



MFDA Investor Protection Corporation
Corporation de protection des investisseurs de l'ACFM



2016

ANNUAL REPORT

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INFORMATION ABOUT THE MFDA INVESTOR PROTECTION CORPORATION

The MFDA Investor Protection Corporation (the "MFDA IPC") is a not-for-profit corporation established by the Mutual Fund Dealers Association of Canada (the "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 the sponsor of the MFDA IPC. The MFDA IPC began offering coverage on July 1, 2005. At June 30, 2016, 96 mutual fund dealers across Canada participated in the Fund. The MFDA IPC operates in all provinces except Quebec, which has its own compensation fund.

MFDA IPC COVERAGE

The MFDA 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 MFDA 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 MFDA IPC.

Losses eligible for coverage by the Fund must be financial losses caused by the insolvency of a Member Firm. These losses must arise from the failure of the Member Firm to return or account for property of the customer held by or in the control of the insolvent Member Firm including the conversion of such property. Customer losses which do not result from the insolvency of a Member Firm such as losses that result from changing market value of securities, unsuitable investments or the default of an issuer of securities, are not covered.

The MFDA IPC's coverage of losses sustained by customers of insolvent Member Firms is within the discretion of the MFDA IPC. The policy that has been adopted to define the way in which the MFDA IPC 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/ipc.

FUND RESOURCES AND SIZE

The MFDA IPC is funded through the levy of quarterly assessments on MFDA Member Firms. The balance of the Fund stood at \$36.5 million as of June 30, 2016. The Fund target remains at \$50 million as approved by the Board of Directors of both the MFDA and the MFDA IPC in October 2010. To reach the target, a regular annual assessment of \$2.9 million is being allocated among the membership over a 7 year period commencing July 1, 2011 and a \$1.3 million annual replenishment assessment for the W.H. Stuart Mutuals Ltd. ("WHS") payout over 6 years commencing January 1, 2015.

In addition to the annual assessments, the MFDA IPC maintains a credit facility with a Canadian chartered bank with a maximum limit of \$30 million and which is guaranteed by the MFDA. Additionally, the MFDA IPC has placed \$20 million of Fund Insurance with international insurers. The insurance policy represents an additional resource to MFDA IPC providing coverage in respect of losses in excess of \$30 million in the event of a Member Firm insolvency while the policy is in effect.

2016 IN REVIEW

As the MFDA IPC has been in existence for more than a decade and has substantially completed administration of its first significant insolvency, its focus in 2016 has been continuing to mature as an organization in an effective and efficient manner. During fiscal 2016, the MFDA IPC focused on the implementation of an Enterprise Risk Management framework and the formalization of operational policies

and procedures including business continuity planning. While there were no new insolvencies in 2016, the MFDA IPC continued to receive and administer WHS claims and to manage WHS-related issues.

BOARD INITIATIVES IN 2015-2016

Throughout fiscal 2016, the Board of Directors (the "Board") continued its work to ensure that the MFDA IPC is able to fulfill its mandate. Key Board initiatives included:

- Re-appointing David Richards as public director and Sonny Goldstein as industry director
- Overseeing the implementation of an Enterprise Risk Management program
- Overseeing the conclusion of the WHS insolvency and related lessons learned to inform MFDA IPC's policies, practices and procedures going forward
- Participating in the CSA oversight review
- Enhancing the sophistication of the Board's review of the MFDA IPC Fund size
- Providing best practices governance guidance in overseeing periodic requests for proposal from the MFDA IPC's significant third party service providers
- Conducting the quarterly review of the MFDA IPC's investments
- Conducting the annual review and renewal of excess fund insurance
- Conducting the annual review of the MFDA IPC's credit facility
- Advancing MFDA IPC's approach to risk management

The Board held four regularly scheduled quarterly meetings. All Board members attended all meetings.

FINANCIAL REVIEW AND OUTLOOK

BALANCE SHEET

The balance in the Fund stood at \$36.5 million as at June 30, 2016, as compared to \$32.8 million at June 30, 2015, an increase of \$3.7 million over the previous year. The increase resulted from an excess of revenues over expenses of \$3.7 million which included costs for claims and related expenses for WHS of \$0.2 million.

Total assets of \$36.9 million are comprised primarily of investments of \$36.1 million. Investments are recorded at amortized cost except for mutual funds which are recorded at fair value. The MFDA IPC's Investment Policy requires that all investments are debt instruments issued by Canadian or provincial governments or Canadian or provincial Crown corporations or corporate fixed income investments (for a portion of the portfolio). A portion of the portfolio is kept in short-term instruments to ensure liquidity.

REVENUES AND EXPENSES

The MFDA IPC's excess of revenues over expenses for the year ended June 30, 2016 was \$3.7 million compared to an excess of revenues over expenses of \$2.5 million in 2015. Operating expenses for the year, excluding provision for claims and related expenses, were \$1.1 million, lower than the previous year's operating expenses of \$1.2 million.

Costs for WHS claims for fiscal 2016 was \$0.2 million. MFDA IPC continued to receive new claims during the year and approved \$0.2 million of WHS claims in 2016. During fiscal 2015, the MFDA IPC was subject to a lawsuit related to WHS. The lawsuit was dismissed on consent in fiscal 2016.

The MFDA 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 MFDA IPC 2016 assessments to Member Firms totalled \$4.3 million, in accordance with the plan to continue to build the Fund to a target of \$50 million.

The assessments were comprised of an annual regular assessment of \$2.9 million and an annual replenishment assessment of \$1.3 million.

Investment income for the year ended June 30, 2016 was \$767,698, a decrease from the previous year's amount of \$796,729 due to a mark to market loss on mutual funds held in the portfolio.

FINANCIAL OUTLOOK FOR FISCAL 2017

Assessment revenue is expected to be about \$4.2 million in 2017 comprised of the annual regular assessment of \$2.9 million and replenishment assessment of \$1.3 million. This assessment amount is consistent with reaching the planned Fund size target of \$50 million.

Investment income at amortized cost is forecasted at \$1.1 million, assuming rates of return consistent with 2016, an increase over 2016 investment income of \$0.8 million due to the continued increase in Fund size.

The Fund expects the regular 2017 operating expenses to be generally flat as compared with 2016.

FINANCIAL STATEMENTS 2016

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of MFDA Investor Protection Corporation, which comprise the balance sheets as at June 30, 2016 and 2015, and the statements of revenues and expenses, changes in fund balance and cash flows for the years then ended, 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 audits 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 MFDA Investor Protection Corporation as at June 30, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with Canadian accounting standards for not-for-profit organizations.



Chartered Professional Accountants
Licensed Public Accountants
September 26, 2016

MFDA Investor Protection Corporation

Balance Sheets

As at June 30th

	2016	2015
	\$	\$
Assets		
Current		
Cash	355,461	422,341
Investments (Note 4)	36,065,385	33,049,778
Assessments receivable from the MFDA (Note 5)	133,146	11,688
Prepaid expenses	227,890	239,327
Interest receivable	110,160	97,585
	36,892,042	33,820,719
Liabilities		
Current		
Accounts payable and accrued liabilities	169,734	100,996
Provision for claims and related expenses (Note 9)	185,195	853,911
Due to the MFDA (Note 6)	25,894	17,591
	380,823	972,498
Fund balance		
Operating Fund		
Unrestricted net assets	36,511,219	32,848,221
	36,892,042	33,820,719

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

Approved on behalf of the Board

“David Richards”

Director

“Kevin Regan”

Director

MFDA Investor Protection Corporation

Statements of Revenues and Expenses and Changes in Fund Balance

For the years ended June 30th

	2016	2015
	\$	\$
Operating Fund		
Revenues		
Assessments of MFDA Members	4,270,134	3,625,626
Investment income (Note 8)	767,698	796,729
Total revenues	5,037,832	4,422,355
Expenses		
Consultants	374,169	325,068
Insurance	287,538	338,382
Bank charges (Note 7)	136,535	136,129
Investment management fees	101,471	86,131
Board of Directors - fees and expenses	82,829	89,659
MFDA support charges (Note 6)	67,800	67,800
Legal	43,972	72,204
Audit fees	22,365	33,247
Office and general	12,508	28,844
Total expenses	1,129,187	1,177,464
Excess of revenues over expenses before the undernoted items	3,908,645	3,244,891
Provision for claims and related expenses (Note 9)	245,647	696,902
Excess of revenues over expenses	3,662,998	2,547,989
Fund balance, beginning of year	32,848,221	30,300,232
Fund balance, end of year	36,511,219	32,848,221

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

MFDA Investor Protection Corporation

Statements of Cash Flows

For the years ended June 30th

	2016	2015
	\$	\$
Operating activities		
Excess of revenues over expenses - Operating Fund	3,662,998	2,547,989
Items not affecting cash		
Net unrealized loss on investments	(211,469)	(28,137)
Changes in non-cash working capital		
Assessments receivable from the MFDA	(121,458)	75,922
Prepaid expenses	11,437	48,942
Interest receivable	(12,575)	28,193
Accounts payable and accrued liabilities	68,738	(19,775)
Provision for claims and related expenses	(668,716)	(6,180,119)
Due to the MFDA	8,303	641
Cash (utilized)/generated by operating activities	2,737,258	(3,526,344)
Investing activity		
Net purchase and sale of investments	(2,804,138)	972,159
Decrease in cash during the year	(66,880)	(2,554,185)
Cash, beginning of year	422,341	2,976,526
Cash, end of year	355,461	422,341

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

MFDA Investor Protection Corporation

Notes to the Financial Statements

June 30, 2016 and 2015

1. ORGANIZATION

The MFDA Investor Protection Corporation ("MFDA IPC") was incorporated as a not-for-profit corporation on November 14, 2002 under Part II of the Canada Corporations Act. MFDA IPC was continued under the Canada Not-for-Profit Corporations Act on February 19, 2014. The purpose of the MFDA IPC is to administer an investor protection fund for the benefit of clients of mutual fund dealers that are members of the Mutual Fund Dealers Association of Canada ("MFDA"). The MFDA IPC protects client assets held by a MFDA member firm in the event that the member firm becomes insolvent. The Securities Commissions approved the creation of MFDA IPC in May 2005, and the MFDA IPC began offering coverage on July 1, 2005.

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 as contained in Part III of the CPA Canada Handbook.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

MFDA IPC follows accounting principles appropriate for not-for-profit organizations, in accordance with Canadian generally accepted accounting principles. The more significant accounting policies are as follows.

Use of estimates and judgement

As the precise determination of the value of many assets and liabilities, such as accrued liabilities, is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates and approximations that 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. The most significant area requiring the use of estimates is the provision for claims and related expenses. Actual results could differ from those estimates.

Fund accounting

The MFDA IPC uses the deferral method of accounting in the preparation of its financial statements. At this time there is only one fund, the Operating Fund. The Operating Fund accounts for the regular business and activities of the MFDA IPC.

Member assessments

MFDA members are assessed MFDA IPC dues annually and are invoiced on a quarterly basis. Assessment revenues are recorded monthly. The assessments are calculated using a defined formula based on each member's assets under administration. The assessments are invoiced and collected by the MFDA on behalf of the MFDA IPC. The funds are subsequently transferred to the MFDA IPC.

Provision for income taxes

The MFDA IPC 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.

MFDA Investor Protection Corporation
Notes to the Financial Statements
June 30, 2016 and 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash

Cash includes cash on hand and balances with banks, net of bank overdrafts and excludes cash balances in investment accounts, which are presented as investments.

Investments

The MFDA IPC invests in highly rated federal and provincial government and Crown Corporation bonds with short-term to medium-term maturities and in Canadian provincial and federal treasury bills or notes with short-term maturities and mutual funds.

Investments in bonds are recorded at amortized cost. 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. Interest income includes the amortization of bond premiums or the accretion of bond discounts, calculated using the effective interest rate method.

Investments in Canadian federal or provincial treasury bills or notes are recorded at fair value with any unrealized gains and losses being recorded in the Statements of Revenues and Expenses. As these instruments are short term in nature, cost approximates fair value. Any realized gains and losses are recognized in the Statements of Revenues and Expenses in the period that the asset matures, 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.

Mutual funds are recorded at fair value with any unrealized gains and losses being recorded in the Statements of Revenues and Expenses. Any realized gains and losses are recognized in the Statements of Revenues and Expenses in the period that the asset is sold. Interest income includes any dividends received. Dividends are reinvested.

Other financial instruments

The fair value of cash, assessments receivable from the MFDA, interest receivable, accounts payable and accrued liabilities, contingency related expenses and due to the MFDA, approximates their carrying values due to their short-term nature.

The fair value of investments in fixed income securities is based on quoted prices from active markets.

Provision for claims and related expenses

Provision for claims from clients of insolvent MFDA members is made when the MFDA IPC is notified of potential claims and the MFDA IPC makes a determination that the claims are eligible under its coverage policy. Provision for related expenses including trustee's fees, legal fees, consulting fees and other administrative costs is made when a reasonable estimate of the cost to administer the potential claims can be made. No amounts are provided as a contingency to cover possible losses and client claims for claims not yet reported.

MFDA Investor Protection Corporation
Notes to the Financial Statements
June 30, 2016 and 2015

4. INVESTMENTS

The following table lists the investment holdings and their carrying and fair values as at June 30, 2016.

Investment	Par value (\$) / number of units	Credit rating	Carrying value	Fair value
Bonds			\$	\$
Quebec Provincial, 4.50%, Mat. Dec 01 2016	2,965,000	Ah	2,979,886	3,011,728
B.C Provincial, 4.70%, Mat. Dec 01 2017	2,605,000	Aah	2,671,384	2,751,714
Canada Government, 4.25%, Mat. Jun 01 2018	2,865,000	AAA	2,962,431	3,067,584
Ontario Provincial, 4.40%, Mat. Jun 02 2019	2,905,000	AA1	3,004,024	3,189,864
Canada Housing Trust, 3.75%, Mat. Mar 15 2020	2,960,000	AAA	3,033,621	3,266,449
B.C. Provincial, 3.25%, Mat. Dec 18 2021	2,810,000	Aah	2,859,651	3,108,478
Alberta Provincial, 2.55%, Mat. Dec 15 2022	1,605,000	AAA	1,607,940	1,703,274
New Brunswick Provincial, 2.85%, Mat. Jun 2 2023	1,625,000	Ah	1,623,101	1,741,204
Canada Housing Trust, 2.35%, Mat. Sep 15 2023	2,785,000	AAA	2,849,469	2,986,913
Canada Housing Trust, 2.90%, Mat. Jun 15 2024	2,910,000	AAA	3,115,232	3,241,915
Canada Housing Trust, 1.95%, Mat. Dec 15 2025	3,580,000	AAA	3,522,940	3,701,863
Sub-total Bonds			30,229,679	31,770,986
Cash on hand for bond investment	N/A	N/A	31,274	31,274
Treasury Bills and Notes				
Canada Government, 0.346% Mat. Jul 28 2016	2,500,000	AAA	2,495,175	2,495,175
Sub-total Treasury Bills and Notes			2,495,175	2,495,175
Cash on hand for short-term investment	N/A	N/A	18,982	18,982
Mutual Funds				
Mackenzie Floating Rate Income Fund, Series O	231,859.59	N/A	2,201,136	2,201,136
Mackenzie Corporate Bond Fund, Series O	124,668.19	N/A	1,089,139	1,089,139
Sub-total Mutual Funds			3,290,275	3,290,275
Total Investments			36,065,385	37,606,692

MFDA Investor Protection Corporation
Notes to the Financial Statements
June 30, 2016 and 2015

4. INVESTMENTS (CONTINUED)

The following table lists the investment holdings and their carrying and fair values as at June 30, 2015.

Investment	Par value (\$) / number of units	Credit rating	Carrying value	Fair value
Bonds			\$	\$
Canada Housing Trust, 2.45%, Mat. Dec 15 2015	3,500,000	AAA	3,517,085	3,527,755
Quebec Provincial, 4.50%, Mat. Dec 01 2016	2,965,000	Ah	3,015,197	3,123,183
B.C Provincial, 4.70%, Mat. Dec 01 2017	2,605,000	Aah	2,716,853	2,846,718
Canada Government, 4.25%, Mat. Jun 01 2018	2,865,000	AAA	3,011,844	3,177,285
Ontario Provincial, 4.40%, Mat. Jun 02 2019	2,905,000	AA1	3,036,256	3,263,971
Canada Housing Trust, 3.75%, Mat. Mar 15 2020	2,960,000	AAA	3,052,622	3,303,094
B.C. Provincial, 3.25%, Mat. Dec 18 2021	2,810,000	Aah	2,867,974	3,072,763
Alberta Provincial, 2.55%, Mat. Dec 15 2022	1,605,000	AAA	1,608,354	1,670,211
New Brunswick Provincial, 2.85%, Mat. Jun 2 2023	1,625,000	Ah	1,622,856	1,695,200
Canada Housing Trust, 2.35%, Mat. Sep 15 2023	1,285,000	AAA	1,276,025	1,326,981
Canada Housing Trust, 2.90%, Mat. Jun 15 2024	1,380,000	AAA	1,463,840	1,476,283
Sub-total Bonds			27,188,906	28,483,444
Cash on hand for bond investment	N/A	N/A	276,442	276,442
Treasury Bills and Notes				
Canada Government, 0.586%, Mat. Jul 16 2015	2,500,000	AAA	2,496,375	2,496,375
Sub-total Treasury Bills and Notes			2,496,375	2,496,375
Cash on hand for short-term investment	N/A	N/A	13,857	13,857
Mutual Funds				
Mackenzie Floating Rate Income Fund, Series O	201,567.85	N/A	2,061,575	2,061,575
Mackenzie Corporate Bond Fund, Series O	108,359.81	N/A	1,012,623	1,012,623
Sub-total Mutual Funds			3,074,198	3,074,198
Total Investments			33,049,778	34,344,316

MFDA Investor Protection Corporation
Notes to the Financial Statements
June 30, 2016 and 2015

5. ASSESSMENTS RECEIVABLE FROM THE MFDA

The assessments to MFDA members billed by the MFDA are due to the MFDA IPC upon collection by the MFDA. The amount of \$133,146 (2015 - \$11,688) represents outstanding amounts from MFDA members on billings due at June 30, 2016 and 2015.

6. DUE TO THE MFDA

Due to the MFDA includes support costs payable and amounts reimbursable for costs paid by the MFDA on MFDA IPC's behalf.

The MFDA provides the MFDA IPC administrative, corporate secretarial and other support to allow the MFDA IPC to operate without its own staff. The MFDA IPC and the MFDA have entered into a support agreement to define these areas of assistance. The amount of support costs for the year was \$67,800 (2015 - \$67,800) and was recorded at the agreed upon amount. Payments are made on a quarterly basis in accordance with the support agreement. The MFDA IPC owed the MFDA \$16,950 (2015 - \$16,950) in respect of support costs as at June 30, 2016 and 2015.

7. CREDIT FACILITIES AND INSURANCE

The MFDA IPC has been granted a credit facility limited to a maximum of \$30 million (2015 - \$30 million) by the Royal Bank of Canada (the "RBC"). The credit facility, in combination with the investments accumulated by the MFDA IPC, exists to provide protection to customers of members of the MFDA in the event of loss resulting from an insolvency of an MFDA member. The MFDA has guaranteed repayment of the \$30 million line of credit to the RBC. To date, no amount has been drawn on the line of credit.

At June 30, 2016 the interest rate is prime + 0.75% per annum (2015 – prime + 0.75% per annum). In the absence of a drawdown, the RBC charges a standby fee on the credit line. This charge is included in Bank charges in the Statements of Revenues and Expenses in the amount of \$135,370 (2015 - \$134,746).

The MFDA IPC has arranged insurance in the amount of \$20,000,000 in respect of losses to be paid by the MFDA IPC in excess of \$30,000,000 in the event of a MFDA member insolvency.

8. INVESTMENT INCOME

Investment income is comprised of the following:

	2016	2015
	\$	\$
Interest income	993,179	953,530
Accretion of the bond discount/premium	(221,684)	(233,959)
Distributions from mutual funds	207,672	105,295
Net unrealized loss on investments	(211,469)	(28,137)
Total investment income	767,698	796,729

MFDA Investor Protection Corporation
Notes to the Financial Statements
June 30, 2016 and 2015

9. PROVISION FOR CLAIMS AND RELATED EXPENSES

At June 30, 2016 there continued to be one member insolvency, W.H. Stuart Mutuals, Ltd. ("WHS") for which claims continued to be received. The provision for claims and related expenses and the change in provision during the year and payments made for this insolvency is as follows:

	2016	2015
	\$	\$
Provision balance, beginning of year	853,911	7,034,030
Increase in provision	245,647	696,902
Payments during the year	(914,363)	(6,877,021)
Provision balance, end of year	185,195	853,911

WHS was suspended by the MFDA on May 31, 2013 and was determined by the Board of Directors of the MFDA IPC to be insolvent as of that date for the purpose of claims by clients of WHS against MFDA IPC. WHS was placed under the administration of a bankruptcy trustee on September 18, 2013. During the year ended June 30, 2016, MFDA IPC made payments of \$689,683 (2015 - \$6,330,946) to claimants. At June 30, 2016, an accrual of \$185,195 (2015 - \$853,911) has been made for amounts expected to be paid to claimants and administrative costs.

10. RISK MANAGEMENT

Risk management relates to the understanding and active management of risks associated with invested assets. Investments can be indirectly exposed to foreign currency, interest rate, market and credit risk. The MFDA IPC invests in treasury bills, bonds and mutual funds. The MFDA IPC's investment policy sets out highly rated Federal and Provincial Government and Crown Corporation bonds as the allowable bonds for the MFDA IPC bond portfolio. Only Federal and Provincial notes are allowable for Treasury bill investments. MFDA IPC's investments in mutual funds are limited to 10% of the overall value of the portfolio. The MFDA IPC's investment policy sets limits on the exposure to individual investments, such as limiting the maximum portfolio exposure to a single Province to 20%.

Risks that are relevant to the MFDA IPC's investments are as follows:

Interest rate risk

Interest rate risk refers to the adverse consequences of interest rate changes on the MFDA IPC's investments. The value of the MFDA IPC's investments is affected by changes in both nominal and real interest rates as they have a direct impact on the value of fixed income securities. The MFDA IPC's exposure to interest rate risk arises from its holding of medium-term bonds and mutual funds. The MFDA IPC does not engage in activities to mitigate this risk as it intends to hold the bonds to maturity and mutual funds for the long-term.

Credit risk

Credit risk refers to the risk of financial loss due to a counterparty failing to meet its contractual obligations. The MFDA IPC is exposed to credit risk indirectly through its investment in bonds, treasury bills and mutual funds. Credit risk is managed for these funds by limiting exposure to any single counterparty to a small percentage of net assets. Limiting investments to Canadian Federal and Provincial Government bonds and notes and Federal and Provincial Crown Corporation bonds helps to mitigate the credit risk by investment in high-grade investments. In addition, credit risk is managed by the MFDA IPC

MFDA Investor Protection Corporation
Notes to the Financial Statements
June 30, 2016 and 2015

10. RISK MANAGEMENT (CONTINUED)

through dealing with reputable counterparties. As at June 30, 2016 and 2015, the MFDA IPC's investments in fixed income securities are held with a Tier 1 banking institution.

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. This risk is mitigated by the MFDA IPC's policy of diversification of the investment portfolio. Market risk is considered to be minimal.

11. FUNDING AND MANAGEMENT OF ASSETS

The MFDA IPC's capital is its unrestricted net assets.

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

- To safeguard the MFDA IPC's ability to continue as a going concern, so it can provide protection for the benefit of clients of MFDA members, and
- To work toward Operating Fund reserve targets as set out by the MFDA IPC Board.

The MFDA IPC bills MFDA members annually to ensure operations are funded and to allocate the balance toward the accumulation of the investor protection fund. In the current year, the MFDA IPC billed MFDA members \$4,270,134 (2015 - \$3,625,626). As at June 30, 2016, the value of the operating fund unrestricted net assets was \$36,511,219 (2015 - \$32,848,221).

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

BOARD OF DIRECTORS

The MFDA IPC Board of Directors is comprised of three public directors and two industry directors.

Public Directors

David A. Richards, CPA, CA, Chair
Former Executive RBC Capital Markets

Beat J. Guldemann
President, Tribeca Consulting Group

Clayton S. Manness, BSA, MSc.
Former Minister of Finance, Manitoba

Industry Directors

Kevin Regan, FCPA, FCA, CFP
Executive Vice-President and Chief Financial Officer, IGM Financial Inc.

Sonny Goldstein, CFP
President, Goldstein Financial Investments Inc.

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