



1969-1999

CANADIAN INVESTOR PROTECTION FUND

1999 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

\$1 million Coverage Limit

We are pleased to report that, effective September 1, 1999, the limits of Fund coverage were doubled to \$1 million per account for any combination of cash and securities. CIPF policies defining separate accounts for coverage purposes have also changed.

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 Canadian Venture Exchange, the Toronto and Winnipeg Stock Exchanges, the Montreal Exchange and the Investment Dealers Association of Canada (the "IDA").

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 other causes such as changing market values of their securities, unsuitable investments or the default of an issuer of securities.** 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.

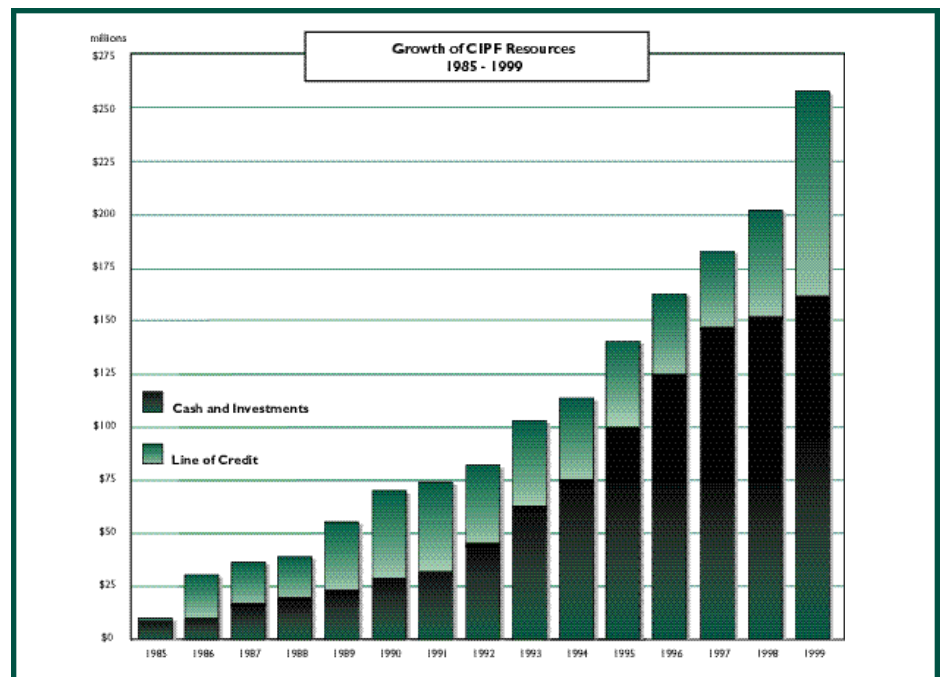
Although the Governors have discretion concerning the validity of claims and payment of claims, their discretion is exercised according to policies they have adopted and which have been summarized in the CIPF brochure. At the present time, the Governors have adopted policies which (i) define customers 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.

NEW COVERAGE LIMITS AND POLICIES

General Account Coverage

The coverage limit has been increased to \$1 million for the aggregate losses arising from any combination of securities and cash balances in each



customer's general accounts (that is, the total of losses in all cash, margin, short sale, options, futures and foreign currency accounts). A customer's proportionate interest in a joint account will be combined with the customer's general account for coverage purposes. If the customer has no other accounts, his or her proportionate interest in the joint account will be considered to be the general account for coverage purposes and eligible for the maximum coverage limit.

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 of \$1 million. All registered retirement accounts of a customer, such as RRSPs, LIRAs, RRIFs and LIFs, are combined and aggregated as a single separate account. Other examples of separate accounts include RESPs and legal trusts. 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 1997 amendments to the Bankruptcy and Insolvency Act 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 \$100 million line of credit with two Canadian chartered banks.

Since 1984, total resources have grown by more than \$253 million to \$260 million at the end of 1999 (see chart), which represents more than ten 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 \$600 billion and defined losses over the past 31 years have been just \$25 million — all of which CIPF covered.

Since 1998, it has been the 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, 2000, the Fund balance reached \$172 million, providing CIPF with total resources of \$272 million.

Essex Capital Management Ltd. Suspension

The IDA suspended Essex Capital Management Ltd. on March 22, 1999. The suspension occurred as a result of the Superintendent of Financial Services, Financial Services Commission of Ontario, issuing orders freezing the assets of Essex and an affiliated company, Nelbar Financial Corporation. The freeze orders were issued in response to information received by the Superintendent that Nelbar was accepting deposits from the public without registration under the Loan and Trust Corporations Act. Once the assets of Essex were frozen, it was unable to meet regulatory capital requirements. Essex Capital Management Ltd. was an introducing firm and customers of the firm continued to have access to their accounts through the carrying firm, TD Securities Inc. CIPF received claims during the six-month period following the suspension of the firm which either have been, or are in the process of being, evaluated. While the total amount of eligible claims has yet to be determined, a provision of \$400,000 has been made in the financial statements.

World Wide Web

The CIPF website (www.cipf.ca) 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 participated in an extensive industry preparation process involving the CSA, SROs and Members to ensure that its systems were Y2K compliant. The new millennium arrived uneventfully for all involved and the focus of the industry is now on the century ahead.



Michael J. Tims
Chairman



Rozanne E. Reszel
President and Chief Executive Officer

SUMMARIZED BALANCE SHEETS

As at December 31

	1999	1998
ASSETS		
Cash	\$ 296,890	\$ 63,676
Prepaid expenses	73,955	—
Investments (at market value)	168,233,336	162,023,120
Fourth quarter Member assessments received in February 2000 (1999)	492,391	405,054
Receivable from SROs for claims and related expenses	468,790	—
	\$ 169,565,362	\$ 162,491,850
LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable and accrued charges	\$ 302,786	\$ 297,483
Provision for claims and related expenses	400,000	—
Obligation for retirement benefits	1,771,056	1,896,056
Balance of net income allocated to SROs	7,010,056	8,431,516
Total liabilities	\$ 9,483,898	\$ 10,625,055
Fund balance	\$ 160,081,464	\$ 151,866,795
	\$ 169,565,362	\$ 162,491,850
FUND RESOURCES		
Fund balance	\$ 160,081,464	\$ 151,866,795
Bank line of credit	\$ 100,000,000	\$ 50,000,000
Total Fund resources	\$ 260,081,464	\$ 201,866,795

SUMMARIZED STATEMENTS OF INTEREST EARNED AND FUND ACTIVITIES

Years ended December 31

	1999	1998
INTEREST EARNED		
Investment income, representing net income allocated to SROs	\$ 7,010,056	\$ 8,431,516
FUND ACTIVITIES		
Fund balance, beginning of year	\$ 151,866,795	\$ 144,555,123
Add:		
Regular assessments	1,223,282	6,317,265
Risk premiums	685,343	345,202
Contributions by SROs of prior years' interest earned	8,431,516	4,616,018
Recovery of funds re prior year insolvencies	—	12,500
Deduct:		
Operating expenses	(2,125,472)	(3,979,313)
Fund balance, end of year	\$ 160,081,464	\$ 151,866,795

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, 1999 and 1998 and for the years then ended on which we expressed an opinion without reservation in our report dated March 3, 2000. 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 summarize, 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
March 3, 2000

Ernst & Young LLP
Chartered Accountants

BOARD OF GOVERNORS

December 31, 1999

Michael J.Tims ^{2,3}
• President & Chief Executive Officer,
Peters & Co. Limited
(Chairman & Industry Governor at large)

Rozanne E.Reszel ^{2,3}, FCA
• President

PUBLIC GOVERNORS

Jean Béique ²
• General Manager,
CN Investments Division

Claude Lamoureux ³
• President & Chief Executive Officer,
Ontario Teachers' Pension Plan Board

Clayton Manness ¹
• President,Man Agra Capital Inc.
• Former Minister of Finance,
Province of Manitoba

H.Leslie O'Brien ^{1,2} O.C.
• Former Vice-Chairman,
Nova Scotia Securities Commission

Hon.Barbara J.Sparrow ³
• President,Sparrow Holdings Ltd.
• Former Minister of Natural Resources,
Government of Canada

INDUSTRY GOVERNORS

Luc Bertrand
• Chairman,Montreal Exchange
• Vice-President,
National Bank Financial Corp.

Ian S.Br own, CA
• Industry Governor at large
• Executive Vice-President,
Goepel McDermid Inc.

Dennis N.Burdett, CA
• Chairman,Canadian Venture Exchange
• Executive Vice-President,
Canaccord Capital Corporation

Daniel F . Sullivan
• Chairman,The Toronto Stock Exchange
• Deputy Chairman,Scotia Capital Inc.

Charles M.Winograd
• Chairman,Investment Dealers
Association of Canada
• President & Chief Operating Officer,
RBC Dominion Securities Inc.

OFFICERS

Michael J.Tims
• Chairman
• President & Chief Executive Officer,
Peters & Co. Limited

Rozanne E.Reszel, FCA
• President & Chief Executive Officer

Barbara D . Love, CA,CF A
• Vice-President & Secretary

COUNSEL

Borden & Elliot

AUDITORS

Ernst & Young LLP

¹ Member of the Audit Committee

² Member of the Investment Committee

³ Member of the Budget and Finance Committee