

The retainers and fees payable to Public Directors are as follows:

Annual Retainer for Public Directors	$15,000
Annual Retainer for Chair of the Board	$15,000
Additional Retainer – Chair of the Audit & Finance Committee	$ 6,000
Additional Retainer – Chair of the Governance Committee	$ 4,000
Additional Retainer – Chair of the Regulatory Issues Committee	$ 4,000
Attendance Fee – Board and Committee Meetings in excess of 2 hours	$ 1,500
Attendance Fee – Board and Committee Meetings less than 2 hours	$ 1,000

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 is reviewed annually. 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.

ATTENDANCE OF DIRECTORS

A total of 21 corporate meetings were held during FY 2019 including one Annual General Meeting of Members. The following is a breakdown of attendance and total compensation for FY 2019 for the Board of Directors.

Director	Board	Audit & Finance	Governance	Regulatory Issues	Term Expires	Total Compensation
Rick Annaert (1)(2) (stepped down November 29, 2018)	5 of 5	1 of 1	4 of 4	n/a	n/a	n/a
Patricia Callon (2)	5 of 5	1 of 1	8 of 8	n/a	2020	n/a
Katherine Dudtschak (3)	5 of 5	n/a	n/a	3 of 4	2020	n/a
Susan Dujmovic (1)(3)	5 of 5	2 of 2	n/a	2 of 2	2019	n/a
Steven Glover (1)	5 of 5	3 of 3	n/a	n/a	2020	$39,000
Sonny Goldstein (3)	5 of 5	n/a	n/a	4 of 4	2019	n/a
Mark Gordon	5 of 5	3 of 3	8 of 8	4 of 4	n/a	n/a
Mark Kinzel (3)	5 of 5	n/a	n/a	3 of 4	2020	n/a
Hugh McNabney (1)	5 of 5	3 of 3	n/a	n/a	2019	$33,000
Christopher Nicholls (2)(3)	5 of 5	n/a	8 of 8	4 of 4	2020	$62,000
Les O'Brien (1)(3)	5 of 5	3 of 3	n/a	4 of 4	2021	$39,000
Barbara Shourounis (3)	5 of 5	n/a	n/a	4 of 4	2021	$30,000
Michael Stanley (1)(2) (joined November 29, 2018)	3 of 3	2 of 2	4 of 4	n/a	2020	n/a
Vince Valenti (2)	5 of 5	n/a	8 of 8	n/a	2019	$44,500

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

MANAGEMENT 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 (the "MFDA") for the year ended June 30, 2019. This MD&A is current to September 30, 2019 and should be read in conjunction with the audited financial statements and the accompanying notes for the fiscal year ("FY") ended June 30, 2019.

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 over 80,000 Approved Persons with a mandate to protect investors and the public interest. As a not-for-profit corporation, the MFDA is exempt from income taxes under the *Income Tax Act* (Canada). The MFDA regulates the activities of its 90 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.

The MFDA's financial statements have been prepared in accordance with Part III of the *Chartered Professional Accountants ("CPA") Canada Handbook – Accounting*, which sets out generally accepted accounting principles ("GAAP") for not-for-profit organizations in Canada.

Certain statements in this MD&A are forward-looking and are therefore subject to risks and uncertainties. The financial performance or events forecast in these statements may differ materially from actual financial performance or events. The MFDA has based these forward-looking statements on its current views of future events and financial performance. Any assumptions, in our judgment, although reasonable at the time of publication, are not guarantees of future performance.

Financial and Operating Summary (table in $ 000's)

Particulars	FY 2019	FY 2018
Operating revenues		
Membership fees	**$31,745**	$31,555
Fines	**1,985**	2,817
Other	**1,083**	715
Total revenues	**34,813**	35,087
Expenses		
Salaries and employee benefits	**25,935**	26,137
Rent and occupancy	**2,809**	2,943
Technology	**1,095**	831
Travel	**834**	825
Hearing panels	**681**	666
Other	**3,828**	3,777
Total expenses	**35,182**	35,179
Deficiency of revenues over expenses	**(369)**	(92)
Assets		
Current assets	**22,085**	21,478
Current assets - internally restricted	**10,373**	9,004
Non-current assets	**3,391**	4,495
Total assets	**35,849**	34,977
Liabilities		
Current liabilities	**13,092**	12,799
Non-current liabilities	**25,110**	18,526
Total liabilities	**38,202**	31,325
Net assets (liabilities)	**($2,353)**	$3,652
Full-time employees (FTEs)	**165**	164
Member Assets Under Administration ("AUA") - for fee purposes (excluding Quebec)	**$563,771,406**	$551,000,000
Number of Members	**90**	92
Number of Approved Persons	**80,396**	80,457

REVENUES

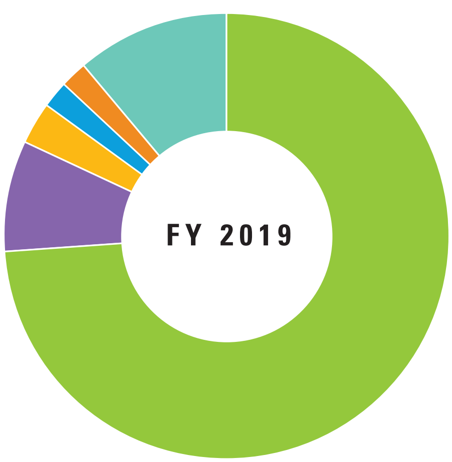
The MFDA is a "cost-recovery" not-for-profit organization which assesses membership fees to its Members in order to provide sufficient funding to meet annual budgeted operating and capital costs and to maintain adequate liquidity (refer to Liquidity section on page 16).

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.

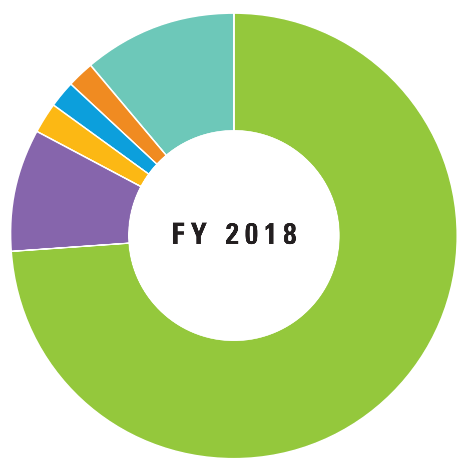
The MFDA's other sources of revenues (unrestricted and internally restricted) typically include:

- Enforcement fines and cost recoveries imposed by order of the MFDA Regional Council Hearing Panels at the conclusion of the MFDA disciplinary hearings or settlements and which have been collected by the 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 the MFDA's Investment Policy Statements
- Recoveries from MFDA Investor Protection Corporation ("MFDA IPC") for administrative services provided by the MFDA, and
- Other income, if any

EXPENSES



74% Salaries and Employee Benefits
8% Rent and Occupancy
3% Technology
2% Travel
2% Hearing Panels
11% Other



74% Salaries and Employee Benefits
9% Rent and Occupancy
2% Technology
2% Travel
2% Hearing Panels
11% Other

Total expenses were flat year over year in FY 2019. Significant year over year expense variances are explained in the following paragraphs.

COMPENSATION

Salaries and employee benefits expense, excluding benefit plans remeasurements which are recorded directly against Fund balances, represent 74% of FY 2019 operating expenses. Headcount in FY 2019 was 165 FTEs, representing an increase of one FTE (additional enforcement counsel) necessitated by increased volume of enforcement cases.

Salaries and employee benefits expense in total is essentially level for FY 2019 and FY 2018, although there were variations in some components of this expense.

Post-retirement benefits expense was lower in FY 2019 by $455,265 (9.7%), primarily due to higher discount rates (3.70% vs. 3.50%) used in the calculation of post-retirement benefits expense and fewer pension plan members due to attrition (the MFDA pension plan was closed to new hires as of January 1, 2014). Post-retirement benefits represent benefits to be provided to employees in the future and are determined using the accrual basis of accounting based on employee service 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 valuations. In calculating the liability and expense related to the post-retirement benefit plans, estimates and 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.

The salary and employee benefits expense (other than the post-retirement component explained above) increased by $252,981 (1.2%) due to a number of factors including market based merit adjustments.

RENT AND OCCUPANCY

The MFDA has offices in Toronto, Calgary and Vancouver. Rent and occupancy costs (including office lease expenses, operating costs, property taxes, and facilities maintenance) were lower by $133,698 (4.5%) in FY 2019, mainly due to a favourable lease renewal of the Calgary office and the timing of the receipt of leasehold inducements for the Toronto office (full year impact of amortization recognized in FY 2019).

The following is a breakdown of FY 2019 occupancy costs by location:

Location	**Annual Occupancy Cost**
Toronto	$2,373,345
Calgary	$216,341
Vancouver	$219,457

TECHNOLOGY

Technology costs were higher in FY 2019 by $263,931 (31.7%), primarily due to increased software licensing costs (e.g. Microsoft, OpenText, Adobe), additional data security related costs, software licenses related to the Continuing Education ("CE") project under development and the scheduled replacement of non-capitalized computer hardware.

TRAVEL

Travel for the MFDA pertains mainly to conducting Compliance reviews and Enforcement investigations and hearings. Travel costs for FY 2019 were essentially flat year over year increasing by $8,365 (1.1%) compared to FY 2018.

HEARING PANEL COSTS

Hearing panel costs vary from year to year depending upon the number, location, and amount of contested hearings. Hearing panel costs incurred in FY 2019 were $14,192 (2.1%) higher compared to FY 2018. These costs were reimbursed from the Discretionary Fund in order to mitigate the financial impact to the membership.

OTHER

Other expenses include administrative services and expenses, professional and consulting fees, amortization of capital assets, Board of Directors' fees and expenses, staff training and development, and meetings, seminars and communications. Amortization expense was higher in FY 2019 by $147,782 (18.3%), due to the full year impact of the amortization for IT related projects and leasehold improvements completed during FY 2018. Administrative services and expenses were lower in FY 2019 by $113,059 (9.7%), due to operational efficiencies and favourable telecommunication contract negotiations. Meetings, seminars and communication expenses were lower in FY 2019 by $11,329 (4.4%), due to lower regional council expenses. Variances in other categories of expenses were in line with the previous year.

DEFICIENCY OF REVENUES OVER EXPENSES

The deficiency of revenues over expenses is added to unrestricted net assets. The deficiency of revenues over expenses for FY 2019 was $369,095.

FINANCIAL POSITION

Investments

The MFDA's surplus cash is invested in accordance with the Board approved investment policies.

Investments totaled $22,535,064 at June 30, 2019 (2018 - $21,421,466) and consisted of money market funds, treasury bills, and balanced funds, which are managed by external fund managers. FY 2019 investments consist of $12,162,257 (2018 – $12,417,931) pertaining to the Unrestricted Fund, $6,022,810 (2018 – $4,816,274) pertaining to the Discretionary Fund and $4,349,997 (2018 – $4,187,261) pertaining to the Post-Retirement Benefits Fund.

Capital Expenditures

Capital expenditures totaled $616,580 in FY 2019 (2018 - $1,181,200) with $363,232 related to technology, $213,835 for leasehold improvements, and $39,513 in office furniture and equipment.

MFDA Discretionary Fund

The Discretionary Fund is an internally restricted fund, established and operated pursuant to policies approved by the 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. During FY 2019, the Fund received fines of $1,985,279 (2018 – $2,816,785) and $882,855 (2018 – $573,957) was transferred to the Unrestricted Fund towards the costs related to MFDA Enforcement Hearings - $825,818 (2018 - $573,957) and Member Cyber Security Reviews - $57,037 (2018 - Nil). As of June 30, 2019, the Discretionary Fund balance was $6,022,810 (2018 – $4,816,274) and was held in investments.

Post-Retirement Benefits Fund

The Post-Retirement Benefits Fund is an internally restricted fund established by the MFDA Board of Directors to fund the employee post-retirement benefit ("PRB") obligations (e.g. health and dental care benefits to retired employees). This Fund may also be used for special disbursements relating to other employee future benefits (e.g. solvency payments for the MFDA's pension plans), as needed. As of June 30, 2019, the PRB Fund balance was $4,349,997 (2018 – $4,187,261).

MFDA Investor Protection Corporation

The MFDA bills and collects assessments on behalf of the MFDA IPC. For the year ended June 30, 2019 the MFDA billed $2,882,861 (2018 – $4,303,590) to its Members on behalf of the MFDA IPC. As at June 30, 2019, $11,290 of the MFDA IPC assessments remained due to the MFDA IPC (2018 – $39,242). The MFDA also provides the MFDA IPC with office space, administrative services, and corporate secretarial and other support as part of a services agreement between the two entities. The administration costs charged to the MFDA IPC under this services agreement for FY 2019 amounted to $60,000 (2018 – $60,000) plus applicable taxes.

Employee Future Benefits Plans Asset and Liability

The MFDA has an employee future benefits asset of $443,000 (2018 – $1,209,600) pertaining to the Supplemental Executive Retirement Plan ("SERP") for eligible executives and an accrued employee future benefit plans liability of $25,038,500 (2018 – $18,425,200). The employee future benefit plans liability comprises a $19,449,300 liability (2018 – $10,771,200) pertaining to the RPP and a $5,589,200 liability (2018 – $7,654,000) relating to the Post-Retirement Benefits ("PRB") plan.

The $766,600 (63%) year over year decrease in the SERP asset balance is mainly due to the lower interest rates used for valuation purposes (3.00% at June 30, 2019 vs. 3.60% at June 30, 2018).

With respect to the $8,678,100 (81%) year over year increase in the accrued Registered Pension Plan ("RPP") liability, $7,909,400 relates to the decline in the interest rate used for accounting valuation purposes (3.10% at June 30, 2019 vs. 3.70% at June 30, 2018) combined with current year service costs, partially offset by employer contributions net of benefit payments. As of June 30, 2019, the return on investments for the Beutel Goodman Balanced Fund since inception was 7.90%, which was higher than the long term rate of return assumption of 5.5% used for the going concern valuation.

The $2,064,800 (27%) year over year decrease in the PRB liability is mainly due to lower major medical claim costs and trend rates assumption based on the most current valuation (as of July 1, 2019) and demographic changes, partially offset by the annual benefits expense and the impact of the lower interest rates used for valuation purposes (3.10% at June 30, 2019 vs. 3.70% at June 30, 2018).

The persistent low interest rate environment continues to make pension obligations a significant portion of liabilities on the MFDA's balance sheet. In total, employee future benefit plans remeasurements have decreased the Unrestricted Fund by $5,636,039 for FY 2019. Over the past years the MFDA actively took steps to mitigate the rising costs of pension obligations by implementing higher RPP contribution rates for employees effective October 2014 and by closing the RPP to new hires as of January 1, 2014. New employees hired after January 1, 2014 are eligible for a 5% RRSP contribution program that provides for their retirement needs but limits the cost to the MFDA.

Additionally, the PRB Fund was established as an internal restriction to back PRB obligations and provide a measure of financial stability in managing any pension funding shortfalls in the future. As at June 30, 2019, the PRB Fund had an asset balance of $4,349,997 (2018 – 4,187,261). Accounting standards however do not allow for this funding to offset the PRB obligation on the face of the financial statements and so the full amount of the PRB liability is included in the employee future benefit plans liability on the face of the Statement of Financial Position. In order to contain PRB costs, the PRB plan will be closed to new employees hired on or after January 1, 2020. PRB benefits for retirees cease at age 75.

The triennial actuarial valuation of the RPP and the SERP was performed as at July 1, 2018 by the MFDA's actuarial consultant, Buck Consultants. The valuation determined that the RPP was funded at 104% on a going concern basis and 93% on a solvency or wind-up basis. The MFDA contributed an additional $514,460 in excess of normal cost payments in FY 2019 (2018 – $1,117,208) to address the solvency deficit with similar payments planned over the next four fiscal years. The SERP was funded at 107% on a going concern basis as of the valuation date. In accordance with pension legislation, no solvency calculation is required for the SERP. The next funding valuation for the RPP and the SERP will be performed no later than July 1, 2021. All regulatory funding and reporting requirements are current.

Liquidity

The MFDA's regulatory and administrative activities constitute the Unrestricted Fund.

Pursuant to Section 3463 of the CPA Canada Handbook – "Reporting Employee Future Benefits by Not-for-Profit Organizations", the MFDA has cumulatively recognized net non-cash remeasurement charges of $12,750,433 to the unrestricted net assets as of June 30, 2019, including $5,636,039 during FY 2019 (primarily due to lower discount rates). These non-cash charges are reflected in the Statement of Changes in Fund Balances in the financial statements. As a result of these charges, the balance in unrestricted net assets is negative and reflects a net liability of $12,725,614 as of June 30, 2019.

To ensure the MFDA's ability to continue as a going concern, the MFDA has an internal liquidity guideline in the Unrestricted Fund of three months of operating expenses. Based upon the FY 2020 operating budget this target is currently set at $8.3 million.

The following table summarizes the MFDA's funding coverage and liquidity position as of June 30, 2019 (table in $000's):

Annual funding requirement (per FY 2020 Budget)	$33,284
Target Reserve of 3 months Operating Expenses	$8,321
Operating Cash Account balance	$1,578
Investments - Unrestricted Fund	12,162
Total liquid assets	13,740
Short-term obligations, net of pre-payments and receivables	(5,097)
Cash and Investments, net of short-term obligations	$8,643
Number on months funding coverage	3.1

USE OF ESTIMATES

The preparation of the 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 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

Senior management manages the administration of the Enterprise Risk Management program with the Audit and Finance Committee receiving ongoing risk reporting.

Litigation Risk

In the normal course of executing its regulatory mandate and in its capacity as an employer, the MFDA may face claims by employees, the public, its Members or other third parties. The MFDA mitigates the risk of these claims arising by having appropriate policies, procedures and controls in place, ensuring strict compliance with these policies, procedures and controls, and seeking legal counsel accordingly. The 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 the MFDA's ability to anticipate and manage factors that may affect the level of the MFDA's revenue through membership fees. The majority of funding for the 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 Risk

Failure of the 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. The MFDA uses robust processes and controls to ensure compliance with these terms and conditions for recognition.

Employee Future Benefits Risk

Employee Future Benefits Risk refers to the risk that the MFDA's financial condition on the Statement of Financial Position would be adversely affected because of the impact on the RPP and the SERP of possible reductions in the future market value of the plan investments and/or increases in the RPP, SERP and PRB liability if interest rates decline. These risks are mitigated by holding adequate financial reserves and diversified investments, which are managed by professional investment managers operating under specified mandates. The MFDA also monitors and manages the level of funding for the RPP which by law requires funding. All contributions for the RPP (mandated and discretionary) are made in accordance with the actuarial valuations, which by law are required at least every three years. Similar risks and funding considerations apply to the unregistered plans (SERP and PRB) although funding levels for these plans are not dictated by law.

Resiliency and Cyber Security Risk

The MFDA assigns a high priority to ensuring the integrity and availability of its information and communication systems. Risks to these systems are monitored by management through the MFDA's risk management program with oversight by the MFDA's Audit and Finance Committee. The MFDA Board of Directors also receives regular reports from management on cyber security initiatives.

The MFDA is exposed to the risks associated with power outages, design or usage errors by employees, contractors or third party service providers, and failures caused by computer viruses, security breaches, or cyber-attacks. The consequences of such disruptions may include data loss, reputational harm, investigation and remediation costs, and potential additional regulatory reporting.

The MFDA mitigates these risks by continually assessing the effectiveness of its key information security controls and practices both internally and through independent third party assessments as well as through ongoing investment in employee training and systems and services to monitor, protect, and backup information and communication systems. Recent initiatives include the hiring of new personnel including a Chief Technology Officer who regularly briefs the Audit and Finance Committee and the Board of Directors on the systems, processes and training being implemented to mitigate this high priority risk as well as a Director, IT Security to provide greater focus and expertise in this area.

Due to the increase in the number and sophistication of security threats however, the risk of a breach or outage remains a possibility, although that risk has been substantially reduced by the proactive measures implemented by the MFDA. In such an event, the MFDA maintains appropriate incident response plans and insurance to ensure the resiliency of its information and communication systems and the proprietary and third party data stored therein.

Credit Risk

Credit risk arises from 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 in short term Canada government treasury bills, a money market pooled fund. The Post-Retirement Benefits Fund assets are invested in a diversified balanced fund. 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.

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. The Post-Retirement Benefits Fund assets are invested in a diversified balanced fund. Additionally, the MFDA maintains a line of credit available with a major Canadian 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. The MFDA mitigates interest rate risk by investing in short-term holdings that are not significantly impacted by current rate fluctuations. The Post-Retirement Benefits Fund assets are invested in a diversified balanced fund. Also, 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 or 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. The Post-Retirement Benefits Fund assets and the Pension Fund assets are invested in a diversified balanced fund.

FY 2020 BUDGET

FY 2020 Budget vs. FY 2019 Actuals – GAAP Basis (table in $000's)

Particulars	FY 2020 (Budget)	% of Total	FY 2019 (Actuals)	% of Total
Salaries and employee benefits	$26,995	74%	$25,935	74%
Rent and occupancy	2,761	7%	2,809	8%
Technology	1,271	3%	1,095	3%
Travel	826	2%	834	2%
Hearing panels	644	2%	681	2%
Other	4,499	12%	3,828	11%
Total operating expenses	$36,996	100%	$35,182	100%
Additions to Capital Assets	$994	n/a	$617	n/a
2 year Average AUA (for fee determination)	$548,856,000	n/a	$531,823,000	n/a
Full-time Employees (FTEs)	167	n/a	165	n/a

The MFDA's revenue base remained stable as the 2 year average AUA (used for fee determination) grew by 3.2% as of March 31, 2019, compared to March 31, 2018.

Costs pertaining to key Strategic Plan initiatives slated for implementation during FY 2020 have been incorporated in the FY 2020 budget.

The increase in FY 2020 salaries and employee benefits costs is due to merit increases (benchmarked to other regulatory industry peers), an additional membership services coordinator position related to the CE project, an accounting position to support MFDA IPC and MFDA accounting activities (costs shared with MFDA IPC), higher CPP contribution rates and higher pension costs.

Toronto and Vancouver office lease rental costs will remain in line with FY 2019 levels, subject to normal changes in operating costs passed on by the landlord. The Calgary office lease, renewed on favourable terms in December 2018, will result in a savings of $54,000 in FY 2020.

Technology expenses are expected to be $176,000 (16%) higher in FY 2020 due to planned cyber security initiatives and systems, warranty agreement renewals for network servers and systems and expanded backup and disaster recovery requirements to support new systems and organization data growth.

Travel costs are anticipated to remain largely flat in FY 2020.

The Bulk Track System, together with other cost saving initiatives in place, continue to help contain Hearing Panel costs. For funding purposes, the FY 2020 Hearing Panel costs will be recovered entirely from the Discretionary Fund, which had a balance of $6,022,810 as at June 30, 2019, thereby lessening the financial impact to the membership.

Other expenses will be higher in FY 2020 due to the amortization of computer hardware and software development, increased consulting costs, Member Education events (planned every alternate year), regional council training and telecommunication expenses. Included in the consulting costs is $150,000 pertaining to the Member Firm Cybersecurity Review Project, the cost of which will be recovered entirely from the Discretionary Fund. Other significant consulting projects support industry and client research initiatives.

Capital spending is anticipated to total $994,000 in FY 2020. The MFDA plans to complete the development of the CE software solution (for the tracking of continuing education for the MFDA membership) and the Electronic Case File System for the Enforcement department. Also, included in capital spending are scheduled technology hardware replacements, enhancements to the Electronic Working Papers ("EWP") system and the implementation of a Security Information and Event Management ("SIEM") appliance, to enhance the MFDA's cyber security infrastructure.

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, Ernst & Young 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

Paul Reid
Vice-President, Finance & Administration

INDEPENDENT AUDITOR'S REPORT

To the Members of the
Mutual Fund Dealers Association of Canada

OPINION

We have audited the financial statements of the **Mutual Fund Dealers Association of Canada** (the "MFDA"), which comprise the statement of financial position as at June 30, 2019, and the statement of revenues and expenses, statement of changes in fund balances and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the MFDA as at June 30, 2019, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

BASIS FOR OPINION

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the MFDA in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OTHER INFORMATION

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained the Annual Report prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the MFDA's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the MFDA or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the MFDA's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 MFDA's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the MFDA's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the MFDA to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
October 3, 2019

STATEMENT OF FINANCIAL POSITION

As at June 30

	Notes	2019	2018
		$	$
ASSETS			
Current			
Cash		**1,578,052**	1,123,403
Investments, fair value	3	**12,162,257**	12,417,931
Internally restricted investments, fair value	3, 9	**10,372,807**	9,003,535
Membership fees receivable		**7,759,852**	7,451,848
Prepaid expenses and deposits		**546,471**	465,794
Membership fees receivable - MFDA Investor Protection Corporation	6	**4,160**	2,749
Administrative costs receivable	6	**34,225**	16,950
		32,457,824	30,482,210
Non-current			
Employee future benefits	5	**443,000**	1,209,600
Capital assets, net	4	**2,948,228**	3,285,602
		35,849,052	34,977,412
LIABILITIES AND FUND BALANCES			
Current			
Accounts payable and accrued liabilities		**4,729,917**	4,789,413
Deferred membership fee revenue		**8,315,838**	7,932,142
Due to MFDA Investor Protection Corporation	6	**11,290**	39,242
Capital lease obligations	8	**34,994**	38,094
		13,092,039	12,798,891
Non-current			
Employee future benefits	5	**25,038,500**	18,425,200
Capital lease obligations	8	**71,320**	100,994
		38,201,859	31,325,085
Guarantee, commitments and contingencies (notes 6, 8 and 11)			
FUND BALANCES			
Unrestricted		**(12,725,614)**	(5,351,208)
Internally restricted	9	**10,372,807**	9,003,535
		(2,352,807)	3,652,327
		35,849,052	34,977,412

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

Approved on behalf of the Board

______________________ Director

Christopher Nicholls,
Chair, Board of Directors

______________________ Director

Mark T. Gordon,
President & Chief Executive Officer

STATEMENT OF REVENUES AND EXPENSES

For the year ended June 30

	Notes	2019	2018
		$	$
Revenues			
Membership fees		**31,745,115**	31,555,450
Investment income	3	**599,911**	243,279
Cost recoveries and late filing fees		**422,404**	411,458
Fines	9	**1,985,279**	2,816,785
Administration recoveries	6	**60,000**	60,000
Total revenues		**34,812,709**	35,086,972
Expenses			
Salaries and employee benefits	5	**25,935,051**	26,137,335
Rent and occupancy		**2,809,143**	2,942,841
Administrative services and expenses	8	**1,047,707**	1,160,766
Technology		**1,095,242**	831,311
Professional and consulting fees		**927,359**	902,078
Hearing panels		**680,606**	666,414
Travel		**833,645**	825,280
Amortization of capital assets		**953,516**	805,734
Board of Directors' fees and expenses		**329,581**	332,100
Staff training and development		**324,566**	318,441
Meetings, seminars and communication		**245,388**	256,717
Total expenses		**35,181,804**	35,179,017
Deficiency of revenues over expenses for the year		**(369,095)**	(92,045)

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

STATEMENT OF CHANGES IN FUND BALANCES

For the year ended June 30

			2019	2018
	Unrestricted	**Internally Restricted**	**Total**	Total
	$	**$**	**$**	$
Fund balance, beginning of year	**(5,351,208)**	**9,003,535**	**3,652,327**	(273,613)
Deficiency of revenues over expenses for the year	**(369,095)**	**-**	**(369,095)**	(92,045)
Employee future benefits - remeasurements (note 5)	**(5,636,039)**	**-**	**(5,636,039)**	4,017,985
Interfund transfers (note 9)	**(1,369,272)**	**1,369,272**	**-**	-
Fund balance, end of year	**(12,725,614)**	**10,372,807**	**(2,352,807)**	3,652,327

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

STATEMENT OF CASH FLOWS

For the year ended June 30

	2019	2018
	$	$
OPERATING ACTIVITIES		
Deficiency of revenues over expenses for the year	**(369,095)**	(92,045)
Add (deduct) non-cash items:		
Amortization of capital assets	**953,516**	805,734
Employee future benefits expense	**4,058,400**	4,538,904
Loss on disposal of capital assets	**437**	-
Net change in non-cash balances		
Prepaid expenses and deposits	**(80,677)**	(31,499)
Membership fees receivable	**(308,004)**	(769,142)
Administrative costs receivable	**(17,275)**	8,944
Membership fees receivable - MFDA Investor Protection Corporation	**(1,411)**	26,808
Accounts payable and accrued liabilities	**(75,529)**	1,590,175
Deferred membership fee revenue	**383,696**	31,149
Due to MFDA Investor Protection Corporation	**(27,952)**	(11,132)
Contributions to employee future benefit plans	**(2,314,539)**	(2,607,919)
Cash provided by operating activities	**2,201,567**	3,489,977
INVESTING ACTIVITIES		
Purchase of investments, net	**(1,113,598)**	(3,401,581)
Purchase of capital assets	**(600,546)**	(1,208,573)
Principal payments on capital leases	**(32,774)**	(33,066)
Cash used in investing activities	**(1,746,918)**	(4,643,220)
Increase (decrease) in cash during the year	**454,649**	(1,153,243)
Cash, beginning of year	**1,123,403**	2,276,646
Cash, end of year	**1,578,052**	1,123,403
Supplemental cash flow information		
Acquisition of assets under capital leases	-	(123,654)
Amounts in accounts payable and accrued liabilities related to purchase of capital assets	**(193,573)**	(177,540)

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

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

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 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.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

These financial statements have been prepared in accordance with Part III of the *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.

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 (note 6).

Cash

Cash includes balances with banks. Cash maintained in investment accounts for investment in short-term vehicles is included in investments.

Financial instruments

The MFDA initially measures its financial assets and financial liabilities at fair value. The MFDA subsequently measures all its financial assets and financial liabilities at amortized cost, except for investments in pooled funds, which are measured at fair value at their reported net asset value per unit. Changes in fair value are recognized in the Statement of Revenues and Expenses. Investments in treasury bills are valued at cost plus accrued interest, which approximates fair value.

All transactions are recorded on a trade date basis.

Other financial instruments, including cash, membership fees receivable, administrative costs receivable, accounts payable and accrued liabilities and due to MFDA IPC, are initially recorded at their fair values and are subsequently measured at cost, net of any provisions for impairment.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 leases	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 MFDA accounts for these benefits using the immediate recognition approach. Under this approach, the MFDA recognizes the amount of the accrued obligation, net of the fair value of the assets, in the Statement 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 Statement of Changes in Fund Balances.

The accrued benefit obligation for the funded plans is determined using a roll-forward technique to estimate the accrued liability using accounting assumptions from the most recent actuarial valuation report prepared at least every three years. The accrued liability for unfunded plans is prepared on a basis consistent with the funded plans. The pension plan assets of the RPP and the SERP are measured at fair value as at the Statement of Financial Position date.

Revenue recognition

The MFDA follows the deferral method of accounting for revenue recognition. Membership fees are calculated annually for the period from 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 fees revenue when the applicant is accepted for membership.

Investment income, consisting of interest and income distributions from pooled funds and realized and unrealized gains and losses, is recorded as revenue in the Statement of Revenues and Expenses as earned.

Cost recoveries and late filing fees and administrative recoveries are recorded as revenues when the services are provided or as the amounts become due. Fines are recorded as revenue when collected.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Significant areas requiring the use of estimates relate to the assumptions used in the determination of pension and other retirement benefit assets and obligations. Actual results may differ from those estimates.

3. INVESTMENTS AND INVESTMENT INCOME

The MFDA's investments are carried at fair value and consist of the following:

As at June 30	2019	2018
	$	$
Cash	178,412	165,490
Canada Government Treasury Bills	5,630,692	4,354,320
CIBC Imperial Money Market Pooled Fund	12,375,963	12,714,395
Beutel Goodman Balanced Fund	4,349,997	4,187,261
Total investments	22,535,064	21,421,466

The presentation of investments on the Statement of Financial Position is as follows:

Investments - fair value	12,162,257	12,417,931
Internally restricted investments - fair value	10,372,807	9,003,535
Total	22,535,064	21,421,466

The amount classified as "Internally restricted investments" comprises the amounts set aside for purposes of the Discretionary Fund (note 9) and investments held for the Post-Retirement Benefits Fund (note 9).

3. INVESTMENTS AND INVESTMENT INCOME (CONTINUED)

Investment income recorded in the Statement of Revenues and Expenses is as follows:

For the year ended June 30	**2019**	2018
	$	$
Interest from Treasury Bills	**75,699**	42,293
Distributions from Money Market Pooled Fund	**266,040**	144,603
Distributions from Short Term Bond Fund	**-**	32,546
Distributions from Beutel Goodman Balanced Fund	**318,427**	35,114
Unrealized losses from Beutel Goodman Balanced Fund	**(139,000)**	(59,029)
	521,166	195,527
Bank interest	**78,745**	47,752
Total investment income	**599,911**	243,279

4. CAPITAL ASSETS

As at June 30			**2019**
	Cost	**Accumulated amortization**	**Net book value**
	$	**$**	**$**
Computers and software development	**3,452,729**	**2,711,252**	**741,477**
Office furniture and equipment	**1,109,041**	**699,629**	**409,412**
Leasehold improvements	**2,333,875**	**638,251**	**1,695,624**
Equipment under capital leases	**177,496**	**75,781**	**101,715**
	7,073,141	**4,124,913**	**2,948,228**

As at June 30			2018
	Cost	Accumulated amortization	Net book value
	$	$	$
Computers and software development	3,362,098	2,339,724	1,022,374
Office furniture and equipment	1,069,528	641,152	428,376
Leasehold improvements	2,120,041	422,403	1,697,638
Equipment under capital leases	177,496	40,282	137,214
	6,729,163	3,443,561	3,285,602

During the year, the MFDA wrote off capital assets that are no longer in use, with a cost of $272,601 and accumulated amortization of $272,164 (2018 – fully amortized capital assets of $98,212).

5. EMPLOYEE FUTURE BENEFIT PLANS

The MFDA provides retirement and post-employment benefits for its employees.

The MFDA maintains two defined benefit plans, an RPP for eligible employees and a SERP for designated executive employees.

The RPP is a contributory defined benefit pension plan based on earnings and years of service for eligible employees hired or rehired prior to January 1, 2014. The RPP is closed to new or rehired employees commencing employment on or after January 1, 2014.

The SERP is a funded supplementary defined benefit pension plan for eligible executives, based on earnings and years of service.

The MFDA also has a non-pension PRB plan. The benefits provided under the plan to retired employees are medical, dental and health care insurance coverage to eligible retirees.

The most recent actuarial valuation of the RPP and the SERP plans for funding purposes was as of July 1, 2018. The next actuarial valuation for the RPP and the SERP is July 1, 2021. An actuarial valuation of the PRB plan was conducted as at July 1, 2019. All regulatory funding and reporting requirements are current.

The estimate of the MFDA's employee future benefit asset (liability) on the Statement of Financial Position comprises the following:

As at June 30		**2019**			2018	
	RPP	**SERP**	**PRB**	RPP	SERP	PRB
	$	**$**	**$**	$	$	$
Fair value of plan assets	**32,752,408**	**7,897,200**	**-**	29,844,400	7,659,600	-
Accrued benefit obligation	**52,201,708**	**7,454,200**	**5,589,200**	40,615,600	6,450,000	7,654,000
Employee future benefit asset (liability)	**(19,449,300)**	**443,000**	**(5,589,200)**	(10,771,200)	1,209,600	(7,654,000)

The employee future benefit expense (component of salaries and employee benefits) is as follows:

For the year ended June 30		**2019**			2018	
	RPP	**SERP**	**PRB**	RPP	SERP	PRB
	$	**$**	**$**	$	$	$
Current service cost	**2,471,000**	**215,900**	**626,500**	2,889,300	227,000	633,504
Finance cost	**479,300**	**(40,100)**	**305,800**	545,700	(27,500)	270,900
Employee future benefit expense	**2,950,300**	**175,800**	**932,300**	3,435,000	199,500	904,404

5. EMPLOYEE FUTURE BENEFIT PLANS (CONTINUED)

The remeasurements recorded on the Statement of Changes in Fund Balances are as follows:

For the year ended June 30		**2019**			2018	
	RPP	**SERP**	**PRB**	RPP	SERP	PRB
	$	**$**	**$**	$	$	$
Actuarial gains (losses)	**(7,672,708)**	**(712,700)**	**2,976,369**	2,584,608	233,900	345,477
Asset gains (losses)	**(106,900)**	**(120,100)**	**-**	832,300	21,700	-
Total of remeasurements	**(7,779,608)**	**(832,800)**	**2,976,369**	3,416,908	255,600	345,477

Reconciliation of employee future benefit asset (liability):

For the year ended June 30		**2019**			2018	
	RPP	**SERP**	**PRB**	RPP	SERP	PRB
	$	**$**	**$**	$	$	$
Reconciliation of fair value of plan assets						
Fair value of plan assets, beginning of year	**29,844,400**	**7,659,600**	**-**	26,121,900	7,314,000	-
Net contributions and benefits paid during the year	**1,874,708**	**80,600**	**-**	1,936,200	74,000	-
Actual return on plan assets	**1,033,300**	**157,000**	**-**	1,786,300	271,600	-
Fair value of plan assets, end of year	**32,752,408**	**7,897,200**	**-**	29,844,400	7,659,600	-
Reconciliation of the accrued benefit obligation						
Accrued benefit obligation, beginning of year	**40,615,600**	**6,450,000**	**7,654,000**	39,227,400	6,395,900	7,115,200
Current service costs net of benefits paid during the year	**2,293,900**	**54,400**	**605,769**	2,473,108	65,600	613,377
Interest on accrued benefit obligation	**1,619,500**	**237,100**	**305,800**	1,499,700	222,400	270,900
Actuarial loss (gain) during the year	**7,672,708**	**712,700**	**(2,976,369)**	(2,584,608)	(233,900)	(345,477)
Accrued benefit obligation, end of year	**52,201,708**	**7,454,200**	**5,589,200**	40,615,600	6,450,000	7,654,000
Employee future benefit asset (liability)	**(19,449,300)**	**443,000**	**(5,589,200)**	(10,771,200)	1,209,600	(7,654,000)

5. EMPLOYEE FUTURE BENEFIT PLANS (CONTINUED)

For the year ended June 30	2019			2018		
	RPP	**SERP**	**PRB**	RPP	SERP	PRB
	$	**$**	**$**	$	$	$
Employee future benefit asset (liability)						
Balance at beginning of year	**(10,771,200)**	**1,209,600**	**(7,654,000)**	(13,105,500)	918,100	(7,115,200)
Net contributions, pension costs and remeasurements during the year	**(8,678,100)**	**(766,600)**	**2,064,800**	2,334,300	291,500	(538,800)
Balance at end of the year	**(19,449,300)**	**443,000**	**(5,589,200)**	(10,771,200)	1,209,600	(7,654,000)

Plan assets

The plan assets are invested in the Beutel Goodman Balanced Fund.

In addition to the plan assets for the RPP and SERP, the MFDA has established an internally restricted fund named the Post-Retirement Benefits Fund to meet the PRB obligations as they arise (note 9).

Significant actuarial assumptions

The following rates were used in the calculations:

For the year ended June 30	2019			2018		
	RPP	**SERP**	**PRB**	RPP	SERP	PRB
	%	**%**	**%**	%	%	%
Discount rate - obligation	**3.10**	**3.00**	**3.10**	3.70	3.60	3.70
Discount rate - expenses	**3.70**	**3.60**	**3.70**	3.50	3.40	3.50
Expected rate of return on plan assets	**3.10**	**3.00**	**-**	3.70	3.60	-
Rate of compensation increase	**3.25**	**3.25**	**n/a**	3.25	3.25	n/a

The accrued benefit obligation for the PRB plan as at June 30, 2019 was measured on the basis of the medical trend rates set at 7% grading down to 4.5% over five years (2018 – 8% grading down to 5% over three years) and the drug trend rates set at 8% grading down to 4.5% over seven years (2018 – 9% grading down to 5% over four years). The dental benefit trend rates are assumed to increase at an annual rate of 4% (2018 – 3.5%).

6. MFDA INVESTOR PROTECTION CORPORATION

The MFDA IPC is an independent corporation without share capital and has its own Board of Directors. MFDA IPC administers an investor protection fund for the benefit of clients of mutual fund dealers that are Members of the MFDA. 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 Revenues and Expenses 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 (2018 – $60,000) plus applicable taxes. As at June 30, 2019, an amount of $34,225 (2018 – $16,950) was due from the MFDA IPC and $11,290 (2018 – $39,242) was due to the MFDA IPC. All amounts due from or to the MFDA IPC are non-interest bearing. The MFDA 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. As at June 30, 2019, no obligation exists under the agreement.

7. CREDIT FACILITY

The MFDA has a demand credit facility in the amount of $6,000,000 (2018 – $6,000,000). The credit facility bears an interest rate of prime plus 0.75% per annum (2018 – 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, 2019 and June 30, 2018, the credit facility was not utilized.

8. COMMITMENTS

Capital leases

The MFDA has entered into three capital leases for office equipment. The capital leases expire in January 2021, January 2022 and January 2023, respectively. Interest expense incurred on the capital leases for the year amounted to $8,546 (2018 – $5,547) and is recorded in administrative services and expenses in the Statement of Revenues and Expenses.

Operating leases

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

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

	$
2020	1,279,856
2021	1,281,941
2022	1,270,978
2023	1,235,062
2024	1,262,298
Thereafter	2,673,698
Total	9,003,833

9. INTERNALLY RESTRICTED FUNDS

Internally restricted funds represent funds set aside by the Board of Directors for various purposes. The funds consist of the following:

As at June 30	2019	2018
	$	$
Discretionary Fund	**6,022,810**	4,816,274
Post-Retirement Benefits Fund	**4,349,997**	4,187,261
Total	**10,372,807**	9,003,535

a) Discretionary Fund

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 IPC, and funding for special projects that are in the public interest and beneficial to the public or Canadian capital markets.

b) Post-Retirement Benefits Fund

The Post-Retirement Benefits Fund is an internally restricted fund established by the MFDA Board of Directors to fund the employee PRB obligations (e.g. health and dental care benefits to retired employees). This Fund may also be used for special disbursements relating to other employee future benefits (e.g. solvency payments for MFDA's pension plans), as needed.

The following tables summarize the activity in the internally restricted funds:

For the year ended June 30			2019
	Discretionary Fund	Post-Retirement Benefits Fund	Total
	$	$	$
Balance at beginning of year	4,816,274	4,187,261	9,003,535
Fines collected	1,985,279	-	1,985,279
Investment income, net of fees	104,112	162,736	266,848
Transfers to unrestricted fund	(882,855)	-	(882,855)
Net activity during the year	1,206,536	162,736	1,369,272
Balance at end of year	6,022,810	4,349,997	10,372,807

9. INTERNALLY RESTRICTED FUNDS (CONTINUED)

For the year ended June 30			2018
	Discretionary Fund	Post-Retirement Benefits Fund	Total
	$	$	$
Balance at beginning of year	2,532,412	4,194,249	6,726,661
Fines collected	2,816,785	-	2,816,785
Investment income, net of fees	41,034	(6,988)	34,046
Transfers to unrestricted fund	(573,957)	-	(573,957)
Net activity during the year	2,283,862	(6,988)	2,276,874
Balance at end of year	4,816,274	4,187,261	9,003,535

Internally restricted funds are carried at fair value and are invested as follows:

As at June 30			**2019**
	Discretionary Fund	**Post-Retirement Benefits Fund**	**Total**
	$	**$**	**$**
Cash	**142,087**	**-**	**142,087**
CIBC Imperial Money Market Pooled Fund	**5,880,723**	**-**	**5,880,723**
Beutel Goodman Balanced Fund	**-**	**4,349,997**	**4,349,997**
Balance at end of year (note 3)	**6,022,810**	**4,349,997**	**10,372,807**

As at June 30			2018
	Discretionary Fund	Post-Retirement Benefits Fund	Total
	$	$	$
Cash	137,617	-	137,617
CIBC Imperial Money Market Pooled Fund	4,678,657	-	4,678,657
Beutel Goodman Balanced Fund	-	4,187,261	4,187,261
Balance at end of year (note 3)	4,816,274	4,187,261	9,003,535

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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. The Post-Retirement Benefits Fund assets are invested in a diversified balanced fund.

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, 2019, there are no outstanding membership fees due from fiscal 2019 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 Post-Retirement Benefits Fund assets are invested in a diversified balanced fund.

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 major Canadian financial institution (note 7).

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. The Post-Retirement Benefits Fund assets are invested in a diversified balanced fund. 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 and the Post-Retirement Benefits Fund assets are invested in a diversified balanced fund.

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Technology systems disruptions and cyber security risk

The MFDA gives a high priority to ensuring the integrity and availability of its information and communication systems. These risks are monitored by management through the MFDA's risk management program with oversight by the MFDA's Audit and Finance Committee. The MFDA Board of Directors also receives regular reports from management on cyber security initiatives.

The MFDA is exposed to the risks associated with power outages, design or usage errors by its employees, contractors or third-party service providers, failures caused by computer viruses, security breaches, and cyber-attacks. The consequences of such disruptions may include data loss, reputational harm, investigation and remediation costs, and potential additional regulatory reporting.

The MFDA mitigates these risks by continually assessing the effectiveness of its key information security controls and practices both internally and through independent third-party assessments as well as through ongoing investment in employee training and systems and services to monitor, protect, and backup information and communication systems. Recent initiatives include the hiring of new personnel including a Chief Technology Officer who regularly briefs the Audit and Finance Committee and the Board of Directors on the systems, processes and training being implemented to mitigate this high priority risk.

Due to the increase in the number and sophistication of security threats, however, the risk of a breach or outage remains a possibility, although that risk has been substantially reduced by the proactive measures implemented by the MFDA. In such an event, the MFDA maintains appropriate incident response plans and insurance to ensure the resiliency of its information and communication systems and the proprietary and third-party data stored therein.

11. CONTINGENCIES

In the normal course of operations, the MFDA is subject to claims or potential claims. Management records its best estimate of the potential liability related to these claims where potential liability is likely and able to be estimated. In other cases, the ultimate outcome of the claims cannot be determined at this time. Any additional losses related to claims would be recorded in the year during which the amount of the liability is able to be estimated or adjustments to the amount recorded are determined to be required.

EXECUTIVE OFFICERS

Christopher Nicholls	Chair of the Board
Patricia Callon	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
Mahesh Manikonda	Controller
Michelle Pong	Senior Legal Counsel & Director of Regional Councils
Bernadette Devine	Assistant Corporate Secretary & Manager, Board Administration

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