ANNUAL REPORT 09

MFDA Investor Protection Corporation

Corporation de protection des investisseurs de l'ACFM

Information about the MFDA Investor Protection Corporation

The MFDA Investor Protection Corporation ("IPC") is a not-for-profit corporation established by the Mutual Fund Dealers Association of Canada ("MFDA") to administer an investor protection fund ("Fund") for the benefit of clients of mutual fund dealers that are members of the MFDA ("Member Firms"). The Fund protects client assets held by a Member Firm in the event that the Member Firm becomes insolvent.

The MFDA is the sole self-regulatory organization that is a sponsor of the IPC. The IPC began offering coverage on July 1, 2005. At June 30, 2009, 145 mutual fund dealers across Canada participated in the Fund.

IPC Coverage Policy and Limits

The IPC covers customers who incur losses as a result of the insolvency of a Member Firm. Loss of customer assets may take the form of shortfalls in the amount and type of assets which are held by the Member Firm at the time of insolvency. The IPC's objective is to return assets to customers or compensate customers when the assets are not available because the Member Firm has become insolvent.

Coverage is available in the amount of up to $1 million for each of a customer's general and separate accounts. Most customers will have two "accounts" for coverage purposes, the aggregate of their trading accounts (general account) and the aggregate of their registered retirement accounts, such as RRSPs and RIFs (separate account). Securities, cash and other property of the customer that are unavailable due to the insolvency of the Member Firm are covered by the IPC.

Customer losses which do not result from the insolvency of a Member Firm such as losses that result from changing market values of securities, unsuitable investments or the default of an issuer of securities, are not covered.

The IPC's coverage of losses sustained by customers of insolvent Member Firms is within the discretion of the IPC Board of Directors (the "Board"). The policy that has been adopted to define the way in which the Board uses its discretion to determine whether a customer is eligible for protection and the amount of that protection is available on the MFDA's website at www.mfda.ca.

Funding and Fund Size

The IPC is funded through the levy of quarterly assessments on Member Firms. Presently, Member Firms together contribute to the Fund at the rate of approximately $5 million per year and will continue to do so until the initial funding target of $30 million is reached. As at June 30, 2009, the balance in the Fund stood at $22.9 million. In addition, the IPC has obtained a credit facility from a Canadian chartered bank with a maximum limit of $30 million. This facility is guaranteed by the MFDA.

The IPC is engaged in continuous evaluation of the risks to the Fund and may reset the size of the Fund as appropriate.

Year in Review

Insolvencies and Payments from the Fund

There were two insolvencies of Member Firms during fiscal 2008-2009. Both Member Firms were based in Ontario. In the first case, Farm Mutual Financial Services Inc., client accounts were transferred to another dealer and no claims to the IPC have arisen to date. The estate is the subject of a number of lawsuits, the outcomes of which are not yet known. The second insolvency was ASL Direct Inc. In this case, the receiver delivered all of the positions to clients where it could, but there was a small shortfall in the amount of cash owed to clients. The IPC has paid out $63,300 to date in respect of these claims.

Board Initiatives in 2008-2009

The Board met five times in the fiscal year ended June 30, 2009. Four meetings were the regularly scheduled quarterly meetings and one was a special purpose meeting.

The Board undertook several initiatives during the year, including:

a. Obtaining crime insurance to protect assets of the Fund,

b. Formalizing the IPC claims procedure,

c. Formalizing an information sharing agreement between the IPC and MFDA,

d. Appointing a new Industry Director,

e. Participating in a CSA oversight review,

f. Conducting the annual review of the size of the Fund,

g. Reviewing and renewing the IPC's credit facility,

h. Conducting the annual review of the IPC's investments, and

i. Continuing its risk assessment and management efforts.

IPC Staff and Consultants

Joni Alexander and Ellipsis Consulting Group Inc. were engaged as consultants to the IPC. Ms. Alexander has an ongoing role as President of the IPC.

Commentary on Financial Results

The IPC's excess of revenue over expenses for the year ended June 30, 2009 was $5,033,983, compared to $5,202,697 in the prior year. The IPC's revenues for the year ended June 30, 2009 were $5,685,510. This compares to $5,687,618 for 2008.

The IPC's chief source of revenue is Member Firm assessments, which are calculated based on the amount of assets under administration ("AUA") under the Member Firm's control. Each year, the fees are reset based on updated reports of AUA numbers. The assessment rates are set to generate an annual total assessment of approximately $5 million. This year, IPC assessments to Member Firms totaled $5,139,406, compared to $5,044,415 for the previous year.

Investment revenue for the period ended June 30, 2009 was $546,104, a decrease from the previous year's amount of $643,203. Within the objectives of capital preservation and liquidity, the IPC's investment policy requires that all investments are debt instruments issued by Canadian or provincial governments or Canadian or provincial crown corporations. A portion of the portfolio is kept in short-term instruments to ensure liquidity. The IPC fund balance has grown through the accumulation of Member assessments, but investment revenue was lower this year due to lower returns available in the market. Investment income covered almost 93% of the operating expenses for the year.

Total expenses for the year were $651,527, $166,606 more than the previous year. Expenses increased primarily due to the claims payout and increased consulting and legal costs arising from the insolvencies of two Member Firms during the year.

The balance in the Operating Fund increased by $5,033,983 in fiscal 2008-2009, compared to an increase of $5,202,697 during fiscal 2007-2008. The year-end balance is $22,854,454 at June 30, 2009, compared to $17,820,471 last year-end.

Summarized Balance Sheets

As at June 30

	2009	2008
ASSETS		
Cash	$ 197,825	$ 89,537
Investments	22,658,729	17,743,310
Assessments receivable from the MFDA	15,100	15,042
Interest receivable	60,242	52,859
	$ 22,931,896	$ 17,900,748
LIABILITIES		
Accounts payable and accrued liabilities	$ 63,828	$ 64,716
Support costs due to the MFDA	13,614	15,561
	77,442	80,277
FUND BALANCE		
Operating Fund	22,854,454	17,820,471
	22,854,454	17,820,471
	$ 22,931,896	$ 17,900,748

Summarized Statements of Revenues and Expenses and Changes in Fund Balance

For the years ended June 30

	2009	2008
REVENUES		
Assessments of MFDA Members	$ 5,139,406	$ 5,044,415
Investment income	546,104	643,203
	5,685,510	5,687,618
EXPENSES		
Claims paid from Investor Protection Fund	63,300	-
Operating expenses	588,227	484,921
	651,527	484,921
EXCESS OF REVENUES OVER EXPENSES AND COMPREHENSIVE INCOME	5,033,983	5,202,697
FUND BALANCE, BEGINNING OF YEAR	17,820,471	12,617,774
FUND BALANCE, END OF YEAR	$ 22,854,454	$ 17,820,471

Reference may be made to the complete set of IPC financial statements which are available in the IPC section of the MFDA website at www.mfda.ca.

Auditors' Report on Summarized Financial Statements

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

The accompanying summarized balance sheets and summarized statements of revenues and expenses and changes in fund balance (collectively the "summarized financial statements") are derived from the complete financial statements of MFDA Investor Protection Corporation as at June 30, 2009 and 2008 and for the years then ended on which we expressed an opinion without reservation in our report dated August 17, 2009. The fair summarization of the complete balance sheets and statements of revenues and expenses and changes in fund balance is the responsibility of management. Our responsibility, in accordance with the applicable Assurance Guideline of The Canadian Institute of Chartered Accountants, is to report on the summarized financial statements.

In our opinion, the accompanying summarized financial statements fairly summarize, in all material respects, the related complete balance sheets and statements of revenues and expenses and changes in fund balance in accordance with the criteria described in the Guideline referred to above.

The summarized financial statements do not contain all the disclosures required by Canadian generally accepted accounting principles. Readers are cautioned that these summarized financial statements may not be appropriate for their purposes. For more information on the entity's financial position, results of operations and cash flows, reference should be made to the related complete financial statements.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants
August 17, 2009

MFDA IPC Board of Directors and President

The MFDA IPC Board of Directors is comprised of three Public Directors and two Industry Directors.

Public Directors

Lawrence A. Wright, LL.B., Chair
Executive Vice-President
Multimatic Inc.
(Markham, Ontario)

Donald H. Page, FCGA
Former Executive
Toronto Stock Exchange
(Wallacetown, Ontario)

David A. Richards, C.A.
Former Executive
RBC Capital Markets
(Oakville, Ontario)

Industry Directors

Andrew H. Dalglish, C.A.
Chairman and Chief Executive Officer
MRS Inc., MRS Services Inc.,
MRS Correspondent Corporation
(Toronto, Ontario)

Robert M. Sellars, C.A., CFA
Executive Vice-President &
Chief Financial Officer
Dundee Private Investors Inc.
(Toronto, Ontario)

President

Joni A. Alexander, C.A.

Contact the MFDA IPC at:

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