



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



2015

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## ANNUAL REPORT

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## INFORMATION ABOUT THE MFDA INVESTOR PROTECTION CORPORATION

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

The MFDA is the sole self-regulatory organization that is the sponsor of the MFDA IPC. The MFDA IPC began offering coverage on July 1, 2005. At June 30, 2015, 103 mutual fund dealers across Canada participated in the Fund. The MFDA IPC operates in all provinces except Quebec, which has its own compensation fund.

## MFDA IPC COVERAGE

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

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

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

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

## FUND RESOURCES AND SIZE

The MFDA IPC is funded through the levy of quarterly assessments on MFDA Member Firms. The balance of the Fund stood at \$32.9 million as of June 30, 2015. The Fund target remains at \$50 million as approved by the Board of Directors of both the MFDA and the MFDA IPC in October 2010. To reach the target, a regular annual assessment of \$2.9 million is being allocated among the membership over a 7 year period commencing July 1, 2011 and a \$1.3 million annual replenishment assessment for the W.H. Stuart Mutuals Ltd. ("WHS") payout over 6 years commencing January 1, 2015.

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

## 2015 IN REVIEW

### INSOLVENCIES IN 2015

There were no new insolvencies in 2015. During 2015, the MFDA IPC continued the administration of the WHS insolvency. WHS was suspended by the MFDA on May 31, 2013 and was determined by the Board of Directors of the MFDA IPC to be insolvent as of that date for the purpose of claims by customers of WHS against the MFDA IPC. Effective June 1, 2013, the client accounts and approved persons of WHS were transferred to another MFDA Member. On September 18, 2013, WHS was placed under the administration

of a bankruptcy trustee. Some WHS client accounts had shortfalls in the amount of cash or mutual funds owed to these clients. To date, the MFDA IPC has approved for payment claims totalling \$6.8 million and paid \$6.4 million.

## ***BOARD INITIATIVES IN 2014-2015***

Throughout fiscal 2015, the Board of Directors (the "Board") continued its work to ensure that the MFDA IPC had adequate resources to fulfill its mandate.

Key Board initiatives included:

- Reappointment of Kevin Regan as Industry Director.
- Finalizing the update of the MFDA IPC Recognition Order.
- Conducting the annual review of the MFDA IPC's investments. The Board reviews the composition and performance of the MFDA IPC's investments at each quarterly Board meeting. In addition, at least once per year, the Investment Policy is reviewed.
- Implementing a replenishment assessment for the WHS payout.
- Implementing cyber insurance.
- Annual review and renewal of excess fund insurance.
- Annual review of the MFDA IPC's credit facility.
- Continuing its risk assessment and management efforts.

The Board met five times in fiscal 2015 in four regularly scheduled quarterly meetings and one additional meeting. All Board members attended all meetings.

## ***FINANCIAL REVIEW AND OUTLOOK***

### ***BALANCE SHEET***

The balance in the Operating Fund stood at \$32.9 million as at June 30, 2015, an increase of \$2.6 million over the previous year.

Total assets of \$33.8 million include investments of \$33.1 million. Within the objectives of capital preservation and liquidity, the MFDA IPC's Investment Policy requires that all investments are debt instruments issued by Canadian or provincial governments or Canadian or provincial Crown corporations or corporate fixed income investments (for a portion of the portfolio). A portion of the portfolio is kept in short-term instruments to ensure liquidity. At June 30, 2015, the investments balance was lower by \$0.9 million from 2014. In 2014, investments were sold to cover the payout of WHS claims. During fiscal 2015, regular assessments and the implementation of the replenishment assessment on January 1, 2015, contribute to rebuilding the investment portfolio post-WHS.

An accrual of \$0.9 million was made for the WHS insolvency as at June 30, 2015. Included in the provision for claims is \$0.5 million for approved claims but not yet paid. The MFDA IPC continues to receive WHS claims. No amounts are accrued for these new claims until the MFDA IPC makes a determination that the claims are eligible under its Coverage Policy. Also, included in the provision for claims is an accrual for expenses of \$0.4 million in relation to completing the administration of the WHS insolvency. These costs include legal and consulting expenses. The MFDA IPC is subject to a lawsuit related to WHS. Where estimable, costs related to the administration of defending the lawsuit have been accrued. Any possible obligation of the MFDA IPC related to the lawsuit cannot be reasonably estimated and has not been accrued.

### ***REVENUES AND EXPENSES***

The MFDA IPC's excess of revenues over expenses for the year ended June 30, 2015 was \$2.6 million. Operating expenses for the year, excluding provision for claims and related expenses, were \$1,177,464, generally in line with the previous year of \$1,125,691.

The MFDA IPC's chief source of revenue is Member Firm assessments, which are calculated based on the amount of assets under administration ("AUA") under the Member Firm's control. Each year, the fees are reset based on updated reports of AUA numbers. The MFDA IPC 2015 assessments to Member Firms totalled \$3.6 million, in accordance with the plan to continue to build the Fund to a target of \$50 million. The assessments were comprised of an annual regular assessment of \$2.9 million and an annual replenishment assessment of \$1.3 million commencing January 1, 2015.

Investment income for the year ended June 30, 2015 was \$796,729, an increase from the previous year's amount of \$790,736.

## **FINANCIAL OUTLOOK FOR FISCAL 2016**

Assessment revenue is expected to be about \$4.2 million in 2016 comprised of the annual regular assessment of \$2.9 million and replenishment assessment of \$1.3 million. This assessment amount is consistent with reaching the planned target of \$50 million.

The Fund is forecasting the regular 2016 operating expenses to be approximately \$1.2 million. This amount excludes any additional provision for claims or related expenses in the WHS matter. As the administration of the WHS matter continues, additional costs beyond what has already been accrued may be incurred.

# FINANCIAL STATEMENTS 2015

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of MFDA Investor Protection Corporation, which comprise the balance sheets as at June 30, 2015 and June 30 2014, and the statements of revenues and expenses, changes in fund balance and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

#### **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of the MFDA Investor Protection Corporation as at June 30, 2015 and June 30, 2014, and the results of its operations and its cash flows for the years then ended in accordance with Canadian accounting standards for not-for-profit organizations.

The signature of Deloitte LLP is written in a cursive, handwritten style.

Chartered Professional Accountants  
Licensed Public Accountants  
September 22, 2015

# MFDA Investor Protection Corporation

## Balance Sheets

	June 30, 2015	June 30, 2014
	\$	\$
<b>Assets</b>		
Current		
Cash	422,341	2,976,526
Investments (Note 4)	33,049,778	33,993,800
Assessments receivable from the MFDA (Note 5)	11,688	87,610
Prepaid expenses	239,327	288,269
Interest receivable	97,585	125,778
	33,820,719	37,471,983
<b>Liabilities and Fund balance</b>		
Current		
Accounts payable and accrued liabilities	100,996	120,771
Provision for claims and related expenses (Note 9)	853,911	7,034,030
Support costs due to the MFDA (Note 6)	17,591	16,950
	972,498	7,171,751
<b>Fund balance</b>		
Operating Fund		
Unrestricted net assets	32,848,221	30,300,232
Contingency (Note 10)		
	33,820,719	37,471,983

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

Approved on behalf of the Board

*“David Richards”*

Director

*“Kevin Regan”*

Director



# MFDA Investor Protection Corporation

## Statements of Revenues and Expenses and Changes in Fund Balance for the years ended June 30, 2015 and 2014

	2015	2014
	\$	\$
<b>Operating Fund</b>		
<b>Revenues</b>		
Assessments of MFDA Members	3,625,626	2,932,700
Investment income (Note 8)	796,729	790,736
<b>Total revenues</b>	<b>4,422,355</b>	<b>3,723,436</b>
<b>Expenses</b>		
Insurance	338,382	325,910
Consultants	325,068	305,329
Bank charges (Note 7)	136,129	136,467
Board of Directors - fees and expenses	89,659	87,369
Investment management fees	86,131	81,920
Legal	72,204	83,194
MFDA support charges (Note 6)	67,800	67,800
Audit fees	33,247	21,159
Office and general	28,844	16,543
<b>Total expenses</b>	<b>1,177,464</b>	<b>1,125,691</b>
Excess of revenues over expenses before the undernoted items	3,244,891	2,597,745
Provision for claims and related expenses (Note 9)	696,902	7,558,094
<b>Excess of revenues over (expenses)</b>	<b>2,547,989</b>	<b>(4,960,349)</b>
Fund balance, beginning of year	30,300,232	35,260,581
<b>Fund balance, end of year</b>	<b>32,848,221</b>	<b>30,300,232</b>

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

# MFDA Investor Protection Corporation

## Statements of Cash Flows

for the years ended June 30, 2015 and 2014

	2015	2014
	\$	\$
<b>Operating activities</b>		
Excess of revenues over (expenses) - Operating Fund	2,547,989	(4,960,349)
Changes in non-cash working capital		
Assessments receivable from the MFDA	75,922	(76,116)
Prepaid expenses	48,942	(6,160)
Interest receivable	28,193	(10,128)
Accounts payable and accrued liabilities	(19,775)	(28,981)
Provision for claims and related expenses	(6,180,119)	6,462,620
Support costs due to the MFDA	641	(1,448)
<b>Cash (utilized)/generated by operating activities</b>	<b>(3,498,207)</b>	1,379,438
<b>Investing activity</b>		
Net purchase and sale of investments	944,022	1,354,376
(Decrease)/Increase in cash during the year	(2,554,185)	2,733,814
Cash, beginning of year	2,976,526	242,712
<b>Cash, end of year</b>	<b>422,341</b>	2,976,526

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

# **MFDA INVESTOR PROTECTION CORPORATION**

## **Notes to the Financial Statements**

### **June 30, 2015 and 2014**

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#### **1. ORGANIZATION**

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

#### **2. STATEMENT OF COMPLIANCE WITH CANADIAN ACCOUNTING STANDARDS FOR NOT-FOR-PROFIT ORGANIZATIONS**

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations Part III of the CPA Canada Handbook.

#### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

##### *Use of estimates and judgement*

As the precise determination of the value of many assets and liabilities, such as accrued liabilities, is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates and approximations that have been made using judgment. Actual results could differ from those estimates. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

##### *Fund accounting*

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

##### *Member assessments*

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

##### *Provision for income taxes*

The MFDA IPC is a not-for-profit organization within the meaning of the *Income Tax Act* (Canada). Accordingly, there is no provision for income taxes in these financial statements.

**MFDA INVESTOR PROTECTION CORPORATION**  
**Notes to the Financial Statements**  
**June 30, 2015 and 2014**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Cash*

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

*Investments*

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

Investments in bonds are recorded at amortized cost. Any gains and losses are recognized in the Statements of Revenues and Expenses in the period that the asset is sold or becomes permanently impaired. Interest income from the bonds is accrued daily and recorded under Investment income in the Statements of Revenues and Expenses. Interest income includes the amortization of bond premiums or the accretion of bond discounts, calculated using the effective interest rate method.

Investments in Canadian federal or provincial treasury bills or notes are recorded at fair value with any unrealized gains and losses being recorded in the Statements of Revenues and Expenses. As these instruments are short term in nature, cost approximates fair value. Any realized gains and losses are recognized in the Statements of Revenues and Expenses in the period that the asset matures, is sold or becomes permanently impaired. Interest income from the bonds is accrued daily and recorded under Investment income in the Statements of Revenues and Expenses.

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

*Other financial instruments*

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

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

*Provision for claims and related expenses*

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

**MFDA INVESTOR PROTECTION CORPORATION**  
**Notes to the Financial Statements**  
**June 30, 2015 and 2014**

**4. INVESTMENTS**

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

Investment	Par value (\$) / number of units	Credit rating	Carrying value	Fair value
<b>Bonds</b>			\$	\$
Canada Housing Trust, 2.45%, Mat. Dec 15 2015	3,500,000	AAA	3,517,085	3,527,755
Quebec Provincial, 4.50%, Mat. Dec 01 2016	2,965,000	Ah	3,015,197	3,123,183
B.C Provincial, 4.70%, Mat. Dec 01 2017	2,605,000	Aah	2,716,853	2,846,718
Canada Government, 4.25%, Mat. Jun 01 2018	2,865,000	AAA	3,011,844	3,177,285
Ontario Provincial, 4.40%, Mat. Jun 02 2019	2,905,000	AA1	3,036,256	3,263,971
Canada Housing Trust, 3.75%, Mat. Mar 15 2020	2,960,000	AAA	3,052,622	3,303,094
B.C. Provincial, 3.25%, Mat. Dec 18 2021	2,810,000	Aah	2,867,974	3,072,763
Alberta Provincial, 2.55%, Mat. Dec 15 2022	1,605,000	AAA	1,608,354	1,670,211
New Brunswick Provincial, 2.85%, Mat. Jun 2023	1,625,000	Ah	1,622,856	1,695,200
Canada Housing Trust, 2.35%, Mat. Sep 15 2023	1,285,000	AAA	1,276,025	1,326,981
Canada Housing Trust, 2.90%, Mat. Jun 15 2024	1,380,000	AAA	1,463,840	1,476,283
Sub-total Bonds			27,188,906	28,483,444
Cash on hand for bond investment	N/A	N/A	276,442	276,442
<b>Treasury Bills and Notes</b>				
Canada Government, 0.586%, Mat. Jul 16 2015	2,500,000	AAA	2,496,375	2,496,375
Sub-total Treasury Bills and Notes			2,496,375	2,496,375
Cash on hand for short-term investment	N/A	N/A	13,857	13,857
<b>Mutual Funds</b>				
Mackenzie Floating Rate Income Fund, Series O	838.92	N/A	2,061,575	2,061,575
Mackenzie Corporate Bond Fund, Series O	490.93	N/A	1,012,623	1,012,623
Sub-total Mutual Funds			3,074,198	3,074,198
<b>Total Investments</b>			<b>33,049,778</b>	<b>34,344,316</b>

**MFDA INVESTOR PROTECTION CORPORATION**  
**Notes to the Financial Statements**  
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**4. INVESTMENTS (CONTINUED)**

The following table lists the investment holdings and their carrying and fair values as at June 30, 2014.

Investment	Par value (\$) / number of units	Credit rating	Carrying value	Fair value
Bonds				
Canada Housing Trust, 2.75%, Mat. Sep 15 2014	3,495,000	AAA	3,506,460	3,507,093
Canada Housing Trust, 2.45%, Mat. Dec 15 2015	3,500,000	AAA	3,554,096	3,567,585
Quebec Provincial, 4.50%, Mat. Dec 01 2016	2,965,000	Ah	3,049,932	3,185,863
B.C Provincial, 4.70%, Mat. Dec 01 2017	2,605,000	Aah	2,761,212	2,877,561
Canada Government, 4.25%, Mat. Jun 01 2018	2,865,000	AAA	3,060,311	3,175,767
Ontario Provincial, 4.40%, Mat. Jun 02 2019	2,905,000	AA1	3,067,649	3,225,741
Canada Housing Trust, 3.75%, Mat. Mar 15 2020	2,960,000	AAA	3,071,271	3,237,974
B.C. Provincial, 3.25%, Mat. Dec 18 2021	2,830,000	Aah	2,896,672	2,981,348
Alberta Provincial, 2.55%, Mat. Dec 15 2022	1,605,000	AAA	1,608,758	1,594,407
New Brunswick Provincial, 2.85%, Mat. Jun 2023	1,625,000	Ah	1,622,618	1,613,690
Canada Housing Trust, 2.35%, Mat. Sep 15 2023	920,000	AAA	901,199	902,272
Sub-Total Bonds			29,100,178	29,869,301
Cash on hand for bond investment	N/A	N/A	500,044	500,044
Treasury Bills and Notes				
Canada Government, 0.915%, Mat. Jul 17 2014	4,403,000	AAA	4,393,578	4,393,578
Sub-Total Treasury Bills and Notes			4,393,578	4,393,578
<b>Total Investments</b>			<b>33,993,800</b>	<b>34,762,923</b>

**MFDA INVESTOR PROTECTION CORPORATION**  
**Notes to the Financial Statements**  
**June 30, 2015 and 2014**

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**5. ASSESSMENTS RECEIVABLE FROM THE MFDA**

The assessments to MFDA members billed by the MFDA are due to the MFDA IPC upon collection by the MFDA. The amount of \$11,688 (2014 - \$87,610) represents outstanding amounts from MFDA members on billings due at June 30, 2015 and 2014.

**6. SUPPORT COSTS DUE TO THE MFDA**

The MFDA provides the MFDA IPC administrative, corporate secretarial and other support to allow the MFDA IPC to operate without its own staff. The MFDA IPC and the MFDA have entered into a support agreement to define these areas of assistance. The amount of support costs for the year was \$67,800 (2014 - \$67,800) and was recorded at the agreed upon amount. Payments are made on a quarterly basis in accordance with the support agreement. The MFDA IPC owed the MFDA \$17,591 (2014 - \$16,950) in respect of support costs as at June 30, 2015 and 2014.

**7. CREDIT FACILITIES AND INSURANCE**

The MFDA IPC has been granted a credit facility limited to a maximum of \$30 million (2014 - \$30 million) by the Royal Bank of Canada (the "RBC"). The credit facility, in combination with the investments accumulated by the MFDA IPC, exists to provide protection to customers of members of the MFDA in the event of loss resulting from an insolvency of an MFDA member. The MFDA has guaranteed repayment of the \$30 million line of credit to the RBC. To date, no amount has been drawn on the line of credit.

At June 30, 2015 the interest rate is prime + 0.75% per annum (2014 - prime + 0.75% per annum). In the absence of a drawdown, the RBC charges a standby fee on the credit line. This charge is included in Bank charges in the Statements of Revenues and Expenses in the amount of \$134,746 (2014 - \$134,990).

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

**8. INVESTMENT INCOME**

Investment income is comprised of the following:

	2015	2014
	\$	\$
Income from bonds		
Coupon interest	936,016	1,038,938
Accretion of the bond discount/premium	(233,959)	(271,641)
Realized gain	620	-
	702,677	767,297
Income from treasury bills and notes		
Coupon interest	17,514	23,439
Income from mutual funds		
Distributions	105,295	-
Unrealized loss	(28,728)	-
Realized loss	(29)	-
<b>Total investment income</b>	<b>796,729</b>	<b>790,736</b>

**MFDA INVESTOR PROTECTION CORPORATION**  
**Notes to the Financial Statements**  
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**9. PROVISION FOR CLAIMS AND RELATED EXPENSES**

At June 30, 2015 there continued to be one member insolvency, W.H. Stuart Mutuals, Ltd. ("WHS") for which claims continued to be received. The provision for claims and related expenses and the change in provision during the year and payments made for this insolvency is as follows:

	<b>W.H. Stuart Mutuals Ltd.</b> ( <b>"WHS"</b> )
	\$
Provision at July 1, 2014	7,034,030
Increase in provision	696,902
Payments during the year	(6,877,021)
Provision at June 30, 2015	853,911

WHS was suspended by the MFDA on May 31, 2013 and was determined by the Board of Directors of the MFDA IPC to be insolvent as of that date for the purpose of claims by clients of WHS against MFDA IPC. WHS was placed under the administration of a bankruptcy trustee on September 18, 2013. During the year ended June 30, 2015, MFDA IPC made payments of \$6,330,946 (2014 - \$75,000) to claimants and paid \$546,075 (2014 - \$1,020,474) in administrative costs. At June 30, 2015, an accrual of \$853,911 (2014 - \$7,034,030) has been made for amounts expected to be paid to claimants and administrative costs. The accrual for administrative costs totalled \$356,846 (2014 - \$322,922) at June 30, 2015.

**10. CONTINGENCY**

The Corporation is subject to a lawsuit by a former WHS advisor and his spouse in connection with their claims against the Corporation for compensation for losses alleged to have arisen from the insolvency of WHS. The lawsuit is being defended but the outcome of the lawsuit and any possible obligation of the Corporation cannot be reasonably estimated at this time.

**11. RISK MANAGEMENT**

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

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

*Interest rate risk*

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



**MFDA INVESTOR PROTECTION CORPORATION**  
**Notes to the Financial Statements**  
**June 30, 2015 and 2014**

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**11. RISK MANAGEMENT (CONTINUED)**

*Credit risk*

Credit risk refers to the risk of financial loss due to a counterparty failing to meet its contractual obligations. The MFDA IPC is exposed to credit risk indirectly through its investment in bonds, treasury bills and mutual funds. Credit risk is managed by these funds by limiting exposure to any single counterparty to a small percentage of net assets. Limiting investments to Canadian Federal and Provincial Government bonds and notes and Federal and Provincial Crown Corporation bonds helps to mitigate the credit risk by investment in high-grade investments. In addition, credit risk is managed by the MFDA IPC through dealing with reputable counterparties. As at June 30, 2015 and 2014, the MFDA IPC's investments in fixed income securities are held with a Tier 1 banking institution.

*Market risk*

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market conditions, whether these changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market. This risk is mitigated by the MFDA IPC's policy of diversification of the investment portfolio. Market risk is considered to be minimal.

**12. FUNDING AND MANAGEMENT OF ASSETS**

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

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

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

The MFDA IPC bills MFDA members annually to ensure operations are funded and to allocate the balance toward the accumulation of the investor protection fund. In the current year, the MFDA IPC billed MFDA members \$3,625,626 (2014 - \$2,932,700). As at June 30, 2015, the value of the operating fund unrestricted net assets was \$32,848,221 (2014 - \$30,300,232).

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

# BOARD OF DIRECTORS

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

## Public Directors

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

Beat J. Guldemann  
President, Tribeca Consulting Group

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

## Industry Directors

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

Sonny Goldstein  
President, Goldstein Financial Investments Inc.

## Officers

Dorothy Sanford, FCPA, FCA  
President

Odarka Decyk, CPA, CA  
Vice-President and Controller

Bernadette Devine  
Corporate Secretary

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