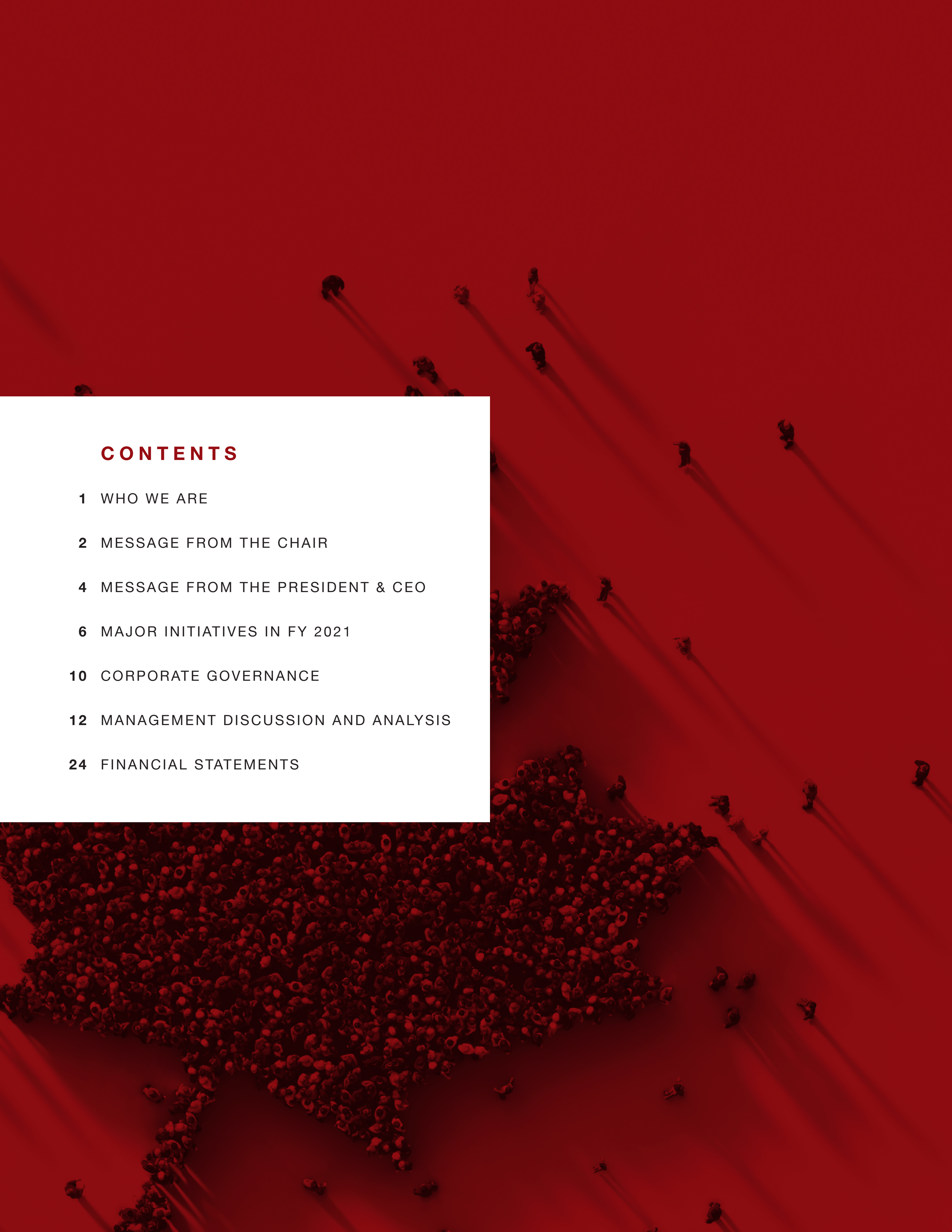
Mutual Fund Dealers Association of Canada
Association canadienne des courtiers de fonds mutuels

ANNUAL REPORT 2021



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WHO WE ARE

The Mutual Fund Dealers Association of Canada (the "MFDA"), is a self-regulatory organization that oversees mutual fund dealers in Canada, which regulates the operations, standards of practice and business conduct of its Members and their over 77,000 Approved Persons with a focus on retail clients.

While the MFDA's regulatory mandate is to protect investors, we also support a regulatory compliant and diverse membership. Diversity benefits investors as it provides choices in advisory services and increases investor access to quality advice.

We contribute to the financial well-being of Canadian investors and uphold public confidence in Canada's mutual fund distribution industry.

WHAT WE DO

Every day the MFDA works to ensure that:

- Investors receive **suitable** advice
- Investors receive **accurate and complete** information to make informed decisions
- Investors are treated **fairly**

MFDA VISION

We protect investors by:

- **Delivering responsible and effective regulation**
  We use risk-based, balanced and transparent processes and employ our regulatory expertise in a proactive manner in addressing industry developments to be a responsible and effective regulator.
- **Strengthening collaboration, knowledge and expertise**
  We engage our stakeholders to share our collective expertise to ensure a culture of compliance.
- **Promoting investor confidence**
  We focus on providing access to information and improving the client relationship to better protect the investing public.

MFDA VALUES

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

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

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

MESSAGE FROM THE CHAIR

I am pleased to present the MFDA's 2021 Annual Report. When I wrote my message last year, we were in the midst of the first waves of the COVID-19 pandemic that had begun to sweep the globe by the spring of 2020. At that time, I did not expect that the pandemic would still be ongoing today. Thankfully, through shared sacrifice, extraordinary public health measures and innovative scientific and medical advances, there at last appear to be signs that it may soon be coming to an end.

Despite the challenges presented by this pandemic, which has now continued through more than a full year of operations, the MFDA has continued to make significant progress on several of the key initiatives outlined in the MFDA's current Strategic Plan "Achieving Better Outcomes for Canadians".

MFDA management and staff, along with our Members and so many other resourceful businesses, adapted quickly to the demands imposed by the pandemic and the measures taken to try to contain the spread of the disease. Many of those adaptations have become woven into the fabric of our everyday lives – the ways that we communicate, work, live and learn have all been transformed by the pandemic. While many of these adaptations have been difficult and will hopefully recede as the pandemic comes to an end, others, such as the accelerated adoption of digital communications and technologies have proven remarkably useful and efficient. This digital transformation has unlocked many benefits and opportunities for organizations and individuals including mutual fund dealers who have further digitized their operations during the pandemic. Investors have benefited too from more convenient options for managing their investments and from increased access to financial advice and services through new digital channels, a development that has been especially important for Canadians in more remote locations.

While digital transformation has been one of the major evolutions in the securities industry over the past year, regulatory transformation will be a significant focus for the future. Earlier this year, the Canadian Securities Administrators (CSA) published a position paper setting out its decision to create a new single enhanced SRO to replace Canada's two existing national SROs – the MFDA and the Investment Industry Regulatory Organization of Canada (IIROC). This is a positive development, fully supported by the MFDA board and the MFDA management team. We are confident that the new single enhanced SRO envisioned by the CSA will benefit both investors and industry participants alike, providing for efficient and effective regulation in the public interest during a time where capital markets and the needs of investors continue to evolve quickly.

"While digital transformation has been one of the major evolutions in the securities industry over the past year, regulatory transformation will be a significant focus for the future."

The MFDA's aim has been, and continues to be, to assist the CSA in completing its important work in leading the creation of a new, single enhanced modern SRO ("the New SRO") that will serve the interests of all stakeholders in a fair and balanced manner. While the work of building the New SRO has only just begun, the MFDA is fully committed to working, under the leadership of the CSA and in collaboration with our IIROC colleagues, toward the goal of developing the best regulatory model and integrating the operations of both our respective SROs into the New SRO in an expedient manner. We also understand the critical importance of making this transition as smooth as possible, and so we look forward to participating in a CSA-led transition process that both minimizes disruptions to industry participants and ensures that there are no interruptions to the investor protection focused regulation we currently provide.

This has been an exceedingly challenging year for many of our Members, their customers and businesses and individuals across the country. As the MFDA has tried to both anticipate and respond to the changes and challenges of the past year, my fellow directors have demonstrated their extraordinary commitment and dedication to the goals and values of the MFDA. I wish to extend to all of them my deepest thanks. I would also like to acknowledge, in particular, Michael Stanley who stepped down from the Board at AGM 2020. The board always benefited from Michael's sound and steady vision, practical experience, good judgment and unwavering diligence, and I would like to thank Michael, on behalf of all the members of the board, for his outstanding service. I would also like to extend a warm welcome to Rick Annaert who joined the board as an Industry Director at AGM 2020 and who has made an exceptional contribution to the work of the Board this year.

Lastly, I would like to acknowledge and thank MFDA Management and Staff for their continued tireless work and exceptional achievements in what has been a very difficult time. I have no doubt that the important work that you all do has been of great benefit to Canadian investors and that your contributions will continue to be crucial to the future success of the MFDA and the New SRO during what is truly an exciting and transformative time for Canadian securities regulation.

Christopher Nicholls, B.A., LL.B., LL.M., MPA
Chair of the Board

MESSAGE FROM THE PRESIDENT & CEO

Over the past year, Canadians across the country have continued to experience significant disruption and change to their everyday lives due to the COVID-19 pandemic. During this time, the MFDA has remained laser focused on its core mission – to deliver on its public interest mandate to protect Canadian investors.

The pandemic has amplified the need to preserve investors' confidence in Canada's capital markets and for a modern regulatory system that accommodates innovation and change. These have remained issues of central importance to the MFDA this past year and was brought to the forefront by the CSA *Consultation on the Self-Regulatory Framework*. Beginning with the publication of the MFDA *Special Report on Securities Industry Self-Regulation* in early 2020, and throughout the CSA SRO review, the MFDA's position on how to best achieve these goals has remained consistent – Canada needs a new single forward looking SRO, established through a CSA-led process, that is public interest focused and capable of regulating all advisory firms.

Our commitment throughout the CSA SRO review has been to actively participate in the process by providing the CSA with assistance, commentary and support through extensive research and policy analysis. For example, on the issue of public confidence in Canada's self-regulatory framework the MFDA commissioned an independent national poll of Canadian investors regarding their views on this topic. The poll found that Canadians support transformative and forward looking change and in particular, that a significant majority of Canadian investors think that enhanced CSA involvement in SRO governance would bolster public confidence. On the topic of access to advice, the MFDA published its Client Research Report which demonstrates, among other things, the important role that MFDA Members and advisors play in providing access to personal advice for millions of middle- and working-class Canadians. And further assistance was provided through the MFDA *Roadmap for the Design and Implementation of a New Modern SRO*, which was provided to the CSA for its consideration. The Roadmap sets out a flexible and adaptable design and implementation process for establishing a new SRO with a clear public interest focus through a CSA-led process and provides a path forward for its establishment, as well as estimated timelines for completion. All of this material was made available to the public in order to contribute to the open discourse among all stakeholders regarding Canada's future self-regulatory framework.

"Our commitment throughout the CSA SRO review has been to actively participate in the process by providing the CSA with assistance, commentary and support through extensive research and policy analysis."

The CSA SRO Consultation concluded this past year and after an in-depth review of the current framework, the CSA announced its plan to create a new single enhanced SRO. This new SRO, which will include current members of both the MFDA and IIROC, will have a clear public interest focus and an enhanced governance and accountability framework, and will ultimately provide enhanced regulation of the investment industry. Additionally, the CSA has stated that it will consider inclusion of current non-SRO registrants during the second phase of the new SRO implementation process. This bold decision truly exemplifies the transformative and forward looking change that Canadians told us they were looking for in our polling research and will benefit Canada by strengthening public confidence in the regulatory system.

I am proud of the meaningful contributions the MFDA has made through its research and policy analysis to the broader conversation surrounding the CSA's SRO review - a conversation which I believe has greatly benefited all Canadians and helped to inform the CSA in coming to its decision. I would like to reiterate that the CSA's decision is fully supported by the MFDA and represents an exciting opportunity to reshape Canada's regulatory landscape. The MFDA looks forward to working together with the CSA, IIROC, the Investor Protection Funds and other relevant stakeholders on implementing the CSA's vision for a new single enhanced SRO.

In closing, I would like to thank the MFDA's Board of Directors, MFDA staff and all of our other stakeholders for what we have accomplished together during the past year. Our collective efforts have undoubtedly benefited both investors and Canada's capital markets and will continue to be instrumental in shaping its future.

Mark T. Gordon, LL.B.
President & Chief Executive Officer

MAJOR INITIATIVES IN FY 2021

COVID-19 RESPONSE

Throughout the pandemic the MFDA has focused on maintaining the health and safety of all stakeholders. During FY 2021 MFDA staff continued to carry out their duties in a work-from-home environment and key regulatory functions such as compliance examinations, enforcement interviews and disciplinary hearings were carried out remotely. During this time, the MFDA continued to accept, review and respond to complaints or inquiries from the public.

MFDA staff took a number of steps to keep Members and stakeholders informed of COVID-19 related developments and maintained information relevant to Members and investors regarding the pandemic on the COVID-19 section of the MFDA website. MFDA staff provided assistance to Members in identifying solutions to various operational challenges posed by the pandemic while continuing to ensure investor protection.

CLIENT RESEARCH PROJECT

In FY 2021 the MFDA completed its review of a significant volume of data relating to Members, advisors and their clients. This follows a previous review of similar data completed in 2018.

While all securities regulators in Canada obtain data and information relating to the activities of the registrants they regulate, the MFDA has undertaken the unprecedented approach of also gathering detailed information relating to clients of MFDA Members. MFDA Members, more than any other securities registrants, provide services to the largest concentration of mass-market households in Canada (i.e. households with less than $100,000 in financial wealth). Protecting vulnerable investors, including seniors and investors with limited financial resources, is a key priority of the MFDA. While access to financial advice is important to all Canadians, it is especially so for those with limited financial resources. This collection of data enables the MFDA to monitor access to financial advice and the availability of choice in advisory services. With the aging population and decline in the number of defined benefit plans in Canada, it is imperative that Canadians, particularly mass-market households, continue to have access to financial advice and the ability to choose services that meet their needs. Maintaining knowledge and awareness of client circumstances, outcomes, and issues that impact Canadian investors through the use of this data is key to meeting our investor protection mandate.

Based on the data collected, MFDA staff published the *MFDA Wealth Management Footprint Report*, which provides a snapshot of findings to highlight the breadth of MFDA Members' wealth management footprint in Canada. This was followed with the publication of the full *Client Research Report 2020: A Continued Look Into Members, Advisors* and Clients which provides a detailed analysis of areas such as costs, client portfolio makeup and advisor book trends. Both reports summarize data provided by every MFDA Member and illustrate the significant role that MFDA Members and their advisors have in the Canadian financial marketplace.

The data collected also allowed staff to conduct a review of performance reporting, specifically focused on those client accounts with unusual returns. On July 26, 2021, MFDA staff published the Performance Reporting Targeted Review report that provides a summary of the analysis and work performed during the review, our key findings and recommendations.

In March 2021 MFDA staff requested new data from Members for the next cycle of MFDA client research.

VULNERABILITY AND FINANCIAL ADVICE

The MFDA issued a paper entitled *Vulnerability and Financial Advice: A Broader Look at the Factors That May Increase the Risk of Client Vulnerability* for educational purposes and to promote further awareness and discussion of client vulnerability. The paper was part of the MFDA's ongoing work to help Members better identify vulnerable clients and understand their needs. The paper takes a broad look at the concept of vulnerability and encourages consideration of the various factors that may increase the risk of client vulnerability including health, life events, resilience and capability. The COVID-19 pandemic has also significantly increased social isolation which can be a cause of vulnerability and a significant factor contributing to the risk of financial exploitation and investment fraud. As discussed in the paper, when looking at vulnerable clients broadly, these clients may not only be at risk of further harm, but may also have different needs than other clients. The impact of vulnerability on clients can be significant and these clients may be more likely to fall into debt, take unnecessary investment risks or fall victim to financial fraud. The paper also shares best practices and practical actions to help meet the needs of vulnerable clients and provides references to additional resources on this important topic.

EXPANDED COST REPORTING

The MFDA continued its work on exploring the expansion of cost reporting to include certain costs, such as total investment fund management fees and operating costs, which are not captured by current Client Relationship Model Phase 2 (CRM2) reporting requirements. The MFDA retained the research firm Behavioural Insights Team (Canada) (BIT) to assist with behavioural science research in understanding client barriers regarding cost disclosures and to collaborate with MFDA staff on the design and testing of expanded disclosure formats with over 5,000 Canadian investors.

The objectives of the research were to:

- Understand investor preferences for expanded cost reporting;
- Identify key barriers and enablers of investor comprehension and action of expanded cost information;
- Develop and test disclosure formats that reflect an understanding of investor behavior; and
- Generate evidence on the impact of certain cost formats.

On July 26, 2021, the MFDA issued the final results of this research in the report *Improving Fee Disclosures for Canadian Investors* and also provided a discussion of the results at an accompanying webinar. The research indicates that Canadian investors have a clear preference for expanded cost reporting and that additional cost information increases investor comprehension. The MFDA shared this research to support the CSA with the purpose of advancing the discussion and exploring the viability of expanding current cost reporting.

FUNDING OF OSGOODE HALL INVESTOR PROTECTION CLINIC

In FY 2021, the MFDA committed $150,000 from the MFDA Discretionary Fund to the Osgoode Hall Investor Protection Clinic (Osgoode IPC). The Osgoode IPC is a pro-bono legal clinic that specializes in investor protection issues and provides free legal advice to people who cannot afford a lawyer. The Osgoode IPC will use the funding to expand capacity for the services that it offers to investors who believe their investments were mishandled.

The MFDA provides additional assistance to the Osgoode IPC through annual MFDA staff participation in the intensive training of Osgoode IPC students and by alerting investors of the service offered by the Osgoode IPC on the "How to make a complaint" section of the MFDA website.

INVESTOR OUTREACH AND EDUCATION

In FY 2021, MFDA staff held meetings with investor advocates and organizations involved in investor engagement, outreach and the protection of vulnerable persons. These outreach meetings provided individuals and organizations an opportunity to dialogue with MFDA staff and share views on issues affecting Canadian investors.

The MFDA commissioned a national poll conducted by an independent research firm which examined Canadian retail investors' views around the SRO framework review conducted by the CSA. The key finding of the research is published in a report titled, "*What Canadian Investors Want in a Modern SRO*" and found that Canadians are looking for meaningful change that is both transformative and forward looking. These key findings were shared with the CSA and other stakeholders.

During the course of the year, MFDA staff published a number of Investor Bulletins that focused on helping investors navigate the advisory process during COVID-19 and provided tips to help investors protect themselves from cyber frauds and other scams that became prevalent during the pandemic.

MEMBER AND APPROVED PERSONS EDUCATION AND PROFICIENCY

Over the past year, MFDA staff continued to move forward with development and implementation of Continuing Education (CE) requirements for Approved Persons of MFDA Members. In-depth systems testing of the Continuing Education Tracking and Reporting System (CERTS) was a focus of the past year. MFDA CE requirements establish minimum standards for Approved Persons of MFDA Members in order to keep their industry knowledge current and to maintain a high standard of professionalism.

On July 22, 2021 the MFDA received all required approvals to MFDA Rules and Policies related to the implementation of MFDA CE requirements. These requirements will become effective on December 1, 2021. The MFDA has initiated the process to onboard Members and Approved Persons onto CERTS and anticipates that there will be in excess of 60,000 individuals subject to CE requirements who must be onboarded.

TECHNOLOGY WEBINAR SERIES AND CYBERSECURITY

One of the key initiatives in the MFDA Strategic Plan is to support Member technological innovation and cybersecurity. To satisfy that initiative, the MFDA hosted five technology webcasts in FY 2021:

- Automated Transfers, E-Signatures and Electronic Processing
- The Cybersecurity Assessment Program
- Canadian RegTech for Wealth Management
- Building an Incident Response Plan
- Legal Aspects of Cybersecurity

In addition, the MFDA issued a mandatory cybersecurity survey to all Members to assess the status of Member cybersecurity frameworks. The information from the survey will be used to inform further guidance on cybersecurity and to provide each Member with feedback on its cybersecurity framework.

MFDA RECOGNITION ORDERS

On March 25, 2021, the MFDA's Recognizing Regulators issued orders varying and restating the MFDA's Recognition Order effective April 1, 2021. The variation orders clarify and update the MFDA's terms and conditions of recognition and reporting requirements and include new provisions specifying the permitted use of fines and payments made under settlement agreements entered into with the MFDA and provisions relating to CERTS, including that the MFDA must ensure that CERTS has appropriate internal controls to ensure integrity and security of information.

In addition, effective April 1, 2021 the MFDA was recognized as an SRO in the Northwest Territories, Nunavut and Yukon.

MFDA RULE REVIEW

In furtherance of the goals of "Innovate" and "Update" under the MFDA Strategic Plan, the MFDA initiated a review of MFDA regulatory requirements to ensure that the current MFDA regulatory framework remains appropriate, relevant, and will facilitate responsible innovation in the industry through the use of emerging technology and business models.

In FY 2021 MFDA staff prioritized amendments to its Rules, Policies and guidance to conform with the Client Focused Reform amendments to National Instrument 31-103. As MFDA Members and Approved Persons are now primarily servicing their clients remotely due to the pandemic, MFDA staff issued further guidance on the use of electronic signatures (revised MFDA Staff Notice MSN-0016 *Electronic Signatures*) and proposed amendments to MFDA Rules 2.3.2 and 2.3.3 (Limited Trading Authorizations).

Going forward in 2021, with the CSA's decision to establish a new single enhanced SRO ("New SRO"), MFDA staff will assist the committee to be established by CSA in the harmonization of SRO rules for the New SRO rule book.

CORPORATE GOVERNANCE

PUBLIC DIRECTORS

Steven Glover, MBA, FCPA, FCA
Corporate Director
(Canmore, Alberta)
Joined December 2014

Hugh McNabney, CPA (Retired)
Corporate Director
(Orillia, Ontario)
Joined December 2016

Christopher Nicholls, BA, LL.B., LL.M., MPA (Chair of the Board)
Professor of Business Law
Western University
(London, Ontario)
Joined December 2014

Les O’Brien, Q.C.
Former Chairman
Nova Scotia Securities Commission
(Halifax, Nova Scotia)
Joined December 2015

Barbara Shourounis, LL.B.
Former Director
Saskatchewan Financial Services Commission
(Regina, Saskatchewan)
Joined December 2015

Vince Valenti, MBA
President
Valenti Holdings Inc.
(Manotick, Ontario)
Joined December 2016

INDUSTRY DIRECTORS

Rick Annaert, CPA, CMA
President and Chief Executive Officer
Manulife Securities Investment Services
(Oakville, Ontario)
Joined December 2020

Patricia Callon, LL.B., BA (Hons.)
(Vice-Chair of the Board)
Senior Vice-President & General Counsel
Sun Life
(Toronto, Ontario)
Joined December 2016

Katherine Dudtschak, MBA
Chair & CEO
Royal Mutual Funds Inc.
(Toronto, Ontario)
Joined December 2016

Sonny Goldstein, CFP
President
Goldstein Financial Investments Inc.
(Toronto, Ontario)
Joined December 2015

Mark Kinzel, BA
Vice Chair
IG Wealth Management
(Winnipeg, Manitoba)
Joined December 2016

André Langlois, FCA, FCIA
President
Desjardins Financial Security Investments Inc.
(Montreal, Quebec)
Joined November 2019

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

COMPENSATION OF DIRECTORS

The retainers and fees payable to Public Directors are as follows:

Annual Retainer for Public Directors	**$15,000**
Annual Retainer for Chair of the Board	**$15,000**
Additional Retainer – Chair of the Audit & Finance Committee	**$ 6,000**
Additional Retainer – Chair of the Governance Committee	**$ 4,000**
Additional Retainer – Chair of the Regulatory Issues Committee	**$ 4,000**
Attendance Fee – Board and Committee Meetings in excess of 2 hours	**$ 1,500**
Attendance Fee – Board and Committee Meetings less than 2 hours	**$ 1,000**

Out-of-town Public Directors who attend meetings in person receive a supplementary travel fee of $1,000 per meeting. The annual retainer for a Public Director who serves as Chair of the Board is set by the Board of Directors and is reviewed annually. Industry Directors are not compensated for their participation on the MFDA Board or its Committees, however, all Directors are reimbursed for related travel and out-of-pocket expenses. Due to the COVID-19 pandemic travel for in person meetings was not required as all meetings were held virtually.

ATTENDANCE OF DIRECTORS

A total of 23 corporate meetings were held during FY 2021 including one Annual General Meeting of Members. The following is a breakdown of attendance and total compensation for FY 2021 for the Board of Directors.

Director	Board	Audit & Finance	Governance	Regulatory Issues	SRO Framework Review	Term Expires	Total Compensation
Rick Annaert (2) (4)	5 of 5	n/a	2 of 2	n/a	2 of 2	2022	n/a
Patricia Callon (2) (4)	8 of 8	n/a	6 of 6	n/a	2 of 2	2022	n/a
Katherine Dudtschak (3) (4)	7 of 8	n/a	n/a	4 of 4	2 of 2	2022	n/a
Steven Glover (1)	8 of 8	3 of 3	n/a	n/a	n/a	2022	$35,000
Sonny Goldstein (3)	8 of 8	n/a	n/a	4 of 4	n/a	2021	n/a
Mark Gordon	8 of 8	3 of 3	6 of 6	4 of 4	2 of 2	n/a	n/a
Mark Kinzel (1) (3)	8 of 8	2 of 2	n/a	3 of 4	n/a	2022	n/a
André Langlois (1) (3)	8 of 8	3 of 3	n/a	4 of 4	n/a	2021	n/a
Hugh McNabney (1)	8 of 8	3 of 3	n/a	n/a	n/a	2022	$29,000
Christopher Nicholls (2) (3) (4)	8 of 8	n/a	6 of 6	4 of 4	2 of 2	2022	$67,000
Les O'Brien (1) (2) (4)	8 of 8	1 of 1	6 of 6	n/a	2 of 2	2021	$34,500
Barbara Shourounis (1) (3)	8 of 8	2 of 2	n/a	4 of 4	n/a	2021	$36,500
Michael Stanley (1) (2) (Stepped down December 3, 2020)	3 of 3	1 of 1	4 of 4	n/a	n/a	n/a	n/a
Vince Valenti (2) (3) (4)	8 of 8	n/a	6 of 6	2 of 2	2 of 2	2022	$46,000

1. Member of Audit & Finance Committee
2. Member of Governance Committee
3. Member of Regulatory Issues Committee
4. Member of Special Committee on SRO Framework Review

MANAGEMENT DISCUSSION AND ANALYSIS

This Management Discussion and Analysis ("MD&A") is presented in order to assist in the assessment of the financial condition and results of operations of the Mutual Fund Dealers Association of Canada (the "MFDA") for the year ended June 30, 2021. This MD&A is current to September 30, 2021 and should be read in conjunction with the audited financial statements and the accompanying notes for the fiscal year ("FY") ended June 30, 2021.

The MFDA is recognized by the CSA as a self-regulatory organization ("SRO") for mutual fund dealers in Canada regulating the operations, standards of practice and business conduct of its Members and their 77,000 Approved Persons with a mandate to protect investors and the public interest. As a not-for-profit corporation, the MFDA is exempt from income taxes under the *Income Tax Act* (Canada). The MFDA regulates the activities of its Members and the Approved Persons sponsored by them by developing rules and policies to govern the business conduct and operations of Member firms and their Approved Persons, monitoring compliance with these requirements and applicable securities laws, and enforcing them through disciplinary proceedings conducted before impartial and independent MFDA hearing panels. This provides assurance to the public that their investments are being managed in a professional manner and subject to regulation by the MFDA. The MFDA is governed by a Board of Directors comprised of 6 Public Directors and 6 industry Directors which ensures there is independent and informed oversight of all operations. The Board has established the Audit and Finance Committee which oversees the audit, financial reporting and budgeting processes, accounting policy changes, and the MD&A.

The MFDA's financial statements have been prepared in accordance with Part III of the *Chartered Professional Accountants ("CPA") Canada Handbook – Accounting*, which sets out generally accepted accounting principles ("GAAP") for not-for-profit organizations in Canada.

Certain statements in this MD&A are forward-looking and are therefore subject to risks and uncertainties. Actual events and future performance could differ materially from those expressed or implied in any forward-looking statements made by the MFDA and readers are urged to not place undue reliance on forward-looking statements. The MFDA has based these forward-looking statements on its current views of future events and financial performance. Any assumptions, in our judgment, although reasonable at the time of publication, are not guarantees of future performance.

On August 3, 2021, the CSA announced its plan to create a new, single SRO which will provide enhanced regulation of the investment industry. The new SRO, as described in the publication of *CSA Position Paper 25-404*, *New Self-Regulatory Organization Framework*, will consolidate the functions of the MFDA and IIROC. The CSA will also combine the two existing investor protection funds – the MFDA Investor Protection Corporation ("MFDA IPC") and the Canadian Investor Protection Fund – into an integrated fund independent of the new SRO. The timeline for these changes is currently undefined and the financial impact is as yet undetermined.

Financial and Operating Summary (table in $ 000’s)

Particulars	FY 2021	FY 2020
Operating revenues		
Membership fees	**$31,537**	$33,267
Fines	**937**	1,047
Other	**1,342**	737
Total revenues	**33,816**	35,051
Expenses		
Salaries and employee benefits	**24,299**	25,353
Rent and occupancy	**2,684**	2,775
Technology	**1,433**	1,259
Travel	**25**	533
Hearing panels	**545**	471
Other	**3,326**	4,072
Total expenses	**32,312**	34,463
Surplus of revenues over expenses	**1,504**	588
Assets		
Current assets	**21,583**	21,349
Current assets - internally restricted	**11,334**	10,781
Non-current assets	**10,567**	3,408
Total assets	**43,484**	35,538
Liabilities		
Current liabilities	**10,565**	10,602
Non-current liabilities	**8,265**	8,490
Total liabilities	**18,830**	19,092
Net assets	**$24,654**	$16,446
Full-time employees (FTEs)	**166**	166
Member Assets Under Administration (“AUA”) - for fee purposes (excluding Quebec)	**$684,841,311**	$568,147,575
Number of Members	**88**	91
Number of Approved Persons	**76,972**	78,342

EFFECTS OF COVID-19 ON MFDA OPERATIONS, REVENUES, AND EXPENSES

The COVID-19 crisis intensified in March of 2020, negatively impacting the financial markets as the MFDA was formulating the organization's FY 2021 budget. In response to the market downturn and to mitigate the impact on MFDA Members, management implemented a number of temporary austerity measures for the 2021 fiscal year. These measures included hiring and salary freezes, reduced capital spending, and reductions in other expense categories. These temporary spending cuts reduced the FY 2021 budget by $1.8 million (5.3%) year over year. Consequently, some FY 2021 expense categories such as salaries and employee benefits are less than the 2020 comparator year due to the 2021 austerity measures.

In response to the restrictions imposed by the various levels of government across Canada to limit in-person social interactions and thereby mitigate the spread of COVID-19, in March 2020 the MFDA deployed its staff to a remote working environment. Since that time, MFDA operations continue to be conducted as much as practicable through remote work and video conferencing technology until staff is permitted to safely return to the office. The COVID-19 crisis has had no material impact on revenues as the bulk of MFDA revenues are collected through Member fee assessments (on a cost recovery basis) which have continued to be collected on a timely basis. Previous investments in remote working technology to facilitate disaster recovery and mitigate business interruptions allowed for continuation of business activities in a remote work setting with virtually no additional investment. Due to travel restrictions and limitations on gatherings, some categories of expenses were less than what was anticipated and budgeted for FY 2021. These expenses mainly related to business travel and training.

REVENUES

The MFDA is a "cost-recovery" not-for-profit organization which assesses membership fees to its Members in order to provide sufficient funding to meet annual budgeted operating and capital costs and to maintain adequate liquidity (refer to Liquidity section below).

Fees charged to individual Member firms are calculated using a tiered formula that takes into account the amount of assets under administration ("AUA") of each Member firm with a minimum fee amount applicable to all Members. Such Member fees are payable in quarterly installments, which have continued to be collected on a timely basis.

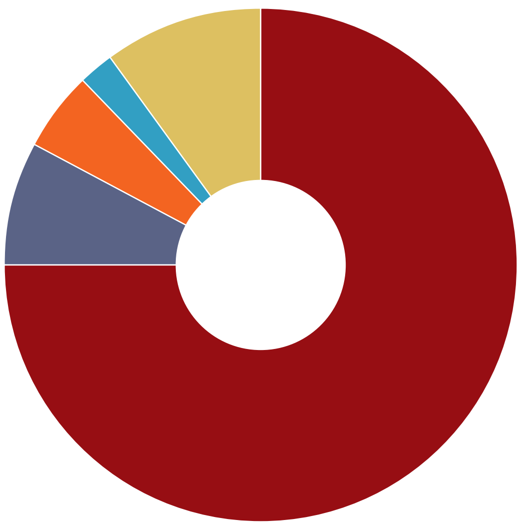
The MFDA's other sources of revenues (unrestricted and internally restricted) typically include:

- Enforcement fines and cost recoveries imposed by order of the MFDA Regional Council Hearing Panels at the conclusion of the MFDA disciplinary hearings or settlements and which have been collected by the MFDA
- Fees charged for enforcement activity history requests
- Fines and late filing fees assessed against Members that have missed information filing deadlines
- Investment income derived from the investment of surplus cash in accordance with the MFDA's Investment Policy Statements
- Recoveries from MFDA IPC for administrative services provided by the MFDA, and
- Other income, if any.

EXPENSES

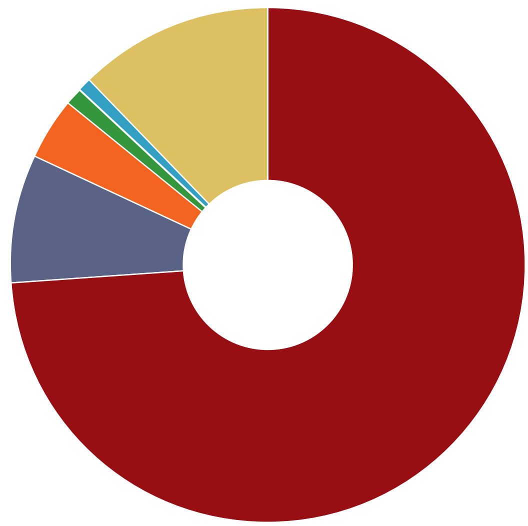
Total expenses decreased 6.2% year over year in FY 2021. Significant year over year expense variances are explained in the following paragraphs.

FY 2021



- **75%** Salaries and Employee Benefits
- **8%** Rent and Occupancy
- **5%** Technology
- **2%** Hearing Panels
- **10%** Other

FY 2020



- **74%** Salaries and Employee Benefits
- **8%** Rent and Occupancy
- **4%** Technology
- **1%** Travel
- **1%** Hearing Panels
- **12%** Other

COMPENSATION

Salaries and employee benefits expense, excluding benefit plans remeasurements which are recorded directly against Fund balances, represent 75% of FY 2021 operating expenses. Compensation plans and policies are significant drivers in budgeting and managing MFDA costs. The Audit and Finance Committee oversees the budgeting process, including headcount numbers and overall adjustments. The Governance Committee reviews and makes recommendations to the Board in respect of executive compensation.

Headcount in FY 2021 was maintained at 166 FTEs. Salaries and employee benefits expense for FY 2021 was $1,053,822 (4.2%) lower than FY 2020.

The salary and employee benefits expense (other than the employee future benefits component explained below) decreased by $1,272,902 (5.8%) due to unfilled staff and contract positions caused by the hiring freeze as well as the management request that staff fully utilize accumulated vacation time.

Employee future benefits expense was higher in FY 2021 by $219,080 (8.4%), primarily due to higher current service costs and finance costs relating to the Registered Retirement Plan ("RPP") and the Post Retirement Benefits Plan ("PRB Plan"). Employee future benefits represent benefits to be provided to employees in the future and are determined based on employee service provided in the current year using the actuarial valuations (RPP and Supplemental Executive Retirement Plan ("SERP") – funding valuation; PRB Plan – accounting valuation). In calculating the liability and expense related to the employee future benefits plans, estimates and assumptions are made about the expected rate of return on plan assets, the discount rate, future salary increases, mortality, turnover, retirement ages and the medical expense trend rate. These estimates are set out in note 5 to the audited financial statements. Refer to "Employee Future Benefits Asset and Liability" section below for further analysis of employee future benefits.

RENT AND OCCUPANCY

The MFDA has offices in Toronto, Calgary and Vancouver. Rent and occupancy costs (including office lease expense, operating costs, property taxes, and facilities maintenance) were lower by $91,352 (3.3%) in FY 2021, mainly due to a year-end operating expense credit received from the landlord for the Toronto office lease. The following is a breakdown of FY 2021 occupancy costs by location:

Location	Annual Occupancy Cost
Toronto	$2,310,602
Calgary	$148,876
Vancouver	$224,088

TECHNOLOGY

Technology costs were higher in FY 2021 by $173,888 (13.8%), primarily due to additional data security related costs, expansion of disaster recovery capacity and security infrastructure, and the scheduled replacement of non-capitalized computer hardware. Refer to "Resiliency and Cyber Security Risk" in the Risk section below for additional information on how the MFDA manages the rapidly evolving technology environment.

TRAVEL

Travel for the MFDA pertains mainly to conducting Compliance reviews and Enforcement investigations and hearings. Travel costs for FY 2021 were significantly lower by $508,452 (95.3%) compared to FY 2020, due to the COVID-19 related travel restrictions that came into effect in March 2020. In response to these travel restrictions, most of the Compliance, Enforcement, and hearings travel related activities were conducted using remote working technology and video conferencing applications.

HEARING PANEL COSTS

Hearing panel costs vary from year to year depending upon the number, location, and amount of contested hearings. Hearing panel costs incurred in FY 2021 were $74,365 (15.8%) higher compared to FY 2020, mainly due to higher hearing panel activity. During FY 2021 the majority of the hearings were conducted remotely through video conferencing due to the COVID-19 related travel restrictions. Hearing panel costs are recovered quarterly in arrears from the Discretionary Fund, as reflected in Note 9 to the audited financial statements.

OTHER

Other expenses include administrative services and expenses, professional and consulting fees, amortization of capital assets, Board of Directors' fees and expenses, staff training and development, and meetings, seminars and communications. Professional and consulting fees vary from year to year depending on the timing and nature of various projects. Fees incurred in FY 2021 were $348,111 (25.3%) lower compared to FY 2020 due to fewer projects warranting the engagement of consultants. Amortization expense was lower in FY 2021 by $144,480 (18.1%) due to less amortization of software development costs. Staff training and development costs were lower in FY 2021 by $105,717 (50.6%) compared to FY 2020 due to COVID-19 social distancing restrictions that temporarily curtailed some staff training. Board of Directors' expenses were lower in FY 2021 by $63,246 due to the Board meetings being conducted virtually on account of the COVID-19 related travel restrictions, thereby saving on travel costs. Variances in other categories of expenses were in line with the previous year.

SURPLUS OF REVENUES OVER EXPENSES

The surplus of revenues over expenses is added to unrestricted net assets and was $1,504,263 for FY 2021 (2020 - $589,664).

FINANCIAL POSITION

INVESTMENTS

The MFDA holds cash and short term investments to ensure adequate liquidity and these investments are managed in accordance with the Board approved investment policies.

Investments totaled $23,761,376 at June 30, 2021 (2020 - $23,694,570) and consisted of a money market fund, treasury bills, and a balanced fund, which are managed by external fund managers. FY 2021 investments consist of $12,427,480 (2020 – $12,913,761) pertaining to the Unrestricted Fund, $6,031,588 (2020 – $6,421,185) pertaining to the Discretionary Fund and $5,302,308 (2020 – $4,359,624) pertaining to the Post-Retirement Benefits Fund.

CAPITAL EXPENDITURES

Capital expenditures totaled $657,573 in FY 2021 (2020 - $714,405) with $652,172 related to technology expenditures.

MFDA DISCRETIONARY FUND

The Discretionary Fund is an internally restricted fund, established and operated pursuant to policies approved by the MFDA Board of Directors. Revenues consist of monies from the collection of enforcement fines and the surrender of profits imposed by order of an MFDA Hearing Panel. During FY 2021, the Fund received fines of $936,836 (2020 – $1,047,037) and $1,340,476 (2020 – $747,204) was transferred to the Unrestricted Fund towards the administrative costs related to

MFDA Enforcement Hearings - $1,179,800 (2020 - $558,749) and other cost recoveries approved by the Board - $160,676 (2020 - $188,455). As of June 30, 2021, the Discretionary Fund balance was $6,031,588 (2020 – $6,421,185) and was held in short-term investments managed in accordance with the Board approved investment policies.

POST-RETIREMENT BENEFITS FUND

The PRB Fund is an internally restricted fund established by the MFDA Board of Directors to fund the employee PRB obligations (e.g. health and dental care benefits to retired employees). This Fund may also be used for special disbursements relating to other employee future benefits (e.g. solvency payments for the MFDA's pension plans), as needed. As of June 30, 2021, the PRB Fund balance was $5,302,308 (2020 – $4,359,624).

MFDA INVESTOR PROTECTION CORPORATION

The MFDA bills and collects assessments on behalf of the MFDA IPC. For the year ended June 30, 2021 the MFDA billed $2,100,492 (2020 – $2,865,931) to its Members on behalf of the MFDA IPC. As at June 30, 2021, $31,605 of the MFDA IPC assessments remained due to the MFDA IPC (2020 – $181,353). The MFDA also provides the MFDA IPC with office space, administrative services, and corporate secretarial and other support as part of a services agreement between the two entities. The administration costs charged to the MFDA IPC under this services agreement for FY 2021 amounted to $99,474 (2020 – $73,398) plus applicable taxes.

EMPLOYEE FUTURE BENEFITS ASSET AND LIABILITY

The MFDA financial statements include employee future benefits asset of $7,701,500 (2020 – $543,000) pertaining to the RPP and the SERP and an accrued employee future benefits liability of $6,624,200 (2020 – $6,440,500) pertaining to the PRB plan. The $7,701,500 employee future benefits asset comprises a $6,753,900 asset (2020 – $267,700) pertaining to the RPP and a $947,600 asset (2020 – $275,300) relating to the SERP.

The year over year increase of $6,486,200 in the RPP asset is analyzed in note 5 to the audited financial statements. There are a number of components of that analysis that give rise to the increase including gain on plan assets of $5,528,700 primarily due to the recovery of the equity markets during FY 2021. Management focuses primarily on the long term rate of return which as of June 30, 2021, was 8.93% for the Beutel Goodman Balanced Fund since it was selected as the investment vehicle in June 2013. This return is higher than the long term rate of return assumption of 5.5% used for the funding valuation.

The $672,300 year over year increase in the SERP asset balance is also analyzed in note 5 of the audited financial statements and was also primarily due to the market recovery during FY 2021.

The $183,700 year over year increase in the PRB liability is mainly due to the current service costs and interest on accrued benefit obligation, partially offset by actuarial gains driven by a higher discount rate used for valuation purposes (3.25% at June 30, 2021 vs. 2.90% at June 30, 2020).

The MFDA has initiated a number of measures to mitigate the rising costs of pension obligations. The major steps were to require higher RPP contribution rates for employees effective October 2014 and by closing the RPP to new hires as of January 1, 2014. New employees hired after January 1, 2014 are eligible for a 5% RRSP contribution program.

Additionally, the PRB Fund was established and funded as an internally restricted fund to finance future PRB costs and provide a measure of financial stability in managing any pension funding shortfalls in the future. As at June 30, 2021, the PRB Fund had an asset balance of $5,302,308 (2020 – $4,359,624). Accounting standards however do not allow for this funding to offset the PRB obligation on the face of the financial statements and so the full amount of the PRB liability is included in the employee future benefit plans liability on the face of the Statement of Financial Position while the related asset balance is a component of internally restricted investments. In order to contain PRB costs, the PRB plan was closed to new employees hired on or after January 1, 2020.

The triennial actuarial funding valuation of the RPP and the SERP was performed as at July 1, 2018 by the MFDA's independent actuarial consultant, Buck Canada HR Services Ltd. The valuation determined that the RPP was funded at 104% on a going concern basis and 93% on a solvency or wind-up basis. The MFDA contributed an additional $1,028,920 in excess of normal cost payments to the RPP in FY 2021 (2020 – $1,028,920) in order to complete funding the solvency deficit identified in the July 1, 2018 valuation. The SERP was funded at 107% on a going concern basis as of the valuation date. In accordance with pension legislation, no solvency calculation is required for the SERP. The next funding valuation for the RPP and the SERP will be performed as at July 1, 2021. Preliminary estimates indicate that the financial position of the RPP and SERP have improved from the last valuation with the RPP funded in excess of 105% on a going concern basis and close to 100% on a solvency basis. The SERP is also estimated to be close to fully funded on a going concern basis. All regulatory funding and reporting requirements are current.

LIQUIDITY

The MFDA's regulatory and administrative activities constitute the Unrestricted Fund. The MFDA has an internal liquidity guideline for the Unrestricted Fund of three to six months of operating expenses. This guideline ensures the MFDA has adequate resources to deal with unexpected costs or contingencies. Based upon the FY 2022 operating budget this minimum is currently set at $8.4 million.

The following table summarizes the MFDA's funding coverage and liquidity position as of June 30, 2021 (table in $000's):

Annual funding requirement (per FY 2022 Budget)	$33,425
Target Reserve of 3 months Operating Expenses	$8,356
Operating Cash Account balance	$1,930
Investments - Unrestricted Fund	12,427
Total liquid assets	14,357
Short-term obligations, net of pre-payments and receivables	(3,339)
Cash and Investments, net of short-term obligations	$11,018
Number on months funding coverage	4.0

USE OF ESTIMATES

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, related amounts of revenues and expenses, and disclosure of contingencies. Significant areas requiring the use of management estimates relate to the assumptions used in the valuation of pension and other retirement benefit obligations and the recording of contingencies. Actual results could differ from those estimates.

RISK

ENTERPRISE RISK MANAGEMENT PROGRAM

Senior management manages the administration of the Enterprise Risk Management program with the Audit and Finance Committee receiving ongoing risk reporting.

LITIGATION RISK

In the normal course of executing its regulatory mandate and in its capacity as an employer, the MFDA may face claims by employees, the public, its Members or other third parties. The MFDA mitigates the risk of these claims arising by having appropriate policies, procedures and controls in place, ensuring strict compliance with these policies, procedures and controls, and seeking legal counsel accordingly. The MFDA also maintains insurance coverage through various policies to mitigate the financial impact of such claims should they arise.

FUNDING RISK

Funding risk relates to the MFDA's ability to anticipate and manage factors that may affect the level of the MFDA's revenue through Membership fees. The majority of funding for the MFDA operations is provided by its largest Members representing a small percentage of its membership. This risk is mitigated by maintaining appropriate liquid cash reserves and available credit.

REGULATORY COMPLIANCE RISK

Failure of the MFDA to comply with the terms and conditions of recognition set by the recognizing securities commissions of Canada would have serious consequences for the organization. The MFDA uses robust processes and controls to ensure compliance with these terms and conditions for recognition. Ongoing communications with the CSA as well as periodic reviews of MFDA processes and procedures performed by the CSA also mitigates this risk.

EMPLOYEE FUTURE BENEFITS RISK

Employee Future Benefits Risk refers to the risk that the MFDA's financial condition on the Statement of Financial Position would be adversely affected because of the impact on the RPP and the SERP of possible reductions in the future market value of the plan investments and/or increases in the RPP, SERP and PRB liability if interest rates decline. These risks are mitigated by holding adequate financial reserves and diversified investments, which are managed by professional investment managers operating under specified mandates. The MFDA also monitors and manages the level of funding for the RPP which by law requires funding. All contributions for the RPP (mandated and discretionary) are made in accordance with the actuarial funding valuations prepared by the MFDA's independent actuarial consultant. By law these valuations are required at least every three years. Similar risks and funding considerations apply to the unregistered plans (SERP and PRB) although funding levels for these plans are not dictated by law.

RESILIENCY AND CYBER SECURITY RISK

The MFDA assigns a high priority to ensuring the integrity and availability of its information and communication systems. Risks to these systems are monitored by management through the MFDA's risk management program with oversight by the MFDA's Audit and Finance Committee. The MFDA Board of Directors also receives regular reports from management on cyber security initiatives, systems, and staff training being implemented to mitigate this high priority risk.

The MFDA is exposed to the risks associated with power outages, design or usage errors by employees, contractors or third party service providers, and failures caused by computer viruses, security breaches, or cyber-attacks. The consequences of such disruptions may include data loss, reputational harm, investigation and remediation costs, and potential additional regulatory reporting.

The MFDA mitigates these risks by continually assessing the effectiveness of its key information security controls and practices both internally and through independent third party assessments as well as through ongoing investment in employee training and systems and services to monitor, protect, and backup information and communication systems.

Due to the increase in the number and sophistication of security threats however, the risk of a breach or outage remains a possibility, although that risk has been substantially reduced by the proactive measures implemented by the MFDA. In such an event, the MFDA maintains appropriate incident response plans and insurance to ensure the resiliency of its information and communication systems and the proprietary and third party data stored therein.

CREDIT RISK

Credit risk arises from other parties' inability to discharge their financial obligations to the MFDA. The MFDA's credit risk derives from cash, membership fees receivable and investments. The MFDA maintains cash balances with a major Canadian financial institution, although the amounts on deposit are in excess of Canada Deposit Insurance Corporation limits. Cash not required for current activities is invested in short term Canada government treasury bills or a money market pooled fund. The Post-Retirement Benefits Fund assets are invested in a diversified balanced fund. The MFDA believes the credit risk associated with membership fees receivable is minimal as all fees billed are to Members whose registration is in good standing.

LIQUIDITY RISK

Liquidity risk is the risk of holding assets that cannot be readily converted into cash and also the risk of the MFDA's inability to meet its liabilities. The financial instruments that are exposed to liquidity risk are membership fees receivable, investments, and accounts payable and accrued liabilities. The MFDA minimizes liquidity risk by investing only in highly liquid investments that can be readily converted into cash. The assets for the DB retirement plans are invested in a diversified balanced fund. The MFDA manages liquidity risk of liabilities by effective cash management to ensure there is sufficient cash available to meet its commitments. In addition, the MFDA has a line of credit available with a major Canadian financial institution.

INTEREST RATE RISK

Interest rate risk is the risk of the change in the financial instrument's fair value due to fluctuations in the current interest rate. The MFDA mitigates interest rate risk by investing in short-term holdings that are not significantly impacted by current rate fluctuations in accordance with the Board approved investment policies. The assets for the DB retirement plans are invested in a diversified balanced fund. Also, investment income is not a significant amount of the overall revenues of the MFDA.

MARKET RISK

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The MFDA minimizes exposure to market risk by investing in a portfolio of Canadian treasury bills with maturities of less than one year and a money market pooled fund. The Post-Retirement Benefits Fund assets and the Pension Fund assets are invested in a diversified balanced fund.

COVID-19 PANDEMIC

In March 2020, the World Health Organization declared the spread of COVID-19 to be a global pandemic. This resulted in governments worldwide enacting emergency measures to combat the spread of the virus including travel restrictions in and out of Canada, barring gatherings of people, and the implementation of other social distancing measures. These restrictions had no significant impact on the operations of the MFDA as systems were sufficiently flexible and robust to facilitate remote work and governance.

Management considered the impact of COVID-19 in its assessment of the MFDA's assets and liabilities and its ability to continue as a going concern. Management believes that the stability of its revenues and sufficiency of its liquid resources enable the MFDA to continue to effectively manage through the COVID-19 pandemic.

FY 2022 BUDGET

FY 2022 Budget vs. FY 2021 Actuals - GAAP Basis ($000s)

Particulars	FY 2022 (Budget)	% of Total	FY 2021 (Actuals)	% of Total
Salaries and employee benefits	$24,842	72%	$24,299	75%
Rent and occupancy	2,809	8%	2,684	8%
Technology	1,771	5%	1,433	5%
Travel	244	1%	25	0%
Hearing panels	547	2%	545	2%
Other	4,351	12%	3,326	10%
Total operating expenses	$34,564	100%	$32,312	100%
Additions to Capital Assets	$841	n/a	$658	n/a
2 year Average Member AUA (for fee determination)	$583,277,000	n/a	$536,298,000	n/a
Full-time Employees (FTEs)	166	n/a	166	n/a

The FY 2022 budget calls for total cash funding of $33.4 million versus the FY 2021 austerity budget of $31.5 million. This represents a $1.9 million or 5.9% increase in FY 2022 expenditures. In response to the market downturn that occurred in the spring of 2020, management implemented austerity measures that included hiring and salary freezes, deferment of some elements of capital spending, reduced travel and training costs as well as other operational cost reductions. In light of the subsequent market rebound and recovery in Member AUA, the MFDA's FY 2022 budget resumed normal operating levels. For reference, the FY 2020 budget, representing a normal budget year, was $33.3 million. In terms of Member AUA, the 2 year average Member AUA which is used for fee calculation purposes increased by $47 billion or 8.8%. This allowed for a 2% reduction in Member fee rates for FY 2022.

Headcount for FY 2022 budget is maintained at 166 full-time employees. Employee related expenses are budgeted to be 2.2% higher for FY 2022.

Toronto and Calgary office lease rental costs will remain in line with FY 2021 levels, subject to normal changes in operating costs passed on by the landlord. An increase in the Vancouver office rental rate will take effect in December 2021.

Technology costs are expected to be $338,000 (24%) higher in FY 2022 compared to FY 2021 due to increased maintenance of business systems, additional cyber security systems, and expansion of disaster recovery, data backup and storage facilities.

Covid-19 related travel restrictions that remained in place throughout FY 2021 dramatically reduced travel costs for the 2021 fiscal year. Fortunately, these travel restrictions did not materially impact MFDA operations as existing systems enabled remote compliance reviews and other remote work. Video conferencing capabilities also enabled meetings and hearing panel activities to continue remotely. MFDA's expectation is for a gradual return to a normal working environment for the latter half of the 2022 fiscal year.

Hearing Panel external administration costs for FY 2022 ($547,000) are expected to be in line with FY 2021 costs. For funding purposes, these costs will be recovered entirely from the Discretionary Fund. Additionally, $419,000 of hearing panel internal administration costs are expected to be recovered from the Discretionary Fund. As at June 30, 2021, the Discretionary Fund had a balance of $6,031,588.

Other expenses are expected to be higher in FY 2022 primarily due to higher depreciation expense (upon completion of the Continuing Education and Enforcement Case File systems), full year impact of increased insurance premiums, and higher consultant costs. Expenses that were reduced due to COVID-19 related travel and social distancing restrictions such as travel, Board expenses, training, and meeting and event related expenses are anticipated to begin to return to normal levels for latter part of FY 2022. Costs relating to the creation of a new SRO as directed by the CSA are as yet undetermined. However, the MFDA anticipates having access to adequate financial resources for such purposes.

Capital spending is anticipated to total $841,000 in FY 2022. Included in capital spending are costs for enhancements to the Electronic Working Paper system, Electronic Case File system and the Continuing Education system, and scheduled technology hardware replacements.

INDEPENDENT AUDITOR'S REPORT

To the Members of the
Mutual Fund Dealers Association of Canada

OPINION

We have audited the financial statements of the **Mutual Fund Dealers Association of Canada** [the "MFDA"], which comprise the statement of financial position as at June 30, 2021, and the statement of revenues and expenses, statement of changes in fund balances and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the MFDA as at June 30, 2021, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

BASIS FOR OPINION

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the MFDA in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

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

In preparing the financial statements, management is responsible for assessing the MFDA's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the MFDA or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the MFDA's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 MFDA's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the MFDA's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the MFDA to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
September 29, 2021

STATEMENT OF FINANCIAL POSITION

As at June 30

	Notes	2021	2020
		$	$
ASSETS			
Current			
Cash		**1,929,596**	1,577,792
Investments, fair value	3	**12,427,480**	12,913,761
Internally restricted investments, fair value	3, 9	**11,333,896**	10,780,809
Membership fees receivable		**6,593,670**	6,231,295
Prepaid expenses and deposits		**572,353**	506,510
Membership fees receivable – MFDA Investor Protection Corporation	6	**29,384**	86,768
Administrative costs receivable	6	**30,462**	33,029
		32,916,841	32,129,964
Non-current			
Employee future benefits	5	**7,701,500**	543,000
Capital assets, net	4	**2,865,347**	2,864,734
		43,483,688	35,537,698
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Current			
Accounts payable and accrued liabilities		**2,152,249**	2,504,042
Deferred membership fee revenue		**8,353,775**	7,882,504
Due to MFDA Investor Protection Corporation	6	**31,605**	181,353
Capital lease obligations	8	**27,110**	34,285
		10,564,739	10,602,184
Non-current			
Employee future benefits	5	**6,624,200**	6,440,500
Deferred leasehold inducements		**1,630,781**	2,012,075
Capital lease obligations	8	**9,925**	37,035
		18,829,645	19,091,794
Guarantee, commitments and contingencies (notes 6, 8 and 11), Subsequent event (note 12)			
FUND BALANCES			
Unrestricted		**13,320,147**	5,665,095
Internally restricted	9	**11,333,896**	10,780,809
		24,654,043	16,445,904
		43,483,688	35,537,698

The accompanying notes are an integral part of these financial statements.
Approved on behalf of the Board

______________________________ Director
Christopher Nicholls,
Chair, Board of Directors

______________________________ Director
Mark T. Gordon,
President & Chief Executive Officer

STATEMENT OF REVENUES AND EXPENSES

For the year ended June 30

	Notes	2021	2020
		$	$
REVENUES			
Membership fees		**31,536,518**	33,267,326
Investment income	3	**1,010,598**	384,050
Cost recoveries and late filing fees		**232,046**	279,566
Fines	9	**936,836**	1,047,037
Administration recoveries	6	**99,474**	73,398
Total revenues		**33,815,472**	35,051,377
EXPENSES			
Salaries and employee benefits	5	**24,298,729**	25,352,551
Rent and occupancy		**2,683,566**	2,774,918
Administrative services and expenses	8	**1,047,579**	1,064,991
Technology		**1,433,244**	1,259,355
Professional and consulting fees		**1,027,106**	1,375,218
Hearing panels		**544,977**	470,612
Travel		**24,899**	533,351
Amortization of capital assets		**653,420**	797,899
Board of Directors' fees and expenses		**264,015**	360,261
Staff training and development		**103,409**	209,126
Meetings, seminars and communication		**230,265**	263,431
Total expenses		**32,311,209**	34,461,713
Surplus of revenues over expenses for the year		**1,504,263**	589,664

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

STATEMENT OF CHANGES IN FUND BALANCES

For the year ended June 30

			2021	2020
	Unrestricted	**Internally Restricted**	**Total**	Total
	$	**$**	**$**	$
Fund balance, beginning of year	**5,665,095**	**10,780,809**	**16,445,904**	18,361,858
Surplus of revenues over expenses for the year	**1,504,263**	**—**	**1,504,263**	589,664
Employee future benefits – remeasurements (note 5)	**6,703,876**	**—**	**6,703,876**	(2,505,618)
Interfund transfers (note 9)	**(553,087)**	**553,087**	**—**	—
Fund balance, end of year	**13,320,147**	**11,333,896**	**24,654,043**	16,445,904

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

STATEMENT OF CASH FLOWS

For the year ended June 30

	2021	2020
	$	$
OPERATING ACTIVITIES		
Surplus of revenues over expenses for the year	**1,504,263**	589,664
Add non-cash items:		
Amortization of capital assets	**653,420**	797,899
Employee future benefits expense	**2,596,700**	2,387,500
Loss on disposal of capital assets	**3,540**	—
Net change in non-cash balances		
Membership fees receivable	**(362,375)**	1,528,557
Prepaid expenses and deposit	**(65,843)**	39,961
Membership fees receivable – MFDA Investor Protection Corporation	**57,384**	(82,608)
Administrative costs receivable	**2,567**	1,196
Accounts payable and accrued liabilities	**(284,021)**	52,173
Deferred membership fee revenue	**471,271**	(433,334)
Due to MFDA Investor Protection Corporation	**(149,748)**	170,063
Deferred leasehold inducements	**(381,294)**	(176,431)
Contributions to employee future benefit plans	**(2,867,624)**	(2,876,448)
Cash provided by operating activities	**1,178,240**	1,998,192
INVESTING ACTIVITIES		
Purchase of investments, net	**(66,806)**	(1,159,506)
Purchase of capital assets	**(725,345)**	(803,951)
Principal payments on capital leases	**(34,285)**	(34,995)
Cash used in investing activities	**(826,436)**	(1,998,452)
Increase (decrease) in cash during the year	**351,804**	(260)
Cash, beginning of year	**1,577,792**	1,578,052
Cash, end of year	**1,929,596**	1,577,792
Supplemental cash flow information		
Amounts in accounts payable and accrued liabilities related to purchase of capital assets	**(36,260)**	(104,032)

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

1. NATURE OF THE ORGANIZATION

The Mutual Fund Dealers Association of Canada (the “MFDA”) is a not-for-profit corporation incorporated without share capital. The MFDA was incorporated on June 19, 1998 under the Canada Corporations Act and was continued under the Canada *Not-for-profit Corporations Act* on July 24, 2014. As a not-for-profit organization, the MFDA is exempt from income taxes under Section 149(1) of the *Income Tax Act* (Canada).

The MFDA is the national self-regulatory organization for the distribution side of the Canadian mutual fund industry. The MFDA does not provide trade association activities for its members (“Members”). Its Members are firms that have been registered by provincial securities commissions to carry on business as mutual fund dealers. The MFDA regulates the activities of its Members and the Approved Persons sponsored by them.

The MFDA’s regulatory activities include developing rules and policies to govern the business conduct and operations of its Members and their Approved Persons, monitoring compliance with these requirements and applicable securities laws, and enforcing them through disciplinary proceedings conducted before impartial and independent MFDA hearing panels.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

These financial statements have been prepared in accordance with Part III of the *CPA Canada Handbook – Accounting*, which sets out generally accepted accounting principles for not-for-profit organizations in Canada (“GAAP”) and includes the significant accounting policies summarized below.

These financial statements do not include the assets, liabilities and operations of the MFDA Investor Protection Corporation (“MFDA IPC”), which is a separate, non-controlled corporate entity with separate financial statements (note 6).

CASH

Cash includes balances with banks. Cash maintained in investment accounts for investment in short-term vehicles is included in investments.

FINANCIAL INSTRUMENTS

The MFDA initially measures its financial assets and financial liabilities at fair value. The MFDA subsequently measures all its financial assets and financial liabilities at amortized cost, except for investments in pooled funds, which are measured at fair value at their reported net asset value per unit. Changes in fair value are recognized in the statement of revenues and expenses. Investments in treasury bills are valued at cost plus accrued interest, which approximates fair value.

All transactions are recorded on a trade date basis.

Other financial instruments, including cash, membership fees receivable, administrative costs receivable, accounts payable and accrued liabilities and due to MFDA IPC, are initially recorded at their fair values and are subsequently measured at cost, net of any provisions for impairment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

CAPITAL ASSETS

Capital assets are recorded at cost. Amortization is charged to expenses on the straight-line basis over the estimated useful lives of the assets as follows:

Computers and software development	3–5 years
Office furniture and equipment	10 years
Leasehold improvements	Over lease term
Equipment under capital leases	Over lease term

Capital assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not contribute to the MFDA's ability to provide services. Any impairment results in a write-down of the asset and an expense in the statement of revenues and expenses. An impairment loss is not reversed if the fair value of the related asset subsequently increases.

EMPLOYEE FUTURE BENEFITS

The MFDA maintains two defined benefit plans, a registered pension plan ("RPP") for eligible employees and a supplementary executive retirement plan ("SERP") for designated executive employees. The MFDA also provides other post-retirement benefits ("PRB") for eligible employees.

The MFDA accounts for these benefits using the immediate recognition approach. Under this approach, the MFDA recognizes the amount of the accrued obligation, net of the fair value of the assets, in the statement of financial position. Current service and finance costs are expensed during the year. Remeasurements and other items, which represent the total of the difference between actual and expected return on plan assets, actuarial gains and losses, and past service costs, are recognized directly in the statement of changes in fund balances.

The accrued benefit obligation for the funded plans is determined using a roll-forward technique to estimate the accrued liability using funding assumptions from the most recent actuarial valuation report prepared at least every three years. The accrued liability for unfunded plans is prepared on a basis consistent with the funded plans, with the exception that accounting assumptions are used. The pension plan assets of the RPP and the SERP are measured at fair value as at the statement of financial position date.

REVENUE RECOGNITION

The MFDA follows the deferral method of accounting for revenue recognition. Membership fees are calculated annually for the period from July 1 to June 30, using a defined formula that is based on the Member's assets under administration. Membership fees are billed quarterly and are reflected in the fiscal year due. The membership fee receivable amount represents invoices issued in June for the first quarter of the next fiscal year. The fees are deferred and are recognized as revenue in the next fiscal year.

Membership application deposits are a non-refundable deposit required to be submitted with an application for membership. The deposit is recognized as membership fees revenue when the applicant is accepted for membership.

Investment income, consisting of interest and income distributions from pooled funds and realized and unrealized gains and losses, excluding income from employee future benefit plan assets, is recorded as revenue in the statement of revenues and expenses as earned.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Cost recoveries and late filing fees and administrative recoveries are recorded as revenues when the services are provided or as the amounts become due. Fines are recorded as revenue when collected.

USE OF ESTIMATES

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of estimates relate to the assumptions used in the determination of pension and other retirement benefit assets and obligations. Actual results may differ significantly from those estimates.

3. INVESTMENTS AND INVESTMENT INCOME

The MFDA's investments are carried at fair value and consist of the following:

	2021	2020
	$	$
Cash	**100,775**	228,103
Canada Government Treasury Bills	**4,949,332**	5,699,143
CIBC Imperial Money Market Pooled Fund	**13,408,961**	13,407,700
Beutel Goodman Balanced Fund	**5,302,308**	4,359,624
	23,761,376	23,694,570

The MFDA's presentation of investments on the statement of financial position consists of the following:

	2021	2020
	$	$
Investments – fair value	**12,427,480**	12,913,761
Internally restricted investments – fair value	**11,333,896**	10,780,809
	23,761,376	23,694,570

The amount classified as "Internally restricted investments" comprises the amounts set aside for purposes of the Discretionary Fund (note 9) and investments held for the Post-Retirement Benefits Fund (note 9).

3. INVESTMENTS AND INVESTMENT INCOME (CONT.)

The MFDA's investment income recorded in the statement of revenues and expenses consists of the following:

	2021	2020
	$	$
Interest from treasury bills	**6,541**	77,430
Distributions from Money Market Pooled Fund	**35,943**	206,072
Distributions from Beutel Goodman Balanced Fund	**341,988**	253,847
Unrealized gains (losses) from Beutel Goodman Balanced Fund	**618,000**	(231,686)
	1,002,472	305,663
Bank interest	**8,126**	78,387
Total investment income	**1,010,598**	384,050

4. CAPITAL ASSETS

		2021	
	Cost	**Accumulated amortization**	**Net book value**
	$	**$**	**$**
Computers and software development	**4,636,131**	**3,331,152**	**1,304,979**
Office furniture and equipment	**1,112,442**	**816,317**	**296,125**
Leasehold improvements	**2,364,254**	**1,133,419**	**1,230,835**
Equipment under capital leases (note 8)	**177,496**	**144,088**	**33,408**
	8,290,323	**5,424,976**	**2,865,347**

		2020	
	Cost	**Accumulated amortization**	**Net book value**
	$	$	$
Computers and software development	4,117,188	3,148,533	968,655
Office furniture and equipment	1,109,041	759,420	349,621
Leasehold improvements	2,364,254	884,011	1,480,243
Equipment under capital leases (note 8)	177,496	111,281	66,215
	7,767,979	4,903,245	2,864,734

During the year, the MFDA derecognized capital assets that are no longer in use, with a cost of $135,229 (2020 – $19,567) and accumulated amortization of $131,689 (2020 – $19,567).

5. EMPLOYEE FUTURE BENEFIT PLANS

The MFDA provides retirement and post-employment benefits for its employees.

The MFDA maintains two defined benefit plans: an RPP for eligible employees and a SERP for designated executive employees.

The RPP is a contributory defined benefit pension plan based on earnings and years of service for eligible employees hired or rehired prior to January 1, 2014. The RPP is closed to new or rehired employees commencing employment on or after January 1, 2014.

The SERP is a funded supplementary defined benefit pension plan for eligible executives, based on earnings and years of service.

The MFDA also has a non-pension PRB plan. The benefits provided under the plan to retired employees are medical, dental and health care insurance coverage to eligible retirees. The PRB plan is closed to new employees hired on or after January 1, 2020.

The most recent actuarial valuation of the RPP and the SERP plans for funding purposes was as of July 1, 2018. The next actuarial valuation for the RPP and the SERP is July 1, 2021. An actuarial valuation of the PRB plan was conducted as at July 1, 2019. All regulatory funding and reporting requirements are current.

The estimate of the MFDA's employee future benefit asset (liability) on the statement of financial position comprises the following:

	2021			2020		
	RPP	**SERP**	**PRB**	RPP	SERP	PRB
	$	**$**	**$**	$	$	$
Fair value of plan assets	**45,384,900**	**8,978,100**	**—**	34,857,900	7,994,600	—
Accrued benefit obligation	**38,631,000**	**8,030,500**	**6,624,200**	34,590,200	7,719,300	6,440,500
Employee future benefit asset (liability)	**6,753,900**	**947,600**	**(6,624,200)**	267,700	275,300	(6,440,500)

5. EMPLOYEE FUTURE BENEFIT PLANS (CONT.)

The employee future benefit expense (component of salaries and employee benefits) is as follows:

	2021			2020		
	RPP	**SERP**	**PRB**	RPP	SERP	PRB
	$	**$**	**$**	$	$	$
Current service cost	**1,602,900**	**255,500**	**503,300**	1,503,400	248,700	465,000
Finance cost	**37,900**	**(4,000)**	**201,100**	(7,400)	(9,600)	187,400
Employee future benefit expense	**1,640,800**	**251,500**	**704,400**	1,496,000	239,100	652,400

The remeasurements recorded on the statement of changes in fund balances are as follows:

	2021			2020		
	RPP	**SERP**	**PRB**	RPP	SERP	PRB
	$	**$**	**$**	$	$	$
Actuarial gains (losses)	**5,674**	**—**	**501,102**	24,917	(35)	(217,800)
Asset gains (losses)	**5,528,700**	**668,300**	**100**	(2,104,400)	(208,300)	—
Total remeasurements	**5,534,374**	**668,300**	**501,202**	(2,079,483)	(208,335)	(217,800)

Reconciliation of employee future benefit asset (liability):

	2021			2020		
	RPP	**SERP**	**PRB**	RPP	SERP	PRB
	$	**$**	**$**	$	$	$
Reconciliation of fair value of plan assets						
Fair value of plan assets, beginning of year	**34,857,900**	**7,994,600**	**—**	32,752,400	7,897,200	—
Net contributions and benefits paid during the year	**3,007,300**	**94,100**	**—**	2,346,600	87,300	—
Actual return on plan assets	**7,519,700**	**889,400**	**—**	(241,100)	10,100	—
Fair value of plan assets, end of year	**45,384,900**	**8,978,100**	**—**	34,857,900	7,994,600	—

5. EMPLOYEE FUTURE BENEFIT PLANS (CONT.)

	2021			2020		
	RPP	**SERP**	**PRB**	RPP	SERP	PRB
	$	**$**	**$**	$	$	$
Reconciliation of the accrued benefit obligation						
Accrued benefit obligation, beginning of year	**34,590,200**	**7,719,300**	**6,440,500**	31,518,000	7,423,235	5,589,200
Current service costs net of benefits paid during the year	**2,017,574**	**94,100**	**483,702**	1,241,217	87,230	446,100
Interest on accrued benefit obligation	**2,028,900**	**217,100**	**201,100**	1,855,900	208,800	187,400
Actuarial loss (gain) during the year	**(5,674)**	**—**	**(501,102)**	(24,917)	35	217,800
Accrued benefit obligation, end of year	**38,631,000**	**8,030,500**	**6,624,200**	34,590,200	7,719,300	6,440,500
Employee future benefit asset (liability)	**6,753,900**	**947,600**	**(6,624,200)**	267,700	275,300	(6,440,500)

	2021			2020		
	RPP	**SERP**	**PRB**	RPP	SERP	PRB
	$	**$**	**$**	$	$	$
Employee future benefit asset (liability)						
Balance at beginning of year	**267,700**	**275,300**	**(6,440,500)**	1,234,400	473,965	(5,589,200)
Net contributions, pension costs and remeasurements during the year	**6,486,200**	**672,300**	**(183,700)**	(966,700)	(198,665)	(851,300)
Balance at end of year	**6,753,900**	**947,600**	**(6,624,200)**	267,700	275,300	(6,440,500)

5. EMPLOYEE FUTURE BENEFIT PLANS (CONT.)

PLAN ASSETS

The plan assets are invested in the Beutel Goodman Balanced Fund.

In addition to the plan assets for the RPP and SERP, the MFDA has established an internally restricted fund named the Post-Retirement Benefits Fund to meet the PRB obligations as they arise (note 9).

SIGNIFICANT ACTUARIAL ASSUMPTIONS

The following rates were used in the calculations:

	2021			2020		
	RPP	**SERP**	**PRB**	RPP	SERP	PRB
	$	**$**	**$**	$	$	$
Discount rate – obligation	**5.50**	**2.75**	**3.25**	5.50	2.75	2.90
Discount rate – expenses	**5.50**	**2.75**	**2.90**	5.50	2.75	3.10
Expected rate of return on plan assets	**5.50**	**2.75**	**—**	5.50	2.75	—
Rate of compensation increase	**3.50**	**3.50**	**n/a**	3.50	3.50	n/a

The accrued benefit obligation for the PRB plan as at June 30, 2021 was measured on the basis of the medical trend rates set at 6.0% grading down to 4.5% over three years (2020 – 6.5% grading down to 4.5% over four years), and the drug trend rates set at 7.0% grading down to 4.5% over five years (2020 – 7.5% grading down to 4.5% over six years). The dental benefit trend rates are assumed to increase at an annual rate of 4% (2020 – 4%).

6. MFDA INVESTOR PROTECTION CORPORATION

The MFDA IPC is an independent corporation without share capital and has its own Board of Directors. MFDA IPC administers an investor protection fund for the benefit of clients of mutual fund dealers that are Members of the MFDA. The MFDA assesses and collects fees from its Members on behalf of the MFDA IPC and subsequently transfers these funds to the MFDA IPC. The MFDA does not use these funds in its operations and the fees are not reflected in the statement of revenues and expenses of the MFDA.

The MFDA provides the MFDA IPC administration, corporate secretarial and other support as part of a service agreement between the two entities. The administration costs charged to the MFDA IPC for the year amounted to $99,474 (2020 – $73,398) plus applicable taxes. As at June 30, 2021, an amount of $30,462 (2020 – $33,029) was due from the MFDA IPC and $31,605 (2020 – $181,353) was due to the MFDA IPC. All amounts due from or to the MFDA IPC are non-interest bearing. The MFDA provides a guarantee of a $30 million line of credit granted to the MFDA IPC by its bank in the event of default. The credit facility is secured by a general security agreement charging all property of the MFDA excluding the RPP and SERP assets in trust. As at June 30, 2021, no obligation exists under the agreement.

7. CREDIT FACILITY

The MFDA has a demand credit facility in the amount of $6,000,000 (2020 – $6,000,000). The credit facility bears an interest rate of prime plus 0.75% per annum (2020 – prime plus 0.75%). The MFDA has granted a general security interest to the bank in connection with this facility. During the years ended June 30, 2021 and 2020, the credit facility was not utilized.

8. COMMITMENTS

CAPITAL LEASES

The MFDA has entered into two capital leases for office equipment. The capital leases expire in July 2022 and January 2023, respectively. Interest expense incurred on the capital leases for the year amounted to $3,953 (2020 – $6,325) and is recorded in administrative services and expenses in the statement of revenues and expenses.

OPERATING LEASES

The MFDA has entered into operating leases for its office premises in Toronto, Calgary and Vancouver.

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

	$
2022	1,381,900
2023	1,425,214
2024	1,452,450
2025	1,341,528
2026	1,214,635
Thereafter	196,765
	7,012,492

9. INTERNALLY RESTRICTED FUNDS

Internally restricted funds represent funds approved by the Board of Directors for prescribed purposes. The funds consist of the following:

	2021	2020
	$	$
Discretionary Fund	**6,031,588**	6,421,185
Post-Retirement Benefits Fund	**5,302,308**	4,359,624
	11,333,896	10,780,809

9. INTERNALLY RESTRICTED FUNDS (CONT.)

(A) DISCRETIONARY FUND

The Discretionary Fund is an internally restricted fund established by the MFDA Board of Directors, which collects enforcement fines imposed by order of an MFDA hearing panel and related investment income.

Disbursements and transfers from the Discretionary Fund must be approved by the MFDA Board of Directors and are currently restricted to the funding of hearing panel administration costs related to MFDA Enforcement Hearings, funding for the MFDA IPC, and funding either directly or via contributions to non-profit, tax-exempt organizations, for special projects that are in the public interest and beneficial to the public or Canadian capital markets.

(B) POST-RETIREMENT BENEFITS FUND

The Post-Retirement Benefits Fund is an internally restricted fund established by the MFDA Board of Directors to fund the employee PRB obligations (e.g., health and dental care benefits to retired employees). This fund may also be used for special disbursements relating to other employee future benefits (e.g., solvency payments for the MFDA's pension plans), as needed.

The following tables summarize the activity in the internally restricted funds:

		2021	
	Discretionary Fund	**Post-Retirement Benefits Fund**	**Total**
	$	**$**	**$**
Balance, beginning of year	**6,421,185**	**4,359,624**	**10,780,809**
Fines collected	**936,836**	**—**	**936,836**
Realized investment income, net of fees	**14,043**	**324,684**	**338,727**
Unrealized investment gains	**—**	**618,000**	**618,000**
Transfers to unrestricted fund	**(1,340,476)**	**—**	**(1,340,476)**
Net activity during the year	**(389,597)**	**942,684**	**553,087**
Balance, end of year	**6,031,588**	**5,302,308**	**11,333,896**

9. INTERNALLY RESTRICTED FUNDS (CONT.)

	2020		
	Discretionary Fund	Post-Retirement Benefits Fund	Total
	$	$	$
Balance, beginning of year	6,022,810	4,349,997	10,372,807
Fines collected	1,047,037	—	1,047,037
Realized investment income, net of fees	98,542	241,313	339,855
Unrealized investment losses	—	(231,686)	(231,686)
Transfers to unrestricted fund	(747,204)	—	(747,204)
Net activity during the year	398,375	9,627	408,002
Balance, end of year	6,421,185	4,359,624	10,780,809

Internally restricted funds are carried at fair value and are invested as follows:

	2021		
	Discretionary Fund	Post-Retirement Benefits Fund	Total
	$	**$**	**$**
Cash	**69,768**	**—**	**69,768**
CIBC Imperial Money Market Pooled Fund	**5,961,820**	**—**	**5,961,820**
Beutel Goodman Balanced Fund	**—**	**5,302,308**	**5,302,308**
Balance, end of year (note 3)	**6,031,588**	**5,302,308**	**11,333,896**

	2020		
	Discretionary Fund	Post-Retirement Benefits Fund	Total
	$	$	$
Cash	193,084	—	193,084
CIBC Imperial Money Market Pooled Fund	6,228,101	—	6,228,101
Beutel Goodman Balanced Fund	—	4,359,624	4,359,624
Balance, end of year (note 3)	6,421,185	4,359,624	10,780,809

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The MFDA is exposed to various financial risks through transactions in financial instruments.

CREDIT RISK

Credit risk is the risk of other parties' inability to discharge their financial obligations to the MFDA. The MFDA's credit risk derives from cash, membership fees receivable and investments.

The MFDA maintains cash balances with a major Canadian financial institution, although the amounts on deposit are in excess of Canada Deposit Insurance Corporation limits. Cash not required for current activities is invested directly in short-term Canada government treasury bills or a money market pooled fund. The Post-Retirement Benefits Fund assets are invested in a diversified balanced fund.

The MFDA believes the credit risk associated with membership fees receivable is minimal as all fees billed are to Members whose registration is in good standing. As at June 30, 2021, there are no outstanding membership fees due from fiscal 2021 assessments.

LIQUIDITY RISK

Liquidity risk is the risk of holding assets that cannot be readily converted into cash and also the risk of the MFDA's inability to meet its liabilities. The financial instruments that are exposed to liquidity risk are membership fees receivable, investments, and accounts payable and accrued liabilities.

The MFDA minimizes liquidity risk by investing only in highly liquid investments that can be readily converted into cash. The Post-Retirement Benefits Fund assets are invested in a diversified balanced fund.

The MFDA manages liquidity risk of liabilities by effective cash management to ensure there is sufficient cash available to meet its commitments.

In addition, the MFDA has a line of credit available with a major Canadian financial institution (note 7).

INTEREST RATE RISK

Interest rate risk is the risk of the change in the financial instrument's fair value due to fluctuations in the current interest rate.

The MFDA mitigates interest rate risk by investment in short-term holdings that are not significantly impacted by current rate fluctuations. The Post-Retirement Benefits Fund assets are invested in a diversified balanced fund. Investment income is not a significant amount of the overall revenues of the MFDA.

MARKET RISK

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The MFDA minimizes exposure to market risk by investing in a portfolio of Canadian treasury bills with maturities of less than one year and a money market pooled fund. Pension Fund assets and the Post-Retirement Benefits Fund assets are invested in a diversified balanced fund.

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT.)

TECHNOLOGY SYSTEMS DISRUPTIONS AND CYBER SECURITY RISK

The MFDA gives a high priority to ensuring the integrity and availability of its information and communication systems. These risks are monitored by management through the MFDA's risk management program with oversight by the MFDA's Audit and Finance Committee. The MFDA Board of Directors also receives regular reports from management on cyber security initiatives, systems, and staff training being implemented to mitigate this high-priority risk.

The MFDA is exposed to the risks associated with power outages, design or usage errors by its employees, contractors or third-party service providers, failures caused by computer viruses, security breaches, and cyber-attacks. The consequences of such disruptions may include data loss, reputational harm, investigation and remediation costs, and potential additional regulatory reporting.

The MFDA mitigates these risks by continually assessing the effectiveness of its key information security controls, and practices both internally and through independent third-party assessments, as well as through ongoing investment in employee training and systems and services, to monitor, protect, and backup information and communication systems.

Due to the increase in the number and sophistication of security threats, however, the risk of a breach or outage remains a possibility, although that risk has been substantially reduced by the proactive measures implemented by the MFDA. In such an event, the MFDA maintains appropriate incident response plans and insurance to ensure the resiliency of its information and communication systems, and the proprietary and third-party data stored therein.

COVID-19 PANDEMIC

In March 2020, the World Health Organization declared the spread of the novel coronavirus ("COVID-19") to be a global pandemic. This resulted in governments worldwide enacting emergency measures to combat the spread of the virus including travel restrictions in and out of Canada, barring gatherings of people, and the implementation of other social distancing measures. These restrictions had no significant impact on the operations of the MFDA as systems were sufficiently flexible and robust to facilitate remote work.

Management considered the impact of COVID-19 in its assessment of the MFDA's assets and liabilities and its ability to continue as a going concern. Management believes that the stability of its revenues and sufficiency of its liquid resources enable the MFDA to continue to effectively manage through the COVID-19 pandemic.

11. CONTINGENCIES

In the normal course of operations, the MFDA is subject to claims or potential claims. Management records its best estimate of the potential liability related to these claims where potential liability is likely and able to be estimated. In other cases, the ultimate outcome of the claims cannot be determined at this time. Any additional losses related to claims would be recorded in the year during which the amount of the liability is able to be estimated or adjustments to the amount recorded are determined to be required.

12. SUBSEQUENT EVENT

On August 3, 2021, the Canadian Securities Administrators ("CSA") announced its plan to create a new, single self-regulatory organization ("SRO") which will provide enhanced regulation of the investment industry. The new SRO, as described in the publication of CSA Position Paper 25-404, *New Self-Regulatory Organization Framework*, will consolidate the functions of the MFDA and the Investment Industry Regulatory Organization of Canada. The CSA will also combine the two existing investor protection funds – the MFDA IPC and the Canadian Investor Protection Fund – into an integrated fund independent of the new SRO. The timeline for these changes is currently undefined.

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