



Mutual Fund Dealers Association of Canada
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MR-0052

December 22, 2005

MEMBER REGULATION NOTICE

MFDA FINANCIAL QUESTIONNAIRE AND REPORT BASIS OF PRESENTATION NOTE DISCLOSURE

The purpose of this Notice is to provide Members and their auditors with guidance with respect to providing appropriate note disclosure in the audited Financial Questionnaire and Report (“FQR”) as it relates to the basis of presentation used.

MFDA and Related Auditor Requirements

The General Notes and Definitions in the FQR require that the statements and schedules be prepared in accordance with generally accepted accounting principles (“GAAP”), except as modified by the MFDA or the MFDA Investor Protection Corporation (“IPC”). In accordance with Section 5600, *Auditors Report on Financial Statements Prepared Using a Basis of Accounting Other than Generally Accepted Accounting Principles*, of The Canadian Institute of Chartered Accountants Handbook, auditors are required to modify their standard Auditors’ Report where they are reporting on financial statements prepared in accordance with specific regulatory requirements. Section 5600 requires the Auditors’ Report to clearly disclose the following details to the readers of the financial statements:

- The basis of accounting used (i.e. in accordance with MFDA By-laws, Rules and Policies)
- The purpose and specified users of the statements (i.e. MFDA and IPC)
- The fact that the financial statements are not intended to be, and should not be, used by anyone other than the specified users or for any other purpose.

The standard Part I Auditors’ Report included in the FQR addresses the above requirements.

Specific GAAP Departures

The Part I Auditors’ Report includes a reference to the basis of accounting described in the Notes to the FQR. Consequently, upon signing the standard Report, the auditor is asserting that the financial statements have been prepared in accordance with Canadian GAAP, except for the specific departures which are detailed in the Notes to the financial statements. The following, while not necessarily inclusive, is a list of departures from GAAP required by the FQR that should be considered by the Member and its auditor:

- No statement of cash flows is required;
- Marketable securities owned and sold short must be reported at market;
- Client cash held in trust by the Member and the corresponding liability must be included in the statements (consider this point for client name accounts);
- Certain statements are prepared in accordance with MFDA requirements;
- Certain statements and all schedules are prepared in accordance with MFDA requirements and are not contemplated under GAAP;
- Subordinated loans are reported as capital;
- Differential reporting may not be used;
- The financial statements are prepared on a non-consolidated basis.

Sample Note Disclosure

In order for the Member to adequately comply with the requirements of the FQR, and the Auditor to adequately report on the financial statements in the prescribed Part I Auditors' Report format, the following statements may be considered for inclusion in the Notes to the FQR:

Basis of Presentation

The financial statements have been prepared in accordance with the significant accounting policies set out below to comply with the prescribed reporting requirements contained within the By-laws, Rules and Policies of the Mutual Fund Dealers Association of Canada ("MFDA").

These By-laws, Rules and Policies specify the form and content of the presentation and disclosure of the items contained within the Statements to the MFDA Financial Questionnaire and Report ("FQR"). The basis of accounting used in these financial statements materially differs from Canadian generally accepted accounting principles ("GAAP"), in the following key areas:

- (a) A statement of cash flows has not been prepared.*
- (b) Statement A and D present assets, liabilities, revenues and expenses in accordance with classifications required by the MFDA, which requires the presentation of liquid assets, other allowable assets and non-allowable assets, which are not terms defined under GAAP. Subordinated loans would be classified as financial liabilities under GAAP. In addition, cash held in trust for clients and the corresponding liability would not be included as an asset and liability under GAAP.*
- (c) Statement D sets out revenue and expense captions in a prescribed format.*
- (d) Statements B, C, E, F and Schedules 1, 2, 3, 4 are prepared in a form prescribed by the MFDA, and in accordance with the applicable instructions contained within its By-laws, Rules and Policies. These are not statements and schedules contemplated under GAAP.*

The sample note disclosure as set out above, is meant to provide Members and their auditors with an understanding and an initial template for drafting their own Notes to the Member's financial statements. Members are reminded that their business activities and corporate structures may differ from the example provided above and therefore, additional disclosures may be appropriate.

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