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

Annual Report **2011**

Information about the MFDA Investor Protection Corporation

The MFDA Investor Protection Corporation (the "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 insolvent.

The MFDA is the sole self-regulatory organization that is the sponsor of the IPC. The IPC began offering coverage on July 1, 2005. At June 30, 2011, 132 mutual fund dealers across Canada participated in the Fund. The IPC operates in all provinces except Quebec, which has its own compensation fund.

IPC Coverage Policy and Limits

The 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 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 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 IPC's coverage of losses sustained 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 in which the Board 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.

Funding and Fund Size

The IPC is funded through the levy of quarterly assessments on MFDA Member Firms. From July 2005 to the end of calendar year 2010, Member Firms together contributed to the Fund at the rate of approximately $5 million per year. The initial funding target of $30 million was reached in December 2010. No assessments were made from January 1, 2011 to June 30, 2011. As at June 30, 2011, the balance in the Fund stood at $30.3 million. In addition, the IPC maintains 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 may reset the size of the Fund as appropriate. In late 2009, the IPC put forward a plan to continue to build the Fund after the $30 million target was reached. The IPC is required to obtain MFDA agreement to its proposals regarding Fund size and assessment methodology.

The MFDA formed an IPC Issues Committee ("IPCIC") to assist the MFDA Board in considering the IPC's proposals. Two open meetings of Members were held and comments from Members were solicited. After considering the issues raised during this process, the MFDA Board and the IPC Board agreed to a plan for the Fund to continue to accumulate cash in the Fund to a new target of $50 million. The amount will be accumulated over 7 years. Assessments in the amount of approximately $2.8 million per year will be collected beginning July 1, 2011 and will continue until the new funding target is met.

Year in Review

Insolvencies and Payments from the Fund

There were no new insolvencies of Member Firms during fiscal 2011.

Board Initiatives in 2010-2011

The Board met five times in the fiscal year ended June 30, 2011. These meetings were the regularly scheduled quarterly meetings of the Board and one special purpose meeting. All Board members attended all meetings. Board members also participated in the deliberations of the IPCIC, formed to consider the plan to increase the size of the Fund. The past Chair and current Chair of the Board attended each of those Committee meetings.

The Board undertook a number of initiatives during the year, including:

a. as described above, implementing a plan to expand the size of the Fund.

b. conducting a search for two new Public Directors. As a result, Beat Guldimann and Clayton Manness joined the Board on October 4, 2010.

c. David Richards was appointed chair on October 4, 2010.

d. following up on a number of items arising from the Canadian Securities Administrators' Oversight Review (conducted by the Ontario Securities Commission), particularly the retention of an additional consultant to increase the human resources of IPC.

e. conducting the annual review of the size of the Fund. This is an annual review during which the Board considers as many risk factors as can be identified and quantified and reevaluates the Fund size. The Board reaffirmed the funding plan described above.

f. reviewing and renewing the IPC's credit facility. For the past two years, retaining the existing facility was all that was possible. This year there was an opportunity to obtain competitive proposals from other credit providers and to refine some of the terms of the previous arrangement. As a result, IPC established a facility with a different bank than was used in the past. Many of the terms and conditions of the facility were modified. The most significant change was establishing the ability to convert the loan to a term loan, which will allow for a more orderly repayment schedule in the event of a draw on the credit facility to pay customer losses.

g. a preliminary review to determine whether the use of insurance products as an alternative or additional source of funding might be available to the IPC. IPC continues to explore the possible use of insurance and whether it is available to the IPC at a reasonable cost.

h. conducting the annual review of the IPC's investments. The Board reviews the composition and performance of the IPC's investments at each quarterly Board meeting. In addition, at least once per year, the investment policy is reviewed. This year the policy was endorsed with no changes.

i. continuing its risk assessment and management efforts.

Summary Balance Sheets

as at June 30

	2011	2010
	$	$
Assets		
Cash	200,652	244,116
Investments	30,071,976	27,462,563
Assessments receivable from the MFDA	–	58,109
Interest and other receivable	144,953	121,635
	30,417,581	27,886,423
Liabilities		
Accounts payable and accrued liabilities	130,392	81,138
Support costs due to the MFDA	16,969	15,878
	147,361	97,016
Fund balance		
Operating Fund	30,270,220	27,789,407
	30,270,220	27,789,407
	30,417,581	27,886,423

Summary Statements of Revenues and Expenses and Changes in Fund Balance

for the year ended June 30

	2011	2010
	$	$
Revenues		
Assessments of MFDA Members	2,568,232	5,030,220
Investment and other income	713,294	500,020
	3,281,526	5,530,240
Expenses		
Operating expenses	800,713	595,287
	800,713	595,287
Excess of revenues over expenses and comprehensive income	2,480,813	4,934,953
Fund balance, beginning of year	27,789,407	22,854,454
Fund balance, end of year	30,270,220	27,789,407

Note 1 – Applied criteria in the preparation of the summary financial statements.
The criteria applied by management in the preparation of these summary financial statements are as follows:

a) the information in the summary financial statements is in agreement with the related information in the audited financial statements;
b) a summary statement of cash flows has not been presented, as the relevant information can be obtained from the audited financial statements; and
c) the summary financial statements contain the information necessary to avoid distorting or obscuring matters disclosed in the related audited financial statements, including the notes thereto.

Reference may be made to the audited set of IPC Financial Statements which are available on the IPC section of the MFDA website www.mfda.ca.

Report of the Independent Auditor on the Summary Financial Statements

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

The accompanying summary financial statements, which comprise the summary balance sheets as at June 30, 2011 and 2010 and the summary statements of revenues and expenses and changes in fund balance for the years then ended are derived from the audited financial statements of the MFDA Investor Protection Corporation for the years ended June 30, 2011 and 2010. We expressed an unmodified audit opinion on those financial statements in our report dated September 12, 2011.

The summary financial statements do not contain all the disclosures required by Canadian generally accepted accounting principles. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of the MFDA Investor Protection Corporation.

Management's Responsibility for the Summary Financial Statements

Management is responsible for the preparation of a summary of the audited financial statements on the basis described in Note 1 to the summary financial statements.

Auditor's Responsibility

Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted in accordance with Canadian Auditing Standard (CAS) 810, "Engagements to Report on Summary Financial Statements."

Opinion

In our opinion, the summary financial statements derived from the audited financial statements of the MFDA Investor Protection Corporation for the years ended June 30, 2011 and 2010 are a fair summary of those financial statements, in accordance with the basis described in Note 1 to the summary financial statements.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants
September 12, 2011
Toronto, Ontario

Commentary on Financial Results

The IPC's excess of revenues over expenses for the year ended June 30, 2011 was $2,480,813, compared to $4,934,953 in the prior year. The IPC's revenues for the year ended June 30, 2011 were $3,281,526. This compares to $5,530,240 for 2010. The significant decline was due to the fact that assessments were not made during the last two quarters of the fiscal year ended June 30, 2011.

The 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. Prior to the current year, the assessment rate was set to generate an annual total of approximately $5 million. This year, The IPC assessments to Member Firms totaled $2,568,232, compared to $5,030,220 for the previous year.

Investment revenue for the period ended June 30, 2011 was $713,294, an increase from the previous year's amount of $500,020. Within the objectives of capital preservation and liquidity, the IPC's Investment Policy requires that all investments are debt instruments issued by Canadian or provincial governments or Canadian or provincial Crown corporations. A portion of the portfolio is kept in short-term instruments to ensure liquidity. The IPC Fund balance has grown through the accumulation of Member Firm assessments. Investment revenue was higher this year due to slightly higher returns available in the market and higher average investment holdings. Investment and other income covered almost 89% of operating expenses this year, compared to almost 84% of operating expenses last year.

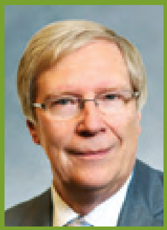
Operating expenses for the year were $800,713, $205,426 more than the previous year. The increase was primarily due to additional consultants retained by IPC and increased legal activity related to the bank facility. There were no claims paid out of the Fund for insolvent Member Firms this year or last year.

The balance in the Operating Fund increased by $2,480,813 in fiscal 2010-2011, compared to an increase of $4,934,953 during fiscal 2009-2010. The year-end balance in the Operating Fund is $30,270,220 at June 30, 2011, compared to $27,789,407 last year-end.

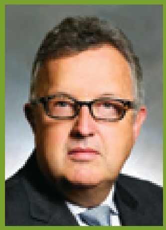
MFDA IPC Board of Directors and President

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

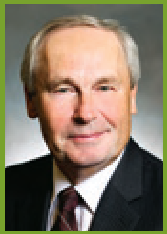
Public Directors



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

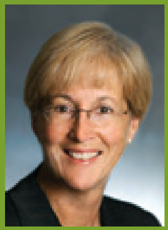


Beat J. Guldimann
President
Tribeca Consulting Group
(Kettleby, Ontario)



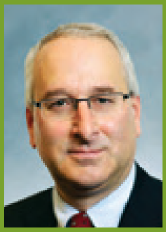
Clayton S. Manness, BSA, MSc.
Former Minister
of Finance, Manitoba
(La Salle, Manitoba)

President



Joni A. Alexander, C.A.
(Toronto, Ontario)

Industry Directors



Andrew H. Dalglish, C.A.
Chairman and
Chief Executive Officer
MRS Inc., MRS Services Inc.,
MRS Correspondent
Corporation
(Toronto, Ontario)

Robert M. Sellars, C.A., CFA
Executive Vice President,
Chief Operating Officer and
Chief Financial Officer
Dundee Capital Markets Inc./
Dundee Securities Ltd.
(Toronto, Ontario)

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