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, 2022. This MD&A should be read in conjunction with the audited financial statements and the accompanying notes for the fiscal year ("FY") ended June 30, 2022.

The MFDA is recognized by the Canadian Securities Administrators ("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.

SRO FRAMEWORK

On August 3, 2021, the CSA published its position paper regarding the SRO framework to create a new, single, enhanced self-regulatory organization ("New SRO"). The main objective of creating the New SRO is to develop a regulatory framework that has a clear public interest mandate and fosters fair and efficient capital markets, by focusing on investor protection to promote public confidence and accommodating innovation and change. The New SRO will consolidate the regulatory activities of the MFDA and Investment Industry Regulatory Organization of Canada ("IIROC") through a legal amalgamation with a scheduled close date of December 31, 2022, subject to recognition by the CSA and approval via Member vote being held at a special meeting of Members in September 2022. The SROs will bring their memberships, assets, liabilities and legal and regulatory responsibilities, including memorandums of understanding, to the New SRO as a result of the amalgamation. The New SRO will be recognized in all the provinces and territories, with transitional provisions for mutual fund dealers and their representatives registered in Quebec.

Since the CSA published its position paper on August 3, 2021, the MFDA has been incurring expenses and charges in connection with the amalgamation with IIROC into New SRO. As of June 30, 2022, the following expenses have been incurred (in $000's):

Integration management consulting	$	1,993
Legal		1,723
Governance		636
Contingent employee related costs		125
Finance advisory		62
Human resources and related advisory		31
Communication		14
	$	**4,584**

As of July 28, 2022, the CSA approved the MFDA's application seeking approval to use the monies available in the Discretionary Fund to pay for certain professional and consulting fees regarding the creation of the New SRO, subject to a maximum of $4,290,000. The remaining SRO integration costs will be recovered through a separate fee model and the proposal will be communicated to the Members through the member information circular sent in advance of the member vote in September 2022. Until a cost recovery model is implemented, the build-up of these costs will result in a draw-down of the MFDA's operating reserves.

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

Particulars	FY 2022			FY 2021
	As Reported	SRO Integration Costs	Excluding SRO Integration Costs	
Operating revenues				
Membership fees	$33,426	-	$33,426	$31,537
Fines	2,338	-	2,338	937
Other	165	-	165	1,342
Total revenues	35,929	-	35,929	33,816
Expenses				
Salaries and employee benefits	25,579	145	25,434	24,299
Rent and occupancy	2,724	-	2,724	2,684
Technology	1,635	-	1,635	1,433
Travel	78	-	78	25
Hearing panels	442	-	442	545
Other	8,245	4,439	3,806	3,326
Total expenses	38,703	4,584	34,119	32,312
(Deficit) surplus of revenues over expenses	(2,774)	(4,584)	1,810	1,504
Assets				
Current assets	19,213			21,583
Current assets - internally restricted	12,131			11,334
Non-current assets	3,197			10,567
Total assets	34,541			43,484
Liabilities				
Current liabilities	12,441			10,565
Non-current liabilities	8,465			8,265
Total liabilities	20,906			18,830
Net assets	$13,635			$24,654
Full-time employees (FTEs)	166			166
Member Assets Under Administration ("AUA") - for fee purposes (excluding Quebec)	$629,221,595			$568,147,575
Number of Members	85			88
Number of Approved Persons	77,217			76,972

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).

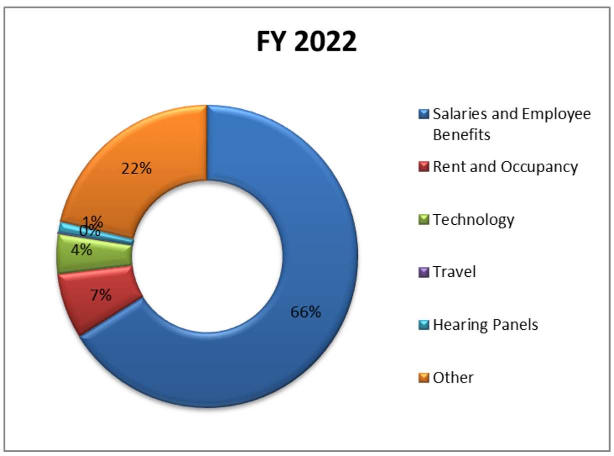
Fees charged to individual Member firms are calculated using a tiered formula that takes into account the amount of assets under administration ("AUA") of each Member firm with a minimum fee amount applicable to all Members. Such Member fees are payable in quarterly installments, which have continued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

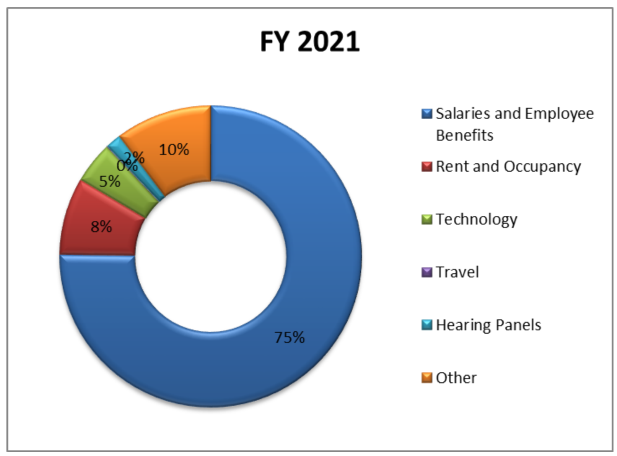
The MFDA's other sources of revenues (unrestricted and internally restricted) typically include:

- 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
- Course registration and other fees relating to the Continuing Education program
- Recoveries from MFDA IPC for administrative services provided by the MFDA, and
- Other income, if any.

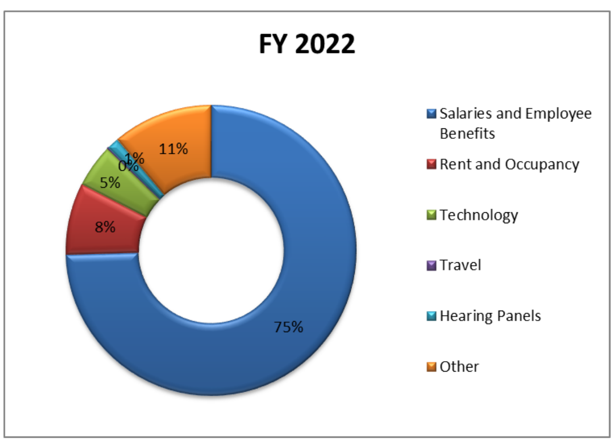
Expenses

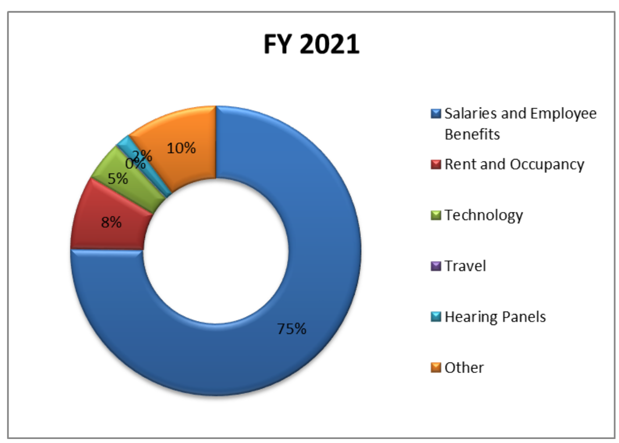
As reported:





Excluding SRO Integration costs:





Total expenses increased 19.8% year over year in FY 2022, primarily due to the unbudgeted SRO integration costs referred to above. Excluding the impact of the SRO integration costs, total expenses for FY 2022 were 5.6% higher over FY 2021. Significant year over year expense variances (**excluding the impact of the SRO integration costs**) are explained in the following paragraphs.

Compensation

Salaries and employee benefits expense, excluding benefit plans remeasurements which are recorded directly against Fund balances, represent 75% of FY 2022 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 2022 was maintained at 166 FTEs. Salaries and employee benefits expense for FY 2022 was $1,135,190 (4.7%) higher than FY 2021.

The salary and employee benefits expense (other than the employee future benefits component explained below) increased by $1,627,342 (7.6%) primarily due to a merit increase of 2.75% (staff salaries were frozen in FY 2021), higher bonus payouts as a result of additional workload pertaining to the SRO integration project and higher vacation payouts and hiring costs emanating from higher staff turnover.

Employee future benefits expense was lower in FY 2022 by $492,153 (17.4%), primarily due to lower current service costs and finance costs relating to the Registered Retirement Plan (“RPP”). 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; Post Retirement Benefits Plan (“PRB”) – 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 higher by $40,298 (1.5%) in FY 2022, mainly due to higher lease renewal rates for the Vancouver office on account of the prevailing market conditions. The following is a breakdown of FY 2022 occupancy costs by location:

Location	**Annual Occupancy Cost**
Toronto	$2,291,287
Calgary	$147,672
Vancouver	$284,905

Technology

Technology costs were higher in FY 2022 by $201,608 (14.1%), primarily due to increased maintenance of business systems, additional cyber security systems, and expansion of disaster recovery, data backup and storage facilities. 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 2022 were higher by $53,145 (213.4%) compared to FY 2021, primarily due to the COVID-19 related travel restrictions prevailing in FY 2021.

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 2022 were $102,572 (18.8%) lower compared to FY 2021, mainly due to the increased utilization of elected industry representatives (who are not compensated for being the hearing panelists) vs. appointed industry representatives on the MFDA hearing panels. 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 2022 were $21,883 (2.1%) higher compared to FY 2021. Amortization expense was higher in FY 2022 by $136,992 (21%) due to higher amortization of software development costs, mainly relating to the Continuing Education related systems. Insurance costs were higher in FY 2022 by $163,286 (52%) due to higher Cyber and D&O Insurance renewal costs on account of prevailing market conditions. Included in other expenses for FY 2022 were contribution of $75,000 made to the Osgoode Hall Investor Protection Clinic, which were recovered from the Discretionary Fund, as described further in the Discretionary Fund section. Other categories of expenses were in line with the previous year.

(Deficit) surplus of Revenues over Expenses

The deficit of revenues over expenses for FY 2022 of $2,773,913 was mainly driven by the SRO integration costs of $4,583,685 referred to above.

<u>Financial Position</u>

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 $21,089,514 at June 30, 2022 (2021 - $23,761,376) and consisted of a money market fund, Government of Canada treasury bills, and a balanced fund, which are managed by external fund managers. FY 2022 investments consist of $8,958,722 (2021 – $12,427,480) pertaining to the Unrestricted Fund, $7,241,102 (2021 – $6,031,588) pertaining to the Discretionary Fund and $4,889,690 (2021 – $5,302,308) pertaining to the Post-Retirement Benefits Fund.

Capital Expenditures

Capital expenditures totaled $634,320 in FY 2022 (2021 - $657,573) and 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 2022, the Fund received fines of $2,337,567 (2021 – $936,836) and $1,150,916 (2021 – $1,340,476) was transferred to the Unrestricted Fund towards the administrative costs related to MFDA Enforcement Hearings - $805,235 (2021 - $1,179,800) and other cost recoveries approved by the Board - $345,681 (2021 - $160,676), comprising Expanded Cost Reporting project - $50,850, Client Research project - $84,750, contribution to Osgoode Hall Investor Protection Clinic - $75,000 and legal costs incurred for fine recoveries - $135,081. As of June 30, 2022, the Discretionary Fund balance was $7,241,102 (2021 – $6,031,588) 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, 2022, the PRB Fund balance was $4,889,690 (2021 – $5,302,308). During FY 2022, the PRB Fund incurred an investment loss, net of fees, of $412,618, due to the downturn in the equity markets.

MFDA Investor Protection Corporation

The MFDA bills and collects assessments on behalf of the MFDA IPC. For the year ended June 30, 2022 the MFDA billed $1,463,762 (2021 – $2,100,492) to its Members on behalf of the MFDA IPC. As at June 30, 2022, $15,894 of the MFDA IPC assessments remained due to the MFDA IPC (2021 – $31,605). 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 2022 amounted to $83,518 (2021 – $99,474) plus applicable taxes.

Employee Future Benefits Asset and Liability

The MFDA financial statements include employee future benefits asset of $487,500 (2021 – $7,701,500) pertaining to the SERP and an accrued employee future benefits liability of $7,199,100 (2021 – $6,624,200) pertaining to the RPP and the PRB plan. The $7,199,100 employee future benefits liability comprises a $2,016,500 liability (2021 – $6,753,900 asset) pertaining to the RPP and a $5,182,600 liability (2021 – $6,624,200) relating to the PRB.

The year over year decrease of $8,770,400 in the RPP balance is analyzed in note 5 to the audited financial statements. There are a number of components of that analysis that give rise to the decrease. The major factor resulting in the loss on plan assets of $6,619,000 was the downturn in the equity markets during FY 2022. Management focuses primarily on the long term rate of return which as of June 30, 2022, was 6.99% 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 5.0% used for the funding valuation.

The $460,100 year over year decrease in the SERP asset balance is also analyzed in note 5 of the audited financial statements and was also primarily due to the market downturn during FY 2022.

The $1,441,600 year over year decrease in the PRB liability is mainly due to the actuarial gains driven by a higher discount rate used for valuation purposes (5.10% at June 30, 2022 vs. 3.25% at June 30, 2021).

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, 2022, the PRB Fund had an asset balance of $4,889,690 (2021 – $5,302,308). 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, 2021 by the MFDA's independent actuarial consultant, Buck LLP. The valuation determined that the RPP was funded at 107.7% on a going concern basis and 95.4% on a solvency or wind-up basis. The MFDA contributed an additional $500,000 in excess of normal cost payments to the RPP in FY 2022 (2021 – $1,028,920) in order to fund the solvency deficit identified in the funding valuations. The SERP was funded at 113% 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 mandatory funding valuation for the RPP and the SERP will be performed as at July 1, 2024. 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 to deal with unexpected costs or contingencies.

The following table summarizes the MFDA's funding coverage and liquidity position as of June 30, 2022 (table in $000's):

Annual funding requirement (per FY 2023 Budget)	$	35,395
Target Minimum Reserve of 3 months Operating Expenses	$	8,849
Operating Cash Account balance	$	1,240
Investments - Unrestricted Fund		8,959
Total liquid assets		10,199
Short-term obligations, net of pre-payments and receivables		(3,427)
Cash and Investments, net of short-term obligations	$	6,773
Number of months funding coverage		2.3

The funding coverage ratio (2.3 months) dropped temporarily below the target 3 months minimum due to the unbudgeted SRO integration costs ($4,583,685) incurred during FY 2022. As discussed in the SRO Framework section, in August 2022, the CSA approved the MFDA's application seeking approval to use the monies available in the Discretionary Fund to pay for certain professional and consulting fees regarding the creation of the New SRO, subject to a maximum of $4,290,000. In addition to seeking access to the MFDA Discretionary Fund, a commitment was obtained by the MFDA from a financial institution for an additional credit facility for an amount of $12,000,000 to ensure sufficient liquidity to cover expenses associated with the creation of New SRO. New SRO will implement a cost recovery plan to finance the integration costs over a period of years and thus replenish the reserves. Also refer to the FY 2023 Budget section in this MD&A which describes additional steps taken to replenish the reserves.

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. Also, refer to the additional credit facility of $12,000,000 described under the "Liquidity" section above.

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.

FY 2023 Budget

FY 2023 Budget vs. FY 2022 Actuals (excluding SRO integration costs) – GAAP Basis (table in $000's)

Particulars	FY 2023 (Budget)	% of Total	FY 2022 (Actuals), excluding SRO Integration Costs	% of Total
Salaries and employee benefits	$ 26,892	73%	$ 25,434	75%
Rent and occupancy	2,830	8%	2,724	8%
Technology	1,768	5%	1,635	5%
Travel	349	1%	78	0%
Hearing panels	293	1%	442	1%
Other	4,748	12%	3,806	11%
Total operating expenses	$ 36,880	100%	$ 34,119	100%
Additions to Capital Assets	$ 769	n/a	$ 634	n/a
2 year Average Member AUA (for fee determination)	$ 675,757,000	n/a	$ 583,277,000	n/a
Full-time Employees (FTEs)	164	n/a	166	n/a

FY 2023 budget represents the stand-alone "business as usual" budget for the unrestricted fund of the MFDA for the fiscal year 2023 (July 1, 2022 to June 30, 2023) to continue performing the MFDA's normal regulatory functions. Required funding for FY 2023 Budget is $38.4 million vs. $33.4 million for FY 2022 Budget, representing a $5 million or 15% increase year over year, primarily due to higher compensation and benefits costs ($2 million) and significant (but not 100%) replenishment of operating reserves ($3 million) which had been depleted by unbudgeted SRO integration costs estimated to total $7.9 million (out of which $4.3 million is expected to be funded from the Discretionary Fund) by December 31, 2022 with more to be incurred in 2023. FY 2023 budget totaling $35.4 million does not include the costs relating to the SRO integration project, but the total $38.4 million proposed funding includes $3 million replenishment of operating reserves. The proposed Tier 1 fee rate is flat year over year. The higher AUA base combined with this fee rate finances the increased funding of $38.4 million for 2023 compared to the $33.4 raised in 2022.

Two staff positions have been eliminated for FY 2023 budget (164 vs. 166 FTEs). Employee related expenses are budgeted to be 5.7% higher for FY 2023. The FY 2023 budget for salary includes a 3.0% increase over FY 2022 to address cost of living and merit adjustments. The MFDA benchmarks to comparable organizations in determining this increase. Higher bonus target payout percentages have been assumed for FY 2023 budget to reflect the additional workload from the SRO integration project.

Toronto and Calgary office lease rental costs will remain in line with FY 2022 levels, subject to normal changes in operating costs passed on by the landlord. Vancouver lease was renewed in December 2021 (lease expiry date) at a higher rate than the previous lease, due to the prevailing market conditions.

Technology costs are expected to be $133,000 (8%) higher in FY 2023 compared to FY 2022 due to inflationary increases and additional cyber security systems.

Covid-19 related travel restrictions that remained in place for the most part of FY 2022 dramatically reduced travel costs for FY 2022 compared to prior normal years. FY 2023 travel costs are budgeted to be $271,000 higher than FY 2022, but substantially less than pre-Covid-19 levels (e.g. $834,000 in FY 2019). Fortunately, the travel restrictions did not materially impact MFDA operations as existing systems enabled remote compliance reviews and other remote work. Video conferencing capabilities are enabling meetings and hearing panel activities to continue remotely.

Hearing Panel external administration costs for FY 2023 ($293,000) are expected to be lower than FY 2022 costs. For funding purposes, these costs will be recovered entirely from the Discretionary Fund. Additionally, $266,000 of hearing panel internal administration costs are expected to be recovered from the Discretionary Fund. As at June 30, 2022, the Discretionary Fund had a balance of $7,241,102.

Other expenses are expected to be higher in FY 2023 primarily due to higher depreciation expense, 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 in FY 2023.

Capital spending is anticipated to total $769,000 in FY 2023. 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.

DM#895867

Mutual Fund Dealers Association of Canada

Financial statements
June 30, 2022

Mutual Fund Dealers Association of Canada

June 30, 2022

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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, 2022, 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, 2022, 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.

Emphasis of matter – proposed amalgamation

We draw attention to note 1 to the financial statements, which describes the proposed amalgamation of the MFDA with another organization scheduled for December 31, 2022. Our opinion is not modified with respect to this matter.

Other information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained the Annual Report prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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
August 26, 2022

Mutual Fund Dealers Association of Canada

Statement of Financial Position
As at June 30

	Notes	2022	2021
		$	$
ASSETS			
Current			
Cash		**1,240,461**	1,929,596
Investments, fair value	3	**8,958,722**	12,427,480
Internally restricted investments, fair value	3, 9	**12,130,792**	11,333,896
Membership fees receivable		**8,304,278**	6,593,670
Prepaid expenses and deposits		**680,289**	572,353
Membership fees receivable – MFDA Investor Protection Corporation	6	**12,262**	29,384
Administrative costs receivable	6	**17,269**	30,462
		31,344,073	32,916,841
Non-current			
Employee future benefits	5	**487,500**	7,701,500
Capital assets, net	4	**2,709,255**	2,865,347
Total assets		**34,540,828**	43,483,688
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Current			
Accounts payable and accrued liabilities		**2,801,715**	2,152,249
Deferred membership fee revenue		**9,613,092**	8,353,775
Due to MFDA Investor Protection Corporation	6	**15,894**	31,605
Capital lease obligations	8	**9,925**	27,110
		12,440,626	10,564,739
Non-current			
Employee future benefits	5	**7,199,100**	6,624,200
Deferred leasehold inducements		**1,265,962**	1,630,781
Capital lease obligations	8	**—**	9,925
Total liabilities		**20,905,688**	18,829,645
Guarantee, commitments and contingencies (notes 6, 8 and 11)			
Subsequent events (notes 1 and 7)			
FUND BALANCES			
Unrestricted		**1,504,348**	13,320,147
Internally restricted	9	**12,130,792**	11,333,896
Total fund balances		**13,635,140**	24,654,043
Total liabilities and fund balances		**34,540,828**	43,483,688

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

Approved on behalf of the Board

_______________________________ Director

_______________________________ Director

Mutual Fund Dealers Association of Canada

Statement of Revenues and Expenses
For the year ended June 30

	Notes	2022	2021
		$	$
REVENUES			
Membership fees		**33,426,186**	31,536,518
Investment (loss) income	3	**(315,643)**	1,010,598
Cost recoveries and late filing fees		**376,085**	232,046
Fines	9	**2,337,567**	936,836
Administration recoveries	6	**83,518**	99,474
Other income		**20,920**	—
Total revenues		**35,928,633**	33,815,472
EXPENSES			
Salaries and employee benefits	1, 5	**25,578,820**	24,298,729
Rent and occupancy		**2,723,864**	2,683,566
Administrative services and expenses	8	**1,365,658**	1,047,579
Technology		**1,634,852**	1,433,244
Professional and consulting fees	1	**5,328,434**	1,027,106
Hearing panels		**442,405**	544,977
Travel		**78,044**	24,899
Amortization of capital assets		**790,412**	653,420
Board of Directors' fees and expenses	1	**406,376**	264,015
Staff training and development		**92,397**	103,409
Meetings, seminars and communication	1	**261,284**	230,265
Total expenses		**38,702,546**	32,311,209
(Deficit) surplus of revenues over expenses for the year		**(2,773,913)**	1,504,263

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

Mutual Fund Dealers Association of Canada

Statement of Changes in Fund Balances
For the year ended June 30

	Notes	Unrestricted	Internally Restricted	2022 Total	2021 Total
		$	$	$	$
Fund balance, beginning of year		**13,320,147**	**11,333,896**	**24,654,043**	16,445,904
(Deficit) surplus of revenues over expenses for the year		**(2,773,913)**	**—**	**(2,773,913)**	1,504,263
Employee future benefits – remeasurements	5	**(8,244,990)**	**—**	**(8,244,990)**	6,703,876
Interfund transfers	9	**(796,896)**	**796,896**	**—**	—
Fund balance, end of year		**1,504,348**	**12,130,792**	**13,635,140**	24,654,043

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

Mutual Fund Dealers Association of Canada

Statement of Cash Flows
For the year ended June 30

	2022	2021
	$	$
OPERATING ACTIVITIES		
(Deficit) surplus of revenues over expenses for the year	**(2,773,913)**	1,504,263
Add non-cash items:		
Amortization of capital assets	**790,412**	653,420
Employee future benefits expense	**2,090,400**	2,596,700
Loss on disposal of capital assets	**—**	3,540
Net change in non-cash balances		
Membership fees receivable	**(1,710,608)**	(362,375)
Prepaid expenses and deposits	**(107,936)**	(65,843)
Membership fees receivable – MFDA Investor Protection Corporation	**17,122**	57,384
Administrative costs receivable	**13,193**	2,567
Accounts payable and accrued liabilities	**650,829**	(284,021)
Deferred membership fee revenue	**1,259,317**	471,271
Due to MFDA Investor Protection Corporation	**(15,711)**	(149,748)
Deferred leasehold inducements	**(364,819)**	(381,294)
Contributions to employee future benefit plans	**(2,546,490)**	(2,867,624)
Cash (used in) provided by operating activities	**(2,698,204)**	1,178,240
INVESTING ACTIVITIES		
Sale (purchase) of investments, net	**2,671,862**	(66,806)
Purchase of capital assets	**(635,683)**	(725,345)
Principal payments on capital leases	**(27,110)**	(34,285)
Cash provided by (used in) investing activities	**2,009,069**	(826,436)
(Decrease) increase in cash during the year	**(689,135)**	351,804
Cash, beginning of year	**1,929,596**	1,577,792
Cash, end of year	**1,240,461**	1,929,596
Supplemental cash flow information		
Amounts in accounts payable and accrued liabilities related to purchase of capital assets	**(34,897)**	(36,260)

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

Notes to Financial Statements, June 30, 2022

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 carries out its regulatory responsibilities under Recognition Orders from the provincial securities commissions that make up the Canadian Securities Administrators ("CSA"). 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.

After completing an in-depth review of the current Self-Regulatory Organization ("SRO") framework involving two SROs – the MFDA and Investment Industry Regulatory Organization of Canada ("IIROC"), the CSA published its position paper on August 3, 2021 to establish a new, single, enhanced SRO ("New SRO"). The main objective of creating the New SRO is to develop a regulatory framework that has a clear public interest mandate and fosters fair and efficient capital markets in Canada, by focusing on investor protection to promote public confidence and accommodating innovation and change. The New SRO will consolidate the regulatory activities of the MFDA and IIROC.

The legal amalgamation of the MFDA and IIROC is scheduled to close on December 31, 2022, subject to recognition by the CSA and approval via member vote being held at a special meeting of members in September 2022. The closing date represents the MFDA's final fiscal year-end close and then the "New SRO" is created effective January 1, 2023. Under a legal amalgamation, all assets and liabilities of the MFDA and IIROC are combined and continued into the new organization at their carrying values on the closing date.

Since the CSA published its position paper on August 3, 2021, the MFDA has been incurring expenses and charges in connection with the amalgamation with IIROC into New SRO. As of June 30, 2022, the total of such expenses amounted to $4,583,685 [2021 – nil], as summarized in the table below:

	$
Salaries and employee benefits	144,901
Professional and consulting fees	4,279,446
Board of Directors' fees and expenses	145,500
Meetings, seminars and communications	13,838
	4,583,685

Certain of these costs may be recovered from the Discretionary Fund upon approval by the MFDA's Board of Directors and the CSA. Revenue to recover the remaining integration costs will be recorded when a recovery model is established.

As of July 28, 2022, the CSA approved the MFDA's application seeking approval to use the monies available in the Discretionary Fund to pay for certain professional and consulting fees regarding the creation of the New SRO, subject to a maximum of $4,290,000.

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.

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 each Member's assets under administration. Membership fees are billed quarterly and are reflected in the fiscal year due. The membership fees 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.

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:

	2022 $	2021 $
Cash	**287,968**	100,775
Canada Government Treasury Bills	**4,657,888**	4,949,332
CIBC Imperial Money Market Pooled Fund	**11,253,968**	13,408,961
Beutel Goodman Balanced Fund	**4,889,690**	5,302,308
	21,089,514	23,761,376

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

	2022 $	2021 $
Investments – fair value	**8,958,722**	12,427,480
Internally restricted investments – fair value	**12,130,792**	11,333,896
	21,089,514	23,761,376

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).

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

	2022 $	2021 $
Interest from Canada Government treasury bills	**17,760**	6,541
Distributions from CIBC Imperial Money Market Pooled Fund	**49,948**	35,943
Distributions from Beutel Goodman Balanced Fund	**500,803**	341,988
Unrealized (losses) gains from Beutel Goodman Balanced Fund	**(894,611)**	618,000
	(326,100)	1,002,472
Bank interest	**10,457**	8,126
Total investment (loss) income	**(315,643)**	1,010,598

Notes to Financial Statements, June 30, 2022

4. Capital assets

	2022		
	Cost	Accumulated amortization	Net book value
	$	$	$
Computers and software development	**5,270,451**	**3,800,440**	**1,470,011**
Office furniture and equipment	**1,112,442**	**868,250**	**244,192**
Leasehold improvements	**2,364,254**	**1,377,879**	**986,375**
Equipment under capital leases (note 8)	**177,496**	**168,819**	**8,677**
	8,924,643	**6,215,388**	**2,709,255**

	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

During the year, the MFDA derecognized capital assets that are no longer in use, with a cost of nil (2021 - $135,229) and accumulated amortization of nil (2021 - $131,689).

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.

Notes to Financial Statements, June 30, 2022

The most recent actuarial valuation of the RPP and the SERP plans for funding purposes was as of July 1, 2021. The next actuarial valuation for the RPP and the SERP is July 1, 2024. An actuarial valuation of the PRB plan was conducted as at July 1, 2022. All regulatory funding and reporting requirements are current.

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

	2022			2021		
	RPP	**SERP**	**PRB**	**RPP**	**SERP**	**PRB**
	$	$	$	$	$	$
Fair value of plan assets	**41,438,300**	**8,731,600**	**—**	45,384,900	8,978,100	—
Accrued benefit obligation	**43,454,800**	**8,244,100**	**5,182,600**	38,631,000	8,030,500	6,624,200
Employee future benefit asset (liability)	**(2,016,500)**	**487,500**	**(5,182,600)**	6,753,900	947,600	(6,624,200)

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

	2022			2021		
	RPP	**SERP**	**PRB**	**RPP**	**SERP**	**PRB**
	$	$	$	$	$	$
Current service costs	**1,453,400**	**264,400**	**477,400**	1,602,900	255,500	503,300
Finance costs	**(312,900)**	**(22,400)**	**230,500**	37,900	(4,000)	201,100
Employee future benefits expense	**1,140,500**	**242,000**	**707,900**	1,640,800	251,500	704,400

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

	2022			2021		
	RPP	**SERP**	**PRB**	**RPP**	**SERP**	**PRB**
	$	$	$	$	$	$
Actuarial gains (losses)	**(3,707,235)**	**115,300**	**2,129,545**	5,674	—	501,102
Asset gains (losses)	**(6,193,000)**	**(593,100)**	**3,500**	5,528,700	668,300	100
Total remeasurements	**(9,900,235)**	**(477,800)**	**2,133,045**	5,534,374	668,300	501,202

Notes to Financial Statements, June 30, 2022

Reconciliation of employee future benefits asset (liability):

	2022			2021		
	RPP	**SERP**	**PRB**	**RPP**	**SERP**	**PRB**
	$	$	$	$	$	$
Reconciliation of fair value of plan assets						
Fair value of plan assets, beginning of year	**45,384,900**	**8,978,100**	**—**	34,857,900	7,994,600	—
Net contributions (benefits paid) during the year	**(308,300)**	**98,300**	**—**	3,007,300	94,100	—
Actual (loss) return on plan assets	**(3,638,300)**	**(344,800)**	**—**	7,519,700	889,400	—
Fair value of plan assets, end of year	**41,438,300**	**8,731,600**	**—**	45,384,900	8,978,100	—
Reconciliation of the accrued benefit obligation						
Accrued benefit obligation, beginning of year	**38,631,000**	**8,030,500**	**6,624,200**	34,590,200	7,719,300	6,440,500
Current service costs net of benefits paid during the year	**(1,125,235)**	**103,000**	**457,445**	2,017,574	94,100	483,702
Interest on accrued benefit obligation	**2,241,800**	**225,900**	**230,500**	2,028,900	217,100	201,100
Actuarial loss (gain) during the year	**3,707,235**	**(115,300)**	**(2,129,545)**	(5,674)	—	(501,102)
Accrued benefit obligation, end of year	**43,454,800**	**8,244,100**	**5,182,600**	38,631,000	8,030,500	6,624,200
Employee future benefits asset (liability)	**(2,016,500)**	**487,500**	**(5,182,600)**	6,753,900	947,600	(6,624,200)
Employee future benefits asset (liability)						
Balance at beginning of year	**6,753,900**	**947,600**	**(6,624,200)**	267,700	275,300	(6,440,500)
Net contributions, pension costs and remeasurements during the year	**(8,770,400)**	**(460,100)**	**1,441,600**	6,486,200	672,300	(183,700)
Balance at end of year	**(2,016,500)**	**487,500**	**(5,182,600)**	6,753,900	947,600	(6,624,200)

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:

	2022			2021		
	RPP	**SERP**	**PRB**	**RPP**	**SERP**	**PRB**
	%	%	%	%	%	%
Discount rate – obligation	**5.00**	**2.50**	**5.10**	5.50	2.75	3.25
Discount rate – expenses	**5.50**	**2.75**	**3.25**	5.50	2.75	2.90
Expected rate of return on plan assets	**5.00**	**2.50**	**—**	5.50	2.75	—
Rate of compensation increase	**3.25**	**3.25**	**n/a**	3.50	3.50	n/a

The accrued benefit obligation for the PRB plan as at June 30, 2022 was measured on the basis of the medical trend rates set at 9.0% grading down to 5.0% over four years (2021 – 6.0% grading down to 4.5% over three years), and the drug trend rates set at 10.0% grading down to 5.0% over five years (2021 – 7.0% grading down to 4.5% over five years). The dental benefit trend rates are assumed to increase at an annual rate of 6.0% (2021 – 4.0%).

6. MFDA Investor Protection Corporation

The MFDA IPC is an independent corporation without share capital and has its own Board of Directors. The 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 with 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 $83,518 (2021 – $99,474) plus applicable taxes. As at June 30, 2022, an amount of $17,269 (2021 – $30,462) was due from the MFDA IPC and $15,894 (2021 – $31,605) 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 $30,000,000 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 plan assets in trust. As at June 30, 2022, no obligation exists under the agreement.

Notes to Financial Statements, June 30, 2022

7. Credit facilities

The MFDA has a demand credit facility in the amount of $6,000,000 (2021 – $6,000,000). The credit facility bears an interest rate of prime plus 0.75% per annum (2021 – 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, 2022 and 2021, the credit facility was not utilized.

In August 2022, the MFDA has obtained a commitment for a delayed draw term credit facility in the amount of $12,000,000 (2021 – nil), to ensure sufficient liquidity to cover expenses associated with the creation of the New SRO. The credit facility bears an interest rate of prime plus 0.75% per annum or Canadian Dollar Offered Rate ("CDOR") plus 1.75% per annum, depending on the type of loan. The MFDA has granted a general security interest to the bank in connection with this facility.

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 $1,880 (2021 – $3,953) 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:

	$
2023	1,425,214
2024	1,452,450
2025	1,341,528
2026	1,214,635
2027	196,765
	5,630,592

9. Internally restricted funds

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

	2022	2021
	$	$
Discretionary Fund	**7,241,102**	6,031,588
Post-Retirement Benefits Fund	**4,889,690**	5,302,308
	12,130,792	11,333,896

(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:

	2022		
	Discretionary Fund	**Post-Retirement Benefits Fund**	**Total**
	$	$	$
Balance, beginning of year	**6,031,588**	**5,302,308**	**11,333,896**
Fines collected	**2,337,567**	**—**	**2,337,567**
Realized investment income, net of fees	**22,863**	**481,993**	**504,856**
Unrealized investment losses	**—**	**(894,611)**	**(894,611)**
Transfers to unrestricted fund	**(1,150,916)**	**—**	**(1,150,916)**
Net activity during the year	**1,209,514**	**(412,618)**	**796,896**
Balance, end of year	**7,241,102**	**4,889,690**	**12,130,792**

Notes to Financial Statements, June 30, 2022

	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

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

	2022		
	Discretionary Fund	Post-Retirement Benefits Fund	Total
	$	$	$
Cash	**257,180**	**—**	**257,180**
CIBC Imperial Money Market Pooled Fund	**6,983,922**	**—**	**6,983,922**
Beutel Goodman Balanced Fund	**—**	**4,889,690**	**4,889,690**
Balance, end of year (note 3)	**7,241,102**	**4,889,690**	**12,130,792**

	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

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, 2022, there are no outstanding membership fees due from fiscal 2022 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.

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.

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.