

## Chapter 13

# SROs, Marketplaces and Clearing Agencies

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### 13.1 SROs

#### 13.1.1 Proposed Amendments to MFDA Rule 3.1.1 (Capital – Minimum Levels) and MFDA Form 1 – Financial Questionnaire and Report

#### MUTUAL FUND DEALERS ASSOCIATION OF CANADA

#### PROPOSED AMENDMENTS TO

#### MFDA RULE 3.1.1 (CAPITAL – MINIMUM LEVELS) AND

#### MFDA FORM 1 – FINANCIAL QUESTIONNAIRE AND REPORT

### I. OVERVIEW

#### A. Current Rules

MFDA Rule 3.1.1 prescribes the minimum capital to be maintained by Level 1, 2, 3 and 4 dealers/Members. In accordance with the requirements of Rule 3.1.1:

##### Level 1 Dealers

Level 1 dealers are required to introduce all of their accounts to a carrying dealer and may not hold client cash, securities or other property. Level 1 dealers are presently subject to a \$25,000 minimum capital requirement. At this time, the MFDA does not have any Level 1 dealers in membership.

##### Level 2 Dealers

Level 2 dealers are prohibited from holding client cash, securities or other property. Level 2 dealers are presently subject to a \$50,000 minimum capital requirement.

##### Level 3 Dealers

Level 3 dealers are prohibited from holding client securities or other property with the exception of holding client cash in a trust account. Level 3 dealers are presently subject to a \$75,000 minimum capital requirement.

##### Level 4 Dealers

Level 4 dealers are Members who act as a carrying dealer and all other Members including those who hold client securities or other property. Level 4 dealers are presently subject to a \$200,000 minimum capital requirement.

The current MFDA minimum capital requirements under Rule 3.1.1 are not consistent with National Instrument 31-103 *Registration Requirements and Exemptions* (“NI 31-103”) for Members who are licensed in multiple registration categories.

##### Form 1

MFDA Members are required to file a monthly and annual financial report with the MFDA in a prescribed form (“Form 1”). Currently, Form 1 requires financial information to be prepared in accordance with Canadian Generally Accepted Accounting Principles (“Canadian GAAP”), except as modified by the MFDA and MFDA Investor Protection Corporation (“MFDA IPC”).

#### B. The Issues

The proposed amendments to Rule 3.1.1 are intended to ensure that MFDA Members registered in other registration categories under securities legislation are subject to consistent minimum capital requirements under MFDA Rules and NI 31-103.

Level 1 Dealers

Pursuant to section 9.3 of NI 31-103, MFDA Members that are registered solely as mutual fund dealers are exempt from the capital requirements under section 12.1 of NI 31-103. Accordingly, a Level 1 introducing dealer who is only registered as a mutual fund dealer would be subject to the MFDA's \$25,000 minimum capital requirement. However, MFDA Members registered in other categories, including scholarship plan dealer, exempt market dealer, restricted dealer or investment fund manager, are subject to the minimum capital requirements in NI 31-103. Under NI 31-103, the minimum capital requirement for a registered dealer that is not registered as an investment fund manager is \$50,000. The minimum capital requirement for an investment fund manager under NI 31-103 is \$100,000. In light of the NI 31-103 minimum capital requirements, the proposed amendments to Rule 3.1.1 prohibit a Level 1 dealer from registering in any category of registration other than mutual fund dealer.

Level 2 and 3 Dealers

MFDA minimum capital requirements for Level 2 and 3 dealers, \$50,000 and \$75,000 respectively, meet or exceed the \$50,000 minimum capital requirements in NI 31-103 for dealers that are not also registered as an investment fund managers. A dealer that is also registered as an investment fund manager must maintain \$100,000 in minimum capital under NI 31-103. Accordingly, the proposed amendments to Rule 3.1.1 require a Level 2 or 3 dealer that is also registered as an investment fund manager to maintain the minimum capital of \$100,000.

Level 4 Dealers

No changes are being proposed to the minimum capital requirements for Level 4 dealers as the MFDA minimum capital requirements for Level 4 dealers exceed the minimum capital requirements in NI 31-103.

Form 1

The Canadian Accounting Standards Board ("AcSB") has confirmed that International Financial Reporting Standards ("IFRS") will replace current Canadian standards and interpretations as Canadian GAAP for Publicly Accountable Enterprises ("PAEs"), effective for fiscal years beginning on or after January 1, 2011. The proposed amendments to Form 1 are intended to align financial reporting required under Form 1 with IFRS.

**C. Objectives**

As noted, the objectives of the proposed amendments are to harmonize MFDA minimum capital requirements with those under NI 31-103 and to align MFDA financial reporting requirements with IFRS.

**D. Effect of Proposed Amendments**

Rule 3.1.1 Amendments

The proposed amendments to Rule 3.1.1, which are necessary to harmonize MFDA minimum capital requirements with NI 31-103, will not have a significant impact on Members. As noted, the MFDA does not have any Level 1 dealers in membership. Further, the MFDA has very few Level 2 and 3 dealers who are investment fund managers. The Members who operate as investment fund managers have sufficient capital to meet the proposed \$100,000 amount.

Form 1

The proposed amendments to Form 1 to conform to IFRS do not impact the MFDA's capital formula. Reporting based on IFRS, rather than current Canadian GAAP, may impact the timing and/or manner in which certain balances are reported and thus, ultimately, the calculated Risk Adjusted Capital ("RAC") balance, as defined in Form 1. The key differences between Canadian GAAP and IFRS and the related impact on RAC and the other Early Warning tests are summarized below and in the blacklined version of Form 1.

The proposed amendments to Form 1 to harmonize with NI 31-103, including changing the margin rates and the treatment of guarantees, will not have a significant impact on the entire membership based on recent financial filings. However, the change to the treatment of guarantees may impact how Members arrange financing in the future.

## II. DETAILED ANALYSIS

### A. Relevant History

#### Rule 3.1.1 Amendments

MFDA Rule 3.1.1, which establishes minimum capital requirements, has been in effect since the MFDA was first recognized as a self-regulatory organization (“SRO”) in 2001. NI 31-103 is a new instrument that came into force in September 2009 and is in the process of being amended. Accordingly, MFDA Rules require amendment to conform with NI 31-103 in a number of areas.

#### Form 1 Amendments

In 2008, the AcSB advised that Canadian GAAP would be replaced with IFRS in 2011 for all PAEs. As a result, in 2008 MFDA staff commenced a preliminary review of the impact, if any, that the AcSB’s pronouncement would have on the financial reporting requirements of the membership. Bulletin #0328-M – *Conversion to International Financial Reporting Standards* was issued in September 2008 informing the membership of the MFDA’s position that some Members meet the definition of a PAE, and, consequently, would be required to report in accordance IFRS, whereas others would not. Accordingly, the MFDA undertook an assessment as to whether to mandate one financial reporting standard for all Members or whether to permit two different standards for regulatory reporting purposes.

In June 2009, Bulletin #0378-M – *Conversion to International Financial Reporting Standards (IFRS) – Discussion Paper/Request for Comment* was issued to solicit feedback from Members and their auditors to determine the impact on them should the MFDA require all Members to adopt reporting based upon IFRS. Following review and analysis of the comments received in response to Bulletin #0378-M, MFDA staff concluded that adopting one standard for all MFDA Members, based on IFRS, would be the best way to ensure that consistent, fair and cost-effective regulatory oversight of the membership continued. Consequently, Bulletin #0411-C – *International Financial Reporting Standards (IFRS) – Follow up to MFDA Bulletin #0378 – Conversion to IFRS* was issued in November 2009, informing the membership of the financial reporting requirements going forward. The Canadian Securities Administrators (“CSA”) and the Investment Industry Regulatory Organization of Canada (“IIROC”) also concluded that one consistent standard based on IFRS would be required for their registrants and Members, respectively. Given parallel financial reporting objectives, MFDA staff worked with IIROC staff to ensure that proposed changes relating to IFRS conversion were consistent, where appropriate.

### B. Proposed Amendments

#### **Proposed Amendments to Rule 3.1.1**

The Level 1 category under Rule 3.1.1 would be amended to prohibit a Level 1 dealer from being registered in any category of registration other than mutual fund dealer. In addition, new subsection 3.1.1(b) would require Members registered as investment fund managers that are also Level 2 or 3 Dealers to maintain a minimum capital of \$100,000.

#### **Proposed Amendments to Form 1**

##### Relating to IFRS Conversion

Generally, the IFRS conceptual framework is very similar to Canadian GAAP, as it is principle-based with comparable objectives, characteristics and elements. Some key differences between the two standards are: (i) IFRS requires or permits reporting balances using “fair values” in cases where Canadian GAAP would require the balances to be reported at “cost”; and (ii) IFRS requires more extensive financial statement note disclosures than Canadian GAAP, as it considers qualitative information to be critical to the “true and fair” presentation of financial statements.

As noted, the current Form 1 requires financial information to be presented in accordance with Canadian GAAP *except as modified by the MFDA and MFDA IPC*. During the development of the proposed amendments to Form 1 in order to convert it to IFRS, a primary objective was to minimize the modifications or “accounting departures” from IFRS. This was done, where appropriate, to maintain consistent presentation, as required by the standard setters and to be consistent with the approach taken by IIROC with respect to its prescribed regulatory reporting form.

In order to reflect the conversion to IFRS, changes to General Notes and Definitions have been proposed to explicitly include in the Form: (i) the prescribed departures from IFRS; and (ii) the prescribed IFRS accounting treatment in cases where alternatives are available but are not permitted by the MFDA. To ensure conformance with IFRS terminology, respective definitions and specific required disclosures have been included in the bodies of the statements themselves. This also includes presenting regulatory requirements on Statements A and B in a different manner to satisfy the objective of minimizing accounting departures from IFRS in the Form 1.

With the exception of the specified IFRS departure for client and trading balances, changes have been proposed to support the requirement under IFRS to report all balances on a “gross” rather than a “net” basis. IFRS prohibits the netting of balances unless it is required or permitted under a specific IFRS or interpretation. Generally, netting is only permitted when there is a legal right to offset; when netting reflects the substance of the transaction; and/or when gross presentation would detract from the ability to understand the transaction and assess future cash flows. Canadian GAAP also has similar requirements; however, the statements do not necessarily include lines to adequately compare the gross and net figures.

Since IFRS requires or permits fair value measurement, the difference resulting from re-valuation from cost to fair value may require reporting through Other Comprehensive Income (“OCI”), which is a component of equity not profit/loss directly from operations. Finally, required changes have been proposed to the Auditors’ Reports to comply with International Standards on Auditing (“ISA”), specifically ISA 800.

Relating to Format and Presentation (Housekeeping)

In addition to the proposed amendments to align financial reporting, as required under Form 1, with IFRS, the following housekeeping amendments are also proposed:

- (i) Additional lines added for the benefit of enhanced disclosure;
- (ii) Minor changes to the wording on the Statements, Schedules and their respective Notes and Instructions to enhance clarity and understanding of the requirements and ensure they accurately reflect current requirements;
- (iii) Moving the presentation of the Early Warning tests from Statement C to a separate Schedule. The Early Warning Tests are designed to identify financial concerns with a Member prior to a deficiency being incurred. They are more appropriately reflected in a Schedule to the Form 1 than in a Statement, as the answers to the tests are derived from the preparation of Statements A to F;
- (iv) Changes to the Certificate of Partners or Directors to accurately reflect current requirements and to update for terminology under NI 31-103; and
- (v) Adding an additional Schedule where supplemental information requested will be presented. For example, the current requirement to report Number of Salespersons and Assets under Administration on Statement D will be moved to a new Schedule and will not be required as part of the annual audited Form.

Relating to Minimum Capital Requirements under NI 31-103

With the recent implementation of NI 31-103, all securities registrants across Canada, with the exception of Members of an SRO, are required to comply with new capital requirements as set out in Form 31-103F1 *Calculation of Excess Working Capital* (“CEWC”). One potentially significant component of the CEWC is the requirement to deduct 100% of the total amount of any guarantee provided in support of another party’s liabilities. For example, if the registrant provided a guarantee to the lender of a \$1 million loan provided to a related party, the registrant’s CEWC would reflect a \$1 million capital deduction on the Form 31-103F1.

Currently, the MFDA’s Form 1 requires a 10% capital charge be taken for guarantees provided by the Member for liabilities of other parties. In order to ensure the MFDA’s Form 1 continues to at least satisfy the minimum regulatory requirements imposed on other registrants, it is proposed that the capital charge requirement for guarantees be changed from 10% to 100% of the guaranteed amount. This requirement is also consistent with IIROC’s capital formula.

In addition, following a review of the prescribed margin rates for a firm’s own securities positions, it was identified that adjustments to the margin rates in the Form 1 were required to ensure that they at least met the minimum rates under NI 31-103. Consequently, changes to the margin rates for specific fixed income securities are also recommended at this time.

Statement B, *Statement of Risk Adjusted Capital*, Statement C, *Statement of Early Warning Excess*, and Schedule 1, *Analysis of Securities Owned and Sold Short at Market Value*, are the only sections within Form 1 that are impacted by the proposed amendments relating to minimum capital requirements under NI 31-103.

**C. Issues and Alternatives Considered**

No other alternatives were considered with respect to the proposed amendments to Rule 3.1.1 as these changes were made to harmonize MFDA minimum capital requirements with those under NI 31-103.

With respect to the proposed amendments to Form 1, MFDA staff undertook impact assessments with Members and their auditors to determine whether it would be more appropriate to mandate one financial reporting standard for all Members or permit two different standards for regulatory reporting purposes.

The implications of permitting two sets of reporting standards across the membership were considered as part of the IFRS review process. Two standards (i.e. IFRS and private enterprise GAAP) would require staff to be familiar with both standards and keep abreast of all changes as they arise. Further, having two standards would cause duplication of electronic filing platforms and forms and an inability to effectively compare and analyze financial data across the membership. This increase in regulatory oversight requirements would lead to increased operational costs for the MFDA and thus, indirectly, the membership.

Having regard to the findings of MFDA staff, the position adopted by the CSA and IIROC and the desirability for consistency in financial reporting among regulatory bodies to the extent possible, one financial reporting standard based on IFRS was adopted for all MFDA Members to ensure that consistent, fair and cost-effective regulatory oversight of the Membership continued.

**D. Comparison with Similar Provisions**

Both the CSA and IIROC have also concluded that one consistent standard based on IFRS would be required for their registrants and Members. In developing the proposed amendments to Form 1, MFDA staff gave consideration to the position adopted by the CSA and worked with staff of IIROC to ensure that proposed MFDA changes relating to IFRS conversion were consistent, as appropriate, with parallel regulatory initiatives.

One principal difference between the MFDA's and IIROC's proposed Form 1 relating to changes for IFRS conversion is that IIROC included a one-time Opening IFRS Statement of Financial Position and Reconciliation of Equity as part of IIROC's Form 1. The MFDA also intends to require this type of reporting from its membership. However, because it is a "one-time only" reporting requirement upon transitioning to IFRS, it would be filed as additional/supplemental financial information in accordance with Rule 3.5.1.

**E. Technological Implications and Implementation Plan**

Rule 3.1.1 Amendments

The proposed amendments to Rule 3.1.1 will not have a significant impact on systems requirements. Given Members are currently able to meet the minimum capital requirements of NI 31-103, a transition period is not necessary.

Form 1

As the primary purpose of the reporting requirements is to assess the current solvency of the firm, IFRS-compliant comparative financial statement balances will not be required for regulatory reporting purposes during the first year of transitional reporting.

MFDA staff does not anticipate that requiring financial reporting in accordance with IFRS will create widespread changes or have a significant impact on Member operations for those who would not otherwise be required to report using IFRS.

MFDA staff is aware that certain Members would not meet the definition of a PAE and would not, for any other reason, be required to report in accordance with IFRS other than for the proposed changes to regulatory reporting requirements of the MFDA. Consequently, MFDA staff is recommending that applicable Level 2 and 3 Dealers be allowed to elect to defer reporting under the new IFRS requirements proposed for up to 12 months past the fiscal year-ending. This election would be considered for any Level 2 or 3 Dealer that is not a PAE and whose fiscal year begins on January 1 to April 1, 2011.

**F. Best Interests of the Capital Markets**

The Board has determined that the proposed amendments are in the best interests of the capital markets.

**G. Public Interest Objective**

The proposed amendments are in the public interest as they will align financial reporting requirements under Form 1 with the requirements of IFRS and result in MFDA Members that are also registered under other registration categories under securities legislation to be subject to consistent minimum capital requirements under MFDA Rules and NI 31-103.

### III. COMMENTARY

#### A. Filing in Other Jurisdictions

The proposed By-law amendments will be filed for approval with the Alberta, British Columbia, Manitoba, New Brunswick, Nova Scotia, and Ontario Securities Commissions and the Saskatchewan Financial Services Commission.

#### B. Effectiveness

The proposed amendments are simple and effective.

#### C. Process

The proposed Policy has been prepared in consultation with relevant departments within the MFDA and has been reviewed by the Policy Advisory Committee of the MFDA and the Regulatory Issues Committee of the Board. The MFDA Board of Directors approved the proposed amendments on June 3, 2010.

#### D. Effective Date

The proposed amendments will be effective on a date to be subsequently determined by the MFDA.

### IV. SOURCES

MFDA Rule 3.1.1  
MFDA Rule 3.5.1  
MFDA Form 1 – Financial Questionnaire and Report  
National Instrument 31-103 *Registration Requirements and Exemptions*

### V. REQUIREMENT TO PUBLISH FOR COMMENT

The MFDA is required to publish for comment the proposed amendments so that the issues referred to above may be considered by the Recognizing Regulators.

**The MFDA has determined that the entry into force of the proposed amendments would be in the public interest and is not detrimental to the capital markets. Comments are sought on the proposed amendments.** Comments should be made in writing. One copy of each comment letter should be delivered by **October 12, 2010** (within 60 days of the publication of this notice), addressed to the attention of the Corporate Secretary, Mutual Fund Dealers Association of Canada, 121 King St. West, Suite 1000, Toronto, Ontario, M5H 3T9 and one copy addressed to the attention of Julianna Paik, Senior Legal Counsel, British Columbia Securities Commission, 701 West Georgia Street, P.O. Box 10142, Pacific Centre, Vancouver, British Columbia, V7Y 1L2.

Those submitting comment letters should be aware that a copy of their comment letter will be made publicly available on the MFDA website at [www.mfda.ca](http://www.mfda.ca).

Questions may be referred to:

Laura Milliken  
Director, Financial Compliance  
Mutual Fund Dealers Association of Canada  
(416) 943-5843

Schedule "A"

MUTUAL FUND DEALERS ASSOCIATION OF CANADA

CAPITAL – MINIMUM LEVELS (Rule 3.1.1)

On June 3, 2010, the Board of Directors of the Mutual Fund Dealers Association of Canada made the following amendments to Rule 3.1.1:

**3.1 CAPITAL**

**3.1.1 Minimum Levels.**

(a) Each Member shall have and maintain at all times risk adjusted capital greater than zero, and minimum capital in the amounts referred to below for the Level in which the Member is designated, as calculated in accordance with Form 1 and with such requirements as the Corporation may from time to time prescribe:

Level 1	\$25,000 for a Member which is an introducing dealer and which satisfies the requirements of Rule 1.1.6(a) and (b), <u>and is not a Level 2, 3 or 4 Member and is not otherwise registered in any other category of registration under securities legislation.</u>
Level 2	\$50,000 for a Member which does not hold client cash, securities or other property.
Level 3	\$75,000 for a Member which does not hold client securities or other property, except client cash in a trust account.
Level 4	\$200,000, for any other Member, including a Member which acts as a carrying dealer in accordance with Rule 1.1.6.

For the purposes of the By-laws, Rules, Policies and Forms, a Member which is required to maintain minimum capital at an amount referred to above is referred to as a Level 1, 2, 3 or 4 Dealer or Member, as the case may be.

(b) Notwithstanding the provisions of paragraph (a), a Member that is registered as an investment fund manager under securities legislation and is a Level 2 or 3 Dealer must maintain minimum capital of at least \$100,000.

Schedule "B"

MUTUAL FUND DEALERS ASSOCIATION OF CANADA

FORM 1 – FINANCIAL QUESTIONNAIRE AND REPORT

On June 3, 2010, the Board of Directors of the Mutual Fund Dealers Association of Canada made the following amendments to MFDA Form 1 – Financial Questionnaire and Report:

FORM 1 – TABLE OF CONTENTS

~~MFDA FINANCIAL QUESTIONNAIRE AND REPORT~~

\_\_\_\_\_  
(Firm/Member Name)

\_\_\_\_\_  
(Date)

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GENERAL NOTES AND DEFINITIONS

CERTIFICATE OF PARTNERS OR DIRECTORS

~~PART I—AUDITORS' REPORT [at audit date only]~~

PART I

STATEMENT

- A (3 pages) ~~Statements of financial position assets and of liabilities and shareholder/partner capital~~
- B Statement of risk adjusted capital
- C Statement of early warning excess and early warning tests
- D ~~Statement of income and comprehensive income~~ Summary statement of income
- E Statement of changes in capital and retained earnings (corporations) or undivided profits (partnerships)
- F Statement of changes in subordinated loans  
Notes to the Form 1 financial statements

~~CERTIFICATE OF PARTNERS OR DIRECTORS~~

~~PART II — AUDITORS' REPORT [at audit date only]~~

~~REPORT ON COMPLIANCE FOR INSURANCE AND SEGREGATION OF CASH AND SECURITIES [at audit date only]~~

~~REPORT ON COMPLIANCE FOR SEGREGATION OF CASH AND SECURITIES [at audit date only]~~

SCHEDULE

- 1 Analysis of securities owned and sold short at market value
- 2 Analysis of clients' debit balances
- 3 Income taxes
- 4 Insurance
- 5 Early warning tests
- 6 Other supplementary information [not required at audit date]



**MFDA FINANCIAL QUESTIONNAIRE AND REPORT FORM 1 –  
GENERAL NOTES AND DEFINITIONS**

**GENERAL NOTES:**

1. Each Member shall ~~must~~ comply in all respects with the requirements outlined in this ~~prescribed Form 1 MFDA Financial Questionnaire and Report~~ as approved and amended from time to time by the ~~b~~Board of ~~d~~Directors of the Mutual Fund Dealers Association of Canada (the Corporation) ~~MFDA~~ and ~~MFDA Investor Protection Corporation~~.

~~Form 1 is a special purpose report that includes financial statements and schedules, and are is to be prepared in accordance with generally accepted accounting principles International Financial Reporting Standards (IFRS), except as prescribed by modified by the requirements of the MFDA Corporation, or the MFDA Investor Protection Corporation. Each Member must complete and file all of these statements and schedules.~~

2. The following are Form 1 IFRS departures as prescribed by the Corporation:

	<b><u>Prescribed IFRS departure</u></b>
<u>Trading balances</u>	<u>When reporting client and trading balances, the Corporation allows the netting of receivables from and payables to the same counterparty.</u>
<u>Preferred shares</u>	<u>Preferred shares issued by the Member and approved by the Corporation are classified as shareholders' capital.</u>
<u>Presentation</u>	<u>Statements A and D contain terms and classifications (such as allowable and non-allowable assets) that are not defined under IFRS.</u> <u>Statements B, C, E and F are supplementary financial information, which are not statements contemplated under IFRS.</u>
<u>Separate financial statements on a non-consolidated basis</u>	<u>Consolidation of subsidiaries is not permitted for regulatory reporting purposes except for related companies that meet the definition of "related Member" in MFDA By-law No. 1 and the Corporation has approved the consolidation.</u> <u>Because Statement D only reflects the operational results of the Member, a Member must not include the income (loss) of an investment accounted for by the equity method.</u>
<u>Statement of cash flow</u>	<u>A statement of cash flow is not required as part of Form 1.</u>
<u>Valuation</u>	<u>The "market value" definition has been retained. While the "market value" definition is similar in most respect to the IFRS "fair value" valuation approach there are differences that will result in the valuation of illiquid securities, whereby a value must be assigned under the IFRS "fair value" approach and a determination that the "value is not determinable" would be acceptable under the Corporation's "market value" valuation approach.</u>

3. The following are Form 1 prescribed accounting treatments based on available IFRS alternatives:

	<b><u>Prescribed accounting treatment</u></b>
<u>Hedge accounting</u>	<u>Hedge accounting is not permitted for regulatory reporting purposes. All security and derivative positions of a Member must be marked-to-market at the reporting date. Gains or losses of the hedge positions must not be deferred to a future point in time.</u>
<u>Securities owned and sold short as held-for-trading</u>	<u>A Member must categorize all investment positions as held-for-trading financial instruments. These security positions must be marked-to-market.</u> <u>Because the Corporation does not permit the use of available for sale and hold-to-maturity categories, a Member must not include other comprehensive income (OCI) and will not have a corresponding reserve account relating to marking-to-market available for sale security positions.</u>

Valuation of a subsidiary	A Member must value subsidiaries at cost.
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- ~~24.~~ These statements and schedules should be read in conjunction with the Corporation's Bylaws, Rules, and Policies, and Forms of the MFDA and MFDA Investor Protection Corporation including, but not limited to rules relating to the early warning system, segregation of client assets, and insurance and audit requirements.
- ~~53.~~ For purposes of these statements and schedules, the accounts of related Members companies as defined by the MFDA may be consolidated as provided by the Bylaws, Rules and Policies of the MFDA. If consolidation is appropriate, the names of the companies consolidated must be provided. that meet the definition of "related Member" in MFDA By-law No. 1 may be consolidated.
- ~~4.~~ ~~FOR THE PURPOSES OF THESE CAPITAL CALCULATIONS REPORTING ON A TRADE DATE BASIS MUST BE USED UNLESS SPECIFIED OTHERWISE IN THE INSTRUCTIONS. THIS MEANS INCLUDING IN THE FOLLOWING PRESCRIBED STATEMENTS AND SCHEDULES, ALL ASSETS AND LIABILITIES RESULTING FROM SALES AND PURCHASES OF SECURITIES ON OR BEFORE THE REPORTING DATE, EVEN THOUGH THEY MAY BE FOR NORMAL SETTLEMENT AFTER THE REPORTING DATE.~~
- ~~6.~~ For purposes of the statements and schedules, the capital calculations must be on a trade date reporting basis unless specified otherwise in the Notes and Instructions to Form 1.
- ~~5.~~ All statements and schedules must be filed. If a schedule is not applicable, a "NIL" return must be filed.
- ~~67.~~ Comparative figures on all statements are required only at the audit date. As a transition exemption for the changeover to International Financial Reporting Standards (IFRS) from Canadian Generally Accepted Accounting Principles (CGAAP), Members are not required to file comparative information for the preceding financial year as part of the first audited Form 1 under IFRS.
- ~~78.~~ All statements and schedules must be expressed in Canadian dollars and must be rounded to the nearest dollar.
- ~~89.~~ Supporting details should be provided, as required, showing a breakdown. Schedules should be attached showing details of any significant amounts that have not been clearly described on the attached statements and schedules.
- ~~910.~~ **Mandatory security counts, and reconciliations.** Securities held in segregation and safekeeping must be counted once in the year in addition to the count as at the year-end audit date.
- Mandatory reconciliations.** Reconciliations must be performed monthly in addition to the year-end audit date between the Member's records and the records of the depository or custodian where the Member holds its own and client securities in nominee name accounts.
- ~~10.~~ ~~At the year end, enclose a list of all brokers and dealers and mutual fund companies for which a confirmation has not been obtained after two requests. Such list should include the dollar balances in such accounts, as reflected in the firm's records.~~
- ~~11.~~ ~~For purposes of these statements and capital calculations, all related party debt must be recorded as a current liability unless a subordination agreement in a form prescribed by the MFDA has been executed by the Member and other relevant parties in relation to such debt.~~

**DEFINITIONS:**

1. "acceptable entity" means:
- Acceptable institutions.
  - Government of Canada, the Bank of Canada and Provincial Governments.
  - Insurance companies licensed to do business in Canada or a province thereof.
  - Canadian provincial capital cities and all other Canadian cities and municipalities, or their equivalents.
  - All crown corporations, instrumentalities and agencies of the Canadian federal or provincial governments which are government guaranteed as evidenced by a written unconditional irrevocable guarantee or have a call on the consolidated revenue fund of the federal or provincial governments.
  - Canadian pension funds which are regulated either by the Office of Superintendent of Financial Institutions or a provincial pension commission.

(g) Corporations (other than Regulated Entities) with a minimum net worth of \$75 million on the last audited balance sheet, provided acceptable financial information with respect to such corporation is available for inspection.

(h) ~~Members of the Mutual Fund Dealers Association of Canada~~Corporation.

(i) Regulated entities.

2. **“acceptable institutions”** means:

(a) Canadian banks, Quebec savings banks, trust companies licensed to do business in Canada or a province thereof.

(b) Credit and central credit unions and regional caisses populaires.

3. **“acceptable securities locations”** means those entities considered suitable to hold securities on behalf of a Member, for both ~~inventory~~investment and client positions, without capital penalty, given that the locations meet the requirements outlined in the segregation Bylaws, Rules or Policies of the Corporation MFDA—including, but not limited to, the requirement for a written custody agreement outlining the terms upon which such securities are deposited and including provisions that no use or disposition of the securities shall be made without the prior written consent of the Member and the securities can be delivered to the Member promptly on demand. The Corporation MFDA will maintain and regularly update a list of those foreign depositories and clearing agencies that comply with these criteria. The entities are as follows:

(a) Depositories

(i) Canada The Canadian Depository for Securities LimitedCDS Clearing and Depository Services Inc.

(ii) United States  
Depository Trust Company  
~~Pacific Securities Depository Trust Company~~  
~~Midwest Securities Trust Company~~

(b) Government of Canada, the Bank of Canada and Provincial Governments.

(c) Canadian banks, Quebec savings banks, trust companies and loan companies licensed to do business in Canada or a province thereof.

(d) Credit and central credit unions and regional caisses populaires.

(e) Insurance companies licensed to do business in Canada or a province thereof.

(f) Mutual Funds or their Agents – with respect to security positions maintained as a book entry of securities issued by the mutual fund and for which the mutual fund is unconditionally responsible.

(g) Regulated entities.

4. **“regulated entities”** means those that are Members covered by the Canadian Investor Protection Fund or Members of recognized exchanges and associations. For the purposes of this definition, recognized exchanges and associations are those that are identified as a "regulated entity" by the ~~Investment Dealers Association of Canada~~Investment Industry Regulatory Organization of Canada.

5. **“market value of securities”** means:

(a) In a fully transparent marketplace, the published price quotation for the security using:

i. for listed securities, the last bid price of a long security and, correspondingly, the last ask price of a short security, as shown on the exchange quotation sheets as of the close of business on the relevant date or last trading date prior to the relevant date, as the case may be, subject to an appropriate adjustment where an unusually large or unusually small quantity of securities is being valued. If not available, the last sale price of a board lot may be used.

ii. for unlisted and debt securities, and precious metals bullion, a value determined as reasonable from published market reports or inter-dealer quotation sheets on the relevant date or last trading day prior to the relevant date, or based on a reasonable yield rate.

- iii. for commodity futures contracts, the settlement price on the relevant date or last trading day prior to the relevant date.
  - iv. for money market fixed date repurchases (no borrower call feature), the price determined by applying the current yield for the security to the term of maturity from the repurchase date. This will permit calculation of any profit or loss based on the market conditions at the reporting date.
  - v. for money market open repurchases (no borrower call feature), the price determined as of the reporting date or the date the commitment first becomes open, whichever is the later. The value is to be determined as in (iv) and commitment price is to be determined in the same manner using the yield stated in the repurchase commitment.
  - vi. for money market repurchases with borrower call features, the borrower call price.
- (b) Where a marketplace does not exist or is inactive, the value is determined by using a valuation technique that includes inputs other than published price quotations that are observable for the security, either directly or indirectly.
  - (c) Where a marketplace does not exist or is inactive and there are no observable market data-related inputs for the security, the value determined by using unobservable inputs and assumptions.
  - (d) Where insufficient recent information is available and/or there is a wide range of possible value measurements and cost represents the best estimate of market value within that range, cost.
  - (e) Where value cannot be reliably measured under Items (a) through (d) above (including where cost does not represent the best estimate of value), no value shall be assigned.

MFDA FINANCIAL QUESTIONNAIRE AND REPORT
FORM 1 - CERTIFICATE OF PARTNERS OR DIRECTORS

(MemberFirm Name)

I/We have examined the attached statements and schedules and certify that, to the best of my/our knowledge, they present fairly the financial position and capital of the firmMember at \_\_\_\_\_ and the results of operations for the period then ended, and are in agreement with the books of the firmMember.

I/We certify that the following information is true and correct to the best of my/our knowledge for the period from the last audit to the date of the attached statements which have been prepared in accordance with the current requirements of the CorporationMFDA and MFDA Investor Protection Corporation.:

ANSWERS

- 1. Do the attached statements fully disclose all assets and liabilities including the following:
(a) All future purchase and sales commitments?
(b) Writs issued against the Memberfirm or partners or corporation or any other litigation pending?
(c) Income tax arrears of partners or corporation?
(d) Other contingent liabilities, guarantees, accommodation, endorsements or commitments affecting the financial position of the Memberfirm?
2. Does the firmMember promptly segregate clients' cash and securities in accordance with the Rules and Policies prescribed by the MFDA?
3. Does the firmMember determine on a regular basis its segregation amount and act promptly to segregate assets as appropriate in accordance with the Rules and Policies prescribed by the MFDA?
4. Does the firmMember carry insurance of the type and in the amount required by the Rules and Policies of the MFDA?
5. Does the firmMember monitor on a regular basis its adherence to early warning requirements in accordance with the Rules and Policies prescribed by the MFDA?
6. Does the firmMember perform regular reconciliations of its trust accounts in accordance with the Rules and Policies prescribed by the MFDA?
7. Does the firmMember perform regular reconciliations of its mutual fund transactions with fund company records and other financial institution records in accordance with the Rules and Policies prescribed by the MFDA?
8. Does the firmMember have adequate internal controls in accordance with the Rules and Policies prescribed by the MFDA?
9. Does the firmMember maintain adequate books and records in accordance with the Rules and Policies prescribed by the MFDA?

[date]

Name and Title - Please print

Signature

Four horizontal lines for printing Name and Title.

Four horizontal lines for signing.

**CERTIFICATE OF PARTNERS OR DIRECTORS  
NOTES AND INSTRUCTIONS**

1. Details must be given for any "no" answers.
2. To be signed by two of either:
  - (a) ~~chief executive officer/partner~~Ultimate Designated Person (UDP)
  - (b) ~~eChief financial~~Executive ~~eOfficer~~
  - (c) ~~eChief accountant~~Financial ~~eOfficer~~
  - (d) Chief Accountant
  - (e) ~~eOne dDirector/ or pPartner~~ not included in (a), (b), ~~or~~ (c) or (d) above.

Where there is only one individual that meets the qualifications of the positions listed above, this individual must sign the certificate.

3. Two copies with original signatures must be provided to the CorporationMFDA.

MFDA FINANCIAL QUESTIONNAIRE AND REPORT
PART I - AUDITORS' REPORT

TO: The MFDA and the MFDA Investor Protection Corporation.

We have audited the following Part I financial statements of (firm):

Statement A Statements of assets and of liabilities and shareholder/partner capital;

Statement B Statement of risk adjusted capital, as at (date) 20 and (date) 20;

Statement C Statement of early warning excess and early warning tests;

Statement D Summary statement of income for the years ended (date) 20 and (date) 20;

Statement E Statement of changes in capital and retained earnings (corporations) or undivided profits (partnerships); and

Statement F Statement of changes in subordinated loans for the year ended (date) 20.

These financial statements have been prepared for the purpose of complying with the By-laws, Rules and Policies of the MFDA. These financial statements are the responsibility of the firm's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion,

(a) the statements of assets and of liabilities and shareholder/partner capital and the summary statement of income present fairly, in all material respects, the financial position of the firm as at (date) 20 & (date) 20 and the results of its operations for the years then ended in the form required by the MFDA in accordance with the basis of accounting described in the Notes to the Financial Questionnaire and Report.

(b) the statement of risk adjusted capital, as at (date) 20 & (date) 20 and the statements of early warning excess and early warning tests, changes in capital and retained earnings (corporations) or undivided profits (partnerships), and changes in subordinated loans, either as at or for the year ended (date) 20 are presented fairly, in all material respects, in accordance with the applicable instructions of the MFDA.

These financial statements, which have not been, and were not intended to be, prepared in accordance with Canadian generally accepted accounting principles, are solely for the information and use of the firm, the MFDA and the MFDA Investor Protection Corporation, to comply with the By-laws, Rules and Policies of the MFDA. The financial statements are not intended to be and should not be used by anyone other than the specified users or for any other purpose.

[auditing firm name]

[date]

[signature]

[place of issue]

**FORM 1 – AUDITORS’ REPORT**

**To: Mutual Fund Dealers Association of Canada and MFDA Investor Protection Corporation**

We have audited the accompanying Statements of Form 1 (the “Statements”) of \_\_\_\_\_ (*Member name*) (the “Member”) as at \_\_\_\_\_ (*date*) and for the year then ended. The Statements have been prepared for purposes of complying with the By-laws, Rules and Policies of the Mutual Fund Dealers Association of Canada.

**Management’s responsibility for the Statements**

Management is responsible for the preparation and fair presentation of the Statements of Form 1 in accordance with its financial reporting obligations on the basis as described in Note \_\_\_\_\_. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditors’ responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Member’s preparation and fair presentation of the 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 Member’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 Statements.

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

**Opinion**

In our opinion, the accompanying Statements A, D, E and F present fairly, in all material respects, the financial position of the “Member” as at \_\_\_\_\_ (*date*) and the “Member’s” financial performance for the period then ended in accordance with the basis as described in Note \_\_\_\_\_.

Statements B and C of Form 1 present fairly in all material respects the risk adjusted capital and early warning excess as at \_\_\_\_\_ (*date*) in accordance with the applicable By-laws, Rules and Policies of the Mutual Fund Dealers Association of Canada.

Our audit was conducted for the purpose of forming an opinion on the accompanying Statements taken as a whole. The accompanying supplemental information presented in schedules 1 to 5 is presented for purposes of additional analysis and is not a required part of the Statements of Form 1, but is supplementary information required by the Rules of the Mutual Fund Dealers Association of Canada. Such information has been subjected to the auditing procedures applied in the audit of the Statements of Form 1 and, in our opinion, is fairly stated in all material respects in relation to the Statements taken as a whole.

**Emphasis of Matter**

(Going concern matter to be described, if any).

(EFS to allow for auditor to provide wording on other potential Emphasis of Matter should one be required to be included in the auditors’ report. Such wording would be agreed upon with Corporation prior to the filing of Form 1).



**Basis of Accounting**

Without modifying our opinion, we draw attention to Note \_\_\_\_\_ to the Statements which describes the basis of accounting. The Statements are prepared to meet the requirements of the Mutual Fund Dealers Association of Canada. As a result, the Statements may not be suitable for another purpose.

[Audit Firm]

[Date]

[Address]

**PART I -- FORM 1 -- AUDITORS' REPORT  
NOTES AND INSTRUCTIONS**

A measure of uniformity in the form of the auditors' report is desirable in order to facilitate identification of circumstances where the underlying conditions are different. Therefore, when auditors are able to express an unqualified opinion, their report should take the form of the auditors' report shown above.

~~An alternate form of Auditors' Report is available from the MFDA in the case where the auditor is unable to express an opinion on previous year's figures due to not having been the auditor for the previous year.~~

Any limitations in the scope of the audit must be discussed in advance with the CorporationMFDA. Discretionary scope limitations will not be accepted. Any emphasis of matter in the auditors' report must be discussed in advance with the Corporation.

Two copies with original signatures must be provided to the CorporationMFDA.

**FORM 1, PART I – STATEMENT A  
MFDA FINANCIAL QUESTIONNAIRE AND REPORT**

(Member Firm Name)

**STATEMENT OF ASSETS FINANCIAL POSITION**

(as at \_\_\_\_\_ with comparative figures as at \_\_\_\_\_)

REFERENCE	NOTES	(CURRENT YEAR) C\$	(PREVIOUS YEAR) C\$
LIQUID ASSETS:			
1.	Cash on deposit with <u>a</u> Acceptable <u>i</u> nstitutions	\$	\$
2.	Client funds held in trust with <u>a</u> Acceptable <u>i</u> nstitutions	-----	-----
3.	Sch.1 Securities owned at market value	-----	-----
4.	Receivable from carrying broker <u>d</u> ealer or mutual fund	-----	-----
5.	<u>T</u> rading balances	-----	-----
56.	TOTAL LIQUID ASSETS	-----	-----
OTHER ALLOWABLE ASSETS [ <u>R</u> eceivables <u>f</u> rom <u>A</u> ceptable <u>E</u> ntities]:			
67.	Interest and dividends receivable	-----	-----
7.	<u>O</u> ther receivables [ <u>a</u> tta <u>c</u> h <u>d</u> etails]	-----	-----
8.	Sch.3 <u>R</u> ecoverable and overpaid income taxes <u>C</u> urrent income tax assets	-----	-----
9.	Recoverable and overpaid taxes	-----	-----
10.	<u>O</u> ther receivables [ <u>p</u> rovide <u>d</u> etails]	-----	-----
1140.	TOTAL OTHER ALLOWABLE ASSETS	-----	-----
1244.	TOTAL ALLOWABLE ASSETS (line 56 plus line 101)	-----	-----
NON ALLOWABLE ASSETS:			
1312.	Sch.2 <u>A</u> dvanced redemption proceeds receivable <u>C</u> lient debit balances	-----	-----
14.	<u>D</u> eferred tax assets	-----	-----

**SROs, Marketplaces and Clearing Agencies**

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<u>15.</u>	<u>Intangible assets</u>	-----	-----	-----
<u>13.</u>	Provincial-contingency fund deposits	-----	-----	-----
<u>1614.</u>	<del>Fixed assets at depreciated value</del> <u>Property, plant and equipment</u>	-----	-----	-----
<u>1715.</u>	Capitalized leases <u>Finance lease assets</u>	-----	-----	-----
<u>1816.</u>	Investments in and advances to subsidiaries and affiliates <u>Due from related parties [provide details]</u>	-----	-----	-----
<u>1917.</u>	Subordinated loans receivable from other Members <u>Investments in subsidiaries and affiliates</u>	-----	-----	-----
<u>2018.</u>	Other assets <u>[attach provide details]</u>	-----	-----	-----
<u>2119.</u>	TOTAL NON ALLOWABLE ASSETS	-----	-----	-----
<u>2220.</u>	TOTAL ASSETS <i>(line 1112 plus line 1921)</i>	-----	\$	\$
		-----	-----	-----
		-----	-----	-----

**FORM 1, PART I – STATEMENT A (CONTINUED)**

**PART I  
MFDA FINANCIAL QUESTIONNAIRE AND REPORT**

(Firm Name)

**STATEMENT OF LIABILITIES AND SHAREHOLDER/PARTNER CAPITAL**

(as at \_\_\_\_\_ with comparative figures as at \_\_\_\_\_)

REFERENCE	NOTES	(CURRENT YEAR) C\$	(PREVIOUS YEAR) C\$
CURRENT LIABILITIES:			
<u>23.24.</u>	Overdrafts and loans	\$	\$
<u>22.24.</u>	Sch.1 Securities sold short at market value	-----	-----
<u>23.25.</u>	Trust liabilities	-----	-----
<u>26.</u>	Trading balances	-----	-----
<u>27.</u>	Provisions	-----	-----
<u>24.28.</u>	Sch.3 <del>Income taxes payable</del> <u>Current income tax liabilities</u>	-----	-----
<u>25.</u>	Sch.3 Future income taxes – current portion	-----	-----
<u>26.29.</u>	Variable compensation payable	-----	-----
<u>27.30.</u>	Bonuses payable	-----	-----
<u>28.31.</u>	Accounts payable and accrued expenses	-----	-----
<u>29.</u>	Capitalized leases and lease-related liabilities – current portion	-----	-----
<u>30.32.</u>	Other current liabilities [ <i>attach provide details</i> ]	-----	-----
<u>31.33.</u>	TOTAL CURRENT LIABILITIES	-----	-----
LONG TERM NON-CURRENT LIABILITIES:			
<u>34.</u>	Provisions	-----	-----
<u>32.35.</u>	Sch.3 Non-current portion of future income taxes <u>Deferred tax liabilities</u>	-----	-----

**SROs, Marketplaces and Clearing Agencies**

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33.		Non-current portion of capitalized leases and lease-related liabilities	-----	-----	-----
34-36.		Other long-term non-current liabilities <i>[attach provide details]</i>	-----	-----	-----
35-37.		TOTAL LONG-TERM NON-CURRENT LIABILITIES	-----	-----	-----
38.		Finance leases and lease-related liabilities <i>[provide details]</i>	-----	-----	-----
39.		Due to related parties <i>[provide details]</i>	-----	-----	-----
40.	F-6	Subordinated loans	-----	-----	-----
3641.		TOTAL LIABILITIES <i>[line 3433 plus lines 37 to 3540]</i>	-----	-----	-----
		FINANCIAL STATEMENT CAPITAL AND RESERVES:			
37.	F-6	Subordinated loans	-----	-----	-----
38.	E-A-3	Capital	-----	-----	-----
42.	Stmt. E	Issued capital	-----	-----	-----
43.	Stmt. E	Reserves	-----	-----	-----
3944.	E-C-3 Stmt. E	Retained earnings or undivided profits	-----	-----	-----
4045.		TOTAL FINANCIAL STATEMENT CAPITAL	-----	-----	-----
4146.		TOTAL LIABILITIES AND CAPITAL <i>(line 3641 plus line 4045)</i>	-----	-----	-----

**PART I**  
**MFDA FINANCIAL QUESTIONNAIRE AND REPORT**

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{Firm Name}

**NOTES TO THE FINANCIAL STATEMENTS**  
**{to be provided at audit date}**

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~~Notes to the financial statements – Any notes which may be necessary for the fair presentation of the financial statements in accordance with generally accepted accounting principles and which are not contained in the supporting schedules must be attached as page 3 to Statement A, including without limitation:~~

- ~~• Significant accounting policies;~~
- ~~• Subsequent events (which are not otherwise disclosed) to the date of filing, which have a material effect on the firm's financial position and risk adjusted capital;~~
- ~~• Obligations under letters of credit;~~
- ~~• Outstanding legal claims which are likely to result in a material adverse effect on the firm's financial position and risk adjusted capital;~~
- ~~• Related party transactions, detailing by type of transaction the amount and parties involved, for all such transactions;~~
- ~~• Description of authorized and issued share capital and subordinated loans;~~
- ~~• Lease commitments; and~~
- ~~• Any other significant commitments or contingencies not otherwise disclosed.~~

**FORM 1, PART I – STATEMENT A**  
**NOTES AND INSTRUCTIONS**  
*[comparative figures to be completed at audit date only]*

**Accrual basis of accounting**

Members are required to use the accrual basis of accounting.

Allowable assets are those assets which, due to their nature, location or source, are either readily convertible into cash or from such creditworthy entities as to be allowed for capital purposes.

Line 4 - In the case of the salesperson's portion of gross commissions or fees receivable, to the extent that there is written documentation that the Member does not have a liability to pay the salespersons's commission until it is received, the salespersons's portion of the gross commission or fee receivable is an allowable asset.

Line 5 - Include amounts owed to the Member for the sale of nominee name client securities.

Line 8 - Include **only** overpayment of prior years' income taxes or current year installments. Taxes recoverable due to current year losses may be included to the extent that they can be carried back and applied against taxes previously paid. This line should not include future tax debits arising from losses carried forward.

Line 9 - Include GST and HST receivables, capital tax, Part IV tax, sales and property taxes.

Line 1140 - Includes **only to extent** receivables from Acceptable Entities (for definition, see General Notes and Definitions) but does not include subordinated loans receivable from other Members which should be shown on line 1847. Allowable assets are those assets which due to their nature, location or source are either readily convertible into cash or from such creditworthy entities as to be allowed for capital purposes.

Line 15 - Start-up and organizational costs cannot be capitalized. Examples of intangible assets include goodwill and client lists.

Line 17 - Assets arising from a finance lease (also known as a capitalized lease).

Line 18 - A Member must report non-trading inter-company receivables on a gross basis unless the criteria for netting are met.

Line 19 - Investments in subsidiaries and affiliates must be valued at cost.

Line 4820 - Including but not limited to such items as:

- prepaid expenses
- ~~deferred charges~~ commissions and other receivables from other than acceptable entities
- ~~future income tax debits~~ cash surrender value of life insurance
- advances to employees (gross)
- ~~cash surrender value of life insurance~~
- ~~intangibles~~
- ~~cash on deposit with non acceptable entities~~

Line 21 - Non-allowable assets mean those assets that do not qualify as allowable assets.

Line 236 - Includes amounts owed by the Member for the purchase of nominee name client securities.

Line 27 - Recognize a liability to cover specific expenditures relating to legal and constructive obligations. A Member cannot hold provisions as a general reserve to be applied against some other unrelated expenditure.

Line 2730 - Include discretionary bonuses payable and bonuses payable to shareholders.

Line 29 - Include current portion of deferred lease inducements.

Line 40 - Subordinated loans mean approved loans, pursuant to an agreement in writing in a form satisfactory to the Corporation, obtained from a source approved by the Corporation, the payment of which is deferred in favour of other creditors and is subject to regulatory approval.

A Member must not pay a debt owed to any of its creditors contrary to any subordination or other agreement to which it and the Corporation are parties.

Line 43 - Reserve is an amount set aside for future use, expense, loss or claim. It includes an amount appropriated from retained earnings. It also includes accumulated other comprehensive income (OCI).



**SROs, Marketplaces and Clearing Agencies**

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**Line 44** - Retained earnings represent the accumulated balance of income less losses arising from the operation of the business, after taking into account dividends and other direct charges or credits.

**Line 38** - Include contributed surplus, if applicable.

**PART I**  
**MFDA FINANCIAL QUESTIONNAIRE AND REPORT FORM 1, PART I – STATEMENT B**

\_\_\_\_\_  
(Member Firm Name)

**STATEMENT OF RISK ADJUSTED CAPITAL**

(as at \_\_\_\_\_ with comparative figures as at \_\_\_\_\_)

REFERENCE	NOTES	(CURRENT YEAR) C\$	(PREVIOUS YEAR) C\$
LIQUID ASSETS:			
1.	A-1214 Total Allowable Assets	\$	\$
2.	A-3334 <b>Deduct:</b> Total Current Liabilities	-----	-----
3.	ALLOWABLE WORKING CAPITAL	\$	\$
4.	A-39 <b>Deduct:</b> Due to related parties	-----	-----
5.	ADJUSTED ALLOWABLE WORKING CAPITAL	\$	\$
46.	<b>Deduct:</b> Minimum capital	-----	-----
57.	SUBTOTAL	-----	-----
6.	<b>Deduct:</b> Total Long Term Liabilities (A-35) x10%—	-----	-----
8.7.	A-37 <b>Deduct:</b> 10% of Contingent Liabilities [attach details] Non-current liabilities x10%	-----	-----
89.	SUBTOTAL	-----	-----
	<b>Deduct: -- amounts required to fully mMargin required:</b>	-----	-----
9.10.	Sch. 1 Securities owned and sold short	-----	-----
1011.	Sch. 4 Financial institution bond deductible [greatest under any clause]	-----	-----
112.	Securities held at non-acceptable securities locations [see note]	-----	-----
13.	Guarantees [provide details]	-----	-----
1214.	Unresolved differences in nominee name accounts	-----	-----
1315.	Unresolved differences in trust accounts	-----	-----

**SROs, Marketplaces and Clearing Agencies**

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REFERENCE	NOTES	(CURRENT YEAR] C\$	(PREVIOUS YEAR] C\$
4416.	Other [ <i>attach provide details</i> ]		
4517.	TOTAL MARGIN REQUIRED [ <i>lines 910 through 4416</i> ]		
4618.	RISK ADJUSTED CAPITAL [ <i>line 98 minus line 4517</i> ]	\$	\$

**FORM 1, PART I – STATEMENT B**  
**NOTES AND INSTRUCTIONS**

**Capital Adequacy**

~~EACH~~ MEMBER ~~SHALL~~MUST HAVE AND MAINTAIN AT ALL TIMES RISK ADJUSTED CAPITAL IN AN AMOUNT NOT LESS THAN ZERO.

**Line 4 - Due to related parties**

For purposes of this capital calculation, all amounts owing to related parties must be reported as a deduction to risk adjusted capital.

**Line 6 - Minimum capital** ~~Line 4~~ -- Rule 3.1.1(a) requires the following minimum capital amounts:

Level 1 <u>Member</u>	\$ 25,000
Level 2 <u>Member</u>	50,000
Level 3 <u>Member</u>	75,000
Level 4 <u>Member</u>	200,000

Notwithstanding the provisions of Rule 3.1.1(a), a Member that is registered as an investment fund manager under securities legislation and is a Level 2 or 3 Dealer must maintain minimum capital of at least \$100,000.

**Line 12 - Securities held at non- acceptable locations**

~~Line 11~~ --100% of the market value of securities must be provided in the case where client or firm securities are held at locations which do not qualify as acceptable securities locations (see General Notes and Definitions). Securities held by an entity with which the Member has not entered into a written custodial agreement as required by the By-laws and Rules of the Corporation MFDA shall be considered as being held at non-acceptable securities locations.

**Line 13 - Guarantees**

If the Member is guaranteeing the liability of another party, the total amount of the guarantee must be provided for in computing Risk Adjusted Capital.

The Member should maintain and retain the details of the margin calculations for guarantees for review by the Corporation.

**Lines 14 and 15 - Unresolved differences**

Items are considered unresolved unless a journal entry to resolve the difference has been processed as of the Due Date of the Form 1.

This does not include journal entries writing off the difference to profit or loss in the period subsequent to the date of the Form 1.

Margin must be provided for adverse unresolved differences in nominee name accounts in an amount equal to the market value of the securities short plus the applicable margin rates related to the security. If the deficiency has not been resolved within thirty days of being discovered, the Member shall immediately purchase the securities that are short.

For nominee name accounts, where a mutual fund company or financial institution does not provide a monthly statement or electronic file confirming all of the Member firm's positions, the Member shall provide margin equal to 100% of the market value of such mutual funds and other investment products held on behalf of clients.

All reconciliations must be properly documented and made available for review by Corporation staff and the Member's auditor.

~~Line 16 - Other~~~~Line 12 and 13~~ -- Items are considered unresolved unless a journal entry to resolve the difference has been processed as of the Due Date of the questionnaire.

~~This does not include journal entries writing off the difference to profit or loss in the period subsequent to the date of the questionnaire.~~

~~Margin must be provided for adverse unresolved differences in nominee name accounts in an amount equal to the market value of the securities short plus the applicable margin rates related to the security. If the deficiency has not been resolved within thirty days of being discovered, the Member shall immediately purchase the securities that are short.~~

~~Line 14~~ --This item should include all margin requirements not mentioned above as outlined in the By-laws and Rules of the Corporation MFDA.

DATE: \_\_\_\_\_

**PART I**  
**MFDA FINANCIAL QUESTIONNAIRE AND REPORT FORM 1, PART I – STATEMENT C**

\_\_\_\_\_  
(Member Firm Name)

**STATEMENT OF EARLY WARNING EXCESS**

at \_\_\_\_\_

REFERENCE	<u>NOTES</u>	(CURRENT YEAR) <u>C\$</u>
1. B- 1846 RISK ADJUSTED CAPITAL	_____	\$ _____
2. LIQUIDITY ITEMS – <b>DEDUCT:</b>		
2. A- 1140 (a) — <del>Total</del> Other allowable assets		-----
<b>ADD:</b>		
3. B-68 (b) — 10% of Total long term <del>Non-current</del> liabilities		-----
34. EARLY WARNING EXCESS		\$ _____

**NOTES:**

**FORM 1, PART I – STATEMENT C**  
**NOTES AND INSTRUCTIONS**

The early warning system is designed to provide advance warning of a Member firm encountering financial difficulties. It will anticipate capital shortages and/or liquidity problems and encourage firmsMembers to build a capital cushion.

**Line 2(a)** - Other allowable assets are deducted from RAC because they are illiquid or the receipt is either out of the firm's control or contingent.

**Line 2(b)3** - Long-termNon-current liabilities are added back to RAC as they are not current obligations of the firm and can be used as financing.

**PART I**  
**MFDA FINANCIAL QUESTIONNAIRE AND REPORT FORM 1, PART I – STATEMENT D**

\_\_\_\_\_  
 (Member Firm Name)

**SUMMARY STATEMENT OF INCOME AND COMPREHENSIVE INCOME**  
**FOR THE PERIOD ENDED \_\_\_\_\_**  
*[with comparative figures for the year /month ended \_\_\_\_\_]*

1.	Number of salespersons			
2.	Assets Under Administration at statement date			
		<b>NOTES</b>	<b>(CURRENT Yr/Mo YEAR/MONTH) C\$</b>	<b>(PREVIOUS Yr/Mo YEAR/MONTH) C\$</b>
<b>COMMISSION REVENUE</b>				
3-1.	Mutual Funds	-----	-----	-----
4-2.	Segregated Funds	-----	-----	-----
5-3.	Deposit Instruments	-----	-----	-----
6-4.	Limited Partnerships	-----	-----	-----
7-5.	Other securities <i>[provide details]</i>	-----	-----	-----
8-6.	Insurance	-----	-----	-----
<b>OTHER REVENUE</b>				
9-7.	Interest	-----	-----	-----
10-8.	Fees from clients	-----	-----	-----
11-9.	Management fees	-----	-----	-----
12-10.	Referral fees	-----	-----	-----
11.	<u>Realized/unrealized (gain) loss on marketable securities</u>	-----	-----	-----
13-12.	Other <i>[provide details]</i>	-----	-----	-----
14-13.	TOTAL REVENUE	-----	-----	-----
<b>EXPENSES</b>				
15-14.	Variable compensation	-----	-----	-----
15.	<u>Commissions and fees paid to third parties</u>	-----	-----	-----
16.	Interest <u>expense</u> on subordinated debt	-----	-----	-----
17.	<u>Bad debt expense</u>	-----	-----	-----
18.	<u>Financing costs</u>	-----	-----	-----
17.	Realized/unrealized (gain) loss on marketable securities	-----	-----	-----
19.	<u>Operating expenses</u>	-----	-----	-----

	<u>NOTES</u>	<u>(CURRENT Yr/Mo YEAR/MONTH) C\$</u>	<u>(PREVIOUS Yr/Mo YEAR/MONTH) C\$</u>
18-20.	Unusual items <i>[attach provide details]</i>		
2021.	Profit (loss) for the year from discontinued operations		
19-21.	Operating expenses other than lines 21-23		
20-22.	Income Profit (loss) before lines 21-23 for Early Warning test		
23.	Income – Asset revaluation		
24.	Expense – Asset revaluation		
25.	Interest expense on internal subordinated debt		
24-26.	Bonuses		
27.	<b>Net income (loss) before income tax expense</b>		
22-28.	S-3(5) Provision for (recovery of) income taxes Income tax expense (recovery)		
	(a) current .....		
	(b) future .....		
23.	Extraordinary items <i>[attach details]</i>		
24-29.	<b>NET INCOME PROFIT [LOSS] FOR PERIOD</b>		
<b>OTHER COMPREHENSIVE INCOME</b>			
30.	Gain (loss) arising on revaluation of properties	To E5a	
31.	Actuarial gain (loss) on defined benefit pension plans	To E5b	
32.	Other comprehensive income for the period, net of tax [Lines 30 plus 31]		
33.	<b>Total comprehensive income for the period [Lines 29 plus 32]</b>		
25.	Dividends paid or partners drawings		
26.	Other <i>[attach details]</i>		
27.	<b>NET CHANGE TO RETAINED EARNINGS [lines 23 to 25]</b>		



**FORM 1, PART I – STATEMENT D**  
**NOTES AND INSTRUCTIONS**

**Comprehensive Income**

A comparative statement of income prepared in accordance with generally accepted accounting principles and containing at least the information shown in the pre-printed Statement D may be substituted. It should be affixed to the statement provided.

~~It is recognized that the components of the revenue and expense classification on this statement may vary between firms. However, it is important that each firm be consistent between periods.~~ Fair presentation may require the separate disclosure of additional large and/or unusual items by way of a note to this statement.

Comprehensive income represents all changes in equity during a period, including profit and loss for the period and other comprehensive income (OCI). OCI captures certain gains and losses outside of net income. For regulatory financial reporting, there are two acceptable sources of other comprehensive income (OCI):

- the use of the revaluation model for property, plant and equipment (PPE) and intangible assets; and
- actuarial gain (loss) on defined benefit pension plans.

**Lines**

~~2~~ Assets under Administration means the market value of all mutual funds reflected in the client accounts (nominee and client name) of a Member in all provinces of Canada, excluding Quebec.

~~31-712~~ All **Commission Revenue** should be reported net of payouts to carrying dealers. Commission paid to salespersons should be shown on line 15. Report all gross commission revenue earned in the appropriate lines. Report all other revenue earned on a gross basis. Commission paid to salespersons must be reported on line 14 (Expenses – Variable compensation) Payouts to other parties must be reported on line 15 (Expenses – Commissions and fees paid to third parties).

~~31~~ Includes all gross commissions and trailer fees earned on mutual fund transactions, net of any payouts to the mutual funds.

~~7~~ Include all interest revenue. Interest revenue earned by the Member from holding client cash balances should be reported on this line.

The related interest cost paid to clients should be reported on line 18 (Expenses – Financing costs).

~~8~~ Include portfolio service fees, RRSP fees and any charges to clients that are not related to commissions or interest.

~~10~~ Includes any charges to clients that are not related to commissions.

~~149~~ Includes fund management fees and other consulting fees not charged to parties other than to clients.

~~1210~~ Includes all fees earned as a result of referring clients to another entity for products or services.

~~11~~ Include all trading profits or losses from principal trading activities and adjustment of marketable securities to market value.

~~1213~~ Includes foreign exchange profits/ or losses and all other revenue not reported above.

~~1415~~ This category should include commissions, bonuses and other variable compensation of a contractual nature. Examples would encompass commission payouts to salespersons. Discretionary bonuses should be included on line 24. All contractual bonuses should be accrued monthly and included on line 15. Discretionary bonuses should be reported separately on line 25 (Expenses – Bonuses).

~~15~~ Include payouts to other parties.

~~16~~ Includes all interest on external subordinated debt, as well as non-discretionary contractual interest on internal subordinated debt.

~~18~~ Include the interest cost paid to clients.

~~19~~ Include all operating expenses except those mentioned elsewhere.

- 17 — Includes trading profits/losses from principal trading activities and adjustment of marketable securities to market value.
- 1820 ~~Unusual items are items that have some but not all of the characteristics of extraordinary items [line 23]. An example of an unusual item may include costs associated with a branch closure. Unusual items result from transactions or events that are not expected to occur frequently over several years, or do not typify normal business activities. Discontinued operations, such as a branch closure, should be reported separately on line 21 (Profit (loss) for the year from discontinued operations).~~
- 21 ~~A discontinued operation is a business component that has either been disposed or is classified as held for sale and represents (or is part of a plan to dispose) a separate significant line of business or geographical area of operations. For example, a branch closure.~~
- 19 — ~~Includes all operating expenses except those mentioned elsewhere: Variable compensation [line 15], discretionary bonuses [line 21].~~
- 22 ~~This is the profit (loss) number used for the Early Warning profitability tests.~~
- 23 ~~When a Member uses the revaluation model for its PPE and intangible assets, changes to the fair value may result in recognizing income after considering accumulated depreciation (or amortization) and OCI surplus.~~
- 24 ~~When a Member uses the revaluation model for its PPE and intangible assets, changes to the fair value may result in recognizing expense after considering accumulated depreciation (or amortization) and OCI surplus.~~
- 25 ~~Include interest expense on subordinated debt with related parties for which the interest charges can be waived if required.~~
- 2426 ~~This category should include discretionary bonuses and all bonuses to shareholders in accordance with share ownership. However, please read the instructions for line 15 before completing. These bonuses are in contrast to those reported on Line 14 (Expenses – Variable compensation).~~
- 2228 ~~Includes ONLY only income taxes. Realty and capital taxes should be included on in-line 19 (Expenses – Operating expenses). Taxes at 33-1/3% on partnership profits should be disclosed on this line. The current provision should be net of loss carryforwards, the details of which should be disclosed on Schedule 3.~~
- 30 ~~When a Member uses the revaluation model to re-measure its PPE and intangible assets, changes to fair value may result in a change to shareholders' equity after considering accumulated depreciation (amortization) and income or expense from asset revaluation.~~
- 31 ~~When a Member has a defined benefit pension plan and initially adopts a policy of recognizing actuarial gains and losses in full in OCI, the subsequent adjustments must be recognized in OCI.~~
- 23 — ~~Extraordinary items have the following characteristics:  
(a) — they are not expected to occur frequently over several years;  
(b) — they do not typify normal business activities; and  
(c) — they do not depend primarily on decisions or determinations by management.  
They should be reported net of tax. An example of an extraordinary item would include the destruction of a company's uninsured art collection by fire.~~
- 26 — ~~Includes only direct charges or credits to retained earnings that are capital transactions (e.g. premium on share redemptions), income of a subsidiary accounted for by the equity method and prior period adjustments. Any adjustment(s) required to reconcile retained earnings on the Monthly Financial Report to the MFDA Financial Questionnaire and Report should be posted to the individual Statement D line items on the first Monthly Financial Report that is filed after the adjustment(s) is known.~~

**PART I**  
**MFDA FINANCIAL QUESTIONNAIRE AND REPORT**  
**FORM 1, PART I – STATEMENT E**

(Member Firm-Name)

**STATEMENT OF CHANGES IN CAPITAL AND RETAINED EARNINGS (CORPORATIONS) OR**  
**UNDIVIDED PROFITS (PARTNERSHIPS)**  
**FOR THE PERIOD YEAR ENDED \_\_\_\_\_**

**PART A. CHANGES IN ISSUED CAPITAL**

REFERENCE	CURRENT YEAR
<b>A. CHANGES IN CAPITAL</b>	
1. Balance at last year-end .....	\$ .....
2. Increases (Decreases) during period <i>[provide details]</i> .....	.....
(a).....	.....
(b).....	.....
(c).....	.....
3. Present capital .....	\$ .....
	A-38
<b>B. ANALYSIS OF PRESENT CAPITAL <i>[see note 1]</i></b>	
1. (a).....	\$ .....
(b).....	.....
(c).....	.....
To agree with line A-3 above .....	\$ .....
<b>C. RETAINED EARNINGS [CORPORATIONS] OR</b> <b>UNDIVIDED PROFITS [PARTNERSHIPS]</b>	
1. Retained earnings or undivided profits, at last year-end	\$ .....
2. Increases (Decreases) during period <i>[see note 2]</i> :	.....
D-24 (a) Net income (loss) for the period .....	.....
D-25 (b) Dividends paid or partners drawings .....	.....
D-26 (c) Other <i>[provide details]</i> .....	.....
.....	.....
.....	.....
.....	.....
3. Present retained earnings or undivided profits .....	\$ .....
	A-39

		<u>Notes</u>	<u>Share capital or Partnership capital</u>	<u>Share premium</u>	<u>Issued capital</u>
			<u>[a]</u>	<u>[b]</u>	<u>[c] = [a] + [b]</u>
			<u>C\$</u>	<u>C\$</u>	<u>C\$</u>
1	<u>Beginning balance</u>				
2	<u>Increases (decreases) during the period (provide details)</u>				
	<u>(a)</u>				
	<u>(b)</u>				
	<u>(c)</u>				
3	<u>Ending balance</u>				
					<u>A 42</u>

**PART B. CHANGES IN RESERVES**

		<u>Notes</u>	<u>General</u>	<u>Properties revaluation</u>	<u>Employee benefits</u>	<u>Total reserves</u>
			<u>[a]</u>	<u>[b]</u>	<u>[c]</u>	<u>[d] = [a] + [b] + [c]</u>
			<u>C\$</u>	<u>C\$</u>	<u>C\$</u>	<u>C\$</u>
4	<u>Beginning balance</u>					
5	<u>Changes during the period</u>					
	<u>(a) Other comprehensive income for the period – properties revaluation (From D 30)</u>					
	<u>(b) Other comprehensive income for the period – actuarial gain (loss) on defined benefit pension plans (From D 31)</u>					
	<u>(c) Recognition of share-based payments (From D 19)</u>					
	<u>(d) Transfer from/to retained earnings (From/to E 12)</u>					
	<u>(e) Other (provide details)</u>					
6	<u>Ending balance</u>					
						<u>A 43</u>

**PART C. CHANGES IN RETAINED EARNINGS**

		<u>Notes</u>	<u>Retained earnings (current year/month)</u>	<u>Retained earnings (previous year/month)</u>
			<u>C\$</u>	<u>C\$</u>
	<b><u>Changes in retained earnings</u></b>			
<u>7</u>	<u>Beginning balance</u>			
<u>8</u>	<u>Effect of change in accounting policy (provide details)</u>			
	<u>(a)</u>		<u>N/A</u>	
	<u>(b)</u>		<u>N/A</u>	
<u>9</u>	<u>As restated</u>		<u>N/A</u>	
<u>10</u>	<u>Payment of dividends or partners drawings</u>			
<u>11</u>	<u>Profit or loss for the period (From D 29)</u>			
<u>12</u>	<u>Other direct charges or credits to retained earnings (provide details)</u>			
	<u>(a)</u>			
	<u>(b)</u>			
	<u>(c)</u>			
<u>13</u>	<u>Ending balance</u>			
			<b><u>A 44</u></b>	

**NOTES:**

- ~~1. **Part B** - Disclosure should be made of authorized and issued share capital in accordance with generally accepted accounting principles.~~
- ~~2. **Line C-2** - Direct charges or credits to retained earnings are to be restricted to capital transactions (e.g. dividends, premium on share redemptions, etc.) and prior period adjustments. All income items of an extraordinary or unusual nature (e.g. profits or losses on sale of fixed assets etc.) are to be included in Statement D in arriving at net income or loss for the period. The latter amount is to be transferred in total to retained earnings [Statement E-line C-2(a)].~~

**FORM 1, PART I – STATEMENT E**  
**NOTES AND INSTRUCTIONS**

**PART A. CHANGES IN ISSUED CAPITAL**

**Share premium**

When the Member sells its shares (initial issuance or from treasury), share premium is the excess amount received by the Member over the par value (or nominal value) of its shares. Share premium cannot be used to pay out dividends.

**PART B. CHANGES IN GENERAL RESERVE**

**General reserve**

A Member may want to transfer from retained earnings. The creation of a general reserve gives the Member an added measure of protection.

**Reserve – Employee benefits**

When a Member has a defined benefit pension plan and initially adopts a policy of recognizing actuarial gains and losses in full in other comprehensive income (OCI), all subsequent adjustments must be recognized as other comprehensive income and will be accumulated in a reserve account.

When a Member has stock option or share awards granted to its employees by issuing new shares, the Member recognizes the fair value of the option or new shares granted as an expense with a corresponding increase in the reserve account.

**Reserve – Properties revaluation**

When using the revaluation model for certain non-allowable assets (PPE and intangibles), a Member will account for the initial increase in value as other comprehensive income and will accumulate the increase (and subsequent changes) in a revaluation reserve account.

**PART C. CHANGES IN RETAINED EARNINGS**

**Changes in accounting policy and retroactive adjustment of prior year's retained earnings**

A change in accounting policy in the current year requires retroactive adjustment of the prior year's retained earnings.

The beginning balance of the current period must be the ending balance of the prior period.

**PART I**  
**MFDA FINANCIAL QUESTIONNAIRE AND REPORT**  
**FORM 1, PART I – STATEMENT F**

(Member Firm Name)

**STATEMENT OF CHANGES IN SUBORDINATED LOANS**  
**FOR THE PERIOD YEAR ENDED \_\_\_\_\_**

	<u>Notes</u>	<u>C\$</u>
1. Balance at last <u>period</u> year-end		\$
2. Increases during period <i>[give name of lender and date of increase]</i>		
(a)		
(b)		
(c)		
(d)		
(e)		
(f)		
3. Subtotal		
4. Decreases during period <i>[give name of lender and date of decrease]</i>		
(a)		
(b)		
(c)		
(d)		
(e)		
(f)		
5. Subtotal		
6. Present subordinated loans		\$

A-3740

**FORM 1, PART I – STATEMENT F**  
**NOTES AND INSTRUCTIONS:**

1. **At the annual audit date only**, provide an attachment to Statement F showing the amount and the name of the lender for each subordinated loan outstanding.
2. **“subordinated loans”** means approved loans, pursuant to an agreement in writing in the form prescribed by the CorporationMFDA, the payment of which is deferred in favour of other creditors and is subject to regulatory approval.



**MFDA FINANCIAL QUESTIONNAIRE AND REPORT  
PART II - AUDITORS' REPORT**

TO: The MFDA and the MFDA Investor Protection Corporation.

We have audited Part I of the MFDA Financial Questionnaire and Report ("Part I - FQR") of \_\_\_\_\_ as  
at \_\_\_\_\_ and for the year then reported thereon as of \_\_\_\_\_.  
*(date)* *(firm)* *(date)*

The additional information set out in Part II of the MFDA Financial Questionnaire and Report Schedules 1 to 4 ("Part II - FQR") have been subjected to the procedures applied in the audit of Part I - FQR, and in our opinion, present fairly the information contained therein, in all material respects, in relation to Part I - FQR taken as a whole.

No procedures have been carried out in addition to those necessary to form an opinion on Part I - FQR.

The additional information set out in Part II - FQR, which have not been, and were not intended to be, prepared in accordance with Canadian generally accepted accounting principles, are solely for the information and use of the Company, the MFDA and the MFDA Investor Protection Corporation to comply with the By-laws, Rules and Policies of the MFDA. The additional information set out in Part II - FQR are not intended to be and should not be used by anyone other than the specified users or for any other purpose.

\_\_\_\_\_  
*[name of auditing firm]*

\_\_\_\_\_  
*[date]*

\_\_\_\_\_  
*[signature]*

\_\_\_\_\_  
*[place of issue]*

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**NOTES:**

A measure of uniformity in the form of the auditors' report is desirable in order to facilitate identification of circumstances where the underlying conditions are different. Therefore, when auditors are able to express an unqualified opinion, their report should take the above form.

Any limitations in the scope of the audit must be discussed in advance with the MFDA. Discretionary scope limitations will not be accepted.

Copies with original signatures must be provided to the MFDA.

**FORM 1, PART II**  
**REPORT ON COMPLIANCE FOR INSURANCE AND SEGREGATION OF**  
**CASH AND SECURITIES**

To: The MFDA Mutual Fund Dealers Association of Canada (the Corporation) and the MFDA Investor Protection Corporation.

We have performed the following procedures in connection with the regulatory requirements for \_\_\_\_\_ to maintain minimum insurance and segregate client cash and securities  
(Member firm)

as outlined in the By-laws, Rules, and Policies of the CorporationMFDA and the MFDA Investor Protection Corporation. Compliance with the CorporationMFDA By-laws, Rules, and Policies with respect to insurance and the segregation of client cash and securities is the responsibility of the management of the Member firm. Our responsibility is to perform the procedures requested by you.

1. We have read the Member firm's written internal control policies and procedures with respect to maintaining insurance coverage and segregation of client cash and securities to determine that such policies and procedures meet the minimum required, as prescribed by the Rules and Policies of the CorporationMFDA in regards to establishing and maintaining adequate internal controls.
2. We obtained representation from appropriate senior management of the Member firm that the Member firm's internal control policies and procedures with respect to insurance and segregation of client cash and securities meet the minimum required, as prescribed by the Policies of the CorporationMFDA in regards to establishing and maintaining adequate internal controls and that they have been implemented.
3. We read the Financial Institution Bond Form (the "FIB") insurance policy(s) to determine that the FIB policy(s) includes the minimum required clauses and coverage limits as prescribed in the By-laws, Rules and Policies of the CorporationMFDA.
4. We requested and obtained confirmation from the Member firm's Insurance Broker(s) as at \_\_\_\_\_  
(period end date)  
20\_\_ as to the FIB coverage maintained with the Insurance Underwriter(s) including:
 

(a) clauses	(d) name of insurer and insured
(b) aggregate and single loss limits	(e) claims made on the policy since last audit date
(c) deductible amounts	(f) details of losses/claims outstanding
5. We traced the total client cash and securities held by the Member to the Member's books and records as at the audit date to check that the compilation of the total client cash and securities held by the Member is in accordance with the Notes and Instructions to Schedule 4 of Form 1.
6. We obtained a listing of all securities segregation locations used by the Member firm and determined that each location met the definition of "Acceptable Securities Locations" as defined in the General Notes and Definitions to Form 1.
7. We obtained a listing of all cash segregation locations used by the Member firm and determined that each location met the definition of "Acceptable Institutions" as defined in the General Notes and Definitions of Form 1 and that each account was designated as "in trust" and was interest bearing.

These procedures do not constitute an audit and therefore we express no opinion on the adequacy of the Member firm's insurance coverage, segregation of client cash and securities, or its internal control policies and procedures.

This ~~letter-report~~ is for use solely by the CorporationMFDA and the MFDA Investor Protection Corporation to assist in their assessment of the Member firm's compliance with the requirements ~~to~~ regarding maintaining minimum insurance and segregating client cash and securities as outlined in the Bylaws, Rules and Policies of the CorporationMFDA and not for any other purpose.

\_\_\_\_\_  
(auditing firm)

\_\_\_\_\_  
(date)

\_\_\_\_\_  
(signature)

\_\_\_\_\_  
(place of issue)

REPORT ON COMPLIANCE FOR SEGREGATION OF CASH AND SECURITIES

To: The MFDA and the MFDA Investor Protection Corporation.

We have performed the following procedures in connection with the requirement for (Member firm)

to segregate client securities as outlined in the By-laws, Rules and Policies of the MFDA. Compliance with the MFDA By-laws, Rules and Policies with respect to the segregation of client cash and securities is the responsibility of the management of the Member firm. Our responsibility is to perform the procedures requested by you.

- 1. We have read the Member firm's written internal control policies and procedures with respect to segregation of client cash and securities to determine that such policies and procedures meet the minimum required under the policies of the MFDA in regards to establishing and maintaining adequate internal controls.
2. We obtained representation from appropriate senior management of the Member firm that the Member firm's internal control policies and procedures with respect to segregation of client cash and securities meet the minimum required under the policies of the MFDA in regards to establishing and maintaining adequate internal controls.
3. We obtained a listing of all securities segregation locations used by the Member firm and determined that each location met the definition of "Acceptable Securities Locations" as defined in the General Notes and Definitions to the MFDA Financial Questionnaire and Report.
4. We obtained a listing of all cash segregation locations used by the Member firm and determined that each location met the definition of "Acceptable Institutions" as defined in the General Notes and Definitions of the MFDA Financial Questionnaire and Report and that each account was designated as "in trust" and was interest bearing.

As a result of applying the above procedures, we found the following exceptions:

Blank lines for listing exceptions.

These procedures do not constitute an audit of segregation of client cash and securities and therefore we express no opinion on the adequacy of the Member firm's internal control policies or procedures over segregation of client cash and securities.

This letter is for use solely by the MFDA and the MFDA Investor Protection Corporation to assist in their assessment of the Member firm's compliance with the requirements regarding segregation of client cash and securities as outlined in the By-laws, Rules and Policies of the MFDA and not for any other purpose.

(auditing firm)

(date)

(signature)

(place of issue)

DATE: \_\_\_\_\_

SCHEDULE 4

**PART II**  
**MFDA FINANCIAL QUESTIONNAIRE AND REPORT FORM 1, PART II – SCHEDULE 1**

DATE: \_\_\_\_\_

\_\_\_\_\_  
 (Member Firm Name)

**ANALYSIS OF SECURITIES OWNED AND SOLD SHORT AT MARKET VALUE**

Category	Notes	Market Value		Margin required C\$
		Long C\$	Short C\$	
1. Money market	.....	\$ .....	\$ .....	\$ .....
Accrued interest	.....	.....	.....	NIL
TOTAL MONEY MARKET	_____	_____	_____	
2. Money market mutual funds	.....	.....	NIL	.....
3. Mutual funds (other than money market mutual funds)	.....	.....	NIL	.....
4. Equities	.....	.....	.....	.....
Accrued interest on convertible debentures	.....	.....	.....	NIL
TOTAL EQUITIES	_____	_____	_____	
5. Bonds/Debt	.....	.....	.....	.....
Accrued interest	.....	.....	.....	NIL
TOTAL BONDS/DEBT	_____	_____	_____	
6. Other (provide details)	.....	.....	.....	.....
Accrued interest	.....	.....	.....	NIL
TOTAL OTHER	_____	_____	_____	
7. TOTAL	=====	\$ <u>          </u> A-3	\$ <u>          </u> A-2224	\$ <u>          </u> B-109

**FORM 1, PART II – SCHEDULE 1  
NOTES AND INSTRUCTIONS**

1. All securities are to be valued at market (see General Notes and Definitions) as of the reporting date. The margin rates to be used are those outlined below:

**(a) Bonds, Debentures, Treasury Bills and Notes**

- (i) Bonds, debentures, treasury bills and other securities of or guaranteed by the Government of Canada, of the United Kingdom, of the United States of America or guaranteed by any province of Canada and of any other national foreign government (provided such foreign government securities are currently rated Aaa or AAA by Moody's Investors Services Inc. or Standard & Poor's Corporation, respectively), maturing (or called for redemption):

within 1 year	1% of market value multiplied by the fraction determined by dividing the number of days to maturity by 365
---------------	--

over 1 year	5% of market value
-------------	--------------------

- (ii) All other bonds, debentures and notes Bonds, debentures, treasury bills and other securities of or guaranteed by any province of Canada and obligations of the International Bank for Reconstruction and Development, maturing (or called for redemption):

within 1 year	32% of market value multiplied by the fraction determined by dividing the number of days to maturity by 365
---------------	---

over 1 year	405% of market value
-------------	----------------------

- (iii) Bonds, debentures or notes (not in default) of or guaranteed by any municipal corporation in Canada or the United Kingdom maturing:

<u>within 1 year</u>	<u>3% of market value multiplied by the fraction determined by dividing the number of days to maturity by 365</u>
----------------------	---

<u>over 1 year</u>	<u>5% of market value</u>
--------------------	---------------------------

- (iv) Other non-commercial bonds and debentures (not in default):

10% of market value

- (v) All other bonds, debentures and notes:

<u>within 1 year</u>	<u>3% of market value multiplied by the fraction determined by dividing the number of days to maturity by 365</u>
----------------------	---

<u>over 1 year</u>	<u>10% of market value</u>
--------------------	----------------------------

**(b) Bank Paper**

Deposit certificates, promissory notes or debentures issued by a Canadian chartered bank (and of Canadian chartered bank acceptances) maturing:

within 1 year	2% of market value multiplied by the fraction determined by dividing the number of days to maturity by 365
---------------	--

over 1 year	10% of market value
-------------	---------------------

**(c) Mutual Funds**

Securities of mutual funds qualified by prospectus for sale in any province of Canada shall be margined at the following rates:

Money Market Funds (as defined in NI81-102) - 5% of market value.

All Other Mutual Funds - 50% of market value.

**(d) Stocks**

On securities (other than bonds and debentures) including rights and warrants listed on any recognized stock exchange in Canada or the United States:

Long Positions - Margin Required

Securities selling at \$2.00 or more - 50% of market value

Securities selling at \$1.75 to \$1.99 - 60% of market value

Securities selling at \$1.50 to \$1.74 - 80% of market value

Securities selling under \$1.50 - 100% of market value

Short Positions - Credit Required

Securities selling at \$2.00 or more - 150% of market value

Securities selling at \$1.50 to \$1.99 - \$3.00 per share

Securities selling at \$0.25 to \$1.49 - 200% of market value

Securities selling at less than \$0.25 - market value plus \$0.25 per share

**(e) FOR ALL OTHER SECURITIES - 100%.**

2. Schedule 1 summarizes **all** securities owned and sold short by the categories indicated. Details that must be included for each category are total long market value, total short market value and total margin required as indicated.
3. The Examiners and/or Auditors of the CorporationMFDA may request additional details of securities owned or sold short as they, in their discretion, believe necessary.

**Line 1** - Money market shall include Canadian & US Treasury Bills, Bankers Acceptances, Bank paper (Domestic & Foreign), Municipal and Commercial Paper or other similar instruments.

DATE: \_\_\_\_\_

**PART II  
MFDA FINANCIAL QUESTIONNAIRE AND REPORT  
FORM 1, PART II – SCHEDULE 2**

DATE: \_\_\_\_\_

\_\_\_\_\_  
(Member Firm Name)

**ANALYSIS OF CLIENTS' DEBIT BALANCES**

	Advanced Redemption Proceeds Receivable	Other Client Receivables [attach details]
1. Non-registered accounts .....	-----	-----
2. RRSP and other registered accounts .....	-----	-----
3. TOTAL .....	\$-----	\$-----

Line		A-12	Note 2	Client Debit Balances
		<u>Advanced Redemption Proceeds Receivable</u>	<u>Other Client Receivables</u>	
		[a]	[b]	[c] = [a] + [b]
		C\$	C\$	C\$
1.	Non – registered accounts			
2	RRSP and other registered accounts			
3	TOTAL			
				A-13

**SUPPLEMENTARY DISCLOSURE:**

NAME OF RRSP TRUSTEE(S)

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_

**FORM 1, PART II – SCHEDULE 2**  
**NOTES: AND INSTRUCTIONS**

1. Rule 3.2.1 prohibits Members from lending or extending credit to a client unless the Member is in compliance with Rule 3.2.3 which provides for the advancement of redemption proceeds.
2. ~~Receivables from clients are non-allowable assets and are to be reported on Statement A line 18.~~

**Supplementary Disclosure:**

The name of the RRSP trustee(s) used by the Member must be provided. The RRSP or other similar balances held at a trustee must be insured by the Canada Deposit Insurance Corporation (CDIC) or Quebec Deposit Insurance Corporation (QDIC).



DATE: \_\_\_\_\_

**PART II**  
**MFDA FINANCIAL QUESTIONNAIRE AND REPORT FORM 1, PART II – SCHEDULE 3**

DATE: \_\_\_\_\_

\_\_\_\_\_  
(Member Firm Name)

**CURRENT INCOME TAXES**

	<u>C\$</u>	<u>C\$</u>
<b>A. INCOME TAX PAYABLE (RECOVERABLE) INCOME TAX LIABILITY (ASSET)</b>		
1. Balance payable (recoverable) at last <u>period</u> year-end		\$ _____
2. (a) Payments (made) or received relating to above balance	\$ _____	
(b) Adjustments, including reassessments, relating to prior periods <i>[give provide details if significant]</i>		
3. Total adjustment to prior <u>periods'</u> <u>years'</u> payable (recoverable) taxes during current <u>period</u> year	_____	
4. Subtotal <i>[add or subtract line 3 from line 1]</i>		_____
5. Provision for (recovery of) taxes, including <u>Income tax expense</u> taxes on extraordinary items — current (recovery)	_____	
	D-2822 (a)	
6. less: Current installments	_____	
7. Other adjustments <i>[give provide details if significant]</i>	_____	
8. Total adjustment for current year's <u>taxes</u> tax liabilities (assets)		_____
9. TOTAL PAYABLE (RECOVERABLE) LIABILITY (ASSET) <i>[add or subtract line 8 from line 4]</i>		\$ _____
		A-8 -- if recoverable asset A-248 -- if payable liability

**B. ANALYSIS OF FUTURE INCOME TAXES**

	<u>Debit</u>	<u>Credit re- Current assets and liabilities</u>	<u>Credit re- Non-current assets and liabilities</u>
1. Unrealized Trading .....	\$ _____	\$ _____	\$ _____
Commission .....	_____	_____	_____
2. CCA/Depreciation .....	_____	_____	_____
3. Other <i>[give details]</i> .....	_____	_____	_____
4. TOTAL FUTURE INCOME TAXES .....	\$ _____	\$ _____	\$ _____
	A-18 Details	A-25	A-32

DATE: \_\_\_\_\_

**PART II**  
**MFDA FINANCIAL QUESTIONNAIRE AND REPORT FORM 1, PART II – SCHEDULE 4**

DATE: \_\_\_\_\_

\_\_\_\_\_  
(Member Firm Name)

**INSURANCE**

**PART A. FINANCIAL INSTITUTION BOND (FIB) CLAUSES (A) TO (E) C\$**

1. Minimum coverage required for each clause:

LEVEL 1, 2 OR 3 DEALERS

(a) Lesser of \$50,000 per Approved Person or \$200,000 \_\_\_\_\_

(b) Allowable assets (A-142) \$===== x 1% \_\_\_\_\_

**Greater of (a) and (b) above** \$=====

The actual coverage required for each clause is the greater of (a) and (b) above to a maximum requirement of \$25,000,000.

LEVEL 4 DEALERS

(a) Minimum coverage of \_\_\_\_\_ \$500,000

(b) Total client cash and securities held by the Member \$===== x 1% \_\_\_\_\_

(c) Allowable assets (A-142) \$===== x 1% \_\_\_\_\_

**Greater of (a), (b) and (c) above** \$=====

The actual coverage required for each clause is the greater of (a), (b) and (c) above to a maximum requirement of \$25,000,000.

2. Coverage maintained per FIB \_\_\_\_\_ [Notes 3&7]

3. Excess / (Deficiency) in coverage \$===== [Note 4]

4. Amount deductible under FIB (*greatest under any clause*) \$===== [Note 5]

B-101

**PART B. REGISTERED MAIL INSURANCE**

1. Coverage per mail policy \$===== [Note 6]

**PART C. FIB AND REGISTERED MAIL POLICY INFORMATION [Note 8]**

<u>Insurance Company</u>	<u>Name of the Insured</u>	<u>FIB/ Registered Mail</u>	<u>Expiry Date</u>	<u>Coverage</u>	<u>Premium</u>
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DATE: \_\_\_\_\_

**PART II**  
**MFDA FINANCIAL QUESTIONNAIRE AND REPORT FORM 1, PART II – SCHEDULE 4**

\_\_\_\_\_  
(Member Firm Name)

**INSURANCE**

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**PART D. LOSSES AND CLAIMS [Note 9]**

<u>Date of Loss</u>	<u>Date of Discovery</u>	<u>Amount of Loss</u>	<u>Deductible Applying to Loss</u>	<u>Description</u>	<u>Claim Made?</u>	<u>Settlement</u>	<u>Date Settled</u>
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**FORM 1, PART II – SCHEDULE 4**  
**NOTES AND INSTRUCTIONS**

1. Member firms must maintain minimum insurance in type and amounts as outlined in the By-laws, Rules and Policies of the CorporationMFDA and the MFDA Investor Protection Corporation.
2. Schedule 4 must be completed at the audit date.
3. The amounts of insurance required to be maintained by a Member firm shall as a minimum be by way of a Financial Institution Bond with a double aggregate limit or a provision for full reinstatement.

For Financial Institution Bond policies containing an “aggregate limit” coverage, the actual coverage maintained should be reduced by the amount of reported loss claims, if any, during the policy period.

Cash and securities held by a Member in its capacity as agent for the trustee must be included in the determination of total client cash and securities held by the Member.

4. The Certificate of Partners or Directors contains a question pertaining to the adequacy of insurance coverage. The Auditors’ Report requires the auditor to state that the question has been fairly answered. The CorporationMFDA Rules also state: “Should there be insufficient coverage, firms shall be deemed to be complying with this Rule 4 provided that any such deficiency does not exceed 10% of the insurance requirement and that evidence is furnished within two months of the dates of completion of the monthly operations questionnaire and annual audit that the deficiency has been corrected. If the deficiency is 10% or more of the insurance requirement, action must be taken by the Member to correct the deficiency within 10 days of its determination and the Member shall immediately notify the CorporationMFDA.”
5. A Financial Institution Bond maintained pursuant to the MFDA Rules may contain a clause or rider stating that all claims made under the bond are subject to a deductible, provided that the firm’s margin requirement is increased by the amount of the deductible.
6. Every MFDA-Member firm shall effect and keep in force Mail Insurance against loss arising by reason of any outgoing shipments of money, securities, or other property negotiable or non-negotiable, by first-class mail, registered mail, registered air mail, express or air express, such insurance to provide at least 100% coverage.
7. The aggregate value of securities in transit in the custody of any employee or any person acting as a messenger shall not at any time exceed the coverage per the Financial Institution Bond (Schedule 4, line 2).
8. List all Financial Institution Bond and Registered Mail underwriters, policies, coverage and premiums indicating their expiry dates. State type of aggregate limits, if applicable, or note that provision for full reinstatement exists.
9. List all losses reported to the insurers or their authorized representatives including those losses that are less than the amount of the deductible. Do not include lost document bond claims. Indicate in the “Amount of Loss” column if the amount of the loss is estimated or unknown as at the reporting date.

Losses should continue to be reported on Schedule 4 Part D until resolved. In the reporting period where a claim has been settled or a decision has been made not to pursue a claim, the loss should be listed along with the amount of the settlement, if any.

At the annual audit date, list all unsettled claims, whether or not the claims were initiated in the period under- audit. In addition, list all losses and claims identified in the current or previous periods that have been settled during the period under audit.

DATE: \_\_\_\_\_

**PART II**  
**MFDA FINANCIAL QUESTIONNAIRE AND REPORT FORM 1, PART II – SCHEDULE 5**

DATE: \_\_\_\_\_

\_\_\_\_\_  
(Member Firm Name)

**EARLY WARNING TESTS**

**Early Warning**

**A. CAPITAL DEFICIENCY**

**B-18** Is RAC less than 0?

\_\_\_\_\_  
YES/NO

**B. LIQUIDITY TEST**

**C-4** Is Early Warning Excess less than 0?

\_\_\_\_\_  
YES/NO

**C. PROFITABILITY TEST (note 3)**

1. Loss for current quarter

\$=====

**B-16** 2. RAC [at questionnaire date]

\$=====

Is line 2 less than line 1?

\_\_\_\_\_  
YES/NO

**D. FREQUENCY PENALTY**

Has the Member triggered Early Warning more than 2 times in the past 12 months?

\_\_\_\_\_  
YES/NO

**STATEMENT C FORM 1, PART II – SCHEDULE 5**  
**NOTES AND INSTRUCTIONS**

1. The objective of the various Early Warning Tests is to measure characteristics likely to identify a firm heading into financial trouble and to impose restrictions and sanctions to reduce further financial deterioration and prevent a subsequent capital deficiency. "Yes" answers indicate Early Warning has been triggered.

If the firm is currently capital deficient (i.e. risk adjusted capital is negative), only Part A of the early warning tests need be completed.

2. The profit or loss figures to be used are before asset revaluation income and expense, bonuses, and income tax expenses and extraordinary items [Statement D, line 22 – Profit (loss) for Early Warning test<sup>20</sup>]. Note that the "current quarter" figure must also reflect any audit adjustments made subsequent to the filing of the Monthly Financial Report-monthly FQR.
3. If the current quarter is profitable, enter a "No" answer for Part C.

**FORM 1, PART II – SCHEDULE 6**

\_\_\_\_\_  
(Member Name)

DATE: \_\_\_\_\_

**OTHER SUPPLEMENTARY INFORMATION**

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1. Number of salespersons

(a) Registered only in Quebec.....

(b) Registered outside Quebec.....

Total.....

2. Assets Under Administration at statement date.....

**FORM 1, PART II – SCHEDULE 6**  
**NOTES AND INSTRUCTIONS**

1. For individuals licensed in Quebec and also licensed in any other province, report on (b).
2. Assets under Administration means the market value of all mutual funds reflected in the client accounts (nominee and client name) of a Member in all provinces of Canada, excluding Quebec.