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**BULLETIN #0346 – P**  
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# MFDA Bulletin

## Policy

### **For Distribution to Relevant Parties within your Firm**

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#### **Housekeeping Amendments to MFDA Rules, Policies and Form 1 – Financial Questionnaire and Report and Other Amendments**

The following housekeeping amendments have received all requisite approvals and are now in effect:

1. Amendments to MFDA Rule 2.3 (Power of Attorney/Limited Trading Authorization);
2. Amendments to MFDA Rule 3 (Financial and Operations Requirements);
3. Amendments to MFDA Rule 4 (Insurance);
4. Amendments to MFDA Policy No. 1 *New Registrant Training and Supervision*; and
5. Amendments to MFDA Policy No. 4 *Internal Control Policy Statements* and Form 1 – Financial Questionnaire and Report.

#### **Amendments to MFDA Rule 2.3 (Power of Attorney/Limited Trading Authorization)**

Amendments to MFDA Rule 2.3 (Power of Attorney/Limited Trading Authorization) clarify: (i) the requirement that the Approved Person notify the Member of the acceptance of a power of attorney or similar authorization from a client that is a family member; and (ii) that discretionary trading is prohibited on the part of Members and their Approved Persons irrespective of whether they have a limited trading authorization. The amended Rule is attached as Schedule “A”.

#### **Amendments to MFDA Rule 3 (Financial and Operations Requirements)**

Amendments to MFDA Rule 3 (Financial and Operations Requirements) clarify, update and address minor inconsistencies between terms used in the Rule and terms used in other contexts.

Rule 3.5.3 has been deleted as it is no longer relevant. Rule 3.5.3 was initially included prior to the establishment of the MFDA Investor Protection Corporation (“MFDA IPC”) and contemplated cases where there may be companies that are considered “related” and are both

covered by the MFDA's investor protection fund, but are not both subject directly to the MFDA's audit jurisdiction. Given the fact that the MFDA IPC only offers coverage to Members of the MFDA, Rule 3.5.3 is no longer considered relevant. The amended Rule is attached as Schedule "B".

### **Amendments to MFDA Rule 4 (Insurance)**

Amendments to MFDA Rule 4.2 (Notice of Termination) clarify the existing requirements and ensure consistency with the amended IIROC Rule. Amendments to Rule 4.7 (b) provide greater flexibility to Members with respect to global financial institution bonds. In situations where a holding company of a Member does not carry on other business or own other investments other than in the Member, there is no significant additional exposure in extending the Member's individual or aggregate limits under the policy to include its holding company. Accordingly, Rule 4.7 has been amended to allow for coverage limits under a global financial institution bond to be affected by claims of a holding company of the Member, provided that the holding company does not carry on any business or own any investments other than its interest in the Member. The amended Rule is attached as Schedule "C".

### **Amendments to MFDA Policy No. 1 *New Registrant Training and Supervision***

Amendments to MFDA Policy No. 1 *New Registrant Training and Supervision* clarify that all new accounts must be pre-approved by the branch manager prior to any trade being processed in the account. The amended Policy is attached as Schedule "D".

### **Amendments to MFDA Policy No. 4 *Internal Control Policy Statements and Form 1 – Financial Questionnaire and Report***

Amendments to MFDA Policy No. 4 *Internal Control Policy Statements* update the legal name of the MFDA Investor Protection Plan to the MFDA IPC.

The proposed amendments to the Form 1 – Financial Questionnaire and Report ("FQR") clarify existing requirements and correct cross-references. The amended Policy and FQR are attached as Schedule "E".

### **Other Amendments**

The amendments to Sections 1 and 3 of MFDA By-law No. 1 to change the independence criteria of who qualifies as a Public Director of the MFDA and the terms of office for Directors were not approved by Members at the Annual General Meeting held on December 4, 2008. The Board of Directors and its Governance Committee are currently considering appropriate next steps.

In light of confusion expressed by certain Members with respect to the effect of the proposed housekeeping amendments to MFDA Rule 1.1.7 (Business Names, Styles, Etc.), the proposed amendments were withdrawn from consideration at the Annual General Meeting with the consent of the Members.

## SCHEDULE "A"

### MUTUAL FUND DEALERS ASSOCIATION OF CANADA

#### Rule 2.3 (Power of Attorney/Limited Trading Authorization)

#### 2.3 POWER OF ATTORNEY/LIMITED TRADING AUTHORIZATION/DISCRETIONARY TRADING

2.3.1 (a) **Prohibition.** No Member or Approved Person shall accept or act upon a general power of attorney or other similar authorization from a client in favour of the Member or Approved Person or engage in any discretionary trading.

(b) **Exception.** Notwithstanding the provisions of paragraph (a), an Approved Person may accept or act upon a general power of attorney or similar authorization from a client in favour of the Approved Person where such client is a spouse, parent or child of the Approved Person and provided that:

(i) the Approved Person notifies the Member of the acceptance of the general power of attorney or similar authorization;

(ii) an Approved Person other than the Approved Person holding the general power of attorney must be the Approved Person of record on the account; and

(iii) such other conditions as prescribed by the Corporation are met.

2.3.4 ~~No Discretionary Trading. A limited trading authorization shall not in any way confer general discretionary trading authority upon a Member, an Approved Person or any person acting on behalf of the Member.~~

## SCHEDULE "B"

### MUTUAL FUND DEALERS ASSOCIATION OF CANADA

#### Rule 3 (Financial and Operations Requirements)

#### 3.4 EARLY WARNING

3.4.2 (b) **Requirements.** If a Member is designated in early warning then, notwithstanding the provisions of any By-law or Rule, the following provisions shall apply:

(ii) the Corporation shall immediately designate the Member as being in early warning and shall deliver to the chief executive officer and chief financial officer a letter containing the following:

(A) advice that the Member is designated as being in early warning,

(B) a request that the Member file its next monthly financial report required pursuant to Rule 3.5.1(a) no later than 15 business days or, in the discretion of the Corporation if considered to be practicable, such earlier time following the end of the relevant month,

(C) a request that the Member respond to the letter as required under Rule 3.4.2(b)(iii) and confirmation that such response, together with the notice received pursuant to Rule 3.4.2(b)(i), will be forwarded to MFDA Investor Protection ~~Fund Corporation~~ and may be forwarded to any securities commission having jurisdiction over the Member,

(D) advice that the restrictions referred to in Rule 3.4.2(b)(iv) shall apply to the Member,

(E) such other information as the Corporation shall consider relevant;

3.4.3 **Restrictions.** The Corporation may in its discretion, without affording the Member a hearing, prohibit a Member which is designated as being in early warning from opening any new branch offices, hiring any new Approved Persons, opening any new client accounts or changing in any material respect the ~~inventory investment~~ positions of the Member. Any such prohibitions which have been imposed shall continue to apply until the Member is no longer designated as being in early warning, as demonstrated by the latest filed monthly financial report of the Member.

### 3.5 FILING REQUIREMENTS

3.5.2 ~~Consolidated-Combined~~ **Financial Statements.** In calculating the risk adjusted capital of a Member, the financial position of the Member may, with the prior approval of the Corporation, be ~~consolidated-combined~~ (in a manner as set out below) with that of any related Member provided that:

- (a) the Member has guaranteed the obligations of such related Member and the related Member has guaranteed the obligations of the Member (such guarantee to be in a form acceptable to the Corporation and unlimited in amount).
- (b) inter-company accounts between the Member and the related Member shall be eliminated;
- (c) any minority interests in the related Member shall be eliminated from the capital calculation; and
- (d) calculations with respect to the Member and the related Member shall be as of the same date.

~~3.5.3 Related Members. In addition to the statements under Rule 3.5.1, each Member shall file annually with the Corporation through the Member's auditor, particulars of the name and relationship to the Member of each related Member and such financial statements and reports with respect to the affairs of any such related Member as the Corporation considers necessary or advisable.~~

#### ~~3.5.43.5.3~~ **Members' Auditors**

- (b) **Standards.** The Member's auditor shall conduct his or her examination of the accounts of the Member in accordance with Canadian generally accepted auditing standards and the scope of his or her procedures shall be sufficiently extensive to permit him or her to express an opinion on the Member's financial statements in the form prescribed. Without limiting the generality of the foregoing, the scope of the examination shall, where applicable, include at least the procedures set out in Rule 3.6.

#### ~~3.5.53.5.4~~ **Assessments**

### 3.6 AUDIT REQUIREMENTS

3.6.1 **Standards.** The audit under Rule 3.5 shall be conducted in accordance with Canadian generally accepted auditing standards and shall include a review of the accounting system, the internal accounting control and procedures for safeguarding assets. It shall include all audit procedures necessary under the circumstances to support the opinions

which must be expressed in the Member's auditor's reports of Parts I and II of Form 1. Because of the nature of the industry, the substantive audit procedures relating to the financial position must be carried out as of the audit date and not as of an earlier date, notwithstanding that the audit is otherwise conducted in accordance with Canadian generally accepted auditing standards.

### 3.6.2 Scope

(a) *Tests.* The scope of the audit shall include the following procedures, but nothing herein shall be construed as limiting the audit or permitting the omission of any additional audit procedure which any Member's auditor would deem necessary under the circumstances. For purposes of this Rule tests fall into two basic categories (as described in CICA Handbook ~~sections 5300.11 to 5300.21~~):

- (i) specific item tests, whereby the auditor examines individual items which he or she considers should be examined because of their size, nature or method of recording (~~CICA Handbook Section 5300.13~~); and
- (ii) representative item tests, whereby the auditor's objective is to examine an unbiased selection of items (~~Section 5300.13~~).

The determination of an appropriate sample on a representative basis may be made using either statistical or non-statistical methods in accordance with Canadian generally accepted auditing standards (~~CICA Handbook Section 5300.14~~).

In determining the extent of the tests appropriate in sub-sections (i), (ii) and (iii) of (b) below, the Member's auditor should consider the adequacy of the system of internal control and the level of materiality appropriate in the circumstances so that in the auditor's professional judgement the risk of not detecting a material misstatement, whether individually or in aggregate is reduced to an appropriately low level (e.g. in relation to the estimated risk adjusted capital and early warning ~~reserves excess~~).

(b) *Audit Procedures.* The Member's auditor shall as of the audit date:

- (i) compare ledger accounts with the trial balances obtained from the general and subsidiary ledgers and ~~prove~~ substantiate the subsidiary ledger totals with their respective control accounts (see Rule 3.6.4 below relating to Electronic Data Processing);
- (ii) account for, by physical examination and comparison with the books and records, all securities in the physical possession of the Member;
- (iii) review the reconciliation of all mutual funds companies and financial institutions where a Member operates a nominee name account and review the balancing of all ~~security~~ positions. Where a position or account is not in balance according to the records, ascertain that an adequate provision has been made in accordance

with the Notes and Instructions for out of balance positions embodied in Statement B of Form 1 for any potential loss;

- (iv) review bank reconciliations. ~~After allowing at least ten business days to elapse, obtain bank statements, cancelled cheques and all other debit and credit memos directly from the banks~~ and by appropriate audit procedures substantiate on a test basis the reconciliations with the ledger control accounts as of the audit date;
- (v) where a Member operates a nominee name account or has its own securities or investment products, ensure that all custodial agreements are in place for securities ~~those~~ lodged with acceptable locations and that such agreements satisfy the minimum requirements of the Corporation;
- (vi) obtain written confirmation with respect to the following:
  - (A) bank balances and other deposits;
  - (B) cash, nominee name security positions and deposits with clearing houses and like organizations and cash and nominee name security positions with mutual fund companies and financial institutions;
  - (C) cash and securities investments loaned or borrowed (including subordinated loans) together with details of collateral received or pledged, if any;
  - (D) accounts with brokers or dealers;
  - (E) accounts of directors, partners or officers of the Member held by the Member where the Member operates a nominee name account;
  - (F) accounts of clients where a Member operates a nominee name account;
  - (G) statements from the Member's lawyers as to the status of lawsuits and other legal matters pending which, if possible, should include an estimate of the extent of the liabilities so disclosed; and
  - (H) all other accounts which in the opinion of the Member's Auditor should be confirmed.

Compliance with the confirmation requirements shall be deemed to have been made if positive requests for confirmation have been mailed sent by, and returned directly to, the Member's auditor ~~in an envelope bearing the auditor's return address~~ and second requests are similarly mailed sent to those not replying to the initial request. Appropriate alternative verification procedures must be used where replies to second requests have not been received. For accounts mentioned in (DE) and (F) above, the Member's auditor shall (1) select specific accounts for

positive confirmation based on their size (all accounts with equity exceeding a certain monetary amount, with such amount being related to the level of materiality) and other characteristics such as accounts in dispute ~~and nominee name accounts~~, and (2) select a representative sample from all other accounts of sufficient extent to provide reasonable assurance that a material error, if it exists, will be detected. For accounts in (DE) and (F) above that are not confirmed positively, the Member's auditor shall ~~mail~~send statements with a request that any differences be reported directly to the auditor. Clients' accounts without any balance whatsoever and those closed since the last audit date shall also be confirmed on a test basis using either positive or negative confirmation procedures, the extent to be governed by the adequacy of the system of internal control;

- (vii) subject the Statements in Part I and Schedules in Part II of Form 1 to audit tests and/or other auditing procedures to determine that the margin and capital requirements, which are used in the determination of the excess (deficiency) of risk adjusted capital are calculated in accordance with the Rules and Form 1 in all material respects in relation to the financial statements taken as a whole;
- (viii) obtain a letter of representation from the senior officers of the Member with respect to the fairness of the financial statements including among other things the existence of contingent assets, liabilities and commitments;
- (ix) complete and report on the results of applying the prescribed procedures contained in the Report on Compliance for Segregation of Cash and Securities in Form 1.

3.6.3 ~~Insurance and Subsequent Events~~Additional Reporting. In addition, the Member's auditor shall:

- (a) complete and report on the results of applying the prescribed procedures contained in the Report on Compliance for Insurance in Form 1; and
- (b) report on any subsequent events, to date of filing, which have had a material adverse effect on the excess (deficiency) of risk adjusted capital.

3.6.4 **Systems Review.** The Member's auditors' review of the accounting system, the internal accounting control and procedures for safeguarding securities prescribed in the above Audit Requirements should encompass any in-house or service bureau EDP operations. ~~(This may include reliance on CICA Handbook Section 5900 report "Opinions on Control Procedures at a Service Organization").~~—As a result of such review and evaluation the Member's auditor may be able to reduce the extent of detailed checking of clients and other account statements to trial balances and security position records.

3.6.5 **Retention.** Copies of Form 1 and all audit working papers shall be retained by the Member's auditor for seven years. The two most recent years shall be kept in a readily

accessible location. All working papers shall be made available for review by the Corporation and the MFDA Investor Protection Plan Corporation and the Member shall direct its auditor to provide such access on request.

3.6.7 **Reliance.** The reports and audit opinions required in respect of a Member under this Rule 3.6 shall be addressed to the Corporation and the MFDA Investor Protection Plan Corporation in conjunction with the Member who shall be entitled to rely on them for all purposes.

## SCHEDULE "C"

### MUTUAL FUND DEALERS ASSOCIATION OF CANADA

#### Rule 4 (Insurance)

##### 4.2 NOTICE OF TERMINATION

Each Financial Institution Bond maintained by a Member shall contain a rider containing provisions to the following effect:

requiring(i) ~~†~~The underwriter ~~to~~shall notify the Corporation at least 30 days prior to the termination or cancellation of the Bond, except in the event of termination of the Bond due to:

- (~~a~~A) the expiration of the Bond period specified;
- (~~b~~B) cancellation of the Bond as a result of the receipt of written notice from the insured of its desire to cancel the Bond;
- (~~c~~C) ~~upon~~ the taking over of the insured by a receiver or other liquidator, or by provincial, federal or state officials; or
- (~~d~~D) ~~upon~~ taking over of the insured by another institution or entity.

(ii) In the event of termination of the Bond as an entirety in accordance with clauses (i)(B), (i)(C) or (i)(D), the underwriter shall, upon becoming aware of such termination, give immediate written notice of the termination to the Corporation. Such notice shall not impair or delay the effectiveness of the termination.

##### 4.3 TERMINATION OR CANCELLATION

In the event of the take-over of a Member by another institution or entity as described in Rule 4.2(i)(~~d~~D) the Member shall ensure that there is bond coverage which provides a period of twelve months from the date of such take-over within which to discover the losses, if any, sustained by the Member prior to the effective date of such take-over and the Member shall pay, or cause to be paid, any applicable additional premium.

##### 4.7 GLOBAL FINANCIAL INSTITUTION BONDS

Where the insurance maintained by a Member in respect of any of the requirements under this Rule 4 names as the insured or benefits the Member, together with any other person or group of persons, whether within Canada or elsewhere, the following must apply:

- (a) the Member shall have the right to claim directly against the insurer in respect of losses, and any payment or satisfaction of such losses shall be made directly to the Member; and

(b) the individual or aggregate limits under the policy may only be affected by claims made by or on behalf of

(i) the Member, or

(ii) any of the Member's subsidiaries whose financial results are consolidated with those of the Member, or

(iii) a holding company of the Member provided that the holding company does not carry on any business or own any investments other than its interest in the Member.

without regard to the claims, experience or any other factor referable to any other person.

## SCHEDULE "D"

### MFDA POLICY NO. 1

#### NEW REGISTRANT TRAINING AND SUPERVISION

##### Supervision Policy

MFDA Rule 1.2.1(c) requires that all newly registered salespersons be subject to concurrent supervision by the Member for a period of 6 months, commencing on the date of initial registration. Such supervision should include at a minimum:

##### The first 90 day period:

- a) all new accounts must be pre-approved by the Branch Manager prior to any- trade being processed in the account~~trading activity in the account~~;
- b) all trading activity must be reviewed and signed off by the Branch Manager no later than one business day following the trade date; and
- c) all leveraged trades where leveraging was recommended by the Member's salesperson must be reviewed by the Branch Manager prior to trade execution.

##### The subsequent 90 day period:

- a) all new accounts must be pre-approved by the Branch Manager prior to or shortly after (within 1 business day) any trade being processed in the account~~trading activity in the account~~;
- b) each month, the Branch Manager must review the greater of:
  - (i) 5 of the client files that were handled by the salesperson in the preceding one month, and
  - (ii) 10% of such client files,provided that if the number of such client files is less than 5, then the Branch Manager must review the actual number of such client files;
- c) on a daily basis, the Branch Manager must review the greater of:
  - (i) 5 of the trades conducted by the salesperson, and
  - (ii) 10% of such trades,provided that if the number of such trades is less than 5, then the Branch Manager must review the actual number of such trades, (high-risk trades, are to be given particular attention); and

- d) all leveraged trades where leveraging was recommended by the Member's salesperson must be reviewed by the Branch Manager prior to trade execution.

## SCHEDULE "E"

### MFDA POLICY NO. 4

#### INTERNAL CONTROL POLICY STATEMENTS

#### MFDA INTERNAL CONTROL POLICY STATEMENT 1 – GENERAL MATTERS

This Policy Statement is one in a series that prescribes requirements for and provides guidance on compliance with MFDA Rule 2.9 that states "every Member shall establish and maintain adequate internal controls as prescribed by the Corporation from time to time."

"Internal control" is defined as follows:

*"Internal control consists of the policies and procedures established and maintained by management to assist in achieving its objective of ensuring, as far as practical, the orderly and efficient conduct of the entity's business. The responsibility for ensuring adequate internal control is part of management's overall responsibility for the ongoing activities of the entity." (CICA Handbook, 5200.03)*

The effectiveness of specific policies and procedures is affected by many factors, such as management philosophy and operating style, the function of the board of directors (or equivalent) and its committees, organizational structure, methods of assigning authority and responsibility, management control methods, system development methodology, personnel policies and practices, management reaction to external influences, and internal audit. These and other aspects of internal control affect all parts of the Member firm.

In addition to compliance with required policies and procedures set out in these Policy Statements, a Member must consider the following, to the extent that they suggest a higher standard than would otherwise be required:

- (ii) Authoritative literature such as publications of the Mutual Fund Dealers Association of Canada, the MFDA Investor Protection ~~Plan~~ [Corporation](#), the Internal Control Guidelines published by the Investment Dealers Association of Canada and publications of the Canadian Institute of Chartered Accountants;

# FORM 1

## MFDA FINANCIAL QUESTIONNAIRE AND REPORT

### STATEMENT A NOTES AND INSTRUCTIONS *[comparative figures to be completed at audit date only]*

**Line 4** - In the case of commissions or fees receivables ~~from mutual funds~~, to the extent that there is written documentation that the Member does not have a liability to pay salespersons' commission until it is received ~~from the mutual fund company~~, the salespersons' portion of the commission or fee receivable is an allowable asset.

**Line 8** - Include **only** overpayment of prior years' income taxes or current year installments. Taxes recoverable due to current year losses may be included to the extent that they can be carried back and applied against taxes previously paid. This line should not include future tax debits arising from losses carried forward.

**Line 9** - Include GST receivables, capital tax, Part IV tax, sales and property taxes.

**Line 10** - Includes **only** receivables from Acceptable Entities but does not include subordinated loans receivable from other Members which should be shown on line 17. Allowable assets are those assets which due to their nature, location or source are either readily convertible into cash or from such creditworthy entities as to be allowed for capital purposes.

**Line 18** - Including but not limited to such items as:

- prepaid expenses
- future income tax debits
- cash surrender value of life insurance
- intangibles
- deferred charges
- advances to employees

**Line 23** - Includes amounts owed by the Member for the purchase of client securities.

**Line 27** - Include discretionary bonuses payable and bonuses payable to shareholders.

**Line 29** - Include current portion of deferred lease inducements.

**Line 38** - Include contributed surplus, if applicable.

**STATEMENT B**  
**NOTES AND INSTRUCTIONS**

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

**Line 4** - Rule 3.1.1 requires the following minimum capital amounts:

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

**Line 11** - 100% of the market value of securities must be provided in the case where client or firm securities are held at locations which do not qualify as acceptable securities locations (see General Notes and Definitions). Securities held by an entity with which the Member has not entered into a written custodial agreement as required by the By-laws and Rules of the MFDA shall be considered as being held at non-acceptable securities locations.

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

**Line 12 and 13** - Items are considered unresolved unless a journal entry to resolve the difference has been processed as of the Due Date of the questionnaire.

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

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

**Line 14** - This item should include all margin requirements not mentioned above as outlined in the By-laws and Rules of the MFDA

**STATEMENT C**  
**NOTES AND INSTRUCTIONS**

1. The objective of the various Early Warning Tests is to measure characteristics likely to identify a firm heading into financial trouble and to impose restrictions and sanctions to reduce further financial deterioration and prevent a subsequent capital deficiency. "Yes" answers indicate Early Warning has been triggered.

If the firm is currently capital deficient (i.e. risk adjusted capital is negative), only Part A of the early warning tests need be completed.

2. The profit or loss figures to be used are before bonuses, income taxes and extraordinary items [Statement D, line 20]. Note that the "current quarter" figure must also reflect any audit adjustments made subsequent to the filing of the ~~Quarterly~~ Monthly Financial Report.
3. If the current quarter is profitable, enter a "No" answer for Part C.

## STATEMENT D — NOTES AND INSTRUCTIONS

A comparative statement of income prepared in accordance with generally accepted accounting principles and containing at least the information shown in the pre-printed Statement D may be substituted. It should be affixed to the statement provided.

**It is recognized that the components of the revenue and expense classification on this statement may vary between firms. However, it is important that each firm be consistent between periods.** Fair presentation may require the separate disclosure of additional large and/or unusual items by way of a note to this statement.

### Lines

- 2 Assets under Administration means the market value of all mutual funds reflected in the client accounts (nominee and client name) of a Member in all provinces of Canada, excluding Quebec.
- 3-7 All **Commission Revenue** should be reported net of payouts to carrying dealers. Commission paid to salespersons should be shown on line 15.
- 3 Includes all gross commissions and trailer fees earned on mutual fund transactions, net of any payouts to the mutual funds.
- 10 Includes any charges to clients that are not related to commissions.
- 11 Includes fund management fees and other consulting fees not charged to clients.
- 12 Includes all fees earned as a result of referring clients to another entity for products or services.
- 13 Includes foreign exchange profits/losses and all other revenue not reported above.
- 15 This category should include commissions, bonuses and other variable compensation of a contractual nature. Examples would encompass commission payouts to salespersons. Discretionary bonuses should be included on line 21. All contractual bonuses should be accrued monthly and included on line 15.
- 16 Includes all interest on subordinated debt.
- 17 Includes trading profits/losses from principal trading activities and adjustment of marketable securities to market value.
- 18 Unusual items are items that have some but not all of the characteristics of extraordinary items [line 23]. An example of an unusual item may include costs associated with a branch closure.
- 19 Includes all operating expenses except those mentioned elsewhere: Variable compensation [line 15], discretionary bonuses [line 21].
- 21 This category should include discretionary bonuses and all bonuses to shareholders in accordance with share ownership. However, please read the instructions for line 15 before completing.
- 22 Includes ONLY income taxes. Realty and capital taxes should be included in line 19. Taxes at 33-1/3% on partnership profits should be disclosed on this line. The current provision should be net of loss carryforwards, the details of which should be disclosed on Schedule 3.
- 23 Extraordinary items have the following characteristics:
  - (a) they are not expected to occur frequently over several years;
  - (b) they do not typify normal business activities; and
  - (c) they do not depend primarily on decisions or determinations by management.They should be reported net of tax. An example of an extraordinary item would include the destruction of a company's uninsured art collection by fire.
- 26 Includes only direct charges or credits to retained earnings that are capital transactions (e.g. premium on share redemptions), income of a subsidiary accounted for by the equity method and prior period adjustments. Any adjustment(s) required to reconcile retained earnings on the Monthly Financial Report to the MFDA Financial Questionnaire and Report should be posted to the individual Statement **ED** line items on the first Monthly Financial Report that is filed after the adjustment(s) is known.