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

ANNUAL REPORT 2012

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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 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, 2012, 121 mutual fund dealers across Canada participated in the Fund. The IPC operates in all provinces except Québec, which has its own compensation fund.

IPC COVERAGE

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 value 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.

FUND RESOURCES AND SIZE

The IPC is funded through the levy of quarterly assessments on MFDA Member Firms. The balance of the Fund stood at $33.3 million as of June 30, 2012. In October 2010, the Boards of both the MFDA and IPC approved an increase in the IPC Fund size to $50 million to be reached over a seven year period commencing July 1, 2011. This results in an annual assessment of approximately $2.9 million to be allocated among the membership. In addition to the annual assessments, the IPC maintains a credit facility with a Canadian chartered bank with a maximum limit of $30 million. This facility is guaranteed by the MFDA.

Additionally, effective June 1, 2012, the IPC has placed $20 million of excess fund insurance with international insurers.

2012 IN REVIEW

There were no new insolvencies of Member Firms in fiscal 2012. The Board continued its work to ensure that the IPC has adequate resources to fulfill its mandate. Among the important initiatives that the Board completed in 2012, was securing excess fund insurance. In 2011, the IPC conducted a preliminary review to determine the suitability and availability of insurance products as an alternative or additional source of funding for the IPC. In 2012, the Board completed its review and placed $20 million of excess fund insurance with international insurers. The insurance policy represents an additional source of funding to the IPC and raises the capability of the fund to absorb losses by $20 million while the policy is in effect.

Other key Board initiatives included:

- Reevaluating the IPC's investment management services provider contract. The IPC issued a Request For Proposal for investment management services. Upon completion of the proposal process, the Board decided to retain its current investment management firm and was able to reduce its management and custodial fees.

- Conducting a search for a new Industry Director. Kevin Regan joined the Board as an Industry Director effective August 1, 2012 replacing Andrew Dalglish.
- Reviewing and updating the Services Agreement between the MFDA and the IPC which is currently in progress.
- 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. In 2012, the Board adjusted the proportion of its holdings of bonds and treasury bills by increasing its holdings in bonds and decreasing its holdings in treasury bills.
- Renewing of the IPC's credit facility.
- Continuing its risk assessment and management efforts.

The Board met four times in fiscal 2012 in regularly scheduled quarterly meetings. All Board members attended all meetings.

FINANCIAL REVIEW AND OUTLOOK

Balance Sheet

The balance in the Operating Fund stood at $33.3 million as at June 30, 2012, an increase of $3.0 million over the previous year. The increase resulted from the excess of revenues over expenses of $3.0 million.

Total assets of $33.4 million include investments recorded at amortized cost of $32.8 million. 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.

Revenues and Expenses

The IPC's excess of revenues over expenses for the year ended June 30, 2012 was $3.0 million, compared to $2.5 million in 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. The IPC assessments to Member Firms totalled $3.0 million, compared to $2.6 million for the previous year. With the revised Fund target of $50 million, assessments in 2012 were billed at an annual rate of approximately $2.9 million. Prior to 2011, assessments were billed at $5 million per year. In 2011, when the initial funding target of $30 million was reached, assessments were suspended for the last two quarters of the fiscal year.

Investment income for the year ended June 30, 2012 was $818,773, an increase from the previous year's amount of $713,294. Included in investment income in 2012 was a realized gain of $106,453. To maintain compliance with the IPC's investment policy criteria, two provincial bonds were sold and replaced with two Canada bonds with similar maturities. As it is the IPC's intention to hold its bond investments to maturity, gains and losses should not be recurring items. Income from bonds and treasury bills and notes was $712,320 compared to $699,901 in 2011. Although the investment portfolio balance grew in 2012, slightly lower returns were available in the market. Investment income, excluding realized gains, covered 88% of operating expenses this year, compared to almost 89% of operating expenses last year.

Operating expenses for the year were $807,410, $6,697 or 1% more than the previous year because:

- Consulting costs included the cost of two consultants for the full fiscal year whereas in 2011 the second consultant was hired mid-year.
- Bank charges were higher due to the switch of credit facility providers in 2011.
- Legal costs were lower due to decreased professional time required.
- Insurance was higher due to the addition of the excess fund insurance.

Financial Outlook for fiscal 2013

The IPC expects revenue in fiscal 2013 to be relatively steady as compared to 2012. Regular assessments of Member Firms will continue at approximately $2.9 million in 2013, consistent with reaching the planned target of $50 million over seven years.

The Fund is forecasting the 2013 operating expenses to be approximately $1.2 million, an increase of about $400,000 over the previous year, with the increase being primarily due to the excess fund insurance premiums.

For fiscal 2013, the IPC will be required to adopt new accounting standards by choosing either International Financial Reporting Standards ("IFRS") or Canadian accounting standards for Not-For-Profit organizations. Upon consideration of the alternatives, the IPC chose to adopt the new accounting framework applicable to Not-For-Profit organizations effective July 1, 2012. The impact of transitioning to these new standards has been determined to have a minimal impact on the IPC.

FINANCIAL STATEMENTS
2012

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 the MFDA Investor Protection Corporation, which comprise the balance sheets as at June 30, 2012 and 2011, and the statements of revenues and expenses, changes in fund balances and of 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 generally accepted accounting principles, 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, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants
September 17, 2012
Toronto, Ontario

MFDA INVESTOR PROTECTION CORPORATION
BALANCE SHEETS
as at June 30

	2012	2011
	$	$
Assets		
Current		
Cash	218,737	200,652
Investments (Note 3)	32,784,988	30,071,976
Assessments receivable from the MFDA (Note 4)	11,385	-
Prepaid expenses	267,960	-
Interest and other receivable	118,753	144,953
	33,401,823	30,417,581
Liabilities and Fund balance		
Current		
Accounts payable and accrued liabilities	94,032	130,392
Support costs due to the MFDA (Note 5)	16,956	16,969
	110,988	147,361
Fund balance		
Operating Fund		
Unrestricted net assets	33,290,835	30,270,220
	33,290,835	30,270,220
	33,401,823	30,417,581

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

Approved on behalf of the Board

"David Richards"
Director

"Robert Sellars"
Director

MFDA INVESTOR PROTECTION CORPORATION
STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN FUND BALANCE

for the years ended June 30

	2012	2011
	$	$
Operating Fund		
Revenues		
Assessments of MFDA Members (Note 7)	3,009,252	2,568,232
Investment income (Note 8)	818,773	713,294
Total revenues	3,828,025	3,281,526
Expenses		
Consultants	244,223	193,190
Bank charges (Note 6)	135,162	126,630
Legal	89,960	155,604
Investment management fees	80,748	79,311
Board of Directors - fees and expenses	78,162	94,614
MFDA support charges (Note 5)	67,800	67,800
Insurance	63,444	47,990
Audit fees	21,159	21,159
Office and general	20,142	3,143
Communications and annual report	6,610	11,272
Total expenses	807,410	800,713
Excess of revenues over expenses and comprehensive income	3,020,615	2,480,813
Fund balance, beginning of year	30,270,220	27,789,407
Fund balance, end of year	**33,290,835**	**30,270,220**

MFDA INVESTOR PROTECTION CORPORATION
STATEMENTS OF CASH FLOWS

for the years ended June 30

	2012	2011
	$	$
Operating activities		
Excess of revenues over expenses and		
comprehensive income - Operating Fund	3,020,615	2,480,813
Changes in non-cash working capital		
Assessments receivable from the MFDA	(11,385)	58,109
Prepaid expenses	(267,960)	–
Interest and other receivable	26,200	(23,318)
Accounts payable and accrued liabilities	(36,360)	49,254
Support costs due to the MFDA	(13)	1,091
	2,731,097	2,565,949
Investing activities		
Proceeds from sale of investments	4,652,285	–
Purchase of investments	(7,365,297)	(2,609,413)
	(2,713,012)	(2,609,413)
Increase/(decrease) in cash during the year	18,085	(43,464)
Cash, beginning of year	200,652	244,116
Cash, end of year	**218,737**	**200,652**

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

MFDA INVESTOR PROTECTION CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012 and 2011

1. NATURE OF THE 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. 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. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Because 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 for not-for-profit organizations 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 reported 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.

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.

Investments in bonds are classified as Held to Maturity ("HTM") and 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 classified as Held for Trading ("HFT") and 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.

Canadian generally accepted accounting principles establishes a fair value hierarchy that prioritizes the inputs and valuation techniques used to measure fair value. The fair value hierarchy is categorized into three levels based on the inputs as follows:

- **Level 1** – valuation based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities;
- **Level 2** – those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices);
- **Level 3** – those with inputs for the asset or liability that are not based on observable market data (non-observable inputs)

All investments are classified as Level 2.

Provision for claims and related expenses
Provision for claims from customers of insolvent MFDA members and related expenses is made when the MFDA IPC is notified of potential claims and expects to incur expenses related to the claim. No amounts have been provided for in the current period. No amounts are provided as a contingency to cover possible losses and customer claims for claims not yet reported.

Future accounting changes
In December 2010, the CICA issued a new accounting framework applicable to Not-for-Profit Organizations. Effective for fiscal years beginning on or after January 1, 2012, not-for-profit organizations will have to choose between International Financial Reporting Standards ("IFRS") and Canadian accounting standards for Not-for-Profit Organizations. Early adoption of these standards is permitted. The MFDA IPC adopted the Canadian accounting standards for Not-for-Profit Organizations for its fiscal year beginning July 1, 2012. The impact of transitioning to these new standards has been determined to have minimal impact on MFDA IPC.

3. INVESTMENTS

The following table lists the investment holdings and their carrying and fair values as at June 30, 2012.

Investment	Par value ($)/ number of units	Designation	Credit rating	Carrying value	Fair value
				$	$
Bonds					
Canada Housing Trust, 2.45%, Mat. Dec 15 2015	3,030,000	Held To Maturity	AAA	3,118,836	3,136,050
New Brunswick Provincial, 5.875%, Mat. Dec 06 2012	2,780,000	Held To Maturity	A(H)	2,813,860	2,835,711
Québec Provincial, 4.50%, Mat. Dec 01 2016	2,550,000	Held To Maturity	A(H)	2,653,506	2,840,955
Canada Housing Trust, 3.60%, Mat. Jun 15 2013	2,785,000	Held To Maturity	AAA	2,833,537	2,852,202
Canada Housing Trust, 2.75%, Mat. Sep 15 2014	3,015,000	Held To Maturity	AAA	3,138,993	3,116,425
B.C. Provincial, 3.25%, Mat. Dec 18 2021	2,425,000	Held To Maturity	AA(H)	2,482,109	2,567,639
B.C. Provincial, 4.70%, Mat. Dec 01 2017	2,235,000	Held To Maturity	AA(H)	2,420,657	2,559,321
Ontario Provincial, 4.40%, Mat. Jun 02 2019	2,510,000	Held To Maturity	AA(Low)	2,677,282	2,845,462
Canada Government, 4.25%, Mat. Jun 01 2018	2,450,000	Held To Maturity	AAA	2,671,847	2,848,689
Canada Housing Trust, 3.75%, Mat. Mar 15 2020	2,520,000	Held To Maturity	AAA	2,612,291	2,829,127
Sub-Total Bonds				27,422,918	28,431,581
Cash on hand for bond investment	N/A	N/A	N/A	141,724	141,724
Treasury Bills and Notes					
Canada Government, 0.920%, Mat. Jul 5 2012	2,975,000	Held for Trading	AAA	2,967,622	2,967,622
Canada Government, 0.921%, Mat. Jul 19 2012	1,725,000	Held for Trading	AAA	1,720,584	1,720,584
Canada Government, 0.951%, Mat. Aug 30 2012	475,000	Held for Trading	AAA	473,927	473,927
Sub-Total Treasury Bills and Notes				5,162,133	5,162,133
Cash on hand for T-Bills investment	N/A	N/A	N/A	58,213	58,213
Total Investments				32,784,988	33,793,651

3. INVESTMENTS (continued)

The following table lists the investment holdings and fair values as at June 30, 2011.

Investment	Par value ($)/ number of units	Designation	Credit rating	Carrying value	Fair value
				$	$
Bonds					
Canada Housing Trust, 4.60%, Mat. Sep 15 2011	1,700,000	Held To Maturity	AAA	1,700,210	1,711,645
New Brunswick Provincial, 5.875%, Mat. Dec 06 2012	1,600,000	Held To Maturity	Ah	1,633,810	1,696,896
Financement Québec, 4.50%, Mat. Dec 01 2016	1,600,000	Held To Maturity	Ah	1,592,830	1,730,832
Canada Housing Trust, 3.60%, Mat. Jun 15 2013	1,820,000	Held To Maturity	AAA	1,870,775	1,887,395
Financement Québec, 4.25%, Mat. Mar 01 2014	1,730,000	Held To Maturity	Ah	1,804,138	1,830,496
Ontario Provincial, 4.50%, Mat. Mar 08 2015	1,720,000	Held To Maturity	AA1	1,815,901	1,852,457
B.C. Provincial, 4.70%, Mat. Dec 01 2017	1,550,000	Held To Maturity	AAh	1,652,572	1,697,901
Ontario Provincial, 4.40%, Mat. Jun 02 2019	1,580,000	Held To Maturity	AA1	1,632,223	1,676,506
Canada Government, 4.25%, Mat. Jun 01 2018	1,500,000	Held To Maturity	AAA	1,585,777	1,646,220
Canada Housing Trust, 3.75%, Mat. Mar 15 2020	1,670,000	Held To Maturity	AAA	1,657,284	1,724,793
Sub-Total Bonds				16,945,520	17,455,141
Cash on hand for bond investment	N/A	N/A	N/A	297,242	297,242
Treasury Bills and Notes					
Canada Government, 0.986%, Mat. Aug 4 2011	3,775,000	Held for Trading	AAA	3,765,034	3,765,034
Canada Government, 0.990%, Mat. Aug 18 2011	4,375,000	Held for Trading	AAA	4,363,406	4,363,406
Canada Government, 1.024%, Mat. Sep 15 2011	2,625,000	Held for Trading	AAA	2,618,280	2,618,280
Canada Government, 1.23%, Mat. Sep 29 2011	2,075,000	Held for Trading	AAA	2,069,999	2,069,999
Sub-Total Treasury Bills and Notes				12,816,719	12,816,719
Cash on hand for T-Bills investment	N/A	N/A	N/A	12,495	12,495
Total Investments				30,071,976	30,581,597

4. 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 $11,385 (2011 - $Nil) represents outstanding amounts from MFDA members on billings due at June 30, 2012 and 2011. Subsequent to year-end, $2,383 remains outstanding from MFDA members.

5. 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 (2011 - $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 $16,956 (2011 - $16,969) in respect of support costs as at June 30, 2012.

6. CREDIT FACILITIES AND INSURANCE

The MFDA IPC has been granted a credit facility limited to a maximum of $30 million (2011 - $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 a 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, 2012 the interest rate is prime + 0.75% per annum (2011 – 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 $134,256 (2011 - $106,111).

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.

7. ASSESSMENTS OF MFDA MEMBERS

Assessment income for 2012 was $3,009,252 (2011 - $2,568,232). MFDA members were not assessed fees from January 1, 2011 to June 30, 2011. Assessments resumed July 1, 2011.

8. INVESTMENT AND OTHER INCOME

Investment and other income is comprised of the following:

	2012	2011
	$	$
Income from bonds		
Coupon interest	764,904	718,685
Accretion of the bond discount/premium	(164,543)	(121,308)
	600,361	597,377
Income from treasury bills and notes		
Coupon interest	111,959	102,524
	111,959	102,524
Realized gains	106,453	
Other income	–	13,393
Total investment income	818,773	713,294

Bank interest earned on bond, treasury bills and notes is subject to a minimum cash balance.

9. 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'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 and note investments. 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%.

Significant 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. The MFDA IPC does not engage in activities to mitigate this risk as it intends to hold these bonds to maturity.

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 notes. 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, 2012 and 2011, 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 as well as the narrow field of acceptable high-grade investments. Market risk is considered to be minimal.

Fair value
The fair value of cash, assessments receivable from the MFDA, interest and other receivable, accounts payable and accrued liabilities, 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.

10. CLAIMS PAID FROM INVESTOR PROTECTION FUND

There were no claims paid from the MFDA Investor Protection Corporation during the year (2011 - $Nil).

11. 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 $3,009,252 (2011 - $2,568,232) annually. As at June 30, 2012, the value of the operating fund unrestricted net assets was $33,290,835 (2011 - $30,270,220).

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, C.A., Chair
Former Executive
RBC Capital Markets

Beat J. Guldimann
President
Tribeca Consulting Group

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

Industry Directors

Andrew H. Dalglish, C.A.
Chairman and Chief Executive Officer
MRS. Inc., MRS Securities Inc.,
MRS Correspondent Corporation
(Resigned effective February 21, 2012).

Kevin Regan, FCA, CFP
Executive Vice-President and Chief Financial Officer
IGM Financial Inc.
(Appointed effective August 1, 2012)

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

Officers

Joni A. Alexander, C.A.
President

Jason Bennett, LL.B.
Corporate Secretary

Odarka Decyk, C.A.
Vice-President and Controller

Contact the MFDA IPC at:

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