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

ANNUAL REPORT

2008

MFDA Vision

Raising the standard of firm, fair and transparent regulation in Canada for the protection of investors through commitment to collaboration, staff excellence and regulatory best practices.

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Joint Message from the Chair of the Board and President and Chief Executive Officer

2008 marks an important milestone for the MFDA. It is the 10th anniversary of the establishment of the MFDA as Canada's national self-regulatory organization for the distribution side of the mutual fund industry. This year's Annual Report includes an overview of our key achievements and successes spanning the past decade.

We are pleased to report that during the past year, the MFDA was formally recognized as an SRO by the securities regulatory authorities in Manitoba and New Brunswick. These recognition orders reflect the ongoing confidence in the MFDA performance as an effective market regulator. Formal recognition from the securities commission for Newfoundland and Labrador is pending.

Since inception, two of our demonstrated strengths have been collaboration and consultation. During the past year, MFDA senior management continued their regular meetings with securities commissions across Canada to provide updates on regulatory initiatives, compliance and enforcement activities and review market trends. In addition, our staff participated actively in joint regulatory committees dealing with a range of topics, including the CSA Registration Reform Project, the CSA Registration Steering Group, the SRO Joint Rule Drafting Committee, the Joint OSC-sponsored Town Hall Follow-up Committee, the British Columbia Securities Commission and Alberta Securities Commission Suitability Project.

Following extensive consultation with our Members and securities commissions, we introduced comprehensive guidance on Suitability for the industry. This represented the first such effort to document suitability particulars by any securities regulatory authority in Canada. We believe our work in this area will further enhance investor protection and foster confidence in our capital markets.

On a sad note, we acknowledge the passing in late 2007 of Mr. Robert MacLellan, an MFDA Board member. Bob was an active, valuable and insightful Board member since joining the MFDA in 2003 and held the position of Chair of the MFDA's Regulatory Issues Committee. His expertise and dedication to the MFDA will be greatly missed.

Finally, we extend our thanks and appreciation to the MFDA staff for their professionalism, hard work and ongoing commitment to excellence.

Robert J. Wright, C.M., Q.C.
Chair, MFDA Board of Directors

Larry M. Waite
President and Chief Executive Officer

10 Years in Review

The MFDA was established in 1998 at the initiative of the Canadian Securities Administrators (CSA) in response to the rapid growth of mutual funds distributed in Canada and a recognition that the industry and investors would benefit from more effective regulation and oversight. It was incorporated as a not-for-profit Corporation on June 19, 1998. Its initial formative activities were jointly sponsored by the CSA, the Investment Dealers Association of Canada (now Investment Industry Regulatory Organization of Canada or IIROC) and the Investment Funds Institute of Canada (IFIC), with the Chair of IFIC serving as Chair of the MFDA Board of Directors and the President of IIROC serving as the President of the MFDA.

The first steps taken by the MFDA's Board of Directors included:

- Establishing five policy committees comprised of industry, public and CSA representatives to address key issues facing the MFDA as follows:
    - Books, Records & Administration
    - Capital and Contingency
    - Sales Practices and Compliance
    - Distribution Structures
    - Proficiency and Continuing Education
- Arranging financing to fund the operations and activities of the MFDA, which included guarantees from the securities commission in the Provinces of Ontario, Alberta and British Columbia.
- Appointing its first Chief Operating Officer in October 1998.

One of the first operational tasks undertaken by the MFDA was establishing a website to raise awareness of the MFDA and support information-sharing with key stakeholders. The website was launched in February 1999.

The consultations underlying the activities of the five policy committees established by the Board of Directors resulted in the development, in late 1999, of draft MFDA Rules, Policies and Forms and the proposed MFDA fee model based on assets under administration. This coincided with the MFDA filing applications for formal recognition of the MFDA as a self-regulatory organization with various securities commissions. These applications were published for public comment by

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the securities commissions for a 90-day comment period in June 2000. The MFDA Rules were published in February 2001.

In July 2000, the MFDA hosted a series of in-person information sessions in 17 cities across Canada in an effort to educate the industry on the new Rules, as well as to encourage stakeholders to participate in the securities commissions' public comment process. Over 1,700 people attended the workshops.

In addition, as part of its campaign to raise awareness of the MFDA within the mutual fund industry and with the public, the MFDA ran a national public service announcement on television from July to September 2000. Also, all of the documentation filed by the MFDA with the securities commissions was recorded onto CD's, which were distributed to every registered dealer in Canada and a toll-free telephone number was put into place to facilitate requests for the CD.

Formal recognition of the MFDA as a self-regulatory organization was obtained in 2001.

By June 2001, the MFDA had received over 200 applications for membership, representing a total of approximately $185 Billion in assets under administration. The MFDA formally admitted its first Members in October 2001.

Throughout this period, the MFDA was addressing the development of a proposed structure for an investor protection plan for customers of insolvent MFDA Member firms. A formal application for recognition of the MFDA Investor Protection Plan as a contingency fund was filed with applicable securities commissions in August 2001.

The MFDA opened its Pacific Regional Office in Vancouver, B.C. in May 2001 and its Prairie Regional Office in Calgary, Alberta in September 2001.

In December 2001, the MFDA and the four major industries of Canada's financial services sector (banks, life and health insurers, property and casualty insurers and investment dealers) announced the creation of a national ombudservice, the Centre for the Financial Services OmbudsNetwork (CFSON).

In November 2002, the MFDA activated its investor complaints service to receive information respecting possible

MFDA incorporated [June]

Five policy committees are established to recommend Policies, Rules and Bylaws [July]

MFDA appoints its first staff members [October] regulatory violations of MFDA regulatory requirements.

The terms and conditions of the recognition of the MFDA as a self-regulatory organization by the securities commissions included a requirement that not later than the 3rd annual meeting of Members following the date of the recognition orders, the MFDA would revise its corporate governance structure. In early 2002, the Corporate Governance Committee of the MFDA Board of Directors undertook a comprehensive corporate governance review of the MFDA. Its recommendations were approved by the MFDA Board of Directors in December 2002 and were filed with the CSA in February 2003. The changes included reducing the size of the Board to 13 directors (6 industry directors, 6 public directors, and the MFDA President and Chief Executive Officer) and providing that IFIC and IIROC cease to retain any ongoing participation in MFDA governance matters. These governance changes were approved by MFDA Members in December 2003.

The MFDA commenced conducting on-site compliance examinations of Member firms in January 2003.

With respect to activities in the Province of Quebec, the MFDA participated in an extensive dialogue and consultation with the local securities regulatory authorities to identify steps that might be taken to harmonize the oversight of participants in the investment fund industry. This process culminated in the formalization in April 2003 of a Cooperative Agreement between the MFDA and the Bureau des services financiers (BSF) and the Chambre de la sécurité financière (CSF) — marking the first such collaborative framework between a financial services SRO based outside the Province of Quebec and the government authorities in Quebec. The Cooperative Agreement provides the MFDA with the ability to perform prudential reviews of Members with head office locations in Quebec. The MFDA relies on the BSF to perform branch examinations.

In October 2003, the MFDA formalized its corporate vision and 3-year Strategic Plan for the MFDA, emphasizing the following principle goals: development and establishment of firm, fair and transparent regulatory processes; proactive participation in the Canadian securities regulatory framework and contribution to regulatory harmonization; enhancement of Member awareness of, and compliance with, rules and standards established by the MFDA; increased public awareness of the role of the MFDA; and establishment of clear and efficient operational processes.

In mid-2004, the MFDA established its first Regional Councils across Canada.

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The completion of this step positioned the MFDA to undertake disciplinary enforcement proceedings before 3-person Hearing Panels drawn from among the Regional Council representatives.

In October 2004, the MFDA Board of Directors appointed its first public director to serve as Chair of the Board. Since that date, the Chair of the MFDA Board of Directors has been a public director.

In December 2004, the first MFDA enforcement proceeding, a settlement hearing, took place in Toronto.

In January 2005, MFDA Members commenced filing their monthly and annual financial statements using a web-based Electronic Filing System developed by the MFDA. The introduction of this technology greatly enhanced the timeliness and efficiency of financial reporting.

The MFDA Investor Protection Corporation (IPC) was formally recognized by a number of securities commissions in May 2005. On July 1, 2005, coverage for clients of MFDA Member firms commenced.

In December 2005, the MFDA Compliance Department successfully completed an on-site compliance examination of all Member firms within the 3-year target time frame.

In March 2006, the MFDA formalized its second 3-year Strategic Plan, emphasizing the following important goals for a maturing regulator:

- Leadership in raising the standard of regulation in Canada
- Collaboration with key stakeholders
- Staff excellence
- Regulatory best practices

All action priorities set out in the Strategic Plan responsive to these goals were achieved.

In early 2007, the MFDA conducted its first comprehensive Member Rule Review Survey to solicit feedback from Members with respect to: which MFDA Rules were working; which MFDA Rules were not working and required amendment or further clarification and what new requirements might be necessary to reflect industry changes.

In July 2007 the MFDA launched a web-based electronic complaint reporting system for Members called METS (Member Event Tracking System).

MFDA Standing Committees (Audit, Governance, Compensation established) [February/March]	MFDA web site set up [February]	MFDA applies to the CSA for recognition as a Self-Regulatory Organization [December]

MFDA Membership Information

The MFDA is Canada's national self-regulatory organization responsible for regulating the activities and operations of 159 Member mutual dealer firms and their 75,000 salespersons. These Member firms account for approximately $304 Billion of the approximately $700 Billion of client assets under administration in the Canadian mutual fund industry.

There are four principal categories of MFDA Membership.

- Level 1 Member – an introducing dealer that is not a Level 2, 3 or 4 Member.
- Level 2 Member – 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 Member – a dealer that does not hold client securities or other property except client cash in a trust account.
- Level 4 Member – includes all other Members (including a Member that acts as a carrying dealer).

During the 12-month period ended June 30, 2008, 3 firms became new Members of the MFDA. As well, 5 firms resigned to join other MFDA Member firms.

The following tables provide comparative statistical information respecting MFDA Members as at June 30, 2006, June 30, 2007 and June 30, 2008. The MFDA presently operates in the Province of Quebec pursuant to a Cooperative Agreement with the Autorité des marchés financiers and the Chambre de la sécurité financière. Accordingly, the information set out below does not reflect Member activities based in the Province of Quebec.

Number of MFDA Member Firms by Category Level

	2006	2007	2008
Level 1	Nil	Nil	Nil
Level 2	61	54	53
Level 3	69	63	64
Level 4	45	45	42

MFDA Membership Profile

	2006	2007	2008
Number of Member firms	175	162	159
Number of Approved Persons	75,000	75,000	75,000
Assets Under Administration of all Members	$ 276 B	$ 310 B	$ 304 B
Total Industry Assets Under Administration	$ 589 B	$ 707 B	$ 700 B

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Location of Member Head Offices

	2006	2007	2008
Ontario	119	111	106
British Columbia	15	15	15
Quebec	14	9	10
Alberta	8	8	9
Manitoba	7	7	7
Saskatchewan	6	6	6
Nova Scotia	3	3	3
New Brunswick	3	3	3
Total	175	162	159

Member Assets Under Administration per Head Office

	2006	2007	2008
Ontario	$ 201.1 B	$ 220.3 B	$ 218.7 B
British Columbia	13.5 B	16.4 B	16.6 B
Quebec*	6.4 B	7.8 B	7.2 B
Alberta	3.1 B	3.9 B	3.8 B
Manitoba	46.7 B	55.8 B	52.4 B
Saskatchewan	4.4 B	5.0 B	4.6 B
Nova Scotia	0.2 B	0.2 B	0.2 B
New Brunswick	0.5 B	0.6 B	0.5 B
Total (rounded)	$ 276 B	$ 310 B	$ 304 B

** The figures reflect assets outside the Province of Quebec for dealers with a Head Office in the Province of Quebec.*

Number of Members by Assets Under Administration

	2006	2007	2008
$100 Million and Under	79	65	69
$101 Million to $500 Million	52	51	45
$501 Million to $1 Billion	11	11	11
Over $1 Billion	33	35	34
Total	175	162	159

Number of Members by Firm Size

	2006	2007	2008
10 Approved Persons or Fewer	74	67	64
11 to 100 Approved Persons	57	52	50
101 to 500 Approved Persons	24	21	23
501 to 1,000 Approved Persons	6	7	7
Over 1,000 Approved Persons	14	15	15
Total	175	162	159

MFDA conducts information workshops on a 17-stop road trip to present an overview of its Rules and Procedures and to field questions from the mutual fund industry dealers and representatives that MFDA will regulate. MFDA runs national television public service announcement to raise Member awareness [July – September]

Corporate Governance

The MFDA Board of Directors is comprised of 13 Directors:

- Six Public Directors,
- Six Industry Directors (five of whom must be officers or employees of a Member), and
- President and Chief Executive Officer of the MFDA.

The Chair of the Board can be an Industry or a Public Director and is presently a Public Director. There is a Public Director vacancy.

The 2008 Board of Directors, and the Committees of which they are members, are as follows:

Public Directors

Robert J. Wright, C.M., Q.C. Chair (1) (2)
President
Edinglen Holdings Inc.
(Toronto, Ontario)

Helen M. Meyer (4)
Corporate Director
(Erin, Ontario)

Martin L. Friedland, C.C., Q.C. (2)
Professor of Law &
University Professor Emeritus
University of Toronto
(Toronto, Ontario)

Janet K. Pau (3)
Corporate Director
(Vancouver, British Columbia)

William D. Grace, FCA (1) (3)
Corporate Director
(Edmonton, Alberta)

Industry Directors

W. David Wood, Vice Chair (1) (2)
Executive Vice President
Partnerships & Vice Chairman
National Bank Financial Group
(Montreal, Quebec)

Robert B. Sellars (4)
Executive Vice President & CFO
Dundee Private Investors Inc.
(Toronto, Ontario)

George Aguiar (1) (2) (4)
President & Chief Executive Officer
GP Wealth Management Corporation
(Toronto, Ontario)

Edgar N. Legzdins (4)
Senior Vice-President &
Head of Retail Investments
Bank of Montreal
(Toronto, Ontario)

Peter W. Glaab (3)
Senior Vice President
CI Investments
(Toronto, Ontario)

Kevin E. Regan (4)
President & Chairman of the Board
Investors Group Financial Services Inc.
(Winnipeg, Manitoba)

Notes:

(1) Member of the Executive Committee. There were 2 meetings held for the 12 month period to June 30, 2008.

(2) Member of the Governance Committee. There were 7 meetings held for the 12 month period to June 30, 2008.

(3) Member of the Audit & Finance Committee. There were 4 meetings held for the 12 month period to June 30, 2008.

(4) Member of the Regulatory Issues Committee. There were 3 meetings held for the 12 month period to June 30, 2008.

Left to Right: Ed Legzdins, Janet Pau, Peter Glaab, William Grace, Larry Waite, David Wood, Martin Friedland, Robert Wright, George Aguiar, Helen Meyer, Robert Sellars, Kevin Regan.

Director Compensation

Public Directors on the MFDA Board are compensated in accordance with the following framework:

- Annual Retainer: $15,000 per annum
- Meeting Attendance Fee: $1,500 per meeting
- Committee Chair Retainer (other than Audit & Finance): $2,500 per annum
- Audit & Finance Committee Chair Retainer; $4,000 per annum

In the event that an out-of-town Public Director attends a Board or Committee meeting in person, an additional $1,000 supplementary fee is paid.

In circumstances where a Public Director serves as the Chair of the Board, the Board of Directors has the discretion to set the amount of the Chair Retainer, which is reviewed annually during the tenure of the individual. Presently, the retainer for the Chair of the Board is $70,000 per annum.

Industry Directors are not compensated for their participation on the MFDA Board.

All Directors are reimbursed for related travel and out-of-pocket expenses.

The Governance Committee of the MFDA Board of Directors is responsible for reviewing, on an annual basis, the adequacy and form of the compensation for Public Directors to ensure such compensation realistically reflects the responsibilities and risk involved in being an effective Public Director. During the 2007-2008 fiscal year, the Board of Directors approved an increase in the Audit and Finance Committee Chair Retainer from $2,500 to $4,000 per annum to reflect market standards.

Board Meetings and Attendance

A total of 23 corporate meetings, including 6 Board meetings and one Annual General Meeting of Members, were held during the 12-month period ended June 30, 2008.

Directors' Attendance at Meetings

Director	Board meetings	Committee meetings
Robert Wright	6 of 6	9 of 9
George Aguiar	6 of 6	10 of 12
Martin Friedland	6 of 6	6 of 7
Peter Glaab	5 of 6	4 of 4
William Grace	6 of 6	6 of 6
Ed Legzdins	6 of 6	1 of 3
Robert MacLellan	1 of 1	1 of 1
Helen Meyer	6 of 6	3 of 3
Janet Pau	6 of 6	4 of 4
Kevin Regan	4 of 6	2 of 3
Robert Sellars	6 of 6	3 of 3
Larry Waite	5 of 6*	All
David Wood	6 of 6	8 of 9

** The Board convened one 'in camera' meeting held without the President and Chief Executive Officer.*

Summary of Directors' Terms of Office

The dates on which directors joined the MFDA Board and the dates on which their current terms of office are scheduled to expire are set out below.

Directors' Terms of Office

Board Member	Category	Year Became Director	Term of Office Expires (if maximum terms served)
Robert Wright	Public	2003	2010
Janet Pau	Public	2003	2010
David Wood	Industry	2003	2010
Martin Friedland	Public	2003	2011
William Grace	Public	2003	2011
George Aguiar	Industry	2003	2011
Peter Glaab	Industry	2004	2012
Kevin Regan	Industry	2005	2013
Ed Legzdins	Industry	2005	2013
Helen Meyer	Public	2006	2014
Robert Sellars	Industry	2006	2014

MFDA Management Team

Left to Right: Mark Stott, Director, Prairie Region, Jason Bennett, Corporate Secretary, Jeff Mount, Director, Pacific Region, Larry Waite, President & CEO, Paige Ward, Director, Policy & Regulatory Affairs, Shaun Devlin, Vice-President, Enforcement, Paul Reid, Director, Finance & Administration, Karen McGuinness, Vice-President, Compliance, Mark Gordon, Executive Vice-President

Regional Councils and Hearing Panels

The MFDA has four Regional Councils corresponding to the following geographic Regions:

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

The membership for each of the four Regional Councils includes elected industry representatives; namely, partners, officers, directors, employees or agents of Member firms resident in the Region. The membership also includes appointed public representatives (retired judges and lawyers with extensive administrative law experience) and appointed industry representatives (individuals retired from the securities industry or not working with an MFDA Member firm). The sole role of these appointed representatives is to serve as members of MFDA disciplinary hearing panels, as required, from time to time.

The 2-year terms of office for the elected industry representatives on the MFDA Regional Councils expired in the Spring of 2008 and the MFDA conducted a formal nomination and election process to re-constitute the Regional Councils.

The principal activities of the MFDA Regional Councils are:

- The conduct of hearings by 3-person Hearing Panels created from among the participants on each Regional Council, and
- The consideration of policy matters relevant to the MFDA.

The hearings activity is conducted independent of MFDA staff, management and the Board of Directors. The Corporate Secretary has responsibility for vetting and selecting panelists for each Hearing Panel and performs this function separate from all other MFDA Departments.

Each Hearing Panel is chaired by a Public Representative, which ensures that all MFDA disciplinary proceedings are conducted in accordance with the highest standards of procedural fairness. The two other members of each Hearing Panel are industry representatives from the applicable Regional Council.

All MFDA hearings activity is conducted in public and information respecting all cases is maintained on the MFDA website. The MFDA has published detailed Rules of Procedure prescribing the conduct of hearings which ensures consistency and transparency for all disciplinary matters.

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MFDA Regulatory Operations

MFDA regulatory operations are organized among the following Departments: Compliance, Enforcement, Policy and Membership Services.

COMPLIANCE

The MFDA Compliance Department is responsible for monitoring Member firms' adherence to MFDA requirements. The Department is comprised of two groups:

- Sales Compliance – a key responsibility of which is performing regular on-site examinations of Members and reporting and resolving findings, and
- Financial Compliance – a key responsibility of which is monitoring Member financial filings (both monthly and annual) and performing on-site financial examinations of Level 4 Members.

The Compliance Department is also responsible for reviewing and approving Member resignation and reorganization requests, reviewing new membership applications and assisting in policy and enforcement initiatives as required.

Sales Compliance Activity

Second Compliance Examination Cycle

MFDA Members are subject to an examination within a 3-year cycle. The MFDA's second cycle of compliance examinations commenced in January 2006 and staff has performed a total of 129 compliance examinations through to June 30, 2008 — including examinations of 157 branch locations.

For the second cycle of sales compliance examinations, the MFDA Compliance Department has established benchmarks to issue 70% of examination reports within 15 weeks of the completion of field work and all reports within 22 weeks of completion of field work. Of the 110 reports issued, 89% were issued within 15 weeks and all reports have been issued within 22 weeks of completion of field work.

The following is a breakdown of compliance examinations by Province as at June 30, 2008.

Sales Compliance Activity

	Head Office	Branch	Total
Ontario	85	77	162
British Columbia	14	29	43
Alberta	6	22	28
Manitoba	7	6	13
Saskatchewan	5	7	12
Quebec	8	–	8
Nova Scotia	2	11	13
New Brunswick	2	5	7
Total	129	157	286

MFDA recognized as a self-regulatory organization by various securities commissions [February]

MFDA opens its Pacific Regional Office [May] and its Prairie Regional Office [September]

MFDA formally accepted its first Members [October]

As at June 30, 2008, a total of 52 referrals have been made to the Enforcement Department originating from information obtained during the second cycle of compliance examinations.

Common Deficiencies

The following are the most common sales compliance deficiencies identified to date in the course of conducting the second cycle of sales compliance examinations:

- Inadequate written policies and procedures,
- Suitability of investments,
- Incomplete Know-Your-Client (KYC) information,
- Failure to maintain adequate evidence of trade supervision,
- New account application forms/KYC forms not on file,
- Failure to maintain adequate evidence of client trade instructions,
- Discrepancies between KYC information recorded in the client file and the KYC information recorded on the back-office system,
- Inadequate Know-Your-Product due diligence,
- Inadequate branch/sub-branch review program and
- Inadequate procedures to review and approve amendments to KYC information.

Financial Compliance Activity

Level 4 Member Examinations

During calendar 2007, the Financial Compliance group satisfied its benchmark to perform an annual on-site financial examination of all active Level 4 Members. Furthermore, all examination reports were issued within the established benchmark timeframe; namely, 70% of reports were issued within 15 weeks of completion of field work and all remaining reports were issued within 22 weeks of completion of field work. Of the 42 examinations conducted in 2008, 28 were in Ontario, 3 in Manitoba, 3 in British Columbia, 2 in Alberta and 6 in Quebec.

As at June 30, 2008, fourth-round financial compliance examinations were being performed for Level 4 dealers. 24 fourth-round examinations had commenced, of which 8 reports had been issued by June 30, 2008.

The most commonly identified deficiencies during the examinations included:

- Reporting/accounting errors or misclassifications,
- Inadequate written policies and procedures, and
- Failure to operate trust accounts in accordance with MFDA requirements.

Financial Compliance Desk Reviews

In addition to being subject to on-site compliance examinations, Members are also required to submit financial reports to the MFDA, both monthly and annually. The Financial Compliance group is responsible for reviewing the monthly financial reports of all Members within 5 business days of the filing due date and the annual audited financial reports within 3 months of the report date. Approximately 1,920 unaudited monthly and 160 audited annual financial reports were reviewed by Financial Compliance staff during fiscal 2008. In a number of instances capital and/or reporting issues were identified through this review process. Financial Compliance staff took steps to communicate with Member staff on a timely basis so that corrective action could be taken.

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Referrals to the Enforcement Department

During the six months ended June 30, 2008, the Financial Compliance group had made a total of 7 referrals to MFDA Enforcement.

The most common reason for such referrals was breaches of early warning restrictions.

2007/2008 Key Initiatives

Joint MFDA and IPC Questionnaire

The MFDA and MFDA IPC issued a questionnaire to Members to obtain additional information on the products, services and investment strategies offered by Members. Further, the MFDA IPC was seeking information to assess whether coverage limits and the size of the Fund was adequate.

Looking Forward

Third Round Sales Examination Cycle

MFDA Sales Compliance is targeted and on course to meet its second round examination cycle by December 2008.

In preparation for the third round sales examination cycle, staff will be reassessing the compliance examination process and program with a view to expanding the risk-based concept even further.

Auditor Session

During calendar 2007, MFDA staff has been interacting with external auditors with the objective of enhancing both Member and their audit firms' understanding of MFDA financial requirements. To further this outcome, the MFDA intends to offer an information session for audit firms during calendar 2008, which will provide an overview of the financial requirements and updates on new relevant initiatives.

International Financial Reporting Standards (IFRS)

Staff will be assessing the impact of IFRS on Members and providing guidance, where appropriate, if changes to MFDA requirements are necessary.

MFDA's Investor Complaints Service becomes fully operational to handle complaints regarding possible regulatory violations of MFDA Rules or Policies [November]

MFDA Enforcement Group becomes fully operational [November]

ENFORCEMENT

The activities of the Enforcement Department are directly in support of the MFDA's goal of developing and establishing firm, fair and transparent regulatory processes and its strategy to enforce MFDA requirements to enhance investor protection. The activities of the Enforcement Department also directly support the MFDA's goal of participating in the Canadian securities regulatory framework by developing and maintaining collaborative working relationships with other securities regulatory authorities and law enforcement agencies.

The Enforcement Department is responsible for addressing non-compliance with regulatory requirements by Members and Approved Persons. The Department is comprised of four groups:

Case Assessment

Handles minor inquiries that can be resolved expeditiously. Matters warranting further assessment or investigative action are opened as cases. Where minor violations are identified they are dealt with through informal discipline, either by way of a warning letter or an agreement and undertaking. The Case Assessment group escalates cases to the Investigations group where there are grounds to believe that there has been a significant breach of MFDA requirements, or where the matter is sufficiently complex to require a more extensive review.

Investigations

Conducts in-depth investigation of cases, which includes gathering documentation, conducting interviews, analyzing cases and preparing investigation reports and recommendations. The group also coordinates investigation activity with other regulatory and law enforcement agencies. The group refers appropriate cases to the Litigation group for the consideration of commencement of formal disciplinary proceedings.

Litigation

Provides advice to Investigators on investigations. The group analyzes cases and prepares recommendations for disposition of cases. The group acts as MFDA counsel in disciplinary hearings before Regional Councils.

Policy

Works with the MFDA Policy Department on policy matters relating to the Enforcement Department. Provides advice to Enforcement staff on matters relating to cases with a focus on policy issues. Develops written procedures and standard form document precedents for use by Enforcement staff. Maintains and revises operational manuals and coordinates and provides departmental training. Drafts and provides advice on agreements and undertakings.

The MFDA maintains a toll-free telephone number (1-888-466-6332) which investors may call to ask a question or make a complaint.

2007/2008 Key Initiatives

Investor Concerns

MFDA staff has worked on an ongoing basis since 2005 with staff of the Ontario Securities Commission (OSC), Investment Industry Regulatory Organization of Canada (IIROC) and Ombudsman for Banking Services and Investments (OBSI) on a number of issues relating to the concerns of investors, in four priority areas:

- Improving the complaint-handling process for retail investors,
- Enhancing communications with retail investors,
- Making access to information easier for investors, and
- Providing clarity on existing redress mechanisms.

In October 2007, an Investor Forum was held in Toronto, which provided educational opportunities for investors, and a forum for dialogue between investors and the four organizations. The organizations have now published a joint report on the Investor Forum and the organizations have committed to continuing to work together in the future to address investor issues.

Member Electronic Reporting

Member electronic reporting of complaints, legal proceedings and other significant events through the Member Event Tracking System (METS) was fully implemented on September 3, 2007.

During the period September 3, 2007 to June 30, 2008, Members filed 1,798 event reports. MFDA staff reviews all reports, obtains further information where necessary, and opens a case if appropriate. 18% of the reports filed during the period are the subject of enforcement cases for additional follow-up and review by the Case Assessment group. With regard to timeliness of complaint handling by Members, over 76% of cases were resolved by Members within 90 days of Member receipt of the initial complaint. The accumulation of data reported through METS will assist the MFDA in identifying broader regulatory concerns, including Member and industry-specific issues and trends, and in developing appropriate responses, including the introduction of Member risk scorecards.

Enforcement Statistics

A breakdown of cases opened by primary area of concern is as follows:

Enforcement Cases Opened – By Type of Case

Cases Opened By Type July 1, 2007 to June 30, 2008	Number of cases
Outside Business Activities/Dual Occupation	40
Falsification/Misrepresentation	31
Suitability – Investments	26
Sales Communication	24
Supervision	23
Suitability – Leveraging	23
Business Standards	22
Commissions and Fees	20
Unauthorized/Discretionary Trading	19
Forgery/Fraud/Theft/Misappropriation/Misapplication	17
Transfer of Accounts	15
Books/Records/Client Reporting	15
Policy & Procedures	14
Personal Financial Dealings	14
Complaint Procedure	12
Provincial Securities Legislation	8
Service Issue	8
Acting Outside Registration Status	7
Excessive Trading/Churning	7
Trading Outside Jurisdiction	6
Securities Regulator's Order	5
Conduct Unbecoming	5
All Other Types	20
Total	381

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Enforcement Case Handling Activity

July 1 to June 30	Total Cases Opened	Escalated to Investigation	Escalated to Litigation	Notices of Hearing	Total Cases Closed
2007–2008	381	109	24	20	362
2006–2007	361	130	30	21	425
2005–2006	371	117	18	10	331
2004–2005	441	98	13	9	353
2003–2004	321	44	1	0	159
2002–2003	139	8	0	0	99

Case Handling Benchmarks

The performance benchmark for the Case Assessment group is for 80% of all cases to be closed or escalated to the Investigations group within 120 days of case opening. Performance against this benchmark for the year was 86%.

The performance benchmark for the Investigations group is for 80% of all cases to be closed or escalated to the Litigation group within 1 year of the case being escalated from the Case Assessment. Performance against this benchmark for the year was 85%.

The performance benchmark for the Litigation group is for 80% of all cases to be closed or subject of a Notice of Hearing or Settlement Hearing within ten months of escalation from the Investigations group. Performance against this benchmark for the year was 92%.

Disciplinary Action

The MFDA commenced 20 disciplinary proceedings with Notices of Hearing or Notices of Settlement Hearing and concluded 10 disciplinary cases during the year. 8 of these cases involved allegations against current and former Approved Persons and resulted in 6 permanent prohibitions and total fines in the amount of $1,518,000. The remaining 2 cases involved allegations against Members and resulted in fines of $505,000.

Of the $2,023,000 in fines during the year, the MFDA was able to collect $525,500. For the period from inception of discipline activity in 2004 to June 30, 2008, fines totaled $11,959,065, of which the MFDA has collected $3,308,000 or 28%. The MFDA has to date collected 100% of fines from current Members and Approved Persons. The MFDA presently lacks effective powers in most provinces to collect fines and costs from former Approved Persons, but where a fine is not paid such individuals may be denied re-registration by securities commissions.

MFDA commenced their first on-site compliance examinations of MFDA Members firms [January]

The MFDA along with the Bureau des services financiers and the Chambre de la sécurité financière formalize a Cooperative Agreement to cooperate in the regulation of mutual fund firms operating in Quebec to avoid regulatory duplication and to ensure public protection [April]

Enforcement staff issues warning letters in cases where the minor violation has ceased and where MFDA staff is of the view that the Member could reasonably be expected to avoid similar violations in the future. In other cases, the MFDA enters into agreements and undertakings that generally require rectification of deficiencies within a specified period of time, occasionally with suitable expert assistance retained by the Member at their own expense. Of the 362 cases closed in the year, 207 involved warning letters and 6 involved agreements and undertakings.

Cases of Interest

Berkshire Investment Group Inc.

The Member failed to conduct a reasonable supervisory investigation in response to complaints from two individuals against one of its Approved Persons. The complaints alleged that investments funds were missing in relation to securities related business being conducted outside the Member. The Member also failed to impose interim supervisory measures in regard to the second complaint, when the Approved Person refused to respond to the Member's supervisory inquiry. The Member was fined $500,000 plus costs of $50,000.

Paul Edward Lloyd

As branch manager of an MFDA Member, Lloyd knowingly permitted an Approved Person under his supervision to engage in securities related business outside the Member. Lloyd also counseled his co-branch manager to conceal and falsely report to the Member with regard to the activities of the Approved Person. In addition, Lloyd failed to cooperate with the MFDA's investigation. Lloyd was permanently prohibited from acting on behalf of an MFDA Member and fined $45,000 plus costs.

Brian Scott Campbell

The Approved Person conducted discretionary trading in client accounts without authorization and, in doing so, breached the terms and conditions of his registration under provincial securities legislation. Campbell was fined $250,000 plus costs.

John Moro

The Approved Person was in possession of pre-signed trading forms in respect of 8 clients despite being previously cautioned in November 2004 and used pre-signed forms on 16 separate occasions to effect redemptions in client accounts without obtaining prior instructions from the clients. Moro surrendered his registration as branch manager and was prohibited from acting in a supervisory capacity with a Member of the MFDA for a period of two years. Moro has to rewrite the appropriate proficiency examination prior to becoming reregistered in any supervisory capacity with a Member of the MFDA. Moro was fined $5,000 plus costs.

Looking Forward

Enforcement Priorities

The MFDA reviews supervision by the Member and its supervisory personnel in all cases. This issue remains a top priority, as effective Member supervision is critical in ensuring compliance in the Member's dealings with clients.

The case types below will continue to receive high priority from MFDA Enforcement.

1. Failure to Cooperate;
2. Theft and Fraud;
3. Personal Financial Dealings with Clients;
4. Outside Business Activity;
5. Suitability of Investment and Leveraging Recommendations;

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6. Churning;
7. Member Complaints Handling; and
8. Blank Signed Trading Forms/ Discretionary Trading.

Referrals From Compliance

The risk-based procedures for referrals address the appropriate level of regulatory response to issues of non-compliance identified during the second cycle of sales compliance examinations, with the highest ranking of risks being those involving supervision, KYC documentation, concentration of repeat deficiencies, and breaches of earlier agreements and undertakings with the MFDA.

POLICY

The Policy Department is active in monitoring the effectiveness of the MFDA By-laws, Rules and Policies; recommending changes, where appropriate; drafting new or amended By-laws, Rules and Policies; and drafting Notices and Bulletins for Members to assist them with the interpretation and application of MFDA requirements. In addition, the Department provides consulting, legal, research and drafting support to the other departments of the MFDA.

Consultations with Industry

In the Fall of 2007 and Spring of 2008, MFDA staff held eight Member Regulation Forum meetings in Vancouver, Calgary, Winnipeg, Toronto and Montreal. MFDA staff updated Members on the CSA Registration Reform Project, the Client Relationship Model, the MFDA proposed Policy No. 3 — Handling Client Complaints, MFDA Member Regulation Notice MR-0065 — Churning and the MFDA Rule Review Survey.

2007/2008 Key Initiatives

MFDA Rule Review Survey

In April 2007, the MFDA solicited Member views on the effectiveness of its Rules and regulatory requirements through a rule review survey. The MFDA received a total of 22 responses to the survey. Key areas of comment included business names, suitability, minimum standards for supervision, leveraging, frequency of financial filings and account statements.

The summary of comments and response of MFDA staff was circulated to Members in February 2008.

The MFDA has been using the comments received to identify Rules that require amendment or further clarification and to draft new requirements necessary to reflect industry changes.

Suitability Guidelines

In 2008, the MFDA issued Member Regulation Notice MR-0069 — Suitability Guidelines ("MR-0069") to provide guidance to Members on how to establish a suitability framework to comply with their obligation to ensure that each order accepted or recommendation made is in keeping with clients' KYC information. The Notice provides further guidance on assessing suitability when borrowed funds have been used to invest and advises of MFDA staff's view when assessing suitability as part of a compliance and enforcement case. The Notice represents the first time a regulator in Canada has provided detailed guidance on this topic.

MFDA completed establishing Regional Councils in 4 Regions across Canada — comprising elected industry representatives, retired industry representatives and public representatives with judicial or administrative law experience which positioned MFDA to commence disciplinary proceedings [June]

MFDA conducts its first enforcement proceeding, a settlement hearing, in Toronto [December]

The guidelines contained in MR-0069 are intended to assist in the establishment of consistent and objective industry standards for assessing investment suitability for the benefit of Members and investors. The MFDA receives numerous requests from Members for guidance in this area. In addition, issues identified in compliance reviews, as well as the number of complaints received by the MFDA related to suitability concerns, have indicated that guidance and clarification for Members in this area should be a regulatory priority for the MFDA. MR-0069 is intended to address core deficiencies identified through compliance reviews and enforcement cases and reduce the number of client complaints received in this area.

MR-0069 sets out specific guidance with respect to:

- Collecting, assessing and approving KYC information;
- Know-your-Product including assessing the risk of prospectus qualified mutual funds, exempt securities and principal protected notes;
- Assessing suitability generally including assessing risk tolerance, investment objectives and time horizon;
- Trade and account supervision; and
- Assessing suitability of leveraging strategies.

By-law Amendments

In June 2007, the MFDA Board of Directors approved amendments to section 11 of MFDA By-law No. 1 respecting the Member approval process. The amendments are intended to streamline and clarify the MFDA Member approval process and the appeal process where membership has been or is proposed to be denied or granted conditionally. The amendments were approved by the recognizing securities commissions on September 26, 2008.

Proposed amendments to section 25.4 of MFDA By-law No. 1 were approved by the MFDA Board of Directors on May 22, 2008 and published for public comment on June 13, 2008. The proposed amendments are intended to clarify the regulatory effect of MFDA Policies.

Rule Amendments

In May 2008, the MFDA Board of Directors approved proposed amendments to implement the core principles of the Client Relationship Model (CRM). The core principles under CRM relate to increased clarity in account opening documentation, transparency of cost and compensation disclosure and performance reporting. The proposed amendments were also intended to address issues identified by compliance and enforcement activities and comments received from Members through the MFDA Rule Review Survey. The proposed amendments were published for comment by the recognizing securities commissions on June 13, 2008.

Proposed amendments to MFDA Rule 2.2. (Client Accounts) will require that investors be provided with certain fundamental information on account opening to ensure that clients are aware of the role and responsibilities of the Member and what to expect as far as services and costs. Proposed amendments to Rule 2.2 will also clarify the duty of Members and Approved Persons to assess the suitability of investments in each client account when various triggering events occur.

Proposed amendments to Policy No. 2 — Minimum Standards for Account. Supervision will clarify the responsibilities of Members and Approved Persons in discharging their suitability obligations. These changes address issues regarding the KYC information that must be collected for each client, the maintenance of information on file and minimum standards that must be observed with respect to account supervision procedures.

The MFDA Board of Directors also approved proposed amendments to Rule 5.3 (Client Reporting) to ensure that all

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clients are provided with information with respect to the performance of investments in their accounts. In addition, amendments to Rule. 2.8.3 (Rates of Return) have been proposed to clarify the supervisory obligations of Members in relation to performance reporting provided directly to clients by Approved Persons.

Proposed amendments to MFDA Rule 1.1.6 (Introducing and Carrying Arrangement) were approved by the MFDA Board of Directors and published for public comment in May 2008. The amendments, which were drafted to address comments received from the MFDA Rule Review Survey as well as issues identified by MFDA Compliance and Enforcement staff in the course of performing their regulatory activities, clarify certain obligations regarding introducing/carrying dealer arrangements and the obligations of parties to such arrangements.

In May 2008, the MFDA Board of Directors approved proposed amendments to MFDA Rule 1.2.1(d)(vii) (Dual Occupations - Financial Planning). The proposed amendments are intended to clarify the requirements in the Rule where financial planning is conducted outside the Member by an Approved Person as an outside business activity. The proposed amendments to MFDA Rule 1.2.1.(d)(vii) were published for comment on June 27, 2008 and are currently under consideration by the recognizing securities commissions.

In addition, in 2008 the MFDA Board of Directors approved several housekeeping amendments to MFDA Rules, which were approved by the recognizing securities commissions on September 26, 2008, including:

- Rule 1.1.7 (Business Names, Trade Names, Styles);
- Rule 2.3.1 (Power of Attorney/Limited Trading Authorization);
- Rule 3 (Financial and Operations Requirements);
- Rules 4.2 (Notice of Termination) and 4.3 (Termination or Cancellation); and
- Rule 4.7(b) (Global Financial Institution Bonds).

Form Amendments

Housekeeping amendments to MFDA Form 1 — Financial Questionnaire and Report were approved by the MFDA Board of Directors and the recognizing securities commissions in 2008. The amendments are intended to update existing requirements and correct cross-references.

Policy Amendments

In June 2007, the MFDA Board of Directors approved amendments to MFDA Policy No. 3 — Handling Client Complaints, which sets out general requirements with respect to the handling of complaints by Members. The objective of the proposed amendments is to provide guidance with respect to the standards that Members should have in place regarding complaint handling and supervisory investigations. Proposed amendments to Policy No. 3 were published for comment on July 13, 2007 and are currently awaiting approval of the recognizing securities commissions.

In May 2008, the MFDA Board of Directors approved certain housekeeping amendments to MFDA Policy No. 1 — New Registrant Training and Supervision and MFDA Policy No. 4 — Internal Control Policy Statements. These amendments were approved by the recognizing securities commissions on September 26, 2008.

Member Regulation Notices

MFDA Member Regulation Notices are drafted by the MFDA Policy Department to assist Members and Approved Persons in the interpretation, application of, and compliance with MFDA By-laws and Rules. The following are key MFDA Notices issued during the period July 1, 2007 to June 30, 2008:

Maintaining Evidence of Disclosure (MR Notice #0064, Issue Date: August 22, 2007)

This Notice was issued in order to clarify the obligations of Members and Approved Persons with respect to maintaining evidence that requisite disclosures have been provided to clients pursuant to MFDA requirements.

MFDA Members commenced filing their monthly and annual financial filings using EFS (Electronic Filing System) [January]

MFDA IPC formally recognized by a number of securities commissions and commenced offering coverage for clients of MFDA Member Firms [July]

First comprehensive compliance review of all MFDA Members completed [December]

Churning (MR Notice #0065, Issue Date: October 4, 2007)

MFDA staff issued this Notice to provide clarification to Members and Approved Persons with respect to trading practices that may be considered churning. The Notice identifies concerns with certain practices and recommends that Members establish procedures to address these issues including supervisory controls, disclosure and prohibition of certain transactions where appropriate.

Prohibition on Use of Pre-Signed Forms (MR Notice #0066, Issue Date: October 31, 2007)

The purpose of this Notice is to emphasize that it is contrary to MFDA requirements for Members and Approved Persons to obtain pre-signed forms from their clients. The Notice states that the existence of pre-signed trade order forms in client files may be evidence that an Approved Person is engaging in discretionary trading.

Stealth Advising (MR Notice #0067, Issue Date: November 14, 2007)

This Notice clarifies the position of MFDA staff with respect to advice and other securities related services provided by non-registered individuals to clients of MFDA Members.

Servicing of Client Accounts in Transition (MR Notice #0068, Issue Date: March 20, 2008)

This Notice has been issued to clarify the responsibilities of Members in servicing client accounts when certain transitions, such as Approved Person transfers to another Member or mergers between Member firms, take place.

Suitability Guidelines (MR Notice #0069, Issue Date: April 14, 2008)

This Notice provides guidance to Members on how to establish a suitability framework to comply with their obligation to ensure each order accepted or recommendation made is in keeping with clients' KYC information. The Suitability Guidelines are discussed in more detail above under the heading "2007/2008 Key Initiatives".

Misleading Communications Regarding Leverage (MR Notice #0070, Issue Date: May 12, 2008)

This Notice cautions Members and Approved Persons against making or including statements containing misleading promotional information concerning investment loans in their sales communications or other materials provided to clients.

Looking Forward

MFDA Rule Review Survey

MFDA staff will be drafting recommendations and proposals to address issues raised in the responses to the survey. In addition to Rule amendments, staff will be drafting Member Regulation Notices to provide clarification and guidance in certain areas such as the use of business names/trade names, outside business activities and account transfers.

MEMBERSHIP SERVICES

The Communications and Membership Services group is active in maintaining Member files and responding to inquiries from Members, the public and the media. It is also responsible for maintaining and updating the MFDA website and facilitating Member events.

During the period July 1, 2007 to June 30, 2008, the Department responded to approximately 870 inquiries by telephone and e-mail. The majority of inquiries come from MFDA Members and Approved Persons respecting such topics as registration of Approved Persons, the Electronic Filing System and questions about the latest Notices and Bulletins.

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Management Discussion and Analysis

The financial statements present the results of the MFDA for the fiscal year ended June 30, 2008 with 2007 comparatives and accompanying notes.

Revenues

For the fiscal year ended June 30, 2008, the MFDA had revenues from operations of $24,571,114 (compared to $23,136,939 for the 2007 fiscal year). 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 cover the MFDA's yearly budgeted expenses.

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 15th, MFDA Members are required to report their AUA figures as at March 31st. AUA figures represent AUA from operations in all provinces other than Quebec and specifically exclude cash, GIC's, limited partnerships, and segregated funds. A Member's reported AUA 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 of AUA based upon this schedule. The fee rates on this tiered schedule are set in order 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 this tiered fee schedule. For some Members, a minimum fee applies. Each Member's fees for the year are broken down into four equal payments that are invoiced on a quarterly basis.

Membership fees for fiscal 2008 amounted to $24,043,796. Other sources of revenues for the MFDA include:

- Investment revenue of $385,853 that is derived from the investment of MFDA operating cash balances. These balances are invested in the CIBC Imperial Money Market Pooled Fund.
- Administration recoveries of $60,000 are costs recovered from the MFDA Investor Protection Corporation ("IPC") for administrative services provided to the IPC by MFDA staff.
- Late filing fees of $30,050 relate to fees levied against Members that have missed information filing deadlines.
- Enforcement recoveries of $51,415 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.

Expenses

Operating expenses were $24,829,528 for the fiscal year ended June 30, 2008 (compared to $21,711,811 for the 2007 fiscal year). As the MFDA has attained a mature state, expenses have leveled off and have become more predictable with significantly less variance in end-of-year surpluses/deficits than was experienced in previous years. Staff expenses continue to be the primary expense for the MFDA. The year over year increase in salaries and benefits expense relates to filling previously budgeted yet unfilled staff positions as well as filling the additional positions budgeted for fiscal 2008. The MFDA finished fiscal 2008 with 156 employees which was five positions short of the budgeted staff count of 161 positions.

During fiscal 2007, the MFDA expanded its Calgary and Toronto offices to accommodate operational growth. The year over year increase in rent expense from fiscal 2007 to 2008 primarily reflects

MFDA conducts its first ever Member Survey to identify areas where improvements or changes might be made respecting various aspects of MFDA's work [May] the additional office space now under lease and secondarily reflects the expiration of free rent periods that were in effect in fiscal 2007. No further office expansion is envisioned in the near future.

Travel expenses increased year over year due to more investigative, hearing, and compliance activities. Larger staff numbers reflecting fully built operations in Compliance and Enforcement, which are two travel intensive departments for the MFDA, also impacted travel expenses. Telecommunications expense was also impacted for similar reasons.

Expenses for consultants increased due to more consulting work required relating primarily to policy and regulatory issues. Cost sharing for industry sponsored projects with other agencies such as the Ontario Securities Commission as well as consulting on pension issues further increased consulting expenses.

Finally in regards to information technology, infrastructure and development related expenses have remained relatively unchanged year over year. Fiscal 2008 saw the successful continuation and roll-out of the Business Process Management ("BPM") system that was purchased in fiscal 2006. The BPM system is designed to streamline processes and create workflow efficiencies. The Enforcement Tracking System was successfully introduced into the BPM system and the Compliance examination process, introduced into BPM in fiscal 2007, also underwent further enhancement. The Member Event Tracking System (METS) went online in July 2007 and received ongoing improvements throughout the year as did the MFDA's website which received a number of upgrades throughout the year. Lastly, a call log tracking system which tracks the resolution of external requests received by the MFDA was implemented in the Membership Services department.

Excess of Revenue over Expenses

The MFDA experienced a deficit of revenues over expenses of $258,414 for fiscal 2008 (compared to an excess of revenue over expenses of $1,425,128 for the 2007 fiscal year). The 2008 fiscal year was a more normalized year for the MFDA in terms of operations and staffing than what has been experienced in previous years as the organization moved through its growth phase. Ongoing improvements in forecasting and budget formulation have allowed the MFDA to realize lower budget variances and consequently have reduced year end surpluses such as those experienced in previous fiscal years.

MFDA Discretionary Fund

This Fund is an internally restricted fund established by the MFDA Board of Directors for monies from the collection of enforcement fines and the disgorgement of profits imposed by order of an MFDA hearing panel. Hearing panel activity substantially increased in fiscal 2008. Consequently, the Discretionary Fund ended the year with a balance of $878,835 at June 30, 2008 (compared to $326,561 at June 30, 2007). For fiscal 2008 the Fund received fines of $525,500 (compared to $144,500 for fiscal 2007) and investment revenue of $26,979 (compared to $7,801 for fiscal 2007) derived from the investment of fund balances in the CIBC Imperial Money Market Pooled Fund.

MFDA Investor Protection Corporation

The MFDA bills and collects assessments on behalf of the MFDA Investor Protection Corporation (IPC). These amounts flow through the MFDA balance sheet as an asset to reflect the assessment to be received from Members, with an offsetting liability to the IPC reflecting future remittances due from the MFDA. For

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the period from July 1, 2007 to June 30, 2008 the MFDA billed $5,044,415 (compared to $5,047,619 for fiscal 2007) to its Members on behalf of the IPC.

Outlook for Fiscal 2009

The MFDA's most recent strategic plan formulated in 2006 and running through 2008 primarily sought to provide proactive policy development, implement regulatory best practices, effectively monitor compliance, enhance communications, and promote staff development. The MFDA has implemented a number of initiatives towards the accomplishment of the goals set forth in its strategic plan and will continue to do so throughout the coming year. However, management believes that now is the time to revisit the strategic plan created two years ago and to forge an updated plan that will guide the MFDA through the challenges of the next two to three years. As such, strategic planning for the organization will occur in the fall of 2008 with the new strategic plan to be rolled out in 2009.

Now that the MFDA has reached a mature state, growth in operations has tapered off considerably with departments now running at or near full staff complement. The MFDA had 156 employees as of June 30, 2008 and was budgeted for 161 positions at that time. An extremely competitive labor environment left the organization short in its staff count at year end. Increased demands in the area of Member regulation require a staff increase to 169 positions by June 30, 2009. No further office expansion is envisioned in the near future and new staff additions can be accommodated within existing premises.

Overall, other expenses for the organization have leveled off and consequently management believes that variances from budget will continue to narrow.

During fiscal 2008, the MFDA completed development of its Business Continuity Plan to ensure that the organization could continue to fulfill its regulatory mandate in the event of a business disruption. The Business Continuity Plan provides documented recovery procedures to enable all MFDA departments to resume critical business functions over various business disruption scenarios and for varying durations of time. As part of this plan, the MFDA put in place offsite recovery and hosting arrangements with recovery service providers. These recovery and hosting arrangements can be activated in the event of a business disruption to ensure continuation of the MFDA's core business activities. The Business Continuity Plan and corresponding recovery facilities were tested by the MFDA's independent business continuity consultant in the spring of 2008 and both the plan and the recovery facilities were found to be effective. Further scenario testing and updating of the plan will occur in 2008-2009.

Lastly, in regards to the adoption of International Financial Reporting Standards (IFRS) the MFDA will be studying the impact on its financial statements of adopting IFRS over the coming year. As a not-for-profit organization (NPO), the MFDA is currently not required to adopt IFRS. However, further guidance regarding NPOs is scheduled to be released later in 2008 by the Accounting Standards Board. Management will consider this new guidance before making a determination regarding the adoption of IFRS.

MFDA conducts its first ever comprehensive Member Rule Review Survey to identify which MFDA Rules are working, which Rules are not working and require amendment or further clarification and any new requirements that might be necessary to reflect industry changes [April]

MFDA launches a web-based electronic reporting system for members called METS (Member Event Tracking System) [July]

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 generally accepted accounting principles (GAAP) and necessarily include some amounts based on the estimates and judgments of management.

In discharging its responsibilities for the integrity and reliability of the financial statements, management maintains and relies upon a system of internal controls. These internal controls are designed to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The MFDA also maintains formalized policies and procedures and an organizational structure that segregates duties. The MFDA employs standards and procedures for hiring employees who are required to abide by a business code of conduct and receive ongoing training regarding the proper execution of their duties. Mechanisms also exist that enable reporting to the Audit & Finance Committee of any perceived unethical behavior by employees.

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

The Audit & Finance Committee reviews the effectiveness of the company's financial reporting and internal control systems, any significant financial reporting issues, the presentation and impact of significant risks, and key estimates and judgments of management that may be material for financial reporting purposes. Additionally, the Audit & Finance Committee meets periodically with MFDA management and the auditors, and reports to the Board of Directors thereon. The Audit & Finance Committee also reviews the annual financial statements and recommends them for approval by the Board of Directors.

The accompanying financial statements have been audited by the auditors who are engaged by the Board of Directors on the recommendation of the Audit & Finance Committee. The appointment of the auditor is ratified at the annual general meeting of MFDA members.

Larry M. Waite
President & Chief Executive Officer

Paul Reid
Director, Finance & Administration

Financials

Auditors' Report

To the Members of
Mutual Fund Dealers Association of Canada

We have audited the statements of financial position of Mutual Fund Dealers Association of Canada ("MFDA") as at June 30, 2008 and 2007 and the statements of revenues and expenses, changes in fund balances and of cash flows for the years then ended. These financial statements are the responsibility of MFDA's management. 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 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, these financial statements present fairly, in all material respects, the financial position of MFDA as at June 30, 2008 and 2007 and the revenues and expenses, changes in fund balances and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants
August 19, 2008

Statements of financial position

as at June 30

	2008	2007
	$	**$**
ASSETS		
CURRENT		
Cash (Note 3)	1,520,938	842,188
Investments (Note 3)	6,766,631	5,402,440
Membership fees billed in advance (Note 4)	5,166,705	6,013,016
MFDA Investor Protection Corporation assessments (Note 5)	15,042	8,727
Costs recoverable from MFDA Investor Protection Corporation (Note 7)	15,561	15,500
Other membership receivables	16,228	51,566
Prepaid expenses and other assets	257,328	316,607
	13,758,433	12,650,044
Capital assets (Note 6)	2,414,868	2,802,362
Employee benefit plan asset (Note 8)	1,073,700	559,000
	17,247,001	16,011,406
LIABILITIES AND FUND BALANCE		
CURRENT		
Accounts payable and accrued liabilities	1,126,069	1,181,022
Unearned membership fees (Note 4)	6,122,499	6,013,016
Membership application deposits	15,549	23,000
Due to MFDA Investor Protection Corporation (Note 5)	15,042	8,727
Obligations under capital lease (Note 10)	81,573	80,754
	7,360,732	7,306,519
Accrued employee benefit plans liability (Note 8)	1,940,600	997,400
Obligations under capital lease (Note 10)	136,462	192,140
	9,437,794	8,496,059
FUND BALANCES		
Operating Fund		
Invested in capital assets	2,196,833	2,529,468
Unrestricted net assets	4,733,539	4,659,318
	6,930,372	7,188,786
Discretionary Fund (Note 2)	878,835	326,561
	7,809,207	7,515,347
	17,247,001	16,011,406

Approved by the Board

Robert J. Wright, C.M., Q.C.
Director

Larry M. Waite
Director

Statements of revenues and expenses

for the years ended June 30

	2008	2007
	$	$
OPERATING FUND		
REVENUES		
Membership fees	24,043,796	22,672,576
Investment income (Note 11)	385,853	376,093
Administration recoveries (Note 7)	60,000	60,000
Enforcement recoveries	51,415	11,320
Late filing fees	30,050	16,950
Total revenues	24,571,114	23,136,939
EXPENSES		
Salaries and benefits (Note 8)	18,069,186	15,431,663
Rent and utilities	2,334,699	1,956,460
Travel	937,293	713,078
Amortization of capital assets	726,000	798,116
Office and general	525,217	495,215
Computer software and maintenance	421,868	406,954
Consultants	383,360	294,644
Education	280,886	299,861
Board of Directors - fees	256,000	305,500
Board of Directors - expenses	48,794	82,195
Legal	180,708	232,013
Meetings, seminars and communication	163,004	174,391
Hearing panels	154,519	232,895
Telecommunications	145,241	119,101
Insurance	122,261	123,670
Regional Councils	40,812	6,034
Bank charges and interest	32,547	36,417
Loss on disposal of capital assets	7,133	3,604
Total expenses	24,829,528	21,711,811
Excess (deficit) of revenues over expenses	(258,414)	1,425,128
DISCRETIONARY FUND (NOTE 2)		
REVENUES		
Fines	525,500	144,500
Investment income	26,979	7,801
Total revenues	552,479	152,301
EXPENSES		
Investment management fees	205	74
Total expenses	205	74
Excess of revenues over expenses	552,274	152,227

Statements of changes in fund balances

for the years ended June 30

	2008				2007
	Operating Fund				
	Invested in Capital Assets	**Unrestricted Net assets**	**Discretionary Fund**	**Total**	Total
	$	**$**	**$**	**$**	**$**
FUND BALANCES					
Balance, beginning of year	2,529,468	4,659,318	326,561	7,515,347	5,937,992
Excess (deficit) of revenues over expenses	–	(258,414)	552,274	293,860	1,577,355
Purchase of capital assets	318,856	(318,856)	–	–	–
Proceeds on disposal of capital assets	(3,000)	3,000	–	–	–
Loss on disposal of capital assets	(7,133)	7,133	–	–	–
Repayment of capital lease obligation	84,642	(84,642)	–	–	–
Amortization of capital assets	(726,000)	726,000	–	–	–
Balance, end of year	2,196,833	4,733,539	878,835	7,809,207	7,515,347

Statements of cash flows

for the years ended June 30

	2008	2007
	$	$
OPERATING ACTIVITIES		
Excess (deficit) of revenue over expenses – Operating Fund	(258,414)	1,425,128
Excess of revenue over expenses – Discretionary Fund	552,274	152,227
Items not involving cash		
Amortization of capital assets	726,000	798,116
Loss on disposal of capital assets	7,133	3,604
	1,026,993	2,379,075
Changes in non-cash working capital		
Membership fees billed in advance	846,311	(533,631)
Other membership receivables	35,338	(37,466)
MFDA Investor Protection Corporation assessments	(6,315)	26,555
Prepaid expenses and other assets	59,279	(99,587)
Accounts payable and accrued liabilities	(54,953)	53,240
Membership application deposits	(7,451)	11,000
Unearned membership fees	109,483	341,395
Due to MFDA Investor Protection Corporation	6,315	(34,265)
Costs recovered from MFDA Investor Protection Corporation	(61)	(583)
	2,014,939	2,105,733
Employee benefit plan asset	(514,700)	(199,000)
Accrued employee benefit plans liability	943,200	405,700
	2,443,439	2,312,433
INVESTING ACTIVITIES		
Purchase of investments	(1,364,191)	(1,191,332)
Purchase of capital assets	(318,856)	(1,946,893)
Principal payments on capital lease	(84,642)	(66,322)
Proceeds on disposal of capital assets	3,000	676
	(1,764,689)	(3,203,871)
Increase (decrease) in cash	678,750	(891,438)
Cash, beginning of year	842,188	1,733,626
Cash, end of year	1,520,938	842,188

Notes to the financial statements

June 30, 2008

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 75,000 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 of June 30, 2008, the MFDA had 159 Members (2007 – 162 Members).

2. Significant Accounting Policies

The financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. Because the precise determination of many assets and liabilities such as accrued liabilities and accrued employee benefit 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 careful 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.

Change in accounting policies

On July 1, 2007, the MFDA adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3855, "Financial Instruments – Recognition and Measurement" and Section 3861, "Financial Instruments – Disclosure and Presentation".

Upon the adoption of these new standards, the MFDA designated its investments as available-for-sale to be carried at fair value. Unrealized gains and losses between the fair value of investments and their amortized cost are included in the Operating Fund balance until realized on sale or maturity, at which time they are recorded with investment income. Accounts receivable were designated as loans and receivables and accounts payable and accrued liabilities were designated as other financial liabilities and carried at amortized cost using the effective interest method.

On July 1, 2007, no transitional adjustments were required to the opening balance of the Statement of Changes in Fund Balances as the investment was a money market fund, which was already carried at an amount that approximates fair value.

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 disgorgement of profits imposed by order of a MFDA hearing panel. Disbursements from the Discretionary Fund are currently restricted to 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 Members' 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:

Computers and software development	–	Straight-line method over 3 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

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 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 26 years (2007 – 27 years) for the registered pension plan, 9 years (2006 – 9 years) for the supplementary executive retirement plan and 18 years (2007 – 19 years) for other post-retirement benefits.

Cash

Cash includes cash on hand and balances with banks, net of bank overdrafts.

Investments

The investments represent short-term investments in a pooled money market fund and are carried at fair value. Unrealized gains and losses resulting from the difference between market value and cost are recorded in the Operating Fund balance until realized or until the asset is other than temporarily impaired, at which time they are recorded in the statement 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.

Accounts payable and accrued liabilities are classified as other liabilities and carried at amortized cost using the effective interest method.

Provision for income taxes

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 policies

In 2006, the CICA issued three new accounting standards: Handbook Section 1535, "Capital Disclosures", Handbook Section 3862, "Financial Instruments – Disclosures" and Handbook Section 3863, "Financial Instruments – Presentation". These standards will be effective July 1, 2008 for the MFDA.

Section 1535 specifies the disclosure of (i) MFDA's objectives, policies and procedures for managing equity; (ii) quantitative data about what the MFDA regards as equity; (iii) whether MFDA has complied with any capital requirements; (iv) if it has not complied, the consequences of such non-compliance.

Section 3862 and 3863 replace CICA Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing disclosure requirements and carries forward the presentation requirements under the existing Section 3861. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from recognized and unrecognized financial instruments and how the MFDA manages those risks.

The impact of these new standards on the MFDA's financial statements will primarily be additional disclosure.

3. Cash and Investments

Cash of $1,520,938 (2007 – $842,188) includes an amount of $7,348 (2007 – $1,754), which is restricted in use for the Discretionary Fund.

The MFDA has investments in the CIBC Imperial Money Market Pooled Fund (the "Fund") in the amounts of $5,895,013 (2007 – $5,065,702) for the Operating Fund and $871,618 (2007 – $336,738) for the Discretionary Fund.

4. Membership Fees Billed In Advance

The membership fees billed in advance represent billings issued in June for the quarterly membership fees due July 15.

5. 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 Members' 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.

6. Capital Assets

			2008
	Cost	**Accumulated Amortization**	**Net Book Value**
	$	**$**	**$**
Computers and software development	**2,924,210**	**2,374,435**	**549,775**
Office furniture and equipment	**1,339,998**	**549,884**	**790,114**
Leasehold improvements	**2,096,620**	**1,235,036**	**861,584**
Equipment under capital lease	**476,940**	**263,545**	**213,395**
	6,837,768	**4,422,900**	**2,414,868**

6. Capital Assets (continued)

	Cost	Accumulated Amortization	2007 Net Book Value
	$	$	$
Computers and software development	2,678,575	1,989,482	689,093
Office furniture and equipment	1,313,789	427,010	886,779
Leasehold improvements	2,069,875	1,111,553	958,322
Equipment under capital lease	447,157	178,989	268,168
	6,509,396	3,707,034	2,802,362

During the year, depreciation of $726,000 (2007 – $798,116) was recorded.

7. 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 staff. The support costs charged to the IPC for the year amounted to $60,000 (2007 – $60,000) and were recorded at the agreed upon amount. The outstanding amount of $15,561 (2007 – $15,500) is paid on a quarterly basis according to the support agreement.

8. Employee benefit plans

MFDA has two defined benefit pension plans for eligible employees, being a registered 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; such post-retirement benefits terminate at the age of 75 (2007 – 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:

	RPP	**SERP**	**PRB**	**2008 Total**	2007 Total
	$	**$**	**$**	**$**	$
Fair value of assets	**3,863,300**	**2,630,200**	**–**	**6,493,500**	5,009,500
Accrued benefit obligation	**6,317,100**	**2,422,300**	**1,285,800**	**10,025,200**	6,549,700
Funded status (deficit)	**(2,453,800)**	**207,900**	**(1,285,800)**	**(3,531,700)**	(1,540,200)
Unamortized transitional (assets)/obligation	**(4,800)**	**15,500**	**9,200**	**19,900**	22,700
Unamortized net actuarial loss	**1,422,800**	**850,300**	**371,800**	**2,644,900**	1,079,100
Accrued benefit plan asset (liability)	**(1,035,800)***	**1,073,700**	**(904,800)***	**(866,900)**	(438,400)

* The total of $(1,940,600) represents accrued employee benefit plans liability as of June 30, 2008 (2007 – $(997,400)).

The RPP plan assets are invested in a balanced pool fund. RPP pension benefits transferred out during fiscal 2008 totalled $9,785 (2007 – $123,329).

The total SERP assets of $2,630,200 (2007 – $1,830,400) consists of $1,384,681 (2007 – $999,496) which are invested in a balanced portfolio and $1,245,519 (2007 – $830,904) that are being 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 April 1, 2007. The next required actuarial valuation will be as of April 1, 2010.

8. Employee benefit plans (continued)

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:

				2008	2007
	RPP	**SERP**	**PRB**	**Total**	Total
	$	**$**	**$**	**$**	$
Net benefit expense	**1,285,000**	**279,300**	**309,800**	**1,874,100**	1,377,800
Contributions					
Employer	**651,600**	**794,000**	**–**	**1,445,600**	1,171,100
Employee	**203,500**	**–**	**–**	**203,500**	166,000

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

	2008	2007
	%	%
Weighted average discount rate for pensions	**5.25**	5.75
Weighted average discount rate for post retirement benefits	**5.25**	5.50
Weighted expected rate of return on plan assets	**7.00**	7.00
Weighted average rate of compensation increase	**4.5 to 5.0**	4.5 to 5.0

The post-retirement benefits reflect a 10% to 15% annual rate of increase in the cost of medical benefits for 2009. These rates are assumed to decrease gradually to 5% by 2019 and remain at that level thereafter. The dental benefits are assumed to increase at an annual rate of 3.5%.

9. Credit Facility

The MFDA has a demand credit facility limited to a maximum of $3,000,000 (2007 – $3,000,000). The credit facility bears an interest rate of prime plus 0.5% per annum. The MFDA has granted a general security interest to the bank in connection with this facility. During the years ended June 30, 2008 and 2007 the credit facility was not utilized.

10. Commitments and Contingent Liability

(a) Lease obligations

The MFDA has entered into various operating leases for its office premises and six capital leases for office equipment. The capital leases have implicit interest rates of 7.1%, 4.9%, 5.4%, 0.0%, 6.2%, and 7.8% and expire in March 2009, March 2010, February 2010, October 2011, August 2012, and July 2013 respectively. The aggregate future minimum lease payments associated with these six leases is $229,594 which includes interest charges of $11,559.

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

	$
2009	**1,089,618**
2010	**1,067,718**
2011	**1,049,610**
2012	**1,011,731**
2013	**971,204**
Thereafter	**2,202,893**
	7,392,774

10. Commitments and Contingent Liability (continued)

(b) Guarantee

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

11. Investment income

Investment income is comprised of the following:

	2008	2007
	$	$
Operating Fund		
Distribution from money market fund	**264,757**	227,843
Bank interest	**121,096**	148,250
	385,853	376,093
Discretionary Fund		
Distribution from money market fund	**26,468**	7,613
Bank interest	**511**	188
	26,979	7,801

12. 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 manages financial risks through investing in pooled funds which are diversified across various debt instruments.

Currency risk

All investments of the MFDA are denominated in Canadian dollars and as such are not subject to currency risk.

Interest rate risk

Interest rate risk refers to the adverse consequences of interest rate changes on the MFDA's investments. The value of the MFDA's investments in a pooled money market fund is 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.

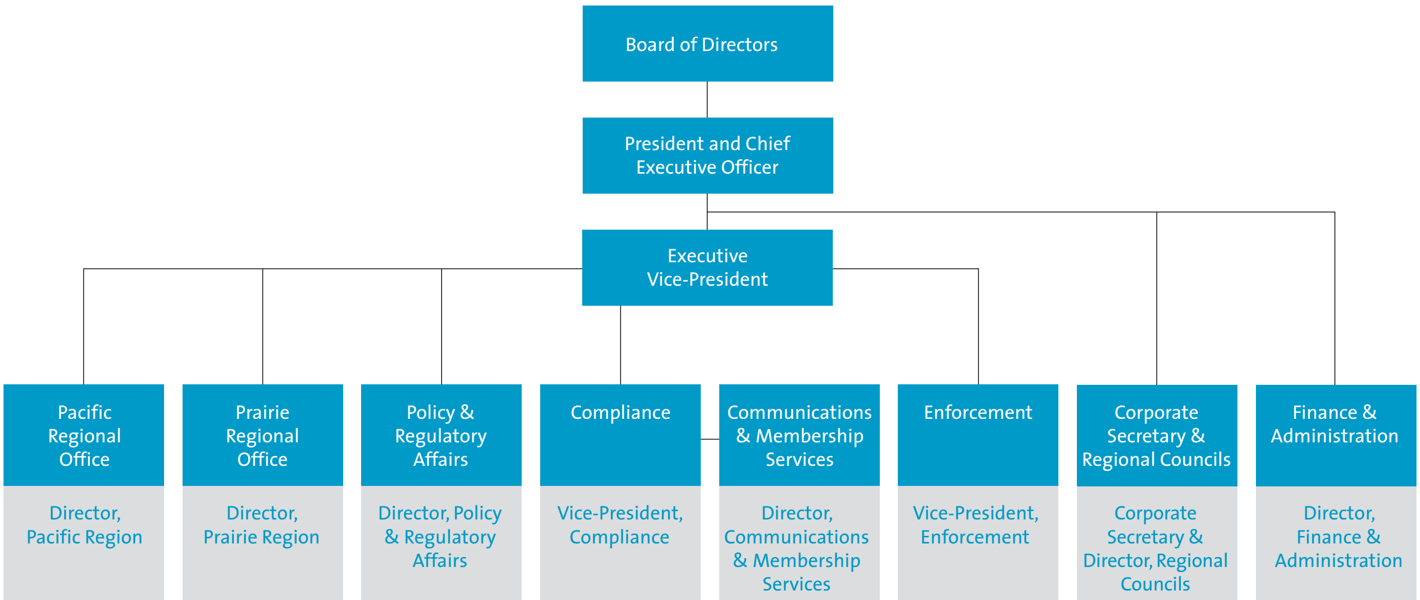
Market risk

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.

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. Credit risk is managed by the MFDA through dealing with reputable financial institutions.

MFDA Organizational Chart



Executive Officers

Robert J. Wright, C.M., Q.C.	Chair of the Board
W. David Wood	Vice-Chair of the Board
Larry M. Waite	President and Chief Executive Officer
Mark T. Gordon	Executive Vice-President

Officers

Shaun Devlin	Vice-President, Enforcement
Karen McGuinness	Vice-President, Compliance
Paul Reid	Director, Finance and Administration
Jason Bennett	Corporate Secretary and Director, Regional Councils
Dale Pratt	Controller
Bernadette Devine	Assistant Corporate Secretary

Management Directors

Jeff Mount	Director, Pacific Region
Mark Stott	Director, Prairie Region
Paige Ward	Director, Policy and Regulatory Affairs

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For more information on the MFDA, please visit our website: **www.mfda.ca**