

FORM 1
MFDA FINANCIAL QUESTIONNAIRE AND REPORT

(Firm Name)

(Date)

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**MFDA FINANCIAL QUESTIONNAIRE AND REPORT
GENERAL NOTES AND DEFINITIONS**

1. Each Member shall comply in all respects with the requirements outlined in this prescribed MFDA Financial Questionnaire and Report as approved and amended from time to time by the Board of Directors of the MFDA and MFDA Investor Protection Corporation.

These statements are to be prepared in accordance with generally accepted accounting principles, except as modified by the requirements of the MFDA or the MFDA Investor Protection Corporation.

2. These statements and schedules should be read in conjunction with the Bylaws, Rules, Policies and Forms of the MFDA and MFDA Investor Protection Corporation including, but not limited to rules relating to the early warning system, segregation of client assets, and insurance and audit requirements.
3. For purposes of these statements and schedules, the accounts of related Members as defined by the MFDA may be consolidated as provided by the Bylaws, Rules and Policies of the MFDA. If consolidation is appropriate, the names of the companies consolidated must be provided.
4. FOR THE PURPOSES OF THESE CAPITAL CALCULATIONS REPORTING ON A TRADE DATE BASIS MUST BE USED UNLESS SPECIFIED OTHERWISE IN THE INSTRUCTIONS. THIS MEANS INCLUDING IN THE FOLLOWING PRESCRIBED STATEMENTS AND SCHEDULES, ALL ASSETS AND LIABILITIES RESULTING FROM SALES AND PURCHASES OF SECURITIES ON OR BEFORE THE REPORTING DATE, EVEN THOUGH THEY MAY BE FOR NORMAL SETTLEMENT AFTER THE REPORTING DATE.
5. All statements and schedules must be filed. If a schedule is not applicable, a "NIL" return must be filed.
6. Comparative figures on all statements are required only at the audit date.
7. All statements and schedules must be expressed in Canadian dollars and must be rounded to the nearest dollar.
8. Schedules should be attached showing details of any significant amounts that have not been clearly described on the attached statements and schedules.
9. **Mandatory security counts and reconciliations.** Securities held in segregation and safekeeping must be counted once in the year in addition to the count as at the year-end audit date. Reconciliation must be performed monthly in addition to the year-end audit date between the Member's records and the records of the depository or custodian where the Member holds client securities in nominee name accounts.
10. At the year-end, enclose a list of all brokers and dealers and mutual fund companies for which a confirmation has not been obtained after two requests. Such list should include the dollar balances in such accounts, as reflected in the firm's records.
11. For purposes of these statements and capital calculations, all related party debt must be recorded as a current liability unless a subordination agreement in a form prescribed by the MFDA has been executed by the Member and other relevant parties in relation to such debt.

DEFINITIONS :

1. **“acceptable entity”** means:
 - (a) Acceptable institutions.
 - (b) Government of Canada, the Bank of Canada and Provincial Governments.
 - (c) Insurance companies licensed to do business in Canada or a province thereof.
 - (d) Canadian provincial capital cities and all other Canadian cities and municipalities, or their equivalents
 - (e) All crown corporations, instrumentalities and agencies of the Canadian federal or provincial governments which are government guaranteed as evidenced by a written unconditional irrevocable guarantee or have a call on the consolidated revenue fund of the federal or provincial governments.

**MFDA FINANCIAL QUESTIONNAIRE AND REPORT
PART I – INDEPENDENT AUDITOR’S REPORT FOR STATEMENTS A, D AND E**

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

We have audited the accompanying Statements of _____, which comprise of:
(Member)

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

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

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

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

Management’s Responsibility for the Statements

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

Auditor’s Responsibility

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

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

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

Opinion

In our opinion, the Statements present fairly, in all material respects, the financial position of _____
(Member) as at _____ and _____ and
(date) *(date)*

the results of its operations for the years then ended in accordance with the financial reporting provisions of the Notes and Instructions to Form 1 prescribed by the Mutual Fund Dealers Association of Canada.

Basis of Accounting and Restriction on Use

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

Unaudited Information

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

[Audit Firm]

[Signature]

[Date]

[Address]

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

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

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

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

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

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

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

Management’s Responsibility for the Statements

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

Auditor’s Responsibility

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

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

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

Opinion

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

Basis of Accounting and Restriction on Use

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

[Audit Firm]

[Signature] _____

[Date]

[Address] _____

**PART I – INDEPENDENT AUDITOR’S REPORTS
NOTES AND INSTRUCTIONS**

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

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

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

PART I
MFDA FINANCIAL QUESTIONNAIRE AND REPORT

(Firm Name)
STATEMENT OF ASSETS
(as at _____ with comparative figures as at _____)

REFERENCE	CURRENT YEAR	PREVIOUS YEAR
LIQUID ASSETS:		
1. Cash on deposit with Acceptable Institutions	\$ _ _ _ _ _	\$ _ _ _ _ _
2. Client funds held in trust with Acceptable Institutions	_ _ _ _ _	_ _ _ _ _
3. Sch.1 Securities owned at market value.....	_ _ _ _ _	_ _ _ _ _
4. Receivable from carrying broker or mutual fund.....	_ _ _ _ _	_ _ _ _ _
5. TOTAL LIQUID ASSETS.....	_____	_____
OTHER ALLOWABLE ASSETS [From Acceptable Entities]:		
6. Interest and dividends receivable.....	_ _ _ _ _	_ _ _ _ _
7. Other receivables [attach details]	_ _ _ _ _	_ _ _ _ _
8. Sch.3 Recoverable and overpaid income taxes	_ _ _ _ _	_ _ _ _ _
9. Recoverable and overpaid taxes.....	_ _ _ _ _	_ _ _ _ _
10. TOTAL OTHER ALLOWABLE ASSETS.....	_____	_____
11. TOTAL ALLOWABLE ASSETS (line 5 plus line 10)	_____	_____
NON ALLOWABLE ASSETS:		
12. Sch.2 Advanced redemption proceeds receivable.....	_ _ _ _ _	_ _ _ _ _
13. Provincial contingency fund deposits	_ _ _ _ _	_ _ _ _ _
14. Fixed assets at depreciated value	_ _ _ _ _	_ _ _ _ _
15. Capitalized leases.....	_ _ _ _ _	_ _ _ _ _
16. Investments in and advances to subsidiaries and affiliates	_ _ _ _ _	_ _ _ _ _
17. Subordinated loans receivable from other Members.....	_ _ _ _ _	_ _ _ _ _
18. Other assets [attach details]	_ _ _ _ _	_ _ _ _ _
19. TOTAL NON ALLOWABLE ASSETS.....	_____	_____
20. TOTAL ASSETS (line 11 plus line 19)	\$ =====	\$ =====

PART I
MFDA FINANCIAL QUESTIONNAIRE AND REPORT

(Firm Name)

STATEMENT OF LIABILITIES AND SHAREHOLDER/PARTNER CAPITAL
(as at _____ with comparative figures as at _____)

REFERENCE	CURRENT YEAR	PREVIOUS YEAR
CURRENT LIABILITIES:		
21. Overdrafts and loans	\$ _____	\$ _____
22. Sch.1 Securities sold short at market value.....	_____	_____
23. Trust liabilities	_____	_____
24. Sch.3 Income taxes payable.....	_____	_____
25. Sch.3 Future income taxes - current portion.....	_____	_____
26. Variable compensation payable	_____	_____
27. Bonuses payable	_____	_____
28. Accounts payable and accrued expenses.....	_____	_____
29. Capitalized leases and lease-related liabilities - current portion	_____	_____
30. Other current liabilities <i>[attach details]</i>	_____	_____
31. TOTAL CURRENT LIABILITIES	_____	_____
LONG TERM LIABILITIES:		
32. Sch.3 Non-current portion of future income taxes.....	_____	_____
33. Non-current portion of capitalized leases and lease-related liabilities	_____	_____
34. Other long term liabilities <i>[attach details]</i>	_____	_____
35. TOTAL LONG TERM LIABILITIES	_____	_____
36. TOTAL LIABILITIES <i>[line 31 plus line 35]</i>	_____	_____
FINANCIAL STATEMENT CAPITAL:		
37. F-6 Subordinated loans.....	_____	_____
38. E-A-3 Capital.....	_____	_____
39. E-C-3 Retained earnings or undivided profits	_____	_____
40. TOTAL FINANCIAL STATEMENT CAPITAL	_____	_____
41. TOTAL LIABILITIES AND CAPITAL <i>(line 36 plus line 40)</i>	\$ _____	\$ _____

PART I
MFDA FINANCIAL QUESTIONNAIRE AND REPORT

(Firm Name)

NOTES TO THE FINANCIAL STATEMENTS
[to be provided at audit date]

Notes to the financial statements - Any notes which may be necessary for the fair presentation of the financial statements in accordance with generally accepted accounting principles and which are not contained in the supporting schedules must be attached as page 3 to Statement A, including without limitation:

- Significant accounting policies;
- Subsequent events (which are not otherwise disclosed) to the date of filing, which have a material effect on the firm's financial position and risk adjusted capital;
- Obligations under letters of credit;
- Outstanding legal claims which are likely to result in a material adverse effect on the firm's financial position and risk adjusted capital;
- Related party transactions, detailing by type of transaction the amount and parties involved, for all such transactions;
- Description of authorized and issued share capital and subordinated loans;
- Lease commitments; and
- Any other significant commitments or contingencies not otherwise disclosed.

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

Line 4 - In the case of commissions or fees receivable, to the extent that there is written documentation that the Member does not have a liability to pay salespersons' commission until it is received, 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.

PART I
MFDA FINANCIAL QUESTIONNAIRE AND REPORT

(Firm Name)
STATEMENT OF RISK ADJUSTED CAPITAL
(as at _____ with comparative figures as at _____)

REFERENCE		CURRENT YEAR	PREVIOUS YEAR
1. A-11	Total Allowable Assets.....	\$_____	\$_____
2. A-31	Deduct: Total Current Liabilities.....	_____	_____
3.	ALLOWABLE WORKING CAPITAL.....	\$_____	\$_____
4.	Deduct: Minimum capital.....	_____	_____
5.	SUBTOTAL.....	_____	_____
6.	Deduct: Total Long Term Liabilities (A-35)_____x10%	_____	_____
7.	Deduct: Contingent Liabilities [<i>attach details</i>]_____x10%	_____	_____
8.	SUBTOTAL.....	_____	_____
	Deduct - amounts required to fully margin:		
9.Sch.1	Securities owned and sold short.....	_____	_____
10. Sch.4	Financial institution bond deductible [<i>greatest under any clause</i>] ..	_____	_____
11.	Securities held at non-acceptable securities locations [<i>see note</i>]	_____	_____
12.	Unresolved differences in nominee name accounts	_____	_____
13.	Unresolved differences in trust accounts.....	_____	_____
14.	Other [<i>attach details</i>].....	_____	_____
15.	TOTAL MARGIN REQUIRED [<i>lines 9 through 14</i>].....	_____	_____
16.	RISK ADJUSTED CAPITAL [<i>line 8 minus line 15</i>].....	\$=====	\$=====

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 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

DATE: _____

PART I
MFDA FINANCIAL QUESTIONNAIRE AND REPORT

(Firm Name)

STATEMENT OF EARLY WARNING EXCESS

REFERENCE	CURRENT YEAR
1. B-16 RISK ADJUSTED CAPITAL	\$=====
2. LIQUIDITY ITEMS -	
DEDUCT:	
A-10 (a) Other allowable assets.....	-----
ADD:	
B-6 (b) 10% of Total long term liabilities.....	-----
3. EARLY WARNING EXCESS	\$=====

NOTES:

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

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

Line 2(b) - Long term liabilities are added back to RAC as they are not current obligations of the firm and can be used as financing.

DATE: _____

PART II
MFDA FINANCIAL QUESTIONNAIRE AND REPORT

(Firm Name)

EARLY WARNING TESTS

Early Warning

A. CAPITAL DEFICIENCY

Is RAC less than 0?

YES/NO

B. LIQUIDITY TEST

Is Early Warning Excess less than 0?

YES/NO

C. PROFITABILITY TEST *(note 3)*

1. Loss for current quarter

\$ _____

B-16 2. RAC *[at questionnaire date]*

\$ _____

Is line 2 less than line 1?

YES/NO

D. FREQUENCY PENALTY

**Has the Member triggered Early Warning
more than 2 times in the past 12 months?**

YES/NO

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 Monthly Financial Report.
3. If the current quarter is profitable, enter a "No" answer for Part C.

PART I
MFDA FINANCIAL QUESTIONNAIRE AND REPORT

(Firm Name)

SUMMARY STATEMENT OF INCOME FOR THE PERIOD ENDED [with comparative figures for the year /month ended]

Table with 3 columns: Description, CURRENT Yr/Mo, PREVIOUS Yr/Mo. Rows include: 1. Number of salespersons, 2. Assets Under Administration, COMMISSION REVENUE (3-8), OTHER REVENUE (9-14), EXPENSES (15-27), and NET CHANGE TO RETAINED EARNINGS.

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 D line items on the first Monthly Financial Report that is filed after the adjustment(s) is known.

PART I
MFDA FINANCIAL QUESTIONNAIRE AND REPORT

(Firm Name)

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

REFERENCE	CURRENT YEAR
A. CHANGES IN CAPITAL	
1. Balance at last year-end	\$
2. Increases (Decreases) during period <i>[provide details]</i>
(a)
(b)
(c)
3. Present capital	\$
	A-38
B. ANALYSIS OF PRESENT CAPITAL <i>[see note 1]</i>	
1. (a)	\$
(b)
(c)
To agree with line A-3 above.....	\$
C. RETAINED EARNINGS [CORPORATIONS] OR UNDIVIDED PROFITS [PARTNERSHIPS]	
1. Retained earnings or undivided profits, at last year-end	\$
2. Increases (Decreases) during period <i>[see note 2]</i> :	
D-24 (a) Net income (loss) for the period
D-25 (b) Dividends paid or partners drawings.....
D-26 (c) Other <i>[provide details]</i>
.....
.....
.....
3. Present retained earnings or undivided profits.....	\$
	A-39

NOTES:

1. **Part B** - Disclosure should be made of authorized and issued share capital in accordance with generally accepted accounting principles.
2. **Line C-2** - Direct charges or credits to retained earnings are to be restricted to capital transactions (e.g. dividends, premium on share redemptions, etc.) and prior period adjustments. All income items of an extraordinary or unusual nature (e.g. profits or losses on sale of fixed assets etc.) are to be included in Statement D in arriving at net income or loss for the period. The latter amount is to be transferred in total to retained earnings [Statement E-line C-2(a)].

PART I
MFDA FINANCIAL QUESTIONNAIRE AND REPORT

(Firm Name)

STATEMENT OF CHANGES IN SUBORDINATED LOANS
FOR THE YEAR ENDED _____

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

A-37

NOTES:

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

**MFDA FINANCIAL QUESTIONNAIRE AND REPORT
CERTIFICATE OF PARTNERS OR DIRECTORS**

(Firm Name)

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

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

ANSWERS

- | | |
|---|--|
| <ol style="list-style-type: none"> 1. Do the attached statements fully disclose all assets and liabilities including the following: <ol style="list-style-type: none"> (a) All future purchase and sales commitments? (b) Writs issued against the firm or partners or corporation or any other litigation pending? (c) Income tax arrears of partners or corporation?..... (d) Other contingent liabilities, guarantees, accommodation, endorsements or commitments affecting the financial position of the firm? 2. Does the firm promptly segregate clients' cash and securities in accordance with the Rules and Policies prescribed by the MFDA?..... 3. Does the firm determine on a regular basis its segregation amount and act promptly to segregate assets as appropriate in accordance with the Rules and Policies prescribed by the MFDA? 4. Does the firm carry insurance of the type and in the amount required by the Rules and Policies of the MFDA? 5. Does the firm monitor on a regular basis its adherence to early warning requirements in accordance with the Rules and Policies prescribed by the MFDA?..... 6. Does the firm perform regular reconciliations of its trust accounts in accordance with the Rules and Policies prescribed by the MFDA ? 7. Does the firm perform regular reconciliations of its mutual fund transactions with fund company records in accordance with the Rules and Policies prescribed by the MFDA ? 8. Does the firm have adequate internal controls in accordance with the Rules and Policies prescribed by the MFDA ? 9. Does the firm maintain adequate books and records in accordance with the Rules and Policies prescribed by the MFDA ? | <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> |
|---|--|

[date]

Name and Title - Please print

Signature

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

1. Details must be given for any “no” answers.

2. To be signed by two of either:
 - (a) chief executive officer/partner
 - (b) chief financial officer
 - (c) chief accountant
 - (d) one director/partner not included in (a), (b) or (c) above.

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

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

REPORT ON COMPLIANCE FOR INSURANCE

To: The MFDA and the MFDA Investor Protection Corporation.

We have performed the following procedures in connection with the regulatory requirements for _____ to maintain minimum insurance as outlined in the By-laws, Rules, _____
(Member firm) and Policies of the MFDA and the MFDA Investor Protection Corporation. Compliance with the MFDA By-laws, Rules, and Policies with respect to insurance is the responsibility of the management of the Member firm. Our responsibility is to perform the procedures requested by you.

1. We read the Member firm's written internal control policies and procedures with respect to maintaining insurance coverage to determine that such policies and procedures meet the minimum required, as prescribed by the Rules and Policies of the MFDA in regards to establishing and maintaining adequate internal controls.
2. We obtained representation from appropriate senior management of the Member firm that the Member firm's internal control policies and procedures with respect to insurance meet the minimum required, as prescribed by the Policies of the MFDA in regards to establishing and maintaining adequate internal controls and that they have been implemented.
3. We read the Financial Institution Bond Form (the "FIB") insurance policy(s) to determine that the FIB policy(s) includes the minimum required clauses and coverage limits as prescribed in the By-laws, Rules and Policies of the MFDA.
4. We requested and obtained confirmation from the Member firm's Insurance Broker(s) as at _____ 20____
(period end date) as to the FIB coverage maintained with the Insurance Underwriter(s) including:
 - (a) clauses
 - (b) aggregate and single loss limits
 - (c) deductible amounts
 - (d) name of insurer and insured
 - (e) claims made on the policy since last audit date
 - (f) details of losses/claims outstanding

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

This letter is for use solely by the MFDA and the MFDA Investor Protection Corporation to assist in their assessment of the Member firm's compliance with the requirement to maintain minimum insurance as outlined in the Bylaws, Rules and Policies of the MFDA and not for any other purpose.

(auditing firm)

(date)

(signature)

(place of issue)

REPORT ON COMPLIANCE FOR SEGREGATION OF CASH AND SECURITIES

To: The MFDA and the MFDA Investor Protection Corporation.

We have performed the following procedures in connection with the requirement for _____
(Member firm)

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

1. We have read the Member firm's written internal control policies and procedures with respect to segregation of client cash and securities to determine that such policies and procedures meet the minimum required under the policies of the MFDA in regards to establishing and maintaining adequate internal controls.
2. We obtained representation from appropriate senior management of the Member firm that the Member firm's internal control policies and procedures with respect to segregation of client cash and securities meet the minimum required under the policies of the MFDA in regards to establishing and maintaining adequate internal controls.
3. We obtained a listing of all securities segregation locations used by the Member firm and determined that each location met the definition of "Acceptable Securities Locations" as defined in the General Notes and Definitions to the MFDA Financial Questionnaire and Report.
4. We obtained a listing of all cash segregation locations used by the Member firm and determined that each location met the definition of "Acceptable Institutions" as defined in the General Notes and Definitions of the MFDA Financial Questionnaire and Report and that each account was designated as "in trust" and was interest bearing.

As a result of applying the above procedures, we found the following exceptions:

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

This letter is for use solely by the MFDA and the MFDA Investor Protection Corporation to assist in their assessment of the Member firm's compliance with the requirements regarding segregation of client cash and securities as outlined in the By-laws, Rules and Policies of the MFDA and not for any other purpose.

(auditing firm)

(date)

(signature)

(place of issue)

DATE: _____

SCHEDULE 1

PART II
MFDA FINANCIAL QUESTIONNAIRE AND REPORT

(Firm Name)

ANALYSIS OF SECURITIES OWNED AND SOLD SHORT AT MARKET VALUE

<u>Category</u>	-----Market Value-----		<u>Margin required</u>
	<u>Long</u>	<u>Short</u>	
1. Money market	\$-----	\$-----	\$-----
Accrued interest	-----	-----	NIL
TOTAL MONEY MARKET	-----	-----	
2. Money market mutual funds	-----	NIL	-----
3. Mutual funds (other than money market mutual funds)	-----	NIL	-----
4. Equities	-----	-----	-----
Accrued interest on convertible debentures	-----	-----	NIL
TOTAL EQUITIES	-----	-----	
5. Bonds	-----	-----	-----
Accrued interest	-----	-----	NIL
TOTAL BONDS	-----	-----	
6. Other (provide details)	-----	-----	-----
Accrued interest	-----	-----	NIL
TOTAL OTHER	-----	-----	
7. TOTAL	\$=====	\$=====	\$=====
	A-3	A-22	B-9

SCHEDULE 1
NOTES AND INSTRUCTIONS

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

(a) Bonds, Debentures, Treasury Bills and Notes

(i) Bonds, debentures, treasury bills and other securities of or guaranteed by the Government of Canada, of the United Kingdom, of the United States of America or guaranteed by any province of Canada:

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

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

(ii) All other bonds, debentures and notes:

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

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

(b) Bank Paper

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

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

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

(c) Mutual Funds

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

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

All Other Mutual Funds - 50% of market value.

(d) Stocks

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

Long Positions - Margin Required

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

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

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

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

Short Positions - Credit Required

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

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

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

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

(e) FOR ALL OTHER SECURITIES - 100%.

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

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

DATE: _____

SCHEDULE 2

PART II
MFDA FINANCIAL QUESTIONNAIRE AND REPORT

(Firm Name)

ANALYSIS OF CLIENTS' DEBIT BALANCES

	Advanced Redemption Proceeds Receivable	Other Client Receivables [attach details]
1. Non-registered accounts	-----	-----
2. RRSP and other registered accounts	-----	-----
3. TOTAL	\$=====	\$=====
	A-12	Note 2

SUPPLEMENTARY DISCLOSURE:

NAME OF RRSP TRUSTEE(S)

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

NOTES:

1. Rule 3.2.1 prohibits Members from lending or extending credit to a client unless the Member is in compliance with Rule 3.2.3 which provides for the advancement of redemption proceeds.
2. Receivables from clients are non-allowable assets and are to be reported on Statement A line 18.

Supplementary Disclosure:

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

**PART II
MFDA FINANCIAL QUESTIONNAIRE AND REPORT**

(Firm Name)

INCOME TAXES

A. INCOME TAX PAYABLE (RECOVERABLE)

1.	Balance payable (recoverable) at last year-end		\$ _____
2.	(a) Payments (made) or received relating to above balance	\$ _____	
	(b) Adjustments, including reassessments, relating to prior periods [give details if significant]	_____	
3.	Total adjustment to prior years' payable (recoverable) taxes during current year		_____
4.	Subtotal [add or subtract line 3 from line 1]		_____
5.	Provision for (recovery of) taxes, including taxes on extraordinary items - current	_____	D-22 (a)
6.	less: Current installments	_____	
7.	Other adjustments [give details if significant]	_____	
8.	Total adjustment for current year's taxes		_____
9.	TOTAL PAYABLE (RECOVERABLE) [add or subtract line 8 from line 4]		\$=====

A-8 -- if recoverable
A-24 -- if payable

B. ANALYSIS OF FUTURE INCOME TAXES

	<u>Debit</u>	<u>Credit re Current assets and liabilities</u>	<u>Credit re Non-current assets and liabilities</u>
1. Unrealized - Trading.....	\$ _____	\$ _____	\$ _____
- Commission	_____	_____	_____
2. CCA/Depreciation	_____	_____	_____
3. Other [give details]	_____	_____	_____
4. TOTAL FUTURE INCOME TAXES	\$=====	\$=====	\$=====

A-18 details A-25 A-32

DATE: _____

PART II
MFDA FINANCIAL QUESTIONNAIRE AND REPORT

(Firm Name)

INSURANCE

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

1. Minimum coverage required for each clause:

LEVEL 1, 2 OR 3 DEALERS

(a) Lesser of \$50,000 per Approved Person or \$200,000 _____

(b) Allowable assets (A-11) \$_____ x 1% _____

Greater of (a) and (b) above \$_____

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

LEVEL 4 DEALERS

(a) Minimum coverage of _____ \$500,000

(b) Total client cash and securities held by the Member \$_____ x 1% _____

(c) Allowable assets (A-11) \$_____ x 1% _____

Greater of (a), (b) and (c) above \$_____

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

2. Coverage maintained per FIB _____ [Notes 3&7]

3. Excess / (Deficiency) in coverage \$_____ [Note 4]

4. Amount deductible under FIB (*greatest under any clause*) \$_____ [Note 5]
B-10

PART B. REGISTERED MAIL INSURANCE

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

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

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

PART II
MFDA FINANCIAL QUESTIONNAIRE AND REPORT

(Firm Name)

INSURANCE

PART D. LOSSES AND CLAIMS [Note 9]

<u>Date of Loss</u>	<u>Date of Discovery</u>	<u>Amount of Loss</u>	<u>Deductible Applying to Loss</u>	<u>Description</u>	<u>Claim Made?</u>	<u>Settlement</u>	<u>Date Settled</u>
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SCHEDULE 4
NOTES AND INSTRUCTIONS

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

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

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

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

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

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