



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

2014



ANNUAL REPORT

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## 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, 2014, 110 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

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. The policy that has been adopted to define the way in which the 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 IPC is funded through the levy of quarterly assessments on MFDA Member Firms. The balance of the

Fund stood at \$30.3 million as of June 30, 2014. In October 2010, the Boards of both the MFDA and MFDA IPC approved an increase in the MFDA 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 \$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 which is guaranteed by the MFDA. Additionally, the IPC has placed \$20 million of Fund Insurance with international insurers. The insurance policy represents an additional resource to 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.

## 2014 IN REVIEW

### Insolvencies in 2014

There were no new insolvencies in 2014. During 2014, the IPC continued the administration of the W.H. Stuart Mutuals Ltd. ("WHS") insolvency which was reported to the IPC in late fiscal 2013. WHS was suspended by the MFDA on May 31, 2013 and was determined by the Board of Directors of the IPC to be insolvent as of that date for the purpose of claims by customers of WHS against the 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. The IPC has approved for payment claims totalling \$6.8 million at June 30, 2014.

## Board Initiatives in 2013-2014

Throughout fiscal 2014, the Board continued its work to ensure that the IPC had adequate resources to fulfill its mandate. Key Board initiatives included:

- Conducting a search for a new President. Dorothy Sanford was appointed President of the IPC on June 9, 2014 replacing Joni Alexander who retired.
- Reviewing and updating the IPC Recognition Order.
- 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 mid-2014, the Board amended the Investment Policy to allow for corporate bond investments for a portion of its portfolio.
- Reviewing the rules and regulations regarding client cash in trust for MFDA Member Firms.
- Implementing IPC Continuance by transitioning to the new *Canada Not-for-profit Corporations Act*.
- Conducting a review of Public Director compensation.
- Reviewing and renewing excess fund insurance.
- Reviewing and renewing IPC's credit facility.
- Continuing its risk assessment and management efforts.

The Board met seven times in fiscal 2014, 4 regularly scheduled quarterly meetings and 3 special meetings. All Board members attended all meetings.

## FINANCIAL REVIEW AND OUTLOOK

### Balance Sheet

The balance in the Operating Fund stood at \$30.3 million as at June 30, 2014, a decrease of \$5.0 million over the previous year. The decrease resulted from the excess of expenses over revenues of \$5.0 million and was a result of a provision for WHS claims of \$6.8 million and \$0.8 million of related expenses.

Total assets of \$37.5 million include investments recorded at amortized cost of \$34.0 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 or corporate bond investments (for a portion of the portfolio). A portion of the portfolio is kept in short-term instruments to ensure liquidity. At June 30, 2014, the investments balance was lower by \$1.4 million from 2013 as a portion of the short-term investments were held as cash in anticipation of payouts for WHS claims.

An accrual of \$7.0 million was made for the WHS insolvency as at June 30, 2014. Included in the provision is \$6.7 million for claims and \$0.3 million for expenses related to completing the administration of the WHS insolvency. These costs include trustee, legal and consulting expenses.

### Revenues and Expenses

The IPC's excess of expenses over revenues for the year ended June 30, 2014 was \$5.0 million, compared to an excess of revenues over expenses of \$2.0 million in 2013. The 2014 deficit was a result of the provision for WHS payouts and related expenses of

\$7.6 million. Operating expenses for the year, excluding provision for claims and related expenses, were \$1,125,691, generally in line with the previous year of \$1,078,472.

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 2014 assessments to Member Firms totalled \$2.9 million, in accordance with the plan to build the Fund to a target of \$50 million.

Investment income for the year ended June 30, 2014 was \$790,736, an increase from the previous year's amount of \$764,423.

### Financial Outlook for Fiscal 2015

Regular assessment revenue is expected to be about \$2.9 million in 2015. This assessment amount is consistent with reaching the planned target of \$50 million over seven years. A replenishment assessment of \$8 million to cover the costs and payout associated with the WHS matter will be assessed to the Members at an annual rate of \$1.33 million to be accumulated over a period of six years, commencing January 1, 2015.

The Fund is forecasting the regular 2015 operating expenses to be approximately \$1.1 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 2014



# INDEPENDENT AUDITOR'S REPORT

To the Members of the Board of Directors of the  
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, 2014 and June 30, 2013, and the statements of revenues and expenses and changes in fund balances and statements of cash flows for the years ended June 30, 2014 and June 30, 2013, 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, 2014 and June 30, 2013, and the results of its operations and its cash flows for the years ended June 30, 2014 and June 30, 2013 in accordance with Canadian accounting standards for not-for-profit organizations.

*Deloitte LLP*

Chartered Professional Accountants,  
Chartered Accountants  
Licensed Public Accountants  
September 15, 2014  
Toronto, Ontario

# MFDA INVESTOR PROTECTION CORPORATION

## Balance Sheets

	June 30, 2014	June 30, 2013
	\$	\$
<b>Assets</b>		
Current		
Cash	2,976,526	242,712
Investments (Note 4)	33,993,800	35,348,176
Assessments receivable from the MFDA (Note 5)	87,610	11,494
Prepaid expenses	288,269	282,109
Interest and other receivable	125,778	115,650
	<b>37,471,983</b>	<b>36,000,141</b>
<b>Liabilities and Fund balance</b>		
Current		
Accounts payable and accrued liabilities	120,771	149,752
Provision for claims and related expenses (Note 9)	7,034,030	571,410
Support costs due to the MFDA (Note 6)	16,950	18,398
	<b>7,171,751</b>	<b>739,560</b>
<b>Fund balance</b>		
Operating Fund		
Unrestricted net assets	30,300,232	35,260,581
	<b>37,471,983</b>	<b>36,000,141</b>

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, 2014 and 2013**

	2014	2013
	\$	\$
<b>Operating Fund Revenues</b>		
Assessments of MFDA Members	2,932,700	2,858,795
Investment income (Note 8)	790,736	764,423
<b>Total revenues</b>	<b>3,723,436</b>	<b>3,623,218</b>
<b>Expenses</b>		
Insurance	325,910	331,404
Consultants	305,329	231,094
Bank charges (Note 7)	136,467	136,053
Board of Directors - fees and expenses	87,369	82,524
Legal	83,194	112,125
Investment management fees	81,920	80,563
MFDA support charges (Note 6)	67,800	67,800
Audit fees	21,159	21,159
Office and general	10,901	4,803
Communications and annual report	5,642	10,947
<b>Total expenses</b>	<b>1,125,691</b>	<b>1,078,472</b>
Excess of revenues over expenses before the undernoted items	2,597,745	2,544,746
Provision for claims and related expenses (Note 9)	7,558,094	575,000
<b>Excess of (expenses) over revenues</b>	<b>(4,960,349)</b>	<b>1,969,746</b>
Fund balance, beginning of year	35,260,581	33,290,835
<b>Fund balance, end of year</b>	<b>30,300,232</b>	<b>35,260,581</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**

	2014	2013
	\$	\$
<b>Operating activities</b>		
Excess of (expenses) over revenues - Operating Fund	(4,960,349)	1,969,746
Changes in non-cash working capital		
Assessments receivable from the MFDA	(76,116)	(109)
Prepaid expenses	(6,160)	(14,149)
Interest and other receivable	(10,128)	3,103
Accounts payable and accrued liabilities	(28,981)	55,720
Provision for claims and related expenses	6,462,620	571,410
Support costs due to the MFDA	(1,448)	1,442
	1,379,438	2,587,163
<b>Investing activity</b>		
Purchase of investments	1,354,376	(2,563,188)
Increase in cash during the year	2,733,814	23,975
Cash, beginning of year	242,712	218,737
<b>Cash, end of year</b>	<b>2,976,526</b>	<b>242,712</b>

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

# MFDA INVESTOR PROTECTION CORPORATION

## Notes to the Financial Statements

June 30, 2014 and 2013

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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. 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

The 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.

#### 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.

# MFDA INVESTOR PROTECTION CORPORATION

## Notes to the Financial Statements

June 30, 2014 and 2013

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### 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 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.

### Provision for claims and related expenses

Provision for claims from customers 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 customer claims for claims not yet reported.

# MFDA INVESTOR PROTECTION CORPORATION

## Notes to the Financial Statements

June 30, 2014 and 2013

### 4. Investments

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 \$
<b>Bonds</b>				
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 2 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
<b>Sub-Total Bonds</b>			29,100,178	29,869,301
Cash on hand for bond investment	N/A	N/A	500,044	500,044
<b>Treasury Bills and Notes</b>				
Canada Government, 0.915%, Mat. Jul 17 2014	4,403,000	AAA	4,393,578	4,393,578
<b>Sub-Total Treasury Bills and Notes</b>			4,393,578	4,393,578
<b>Total Investments</b>			33,993,800	34,762,923

# MFDA INVESTOR PROTECTION CORPORATION

## Notes to the Financial Statements

June 30, 2014 and 2013

### 4. Investments (continued)

The following table lists the investment holdings and their carrying and fair values as at June 30, 2013.

Investment	Par value (\$)/ number of units	Credit rating	Carrying value \$	Fair value \$
<b>Bonds</b>				
Canada Housing Trust, 2.75%, Mat. Sep 15 2014	3,495,000	AAA	3,561,392	3,558,609
Canada Housing Trust, 2.45%, Mat. Dec 15 2015	3,500,000	AAA	3,590,601	3,581,585
Quebec Provincial, 4.50%, Mat. Dec 01 2016	2,965,000	Ah	3,084,099	3,223,756
B.C. Provincial, 4.70%, Mat. Dec 01 2017	2,605,000	Aah	2,804,490	2,892,826
Canada Government, 4.25%, Mat. Jun 01 2018	2,865,000	AAA	3,107,854	3,191,180
Ontario Provincial, 4.40%, Mat. Jun 02 2019	2,905,000	AA low	3,098,228	3,189,429
Canada Housing Trust, 3.75%, Mat. Mar 15 2020	2,960,000	AAA	3,089,572	3,194,491
B.C. Provincial, 3.25%, Mat. Dec 18 2021	2,830,000	Aah	2,904,630	2,888,100
Alberta Provincial, 2.55%, Mat. Dec 15 2022	1,605,000	AAA	1,609,152	1,530,817
New Brunswick Provincial, 2.85%, Mat. Jun 2 2023	1,625,000	Ah	1,622,387	1,551,680
Canada Housing Trust, 2.35%, Mat. Sep 15 2023	920,000	AAA	899,414	873,292
<b>Sub-Total Bonds</b>			<b>29,371,819</b>	<b>29,675,765</b>
Cash on hand for bond investment	N/A	N/A	145,287	145,287
<b>Treasury Bills and Notes</b>				
Canada Government, 0.990%, Mat. Sep 12 2013	3,308,000	AAA	3,300,160	3,300,160
Canada Government, 0.997%, Mat. Aug 1 2013	800,000	AAA	797,864	797,864
Canada Government, 0.997%, Mat. Aug 15 2013	1,725,000	AAA	1,720,394	1,720,394
<b>Sub-Total Treasury Bills and Notes</b>			<b>5,818,418</b>	<b>5,818,418</b>
Cash on hand for T-Bills investment	N/A	N/A	12,652	12,652
<b>Total Investments</b>			<b>35,348,176</b>	<b>35,652,122</b>

# MFDA INVESTOR PROTECTION CORPORATION

## Notes to the Financial Statements

June 30, 2014 and 2013

### 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 \$87,610 (2013 - \$11,494) represents outstanding amounts from MFDA members on billings due at June 30, 2014 and 2013.

### 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 (2013 - \$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 \$16,950 (2013 - \$18,398) in respect of support costs as at June 30, 2014 and 2013.

### 7. Credit facilities and insurance

The MFDA IPC has been granted a credit facility limited to a maximum of \$30 million (2013 - \$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, 2014 the interest rate is prime + 0.75% per annum (2013 - 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 \$134,990 (2013 - \$134,999).

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

### 8. Investment income

Investment and other income is comprised of the following:

	2014	2013
	\$	\$
Income from bonds		
Coupon interest	1,038,938	1,062,098
Accretion of the bond discount/premium	(271,641)	(331,128)
	767,297	730,970
Income from treasury bills and notes		
Coupon interest	23,439	33,453
<b>Total investment income</b>	<b>790,736</b>	<b>764,423</b>

# MFDA INVESTOR PROTECTION CORPORATION

## Notes to the Financial Statements

June 30, 2014 and 2013

### 9. Provision for claims and related expenses

At June 30, 2014 there was one member insolvency, W.H. Stuart Mutuals, Ltd. (“WHS”). The provision for claims and related expenses and the change in provision during the year and payments made for this insolvency is as follows:

	W.H. Stuart Mutuals Ltd.
	\$
Provision at July 1, 2013	571,410
Increase in provision	7,558,094
Payments during the year	(1,095,474)
<b>Provision at June 30, 2014</b>	<b>7,034,030</b>

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 MFDA IPC. WHS was placed under the administration of a bankruptcy trustee on September 18, 2013. During the year ended June 30, 2014, MFDA IPC made payments of \$75,000 to claimants and paid \$1,020,474 in administrative costs. At June 30, 2014, an accrual of \$7,034,030 has been made for amounts expected to be paid to claimants and administrative costs. The accrual for administrative costs totaled \$322,922 (2013 - \$571,410) at June 30, 2014.

### 10. 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%.

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.

## MFDA INVESTOR PROTECTION CORPORATION

### Notes to the Financial Statements

June 30, 2014 and 2013

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#### 10. 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 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, 2014 and 2013, 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 receivable, accounts payable and accrued liabilities, provision for claims and 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.

#### 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 \$2,932,700 (2013 - \$2,858,795). As at June 30, 2014, the value of the operating fund unrestricted net assets was \$30,300,232 (2013 - \$35,260,581).

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

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