

Chapter 13

SROs, Marketplaces and Clearing Agencies

13.1 SROs

13.1.1 OSC Staff Notice of Commission Approval – MFDA Housekeeping Amendments to Form 1 – Financial Questionnaire and Report (IFRS) and Form 1 – Financial Questionnaire and Report (CGAAP)

OSC STAFF NOTICE OF COMMISSION APPROVAL

MUTUAL FUNDS DEALERS ASSOCIATION OF CANADA

HOUSEKEEPING AMENDMENTS TO FORM 1 – FINANCIAL QUESTIONNAIRE AND REPORT (IFRS) AND FORM 1 – FINANCIAL QUESTIONNAIRE AND REPORT (CGAAP)

The Ontario Securities Commission approved the MFDA's housekeeping amendments to Form 1 to adopt Canadian Auditing Standards (CAS) for the audits of regulatory financial statements. The Alberta Securities Commission, Saskatchewan Financial Services Commission, Manitoba Securities Commission, Nova Scotia Securities Commission and New Brunswick Securities Commission have approved the proposed amendments, and the British Columbia Securities Commission did not object to the MFDA's proposal.

The objective of the amendments is to amend the auditors' reports that are used in the filing of both versions of the Form 1 based respectively on current Canadian Generally Accepted Accounting Principles and the International Financial Reporting Standards. These amendments result in the replacement of the former Part I and Part II auditors' reports with two new auditors' reports that are in compliance with the new CAS which came into effect for audits of financial statements for periods ending on or after December 14, 2010.

A copy of the MFDA Notice is attached as Attachment A, including the amended Forms.

Attachment A

THE MUTUAL FUND DEALERS ASSOCIATION OF CANADA

HOUSEKEEPING AMENDMENTS TO FORM 1 – FINANCIAL QUESTIONNAIRE AND REPORT (IFRS) AND FORM 1 – FINANCIAL QUESTIONNAIRE AND REPORT (CGAAP)

Current Forms

For a transitional period of time, the MFDA will have two separate prescribed financial reporting forms for its membership in order to comply with the reporting requirements under MFDA Rule 3.5.1. The existence of two forms is a result of recent changes to the Canadian accounting standards that now require all publicly accountable enterprises (“PAEs”) to prepare their financial reports in accordance with International Financial Reporting Standards (“IFRS”). As such, the MFDA recently amended its financial reporting form to align with IFRS, except as modified by the MFDA, and mandated one reporting standard for its membership. The new MFDA Form 1 (“Form (IFRS)”) was approved by the Recognizing Regulators on January 21, 2011 for implementation by Members commencing with their fiscal years beginning on or after January 1, 2011. Until such time as all Members are required to transition to the new basis of reporting under the Form (IFRS), they continue to report under the old MFDA Form 1 (“Form (CGAAP)”), which is based upon Canadian Generally Accepted Accounting Principles (“CGAAP”), except as modified by the MFDA.

Auditor’s Reports – Form (IFRS)

In accordance with MFDA Rule 3.5.1(b), Members are required to submit audited financial statements to the MFDA on an annual basis in a prescribed form. Currently, the prescribed form includes the following two independent auditors’ reports prepared in accordance with Canadian Auditing Standards (“CAS”):

- (i) *Independent Auditors’ Report for Statements A, D, E and F* – provides an opinion on financial statements prepared in accordance with a “fair presentation” framework; and
- (ii) *Independent Auditors’ Report for Statements B and C* – provides an opinion on financial information prepared in accordance with a “compliance” framework.

CAS 700, *Forming an Opinion and Reporting on Financial Statements*, outlines the requirements of the auditor’s report relating to the auditor’s opinion on financial statements prepared in accordance with each of a “fair presentation” framework and a “compliance” framework. Financial statements falling under a standard reporting framework, such as IFRS, which include: a statement of financial position; statement of income and comprehensive income; and statement of changes in capital and retained earnings, are to be opined on by the auditor under the “fair presentation” framework. Audit opinions expressed on other supplemental financial information not contemplated by a reporting framework, such as the MFDA’s Statement B (Statement of Risk Adjusted Capital), fall under the “compliance” framework and do not include an overall opinion on whether the information is fairly presented.

Auditor’s Reports – Form (CGAAP)

As noted above, in accordance with MFDA Rule 3.5.1(b), Members are required to submit audited financial statements to the MFDA on an annual basis in a prescribed form. Currently, the prescribed Form (CGAAP) includes the following two auditors’ reports prepared in accordance with Canadian Generally Accepted Audited Standards (“GAAS”):

- (i) *Part I Auditors’ Report* – provides an audit opinion on whether the Statements included in Part I of Form (CGAAP) are presented fairly; and
- (ii) *Part II Auditors’ Report* – refers to the audit work performed in order to express an opinion on the Part I Statements, and extends the opinion to include the Schedules under Part II of the Form (CGAAP) when taking Part I and Part II as a whole.

Reasons for Amendments

Auditor’s Reports – Form (IFRS)

The current auditors’ reports were drafted and approved together with all the other amendments to the old Form 1 made to align with IFRS. Reference to Statement F (Statement of Changes in Subordinated Loans) was incorrectly included in the “fair presentation” report rather than the “compliance” framework report. Consequently, proposed amendments to each of the

Independent Auditor's Reports and related references throughout the Form (IFRS) are recommended to ensure auditors are able to comply with CAS.

In addition to amending the auditor's reports, additional housekeeping amendments to the Form 1 General Notes and Definitions are proposed to correctly reflect that the respective Statements within the Form (IFRS) are either captured under a reporting framework, or supplemental financial information required by the MFDA.

Auditor's Reports – Form (CGAAP)

Just as the Canadian Accounting Standards Board ("AcSB") pronounced that international accounting standards would replace Canadian standards, the Canadian Auditing and Assurance Standards Board ("AASB") also made the decision to replace Canadian standards with the international standards. Consequently, the AASB pronounced that International Standards on Auditing ("ISA") would replace GAAS for audits of financial statements as the Canadian Auditing Standards ("CAS") effective for audits of financial statements for periods ending on or after December 14, 2010. Consequently, the Part I and II Auditors' Reports contained in the Form (CGAAP) must be amended in order for auditors of MFDA Members to comply with the new CAS effective for audit years ending December 14, 2010 or later.

The proposed amendments will result in the replacement of the Part I and II reports with two Independent Auditor's Reports that are consistent with those approved for the Form (IFRS).

Description of Amendments

Auditor's Reports – Form (IFRS)

The following is a summary of the proposed amendments that are reflected in Schedule "A":

- *Table of Contents* – updated to remove reference to Statement F from the independent auditor's report based upon the fair presentation framework and to include it in the report based upon the compliance framework.
- *General Notes and Definitions [Note 2 – Presentation]* – updated to properly reflect Statement E, *Statement of changes in capital and retained earnings (corporations) or undivided profits (partnerships)*, as a financial statement falling within the IFRS reporting framework rather than supplemental financial information required by the MFDA.
- *Independent Auditors' Report for Statements A, D, E and F* – updated to remove reference to Statement F in this report. Housekeeping amendments relating to presentation are also proposed to ensure consistency with the independent auditor's reports approved by Investment Industry Regulatory Organization of Canada ("IIROC").
- *Independent Auditors' Report for Statements B and C* – updated to include reference to Statement F in this report. Housekeeping amendments relating to presentation are also proposed to ensure consistency with the independent auditor's reports approved by IIROC.

Auditor's Reports – Form (CGAAP)

The following is a summary of the proposed amendments that are reflected in Schedule "B":

- *Table of Contents* – updated to remove reference to Part I Auditors' Report, Part II Auditors' Report and include two Independent Auditor's Reports to address opinions based upon the fair presentation and compliance frameworks. In addition, Statement C has been separated into Part I, Statement of Early Warning Excess and Part II, Statement of Early Warning Tests to facilitate disclosure in the auditor's report that the early warning tests are not audited information which is consistent with the Form (IFRS) requirements.
- *Part I Auditors' Report* – deleted;
- *Part II Auditors' Report* – deleted;
- *Independent Auditor's Report for Statements A, D and E* – this report is consistent with the fair presentation framework report contained in the Form (IFRS) but has been modified to ensure the terminology aligns with Form (CGAAP) terminology (e.g. Statement A refers to "Statement of Assets and of Liabilities and Shareholder/Partner Capital" rather than "Statement of Financial Position"). This report is consistent with amendments recently made by IIROC to its CGAAP Form 1.

- *Independent Auditor's Report for Statements B, C and F* – this report is consistent with the compliance framework report contained in the Form (IFRS) but has been modified to ensure the terminology aligns with the Form (CGAAP). This report is consistent with amendments recently made by IIROC to its CGAAP Form 1.
- *Notes and Instructions to the Auditors' Reports* – updated to ensure consistency with the Form (IFRS).

The proposed amendments are housekeeping in nature in that they reflect changes in industry standards and are intended to ensure all parties can continue to comply with their respective reporting obligations. The housekeeping amendments do not impose any significant burden or any barrier to competition that is inappropriate.

Comparison with Similar Provisions

The proposed amendments to the Auditors' Reports (IFRS and CGAAP Forms) are consistent with the amendments to the IIROC Auditors' Reports which have been approved by the Recognizing Regulators.

Effective Date

The amended Forms will be effective on a date to be subsequently determined by the MFDA.

Appendix A

FORM 1 – TABLE OF CONTENTS

(Member Name)

(Date)

GENERAL NOTES AND DEFINITIONS

CERTIFICATE OF PARTNERS OR DIRECTORS

INDEPENDENT AUDITOR'S REPORT FOR STATEMENTS A, D AND, E AND F *[at audit date only]*

INDEPENDENT AUDITOR'S REPORT FOR STATEMENTS B, AND C AND E *[at audit date only]*

PART I

STATEMENT

- A Statement of financial position
- B Statement of risk adjusted capital
- C Statement of early warning excess
- D Statement of income and comprehensive income
- E Statement of changes in capital and retained earnings (corporations)
or undivided profits (partnerships)
- F Statement of changes in subordinated loans
Notes to the Form 1 financial statements

PART II

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

SCHEDULE

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

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 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. In addition, specific balances may be classified or presented on Statements <u>A</u> , <u>and D</u> <u>and E</u> 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. 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	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.
Securities owned and sold short as held-for-trading	A Member must categorize all investment positions as held-for-trading financial instruments. These security positions must be marked-to-market. 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.
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.

GENERAL NOTES AND DEFINITIONS (Continued)

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.

GENERAL NOTES AND DEFINITIONS (Continued)

3. **“acceptable securities locations”** means those entities considered suitable to hold securities on behalf of a Member, for both 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.

FORM 1 – INDEPENDENT AUDITOR'S REPORT FOR STATEMENTS A, D AND E AND F

To: The Mutual Fund Dealers Association of Canada 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 (Statement E) for the year then ended _____ (date) (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 Mutual Fund Dealers Association of Canada 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 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 entity's 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 Statements present fairly, in all material respects, the financial position of the Member _____ (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 Mutual Fund Dealers Association of Canada.

Going Concern [MFDA Note: EFS 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 _____ (note) in the Statements which indicates that the Member _____ (Member) incurred a net loss of _____ (\$ amount) during the year ended _____ (date) and, as of that date, the Member's _____ (Member's) current liabilities exceeded its total assets by _____ (\$ amount). These conditions, along with other matters as set forth in Note _____ (note), indicate the existence of a material uncertainty that may cast significant doubt about the Member's _____ (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 _____ (note) to the Statements which describes the basis of accounting. The Statements are prepared to assist the Member _____ (Member) to meet the requirements of the MFDA Mutual Fund Dealers Association of Canada. As a result, the Statements may not be suitable for another purpose. Our report is intended solely for the Member _____ (Member), the MFDA Mutual Fund Dealers Association of Canada and the MFDA Investor Protection Corporation and should not be used by parties other than the _____.

Member _____ (*Member*), the MFDA-Mutual Fund Dealers Association of Canada and the MFDA Investor Protection Corporation.

(Note: 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 auditor's report. Such wording would be agreed upon with MFDA prior to the filing of Form 1).

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]

[Signature]

[Date]

[Address]

FORM 1 – INDEPENDENT AUDITOR’S REPORT FOR STATEMENTS B, AND C AND F

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”), which comprise of: as at _____ (*year end date*).

Statement B – Statement of Risk Adjusted Capital as at _____ (*date*)

Statement C – Statement of Early Warning Excess as at _____ (*date*)

Statement F – Statement of Changes in Subordinated Loans for the year ended _____ (*date*)

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 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 Mutual Fund Dealers Association of Canada, 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 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 Member’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 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 financial information in Statements B and C of Form 1 as at _____ (*year end date*) and in Statement F for the year ended _____ (*date*) 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 Mutual Fund Dealers Association of Canada.

Basis of Accounting and Restriction on Use

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

[Audit Firm]

[Signature]

[Date]

[Address]

**FORM 1 – INDEPENDENT AUDITOR'S' REPORTS
NOTES AND INSTRUCTIONS**

A measure of uniformity in the form of the auditor's' 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 auditor's' 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 auditor's' reports must be discussed in advance with the Corporation.

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

Appendix B

FORM 1

MFDA FINANCIAL QUESTIONNAIRE AND REPORT

 (Firm Name)

 (Date)

TABLE OF CONTENTS

GENERAL NOTES AND DEFINITIONS

PART I — AUDITORS' REPORT

INDEPENDENT AUDITOR'S REPORT FOR STATEMENTS A, D AND E [at audit date only]INDEPENDENT AUDITOR'S REPORT FOR STATEMENTS B, C AND F [at audit date only]

PART I

STATEMENT

A (3 pages)	Statements of assets and of liabilities and shareholder/partner capital
B	Statement of risk adjusted capital
C	Part I - Statement of early warning excess and
C	Part II - eEarly warning tests
D	Summary statement of income
E	Statement of changes in capital and retained earnings (corporations) or undivided profits (partnerships)
F	Statement of changes in subordinated loans

CERTIFICATE OF PARTNERS OR DIRECTORS

PART II — AUDITORS' REPORT *[at audit date only]*REPORT ON COMPLIANCE FOR INSURANCE *[at audit date only]*REPORT ON COMPLIANCE FOR SEGREGATION OF CASH AND SECURITIES *[at audit date only]*

SCHEDULE

1	Analysis of securities owned and sold short at market value
2	Analysis of clients' debit balances
3	Income taxes
4	Insurance

MFDA FINANCIAL QUESTIONNAIRE AND REPORT
PART I - AUDITORS' REPORT/INDEPENDENT AUDITOR'S REPORT FOR STATEMENTS A, D AND E

TO: The MFDA Mutual Fund Dealers Association of Canada and the MFDA Investor Protection Corporation.

We have audited the following Part I financial accompanying sStatements of _____ (Member),
(firm)

which comprise of:

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

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

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

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

Statement E — Statement of changes in capital and retained earnings (corporations) or
undivided profits (partnerships) for the year ended; and

(date)

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

and a summary of significant accounting policies and other explanatory information. These Statements have been prepared by management based upon the financial reporting provisions of the Notes and Instructions to Form 1 prescribed by the Mutual Fund Dealers Association of Canada.

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

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

In our opinion,

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

(b) — the statement of risk adjusted capital, as at _____ 20__ & _____ 20__ and the statements of
(date) (date)
early warning excess and early warning tests, changes in capital and retained earnings (corporations) or undivided profits (partnerships), and changes in subordinated loans, either as at or for the year ended _____ 20__
(date)
are presented fairly, in all material respects, in accordance with the applicable instructions of the 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 Mutual Fund Dealers Association of Canada 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 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 Statements present fairly, in all material respects, the financial position of _____ (Member) as at _____ (date) and _____ (date), and the results of its operations for the years then ended in accordance with the financial reporting provisions of the Notes and Instructions to Form 1 prescribed by the Mutual Fund Dealers Association of Canada.

Basis of Accounting and Restriction on Use

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

Unaudited Information

We have not audited the information in Statement C Part II, and Lines 1 and 2 in Statement D, of Part I of Form 1 and accordingly do not express an opinion on this information.

[Audit Firm]

[Signature]

[Date]

[Address]

MFDA FINANCIAL QUESTIONNAIRE AND REPORT
FORM 1 – INDEPENDENT AUDITOR’S REPORT FOR STATEMENTS B, C AND F

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

We have audited the accompanying Statements of Form 1 (the “Statements”) of _____ (Member), which comprise of:

Statement B – Statement of risk adjusted capital as at _____ (date) and _____ (date)

Statement C Part I – Statement of early warning excess as at _____ (date)

Statement F – Statement of changes in subordinated loans for the year ended _____ (date)

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.

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 Mutual Fund Dealers Association of Canada, 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 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 Member’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 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 financial information in Statements B as at _____ (date) and _____ (date), Statement C Part I as at _____ (date) and in Statement F for the year ended _____ (date) is prepared, in all material respects, in accordance with the financial reporting provisions of the Notes and Instructions to Form 1 prescribed by the Mutual Fund Dealers Association of Canada.

Basis of Accounting and Restriction on Use

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

[Audit Firm]

[Signature]

[Date]

[Address]

SROs, Marketplaces and Clearing Agencies

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

[auditing firm name]

[date]

[signature]

[place of issue]

PART I – INDEPENDENT AUDITOR'S' REPORTS
NOTES AND INSTRUCTIONS

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

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

Any limitations in the scope of the audit must be discussed in advance with the MFDA. Discretionary scope limitations will not be accepted. Any emphasis of matter in the auditor's report must be discussed in advance with the MFDA.

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

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

TO: _____ The MFDA and the MFDA Investor Protection Corporation.

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

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

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

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

[name of auditing firm] *[date]*

[signature] *[place of issue]*

NOTES:

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

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

Copies with original signatures must be provided to the MFDA.