



1969-1998

# CANADIAN INVESTOR PROTECTION FUND

## 1998 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.*

*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.*

## Message from the CHAIRMAN and the PRESIDENT

We are pleased to report that 1998 was another successful year of operation for CIPF and the self-regulatory system in Canada. The Fund balance increased by \$7 million during the year and now exceeds **\$151 million**. There were no insolvencies during the year (the last insolvency requiring CIPF protection was in 1991).

### 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 (SROs) — the Alberta, Toronto, Winnipeg 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 overseeing 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, cash balances, and certain other property such as segregated insurance funds, 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.** The definition of **security** is very broad and it includes instruments such as stocks, mutual funds (including money

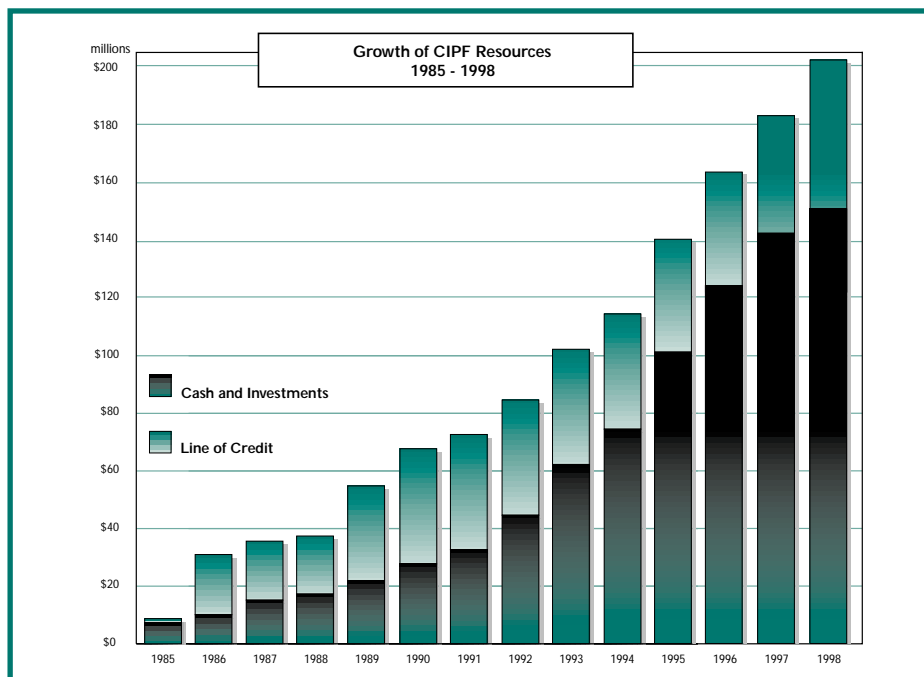
market funds), options, futures, bonds, strip bonds, coupons, treasury bills and GICs.

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. A brief summary of coverage follows.

#### 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.



## Separate Account Coverage

CIPF provides separate coverage for certain types of accounts (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 such account is also entitled to the maximum coverage described for general accounts. Separate accounts include RRSPs, LIRAs, RRIFs, 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.

It is important that investors recognize that a customer's **loss** is determined **after** the distribution of all assets that are available for customers in a bankruptcy or insolvency. The amendments to the Bankruptcy and Insolvency Act, which were described in detail in last year's annual report, permit all customers to share pro rata according to their equity in the assets that comprise the customer pool fund. This minimizes the amount of loss to any one account and the amount of the shortfall, if any, is then eligible for CIPF protection up to the prescribed limits.

Investors should recognize that most of their securities are held by depositories (primarily the Canadian Depository for Securities) and book-based mutual fund systems. The probability that such securities will not be available for inclusion in the customer pool fund, if a Member becomes insolvent, is very low. CIPF's 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.

## Funding

CIPF is funded by the securities industry through: (i) assessments paid by Members based on their gross revenues; (ii) risk premiums based on capital deficiencies; and (iii) an annual contribution by the SROs of the interest allocated to them in the prior year. CIPF also maintains a \$50 million line of credit with a Canadian chartered bank.

Since 1984, total resources have grown by more than \$193 million to \$201 million at the end of 1998 (see chart), which represents more than eight 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 \$400 billion and defined losses over the past 30 years have been just \$25 million — all of which CIPF covered.

During 1998, the Governors of the Fund concluded a detailed review of the Fund size and determined, based on a number of considerations, that the Member assessments could be reduced. The Fund had met and exceeded a number of asset targets, having accumulated \$150 million of invested assets at the beginning of 1998. This substantial asset base grows by the amount of interest earned each year, less the operating expenses, which are charged to the Fund's capital. It is the present policy of the Governors to set assessment rates to increase Fund resources, after

expenses, in proportion to the growth of the Canadian investment industry. They have also determined that all Members will pay CIPF assessments at the full historic assessment rate for a minimum of 5 years before benefiting from any reduction in assessment rates. At April 30, 1999, the Fund balance reached \$163 million, providing CIPF with total resources of \$213 million.

## World Wide Web

In 1995, we introduced our web site for investors ([www.cipf.ca](http://www.cipf.ca)). The site includes the CIPF brochure, policy statements, advertising policy, annual reports (the current and prior years' reports are available in Acrobat pdf format for easy downloading), list of Members (updated monthly), answers to frequently asked questions and links to SROs, Members, the Canadian Depository for Securities and Securities Investor Protection Corp. New links to other web sites are added, as appropriate, for the convenience of investors.

## 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 by agreement.

*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 SROs, 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 SROs.

Primary audit jurisdiction is a method of allocating firms that have multiple SRO memberships to a single SRO, which is to be responsible for regulation. The SRO with primary audit jurisdiction collects the monthly and annual regulatory financial reports and performs an annual field examination of the firm, among other responsibilities. Other SROs, of which the firm is a member, automatically receive the monthly financial information for the firm through an electronic distribution network established by CIPF. They may also request additional information from the SRO with primary audit jurisdiction.

Under the terms of the agreement with the CSA, CIPF conducts an annual review and evaluation of each SRO'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.

### Year 2000

CIPF has conducted a review of its systems to ensure that they are Y2K compliant and, along with the SROs, files quarterly Infrastructure Questionnaires, which are required by the Canadian Securities Administrators. These questionnaires and other relevant information are posted to the Ontario Securities Commission's web site. The compliance status of our Members is overseen by the SROs, and CIPF communicates with the SROs to assess any associated industry risks.

### Staffing

Donald A. Leslie retired as President and Chief Executive Officer and a Governor of CIPF on August 31, 1998 and was succeeded by Rozanne E. Reszel, formerly the Vice-President and Secretary of the Fund. Mr. Leslie was instrumental in creating the National Contingency Fund, the predecessor name of CIPF, in 1969 and became its first President in 1989. His service to the Canadian investment industry, and to the interests of the investing public, has been significant over a very long period of time. We thank him particularly for his tireless advocacy of regulations to ensure safety and soundness for the securities industry and its customers.



Michael J. Tims  
Chairman



Rozanne E. Reszel  
President and Chief Executive Officer

## BOARD OF GOVERNORS

December 31, 1998

### PUBLIC GOVERNORS

**Jean Béïque<sup>2</sup>**

- General Manager, CN Investments Division

**Claude Lamoureux**

- President & Chief Executive Officer, Ontario Teachers' Pension Plan Board

**Clayton Manness<sup>1</sup>**

- President, Man Agra Capital Inc.
- Former Minister of Finance, Province of Manitoba

**H. Leslie O'Brien<sup>1,2</sup>, Q.C.**

- Former Vice-Chairman, Nova Scotia Securities Commission

**Hon. Barbara J. Sparrow<sup>3</sup>**

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

**Michael J. Tims<sup>2,3</sup>**

- President & Chief Executive Officer, Peters & Co. Limited (Chairman & Industry Governor at large)

**Rozanne E. Reszel<sup>2,3</sup>, CA, CFA**

- President

### INDUSTRY GOVERNORS

**James G. Sorenson**

- Chairman, The Alberta Stock Exchange
- Vice-President, Merrill Lynch Canada Inc.

**Kenneth A. Shields<sup>3</sup>**

- Chairman, Investment Dealers Association of Canada
- Chairman and Chief Executive Officer, Goepel McDermid Inc.

**Luc Bertrand**

- Chairman, Montreal Exchange
- Vice-President, First Marathon Securities Limited

**Barbara G. Stymiest<sup>2,3</sup>, FCA**

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

**J. Chris Lay<sup>1</sup>**

- Vice-Chairman, Vancouver Stock Exchange
- Vice-President, CIBC Wood Gundy Securities Inc.

### INDUSTRY DEPUTY GOVERNORS

**Thomas A. Cumming**

- President, The Alberta Stock Exchange

**Joseph J. Oliver**

- President, Investment Dealers Association of Canada

**Gérald A. Lacoste, Q.C.**

- President, Montreal Exchange

**Rowland W. Fleming**

- President, The Toronto Stock Exchange

**Michael E. Johnson**

- President, Vancouver Stock Exchange

### INDUSTRY ALTERNATE GOVERNORS

**Ian S. Brown**

- Vice-Chairman, The Alberta Stock Exchange
- Executive Vice-President, Goepel McDermid Inc.

**W. Reay Mackay**

- Vice-Chairman, Investment Dealers Association of Canada
- Vice-Chairman & Director, RBC Dominion Securities Inc.

**Jacques O. Nadeau**

- Vice-Chairman, Montreal Exchange
- Managing Director, ScotiaMcLeod Inc.

**Daniel F. Sullivan**

- Vice-Chairman, The Toronto Stock Exchange
- Deputy Chairman, ScotiaMcLeod Inc.

**Gordon M. Medland**

- Honorary Secretary-Treasurer, Vancouver Stock Exchange
- Vice-President, Goepel McDermid Inc.

### OFFICERS

**Michael J. Tims**

- Chairman
- President & Chief Executive Officer, Peters & Co. Limited

**Rozanne E. Reszel, CA, CFA**

- President & Chief Executive Officer

**Barbara D. Love, CA, CFA**

- Vice-President & Secretary

### COUNSEL

**Borden & Elliot**

### AUDITORS

**Ernst & Young LLP**

<sup>1</sup> Member of the Audit Committee

<sup>2</sup> Member of the Investment Committee

<sup>3</sup> Member of the Budget and Finance Committee

## SUMMARIZED BALANCE SHEETS

As at December 31

	1998	1997
<b>ASSETS</b>		
Cash	\$ 63,676	\$ 7,620
Investments (at market value)	162,023,120	145,203,575
Fourth quarter Member assessments received in February 1999 (1998)	405,054	4,255,485
	<b>\$ 162,491,850</b>	<b>\$ 149,466,680</b>
<b>LIABILITIES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Accounts payable and accrued charges	\$ 297,483	\$ 295,539
Obligation for retirement benefits	1,896,056	—
Balance of net income allocated to SROs	8,431,516	4,616,018
<b>Total liabilities</b>	<b>\$ 10,625,055</b>	<b>\$ 4,911,557</b>
<b>Fund balance</b>	<b>\$ 151,866,795</b>	<b>\$ 144,555,123</b>
	<b>\$ 162,491,850</b>	<b>\$ 149,466,680</b>
<b>FUND RESOURCES</b>		
Fund balance	\$ 151,866,795	\$ 144,555,123
Bank line of credit	\$ 50,000,000	\$ 40,000,000
<b>Total Fund resources</b>	<b>\$ 201,866,795</b>	<b>\$ 184,555,123</b>

## SUMMARIZED STATEMENTS OF INTEREST EARNED AND FUND ACTIVITIES

Years ended December 31

	1998	1997
<b>INTEREST EARNED</b>		
<b>Investment income, representing net income allocated to SROs</b>	<b>\$ 8,431,516</b>	<b>\$ 4,616,018</b>
<b>FUND ACTIVITIES</b>		
Fund balance, beginning of year	\$ 144,555,123	\$ 123,533,756
Add:		
Regular assessments	6,317,265	16,043,508
Risk premiums	345,202	30,725
Contributions by SROs of prior years' interest earned	4,616,018	6,664,811
Recovery of funds re prior year insolvencies	12,500	—
Deduct:		
Operating expenses	(3,979,313)	(1,717,677)
<b>Fund balance, end of year</b>	<b>\$ 151,866,795</b>	<b>\$ 144,555,123</b>

### AUDITORS' REPORT

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

The above summarized balance sheets and summarized statements of interest earned and fund activities are derived from the complete financial statements of the **Canadian Investor Protection Fund** as at December 31, 1998 and 1997 and for the years then ended on which we expressed an opinion without reservation in our report dated February 26, 1999. The fair summarization of the complete balance sheets and statements of interest earned and fund activities is the responsibility of management. Our responsibility, in accordance with the applicable Assurance Guideline of The Canadian Institute of Chartered Accountants, is to report on the summarized balance sheets and the 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 summarized, in all material respects, the related complete balance sheets and statements of interest earned and fund activities in accordance with the criteria described in the Guideline referred to above.

These summarized balance sheets and summarized statements of interest earned and fund activities do not contain all the disclosures required by generally accepted accounting principles. Readers are cautioned that these summarized balance sheets and summarized statements of interest earned and fund activities may not be appropriate for their purposes.

Toronto, Canada  
February 26, 1999

**Ernst & Young LLP**  
Chartered Accountants

**CANADIAN INVESTOR PROTECTION FUND FONDS CANADIEN DE PROTECTION DES ÉPARGNANTS**

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