WORTH KNOWING

THE CIPF NEWSLETTER

CIPF
Canadian Investor Protection Fund

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2011 / ISSUE 2

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"There were no new insolvencies in 2010 and the balance in the General Fund increased to $381.6 million, a $22.1 million increase over the prior year."

Ian Brown
Chair

Welcome to *Worth Knowing*

Chair's Message

In the last issue of *Worth Knowing*, we advised that this edition would include CIPF's 2010 results – see **Key Facts and Figures**. We also report on activities and accomplishments relevant to investment advisors under two areas: Maintaining Adequate **Financial Resources** and **Risk Management Efforts**.

For more information about CIPF's 2010 activities, including further financial information, the best source is CIPF's Annual Report available on our website at **www.cipf.ca** > *News & Publications.*

BOARD MEMBERS

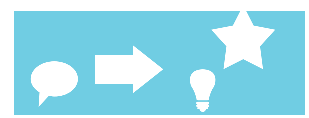
Ian Brown,
Chair

Read more...

Debra Hewson
Industry Director

Read more...

CASE STUDY



In the unlikely event that a CIPF Member becomes insolvent, we look at: "Could my clients have a loss if their securities are segregated?"

Read more...

FAQs

CIPF coverage applies to any shortfall if the recovery of assets from an insolvent Member does not meet all eligible client claims. How is the shortfall calculated?

Read more...

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Chair's Message

Key Facts and Figures for the year ended December 31, 2010

There were no new insolvencies in 2010 and the balance in the General Fund increased to $381.6 million, a $22.1 million increase over the prior year. CIPF generates revenue from assessments paid by Members and from investment income earned on the investment portfolio.

Number of insolvencies during the year	0
Investment income	$13.7 million
Regular assessments	$7.5 million
Recovery for claims	$2.2 million
Operating expenses	$6.1 million
Unrealized gains arising on investments	$4.9 million
General Fund balance at December 31, 2010	$381.6 million

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Chair's Message

Maintaining Adequate Financial Resources

Maintaining adequate financial resources for the Fund includes finding the appropriate balance between the cash fund, insurance, lines of credit and other liquidity sources. The financial resources currently available to CIPF to pay clients' claims are:

- The General Fund, which had net assets of $382 million at the end of 2010.
- Lines of credit of $100 million provided by two Canadian chartered banks.
- Insurance in the amount of $116 million for any one loss and in the annual aggregate in respect of losses to be paid by CIPF in excess of $100 million in the annual aggregate, with effect from May 1, 2011.
- The ability to assess Members.

CIPF's investment portfolio consists of Government of Canada or provincial government issued or guaranteed bonds and T-bills.

CHAIR'S MESSAGE

Risk Management Efforts

Stress Testing CIPF's Funding Model

- CIPF introduced a risk-based model in 2007 to assist the Board in determining the size of fund that CIPF requires to meet its obligations. In 2010, on the advice of an international consulting firm with experience in analyzing liquidity needs, we stress tested the model over a five year time period to determine the funding requirement for unlikely, but plausible, events.
- These tests revealed that the Fund required additional liquidity and staff was directed to investigate increasing Member assessments, lines of credit and insurance.

Collaboration with IIROC

- Our new tag line, *Get CIPF Protection – Invest with an IIROC Regulated Member*, reinforces IIROC membership as the link to qualifying for CIPF coverage.
- We visited with several District Councils last year to hear from investment advisors directly.

Operational Preparedness

- 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.
- As Members will be required to adopt IFRS as the basis for regulatory reporting, CIPF completed major changes to incorporate IFRS into the web-based Securities Industry Regulatory Financial Filings (SIRFF) system, which CIPF continues to manage on behalf of the industry.

If you've got comments or ideas, we'd love to hear them. Feel free to e-mail us at **info@cipf.ca**.

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Ian Brown
Chair

INTRODUCING OUR BOARD MEMBERS

*The **CIPF Board** is comprised of 10 Directors – four Public Directors, four Industry Directors, the Board Chair and the Chief Executive Officer – who together are responsible for the stewardship of the Fund and oversight of management.*

Ian Brown, Chair

Ian Brown succeeded Chris Hodgson as Chair of the Board in December 2010. He was appointed to the Board in April 2005 as an industry representative and is a member of the Governance, Nominating and Human Resources Committee.

Ian has over 25 years of financial and capital markets experience, for the past five years as an independent businessperson and corporate director. He was previously a Senior Managing Director with Raymond James Ltd. and prior to that he was the Executive Vice-President of the Alberta Stock Exchange.

He serves on several public and private company boards, including Bonavista Energy Corporation, Petrobank Energy and Resources Ltd., PetroBakken Energy Ltd., Cathedral Energy Services Ltd., SemBioSys Genetics Inc. and Karnalyte Resources Inc.

Ian is a Chartered Accountant and holds a Bachelor of Commerce degree from the University of Windsor and a Bachelor of Arts from McMaster University. He lives in Calgary.

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Debra Hewson
Industry Director

Introducing our Board Members

Debra Hewson, Industry Director

Debra Hewson was appointed to the Board in March 2011 as an Industry Director and serves on the Coverage Committee.

She has over 30 years experience in the investment industry including 20 with Odlum Brown Limited where she has held the position of President and Chief Executive Officer since 2007.

She is a former Chair of the Pacific District Council and Director of the Investment Dealers Association, the predecessor to the Investment Industry Regulatory Organization of Canada. She also previously served as a Director of the Mutual Fund Dealers Association.

Debra holds a Bachelor of Arts degree from the University of British Columbia and was named one of Canada's most Powerful Women by the Women's Executive Network in 2009 and 2010.

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SITUATION

ACTION

RESOLUTION

LESSON

CASE STUDY *The following case study is provided as an example only.*

Could my clients have a loss if their securities are segregated?

SITUATION: We first met Patrick and Jenny Mathews* who had consolidated their entire $5 million of investments with ABC Securities*, a CIPF Member, in the last issue of ***Worth Knowing* (2011: Issue 1)**. Having become aware of ABC Securities' financial difficulties, Jenny had contacted the Canadian Investor Protection Fund and received an explanation of how **CIPF coverage** would apply for the Mathews' investment holdings. The Mathews had been relieved that their investments appeared to fit within CIPF coverage limits. However, several months later when the Member firm declared bankruptcy, they wondered if they even needed CIPF protection when their most recent account statements from ABC Securities showed that all their securities were segregated.

ACTION: Jenny and Patrick decided to first check CIPF's website. Sure enough, the home page contained a link to information specific to the bankruptcy of ABC Securities. There was a message from the appointed Trustee advising clients to review their account statements and how to file a claim if they had any disputes. The web page also advised how Part XII of the *Bankruptcy and Insolvency Act (Canada)* (BIA) defines the framework for administering the bankruptcy of securities firms, particularly the treatment of client accounts and payment of any claims. Jenny and Patrick learned that:

- Clients of a bankrupt securities firm obtain a priority over general creditors through the Trustee establishing a "customer pool fund" which will include:
    - Client assets held by the Member (securities, including segregated securities and RRSP accounts), plus
    - Certain assets belonging to the Member (cash in the Member's bank accounts and the Member's own inventory).

***fictitious names for the purpose of example only**

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SITUATION
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LESSON

Case Study

Could my clients have a loss if their securities are segregated?

ACTION (continued):

- Securities held by the investment dealer and registered in the client's name will be returned to the client and therefore are excluded from the customer pool fund calculation.
- The Trustee will then also determine the total client net equity for the accounts, which is the total amount of assets net of liabilities valued at the date of the insolvency of the Member. The Trustee can then calculate if there will be a shortfall.

Calculation of the shortfall for which CIPF protection, within the defined limits of the CIPF Coverage Policy, is applied:

Assume the records for ABC Securities showed that total client assets, or client net equity, are $5.0 billion at the date of insolvency, but assets in the customer pool fund (both client and Member assets) are only $4.5 billion:

Client Net Equity	=	$5.0 billion
Customer Pool Fund	=	$4.5 billion
Shortfall	=	$0.5 billion or 10% of Client Net Equity

Meaning that 90% of the client's net equity can be returned from assets in the customer pool fund.

CIPF protection applies to the 10% shortfall.

RESOLUTION: The shortfall will be allocated ***on a pro rata basis relative to each client's net equity*** for purposes of determining what level of CIPF protection will be required within the defined limits of the **CIPF Coverage Policy**. The 10 per cent shortfall allocated to Patrick and Jenny's investment assets did fit within the defined limits of CIPF's protection and they experienced **no loss** as a result of ABC Securities' bankruptcy. Their accounts, including the amounts covered by CIPF, were transferred to another CIPF Member, where they continue to hold their investment portfolio today, confident that their investments are well protected by CIPF.

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Case Study

Could my clients have a loss if their securities are segregated?

LESSON: This case shows two aspects of how the BIA impacts clients in the event of a Member insolvency:

- The BIA calculation of a customer pool fund includes all client assets held by the Member, other than those securities registered in the client's name. Even if all their securities are segregated, clients are allocated a pro rata loss when there is a shortfall.
- Due to the pro rata distribution of the customer pool fund, a client's loss will likely be less than their client net equity and CIPF protection applies to this shortfall.

To date, all eligible clients have had their assets returned to them or have been compensated in the event of the insolvency of a CIPF Member. The protection provided by CIPF is intended to give confidence to investors to invest in securities markets through investment dealers regulated by the Investment Industry Regulatory Organization of Canada (IIROC). CIPF is the only compensation fund approved by the Canadian Securities Administrators for IIROC Dealer Members.

Related information is available under **What Happens if my CIPF Member is Insolvent?**

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Frequently Asked Questions

Q: My clients, Patrick and Jenny Mathews, have about $5,000,000 invested with me consisting of a combination of investment accounts. They are aware that bankruptcy legislation affects the distribution of assets if a securities firm becomes insolvent and have asked me how the distribution calculation would work specifically for them. I'm uncomfortable with providing such a calculation.

A: First, you may want to assure your clients that, to date, all eligible clients have had their assets returned to them or have been compensated in the event of the insolvency of a CIPF Member. CIPF coverage, applies to any shortfall of the client's assets not recovered by the client from an insolvent Member. Based on the client account information for the Mathews as previously detailed in ***Worth Knowing* (2011: Issue 1)** and assuming a 10 per cent shortfall as determined in the Case Study in this issue, the calculation would be as illustrated in the chart on the next page >>

For another example of how losses are allocated to clients, refer to **What if my account has assets exceeding $1 million?**

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Frequently Asked Questions

	Type of Account* for determining CIPF Coverage	Client Net Equity (CNE)	Assets in the Customer Pool Fund can provide for 90% of CNE	Shortfall: this example at 10% of CNE	Maximum* CIPF Coverage (applicable for the shortfall)
Patrick					
Accounts held jointly and equally (total of $1,700,000 at 50%)	General	$850,000	$765,000	$85,000	$1,000,000
TFSA		$40,000	$36,000	$4,000	
Retirement Plan accounts	Separate	$1,000,000	$900,000	$100,000	$1,000,000
Inter-vivos Trust	Separate	$900,000	$810,000	$90,000	$1,000,000
Jenny					
Accounts held jointly and equally (total of $1,700,000 at 50%)	General	$850,000	$765,000	$85,000	$1,000,000
TFSA		$60,000	$54,000	$6,000	
Retirement Plan accounts	Separate	$900,000	$810,000	$90,000	$1,000,000
RESPs	Separate	$400,000	$360,000	$40,000	$1,000,000
Patrick and Jenny's Total Holdings:		**$5,000,000**	**$4,500,000**	**$500,000**	

* must meet requirements set out in CIPF Coverage Policy

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