



MFDA Investor Protection Corporation

Corporation de protection des investisseurs de l'ACFM

Information about the MFDA Investor Protection Corporation

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

The MFDA is the sole self-regulatory organization that is a sponsor of the IPC. The IPC began offering coverage on July 1, 2005. At June 30, 2008, 159 mutual fund dealers across Canada participated in the Fund.

IPC Coverage Policy and Limits

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

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

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

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

Funding and the Size of Fund

Funds are obtained by the IPC through the levy of quarterly assessments on MFDA Member Firms. Presently, Member Firms contribute to the Fund at the rate of approximately \$5 million per year and will continue to do so until the initial funding target of \$30 million is reached. As at June 30, 2008, the balance in the Fund stood at \$17.8 million. In addition, the IPC has obtained a credit facility from a Canadian chartered bank with a maximum limit of \$30 million. This facility is guaranteed by the MFDA.

The IPC is engaged in continuous evaluation of the risk to the Fund and expects to periodically reset the size of the Fund as appropriate.

Year in Review

The Board met 7 times in fiscal year ended June 30, 2008. Four meetings were the regular quarterly meetings of the Board and 3 meetings were held for special purposes.

Initiatives in 2007–2008

Several initiatives took place during the year. The Board:

- a) submitted an application to Industry Canada to become a recognized compensation body under the Bankruptcy and Insolvency Act of Canada;
- b) conducted a survey of MFDA Member Firms to obtain information for input into its risk assessment and management processes. Information concerning products that Members sell and the size of accounts maintained by Member Firms was obtained. Verification and analysis of this information is ongoing;
- c) redrafted the Coverage Policy and submitted it to the MFDA Board for comment. The changes proposed include explicit inclusion of client assets under the Member's control as part of IPC coverage and clarification of a number of items including the definition of a Quebec account;
- d) increased the number of directors on the IPC Board and appointed 1 Public and 1 Industry Director to fill the new positions;
- e) prepared an application to the CSA to change the definition of "Public Director" and the terms of office of the Public Directors of the IPC;
- f) conducted its annual review of the size of the IPC Fund;
- g) reviewed the credit line facility;
- h) reviewed and revised its investment policy; and
- i) continued its risk assessment and management efforts.

IPC Staff and Consultants

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

Insolvencies

There was one insolvency of a Quebec-based Member Firm during fiscal 2008 and one of an Ontario Member Firm shortly after the fiscal year end. In both cases, client accounts were transferred to another dealer and no claims to IPC have arisen to date.

Commentary on Financial Results

The IPC's excess of revenue over expenses was \$5,202,697 for the year ended June 30, 2008. This compares to \$4,972,209 for the previous period. The IPC's revenue was \$5,687,618 for the year ended June 30, 2008. This compares to \$5,460,069 for the previous year.

This year, IPC assessments to MFDA Members totaled \$5,044,415, compared to \$5,047,619 for the previous year. Investment revenue was \$643,203 in fiscal 2008, an increase over the previous year's amount of \$412,450.

The IPC's chief source of revenue is Member assessments, which are calculated based on the amount of Assets under Administration ("AUA") under the Member Firm's control. Each year, the fees are reset based on updated reports of AUA numbers. The assessment rates are set to generate an annual total assessment of approximately \$5 million. Investment income has increased as the Fund accumulates, and, in fiscal year ended June 30, 2008, more than covered the annual operating expenses of the IPC.

Operating expenses were \$484,921 in fiscal 2008, \$2,939 less than the previous year.

The balance in the Operating Fund increased by \$5,202,697 this year, compared to an increase of \$4,972,209 during fiscal 2007. The year-end balance is \$17,820,471 at June 30, 2008, compared to \$12,617,774 last year-end.

Summarized Balance Sheets

As at June 30

	2008	2007
ASSETS		
Cash	\$ 89,537	\$ 111,076
Investments	17,743,310	12,558,052
MFDA Investor Protection Corporation assessments receivable from the MFDA	15,042	8,727
Interest receivable	52,859	152
	<u>\$ 17,900,748</u>	<u>\$ 12,678,007</u>
LIABILITIES		
Accounts payable and accrued liabilities	\$ 64,716	\$ 44,733
Support costs due to MFDA	15,561	15,500
	<u>80,277</u>	<u>60,233</u>
FUND BALANCE		
Operating Fund	17,820,471	12,617,774
	<u>17,820,471</u>	<u>12,617,774</u>
	<u>\$ 17,900,748</u>	<u>\$ 12,678,007</u>

Summarized Statements of Revenues and Expenses and Changes in Fund Balance

For the years ended June 30

	2008	2007
REVENUES		
Assessments of MFDA Members	\$ 5,044,415	\$ 5,047,619
Investment income	643,203	412,450
	<u>5,687,618</u>	<u>5,460,069</u>
EXPENSES		
Operating expenses	484,921	487,860
	<u>484,921</u>	<u>487,860</u>
EXCESS OF REVENUES OVER EXPENSES	5,202,697	4,972,209
FUND BALANCE, BEGINNING OF YEAR	12,617,774	7,645,565
FUND BALANCE, END OF YEAR	<u>\$ 17,820,471</u>	<u>\$ 12,617,774</u>

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

Auditors' Report on Summarized Financial Statements

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

The accompanying summarized balance sheets and summarized statements of revenues and expenses and changes in fund balance (collectively the "summarized financial statements") are derived from the complete financial statements of MFDA Investor Protection Corporation as at June 30, 2008 and 2007 and for the years then ended on which we expressed an opinion without reservation in our report dated August 19, 2008. The fair summarization of the complete balance sheets and statements of revenues and expenses and changes in fund balance is the responsibility of management. Our responsibility, in accordance with the applicable Assurance Guideline of The Canadian Institute of Chartered Accountants, is to report on the summarized financial statements.

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

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

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants
August 19, 2008

MFDA IPC Board of Directors and President

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

Public Directors

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

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

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

Industry Directors

Andrew Dalglish
Executive Vice-President, Operations
Mackenzie Financial Corporation
(Toronto, Ontario)

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

President

Joni Alexander
IPC President

Contact the MFDA IPC at:

MFDA Investor Protection Corporation
c/o Mutual Fund Dealers Association of Canada
121 King Street West, Suite 1000
Toronto, Ontario M5H 3T9

Tel: 416-361-6332

Toll Free: 1-888-466-6332

Fax: 416-943-1218

Website: www.mfda.ca

Left to Right: David Wood, Andrew Dalglish, Larry Wright, David Richards, Don Page, Joni Alexander

