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

2020 ANNUAL REPORT

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 its Members and their over 78,000 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

It is not the first pandemic in Canadian history, but COVID-19 has proved to be the most disruptive, and the deadliest, pandemic to afflict this country in several generations.

The devastating impact on the lives and health of so many will be the saddest legacy of the disease. But the toll that it has taken on business, the exceptional burdens it has created for some workers and the painful unemployment it has led to for others, the disruption it has caused for our schools, and the less dramatic but undeniable havoc it has played with our regular day-to-day routines and the enjoyment of many simple pleasures have also been profound and unsettling. We know that MFDA Member firms and their clients have been affected in a host of ways by the pandemic itself as well as by the measures adopted to try to curb the spread of the disease. The MFDA has been, and is committed to be, sensitive and responsive to these hardships, while remaining vigilant in pursuing the goals of enhancing investor protection and strengthening public confidence in the Canadian mutual fund industry.

In the latter part of FY2020, the MFDA has temporarily adapted some of its regulatory processes to accommodate and support our Members in their adjustment to their new environment of physical distancing and working remotely, as they strive to service their clients who are also coping with heightened uncertainty. MFDA staff have been in regular communication with Members and continue to provide guidance on various operational and regulatory matters arising from the transition to these new working arrangements. MFDA Compliance and Enforcement staff have transitioned to conducting examinations and investigations remotely, and both Departments have been carrying out their regulatory mandates to their fullest extent. The form of operations may have changed, but the essential functions have not.

At this time last year, none of us foresaw how rapidly and significantly the world was about to change. But the resilience of our Members in the midst of the 'new normal' has also provided them opportunities to more fully utilize digital solutions to serve their clients effectively while adhering to applicable MFDA regulatory requirements. We also recognize that greater reliance on digital solutions makes it increasingly important that we be especially alert to cybersecurity risk. The MFDA has, therefore, among other things, provided guidance to Members on identifying and preventing cybersecurity threats as well as guidance to investors on working safely and effectively with their advisor in the age of social distancing. The MFDA will continue to provide ongoing support and guidance to Members and Canadian investors as the COVID-19 pandemic continues, and beyond.

Despite these unexpected challenges and the resulting demands on time and resources, the MFDA has continued, during FY2020, to make significant progress on some of the major initiatives contained in our current Strategic Plan, "Achieving Better Outcomes for Canadians", the details of which are highlighted in this Report.

I wish to extend my deepest thanks to my fellow directors for their ongoing work and dedication throughout this extraordinary and challenging year. Their insight, dedication and cooperation have been invaluable. I would like to express a particular belated note of gratitude to Susan Dujmovic, who stepped down from the Board at AGM 2019, for her contributions during her time as a director. And I also extend welcome to André Langlois, Industry Director, who was appointed to fill her position and has been a great addition to the Board over the past year.

Finally, on behalf of the Board, I would also like to extend our thanks to all the members of our MFDA management team for their extraordinary leadership this year as well as to the dedicated, talented and tireless members of MFDA staff. Your support, commitment and extraordinary efforts during these unprecedented times are inspiring and greatly appreciated. We know that brighter and healthier days for Canadians lie ahead, and I am confident that you will continue to be fully engaged as we all work together to pursue our continuing shared commitment to protect Canadian mutual fund investors.

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

MESSAGE FROM THE PRESIDENT & CEO

Over the past several years I have often spoken about the rapidly changing and dynamic environment that we are all operating in, and the need for the MFDA to continue to be responsive to these changes.

Never more than now, with the world experiencing the seismic shifts resulting from the global COVID-19 pandemic, and with the increased level of stress being felt by investors and industry alike, has this been more pertinent. This year MFDA Members, along with the rest of the world, experienced rapid changes brought about by the impact of the global COVID-19 pandemic. Given the MFDA's continued focus on being a responsive, responsible and effective regulator, we were able to quickly respond to these changes as already described in the message from the MFDA Chair. The MFDA was also able to directly and quickly address the challenges brought about by the impact of the March 2020 market decline through setting three budgetary goals for FY 2021 that sought to balance Member concerns with prudent fiscal management. These goals included reducing Member fees, preserving cash reserves and liquidity, and maintaining commitments to pension funding. All three of these goals were achieved in the FY 2021 budget which calls for $1.8 million less funding than the FY 2020 requirement and results in a 3% reduction in Member fees.

On the matter of regulatory structure of Canada's capital markets, the COVID-19 pandemic has amplified the need for a robust regulatory system that preserves investors' confidence in Canada's capital markets and for a harmonized and modern regulatory structure that helps industry participants stay competitive. These needs are why the publication in February 2020 of the MFDA's Special Report on Securities Industry Self-Regulation: *A Proposal for a Modern SRO*, which proposes constructive ideas to address these issues and challenges, was so timely.

The Special Report, which was published as part of the MFDA's overall strategic planning, contains extensive research and policy analysis on the future role of the MFDA and SROs in Canada. The Special Report recommends the establishment of a single new SRO that provides real and needed change. This new SRO is specifically designed to enhance public confidence in the SRO system with more active and transparent participation by CSA regulators, and to provide for harmonization and reduced regulatory complexity and costs that will benefit all industry participants fairly. This new SRO can be built using a sensible phased approach which is timely and achievable, and which is constructed upon the positive building blocks of today's SRO system. I am proud that the MFDA has been able to make a major contribution to the discussion regarding the future SRO structure in Canada, and I believe that the MFDA Special Report describes a model for a public interest and investor focused SRO that will benefit all of Canada.

As I reflect on our activities and all of our accomplishments during the past 12 months, as well as the significant challenges of the future, it is obvious that the MFDA could not successfully continue to serve its membership and Canadian investors if it were not for the dedication and engagement of MFDA Staff and the MFDA Board of Directors. I would like to thank you all for your dedication, continued support and guidance.

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

MAJOR INITIATIVES IN FY 2020

MFDA Member Outreach Initiative

In 2019, as part of the MFDA Member Outreach initiative, independent consultants held focus groups and one-on-one interviews with Members to assist the MFDA in understanding issues facing Members, including the impact of regulatory requirements on them, where Members may require additional guidance, and other issues which may be particular to their operations or business models. In September 2019, MFDA staff issued Bulletin #0792-M MFDA Member Outreach Initiative which summarized the background and objectives of the MFDA Member Outreach Initiative, the process used to solicit feedback from Members, the key themes identified during the consultations, and relevant MFDA initiatives. Some of the actions to be taken as a result include 1) supporting the Rule Review Project; 2) continuing to take steps to enhance the transparency of the MFDA's compliance approach; and 3) supporting Members in their Compliance efforts through guidance and collaboration.

Member and Approved Persons Education and Proficiency

Over the past year, MFDA staff continued to move forward with development and implementation of Continuing Education ("CE") requirements for Approved Persons of MFDA Members. On September 26, 2019, staff of the Recognizing Regulators issued a Notice of Approval/Non-Objection to proposed new MFDA Rule 1.2 (Definitions) and 1.2.6 (Continuing Education) and Policy No. 9 Continuing Education (CE) Requirements. The proposed new Rules were approved at the 2019 Annual General and Special Meeting of Members. There are two remaining areas of the CE initiative to finalize: (i) the accreditation standards; and (ii) system development of the MFDA CE reporting and tracking system (CERTS).

On July 19, 2019, Member Education staff issued for comment a consultation paper on the CE accreditation standards. MFDA staff engaged in extensive outreach, both before and after issuing the consultation paper, with stakeholders including Members, industry associations and education providers. MFDA staff reviewed the comment submissions made in response to the July 2019 Discussion Paper and, in March 2020, published for comment proposed amendments to Policy No. 9 to reflect the comments received in respect of the CE accreditation process.

In FY 2020, MFDA staff presented at 27 Member, industry association, investor advocate and other regulatory events on various topics including: The MFDA Special Report, MFDA regulatory priorities, total cost reporting, seniors, supervision, branch review programs, CE, Know-Your-Client (KYC) information, suitability, promotional activities, signature falsification and cybersecurity.

In fall 2019, MFDA staff hosted a Member Regulation Forum via webcast. MFDA staff provided Members with updates on compliance, enforcement and policy activities, including: the status of proposed MFDA Rule and By-Law amendments; ongoing CSA initiatives regarding CSA Client Focused Reforms; alternative funds proficiency; promotional activities and MFDA priorities.

MFDA Rule Review

In furtherance of the goals of "Innovate" and "Update" under the 2018-2022 Strategic Plan, the MFDA initiated a review of MFDA regulatory requirements to ensure that the current MFDA regulatory framework remains appropriate, relevant, and will facilitate responsible innovation in the industry through the use of emerging technology and business models. MFDA staff is reviewing all aspects of its Rulebook, including Policies, Notices and Forms. As a result of Member feedback and staff internal review, MFDA staff has already identified areas where changes will be considered including supervisory structures, and books and records requirements.

Innovation Outreach and Collaboration

MFDA Members have been implementing new technology to offer new products, such as exchange-traded funds and services such as electronic reporting, signatures, onboarding and advisory services to clients. While the adoption of new technology allows Members to increase efficiencies, it must be done in a manner that protects investors and addresses risks.

In FY 2020, the MFDA implemented an Innovation Outreach initiative designed to encourage Members to discuss proposed technology or operational changes with MFDA staff prior to implementation. (See MFDA Bulletin #0754-M). Through this process, MFDA staff has provided Members with guidance regarding compliance and regulatory requirements, as well as suggestions on how to address particular issues.

Expanded Cost Reporting

The MFDA has undertaken extensive consultation on the expansion of cost reporting to include certain costs that are not captured by current CRM2 reporting requirements, such as total investment fund management fees and operating costs. As part of this consultation, in 2018, MFDA staff issued a consultation paper that included examples of how expanded cost reporting could look. In 2020, based on comments received, MFDA staff commenced development of a research project relating to investor understanding and awareness of the fees they pay and the adequacy of the cost disclosure they receive.

Cybersecurity

Supporting Members in their effort to address cybersecurity risks continued to be a focus for the MFDA. In 2018, MFDA staff commenced a Cybersecurity Assessment Program (CAP). MFDA intends to expand further on the work carried out under CAP and will perform a second survey of the membership. The new mandatory survey will allow the MFDA to assess whether there has been any improvement given our prior initiatives and ascertain if Members have taken additional measures given COVID-19. Members will be provided a report of the results, a comparison of their results to the membership and applicable peer group and guidance from the cybersecurity consultant who will perform the work.

The COVID-19 pandemic has created additional cybersecurity concerns, including those that result from the need for Members to work from home. In response, MFDA staff issued Bulletin #0816-M *Cybercriminals Currently Exploiting the COVID-19 Pandemic* and worked with a consultant to develop a cybersecurity webinar focusing on these concerns and outline best practices to mitigate these concerns. This webinar was presented on May 20, 2020 and had over 700 attendees.

The MFDA has also developed educational materials and webcasts relating to Cybersecurity and intends to provide further guidance on this issue. Going forward, MFDA will consider the best way for Members to engage with various industry organizations that routinely hold sessions with providers and experts to discuss their services and how to implement them in Member operations.

Investor Outreach, Education and Seniors' Initiatives

In FY 2020, 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.

The MFDA held its third Seniors Summit on October 30, 2019 at the Toronto Region Board of Trade. The Seniors Summit provided Members with guidance and updates on topics related to best serving and protecting seniors.

MFDA staff published a number of Investor Bulletins in 2019. Investor Bulletins focused on issues such as, know-your-client, understanding risk, suitability and information on mutual fund fees. The MFDA also provided guidance to Members on practices that they may consider implementing to assist in the protection of seniors and vulnerable clients, specifically: (1) requesting clients name a Trusted Contact Person; and (2) placing a temporary hold on transactions where there are reasonable concerns regarding financial exploitation of a client or a client's mental capacity.

In 2019, the MFDA participated in the International Organization of Securities Commissions World Investor Week initiative with the aim to highlight the importance of investor education.

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 Inc.
(Toronto, Ontario)
Joined December 2016

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

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

Mark Kinzel, BA
Vice-Chair
IG Wealth Management
(Winnipeg, Manitoba)
Joined December 2016

André Langlois, FCA, FCIA
President
Desjardins Financial Security Investments Inc.
(Montreal, Quebec)
Joined November 2019

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 27 corporate meetings were held during FY2020 including one Annual General Meeting of Members. The following is a breakdown of attendance and total compensation for FY2020 for the Board of Directors.

Director	Board	Audit & Finance	Governance	Regulatory Issues	Term Expires	Total Compensation
Patricia Callon[2]	8 of 8	n/a	11 of 11	n/a	2020	n/a
Katherine Dudtschak[3]	8 of 8	n/a	n/a	3 of 4	2020	n/a
Susan Dujmovic[3] (stepped down November 28, 2019)	2 of 2	1 of 3	n/a	2 of 2	2019	n/a
Steven Glover[1]	8 of 8	3 of 3	n/a	n/a	2020	$46,500
Sonny Goldstein[3]	8 of 8	n/a	n/a	4 of 4	2021	n/a
Mark Gordon	8 of 8	3 of 3	11 of 11	4 of 4	n/a	n/a
Mark Kinzel[3]	8 of 8	n/a	n/a	3 of 4	2020	n/a
André Langlois[1][3] (appointed November 28, 2019)	6 of 6	2 of 3	n/a	2 of 2	2021	n/a
Hugh McNabney[1]	8 of 8	3 of 3	n/a	n/a	2022	$36,500
Christopher Nicholls[2][3]	8 of 8	n/a	11 of 11	4 of 4	2020	$67,500
Les O'Brien[1][2]	8 of 8	3 of 3	4 of 4	3 of 3	2021	$43,666
Barbara Shourounis[3]	8 of 8	n/a	n/a	4 of 4	2021	$36,833
Michael Stanley[1][2]	8 of 8	3 of 3	11 of 11	n/a	2020	n/a
Vince Valenti[2][3]	8 of 8	n/a	11 of 11	1 of 1	2022	$50,000

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, 2020. This MD&A is current to September 30, 2020 and should be read in conjunction with the audited financial statements and the accompanying notes for the fiscal year ("FY") ended June 30, 2020.

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 78,000 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 Members and the Approved Persons sponsored by them by developing rules and policies to govern the business conduct and operations of Member firms 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. This provides assurance to the public that their investments are being managed in a professional manner and subject to regulation by the MFDA. The MFDA is governed by a Board of Directors comprised of 6 Public Directors and 6 industry Directors which ensures there is independent and informed oversight of all operations. The Board has established the Audit and Finance Committee which oversees the audit, financial reporting and budgeting processes, accounting policy changes, and the MD&A.

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. Actual events and future performance could differ materially from those expressed or implied in any forward-looking statements made by the MFDA and readers are urged to not place undue reliance on forward-looking statements. 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 2020	FY 2019
Operating revenues		
Membership fees	**$33,267**	$31,745
Fines	**1,047**	1,985
Other	**737**	1,083
Total revenues	**35,051**	34,813
Expenses		
Salaries and employee benefits	**25,353**	24,444
Rent and occupancy	**2,775**	2,809
Technology	**1,259**	1,095
Travel	**533**	834
Hearing panels	**471**	681
Other	**4,071**	3,829
Total expenses	**34,462**	33,692
Surplus of revenues over expenses	**589**	1,121
Assets		
Current assets	**21,349**	22,085
Current assets - internally restricted	**10,781**	10,373
Non-current assets	**3,408**	4,657
Total assets	**35,538**	37,115
Liabilities		
Current liabilities	**10,602**	10,904
Non-current liabilities	**8,490**	7,849
Total liabilities	**19,092**	18,753
Net assets	**$16,446**	$18,362
Full-time employees (FTEs)	**166**	165
Member Assets Under Administration ("AUA") - for fee purposes (excluding Quebec)	**$568,147,575**	$563,771,406
Number of Members	**91**	90
Number of Approved Persons	**78,342**	80,396

EFFECTS OF COVID-19 ON MFDA OPERATIONS, REVENUES, AND EXPENSES

In response to the restrictions imposed by the various levels of government across Canada to limit in-person social interactions and thereby mitigate the spread of COVID-19. In March 2020, the MFDA deployed its staff to a remote working environment. Since that time and continuing into the foreseeable future, MFDA operations will be conducted as much as practicable through remote work and video conferencing technology until staff is permitted to safely return to the office. The COVID-19 crisis has had no material impact on revenues as the bulk of MFDA revenues are collected through Member fee assessments which have continued to be collected on a timely basis. Previous investments in remote working technology to facilitate disaster recovery and mitigate business interruptions have allowed for a quick and effective resumption of business activities in a remote work setting with virtually no additional investment. Due to travel restrictions and limitations on gatherings, some categories of expenses were less than what was anticipated and budgeted for FY 2020. These expenses mainly related to business travel, training, and hearings.

ACCOUNTING POLICY CHANGE

The MFDA has two registered defined benefit ("DB") pension plans which are the Registered Pension Plan ("RPP") and the Supplemental Executive Retirement Plan ("SERP"). The current accounting standard for the accounting of employee future benefits by not-for-profit organizations allows an entity to elect the method of measurement for the defined benefit obligation of its DB pension plans using either of the following two valuation methods:

- An actuarial valuation prepared for accounting purposes ("accounting valuation"); or
- An actuarial valuation prepared for funding purposes ("funding valuation").

The primary difference between these two valuation methods, as it applies to the MFDA, is that the accounting valuation uses the high-quality corporate long bond rate as the discount rate for calculating the pension benefit obligation whereas the funding valuation uses an actuarially determined discount rate which represents the assumed long term rate of return on plan assets.

As described in notes 2 and 5 to the audited financial statements, effective July 1, 2019, management elected to change from using the accounting valuation method to using the funding valuation method to account for employee pension obligations and expenses of its DB pension plans on a retrospective basis. This accounting change was overseen by the Audit and Finance Committee in consultation with the MFDA's actuary Buck LLP and the MFDA's auditor Ernst & Young LLP.

The driver for this change was the decline in interest rates that has occurred in recent years. In past years, there was not a material difference between the discount rate used in the accounting valuation versus the discount rate used in the funding valuation. In recent years though, the sharp decline in corporate long bond rates to levels well below the actuarially determined discount rate has inflated the DB pension plans liability under the accounting valuation method resulting in the pension plans (primarily the RPP) appearing to be severely underfunded.

Given the current sentiment of a "lower for longer" interest rate environment, changing valuation methods for financial statement purposes resolves the interest rate disconnect. It also better aligns the presentation with the actuarially based funding model which has been in place since inception and which reflects how the MFDA manages and funds these DB pension plans. The financial statements now provide a more accurate representation of the MFDA's financial position and a clear picture of how the pension plans are funded and managed.

The net effect of this accounting change shows both the RPP and SERP in positive funded positions on the statement of financial position reflected as a non-current Employee Future Benefits asset of $543,000. As well, the Unrestricted Fund has correspondingly returned to a positive balance.

The Post-Retirement Benefits – "PRB" plan that provides health care coverage for retired employees does not hold assets in a trust account like the pension plans and thus remains accounted for using an accounting valuation resulting in a non-current Employee Future Benefits liability of $6,440,500. Nevertheless, the MFDA has earmarked funds for the PRB obligation through an internal restriction totaling $4.4 million (see note 9 to the audited financial statements).

REVENUES

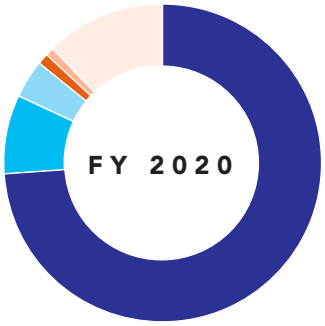
The MFDA is a "cost-recovery" not-for-profit organization which assesses membership fees to its Members in order to provide sufficient funding to meet annual budgeted operating and capital costs and to maintain adequate liquidity (refer to Liquidity section below).

Fees charged to individual Member firms are calculated using a tiered 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, which have continued to be collected on a timely basis.

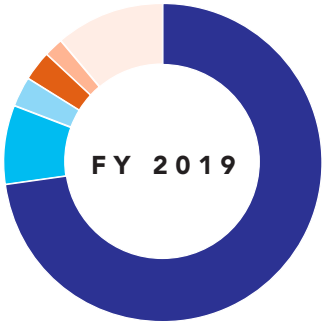
The MFDA's other sources of revenues (unrestricted and internally restricted) typically include:

- 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
- 4% Technology
- 1% Travel
- 1% Hearing Panels
- 12% Other



- 73% Salaries and Employee Benefits
- 8% Rent and Occupancy
- 3% Technology
- 3% Travel
- 2% Hearing Panels
- 11% Other

Total expenses increased 2.2% year over year in FY 2020. 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 2020 operating expenses. Compensation plans and policies are significant drivers in budgeting and managing MFDA costs. The Audit and Finance Committee oversees the budgeting process, including FTE numbers and overall adjustments. The Governance Committee reviews and makes recommendations to the Board in respect of executive compensation.

Headcount in FY 2020 was 166 FTEs, representing an increase of one FTE necessitated by the introduction of the Continuing Education ("CE") program. Salaries and employee benefits expense for FY 2020 were $908,392 (3.7%) higher over FY 2019.

The salary and employee benefits expense (other than the employee future benefits component explained below) increased by $1,044,804 (4.8%) primarily due to the additional FTE, higher vacation accruals exacerbated by COVID-19 and market based merit adjustments.

Employee future benefits expense was lower in FY 2020 by $136,412 (5.0%), primarily due to revised actuarial valuation assumptions pertaining to the PRB plan. Employee future benefits represent benefits to be provided to employees in the future and are determined based on employee service provided in the current year using the actuarial valuations (RPP & SERP – funding valuation; PRB – accounting valuation). In calculating the liability and expense related to the employee future 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. These estimates are set out in note 5 to the audited Financial Statements. Refer to "Employee Future Benefits Asset and Liability" section below for further analysis of employee future benefits.

RENT AND OCCUPANCY

The MFDA has offices in Toronto, Calgary and Vancouver. Rent and occupancy costs (including office lease expense, operating costs, property taxes, and facilities maintenance) were lower by $34,225 (1.2%) in FY 2020, mainly due to the full year impact of the favorable lease renewal of the Calgary office. The following is a breakdown of FY 2020 occupancy costs by location:

Location	Annual Occupancy Cost
Toronto	$2,369,322
Calgary	$170,932
Vancouver	$234,663

TECHNOLOGY

Technology costs were higher in FY 2020 by $164,113 (15.0%), primarily due to additional data security related costs, expansion of disaster recovery capacity and security infrastructure, and the scheduled replacement of non-capitalized computer hardware. Refer to "Resiliency and Cyber Security Risk" in the Risk section below for additional information on how the MFDA manages the rapidly evolving technology environment.

TRAVEL

Travel for the MFDA pertains mainly to conducting Compliance reviews and Enforcement investigations and hearings. Travel costs for FY 2020 were lower by $300,294 (36.0%) compared to FY 2019, mainly due to the COVID-19 related travel restrictions that came into effect in March 2020. In response to these travel restrictions, most of the Compliance, Enforcement, and hearings travel related activities were able to be conducted using remote working technology and video conferencing applications.

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 2020 were $209,994 (30.9%) lower compared to FY 2019, mainly due to the COVID-19 related travel restrictions impacting the latter four months of the fiscal year, during which hearings were conducted remotely through video conferencing. Hearing panel costs are 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. Professional and consulting fees incurred in FY 2020 were $447,859 (48.3%) higher compared to FY 2019 due to consultations relating to the SRO Paper and higher spend relating to numerous IT security focused initiatives, as well as further development of various business process platforms. Amortization expense was lower in FY 2020 by $155,616 (16.3%). Staff training and development costs were lower in FY 2020 by $115,440 (35.6%) compared to FY 2019 due to some training events being postponed due to COVID-19 social distancing restrictions. Variances in other categories of expenses were in line with the previous year.

SURPLUS OF REVENUES OVER EXPENSES

The surplus of revenues over expenses is added to unrestricted net assets. The surplus of revenues over expenses for FY 2020 was $589,664.

FINANCIAL POSITION

Investments

The MFDA holds cash and short term investments to ensure adequate liquidity and these investments are managed in accordance with the Board approved investment policies.

Investments totaled $23,694,570 at June 30, 2020 (2019 - $22,535,064) and consisted of money market funds, treasury bills, and balanced funds, which are managed by external fund managers. FY 2020 investments consist of $12,913,761 (2019 – $12,162,257) pertaining to the Unrestricted Fund, $6,421,185 (2019 – $6,022,810) pertaining to the Discretionary Fund and $4,359,624 (2019 – $4,349,997) pertaining to the Post-Retirement Benefits Fund.

Capital Expenditures

Capital expenditures totaled $714,405 in FY 2020 (2019 - $616,580) with $684,026 related to technology and $30,379 for leasehold improvements.

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 2020, the Fund received fines of $1,047,037 (2019 – $1,985,279) and $747,204 (2019 – $882,855) was transferred to the Unrestricted Fund towards the administrative costs related to MFDA Enforcement Hearings - $558,749 (2019 - $825,818) and Member Cyber Security Reviews - $188,455 (2019 - $57,037). As of June 30, 2020, the Discretionary Fund balance was $6,421,185 (2019 – $6,022,810) and was held in short-term investments managed in accordance with the Board approved investment policies.

Post-Retirement Benefits Fund

The PRB 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 the MFDA's pension plans), as needed. As of June 30, 2020, the PRB Fund balance was $4,359,624 (2019 – $4,349,997).

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 $2,865,931 (2019 – $2,882,861) to its Members on behalf of the MFDA IPC. As at June 30, 2020, $181,353 of the MFDA IPC assessments remained due to the MFDA IPC (2019 – $11,290). 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 2020 amounted to $73,398 (2019 – $60,000) plus applicable taxes.

Employee Future Benefits Asset and Liability

The MFDA has an employee future benefits asset of $543,000 (2019 – $1,708,365) pertaining to the RPP and the SERP and an accrued employee future benefits liability of $6,440,500 (2019 – $5,589,200) pertaining to the PRB plan. The employee future benefits asset comprises a $267,700 asset (2019 – $1,234,400) pertaining to the RPP and a $275,300 asset (2019 – $473,965) relating to the SERP plan.

The year over year decline of $966,700 in the RPP asset is analyzed in note 5 to the audited Financial Statements. There are a number of components of that analysis that give rise to the change including loss on plan assets of $241,100. This loss includes an unrealized amount of $1.8 million, due to the COVID-19 related market downturn. Management focuses primarily on the long term rate of return which as of June 30, 2020, was 7.20% for the Beutel Goodman Balanced Fund since it was selected as the investment vehicle in June 2013. This return is higher than the long term rate of return assumption of 5.5% used for the funding valuation.

The $198,665 year over year decrease in the SERP asset balance is also analyzed in note 5 of the audited Financial Statements and was also affected by the COVID-19 related market downturn.

The $851,300 (15%) year over year increase in the PRB liability is mainly due to the lower discount rates used for valuation purposes (2.90% at June 30, 2020 vs. 3.10% at June 30, 2019).

The MFDA has initiated a number of measures to mitigate the rising costs of pension obligations. The major steps were to require 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 and funded as an internally restricted Fund to back PRB obligations and provide a measure of financial stability in managing any pension funding shortfalls in the future. As at June 30, 2020, the PRB Fund had an asset balance of $4,359,624 (2019 – $4,349,997). 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 while the related asset balance is a component of internally restricted investments. In order to contain PRB costs, the PRB plan was closed to new employees hired on or after January 1, 2020.

The triennial actuarial funding valuation of the RPP and the SERP was performed as at July 1, 2018 by the MFDA's independent actuarial consultant, Buck LLP. 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 $1,028,920 in excess of normal cost payments in FY 2020 (2019 – $514,460) to address the solvency deficit with additional planned future payments. 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. The MFDA has an internal liquidity guideline for the Unrestricted Fund of three to six months of operating expenses. This guideline ensures the MFDA has adequate resources to deal with unexpected costs or contingencies. Based upon the FY 2021 operating budget this minimum is currently set at $7.9 million.

The following table summarizes the MFDA's funding coverage and liquidity position as of June 30, 2020 (table in $000's):

Annual funding requirement (per FY 2021 Budget)	$ 31,533
Minimum Reserve of 3 months Operating Expenses	$ 7,883
Operating Cash Account balance	$ 1,578
Investments - Unrestricted Fund	12,914
Total liquid assets	14,492
Short-term obligations, net of pre-payments and receivables	(3,745)
Cash and Investments, not of short-term obligations	$ 10,747
Number of months funding coverage	4.1

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 funding valuations prepared by the MFDA's independent actuarial consultant. By law these valuations 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, systems, and staff training being implemented to mitigate this high priority risk.

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.

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 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.

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 assets for the DB retirement plans 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.

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 in accordance with the Board approved investment policies. The assets for the DB retirement plans 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.

COVID-19 pandemic

In March 2020, the World Health Organization declared the spread of COVID-19 to be a global pandemic. This resulted in governments worldwide enacting emergency measures to combat the spread of the virus including travel restrictions in and out of Canada, barring gatherings of people, and the implementation of other social distancing measures. These restrictions had no significant impact on the operations of the MFDA as systems were sufficiently flexible and robust to facilitate remote work and governance.

Management considered the impact of COVID-19 in its assessment of the MFDA's assets and liabilities and its ability to continue as a going concern. Management believes that the stability of its revenues and sufficiency of its liquid resources enable the MFDA to effectively manage through the COVID-19 pandemic.

FY 2021 BUDGET

FY 2021 Budget vs. FY 2020 Actuals – GAAP Basis (table in $000's)

Particulars	FY 2021 (Budget)	% of Total	FY 2020 (Actuals)	% of Total
Salaries and employee benefits	$24,460	73%	$25,353	73%
Rent and occupancy	2,757	8%	2,775	8%
Technology	1,446	4%	1,259	4%
Travel	439	1%	533	2%
Hearing panels	567	2%	471	1%
Other	4,038	12%	4,071	12%
Total operating expenses	$33,707	100%	$34,462	100%
Additions to Capital Assets	$452	n/a	$714	n/a
2 year Average AUA (for fee determination)	$536,298,000	n/a	$548,856,000	n/a
Full-time Employees (FTEs)	166	n/a	166	n/a

As a result of the market downturn that occurred in March 2020 precipitated by the COVID-19 pandemic, Member AUA declined by 7% year over year as at March 31, 2020. Correspondingly, the 2-year average Member AUA used to determine Member fee rates declined by 2.3% year over year. Consideration was given to the adverse impact the market decline had on the MFDA Membership when formulating the FY 2021 budget. Accordingly, management set three budgetary goals that sought to balance Member concerns with prudent fiscal management. These goals included reducing Member fees, complying with the liquidity guideline (cash and investments net of short term obligations sufficient to cover at least 3 months of operating expenses), and maintaining commitments to pension funding.

The FY 2021 budget calls for total cash funding of $31.5 million versus $33.3 million that was required for FY 2020. This represents a $1.8 million or 5.3% reduction in FY 2021 expenditures. Member fees were reduced by 3.0% for FY 2021. Cost savings were achieved primarily though implementing a 0% salary merit increase for all MFDA staff as well as a hiring freeze, deferment of some elements of capital spending, additional cost recoveries from the Discretionary Fund, and reduced costs for travel and training due to COVID-19 related restrictions.

Toronto, Calgary and Vancouver office lease rental costs will remain in line with FY 2020 levels, subject to normal changes in operating costs passed on by the landlord.

Technology expenses are expected to be $187,000 (15%) higher in FY 2021 due to maintenance renewal pricing on some existing systems, additional cyber security systems, and expansion of disaster recovery, data backup and storage facilities.

Travel costs are anticipated to be lower in FY 2021 by $94,000 (17.6%) as the COVID-19 related travel restrictions are expected to prevail into the 2021 fiscal year. These restrictions are not expected to materially impact MFDA operations due to the robust systems in place facilitating remote work.

Hearing Panel costs for FY 2021 are expected to be $96,000 (20.4%) higher compared to FY 2020 as COVID-19 restrictions temporarily impacted hearing panel activity in the last quarter of FY 2020. For funding purposes, the FY 2021 Hearing Panel administration costs will be recovered entirely from the Discretionary Fund. During FY 2020, the MFDA Board of Directors approved the recovery of hearing panel internal administration costs (e.g. salaries and benefits of the MFDA staff directly involved in the administration of the MFDA hearing panels, regional council expenses, and the hearing panel related travel costs), thereby further lessening the financial impact to the membership. As at June 30, 2020, the Discretionary Fund had a balance of $6,421,185.

Other expenses are expected to be lower in FY 2021 primarily due to expected lower legal and consultant costs.

Included in consultant costs are costs pertaining to the Member Cyber Security Survey project, Member Firm Cybersecurity Review project, and the Expanded Cost Reporting project. In total, $320,000 will be recovered from the Discretionary Fund pertaining to these projects.

Capital spending is anticipated to total $452,000 in FY 2021. Included in capital spending are costs for the development of an electronic case file system for the Enforcement Department, development of the Continuing Education system, and scheduled technology hardware replacements.

FINANCIALS

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
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, 2020, 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, 2020, 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

Toronto, Canada
September 29, 2020

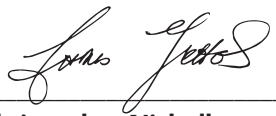
Chartered Professional Accountants
Licensed Public Accountants

STATEMENT OF FINANCIAL POSITION

As at June 30

	Notes	**2020**	2019 (restated – note 5)
		$	$
ASSETS			
Current			
Cash		**1,577,792**	1,578,052
Investments, fair value	3	**12,913,761**	12,162,257
Internally restricted investments, fair value	3, 9	**10,780,809**	10,372,807
Membership fees receivable		**6,231,295**	7,759,852
Prepaid expenses and deposits		**506,510**	546,471
Membership fees receivable – MFDA Investor Protection Corporation	6	**86,768**	4,160
Administrative costs receivable	6	**33,029**	34,225
		32,129,964	32,457,824
Non-current			
Employee future benefits	5	**543,000**	1,708,365
Capital assets, net	4	**2,864,734**	2,948,228
		35,537,698	37,114,417
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Current			
Accounts payable and accrued liabilities		**2,504,042**	2,541,411
Deferred membership fee revenue		**7,882,504**	8,315,838
Due to MFDA Investor Protection Corporation	6	**181,353**	11,290
Capital lease obligations	8	**34,285**	34,994
		10,602,184	10,903,533
Non-current			
Employee future benefits	5	**6,440,500**	5,589,200
Deferred leasehold inducements		**2,012,075**	2,188,506
Capital lease obligations	8	**37,035**	71,320
		19,091,794	18,752,559
Guarantee, commitments and contingencies (notes 6, 8 and 11)			
FUND BALANCES			
Unrestricted		**5,665,095**	7,989,051
Internally restricted	9	**10,780,809**	10,372,807
		16,445,904	18,361,858
		35,537,698	37,114,417

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	2020	2019 (restated – note 5)
		$	$
Revenues			
Membership fees		**33,267,326**	31,745,115
Investment income	3	**384,050**	599,911
Cost recoveries and late filing fees		**279,566**	422,404
Fines	9	**1,047,037**	1,985,279
Administration recoveries	6	**73,398**	60,000
Total revenues		**35,051,377**	34,812,709
Expenses			
Salaries and employee benefits	5	**25,352,551**	24,444,159
Rent and occupancy		**2,774,918**	2,809,143
Administrative services and expenses	8	**1,064,991**	1,047,707
Technology		**1,259,355**	1,095,242
Professional and consulting fees		**1,375,218**	927,359
Hearing panels		**470,612**	680,606
Travel		**533,351**	833,645
Amortization of capital assets		**797,899**	953,516
Board of Directors' fees and expenses		**360,261**	329,581
Staff training and development		**209,126**	324,566
Meetings, seminars and communication		**263,431**	245,388
Total expenses		**34,461,713**	33,690,912
Surplus of revenues over expenses for the year		**589,664**	1,121,797

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

STATEMENT OF CHANGES IN FUND BALANCES

For the year ended June 30

			2020	2019 (restated – note 5)
	Unrestricted	**Internally Restricted**	**Total**	Total
	$	**$**	**$**	$
Restated:				
Fund balance, beginning of year, as previously stated	**(12,725,614)**	**10,372,807**	**(2,352,807)**	3,652,327
Restatement (note 5)	**20,714,665**	**—**	**20,714,665**	11,304,800
Fund balance, beginning of year, restated	**7,989,051**	**10,372,807**	**18,361,858**	14,957,127
Surplus of revenues over expenses for the year	**589,664**	**—**	**589,664**	1,121,797
Employee future benefits – remeasurements (note 5)	**(2,505,618)**	**—**	**(2,505,618)**	2,282,934
Interfund transfers (note 9)	**(408,002)**	**408,002**	**—**	—
Fund balance, end of year	**5,665,095**	**10,780,809**	**16,445,904**	18,361,858

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

STATEMENT OF CASH FLOWS

For the year ended June 30

	2020	2019 (restated – note 5)
	$	$
OPERATING ACTIVITIES		
Surplus of revenues over expenses for the year	**589,664**	1,121,797
Add non-cash items:		
Amortization of capital assets	**797,899**	953,516
Employee future benefits expense	**2,387,500**	2,567,508
Loss on disposal of capital assets	**—**	437
Net change in non-cash balances		
Prepaid expenses and deposits	**39,961**	(80,677)
Membership fees receivable	**1,528,557**	(308,004)
Administrative costs receivable	**1,196**	(17,275)
Membership fees receivable - MFDA Investor Protection Corporation	**(82,608)**	(1,411)
Accounts payable and accrued liabilities	**(124,258)**	(75,529)
Deferred membership fee revenue	**(433,334)**	383,696
Due to MFDA Investor Protection Corporation	**170,063**	(27,952)
Contributions to employee future benefit plans	**(2,876,448)**	(2,314,539)
Cash provided by operating activities	**1,998,192**	2,201,567
INVESTING ACTIVITIES		
Purchase of investments, net	**(1,159,506)**	(1,113,598)
Purchase of capital assets	**(803,951)**	(600,546)
Principal payments on capital leases	**(34,995)**	(32,774)
Cash used in investing activities	**(1,998,452)**	(1,746,918)
Increase (decrease) in cash during the year	**(260)**	454,649
Cash, beginning of year	**1,578,052**	1,123,403
Cash, end of year	**1,577,792**	1,578,052
Supplemental cash flow information		
Amounts in accounts payable and accrued liabilities related to purchase of capital assets	**(104,032)**	(193,573)

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

NOTES TO FINANCIAL STATEMENTS (JUNE 30, 2020)

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. SUMMARY OF 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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 – 5 years
Office furniture and equipment	10 years
Leasehold improvements	Over lease term
Equipment under capital leases	Over lease term

Capital assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not contribute to MFDA's ability to provide services. Any impairment results in a write-down of the asset and an expense in the statement of revenues and expenses. An impairment loss is not reversed if the fair value of the related asset subsequently increases.

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 funding 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, with the exception that accounting assumptions are used. The pension plan assets of the RPP and the SERP are measured at fair value as at the statement of financial position date.

Effective July 1, 2019, the MFDA elected to account for the RPP and SERP obligations and expenses using the actuarial valuations prepared for funding purposes, in accordance with the *CPA Canada Handbook - Accounting* Section 3462.032, on a retrospective basis. In previous years, the MFDA accounted for the RPP and SERP obligations and expenses using the actuarial valuations prepared for accounting purposes. A reconciliation of the net assets as at June 30, 2018 as previously reported in the statement of changes in fund balances, compared with those after the aforementioned election, is presented in note 5.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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, excluding income from employee future benefit plan assets, 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.

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 significantly from those estimates.

New accounting standards

During the year, the MFDA adopted the new accounting standards Section 4433, *Tangible Capital Assets*, and Section 4434, *Intangible Capital Assets* as of July 1, 2019. Section 4433, *Tangible Capital Assets* replaces the previous Section 4431 and provides additional guidance on contributed assets and the write-down (partial impairment) of assets. Section 4434, *Intangible Capital Assets* replaces the previous Section 4432 and provides additional guidance on contributed assets and the write-down (partial impairment) of assets. The adoption of these standards had no impact on these financial statements.

3. INVESTMENTS AND INVESTMENT INCOME

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

	2020	2019
	$	$
Cash	**228,103**	178,412
Canada Government Treasury Bills	**5,699,143**	5,630,692
CIBC Imperial Money Market Pooled Fund	**13,407,700**	12,375,963
Beutel Goodman Balanced Fund	**4,359,624**	4,349,997
	23,694,570	22,535,064

The MFDA's presentation of investments on the statement of financial position consists of the following:

	2020	2019
	$	$
Investments – fair value	**12,913,761**	12,162,257
Internally restricted investments – fair value	**10,780,809**	10,372,807
	23,694,570	22,535,064

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).

The MFDA's investment income recorded in the statement of revenues and expenses consists of the following:

	2020	2019
	$	$
Interest from treasury bills	**77,430**	75,699
Distributions from Money Market Pooled Fund	**206,072**	266,040
Distributions from Beutel Goodman Balanced Fund	**253,847**	318,427
Unrealized losses from Beutel Goodman Balanced Fund	**(231,686)**	(139,000)
	305,663	521,166
Bank interest	**78,387**	78,745
Total investment income	**384,050**	599,911

4. CAPITAL ASSETS

	2020		
	Cost	**Accumulated amortization**	**Net book value**
	$	**$**	**$**
Computers and software development	**4,117,188**	**3,148,533**	**968,655**
Office furniture and equipment	**1,109,041**	**759,420**	**349,621**
Leasehold improvements	**2,364,254**	**884,011**	**1,480,243**
Equipment under capital leases (note 8)	**177,496**	**111,281**	**66,215**
	7,767,979	**4,903,245**	**2,864,734**

	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 (note 8)	177,496	75,781	101,715
	7,073,141	4,124,913	2,948,228

During the year, the MFDA derecognized capital assets that are no longer in use, with a cost of $19,567 (2019 – $272,601) and accumulated amortization of $19,567 (2019 – $272,164).

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.

5. EMPLOYEE FUTURE BENEFIT PLANS (CONT.)

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 PRB plan is closed to new employees hired on or after January 1, 2020.

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.

As stated in note 2, effective July 1, 2019, the MFDA elected to account for the RPP and SERP obligations and expenses using the actuarial valuations for funding purposes, in accordance with the *CPA Canada Handbook - Accounting* Section 3462.032, on a retrospective basis. The following table provides a reconciliation of the net assets as at June 30, 2018 as previously reported in the statement of changes in fund balances, compared with those after the aforementioned election.

	$
As previously presented, June 30, 2018	3,652,327
Employee future benefits restatement, prior periods	11,304,800
As restated, June 30, 2018	14,957,127

The following table provides a summary of the adjustments to the various financial statement line items affected by the change in this accounting policy for the fiscal year ended June 30, 2019.

Financial statement section	**Line item**	**As previously presented $**	**Adjustment $**	**As restated $**
Statement of financial position	Employee future benefits (non-current asset)	443,000	1,265,365	1,708,365
	Employee future benefits (non-current liability)	25,038,500	(19,449,300)	5,589,200
	Unrestricted fund balance	(12,725,614)	20,714,665	7,989,051
Statement of revenues and expenses	Salaries and employee benefits	25,935,051	(1,490,892)	24,444,159
Statement of changes in fund balances	Surplus (deficiency) of revenues over expenses	(369,095)	1,490,892	1,121,797
	Employee future benefits – remeasurements	(5,636,039)	7,918,973	2,282,934

5. EMPLOYEE FUTURE BENEFIT PLANS (CONT.)

The estimate of the MFDA's employee future benefit asset (liability) on the statement of financial position comprises the following:

	2020			2019		
	RPP $	**SERP $**	**PRB $**	**RPP $**	**SERP $**	**PRB $**
Fair value of plan assets	**34,857,900**	**7,994,600**	**—**	32,752,400	7,897,200	—
Accrued benefit obligation	**34,590,200**	**7,719,300**	**6,440,500**	31,518,000	7,423,235	5,589,200
Employee future benefit asset (liability)	**267,700**	**275,300**	**(6,440,500)**	1,234,400	473,965	(5,589,200)

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

	2020			2019		
	RPP $	**SERP $**	**PRB $**	**RPP $**	**SERP $**	**PRB $**
Current service cost	**1,503,400**	**248,700**	**465,000**	1,409,700	242,000	626,500
Finance cost	**(7,400)**	**(9,600)**	**187,400**	(5,600)	(10,592)	305,800
Employee future benefit expense	**1,496,000**	**239,100**	**652,400**	1,404,100	231,408	932,300

The remeasurements recorded on the statement of changes in fund balances are as follows:

	2020			2019		
	RPP $	**SERP $**	**PRB $**	**RPP $**	**SERP $**	**PRB $**
Actuarial gains (losses)	**24,917**	**(35)**	**(217,800)**	22,800	(135)	2,976,369
Asset losses	**(2,104,400)**	**(208,300)**	**—**	(661,500)	(54,600)	—
Total of remeasurements	**(2,079,483)**	**(208,335)**	**(217,800)**	(638,700)	(54,735)	2,976,369

5. EMPLOYEE FUTURE BENEFIT PLANS (CONT.)

Reconciliation of employee future benefit asset (liability):

	2020			2019		
	RPP $	**SERP $**	**PRB $**	**RPP $**	**SERP $**	**PRB $**
Reconciliation of fair value of plan assets						
Fair value of plan assets, beginning of year	**32,752,400**	**7,897,200**	**—**	29,844,400	7,659,600	—
Net contributions and benefits paid during the year	**2,346,600**	**87,300**	**—**	1,874,700	80,600	—
Actual return on plan assets	**(241,100)**	**10,100**	**—**	1,033,300	157,000	—
Fair value of plan assets, end of year	**34,857,900**	**7,994,600**	**—**	32,752,400	7,897,200	—
Reconciliation of the accrued benefit obligation						
Accrued benefit obligation, beginning of year	**31,518,000**	**7,423,235**	**5,589,200**	28,619,000	7,141,800	7,654,000
Current service costs net of benefits paid during the year	**1,241,217**	**87,230**	**446,100**	1,232,600	80,500	605,769
Interest on accrued benefit obligation	**1,855,900**	**208,800**	**187,400**	1,689,200	200,800	305,800
Actuarial loss (gain) during the year	**(24,917)**	**35**	**217,800**	(22,800)	135	(2,976,369)
Accrued benefit obligation, end of year	**34,590,200**	**7,719,300**	**6,440,500**	31,518,000	7,423,235	5,589,200
Employee future benefit asset (liability)	**267,700**	**275,300**	**(6,440,500)**	1,234,400	473,965	(5,589,200)
Employee future benefit asset (liability)						
Balance at beginning of year	**1,234,400**	**473,965**	**(5,589,200)**	1,225,400	517,800	(7,654,000)
Net contributions, pension costs and remeasurements during the year	**(966,700)**	**(198,665)**	**(851,300)**	9,000	(43,835)	2,064,800
Balance at end of year	**267,700**	**275,300**	**(6,440,500)**	1,234,400	473,965	(5,589,200)

5. EMPLOYEE FUTURE BENEFIT PLANS (CONT.)

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:

	2020			2019		
	RPP $	**SERP $**	**PRB $**	**RPP $**	**SERP $**	**PRB $**
Discount rate – obligation	**5.50**	**2.75**	**2.90**	5.50	2.75	3.10
Discount rate – expenses	**5.50**	**2.75**	**3.10**	5.50	2.75	3.70
Expected rate of return on plan assets	**5.50**	**2.75**	**—**	5.50	2.75	—
Rate of compensation increase	**3.50**	**3.50**	**n/a**	3.50	3.50	n/a

The accrued benefit obligation for the PRB plan as at June 30, 2020 was measured on the basis of the medical trend rates set at 6.5% grading down to 4.5% over four years (2019 – 7% grading down to 4.5% over five years) and the drug trend rates set at 7.5% grading down to 4.5% over six years (2019 – 8% grading down to 4.5% over seven years). The dental benefit trend rates are assumed to increase at an annual rate of 4% (2019 – 4%).

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 $73,398 (2019 – $60,000) plus applicable taxes. As at June 30, 2020, an amount of $33,029 (2019 – $34,225) was due from the MFDA IPC and $181,353 (2019 – $11,290) 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, 2020, no obligation exists under the agreement.

7. CREDIT FACILITY

The MFDA has a demand credit facility in the amount of $6,000,000 (2019 – $6,000,000). The credit facility bears an interest rate of prime plus 0.75% per annum (2019 – 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, 2020 and June 30, 2019, 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 $6,325 (2019 – $8,546) 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:

	$
2021	1,281,941
2022	1,270,978
2023	1,235,062
2024	1,262,298
2025	1,262,298
Thereafter	1,411,400
	7,723,977

9. INTERNALLY RESTRICTED FUNDS

Internally restricted funds represent funds approved by the Board of Directors for prescribed purposes. The funds consist of the following:

	2020 **$**	2019 $
Discretionary Fund	**6,421,185**	6,022,810
Post-Retirement Benefits Fund	**4,359,624**	4,349,997
	10,780,809	10,372,807

(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 hearing panel administration 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:

	2020		
	Discretionary Fund $	**Post-Retirement Benefits Fund $**	**Total $**
Balance, beginning of year	**6,022,810**	**4,349,997**	**10,372,807**
Fines collected	**1,047,037**	**—**	**1,047,037**
Realized investment income, net of fees	**98,542**	**241,313**	**339,855**
Unrealized investment losses	**—**	**(231,686)**	**(231,686)**
Transfers to unrestricted fund	**(747,204)**	**—**	**(747,204)**
Net activity during the year	**398,375**	**9,627**	**408,002**
Balance, end of year	**6,421,185**	**4,359,624**	**10,780,809**

9. INTERNALLY RESTRICTED FUNDS (CONT.)

	2019		
	Discretionary Fund $	**Post-Retirement Benefits Fund $**	**Total $**
Balance, beginning of year	4,816,274	4,187,261	9,003,535
Fines collected	1,985,279	—	1,985,279
Realized investment income, net of fees	104,112	301,736	405,848
Unrealized investment losses	—	(139,000)	(139,000)
Transfers to unrestricted fund	(882,855)	—	(882,855)
Net activity during the year	1,206,536	162,736	1,369,272
Balance, end of year	6,022,810	4,349,997	10,372,807

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

	2020		
	Discretionary Fund $	**Post-Retirement Benefits Fund $**	**Total $**
Cash	**193,084**	**—**	**193,084**
CIBC Imperial Money Market Pooled Fund	**6,228,101**	**—**	**6,228,101**
Beutel Goodman Balanced Fund	**—**	**4,359,624**	**4,359,624**
Balance, end of year (note 3)	**6,421,185**	**4,359,624**	**10,780,809**

	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, end of year (note 3)	6,022,810	4,349,997	10,372,807

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, 2020, there are no outstanding membership fees due from fiscal 2020 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 (CONT.)

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, systems, and staff training being implemented to mitigate this high priority risk.

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.

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.

COVID-19 pandemic

In March 2020, the World Health Organization declared the spread of the novel coronavirus ("COVID-19") to be a global pandemic. This resulted in governments worldwide enacting emergency measures to combat the spread of the virus including travel restrictions in and out of Canada, barring gatherings of people, and the implementation of other social distancing measures. These restrictions had no significant impact on the operations of the MFDA as systems were sufficiently flexible and robust to facilitate remote work.

Management considered the impact of COVID-19 in its assessment of the MFDA's assets and liabilities and its ability to continue as a going concern. Management believes that the stability of its revenues and sufficiency of its liquid resources enable the MFDA to effectively manage through the COVID-19 pandemic.

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.

12. COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified from financial statements previously presented to conform to the presentation of the 2020 financial statements.

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 (retired June 2020)
Paige Ward	General Counsel, Corporate Secretary & Vice-President, Policy
Charles Toth	Vice President, Enforcement (appointed December 2019)
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

HOW TO CONTACT US

Toronto Office
121 King Street West
Suite 1000
Toronto, ON M5H 3T9
Phone: 416-361-6332 or 1-888-466-6332
Fax: 416-943-1218
Email: MFDA@mfda.ca

Pacific Office
650 West Georgia Street
Suite 1220
Vancouver, BC V6B 4N9
Phone: 604-694-8840
Fax: 604-683-6577
Email: PacificOffice@mfda.ca

Prairie Office
800 - 6th Avenue S.W.
Suite 850
Calgary, AB T2P 3G3
Phone: 403-266-8826
Fax: 403-266-8858
Email: PrairieOffice@mfda.ca

To download this Annual Report please visit:
www.mfda.ca

Design by c(group www.cgroupdesign.com

MFDA.CA