



## 2008 ANNUAL REPORT SUMMARY

**CIPF**

Canadian Investor Protection Fund

It has been an honour to serve as Chair of CIPF's Board of Directors for the past two years. Particularly, it has been gratifying to have had the opportunity to be a part of CIPF at such an unprecedented time in the market. The credit cycle has created a challenging environment for the financial services industry. In these difficult times, we believe that CIPF is well capitalized and continues to meet our mandate of protecting customers of Member firms.

Our strength reflects our recent actions. To assist in determining an appropriate size for the Fund, we utilized a risk-based model and significantly increased the Fund resources. At the same time, we introduced a new assessment model based on differential assessments to provide a financial incentive to Member firms to mitigate risk to the Fund. Throughout 2008, CIPF continued to implement and enhance the new funding model, which will become fully operational over the next year.

The past year saw the completion of CIPF's restructuring journey. In June, the Investment Dealers Association and Market Regulation Services Inc. consolidated to become the Investment Industry Regulatory Organization of Canada (IIROC). In September, with the approval of the Canadian Securities Administrators, CIPF finalized an Industry Agreement with IIROC, now the sole "sponsor" of CIPF. This change enables CIPF to exit the role of oversight and focus on risk management to ensure the adequacy of the Fund's assets.

I am pleased to see CIPF establish a communication plan with clear objectives, the result of structured third-party research that has established a benchmark against which to measure the effectiveness of our communication initiatives going forward.

CIPF's restructuring as well as our ongoing commitment to accountability led to the establishment of a new Industry Risk Committee last year. The Committee has a mandate "to oversee the Board's responsibility to monitor the Fund's adequacy of resources in relation to the risk it is exposed to due to the failure of a Member."

As I complete my term as CIPF's Chair, I would like to welcome Christopher Hodgson, who assumes Chair of the Fund in January 2009. I am sure that Christopher, an experienced and talented member of our Board for the past four years, will serve CIPF admirably in the coming years.

On behalf of our entire Board, I would like to extend my thanks to Marcel de la Gorgendière, who retired from the Board in 2008, and my condolences to the family of Jean Guertin, who died this past fall. Both Marcel and Jean ably served CIPF as Public Directors.

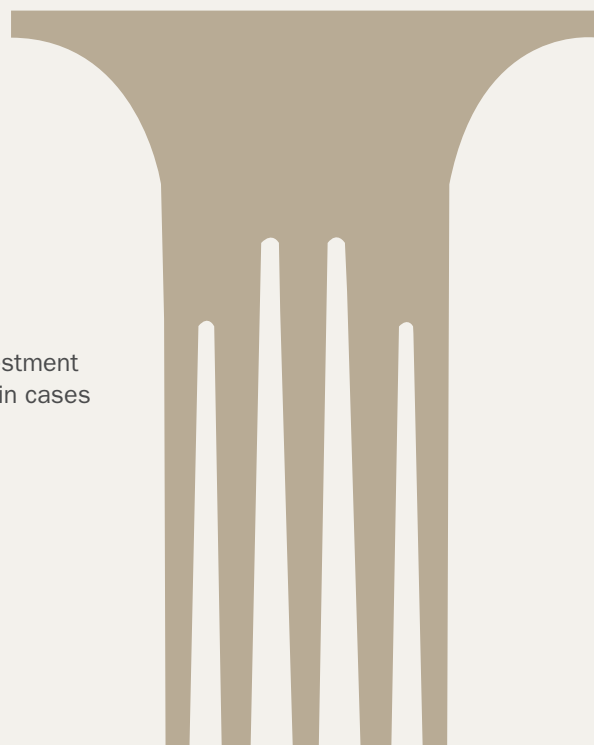
My thanks go as well to the members of our current Board and CIPF President and CEO Rozanne Reszel and her staff. I have no doubt that, thanks to their dedication, commitment and skill, CIPF will continue to meet the needs of our Members and their customers.



**Michael G. Greenwood**

## OUR MISSION

To contribute to the security and confidence of customers of Canadian investment dealers by maintaining adequate resources to return assets to customers in cases where a Member becomes insolvent.



With the goal of best serving our Members and their clients, CIPF continued our journey of transformation.

In collaboration with our consultants, we worked diligently to incorporate two additional years of data and industry experience as we refined and implemented CIPF's new assessment model. We additionally continued to focus on organizational restructuring. I take this opportunity to welcome the creation of the Investment Industry Regulatory Organization of Canada (IIROC). At CIPF, we look forward to the opportunity to work closely with Susan Wolburgh Jenah, IIROC's first President and Chief Executive Officer, and her team as well as the Dealer Members of IIROC.

Not surprisingly, the turbulence that began to affect the global financial markets in 2008 led to a dramatic increase in the number of requests for information CIPF received from investors and investment advisors last year. It was against this backdrop that we launched a new communication plan. A cross-country research study conducted by Environics on our behalf last summer revealed that many investors are unaware of the details of CIPF coverage when a member investment dealer fails. And, although awareness was quite high among investment advisors, there is confusion over CIPF's mandate and extent of coverage. To address these gaps, we developed a campaign to better inform investment advisors, investors, industry media and other stakeholders about CIPF. To date, we have introduced an online dealer newsletter, *Worth Knowing*. In partnership with the Member Education Services team at IIROC, we also developed a for-credit continuing education module *Introducing the Canadian Investor Protection Fund*, which is available as a webcast at IIROC's website. As well, we successfully stepped up our efforts to develop closer relationships with members of Canada's business media.

Mindful that we operate in a global market, we continued to pursue relationships with other industry partners both at home and internationally in 2008. We routinely meet with the other Canadian compensation funds to ensure ongoing communication in the event of an insolvency affecting more than one plan. CIPF also executed a Memorandum of Understanding (MOU) with the China Securities Investor Protection Fund Co. Ltd. (China SIPF). Similar to the agreements we have with regulators in the U.S. and U.K., the MOU addresses cross-border cases involving brokerage firm insolvencies affecting clients of our respective member firms and encourages the exchange of information and best practices between our organizations. Canada is the first country to enter into an MOU with China SIPF.

CIPF also took the lead role to organize an international meeting of compensation funds to coincide with the International Organization of Securities Commissions (IOSCO) Conference in Paris last spring. Subsequently, CIPF's Board approved our entry application for affiliate status in IOSCO. As this initiative moves forward, I am confident it will provide an opportunity to meet with other international compensation funds, exchange information concerning best practices, and create a framework for the development of multilateral MOUs.

To ensure that our organization remains efficient and effective, we invest in technology on an ongoing basis. Last year, CIPF upgraded all components of the current Securities Industry Regulatory Financial Filings (SIRFF) system architecture to ensure its ongoing stability.

I am pleased to report that, in spite of the challenges caused by the current market uncertainty, there were no new insolvencies among CIPF Members last year. It's an outcome, I believe, which reflects the innate stability and good management that characterizes the Canadian investment industry.


At the end of 2008, Michael Greenwood completed his term as CIPF's Chair. Over the past two years, Michael's counsel and input have proven invaluable. I look forward to working with his successor, Christopher Hodgson, as well as CIPF's Board and my colleagues as together we continue our efforts to ensure that CIPF evolves to meet the needs of our Members and their clients in an increasingly sophisticated and complex market.



**Rozanne E. Reszel**

## CIPF Role


Established in 1969 by the investment industry, the Canadian Investor Protection Fund (CIPF) exists to protect investors. Specifically, the role of CIPF is to return the eligible assets belonging to customers of CIPF Members who have suffered or may suffer financial loss solely as a result of the insolvency of a Member.



**MEMBER CIPF**  
It is the responsibility of each member firm to include the CIPF logo on client contracts and statements.

Eligible claims may include the return of securities, cash balances, commodities, futures contracts, segregated insurance funds, or other property received, acquired or held by the Member in an account for the customer. CIPF does not cover customers' losses that result from other causes such as changing market values of securities, unsuitable investments or the default of an issuer of securities. Claims that are eligible for coverage are normally settled by ensuring that the trustee has sufficient assets to transfer the customer accounts to another Member.

At December 31, 2008, 202 investment dealers across Canada were Members of CIPF as a result of being a Dealer Member of the Investment Industry Regulatory Organization of Canada (IIROC), the successor to the Investment Dealers Association of Canada and CIPF's sole sponsoring organization.

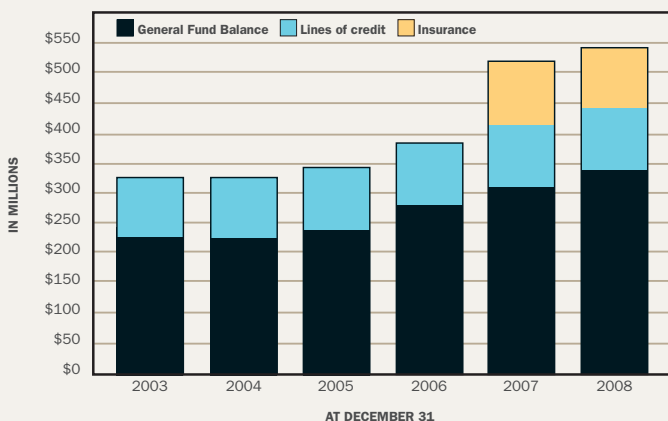


**A RECORD OF RETURNING ASSETS**  
Since 1969, there have been 17 insolvencies of CIPF Members. All eligible customers have had their assets returned to them by CIPF.

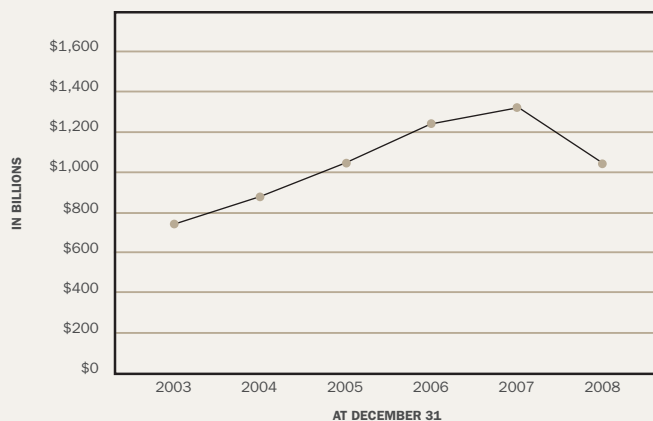
## The Fund

Investment dealer insolvency rarely occurs. However, if one should occur, CIPF has a substantial Fund to ensure obligations to the investment dealer's customers are met. CIPF determines the size of the Fund and the amount each investment dealer contributes to it based on an assessment model, which uses client net equity and considers the probability of loss presented by each Member to determine how much individual firms must contribute to the Fund. The combined available resources of the Fund totalled \$546 million at December 31, 2008.

**Growth of CIPF Resources 2003-2008**



**Client Net Equity 2003-2008**



CIPF is committed to growing the Fund over time to ensure that we maintain the resources needed to compensate investors who may suffer losses as a result of the insolvency of a CIPF Member. The combined available resources of the Fund totalled \$546 million at December 31, 2008.

Client Net Equity reported by Member firms is \$1,024 billion at December 31, 2008, a decrease from the prior year that is relatively proportionate to declines in equity markets.

### Coverage Policy

CIPF's Board of Directors has discretion concerning the validity of claims and payment of claims. However, the Board makes decisions based on the CIPF Coverage Policy, which defines customers eligible for protection, the date at which the financial loss is determined and establishes limits of coverage.

### PROTECTING INVESTORS

The Canadian Investor Protection Fund ensures, within defined limits, that the cash and securities of the customers of CIPF Members are protected in the event of the insolvency of a Member.

Most investors have two accounts, a general account and a separate retirement account, each eligible for \$1,000,000 coverage. If an investor has several general accounts, such as cash, margin, and \$US accounts, they are combined into one account for coverage purposes. Similarly, retirement accounts such as RRSP, RRIF, LIF and LIRA accounts are combined into one account for coverage purposes. For a more detailed explanation of the coverage policy, including examples, please refer to the *CIPF Coverage* area of the website.

Since CIPF was founded, all eligible claims have been paid – a testament to the resources of the Fund and CIPF's commitment to serving investors.

### Sound Governance

CIPF is committed to behaving ethically and abiding by the principles of sound governance. The Board of Directors has the responsibility for setting the standard of good governance. Either directly or through Board committees, the Board determines policies and governs operations. For its part, the Board's Governance and Nominating Committee establishes and implements a process for the identification of individuals qualified to become board members and annually reviews a succession plan for the Chair as well as the chair of each committee. The Committee also monitors corporate governance developments and best practices, develops and recommends corporate governance principles, and conducts a biennial evaluation of the performance of the Board as a whole. On an annual basis, all CIPF Directors are required to officially acknowledge their adherence to CIPF's Code of Conduct.

### Investor Education

In partnership with other Canadian compensation funds, CIPF sponsors a web portal, [www.financeprotection.ca](http://www.financeprotection.ca), to assist investors with questions about financial compensation.

Investor knowledge is key to ensuring that individuals ask for and receive adequate information to meet their investing needs and be informed about industry procedures for opening accounts, executing orders and maintaining custody of customer assets. All investors are encouraged to carefully review the documentation they receive when opening an account and executing investment transactions to ensure 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 directly to CIPF via the website: [www.cipf.ca](http://www.cipf.ca), by mail, telephone or fax.

**For further information about CIPF, please visit the website: [www.cipf.ca](http://www.cipf.ca), or phone toll-free: 1 866 243 6981**



## Balance Sheet

Total assets of \$352.7 million are comprised primarily of investments at market value of \$348.7 million. The General Fund balance at the end of the year of \$345.8 million is an increase of \$33.2 million over the prior year. The increase included an \$18.3 million excess of revenues over expenses and unrealized gains on investments arising during the year of \$15.3 million. The Investment in Capital Assets Fund was \$0.6 million at December 31, 2008 and included additional capital during the year for the technical upgrade to the Securities Industry Regulatory Financial Filings (SIRFF) platform.



### \$346 MILLION

The Fund had a value of \$346 million at the end of 2008. During the year, \$33 million was added to the Fund from assessments, interest income and unrealized gains in the market value of investments offset by operating expenses and provision for claims.

## Revenues and Expenses

CIPF's revenue net of expenses was \$18.3 million for the year ended December 31, 2008, a decrease of \$13.9 million over the previous year. The Fund generates its revenues from assessments and investment income on its investment portfolio. The Board sets the annual assessment amount after taking into consideration the resources required by the Fund to fulfill its mandate. In mid-2007, the Fund obtained a \$100 million insurance policy that will pay customer claims up to \$100 million in a year, after CIPF pays the first \$100 million of customer claims. This addition to the Fund resources enabled the Board to reduce the annual assessment in mid-2007 to \$10 million per year from \$30 million previously collected.

As reported by Member firms, client net equity was \$1,024 billion at December 31, 2008, a decrease of \$311 billion from the previous year.



### \$1 TRILLION

At December 31, 2008, there were 202 CIPF Members across Canada and total client net equity of \$1 trillion was reported.

Investment income of \$13.6 million for 2008 was higher than the 2007 investment earnings of \$12.8 million as a result of higher average investment holdings as the size of the Fund grows, offset by lower returns on investments. The 2008 investment income represents a 4% return on the average investments held during 2008 of \$332 million.

Operating expenses for the year were \$5.3 million, a \$0.4 million or 8% increase compared to the prior year. Additional consulting work was undertaken in 2008 to calibrate the risk model developed in 2006. As well, a new communications strategy was undertaken to ensure investment advisors understand CIPF coverage. During 2008 operating expenses also included a full year of expense for the insurance policy obtained in mid-2007.

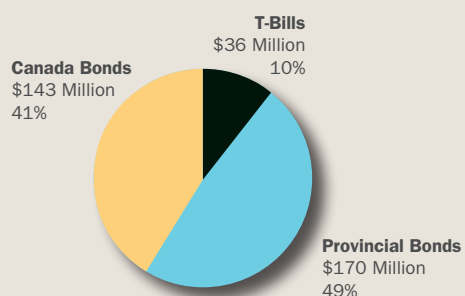
A provision of \$0.5 million for claims was recorded during 2008, compared to a recovery in 2007 of \$2.3 million. The 2008 expense related to additional accruals for legal costs on the Rampart Securities Inc. insolvency.

## Outlook

The Fund is targeting to collect \$9 million in assessments in 2009. The implementation for the new assessment model will be completed by the second quarter of 2009, after which assessments will be based on a differential rate. This rate is derived from the Member's risk relative to other Members, applied to the value of assets held by the Member for its customers.

Due to the current market conditions, investment income is expected to decline in 2009 as investments mature and are re-invested in securities with lower yields. The Fund Investment Policy requires all of its investments be in Government of Canada or provincial government guaranteed securities. Therefore the Fund does not expect to see any issues with credit risk. The investments are recorded in the General Fund balance at market value, which at December 31, 2008 was \$18.1 million higher than amortized cost. The movement in the market value compared to amortized cost cannot be predicted.

The Fund is budgeting to keep 2009 expenses in line with 2008 expenses plus inflation. However, the pricing of external fund resources may be impacted by current market conditions. Additional work on communication initiatives will be undertaken, which will be offset by no budgeted work by external consultants in 2009 on the credit risk model.



## CIPF Investment Portfolio of \$349 Million as at December 31, 2008

CIPF investments had a market value of \$349 million at December 31, 2008. In accordance with an investment policy that is regularly reviewed by the CIPF Board of Directors, all investments are Canadian or provincial government guaranteed. A minimum of 15% of the portfolio is invested in short-term instruments to meet liquidity needs and the maximum term to maturity of any instrument is 11 years.

## Canadian Investor Protection Fund

### SUMMARIZED BALANCE SHEET

December 31	2008	2007
<b>Assets</b>		
Cash	\$ 201,714	\$ 164,405
Prepaid insurance and recoverables	588,718	585,398
Investments, at market value	348,680,935	316,231,454
Member assessments receivable	2,692,877	2,519,773
Capital assets	577,942	269,400
	<b>\$ 352,742,186</b>	<b>\$ 319,770,430</b>
<b>Liabilities</b>		
Payables and accruals	\$ 366,477	\$ 294,462
Employee future benefits	4,268,100	3,877,976
Provision for claims and related expenses	1,643,000	2,538,000
Deferred lease inducements	120,927	145,113
	<b>6,398,504</b>	<b>6,855,551</b>
<b>Fund balances</b>		
Investment in Capital Assets	\$ 577,942	\$ 269,400
General		
Cumulative excess of revenues over expenses (excluding unrealized gains and losses) and interfund transfers	327,708,802	309,827,431
Cumulative net unrealized gains and losses on investments	18,056,938	2,818,048
	<b>345,765,740</b>	<b>312,645,479</b>
	<b>\$ 352,742,186</b>	<b>\$ 319,770,430</b>

### SUMMARIZED STATEMENTS OF REVENUES AND EXPENSES AND GENERAL FUND BALANCE - Year ended December 31

	2008	2007
<b>Revenues</b>		
Regular assessments and assessments for capital deficiencies	\$ 10,565,729	\$ 21,925,856
Investment income	13,606,312	12,823,061
	<b>24,172,041</b>	<b>34,748,917</b>
<b>Expenses</b>		
Operating expenses	5,309,188	4,911,420
<b>Excess of revenues over expenses before other items</b>	<b>18,862,853</b>	<b>29,837,497</b>
Net provision (recoveries) for claims	547,582	(2,328,603)
<b>Excess of revenues over expenses</b>	<b>\$ 18,315,271</b>	<b>\$ 32,166,100</b>
<b>General Fund, beginning of year</b>		
	<b>\$ 312,645,479</b>	<b>\$ 277,468,162</b>
Transitional adjustments on adoption of new accounting policy	-	2,538,440
Reclassification to earnings and unrealized gains arising during year	15,238,890	550,970
Transfer for capital asset additions	(433,900)	(78,193)
Excess of revenues over expenses	18,315,271	32,166,100
<b>General Fund, end of year</b>	<b>\$ 345,765,740</b>	<b>\$ 312,645,479</b>

Note: For detailed and complete financial statements, please visit our website at [www.cipf.ca](http://www.cipf.ca)

## Auditors' Report on Summarized Financial Statements

To the Board of Directors of the Canadian Investor Protection Fund

The accompanying Summarized Balance Sheet and Summarized Statements of Revenues and Expenses and General Fund Balance are derived from the complete financial statements of the Canadian Investor Protection Fund as at December 31, 2008 and for the year then ended on which we expressed an opinion without reservation in our report dated February 20, 2009. The fair summarization of the complete Balance Sheet and Statements of Revenues and Expenses and General Fund Balance 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 Sheet and the Summarized Statements of Revenues and Expenses and General Fund Balance.

In our opinion, the accompanying summarized financial statements fairly summarize, in all material respects, the related complete Balance Sheet and Statements of Revenues and Expenses and General Fund Balance in accordance with the criteria described in the Guideline referred to above. The Summarized Balance Sheet and Summarized Statements of Revenues and Expenses and General Fund Balance do not contain all the disclosures required by Canadian Generally Accepted Accounting Principles. Readers are cautioned that these Summarized Balance Sheet and Summarized Statements of Revenues and Expenses and General Fund Balance may not be appropriate for their purposes; reference should be made to the complete financial statements.

*Grant Thornton LLP*

**Grant Thornton LLP**

Chartered Accountants, Licensed Public Accountants

Toronto, Canada  
February 20, 2009

**Michael G. Greenwood, CBV**<sup>2,4,5</sup>

- Chair & Industry Director
- Former President & Chief Operating Officer, Canaccord Capital Corporation
- Chairman & Chief Executive Officer, Pacific Roderer Energy Inc.

**PUBLIC DIRECTORS**

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**Nicholas G. Kirton, FCA, ICD.D**<sup>1,3</sup>

- Professional Director
- Former Partner, KPMG LLP

**Hon. Aldéa Landry, CM, PC, QC**<sup>1,4,5</sup>

- President, Landal Inc.
- Former Cabinet Minister and Deputy Premier of New Brunswick

**Michael J. White, FCA**<sup>1,2</sup>

- President & Chief Executive Officer, Addenda Capital Inc.

[To Be Announced]

**OFFICERS**

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**Michael G. Greenwood, CBV**

- Chair & Industry Director

**Rozanne E. Reszel, CFA, FCA, ICD.D**

- President & Chief Executive Officer

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

- Vice-President & Secretary

**Linda G. Pendrill, CA**

- Chief Financial Officer

**Rozanne E. Reszel, CFA, FCA, ICD.D**<sup>2,3,4</sup>

- President & Chief Executive Officer

**INDUSTRY DIRECTORS**

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**Christopher J. Hodgson**<sup>1,2</sup>

- Vice Chair
- Group Head, Canadian Banking, The Bank of Nova Scotia

**Ian S. Brown, CA**<sup>4,5</sup>

- Professional Director
- Former Senior Managing Director, Raymond James Ltd.

**Roger G. Casgrain, CFA**<sup>2</sup>

- Executive Vice-President, Casgrain & Company Limited
- Board Member, Investment Industry Regulatory Organization of Canada

**William R. Fulton, CA**<sup>2,3,5</sup>

- Executive Vice President, Wealth Management, The Toronto-Dominion Bank

**COUNSEL**

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**Borden Ladner Gervais LLP**

**AUDITORS**

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**Grant Thornton LLP**

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

<sup>2</sup> Member of the Finance, Investment and Human Resources Committee

<sup>3</sup> Member of the Industry Risk Committee

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

<sup>5</sup> Member of the Coverage Committee

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