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MFDA Bulletin

Policy

For Distribution to Relevant Parties within your Firm

Amendments to MFDA Rule 5.3 (Client Reporting) and Form 1

The MFDA held its 2011 Annual General and Special Meeting of Members (“AGM”) on November 30, 2011. At the AGM, Members approved amendments to MFDA Rule 5.3 and Form 1, as set out below.

1. Amendments to Rule 5.3 (Client Reporting)

Proposed amendments to Rule 5.3 are intended to conform with account statement requirements under current law (National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*) by adopting a quarterly delivery requirement for accounts held in both client and nominee name.

The proposed amendments will also delete Rule 5.3.2 (Automatic Payment Plans), which requires quarterly statement delivery in respect of automatic payment plan transactions for client assets held in nominee name. This requirement is no longer necessary, as quarterly statements will be required for all accounts.

The amendments are awaiting approval of the recognizing securities commissions and will be effective on a date to be subsequently determined by the MFDA. To view the proposed amendments, please go to: <http://www.mfda.ca/regulation/propAmend/prop5-3.pdf>.

2. Amendments to MFDA Form 1

A. Definition of “Market Value”

MFDA Form 1 has been amended to explicitly include the definition of “market value” in order to ensure consistency by MFDA Members in the valuation of their securities. As “market value” no longer exists under International Financial Reporting Standards (“IFRS”) and has been

replaced with "fair value", staff of the recognizing securities commissions have requested that the MFDA amend Form 1 (IFRS) to include a definition of "market value". The definition, which is based on the definition contained in the Investment Industry Regulatory Organization of Canada's Form 1, has been added to the General Notes and Definitions section of Form 1 (IFRS). The amended Form has received all requisite approvals and is now effective. The amended Form is attached as Schedule "A".

B. Housekeeping Amendments to Form 1

Auditor's Reports – Form 1 (IFRS)

The current auditors' reports were drafted and approved together with all the other amendments to the old Form 1 made to align with IFRS. Reference to Statement F (Statement of Changes in Subordinated Loans) was incorrectly included in the "fair presentation" report rather than the "compliance" framework report. Consequently, amendments to each of the Independent Auditor's Reports and related references throughout Form 1 (IFRS) have been made to ensure auditors are able to comply with the Canadian Auditing Standards ("CAS").

In addition to amending the auditor's reports, additional housekeeping amendments to the Form 1 General Notes and Definitions have been made to correctly reflect that the respective Statements within Form 1 (IFRS) are either captured under a reporting framework, or supplemental financial information required by the MFDA.

The following is a summary of the amendments to Form 1 (IFRS):

- ❑ *Table of Contents* – updated to remove reference to Statement F from the independent auditor's report based upon the fair presentation framework and to include it in the report based upon the compliance framework.
- ❑ *General Notes and Definitions [Note 2 – Presentation]* – updated to properly reflect Statement E, *Statement of changes in capital and retained earnings (corporations) or undivided profits (partnerships)*, as a financial statement falling within the IFRS reporting framework rather than supplemental financial information required by the MFDA.
- ❑ *Independent Auditors' Report for Statements A, D, E and F* – updated to remove reference to Statement F in this report.
- ❑ *Independent Auditors' Report for Statements B and C* – updated to include reference to Statement F in this report.

Auditor's Reports – Form 1 (CGAAP)

Just as the Canadian Accounting Standards Board ("AcSB") pronounced that international accounting standards would replace Canadian standards, the Canadian Auditing and Assurance Standards Board ("AASB") also made the decision to replace Canadian standards with the international standards. Consequently, the AASB pronounced that International Standards on

Auditing (“ISA”) would replace Generally Accepted Auditing Standards for audits of financial statements as the CAS, effective for audits of financial statements for periods ending on or after December 14, 2010. Consequently, the Part I and II Auditors’ Reports contained in Form 1 (CGAAP) has to be amended in order for auditors of MFDA Members to comply with the new CAS effective for audit years ending December 14, 2010 or later.

The amendments will result in the replacement of the Part I and II reports with two Independent Auditor’s Reports that are consistent with those approved for the Form 1 (IFRS).

The following is a summary of the amendments to Form 1 (CGAAP):

- ❑ *Table of Contents* – updated to remove reference to Part I Auditors’ Report, Part II Auditors’ Report and include two Independent Auditor’s Reports to address opinions based upon the fair presentation and compliance frameworks. In addition, Statement C has been separated into Part I, Statement of Early Warning Excess and Part II, Statement of Early Warning Tests to facilitate disclosure in the auditor’s report that the early warning tests are not audited information which is consistent with the Form 1 (IFRS) requirements.
- ❑ *Part I Auditors’ Report* – deleted;
- ❑ *Part II Auditors’ Report* – deleted;
- ❑ *Independent Auditor’s Report for Statements A, D and E* – this report is consistent with the fair presentation framework report contained in Form 1 (IFRS), but has been modified to ensure the terminology aligns with the Form 1 (CGAAP) terminology (e.g. Statement A refers to “Statement of Assets and of Liabilities and Shareholder/Partner Capital” rather than “Statement of Financial Position”).
- ❑ *Independent Auditor’s Report for Statements B, C and F* – this report is consistent with the compliance framework report contained in Form 1 (IFRS), but has been modified to ensure the terminology aligns with Form 1 (CGAAP).
- ❑ *Notes and Instructions to the Auditors’ Reports* – updated to ensure consistency with Form 1 (IFRS).

The amended Form became effective on March 23, 2011 and received Member ratification at the 2011 AGM. The amended Form is attached as Schedule “B”.

Schedule “A”

MFDA FORM 1

FORM 1 – GENERAL NOTES AND DEFINITIONS

GENERAL NOTES:

- Each Member must comply with the requirements in Form 1 as approved and amended from time to time by the board of directors of the Mutual Fund Dealers Association of Canada (the Corporation).

Form 1 is a special purpose report that includes financial statements and schedules, and is to be prepared in accordance with International Financial Reporting Standards (IFRS), except as prescribed by the Corporation. Each Member must complete and file all of these statements and schedules.

- The following are Form 1 IFRS departures as prescribed by the Corporation:

	Prescribed IFRS departure
Trading balances	When reporting trading balances relating to Member and client securities and other investment transactions, the Corporation allows the netting of receivables from and payables to the same counterparty.
Preferred shares	Preferred shares issued by the Member and approved by the Corporation are classified as shareholders’ capital.
Presentation	Statements A and D contain terms and classifications (such as allowable and non-allowable assets) that are not defined under IFRS. In addition, specific balances may be classified or presented on Statement A and D in a manner that differs from IFRS requirements. The General Notes and Definitions, and the applicable Notes and Instructions to the Statements, should be followed in those instances where departures from IFRS presentation exists. Statements B, C, E and F are supplementary financial information, which are not statements contemplated under IFRS.
Separate financial statements on a non-consolidated basis	Consolidation of subsidiaries is not permitted for regulatory reporting purposes except for related companies that meet the definition of “related Member” in MFDA By-law No. 1 and the Corporation has approved the consolidation. Because Statement D only reflects the operational results of the Member, a Member must not include the income (loss) of an investment accounted for by the equity method.
Statement of cash flow	A statement of cash flow is not required as part of Form 1.
Valuation	Securities are to be valued and reported at “market value of securities”.

- The following are Form 1 prescribed accounting treatments based on available IFRS alternatives:

	Prescribed accounting treatment
Hedge accounting	Hedge accounting is not permitted for regulatory reporting purposes. All security and derivative positions of a Member must be marked-to-market at the reporting date. Gains or losses of the hedge positions must not be deferred to a future point in time.
Securities owned and sold short as held-for-trading	A Member must categorize all investment positions as held-for-trading financial instruments. These security positions must be marked-to-market. Because the Corporation does not permit the use of available for sale and hold-to-maturity categories, a Member must not include other comprehensive

	income (OCI) and will not have a corresponding reserve account relating to marking-to-market available for sale security positions.
Valuation of a subsidiary	A Member must value subsidiaries at cost.

4. These statements and schedules should be read in conjunction with the Corporation's Bylaws, Rules and Policies.
5. For purposes of these statements and schedules, the accounts of related companies that meet the definition of "related Member" in MFDA By-law No. 1 may be consolidated.
6. For purposes of the statements and schedules, the capital calculations must be on a trade date reporting basis unless specified otherwise in the Notes and Instructions to Form 1.
7. Comparative figures on all statements are required only at the audit date. As a transition exemption for the changeover to International Financial Reporting Standards (IFRS) from Canadian Generally Accepted Accounting Principles (CGAAP), Members are not required to file comparative information for the preceding financial year as part of the first audited Form 1 under IFRS.
8. All statements and schedules must be expressed in Canadian dollars and must be rounded to the nearest dollar.
9. Supporting details should be provided, as required, showing a breakdown of any significant amounts that have not been clearly described on the statements and schedules.
10. **Mandatory security counts.** Securities held in segregation and safekeeping must be counted once in the year in addition to the count as at the year-end audit date.
11. **Mandatory reconciliations.** Reconciliations must be performed monthly in addition to the year-end audit date between the Member's records and the records of the depository or custodian where the Member holds its own and client securities in nominee name accounts.

DEFINITIONS:

1. **"acceptable entity"** means:
 - (a) Acceptable institutions.
 - (b) Government of Canada, the Bank of Canada and Provincial Governments.
 - (c) Insurance companies licensed to do business in Canada or a province thereof.
 - (d) Canadian provincial capital cities and all other Canadian cities and municipalities, or their equivalents.
 - (e) All crown corporations, instrumentalities and agencies of the Canadian federal or provincial governments which are government guaranteed as evidenced by a written unconditional irrevocable guarantee or have a call on the consolidated revenue fund of the federal or provincial governments.
 - (f) Canadian pension funds which are regulated either by the Office of Superintendent of Financial Institutions or a provincial pension commission.
 - (g) Corporations (other than Regulated Entities) with a minimum net worth of \$75 million on the last audited balance sheet, provided acceptable financial information with respect to such corporation is available for inspection.
 - (h) Members of the Corporation.
 - (i) Regulated entities.
2. **"acceptable institutions"** means:

- (a) Canadian banks, Quebec savings banks, trust companies licensed to do business in Canada or a province thereof.
- (b) Credit and central credit unions and regional caisses populaires.
3. **“acceptable securities locations”** means those entities considered suitable to hold securities on behalf of a Member, for both inventory and client positions, without capital penalty, given that the locations meet the requirements outlined in the segregation Bylaws, Rules or Policies of the Corporation including, but not limited to, the requirement for a written custody agreement outlining the terms upon which such securities are deposited and including provisions that no use or disposition of the securities shall be made without the prior written consent of the Member and the securities can be delivered to the Member promptly on demand. The Corporation will maintain and regularly update a list of those foreign depositories and clearing agencies that comply with these criteria. The entities are as follows:
- (a) Depositories
- | | |
|-------------------|---|
| i. Canada | CDS Clearing and Depository Services Inc. |
| ii. United States | Depository Trust Company |
- (b) Government of Canada, the Bank of Canada and Provincial Governments.
- (c) Canadian banks, Quebec savings banks, trust companies and loan companies licensed to do business in Canada or a province thereof.
- (d) Credit and central credit unions and regional caisses populaires.
- (e) Insurance companies licensed to do business in Canada or a province thereof.
- (f) Mutual Funds or their Agents – with respect to security positions maintained as a book entry of securities issued by the mutual fund and for which the mutual fund is unconditionally responsible.
- (g) Regulated entities.
4. **“regulated entities”** means those that are Members covered by the Canadian Investor Protection Fund or Members of recognized exchanges and associations. For the purposes of this definition, recognized exchanges and associations are those that are identified as a "regulated entity" by the Investment Industry Regulatory Organization of Canada.
5. **"market value of securities"** means:
- (a) for listed securities, the last bid price of a long security and, correspondingly, the last ask price of a short security, as shown on the exchange quotation sheets as of the close of business on the relevant date or last trading date prior to the relevant date, as the case may be, subject to an appropriate adjustment where an unusually large or unusually small quantity of securities is being valued. If not available, the last sale price of a board lot may be used. Where not readily marketable, no market value shall be assigned.
- (b) for unlisted and debt securities, and precious metals bullion, a value determined as reasonable from published market reports or inter-dealer quotation sheets on the relevant date or last trading day prior to the relevant date, or based on a reasonable yield rate. Where not readily marketable, no market value shall be assigned.
- (c) for commodity futures contracts, the settlement price on the relevant date or last trading day prior to the relevant date.
- (d) for money market fixed date repurchases (no borrower call feature), the market price is the price determined by applying the current yield for the security to the term of maturity from the repurchase date. This will permit calculation of any profit or loss based on the market conditions at the reporting date. Exposure due to future changes in market conditions is covered by the margin rate.
- (e) for money market open repurchases (no borrower call feature), prices are to be determined as of the reporting date or the date the commitment first becomes open, whichever is the later. Market price is to be determined as in (d) and commitment price is to be determined in the same manner using the yield stated in the repurchase commitment.
- (f) for money market repurchases with borrower call features, the market price is the borrower call price.

Schedule "B"

MFDA Form 1 (IFRS)

FORM 1 – TABLE OF CONTENTS

(Member Name)

(Date)

GENERAL NOTES AND DEFINITIONS

CERTIFICATE OF PARTNERS OR DIRECTORS

| INDEPENDENT AUDITOR'S¹ REPORT FOR STATEMENTS A, D ~~AND~~ E ~~AND~~ F *[at audit date only]*

| INDEPENDENT AUDITOR'S¹ REPORT FOR STATEMENTS B, ~~AND~~ C ~~AND~~ F *[at audit date only]*

PART I

STATEMENT

- A Statement of financial position
 - B Statement of risk adjusted capital
 - C Statement of early warning excess
 - D Statement of income and comprehensive income
 - E Statement of changes in capital and retained earnings (corporations)
or undivided profits (partnerships)
 - F Statement of changes in subordinated loans
- Notes to the Form 1 financial statements

PART II

REPORT ON COMPLIANCE FOR INSURANCE AND SEGREGATION OF CASH AND SECURITIES *[at audit date only]*

SCHEDULE

- 1 Analysis of securities owned and sold short at market value
- 2 Analysis of clients' debit balances
- 3 Current Income taxes
- 4 Insurance
- 5 Early warning tests
- 6 Other supplementary information *[not required at audit date]*

FORM 1 – GENERAL NOTES AND DEFINITIONS

GENERAL NOTES:

- Each Member must comply with the requirements in Form 1 as approved and amended from time to time by the board of directors of the Mutual Fund Dealers Association of Canada (the Corporation).

Form 1 is a special purpose report that includes financial statements and schedules, and is to be prepared in accordance with International Financial Reporting Standards (IFRS), except as prescribed by the Corporation. Each Member must complete and file all of these statements and schedules.

- The following are Form 1 IFRS departures as prescribed by the Corporation:

	Prescribed IFRS departure
Trading balances	When reporting trading balances relating to Member and client securities and other investment transactions, the Corporation allows the netting of receivables from and payables to the same counterparty.
Preferred shares	Preferred shares issued by the Member and approved by the Corporation are classified as shareholders' capital.
Presentation	<p>Statements A and D contain terms and classifications (such as allowable and non-allowable assets) that are not defined under IFRS. In addition, specific balances may be classified or presented on Statements <u>A</u>, and D <u>and E</u> in a manner that differs from IFRS requirements. The General Notes and Definitions, and the applicable Notes and Instructions to the Statements, should be followed in those instances where departures from IFRS presentation exists.</p> <p>Statements B, C, E and F are supplementary financial information, which are not statements contemplated under IFRS.</p>
Separate financial statements on a non-consolidated basis	<p>Consolidation of subsidiaries is not permitted for regulatory reporting purposes except for related companies that meet the definition of "related Member" in MFDA By-law No. 1 and the Corporation has approved the consolidation.</p> <p>Because Statement D only reflects the operational results of the Member, a Member must not include the income (loss) of an investment accounted for by the equity method.</p>
Statement of cash flow	A statement of cash flow is not required as part of Form 1.
Valuation	Securities are to be valued and reported at "market value".

- The following are Form 1 prescribed accounting treatments based on available IFRS alternatives:

	Prescribed accounting treatment
Hedge accounting	Hedge accounting is not permitted for regulatory reporting purposes. All security and derivative positions of a Member must be marked-to-market at the reporting date. Gains or losses of the hedge positions must not be deferred to a future point in time.
Securities owned and sold short as held-for-trading	<p>A Member must categorize all investment positions as held-for-trading financial instruments. These security positions must be marked-to-market.</p> <p>Because the Corporation does not permit the use of available for sale and hold-to-maturity categories, a Member must not include other comprehensive income (OCI) and will not have a corresponding reserve account relating to marking-to-market available for sale security positions.</p>
Valuation of a subsidiary	A Member must value subsidiaries at cost.

- These statements and schedules should be read in conjunction with the Corporation's Bylaws, Rules and Policies.

5. For purposes of these statements and schedules, the accounts of related companies that meet the definition of “related Member” in MFDA By-law No. 1 may be consolidated.
6. For purposes of the statements and schedules, the capital calculations must be on a trade date reporting basis unless specified otherwise in the Notes and Instructions to Form 1.
7. Comparative figures on all statements are required only at the audit date. As a transition exemption for the changeover to International Financial Reporting Standards (IFRS) from Canadian Generally Accepted Accounting Principles (CGAAP), Members are not required to file comparative information for the preceding financial year as part of the first audited Form 1 under IFRS.
8. All statements and schedules must be expressed in Canadian dollars and must be rounded to the nearest dollar.
9. Supporting details should be provided, as required, showing a breakdown of any significant amounts that have not been clearly described on the statements and schedules.
10. **Mandatory security counts.** Securities held in segregation and safekeeping must be counted once in the year in addition to the count as at the year-end audit date.
11. **Mandatory reconciliations.** Reconciliations must be performed monthly in addition to the year-end audit date between the Member's records and the records of the depository or custodian where the Member holds its own and client securities in nominee name accounts.

DEFINITIONS:

1. **“acceptable entity”** means:
 - (a) Acceptable institutions.
 - (b) Government of Canada, the Bank of Canada and Provincial Governments.
 - (c) Insurance companies licensed to do business in Canada or a province thereof.
 - (d) Canadian provincial capital cities and all other Canadian cities and municipalities, or their equivalents.
 - (e) All crown corporations, instrumentalities and agencies of the Canadian federal or provincial governments which are government guaranteed as evidenced by a written unconditional irrevocable guarantee or have a call on the consolidated revenue fund of the federal or provincial governments.
 - (f) Canadian pension funds which are regulated either by the Office of Superintendent of Financial Institutions or a provincial pension commission.
 - (g) Corporations (other than Regulated Entities) with a minimum net worth of \$75 million on the last audited balance sheet, provided acceptable financial information with respect to such corporation is available for inspection.
 - (h) Members of the Corporation.
 - (i) Regulated entities.
2. **“acceptable institutions”** means:
 - (a) Canadian banks, Quebec savings banks, trust companies licensed to do business in Canada or a province thereof.
 - (b) Credit and central credit unions and regional caisses populaires.
3. **“acceptable securities locations”** means those entities considered suitable to hold securities on behalf of a Member, for both inventory and client positions, without capital penalty, given that the locations meet the requirements outlined in the segregation Bylaws, Rules or Policies of the Corporation including, but not limited to, the requirement for a written

custody agreement outlining the terms upon which such securities are deposited and including provisions that no use or disposition of the securities shall be made without the prior written consent of the Member and the securities can be delivered to the Member promptly on demand. The Corporation will maintain and regularly update a list of those foreign depositories and clearing agencies that comply with these criteria. The entities are as follows:

- (a) Depositories
 - i. Canada CDS Clearing and Depository Services Inc.
 - ii. United States Depository Trust Company
 - (b) Government of Canada, the Bank of Canada and Provincial Governments.
 - (c) Canadian banks, Quebec savings banks, trust companies and loan companies licensed to do business in Canada or a province thereof.
 - (d) Credit and central credit unions and regional caisses populaires.
 - (e) Insurance companies licensed to do business in Canada or a province thereof.
 - (f) Mutual Funds or their Agents – with respect to security positions maintained as a book entry of securities issued by the mutual fund and for which the mutual fund is unconditionally responsible.
 - (g) Regulated entities.
4. **“regulated entities”** means those that are Members covered by the Canadian Investor Protection Fund or Members of recognized exchanges and associations. For the purposes of this definition, recognized exchanges and associations are those that are identified as a "regulated entity" by the Investment Industry Regulatory Organization of Canada.

FORM 1 – INDEPENDENT AUDITOR'S REPORT FOR STATEMENTS A, D AND, E AND F

To: The Mutual Fund Dealers Association of Canada and MFDA Investor Protection Corporation

We have audited the accompanying Statements of _____ (*Member*) ~~(the "Member")~~, which comprise the statement of financial position as at _____ (*date*) (Statement A) and the statement of income and comprehensive income (Statement D) and statement of changes in capital and retained earnings (Statement E) for the year then ended—_____ (*date*) ~~(Statement E)~~—~~and the statement of changes in subordinated loans (Statement F)~~, and a summary of significant accounting policies and other explanatory information. These Statements have been prepared by management based on the financial reporting provisions of the Notes and Instructions to Form 1 prescribed by the Mutual Fund Dealers Association of Canada, ~~("MFDA")~~.

Management's rResponsibility for the Statements

Management is responsible for the preparation and fair presentation of these Statements in accordance with the financial reporting provisions of the Notes and Instructions to Form 1 prescribed by the ~~MFDA~~ Mutual Fund Dealers Association of Canada and for such internal control as management determines is necessary to enable the preparation of Statements that are free from material misstatement, whether due to fraud or error.

Auditor's rResponsibility

Our responsibility is to express an opinion on these Statements based on our audit. We conducted our audit 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 Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the ~~entity's~~ Member's preparation and fair presentation of the 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~~ Member'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 Statements.

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

Opinion

In our opinion, the Statements present fairly, in all material respects, the financial position of ~~the Member~~ _____ (*Member*) as at _____ (*date*), and the results of its operations ~~and its changes in subordinated loans~~ for the year then ended in accordance with the financial reporting provisions of the Notes and Instructions to Form 1 prescribed by the ~~MFDA~~ Mutual Fund Dealers Association of Canada.

Going Concern [~~MFDA Note: EFS to allow for auditor to include emphasis of matter paragraph for Going Concern – this is an option for auditors but not part of the standard report~~]

Without modifying our opinion, we draw attention to Note _____ (*note*) in the Statements which indicates that ~~the Member~~ _____ (*Member*) incurred a net loss of _____ (*\$ amount*) during the year ended _____ (*date*) and, as of that date, ~~the Member's~~ _____ (*Member's*) current liabilities exceeded its total assets by _____ (*\$ amount*). These conditions, along with other matters

as set forth in Note _____ (note), indicate the existence of a material uncertainty that may cast significant doubt about the Member's _____ (Member's) ability to continue as a going concern.

(EFS to allow for auditor to include other potential Emphasis of Matter and Other Matter paragraphs should one be required under the CASs or determined appropriate by the auditor to be included in the auditors' report. Such wording would be agreed upon with MFDA prior to the filing of Form 1).

Basis of Accounting and Restriction on Use

Without modifying our opinion, we draw attention to Note _____ (note) to the Statements which describes the basis of accounting. The Statements are prepared to assist the Member _____ (Member) to meet the requirements of the MFDA Mutual Fund Dealers Association of Canada. As a result, the Statements may not be suitable for another purpose. Our report is intended solely for the Member _____ (Member), the MFDA Mutual Fund Dealers Association of Canada and the MFDA Investor Protection Corporation and should not be used by parties other than the Member _____ (Member), the MFDA Mutual Fund Dealers Association of Canada and the MFDA Investor Protection Corporation.

([Note: EFS to allow for auditor to include other potential Emphasis of Matter and Other Matter paragraphs should one be required under the CASs or determined appropriate by the auditor to be included in the auditor's report. Such wording would be agreed upon with MFDA prior to the filing of Form 1].)

Unaudited Information

We have not audited the information in Schedule 5 of Part II of Form 1 and accordingly do not express an opinion on this schedule.

[Audit Firm]

[Signature]

[Date]

[Address]

FORM 1 – INDEPENDENT AUDITOR'S REPORT FOR STATEMENTS B, ~~AND C~~ AND F

To: The Mutual Fund Dealers Association and MFDA Investor Protection Corporation

We have audited the accompanying Statements of Form 1 (the "Statements") of _____
(~~Member~~ name) (the "~~Member~~"), which comprise: as at _____ (year end date).

Statement B – Statement of Risk Adjusted Capital as at _____ (date)

Statement C – Statement of Early Warning Excess as at _____ (date)

Statement F – Statement of Changes in Subordinated Loans for the year ended _____ (date)

These Statements have been prepared by management based on the financial reporting provisions of the Notes and Instructions to Form 1 prescribed by the Mutual Fund Dealers Association of Canada ("~~MFDA~~").

Management's ~~r~~Responsibility for the Statements

Management is responsible for the preparation of the Statements of Form 1 in accordance with the financial reporting provisions of the Notes and Instructions to Form 1 prescribed by the ~~MFDA~~ Mutual Fund Dealers Association of Canada, and for such internal control as management determines is necessary to enable the preparation of Statements that are free from material misstatement, whether due to fraud or error.

Auditor's² responsibility

Our responsibility is to express an opinion on the Statements based on our audit. We conducted our audit 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 Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the ~~entity's~~ Member's preparation of the 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~~ Member'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 Statements.

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

Opinion

In our opinion, the financial information in Statements B and C of Form 1 as at _____ (year end date) and in Statement F for the year ended _____ (date) is prepared, in all material respects, in accordance with the financial reporting provisions of the Notes and Instructions to Form 1 prescribed by the ~~MFDA~~ Mutual Fund Dealers Association of Canada.

Basis of Accounting and Restriction on Use

Without modifying our opinion, we draw attention to Note _____ (note) to the Statements which describes the basis of accounting. The Statements are prepared to assist the ~~Member~~ _____ (Member) to meet the requirements of the ~~MFDA~~ Mutual Fund Dealers Association of Canada. As a result, the Statements may

not be suitable for another purpose. Our report is intended solely for ~~the Member~~
(Member), the ~~MFDA~~ Mutual Fund Dealers Association of Canada and the MFDA Investor Protection
Corporation and should not be used by parties other than ~~the Member~~ (Member),
the ~~MFDA~~ Mutual Fund Dealers Association of Canada and the MFDA Investor Protection Corporation.

[Audit Firm]

[Signature]

[Date]

[Address]

**FORM 1 – INDEPENDENT AUDITOR'S REPORTS
NOTES AND INSTRUCTIONS**

A measure of uniformity in the form of the auditor's reports is desirable in order to facilitate identification of circumstances where the underlying conditions are different. Therefore, when auditors are able to express an unqualified opinion, their reports should take the form of the auditor's reports shown above.

Any limitations in the scope of the audit must be discussed in advance with the Corporation. Discretionary scope limitations will not be accepted. Any emphasis of matter in the auditor's reports must be discussed in advance with the Corporation.

Two copies with original signatures must be provided to the Corporation.

MFDA Form 1 (CGAAP)

FORM 1 MFDA FINANCIAL QUESTIONNAIRE AND REPORT

(Firm Name)

(Date)

TABLE OF CONTENTS

GENERAL NOTES AND DEFINITIONS

PART I — AUDITORS' REPORT

INDEPENDENT AUDITOR'S REPORT FOR STATEMENTS A, D AND E [at audit date only]

INDEPENDENT AUDITOR'S REPORT FOR STATEMENTS B, C AND F [at audit date only]

PART I

STATEMENT

- A (3 pages) Statements of assets and of liabilities and shareholder/partner capital
- B Statement of risk adjusted capital
- C Part I - Statement of early warning excess and
- C Part II - eEarly warning tests
- D Summary statement of income
- E Statement of changes in capital and retained earnings (corporations)
or undivided profits (partnerships)
- F Statement of changes in subordinated loans

CERTIFICATE OF PARTNERS OR DIRECTORS

PART II — AUDITORS' REPORT [at audit date only]

REPORT ON COMPLIANCE FOR INSURANCE [at audit date only]

REPORT ON COMPLIANCE FOR SEGREGATION OF CASH AND SECURITIES [at audit date only]

SCHEDULE

- 1 Analysis of securities owned and sold short at market value
- 2 Analysis of clients' debit balances
- 3 Income taxes
- 4 Insurance

MFDA FINANCIAL QUESTIONNAIRE AND REPORT

**PART I - AUDITORS' REPORT/INDEPENDENT AUDITOR'S REPORT FOR STATEMENTS
A, D AND E**

TO: The ~~MFDA~~ Mutual Fund Dealers Association of Canada and the MFDA Investor Protection Corporation.

We have audited the following ~~Part I financial~~ accompanying ~~Statements~~ of _____
(Member), which comprise:

(firm)

Statement A — Statements of assets and of liabilities and shareholder/partner capital as at
_____ and _____;
(date) (date)

Statement B — Statement of risk adjusted capital,
as at _____ 20___ and _____ 20___;
(date) (date)

~~Statement C — Statement of early warning excess and early warning tests;~~

Statement D — Summary statement of income for the years ended _____ 20___
(date)
and _____ 20___;
(date)

Statement E — Statement of changes in capital and retained earnings (corporations) or
undivided profits (partnerships) for the year ended; and

(date)

Statement F — Statement of changes in subordinated loans for the year ended _____ 20___.
(date)

and a summary of significant accounting policies and other explanatory information. These Statements have been prepared by management based upon the financial reporting provisions of the Notes and Instructions to Form 1 prescribed by the Mutual Fund Dealers Association of Canada.

~~These financial statements have been prepared for the purpose of complying with the By-laws, Rules and Policies of the MFDA. These financial statements are the responsibility of the firm's management. Our responsibility is to express an opinion on these financial statements based on our audit.~~

~~We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.~~

~~In our opinion,~~

~~(a) the statements of assets and of liabilities and shareholder/partner capital and the summary statement of income present fairly, in all material respects, the financial position of the firm as at _____ 20___ & _____ 20___ and the results of its operations for _____
(dates)~~

~~the years then ended in the form required by the MFDA in accordance with the basis of accounting described in the Notes to the Financial Questionnaire and Report.~~

Unaudited Information

We have not audited the information in Statement C Part II, and Lines 1 and 2 in Statement D, of Part I of Form 1 and accordingly do not express an opinion on this information.

[Audit Firm]

[Signature]

[Date]

[Address]

MFDA FINANCIAL QUESTIONNAIRE AND REPORT
FORM 1 – INDEPENDENT AUDITOR’S REPORT FOR STATEMENTS B, C AND F

To: The Mutual Fund Dealers Association of Canada and MFDA Investor Protection Corporation

We have audited the accompanying Statements of Form 1 (the “Statements”) of _____
(*Member*), which comprise:

Statement B – Statement of risk adjusted capital as at _____ (*date*) and _____ (*date*)

Statement C Part I – Statement of early warning excess as at _____ (*date*)

Statement F – Statement of changes in subordinated loans for the year ended _____ (*date*)

These Statements have been prepared by management based on the financial reporting provisions of the Notes and Instructions to Form 1 prescribed by the Mutual Fund Dealers Association of Canada.

Management’s Responsibility for the Statements

Management is responsible for the preparation of the Statements of Form 1 in accordance with the financial reporting provisions of the Notes and Instructions to Form 1 prescribed by the Mutual Fund Dealers Association of Canada, and for such internal control as management determines is necessary to enable the preparation of Statements that are free from material misstatement, whether due to fraud or error.

Auditor’s responsibility

Our responsibility is to express an opinion on the Statements based on our audit. We conducted our audit 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 Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Member’s preparation of the 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 Member’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 Statements.

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

Opinion

In our opinion, the financial information in Statements B as at _____ (*date*) and _____ (*date*), Statement C Part I as at _____ (*date*) and in Statement F for the year ended _____ (*date*) is prepared, in all material respects, in accordance with the financial reporting provisions of the Notes and Instructions to Form 1 prescribed by the Mutual Fund Dealers Association of Canada.

Basis of Accounting and Restriction on Use

Without modifying our opinion, we draw attention to Note _____ (note) to the Statements which describes the basis of accounting. The Statements are prepared to assist _____ (Member) to meet the requirements of the Mutual Fund Dealers Association of Canada. As a result, the Statements may not be suitable for another purpose. Our report is intended solely for _____ (Member), the Mutual Fund Dealers Association of Canada and the MFDA Investor Protection Corporation and should not be used by parties other than _____ (Member), the Mutual Fund Dealers Association of Canada and the MFDA Investor Protection Corporation.

[Audit Firm]

[Signature]

[Date]

[Address]

~~These financial statements, which have not been, and were not intended to be, prepared in accordance with Canadian generally accepted accounting principles, are solely for the information and use of the firm, the MFDA and the MFDA Investor Protection Corporation, to comply with the By-laws, Rules and Policies of the MFDA. The financial statements are not intended to be and should not be used by anyone other than the specified users or for any other purpose.~~

~~{auditing firm name}~~

~~{date}~~

~~{signature}~~

~~{place of issue}~~

PART I -- INDEPENDENT AUDITOR'S' REPORTS
NOTES AND INSTRUCTIONS

A measure of uniformity in the form of the auditor's' reports is desirable in order to facilitate identification of circumstances where the underlying conditions are different. Therefore, when auditors are able to express an unqualified opinion, their report should take the form of the auditors' report shown above.

~~An alternate form of Auditors' Report is available from the MFDA in the case where the auditor is unable to express an opinion on previous year's figures due to not having been the auditor for the previous year.~~

Any limitations in the scope of the audit must be discussed in advance with the MFDA. Discretionary scope limitations will not be accepted. Any emphasis of matter in the auditor's report must be discussed in advance with the MFDA.

Two copies with original signatures must be provided to the MFDA.

~~unqualified opinion, their report should take the above form.~~

~~Any limitations in the scope of the audit must be discussed in advance with the MFDA. Discretionary scope limitations will not be accepted.~~

~~Copies with original signatures must be provided to the MFDA.~~