

THE MUTUAL FUND DEALERS ASSOCIATION OF CANADA HOUSEKEEPING AMENDMENTS TO MFDA FORM 1

Background

MFDA Rule 3.5.1(b) requires, on an annual basis, that each Member file an audited financial report with the MFDA in the prescribed form (i.e. Form 1). Under MFDA Rule 3.6.1, the audit must be conducted in accordance with Canadian Auditing Standards (“CAS”).

In April 2017, the Auditing and Assurance Standards Board (“AASB”) adopted, as CAS, a package of auditor reporting requirements, which are intended to provide enhanced transparency by clarifying the scope of auditor work, as well as the roles and responsibilities of the auditor, management, and those charged with governance.

CAS will require the new auditor reporting standards to be used for periods ending on or after December 15, 2018. As a result, the two Independent Auditor’s Reports contained within Form 1 must be amended to reflect the new standards.

Classification of the Amendments

The proposed amendments to Form 1 are classified as housekeeping. In adopting this classification, the MFDA has relied upon section 3(b)(vi) of the Joint Rule Review Protocol for the MFDA, which provides, in relevant part, that housekeeping Rule changes include those that are reasonably necessary to conform MFDA Rules to applicable securities legislation, statutory or legal requirements, accounting or auditing standards.

Attached as Schedule “A” to this Notice are the proposed housekeeping amendments to MFDA Form 1. The current version of the Form has been blacklined to show changes introduced by the proposed amendments.

Nature of the Amendments

As noted, the proposed housekeeping amendments to MFDA Form 1 relate specifically to the two Independent Auditor’s Reports included within the Form. The objective of the proposed amendments, also as noted, is to update these Reports to comply with new auditing reporting standards adopted as CAS by the AASB.

Process

The MFDA followed its established internal governance practices in approving the proposed amendments and considered the need for consequential amendments. The proposed amendments were reviewed by the Regulatory Issues Committee of the MFDA Board of Directors on November 14, 2018, and approved by the full MFDA Board on November 28, 2018. The Board has determined that the proposed amendments are in the public interest.

Conflict with Applicable Laws or Terms and Conditions of Recognition Order

The proposed amendments do not conflict with applicable laws or the Terms and Conditions of a Recognizing Regulator's Recognition Order.

Exemption from Requirements Under Securities Legislation

The proposed amendments involve requirements with which MFDA Members and Approved Persons must comply in order to be exempted from requirements under securities legislation.

Effective Date

As noted, the proposed housekeeping amendments to Form 1 will become effective, for all audits, for periods ending on or after December 15, 2018.

DM#650589

Schedule "A"

December 31, 2015

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(Member Name)

(Date)

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FORM 1—INDEPENDENT AUDITOR’S REPORT FOR STATEMENTS A, D AND E

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

Opinion

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

Statement A — Statements of financial position as at _____ and _____
(date) (date)

Statement D — Statements of income and comprehensive income for the years ended _____ and _____
(date) (date)

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

and notes to the Statements, including a summary of significant accounting policies (collectively referred to as the Statements) and other explanatory information.

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

These Statements have been prepared by management based upon 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 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 Statements section of our report. We are independent of the Member in accordance with the ethical requirements that are relevant to our audit of the 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 - Basis of Accounting

We draw attention to Note _____ to the Statements which describes the basis of accounting.
(note)

The Statements are prepared to assist the Member in complying with the financial reporting provisions of the Notes and Instructions to Form 1 prescribed by the Mutual Fund Dealers Association of Canada. As a result, the Statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

[Optional wording to either be removed or customized by respective audit firms] Material Uncertainty related to Going Concern

We draw attention to Note _____ in the Statements which indicates that [insert key events and
(note)
conditions that resulted in the material uncertainty]. As stated in Note _____ in the Statements,
(note)
these events and conditions, along with other matters as set forth in Note _____ in the Statements,
(note)

indicate that a material uncertainty exists that may cast significant doubt on the Member's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Matter - Unaudited Information

We have not audited the information in Schedule 5 of Part II of Form 1 and accordingly, do not express an opinion on ~~this~~ the schedule.

Other Matter – Restriction on Use [Optional wording to either be removed or customized by audit firms]

Our report is intended solely for the Member, the Mutual Fund Dealers Association of Canada and the MFDA Investor Protection Corporation and should not be used by parties other than the Member, the Mutual Fund Dealers Association of Canada and the MFDA Investor Protection Corporation.

Responsibilities of Management's ~~responsibility~~ and Those Charged with Governance 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.

In preparing the Statements, management is responsible for assessing the Member'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 Member or to cease operations, or has no realistic alternative but to do so.

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

Auditor's ~~Responsibilities~~ for the Audit of the Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Member'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 Member'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 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 Member to cease to continue as a going concern.

- Evaluate the overall presentation, structure, and content of the Statements, including the disclosures, and whether the 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.

~~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 _____ as at _____ and _____
(date) (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.

Going Concern (Note: EFS to allow for auditor to include emphasis of matter paragraph for Going Concern — this is an option for auditors but not part of the standard report.)

Without modifying our opinion, we draw attention to Note _____ in the Statements which indicates that —
(note)

_____ Incurred a net loss of _____ during the year ended
(Member) (\$ amount)

_____ and, as of that date, _____ 's current liabilities
(date) (Member's)

exceeded its total assets by _____. These conditions, along with other matters as set forth in
(\$ amount)

in Note _____ indicate the existence of a material uncertainty that may cast significant doubt about
(note)

_____ 's ability to continue as a going concern.
(Member's)

Basis of Accounting and Restriction on Use

Without modifying our opinion, we draw attention to Note _____ to the Statements which describes the
(note)

basis of accounting. The Statements are prepared to assist _____ to meet the
(Member)

~~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
_____ (Member)~~

~~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
_____ (Member)
the MFDA Investor Protection Corporation.~~

~~(Note: EFS to allow for auditor to include other potential Emphasis of Matter and Other Matter paragraphs should one be required under the CASs or determined appropriate by the auditor to be included in the auditor's report. Such wording would be agreed upon with MFDA prior to the filing of Form 1.~~

[Audit Firm]

[Signature of the name of the audit firm]

[Date]

[Auditor Address]

[Date]

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

Opinion

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

which comprise:

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

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

Statement F – Statement of changes in subordinated loans for the year ended - _____
(collectively referred to as the Statements). (date)

In our opinion, the accompanying Statement B as at _____ and _____,
(date) (date)

Statement C as at _____
(date)

and -Statement F for the year ended _____
(date)

are 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.

~~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.~~

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 Statements section of our report. We are independent of the Member in accordance with the ethical requirements that are relevant to our audit of the 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 - Basis of Accounting and Restriction on Use

~~Without modifying our opinion, w~~We draw attention to Note _____ to the Statements which describes the
(note)
basis of accounting.

~~–The Statements are prepared to assist _____ the Member in complying with the financial reporting provisions of the Notes and Instructions to Form 1 prescribed by 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. Our opinion is not modified in respect of this matter.~~

[Optional wording to either be removed or customized by respective audit firms] Material Uncertainty related to Going Concern

We draw attention to Note _____ in the Statements which indicates that [insert key events and _____ (note) conditions that resulted in the material uncertainty]. As stated in Note _____ in the Statements, these events and conditions, along with other matters as set forth in Note _____ in the Statements, (note) indicate that a material uncertainty exists that may cast significant doubt on the Member's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Matter - Unaudited Information

We have not audited the information in Schedule 5 of Part II of Form 1 and accordingly, do not express an opinion on ~~this~~ the schedule.

Other Matter – Restriction on Use [Optional wording to either be removed or customized by audit firms]

Our report is intended solely for the Member, the Mutual Fund Dealers Association of Canada and the MFDA Investor Protection Corporation and should not be used by parties other than the Member, the Mutual Fund Dealers Association of Canada and the MFDA Investor Protection Corporation.

Responsibilities of Management's ~~responsibility~~ and Those Charged with Governance 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.

In preparing the Statements, management is responsible for assessing the Member'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 Member or to cease operations, or has no realistic alternative but to do so.

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

Auditor's ~~Responsibilities~~ for the Audit of the Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Member'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 Member'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 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 Member to cease to continue as a going concern.

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.

~~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 _____ as at _____ and _____

_____ (date) _____ (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.

Going Concern (Note: EFS to allow for auditor to include emphasis of matter paragraph for Going Concern—this is an option for auditors but not part of the standard report.)

Without modifying our opinion, we draw attention to Note _____ in the Statements which indicates that _____

_____ (note)
_____ Incurred a net loss of _____ during the year ended _____

_____ (Member) _____ (\$ amount)
_____ and, as of that date, _____ 's current liabilities

_____ (date) _____ (Member's)
exceeded its total assets by _____. These conditions, along with other matters as set forth in _____

_____ (\$ amount)
in Note _____ indicate the existence of a material uncertainty that may cast significant doubt about _____

_____ (note)
_____ 's ability to continue as a going concern.
_____ (Member's)

Basis of Accounting and Restriction on Use

Without modifying our opinion, we draw attention to Note _____ to the Statements which describes the
_____ (note)
basis of accounting. The Statements are prepared to assist _____ to meet the
_____ (Member)
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
_____ (Member)
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
_____ (Member)
the MFDA Investor Protection Corporation.

(Note: EFS to allow for auditor to include other potential Emphasis of Matter and Other Matter paragraphs should one be required under the CASs or determined appropriate by the auditor to be included in the auditor's report. Such wording would be agreed upon with MFDA prior to the filing of Form 1.

[Audit Firm]

[Signature of the name of the audit firm]

[Date]

[Auditor Address]

[Date]