

13.1.4 IDA - Form 1, Part I Auditor's Report – Amendment to Standard Auditor's Report to Reflect Changes to CICA Handbook Section 5600

INVESTMENT DEALERS ASSOCIATION OF CANADA –

**FORM 1, PART I AUDITOR'S REPORT –AMENDMENT TO STANDARD AUDITOR'S REPORT
TO REFLECT CHANGES TO CICA HANDBOOK SECTION 5600**

I OVERVIEW

A CURRENT RULES

To certify that the annual filing of Form 1 presents fairly, in all material respects, the financial position of a particular Member firm, the Panel Auditors file with the IDA and the CIPF the Part I Auditors' Report.

B THE ISSUE(S)

The Canadian Institute of Chartered Accountants (CICA) introduced significant amendments to Section 5100 of the CICA Handbook effective for audit reports issued on or after October 1, 2003 regarding the expression of audit opinions on general purpose financial statements, which among other things, restricted industry accounting practices as an alternative to CICA Handbook accounting principles.

The CICA also introduced new generally accepted audit standards (GAAS) Section 5600 for those reporting entities such as securities dealers that because of their industry's regulatory requirements must prepare and report financial statements that are not fully in accordance with generally accepted accounting principles (GAAP) in order to express an audit opinion. For example, IDA Regulations require that its member firms prepare and report their financial statements on an unconsolidated basis. This is a departure from GAAP, and Section 5600 of the CICA handbook recognizes this by allowing a modified form of audit opinion to be expressed. This audit opinion provides for departures from GAAP only in the circumstance where the reporting entity is required by specific regulatory requirement to report on a different basis. This audit opinion recognizes departures in GAAP for the intended user of the financial statements by reference to the basis of accounting in accordance with regulatory, statutory or contractual requirements disclosed in the notes to the financial statements.

This requires that the Part I Auditors' Report in Form 1 be amended to recognize variations in audit opinion in accordance with new CICA Handbook Section 5600. These variations include whether the financial statements are non-consolidated, change in year-end, change in auditors from prior year, no prior year comparisons because of first year audit etc.

C OBJECTIVE(S)

The objective of the housekeeping amendment is to conform to the new CICA Section 5600.

D EFFECT OF PROPOSED RULES

The proposal seeks to make a housekeeping amendment to the Part I Auditors' Report in Form 1 by allowing a change to the current prescribed audit opinion to reflect new CICA Handbook Section 5600 as mandated by the accounting profession (Attachment #1 contains the Board Resolution).

It is proposed that the current Part 1 Auditors' Report (Attachment #2) be repealed and replaced with the new requirements as set forth by the accounting profession. There are a total of four different versions of the new audit reports: standard, combined, combined and non-consolidated and non-consolidated. Within each of these four audit reports there are three other sets of reports: standard, first year audit and new auditor, for a total of twelve variations of audit reports. Included as Attachment #3, is the default version of a revised standard Part I – Auditors' Report that would be applicable to most of our members.

The proposed rule will have no impact on:

- market structure,
- members, non-members
- competition,
- costs of compliance and
- other rules.

II DETAILED ANALYSIS

A PRESENT RULES, RELEVANT HISTORY AND PROPOSED POLICY

B ISSUES AND ALTERNATIVES CONSIDERED

C COMPARISON WITH SIMILAR PROVISIONS

Given the nature of the rule amendment being proposed, detailed analyses of the present requirement, the proposed amended requirement and the alternatives to the proposed amended requirements were considered unnecessary. A comparison with similar regulations of regulators and SRO's both foreign and in Canada was also considered unnecessary.

D SYSTEMS IMPACT OF RULE

The securities industry's regulatory financial filing system (referred to as "SIRFF") has been modified to accommodate variations in auditors' opinions as permitted by CICA Handbook Section 5600.

E BEST INTERESTS OF THE CAPITAL MARKETS

The Board has determined that this housekeeping rule is not detrimental to the best interests of the capital markets.

F PUBLIC INTEREST OBJECTIVE

According to subparagraph 14(c) of the IDA's Order of Recognition as a self regulatory organization, the IDA shall, where requested, provide in respect of a proposed rule change "a concise statement of its nature, purposes (having regard to paragraph 13 above) and effects, including possible effects on market structure and competition. Statements have been made elsewhere as to the nature and effects of this proposal. The purpose of the proposal is to:

- standardize industry practices where necessary or desirable for investor protection.

The proposal does not permit unfair discrimination among customers, issuers, brokers, dealers, members or others. It does not impose any burden on competition that is not necessary or appropriate in furtherance of the above purposes.

The amendment is believed to be housekeeping in nature as it is intended to clarify an existing requirement.

III COMMENTARY

A FILING IN OTHER JURISDICTIONS

This proposed amendment will be filed for approval in Alberta, British Columbia, Ontario and Quebec and will be filed for information in Manitoba, Nova Scotia and Saskatchewan.

B EFFECTIVENESS

As stated above, the purpose of the proposal is to amend the current Part I Auditors' Report in Form 1 to comply with changes made by the CICA.

C PROCESS

This proposal was developed by the Brokers Auditors Committee, an ad hoc committee of Panel Auditors representatives. It has been reviewed and is being recommended for approval by IDA staff. This proposal was mandated by the CICA and not initiated by the IDA.

IV SOURCES

References:

- Part I Auditors' Report in Form 1

V OSC REQUIREMENT TO PUBLISH FOR COMMENT

The Association has determined that the entry into force of the proposed amendments is housekeeping in nature. As a result, a determination has been made that these proposed rule amendments need not be published for comment.

INVESTMENT DEALERS ASSOCIATION OF CANADA

FORM 1, PART I AUDITOR'S REPORT – AMENDMENT TO STANDARD AUDITOR'S REPORT TO REFLECT CHANGES TO CICA HANDBOOK SECTION 5600 BOARD RESOLUTION

THE BOARD OF DIRECTORS of the Investment Dealers Association of Canada hereby makes the following amendments to the By-laws, Regulations, Forms and Policies of the Association:

1. The Standard Auditor's Report for Part I of Form 1 is repealed and replaced with the following:

“JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT PART I – AUDITORS' REPORT

TO: The _____ and the Canadian Investor Protection Fund (applicable regulatory body)

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

- Statement A - Statements of assets and of liabilities and shareholder/partner capital as at (date) and (date);
Statement B - Statements of net allowable assets and risk adjusted capital as at (date) and (date);
Statement C - Statement of early warning excess and early warning reserve as at (date);
Statement D - Statement of free credit segregation amount as at (date);
Statement E - Summary statements of income for the years ended (date) and (date);
Statement F - Statement of changes in capital and retained earnings (corporations) or undivided profits (partnerships) for the year ended (date); and
Statement G - Statement of changes in subordinated loans for the year ended (date).

These financial statements have been prepared for the purpose of complying with the regulations, bylaws and policies of the (applicable regulatory body). These financial statements are the responsibility of the

Company's management. 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 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.

SRO Notices and Disciplinary Proceedings

In our opinion,

- (a) The statements of assets and of liabilities and shareholders/partner capital and the summary statements of income present fairly, in all material respects, the financial position of the Company as at _____ (date) and _____ (date) and the results of its operations for the years then ended in accordance with the basis of accounting disclosed in Note 2 to the financial statements.
- (b) The statements of net allowable assets and risk adjusted capital as at _____ (date) and _____ (date) and the statements of early warning excess and early warning reserve, free credit segregation amount, 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) are presented fairly, in all material respects, in accordance with the applicable instructions of the _____ (applicable regulatory body).

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 Company, the _____ (applicable regulatory body) and the Canadian Investor Protection Fund to comply with the regulations and by-laws of _____ (applicable regulatory body).

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)

- "
2. The Notes and Instructions to the Standard Auditor's Report for Part I of Form 1 are repealed and replaced with the following:

**"PART I - 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.

Alternate forms of Auditors' Reports are available either online from within the web-based Securities Industry Regulatory Financial Filings system (SIRFF) or from the Joint Regulatory Body with primary audit jurisdiction.

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

Copies with original signatures must be provided to the Joint Regulatory Body with primary audit jurisdiction."

PASSED AND ENACTED BY THE Board of Directors this 19th day of January 2005, to be effective on a date to be determined by Association staff.

INVESTMENT DEALERS ASSOCIATION OF CANADA

FORM 1, PART I AUDITOR'S REPORT – AMENDMENT TO STANDARD AUDITOR'S REPORT TO REFLECT CHANGES TO CICA HANDBOOK SECTION 5600 BLACKLINE COPY

JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT PART I – AUDITORS' REPORT

TO: _____ and the Canadian Investor Protection Fund. _____ (appropriate regulatory body)

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

Statement A — Statements of assets and of liabilities and shareholder/partner capital, and Statement B — Statement of net allowable assets and risk adjusted capital, as at _____ 19__ and _____ 19__; _____ (date) _____ (date)

Statement C — Statement of early warning excess and early warning reserve, and Statement D — Statement of free credit segregation amount, as at _____ 19__; _____ (date)

Statement E — Summary statement of income, for the years ended _____ 19__ and _____ 19__; and _____ (date) _____ (date)

Statement F — Statement of changes in capital and retained earnings (corporations) or undivided profits (partnerships), and

Statement G — Statement of changes in subordinated loans, for the year ended _____ 19__. _____ (date)

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 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. Our audits also included the audit procedures prescribed by the regulations and bylaws of _____. _____ (appropriate regulatory body)

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 _____ 19__ & _____ (dates) _____ 19__ and the results of its operations for the years then ended in the form required by _____ in accordance with generally accepted accounting principles, except as modified by _____ (appropriate regulatory body) the requirements of the appropriate regulatory body.

(b) the statement of net allowable assets and risk adjusted capital, as at _____ 19__ & _____ (date) _____ 19__ and the statements of early warning excess and early warning reserve, free _____ (date) credit segregation amount, changes in capital and retained earnings (corporations) or undivided profits (partnerships), and changes in subordinated loans, either as at or for the year ended _____ 19__ are presented fairly, in all material _____ (date)

SRO Notices and Disciplinary Proceedings

_____ respects, in accordance with the applicable instructions of _____

(appropriate regulatory body)

[auditing firm name] _____ *[date]*

[signature] _____ *[place of issue]*

TO: The _____ and the Canadian Investor Protection Fund
(applicable regulatory body)

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

Statement A : Statements of assets and of liabilities and shareholder/partner capital as at _____ and _____ :
_____ *(date)* _____ *(date)*

Statement B : Statements of net allowable assets and risk adjusted capital as at _____ and _____ :
_____ *(date)* _____ *(date)*

Statement C : Statement of early warning excess and early warning reserve as at _____ :
_____ *(date)*

Statement D : Statement of free credit segregation amount as at _____ :
_____ *(date)*

Statement E : Summary statements of income for the years ended _____ and _____ :
_____ *(date)* _____ *(date)*

Statement F : Statement of changes in capital and retained earnings (corporations) or undivided profits (partnerships) for the year ended _____ ; and
_____ *(date)*

Statement G : Statement of changes in subordinated loans for the year ended _____ :
_____ *(date)*

These financial statements have been prepared for the purpose of complying with the regulations, bylaws and policies of the _____ . These financial statements are the responsibility of the
_____ *(applicable regulatory body)*

Company's management. 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 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 shareholders/partner capital and the summary statements of income present fairly, in all material respects, the financial position of the Company as at _____ *(date)*
and _____ and the results of its operations for the years then ended in accordance
_____ *(date)*
with the basis of accounting disclosed in Note 2 to the financial statements.

(b) The statements of net allowable assets and risk adjusted capital as at _____ and
_____ *(date)*

_____ and the statements of early warning excess and early warning reserve, free
(date)
credit segregation amount, changes in capital and retained earnings (corporations) or undivided profits (partnerships),
and changes in subordinated loans, either as at or for the year ended _____ are
(date)
presented fairly, in all material respects, in accordance with the applicable instructions of the

(applicable regulatory body)

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 Company, the
_____ and the Canadian Investor Protection Fund to comply with the
(applicable regulatory body)
regulations and by-laws of _____
(applicable regulatory body)

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)

**PART I - 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.

Alternate forms of Auditors' Reports are available either online from within the web-based Securities Industry Regulatory
Financial Filings system (SIRFF) or from the Joint Regulatory Body with primary audit jurisdiction 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 appropriate regulatory authority. Discretionary
scope limitations will not be accepted.

Copies with original signatures must be provided to the Joint Regulatory Body with primary audit jurisdiction.

**FORM 1, PART I AUDITOR'S REPORT –AMENDMENT TO STANDARD AUDITOR'S REPORT
TO REFLECT CHANGES TO CICA HANDBOOK SECTION 5600
CLEAN COPY OF STANDARD VERSION OF AUDITOR'S REPORT**

**JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT
PART I – AUDITORS' REPORT**

TO: The _____ and the Canadian Investor Protection Fund
(applicable regulatory body)

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

- Statement A - Statements of assets and of liabilities and shareholder/partner capital as at _____ and _____ ;
(date) (date)
- Statement B - Statements of net allowable assets and risk adjusted capital as at _____ and _____ ;
(date) (date)
- Statement C - Statement of early warning excess and early warning reserve as at _____ ;
(date)
- Statement D - Statement of free credit segregation amount as at _____ ;
(date)
- Statement E - Summary statements of income for the years ended _____ and _____ ;
(date) (date)
- Statement F - Statement of changes in capital and retained earnings (corporations) or undivided profits (partnerships) for the year ended _____ ; and
(date)
- Statement G - Statement of changes in subordinated loans for the year ended _____ .
(date)

These financial statements have been prepared for the purpose of complying with the regulations, bylaws and policies of the _____ . These financial statements are the responsibility of the
(applicable regulatory body)

Company's management. 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 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 shareholders/partner capital and the summary statements of income present fairly, in all material respects, the financial position of the Company as at _____
(date)
and _____ and the results of its operations for the years then ended in accordance
(date)
with the basis of accounting disclosed in Note 2 to the financial statements.

SRO Notices and Disciplinary Proceedings

(b) The statements of net allowable assets and risk adjusted capital as at _____
(date)
and _____
(date) and the statements of early warning excess and early warning reserve, free
credit segregation amount, 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) are
presented fairly, in all material respects, in accordance with the applicable instructions of the

(applicable regulatory body)

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 Company, the

(applicable regulatory body) and the Canadian Investor Protection Fund to comply with the
regulations and by-laws of _____
(applicable regulatory body)

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)

**PART I - AUDITORS' REPORT
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