



2012
2013
2014

On Course

2014 ANNUAL REPORT



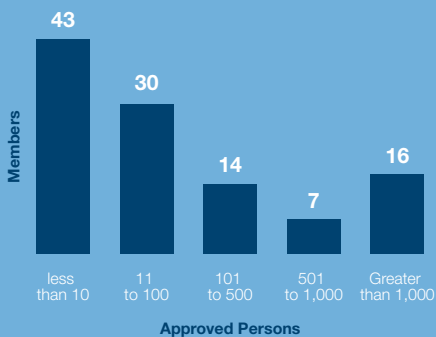
Mutual Fund Dealers Association of Canada
Association canadienne des courtiers de fonds mutuels

Member Information At A Glance (June 30, 2014)

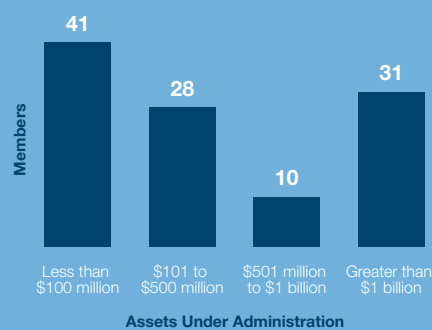
Number of Members by Head Office Location



Members by Number of Approved Persons



Number of Members by AUA



Members by Category

Level 1	NIL
Level 2	37 Members
Level 3	40 Members
Level 4	33 Members

Membership Profile

Number of Members	110
Number of Approved Persons	81,778
Mutual Fund Assets Under Administration of all Members	\$422 Billion
Total Industry Mutual Fund Assets Under Administration	\$1,100 Billion

PERFORMED



59

HEAD OFFICE EXAMINATIONS AND 66 BRANCH EXAMINATIONS

REVIEWED



1,380

UNAUDITED MONTHLY FINANCIAL REPORTS

COMMENCED



57

ENFORCEMENT PROCEEDINGS

RESPONDED TO APPROXIMATELY



1,700

MEMBER ENQUIRIES

Contents

Who We Are	01
Message from the Chair	03
Message from the President & Chief Executive Officer	03
Strategic Plan 2012–2014	05
Strategic Plan: 2014 Scorecard	06
Corporate Governance	08
Major Projects and Initiatives	10
Regulatory Operations	12
Going Forward	14
Management Discussion and Analysis	15
Financial Statements	20



Who We Are

The Mutual Fund Dealers Association of Canada (“MFDA”), established in 1998 at the initiative of the Canadian Securities Administrators (“CSA”), is the national self-regulatory organization responsible for overseeing the activities and operations of mutual fund dealer firms (“Members”) and their Approved Persons.

MFDA staff from Toronto, Calgary and Vancouver offices

OUR MANDATE

We regulate the operations, standards of practice and business conduct of our Members and their Approved Persons in order to enhance investor protection and strengthen public confidence in the Canadian mutual fund industry.

OUR VISION

We will promote a culture of compliance that protects the investing public through:

- Responsible Regulation
- Collaboration
- Staff Excellence

OUR VALUES

We believe that all our actions must be executed professionally and honestly. We have **INTEGRITY**.

We believe that the best result is one that includes meaningful engagement of all stakeholders. We **COLLABORATE**.

We believe that all our actions should be fair, balanced and practical while achieving appropriate outcomes. We are **REASONABLE**.

Our Strategic Priorities 2012-2014



We will engage in meaningful collaboration with the industry so that together we ensure a culture of compliance.

We will respond to the needs and realities of the investing public and play an active role within the Canadian regulatory landscape so that we are recognized as an effective and valued regulator.



We will equip our staff with the tools and support needed so that they may accomplish their roles in a professional and effective manner.

We will continue to develop process efficiencies so that we operate in a responsible and effective manner.



Message from the Chair

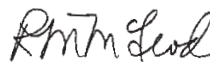


I am pleased to present the MFDA's Annual Report for the fiscal year 2014. The Report chronicles some of the MFDA's major accomplishments over the past 12 months. As you will see, the past year has been a very active and productive year for the MFDA.

Over the coming months, MFDA management in consultation with the MFDA Board and MFDA Members will be developing a new 2015–2017 Strategic Plan which will lead the MFDA through the next three years. We will continue to build on our current Vision and goals as well as identify new priorities with the ultimate aim of protecting the investing public through responsible, effective and balanced regulation.

On behalf of the Board of Directors, I wish to recognize Steve Geist, Sandy Grant, Doug Thomson and Janet Woodruff, outgoing Board Members, whose dedication to the MFDA Mission and to excellence has been unwavering throughout their tenure. I also wish to acknowledge the continuing Board Members for their varied expertise and knowledge which have contributed greatly to the execution of the MFDA's public interest mandate.

I would like to thank the MFDA management team whose strong leadership has effectively guided the organization through the current Strategic Plan. The results and achievements set out in this Annual Report are a result of the collaborative efforts of all the MFDA departments and staff working together. I am confident that the management team will continue to provide strong leadership alongside the professional and dedicated staff at the MFDA.

A handwritten signature in black ink that reads "Roderick M. McLeod".

Roderick M. McLeod, Q.C.
Chair, MFDA Board of Directors

Message from the President & Chief Executive Officer



This year the MFDA has made significant progress towards our goal of promoting and fostering a compliant and healthy industry that protects and serves the Canadian investor. It is for this reason that we chose "On Course" as the theme of this year's Annual Report.

We believe the current regulatory framework for MFDA Members is effective and robust considering the combination of our Rules, proactive compliance examinations, enforcement actions and educational efforts. The MFDA's core focus is investor protection and we believe there is still more we can do within the current regulatory framework to make the client/advisor relationship better. As we pursue this goal, we recognize that the solution does not always require rule development; rather, we believe improvements can be made through

more effective and practical application of existing requirements. In this regard, we are continually looking for ways to improve the efficiency and effectiveness of our regulatory process through better education and engagement of investors and Members on all aspects of the client/advisor relationship. This is being done with a view to reducing or eliminating the “expectation gap” that sometimes arises between what Approved Persons believe they are providing and what clients believe they are receiving. This year we created two new roles, the Director, Member Education and Director, Public Affairs, to spearhead our Member and investor outreach initiatives.

We are also continually looking for ways to improve the efficiency and effectiveness of our regulatory process through better education and engagement of investors and Members.

To this end, we performed extensive research and published a Discussion Paper on improving the know-your-client (“KYC”) process through the use of investor questionnaires. Measuring risk tolerance is complex and not an exact science. The process can be challenging for both clients and Approved Persons. A well-designed questionnaire can be a useful tool in supporting the dialogue between Approved Persons and clients.

We also continue to pay special attention to vulnerable clients and the needs of senior investors. Seniors make up the fastest growing demographic in Canada. According to Statistics Canada, in 2011 an estimated 5 million Canadians were 65 years of age or older which is expected to double in the next 25 years. Given the importance of this rapidly growing demographic, we organized a Seniors’ Summit to bring together subject matter experts and senior staff from our Members to exchange knowledge and best practices on how to best serve and protect senior investors. The MFDA also launched a Seniors’ Section on the MFDA website containing information about the assistance the MFDA can provide to seniors, as well as a library of links to on-line resources for seniors.

One of our challenges this year was handling a Member insolvency, which is being administered by the MFDA Investor Protection Corporation. The occurrence of this Member insolvency has reinforced the importance of the Investor Protection Corporation Fund to ensure the protection of eligible customers of MFDA Members.

Looking forward, we have started planning for the development of our new 2015–2017 Strategic Plan and have embarked on a consultation process with our Members and other stakeholders in order to ensure that their input is reflected in the new Strategic Plan. We will continue to stay “on course” as we build on our past successes and enhance and refine our current Vision and Goals as we develop the new Strategic Plan which will take the MFDA through the next three years. We believe that the MFDA’s current Vision and Goals remain relevant today and reflect the state of the industry, the maturity of the MFDA as a regulator and our broader focus and role. For these reasons, the MFDA’s continued emphasis will be on promoting a culture of compliance through responsible regulation, collaboration with Members, investors and other regulators, and staff excellence.

Finally, I would like to thank the MFDA’s Board of Directors and MFDA staff and all of our other stakeholders for what we have accomplished together during the past year. Our efforts have benefited both investors and the mutual fund industry in Canada.



Mark T. Gordon
President & Chief Executive Officer

Strategic Plan 2012–2014



The MFDA's Strategic Plan sets out a Vision focused on promoting a culture of compliance and protecting the investing public through responsible regulation, collaboration with Members, investors and other regulators, and staff excellence.

To achieve this Vision, the MFDA has identified four key strategic goals: (i) enhancing collaboration with the industry; (ii) promoting investor confidence and ensuring that the MFDA continues to be an active participant in the Canadian securities regulatory landscape; (iii) continuing to pursue staff excellence; and (iv) ensuring that the MFDA continues to pursue opportunities for process efficiencies so that it operates in a responsible and effective manner.



Industry Collaboration

We must engage in meaningful collaboration with the industry so that together we ensure a culture of compliance.



Investor Confidence and Regulatory Relevance

We must respond to the needs and realities of the investing public and play an active role within the Canadian regulatory landscape so that we are recognized as an effective and valued regulator.



Staff Excellence

We must equip our staff with the tools and support needed so that they may accomplish their roles in a professional and effective manner.



Operational Efficiencies

We must continue to develop process efficiencies so that we operate in a responsible and effective manner.

Strategic Plan 2014 Scorecard

1



Industry Collaboration

Actions/Accomplishments

1.1 Member Outreach Plan

- Promoted the availability of MFDA staff to present at Member events
- Used focus groups to provide opportunities to Members to discuss specific topics in our training initiatives
- Held sessions with Member staff to discuss common issues with complaint handling
- Surveyed small dealers on their challenges and industry concerns to identify methods to engage them in dialogue on policy initiatives
- Solicited Member feedback during formal and informal MFDA events with respect to education and training needs

1.2 Member Education & Training Plan

- Developed a Compliance Practitioner's Manual for the Members Only site
- Provided guidance and presentations on investment and leverage suitability

2



Investor Confidence & Regulatory Relevance

Actions/Accomplishments

2.1 Investor Outreach Plan

- Conducted quarterly meetings with investor advocates and organizations
- Presented to the OSC Investor Advisory Panel on seniors and leveraging
- Delivered information to the public about the MFDA's complaints and discipline processes by publishing the second Annual Enforcement Report
- Issued an "Opening Your Investment Account" Information Sheet
- Created a Fraud Prevention Brochure with tips to help investors detect and prevent fraud
- Launched a Seniors' Section on the MFDA website

2.2 Partner with Others for Regulatory & Investor Education Initiatives

- Participated in joint initiatives with organizations that have a mandate to protect or educate investors

3



Staff Excellence

Actions/Accomplishments

3.1 Enhance Staff Development & Education

- Staff Training Steering Committee identified a broad range of relevant topics for its annual staff training session
- Ongoing staff training conducted through department specific training, management training, Lunch and Learns
- Provided management training on performance management processes and delivering performance feedback to ensure a more consistent application across the organization

4



Operational Efficiencies

Actions/Accomplishments

4.1 Operational Assessment of Core Regulatory Processes

- Staff reviewed all MFDA Notices and Guides to ensure that the distinction between requirements and suggestions or guidance is clear
- Created the Director, Member Education, and Director, Public Affairs, positions to manage, deliver and support the MFDA's Member and Investor outreach and education activities
- Implemented the use of a secure web-based facility to exchange documents with Members as an alternative means of delivery
- Developed and released updates to the Members Only site to allow Members to submit information electronically

4.2 Comparison of Regulatory Processes with Other Regulators

- Met regularly to consult with CSA Staff from various securities commissions as well as staff from IIROC to discuss functional department operating developments and practices

- Held a National Seniors' Summit for Members and their supervisory staff
- Developed a Form 1 Reference Manual to assist Members and their auditors
- Developed a Discussion Paper on the use of Investor Questionnaires

1.3 Enhance Industry Consultation on Policy Matters

- Held a Small Dealer Forum to discuss matters of particular interest and concern to smaller Member firms
- Held a Large/Medium Dealer Forum to discuss matters of particular interest and concern to large and medium independent Member firms
- Met with various associations and industry stakeholders to better understand their strategic initiatives

Objectives/Impacts

- Encouraging Members to proactively contact the MFDA for compliance support prior to making decisions will result in reducing instances of non-compliance
- Educating Member staff is a proactive measure that promotes compliance by providing the industry with a better understanding of the interpretation and application of regulatory requirements
- By dialoguing with Members, we hope they gain an understanding of the regulatory approach MFDA staff take with all Members while having the opportunity to highlight matters that impact them due to their size or the manner in which they operate

- Partnered with FINTRAC who presented to Members on compliance with its supervisory and reporting requirements
- Participated in the Financial Consumer Agency of Canada's Consultations on Strengthening Seniors' Financial Literacy

2.3 Participate in and Plan for Changes to the Future Regulatory Landscape

- Actively participated in regulatory initiatives that impact the Canadian regulatory landscape
- Held regular meetings with CSA, IIROC, OBSI and CIPF to discuss issues of mutual interest
- Met with the Ministry of Finance to discuss issues relating to developing regulation for financial planners in Ontario
- Finalized Memorandum of Understanding with the Financial Services Commission of Ontario to support information sharing and a cooperative approach to joint enforcement matters

Objectives/Impacts

- Partnering with other organizations with similar mandates provides MFDA staff with a better understanding of investor issues internationally and across various sectors of the financial services industry
- Expressing the MFDA views and experience at an early stage helps to shape the direction of regulatory initiatives in Canada
- We are a meaningful resource and contributor to the various initiatives being discussed and undertaken

3.2 Ensure an Attractive & Competitive Work Environment

- Participated in various industry surveys to provide ongoing comparison data with respect to employee compensation and benefits
- Revised the MFDA employee benefits and the Registered Pension Plan to align with other regulators

3.3 Enhance Internal Staff Communication Channels

- Provided management training on collaborative communication, effective communication skills and managing difficult conversations
- Enhanced the design and features of our internal staff intranet

Objectives/Impacts

- Ensures that MFDA staff are provided with tools and training to communicate effectively with Members and other stakeholders as well as other MFDA staff
- Ensures that our benefit plans are competitive, fair and cost effective in order to attract and retain talent
- Enhancing the intranet ensures staff has a more effective means to access MFDA information

- Presented to Financial Services Commission of Ontario on our enforcement processes who in turn provided an overview of its enforcement processes to enforcement staff
- Participated in meetings and events with international securities regulators and organizations

4.3 Enhance Risk-Based Approach in all Regulatory Processes

- Established the MFDA Whistleblower Program for Member employees, Approved Persons and other individuals to confidentially report matters to the MFDA
- Approved supervisory structures that include remote supervision of branch locations
- Initiated a financial compliance sweep of all Members registered as Investment Fund Managers
- Issued a survey request to Members to provide more details on their referral arrangements
- Streamlined the enquiry intake process

Objectives/Impacts

- Educating investors increases their knowledge as well as the public awareness of the MFDA
- Benchmarking ensures that our processes reflect sound regulatory practices when compared to other securities regulators and that our processes are appropriate and consistent with standards of other regulators.

Corporate Governance

The MFDA Board of Directors is comprised of six Public Directors, six Industry Directors and the President and CEO of the MFDA. Information with respect to the Directors, their terms of office, compensation, attendance at meetings and the composition of each Committee of the Board is set out below. Further biographical information on current Directors can be found at www.mfda.ca.

Board of Directors

As of June 30, 2014, the composition of the Board was as follows:

Public Directors



Roderick McLeod, q.c. (Chair)
Corporate Director, Consultant
& retired lawyer
(Markham, Ontario)



Sandy (D.W.) Grant, CPA, CA
Corporate Director
(Orillia, Ontario)



Lea Hansen, CFA
Consultant
(Toronto, Ontario)



Dawn Russell, q.c.
President & Vice-Chancellor,
St. Thomas University
(Fredericton, New Brunswick)



Doug Thomson, FCA
Corporate Director
(Edmonton, Alberta)



Janet Woodruff, CPA, FCA
Corporate Director and Consultant
(Vancouver, British Columbia)

Ex Officio



Mark T. Gordon, LL.B
President &
Chief Executive Officer,
Mutual Fund Dealers
Association of Canada
(Toronto, Ontario)

Industry Directors



Steven Donald, FCPA, FCA
(Vice-Chair)
President, Assante Wealth
Management (Canada) Ltd.
(Toronto, Ontario)



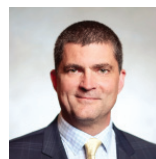
Rick Annaert, CPA, CMA
President & Chief Executive Officer
Manulife Securities Investment
Services Inc.
(Toronto, Ontario)



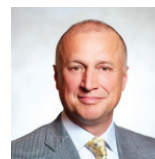
Stephen Geist, FCPA, FCA, CFP
President, CIBC Asset Management Inc.
& CIBC Securities Inc.
(Toronto, Ontario)



Frank Laferriere, CPA, CA, CF
Senior Vice-President &
Chief Operating Officer,
Mandeville Wealth Services Inc.
(Toronto, Ontario)



David Losier, CGA
General Manager,
Acadia Financial Services Inc.
(Caraquet, New Brunswick)



Vince Valenti, MBA
Consultant
(Manotick, Ontario)

Director Compensation

Each Public Director on the MFDA Board receives an annual retainer of \$15,000. Provided that they are Public Directors, the Chairs of the Governance Committee and Regulatory Issues Committee each receive a \$3,500 annual retainer, while the Chair of the Audit & Finance Committee receives a \$4,000 annual retainer. Public Directors also receive a fee of \$1,500 for attending each Board meeting and \$1,500 for each Committee meeting in excess of 2 hours (\$1,000 for Committee meetings less than 2 hours). Out-of-town Public Directors who attend meetings in person receive a supplementary travel fee of \$1,000 per meeting. The annual retainer for a Public Director who serves as Chair of the Board is set by the Board of Directors and reviewed annually. The annual retainer for the Chair of the Board was \$35,000 in fiscal 2014 and will be \$20,000 in fiscal 2015.

Industry Directors are not compensated for their participation on the MFDA Board or its Committees; however, all Directors are reimbursed for related travel and out-of-pocket expenses.

Board and Committee Meeting Attendance

The table below is a breakdown of attendance by Directors at Board and Committee meetings held during the fiscal year ended June 30, 2014.

Director	Board	Audit & Finance	Governance	Regulatory Issues	Term Expires	Total Compensation
Rick Annaert ⁽¹⁾	4 of 5	2 of 3			2014	n/a
Bill Charles (stepped down Dec. 5, 2013) ⁽³⁾	2 of 2			2 of 2	n/a	n/a
Steven Donald ⁽¹⁾⁽²⁾	5 of 5	3 of 3	6 of 6		2014	n/a
Stephen Geist ⁽³⁾	5 of 5			3 of 4	2014	n/a
Sonny Goldstein (stepped down Dec. 5, 2013) ⁽³⁾	2 of 2			2 of 2	n/a	n/a
Mark Gordon	5 of 5	3 of 3	6 of 6	4 of 4	n/a	n/a
Sandy Grant ⁽¹⁾⁽³⁾	4 of 5	3 of 3		4 of 4	2014	\$32,500
Lea Hansen ⁽³⁾	5 of 5			4 of 4	2015	\$25,000
Frank Laferriere (joined Dec. 5, 2013) ⁽³⁾	3 of 3			2 of 2	2015	n/a
David Losier (joined Dec. 5, 2013) ⁽³⁾	3 of 3			2 of 2	2015	n/a
Rod McLeod ⁽²⁾	5 of 5		6 of 6		2015	\$62,000
Dawn Russell ⁽²⁾⁽³⁾	5 of 5		6 of 6	4 of 4	2015	\$39,500
Doug Thomson ⁽¹⁾	5 of 5	3 of 3			2014	\$35,000
Vince Valenti ⁽²⁾⁽³⁾	5 of 5		5 of 6	4 of 4	2015	n/a
Janet Woodruff ⁽¹⁾	4 of 5	3 of 3			2014	\$26,500

⁽¹⁾ Member of Audit & Finance Committee

⁽²⁾ Member of Governance Committee

⁽³⁾ Member of Regulatory Issues Committee

Major Projects and Initiatives

Member Education and Outreach

In fiscal 2014, the Director, Member Education, and other MFDA staff delivered several presentations at Member conferences and educational training sessions. In addition to presentations, staff participated in numerous educational conferences and Member training events sponsored by industry advocacy groups and associations. MFDA staff also met with the various organizations and discussed respective organizational priorities and industry proficiency and education matters.

Enforcement Department staff continued to hold information sessions with Members and their staff on the MFDA Enforcement Process. This year's sessions were held in Toronto and Vancouver. MFDA staff is planning to hold similar sessions in other regions next year.

MFDA Member Regulation Forums were held in fall 2013 and spring 2014. The fall forum was presented by webcast and the spring forums were held in person in Vancouver, Calgary, Montreal and Toronto. The forums provided updates on compliance, enforcement and policy activities.

During the first quarter of 2014, Financial Compliance staff issued a Reference Manual for Members which specifically addresses MFDA financial requirements. The Manual is intended to assist Members and their auditors in the interpretation and application of, and compliance with, requirements under MFDA By-laws, Rules and Policies.

On November 1, 2013, MFDA staff held a Large/Medium Dealer Forum to discuss matters of particular interest and concern to large and medium independent Member firms.

Investor Questionnaire

One of the most fundamental and challenging obligations of advisors is assessing client risk tolerance. To address some of the difficulties, some Members have implemented a standard investor questionnaire to use as a tool in the KYC process. To provide further guidance and assistance, MFDA staff published a Discussion Paper on the use of Investor Questionnaires. In developing the paper, MFDA staff reviewed questionnaires currently in use by Members and fund companies and reviewed existing academic research and regulatory papers on investor profiling. MFDA staff also developed a sample questionnaire to illustrate the concepts outlined in the paper and provide a tool that can be used by Members.

Investor Education and Protection of Seniors and Other Vulnerable Groups

The protection of seniors (defined by the MFDA as investors 60 years of age or over) and other vulnerable groups (such as those with very limited financial resources or language, literacy or disability issues) continued to be an area of focus for the Enforcement Department. Approximately 30% of all formal disciplinary proceedings commenced involve seniors or other vulnerable groups. MFDA staff continues to use case screening procedures which flag cases involving seniors and case types that are more likely to involve seniors, such as suitability of leverage. These activities are part of the MFDA's overall efforts in placing a priority on seniors' issues and providing Member and investor education, as outlined in this report. For example, issues identified in enforcement cases regarding seniors have been included in the MFDA's general presentations and training to Members on seniors' issues.

In October 2013, the MFDA published an "Opening Your Investment Account" Information Sheet for investors which sets out why Members are required to collect the information they do as part of the KYC and account opening processes.

On October 16, 2013, MFDA staff held a National Seniors' Summit as part of its strategic initiative to protect seniors. Speakers representing both industry participants and senior investors discussed various topics of concern related to seniors from a regulatory, industry, social and legal perspective. In light of participant feedback, MFDA staff has also conducted follow-up sessions for Members and will provide further education and guidance in the future.

The MFDA participated along with over fifteen other regulatory and law enforcement agencies in a Fraud Prevention Month kickoff event in March 2014. At the event, MFDA staff gave a presentation on tips to avoid investment fraud to members of the public in attendance. The event was followed by the public on YouTube and Twitter. MFDA staff also created a Fraud Prevention Brochure with tips to help investors detect and prevent fraud. The brochure was distributed to the public at the event and is available on the MFDA website.

In June 2014, the MFDA was invited to participate in the Financial Consumer Agency of Canada's ("FCAC") Consultations on Strengthening Seniors' Financial Literacy. At the Consultation, MFDA staff was able to provide meaningful input into the formation of Phase 1 of the FCAC's National Strategy for Financial Literacy.

The MFDA also launched, in June 2014, a new Seniors' Section of the MFDA website which contains information on the assistance MFDA staff can provide in filing a complaint to the MFDA as well as links to various useful websites for seniors.

Whistleblower Program

On February 7, 2014, MFDA staff established a Whistleblower Program to receive information from individuals with knowledge or evidence of potential unethical or illegal activity, or contraventions by MFDA Approved Persons or Members, of MFDA By-laws, Rules, Policies or securities law requirements.

Enforcement Information

The MFDA published its second Annual Enforcement Report covering enforcement activities carried out during the calendar year 2013. The Report includes information about how the Enforcement Department operates and summarizes key achievements and significant disciplinary cases completed in 2013. The Report is available on the MFDA website at www.mfda.ca.

The MFDA now publishes the names of Respondents who have failed to pay fines and/or costs imposed against them by an MFDA Hearing Panel. This is available on the Enforcement section of the MFDA website and will be updated on a quarterly basis. This new practice will aid in the achievement of the MFDA's goal of developing and establishing firm, fair and transparent regulatory processes.

Review of Financial Compliance Examination Process

MFDA staff reviewed risk factors relating to the financial operations of all active Members with a view to determine whether it is appropriate to change the frequency of the on-site financial compliance examination cycle for all dealer levels. Following the review, MFDA staff changed the frequency of its sales and financial compliance examinations by utilizing its risk model to identify higher and lower risk Members. Members will have sales compliance examinations on 2-year or 4-year cycles. Financial compliance examinations will occur on 1-year, 2-year and 4-year cycles.

Member Data Exchange

MFDA staff implemented the use of a secure web-based facility to exchange documents with Members as an alternative to postal or email delivery.

Regulatory Operations

MFDA Regulatory Activities

The following is a list of the MFDA's regulatory activities for the period from July 1, 2013 to June 30, 2014.

Compliance

Department	Activities	Details
Sales Compliance	<ul style="list-style-type: none"> Performed 31 Head Office examinations Performed 66 Branch examinations 	<p>100% of reports were issued within benchmarks (80% of reports issued within 15 weeks of fieldwork completion and all reports issued within 20 weeks of fieldwork completion).</p>
Financial Compliance	<ul style="list-style-type: none"> Performed 28 active Level 4 dealer examinations and 4 Level 2/3 dealer examinations Performed approximately 1,380 unaudited monthly financial report reviews Performed 112 audited annual financial report reviews 	<p>100% of reports were issued within benchmark (15 weeks of fieldwork completion).</p> <p>100% of reviews were performed within benchmark (5 business days of the filing date).</p> <p>100% of reviews were performed within the benchmark (3 months of the report date).</p>

Enforcement

In the year ended June 30, 2014, the MFDA Enforcement Department:

- Commenced 57 hearings, an increase from the 51 hearings commenced in 2013.
- Concluded 47 formal proceedings.

In the same period, MFDA Hearing Panels imposed fines of \$54,500 against Approved Persons who are currently registered, all of which have been collected. Hearing Panels also imposed fines of \$3,642,500 against Approved Persons who are no longer registered, of which \$51,000 has been collected. In most of the latter cases, those Approved Persons are no longer registered as a result of permanent prohibitions or suspensions ordered as part of the MFDA disciplinary proceedings. In addition, the MFDA collected a total of \$3,750 in fines relating to proceedings concluded in previous fiscal years.

The MFDA has powers to collect fines from respondents who remain in the industry as Approved Persons, but does not have the ability to collect fines from former Approved Persons, except in the province of Alberta where staff makes all reasonable collection efforts. The MFDA also pursues options for collecting costs from former Members or Approved Persons as applicable law may permit.

Violation Type in Enforcement Actions Commenced July 1, 2013 to June 30, 2014

	Approved Persons	Members
Blank Signed Forms	11	
Outside Business Activities	11	
Falsification/Misrepresentation	10	
Personal Financial Dealings	5	
Forgery/Theft/Fraud/Misappropriation/Misapplication	4	
Unauthorized Discretionary Trading	4	
Suitability - Leveraging	3	
Failure to Cooperate	2	
Referral Arrangements	2	
Conduct Unbecoming	1	
Conflict of Interest	1	
Complaint Procedure	1	
Suitability – Investments	1	
Securities Regulator's Order		1
Total	56	1
Overall Total		57

Policy

Instrument	Status	Description
<ul style="list-style-type: none"> Amended MFDA By-law No. 1 	Effective September 29, 2014	Amendments to bring MFDA By-law No. 1 into conformity with the <i>Canada Not-for-profit Corporations Act</i> .
<ul style="list-style-type: none"> Proposed amendments to Rule 2.2.5 (Relationship Disclosure), 2.4.4 (Transaction Fees or Charges) and 5.4.2 (Trade Confirmations – Automatic Payment Plans) (Phase 1) 	Effective July 15, 2014	Conforming amendments are required to MFDA Rules to conform with new client reporting requirements established under the CRM2 amendments to NI 31-103.
<ul style="list-style-type: none"> Proposed amendments to Rule 2.8.3 (Rates of Return), 5.3 (Client Reporting) and 5.4 (Trade Confirmations) (Phase 2) 	Published for Comment June 13, 2014	Conforming amendments are required to MFDA Rules to conform with new client reporting requirements established under the CRM2 amendments to NI 31-103.
<ul style="list-style-type: none"> New MFDA Staff Notice MSN-0082 Branch Supervision 	Issued September 12, 2013	Assists Members who wish to implement a supervisory system involving the remote supervision of branches by providing additional guidance and clarification in respect of the principle-based requirements under Rule 2.5.5 and Policy No. 2 and other related considerations.

Communications & Membership Services

As of June 30, 2014, the MFDA had 110 Members registered in every province and territory across Canada. These Members represent approximately \$422 billion of mutual fund assets under administration (“AUA”).

MFDA staff responded to 1,668 telephone and email inquiries from Members, their representatives, and the public. The majority of the inquiries from Members and their Approved Persons related to registration, accessing the MFDA systems, and questions relating to financial filings and Approved Person trade names. Inquiries from the public included individuals seeking clarification on the requirements for re-entering the mutual fund industry as an Approved Person, inquiries related to ongoing enforcement cases and clarification of MFDA Rules. Membership Services also handled inquiries from clients of W.H. Stuart Mutuals Ltd. on behalf of the MFDA Investor Protection Corporation.

Going Forward

CRM 2 – Implementation of Harmonized MFDA Rules

MFDA staff recognizes the many operational and implementation challenges and issues facing MFDA Members with respect to the new proposed amendments to NI 31-103 requirements with respect to performance reporting, cost disclosure and client statements. Staff will assist Members and provide guidance with respect to the implementation of these new requirements. MFDA staff will continue to liaise with service providers of MFDA Members to discuss questions that they have in effecting systems changes to comply with these new requirements and will also hold a webcast to discuss some of the implementation issues when appropriate.

Cost-Sharing Agreements with Related Parties

Cost-sharing agreements between Members and related parties will be a focus of financial examinations performed in 2014. Related parties can impact the financial viability of MFDA Members and it is important that cost-sharing agreements are sufficiently detailed and accurately reflect the costs incurred by the MFDA Member Firm. Further analysis of these cost-sharing agreements will be conducted for the purpose of MFDA staff establishing clearer guidance to Members on the use of these agreements.

Service Arrangements

Compliance staff will be performing an assessment of all material service arrangements that Members have with other parties to determine if the activities of the service provider impact Member compliance with regulatory requirements or give rise to any investor protection concerns. The review will be focused on service providers that are involved in trade execution, settlement, custody and client reporting. Compliance staff will be focusing on referral arrangements with mortgage brokers and Approved Persons dually licensed as mortgage brokers in examinations in 2014.

Outside Business Activities

One of the most common allegation types in hearings conducted in 2013 involved undisclosed outside business activities of Approved Persons. The Enforcement Department will be paying particular attention to the adequacy of Member supervision in ongoing and future cases involving outside business activities and will be increasing its involvement in training for Members and Approved Persons.

MFDA staff will also provide additional clarification to Members and Approved Persons on their obligations with respect to outside business activities including providing a definition of outside business activities and clarifying requirements with respect to financial planning activity conducted outside the Member.

Staff will also draft additional guidance for Members to consider when approving outside business activities and supervising to detect undisclosed outside business activities.

MFDA Website

MFDA staff will conduct a full review of the MFDA public website with the objective of updating the design and functionality of the site.

Management Discussion and Analysis

This Management Discussion and Analysis (“MD&A”) is presented to enable the readers to assess the financial condition and results of operations of the Mutual Fund Dealers Association of Canada (“MFDA”) for the year ended June 30, 2014. This MD&A should be read in conjunction with the audited financial statements and the accompanying notes of the MFDA for the fiscal year (“FY”) ended June 30, 2014.

These financial statements have been prepared in accordance with Part III of the Chartered Professional Accountants (“CPA”) of Canada Handbook (“CPA Handbook”) – Accounting Standards for Not-for-Profit Organizations, which sets out generally accepted accounting principles for not-for-profit organizations in Canada.

Statements of Revenues and Expenses

Revenues

Revenues from operations for FY 2014 were \$32,613,852 (compared to \$31,281,065 for FY 2013). The principal source of revenue for the MFDA is Membership fees, which are assessed against Member Firms and are calculated to provide sufficient funding to meet the MFDA’s yearly budgeted expenses. Membership fees for FY 2014 totaled \$32,052,868 (compared to \$30,426,702 for FY 2013).

Membership fees are calculated based upon a formula that takes into account the amount of AUA that each Member Firm has under its control. Each year, on or before April 15, MFDA Members are required to report their AUA figures as at March 31. AUA figures represent AUA from operations in all provinces other than Quebec and specifically exclude cash, GICs, limited partnerships, and segregated funds. A Member’s reported AUA at March 31 for the current year is then added to the previous year’s reported AUA and an average of the two years is calculated for billing purposes.

The MFDA uses a five-tiered AUA rate schedule as the basis for its billing. Members are billed a set fee amount per million dollars of AUA based upon this schedule with the fee rates set to provide sufficient funding for the next fiscal year. The MFDA fee payable by a Member is calculated by matching its average AUA figure to the tiered fee schedule. For some Members, a minimum fee applies. Each Member’s fees for the year are divided into four installments payable on a quarterly basis.

Other sources of revenue for the FY 2014 include the following:

- Hearing cost recoveries of \$296,236 are related to hearings held by the MFDA. As approved by the MFDA Board of Directors, these costs are recovered through the use of fine monies collected in the MFDA’s Discretionary Fund, to the extent that there is a balance in this Fund.
- Investment income of \$131,772 is derived from the investment of MFDA operating cash balances in the CIBC Imperial Money Market Pooled Fund and investment in Canadian federal treasury bills. Investments are made with preservation of capital, liquidity, and low risk as the primary goals.
- Cost recoveries and late filing fees of \$72,976 include costs awarded by the MFDA Regional Council Hearing Panels at the conclusion of MFDA disciplinary hearings or settlements that have been collected by the MFDA, fees charged for enforcement activity history requests and fines assessed against Members that have missed information filing deadlines.
- Administration recoveries of \$60,000 are costs recovered from the MFDA Investor Protection Corporation for administrative services provided by MFDA staff.

Expenses

In FY 2014, expenses for the year amounted to \$30,887,327 (compared to \$31,148,625 for FY 2013).

Salary and employee benefits represent a significant portion of MFDA annual expenditures. For FY 2014, 72% of operating expenses are related to these costs. For FY 2014, salary and employee benefits totaled \$22,313,707 (compared to \$22,850,606 for FY 2013). The year-over-year decrease of \$536,899 was driven by staff reductions and decreases in the post-retirement benefit expense.

The FY 2014 staffing budget allowed for 168 full-time positions. During the year, eight positions were eliminated through attrition. The savings from these reductions was partially offset by annual increases related to employee merit, promotion and variable compensation.

Post-retirement benefits represent benefits to be provided to employees in the future based on service in the current year. These benefits are accounted for using the accrual basis of accounting and therefore reflect the cost of providing these benefits irrespective of the amount of funding provided in support of these benefits.

In calculating the liability and expense related to the post-retirement benefit plans, assumptions are made about the expected rate of return on plan assets, the discount rate, future salary increases, mortality, turnover, retirement ages and the medical expense trend rate. The pension expense for the Registered Pension Plan (“RPP”) decreased \$326,200 while the post-retirement benefit plan expense increased \$51,000.

The MFDA has offices in Toronto, Calgary and Vancouver. During the year, the Calgary office lease was renewed for an additional 5-year term. With respect to rent and occupancy costs for FY 2014, the 2.1% increase is due to normal operating and tax increases.

Technology costs totaled \$1,001,369 for FY 2014 (compared to \$798,671 for FY 2013). The increase was driven by the costs incurred to develop the specifications of the Compliance Electronic Working Paper (“EWP”) project and for the Microsoft SharePoint software required to support the project.

Professional and consulting fees were \$875,254 for FY 2014 (compared to \$842,519 for FY 2013). The increase is attributable to MFDA By-law changes due to the *Canada Not-for-profit Corporations Act*, pension matters, the Calgary lease renewal and external research related to the development of a risk profile questionnaire for Members.

Hearing panel and Regional Council expenses were \$797,119 for FY 2014 (compared to \$589,457 for FY 2013). Hearing panel costs can vary greatly year to year depending upon the number, nature, location, and complexity of the hearings undertaken. Hearing panel expenses are recovered through the use of fine monies accumulated in the MFDA’s Discretionary Fund, to the extent that such funds are available. During FY 2014, the accumulated balance of the Discretionary Fund from prior years was absorbed and \$498,892 of hearing panel costs was directly charged to operations.

Travel expenses were \$791,152 for FY 2014 (compared to \$884,935 for FY 2013). The decrease in travel expense resulted from the Compliance reviews of some firms located in Western Canada being performed by the staff in the Western offices rather than the Toronto office.

Excess of Revenues over Expenses

The MFDA ended FY 2014 with an excess of revenues over expenses of \$1,726,525 (compared to an excess of \$132,440 for FY 2013).

Statements of Financial Position

At June 30, 2014, assets were \$23.4 million, liabilities were \$15.2 million and net assets were \$8.2 million. Unrestricted net assets increased \$1.7 million to \$7.0 million as a result of the excess of revenues over expenses. \$500,000 of the excess was built into the FY 2014 membership fee assessment to replenish the MFDA’s operational reserve. The balance is primarily the result of cost savings which have been set aside as reserves for operating contingencies or other potential needs.

Investments

Investments consist of money market funds and treasury bills, which are managed by an external fund manager.

Capital Expenditures

Capital expenditures totaled \$465,941 in FY 2014 (compared to \$244,448 in FY 2013) and consisted of necessary technology hardware replacements and upgrades, development of the Compliance EWP system and enhancements to the Member Events Tracking System (“METS”) and the Electronic Filing System (“EFS”).

MFDA Discretionary Fund

The Discretionary Fund is an internally restricted fund established by the MFDA Board of Directors to receive monies from the collection of enforcement fines and the surrender of profits imposed by order of an MFDA hearing panel. For FY 2014 the Fund received fines of \$109,250 (compared to \$197,976 for FY 2013) and earned investment revenue of \$1,222 (compared to \$5,944 for FY 2013). The Fund reimbursed hearing costs of \$296,236 to the MFDA Operating Fund in FY 2014 (compared to \$588,286 for FY 2013). At June 30, 2014, the Discretionary Fund balance was nil (compared to \$185,794 at June 30, 2013). Hearing panel costs will be directly charged to operations until funds are available in the Discretionary Fund.

MFDA Investor Protection Corporation

The MFDA bills and collects assessments by the MFDA Investor Protection Corporation (“IPC”). These amounts flow through the Statements of Financial Position as an asset to reflect the assessment to be received from Members. An offsetting liability to the IPC accounts for future remittances due from the MFDA. For the period from July 1, 2013 to June 30, 2014 the MFDA billed \$2,932,698 (July 1, 2012 to June 30, 2013 – \$2,858,795) to its Members on behalf of the IPC. As at June 30, 2014, \$87,610 (June 30, 2013 – \$11,494) of IPC assessments remained due to the IPC.

Accrued Employee Benefit Plans Liability

The MFDA has an accrued employee benefit plans liability of \$5,138,400 (FY 2013 – \$4,643,800). This amount comprises a \$1,222,700 liability (FY 2013 – \$1,348,800) pertaining to the registered pension plan and a \$3,915,700 liability (FY 2013 – \$3,295,000) with respect to the post-retirement benefits plan. The post-retirement benefits plan is an unfunded obligation that will be paid by the organization as incurred.

Outlook for Fiscal 2015

For FY 2015, the MFDA is assessing Members \$31.285 million in fees, representing a reduction of \$768,000 or 2.4% from the membership fees collected in FY 2014.

Expenses for FY 2015 are budgeted to be \$30.8 million (compared to actual expenses of \$30.9 million for FY 2014).

Budgeted head count will be 160 full-time positions for the year, unchanged from the staff level at the end of fiscal 2014.

Employee-related expenses remain the largest expense for the MFDA and comprise approximately 72% of operating expenses for FY 2015. Budgeted salaries and employee benefits are \$22.3 million for FY 2015, unchanged from the actual expenses in the prior fiscal year.

In order to address the rising costs of pension obligations, the MFDA implemented an increase in employee pension contributions for the RPP effective October 15, 2014, reducing the normal cost of funding the RPP for the MFDA. The RPP has also been closed to new hires effective January 1, 2014. New employees will be eligible for a simplified RRSP contribution program that provides for their retirement needs but limits the cost and funding risk to the MFDA.

Technology costs are expected to decrease from FY 2014 levels as the Compliance EWP system is into the development stage where future costs incurred are capitalized. The MFDA also expects to experience savings resulting from network environment changes and software licensing negotiations completed in FY 2014.

Data security and the preservation of confidential information is a key consideration for all organizations today. The MFDA takes the custodianship of all personal and confidential information it receives very seriously. To date, the MFDA has effected a number of measures as part of its ongoing effort to enhance the security and integrity of its data and information systems in order to meet legal requirements and mitigate the risk of data loss. These efforts require ongoing attention and adaptation to emerging threats and the MFDA is committed to maintaining a focus in this area.

Most of the other expense categories are anticipated to remain largely unchanged from FY 2014 levels.

Capital spending is anticipated to total \$597,000 in FY 2015 and will consist of technology hardware replacements, continued development of the Compliance EWP system and certain aspects of the MFDA's website, and ongoing enhancements to the systems that currently serve our Membership.

The MFDA has maintained the target for its unrestricted net assets fund at a fiscally prudent level of 25% of yearly operating expenses. This target represents three months of operating expenses and acts as a reserve for large unforeseen expenses that may arise. During the year, MFDA Management assessed the target to ensure that the reserve is at an appropriate level. The balance in the unrestricted net asset fund stood at approximately \$7.0 million at June 30, 2014. Based upon budgeted operating expenses for FY 2015 of \$30.8 million, the balance in the unrestricted net asset account at June 30, 2014 represents approximately 91% of target. The MFDA has budgeted \$700,000 in FY 2015 Membership fee assessment to raise the unrestricted net asset account to 100% of target.

For the FY beginning July 1, 2014, the MFDA will be required to follow Section 3463 – Reporting Employee Future Benefits by Not-for-Profit Organizations of the CPA Handbook. The new section replaces the deferral and amortization approach for the recognition of actuarial gains and losses of employee future pension benefits with immediate recognition. The MFDA has approximately \$2.8 million in unamortized net actuarial losses at the transition date and is required to report this amount as a direct non-cash charge to the Statements of Changes in Fund Balances. The impact will result in an increase in the accrued employee benefit plans liability and a reduction in the unrestricted net assets balance. The MFDA is reviewing the target for the unrestricted net assets fund as a result of adoption of Section 3463.

The MFDA's current Strategic Plan covered the fiscal years 2012–2014. A new Strategic Plan will be developed to cover the next three years of MFDA operations. The MFDA is currently in the process of collecting input from its various stakeholder groups that will be used in the development of its 2015–2017 Strategic Plan. Management is not expecting any substantial deviations from its current strategic direction and the new plan is expected to continue on the central themes of industry collaboration, building investor confidence and regulatory relevance, staff excellence, and operational efficiencies. A copy of the MFDA's 2012–2014 Strategic Plan is available at www.mfda.ca.

Management's Responsibility for Financial Reporting

The accompanying financial statements and all other information contained in this Annual Report are the responsibility of the MFDA management. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and necessarily include some amounts based on the estimates and judgments of management.

In discharging its responsibilities for the integrity and reliability of the financial statements, management maintains and relies upon a system of internal controls. These internal controls are designed to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The MFDA also maintains formalized policies and procedures and an organizational structure that segregates duties. The MFDA employs standards and procedures for hiring employees who are required to abide by a business code of conduct and receive ongoing training regarding the proper execution of their duties. Mechanisms also exist that enable reporting to the Audit & Finance Committee of any perceived unethical behavior by employees.

In order to provide their opinion on the MFDA's financial statements, Deloitte LLP reviews the MFDA's system of internal controls and conducts such tests and other audit procedures that they consider appropriate. The auditors also meet in-camera with the Audit & Finance Committee, without management present, to discuss the results of their work. The independence of the auditors as well as the effectiveness of their work is assessed by the Audit & Finance Committee annually.

The Audit & Finance Committee reviews the effectiveness of the company's financial reporting and internal control systems, any significant financial reporting issues, the presentation and impact of significant risks, and key estimates and judgments of management that may be material for financial reporting purposes. Additionally, the Audit & Finance Committee meets periodically with the MFDA management and the auditors, and reports to the Board of Directors thereon. The Audit & Finance Committee also reviews the annual financial statements and recommends them for approval by the Board of Directors.

The accompanying financial statements have been audited by the auditors who are engaged by the Board of Directors on the recommendation of the Audit & Finance Committee. The appointment of the auditor is ratified at the Annual General Meeting of MFDA Members.



Mark T. Gordon
President & Chief Executive Officer



Paul Reid
Vice-President, Finance & Administration

Independent Auditor's Report

To the Members of the Board of Directors Mutual Fund Dealers Association of Canada

We have audited the accompanying financial statements of the Mutual Fund Dealers Association of Canada, which comprise the statement of financial position as at June 30, 2014 and 2013, and the statements of operations, changes in net assets and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Mutual Fund Dealers Association of Canada as at June 30, 2014, and 2013 and the results of its operations and its cash flows for the years then ended in accordance with Canadian accounting standards for not-for-profit organizations.



Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
September 26, 2014
Toronto, Ontario

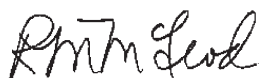
Statements of Financial Position

as at June 30

	2014	2013
	\$	\$
ASSETS		
Current		
Cash – Operating Fund	1,970,316	2,282,324
Cash – Discretionary Fund	100,617	13,547
Investments – Operating Fund (Note 4)	9,322,630	6,241,170
Investments – Discretionary Fund (Note 4)	331	446,173
Membership fees billed in advance (Note 5)	7,925,518	8,013,099
MFDA Investor Protection Corporation assessments (Note 6)	2,835	11,494
Costs recoverable from MFDA Investor Protection Corporation (Note 8)	16,931	18,398
Other membership receivables	–	6,697
Prepaid expenses and other assets	370,531	433,789
	19,709,709	17,466,691
Capital assets (Note 7)	1,220,261	1,343,904
Employee benefit plan asset (Note 9)	2,435,800	2,376,900
	23,365,770	21,187,495
LIABILITIES AND FUND BALANCE		
Current		
Accounts payable and accrued liabilities	1,948,168	1,737,064
Unearned membership fees (Note 5)	7,923,914	8,016,349
Membership application deposits	–	2,250
Due to MFDA Investor Protection Corporation (Note 6)	87,610	11,494
Obligations under capital lease (Note 11)	53,444	49,594
	10,013,136	9,816,751
Accrued employee benefit plans liability (Note 9)	5,138,400	4,643,800
Obligations under capital lease (Note 11)	63,636	117,077
	15,215,172	14,577,628
FUND BALANCES		
Operating Fund		
Invested in capital assets	1,103,181	1,177,233
Unrestricted net assets	7,047,417	5,246,840
	8,150,598	6,424,073
Discretionary Fund (Note 3)	–	185,794
	8,150,598	6,609,867
	23,365,770	21,187,495

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

Approved on behalf of the Board



Roderick M. McLeod, Q.C.
Chair, Board of Directors



Mark T. Gordon
President & Chief Executive Officer

Statements of Revenues and Expenses

for the years ended June 30

	2014	2013
	\$	\$
OPERATING FUND (Note 3)		
Revenues		
Membership fees	32,052,868	30,426,702
Hearing cost recoveries from Discretionary Fund (Note 15)	296,236	588,286
Investment income (Note 12)	131,772	113,189
Cost recoveries and late filing fees	72,976	92,888
Administration recoveries (Note 8)	60,000	60,000
Total revenues	32,613,852	31,281,065
Expenses		
Salaries and employee benefits (Note 9)	22,313,707	22,850,606
Rent and occupancy	2,785,366	2,728,905
Office supplies and services	1,045,683	1,062,407
Technology	1,001,369	798,671
Professional and consulting fees	875,254	842,519
Hearing panels and regional councils	797,119	589,457
Travel	791,152	884,935
Amortization of capital assets	589,584	637,711
Board of Directors' fees and expenses	279,083	335,160
Staff training and development	222,528	263,194
Meetings, seminars and communication	186,482	155,060
Total expenses	30,887,327	31,148,625
Excess of revenues over expenses	1,726,525	132,440
DISCRETIONARY FUND (Note 3)		
Revenues		
Fines	109,250	197,976
Investment income (Note 12)	1,222	5,944
Total revenues	110,472	203,920
Expenses		
Hearing cost reimbursement to Operating Fund (Note 15)	296,236	588,286
Investment management fees	30	182
Total expenses	296,266	588,468
Deficiency of revenues over expenses	(185,794)	(384,548)

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

Statements of Changes in Fund Balances

for the years ended June 30

2014

2013

	Operating Fund			Total	Total
	Invested in Capital Assets	Unrestricted Net Assets	Discretionary Fund		
	\$	\$	\$	\$	\$
FUND BALANCES					
Balance, beginning of year	1,177,233	5,246,840	185,794	6,609,867	6,861,975
Excess (deficiency) of revenues over expenses	-	1,726,525	(185,794)	1,540,731	(252,108)
Purchase of capital assets	465,941	(465,941)	-	-	-
Principal payments on capital lease	49,591	(49,591)	-	-	-
Proceeds on disposal of capital assets	-	-	-	-	-
Amortization of capital assets	(589,584)	589,584	-	-	-
Balance, end of year	1,103,181	7,047,417	-	8,150,598	6,609,867

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

Statements of Cash Flows

for the years ended June 30

	2014	2013
	\$	\$
OPERATING ACTIVITIES		
Excess of revenue over expenses – Operating Fund	1,726,525	132,440
Excess (deficiency) of revenue over expenses – Discretionary Fund	(185,794)	(384,548)
Items not involving cash		
Amortization of capital assets	589,584	637,711
	2,130,315	385,603
Changes in non-cash working capital		
Membership fees billed in advance	87,581	(288,882)
Other membership receivables	6,697	28,827
MFDA Investor Protection Corporation assessments	8,659	(109)
Prepaid expenses and other assets	63,258	(77,872)
Accounts payable and accrued liabilities	211,104	5,582
Membership application deposits	(2,250)	(1,250)
Unearned membership fees	(92,435)	281,178
Due to MFDA Investor Protection Corporation	76,116	109
Costs recovered from MFDA Investor Protection Corporation	1,467	(1,442)
	2,490,512	331,744
Employee benefit plan asset	(58,900)	(62,100)
Accrued employee benefit plans liability	494,600	8,500
	2,926,212	278,144
INVESTING ACTIVITIES		
Purchase of investments, net	(2,635,618)	(353,433)
Purchase of capital assets	(465,941)	(244,448)
Principal payments on capital lease	(49,591)	(50,507)
Proceeds on disposal of capital assets	–	326
	(3,151,150)	(648,062)
Decrease in cash during the year	(224,938)	(369,918)
Cash, beginning of year	2,295,871	2,665,789
Cash, end of year	2,070,933	2,295,871
Cash – Operating Fund	1,970,316	2,282,324
Cash – Discretionary Fund	100,617	13,547
Cash, end of year	2,070,933	2,295,871

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

Notes to the Financial Statements

(June 30, 2014 and 2013)

1. Nature of the organization

The Mutual Fund Dealers Association of Canada (“MFDA”) is the national self-regulatory organization for the distribution side of the Canadian mutual fund industry. The MFDA does not provide trade association activities for its members (“Members”). Its Members are firms that have been registered by provincial securities commissions to carry on business as mutual fund dealers. The MFDA regulates the activities of its Members and the approximately 81,000 Approved Persons sponsored by them. The MFDA’s regulatory activities include developing rules and policies to govern the business conduct and operations of its Members and their Approved Persons, monitoring compliance with these requirements and applicable securities laws, and enforcing them through disciplinary proceedings conducted before impartial and independent MFDA hearing panels.

The MFDA was incorporated as a not-for-profit corporation on June 19, 1998 under Part II of the *Canada Corporations Act* and has been formally recognized as a self-regulatory organization by a number of provincial securities commissions in Canada.

As at June 30, 2014, the MFDA had 110 Members (2013 – 115 Members).

2. Statement of compliance with Canadian Accounting Standards for Not-for-Profit Organizations

The MFDA complies with the Accounting Standards for Not-for-Profit Organizations contained in Part III of the CPA Handbook.

3. Significant accounting policies

Use of estimates and judgment

Because the precise determination of many assets and liabilities, such as accrued liabilities and accrued employee benefits plans liability, is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates and approximations which have been made using judgment. Actual results could differ from those estimates. The financial statements have, in management’s opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

Fund accounting

The MFDA uses the deferral method of accounting for not-for-profit organizations in the preparation of its financial statements consisting of two funds, namely the Operating Fund and the Discretionary Fund.

The Operating Fund accounts for the regular business and activities of the MFDA.

The Discretionary Fund is an internally restricted fund established by the MFDA Board of Directors. The Discretionary Fund receives monies from the collection of enforcement fines and the surrender of profits imposed by order of MFDA Hearing Panels. Disbursements from the Discretionary Fund are currently restricted to the funding of third-party expenses of the MFDA Hearing Panels, payments to the MFDA Investor Protection Corporation, the investor protection fund, and payments for special projects that are in the public interest and beneficial to the public and/or Canadian capital markets, as determined by the MFDA Board of Directors.

Membership application deposits

A non-refundable deposit is required on all membership applications. The deposit is applied to membership fees when the applicant is accepted for membership.

Membership fees

Membership fees are calculated annually using a defined formula based on each Members’ assets under administration, invoiced to Members on a quarterly basis and recorded as revenue on a monthly prorated basis over the fiscal year to which they relate.

Membership fees billed in advance are reflected on the balance sheet as unearned membership fees.

Late filing fees

Members that do not submit the financial statements required by MFDA rules within the specified due dates are charged late filing fees. The late filing fees are billed and recorded as revenue on a monthly basis.

Capital assets

Capital assets are recorded at cost and are amortized on the following basis:

Computers and software development	Straight-line method over 3 to 5 years
Office furniture and equipment	Straight-line method over 10 years
Leasehold improvements	Straight-line method over the term of the lease
Equipment under capital lease	Straight-line method over the term of the lease

Employee benefit plans

The MFDA accrues its obligations under employee benefit plans and the related costs, net of plan assets. The MFDA has adopted the following policies:

- The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method pro rated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs.
- The discount rate used to determine the accrued benefit obligation is determined by reference to market interest rates at the measurement date on high-quality or government debt instruments with cash flows that match the timing and amount of expected benefit payments.
- For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.
- The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. The average remaining service period of the active employees is 18 years (2013 – 18 years) for the registered pension plan, 12 years (2013 – 12 years) for the supplementary executive retirement plan and 14.8 years (2013 – 15 years) for other post-retirement benefits.

Cash

Cash includes cash on hand and balances with banks, net of bank overdrafts. The MFDA accounts for cash maintained in investment accounts as part of investments.

Financial instruments

The MFDA invests in short-term investments in a pooled money market fund and in federal treasury bills or notes with short-term to medium-term maturities.

The investments in the money market fund are carried at fair value as reported by the fund manager. Unrealized gains and losses resulting from the difference between fair value and cost are recorded in the Statements of Revenues and Expenses.

Investments in Canadian federal treasury bills or notes are recorded at fair value with any changes being recorded in the Statements of Revenues and Expenses. As these instruments are short-term in nature, cost approximates fair value. Any gains and losses are recognized in the Statements of Revenues and Expenses in the period that the asset is sold. Interest income from the bonds is accrued daily and recorded under investment income in the Statements of Revenues and Expenses.

Other assets and liabilities

Current assets other than cash and investments are classified as loans and receivables and are carried at amortized cost, which approximates fair value due to their short terms to maturity.

Accounts payable and accrued liabilities are classified as other liabilities and carried at amortized cost, which approximates fair value due to their short terms to maturity.

Provision for income taxes

The MFDA is a not-for-profit organization within the meaning of the *Income Tax Act* (Canada). Accordingly, there is no provision for income taxes in these financial statements.

Future accounting changes

In December 2013, the Accounting Standards Board approved Section 3463 – Reporting Employee Future Benefits by Not-for-Profit Organizations, replacing the existing Section 3461 – Employee Future Benefits. The new standard will be effective for the fiscal year commencing July 1, 2014. The expected effect of the change is the elimination of the deferral and amortization approach for the recognition of actuarial gains and losses of the employee future benefits with immediate recognition. The to-date actuarial gains and losses and future re-measurements would be a direct charge to the Statements of Changes in Fund Balances in the year of adoption. The amount of the direct charge would have been approximately \$2.8 million as at June 30, 2014 (see Note 9). The change in other disclosure requirements is expected to be minor.

4. Investments

For the Operating Fund, the MFDA has investments in the CIBC Imperial Money Market Pooled Fund in the amounts of \$6,231,915 (2013 – \$3,173,390) and in Federal Treasury Bills and cash awaiting investment in the amount of \$3,090,715 (2013 – \$3,067,780).

The MFDA has investments in the CIBC Imperial Money Market Pooled Fund in the amounts of \$331 (2013 – \$446,173) for the Discretionary Fund.

The following table lists the investment holdings and their fair values as at June 30, 2014.

Investment	Par Value (\$)/ Number of Units	Credit Rating	Fair Value
			\$
Operating Fund Money Market			
CIBC Imperial Money Market Pooled Fund	621,880	N/A	6,231,915
Sub-total Money Market			6,231,915
Operating Fund Treasury Bills and Notes			
Canada Government, 0.890%, Mat. Jul 3, 2014	1,500,000	AAA	1,493,880
Canada Government, 0.930%, Mat. Aug 14, 2014	1,500,000	AAA	1,497,390
Sub-total T-bills			2,991,270
Cash on hand for T-bills investment	N/A	N/A	99,445
Sub-total Operating Fund			9,322,630
Discretionary Fund Money Market			
CIBC Imperial Money Market Pooled Fund	33	N/A	331
Sub-total Discretionary Fund			331
Total investments			9,322,961

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

Investment	Par Value (\$)/ Number of Units	Credit Rating	Fair Value
			\$
Operating Fund Money Market CIBC Imperial Money Market Pooled Fund	316,797	N/A	3,173,390
Sub-total Money Market			3,173,390
Operating Fund Treasury Bills and Notes Canada Government, 0.990%, Mat. Sep 12, 2013	1,500,000	AAA	1,492,635
Canada Government, 0.997%, Mat. Aug 1, 2013	1,500,000	AAA	1,496,700
Sub-total T-bills			2,989,335
Cash on hand for T-bills investment	N/A	N/A	78,445
Sub-total Operating Fund			6,241,170
Discretionary Fund Money Market CIBC Imperial Money Market Pooled Fund	44,541	N/A	446,173
Sub-total Discretionary Fund			446,173
Total investments			6,687,343

5. Membership fees billed in advance

The membership fees billed in advance represent billings issued in June for the quarterly membership fees for the period of July 1 to September 30, 2014 due July 15, 2014.

6. MFDA Investor Protection Corporation assessments

The MFDA Investor Protection Corporation (“IPC”) commenced coverage of customer accounts on July 1, 2005. Member assessments are calculated annually on a defined formula based on each Member’s assets under administration, and are invoiced to Members on a quarterly basis. The MFDA invoices the Members on behalf of the IPC and is liable to the IPC for the total of these Member assessments.

7. Capital assets

	2014		
	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Computers and software development	2,907,662	2,349,988	557,674
Office furniture and equipment	1,497,990	1,243,286	254,704
Leasehold improvements	2,433,294	2,140,545	292,749
Equipment under capital lease	267,814	152,680	115,134
	7,106,760	5,886,499	1,220,261

	2013		
	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Computers and software development	2,767,981	2,294,598	473,383
Office furniture and equipment	1,459,926	1,144,253	315,673
Leasehold improvements	2,356,329	1,967,000	389,329
Equipment under capital lease	267,814	102,295	165,519
	6,852,050	5,508,146	1,343,904

8. Costs recoverable from MFDA Investor Protection Corporation

Pursuant to a support agreement, the MFDA provides the IPC administrative, corporate, secretarial and other support during the year to allow the IPC to operate without its own support staff. The support costs charged to the IPC for the year amounted to \$60,000 (2013 – \$60,000) plus applicable taxes. This amount is billed on a monthly basis but reimbursed on a quarterly basis. At June 30, 2014, there was an outstanding amount of \$16,931 (2013 – \$18,398) with respect to this support agreement.

9. Employee benefit plans

MFDA has two defined benefit pension plans for eligible employees, being a registered pension plan (“RPP”) and a supplementary executive retirement plan (“SERP”). The purpose of the SERP is to supplement the registered plan for designated executive employees. As well, the MFDA has post-retirement benefits (“PRB”) that include health care and dental coverage for retired employees. These post-retirement benefits terminate at the age of 75.

The funded status of the MFDA’s benefit plans reconciled to the amounts recorded in the financial statements at June 30 is as follows:

	2014				2013
	RPP	SERP	PRB	Total	Total
	\$	\$	\$	\$	\$
Fair value of assets	17,299,700	6,342,700	–	23,642,400	18,791,200
Accrued benefit obligation	20,282,900	4,486,500	4,364,900	29,134,300	23,062,900
Funded status (deficit)	(2,983,200)	1,856,200	(4,364,900)	(5,491,900)	(4,271,700)
Unamortized transitional (assets) obligation	(3,000)	4,100	2,000	3,100	5,900
Unamortized net actuarial loss	1,763,500	575,500	447,200	2,786,200	1,998,900
Accrued benefit plan asset (liability)	(1,222,700)*	2,435,800	(3,915,700)*	(2,702,600)	(2,266,900)

* The total of \$(5,138,400) represents accrued employee benefit plans liability as of June 30, 2014 (2013 – \$(4,643,800)).

The RPP assets are invested in the Beutel Goodman Balanced Fund. RPP pension benefits paid and transferred out during fiscal 2014 totaled \$563,287 (2013 – \$148,810).

The total SERP assets of \$6,342,694 (2013 – \$5,743,900) consist of \$3,319,728 (2013 – \$2,997,590) which is invested in the Beutel Goodman Balanced Fund and held with RBC Wealth Management and \$3,022,966 (2013 – \$2,746,310) that is held in a non-interest bearing retirement compensation arrangement account at the Canada Revenue Agency, as required by law.

The most recent actuarial valuation was completed as of July 1, 2013. The next required actuarial valuation will be no later than July 1, 2016.

The net benefit expense, included in the salaries and employee benefits expense in the Statements of Revenues and Expenses, and the annual contributions are as follows:

				2014	2013
	RPP	SERP	PRB	Total	Total
	\$	\$	\$	\$	\$
Net benefit expense	2,044,100	150,100	629,900	2,824,100	3,204,800
Contributions					
Employer	2,170,180	209,000	9,200	2,388,380	3,258,400
Employee	319,225	–	–	319,225	298,500

The significant actuarial assumptions adopted in measuring the MFDA's accrued benefit obligations are as follows:

	2014	2013
	%	%
Weighted average discount rate for pensions	4.75	5.00
Weighted average discount rate for post-retirement benefits	4.75	5.00
Weighted expected rate of return on plan assets for pensions	6.00	6.00
Weighted average rate of compensation increase	3.25 – 3.75	3.25 – 3.75

The post-retirement benefits reflect a 10% to 11% annual rate of increase in the cost of medical benefits for 2015. These rates are assumed to decrease gradually to 5% by 2019 and remain at that level thereafter. The dental benefits are assumed to increase at an annual rate of 3.5%.

Plan assets by category as at June 30 are as follows:

	2014		2013	
	RPP	SERP	RPP	SERP
	%	%	%	%
Cash and short-term notes	2.3	1.2	2.1	1.1
Bonds	31.8	16.7	32.4	17.0
Canadian equities	31.7	16.5	32.9	17.1
Foreign equities	34.2	17.9	32.6	17.0
Deposit with CRA	–	47.7	–	47.8
	100.0	100.0	100.0	100.0

The PRB assets are \$Nil for all periods presented as the MFDA funds post-retirement benefits on a pay-as-you-go basis.

10. Credit facility

The MFDA has a demand credit facility limited to a maximum of \$6,000,000 (2013 – \$6,000,000). The credit facility bears an interest rate of prime plus 0.75% per annum (2013 – prime plus 0.75%). The MFDA has granted a general security interest to the bank in connection with this facility. During the years ended June 30, 2014 and June 30, 2013, the credit facility was not utilized.

11. Commitments and contingent liabilities

Lease obligations

The MFDA has entered into various operating leases for its office premises and four capital leases for office equipment. The capital leases have implicit interest rates of 7.9%, 7.2%, 6.9% and 6.9% and expire in December 2015, May 2017, December 2017, and May 2018, respectively. The aggregate future minimum lease payments associated with these four leases is \$129,274 which includes interest charges of \$12,194.

Operating and capital lease obligations, excluding operating costs for future years and sales tax, are as follows:

	\$
2015	1,187,310
2016	897,807
2017	230,316
2018	166,338
2019	64,850
Thereafter	–
	2,546,621

Guarantee

The MFDA provided a guarantee of the \$30 million line of credit granted to the IPC by its bank.

12. Investment income

Investment income is comprised of the following:

	2014	2013
	\$	\$
Operating Fund		
Distributions from money market fund	60,326	47,207
Interest from short-term T-bill fund	29,211	29,456
Bank Interest	42,235	36,526
	131,772	113,189
Discretionary Fund		
Distributions from money market fund	1,222	5,944
	1,222	5,944

13. Risk management of financial instruments of the MFDA

Risk management relates to the understanding and active management of risks associated with invested assets. Investments can be indirectly exposed to interest rate, and market and credit risk. The MFDA manages financial risks by regularly monitoring the investments position, market events, and investing in pooled funds which are diversified across various debt instruments.

Significant risks that are relevant to the MFDA's investments are as follows:

Interest rate risk

Interest rate risk refers to the adverse consequences of interest rate changes on the MFDA's fixed income investments. The value of the MFDA's investments in a pooled money market fund are not significantly impacted by changes in both nominal and real interest rates as the maturities of the money market instruments are short-term in nature.

Credit risk

Credit risk refers to the risk of financial loss due to a counterparty failing to meet its contractual obligations. The MFDA is exposed to credit risk indirectly through its investment in a pooled money market fund and directly through investments in federal treasury bills and notes. Credit risk is managed by the MFDA through dealing with counterparties' financial institutions. As at June 30, 2014 and June 30, 2013, the MFDA's investments in money market and fixed income securities are held with Tier 1 banking institutions.

Market risk

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market conditions, whether these changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market. The MFDA minimizes its exposure to market risk due to its policy of investing in a pooled money market fund and Government of Canada treasury bills and notes. Market risk is considered to be minimal.

Fair value

The fair value of cash, membership fees billed in advance, MFDA Investor Protection Corporation assessments, costs recoverable from the MFDA Investor Protection Corporation, other membership receivables, accounts payable and accrued liabilities, unearned membership fees, membership application deposits and due to the MFDA Investor Protection Corporation, approximates their carrying values due to their short-term nature.

The fair value of investments, which include investments in a pooled money market fund and fixed income securities, is based on prices provided by the fund manager and on quoted prices from active markets.

14. Funding and management of assets

The MFDA's capital is its unrestricted net assets in its Operating Fund.

The MFDA's objectives when managing its unrestricted net assets are:

- To safeguard the MFDA's ability to continue as a going concern, so it can provide regulation of the mutual fund dealers for the benefit of clients of its Members, and
- To work toward the Operating Fund reserve targets as set out by the MFDA's Board.

The MFDA bills its Members annually to ensure operations are funded. Any excess/deficit is allocated toward the accumulation/drawdown of the operating reserve. The Board in its discretion may apply some or all of the reserve to fund future budget deficits. The current goal for the Operating Fund as set out by the Board is 25% of the operating expense budget. As at June 30, 2014, this target was \$7.7 million (June 30, 2013 – \$8.0 million) of unrestricted net assets in the Operating Fund. The actual value of the unrestricted net assets is \$7,047,417 (2013 – \$5,246,840), or 92.2% of the target (2013 – 65.9% of target).

The adoption of Section 3463 – Reporting Employee Future Benefits by Not-for-Profit Organizations (see Note 3) will reduce the unrestricted net assets balance.

There are no external restrictions on the MFDA's capital.

15. Hearing cost recoveries from the Discretionary Fund

The MFDA Board approved the use of Discretionary Funds for the purpose of paying the third party costs of the Enforcement Hearing Panels. The amount of third-party costs funded by the Discretionary Fund for the year was \$296,236 (2013 – \$588,286).

Executive Officers

Roderick M. McLeod, Q.C.	Chair of the Board
Steven Donald	Vice-Chair of the Board
Mark T. Gordon	President & Chief Executive Officer

Officers

Karen McGuinness	Senior Vice-President, Member Regulation, Compliance
Shaun Devlin	Senior Vice-President, Member Regulation, Enforcement
Paige Ward	General Counsel, Corporate Secretary & Vice-President, Policy
Jeff Mount	Vice-President, Pacific Regional Office
Mark Stott	Vice-President, Prairie Regional Office
Paul Reid	Vice-President, Finance & Administration
David Burmudzija	Controller
Bernadette Devine	Assistant Corporate Secretary & Manager, Board Administration



Mutual Fund Dealers Association of Canada
Association canadienne des courtiers de fonds mutuels

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