

# MFDA Investor Protection Corporation

Financial statements  
December 31, 2022



# Independent auditor's report

To the Members of the  
**MFDA Investor Protection Corporation**

## Opinion

We have audited the financial statements of the **MFDA Investor Protection Corporation** [the "MFDA IPC"], which comprise the balance sheet as at December 31, 2022, and the statement of operations and changes in unrestricted fund balance and the statement of cash flows for the six-month period then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the MFDA IPC as at December 31, 2022, and its results of operations and its cash flows for the six-month period then ended in accordance with Canadian accounting standards for not-for-profit organizations.

## Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the MFDA IPC in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Emphasis of matter – amalgamation

We draw attention to note 1 to the financial statements, which describes the amalgamation of the MFDA IPC with the Canadian Investor Protection Fund effective January 1, 2023. Our opinion is not modified with respect to this matter.

## Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the MFDA IPC's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the MFDA IPC or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the MFDA IPC's financial reporting process.



### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 MFDA IPC's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the MFDA IPC's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the MFDA IPC to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*Ernst & Young LLP*

Chartered Professional Accountants  
Licensed Public Accountants

Toronto, Canada  
March 23, 2023



# MFDA Investor Protection Corporation

## Balance sheet

As at

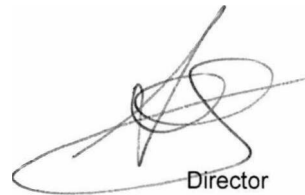
	December 31, 2022	June 30, 2022
	\$	\$
<b>Assets</b>		
Cash	514,175	384,078
Investments, at cost <i>[note 3]</i>	45,687,787	45,711,371
Investments, at fair value <i>[note 3]</i>	6,824,585	6,894,108
Assessments receivable from MFDA <i>[note 4]</i>	38,441	15,894
Interest receivable	150,175	145,931
Prepaid expenses	166,493	403,626
	<b>53,381,656</b>	<b>53,555,008</b>
<b>Liabilities and fund balance</b>		
<b>Liabilities</b>		
Accounts payable and accrued liabilities	214,316	157,708
Due to MFDA <i>[note 5]</i>	27,836	17,269
<b>Total liabilities</b>	<b>242,152</b>	<b>174,977</b>
<b>Fund balance</b>		
Unrestricted	53,139,504	53,380,031
	<b>53,381,656</b>	<b>53,555,008</b>

See accompanying notes

On behalf of the Board:



Director



Director

## MFDA Investor Protection Corporation

### Statement of operations and changes in unrestricted fund balance

	Six-month period ended December 31, 2022 \$	Year ended June 30, 2022 \$
<b>Revenue</b>		
Assessments of MFDA members	847,475	1,463,762
Investment and other income <i>[note 7]</i>	574,755	830,590
	<b>1,422,230</b>	<b>2,294,352</b>
<b>Expenses</b>		
Bank, line of credit and insurance premiums <i>[note 6]</i>	310,191	626,025
Personnel <i>[note 5]</i>	179,582	309,597
Investment management fees	61,873	128,539
Directors' fees and expenses	44,376	95,260
MFDA support costs <i>[note 5]</i>	33,900	67,800
Professional fees	30,255	130,581
Other operating costs	15,410	17,478
	<b>675,587</b>	<b>1,375,280</b>
Excess of revenue over expenses before the following	746,643	919,072
Integration costs <i>[note 1]</i>	987,170	659,778
<b>Excess (deficiency) of revenue over expenses for the period</b>	<b>(240,527)</b>	<b>259,294</b>
Unrestricted fund balance, beginning of period	53,380,031	53,120,737
<b>Unrestricted fund balance, end of period</b>	<b>53,139,504</b>	<b>53,380,031</b>

See accompanying notes

## MFDA Investor Protection Corporation

### Statement of cash flows

	Six-month period ended December 31, 2022 \$	Year ended June 30, 2022 \$
<b>Operating activities</b>		
Excess (deficiency) of revenue over expenses for the period	(240,527)	259,294
Add items not involving cash		
Unrealized loss on investments	107,381	410,238
Realized loss on investments	2,628	2,609
Amortization of bond premiums and discounts	41,789	96,524
	<u>(88,729)</u>	<u>768,665</u>
Changes in non-cash working capital balances related to operations		
Assessments receivable from MFDA	(22,547)	15,711
Interest receivable	(4,244)	(2,751)
Prepaid expenses	237,133	5,147
Accounts payable and accrued liabilities	56,608	51,996
Provision for claims and related expenses	—	(23,843)
Due to MFDA	10,567	(13,193)
<b>Cash provided by operating activities</b>	<u>188,788</u>	<u>801,732</u>
<b>Investing activities</b>		
Purchase of investments	(7,560,096)	(15,289,793)
Proceeds from maturities and sales of investments	7,501,405	14,556,849
<b>Cash used in investing activities</b>	<u>(58,691)</u>	<u>(732,944)</u>
<b>Net increase in cash during the period</b>	<b>130,097</b>	<b>68,788</b>
Cash, beginning of period	<u>384,078</u>	<u>315,290</u>
<b>Cash, end of period</b>	<u>514,175</u>	<u>384,078</u>

See accompanying notes

# MFDA Investor Protection Corporation

## Notes to financial statements

December 31, 2022

### 1. Organization

The purpose of the MFDA Investor Protection Corporation [the “MFDA IPC” or the “Corporation”] 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 Canadian Securities Administrators approved the creation of the MFDA IPC in May 2005, and the MFDA IPC began offering coverage on July 1, 2005.

The MFDA IPC was incorporated without share capital on November 14, 2002, under Part II of the *Canada Corporations Act* and continued under the *Canada Not-for-profit Corporations Act* on February 19, 2014.

The MFDA IPC is a not-for-profit organization and, under the *Income Tax Act* (Canada), is exempt from income taxes.

The MFDA IPC amalgamated with the Canadian Investor Protection Fund [“CIPF”]. Separately, the Investment Industry Regulatory Organization of Canada and the MFDA amalgamated into the New Self-Regulatory Organization of Canada [“New SRO”]. The purpose of the amalgamation is to create one investor protection fund to provide protection to clients of members of the New SRO. These financial statements are MFDA IPC’s last standalone financial statements as of the close of business on December 31, 2022. The newly amalgamated entity retained the CIPF name and has become effective as of January 1, 2023. The first fiscal year of the new CIPF will be December 31, 2023. Costs related to the amalgamation comprise the following:

	<b>Six-month period ended December 31, 2022 \$</b>	<b>Year ended June 30, 2022 \$</b>
Legal and other professional fees	<b>405,992</b>	379,264
Personnel/Consulting	<b>264,787</b>	262,514
Insurance	<b>147,962</b>	—
Branding and CEO search fees	<b>99,957</b>	—
Directors’ fees and expenses	<b>68,472</b>	18,000
	<b>987,170</b>	659,778

All integration costs will be recovered by CIPF through the Integration Cost Recovery Assessment Model Guidelines described in the MFDA IPC Bulletin #0923-M dated December 9, 2022.

# MFDA Investor Protection Corporation

## Notes to financial statements

December 31, 2022

### 2. Summary of significant accounting policies

These financial statements are prepared in accordance with Part III of the *CPA Canada Handbook – Accounting*, which sets out generally accepted accounting principles for not-for-profit organizations in Canada and includes the significant accounting policies summarized below.

#### Revenue recognition

The MFDA IPC follows the deferral method of accounting in the preparation of its financial statements.

The MFDA IPC's assessment dues of MFDA members are recognized as the services are rendered. Investment income consists of interest, dividends, income distributions from mutual funds, amortization of bond discounts/premiums and realized and unrealized gains and losses. Investment income is recorded in the statement of operations and changes in unrestricted fund balance as earned.

#### Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The most significant area requiring the use of estimates is the provision for claims and related expenses. Actual results could differ from those estimates.

#### Cash

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

#### Financial instruments

Investments recorded at fair value consist of investments in mutual funds and any investments in fixed income securities and equities not quoted in an active market that the Corporation designates upon purchase to be at fair value. Transaction costs are recognized in the statement of operations and changes in unrestricted fund balance in the period during which they are incurred.

Investments in fixed income securities and equities not quoted in an active market and not designated to be measured at fair value are initially recorded at fair value plus transaction costs and are subsequently measured at cost or amortized cost using the effective interest rate method, less any provision for impairment.

All transactions are recorded on a trade date basis.

Other financial instruments, including cash, assessments receivable from MFDA, accounts payable and accrued liabilities and due to MFDA, are recorded at fair value and are subsequently measured at cost, net of any provisions for impairment.



## MFDA Investor Protection Corporation

### Notes to financial statements

December 31, 2022

#### 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.

#### 3. Investments

Investments consist of the following:

	<b>December 31, 2022</b>	<b>June 30, 2022</b>
	\$	\$
Investments at fair value		
Cash	181,160	277,254
Treasury bills	2,595,180	2,587,728
Mutual funds	4,048,245	4,029,126
	<b>6,824,585</b>	6,894,108
Investments at amortized cost		
Bonds	45,687,787	45,711,371
	<b>52,512,372</b>	52,605,479

The treasury bills and bonds have a remaining term to maturity as follows:

	<b>Remaining term to maturity</b>			<b>As at December 31, 2022</b>
	<b>Within 1 year</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>	
	\$	\$	\$	\$
Treasury bills	2,595,180	—	—	2,595,180
Provincial bonds	2,252,449	8,508,279	15,889,190	26,649,918
Canada Housing Trust bonds	4,595,260	9,939,578	4,503,031	19,037,869
	<b>9,442,889</b>	<b>18,447,857</b>	<b>20,392,221</b>	<b>48,282,967</b>

#### 4. Assessments receivable from MFDA

The assessments to MFDA members billed by MFDA are due to the MFDA IPC upon collection by MFDA. The amount of \$38,441 [June 30, 2022 – \$15,894] represents outstanding amounts from MFDA members on billings due as at December 31, 2022.

## **MFDA Investor Protection Corporation**

### **Notes to financial statements**

December 31, 2022

#### **5. Due to MFDA**

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

MFDA provides the MFDA IPC administrative, corporate secretarial and other support to allow the MFDA IPC to operate without its own support staff. The MFDA IPC and MFDA have entered into a support agreement to define these areas of assistance. The amount of support costs for the six-month period ended December 31, 2022 was \$33,900 [year ended June 30, 2022 – \$67,800]. The MFDA IPC and MFDA had also entered into an accounting services agreement for a cost of nil [year ended June 30, 2022 – \$26,575]. These costs were recorded at the agreed-upon amount in the statement of operations and changes in unrestricted fund balance. Payments were made on a quarterly basis. The accounting services agreement was terminated effective December 31, 2021.

#### **6. Credit facilities and excess fund insurance**

The MFDA IPC has been granted a credit facility limited to a maximum of \$30 million [year ended June 30, 2022 – \$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 the \$30 million line of credit to the RBC in the event of default. To date, no amount has been drawn on the line of credit.

As at December 31, 2022, the interest rate is prime plus 0.75% per annum [June 30, 2022 – prime plus 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, line of credit and insurance premiums in the statement of operations and changes in unrestricted fund balance in the amount of \$67,685 [year ended June 30, 2022 – \$135,000].

The MFDA IPC has arranged insurance in the amount of \$20,000,000 for any one loss and in the annual aggregate, in respect of losses to be paid by the MFDA IPC between \$30,000,000 and \$50,000,000 in the event of a MFDA member insolvency. The MFDA IPC has also arranged a second layer of insurance in the amount of \$20,000,000 for any one loss and in the annual aggregate, in respect of losses to be paid by the MFDA IPC between \$50,000,000 and \$70,000,000 in the event of a MFDA member insolvency.

## MFDA Investor Protection Corporation

### Notes to financial statements

December 31, 2022

#### 7. Investment and other income

Investment and other income comprises the following:

	<b>Six-month period ended December 31, 2022</b>	<b>Year ended June 30, 2022</b>
	\$	\$
Interest income	<b>584,179</b>	1,104,836
Amortization of bond premiums and discounts	<b>(41,789)</b>	(96,524)
Distributions from mutual funds	<b>142,374</b>	211,282
Realized loss on investments	<b>(2,628)</b>	(2,609)
Unrealized loss on investments	<b>(107,381)</b>	(410,238)
Recovery of provision <i>[note 8]</i>	<b>—</b>	23,843
	<b>574,755</b>	830,590

#### 8. Provision for claims and related expenses

As at December 31, 2022, there continued to be one member insolvency, W.H. Stuart Mutuals, Ltd. The provision for claims and related expenses and the change in provision during the period and payments made for this insolvency are as follows:

	<b>Six-month period ended December 31, 2022</b>	<b>Year ended June 30, 2022</b>
	\$	\$
<b>Provision balance, beginning of period</b>	<b>—</b>	23,843
Recovery of provision during the period <i>[note 7]</i>	<b>—</b>	(23,843)
<b>Provision balance, end of period</b>	<b>—</b>	<b>—</b>

#### 9. Financial instruments and 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 risks. 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. The MFDA IPC's investments in mutual funds are limited to 10% of the overall market 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%.

## MFDA Investor Protection Corporation

### Notes to financial statements

December 31, 2022

Risks that are relevant to the MFDA IPC are as follows:

#### **Liquidity risk**

Liquidity risk is the risk that the MFDA IPC will encounter difficulty in meeting obligations associated with its financial liabilities. The MFDA IPC is exposed to this risk mainly in respect of its accounts payable and accrued liabilities and provision for claims and related expenses. The MFDA IPC manages liquidity risk by ensuring there is sufficient cash available to meet its commitments and holding assets that can be readily converted into cash. In addition, the MFDA IPC has a line of credit available with the RBC [note 6].

#### **Interest rate risk**

The MFDA IPC is exposed to interest rate risk with respect to its investments in fixed income and mutual funds that hold fixed income securities because the fair value will fluctuate due to changes in market interest rates. In addition, the MFDA IPC is exposed to interest rate risk with respect to its operating line of credit because cash flows will fluctuate because the interest rate is linked to the bank's prime rate, which changes from time to time. 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. The MFDA IPC has not drawn on the line of credit.

#### **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 investments in bonds, treasury bills and mutual funds. Credit risk is managed for these funds by limiting exposure to any single counterparty to a small percentage of net assets and by following the investment policy described above. Limiting the majority of investments to Canadian federal and provincial government bonds and notes and federal and provincial Crown corporation bonds help to mitigate the credit risk by investment in high-grade bonds.

As at December 31, 2022, the MFDA IPC's bonds are held with a major Canadian chartered bank.

#### **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.

### **10. Comparative figures**

Certain comparative figures have been reclassified to conform to the presentation adopted for the current period.