

Chapter 13

SROs, Marketplaces and Clearing Agencies

13.1 SROs

13.1.1 Notice of Commission Approval – Amendments to MFDA Rule 3.1.1 (Capital – Minimum Levels) and Form 1 – Financial Questionnaire and Report

MUTUAL FUNDS DEALERS ASSOCIATION OF CANADA

AMENDMENTS TO MFDA RULE 3.1.1 (CAPITAL – MINIMUM LEVELS) AND FORM 1 – FINANCIAL QUESTIONNAIRE AND REPORT

NOTICE OF COMMISSION APPROVAL

The Ontario Securities Commission has approved the amendments to MFDA Rule 3.1.1 (Capital – Minimum Levels) and Form 1 – Financial Questionnaire and Report. In addition, The Alberta Securities Commission, Saskatchewan Financial Services Commission, Manitoba Securities Commission, Nova Scotia Securities Commission and New Brunswick Securities Commission have approved the amendments, and the British Columbia Securities Commission did not object to the MFDA's proposal.

Summary of Material Rule

The amendments are intended to harmonize MFDA's minimum capital requirements with those under National Instrument 31-103 – *Registration Requirements and Exemptions* and to align financial reporting required under Form 1 with International Financial Reporting Standards.

The amendments are subject to the condition that the MFDA will submit proposed amendments to Form 1 to include a definition of "market value" of securities to the recognizing regulators for review and approval by March 31, 2011.

Summary of Public Comments

The MFDA's proposed amendments and its explanatory notice were published for a 60 day comment period on August 13, 2010. The MFDA received one comment letter on the proposed amendments. The MFDA summarized the comments it received and provided a response which are summarized in Appendix A.

Revisions to the Proposed Rule

We attach at Appendix B a copy of the blacklined version of Form 1 showing the changes to the version published in August 2010.

APPENDIX A

Summary of Public Comments Respecting Request for Comment on Proposed Amendments to MFDA Rule 3.1.1 and MFDA Form 1

On August 13, 2010 the British Columbia Securities Commission published proposed amendments to MFDA Rule 3.1.1 (Capital – Minimum Levels) and MFDA Form 1 – Financial Questionnaire and Report (the “**Proposed Amendments**”) for a 60-day public comment period that expired on October 12, 2010.

One submission was received during the public comment period:

Mouvement des caisses Desjardins (“MCD”)

A copy of the comment submission may be viewed on the MFDA website at: www.mfda.ca.

The following is a summary of comments received together with the MFDA’s responses.

Deposit Certificates

MCD suggested including deposit certificates issued by caisses in the Notes and Instructions of Form 1. The commenter expressed the view that deposit certificates issued by caisses should be given the same treatment as those issued by banks.

MFDA Response

The purpose of the proposed amendments to the margin rates in Form 1 was to align the rates with those required under National Instrument 31-103 (“NI 31-103”) to ensure the MFDA’s minimum capital requirements at least met the minimum capital requirements of other registrants subject to the requirements of NI 31-103. Currently, the margin rates specified for bank paper under NI 31-103 relate only to those products issued by a Canadian chartered bank (and of Canadian chartered bank acceptances) and do not extend to deposit certificates issued by credit unions or caisses. A thorough review and analysis of all margin rates outlined in the Notes and Instructions to Schedule 1 of the Form would need to be undertaken to consider the appropriateness of extending these rates to paper issued by credit unions and caisses. MFDA staff will consider whether such a review should be undertaken in the future.

Amount of Receivables and Regulatory Capital Requirements

The commenter noted that the total of receivables is currently included on Line 7 of Form 1 in the “Other Allowable Assets” section. MCD expressed the view that as a result of the proposed amendments, MCD will be penalized by the inclusion of “due from related parties” in line 18 of Statement A. MCD noted that the nature of the subsidiary relationship between Desjardins Cabinet de services financiers inc. and the network of caisses exists in the normal course of business and is related to how it offers investment fund and money market services.

MCD expressed the view that the addition of this proposed amount will have an impact on its regulatory capital.

MFDA Response

The primary objective of the proposed amendments was to change the basis of presentation of the Form 1 from Canadian Generally Accepted Accounting Principles to International Financial Reporting Standards, except as modified by the MFDA. Consequently, with the exception of specific changes to the capital formula to ensure the MFDA’s minimum capital requirements at least met those prescribed under NI 31-103, no other changes to the capital formula were intended. Therefore, given current MFDA requirements permit receivable balances generated from trading activity with a related company that meets the definition of an “Acceptable Entity”, as defined in the General Notes and Definitions to the Form 1, to be reported as “Other Allowable Assets”, this classification will continue. To clarify, the following addition to the Notes and Instructions to Statement A, line 18 in the Form 1 has been made: *“Inter-company receivables generated from trading activity may be reported as allowable assets if the criteria for such reporting are otherwise satisfied.”*

APPENDIX B

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(Member Name)

(Date)

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FORM 1 – GENERAL NOTES AND DEFINITIONS

GENERAL NOTES:

1. Each Member must comply with the requirements in Form 1 as approved and amended from time to time by the board of directors of the Mutual Fund Dealers Association of Canada (the Corporation).

Form 1 is a special purpose report that includes financial statements and schedules, and is to be prepared in accordance with International Financial Reporting Standards (IFRS), except as prescribed by the Corporation. Each Member must complete and file all of these statements and schedules.

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

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

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

	Prescribed accounting treatment
Hedge accounting	Hedge accounting is not permitted for regulatory reporting purposes. All security and derivative positions of a Member must be marked-to-market at the reporting date. Gains or losses of the hedge positions must not be deferred to a future point in time.

GENERAL NOTES AND DEFINITIONS (continued)

	Prescribed accounting treatment
Securities owned and sold short as held-for-trading	<p>A Member must categorize all investment positions as held-for-trading financial instruments. These security positions must be marked-to-market.</p> <p>Because the Corporation does not permit the use of available for sale and hold-to-maturity categories, a Member must not include other comprehensive income (OCI) and will not have a corresponding reserve account relating to marking-to-market available for sale security positions.</p>
Valuation of a subsidiary	A Member must value subsidiaries at cost.

4. These statements and schedules should be read in conjunction with the Corporation's Bylaws, Rules and Policies.
5. For purposes of these statements and schedules, the accounts of related companies that meet the definition of "related Member" in MFDA By-law No. 1 may be consolidated.
6. For purposes of the statements and schedules, the capital calculations must be on a trade date reporting basis unless specified otherwise in the Notes and Instructions to Form 1.
7. Comparative figures on all statements are required only at the audit date. As a transition exemption for the changeover to International Financial Reporting Standards (IFRS) from Canadian Generally Accepted Accounting Principles (CGAAP), Members are not required to file comparative information for the preceding financial year as part of the first audited Form 1 under IFRS.
8. All statements and schedules must be expressed in Canadian dollars and must be rounded to the nearest dollar.
9. Supporting details should be provided, as required, showing a breakdown of any significant amounts that have not been clearly described on the statements and schedules.
10. **Mandatory security counts.** Securities held in segregation and safekeeping must be counted once in the year in addition to the count as at the year-end audit date.
11. **Mandatory reconciliations.** Reconciliations must be performed monthly in addition to the year-end audit date between the Member's records and the records of the depository or custodian where the Member holds its own and client securities in nominee name accounts.

DEFINITIONS :

1. "acceptable entity" means:
 - (a) Acceptable institutions.
 - (b) Government of Canada, the Bank of Canada and Provincial Governments.
 - (c) Insurance companies licensed to do business in Canada or a province thereof.
 - (d) Canadian provincial capital cities and all other Canadian cities and municipalities, or their equivalents.
 - (e) All crown corporations, instrumentalities and agencies of the Canadian federal or provincial governments which are government guaranteed as evidenced by a written unconditional irrevocable guarantee or have a call on the consolidated revenue fund of the federal or provincial governments.
 - (f) Canadian pension funds which are regulated either by the Office of Superintendent of Financial Institutions or a provincial pension commission.
 - (g) Corporations (other than Regulated Entities) with a minimum net worth of \$75 million on the last audited balance sheet, provided acceptable financial information with respect to such corporation is available for inspection.

- (h) Members of the Corporation.
 - (i) Regulated entities.
2. **“acceptable institutions”** means:
- (a) Canadian banks, Quebec savings banks, trust companies licensed to do business in Canada or a province thereof.
 - (b) Credit and central credit unions and regional caisses populaires.
3. **“acceptable securities locations”** means those entities considered suitable to hold securities on behalf of a Member, for both ~~investment~~ inventory and client positions, without capital penalty, given that the locations meet the requirements outlined in the segregation Bylaws, Rules or Policies of the Corporation including, but not limited to, the requirement for a written custody agreement outlining the terms upon which such securities are deposited and including provisions that no use or disposition of the securities shall be made without the prior written consent of the Member and the securities can be delivered to the Member promptly on demand. The Corporation will maintain and regularly update a list of those foreign depositories and clearing agencies that comply with these criteria. The entities are as follows:
- (a) Depositories
 - i. Canada CDS Clearing and Depository Services Inc.
 - ii. United States Depository Trust Company
 - (b) Government of Canada, the Bank of Canada and Provincial Governments.
 - (c) Canadian banks, Quebec savings banks, trust companies and loan companies licensed to do business in Canada or a province thereof.
 - (d) Credit and central credit unions and regional caisses populaires.
 - (e) Insurance companies licensed to do business in Canada or a province thereof.
 - (f) Mutual Funds or their Agents – with respect to security positions maintained as a book entry of securities issued by the mutual fund and for which the mutual fund is unconditionally responsible.
 - (g) Regulated entities.
4. **“regulated entities”** means those that are Members covered by the Canadian Investor Protection Fund or Members of recognized exchanges and associations. For the purposes of this definition, recognized exchanges and associations are those that are identified as a "regulated entity" by the Investment Industry Regulatory Organization of Canada.
5. ~~“market value of securities”~~ means:
- (a) ~~In a fully transparent marketplace, the published price quotation for the security using:~~
 - i. ~~for listed securities, the last bid price of a long security and, correspondingly, the last ask price of a short security, as shown on the exchange quotation sheets as of the close of business on the relevant date or last trading date prior to the relevant date, as the case may be, subject to an appropriate adjustment where an unusually large or unusually small quantity of securities is being valued. If not available, the last sale price of a board lot may be used.~~
 - ii. ~~for unlisted and debt securities, and precious metals bullion, a value determined as reasonable from published market reports or inter-dealer quotation sheets on the relevant date or last trading day prior to the relevant date, or based on a reasonable yield rate.~~
 - iii. ~~for commodity futures contracts, the settlement price on the relevant date or last trading day prior to the relevant date.~~

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

FORM 1 – CERTIFICATE OF PARTNERS OR DIRECTORS

(Member Name)

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

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

ANSWERS

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

[date]

Name and Title – Please print

Signature

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

1. Details must be given for any "no" answers.
2. To be signed by two of either:
 - (a) Ultimate Designated Person (UDP)
 - (b) Chief Executive Officer
 - (c) Chief Financial Officer
 - (d) Chief Accountant
 - (e) One Director or Partner not included in (a), (b), (c) or (d) above.

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

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

FORM 1 – AUDITORS’ REPORT

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

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

Management’s responsibility for the Statements

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

Auditors’ responsibility

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

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

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

Opinion

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

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

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

Emphasis of Matter

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

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

Basis of Accounting

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

[Audit Firm]

[Date]

[Address]

FORM 1 – INDEPENDENT AUDITORS’ REPORT FOR STATEMENTS A, D, E AND F

To: The Mutual Fund Dealers Association and MFDA Investor Protection Corporation

We have audited the accompanying Statements of _____ (Member name) (the “Member”), which comprise the statement of financial position as at _____ (date) (Statement A) and the statement of income and comprehensive income (Statement D) and statement of changes in capital and retained earnings for the year then ended (Statement E) and the statement of changes in subordinated loans (Statement F), and a summary of significant accounting policies and other explanatory information. These Statements have been prepared by management based on the financial reporting provisions of the Notes and Instructions to Form 1 prescribed by the Mutual Fund Dealers Association of Canada (“MFDA”).

Management’s Responsibility for the Statements

Management is responsible for the preparation and fair presentation of these Statements in accordance with the financial reporting provisions of the Notes and Instructions to Form 1 prescribed by the MFDA and for such internal control as management determines is necessary to enable the preparation of 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 Statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 Statements.

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

Opinion

In our opinion, the Statements present fairly, in all material respects, the financial position of the Member as at _____ (date), and the results of its operations and its changes in subordinated loans for the year then ended in accordance with the financial reporting provisions of the Notes and Instructions to Form 1 prescribed by the MFDA.

Going Concern [MFDA to allow for auditor to include emphasis of matter paragraph for Going Concern – this is an option for auditors but not part of the standard report]

Without modifying our opinion, we draw attention to Note _____ in the Statements which indicates that the Member incurred a net loss of _____ during the year ended _____ (date) and, as of that date, the Member’s current liabilities exceeded its total assets by _____. These conditions, along with other matters as set forth in Note _____, indicate the existence of a material uncertainty that may cast significant doubt about the Member’s ability to continue as a going concern.

(EFS to allow for auditor to include other potential Emphasis of Matter and Other Matter paragraphs should one be required under the CASs or determined appropriate by the auditor to be included in the auditors’ report. Such wording would be agreed upon with MFDA prior to the filing of Form 1).

Basis of Accounting and Restriction on Use

Without modifying our opinion, we draw attention to Note _____ to the Statements which describes the basis of accounting. The Statements are prepared to assist the Member to meet the requirements of the MFDA. As a result, the Statements may not be suitable for another purpose. Our report is intended solely for the Member, the MFDA and the MFDA Investor Protection Corporation and should not be used by parties other than the Member, the MFDA and the MFDA Investor Protection Corporation.

Unaudited Information

We have not audited the information in Schedule 5 of Part II of Form 1 and accordingly do not express an opinion on this schedule.

[Audit Firm]

[Date]

[Address]

FORM 1 – INDEPENDENT AUDITORS’ REPORT FOR STATEMENTS B AND C

To: The Mutual Fund Dealers Association and MFDA Investor Protection Corporation

We have audited the accompanying Statements of Form 1 (the “Statements”) of _____ (Member name) (the “Member”) as at _____ (year end date).

Statement B – Statement of Risk Adjusted Capital
Statement C – Statement of Early Warning Excess

These Statements have been prepared by management based on the financial reporting provisions of the Notes and Instructions to Form 1 prescribed by the Mutual Fund Dealers Association (“MFDA”).

Management’s Responsibility for the Statements

Management is responsible for the preparation of the Statements of Form 1 in accordance with the financial reporting provisions of the Notes and Instructions to Form 1 prescribed by the MFDA, and for such internal control as management determines is necessary to enable the preparation of Statements that are free from material misstatement, whether due to fraud or error.

Auditors’ responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation of the Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 Statements.

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

Opinion

In our opinion, the financial information in Statements B and C of Form 1 as at _____ (year end) is prepared, in all material respects, in accordance with the financial reporting provisions of the Notes and Instructions to Form 1 prescribed by the MFDA.

Basis of Accounting and Restriction on Use

Without modifying our opinion, we draw attention to Note _____ to the Statements which describes the basis of accounting. The Statements are prepared to assist the Member to meet the requirements of the MFDA. As a result, the Statements may not be suitable for another purpose. Our report is intended solely for the Member, the MFDA and the MFDA Investor Protection Corporation and should not be used by parties other than the Member, the MFDA and the MFDA Investor Protection Corporation.

[Audit Firm]

[Date]

[Address]

**FORM 1 – INDEPENDENT AUDITORS' REPORTS
NOTES AND INSTRUCTIONS**

A measure of uniformity in the form of the auditors' reports 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 reports should take the form of the auditors' reports shown above.

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

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

FORM 1, PART I – STATEMENT A

(Member Name)
STATEMENT OF FINANCIAL POSITION
 at _____

REFERENCE	NOTES	(CURRENT YEAR) C\$	(PREVIOUS YEAR) C\$
LIQUID ASSETS:			
1.	Cash on deposit with acceptable institutions	\$	\$
2.	Client funds held in trust with acceptable institutions		
3.	Sch.1 Securities owned at market value		
4.	Receivable from carrying dealer or mutual fund		
5.	Trading balances		
6.	TOTAL LIQUID ASSETS		
OTHER ALLOWABLE ASSETS <i>[Receivables from Acceptable Entities]:</i>			
7.	Interest and dividends receivable		
8.	Sch.3 Current income tax assets		
9.	Recoverable and overpaid taxes		
10.	Other receivables <i>[provide details]</i>		
11.	TOTAL OTHER ALLOWABLE ASSETS		
12.	TOTAL ALLOWABLE ASSETS <i>{[line 6 plus line 11]}</i>		
NON ALLOWABLE ASSETS:			
13.	Sch.2 Client debit balances		
14.	Deferred tax assets		
15.	Intangible assets		
16.	Property, plant and equipment		
17.	Finance lease assets		
18.	Due from related parties <i>[provide details]</i>		
19.	Investments in subsidiaries and affiliates		
20.	Other assets <i>[provide details]</i>		
21.	TOTAL NON ALLOWABLE ASSETS		
22.	TOTAL ASSETS <i>{[line 12 plus line 21]}</i>	\$	\$

FORM 1, PART I – STATEMENT A (CONTINUED)

REFERENCE	NOTES	(CURRENT YEAR) C\$	(PREVIOUS YEAR) C\$
CURRENT LIABILITIES:			
23.	Overdrafts and loans	\$	\$
24.	Sch.1 Securities sold short at market value		
25.	Trust liabilities		
26.	Trading balances		
27.	Provisions		
28.	Sch.3 Current income tax liabilities		
29.	Variable compensation payable		
30.	Bonuses payable		
31.	Accounts payable and accrued expenses		
32.	Other current liabilities <i>[provide details]</i>		
33.	TOTAL CURRENT LIABILITIES		
NON-CURRENT LIABILITIES:			
34.	Provisions		
35.	Deferred tax liabilities		
36.	Other non-current liabilities <i>[provide details]</i>		
37.	TOTAL NON-CURRENT LIABILITIES		
<u>OTHER LIABILITIES</u>			
38.	Finance leases and lease-related liabilities <i>[provide details]</i>		
39.	Due to related parties <i>[provide details]</i>		
40.	F-6 Subordinated loans		
41.	<u>TOTAL OTHER LIABILITIES</u>		
442.	TOTAL LIABILITIES <i>[line 33 plus lines 37 to plus 410]</i>		
CAPITAL AND RESERVES:			
432.	Stmt. E Issued capital		
434.	Stmt. E Reserves		
445.	Stmt. E Retained earnings or undivided profits		
456.	TOTAL CAPITAL		
476.	TOTAL LIABILITIES AND CAPITAL <i>{[line 442 plus line 456]}</i>		

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

Accrual basis of accounting

Members are required to use the accrual basis of accounting.

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

Line 4 – In the case of the salesperson's portion of gross commissions or fees receivable, as recorded on lines 10 (Other receivables) and 20 (Other assets), to the extent that there is written documentation that the Member does not have a liability to pay the salesperson's commission until it is received, the salesperson's portion of the gross commission or fee receivable is an allowable asset.

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

Line 8 – Include **only** overpayment of prior years' income taxes or current year installments. Taxes recoverable due to current year losses may be included to the extent that they can be carried back and applied against taxes previously paid.

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

Line 11 – Include **only** to extent receivable from Acceptable Entities (for definition, see General Notes and Definitions) but do not include subordinated loans receivable from other Members which should be shown on line 18.

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

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

Line 18 – Receivables from related parties which are generated from trading activity, can be reported as allowable assets if the criteria for such reporting is otherwise satisfied.

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

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

Line 20 – Including but not limited to such items as:

- prepaid expenses
- commissions and other receivables from other than acceptable entities
- cash surrender value of life insurance
- advances to employees (gross)
- cash on deposit with non acceptable entities
- provincial contingency/fund deposits

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

Line 26 – Includes amounts owed by the Member for the purchase of nominee name client securities.

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

Line 30 – Include discretionary bonuses payable and bonuses payable to shareholders.

Line 32 – Include all other current liabilities excluding those reported on lines 38, 39 and 40.

Line 36 – Include all other non-current liabilities excluding those reported on lines 38, 39 and 40.

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

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

Line 434 – Reserve is an amount set aside for future use, expense, loss or claim. It includes an amount appropriated from retained earnings. It also includes accumulated other comprehensive income (OCI).

Line 445 – Retained earnings represent the accumulated balance of income less losses arising from the operation of the business, after taking into account dividends and other direct charges or credits.

FORM 1, PART I – STATEMENT B

(Member Name)

STATEMENT OF RISK ADJUSTED CAPITAL

at _____

REFERENCE	NOTES	(CURRENT YEAR) C\$	(PREVIOUS YEAR) C\$
	LIQUID ASSETS:		
1.	A-12 Total Allowable Assets	\$	\$
2.	A-33 Deduct: Total Current Liabilities		
3.	ALLOWABLE WORKING CAPITAL	\$	\$
4.	A-39 Deduct: Due to related parties		
5.	ADJUSTED ALLOWABLE WORKING CAPITAL	\$	\$
6.	Deduct: Minimum capital		
7.	SUBTOTAL		
8.	A-37 Deduct: 10% of _____ Non-current liabilities		
9.	SUBTOTAL		
	Deduct: Margin required:		
10.	Sch.1 Securities owned and sold short		
11.	Sch.4 Financial institution bond deductible <i>[greatest under any clause]</i>		
12.	Securities held at non-acceptable securities locations <i>[see note]</i>		
13.	Guarantees <i>[provide details]</i>		
14.	Unresolved differences in nominee name accounts		
15.	Unresolved differences in trust accounts		
16.	Other <i>[provide details]</i>		
17.	TOTAL MARGIN REQUIRED <i>[lines 10 through 16]</i>	\$	\$
18.	RISK ADJUSTED CAPITAL <i>[line 9 minus line 17]</i>		

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

Capital Adequacy

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

Line 4 – Due to related parties

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

Line 6 – Minimum capital Rule 3.1.1(a) requires the following minimum capital amounts:

Level 1 Member	\$ 25,000
Level 2 Member	50,000
Level 3 Member	75,000
Level 4 Member	200,000

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

Line 12 – Securities held at non- acceptable locations

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

Line 13 – Guarantees

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

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

Lines 14 and 15 – Unresolved differences

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

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

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

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

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

Line 16 – Other

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

FORM 1, PART I – STATEMENT C

(Member Name)

STATEMENT OF EARLY WARNING EXCESS

at _____

REFERENCE	(CURRENT YEAR) C\$
1. B-18 RISK ADJUSTED CAPITAL	\$ _____
LIQUIDITY ITEMS	
DEDUCT:	
2. A-11 Total other allowable assets
ADD:	
3. B-8 10% of Non-current liabilities
4. EARLY WARNING EXCESS	\$ _____

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

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

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

Line 3 – Non-current liabilities are added back to RAC as they are not current obligations of the firm and can be used as financing.

FORM 1, PART I – STATEMENT D

(Member Name)

STATEMENT OF INCOME AND COMPREHENSIVE INCOME
FOR THE PERIOD ENDED _____

	NOTES	(CURRENT YEAR/MONTH) C\$	(PREVIOUS YEAR/MONTH) C\$
COMMISSION REVENUE			
1. Mutual Funds	-----	-----	-----
2. Segregated Funds	-----	-----	-----
3. Deposit Instruments	-----	-----	-----
4. Limited Partnerships	-----	-----	-----
5. Other securities <i>[provide details]</i>	-----	-----	-----
6. Insurance	-----	-----	-----
OTHER REVENUE			
7. Interest	-----	-----	-----
8. Fees from clients	-----	-----	-----
9. Management fees	-----	-----	-----
10. Referral fees	-----	-----	-----
11. Realized/unrealized (gain) (loss) on marketable securities	-----	-----	-----
12. Other <i>[provide details]</i>	-----	-----	-----
13. TOTAL REVENUE		-----	-----
EXPENSES			
14. Variable compensation	-----	-----	-----
15. Commissions and fees paid to third parties	-----	-----	-----
16. Interest expense on subordinated debt	-----	-----	-----
17. Bad debt expense	-----	-----	-----
a18. Financing costs	-----	-----	-----
19. Operating expenses	-----	-----	-----
20. Unusual items <i>[provide details]</i>	-----	-----	-----
21. Profit (loss) for the year from discontinued operations	-----	-----	-----
22. Profit (loss) for Early Warning test	-----	-----	-----
23. Income – Asset revaluation	-----	-----	-----
24. Expense – Asset revaluation	-----	-----	-----
25. Interest expense on internal subordinated debt	-----	-----	-----
26. Bonuses	-----	-----	-----
27. Net income (loss) before income tax expense		-----	-----
28. S-3(5) Income tax expense (recovery)	-----	-----	-----
29. PROFIT [LOSS] FOR PERIOD	-----	-----	-----
OTHER COMPREHENSIVE INCOME			
30. Gain (loss) arising on revaluation of properties	-----	-----	-----
31. Actuarial gain (loss) on defined benefit pension plans	-----	To E5a	-----
32. Other comprehensive income for the period, net of tax [Lines 30 plus 31]	-----	To E5b	-----
33. Total comprehensive income for the period [Lines 29 plus 32]		-----	-----

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

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

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

Lines

- 1-12 Report all gross commission revenue earned in the appropriate lines.
Report all other revenue earned on a gross basis.
Commission paid to salespersons must be reported on line 14 (Expenses – Variable compensation)
Payouts to other parties must be reported on line 15 (Expenses – Commissions and fees paid to third parties).
- 1 Include all gross commissions and trailer fees earned on mutual fund transactions.
- 7 Include all interest revenue. Interest revenue earned by the Member from holding client cash balances should be reported on this line.

The related interest cost paid to clients should be reported on line 18 (Expenses – Financing costs).
- 8 Include portfolio service fees, RRSP fees and any charges to clients that are not related to commissions or interest.
- 9 Include fund management fees and consulting fees charged to parties other than clients.
- 10 Include all fees earned as a result of referring clients to another entity for products or services.
- 11 Include all trading profits or losses from principal trading activities and adjustment of marketable securities to market value.
- 12 Include foreign exchange profits or losses and all other revenue not reported above.
- 14 Include commissions, bonuses and other variable compensation of a contractual nature. Examples would encompass commission payouts to salespersons. All contractual bonuses should be accrued monthly. Discretionary bonuses should be reported separately on line 256 (Expenses – Bonuses).
- 15 Include payouts to other parties.
- 16 Include all interest on external subordinated debt, as well as non-discretionary contractual interest on internal subordinated debt.
- 18 Include the interest cost paid to clients.
- 19 Include all operating expenses except those mentioned elsewhere.
- 20 Unusual items result from transactions or events that are not expected to occur frequently over several years, or do not typify normal business activities.

Discontinued operations, such as a branch closure, should be reported separately on line 21 (Profit (loss) for the year from discontinued operations).
- 21 A discontinued operation is a business component that has either been disposed or is classified as held for sale and represents (or is part of a plan to dispose) a separate significant line of business or geographical area of operations. For example, a branch closure. The profit (loss) on discontinued operations for the year is on a pre-tax basis. The tax component is to be included as part of the income tax expense (recover) on Statement D line 28.
- 22 This is the profit (loss) number used for the Early Warning profitability tests.

SROs, Marketplaces and Clearing Agencies

- 23 When a Member uses the revaluation model for its PPE and intangible assets, changes to the fair value may result in recognizing income after considering accumulated depreciation (or amortization) and OCI surplus.
- 24 When a Member uses the revaluation model for its PPE and intangible assets, changes to the fair value may result in recognizing expense after considering accumulated depreciation (or amortization) and OCI surplus.
- 25 Include interest expense on subordinated debt with related parties for which the interest charges can be waived if required.
- 26 This category should include discretionary bonuses and all bonuses to shareholders in accordance with share ownership. These bonuses are in contrast to those reported on Line 14 (Expenses – Variable compensation).
- 28 Includes only income taxes. Realty and capital taxes should be included on line 19 (Expenses – Operating expenses). Also include the tax component relating to the profit (loss) on discontinued operations for the year.
- 30 When a Member uses the revaluation model to re-measure its PPE and intangible assets, changes to fair value may result in a change to shareholders' equity after considering accumulated depreciation (amortization) and income or expense from asset revaluation.
- 31 When a Member has a defined benefit pension plan and initially adopts a policy of recognizing actuarial gains and losses in full in OCI, the subsequent adjustments must be recognized in OCI.

FORM 1, PART I – STATEMENT E

(Member Name)

STATEMENT OF CHANGES IN CAPITAL AND RETAINED EARNINGS (CORPORATIONS) OR
 UNDIVIDED PROFITS (PARTNERSHIPS)
 FOR THE PERIOD ENDED _____

PART A. CHANGES IN ISSUED CAPITAL

		<u>Notes</u>	<u>Share capital or Partnership capital</u>	<u>Share premium</u>	<u>Issued capital</u>
			[a]	[b]	[c] = [a] + [b]
			C\$	C\$	C\$
1	Beginning balance	–			
2	Increases (decreases) during the period <i>{[provide details]}</i>				
	(a)				
	(b)				
	(c)				
3	Ending balance	–			
					A 432

PART B. CHANGES IN RESERVES

		<u>Notes</u>	<u>General</u>	<u>Properties revaluation</u>	<u>Employee benefits</u>	<u>Total reserves</u>
			[a]	[b]	[c]	[d] = [a] + [b] + [c]
			C\$	C\$	C\$	C\$
4	Beginning balance	–				
5	Changes during the period					
	(a) Other comprehensive income for the period – properties revaluation (From D 30)		<u>N/A</u>		<u>N/A</u>	
	(b) Other comprehensive income for the period – actuarial gain (loss) on defined benefit pension plans (From D 31)		<u>N/A</u>	<u>N/A</u>		
	(c) Recognition of share-based payments (From D 19)		<u>N/A</u>	<u>N/A</u>		
	(d) Transfer from/to retained earnings (From/to E 12)			<u>N/A</u>	<u>N/A</u>	
	(e) Other <i>{[provide details]}</i>					
6	Ending balance	–				
						A 443

PART C. CHANGES IN RETAINED EARNINGS

		<u>Notes</u>	<u>Retained earnings (current year/month)</u>	<u>Retained earnings (previous year/month)</u>
			C\$	C\$
	<u>Changes in retained earnings</u>			
7	Beginning balance	–		
8	Effect of change in accounting policy <i>[[provide details]]</i>			
	(a)		N/A	
	(b)		N/A	
9	As restated	–	N/A	
10	Payment of dividends or partners drawings			
11	Profit or loss for the period (From D 29)	–		
12	Other direct charges or credits to retained earnings <i>[[provide details]]</i>			
	(a)			
	(b)			
	(c)			
13	Ending balance	–		
			A 454	

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

PART A. CHANGES IN ISSUED CAPITAL

Share premium

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

PART B. CHANGES IN GENERAL RESERVE

General reserve

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

Reserve – Employee benefits

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

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

Reserve – Properties revaluation

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

PART C. CHANGES IN RETAINED EARNINGS

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

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

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

FORM 1, PART I – STATEMENT F

(Member Name)

STATEMENT OF CHANGES IN SUBORDINATED LOANS
FOR THE PERIOD ENDED _____

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

A-40

FORM 1, PART I – STATEMENT F
NOTES AND INSTRUCTIONS

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

FORM 1 – PART I – NOTES

(Member Name)

NOTES TO THE FORM 1 FINANCIAL STATEMENTS

at _____

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

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

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

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

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

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

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

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

(auditing firm)

(date)

(signature)

(place of issue)

FORM 1, PART II – SCHEDULE 1

DATE: _____

(Member Name)

ANALYSIS OF SECURITIES OWNED AND SOLD SHORT AT MARKET VALUE

Category	Notes	Market Value		Margin required C\$
		Long C\$	Short C\$	
1. Money market	\$	\$	\$
Accrued interest	NIL
TOTAL MONEY MARKET		_____	_____	
2. Money market mutual funds	NIL
3. Mutual funds (other than money market mutual funds)	NIL
4. Equities
Accrued interest on convertible debentures	NIL
TOTAL EQUITIES		_____	_____	
5. Debt
Accrued interest	NIL
TOTAL DEBT		_____	_____	
6. Other [(provide details)]
Accrued interest	NIL
TOTAL OTHER		_____	_____	
7. TOTAL		<u>\$</u> A-3	<u>\$</u> A-24	<u>\$</u> B-10

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

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

(a) Bonds, Debentures, Treasury Bills and Notes

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

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

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

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

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

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

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

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

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

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

10% of market value

- (v) All other bonds, debentures and notes (not in default):

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

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

(b) Bank Paper

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

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

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

(c) Mutual Funds

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

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

All Other Mutual Funds – 50% of market value.

(d) Stocks

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

Long Positions – Margin Required

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

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

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

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

Short Positions – Credit Required

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

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

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

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

(e) FOR ALL OTHER SECURITIES – 100%.

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

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

FORM 1, PART II – SCHEDULE 2

DATE: _____

(Member Name)

ANALYSIS OF CLIENTS' DEBIT BALANCES

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

SUPPLEMENTARY DISCLOSURE:

NAME OF RRSP TRUSTEE(S)

1. _____
2. _____
3. _____
4. _____

FORM 1, PART II – SCHEDULE 2
NOTES AND INSTRUCTIONS

1. Rule 3.2.1 prohibits Members from lending or extending credit to a client unless the Member is in compliance with Rule 3.2.3 which provides for the advancement of redemption proceeds.

Supplementary Disclosure:

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

FORM 1, PART II – SCHEDULE 3

DATE: _____

(Member Name)

CURRENT INCOME TAXES

A. INCOME TAX LIABILITY (ASSET)	C\$	C\$
1. Balance payable (recoverable) at last period-end		\$ _____
2. (a) Payments (made) or received relating to above balance	\$ _____	
(b) Adjustments, including reassessments, relating to prior periods <i>[provide details if significant]</i>	_____	
3. Total adjustment to prior periods' payable (recoverable) taxes during current period		_____
4. Subtotal <i>[add or subtract line 3 from line 1]</i>		_____
5. Income tax expense (recovery)	_____	
	D-28	
6. less: Current installments	_____	
7. Other adjustments <i>[provide details if significant]</i>	_____	
8. Total adjustment for current year's tax liabilities (assets)		_____
9. TOTAL LIABILITY (ASSET) <i>[add or subtract line 8 from line 4]</i>		\$ _____
		A-8 -- if asset A-28 -- if liability

FORM 1, PART II – SCHEDULE 4

DATE: _____

(Member Name)

INSURANCE

PART A. FINANCIAL INSTITUTION BOND (FIB) CLAUSES (A) TO (E)

C\$

1. Minimum coverage required for each clause:

LEVEL 1, 2 OR 3 DEALERS

- (a) Lesser of \$50,000 per Approved Person or \$200,000 _____
- (b) Allowable assets (A-12) \$===== x 1% _____
- Greater of (a) and (b) above** **\$=====**

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

LEVEL 4 DEALERS

- (a) Minimum coverage of _____ \$500,000
- (b) Total client cash and securities held by the Member \$===== x 1% _____
- (c) Allowable assets (A-12) \$===== x 1% _____
- Greater of (a), (b) and (c) above** **\$=====**

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

- 2. Coverage maintained per FIB _____ [Notes 3&7]
- 3. Excess / (Deficiency) in coverage \$===== [Note 4]
- 4. Amount deductible under FIB (greatest under any clause) \$===== [Note 5]
B-11

PART B. REGISTERED MAIL INSURANCE

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

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

<u>Insurance Company</u>	<u>Name of the Insured</u>	<u>FIB/ Registered Mail</u>	<u>Expiry Date</u>	<u>Coverage</u>	<u>Premium</u>
--------------------------	----------------------------	---------------------------------	------------------------	-----------------	----------------

FORM 1, PART II – SCHEDULE 4

(Member Name)

INSURANCE

PART D. LOSSES AND CLAIMS [Note 9]

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

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

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

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

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

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

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

FORM 1, PART II – SCHEDULE 5

DATE: _____

(Member Name)

EARLY WARNING TESTS

Early Warning

A. CAPITAL DEFICIENCY

B-18 Is RAC less than 0? _____
YES/NO

B. LIQUIDITY TEST

C-4 Is Early Warning Excess less than 0? _____
YES/NO

C. PROFITABILITY TEST *[[note 3]]*

1. Loss for current quarter \$_____

B-18 2. RAC *[at questionnaire date]* \$_____

Is line 2 less than line 1? _____
YES/NO

D. FREQUENCY PENALTY

Has the Member triggered Early Warning
more than 2 times in the past 12 months? _____
YES/NO

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

1. The objective of the various Early Warning Tests is to measure characteristics likely to identify a firm heading into financial trouble and to impose restrictions and sanctions to reduce further financial deterioration and prevent a subsequent capital deficiency. "Yes" answers indicate Early Warning has been triggered.
2. The profit or loss figures to be used are before asset revaluation income and expense, bonuses, and income tax expense [Statement D, line 22 – Profit (loss) for Early Warning test]. Note that the "current quarter" figure must also reflect any audit adjustments made subsequent to the filing of the monthly FQR.
3. If the current quarter is profitable, enter a "No" answer for Part C.

FORM 1, PART II – SCHEDULE 6

DATE: _____

(Member Name)

OTHER SUPPLEMENTARY INFORMATION

1. Number of salespersons
 - (a) Registered only in Quebec..... _____
 - (b) Registered outside Quebec..... _____
 - Total..... _____

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

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

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