

Financial statements of

# **Canadian Investor Protection Fund**

December 31, 2018

# Canadian Investor Protection Fund

December 31, 2018

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## Independent Auditor's Report

To the Board of Directors of the  
Canadian Investor Protection Fund

### Opinion

We have audited the financial statements of the Canadian Investor Protection Fund (the "Organization"), which comprise the balance sheet as at December 31, 2018, the statements of revenues and expenses and changes in general fund balances, changes in investment in capital assets fund, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with Canadian Accounting Standards for Not-For-Profit Organizations ("ASNPO").

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Organization in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with ASNPO, 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.

In preparing the financial statements, management is responsible for assessing the Organization's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Organization's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Organization to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte LLP

Chartered Professional Accountants  
Licensed Public Accountants  
March 27, 2019

# Canadian Investor Protection Fund

## Balance Sheet

as at December 31, 2018

(In thousands of dollars)

	2018	2017
	\$	\$
<b>Assets</b>		
Current assets		
Cash	858	870
Prepaid insurance and recoverables	625	597
Investments, at fair value (Note 4)	501,480	484,412
Recoverable from the estate trustee (Note 9)	450	5,596
Member assessments receivable	2,684	3,066
	<b>506,097</b>	<b>494,541</b>
Tangible capital assets (Note 5)	244	314
Software development (Note 5)	90	72
	<b>506,431</b>	<b>494,927</b>
<b>Liabilities</b>		
Current liabilities		
Payables and accruals	369	411
Deferred lease inducements	29	29
	<b>398</b>	<b>440</b>
Long-term deferred lease inducements	144	174
Employee future benefits (Note 7)	9,972	10,000
<b>Fund balances</b>		
Investment in Capital Assets Fund	334	386
General Fund	495,583	483,927
	<b>495,917</b>	<b>484,313</b>
	<b>506,431</b>	<b>494,927</b>

Approved by the Board

 Director

 Director

# Canadian Investor Protection Fund

## Statement of Revenues and Expenses and Changes in General Fund Balance for the year ended December 31, 2018

(In thousands of dollars)

	2018	2017
	\$	\$
<b>Revenues</b>		
Regular assessments	12,372	12,092
Assessments for capital deficiencies	24	42
Investment income	12,278	12,727
	<b>24,674</b>	<b>24,861</b>
<b>Expenses</b>		
Salaries and employee benefits (Note 7)	4,277	4,363
Bank lines of credit fees and insurance premium	2,277	2,227
Professional fees	540	662
Pension and other employment benefits (Note 7)	524	640
Directors' fees, travel and education	480	553
Other operating costs	447	519
Occupancy	407	405
Computer server hosting and maintenance	218	208
Communications	158	94
Custodial fees	117	114
	<b>9,445</b>	<b>9,785</b>
<b>Excess of revenues over expenses before the undernoted items</b>	<b>15,229</b>	<b>15,076</b>
Recovery of (provision for) claims and/or related expenses (Note 9)	(146)	7,438
Gain on capital asset disposal	-	48
Realized losses on sale of investments	(2,772)	-
Unrealized losses on investments	(775)	(10,343)
<b>Excess of revenues over expenses</b>	<b>11,536</b>	<b>12,219</b>
<b>General Fund, beginning of year</b>	<b>483,927</b>	<b>471,985</b>
Excess of revenues over expenses	11,536	12,219
Transfer to the Investment in Capital Assets Fund for additions	(120)	(213)
Employee future benefits remeasurements (Note 7)	240	(64)
<b>General Fund, end of year</b>	<b>495,583</b>	<b>483,927</b>

The accompanying notes to the financial statements are an integral part of this financial statement.

# Canadian Investor Protection Fund

Statement of Changes in Investment in Capital Assets Fund  
for the year ended December 31, 2018  
(In thousands of dollars)

	2018	2017
	\$	\$
<b>Investment in Capital Assets Fund, beginning of year</b>	<b>386</b>	333
Transfer from the General Fund for additions	120	213
Amortization of capital assets and intangible assets	(172)	(160)
<b>Investment in Capital Assets Fund, end of year</b>	<b>334</b>	386

# Canadian Investor Protection Fund

## Statement of Cash Flows

for the year ended December 31, 2018

(In thousands of dollars)

	2018	2017
	\$	\$
<b>Operating activities</b>		
Excess of revenues over expenses	11,364	12,059
Items not affecting cash		
Amortization of capital assets and intangible assets	172	160
Amortization of deferred lease inducements	(30)	(29)
Interest accrued	(552)	(105)
Bond premium amortization	3,994	3,584
Realized losses on sale of investments	2,772	-
Unrealized losses on investments	775	10,343
Employee future benefits remeasurements	240	(64)
Gain on capital asset disposal	-	(48)
Changes in non-cash working capital		
Prepaid insurance and recoverables	(28)	(58)
Member assessments receivable	382	(158)
Recoverable from the estate trustee	5,146	(5,596)
Payables and accruals	(42)	(5)
Provision for claims and/or related expenses	-	(603)
Employee future benefits	(28)	541
	<b>24,165</b>	<b>20,021</b>
<b>Investing activities</b>		
Purchases of capital assets, net of disposal	(120)	(165)
Purchases of investments	(160,119)	(51,514)
Proceeds from maturities and sales of investments	136,062	31,602
	<b>(24,177)</b>	<b>(20,077)</b>
Decrease in cash during the year	(12)	(56)
Cash, beginning of year	870	926
<b>Cash, end of year</b>	<b>858</b>	<b>870</b>

The accompanying notes to the financial statements are an integral part of this financial statement.



# Canadian Investor Protection Fund

## Notes to the financial statements

December 31, 2018

(In thousands of dollars)

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### 1. Organization

The Canadian Investor Protection Fund ("CIPF") was established in 1969 by an Agreement and Declaration of Trust, by its then 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.

CIPF was incorporated by letters patent dated November 19, 2001 as a Corporation without share capital under provisions of Part II under the *Canada Corporations Act*. On March 24, 2014, CIPF received its Certificate of Continuance from Industry Canada to continue under the *Canada Not-for-profit Corporations Act* as required by the legislation.

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 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. Statement of compliance with Canadian accounting standards for not-for-profit organizations

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations in Part III of the Chartered Professional Accountants Canada Handbook – Accounting.

### 3. Summary of significant accounting policies

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 accordance with the CIPF Coverage Policy, have suffered or may suffer financial loss as a result of the insolvency of a Member, all on such terms and conditions as may be determined by CIPF in its sole discretion.

In the event of Member insolvencies, the claims against CIPF are limited to the financial losses suffered by eligible customers of Members for the failure of the Member to return or account for customer property solely as a result of the insolvency of a Member. CIPF can draw on several sources to pay customer claims, including the General Fund, insurance and the ability to assess Members. In the event that CIPF would be unable to satisfy such claims in their entirety, the Board would determine the period over which to assess Members to make up the shortfall.

#### *Investment in Capital Assets Fund*

The Investment in Capital Assets Fund represents CIPF's unamortized balance of its capital assets and intangible assets.

#### *Use of estimates*

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations 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 revenue and expenses during the reporting period. The most significant areas requiring the use of estimates are provision for claims and/or related expenses, and employee future benefits obligation. Actual results could differ from those estimates.

# Canadian Investor Protection Fund

## Notes to the financial statements

December 31, 2018

(In thousands of dollars)

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

#### *Financial instruments*

CIPF's financial instruments consist of cash, investments, recoverable from the estate trustee, member assessments receivable, and payables and accruals.

CIPF records its financial instruments at fair value upon recognition. Subsequently, all financial instruments are recorded at amortized cost, except for investments which are recorded at fair value.

#### *Cash*

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

#### *Investments*

Investments are comprised of fixed income securities and are carried at fair value. Gains and losses resulting from the difference between fair value and amortized cost are recorded as unrealized gains (losses) on investments in the Statement of Revenues and Expenses and Changes in General Fund Balance. Accrued interest on the fixed income securities is included in the Investments balance.

#### *Regular assessments and assessments for capital deficiencies*

Regular assessment amounts are set by the Board of Directors and are payable by Members each quarter. The amount assessed by the Board is allocated to each Member based on a differential rate, which is derived from a Member's risk relative to other Members. 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 revenue (maximum amount) unless an additional amount is required to either cover operational expenses or to permit CIPF to meet the 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 CIPF. 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. Realized gains and losses on maturity or sale of an investment are recorded separately on the Statement of Revenues and Expenses and Changes in General Fund Balance.

#### *Provision for claims and/or related expenses*

Provision for claims from customers of insolvent Members is recorded when CIPF is notified of potential claims and CIPF makes a determination that the claims are eligible under CIPF's Coverage Policy. Provision for related expenses, such as trustee's fees, legal fees, hearing costs and other administrative costs, is recorded when a reliable estimate can be made of the costs to administer the potential claims. Recoveries of amounts paid or accrued with respect to customers' claims and administrative costs are recorded when reasonably determinable. No amounts are set aside to cover possible losses and customer claims that could arise from future insolvencies.

# Canadian Investor Protection Fund

## Notes to the financial statements

December 31, 2018

(In thousands of dollars)

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

#### *Capital assets and intangible assets*

Capital assets and intangible assets are recorded at cost and are 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	Straight-line method over 3 years
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*

CIPF accrues for 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.
- Actuarial gains (losses) on the accrued benefit obligation arise from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation. These differences between actual results and actuarial assumptions are recognized directly in the General Fund balance in the Balance Sheet and reported as pension remeasurements as a separate item in the Statement of Revenues and Expenses and Changes in General Fund Balance.
- Past service costs for plan amendments are immediately recognized as pension remeasurements in the Statement of Revenues and Expenses and Changes in General Fund Balance.

### 4. 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 CIPF's investments at December 31, 2018. The weighted average yield to maturity of the portfolio at December 31, 2018 is 2.21% (2017 – 2.10%).

					2018	2017
	Less than 1 year	1 year to 3 years	3 years to 5 years	More than 5 years	Total fair value	Total fair value
	\$	\$	\$	\$	\$	\$
Treasury bills	-	-	-	-	-	14,260
Yield	-	-	-	-	-	1.03%
Canada bonds	-	23,217	10,017	16,624	49,858	10,278
Yield	-	1.86%	1.88%	1.91%	1.88%	2.02%
Canada Housing Trust bonds	26,027	38,546	64,457	77,762	206,792	230,911
Yield	1.81%	1.99%	2.20%	2.35%	2.17%	2.08%
Provincial bonds	40,795	77,411	74,225	52,399	244,830	228,963
Yield	1.93%	2.12%	2.43%	2.68%	2.30%	2.18%
	<b>66,822</b>	<b>139,174</b>	<b>148,699</b>	<b>146,785</b>	<b>501,480</b>	<b>484,412</b>

# Canadian Investor Protection Fund

## Notes to the financial statements

December 31, 2018

(In thousands of dollars)

### 5. Capital assets and intangible assets

	2018		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Office furniture and equipment	332	320	12
Leasehold improvements	313	137	176
Computers	232	176	56
Tangible assets	877	633	244
Software development	1,390	1,300	90

  

	2017		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Office furniture and equipment	332	292	40
Leasehold improvements	313	107	206
Computers	236	168	68
Tangible assets	881	567	314
Software development	1,304	1,232	72

### 6. Committed bank lines of credit and insurance

CIPF has committed lines of credit provided by two Canadian chartered banks totalling \$125 million (2017 – \$125 million). IIROC has guaranteed these lines of credit by pledging its ability to assess Members.

CIPF has arranged insurance in the amount of \$160 million (2017 – \$160 million) in the annual aggregate, in respect of losses to be paid by CIPF in excess of \$150 million (2017 – \$150 million) in the event of Member insolvency. CIPF has arranged a second layer of insurance in the amount of \$230 million (2017 – \$230 million) in respect of losses to be paid in excess of \$310 million (2017 – \$310 million) in the event of Member insolvency.

### 7. Employee future benefits

CIPF has the following defined benefit pension plans:

- pension benefits to a retired employee since September 1, 1998. This pension benefit is not registered under the Income Tax Act, nor is it funded.
- 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.

CIPF also provides extended health benefits on retirement to all employees who retire on or after age 55 with service greater than ten years. These extended health benefits terminate at age 75. This plan is not funded.

# Canadian Investor Protection Fund

## Notes to the financial statements

December 31, 2018

(In thousands of dollars)

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### 7. Employee future benefits (continued)

The most recent actuarial valuation of the pension plans for accounting purposes was made on December 31, 2018, and the most recent actuarial valuation of the health benefit plan for accounting purposes was made on December 31, 2017.

CIPF's net benefit plan expense is recorded in pension and other employment benefits expenses.

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

	Pension benefit plan		SERP		Other benefit plan	
	2018	2017	2018	2017	2018	2017
	%	%	%	%	%	%
Discount rate	3.2	3.1	3.2	3.1	3.2	3.1
Rate of compensation increase	-	-	3.0	3.0	-	-

For measurement purposes, inflation of medical expenses was assumed to be 12% in 2018, declining to 5% in annual decrements of 1%. Inflation of dental costs was assumed to be 8% in 2018, declining to 4% in annual decrements of 1%.

In addition to these plans, the salaries and employee benefits expense on the Statement of Revenues and Expenses and Changes in General Fund Balance includes \$0.20 million (2017 – \$0.19 million) related to CIPF's contribution to the Group RSP plan.

### 8. Lease commitments

At December 31, 2018, CIPF has future minimum annual lease commitments of \$1,577 (2017 – \$1,570) for office space, office equipment and information technology services as follows:

	\$
2019	365
2020	335
2021	233
2022	221
2023	221
2024	202
	<u>1,577</u>

CIPF is also committed to its share of operating costs and taxes with respect to the office lease, which approximates \$0.23 million per year.

# Canadian Investor Protection Fund

## Notes to the financial statements

December 31, 2018

(In thousands of dollars)

### 9. Provision for claims and/or related expenses

The provision for claims and/or related expenses and the change in the provision during the year and payments made for these insolvencies are as follows:

	Provision (Recoverable) at January 1, 2018	Increase (Decrease) in Provision	Receipts (Payments) during the year	Provision (Recoverable) at December 31, 2018
	\$	\$	\$	\$
MF Global Canada Co. (a)	-	-	-	-
Barret Capital Management Inc. (b)	-	-	-	-
Octagon Capital Corporation (c)	<b>(5,596)</b>	<b>146</b>	<b>5,000</b>	<b>(450)</b>
	<b>(5,596)</b>	<b>146</b>	<b>5,000</b>	<b>(450)</b>

	Provision (Recoverable) at January 1, 2017	Increase (Decrease) in Provision	Receipts (Payments) during the year	Provision (Recoverable) at December 31, 2017
	\$	\$	\$	\$
MF Global Canada Co. (a)	492	(2,806)	2,314	-
Barret Capital Management Inc. (b)	8	(8)	-	-
Octagon Capital Corporation (c)	103	(4,624)	(1,075)	(5,596)
	603	(7,438)	1,239	(5,596)

At December 31, 2018, the following Member insolvencies continue to either be under the administration of a trustee in bankruptcy or are being administered in respect of which no trustee was appointed.

(a) MF Global Canada Co.

MF Global Canada Co. ("MFGC") was suspended by IIROC on November 1, 2011 and a trustee in bankruptcy was appointed on November 4, 2011.

During the year ended December 31, 2018, CIPF received a net refund of \$nil (2017 – \$2.3 million). The recovery of provision for claims and/or related expenses for the year ended December 31, 2018 was \$nil (2017 – \$2.8 million).

At December 31, 2018, there were no known customer claims on the estate and the estate continues to be administered by the trustee.

(b) Barret Capital Management Inc.

Barret Capital Management Inc. ("Barret") was suspended by IIROC on February 13, 2012 and was determined by the Board of Directors of CIPF to be insolvent as of that date for the purpose of claims by customers of Barret against CIPF. In accordance with CIPF's Coverage Policy, a claims submission deadline of August 11, 2012 was established, which was later extended to October 31, 2013 due to the international location of many claimants. During the year ended December 31, 2018, CIPF made no payments with respect to Barret (2017 – \$nil).

# Canadian Investor Protection Fund

## Notes to the financial statements

December 31, 2018

(In thousands of dollars)

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### 9 Provision for claims and/or related expenses (continued)

#### (c) Octagon Capital Corporation

Octagon Capital Corporation ("Octagon") was suspended by IIROC on December 3, 2015 and a trustee in bankruptcy was appointed on December 4, 2015.

During the year ended December 31, 2018, CIPF received \$5.0 million from the trustee due to settlement agreements reached by the trustee (2017 – CIPF advanced \$1.1 million to fund the trustee). The provision for claims and/or related expenses for the year ended December 31, 2018 was \$0.15 million (2017 – \$4.6 million recovery of provision).

At December 31, 2018, CIPF has a recovery from the estate trustee on the Balance Sheet of \$0.45 million (2017 – \$5.6 million) as a result of settlement agreements reached by the trustee. The trustee continues to administer the estate.

### 10. Financial instruments

The fair value of a financial instrument is the estimated amount CIPF 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 CIPF's fixed income investments is determined by reference to published bid price quotations at year-end. These investments have maturity dates and effective interest rates as disclosed in Note 4.

#### ***Risk management***

Risk management relates to the understanding and active management of risks associated with invested assets. Investments can be exposed to interest rate, liquidity, credit, market and currency risk. CIPF 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. An updated investment policy was approved by the Board and effective on January 1, 2018. The policy requires that at least 50% (2017 – 50%) of investments be held in Government of Canada issued or guaranteed securities, with the balance in provincial or territorial government issued or guaranteed securities.

The updated policy provides for the following minimum and maximum exposures to any one province or territory, including entities guaranteed by that province or territory, in relation to the provincial and territorial unamortized book value (2017 – 0% to 20% for any one province):

Ontario - 35% to 55%

Quebec - 20% to 40%

British Columbia and Alberta combined - 10% to 20%

All other provinces and territories combined - 10% to 20%

The policy provides for investing in a laddered portfolio with a maximum term to maturity of 7 years (2017 – 10 years).

# Canadian Investor Protection Fund

## Notes to the financial statements

December 31, 2018

(In thousands of dollars)

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### 10. Financial instruments (continued)

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

#### Interest rate risk

Interest rate risk is the risk that the fair value of investments will fluctuate due to changes in market interest rates. CIPF 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 CIPF or as directed by the Board.

An immediate hypothetical 100 basis point increase/decrease in interest rates would decrease/increase the fair value of the investments by \$16.5 million (2017 – \$20.7 million).

#### Liquidity risk

Liquidity risk is the risk that CIPF will not be able to meet its cash outflow commitments as they fall due. This includes the risk of being forced to sell assets at depressed prices resulting in realized losses on sale. CIPF manages the liquidity risk exposure by following the investment policy described above and by maintaining lines of credit of \$125 million (2017 – \$125 million).

#### Credit risk

Credit risk is the risk of financial loss due to a counterparty failing to meet its contractual obligations. CIPF manages the credit risk exposure of its investment portfolio by following the investment policy described above. At December 31, 2018 and 2017, all investments were in securities issued by counterparties that met or exceeded the minimum credit rating of "A" as rated by two nationally recognized rating agencies (DBRS Limited and Standard & Poor's).

#### Market risk

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