



A PROFESSIONAL INDUSTRY



**MOTOR DEALER COUNCIL
OF BRITISH COLUMBIA
2006 ANNUAL REPORT**

VISION

A respected motor dealer industry serving an informed and confident public.

MISSION

To promote excellence and foster public confidence by raising industry standards, providing education, ensuring compliance, and leading innovation.

VALUES

Integrity –

Fulfilling our responsibilities in a truthful, professional and ethical manner while demonstrating impartiality, openness and transparency in all our actions

Effective Communications –

Timely delivery and exchange of industry related information

Fiscal Responsibility –

Managing resources effectively and efficiently

Life Long Learning –

Promote innovation in the use of new ideas and technology; and encourage and support personal growth and development

Teamwork –

Effectively working together with each other, with our industry partners and other stakeholders to achieve agreed upon goals





A capsule history

Dealers of automobiles, trucks, recreation vehicles and motorcycles in B.C. have been historically licensed under the Motor Dealer Act and the Motor Dealer Licensing Act before it, including periodic inspections of dealerships and the investigation of complaints. Recent years have also evolved a compensation fund, supervised by an independent Board, which allows consumers who purchase new or used motor vehicles or extended warranties, through a licensed dealer, to make a claim up to \$20,000. The loss must be the result of a motor dealer failure, dishonest conduct or failure of the dealer to provide clear title.

Modern experience in other jurisdictions and other professions led both motor dealer industry leaders and consumer groups to believe that an independent agency could do a more thorough job of regulating the motor dealer marketplace. The precursor to today's MDC was a voluntary, nonprofit society established in 1999, the Motor Dealer Standards Association (MDSA), representing the Automotive Retailers Association, the New Car Dealers Association of B.C., and the Recreation Vehicle Dealers Association of B.C. Instrumental in the planning were contributions from the Better Business Bureau and the British Columbia Automobile Association, which led to ensuring that the resulting Board of Directors also included qualified and respected "public-at-large" appointments, to represent the general public.

The MDSA approached government with the concept of today's Council. This was consistent with the British Columbia government's strategy to create agencies with "delegated administrative authority." Government retains its ultimate oversight, but delegates the administration of legislation and regulation, as well as responsibility for compliance, enforcement, licensing, education and consumer protection.

The Motor Dealer Council of British Columbia (MDC) formally began business on April 1, 2004.



KEY RESULTS & OBJECTIVES

Key Results are clear high-level descriptions of the outcomes that MDC is working to achieve. They are the noticeable and measurable achievements expected from the organization over the next five to ten years. They clarify direction, address major issues and help to focus priorities. There are six key objectives:

- > We are one of Canada's most respected independent regulatory agencies.
- > British Columbia's consumers have greatly improved confidence in the motor dealer industry.
- > MDC is a valued partner in developing the industry.
- > Our activities continue to foster a high level of integrity with both consumers and industry.
- > We develop world class learning programs and products.
- > We are financially responsible and innovative.

Hon. John Les
Minister of Public Safety
and Solicitor General
Victoria, BC

Dear Minister:

On behalf of the Board of Directors, the Registrar, the management and staff of the Motor Dealer Council of British Columbia, it is a privilege for me to present the annual report for the year ending March 31, 2006, its second year of operation.

In 2004, responding to appeals from industry and the public, government created this independent agency to regulate, educate, enforce motor dealer industry standards and to serve consumer interests. Our Board of Directors, consisting of individuals from both inside and outside of the industry, is a reflection of this objective.

In our first annual report we provided a historical framework for this work, and a detailed report of our founding. What follows here will outline a year of progress on all fronts and strategic planning to effectively address new objectives as we go forward.

Sincerely yours.



Robert J. Stewart
Chair, Motor Dealer Council
of British Columbia.



A Professional Industry

The word "professional" implies expertise, integrity, the adherence to principles and accepted standards of behaviour.

The best of our motor dealers - possibly even a majority - are model corporate citizens. Far too many, however, remain substandard and a considerable number are sufficiently offensive as to tarnish the image of an industry which has an annual economic impact of \$10 billion in the province.

The first MDC annual report - a year ago - chronicled the establishment of this new agency on April 1, 2004, and the formation of policies, programs and services. Industry and government had understood from the outset that far greater resources would be required as programs and services evolved. We were proud of what was achieved in the inaugural year but overwhelmed by the magnitude of the assignment.

As a Board of Directors, it is impossible for us to overstate our gratitude and respect for the competence, diligence and determination of the management and staff - a small full-time team of about 20 people. They supervise the licensing, inspection and enforcement of 1,700 motor dealers and their 8,000 salespeople, most of whom had to be processed through a two-day certification course. They also provided direction and support to major initiatives such as a review of legislation, advertising guidelines, disciplinary proceedings, communications and media relations.

If one word could summarize the fiscal year covered by this report, the word would be PLANNING. The process began with a Board of Directors retreat in the Fall of 2005, and was followed by similar workshops among management, staff and stakeholders. By early 2006, a plan had evolved, and consultation took place with industry, government and consumer agencies. MDC would grow to 35 full-time equivalent positions and the annual budget would increase to \$3.8 million from \$2.4 million, still a small number in the face of the annual commerce being supervised.

The Board was determined to make MDC licensing and service fees more equitable. The larger new car dealers would pay more. Licensing of salespeople, which had grown to cover 47 per cent of the budget, would be reduced to 28 per cent of the total revenue. Since the Lower Mainland caused a dramatically disproportionate amount of enforcement problems, a flat fee surcharge would be assessed on all dealers in the region.

The report that follows outlines an eventful year and takes a look ahead. There is nothing on the business agenda so important as the review of legislation conducted during the past two years, a multi-stakeholder initiative chaired by Director Gary Cowell. For the first time in 25 years all the statutes and regulations impacting dealers have been analyzed, with a view toward minimizing complexity and confusion, and putting all retail vehicle sales in B.C. on an even keel - having everybody play by the same rules. A request for action on many fronts will soon be presented to government.

One of the greatest demands from licensed dealers since the founding of MDC has been to put illegal vendors out of business. This means the so-called "curbers," those who masquerade as financiers, wholesalers, importers, collection agents or merely "private citizens" selling their own cars, but who are really unlicensed dealers. Private sales represent one third of all used vehicle transactions in the province each year, and many of these are simply individuals selling their own car, motorcycle or recreation vehicle, but those who do it as a business are breaking the law. The MDC goal is to have these offenders obtain a dealer licence or to remove them from the marketplace.



It is an inspiration to work closely with our President and Registrar, Ken Smith, who advocates professional development and public education with passion, a belief that this will do more to clean up the industry and improve its image than overzealous enforcement. Media headlines this past year demonstrate MDC's determination to discipline offenders, but the primary objective is compliance, helping the industry achieve greater public respect and profitability, if not prosperity.

Robert J. Stewart

Great Challenges & Great Teams

At some point during our first year of operation, as programs, policies and procedures took shape, there was an awakening among responsible dealers that this new agency meant business.



Ken Smith

A lawyer, mediator, educator, a past-chief executive officer of a Crown Corporation and the developer of an internationally recognized program in leadership and organizational development, Ken Smith was appointed to direct the new Motor Dealer Council of B.C., prior to the start of business on April 1, 2004.

Prior to the establishment of the independent MDC, government support for motor dealer regulations had declined. Rules were established, but lack of resources for inspection and enforcement created a culture among motor dealers that the consequences for noncompliance - or total disregard of the regulations - would be minimal.

Media headlines this past year about MDC enforcement activities - fines, administrative assessments, imposed

receiverships, licence suspensions and licence cancellations - along with multi-faceted communications, generated a tsunami response for the small MDC staff team. Thousands called for information, visited the web site, urgently tried to correct licensing negligence and reported dealers and curbers in their area whom they believed were violating statutes and regulations. This impacted our small staff team, all of whom did their best to answer incoming calls but were unable to keep up with the vast demand on their services.

Through most of the past fiscal year, each of our investigators carried about 70 active files at any given time, in addition to the responsibility of routinely inspecting licensed dealerships in their area.

This was the challenge, and our team - an outstanding Board of Directors, management and staff - answered the call. We remain grateful to all of our stakeholders for their support and patience and, most notably, the Automotive Retailers Association of B.C., New Car Dealers Association of B.C., and the Recreation Vehicle Dealers Association of B.C.

Planning began with the Board but also involved management, staff, stakeholders and consultation with the minister of government to whom we report, Hon. John Les, Minister of Public Safety and Solicitor-General. The licence fee structure was adjusted to provide additional revenue and to address inequities. Resources will be available to improve service in all areas and to create valuable new programs.

Our 2005-2006 year was focused upon the creation of increased capacity.

Two vexing issues that continue to concern us are:

> Identity -

Many fail to understand that MDC is independent of government, and, conversely, others believe that this represents industry "self-governance." Government retains legislative authority, but has vested the administration and management of the Motor Dealer Act and related statutes as they apply to motor dealer activity, with this agency. Our Board of Directors consists of prominent individuals from both outside and within the motor dealer industry.



> Licensing Compliance -

It has been estimated that as many as 1,000 unlicensed salespeople have been working for licensed dealers since before June 1, 2004. This is far more than mere negligence. At best it is an irresponsible "catch me if you can" attitude and, at worst, it is deliberate deception and an injustice to those who have complied with the new legislation. A high priority for the new fiscal year will be identifying these people and their employers and assessing the appropriate penalties to both parties for noncompliance.

Legislation Review

A two-year review of all legislation and regulations with respect to the sale of motor vehicles - the most comprehensive analysis of statutes in at least a quarter century - was completed and released. The 42-page discussion paper attracted province-wide media attention and feedback is now being obtained prior to requesting - from government - specific changes to statutes and regulations.

MDC's Legislation Review Committee, chaired by Gary Cowell, had representatives from industry, the public-at-large, ICBC, Autoplan agents and the British Columbia Automobile Association.

At the outset of the review process a total of 15 organizations, representing both consumers and industry, were asked to make submissions.

The majority of recommendations concern uncontroversial updates of definitions, language and terminology to more accurately reflect modern realities and business practices.

Important proposals include:

- > Ensuring that all wholesalers, brokers, auctioneers, importers, exporters, bailiffs, financiers, collection agents and manufacturers who sell motor vehicles are to be licensed.
- > Clarifying the definitions of campers, tent trailers and horse trailers to insure that all appropriate dealers are included as businesses requiring a dealer licence.
- > Increasing the ceiling on claims to the Motor Dealer Customer Compensation Fund to \$50,000 from the present \$20,000. Other changes clarify and expand what is covered, and lengthen the period in which to make claims. There is also the addition of an optional dispute resolution process.
- > Improved language to ensure that motor dealers comply with "every advertisement or written representation."
- > Ensuring that financial agents and lenders not "licensed under a federal or provincial statute," must be licensed under the Motor Dealer Act if they participate in vehicle sales.
- > Anyone engaged in consignment sales should be required to post securities, such as letters of credit, in the amount of \$75,000 for recreation vehicle dealers and \$20,000 for auto dealers.

- > Dealers are currently required to disclose ("to the best of their knowledge and belief") whether a vehicle for sale has sustained damage requiring repairs costing 20 per cent of the asking price for new vehicles, or \$2,000 for all used vehicles. It is proposed that this latter amount be increased to \$5,000, better reflecting current market values.

Communications

A major thrust during 2005-2006 was to elevate the profile of MDC and its programs.

- > Regular "Bulletins" to dealers focused on the most important issues.
- > The first annual report, professionally produced and released in October, 2005, was used successfully for the entire year as an information resource.
- > News releases conveyed province-wide, frequently gained widespread attention in all media: daily and community newspapers, radio and television. Three of MDC's releases became the most widely distributed of the week in which they were dispatched, according to records kept by Canada Newswire, which handles the vast majority of all Canadian corporate news dissemination.



- > The Registrar and other members of the management team have appeared on regional and national television, and have been widely quoted in other media.
- > The dynamic MDC web site continues to grow, a resource that serves multiple purposes for both the industry and the public. In addition to detailed outlines of all statutes, regulations, MDC services and programs, and consumer advice, the web site facilitates on-line licence renewals for salespeople. All bulletins, news releases and important publications can also be found there.

MDC Web Site Statistics - fiscal year

Total Visits	99,846
Total Pages Viewed	384,931

TOP 5 PDF DOWNLOADS

- Bulletins	11,531
- News Releases	10,108
- Motor Dealer Directives/ Guidelines	4,129
- Certification Course Registration Form	2,922
- Salesperson Licence Application	2,836

TOP 5 ENTRY PAGES (after the home page)

- Bulletins	8,005
- Consumer Buying Tips	7,989
- Board Member bios	3,772
- News Releases	2,234
- Customer Compensation Fund	1,505

Headline-achieving news releases about enforcement action by the Registrar is a mixed blessing. Sharp action against those who offend serves also as a warning to everyone in the industry, a far less expensive way to get a message across than either counselling or enforcement. On the other hand, these negative stories perpetuate the unfortunate image of the industry, a constant state where a small number of offenders discredit the vast majority who do things properly. Positive profiles in media are only rarely thought to be newsworthy, and then only if there is a unique human interest angle or a conspicuous success thought to be inspirational.

The professional education and consumer awareness challenge within the MDC mandate could consume limitless resources. Other areas of social advertising such as seat-belt compliance, impaired driving, anti-smoking and many health issues, have had the benefit of multiple-millions of dollars of advertising value. Strategies are currently evolving to significantly enhance MDC effectiveness in industry and public education.

Finance and Administration



Diana Den Duyf
Director of Finance and
Operations

Diana Den Duyf, who assumed the formidable task in 2004 of setting up MDC operations, is a 20-year veteran of the newspaper business, the last 10 of which as Regional Business Manager overseeing finance, human resources and business systems for three publications.

Despite exceptional service and development pressure, MDC's second fiscal year achieved a surplus of revenues over expenditures of \$185,000. Financial statements continue to show an accumulated net deficit (which is carried forward from last year) as a result of accounting methodology we have chosen with respect to unearned licence fee revenues - as these fees are recorded into the period in which they are earned. Fiscal surpluses during the next four or five years are expected to reduce the deficit to zero. A long-term goal is to eliminate this deficit and to build a contingency fund equal to 25 per cent of the annual operating budget.

The dominant theme of business administration during early 2006 was a blueprint for new programs and the anticipation of growth and all of its practical considerations: recruitment of personnel (almost doubling from 20 to 35), office space, equipment and related infrastructure.



Other business highlights of 2005-2006 were:

> **Information Technology** - the implementation of OASIS software for licensing systems has been a year-long challenge. The web based software also records and manages information related to dealer and salesperson licensing, including online renewals for salespeople, investigations, consumer enquiries, hearings and the Motor Dealer Customer Compensation Fund.

> **GST** - In 2004 the MDC requested a ruling from Canada Customs and Revenue Agency (CCRA) to determine if fees that were charged by the Council were in fact subject to GST. In October 2005 we received the requested ruling. CCRA determined that GST should not be collected on the registration and license fees charged pursuant to the Motor Dealer Act (MDA) because they are exempt supplies. Unfortunately, they further ruled that the MDC is not entitled to claim input tax credits on expenses related to the administration of the MDA.

Services to Consumers

Direct service to consumers will be an increased priority of MDC as programs evolve and mature. The busy consumer service line and the web site have handled thousands of inquiries. From these sources, complaints have lead to investigations and disciplinary proceedings.

Future consumer service initiatives include:

> Dispute Resolution Service -

A program will be designed for voluntary mediation and arbitration between dealers and consumers. Similar programs in other industries require each party to sign an agreement in advance to abide by the arbitrator's ruling. Two Dispute Resolution Officers will be hired. It is hoped that this added service for consumers will remove the discomfort of Small Claims Court proceedings for both dealers and consumers.

A new program planned for the new fiscal year will significantly advance MDC's services to consumers:

> Carproof Verified BC -

Extensive planning took place for the launch of CarProof Verified BC, a partnership between the B.C. industry and a Canadian company that has built a network to provide the most comprehensive, accurate and timely used vehicle history report available in North America today. MDC will receive a small portion of every CarProof search initiated by either dealers or consumers in the province, and MDC will be the only place where the B.C. search can be ordered by phone, with reports subsequently dispatched by mail or fax. The CarProof Verified BC report will provide comprehensive vehicle history including prior registrations, status changes, insured crash repairs, verified odometer readings, and any current liens from all across Canada and the United States. It does not provide private information such as prior vehicle ownership.

Licensing and Professional Development



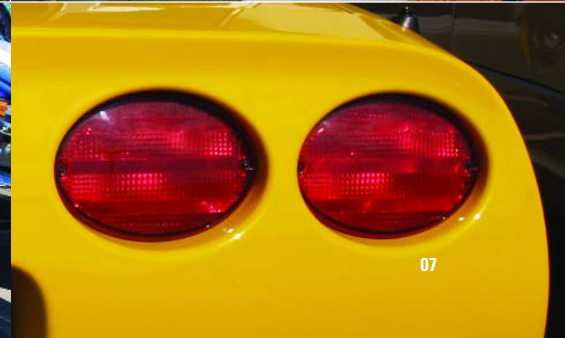
Earl Manning
Director of Licensing and Professional Development

Following an early career representing the Canadian recreation vehicle industry in government and media relations, industry development and public events,

Earl Manning subsequently provided similar services to other industry organizations. While completing his Masters in Business Administration he was recruited by motor dealers to help found the Motor Dealer Standards Association in 1999. His considerable expertise and experience ensured a seamless transition to the new Council in 2004.

MDC's personnel and licensing systems were overwhelmed throughout the year, attempting each day to reduce the backlog, rather than expeditiously processing new applications. Improvements as the year progressed were gradual. Fixing this problem became a high priority for the fiscal year now in progress and additional resources should soon help MDC achieve more acceptable levels of service.

Professional development is at the core of the MDC mandate: codes of conduct, standards, training, researching best practices elsewhere and helping to inspire consumer confidence in licensed dealers and personnel. All salespeople and dealer office staff who have customer contact



are required to be licensed. Dealers must ensure that all such personnel have a valid licence, but systematic inspections and payroll audits are discovering widespread neglect in this area, a situation that can lead to fines, administrative penalties and the requirement of backdated fees to either June 1, 2004 or the employee's first date of work in the industry.

An enforcement challenge is to deal with dealers and salespeople who ignore licensing requirements, but what is increasingly satisfying is that the industry is becoming far more aware and systematic about compliance. Over 1,500 salespeople effortlessly renewed their licences online during the past year, 500 of them also enjoying a discount for renewing for a two-year period.

In addition to licence renewals during the past year, 1,500 new salesperson applications were processed (complete with criminal record checks) and 230 new dealer applications. The new dealer licences are complex, involving inspections, financial criteria and background information about dealer principals.

A persistent problem continues to be off-site sales, dealerships and their salespeople who create special events at locations other than the licensed premises. The regulations require each location to be licensed. Special permits are required for off-site sales and MDC methodology has evolved during the past year to accommodate salespeople who can work at more than one location and dealers who wish to host off-site sales events.

All new salesperson applicants must complete a two-day certification course at a cost of \$420. The licence fee is \$195 for the first year and \$150 for each subsequent year.

Dealer Licensing and Salesperson Statistics

(April 1, 2005 to March 31, 2006, unless otherwise noted)

Dealers in B.C.	1,700
New Dealer Applications processed	230
New Salesperson Applications processed	1,520
People completing the certification course	1,120
Total people completing certification course to date	8,206
Total salespeople currently holding a valid SP licence *	5,543
Total dealer licences currently issued *	1,611

NOTE * (summer 2006 totals)

The MDC Certified Sales Professional (CSP) Training and Certification Course

This program was formerly known as the MDSA Training and Certification Course, founded in 2001 by the voluntary agency that preceded MDC. Educators from New Westminster's Douglas College and Okanagan College in Kelowna have played a major role in delivering the curriculum throughout the province. Until this past year, the colleges also managed course registration. In December

2005 the MDC moved all course registration activities in-house, thereby providing a more convenient and efficient process for salespeople in conjunction with their licensing requirements.

Between 2001 and 2004, over 3,600 people had successfully completed the course. But the program was voluntary. These individuals did not have to take the course again after the advent of MDC in 2004, but it became obligatory for everybody else, including dealer principals who have any direct consumer contact or direct the sales activities within their dealership.

Feedback has been universally encouraging, particularly from industry veterans who have an opportunity to revisit and reflect upon the best practices of the business, update themselves on new regulations and procedures, and share their expertise with new people who may be in the same class.

During 2004 and early 2005, the courses were dominated by industry veterans - 95 per cent or more - but that had changed by 2006. The turnover in the industry is such that over half of each class now consists of people who are new to the industry. Courses continue to be held as required throughout the province.

Course curriculum is regularly updated. The key elements of the program are as follows:



Professionalism

- Respecting differences
- Demonstrating professionalism
- Refraining from criticism
- Providing customer satisfaction
- Listening
- Dealing with your emotions
- Dealing with other people's emotions
- Consulting in sales

Legal Requirements of the Profession

- Relevant legislation
- Contract law
- Accountability
- Industry documentation
- Advertising parameters
- Educating customers
- Dealership liability
- Defining customers' needs

Dealership Operations

- Value of customer satisfaction
- Teamwork
- Dealership responsibilities
- Employer/employee loyalty
- Seeking help
- Cost of doing business
- Dealership compensation packages

Consumer Perceptions

- Customer expectations
- Dealing with a licensed dealer
- Empathy
- Diplomacy
- Managing conflict
- Motor Dealer Council (MDC)

Inspections, Investigations and Compliance



Eray Karabilgin
Director of Regulatory Services

A lawyer by education, Eray Karabilgin is one of Canada's most experienced and knowledgeable professionals in the field of consumer protection legislation. Following four

years with the Workers' Compensation Board of Alberta in the claims department, he began a 25-year career with the Government of British Columbia, first as an Administrative Tribunal for the Office of the Rentalsman, and subsequently served four Registrars of Motor Dealers in the capacity of Senior Investigator.

MDC's objective - through education, inspections and investigations - is to achieve full compliance of the industry with the governing rules and regulations. An ambition is to eventually be able to inspect every licensed dealership in the province once each year. During 2005-2006, the MDC inspectors conducted 876 motor dealer inspections, including new licensees and changes of address, which represents a significant increase over the first year.

These same inspectors also investigate both routine complaints from consumers and other dealers, and more serious matters. Each of them, during the past year, was routinely responsible for an average

of 70 active investigation files at any given time, considerably beyond what would be an acceptable case load.

The investigators, for most in the industry, are the "faces" of MDC. These are the people who are in daily contact with dealers and salespeople within their respective territories and, wherever possible, strive to be seen as partners in building a more successful, respected industry serving an informed and confident public.

MDC works with the best in the industry to help them get better, and to reduce the number of those who distort the market by using unacceptable business practices. Consumers must be assured that they are basing their decisions upon the truth, whether it is advertising, price, disclosure of a vehicle's history or any other promises made.

MDC's "progressive enforcement" starts with routine inspections and a discussion with the dealer about any matters that need to be improved. In cases where a licensee exhibits total disregard for the governing rules and regulations and it becomes evident that further attempts to achieve compliance would be fruitless, the matter escalates to an investigation. Once there is evidence that an offence has occurred, the investigator can choose from a variety of enforcement options: verbal warnings, warning letters, tickets, or



ultimately a hearing before the Registrar. The Registrar has the authority to suspend or cancel licences and/or impose administrative penalties under the Motor Dealer Act and/or the Business Practices and Consumer Protection Act. Maximum administrative penalties under the legislation can be as high as \$50,000. If the contravention is very serious the case is presented to the Administrative Crown Counsel with a request to charge the offender.

Prior to the advent of MDC, the previous administration never chose to bring disciplinary action through the Supreme Court of B.C., as permitted under powerful sections of the Motor Dealer Act. Now, in cases where the Registrar's rulings are ignored, a "Compliance Order" may be sought from the Supreme Court. This form of action has been effective in several situations. Failure to comply with the Supreme Court would constitute a "contempt of court order" which is an offence under the Criminal Code of Canada.

Experience during the year continued to demonstrate that most of the non-compliance behaviour in the industry occurs in the Lower Mainland. The MDC statistics show that 80-85 per cent of all complaints received are generated by the Greater Vancouver area dealerships. In smaller communities everyone doing business is well-known, which increases the accountability for those who don't abide by the

rules. This disparity resulted in a MDC decision to impose a flat fee surcharge upon all dealers in the Lower Mainland for the fiscal year now in progress, to reduce the financial burden upon those who do business in areas less expensive to serve.

Experience has also noted that a disproportionate number of victims of deceptive acts or practices are single women, a challenge that will soon evolve into the MDC doing more in communications, education and enforcement strategies.

On a more positive note, MDC's long-awaited "advertising guidelines" were sent to dealers in November, 2005. Investigators report that not only have they heard many appreciative comments from dealers now able to see a concise, sensible outline of standards, but they are finding far fewer problematic ads.

Inspection and enforcement statistics, April 1, 2005 to March 31, 2006

- > 876 dealership inspections were done (including 115 new and 124 changes of address).
- > 7,073 calls were received by the enquiry officer (telephone, e-mail, fax, mail and walk-ins). On average there were 589 calls per month.
- > 40 tickets were issued.
- > 150 warning letters were sent, 72 of which were misleading advertising letters that were sent since the proclamation of the Advertising Guidelines in November 2005.

- > 21 verbal warnings were recorded since February 1, 2006.
- > 112 Motor Dealer hearings were held. Of those 15 resulted in licenses suspended, 10 licenses cancelled, 33 administrative fines and 54 were adjourned.
- > 24 Salesperson hearings were held. Of those 4 resulted in license suspensions, 3 licenses cancelled, 1 denied, 2 administrative fines and 14 were adjourned.
- > 2,882 incoming calls were received directly by the investigators (records kept since June 1, 2005).
- > 679 investigative files were opened, 501 were closed and there were 235 Compensation Fund files. On average there were 320 open investigative files per month.

Advertising Guidelines & Workshops

For the first time since 1982, a review of all legislation and ethical standards related to advertising, including both provincial and federal statutes, was completed late in 2005, achieving one consolidated "motor dealer advertising guidelines" publication. This document, posted to the MDC web site, was also distributed to all 1,700 dealer licensees and interested advertising media. Workshops - most frequently sold out - were held in various locations around the province commencing in January, 2006.

The guidelines strive to eliminate confusion resulting from various pieces



of legislation, regulations and standards - all of which have been in place for some time. Now they are in one consolidated package. While the focus of the workshops was advertising, the interactive agenda evolved from the participants, and invariably became a lively exchange about practices and standards within the industry. This experiential learning process involved small breakout groups discussing issues and samples of improper ads. The synergy between dealers, sales managers, salespeople, advertising media, industry associates and MDC management has been enriching.

After publication of the guidelines, the most frequent misunderstanding was the impression that MDC would be able to vet ads before publication. It was fundamental to the workshop process to explain that the content of an ad tells only part of the story. When the consumer arrives at a dealership, will they find what is advertised, as it was advertised? Will there be a bait and switch in operation? Will the fine print victimize the customer? We have worked with public agencies and the industry to help clarify the rules and ethical standards. Failing that, MDC will respond to complaints and investigate.

MDC has already seen a noted improvement in dealer advertising, but there are many who appear to be ignoring all efforts at reform. MDC investigators have issued a number of warning letters. Continued noncompliance will lead to escalated

enforcement actions by investigators and eventually hearings with the Registrar.

Common items of concern that continue to appear in ads include: incomplete information being provided about financing and leasing; failure to ensure that the "total price" is clearly and prominently provided for all vehicles advertised; false or misleading statements and incomplete vehicle details including failure to provide vehicle stock numbers.

Motor Dealer Customer Compensation Fund

The Motor Dealer Customer Compensation Fund Board was established to provide protection to consumers who have suffered an eligible loss against a registered B.C. motor dealer as a result of a purchase of a new or used vehicle. Examples of eligible losses include: the failure to deliver a vehicle as contracted as a result of bankruptcy; failure of the motor dealer to provide clear title to a vehicle; or, a refusal by a dealer to forward the proceeds of sale for a consigned vehicle.

As an independent administrative tribunal, the Board has exclusive jurisdiction to hear and decide claims against the fund. A decision, ruling or order by the Board is final and conclusive and is not open to review in court, except on a question of law or jurisdiction.

The Board adheres to the principles of Natural Justice frequently called the Principles of Procedural Fairness. In the case of the Motor Dealer Customer Compensation Fund Board, the process of Natural Justice can be summarized as:

- > The duty to be fair
- > The duty to hear the other side
- > A rule against bias
- > An exercise of unfettered discretion
- > The proper acquisition and exercise of jurisdiction.

In 2005-2006, the Motor Dealer Customer Compensation Fund Board held 7 meetings and adjudicated 90 claims: 47 were denied and 43 were approved for a total \$90,963.22. The submissions reviewed by the Board can be categorized as follows:

Deposit issues	34 cases
Misrepresentations	29 cases
Odometer rollback	10 cases
Warranty issues	7 cases
Unsafe Vehicle issues	5 cases
Lien/encumbrances	2 cases
Consignment issues	1 case
Stolen Vehicles	1 case
Rebuilt Status	1 case



The Fund is currently estimated at \$1.4 million. Since its inception in 1995, \$1,762,627.37 has been paid out of the Fund:

	1995-2006
Number of Claims Adjudicated	689
Number of Claims Approved	370
Number of Claims Denied	319

The Board has made numerous submissions to the Legislation Review Committee in respect to the regulations pertaining to the compensation fund. The Board particularly agrees with the recommendation to increase the maximum allowable per claim to \$50,000 (the actual ceiling being \$20,000).

More detailed information on the Motor Dealer Customer Compensation Fund can be found on the MDC website at www.mdcbc.com.

Motor Dealer Customer Compensation Fund Board of Directors

MOTOR DEALER INDUSTRY

Jack Jenner, Chair (2004-2007)
Auto dealer

Rick Bentley (2004-2006 / 2006-2009)
Auto dealer

Art Pike (2004-2007)
Recreational vehicle dealer

PUBLIC-AT-LARGE

Doug Potentier (2004-2007)
Former CEO, Greater Victoria Chamber of Commerce, former deputy police chief

Mary Freeman (2004-2006)
Senior public servant, former Registrar of Motor Dealers

Kyong-ae Kim (2006-2009)
Attorney at law

MDC Priorities for 2006/2007

Implement growth strategies - it is expected that the increase of personnel to 35 full-time people from 21, as well as the corresponding expansion of facilities and systems will be completed by December, 2006.

Significantly increase compliance.

Legislation review - it is imperative that these proposed changes be enacted during the Spring, 2007, session of the B.C. Legislative Assembly.

Upgrade new dealer licensing requirements.

Design & fund consumer awareness - MDC must find affordable strategies and funding to educate consumers about vehicle purchases.

Establish advisory committees - MDC believes that there is insufficient input from salespeople in decision-making. It is hoped to establish an advisory

committee for this purpose. Other such committees planned are: motorcycle dealers, advertising and general stakeholders, a cross-section of industry and related public organizations.

Initiate salesperson upgrade program - new enrollees in the MDC certification course have the benefit of a constantly upgraded curriculum. Other professions offer and sometimes require periodic "refresher" courses.

Develop a voluntary dispute resolution service.

The Motor Dealer Council of B.C. has had a brief but incredible journey, propelled by an outstanding Board of Directors and a compact team of dedicated staff. All this has unfolded in less than three years - an organizational phase and two years of official business.

Sir Winston Churchill's eloquent remarks after the fall of Rommel's Afrika Corps at El Alamein in 1942 come to mind:

"Now this is not the end. It is not even the beginning of the end. . . . But it is, perhaps, the end of the beginning."

Respectfully submitted,

Ken Smith,
President and Registrar



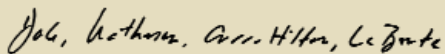
Auditors' Report

To the Directors of Motor
Dealer Council of British Columbia:

We have audited the statement of financial position of the Motor Dealer Council of British Columbia, a not-for-profit Society, as at March 31, 2006 and the statements of operations, changes in net assets and cash flows for the year ended March 31, 2006. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Society as at March 31, 2006 and the results of its operations and its cash flows for the years ended March 31, 2006 in accordance with Canadian generally accepted accounting principles.



DALE MATHESON CARR-HILTON LABONTE
CHARTERED ACCOUNTANTS

Vancouver, B.C.
June 16, 2006

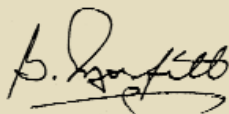
Statement of Financial Position

	March 31, 2006	March 31, 2005
ASSETS		
CURRENT ASSETS		
Cash	\$ 367,978	\$ 515,878
Short-term investment	202,662	-
Receivables	36,197	37,719
Prepaid expenses	26,783	22,587
	633,620	576,184
PROPERTY AND EQUIPMENT (Note 3)	455,338	316,999
	\$ 1,088,958	\$ 893,183
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 170,144	\$ 238,003
Bank loan – current (Note 4)	99,838	94,231
Unearned revenue	932,788	826,598
	1,202,770	1,158,832
BANK LOAN (Note 4)	106,026	205,769
	1,308,796	1,364,601
NET ASSETS		
INVESTED IN PROPERTY AND EQUIPMENT	455,338	316,999
RESERVED FOR FUTURE TRAINING COSTS	66,500	-
ACCUMULATED EXCESS OF EXPENSES OVER REVENUES	(741,676)	(788,417)
	(219,838)	(471,418)
	\$ 1,088,958	\$ 893,183

APPROVED ON BEHALF OF THE BOARD:



Director



Director

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

Statement of Operations

	Year ended March 31, 2006	Year ended March 31, 2005
REVENUES		
Licensing fees	\$ 2,099,759	\$ 1,053,289
Training course fees	245,901	157,469
Compensation fund recovery	97,162	-
Registrar's hearings recovery	18,587	2,850
Administration fees and other	152,548	79,457
	2,613,957	1,293,065
EXPENSES		
Advertising and promotion	59,439	17,636
Amortization	125,382	70,390
Automobile	20,946	14,770
Consulting	2,274	99,485
Compensation fund expenses	97,162	-
Governance	123,748	72,441
Interest on long term debt	14,609	-
Office and general (Schedule 1)	240,455	182,293
Professional fees	70,370	63,732
Project development	13,310	-
Registrar's hearing expenses	21,266	2,405
Regulatory services (Schedule 1)	589,874	452,205
Rent and parking	158,002	86,138
Training course expenses	32,458	-
Salesperson licensing	-	202,453
Travel and meals	18,008	17,192
Wages, benefits and training	807,914	735,690
	2,395,217	2,016,830
EXCESS OF REVENUES OVER EXPENDITURES BEFORE THE FOLLOWING	218,740	(723,765)
Provision for non-recoverable GST (Note 8)	(33,660)	(92,196)
EXCESS OF REVENUES OVER EXPENDITURES FOR THE YEAR	\$ 185,080	\$ (815,961)

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

Statement of Changes in Net Assets

Year ended March 31, 2006	Accumulated excess of revenues over expenditures	Invested in property and equipment	Designated earnings	Net excess of liabilities over assets
BALANCE, March 31, 2004	\$ -	\$ 179,464	\$ 165,079	\$ 344,543
INVESTMENT IN PROPERTY AND EQUIPMENT	(137,535)	137,535	-	-
START-UP COSTS (RESERVED)	165,079		(165,079)	-
EXCESS OF REVENUES OVER EXPENDITURES FOR THE YEAR	(815,961)	-	-	(815,961)
BALANCE, March 31, 2005	(788,417)	316,999	-	(471,418)
INVESTMENT IN PROPERTY AND EQUIPMENT	(138,339)	138,339	-	-
RESERVE FOR FUTURE TRAINING COSTS	-	-	66,500	66,500
EXCESS OF REVENUES OVER EXPENDITURES FOR THE YEAR	185,080	-	-	185,080
BALANCE, March 31, 2006	\$ (741,676)	\$ 455,338	\$ 66,500	\$ (219,838)

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

Statement of Cash Flows

	Year ended March 31, 2006	Year ended March 31, 2005
OPERATING ACTIVITIES		
Excess of revenues over expenditures for the year	\$ 185,080	\$ (815,961)
Items not affecting cash		
Amortization	125,382	70,390
Provision for non-recoverable GST	-	42,665
Cash reserved for training costs	66,500	-
	376,962	(702,906)
Changes in non-cash working capital:		
Receivables	1,522	27,749
Prepaid expenses	(4,196)	(11,044)
Accounts payable and accrued liabilities	(67,859)	108,232
Unearned revenue	106,190	826,598
NET CASH FLOWS FROM OPERATING ACTIVITIES	412,619	248,629
INVESTING ACTIVITIES		
Purchase of property and equipment	(263,721)	(194,839)
Short-term investment	(202,662)	-
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(466,383)	(194,839)
FINANCING ACTIVITIES		
Bank loan	(94,136)	300,000
NET CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES	(94,136)	300,000
NET INCREASE IN CASH	54,762	353,790
CASH, beginning of year	515,878	162,088
CASH, end of year	\$ 367,978	\$ 515,878
Supplementary Cash Flow Information:		
Cash paid for interest	\$ 14,609	\$ -

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

Schedule 1 - Expenses

	Year ended March 31, 2006	Year ended March 31, 2005
OFFICE AND GENERAL		
Bank and credit card charges	\$ 33,727	\$ 15,238
Credit and registry checks	7,935	9,731
Insurance	7,265	4,309
Office supplies and printing	46,827	33,017
Office equipment rental	14,491	11,605
Miscellaneous	19,771	15,216
Postage	19,589	11,724
Systems and technical support	65,404	44,367
Telephone	25,446	37,089
	\$ 240,455	\$ 182,293
REGULATORY SERVICES		
Travel and accommodation	\$ 107,667	\$ 73,394
Wages and benefits	482,207	378,811
	\$ 589,874	\$ 452,205

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

Notes to the Financial Statements

March 31, 2006

NOTE 1 – PURPOSE OF THE SOCIETY

The Motor Dealer Council of British Columbia (“the Society”) was incorporated under the Societies Act of British Columbia on July 31, 2003 as a not-for-profit society. The Society was created to exercise the authorities delegated to it by the provincial government of British Columbia for the administration and enforcement of the Motor Dealer Act and related regulations.

On April 1, 2004 the Government of British Columbia granted to the Society the authority to administer and enforce the Motor Dealer Act. The President of the Society is the Registrar of Motor Dealers.

The Society’s mission statement is to promote excellence and foster public confidence by raising industry standards, providing education, ensuring compliance and leading innovation.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared on the basis of Canadian generally accepted accounting principles and reflect the following significant policies:

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates. Significant areas that require management estimates relate to the provisions for amortization of property and equipment, recoverable value of property and equipment, fair value of financial instruments and deferred revenues.

Revenue Recognition

Licensing and Registration Fees

The Society records annual licensing and registration fees from dealerships and sales representatives rateably over the period of licensing, which varies from twelve to twenty-four months. Revenues from training, course and administration fees are recognized in the period the services are provided and collection is reasonably assured. Registration fees received in advance are deferred and amortized to revenue over the registration period.

Training and Course Fees

The Society records training and course fees in the period the service is provided.

Property and Equipment

Property and equipment are recorded at cost. Amortization is provided over the estimated useful lives of the assets as follows:

Computer equipment	30% declining balance method
Computer software	50% declining balance method
Furniture and equipment	20% declining balance method
Leasehold improvements	straight-line over 5 years
Oasis software	straight-line over 36 months

The carrying value of all categories of property and equipment are reviewed for impairment whenever events or changes in circumstances indicate the recoverable value may be less than the carrying amount. Recoverable value determinations are based on estimates of undiscounted and discounted future net cash flows expected to be recovered from specific assets or groups of assets through use or future disposition.

Impairment charges are recorded in the reporting period in which determination of impairment is made by management.

Comparative Figures

Certain of the comparative figures have been restated to conform to the current year’s presentation.

NOTE 3 – PROPERTY AND EQUIPMENT

	2006 Cost	2006 Accumulated Amortization	Net Book Value	2005 Net Book Value
Computer equipment	\$ 141,383	\$ 72,851	\$ 68,532	\$ 90,357
Computer software	33,617	28,060	5,557	86,463
Furniture and equipment	114,350	38,377	75,973	81,817
Leasehold improvements	154,467	110,655	43,812	58,362
Oasis software	299,787	38,323	261,464	–
	\$ 743,604	\$ 288,266	\$ 455,338	\$ 316,999

Notes to the Financial Statements continued

March 31, 2006

The Society has developed a customized web based software program that allows it to manage all areas of licensing, compliance, and the compensation fund within one system. The cost to March 31, 2005 of \$68,247 was included in computer software. The Society began to amortize the software over its useful life of 36 months when it was substantially implemented in November 2005.

NOTE 4 – BANK LOAN

The Society has arranged a fixed rate term loan with the Royal Bank of Canada for \$300,000, repayable in equal monthly payments of \$9,096 including interest at 5.80% per annum. The loan is payable in full on March 18, 2008 and is secured by a general security agreement covering all assets of the Society.

The Society also has a demand operating loan with the Royal Bank of Canada for up to \$300,000. Interest is payable at the bank's prime rate plus 0.50%. As at March 31, 2006, the operating loan balance was \$Nil.

NOTE 5 – FINANCIAL INSTRUMENTS**Fair Value**

The fair value of the Society's current assets and current liabilities consisting of cash, short term investment, receivables, accounts payable, bank loan and unearned revenue are estimated to approximate their carrying values due to the immediate or short-term maturity.

Currency, Credit, and Interest Rate Risk

The Society is currently not exposed to significant foreign currency, credit, or interest rate risks.

NOTE 6 – RELATED PARTY TRANSACTIONS

During the year ended March 31, 2006, the Society incurred \$123,748 (2005 - \$72,441) in governance costs paid to directors for board fees and expenses.

During the year ended March 31, 2006, the Society paid \$201,991 (2005 - \$145,533) to the President of the Society for wages and benefits.

These transactions were in the normal course of operations and were measured at their exchange amount, which is the amount of consideration established and agreed to by the related parties.

NOTE 7 – COMMITMENTS

a) Minimum annual commitments under operating leases are as follows:

2007	\$ 191,764
2008	165,598
2009	145,627
	\$ 502,989

b) The Society is a party to a management services employment agreement with the President of the Society. The agreement provides for payment of \$165,000 plus benefits annually until May 31, 2010. The remuneration is reviewed annually in June of each year by the Board of Directors.

NOTE 8 – PROVISION FOR NON-RECOVERABLE GST

During the year ended March 31, 2005, management recorded a provision for GST input tax credits previously recorded as receivable as its recoverability was not assured. This resulted in \$23,311 (\$13,086 relates to property and equipment acquired in the period ended March 31, 2004) being added back to the cost of property and equipment and \$92,196 being charged to operations.

During the year ended March 31, 2006 management recorded a provision for GST input tax credits of an additional \$33,660. On September 30, 2005 the Society received a GST ruling from Canada Revenue Agency whereby it was determined that the Society should not charge GST and is not entitled to claim input tax credits. As a result, \$33,660 was charged to operations in the year.

NOTE 9 – INCOME TAXES

The Society is exempt from income taxes under the provisions of the Income Tax Act (Canada) as a not-for-profit organization.

As a not-for-profit organization, the MDC is led by a Board of Directors made up of "public-at-large" and motor dealer industry representatives. The 11-member Board is selected through an extensive nomination process that involves consumer and industry associations, government and the general public. The Board is responsible for establishing strategic direction and overseeing the operations of the MDC while ensuring its financial and organizational viability. Founding members are noted with an asterisk.

Public at Large



Robert J. Stewart, Chair *
Vancouver

Founding chair of the Justice Institute of B.C and a former Vancouver police chief, distinguished leader in the development of public policy and community service.



George L. Morfitt, FCA, Vice-Chair *
Victoria

A chartered accountant who has served both private and public sector clients, several of them high profile, and a former Auditor-General of British Columbia.



Ken Bessason
Kelowna

A strategic management consultant following a 36-year career in the financial services industry, with a legacy of community service achievements in the arts, health and children's charities.



Shell Harvey *
Victoria

A former assistant deputy Minister of Education and Advanced Education in B.C, with background as a faculty member of colleges in Manitoba and B.C.



John H. Râtel
Victoria

Former Vice President Marketing and Public Affairs, and Director, Government Affairs for the British Columbia Automobile Association

Industry Representatives



James Carter
Vancouver (New Car Dealers Association of B.C.)

The Vice President and CEO of the Carter Auto Group and a graduate of National Automotive Dealers Association "Dealers Academy" in the United States, his avocation is music. James Carter had earlier acquired a degree in music from the University of Victoria and sings in the Chor Leone Men's Chorus. He is also Chair of the North Shore Branch of St. John Ambulance.



Catherine Rankine
New Westminister (Automotive Retailers Association)

General Manager of Adesa, Inc. Vancouver, Canada's leader in wholesale auto auctions and remarketing. Catherine Rankine has an academic background from York University in dispute resolution, and professional experience as a fleet lease manager, arbitration manager, and general manager.



Gary E. Cowell
Tsawwassen (New Car Dealers Association of B.C.)

An engineer by academic background and a multiple award-winning auto dealer, Gary Cowell was one of the principal movers in the development of the Richmond Auto Mall. He has not only served on various industry boards and committees in B.C., he is a past-president of the national association, today known as the Canadian Automobile Dealers Association (CADA).



Anne Salomon *
Langley (Recreation Vehicle Dealers Association of B.C.)

A past-president of the Recreation Vehicle Dealers Association of B.C., and director of national associations in the RV industry, Anne Salomon is co-owner of the Candan Group of Companies, with dealerships in Langley and Calgary. She has played a leading role in discussions with both government and industry, in efforts to better regulate the industry.



Edd Crooks
Chilliwack (Automotive Retailers Association)

Childhood experience at his father's Ontario service station, including the sale of used cars, laid the foundation of a career as a mechanic, a college automotive teacher, an auto service and leasing manager and into today's business, owner of a respected used car dealership. Edd Crooks sits on the board of directors of the Independent Auto Dealers, within the Automotive Retailers Association.



Welcome Henning Brasso
(New Car Dealers Association of B.C.)

Joining the Board as of April 1, 2006, was Henning Brasso, among British Columbia's most notable business personalities. A former Nissan and British luxury car dealer whose grandfather was the largest used car dealer in Calgary during the 1950's, he and partners purchased Richmond Honda in 1990, the largest Honda dealer in Canada. He replaced Gary Cowell, who chose not to continue for a second term. Cowell continues to serve MDC as Chair of the Legislation Review Committee.



Neil Kalawsky, Secretary-Treasurer *
Castlegar (New Car Dealers Association of B.C.)

A past winner of a Maclean's Magazine Dealer of Excellence Award, and the operator of two dealerships, he has served on many industry boards and agencies, including a term as National Chairman of the General Motors Communications Team. Neil Kalawsky is a member of the Board of Directors of the Canadian Auto Dealers Association.

MDC Management Team



(left to right) - Eray Karabilgin, Diana Den Duyf, Ken Smith, Judy McRae and Earl Manning.



Motor Dealer Council
BRITISH COLUMBIA

The road to consumer confidence!

Motor Dealer Council of BC
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