



1969-1996

CANADIAN INVESTOR PROTECTION FUND

1996 ANNUAL REPORT TO INVESTORS

Message from the CHAIRMAN and the PRESIDENT

We are pleased to report that 1996 was another successful year of operation for CIPF and the self-regulatory system in Canada. The Fund balance increased by \$23 million during the year and now exceeds **\$123 million**. The healthy increase was the result of higher assessments generated by record industry revenues, no insolvencies (our last insolvency was in 1991) and the recovery of some of the costs related to three previous insolvencies.

What is CIPF?

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, Toronto and Vancouver Stock Exchanges, The Montreal Exchange, The Toronto Futures Exchange and the Investment Dealers Association of Canada.

The primary role of 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 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

CIPF covers customers' *losses* of securities and cash balances, within defined limits, that result from the *insolvency* of a Member. *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 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

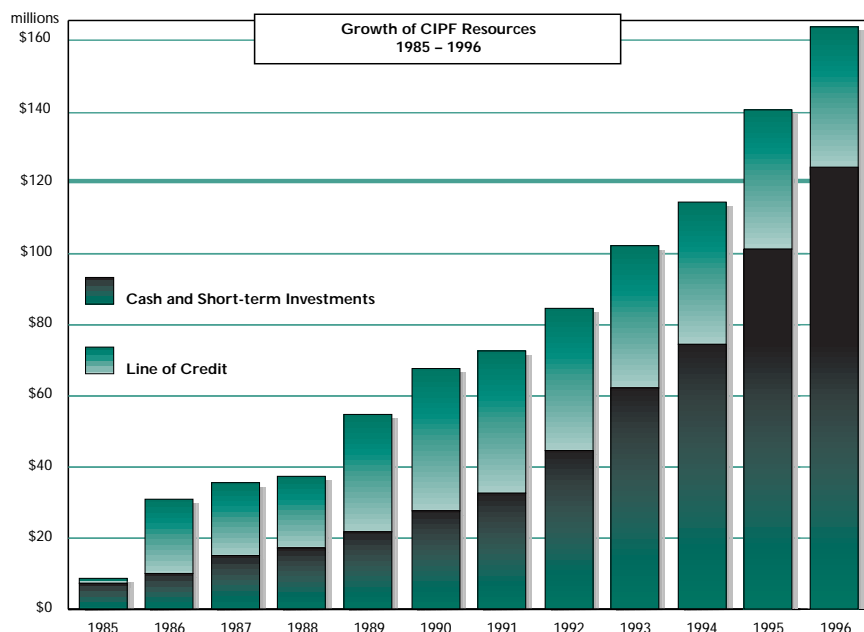
Our Mission

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.

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

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.



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. The definition of **security** is very broad and it includes instruments such as stocks, options, futures, bonds, strip bonds, coupons, treasury bills, GICs and mutual funds.

General Account Coverage

A limit has been placed on the coverage provided by 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

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 RRRSPs, LIRAs, RRRIFs, LIFs, 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

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. CIPF also maintains a \$40 million line of credit with a Canadian chartered bank.

Since 1984 total resources have grown by more than \$150 million to \$163.5 million at the end of 1996 (see chart), which represents more than six times the total paid to customers (net of recoveries) since CIPF's inception in 1969. The value of customers' securities held by Members now exceeds \$250 billion and defined losses over the past 28 years have been just \$25 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 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, 1997, the Fund balance reached \$133 million, providing us with total resources of \$173 million.

Public Awareness

In 1994 we introduced a public awareness program aimed at making 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, contain the message **Member CIPF**. In addition, every Member has been provided with CIPF signs that include its name and indicate that the firm is a Member of CIPF. These signs are displayed at the entrances to all offices of CIPF Members.

In 1995, CIPF began operation of a World Wide Web site on the Internet (www.cipf.ca). The CIPF brochure, policy statements, annual report, quarterly reports, a list of Members (updated monthly), and frequently asked questions and answers are available 24 hours a day. In addition, investors can submit questions to CIPF staff and the answers are sent directly to their e-mail addresses.

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, 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 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 CIPF meet with the CSA annually to report on CIPF activities including the matters outlined above.

CIPF Minimum Standards

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, inter-

nal 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, 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, CIPF conducts financial examinations of Members on a rotational basis to ensure that they are in compliance with the Minimum Standards.

BANKRUPTCY AND INSOLVENCY ACT

In late 1996 the House of Commons passed amendments to the Bankruptcy and Insolvency Act (Bill C-5) that will streamline the administration of securities industry insolvencies and make the entire process more equitable. The Senate passed Bill C-5 with a few amendments, which in turn were passed by the House in April 1997. The Bill received royal assent prior to the election call and is expected to be effective in the fall of 1997. The process that resulted in these amendments commenced in 1968. Over the ensuing 29 years CIPF and its advisors were actively involved in the development of this legislation.

GOVERNANCE

In early 1996 the CIPF Agreement and Declaration of Trust was amended to increase the number of Public Governors from three to five and to provide for the election of an Industry Governor "at large" who will serve as Chairman for a term of two years. In addition, a non-voting Vice-Chairman will be elected at the end of the Chairman's first year in office. The Vice-Chairman will become the next Chairman. In April 1997 Mr. Michael Tims was elected Vice-Chairman.

Robert B. Schultz
Chairman

Donald A. Leslie
President and Chief Executive Officer

SUMMARIZED BALANCE SHEETS

As at December 31

	1996	1995
ASSETS		
Cash	\$ 78,343	\$ 238,943
Short-term investments (at market value)	126,504,363	104,936,188
Fourth quarter Member assessments received in February 1997 (1996)	3,957,188	2,823,534
	\$ 130,539,894	\$ 107,998,665
LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable and accrued charges	\$ 341,327	\$ 339,868
Provision for claims	-	534,154
Balance of net income allocated to SSROs	6,664,811	6,602,103
Total liabilities	\$ 7,006,138	\$ 7,476,125
Fund balance	\$ 123,533,756	\$ 100,522,540
	\$ 130,539,894	\$ 107,998,665
FUND RESOURCES		
Fund balance	\$ 123,533,756	\$ 100,522,540
Bank line of credit	\$ 40,000,000	\$ 40,000,000
Total Fund resources	\$ 163,533,756	\$ 140,522,540

SUMMARIZED STATEMENTS OF INTEREST EARNED AND FUND ACTIVITIES

Years ended December 31

	1996	1995
INTEREST EARNED		
Interest earned on short-term investments representing net income allocated to SSROs	\$ 6,664,811	\$ 6,602,103
FUND ACTIVITIES		
Fund balance, beginning of year	\$ 100,522,540	\$ 74,526,082
Add:		
Regular assessments	14,239,411	9,862,953
Risk premiums	44,981	50,886
Contributions by SSROs of prior years' interest earned	6,602,103	3,092,012
Recovery of funds re prior year insolvencies	3,814,942	14,600,000
Deduct:		
Operating expenses	(1,690,221)	(1,609,393)
Fund balance, end of year	\$ 123,533,756	\$ 100,522,540

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 of the **Canadian Investor Protection Fund** for the years ended December 31, 1996 and 1995 and have reported thereon without reservation to the Board of Governors on February 28, 1997. 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, 1997

Ernst & Young
Chartered Accountants

BOARD OF GOVERNORS

December 31, 1996

PUBLIC GOVERNORS

Clayton Manness¹

- Farmer
- Former Minister of Finance, Province of Manitoba

H. Leslie O'Brien, o.c.

- Professor of Law, Dalhousie University
- Former Vice-Chairman, Nova Scotia Securities Commission

Hon. Ian D. Sinclair^{1,2,3,5}, o.c., q.c.

- Former Senator of Canada
- Former Chairman, Canadian Pacific Ltd.

Hon. Barbara J. Sparrow⁵

- President, Sparrow Holdings Ltd.
- Former Minister of Natural Resources, Government of Canada

J. Stuart Spalding, CA

- Former Executive Vice-President, BCE Inc.

Robert B. Schultz^{2,3,4}, CA

- Chairman, Midland Walwyn Capital Inc. (Industry Governor at large)

Donald A. Leslie^{2,3,4,5}, FCA, CFE

- President

INDUSTRY GOVERNORS

John W. Cranston^{3,5}

- Chairman, The Alberta Stock Exchange
- Vice-President, ScotiaMcLeod Inc.

John A. MacNaughton²

- Chairman, Investment Dealers Association of Canada
- President, Nesbitt Burns Inc.

René G. Jarry⁴

- Chairman, The Montreal Exchange
- Senior Executive Vice-President, Lévesque Beaubien Geoffrion Inc.

Barbara G. Stymiest^{2,3,5}, FCA

- Vice-Chairman, The Toronto Stock Exchange
- Senior Vice-President, Nesbitt Burns Inc.

Max Meier¹

- Vice-Chairman, Vancouver Stock Exchange
- President, Pacific International Securities Inc.

INDUSTRY DEPUTY GOVERNORS

Thomas A. Cumming

- President, The Alberta Stock Exchange

Joseph J. Oliver⁵

- President, Investment Dealers Association of Canada

Gérald A. Lacoste⁵, o.c.

- President, The Montreal Exchange

Rowland W. Fleming

- President, The Toronto Stock Exchange

Michael E. Johnson

- President, Vancouver Stock Exchange

INDUSTRY ALTERNATE GOVERNORS

James G. Sorenson

- Vice-Chairman, The Alberta Stock Exchange
- Vice-President, Midland Walwyn Capital Inc.

Lawrence S. Bloomberg³

- Vice-Chairman, Investment Dealers Association of Canada
- President, First Marathon Securities Limited

Marc-André Élie

- Vice-Chairman, The Montreal Exchange
- Senior Vice-President, RBC Dominion Securities Inc.

John C. Clark

- Chairman, The Toronto Stock Exchange
- Chairman, Connor, Clark & Company Ltd.

J. Chris Lay⁵

- Honorary Secretary/Treasurer, Vancouver Stock Exchange
- Vice-President, CIBC Wood Gundy Securities Inc.

OFFICERS

Robert B. Schultz, CA

- 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

² Member of the Investment Committee

³ Member of the Budget and Finance Committee

⁴ Member of the Nominating Committee

⁵ Member of the Governance Committee

CANADIAN INVESTOR PROTECTION FUND FONDS CANADIEN DE PROTECTION DES ÉPARGNANTS

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