



## 2010 ANNUAL REPORT

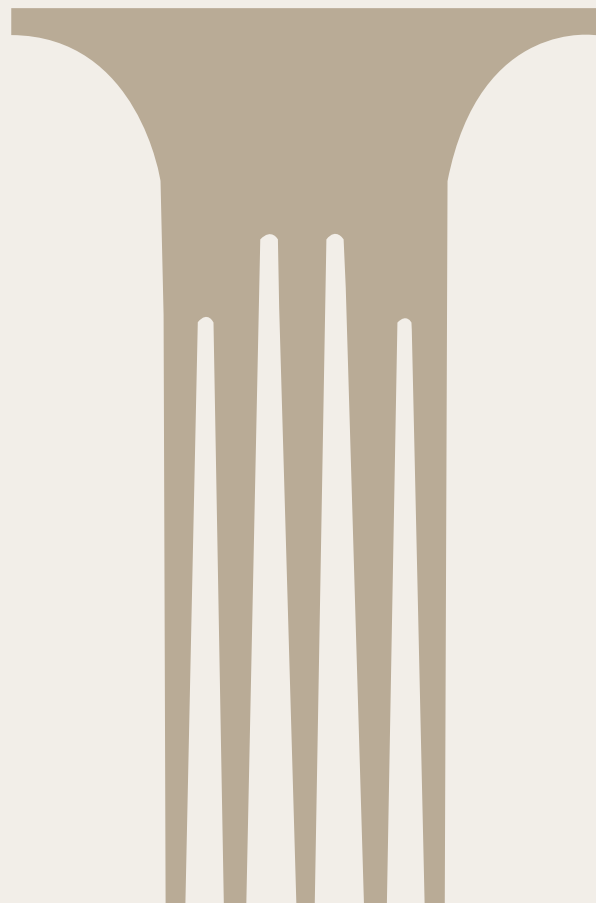
**CIPF**

Canadian Investor Protection Fund

Get CIPF Protection — Invest with an IIROC Regulated Member

# CIPF'S MISSION

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



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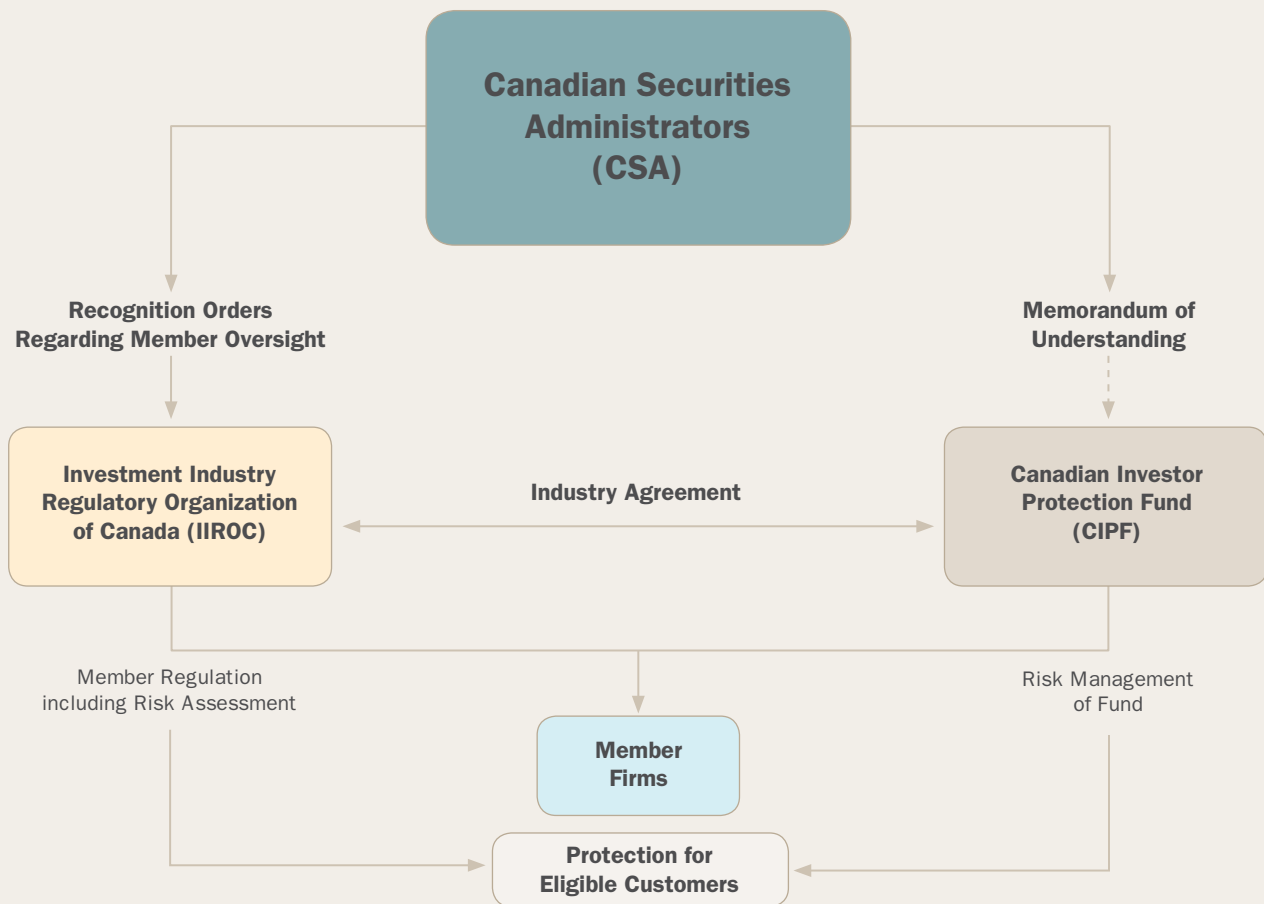
# CIPF'S ROLE IN THE CANADIAN REGULATORY SYSTEM

The Canadian Investor Protection Fund (CIPF) ensures, within defined limits, that the cash and securities of the customers of Canadian investment dealers are returned to them in the event of the insolvency of a Member.

CIPF is the only compensation fund approved by the Canadian Securities Administrators (CSA) for investment dealers regulated by the Investment Industry Regulatory Organization of Canada (IIROC). All IIROC Dealer Members are CIPF Members.

CIPF's role in the Canadian regulatory system is governed by two agreements:

1. A Memorandum of Understanding with the CSA which addresses, among other things, the governance, funding and maintenance of CIPF and its responsibilities for investor protection and reporting to the CSA.
2. An Industry Agreement with IIROC which sets out the working relationship and respective responsibilities, including the requirement for IIROC to provide prompt notice to CIPF of any situation likely to give rise to a payment out of the CIPF fund.





It has been an honour to serve as Chair of CIPF's Board of Directors for the past two years. Although my term occurred during a period of international financial instability, CIPF was not required to respond to any new insolvencies. CIPF is responding to the increasing complexity of the financial system and changes in our membership with an emphasis on risk management excellence.

#### **Focus on Risk Management**

In 2010, the Board continued to work on measuring its risk exposure to ensure the Fund has the appropriate type and amount of resources to protect customers in the event of a Member insolvency. CIPF sought advice on lessons learned from the financial crisis from a firm of international consultants experienced in the areas of regulatory policy and analyzing liquidity needs for the financial services sector.

In the context of our mandate, we asked for input regarding options for contingency funding and liquidity arrangements. The consultants' report commented favourably on the track record of the Fund in responding to previous insolvencies and the adoption of a risk-based model that assists the Board in determining the fund size. The report identified a number of challenges and made recommendations to address the need to stress test the model, understand the assessment tolerance of Members and build a framework for extraordinary assessments.

The fund size model was subsequently revised to incorporate the likelihood of recovery on different types of assets given a Member default. The revised model was then stress tested over a five year time period to determine the funding requirement for exceptional, but plausible, events. These tests revealed that CIPF should have additional resources, and the Board directed staff to explore the feasibility of increasing Member assessments, lines of credit and insurance.

#### **Financial Resources**

CIPF's financial resources grew through a combination of Member assessments and interest income. Management and the Board strive to find the appropriate balance between the cash fund, insurance, lines of credit and other liquidity sources.

#### **Corporate Governance**

We continued to challenge ourselves to maintain best practices in governance. The Board completed a biennial evaluation to assess the performance of the Board as a whole and its committees, and all Directors completed self-assessments. The recommendations arising from these evaluations are being addressed.

An excellent discussion on risks to the Fund and the framework to manage these risks was facilitated at the Board strategy session and set the context for the 2011 Fund goals and objectives.

#### **Extending Thanks**

As I complete my term as CIPF's Chair, I welcome Ian Brown, the Vice Chair since September 2009, who assumed the office of Chair of the Fund in December. I am certain that Ian will provide valuable guidance for CIPF's Board and staff as he has done for many years as a Board member. We were fortunate to have continuity of all our Directors during the fiscal year and I take this opportunity to thank them for their commitment and wise counsel. Debra Hewson will join the Board at the March 2011 meeting and serve as an Industry Director.

I also acknowledge and extend my appreciation to CIPF President and CEO, Rozanne Reszel, and her team. Though small in size, the staff perform their mandates well. The dedication and professionalism of the staff provides an excellent level of support to the Board and in the daily operations of CIPF. Overall, CIPF continues to meet the needs of all of its key stakeholders and I thank management and the Board for performing their respective roles in an efficient and positive manner.

A handwritten signature in black ink that reads "Chris Hodgson". The signature is written in a cursive, slightly slanted style.

**Christopher J. Hodgson**



CIPF continued to focus its efforts on risk management to ensure the Fund maintains adequate resources to respond to a Member insolvency. We continued to collaborate with the Investment Industry Regulatory Organization of Canada (IIROC) to ensure potential exposures to CIPF are identified and mitigated. There were no new insolvencies in 2010, and we were able to make significant progress toward closure of two insolvent estates remaining from Member insolvencies that occurred in 2001 and 2002.

#### **Communications Initiatives**

Our new website was launched in February and we released three issues of our e-newsletter, *Worth Knowing*, during the past year. In collaboration with IIROC, we produced an education unit that is eligible for continuing education credit. In keeping with our communications objective of informing customers through Members' investment advisors, we visited with IIROC District Councils across the country to reach investment advisors directly. Input received at these meetings will be reflected in our communication initiatives. We adopted a tagline, *Get CIPF Protection — Invest with an IIROC Regulated Member*, which reinforces IIROC membership as the link to qualifying for CIPF coverage.

#### **Operational Preparedness**

CIPF continues to manage the web-based Securities Industry Regulatory Financial Filings (SIRFF) system. During 2010, we substantially completed major changes to incorporate International Financial Reporting Standards (IFRS), as Members will be required to adopt IFRS as the basis for regulatory reporting.

We conducted the first in a series of simulations to ensure our procedures for dealing with events leading up to and during a Member insolvency are appropriate and current. Further simulations are planned for 2011.

#### **Collaboration with other Compensation Funds**

CIPF meets annually with the other Canadian compensation funds for the financial services industry and also with our international counterparts to share information and expertise about mutually relevant insolvency issues. In Canada, there are three primary insolvency statutes and many legal processes and authorities that impact different financial sectors. The coordination of such legislation, authorities, processes and compensation fund issues in a failure impacting a financial conglomerate will continue to be an important agenda item at the Canadian group meetings.

#### **Looking Ahead**

It has been a pleasure to work with Christopher Hodgson during his six years as a Director, including two years as Chair of the Fund. His experience with an increasingly complex market and his thoughtful guidance has been invaluable. I look forward to working with his successor, Ian Brown, and expect to benefit from Ian's deep knowledge of our industry. I would like to express my appreciation to the members of CIPF's Board of Directors for their effective oversight and good governance of the Fund.

I want to thank the CIPF management team and employees for their unfailing commitment and diligence that are critical to the successful operation of CIPF. We look forward to 2011 as we renew our efforts to ensure CIPF's ongoing ability to protect our Members' customers.

A handwritten signature in black ink, appearing to read 'Rozanne E. Reszel', written in a cursive style.

**Rozanne E. Reszel**

## Investor Protection

The investment industry established the Canadian Investor Protection Fund (CIPF or the Fund) in 1969 in order to protect investors. It is CIPF's mandate to return assets belonging to eligible customers of CIPF Members who have suffered or may suffer financial loss solely as a result of the insolvency of a Member.



### MEMBER CANADIAN INVESTOR PROTECTION FUND

It is the responsibility of each Member to include the CIPF official symbol on customer contracts and statements.

In the case of a Member insolvency, customers may make claims for losses involving 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 causes other than insolvency 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.



### 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.

CIPF's Members are made up of Dealer Members of the Investment Industry Regulatory Organization of Canada (IIROC). At December 31, 2010, 208 investment dealers across Canada were Members of CIPF.

## Governance

The Board of Directors is responsible for the stewardship of the Fund, overseeing the management of the Fund's business and affairs, and for setting the standard of good governance.

In accordance with the Fund by-laws, the Board is comprised of 10 directors - four Public and four Industry Directors as well as the Chair and the President and Chief Executive Officer. The by-laws set out the requirements for selecting Board members, which include appropriate regional representation. In the case of Industry Directors, candidates must possess experience with the various aspects of the business carried on by Members.

The Board has delegated certain duties to the following Committees to carry out or oversee:

The **Audit, Finance and Investment Committee** reviews the integrity of financial reporting and disclosure, the associated accounting policies, internal controls, and compliance and legal regulatory requirements. The Committee assesses the financial and investment risks that the Fund is exposed to and ensures that adequate management controls are in place to minimize such risk.

The **Coverage Committee** is responsible for the claim payment process, which includes hearing claimant appeals, and for supervising insolvency proceedings and related litigation. As well, the Committee recommends Coverage Policy changes and any changes to the CIPF Disclosure Policy to the Board. The Committee also ensures procedures are in place so that communication about CIPF expresses the nature and intent of the Coverage Policy.

The **Governance, Nominating and Human Resources 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 monitors corporate governance developments and best practices, and furthers the effectiveness of the Fund's corporate governance practices. This includes conducting a biennial evaluation of the performance of the Board as a whole, each Committee and a Director self-evaluation. The Committee reviews the human resource risks that the Fund is exposed to and ensures that adequate management controls, processes and succession plans are in place to minimize these risks. The Committee recommends for Board approval the Fund Goals and Objectives for the following year.

## OVERVIEW AND CORPORATE GOVERNANCE PRACTICES

The **Industry Risk Committee** is responsible for monitoring the adequacy of Fund resources in relation to the risk it is exposed to due to the failure of a Member. The Committee reviews the parameters used to determine the fund size and the associated annual assessment and ensures the fair allocation to Members of the annual assessment set by the Board. The Committee also ensures procedures are in place to hear Member assessment appeals, monitor the adequacy of the self-regulatory organization's capital requirements and to identify and respond to Members that may pose a risk to the Fund.

On an annual basis, CIPF directors, officers and employees are required to acknowledge their adherence to CIPF's Code of Conduct and must disclose any actual or potential conflicts of interest.

CIPF has a Whistleblower Policy that is intended to encourage and enable employees to raise serious concerns about violations of CIPF's Code of Conduct. As outlined by the policy, employees may report complaints and allegations concerning violations of the CIPF Code of Conduct to the Chair of CIPF's Audit, Finance and Investment Committee.

In addition to the ability of employees to report violations of the CIPF Code of Conduct, the Board of Directors has established a confidential and anonymous process whereby persons can report any financial complaint or concern regarding questionable accounting or auditing matters relating to CIPF. Any person with such a complaint or concern relating to CIPF may submit their concern to the Chair of CIPF's Audit, Finance and Investment Committee. This individual's contact information is available under *Governance* in the *About Us* section of CIPF's website.

### Director Compensation

CIPF compensates directors in accordance with the following schedule:

#### Board

Annual retainer – \$15,000 per annum

Chair of the Board – an additional \$6,000 per annum

Board meetings – a fee of \$1,500 per meeting

#### Committee

Committee chairs – \$3,000 per annum (except the Audit, Finance and Investment Chair, where the fee is \$4,000 per annum)

Committee meetings – a fee of \$1,000 per meeting

**Out-of-town travel fee** – a fee of \$1,000 per meeting is paid to Public Directors who are required to travel to attend Board or Committee meetings

### 2010 Corporate Governance Reporting

Summary of Board and Committee Meetings attendance for the year ended December 31, 2010:

Director	Attendance at Board Meetings	Attendance at Committee Meetings	Attendance at Board and Committee Meetings
Ian S. Brown	4/4	5/5	9/9
Roger G. Casgrain	4/4	1/1	5/5
William R. Fulton	4/4	9/9	13/13
Christopher J. Hodgson	3/4	5/5	8/9
Nicholas G. Kirton	4/4	7/7	11/11
Hon. Aldéa M. Landry	3/4	7/7	10/11
Hugh McNabney	4/4	7/7	11/11
Rozanne E. Reszel	4/4	11/11	15/15
Alain Rhéaume	4/4	5/5	9/9
Michael J. White	4/4	2/2	6/6

## Coverage Policy

Responsibility for determining the validity of claims and payment of claims lies with CIPF's Board of Directors. When making decisions, the Board is guided by 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 returned to them in the event of the insolvency of a Member.

In most cases, investors hold two accounts, a general account and a separate retirement account. Each is 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, individual retirement accounts such as RRSP, RRIF, LIF and LIRA are combined into one account for coverage purposes.

At December 31, 2010 customer assets held by Members and eligible for CIPF protection were approximately \$1.3 trillion, an increase of \$189 billion from the prior year.

**Total Customer Assets  
Under the Control of all Members  
2003 - 2010**



Since CIPF was established 41 years ago, all eligible claims have been paid. This record is tribute to the resources of the Fund and a reflection of CIPF's commitment to protecting investors.

For a more detailed explanation of the Coverage Policy, including examples, please refer to the *Coverage* area of CIPF's website.

## Informing Members and Investors

Recognizing that investment advisors play a pivotal role in helping build investor knowledge and confidence, CIPF has developed tools to help investment advisors inform their customers about CIPF protection. In 2009, CIPF initiated a tri-annual newsletter called *Worth Knowing*, which is distributed to all Members and is available on the *Investment Advisors* page of the CIPF website. CIPF has also developed, in partnership with IIROC, two for-credit continuing education modules which are available as webcasts on IIROC's website and may be accessed from the *Investment Advisors* page of CIPF's website.

The legal entity names of all CIPF Members are listed in the *Member Directory* section of the CIPF website so investors can confirm they are dealing with a CIPF Member. All Members must include the words "Member – Canadian Investor Protection Fund" and/ or the CIPF logo on customer contracts and statements. Members must also display the CIPF decal at each business location to which customers have access.

To assist investors with questions about financial compensation, CIPF sponsors the web portal [www.financeprotection.ca](http://www.financeprotection.ca). Questions concerning CIPF can be sent directly to CIPF. For contact information, please see the back cover of this report.

# FUND RESOURCES

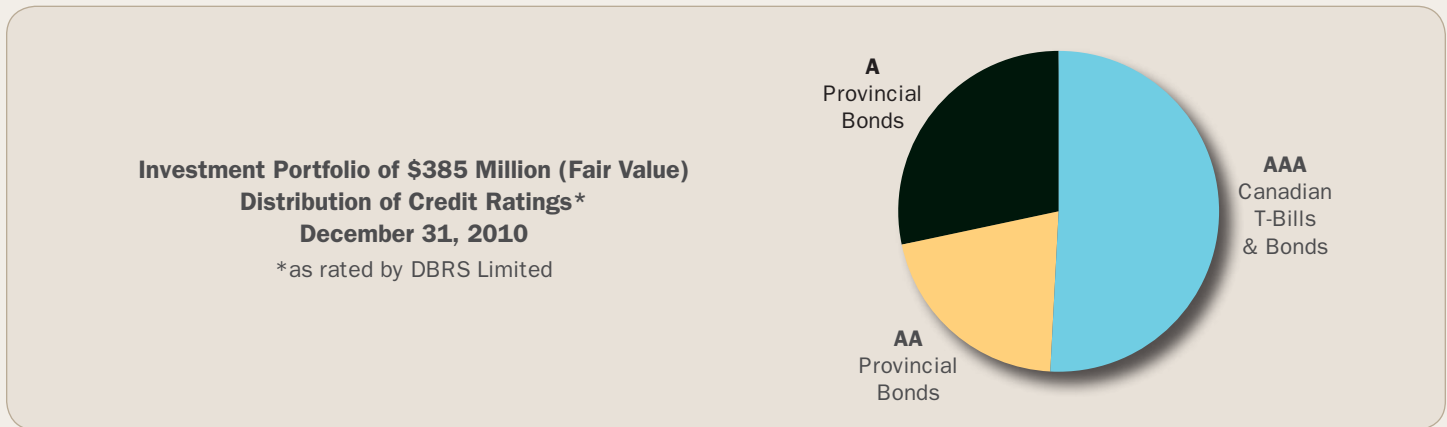
## Fund Resources

The CIPF Board is responsible for ensuring the Fund has adequate resources to meet its obligations to a Member's customers, in the unlikely event of the Member's insolvency. The CIPF Board also sets the annual Member assessment and the method of allocating the assessment to each Member.

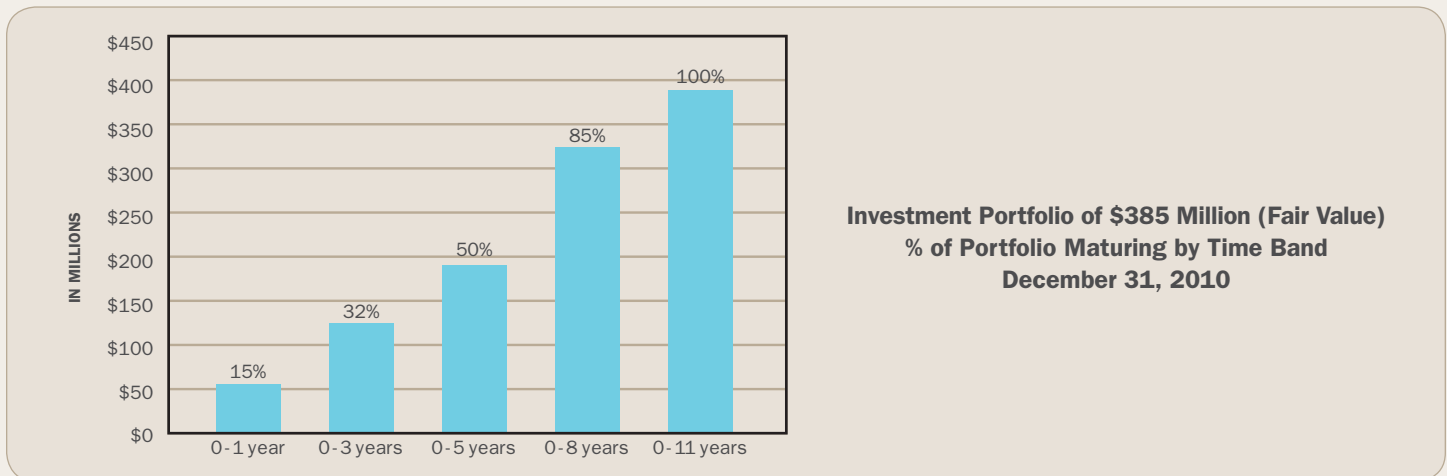
The Board uses a model to assist it in setting the fund size. The model weights customer assets for the relative risk of the Member that is responsible to the customer for those assets. Members with strong internal controls, profitability and capital will have lower risk scores.

The resources available to the Fund to pay customers' claims are comprised of the General Fund of \$382 million, lines of credit of \$100 million provided by two Canadian chartered banks and an insurance policy that will pay up to the amount of \$70 million for any one loss and in the annual aggregate in respect of losses to be paid by CIPF between \$100 million and \$200 million.

The General Fund includes a portfolio of investments with a fair value of \$385 million at December 31, 2010. In accordance with an investment policy that is regularly reviewed by the CIPF Board of Directors, all investments are Government of Canada or provincial or territorial government issued or guaranteed. The investment policy provides that the securities must have a minimum "A" rating for maturities beyond one year, minimum "R1-Low" for cash and equivalents, as rated by DBRS Limited, or a comparable rating by Standard & Poor's.



The Fund's investment policy provides that at least 15% of the investments must be held in short-term instruments to meet liquidity needs and that the maximum term to maturity of any instrument is 11 years.



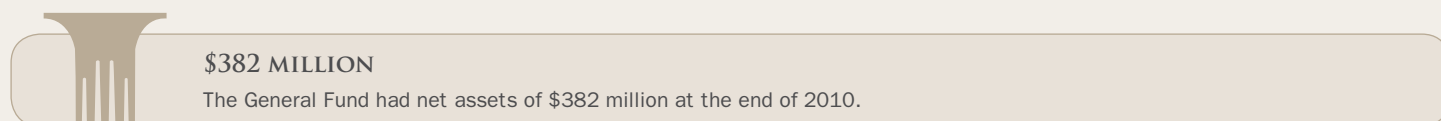
## Balance Sheet

Total assets of \$388.1 million are comprised primarily of investments at fair value of \$385.2 million. All investments are Government of Canada or provincial government issued or guaranteed and are carried at fair value. The investments include an unrealized gain of \$18.4 million at December 31, 2010 (\$13.4 million at December 31, 2009).

The balance in the General Fund at December 31, 2010 was \$381.6 million, an increase of \$22.1 million over the prior year. The increase resulted from:

- the excess of revenues over expenses of \$17.4 million
- unrealized gains on investments arising of \$4.9 million
- offset by a transfer of \$0.2 million to the Investment in Capital Assets Fund for capital asset additions

The Investment in Capital Assets Fund was \$0.5 million at December 31, 2010.



## Revenues and Expenses

CIPF's excess of revenues over expenses was \$17.4 million for the year ended December 31, 2010, compared to \$18.5 million in the prior year. The Fund generates revenue from assessments and from investment income on the investment portfolio.

The Board sets the annual assessment amount after considering the total resources required to achieve a target fund size as determined by the risk-based model. The assessment amount is then allocated to Members based on the relative risk of each Member subject to a minimum assessment of \$5,000 per annum and a maximum assessment of 1% of a Member's aggregate gross revenues. After allowing for the minimum and maximum assessment, the net amount assessed to Members was \$7.5 million in 2010, compared to \$9.8 million for 2009.

Investment income for the year ended December 31, 2010 was \$13.7 million, an increase from the previous year's amount of \$13.3 million as a result of higher average investment holdings as the size of the fund grows.

Operating expenses for the year were \$6.1 million, a \$0.4 million or 7.6% increase compared to the prior year. The increase is primarily due to consulting fees to recalibrate and stress test the risk-based model.

A recovery for claims of \$2.2 million was recorded during 2010 compared to a recovery for claims in 2009 of \$1.0 million. There were no new insolvencies in 2010, and the recovery in the fiscal year 2010 primarily related to the settlement of outstanding litigation on the Rampart estate.

### Outlook

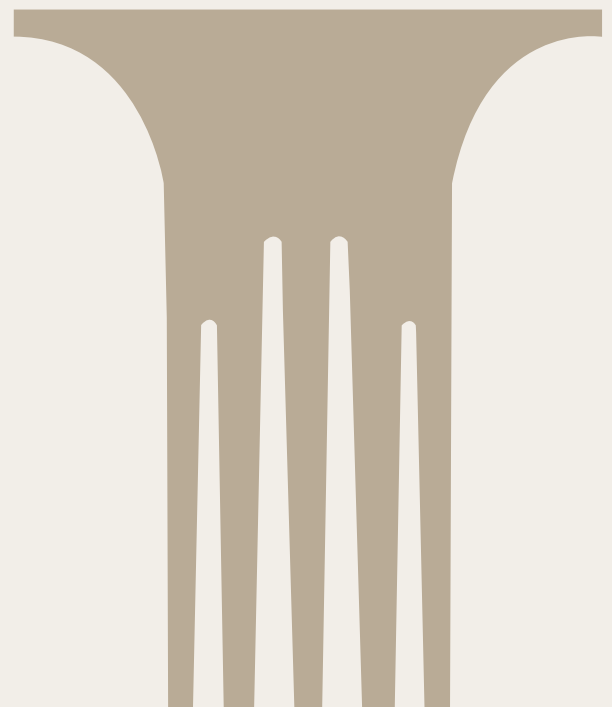
Assessment income is expected to be slightly higher in 2011 due to an increase in the assessment set by the Board. An assessment increase will be phased in commencing with the third quarter of 2011 to reach an annual assessment amount of \$10 million by the second quarter of 2012.

After reviewing the results from recalibrating and stress testing the risk-based model, the Board approved seeking an increase to the lines of credit and/or obtaining additional insurance. The additional resources, in conjunction with collecting additional assessments over the next several years, are designed to increase the fund size and provide liquidity to respond if the Fund was to experience failures requiring funds in excess of currently available liquidity.

Investment income is forecast to be approximately \$14 million in 2011, in line with 2010.

The investments are recorded in the General Fund balance at fair value, which at December 31, 2010 was \$18.4 million higher than amortized cost. The movement in fair value compared to amortized cost is a function of interest rates and cannot be predicted.

The Fund is forecasting 2011 operating expenses to be \$6.5 million, an increase of \$0.4 million over the prior year due to the estimated cost of increasing resources to provide the Fund with additional liquidity.



## To the Board of Directors of the Canadian Investor Protection Fund

We have audited the accompanying financial statements of the **Canadian Investor Protection Fund**, which comprise the balance sheet as at December 31, 2010, the statements of revenues and expenses and general fund balance, investment in capital assets fund and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the **Canadian Investor Protection Fund** as at December 31, 2010, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The logo for Grant Thornton LLP is written in a cursive, handwritten-style font.

### Grant Thornton LLP

Chartered Accountants  
Licensed Public Accountants

Toronto, Ontario  
March 29, 2011

# BALANCE SHEET

December 31

	2010	2009
<b>Assets</b>		
Cash	\$ 284,663	\$ 265,780
Prepaid insurance and recoverables	169,644	172,207
Investments, at fair value (Note 3)	385,179,303	362,682,379
Member assessments receivable	1,992,039	1,998,370
Capital assets (Note 4)	487,714	490,183
	<b>\$ 388,113,363</b>	<b>\$ 365,608,919</b>
<b>Liabilities</b>		
Payables and accruals	\$ 787,490	\$ 431,572
Employee future benefits (Note 6)	5,062,900	4,642,000
Provision for claims and related expenses (Note 9)	117,000	453,000
Deferred lease inducements	72,556	96,742
	<b>6,039,946</b>	<b>5,623,314</b>
<b>Fund balances</b>		
Investment in Capital Assets (Note 4)	487,714	490,183
General (Note 5)		
Cumulative excess of revenues over expenses (excluding unrealized gains and losses) and interfund transfers	363,211,088	346,053,748
Cumulative net unrealized gains and losses on investments	18,374,615	13,441,674
	<b>381,585,703</b>	<b>359,495,422</b>
	<b>\$ 388,113,363</b>	<b>\$ 365,608,919</b>

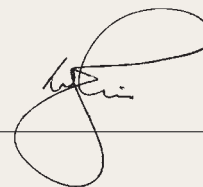
Commitments (Note 8)  
Contingencies (Note 9)

On behalf of the Board

Director



Director



See accompanying notes to the financial statements.

# STATEMENTS OF REVENUES AND EXPENSES AND GENERAL FUND BALANCE

Year Ended December 31

	2010	2009
<b>Revenues</b>		
Regular assessments	\$ 7,479,563	\$ 9,754,635
Assessments for capital deficiencies	66,700	83,210
Investment income	13,689,308	13,308,472
	<b>21,235,571</b>	23,146,317
<b>Expenses</b>		
Salaries and employee benefits	2,663,967	2,645,511
Pension and other employment benefits	550,916	503,716
Directors' fees and other	354,465	340,366
Professional fees	563,349	185,058
Occupancy	298,884	285,318
Bank lines of credit fees and insurance	1,028,539	927,712
Communications	98,382	261,163
Other operating costs	498,674	482,923
	<b>6,057,176</b>	5,631,767
Excess of revenues over expenses before provision for claims	<b>15,178,395</b>	17,514,550
Provision (recovery) for claims	<b>(2,221,000)</b>	(990,000)
Excess of revenues over expenses	<b>\$ 17,399,395</b>	\$ 18,504,550
General Fund, beginning of year	<b>\$ 359,495,422</b>	\$ 345,765,740
Reclassification to earnings of opening unrealized gains and losses for investments maturing in the year	<b>(253,111)</b>	(461,414)
Unrealized gains (losses) on investments arising during the year	<b>5,186,052</b>	(4,153,850)
Transfer to the Investment in Capital Assets Fund for capital asset additions	<b>(242,055)</b>	(159,604)
Excess of revenues over expenses	<b>17,399,395</b>	18,504,550
General Fund, end of year	<b>\$ 381,585,703</b>	\$ 359,495,422

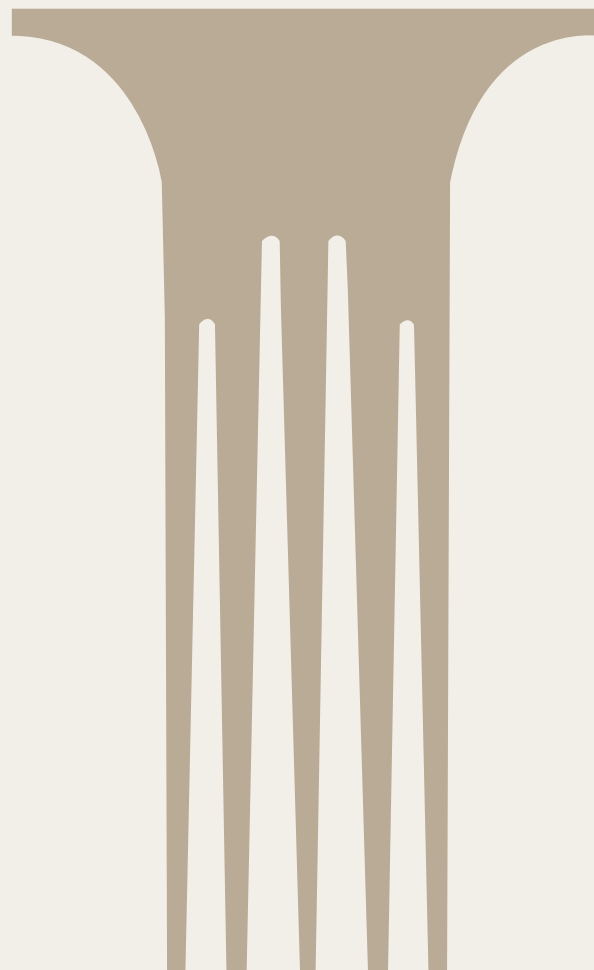
See accompanying notes to the financial statements.

# STATEMENT OF INVESTMENT IN CAPITAL ASSETS FUND

Year Ended December 31

	2010	2009
Investment in Capital Assets Fund, beginning of year	\$ 490,183	\$ 577,942
Transfer from the General Fund for capital asset additions	242,055	159,604
Amortization of capital assets	(244,524)	(247,363)
Investment in Capital Assets Fund, end of year	\$ 487,714	\$ 490,183

See accompanying notes to the financial statements.



# STATEMENT OF CASH FLOWS

Year Ended December 31

	2010	2009
Increase (decrease) in cash		
<b>Operating activities</b>		
Excess of revenues over expenses	\$ 17,399,395	\$ 18,504,550
Interest accrued	(378,522)	340,638
Bond premium amortization	1,601,975	1,778,831
Change in:		
Prepaid insurance and recoverables	2,563	416,511
Member assessments receivable	6,331	694,507
Payables and accruals	355,918	65,095
Employee future benefits	420,900	373,900
Provision for claims and related expenses	(336,000)	(1,190,000)
Deferred lease inducements	(24,186)	(24,185)
	<b>19,048,374</b>	20,959,847
<b>Investing activities</b>		
Purchases of capital assets	(242,055)	(159,604)
Purchases of investments	(89,283,527)	(77,329,969)
Proceeds from maturities of investments	70,496,091	56,593,792
	<b>(19,029,491)</b>	(20,895,781)
Net increase in cash	<b>18,883</b>	64,066
Cash, beginning of year	<b>265,780</b>	201,714
Cash, end of year	<b>\$ 284,663</b>	\$ 265,780

See accompanying notes to the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

## 1. Organization

The Canadian Investor Protection Fund (the “Fund” or “CIPF”) was established in 1969 by an Agreement and Declaration of Trust, by its sponsoring Self-Regulatory Organizations (“SROs”), to protect customers who have suffered financial loss due to the insolvency of a Member of any one of the sponsoring SROs.

Effective January 1, 2002, an industry agreement (the “Original Industry Agreement”) was established between the SROs and CIPF, replacing the Agreement and Declaration of Trust. The parties to this agreement included the Investment Dealers Association of Canada (“IDA”) and CIPF.

Effective June 1, 2008, the IDA combined with Market Regulation Services Inc. to become the Investment Industry Regulatory Organization of Canada (“IIROC”). At that time, IIROC was the only SRO and sponsor of CIPF that carried on Member regulation activities in respect of its Members, and accordingly IIROC and CIPF agreed that the Original Industry Agreement be terminated and replaced by a new Industry Agreement (the “Industry Agreement”) effective September 29, 2008. The parties to the new Industry Agreement are IIROC and CIPF. Throughout these financial statements the reference to Member means a Dealer Member of IIROC.

CIPF is a not-for-profit member corporation, as described in Section 149(1)(l) of the Income Tax Act and, as such, is not subject to either federal or provincial income taxes.

## 2. Summary of significant accounting policies

CIPF follows accounting principles appropriate for not-for-profit organizations, in accordance with Canadian generally accepted accounting principles. The more significant accounting policies are as follows:

### General Fund

The purpose of the General Fund is to provide protection to customers of Members who, in the opinion of the Directors of the Fund, have suffered or may suffer financial loss as a result of the insolvency of the Member, all on such terms and conditions as may be determined by the Fund and in the sole discretion of the Directors.

### Investment in Capital Assets Fund

The Investment in Capital Assets Fund represents the Fund’s unamortized balance of its capital assets.

### Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant area requiring the use of estimates is provision for claims and related expenses. Actual results could differ from those estimates.

### Financial Instruments

The Fund’s financial instruments consist of cash, investments, member assessments receivable and payables and accruals. The Fund has chosen to apply the Canadian Institute of Chartered Accountants Handbook Section 3861 “Financial Instruments – Disclosure and Presentation” to disclose its financial instruments.

The Fund designates its cash as held for trading, which is measured at fair value. Member assessments receivable are

# NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

## 2. Summary of significant accounting policies (continued)

classified as loans and receivables, which are measured at amortized cost. Payables and accruals are classified as other financial liabilities, which are measured at amortized cost. Investments are classified as available-for-sale and stated at fair value.

### Cash

Cash includes cash on hand and cash balances in bank and investment accounts.

### Investments

Investments are comprised of fixed income instruments and are carried at fair value. Unrealized gains and losses resulting from the difference between fair value and amortized cost are recorded in the General Fund balance until realized or until the asset is other than temporarily impaired, at which time they are recorded in excess of revenues over expenses.

### Regular assessments and assessments for capital deficiencies

Regular assessment amounts are set by the Board of Directors and are payable by Members each quarter. For the first two quarters of 2009, each Member paid the lesser of a fixed assessment rate applied to the Member's revenue, and a differential rate, which is derived from a Member's risk relative to other Members, applied to the assessment amount set by the Board. Since July 1, 2009, Members have been assessed using the differential rate. Regular assessments are subject to a minimum and maximum amount. New members pay twice their regular assessment for the first three years of membership.

Additional assessments are paid by Members that have incurred capital deficiencies.

The Industry Agreement provides for a limit on assessments in any calendar year such that no Member shall be assessed more than 1% of its aggregate gross revenues (maximum amount) unless an additional amount is required to either cover the operational expenses of the Fund or to permit the Fund to meet its obligations under its bank lines of credit. This limit does not apply to the minimum, new member and capital deficiency assessments.

Regular assessments and assessments for capital deficiencies are recorded in these financial statements when they are assessed. As provided for in the Industry Agreement, the assessments are collected by IIROC on behalf of the Fund. IIROC is required, under the terms of the Industry Agreement, to pay to CIPF the amount of the assessments (whether or not collected from Members).

### Investment income

Investment income includes interest earned, net of any amortization of bond premiums or discounts using the effective interest rate method, plus realized gains and losses on maturity or sale of an investment.

### Provision for claims and related expenses

Provision for claims from customers of insolvent Members and related expenses, such as trustee's fees, are charged to the General Fund balance when the Fund is notified of potential claims and expects to incur the related expenses. Recoveries of amounts accrued with respect to customers' claims and administrative costs are included in the General Fund balance when reasonably determinable. No amounts are set aside to cover possible losses and customer claims not yet reported.

# NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

## 2. Summary of significant accounting policies (continued)

### Capital assets

Capital assets are recorded at cost and amortized in the Investment in Capital Assets Fund on the following basis:

Office furniture and equipment	Straight-line method over 5 years
Leasehold improvements	Straight-line method over the term of the lease
Computers and software development	Straight-line method over 3 years

### Deferred lease inducements

Deferred lease inducements are taken into income over the term of the lease.

### Employee future benefits

The Fund accrues its obligations under employee future benefit plans and the related costs, net of plan assets, as follows:

- The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of salary escalation, retirement ages of employees and expected health care costs.
- Past service costs for plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.
- The excess of the net actuarial gain (loss) over 10% of the accrued benefit obligation is amortized over the estimated average remaining service period of active employees.

## 3. Investments

The investments are held by CIBC Mellon Global Securities Company as custodian.

The following table discloses the fair value, maturity and average yields to maturity of the Fund's investments at December 31, 2010. The weighted average yield to maturity of the portfolio at December 31, 2010 is 2.53%.

2010	Maturity					Total Fair Value
	Less than 3 months	3 months to 1 year	1 year to 3 years	3 years to 5 years	More than 5 years	
Treasury bills	\$ 6,719,525	\$ 29,529,934	\$ -	\$ -	\$ -	\$ 36,249,459
Yield	0.91%	1.15%	-	-	-	1.11%
Canada bonds	-	23,003,167	41,933,972	51,135,793	43,609,146	159,682,078
Yield	-	1.38%	1.72%	2.15%	3.09%	2.18%
Provincial bonds	-	-	21,439,914	19,131,991	148,675,861	189,247,766
Yield	-	-	2.12%	2.60%	3.31%	3.10%
	\$ 6,719,525	\$ 52,533,101	\$ 63,373,886	\$ 70,267,784	\$ 192,285,007	\$ 385,179,303

# NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

## 3. Investments (continued)

The following table discloses the fair value, maturity and average yields to maturity of the Fund's investments at December 31, 2009. The weighted average yield to maturity of the portfolio at December 31, 2009 is 2.69%.

2009	Maturity					Total Fair Value
	Less than 3 months	3 months to 1 year	1 year to 3 years	3 years to 5 years	More than 5 years	
Treasury bills	\$ 9,562,987	\$ 28,504,189	\$ –	\$ –	\$ –	\$ 38,067,176
Yield	0.19%	0.34%	–	–	–	0.30%
Canada bonds	–	14,963,170	57,173,678	42,756,042	35,035,498	149,928,388
Yield	–	0.60%	1.73%	2.56%	3.14%	2.18%
Provincial bonds	–	–	–	21,609,722	153,077,093	174,686,815
Yield	–	–	–	2.64%	3.79%	3.65%
	\$ 9,562,987	\$ 43,467,359	\$ 57,173,678	\$ 64,365,764	\$ 188,112,591	\$ 362,682,379

## 4. Capital assets

	Cost	Accumulated Amortization	2010 Net Book Value	2009 Net Book Value
Office furniture and equipment	\$ 311,885	\$ 302,576	\$ 9,309	\$ 18,365
Leasehold improvements	275,699	180,472	95,227	126,969
Computers and software development	1,008,025	624,847	383,178	344,849
	\$ 1,595,609	\$ 1,107,895	\$ 487,714	\$ 490,183

## 5. Bank lines of credit and insurance

The Fund has lines of credit provided by two Canadian chartered banks totalling \$100 million (2009 - \$100 million). IIROC has guaranteed these lines of credit by pledging its ability to assess Members.

The Fund By-laws limit the aggregate amount of borrowings the Fund may have, which is equal to 1 1/2% of the prior year's aggregate gross revenues of all Members. The limit on the amount of borrowings for 2011 will be \$238.2 million, and was \$244.6 million for 2010.

The Fund has arranged insurance in the amount of \$70 million for any one loss and in the annual aggregate in respect of losses to be paid by the Fund between \$100 million and \$200 million, in the event of Member insolvency.

## 6. Employee future benefits

The Fund has provided retirement benefits to a retired employee since September 1, 1998. Assets of the Fund have not been segregated for this obligation.

The Fund established a Supplementary Executive Retirement Plan (SERP) for certain executives effective April 9, 2002. This plan is not registered under the Income Tax Act nor is it funded.

# NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

## 6. Employee future benefits (continued)

The Fund provides extended health benefits on retirement to all employees who retire on or after age 55 with service greater than ten years. This plan is not funded.

The most recent actuarial valuation of the pension benefit plan and the SERP for accounting purposes was made on December 31, 2010, and the most recent actuarial valuation of the health benefit plan for accounting purposes was made on December 31, 2009.

In addition to these plans for which the liability and expense is summarized below, the Fund also established a Group RSP that is funded on a defined contribution basis for all employees effective January 1, 2003. Contributions paid and expensed by the Fund for the year ended December 31, 2010 amounted to \$103,900 (2009 - \$105,900).

The Fund's net benefit plan expense, which is recorded in pension and other employment benefits expenses, is as follows:

	Pension Benefit Plan		SERP		Other Benefit Plan	
	2010	2009	2010	2009	2010	2009
Net benefit plan expense	<b>\$ 92,300</b>	\$ 85,800	<b>\$ 435,100</b>	\$ 398,700	<b>\$ 23,516</b>	\$ 19,216

Information about the Fund's defined benefit plans as at December 31 is as follows:

	2010				2009
	Pension	SERP	Other	Total	Total
<b>Accrued benefit obligation</b>					
Balance at end of year	\$ 1,563,400	\$ 3,877,400	\$ 152,700	<b>\$ 5,593,500</b>	\$ 5,619,400
<b>Funded status</b>					
Plan deficit	\$ 1,563,400	\$ 3,877,400	\$ 152,700	<b>\$ 5,593,500</b>	\$ 5,619,400
Unamortized past service costs	–	(167,800)	–	<b>(167,800)</b>	(192,200)
Unamortized net actuarial losses	(276,900)	(75,100)	(10,800)	<b>(362,800)</b>	(785,200)
Accrued benefit liability	\$ 1,286,500	\$ 3,634,500	\$ 141,900	<b>\$ 5,062,900</b>	\$ 4,642,000

The significant actuarial assumptions adopted in measuring the Fund's accrued benefit obligations are as follows:

	Pension Benefit Plan		SERP		Other Benefit Plan	
	2010	2009	2010	2009	2010	2009
Discount rate	<b>5.0%</b>	5.0%	<b>5.0%</b>	5.0%	<b>5.0%</b>	5.0%
Rate of compensation increase	–	–	<b>3.0%</b>	4.0%	–	–

Other information about the pension benefit plan, the SERP and other benefit plan is as follows:

	Pension Benefit Plan		SERP		Other Benefit Plan	
	2010	2009	2010	2009	2010	2009
Benefits paid	<b>\$ 125,000</b>	\$ 125,000	<b>\$ –</b>	\$ –	<b>\$ 5,015</b>	\$ 5,000

# NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

## 7. Investment in shares of the Canadian Depository for Securities Limited

In 1982, the IDA, the TSX, The Montréal Exchange and the Vancouver Stock Exchange gifted their investments in the Canadian Depository for Securities Limited to the Fund. These investments are in the form of 2,690,834 non-voting, non-cumulative, redeemable preference shares and, as the Fund received the shares at no cost and they have no quoted market value, the investments are not reflected in these financial statements.

## 8. Lease commitments

At December 31, 2010 the Fund has future minimum annual lease commitments on office space, office equipment and information technology services as follows:

2011	\$278,700
2012	278,700
2013	268,700
2014	<u>68,500</u>
	<b><u>\$894,600</u></b>

The Fund is also committed to its share of operating costs and taxes with respect to the office lease, which approximates \$182,000 per year.

## 9. Contingencies

As described in Note 1, the Fund was established to protect customers who have suffered financial loss due to the insolvency of a Member of IIROC. The Fund's accounting policy as described in Note 2 is to provide for all potential claims and related expenses when the Fund is notified of potential claims and expects to incur the related expenses.

Two Fund Member insolvencies are currently under the administration of trustees in bankruptcy. The Fund has accrued a provision of \$117,000 (2009 - \$453,000) as an estimate of costs to wind down these estates and management does not expect that the Fund will be required to make any additional payments to the administrators in excess of the accrual.

In the event of a future insolvency of a Member, the claims against the Fund would be limited to the financial losses suffered by customers of Members solely as a result of the insolvency of a Member. In the event that CIPF would be unable to satisfy such claims in their entirety the Board would determine over what period to assess Members to make up the shortfall.

## 10. Financial instruments

The fair value of a financial instrument is the estimated amount the Fund would receive or pay to settle a financial asset or financial liability as at the reporting date.

The fair value of cash, member assessments receivable, and payables and accruals approximates their carrying value due to the immediate or short-term nature of these financial instruments.

The fair value of the Fund's fixed income investments are determined by reference to published bid price quotations at year-end. These investments have maturity dates and effective interest rates as disclosed in Note 3.

The fair value of the Fund's investment in shares of the Canadian Depository for Securities Limited is not reasonably determinable.

December 31, 2010

## 10. Financial instruments (continued)

### Risk Management

Risk management relates to the understanding and active management of risks associated with invested assets. Investments can be exposed to interest rate, credit, market and currency risk. The Fund manages its exposure to the risks associated with its investment portfolio by following the Board-approved investment policy that restricts the types and amounts of its eligible investments and requires dealing with highly rated counterparties. The policy requires that at least 50% of investments be held in Government of Canada issued or guaranteed instruments, with the balance in provincial or territorial government issued or guaranteed investments, and a maximum exposure to any one province or territory of 20% of the portfolio. The policy provides for investing in a laddered portfolio with a maximum term to maturity of 11 years, with a minimum of 15% of the investments held in short-term instruments to meet liquidity needs.

Significant risks that are relevant to the Fund's investments are as follows:

### Interest rate

Interest rate risk is the risk that the fair value of financial instruments will fluctuate due to changes in market interest rates. The Fund manages the interest rate risk exposure of its investment portfolio by following the investment policy described above and by holding all investments until maturity, unless required to make a payment in accordance with the mandate of the Fund.

### Credit risk

Credit rate risk is the risk of financial loss due to a counterparty failing to meet its contractual obligations. The Fund manages the credit rate risk exposure of its investment portfolio by following the investment policy described above.

### Market risk

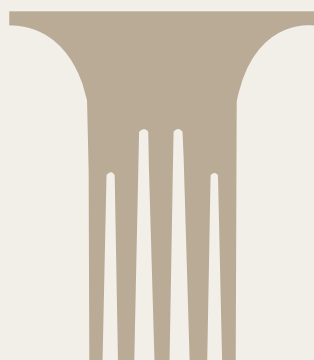
Market risk is the risk that the fair value of financial instruments will fluctuate as a result of changes in market conditions, whether these changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market. The Fund manages the market risk exposure of its investment portfolio by following the investment policy described above.

### Currency risk

Currency risk is the risk that the fair value of financial instruments will fluctuate relative to the Canadian dollar due to changes in foreign exchange rates. All assets and liabilities of the Fund are denominated in Canadian dollars and as such are not subject to currency risk.

## UNAUDITED SCHEDULE OF CLAIMS AND RELATED EXPENSES PAID AND/OR PROVIDED NET OF RECOVERIES

<b>Insolvent Firm</b>	<b>Year</b>	<b>Responsible SRO</b>	<b>Cost to CIPF as at December 31, 2010</b>
Malone Lynch Securities Limited	1971	TSE	\$ 1,545,970
Andrews & Belanger Co. Ltd.	1971	ME	78,346
Chartrand, Quinn, Senecal & Co.	1973	ME	139,245
Blanchard, O'Connor & Co.	1974	ME	35,712
Atlantic Securities Limited	1981	IDA	273,476
Rademaker MacDougall & Company	1982	VSE	-
First Commonwealth Securities Corp.	1986	ASE	1,828,246
Anglo Securities Limited	1986	VSE	261,051
Osler Inc.	1987	TSE	15,531,793
R. Drapeau Capital Inc.	1989/93	ME	25,028
Invescourt, courtier en valeurs mobilières inc.	1990	ME	5,973
Brault, Guy, O'Brien Inc.	1990	ME	166,000
McConnell & Company Limited	1991	TSE	2,919,047
Essex Capital Management Ltd.	1999	IDA	6,122,991
Maxima Capital Inc.	2001	ME	-
Rampart Securities Inc.	2001	IDA	3,345,350
Thomson Kernaghan & Co. Limited	2002	IDA	1,057,913
<b>Total</b>			<b>\$ 33,336,141</b>





**Back Row from Left:** Hugh McNabney, William Fulton, Christopher Hodgson, Nicholas Kirton, Ian Brown  
**Front Row from Left:** Roger Casgrain, Rozanne Reszel, Alain Rhéaume, Aldéa Landry, Michael White

**Ian S. Brown, CA<sup>2,3</sup>** (joined April 2005)

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

## PUBLIC DIRECTORS

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**Nicholas G. Kirton, FCA, ICD.D<sup>1,4</sup>** (joined June 2008)

- Professional Director
- Former Partner, KPMG LLP

**Hon. Aldéa M. Landry, CM, PC, QC<sup>1,2,3</sup>** (joined April 2006)

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

**Alain Rhéaume<sup>2,3</sup>** (joined January 2009)

- Founder and Managing Partner, Trio Capital Inc.
- Former Deputy Minister of Finance for the Government of Quebec

**Michael J. White, FCA<sup>1</sup>** (joined April 2007)

- President & Chief Executive Officer, Addenda Capital Inc.

## OFFICERS

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**Ian S. Brown, CA**

- Chair

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

- President & Chief Executive Officer

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

- Vice-President & Secretary

**Linda G. Pendrill, CA**

- Chief Financial Officer

**Rozanne E. Reszel, FCA, CFA, ICD.D<sup>3</sup>** (joined September 1998)

- President & Chief Executive Officer

## INDUSTRY DIRECTORS

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**Roger G. Casgrain, CFA** (joined June 2008)

- Executive Vice-President, Casgrain & Company Limited

**William R. Fulton, CA<sup>1,2,4</sup>** (joined June 2002)

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

**Christopher J. Hodgson<sup>1,3</sup>** (joined March 2005)

- Outgoing Chair
- Group Head, Global Wealth Management  
The Bank of Nova Scotia

**Hugh McNabney, CGA<sup>2,4</sup>** (joined January 2009)

- Consultant to the financial services industry
- Former Chief Financial Officer, Scotia McLeod Inc.

## COUNSEL

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**Borden Ladner Gervais LLP**

## AUDITORS

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**Grant Thornton LLP**

<sup>1</sup> Member of the Audit, Finance and Investment Committee

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

<sup>3</sup> Member of the Governance, Nominating and Human Resources Committee

<sup>4</sup> Member of the Industry Risk Committee

Canadian Investor Protection Fund

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**CIPF**

Canadian Investor Protection Fund