



1969-2001

# CANADIAN INVESTOR PROTECTION FUND

## 2001 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 CHAIR and the PRESIDENT

### What is CIPF?

CIPF, which prior to 1990 was called the National Contingency Fund, was established in 1969. CIPF is financed entirely by Members of the sponsoring Self-Regulatory Organizations [SROs], the Investment Dealers Association of Canada [IDA], the Bourse de Montréal Inc. and The Toronto Stock Exchange Inc. [TSX] and the TSX Venture Exchange.

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. Effective 11:59 p.m. on December 31, 2001, CIPF became

a not for profit corporation. This change did not impact CIPF coverage limits or policies in any way.

### 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.

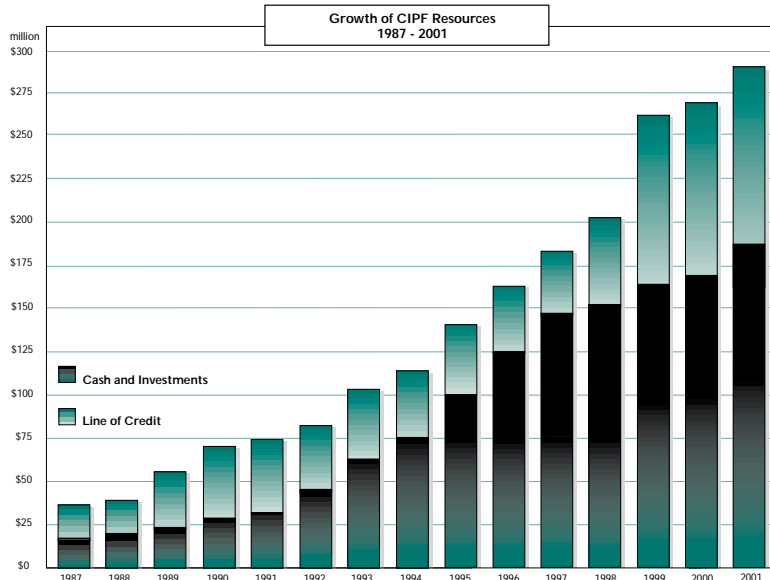
### COVERAGE LIMITS AND POLICIES

#### General Account Coverage

The coverage limit is \$1 million for the aggregate losses arising from any combination of securities and cash balances in each customer's general account (that is, the total of losses in all cash, margin, short sale, options, futures and foreign currency accounts). For coverage purposes, a customer's proportionate interest in a joint account is combined with the customer's general account. If the customer has no other accounts, it is considered to be his or her general account, 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 separate account is not combined with other separate accounts unless it is held by a customer in the same capacity or in the same circumstances. Each separate account is entitled to the maximum coverage of \$1 million. Examples of separate accounts include RESPs and legal trusts. All registered retirement accounts of a customer, such as RRSPs, LIRAs, RRIFFs and LIFs, are combined and aggregated as a single separate account.

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 [BIA] permit all customers to share pro rata, according to their net equity, in the assets that comprise the customer pool fund. This minimizes the amount of loss in 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) income earned on the assets held by CIPF. At December 31, 2001, the Fund balance was \$190 million. CIPF also maintains a \$100 million line of credit with two Canadian chartered banks, providing CIPF with total resources of \$290 million.

The value of customers' securities held by Members now exceeds \$600 billion and defined losses over the past 33 years have been just \$36 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.

## CUSTOMER PROTECTION PROCEEDINGS

### Maxima Capital Inc.

The Quebec Securities Commission and the Bourse de Montréal suspended Maxima Capital Inc. on the 16th and 17th May, 2001 respectively for failure to comply with requirements of the

Securities Act and inadequate capital, among other things. CIPF petitioned the court for an interim receiver and a trustee under Part XII of the BIA. All client accounts and client property were transferred to another CIPF Member and the estate has been substantially wound up. This was the first application of the Part XII legislation involving a CIPF protected firm. No advances from CIPF were required to transfer client accounts; however, CIPF did advance funds to cover the professional fees necessary to administer the estate.

### Rampart Securities Inc.

The Ontario Securities Commission and the Investment Dealers Association of Canada suspended Rampart Securities Inc. on August 14th, 2001. Efforts by the company to transfer client accounts to other IDA firms, under the supervision of a monitor, were unsuccessful due to inadequate financial resources. The IDA requested that CIPF seek an order appointing an interim receiver and a trustee under Part XII of the BIA. CIPF initially advanced \$5 million to the trustee to facilitate the transfer of client accounts to other CIPF Members. An additional amount of \$300,000 was subsequently advanced to the trustee. The estate is in the process of being wound up.

## WORLD WIDE WEB

The CIPF website ([www.cipf.ca](http://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 websites are added, as appropriate, for the convenience of investors.

### Investor Education

CIPF is active in industry activities to promote investor education. Investor knowledge is key to ensuring that individuals ask for and receive adequate information to meet their investing needs and to inform them about the industry procedures for opening accounts, executing orders and maintaining custody of customer assets. Investors should ensure that they receive a copy of their account opening documentation, as well as a security contract for each investment transaction, and a monthly or quarterly statement of account. CIPF Members must display the CIPF logo on all security contracts and statements of account. Investors are encouraged to review this documentation to ensure that it is accurate and that they understand the legal entity they are dealing with, the nature of the investment they are making and the location of their investment assets. Queries concerning accounts should be promptly addressed to the Member, preferably in writing. Questions concerning CIPF can be sent via the website, by mail, telephone or fax as noted on this report.

## 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 organization of CIPF, funding and maintenance of CIPF, customer protection, financial and operational regulation and reporting to the CSA with respect to Members. The Chair 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.



Michael St.B. Harrison  
Chair



Rozanne E. Reszel  
President and Chief Executive Officer

## SUMMARIZED BALANCE SHEETS

As at December 31,	2001	2000
<b>ASSETS</b>		
Cash	\$ 84,829	\$ 169,627
Prepaid and recoverable expenses	262,524	42,686
Investments (at market value)	201,674,041	182,837,149
Fourth quarter Member assessments received in February 2002 (2001)	5,140,964	5,400,469
Receivable from SROs for claims and related expenses	1,000,000	313,357
	<b>\$ 208,162,358</b>	<b>\$ 188,763,288</b>
<b>LIABILITIES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Due to broker for unsettled trades	\$ —	\$ 3,607,481
Accounts payable and accrued liabilities	378,601	308,821
Provision for claims and related expenses	2,919,362	3,500,000
Obligation for retirement benefits	1,611,256	1,646,056
Balance of net income allocated to SROs	13,404,164	11,323,045
<b>Total liabilities</b>	<b>\$ 18,313,383</b>	<b>\$ 20,385,403</b>
<b>Fund balance</b>	<b>\$ 189,848,975</b>	<b>\$ 168,377,885</b>
	<b>\$ 208,162,358</b>	<b>\$ 188,763,288</b>
<b>FUND RESOURCES</b>		
Fund balance	\$ 189,848,975	\$ 168,377,885
Bank line of credit	\$ 100,000,000	\$ 100,000,000
<b>Total Fund resources</b>	<b>\$ 289,848,975</b>	<b>\$ 268,377,885</b>

## SUMMARIZED STATEMENTS OF INTEREST EARNED AND FUND ACTIVITIES

Years ended December 31,	2001	2000
<b>INTEREST EARNED</b>		
<b>Investment income, representing net income allocated to SROs</b>	<b>\$ 13,404,164</b>	<b>\$ 11,323,045</b>
<b>FUND ACTIVITIES</b>		
Fund balance, beginning of year	\$ 168,377,885	\$ 160,081,464
<b>Add:</b>		
Contributions by SROs of prior years' interest earned	11,323,045	7,010,056
Regular assessments	19,227,526	6,201,404
Risk premiums	369,246	577,379
<b>Deduct:</b>		
Provision for claims net of amount recoverable from SROs	(6,494,700)	(3,223,461)
Operating expenses	(2,954,027)	(2,268,957)
<b>Fund balance, end of year</b>	<b>\$ 189,848,975</b>	<b>\$ 168,377,885</b>

### AUDITOR'S REPORT ON SUMMARIZED FINANCIAL STATEMENTS

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, 2001 and 2000 and for the years then ended on which we expressed an opinion without reservation in our report dated February 20, 2002. 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 Canadian 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; reference should be made to the complete financial statements.

Toronto, Canada  
February 20, 2002

**Ernst & Young LLP**  
Chartered Accountants

## BOARD OF GOVERNORS

December 31, 2001

### Michael St.B. Harrison<sup>2,3,4,6</sup>

- Vice-Chairman,  
MacDougall, MacDougall & MacTier Inc.  
(Chair & Industry Governor at large)

### Rozanne E. Reszel<sup>2,3,4,6</sup>, FCA

- President

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### Jean Béique<sup>3,6</sup>

- General Manager,  
CN Investments Division

### Claude Lamoureux<sup>2,3,4</sup>

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

### Clayton Manness<sup>1,6</sup>

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

### Dawn Russell<sup>1,4</sup>

- Dean, Dalhousie Law School  
University of Dalhousie

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

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

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- Industry Governor at large
- Executive Vice-President,  
Raymond James Ltd.

### William D. Packham<sup>2,4</sup>

- Chairman, Investment Dealers Association  
of Canada
- Vice-Chairman, Merrill Lynch Canada Inc.

### Jacques O. Nadeau<sup>1</sup>

- Chairman, Bourse de Montréal Inc.
- Vice-Chairman, Yorkton Securities Inc.

### Wayne C. Fox<sup>3</sup>

- Chairman, The Toronto Stock Exchange
- Vice-Chairman, CIBC World Markets Inc.

## OFFICERS

### Michael St.B. Harrison

- Chair
- Vice-Chairman,  
MacDougall, MacDougall & MacTier Inc.

### Rozanne E. Reszel, FCA

- President & Chief Executive Officer

### Barbara D. Love, CA, CFA

- Vice-President & Secretary

## COUNSEL

Borden Ladner Gervais LLP

## AUDITORS

Ernst & Young LLP

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

<sup>4</sup> Member of the Governance Committee

<sup>2</sup> Member of the Budget & Finance Committee

<sup>5</sup> Chair, Minimum Standards Committee

<sup>3</sup> Member of the Investment Committee

<sup>6</sup> Member of the Nominating Committee