



# Moving Forward. Together

2013 Annual Report



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

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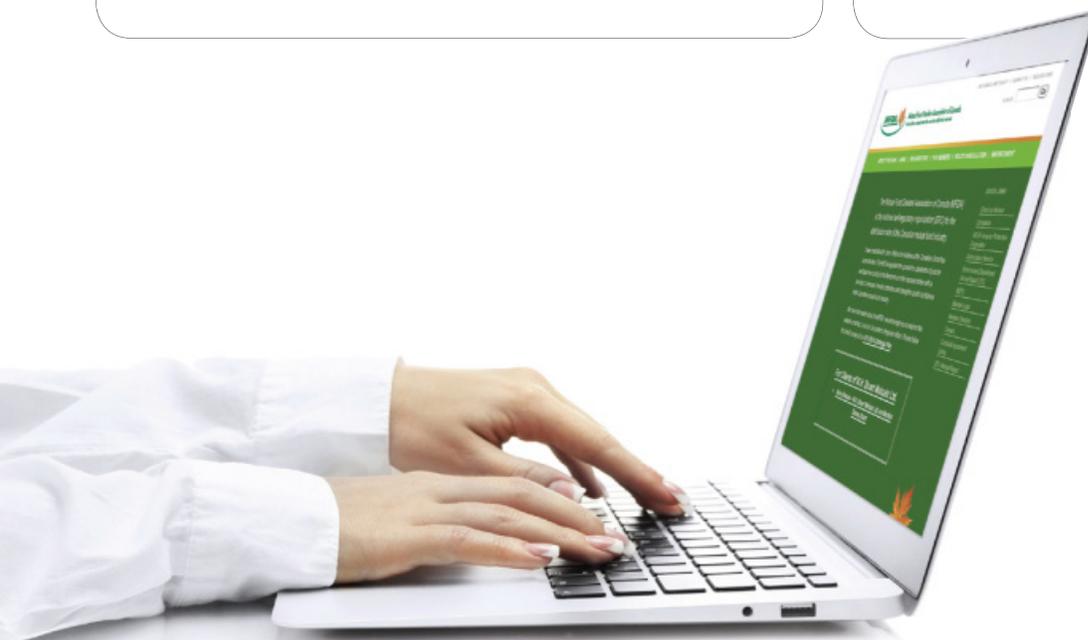
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## MFDA Membership Categories

- LEVEL 1** An introducing dealer that is not a Level 2, 3 or 4 Member.
- LEVEL 2** A dealer that does not hold client cash, securities or other property (i.e. the Member does not operate a trust account and conducts business in client name only).
- LEVEL 3** A dealer that does not hold client securities or other property except client cash in a trust account.
- LEVEL 4** Includes all other Members (including a Member that acts as a carrying dealer).

## MFDA Regional Councils

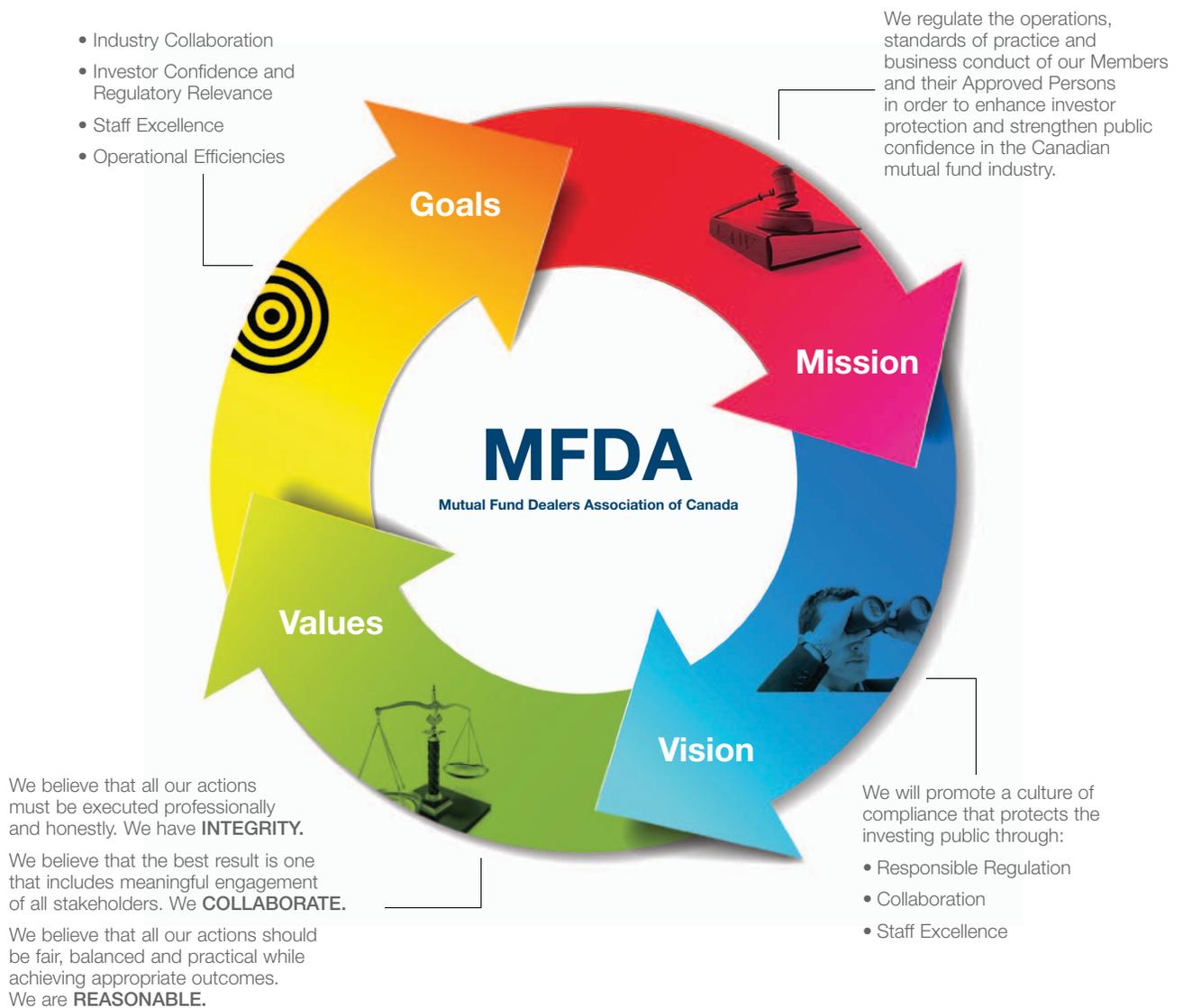
- Atlantic:** Nova Scotia, New Brunswick, Prince Edward Island, Newfoundland and Labrador
- Central:** Ontario, Québec
- Pacific:** British Columbia, Yukon Territory
- Prairie:** Alberta, Saskatchewan, Manitoba, Northwest Territories, Nunavut



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## Who We Are

**The Mutual Fund Dealers Association of Canada**, established in 1998 at the initiative of the Canadian Securities Administrators (“CSA”), is the national self-regulatory organization responsible for overseeing the activities and operations of mutual fund dealer firms (“Members”) and their Approved Persons.



## Message from the Chair



# Moving Forward

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**I am pleased to present the 2013 Annual Report, marking the half way point of the MFDA's new vision and roadmap for change set out in the 2012–2014 Strategic Plan.**

On behalf of the Board of Directors, I am pleased to report that the MFDA has made significant progress towards meeting the long-term strategic objectives set out in the Strategic Plan. While this year's Annual Report provides an overview of numerous accomplishments achieved over the past 12 months, it also gives stakeholders a preview of future initiatives as the MFDA continues to anticipate and address developments in the industry.

I would like to thank my fellow Board members for their invaluable contributions and expertise over the past year and welcome Rick Annaert, Industry Director, who joined the Board at the 2012 Annual Meeting.

Moving forward, I am confident that the MFDA has undergone a smooth leadership transition under the direction of new President & CEO, Mark Gordon, and will continue to meet its principal strategic objective of promoting a culture of compliance among Members that protects the investing public.

A handwritten signature in black ink, appearing to read "R. McLeod".

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

## Message from the President



# Forward Thinking

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**In many ways, this past year has been one of transition at the MFDA – transition in leadership, transition in policy development and stakeholder outreach and, most importantly, transition in regulatory approach.**

In the past, our vision was about “raising the standard of regulation.” In 1998, the MFDA was tasked with building some core regulation around mutual fund distribution in Canada. In the following 14 years, the MFDA and its Members worked towards that goal and the industry made substantial improvements in the areas of suitability and Know-Your-Client, Know-Your-Product and due diligence, supervision and supervisory structures, complaint handling, outside business activities, referral arrangements, back-office systems and so on. This success was due, in large part, to the efforts of Members and their willingness to embrace regulation.

Together, we have built a solid regulatory foundation and the level of regulatory compliance in the industry has increased greatly. Our goal now is to maintain, promote and foster that high level of compliance. Therefore, our new vision of “promoting a culture of compliance that protects the investing public” reflects our new regulatory approach and recognizes that, just as the state of our Members’ compliance has evolved, our approach to regulation should also evolve.

## “To be an effective regulator, the MFDA must focus on responsible regulation, collaboration and staff excellence.”

The development and ongoing implementation of our new approach to regulation, articulated in our Strategic Plan, has required the participation and input of all of our key stakeholders.

First, I would like to thank the MFDA’s Board of Directors for supporting the management team throughout the first year of the Plan. Second, I would like to thank our Members for engaging in this process and working with us to improve our regulatory practices wherever possible. Third, I would like to thank our other key stakeholders, including our regulatory partners at the Investment Industry Regulatory Organization of Canada (“IIROC”) and the CSA, as well as members of the investing public and their advocates. And finally, I would like to thank our staff in Toronto, Calgary and Vancouver who are committed to enhancing investor protection through collaboration.

Today, our singular focus is the continued execution of our Strategic Plan. This year’s Annual Report contains a mid-term scorecard on what we have done to date and why it matters (see pages 4–6). I believe that the following initiatives warrant special attention:

- Member Outreach and Education – We recognize the need to support compliance by reaching out to Members to provide guidance and assistance in meeting their regulatory obligations. We developed a process to proactively contact Members at key times when we anticipate Member guidance may be useful. Through workshops on specific topics of interest for Members, such as branch reviews, Member Event Tracking System (“METS”) reporting, Client Relationship Model (“CRM”) and supervisory inquiries, we focused on delivering relevant, practical and interactive Member education and training. We also increased the accessibility of education by using technology, such as webcasts, to reach Members in more remote locations.
- Investor Outreach and Education – To meet our investor protection mandate, we must ensure that we understand and respond to the needs and realities of investors and provide opportunities for meaningful input. To this end, we established an Investor Outreach Committee to plan and deliver MFDA investor outreach initiatives, and held periodic meetings with investor advocates and organizations to obtain investor feedback on MFDA regulatory activities. We have also established a process to obtain input from an investor perspective on current MFDA activities and potential regulatory initiatives.
- Enhanced Risk-Based Approach – We reviewed our regulatory processes and made changes to enhance our risk-based approach to allow us to allocate resources in the most value-added manner. For example, we changed the frequency of compliance examinations by using the MFDA risk model to identify higher- and lower-risk Members. Further, we revised the MFDA Case Screening Guidelines to focus on more qualitative factors, including permitting staff to prioritize complaints that involve senior citizens, and introduced two new processes to expedite enforcement matters.

As a mature regulator, we recognize that our job is broader than developing and enforcing compliance with rules. We also need to ensure that Members understand how they can comply with our rules and understand the principles that underlie them. That is why the MFDA has been collaborating and will continue to collaborate with Members, providing guidance, education and assistance to help avoid serious compliance deficiencies.

That is our regulatory approach. That is our regulatory philosophy. We believe it is appropriate and we know it is effective. And most importantly, we believe that it is in the best interests of both Canadian investors and the mutual fund industry in Canada.



**Mark T. Gordon**  
President & Chief Executive Officer

# Strategic Plan 2012–2014

The MFDA’s Strategic Plan sets out a Vision focused on promoting a culture of compliance and protecting the investing public through responsible regulation, collaboration with Members, investors and other regulators, and staff excellence.

To achieve this Vision, the MFDA has identified four key strategic goals: (i) enhancing collaboration with the industry; (ii) promoting investor confidence and ensuring that the MFDA continues to be an active participant in the Canadian securities regulatory landscape; (iii) continuing to pursue staff excellence; and (iv) ensuring that the MFDA continues to pursue opportunities for process efficiencies so that it operates in a responsible and effective manner.

### Industry Collaboration

We must engage in meaningful collaboration with the industry so that together we ensure a culture of compliance.

### Investor Confidence and Regulatory Relevance

We must respond to the needs and realities of the investing public and play an active role within the Canadian regulatory landscape so that we are recognized as an effective and valued regulator.

### Staff Excellence

We must equip our staff with the tools and support needed so that they can meet their responsibilities in a professional and effective manner.



### Operational Efficiencies

We must continue to develop process efficiencies so that we operate in a responsible and effective manner.

# Strategic Plan 2013 Scorecard



## Strategic Goal

# Industry Collaboration

# 1

### Actions/Accomplishments

#### 1.1 Member Outreach Plan

- Implemented policy of contacting Members at key times when MFDA assistance would be useful
- Posted Compliance Manager contact information for each Member to Members Only Site
- Promoted availability of staff to present at Member events and encouraged Members to contact the MFDA
- Created a voluntary survey for Members to solicit feedback on their education and training needs
- Implemented changes to compliance examination process to facilitate more timely issue resolution

#### 1.2 Member Education & Training Plan

- Established an Education Committee to plan and deliver MFDA educational initiatives
- Posted regulatory updates to Members Only Site
- Issued bulletin outlining areas of regulatory focus
- Hosted workshops on Branch Reviews, METS Reporting, CRM and Supervisory Inquiries
- Established a staff position dedicated to Member education

#### 1.3 Enhance Industry Consultation on Policy Matters

- Provided additional opportunities for Members to participate in early stages of policy development
- Posted draft Staff Notices for comment
- Developed discussion papers to solicit feedback from stakeholders

### Objectives/Impacts

- **Practical and Balanced Rule Development and Application:** Rules minimize costs and disruptions to Member operations while achieving their underlying investor protection objective.
- **Awareness and Understanding of Regulatory Requirements:** Members are more aware and have a better understanding of regulatory requirements through engagement in the development of regulatory policy.
- **Environment for Constructive Dialogue and Resolution:** Members are comfortable in seeking assistance and guidance from MFDA staff and have opportunities to discuss issues and concerns through multiple forums.



## Strategic Goal

# Investor Confidence & Regulatory Relevance

# 2

### Actions/Accomplishments

#### 2.1 Investor Outreach Plan

- Established an Investor Outreach Committee to plan and deliver MFDA investor outreach initiatives
- Held periodic meetings with investor advocates and organizations
- Established a process to obtain input from an investor perspective on current activities and potential initiatives
- Delivered additional information to the public about the MFDA complaint and discipline process by publishing the first Enforcement Department Annual Report
- Established a staff position dedicated to investor issues

#### 2.2 Partner with Others for Regulatory & Investor Education Initiatives

- Participated in the International Forum for Investor Education ("IFIE")
- Met with CSA staff responsible for investor education
- Hosted consultation session between Members and the Ombudsman for Banking Services and Investments ("OBSI")

#### 2.3 Participate in and plan for Changes to the Future Regulatory Landscape

- Held regular meetings with CSA, IIROC, OBSI, CIPF, industry associations and investor associations to discuss issues of mutual interest

### Objectives/Impacts

- **Meaningful Input Received from Investors:** By creating additional opportunities to obtain investor feedback, MFDA activities reflect the needs of investors.
- **Investor Awareness of and Confidence in the MFDA:** Investors have greater awareness of the MFDA and recognize the MFDA as protecting their interests.
- **Constructive Relationships with Regulators:** Greater communication and interaction with other regulators promotes a harmonized approach on regulatory matters and opportunities for greater coordination of policy, compliance and enforcement activities.
- **Recognized and Respected Position within the Canadian Regulatory Landscape:** The MFDA is viewed by stakeholders as a meaningful and valuable contributor to the Canadian securities regulatory regime.



# 3



Strategic Goal

## Staff Excellence

### Actions/Accomplishments

#### 3.1 Enhance Staff Development & Education

- Created a Staff Training Steering Committee to assess training requirements across the organization; assign training resources, timelines and budget; and oversee training programs and processes
- Enhanced the new hire orientation program based on feedback obtained in 2011 Employee Survey and related staff focus groups

#### 3.2 Ensure an Attractive & Competitive Work Environment

- Benchmarked compensation and benefits against peer organizations and retained a benefits consultant to examine the MFDA's benefit plans
- Updated the employee Policies & Procedures Manual, taking into account feedback received from staff and new legislative requirements
- Held an information session highlighting the changes at the annual all-staff training event

#### 3.3 Enhance Internal Staff Communication Channels

- Enhanced the design features of the internal staff intranet in consultation with each department

### Objectives/Impacts

- **Attraction and Retention of Qualified Staff:** The MFDA continues to attract and retain highly skilled, competent and professional staff invested in the success of the MFDA.
- **Staff Viewed as Professional, Knowledgeable, Respectful and Reasonable:** MFDA staff continues to be viewed as having extensive knowledge and expertise of both (i) regulatory requirements and (ii) Member operations and practices, as reflected in positive feedback from Members. MFDA staff demonstrates professionalism and respect in all interactions with stakeholders.



# 4



Strategic Goal

## Operational Efficiencies

### Actions/Accomplishments

#### 4.1 Operational Assessment of Core Regulatory Processes

- Reviewed all regulatory processes to ensure MFDA procedures are effective, efficient and focused on areas of high regulatory risk that might result in harm to the investing public
- Retained an independent consultant to review the MFDA's core regulatory functions
- Took steps to ensure that the regulatory effect of Policy Instruments is clearly understood by Members

#### 4.2 Comparison of Regulatory Processes with Other Regulators

- The independent consultant benchmarked the MFDA's core regulatory practices against comparable regulators in Canada and internationally

#### 4.3 Enhance Risk-Based Approach in all Regulatory Processes

- Changed the frequency of compliance examinations by using the MFDA risk model to identify higher- and lower-risk Members
- Revised the MFDA Case Screening Guidelines to focus on more qualitative factors, including permitting staff to prioritize complaints that involve senior citizens
- Introduced two new processes to expedite certain enforcement matters

### Objectives/Impacts

- **Operational Processes Focused on Regulatory Risk:** Our processes are targeted to address high-risk practices and vulnerable investors where there is the greatest potential for investor harm.
- **An Appropriate Balance between Member Regulatory Burden and Investor Protection:** Regulatory operations and processes are reasonable in that they address risks and protect investors while minimizing costs and disruptions to the industry.
- **Efficient Allocation of Resources:** The MFDA uses its resources in an effective manner to achieve maximum productivity and enhance investor protection.



## MFDA Membership

The MFDA's 115 Members account for approximately \$353 billion of the \$907 billion of client assets under administration in the Canadian mutual fund industry (as of June 30, 2013).

Members by Category					
	2009	2010	2011	2012	2013
Level 1	Nil	Nil	Nil	Nil	Nil
Level 2	46	46	42	39	39
Level 3	59	55	54	48	42
Level 4	40	38	36	34	34

Membership Profile					
	2009	2010	2011	2012	2013
Number of Members	145	139	132	121	115
Number of Approved Persons	74,768	73,291	73,289	81,344 <sup>1</sup>	81,065
Assets Under Administration of all Members	\$ 252 B	\$ 271 B	\$ 314 B	\$ 308 B	\$ 353 B
Total Industry Assets Under Administration <sup>2</sup>	\$ 547 B	\$ 592 B	\$ 656 B	\$ 797 B	\$ 907 B

Assets Under Administration per Head Office					
	2009	2010	2011	2012	2013
Ontario	\$ 175.8 B	\$ 190.2 B	\$ 227.0 B	\$ 223.9 B	\$ 260.7 B
Manitoba	\$ 45.7 B	\$ 48.9 B	\$ 54.8 B	\$ 49.5 B	\$ 52.6 B
British Columbia	\$ 13.6 B	\$ 14.8 B	\$ 17.7 B	\$ 18.7 B	\$ 22.0 B
Québec <sup>3</sup>	\$ 9.9 B	\$ 10.5 B	\$ 11.9 B	\$ 13.1 B	\$ 14.4 B
Alberta	\$ 3.1 B	\$ 2.5 B	\$ 2.3 B	\$ 2.0 B	\$ 2.2 B
Nova Scotia	\$ 0.1 B	\$ 0.1 B	\$ 0.2 B	\$ 0.2 B	\$ 0.3 B
Saskatchewan	\$ 3.4 B	\$ 3.5 B	\$ 0.3 B	\$ 0.3 B	\$ 0.3 B
New Brunswick	\$ 0.4 B	\$ 0.2 B	\$ 0.1 B	\$ 0.2 B	\$ 0.2 B
Total (rounded)	\$ 252 B	\$ 271 B	\$ 314 B	\$ 308 B	\$ 353 B

Members by Assets Under Administration					
	2009	2010	2011	2012	2013
\$100 Million and Under	70	65	56	50	48
\$101 Million to \$500 Million	36	35	36	32	29
\$501 Million to \$1 Billion	12	11	11	10	7
Over \$1 Billion	27	28	29	29	31
Total	145	139	132	121	115

Members by Firm Size					
	2009	2010	2011	2012	2013
10 Approved Persons or Fewer	59	57	53	47	47
11 to 100 Approved Persons	46	42	38	34	30
101 to 500 Approved Persons	18	17	19	17	14
501 to 1,000 Approved Persons	7	7	5	7	8
Over 1,000 Approved Persons	15	16	17	16	16
Total	145	139	132	121	115

<sup>1</sup> The increase is a result of a change by the MFDA to require the inclusion of Approved Persons in Québec.

<sup>2</sup> Based on the information published by the Investment Funds Institute of Canada.

<sup>3</sup> The figures reflect assets outside of Québec for Members with a head office in Québec.

## Corporate Governance

The MFDA Board of Directors is comprised of six Public Directors, six Industry Directors and the President and CEO of the MFDA. Information with respect to the Directors, their terms of office, compensation, attendance at meetings and the composition of each Committee of the Board is set out below. Further biographical information on current Directors can be found at [www.mfda.ca](http://www.mfda.ca).

### Board of Directors

As of June 30, 2013, the composition of the Board was as follows:

#### Public Directors

**Roderick McLeod, Q.C.** (*Chair*)

Lawyer  
(*Markham, Ontario*)

**Sandy (D.W.) Grant, CA**

Corporate Director  
(*Orillia, Ontario*)

**Lea Hansen, CFA**

Consultant  
(*Toronto, Ontario*)

**Dawn Russell, Q.C.**

President & Vice-Chancellor,  
St. Thomas University  
(*Fredericton, New Brunswick*)

**Doug Thomson, FCA**

Corporate Director  
(*Edmonton, Alberta*)

**Janet Woodruff, FCA**

Corporate Director  
(*Vancouver, British Columbia*)

#### Industry Directors

**Steven Donald, FCPA, FCA** (*Vice-Chair*)

President,  
Assante Wealth Management (Canada) Ltd.  
(*Toronto, Ontario*)

**Rick Annaert, CMA**

President & Chief Executive Officer,  
Manulife Securities Investment Services Inc.  
(*Toronto, Ontario*)

**Bill Charles, CFP**

Senior Vice-President, Financial Services,  
Investors Group Financial Services Inc.  
(*Winnipeg, Manitoba*)

**Stephen Geist, FCPA, FCA, CFP**

President,  
CIBC Asset Management Inc. & CIBC Securities Inc.  
(*Toronto, Ontario*)

**Sonny Goldstein, CFP**

President,  
Goldstein Financial Investments Inc.  
(*Toronto, Ontario*)

**Vince Valenti, MBA**

President,  
Independent Planning Group Inc.  
(*Ottawa, Ontario*)

#### President and CEO

**Mark T. Gordon, LLB**

President & CEO,  
Mutual Fund Dealers Association of Canada  
(*Toronto, Ontario*)

### Director Compensation

Each Public Director on the MFDA Board receives an annual retainer of \$15,000. Provided that they are Public Directors, the Chairs of the Governance Committee and Regulatory Issues Committee each receive a \$2,500 annual retainer, while the Chair of the Audit & Finance Committee receives a \$4,000 annual retainer. Public Directors also receive a fee of \$1,500 for attending each Board meeting and \$1,500 for each Committee meeting in excess of 2 hours (\$1,000 for Committee meetings less than 2 hours). Out-of-town Public Directors who attend meetings in person receive a supplementary travel fee of \$1,000 per meeting. The annual retainer for a Public Director who serves as Chair of the Board is set by the Board of Directors and reviewed annually. The annual retainer for the Chair of the Board was \$50,000 in fiscal 2013 and will be \$35,000 in fiscal 2014.

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.



*From left:* Rick Annaert, Lea Hansen, Sandy Grant, Janet Woodruff, Bill Charles, Steven Donald, Vince Valenti, Rod McLeod, Mark Gordon, Dawn Russell, Stephen Geist, Sonny Goldstein



*Missing from photograph:* Doug Thomson

### Meeting Attendance

The table below is a breakdown of attendance by Directors at Board and Committee meetings held during the fiscal year ended June 30, 2013.

Director	Board	Audit & Finance	Governance	Regulatory Issues	Term Expires	Total Compensation
Rick Annaert (joined Nov. 29, 2012) <sup>(1)</sup>	4 of 4	2 of 2			2014	n/a
Bill Charles <sup>(3)</sup>	7 of 7			4 of 4	2013	n/a
Steven Donald <sup>(1)(2)</sup>	7 of 7	4 of 4	8 of 8		2014	n/a
Stephen Geist <sup>(3)</sup>	5 of 7			4 of 4	2014	n/a
Sonny Goldstein <sup>(3)</sup>	7 of 7			2 of 4	2013	n/a
Mark Gordon (appointed Oct. 1, 2012)	5 of 6*	2 of 2	5 of 5	3 of 3	n/a	n/a
Sandy Grant <sup>(1)(3)</sup>	6 of 7	4 of 4		2 of 2	2014	\$32,750
Lea Hansen <sup>(3)</sup>	7 of 7			4 of 4	2015	\$27,500
Rod McLeod <sup>(2)</sup>	7 of 7		8 of 8		2015	\$87,750
Dawn Russell <sup>(2)(3)</sup>	7 of 7		8 of 8	4 of 4	2015	\$43,000
Robert Sellars (stepped down Nov. 29, 2012) <sup>(2)(3)</sup>	2 of 3		3 of 4		n/a	n/a
Doug Thomson <sup>(1)</sup>	7 of 7	4 of 4			2014	\$44,000
Vince Valenti <sup>(2)(3)</sup>	7 of 7		4 of 4	4 of 4	2013	n/a
Larry Waite (retired Sep. 30, 2012)	0 of 1*	2 of 2	3 of 4*	1 of 1	n/a	n/a
Janet Woodruff <sup>(1)</sup>	7 of 7	2 of 2			2014	\$32,000

<sup>(1)</sup> Member of Audit & Finance Committee

<sup>(2)</sup> Member of Governance Committee

<sup>(3)</sup> Member of Regulatory Issues Committee

\* Did not attend one in camera meeting

## Major Projects and Initiatives

### Member Education and Outreach

MFDA staff hosted several workshops in fiscal 2013 on such topics as branch reviews, METS reporting, CRM, and supervisory inquiries. Staff developed a Compliance Practitioner's Manual, which provides guidance on specific topics for Members to use in day-to-day compliance activities. The Manual has been posted to the MFDA Members Only Site.

MFDA Member Regulation Forums are intended to provide a medium to share information with Members, update them on current policy initiatives, and obtain feedback. The fall 2012 Forum was presented by webcast from the MFDA's Toronto office on October 23 and 24, 2012. An archive of the webcast was posted to the Members Only Site for future reference. Participants were also invited to attend the session in person. The spring 2013 Forum was held on April 9, 10, 15 and 19, 2013, in Vancouver, Calgary, Montreal and Toronto, respectively.

On July 24 and 25, 2013, MFDA staff held a Small Dealer Forum to discuss matters of particular interest and concern to smaller Member firms. Representatives from 23 firms attended three separate sessions held over the two days. In addition, in fiscal 2013, staff participated in over 40 Member or industry educational events or meetings. Topics presented included branch manager responsibilities, outside business activities, referral arrangements, conflicts of interest, and dealing with senior investors.

### Constructive Dialogue and Resolution

Changes have been made to the compliance examination process to facilitate constructive and timely resolution of examination deficiencies, including implementing changes to the examination program and process to encourage collaborative dialogue with Members on potential resolutions to deficiencies at an earlier stage in the examination process. Training was provided to MFDA staff to support this objective. Additionally, a consolidated action plan was developed and implemented as a tool to simplify the examination response process and help guide Members in developing and documenting a plan to address examination deficiencies. These enhancements have resulted in a significant increase in the number of deficiencies that are resolved at an early stage, a decrease in the time required to close examination files, and positive feedback from Members.

### Client Disclosure Sweep

In March 2012, Members received the MFDA's 2012 Annual Questionnaire and were asked to attach copies of their current Relationship Disclosure Document, Complaint Handling Summary, and Client Complaint Information Form. Staff has reviewed the documents received and, on March 6, 2013 and May 27, 2013, issued Bulletins to communicate the results of the review and provide additional guidance and information to Members in respect of requirements under MFDA Rules 2.2.5 (Relationship Disclosure) and 2.11 (Complaints) and MFDA Policy No. 3 *Complaint Handling, Supervisory Investigations and Internal Discipline*.

### Enforcement Department Annual Report 2012

The MFDA published its first Enforcement Department Annual Report covering enforcement activities carried out during the calendar year 2012. The Report includes information about how the Enforcement Department operates and summarizes key achievements and significant disciplinary cases completed in 2012. The Report is available on the MFDA website at [www.mfda.ca](http://www.mfda.ca).

### Simplified Formal Proceedings

Simplified Formal Proceedings, consisting of a fast track and a bulk track, were implemented in 2012. The first bulk track hearings under those procedures took place in fiscal 2013. The fast track procedure allows cases to proceed to a disciplinary hearing on an expedited basis in circumstances where there may be a risk of ongoing harm to the public or the nature of the matter otherwise requires that it be handled expeditiously. The bulk track procedure enables routine cases to be brought to a hearing using fewer resources, allowing MFDA staff to increase its disciplinary response on certain types of cases that are of continuing concern, such as the use of blank-signed trading or Know-Your-Client ("KYC") forms by Approved Persons. The most common allegation type in cases opened in fiscal 2013 was the use of blank-signed forms, which adversely affects the integrity and reliability of key documents, such as KYC and trading forms, and is also a common feature of fraud, misappropriation and unauthorized trading cases.

### Protection of Seniors and Other Vulnerable Clients

The MFDA continued to place an emphasis on cases involving seniors (who, for our tracking purposes, are defined as investors 60 years of age and over) and other vulnerable groups, such as persons with limited financial resources or language, literacy or disability issues. Of the 51 hearings initiated in 2013, approximately one-third involved clients who are seniors or from another vulnerable group.

## MFDA Policy Instrument Review Project

In 2012, MFDA staff undertook a review of MFDA Policy Instruments in order to:

- Clarify the regulatory intent of MFDA Member Regulation Notices to ensure that the distinction between requirements and suggestions or guidance is clear;
- Update references/content in MFDA Member Regulation Notices to reflect regulatory developments and ensure consistency with requirements under current MFDA Rules and securities legislation; and
- Eliminate Member Regulation Notices that are no longer relevant as they address issues that were transitory in nature.

In 2013, staff completed the first phase of the review and made the following housekeeping amendments to MFDA Notices:

- MFDA Member Regulation Notices have been renamed “MFDA Staff Notices”;
- A description header has been included on each Notice to clarify that the Notices are issued by staff and represent staff’s interpretations;
- Several MFDA Notices have been revised to clarify regulatory intent, update references to MFDA Rules, By-laws and Policies, and ensure consistency of style and format;
- Several MFDA Notices have been withdrawn since the content is no longer relevant or addresses issues that were transitory in nature; and
- A chart has been created and made available on the MFDA website detailing the status of MFDA Notices and specifying Notices that have been withdrawn or replaced.

There are other Notices requiring more substantive revisions to content, which may not be considered housekeeping in nature, as well as several Notices that will require revisions as a result of regulatory initiatives currently underway. Revisions to these Notices will be brought forward for review by the MFDA Policy Advisory Committee as they are completed.

## IT Enhancements

In mid-2013, the MFDA implemented the use of an electronic file transfer system to provide Members with a more secure and efficient method of transferring and sharing information with the MFDA. In addition, as part of the regular assessment and monitoring of data and network security at the MFDA, staff conducted a comprehensive review of information technology policies and practices and implemented a number of enhanced protections, including the use of fully encrypted laptops, desktops and USB keys, and a more robust password policy for all MFDA hardware and devices.

## Regulatory Operations

### CSA Oversight Review

In September and October 2012, CSA staff conducted an oversight review of the following regulatory functions of the MFDA: Corporate Governance, Sales Compliance, Financial Compliance, Enforcement, Policy and Membership Services. The final Oversight Review Report was published on April 17, 2013. Based on the risk assessment, the scope of the work performed, and the results of its review, CSA staff noted that they are satisfied that the MFDA met the Terms and Conditions of its Recognition Orders in the areas covered during the review period.

### MFDA Regulatory Activities

The following is a summary of MFDA regulatory activities for the period from July 1, 2012 to June 30, 2013.

### Compliance

Department	Activities	Details
Sales Compliance	<ul style="list-style-type: none"><li>• Performed <b>35</b> head office examinations</li><li>• Performed <b>87</b> branch examinations</li></ul>	<b>100%</b> of reports were issued within the benchmark, which is 80% of reports to be issued within 15 weeks of completion of fieldwork and all reports to be issued within 20 weeks of completion of fieldwork.

## Financial Compliance

- Performed **33** active Level 4 dealer examinations
  - Performed approximately **1,400** unaudited monthly financial report reviews
  - Performed **115** audited annual financial report reviews
- 100%** of reviews were performed within five business days of the filing date.
- 100%** of reviews were performed within three months of the report date.

## Enforcement

In the year ended June 30, 2013, the MFDA Enforcement Department:

- Commenced **51** hearings, an increase from the 48 hearings commenced in 2012.
- Concluded **43** formal proceedings.
- In the same period, MFDA hearing panels imposed fines of **\$35,000** against Members, and fines of **\$58,750** against Approved Persons who are currently registered, all of which have been collected. Panels also imposed fines of **\$11,305,500** against Approved Persons who are no longer registered, of which \$35,000 has been collected. In most of the latter cases, those Approved Persons are no longer registered as a result of permanent prohibitions or suspensions ordered as part of the MFDA disciplinary proceedings. In addition, the MFDA collected a total of **\$69,226** in fines relating to proceedings concluded in previous fiscal years.

The MFDA has powers to collect fines from respondents who remain in the industry as Approved Persons, but does not have the ability to collect fines from former Approved Persons, except in the province of Alberta where staff makes all reasonable collection efforts.

### Violation Type in Enforcement Actions Commenced July 1, 2012 to June 30, 2013

#### Approved Persons

Failure to Cooperate	19
Outside Business Activities/Securities Related Business/Dual Occupation	15
Falsification/Misrepresentation/Misleading Member or Regulator	11
Personal Financial Dealings	9
Conduct Unbecoming	9
Policy and Procedure	9
Blank-Signed Forms	7
Forgery/Fraud/Theft/Misappropriation/Misapplication	6
Referral Arrangements	5
Suitability – Leveraging	4
Conflict of Interest	3
Suitability – Investments	2
Unauthorized/Discretionary Trading	2
Stealth Advising	2
Complaint Procedure	2
KYC Document Deficiency	1
Disclosure	1
Know-Your-Product	1
Reporting Violations	1
Sales Communication	1
Other	2
<b>Total</b>	<b>112</b>

#### Members

Supervision	2
Financial Requirements	2
Books, Records and Client Reporting	1
<b>Total</b>	<b>5</b>
<b>Grand Total</b>	<b>117</b>

## Policy

Instrument	Status	Description
<ul style="list-style-type: none"> <li>Amended <b>sections 1 (Definitions) and 3 (Directors) of MFDA By-law No. 1</b></li> </ul>	Effective <b>December 3, 2012</b>	Permits a broader range of persons to be considered as candidates for Public Directors on the MFDA Board and increase Industry Director participation on the Audit Committee to allow for broader industry input.
<ul style="list-style-type: none"> <li>Amended <b>MFDA Form 1 (Financial Questionnaire &amp; Report)</b></li> </ul>	Effective <b>February 1, 2013</b>	Updates the two Independent Auditor's Reports contained within Form 1 to comply with MFDA reporting requirements based on International Financial Reporting Standards ("IFRS").
<ul style="list-style-type: none"> <li>Revised <b>MFDA Staff Notice MSN-0057 <i>The Role of Compliance and Supervision</i></b></li> </ul>	Issued <b>February 6, 2013</b>	Revised to reflect registration reform related amendments contained in NI 31-103 and conforming changes to MFDA Rules.
<ul style="list-style-type: none"> <li><b>MFDA Staff Notice MSN-0081 <i>Sale of Principal Protected Notes by Approved Persons of MFDA Members</i></b></li> </ul>	Effective <b>February 13, 2013</b>	Sets out MFDA staff's expectation that, where PPNs are not Specified PPNs (as defined in the CSA Notice 46-306), they will be distributed through MFDA Members to ensure the application of KYC and suitability obligations under MFDA Rules.
<ul style="list-style-type: none"> <li>Amended <b>Rule 2.2.1 ("Know-Your-Client") and Policy No. 2 <i>Minimum Standards for Account Supervision</i></b></li> </ul>	Effective <b>February 22, 2013</b>	Clarifies that the suitability obligations in Rule 2.2.1 apply equally to leverage strategies, and codify minimum standards for Members and Approved Persons in assessing the suitability of client leveraging.
<ul style="list-style-type: none"> <li>Revised <b>MFDA Staff Notice MSN-0069 <i>Suitability</i></b></li> </ul>	Issued <b>February 22, 2013</b>	Revised to reflect amendments to MFDA Rule 2.2.1 and Policy No. 2 regarding minimum standards for Members and Approved Persons in assessing the suitability of client leveraging.
<ul style="list-style-type: none"> <li>Proposed amendments to <b>Rule 2.5.5 (Branch Manager) and Policy No. 2 <i>Minimum Standards for Account Supervision</i></b></li> </ul>	Effective <b>September 12, 2013</b>	Provides Members with a more flexible, principle-based approach in determining how to best supervise their branches.

## Communications & Membership Services

As of June 30, 2013, the MFDA had 115 Members. These Members represent approximately **\$353 billion** of mutual fund assets under administration ("AUA"). MFDA Members are registered in every province and territory in Canada.

MFDA staff responded to **1,969** inquiries from Members, their representatives, and the public, including those made by telephone and email. The majority of inquiries from Members and their Approved Persons related to accessing the Member Event Tracking and Electronic Filing Systems, financial filings, and questions relating to MFDA Rules with respect to trade names, currency of examinations, and payment of commissions to an unregistered corporation. The majority of inquiries from the public related to individuals looking to re-enter the mutual fund industry and licensing information. Additional inquiries related to ongoing enforcement cases, inquiries from clients pertaining to their mutual fund account, contact information for their dealer, and information about coverage by the MFDA Investor Protection Corporation.

## Going Forward

### Review of Financial Compliance Examination Process

MFDA staff is reviewing risk factors relating to the financial operations of all active Members with a view to determining whether it is appropriate to change the frequency of the on-site financial compliance examination cycle for all dealer levels. Currently, we perform a financial examination of all Level 4 dealers annually, and a combined financial and sales examination of all Level 2 and 3 dealers on either a two- or four-year basis, depending on risk. We are considering changing the existing process to allow less frequent financial examinations of certain low risk Level 4 dealers and more frequent financial examinations of Level 2 and 3 dealers where they may be considered higher risk from a financial perspective.

### Whistleblower Program

MFDA staff will be implementing a formal process for making whistleblower reports, for example where Approved Persons or other parties identify wrongdoing occurring within a Member firm.

### Member Education

MFDA staff will be increasing its Member education and training initiatives by providing additional guidance to Members and Approved Persons on compliance with regulatory requirements. MFDA staff intends to provide detailed guides, workshops, presentations and/or webcasts on specific topics, such as social media, MFDA Form 1 (Financial Questionnaire and Report), and working with senior investors. MFDA staff will proactively promote and increase awareness of MFDA resources and will continue to solicit feedback on additional educational topics.

### CRM 2 – Harmonization of MFDA Rules with Proposed Amendments to NI 31-103

Proposed amendments to National Instrument 31-103 and the Companion Policy to the Instrument, which came into effect on July 15, 2013, introduce new requirements with respect to performance reporting, cost disclosure, and client statements. Staff recognizes that there are many operational and implementation challenges and issues facing MFDA Members with respect to these new requirements. MFDA staff has met with Ontario Securities Commission staff to discuss implementation issues, conforming changes that will need to be made to MFDA Rules, and a process to communicate with CSA staff on issues and questions that arise with respect to implementation. MFDA staff also plans to assist Members and provide guidance on the implementation of these new requirements and will be meeting with Members' service providers to discuss questions that they have in effecting systems changes to comply with these new requirements, and will also be holding a webcast later in 2013 to discuss some of the implementation issues that arise from the new requirements.

### Website Updates

The MFDA intends to conduct a full review of its public website with the objective of updating the design and functionality of the site. In fiscal 2013, the MFDA also intends to upgrade the Members Only section of the MFDA website to allow Members to submit changes to their membership information electronically.

## Management Discussion and Analysis

The following Management Discussion and Analysis of the financial condition and results of operations should be read in conjunction with the audited financial statements and the accompanying notes of the Mutual Fund Dealers Association of Canada (“MFDA”) for the fiscal year (“FY”) ended June 30, 2013.

### Revenues

Revenues from operations for FY 2013 were \$31,281,065 (compared to \$30,843,257 for FY 2012). The principal source of revenue for the MFDA is Membership fees, which are assessed against Member firms and are calculated to provide sufficient funding to meet the MFDA’s yearly budgeted expenses. Membership fees for FY 2013 totaled \$30,426,702.

Membership fees are calculated based upon a formula that takes into account the amount of assets under administration (“AUA”) that each Member firm has under its control. Each year, on or before April 15, MFDA Members are required to report their AUA figures as at March 31. AUA figures represent AUA from operations in all provinces other than Québec and specifically exclude cash, GICs, limited partnerships, and segregated funds. A Member’s reported AUA at March 31 for the current year is then added to the previous year’s reported AUA and an average of the two years is calculated for billing purposes.

The MFDA uses a five-tiered AUA rate schedule as the basis for its billing. Members are billed a set fee amount per million dollars of AUA based upon this schedule with the fee rates set to provide sufficient funding for the next fiscal year. The MFDA fee payable by a Member is calculated by matching its average AUA figure to the tiered fee schedule. For some Members, a minimum fee applies. Each Member’s fees for the year are divided into four installments payable on a quarterly basis.

Other sources of revenue for the MFDA include the following:

- Hearing cost recoveries of \$588,286 are related to disciplinary hearings held by the MFDA. As approved by the MFDA Board of Directors, these costs are recovered through the use of fine monies collected in the MFDA’s Discretionary Fund.
- Investment income of \$113,189 is derived from the investment of MFDA operating cash balances in the CIBC Imperial Money Market Pooled Fund and investment in Canadian federal treasury bills. Investments are made with preservation of capital, liquidity, and low risk as the primary goals.
- Enforcement recoveries of \$87,988 are costs awarded by the MFDA Regional Council Hearing Panels at the conclusion of MFDA disciplinary hearings or settlements and which have been collected by the MFDA. Included in enforcement cost recoveries is \$15,488 relating to fees charged for enforcement activity history requests.
- Administration recoveries of \$60,000 are costs recovered from the MFDA Investor Protection Corporation (“IPC”) for administrative services provided by MFDA staff.
- Late filing fees of \$4,900 are fees levied against Members that have missed information filing deadlines.

### Expenses

Staff-related expenses comprise the bulk of MFDA annual expenditures. For FY 2013, 73% of operating expenses related to staffing costs. The year-over-year increase in salaries and benefits can be summarized as follows:

- Merit pay increases provided to staff based upon performance, variable compensation based on merit, and full year costs associated with prior year hires, \$47,000.
- Increases in the cost of employee benefits, primarily pension costs and post-retirement benefit costs, \$757,000.
- Decrease in contracted help, temporary help and hiring related costs, \$130,000.
- Budgeted staff count reduced from 170 positions to 169 positions for fiscal 2013.

With respect to rent and utilities expenses for FY 2013, no additional premises were leased nor were any current leases renewed during the year. Consequently, the increase of 1.8% in rent and utilities expense for FY 2013 is due to normal operating expense increases passed on from landlords of leased office space.

Travel expenses were \$884,935 for FY 2013 (compared to \$786,982 for FY 2012). The increase in travel expenses was due to the commencement of the fourth round examination cycle that began in January 2013 with more branch reviews of higher risk firms. Additionally, more travel for Member education initiatives took place in FY 2013.

Computer software and maintenance costs totaled \$798,671 for FY 2013 (compared to \$751,997 for FY 2012) due to higher costs for data lines supporting the MFDA's network and increases in licensing fees for various systems and software used throughout the organization.

Hearing panel expenses were \$588,286 for FY 2013 (compared to \$515,532 for FY 2012). Hearing panel costs can vary greatly year to year depending upon the nature, location, and complexity of the disciplinary hearings undertaken. Hearing panel expenses are recovered through the use of fine monies accumulated in the MFDA's Discretionary Fund, to the extent that such funds are available. Consequently, the MFDA's revenues over expenses position is unaffected by hearing panel expenses, subject to funds being available from the Discretionary Fund.

Legal expenses were \$350,181 for FY 2013 (compared to \$243,840 for FY 2012). The increase in legal expenses for FY 2013 pertained to changes to the Canada Not-for-profit Corporations Act and pension related matters.

### **Excess of Revenue over Expenses**

The MFDA ended FY 2013 with an excess of revenues over expenses of \$132,440 (compared to an excess of \$694,149 for FY 2012).

### **Capital Expenditures**

Capital expenditures totaled \$244,448 in FY 2013 (compared to \$318,489 in FY 2012) and consisted primarily of necessary technology hardware replacements and upgrades, and improvements to the Member Event Tracking System ("METS") and the Electronic Filing System ("EFS").

### **MFDA Discretionary Fund**

The Discretionary Fund is an internally restricted fund established by the MFDA Board of Directors to receive monies from the collection of enforcement fines and the surrender of profits imposed by order of an MFDA hearing panel. For FY 2013 the fund received fines of \$197,976 (compared to \$538,258 for FY 2012) and earned investment revenue of \$5,944 (compared to \$6,222 for FY 2012). The Fund reimbursed hearing costs of \$588,286 to the MFDA Operating Fund in FY 2012 (compared to \$515,532 for FY 2012) and ended the year with a balance of \$185,794 at June 30, 2013 (compared to \$570,342 at June 30, 2012).

### **MFDA Investor Protection Corporation**

The MFDA bills and collects assessments by the IPC. These amounts flow through the Statements of Financial Position as an asset to reflect the assessment to be received from Members. An offsetting liability to the IPC accounts for future remittances due from the MFDA. For the period from July 1, 2012 to June 30, 2013 the MFDA billed \$2,858,795 to its Members on behalf of the IPC. As at June 30, 2013, \$11,494 of IPC assessments remained due to the IPC.

### **Accrued Employee Benefit Plans Liability**

The MFDA has an accrued employee benefit plans liability of \$4,643,800. This amount is comprised of a \$1,348,800 liability pertaining to the registered pension plan and a \$3,295,000 liability with respect to the post-retirement benefits plan. The post-retirement benefits plan is an unfunded obligation. Retiree benefits costs will be paid by the organization as incurred.

### **Not-for-profit Accounting Standards**

With respect to the adoption of new accounting standards, the MFDA, as a not-for-profit organization ("NPO"), chose not to adopt International Financial Reporting Standards ("IFRS"). Adoption of IFRS would have been voluntary for the MFDA given its NPO status. Upon consideration of the alternatives, the MFDA concluded that the costs associated with adopting IFRS outweighed the benefits of providing IFRS compliant financial statements. Instead, effective July 1, 2012, the MFDA adopted the new accounting standards for not-for-profit organizations contained in Part III of the CICA Handbook. The specific effects and disclosures of adopting these standards are disclosed in Note 3 of the financial statements.

## Outlook for Fiscal 2014

Expenses for FY 2014 are budgeted to be \$31.8 million (compared to expenses of \$30.9 million for FY 2013). This represents a 2.9% year-over-year budgeted increase in operating expenditures.

Budgeted head count will again decrease by one position for FY 2014, reducing from 169 to 168 positions. Employee related expenses remain the largest expense for the MFDA and comprise approximately 73% of operating expenses for FY 2014. The anticipated increase in employee related expenses accounts for 79% of the 2.9% year-over-year budgeted increase in operating expenses. The increase in employee related expenses is attributed to projected salary merit increases and anticipated cost increases related to the provision of employee benefits programs. The MFDA will be implementing ways to mitigate the pension funding burden on its Membership.

Other expense categories are anticipated to remain largely unchanged from FY 2013 levels. Some of the larger expense categories will see the following changes:

- Rent and utilities expenses are expected to be consistent with that of FY 2013, save for normal operating cost increases passed on by MFDA landlords. The lease for the Calgary office will renew in 2013.
- Travel costs are expected to decline by approximately 5% for fiscal 2014. The fluctuation in travel expenses is generally a result of differences in the number and location of Member offices subject to a compliance examination in any given year.
- Computer software and maintenance costs are anticipated to increase approximately 9% in FY 2014. The increase is due to new licensing required for the Compliance department's Electronic Working Papers ("EWP") system being developed in FY 2014, anticipated increased costs of data lines and hosting services provided by Telus, and increases in Microsoft licensing costs.
- Hearing panel costs are anticipated to be approximately \$500,000 for FY 2014, however as mentioned previously, hearing panel costs are highly variable due to the nature and complexity of the matters being heard.
- Barring any unusual matters, legal expenses are anticipated to normalize and decrease to approximately \$240,000 for FY 2014.
- Capital spending is anticipated to total \$644,000 in FY 2014 and will consist of technology hardware replacements, development of the Compliance EWP system and certain aspects of the MFDA's website, ongoing enhancements to EFS and METS, and minor renovations to the Toronto and Calgary offices.

In the past, the MFDA has subsidized Member fees through the use of its unrestricted net asset fund which serves as an operational reserve for the MFDA. The effect of these subsidies, totaling \$5.45 million from 2006 to 2010, was to lower Member fees and mitigate fee increases. The MFDA has maintained the target for its unrestricted net assets fund at a fiscally prudent level of 25% of yearly operating expenses. This target represents three months of operating expenses and acts as a reserve for large unforeseen expenses that may arise. The balance in the unrestricted net asset fund stood at \$5,246,840 at June 30, 2013. Based upon budgeted operating expenses for FY 2014 of \$31.8 million, the balance in the unrestricted net asset account at June 30, 2013 represents approximately two months of operating expenses. In order to replenish the unrestricted net asset account, the MFDA budgeted for a \$500,000 partial replenishment in the FY 2014 budget.

Throughout FY 2014, the MFDA will continue its Member outreach initiatives and industry collaborative efforts. The costs of continuing to deliver these initiatives under the current Strategic Plan are anticipated to be minimal. A copy of the MFDA's 2012-2014 Strategic Plan is available at [www.mfda.ca](http://www.mfda.ca).

## Management's Responsibility for Financial Reporting

The accompanying financial statements and all other information contained in this Annual Report are the responsibility of MFDA management. The financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations 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 Chair of the Audit & Finance Committee of any perceived unethical behavior by employees.

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

# Independent Auditor's Report

## To the Members of the Mutual Fund Dealers Association of Canada

We have audited the accompanying financial statements of the Mutual Fund Dealers Association of Canada, which comprise the statements of financial position as at June 30, 2013, June 30, 2012 and July 1, 2011, and the statements of revenue and expenses, changes in fund balances and cash flows for the years ended June 30, 2013 and June 30, 2012, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Mutual Fund Dealers Association of Canada as at June 30, 2013, June 30, 2012 and July 1, 2011, and the results of its operations and its cash flows for the years ended June 30, 2013 and June 30, 2012 in accordance with Canadian accounting standards for not-for-profit organizations.



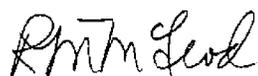
Chartered Professional Accountants, Chartered Accountants  
Licensed Public Accountants  
September 26, 2013  
Toronto, Ontario

# Statements of Financial Position

as at June 30/July 1	June 30, 2013	June 30, 2012	July 1, 2011 (Note 3)
	\$	\$	\$
<b>ASSETS</b>			
Current			
Cash – Operating Fund	2,282,324	2,436,926	1,845,079
Cash – Discretionary Fund	13,547	228,863	24,356
Investments – Operating Fund (Note 5)	6,241,170	5,773,492	4,703,536
Investments – Discretionary Fund (Note 5)	446,173	560,418	819,417
Membership fees billed in advance (Note 6)	8,013,099	7,724,217	7,517,343
MFDA Investor Protection Corporation assessments (Note 7)	11,494	11,385	–
Costs recoverable from MFDA Investor Protection Corporation (Note 9)	18,398	16,956	16,969
Other membership receivables	6,697	35,524	7,221
Prepaid expenses and other assets	433,789	355,917	354,134
	<b>17,466,691</b>	17,143,698	15,288,055
Capital assets (Note 8)	1,343,904	1,644,450	1,953,681
Employee benefit plan asset (Note 10)	2,376,900	2,314,800	1,944,900
	<b>21,187,495</b>	21,102,948	19,186,636
<b>LIABILITIES AND FUND BALANCE</b>			
Current			
Accounts payable and accrued liabilities	1,737,064	1,731,482	1,542,425
Unearned membership fees (Note 6)	8,016,349	7,735,171	7,517,592
Membership application deposits	2,250	3,500	3,000
Due to MFDA Investor Protection Corporation (Note 7)	11,494	11,385	–
Obligations under capital lease (Note 12)	49,594	38,591	58,811
	<b>9,816,751</b>	9,520,129	9,121,828
Accrued employee benefit plans liability (Note 10)	4,643,800	4,635,300	3,822,100
Obligations under capital lease (Note 12)	117,077	85,544	103,634
	<b>14,577,628</b>	14,240,973	13,047,562
<b>FUND BALANCES</b>			
Operating Fund			
Invested in capital assets	1,177,233	1,520,315	1,791,236
Unrestricted net assets	5,246,840	4,771,318	3,806,248
	<b>6,424,073</b>	6,291,633	5,597,484
Discretionary Fund (Note 4)	185,794	570,342	541,590
	<b>6,609,867</b>	6,861,975	6,139,074
	<b>21,187,495</b>	21,102,948	19,186,636

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

Approved on behalf of the Board



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



**Mark T. Gordon**  
President & Chief Executive Officer

## Statements of Revenues and Expenses

	2013	2012
for the years ended June 30		(Note 3)
	\$	\$
<b>OPERATING FUND</b>		
<b>Revenues</b>		
Membership fees	<b>30,426,702</b>	30,048,179
Hearing cost recoveries from Discretionary Fund (Note 16)	<b>588,286</b>	515,532
Investment income (Note 13)	<b>113,189</b>	107,456
Enforcement recoveries	<b>87,988</b>	94,740
Administration recoveries (Note 9)	<b>60,000</b>	60,000
Late filing fees	<b>4,900</b>	17,350
<b>Total revenues</b>	<b>31,281,065</b>	30,843,257
<b>Expenses</b>		
Salaries and benefits (Note 10)	<b>22,850,606</b>	22,176,974
Rent and utilities	<b>2,728,905</b>	2,679,801
Travel	<b>884,935</b>	786,982
Computer software and maintenance	<b>798,671</b>	751,997
Office and general	<b>745,140</b>	646,277
Amortization of capital assets	<b>637,711</b>	650,667
Hearing panels	<b>588,286</b>	515,532
Consultants	<b>442,160</b>	477,752
Legal	<b>350,181</b>	243,840
Board of Directors – fees	<b>273,475</b>	289,093
Board of Directors – expenses	<b>61,685</b>	53,091
Education	<b>263,194</b>	298,579
Telecommunications	<b>164,815</b>	158,988
Meetings, seminars and communication	<b>155,060</b>	182,762
Insurance	<b>99,325</b>	99,257
Bank charges and interest	<b>53,127</b>	51,992
Audit fees	<b>50,178</b>	50,178
Regional Councils	<b>1,171</b>	35,346
<b>Total expenses</b>	<b>31,148,625</b>	30,149,108
<b>Excess of revenues over expenses</b>	<b>132,440</b>	694,149
<b>DISCRETIONARY FUND (Note 4)</b>		
<b>Revenues</b>		
Fines	<b>197,976</b>	538,258
Investment income (Note 13)	<b>5,944</b>	6,222
<b>Total revenues</b>	<b>203,920</b>	544,480
<b>Expenses</b>		
Hearing cost reimbursement to Operating Fund (Note 16)	<b>588,286</b>	515,532
Investment management fees	<b>182</b>	196
<b>Total expenses</b>	<b>588,468</b>	515,728
<b>Excess (deficiency) of revenues over expenses</b>	<b>(384,548)</b>	28,752

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

# Statements of Changes in Fund Balances

	Operating Fund			2013	2012
	Invested in Capital Assets	Unrestricted Net Assets	Discretionary Fund	Total	Total
	\$	\$	\$	\$	\$
<b>FUND BALANCES</b>					
<b>Balance, beginning of year</b>	<b>1,520,315</b>	<b>4,771,318</b>	<b>570,342</b>	<b>6,861,975</b>	6,139,074
Excess (deficiency) of revenues over expenses	-	<b>132,440</b>	<b>(384,548)</b>	<b>(252,108)</b>	722,901
Purchase of capital assets	<b>244,448</b>	<b>(244,448)</b>	-	-	-
Principal payments on capital lease	<b>50,507</b>	<b>(50,507)</b>	-	-	-
Proceeds on disposal of capital assets	<b>(326)</b>	<b>326</b>	-	-	-
Amortization of capital assets	<b>(637,711)</b>	<b>637,711</b>	-	-	-
<b>Balance, end of year</b>	<b>1,177,233</b>	<b>5,246,840</b>	<b>185,794</b>	<b>6,609,867</b>	6,861,975

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

## Statements of Cash Flows

	2013	2012
for the years ended June 30		(Note 3)
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Excess of revenue over expenses – Operating Fund	<b>132,440</b>	694,149
Excess (deficiency) of revenue over expenses – Discretionary Fund	<b>(384,548)</b>	28,752
Items not involving cash		
Amortization of capital assets	<b>637,711</b>	650,667
	<b>385,603</b>	1,373,568
Changes in non-cash working capital		
Membership fees billed in advance	<b>(288,882)</b>	(206,874)
Other membership receivables	<b>28,827</b>	(28,303)
MFDA Investor Protection Corporation assessments	<b>(109)</b>	(11,385)
Prepaid expenses and other assets	<b>(77,872)</b>	(1,783)
Accounts payable and accrued liabilities	<b>5,582</b>	189,057
Membership application deposits	<b>(1,250)</b>	500
Unearned membership fees	<b>281,178</b>	217,579
Due to MFDA Investor Protection Corporation	<b>109</b>	11,385
Costs recovered from MFDA Investor Protection Corporation	<b>(1,442)</b>	13
	<b>331,744</b>	1,543,757
Employee benefit plan asset	<b>(62,100)</b>	(369,900)
Accrued employee benefit plans liability	<b>8,500</b>	813,200
	<b>278,144</b>	1,987,057
<b>INVESTMENT ACTIVITIES</b>		
Purchase of investments, net	<b>(353,433)</b>	(810,957)
Purchase of capital assets	<b>(244,448)</b>	(318,489)
Principal payments on capital lease	<b>(50,507)</b>	(61,257)
Proceeds on disposal of capital assets	<b>326</b>	–
	<b>(648,062)</b>	(1,190,703)
(Decrease) increase in cash during the year	<b>(369,918)</b>	796,354
Cash, beginning of year	<b>2,665,789</b>	1,869,435
<b>Cash, end of year</b>	<b>2,295,871</b>	2,665,789
Cash – Operating Fund	<b>2,282,324</b>	2,436,926
Cash – Discretionary Fund	<b>13,547</b>	228,863
<b>Cash, end of year</b>	<b>2,295,871</b>	2,665,789

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

# Notes to the Financial Statements

(June 30, 2013 and June 30, 2012)

## 1. Nature of the organization

The Mutual Fund Dealers Association of Canada (“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. Its Members are firms that have been registered by provincial securities commissions to carry on business as mutual fund dealers. The MFDA regulates the activities of its Members and the approximately 81,000 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.

The MFDA was incorporated as a not-for-profit corporation on June 19, 1998 under Part II of the *Canada Corporations Act* and has been formally recognized as a self-regulatory organization by a number of provincial securities commissions in Canada.

As at June 30, 2013, the MFDA had 115 Members (2012 – 121 Members, 2011 – 132 Members).

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

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

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

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

There has been no financial impact resulting from the adoption of Part III on the Statements of Financial Position as at July 1, 2011.

Under the requirements of Section 3856, Financial Instruments, the Operating Fund has elected to measure its Investments in the money market fund at fair value and unrealized gains and losses resulting from the difference between fair value and amortized cost are recorded in the Statements of Revenues and Expenses. Pre-transition, the investments were carried at fair value and unrealized gains and losses were recorded in the Operating Fund balance until realized or until the asset was other than temporarily impaired, at which time they were recorded in the Statements of Revenues and Expenses. There were no unrealized gains or losses as at the transition date.

Under the requirements of Section 3856, Financial Instruments, the Operating Fund has elected to measure its Investments in the Canadian federal treasury bills or notes at fair value and unrealized gains and losses resulting from the difference between fair value and amortized cost are recorded in the Statements of Revenues and Expenses. Pre-transition, the investments were carried at fair value and any changes were recorded in the Statements of Revenues and Expenses. As these instruments are short term in nature, cost approximates fair value. There were no unrealized gains or losses as at the transition date.

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

## 4. Significant accounting policies

### Use of estimates and judgment

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

### Fund accounting

The MFDA uses the deferral method of accounting for not-for-profit organizations in the preparation of its financial statements consisting of two funds, namely the Operating Fund and the Discretionary Fund.

The Operating Fund accounts for the regular business and activities of the MFDA.

The Discretionary Fund is an internally restricted fund established by the MFDA Board of Directors. The Discretionary Fund receives monies from the collection of enforcement fines and the surrender of profits imposed by order of MFDA hearing panels. Disbursements from the Discretionary Fund are currently restricted to the funding of third party expenses of MFDA hearing panels, payments to the MFDA Investor Protection Corporation, the investor protection fund, and payments for special projects that are in the public interest and beneficial to the public and/or Canadian capital markets, as determined by the MFDA Board of Directors.

### **Membership application deposits**

A non-refundable deposit is required on all membership applications. The deposit is applied to membership fees when the applicant is accepted for membership.

### **Membership fees**

Membership fees are calculated annually using a defined formula based on each Member's assets under administration, invoiced to Members on a quarterly basis and recorded as revenue on a monthly prorated basis.

Membership fees billed in advance are reflected on the balance sheet as unearned membership fees.

### **Late filing fees**

Members that do not submit the financial statements required by MFDA rules within the specified due dates are charged late filing fees. The late filing fees are billed and recorded as revenue on a monthly basis.

### **Capital assets**

Capital assets are recorded at cost and are amortized on the following basis:

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Computers and software development	Straight-line method over 3 to 5 years
Office furniture and equipment	Straight-line method over 10 years
Leasehold improvements	Straight-line method over the term of the lease
Equipment under capital lease	Straight-line method over the term of the lease

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### **Employee benefit plans**

The MFDA accrues its obligations under employee benefit plans and the related costs, net of plan assets. The MFDA has adopted the following policies:

- The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method pro rated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs.
- The discount rate used to determine the accrued benefit obligation is determined by reference to market interest rates at the measurement date on high-quality or government debt instruments with cash flows that match the timing and amount of expected benefit payments.
- For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.
- The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. The average remaining service period of the active employees is 18 years (2012 – 18 years) for the registered pension plan, 12 years (2012 – 13 years) for the supplementary executive retirement plan and 15 years (2012 – 16 years) for other post-retirement benefits.

### **Cash**

Cash includes cash on hand and balances with banks, net of bank overdrafts. The MFDA accounts for cash maintained in investment accounts as part of investments.

## **Investments**

The MFDA invests in short-term investments in a pooled money market fund and in federal treasury bills or notes with short to medium term maturities.

Investments in the money market fund are classified as available for sale (“AFS”). The investments in the money market fund are carried at fair value as reported by the fund manager. Unrealized gains and losses resulting from the difference between fair value and cost are recorded in the Statements of Revenues and Expenses.

Investments in Canadian federal treasury bills or notes are classified as held for trading (“HFT”) and are recorded at fair value with any changes being recorded in the Statements of Revenues and Expenses. As these instruments are short term in nature, cost approximates fair value. Any gains and losses are recognized in the Statements of Revenues and Expenses in the period that the asset is sold or becomes permanently impaired. Interest income from the bonds is accrued daily and recorded under investment income in the Statements of Revenues and Expenses.

## **Other assets and liabilities**

Current assets other than cash and investments are classified as loans and receivables and are carried at amortized cost, which approximates fair value due to their short terms to maturity.

Accounts payable and accrued liabilities are classified as other liabilities and carried at amortized cost, which approximates fair value due to their short terms to maturity.

## **Provision for income taxes**

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

## **Future accounting changes**

In June 2013, the Accounting Standards Board issued an Exposure Draft entitled “Reporting Employee Future Benefits by Not-for-Profit Organizations”. Not-for-profit organizations would be required to follow the new Section 3462 – Employee Future Benefits of Part II of the Handbook replacing the existing Section 3461 – Employee Future Benefits. For the MFDA, this would be effective for the fiscal year commencing July 1, 2014. The expected effect of the change is the elimination of the deferral and amortization approach for the recognition of actuarial gains and losses of the employee future benefits with immediate recognition. The to-date actuarial gains and losses and future re-measurements would be a direct charge to the Statements of Changes in Fund Balances in the year of adoption. The amount of the direct charge would have been approximately \$2.0 million as at June 30, 2013 (see Note 10). The change in other disclosure requirements is expected to be minor.

## **5. Investments**

For the Operating Fund, the MFDA has investments in the CIBC Imperial Money Market Pooled Fund in the amount of \$3,173,390 (2012 – \$2,727,614, 2011 – \$1,689,309) and in Federal Treasury Bills and cash awaiting investment in the amount of \$3,067,780 (2012 – \$3,045,878, 2011 – \$3,014,227).

The MFDA has investments in the CIBC Imperial Money Market Pooled Fund in the amount of \$446,173 (2012 – \$560,418, 2011 – \$819,417) for the Discretionary Fund.

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

Investment	Par Value (\$)/ Number of Units	Designation	Credit Rating	Carrying Value	Fair Value
				\$	\$
Operating Fund Money Market					
CIBC Imperial Money Market Pooled Fund	316,797	Available for sale	N/A	3,173,390	3,173,390
Sub-total money market				3,173,390	3,173,390
Operating Fund Treasury Bills and Notes					
Canada Government, 0.990%, Mat. September 12, 2013	1,500,000	Held for trading	AAA	1,492,635	1,492,635
Canada Government, 0.997%, Mat. August 1, 2013	1,500,000	Held for trading	AAA	1,496,700	1,496,700
Sub-total T-bills				2,989,335	2,989,335
Cash on hand for T-bills investment	N/A	N/A	N/A	78,445	78,445
<b>Sub-total Operating Fund</b>				6,241,170	6,241,170
Discretionary Fund Money Market					
CIBC Imperial Money Market Pooled Fund	44,541	Available for sale	N/A	446,173	446,173
<b>Sub-total Discretionary Fund</b>				446,173	446,173
<b>Total investments</b>				6,687,343	6,687,343

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

Investment	Par Value (\$)/ Number of Units	Designation	Credit Rating	Carrying Value	Fair Value
				\$	\$
Operating Fund Money Market					
CIBC Imperial Money Market Pooled Fund	272,210	Available for sale	N/A	2,727,614	2,727,614
Sub-total money market				2,727,614	2,727,614
Operating Fund Treasury Bills and Notes					
Canada Government, 0.941%, Mat. December 20, 2012	1,500,000	Held for trading	AAA	1,492,995	1,492,995
Canada Government, 0.951%, Mat. August 30, 2012	1,000,000	Held for trading	AAA	994,920	994,920
Canada Government, 1.060%, Mat. November 22, 2012	500,000	Held for trading	AAA	497,170	497,170
Sub-total T-bills				2,985,085	2,985,085
Cash on hand for T-bills investment	N/A	N/A	N/A	60,793	60,793
<b>Sub-total Operating Fund</b>				5,773,492	5,773,492
Discretionary Fund Money Market					
CIBC Imperial Money Market Pooled Fund	55,928	Available for sale	N/A	560,418	560,418
<b>Sub-total Discretionary Fund</b>				560,418	560,418
<b>Total investments</b>				6,333,910	6,333,910

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

Investment	Par Value (\$)/ Number of Units	Designation	Credit Rating	Carrying Value	Fair Value
				\$	\$
Operating Fund Money Market					
CIBC Imperial Money Market Pooled Fund	168,622	Available for sale	N/A	1,689,309	1,689,309
Sub-total money market				1,689,309	1,689,309
Operating Fund Treasury Bills and Notes					
Canada Government, 1.080%, Mat. February 16, 2012	1,000,000	Held for trading	AAA	992,600	992,600
Canada Government, 1.230%, Mat. September 29, 2011	500,000	Held for trading	AAA	495,325	495,325
Canada Government, 1.300%, Mat. December 22, 2011	1,000,000	Held for trading	AAA	1,483,725	1,483,725
Sub-total T-bills				2,971,650	2,971,650
Cash on hand for T-bills investment	N/A	N/A	N/A	42,577	42,577
<b>Sub-total Operating Fund</b>				4,703,536	4,703,536
Discretionary Fund Money Market					
CIBC Imperial Money Market Pooled Fund	55,928	Available for sale	N/A	819,417	819,417
<b>Sub-total Discretionary Fund</b>				819,417	819,417
<b>Total investments</b>				5,522,953	5,522,953

Canadian generally accepted accounting principles establish a fair value hierarchy that prioritizes the inputs and valuation techniques used to measure fair value. The fair value hierarchy is categorized into three levels based on the inputs as follows:

- Level 1      Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2      Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs from markets that are not considered to be active; and
- Level 3      Inputs that are based on unobservable market data and which require significant management judgment or estimation.

All MFDA investments are classified as Level 2. There were no transfers between levels in 2013 (2012 – None).

## 6. Membership fees billed in advance

The membership fees billed in advance represent billings issued in June for the quarterly membership fees for the period of July 1 to September 30, 2013 due July 15, 2013.

## 7. MFDA Investor Protection Corporation assessments

The MFDA Investor Protection Corporation (“IPC”) commenced coverage of customer accounts on July 1, 2005. Member assessments are calculated annually on a defined formula based on each Member’s assets under administration, and are invoiced to Members on a quarterly basis. The MFDA invoices the Members on behalf of the IPC and is liable to the IPC for the total of these Member assessments.

## 8. Capital assets

	2013		
	Cost	Accumulated amortization	Net Book Value
	\$	\$	\$
Computers and software development	2,767,981	2,294,598	473,383
Office furniture and equipment	1,459,926	1,144,253	315,673
Leasehold improvements	2,356,329	1,967,000	389,329
Equipment under capital lease	267,814	102,295	165,519
	6,852,050	5,508,146	1,343,904

2012

	Cost	Accumulated amortization	Net Book Value
	\$	\$	\$
Computers and software development	3,539,575	3,015,394	524,181
Office furniture and equipment	1,454,975	1,037,242	417,733
Leasehold improvements	2,347,085	1,764,810	582,275
Equipment under capital lease	381,435	261,174	120,261
	7,723,070	6,078,620	1,644,450

2011

	Cost	Accumulated amortization	Net Book Value
	\$	\$	\$
Computers and software development	3,705,205	3,009,165	696,040
Office furniture and equipment	1,417,364	916,774	500,590
Leasehold improvements	2,188,235	1,579,582	608,653
Equipment under capital lease	358,487	210,089	148,398
	7,669,291	5,715,610	1,953,681

## 9. Costs recoverable from MFDA Investor Protection Corporation

Pursuant to a support agreement, the MFDA provides the IPC administrative, corporate, secretarial and other support during the year to allow the IPC to operate without its own support staff. The support costs charged to the IPC for the year amounted to \$60,000 (2012 – \$60,000, 2011 – \$60,000) plus applicable taxes. This amount is billed on a monthly basis but reimbursed on a quarterly basis. At June 30, 2013, there was an outstanding amount of \$18,398 (2012 – \$16,956, 2011 – \$16,969) with respect to this support agreement.

## 10. Employee benefit plans

MFDA has two defined benefit pension plans for eligible employees, being a registered pension plan (“RPP”) and a supplementary executive retirement plan (“SERP”). The purpose of the SERP is to supplement the registered plan for designated executive employees. As well, the MFDA has post-retirement benefits (“PRB”) that include health care and dental coverage for retired employees. These post-retirement benefits terminate at the age of 75.

The funded status of the MFDA’s benefit plans reconciled to the amounts recorded in the financial statements at June 30 is as follows:

	2013			2012	2011
	RPP	SERP	PRB	Total	Total
	\$	\$	\$	\$	\$
Fair Value of assets	13,047,300	5,743,900	–	18,791,200	14,369,400
Accrued benefit obligation	15,772,700	3,889,000	3,401,200	23,062,900	21,164,900
Funded status (deficit)	(2,725,400)	1,854,900	(3,401,200)	(4,271,700)	(6,795,500)
Unamortized transitional assets/obligation	(3,300)	6,000	3,200	5,900	8,700
Unamortized net actuarial loss	1,379,900	516,000	103,000	1,998,900	4,466,300
Accrued benefit plan asset (liability)	(1,348,800)*	2,376,900	(3,295,000)*	(2,266,900)	(2,320,500)

\* The total of \$(4,643,800) represents accrued employee benefit plans liability as of June 30, 2013 (2012 – \$(4,635,300), 2011 – \$(3,822,100)).

The RPP assets are invested in the Beutel Goodman Balanced Fund. RPP pension benefits paid and transferred out during fiscal 2013 totaled \$148,810 (2012 – \$327,449, 2011 – \$128,356).

The total SERP assets of \$5,743,900 (2012 – \$5,223,400, 2011 – \$4,574,200) consist of \$2,997,590 (2012 – \$2,649,603, 2011 – \$2,369,396) which is invested in the Beutel Goodman Balanced Fund and held with RBC Wealth Management and \$2,746,310 (2012 – \$2,573,797, 2011 – \$2,204,804) that is held in a non-interest bearing retirement compensation arrangement account at the Canada Revenue Agency, as required by law.

The most recent actuarial valuation was completed as of July 1, 2013. The next required actuarial valuation will be no later than July 1, 2016.

The net benefit expense, included in the salaries and benefit expense in the Statements of Revenues and Expenses, and the annual contributions are as follows:

	<b>2013</b>			2012	2011
	<b>RPP</b>	<b>SERP</b>	<b>PRB</b>	<b>Total</b>	Total
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	\$
Net benefit expense	<b>2,370,300</b>	<b>255,600</b>	<b>578,900</b>	<b>3,204,800</b>	2,511,600
Contributions					2,189,100
Employer	<b>2,937,800</b>	<b>317,700</b>	<b>2,900</b>	<b>3,258,400</b>	2,068,300
Employee	<b>298,500</b>	<b>–</b>	<b>–</b>	<b>298,500</b>	285,200

The significant actuarial assumptions adopted in measuring the MFDA's accrued benefit obligations are as follows:

	<b>2013</b>	2012	2011
	<b>%</b>	%	%
Weighted average discount rate for pensions	<b>5.00</b>	4.75	5.50
Weighted average discount rate for post-retirement benefits	<b>5.00</b>	4.75	5.50
Weighted expected rate of return on plan assets for pensions	<b>6.00</b>	5.75	6.00
Weighted expected rate of return on plan assets for post-retirement benefits	<b>7.00</b>	7.00	7.00
Weighted average rate of compensation increase	<b>3.25 – 3.75</b>	3.25 – 3.75	4.25

The post-retirement benefits reflect a 10% to 11% annual rate of increase in the cost of medical benefits for 2014. These rates are assumed to decrease gradually to 5% by 2020 and remain at that level thereafter. The dental benefits are assumed to increase at an annual rate of 3.5%.

Plan assets by category as at June 30 are as follows:

	<b>2013</b>		2012		2011	
	<b>RPP</b>	<b>SERP</b>	RPP	SERP	RPP	SERP
	<b>%</b>	<b>%</b>	%	%	%	%
Cash and short-term notes	<b>2.1</b>	<b>1.1</b>	9.1	–	5.5	–
Bonds	<b>32.4</b>	<b>17.0</b>	29.1	18.5	34.4	18.2
Canadian equities	<b>32.9</b>	<b>17.1</b>	35.3	18.8	31.7	20.6
Foreign equities	<b>32.6</b>	<b>17.0</b>	26.5	13.4	28.4	13.0
Deposit with CRA	<b>–</b>	<b>47.8</b>	–	49.3	–	48.2
	<b>100.0</b>	<b>100.0</b>	100.0	100.0	100.0	100.0

The PRB assets are \$Nil for all periods presented as the MFDA funds post-retirement benefits on a pay-as-you-go basis.

## 11. Credit facility

The MFDA has a demand credit facility limited to a maximum of \$6,000,000 (2012 – \$6,000,000, 2011 – \$6,000,000). The credit facility bears an interest rate of prime plus 0.75% per annum (2012 – prime plus 0.75%, 2011 – 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, 2013, June 30, 2012 and July 1, 2011 the credit facility was not utilized.

## 12. Commitments and contingent liability

### a) Lease obligations

The MFDA has entered into various operating leases for its office premises and four capital leases for office equipment. The capital leases have implicit interest rates of 7.9%, 7.2%, 6.9% and 6.9% and expire in December 2015, May 2017, December 2017, and May 2018, respectively. The aggregate future minimum lease payments associated with these four leases is \$189,778 which includes interest charges of \$23,107.

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

	\$
2014	<b>1,115,985</b>
2015	<b>1,038,155</b>
2016	<b>748,652</b>
2017	<b>77,378</b>
2018	<b>10,698</b>
Thereafter	–
	<b>2,990,868</b>

### b) Guarantee

The MFDA provided a guarantee of the \$30 million line of credit granted to the IPC by its bank.

## 13. Investment income

Investment income is comprised of the following:

	2013	2012	2011
	\$	\$	\$
Operating Fund			
Distributions from money market fund	<b>47,207</b>	39,559	38,373
Interest from short-term T-bill fund	<b>29,456</b>	34,010	23,323
Bank Interest	<b>36,526</b>	33,887	23,096
	<b>113,189</b>	107,456	84,792
Discretionary Fund			
Distributions from money market fund	<b>5,944</b>	6,222	9,326
	<b>5,944</b>	6,222	9,326

## 14. Risk management of financial instruments of the MFDA

Risk management relates to the understanding and active management of risks associated with invested assets. Investments can be indirectly exposed to interest rate, and market and credit risk. The MFDA manages financial risks by regularly monitoring the investments position, market events, and investing in pooled funds which are diversified across various debt instruments.

Significant risks that are relevant to the MFDA's investments are as follows:

### Interest rate risk

Interest rate risk refers to the adverse consequences of interest rate changes on the MFDA's fixed income investments. The value of the MFDA's investments in a pooled money market fund are not significantly impacted by changes in both nominal and real interest rates as the maturities of the money market instruments are short-term in nature.

### Credit risk

Credit risk refers to the risk of financial loss due to a counterparty failing to meet its contractual obligations. The MFDA is exposed to credit risk indirectly through its investment in a pooled money market fund and directly through investments in federal treasury bills and notes. Credit risk is managed by the MFDA through dealing with counterparties' financial institutions. As at June 30, 2013, June 30, 2012 and July 1, 2011, the MFDA's investments in money market and fixed income securities are held with Tier 1 banking institutions.

### Market risk

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market conditions, whether these changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market. The MFDA minimizes its exposure to market risk due to its policy of investing in a pooled money market fund and Government of Canada treasury bills and notes. Market risk is considered to be minimal.

### Fair value

The fair value of cash, membership fees billed in advance, MFDA Investor Protection Corporation assessments, costs recoverable from the MFDA Investor Protection Corporation, other membership receivables, accounts payable and accrued liabilities, unearned membership fees, membership application deposits and amounts due to the MFDA Investor Protection Corporation approximates their carrying values due to their short-term nature.

The fair value of investments which include investments in a pooled money market fund and fixed income securities is based on prices provided by the fund manager and on quoted prices from active markets.

## 15. Funding and management of assets

The MFDA's capital is its unrestricted net assets in its Operating Fund.

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

- To safeguard the MFDA's ability to continue as a going concern so it can provide regulation of its mutual fund dealer Members for the benefit of clients of its Members, and
- To work toward the operating fund reserve targets as set by the MFDA's Board.

The MFDA bills its members annually to ensure operations are funded. Any excess/deficit is allocated toward the accumulation/drawdown of the operating reserve. The Board in its discretion may apply some or all of the reserve to fund future budget deficits. The current goal for the Operating Fund as set out by the Board is 25% of the operating expense budget. As at June 30, 2013, this target was \$8.0 million (June 30, 2012 – \$7.7 million, July 1, 2011 – \$7.6 million) of unrestricted net assets in the Operating Fund. The actual value of the unrestricted net assets is \$5,246,840 (2012 – \$4,771,318, 2011 – \$3,806,248), or 65.9% of the target (2012 – 61.7% of target, 2011 – 50.1% of target).

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

## 16. Hearing cost recoveries from the Discretionary Fund

The MFDA Board approved the use of Discretionary Funds for the purpose of paying the third party costs of the Enforcement Hearing Panels. The amount of third party costs funded by the Discretionary Fund for the year was \$588,286 (2012 – \$515,532, 2011 – \$749,511).

## Executive Officers

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

## Officers

<b>Karen McGuinness</b>	Senior Vice-President, Member Regulation, Compliance
<b>Shaun Devlin</b>	Senior Vice-President, Member Regulation, Enforcement
<b>Paige Ward</b>	General Counsel & Vice-President, Policy
<b>Jeff Mount</b>	Vice-President, Pacific Regional Office
<b>Mark Stott</b>	Vice-President, Prairie Regional Office
<b>Paul Reid</b>	Director, Finance & Administration
<b>Dale Pratt</b>	Controller
<b>Jason Bennett</b>	Corporate Secretary & Director, Regional Councils
<b>Bernadette Devine</b>	Assistant Corporate Secretary

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