



1969 - 1994

CANADIAN INVESTOR PROTECTION FUND

1994 ANNUAL REPORT TO INVESTORS

OUR MISSION

To foster a healthy and active capital market in Canada by contributing to the security and confidence of investors who have accounts with Members of our Sponsoring Self-Regulatory Organizations.

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The CIPF protects investors, within defined limits, from loss of securities and cash balances that may result from the insolvency of a Member.

The CIPF and its Sponsoring Self-Regulatory Organizations establish national standards for financial responsibility and monitor Members' compliance with such standards in order to minimize exposure to loss.

Message from the Chairman and the President

The focus of the annual report this year is **the individual investor**.

1994 was another quiet year for the CIPF. The last insolvency of a Member occurred in 1991 and since then, to the time of preparation of this report, over four years have passed — an enviable record. As a result, the Fund balance at December 31, 1994, reached \$74.5 million, an increase of over \$12 million during the year.

What is the CIPF?

The CIPF was established in 1969 by an *Agreement and Declaration of Trust*. The present parties to the Trust are the Sponsoring Self-Regulatory Organizations (SSROs) — the Alberta, Montreal, Toronto and Vancouver Stock Exchanges, The Toronto Futures Exchange and the Investment Dealers Association of Canada.

The primary role of the CIPF is investor protection; that is, protection of customers, within defined limits, in the event of the insolvency of a Member. The secondary role of the CIPF is oversight of the self-regulatory system. The secondary role provides a mechanism to help CIPF contain the risk associated with its primary role.

OUR INVESTOR PROTECTION ROLE

Protection Provided to Customers

The CIPF covers customers' *losses* of securities and cash balances, within defined limits, that result from the *insolvency* of a Member. *The CIPF does not cover customers' losses that result from changing market values of their securities, regardless of the causes of such losses.*

Although the Governors have discretion concerning the validity of claims and payment of claims, their discretion is

exercised according to policies they have adopted and which have been summarized in the CIPF brochure. At the present time the Governors have adopted policies which (i) define customers eligible for protection, (ii) establish limits of coverage, and (iii) define general and separate accounts. Members are required to provide their customers with the CIPF brochure and the Governors' detailed policy statements on request. Most customers will find the material presented in the CIPF brochure adequate for their needs.

Limits of Coverage

In the event of the insolvency of a Member, the staff of the CIPF, working with the staff of the trustee/receiver, will determine the net equity in the accounts of every customer. The net equity in a customer's account is the total value of cash and securities owed to the customer by the insolvent Member, less the value of cash and securities owed by the customer to the insolvent Member. A customer's claim for a **loss** of net equity in an account is determined **after** deducting any free credit balances (cash), properly segregated securities and other securities returned to the customer by the trustee/receiver. Customers' securities that have been segregated are not the property of the bankrupt/insolvent Member and must be returned to their owners by the trustee/receiver.

General Account Coverage

A limit has been placed on the coverage provided by the CIPF for *the aggregate of losses* in each customer's general accounts (that is, the total of losses in all cash, margin, short sale, options, futures and foreign currency accounts). The limit is \$500,000 for losses related to securities and cash balances in such accounts. The amount of coverage for the aggregate of cash balances in such general accounts, if any, included in the \$500,000 total coverage, may not exceed \$60,000. It is important that investors recognize that a

customer's loss is determined **after** the distribution of cash and all segregated and other securities by a trustee/receiver.

Separate Account Coverage

The CIPF provides separate coverage for certain types of account (or groups of similar accounts) disclosed in the records of a Member. Such accounts are treated as if they belonged to a *separate* customer and each account is entitled to the maximum coverage of \$500,000. Separate accounts include accounts such as RRSPs, RRIFs, RESPs, joint accounts and genuine trust accounts. Separate accounts are not combined with other separate accounts unless they are held by the customer in the same capacity or in the same circumstances.

Funding

The CIPF is funded by the securities industry through (i) regular quarterly assessments paid by Members based on their gross revenues, (ii) risk premiums based on capital deficiencies and (iii) an annual refund by the SSROs of the interest allocated to them in the prior year. The CIPF also maintains a \$40 million line of credit with a Canadian chartered bank.

The Governors will always be faced with the difficult task of trying to determine the magnitude of resources necessary to adequately protect the investing public. Investor and depositor protection schemes in Canada and other countries have been struggling with this problem for years. Since 1984 the Fund's total resources have grown more than tenfold to \$114.5 million at the end of 1994 (see chart on page 3), which represents more than 250% of the total paid to customers since the Fund's inception in 1969. The value of customers' securities held by our Members now exceeds \$150 billion and defined losses over the past 26 years have been less than \$42 million — all of which CIPF covered.

Customers of Members should recognize that most of their securities are held by depositories and book based mutual fund systems. The probability of not obtaining such securities if a Member firm becomes insolvent is very low. CIPF total resources, together with the regulatory mechanisms described in this report, should provide investors with considerable comfort and confidence in the securities industry in Canada.

At March 31, 1995, the Fund balance reached \$80 million, providing us with total resources of \$120 million.

Frequently Asked Questions

CIPF staff members monitor questions asked by investors and employees of Members with respect to our coverage. The following are some of the frequently asked questions (Q) and the answers (A) provided by our staff:

Q. I have accounts with more than one CIPF Member. Is my coverage shared over all of the Members? **A.** *No. You have full CIPF coverage at each CIPF Member you chose to deal with.*

Q. I have purchased mutual funds through Firm ABC. Are customers of Firm ABC protected by the CIPF? **A.** CIPF does not protect customers of Firm ABC since it is not a Member of one of our SSROs.

Q. I have purchased mutual funds through my financial planner. Do I have CIPF coverage? **A.** *No. Financial planners are not Members of our SSROs.*

Q. I have a self-directed RRSP with a trust company and I have been informed that the cash and GICs in my account are protected by CDIC. Are

the securities in my RRSP covered by CIPF? **A.** *Only if the securities in your RRSP are held in your account with a CIPF Member under an administration agreement with the trustee. Under such agreements, the customer purchases securities through a CIPF Member who then holds the securities and provides periodic statements of account to the customer. The statements must contain a note indicating that the account is protected by the CIPF. If your securities are held by the trust company, CIPF coverage is not available.*

Q. Does CIPF protect the mutual funds I purchased through my insurance company? **A.** *No. CIPF does not protect mutual funds (known as segregated funds) sold by insurance companies.*

Q. Would you please send me a copy of your brochure? **A.** *CIPF has a formal policy that it will not send brochures to investors. CIPF Members must provide their customers with a brochure on request. If the firm you deal with cannot provide you with a brochure, it is likely that the firm is not a CIPF Member and that your account is not protected by CIPF. We have adopted this policy because we found that many investors who requested brochures were dealing with firms that they mistakenly believed were CIPF Members. CIPF Members are listed on the last page of our annual report.*

Q. Are Treasury Bills, GICs and money market mutual funds considered cash or securities for purposes of CIPF coverage? **A.** *Each of these products is a security. Only a credit balance reflected on your monthly statement is considered to be cash for purposes of the \$60,000 limit on the cash component of CIPF coverage of your account(s).*

Q. I have a regular self-directed RRSP and a LIRA (Locked-in Retirement Account) with a CIPF Member. In an insolvency, would these two retirement accounts be combined or would they be separate? **A.** *The Board of Governors of CIPF has reviewed this situation and determined that they would not be combined because the accounts are not held in the same circumstances. Separate account treatment also applies to RRIFs and LIFs (Life Income Funds).*

Q. I have some securities in my account that are denominated in foreign currencies. Are they protected by CIPF? **A.** *Yes, they are protected by the CIPF. In determining a customer's loss, all foreign securities and currency not available to be returned to a customer would be valued at the Canadian dollar equivalent on the date of the insolvency.*

Public Awareness

In 1994 we introduced a public awareness program aimed at making the CIPF more visible to the investing public. Starting in 1995 trade confirmations and monthly statements, as well as certain types of advertising by our Members, will contain the message **Member CIPF**. In the fall of 1995 every Member will be provided with a CIPF sign that will include its name and indicate that the firm is a Member of the CIPF. These signs will be displayed at entrances to all Members' offices.

In the summer of 1995, the CIPF will begin operation of a World Wide Web site on the Internet. Investors will be able to obtain the CIPF brochure, policy statements, annual report, quarterly reports, a list of Members (updated monthly), and frequently asked questions and answers. In addition, investors will be able to ask questions and the answers will be sent directly to their e-mail addresses. You will be able to find CIPF on the Internet at "<http://www.cipf.tcn.net/~fcpe>".

OUR OVERSIGHT ROLE

Agreement With The Canadian Securities Administrators (CSA)

The CSA is comprised of the authority (generally a *securities commission*) in each Canadian province and territory that, under statute, regulates the securities industry within its jurisdiction. Each of the Canadian Securities Administrators is responsible for promoting both investor protection and an active capital market in its jurisdiction. In order to carry out their responsibilities more efficiently, and to reduce possible duplicative and unnecessary regulatory burdens, the CIPF and the CSA have formalized their relationship in an agreement made as of July 2, 1991.

The agreement with the CSA deals with the following matters:

- Organization of the CIPF
- Funding and Maintenance of CIPF
- Customer Protection
- Financial and Operational Regulation
- Reporting to the CSA with Respect to Members

The Chairman and the President of the CIPF meet with the CSA annually to report on CIPF activities including the matters outlined above.

CIPF Minimum Standards

The CIPF and its SSROs, under the direct supervision of the CSA, establish and continuously review national standards for capital adequacy and liquidity, financial reporting, accounting records, internal control, segregation of customers' fully and partly paid securities, insurance and other matters relating to the financial condition of Members.

Examinations

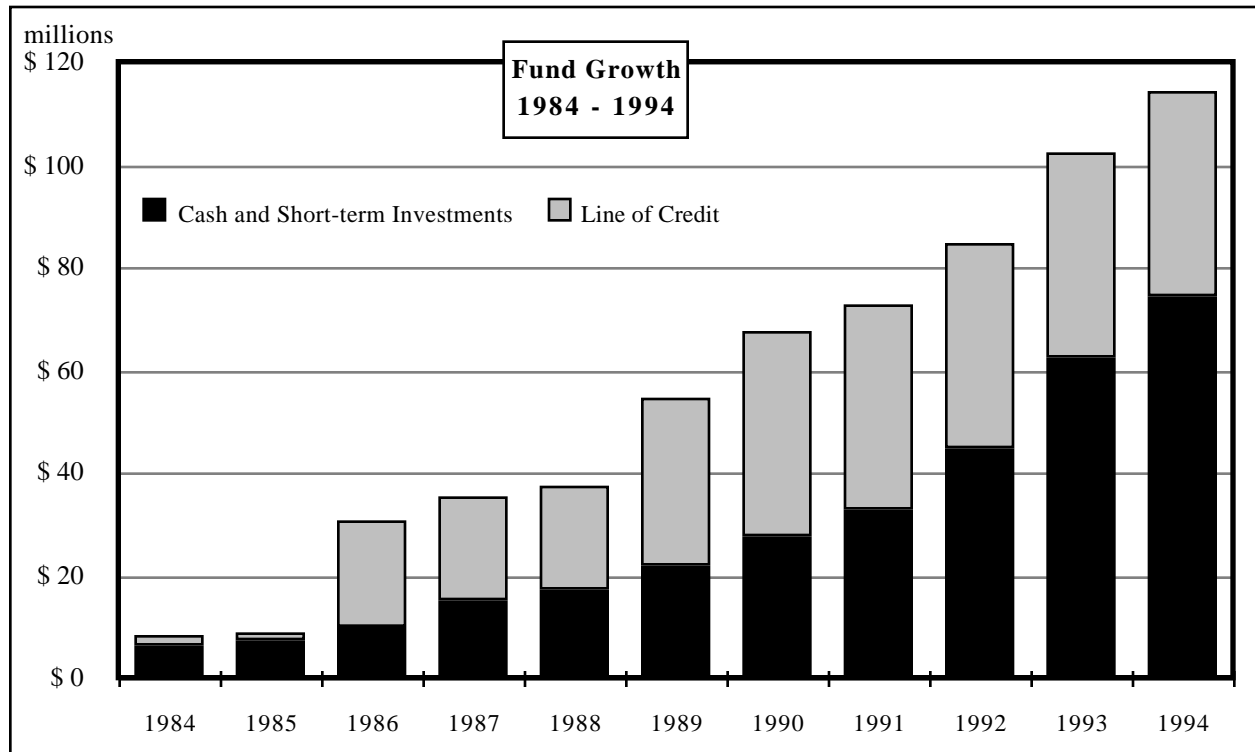
The primary responsibility for financial examination of Members rests with the SSROs. The SSROs conduct at least one surprise field examination of each Member under their jurisdiction during the Member's fiscal year. Under the terms of the agreement with the CSA, the CIPF conducts an annual review and evaluation of each SSRO's examination activities to ensure that there is compliance with CIPF Minimum Standards. In addition, the CIPF conducts annual financial examinations of Members on a rotational basis to ensure that they are in compliance with the Minimum Standards.

OVER 40 YEARS OF DEDICATED SERVICE

During 1995 we will be saying good-bye to three of our Deputy Governors who will be retiring — Pearce Bunting, Charles Caty and Don Hudson. Their total service to the CIPF exceeds 40 years. We wish each of them a healthy and happy retirement and thank them for their dedicated service.

(signed)
K. Michael Edwards
Chairman

(signed)
Donald A. Leslie
President and Chief Executive Officer



SUMMARIZED BALANCE SHEETS

As at December 31

	1994	1993
	\$	\$
ASSETS		
Cash	143,094	60,257
Short-term investments (at market value)	76,238,767	63,479,704
Fourth quarter Member assessments received in February 1995	1,994,347	2,939,660
Other assets	—	121,732
	78,376,208	66,601,353
LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable and accrued charges	191,916	213,347
Provision for claims	566,198	574,014
Balance of net income allocated to SSROs	3,092,012	3,553,678
Total liabilities	3,850,126	4,341,039
Fund balance	74,526,082	62,260,314
	78,376,208	66,601,353
FUND RESOURCES		
Fund balance	74,526,082	62,260,314
Bank line of credit	40,000,000	40,000,000
Total Fund resources	114,526,082	102,260,314

SUMMARIZED STATEMENTS OF INTEREST EARNED AND FUND ACTIVITIES

Years ended December 31

	1994	1993
	\$	\$
INTEREST EARNED		
Interest earned on short-term investments representing net income allocated to SSROs	3,092,012	3,553,678
FUND ACTIVITIES		
Fund balance, beginning of year	62,260,314	44,646,916
Add		
Regular assessments	9,993,660	10,442,466
Risk premiums	356,603	6,124,630
Contributions by SSROs of prior years' interest earned	3,553,678	2,660,288
Reimbursement by SSROs for payments to customers	—	25,028
Deduct		
Operating expenses	(1,638,173)	(1,613,986)
Claims and related expenses provided for during the year	—	(25,028)
Fund balance, end of year	74,526,082	62,260,314

AUDITORS' REPORT

To the Board of Governors of the **Canadian Investor Protection Fund**

We have audited, in accordance with generally accepted auditing standards, the financial statements for the **Canadian Investor Protection Fund** for the years ended December 31, 1994 and 1993 and have reported thereon without reservation to the Board of Governors on February 28, 1995. Our audits included the above summarized balance sheets and summarized statements of interest earned and Fund activities.

In our opinion, the above summarized balance sheets and summarized statements of interest earned and Fund activities fairly summarize the related information contained in the full financial statements which we audited.

Toronto, Canada
February 28, 1995

Ernst & Young
Chartered Accountants

BOARD OF GOVERNORS

December 31, 1994

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Chairman of Canadian Pacific Limited

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Former Executive Vice-President,
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Bonita J. Thompson¹, QC
Partner, Singleton Urquhart MacDonald

Donald A. Leslie^{2,3,4}, FCA, CFE
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Association of Canada &
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President,
The Toronto Stock Exchange

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Chairman

Donald A. Leslie, FCA, CFE
President & Chief Executive Officer

Rozanne E. Reszel, CA, CFA
Vice-President & Secretary

COUNSEL
Borden & Elliot

AUDITORS
Ernst & Young

¹ Member of the Audit Committee

³ Member of the Budget and Finance Committee

² Member of the Investment Committee

⁴ Member of the Nominating Committee

MEMBERS OF THE CIPF AND ITS SPONSORING SELF-REGULATORY ORGANIZATIONS

AS AT DECEMBER 31, 1994

ABN AMRO Capital Markets Canada Limited	FirstEnergy Capital Corp.	Mutual Securities Inc.
Acker Finley Inc.	Forbes & Walker Securities Limited ¹	National Bank Securities Inc.
AIS Securities	Fortune Financial Corporation	Nesbitt Burns Inc.
Alpha Capital Inc.	Friedberg Mercantile Group	Nesbitt Burns Ltd.
Aureus Capital Corp.	Georgia Pacific Securities Corporation	The Nikko Securities Co. Canada, Ltd.
Bank of Montreal Investor Services Limited	Global Securities Corporation	Nomura Canada Inc.
Beacon Securities Limited	Goepel Shields & Partners Inc.	Octagon Capital Canada Corporation
R.J. Beatty Financial Corp.	Golden Capital Securities Limited	Odlum Brown Limited
Berner & Company Inc.	Goldman Sachs Canada	C.M. Oliver & Company Limited
BLC Rousseau Inc.	Gordon Capital Corporation	Omni Capital Inc.
BNP (Canada) Securities Inc.	Goyette Duhamel Danisi Inc.	Pacific International Securities Inc.
R. Brant Securities Limited	Grafton Group	John Pasztor & Associates Inc.
Brawley Cathers Limited	Great Pacific Management Co. Ltd.	Pensec Inc.
Brenark Securities Limited	Great Western Securities Inc. ²	Perry Securities Ltd.
Brink, Hudson & Lefever Ltd.	Green Line Investor Services Inc.	Peters & Co. Limited
Brockhouse & Cooper Inc.	Le Groupe Option Retraite inc.	Pictet (Canada) and Company Limited
Bunting Warburg Inc.	Haywood Securities Inc.	Polar Securities Inc.
BZW Canada Limited	HSBC Capital Canada Inc. ¹	Pollitt & Co. Inc.
Robert Caldwell Capital Corporation	Independent Trading Group	Pope & Company
Caldwell Securities Ltd.	Instinet Canada Limited	Pro-Genesis Securities Inc.
Canaccord Capital Corporation	Investpro Securities Inc.	Puccetti Farrell Capital Corporation
Canadian Taurus Corporation	Jennings Capital Inc.	RBC Dominion Securities (Alberta) Inc.
James Capel Inc. ¹	Edward D. Jones & Co.	RBC Dominion Securities Inc.
Casgrain & Company Limited	Jones, Gable & Company Limited	Refco Futures (Canada) Ltd.
Cassels Blaikie & Co. Limited	Kingwest and Company	Réflexion Capital Inc.
Charlton Securities Limited	Lafferty, Harwood & Partners Ltd.	Research Capital Corporation
Chouinard, McNamara Inc.	W.D. Latimer Co. Limited	Richardson Greenshields of Canada Limited
Citibank Canada Securities Limited	Leduc & Associés valeurs mobilières inc.	Rogers & Partners Securities Inc.
CMA Securities Inc.	Lévesque Beaubien Geoffrion Inc.	Royal Bank Action Direct Inc. ¹
Commission Direct Inc.	Lévesque Securities Inc.	Salman Partners Inc.
Connor, Clark & Company Ltd.	Loewen Ondaatje McCutcheon Limited	Salomon Brothers Canada Inc.
M. Cousineau & Associés inc.	Lynch Investments Limited	Sanders & Beekingham Securities Limited
Credifinance Securities Limited	MacDougall, MacDougall & MacTier Inc.	Sanwa McCarthy Securities Limited
CS First Boston (Canada), Inc.	MacDougall, Meyer Inc.	Scotia Discount Brokerage Inc.
CTI Capital Inc.	J.D. Mack Limited ²	ScotiaMcLeod Inc.
Daiwa Securities Canada Limited	A.C. MacPherson & Co. Inc.	Security Trading Inc. ²
Demers Conseil Inc.	Maison Placements Canada Inc.	Société Générale Securities Inc.
Desjardins Securities Inc.	Majendie Securities Ltd.	Sprott Securities Limited
DFI Securities Inc.	Market Street Investment House Inc.	Standard Securities Capital Corporation
Dlouhy Investments Inc.	Marleau, Lemire Clearing Inc.	Stanley Investment Management Ltd.
Dominick & Dominick Securities Inc.	Marleau, Lemire Inc.	StephenAvenue Securities Inc.
DPM Securities Inc.	Marleau, Lemire Securities Inc.	Stuart Investment Management Limited
Dubeau Capital & Company Ltd.	Maxima Capital Inc.	Tassé & Associates, Limited
Dubeau Securities Ltd.	McDermid St. Lawrence Chisholm Ltd.	TD Evergreen Investment Services Inc.
Duhamel, Boivin inc.	McLean McCarthy Inc.	Thomson Kernaghan & Co. Limited
E3M Investments Inc.	Meridian Securities International Limited	Toronto Dominion Securities Inc.
Eagle & Partners Inc.	Merit Investment Corporation	Trilon Securities Corporation
Equion Securities Canada Limited	Merrill Lynch Canada Inc.	Union Securities Ltd.
F.C.G. Securities Corporation	Midland Walwyn Capital Inc.	Watt Carmichael Inc.
Fairvest Securities Corporation	Mirabaud Canada Inc.	Wellington West Capital Inc.
Fimat Derivatives Canada Inc.	MMI Group Inc.	Whalen, Béliveau & Associés inc.
First Associates Investments Inc.	Montréal Bonds Inc.	Wolverton Securities Ltd.
First Canada Securities Corporation	J.P. Morgan Securities Canada Inc.	Wood Gundy Inc.
First Canada Securities International Limited	Morgan Stanley Canada Limited	Yamaichi International (Canada) Limited
First Marathon Securities Limited	Moss, Lawson & Co. Limited	Yorkton Securities Inc.

¹ Name changed prior to March 31, 1995

² Resigned prior to March 31, 1995

CIPF sponsors

The Alberta Stock Exchange ♦ Investment Dealers Association of Canada ♦ The Montreal Exchange
The Toronto Stock Exchange ♦ The Toronto Futures Exchange ♦ Vancouver Stock Exchange
Cette publication est disponible en français.