

Get CIPF Protection—Invest with  
an IIROC Regulated Member



2015

Annual Report

**CIPF**  
Canadian Investor Protection Fund



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# CIIPF'S MISSION

To contribute to the security and confidence of customers of IIROC Dealer Members by maintaining adequate sources of funds to return assets to eligible customers in cases where a Member becomes insolvent.

## **Governed by two agreements**

## **CIPF's Role in the Canadian Regulatory System**

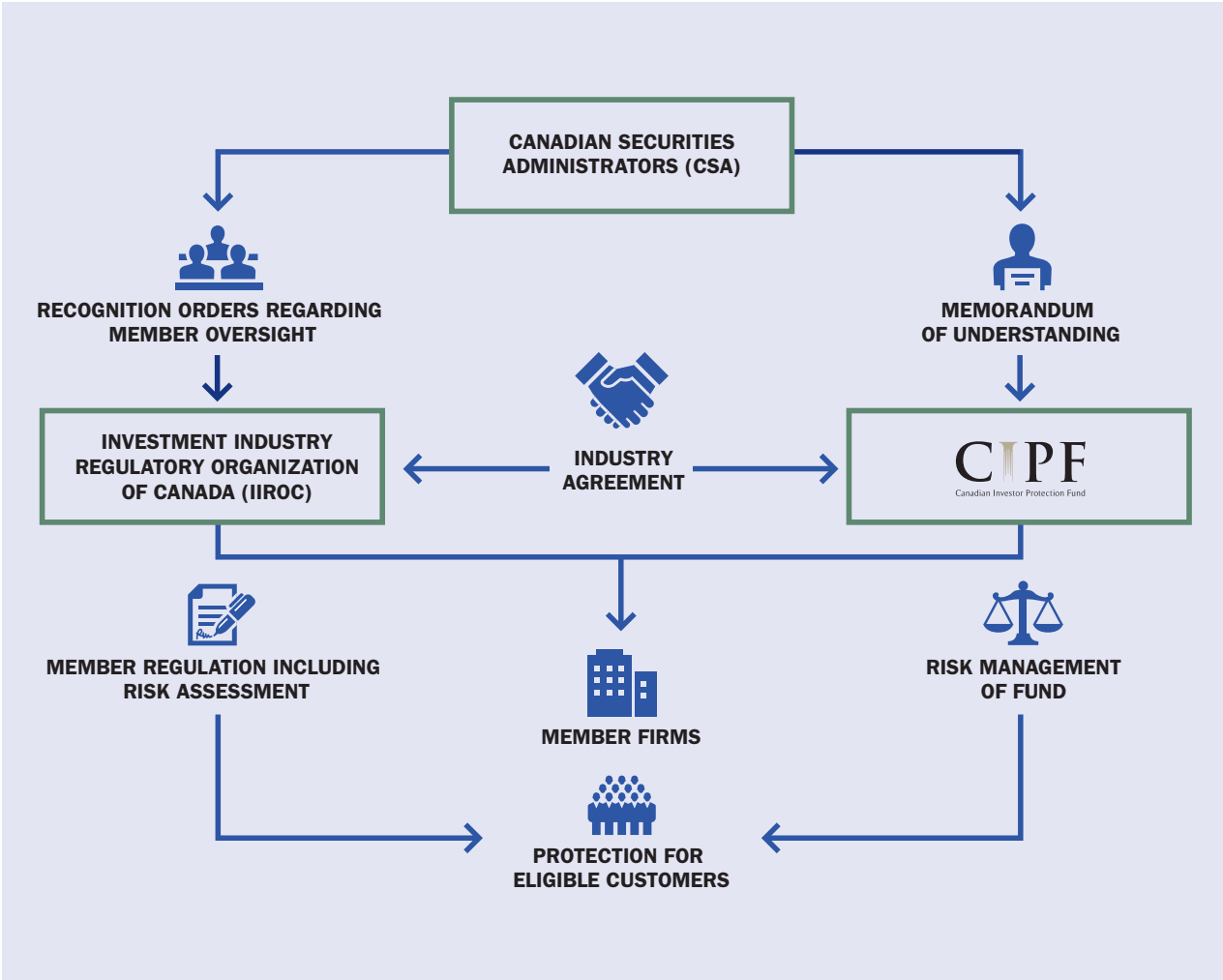
The Canadian Investor Protection Fund (CIPF or the Fund) is the only compensation fund approved by the Canadian Securities Administrators (CSA) for investment dealers regulated by the Investment Industry Regulatory Organization of Canada (IIROC).

The CSA consists of the authority in each Canadian province and territory that, under statute, regulates the securities industry within its jurisdiction. Each regulator is responsible for promoting both investor protection and fair and efficient capital markets in its jurisdiction. IIROC operates under Recognition Orders from the CSA as the national self-regulatory organization that oversees all investment dealers and trading activity on both debt and equity marketplaces in Canada. CIPF is funded by IIROC-regulated Dealer Members, and all IIROC Dealer Members are CIPF Members.

### **CIPF's role in the Canadian regulatory system is governed by the following agreements:**

A Memorandum of Understanding (MOU) with the CSA that addresses the governance, funding and maintenance of CIPF as well as CIPF's responsibilities for investor protection and reporting to the CSA. As provided for by securities laws and regulations in many Canadian provinces and territories, certain regulators have also issued Approval Orders regarding CIPF.

An Industry Agreement with IIROC that establishes the working relationship and respective responsibilities of CIPF and IIROC. Under this agreement, IIROC must provide prompt notice to CIPF of any situation that is likely to require a payment from the Fund.





Alain Rhéaume

## Message from the Chair

I'm honoured to write this message as the first Public Director of CIPF to be appointed as its Chair since the organization was founded in 1969. I want to thank Bill Fulton for his Chairmanship over the previous two years, and Michael White who completed his term as a Public Director, and to acknowledge their significant contributions to CIPF and its Board.



Our goal is for CIPF to maintain a superior standard of readiness for all critical aspects of its mission.





I welcome to the Board new Public Director Donna Howard who brings a wealth of relevant expertise in financial markets from her career at the Bank of Canada. I also welcome Douglas Baker, a Public Director, who brings to his Board role more than 30 years of experience as a senior financial officer of several oil and gas exploration and development companies as well as his significant public accounting roles including his tenure as Chair of the Canadian Institute of Chartered Accountants.

CIPF remains a small organization, but its mandate is key to the financial landscape in Canada, with its mission: *To contribute to the security and confidence of customers of IIROC Dealer Members by maintaining adequate sources of funds to return assets to eligible customers in cases where a Member becomes insolvent.* We adhered to this mandate again in December of 2015, after IIROC commenced suspension proceedings against Octagon Capital Corporation for inadequate capital. An emergency CIPF Board meeting was convened

to approve the application to the court for a bankruptcy order, and CIPF subsequently advanced in excess of \$5 million to transfer eligible customer accounts from Octagon to another Member.

The Board and its committees maintain a very active agenda in order to provide CIPF's capable and dedicated staff and the organization with the appropriate and relevant leadership, guidance and oversight. Our goal is for CIPF to maintain a superior standard of readiness for all critical aspects of its mission. As well, we sustain a high level of transparency when communicating with our stakeholders within the industry and the general public.

During the last year, the Industry Risk Committee worked diligently to ensure CIPF can measure its risk of loss for different Member failure scenarios and that it maintains adequate financial resources. Members of the Coverage Committee were particularly busy with the continued appeal hearings in the First Leaside Securities Inc. matter. The Audit, Finance & Investment Committee continued to ensure that the financial assets of CIPF are appropriately invested and accounted for, while the Governance,

Nominating & Human Resources Committee ensured that CIPF found and kept excellent talent at both the Director and staff levels.

While 2015 has been a challenging year in the industry, CIPF has remained very focussed on fulfilling its mission. The Board is committed to maintaining this focussed approach for the future.



Alain Rhéaume

MESSAGE FROM  
THE CHAIR



Rozanne Reszel

## Message from the President & Chief Executive Officer

In 2015, the Canadian Investor Protection Fund, under the direction of our Board of Directors, advanced its commitment to organizational readiness. By acting in the present, to prepare for the future, we enhanced transparency and prepared our staff for inevitable uncertainties.



In 2015, a marriage of discipline, talent, commitment and leadership branded our work with a standard of excellence.



# MESSAGE PRESIDENT

Of note was our response to the CSA review. In 2015, CIPF received a largely favourable oversight review conducted jointly by the Ontario Securities Commission and the Autorité des marchés financiers on behalf of the Canadian Securities Administrators. We recognized we could build on their recommendations to design a more integrated standard of readiness. By enhancing what we had in place, we can now turn to CIPF's robust Information Securities Management System, initiated in 2015. Today, CIPF's Information Security Risk Assessment, its Information Security Policies, Information Security Management System Manual, and its Annual Business Continuity Test Report are examples of an ongoing disciplined approach to operational readiness.

We have taken the same disciplined approach to transparency. Our Coverage Policy and the appeal process, available to investors in the event of an investment dealer insolvency, are clearly described on our website. These policies and procedures provide support and structure to our overall claims review framework. This ensures a fair and consistent approach to the review of claims, including appeals. They are available for the information and education of the investing public, regulators, and investment dealers. But transparency doesn't stop there.

In 2015, CIPF held 105 appeal hearings (relating to 196 claims) linked to the insolvency of First Leaside Securities Inc. The results of those hearings are posted on our website.

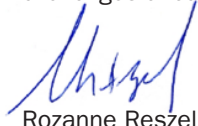
In December of 2015, we demonstrated our organizational readiness again. CIPF applied information available in its risk analysis of Members, to respond to the insolvency of Octagon Capital Corporation. We promptly advanced funds to transfer eligible client accounts to another Member, in accordance with our Coverage Policy.

Admittedly, there is more to do. In 2016, CIPF will engage in research focussed on investors, to better understand how to make relevant information about CIPF even more accessible. The process of organizational readiness continues. A forward focus on enterprise risk management, cyber security, potential emergency situations, "fire drills" with what could be immediate banking or insurance needs, lines of communications with regulators and investment philosophies, are all things that must be tested to ensure ongoing relevance and effectiveness. In 2015, we examined these elements of our operations. Where they needed to be modified, modernized, and refreshed, we acted—all with a view to being ready.

We have also diversified our staff talent pool to include legal expertise. We anticipate adding more quantitative risk-based

knowledge to support the use of our statistical model to estimate the required fund resources. These diverse demands require Board members with varied backgrounds and professional expertise as well.

Much of what I have described has been implemented in 2015 by the dedicated professionals at CIPF under the leadership of our engaged Board of Directors and the work of its Committees. Special acknowledgement goes to our Chair, Alain Rhéaume, whose leadership and vision has made its mark to the benefit of our Members and individual investors. In 2015, a marriage of discipline, talent, commitment and leadership branded our work with a standard of excellence. Our organizational readiness positions CIPF well for the challenges ahead.



Rozanne Reszel

## Providing confidence

**The Canadian Investor Protection Fund (CIPF or the Fund) was established by the investment industry in 1969 to protect investors in the event of a Dealer Member insolvency.**

CIPF's Members are investment dealers that are regulated by the Investment Industry Regulatory Organization of Canada (IIROC). On December 31, 2015, 176 investment dealers across Canada were Members of CIPF. All Members are listed on the CIPF website. Every Member is required to include the CIPF Membership Symbol on all confirmations and account statements.

If a CIPF Member becomes insolvent, customers may, in accordance with the CIPF Coverage Policy, claim for losses involving:

- » Securities
- » Cash balances
- » Commodities
- » Futures contracts
- » Segregated insurance funds
- » Other property received, acquired or held by a CIPF Member in an account for the customer

CIPF does not cover losses resulting from causes other than insolvency (e.g., changing values of securities, unsuitable investments or the default of an issuer of securities). If a trustee is appointed, claims eligible for coverage are normally settled by ensuring the trustee has sufficient assets to transfer the customer accounts to another Member.

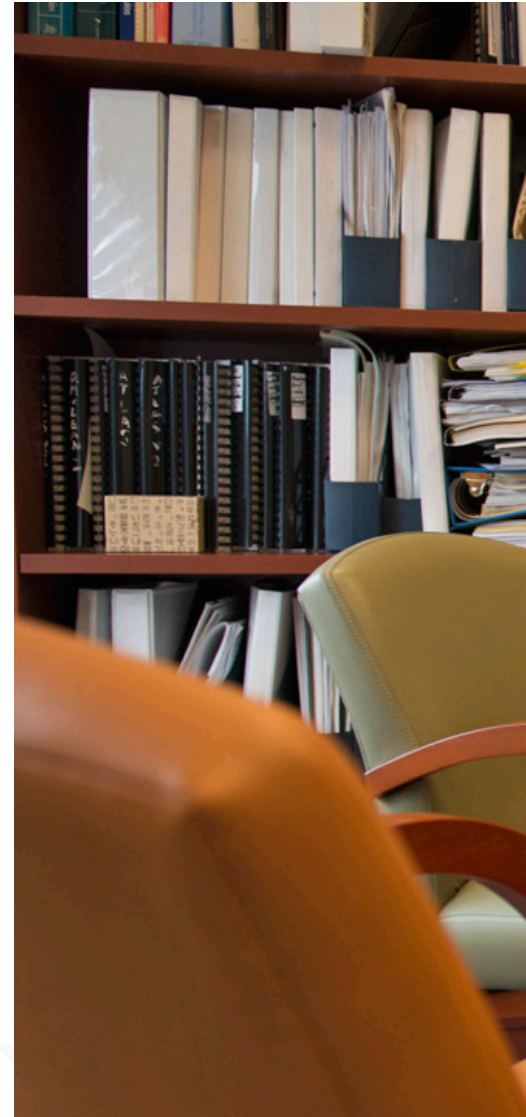
## Overview and Corporate Governance Practices

### Governance Board Composition

The Board of Directors is responsible for the stewardship of the Fund. It oversees the management of its business and affairs, as well as its good governance. Sound governance is a continuing priority for CIPF because it is a critical consideration for Members and other key stakeholders.

In keeping with Fund by-laws, the Board is comprised of 12 directors: 5 Industry Directors and 5 Public Directors as well as the Chair and the President & Chief Executive Officer. The by-laws provide for the nomination and election of directors to be made bearing in mind the desirability of appropriate and timely regional representation. To serve as Industry Directors, candidates must be actively engaged in the securities industry or be familiar with most aspects of the securities industry.

This configuration is intended to provide stakeholders with confidence that CIPF is truly representative, effectively overseen and well governed with their interests in mind.





## **A RECORD OF RETURNING ASSETS**

Since 1969, there have been 21 insolvencies of Canadian Investor Protection Fund Members. *All* eligible customers have had their assets returned to them by CIPF within the limits defined in CIPF's Coverage Policy.



## Sound Corporate Practices

## Overview and Corporate Governance Practices

Annually, CIPF Directors confirm compliance with the following:

- » Receiving the Directors' Handbook, reviewing it and achieving familiarity with its contents
- » Disclosing any actual or potential conflicts of interest to the Chair, Vice-Chair or Board at large
- » Avoiding activities or associations that could reasonably lead to a conflict of interest
- » Not using their position as a Director of CIPF for personal gain or for the gain of a spouse, dependants or partner
- » Maintaining in strict confidence all information received as a result of being a Director of CIPF that would reasonably be expected to be maintained in confidence

Annually, all staff must acknowledge that they have read, that they understand, and that they have complied with the contents of the CIPF Employee Handbook, including CIPF's Code of Conduct.

CIPF also has a Whistleblower Policy that encourages and enables 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 & Investment Committee.

Besides empowering employees to report violations of the CIPF Code of Conduct, the Board of Directors has established a confidential and anonymous process so that any financial complaint or concern about accounting or auditing matters relating to CIPF can be reported. Any person with a complaint or concern relating to CIPF may submit, in writing, relevant information directly to the Chair of CIPF's Audit, Finance & Investment Committee. Contact information for the Chair is available under Governance in the *About Us* section at [www.cipf.ca](http://www.cipf.ca).



## 2015 Corporate Governance Reporting

## Overview and Corporate Governance Practices

The approved schedule for director compensation in 2015 was:

### Board

#### Annual retainer

\$15,000 per year

#### Chair of the Board

An additional \$7,500 per year

#### Board meetings

\$1,500 per meeting

### Committee

#### Committee Chairs

\$3,500 per year

(except the Audit, Finance & Investment Committee Chair, for whom the fee is \$4,000 per year)

#### Committee meetings

\$1,000 for meetings less than two hours, \$1,500 for meetings in excess of two hours

#### Coverage-related Appeal Hearings and preparation

\$400 per hour

### Out-of-town travel fee

\$1,000 per meeting for Public Directors who travel to attend Board or committee meetings

Director attendance at Board and committee meetings for the year ended December 31, 2015:

Director	Board Meetings	Committee Meetings	Board and Committee Meetings
<b>Douglas Baker<sup>1</sup></b>	4/4	4/4	8/8
<b>Roger G. Casgrain</b>	5/5	6/6	11/11
<b>William R. Fulton<sup>2</sup></b>	1/1	0/1	1/2
<b>Brigitte Geisler</b>	5/5	2/2	7/7
<b>Debra A. Hewson</b>	4/5	6/6	10/11
<b>Donna Howard<sup>3</sup></b>	3/4	4/4	7/8
<b>Nicholas G. Kirton<sup>4</sup></b>	5/5	7/7	12/12
<b>Anne La Forest</b>	5/5	4/4	9/9
<b>Hon. Patrick LeSage</b>	5/5	2/2	7/7
<b>Martin L. MacLachlan</b>	4/5	6/6	10/11
<b>T. Hugh McNabney</b>	5/5	6/6	11/11
<b>Rozanne E. Reszel</b>	5/5	11/11	16/16
<b>Alain Rhéaume<sup>5</sup></b>	5/5	5/5	10/10
<b>Michael J. White<sup>6</sup></b>	1/1	2/2	3/3

1 Mr. Baker joined the Board in March 2015.

2 Mr. Fulton completed his term on the Board in March 2015.

3 Ms. Howard joined the Board in March 2015.

4 Mr. Kirton commenced his term on the Governance, Nominating & Human Resources Committee in the first quarter of 2015. He completed his term on the Industry Risk Committee in the first quarter of 2015.

5 Mr. Rhéaume completed his term on the Coverage Committee in the first quarter of 2015.

6 Mr. White completed his term on the Board in March 2015.



## CIPF Board at Work

## Committee Duties and Reports from Committee Chairs

### Audit, Finance & Investment Committee

Chair: Douglas Baker, FCPA, FCA

- » Reviewed the operating budget in relation to the goals and objectives, and recommended approval by the Board, after inclusion of additional analysis regarding fund resource costs and professional fees
- » Reviewed with the external auditors the reasonableness of management's judgments and resulting estimates included in the annual financial statements, and recommended the approval of the financial statements by the Board
- » Monitored the independence and performance of the external auditors
- » Oversaw the implementation of the changes to the Investment Policy, adopted in 2014, that provide for a ladder of ten maturity bands of approximately equal size. Acceptable investments must be debt obligations issued or guaranteed by the Government of Canada or provincial or territorial governments
- » Oversaw the streamlining of CIPF's business continuity plan, and reviewed security practices
- » Oversaw the action plan to address recommendations in the *Ontario Securities Commission* and *L'Autorité des marchés financiers Oversight Review Report*, which was issued in 2015

THE BOARD HAS DELEGATED CERTAIN DUTIES TO ITS COMMITTEES:	
DUTIES	SIGNIFICANCE
<ul style="list-style-type: none"> <li>» Reviews the operating budget relative to the goals and objectives for the year</li> <li>» Oversees the investment policies</li> <li>» Reviews financial statements and financial disclosure</li> <li>» Reviews systems of internal controls</li> <li>» Reviews significant legal agreements</li> <li>» Monitors independence and performance of external auditors</li> <li>» Reviews the financial and investment risks to which the Fund is exposed</li> <li>» Is responsible for the Whistleblower Policy and its underlying procedures</li> </ul>	<ul style="list-style-type: none"> <li>» Provides confidence in the following: the integrity of financial reporting and disclosure, associated accounting policies, internal controls, enterprise risk management, and compliance with legal and regulatory requirements</li> <li>» Ensures adequate management controls to minimize the financial and investment risks to which the Fund is exposed</li> </ul>

## Coverage Committee

Chair: Nicholas G. Kirton, FCPA, FCA, ICD.D

» The Committee's primary focus in 2015 was the continued oversight of the review of approximately 900 claims from former customers of First Leaside Securities Inc. (FLSI):

- ◆ Oversaw the communication of determinations regarding coverage eligibility, based on the CIPF Coverage Policy, and in accordance with the CIPF Claims Procedures, to all former customers of FLSI with active claims
- ◆ Ensured execution of a fair and robust claims review and appeals process
- ◆ Implemented specific guidelines and procedures for appeals
- ◆ Continued to manage and oversee the FLSI claims review budget

» Continued to oversee wind-down of the MF Global Canada Co. insolvency

» Remained current on financial sector policy initiatives that could impact CIPF coverage, including the potential impact of implementing a segregation and portability regime by central counterparties

» In 2016, will continue to oversee work on key initiatives, including communicating through presentations, the media, and other vehicles to educate the public about CIPF coverage

THE BOARD HAS DELEGATED CERTAIN DUTIES TO ITS COMMITTEES:	
DUTIES	SIGNIFICANCE
» Annually reviews the Coverage Policy, recommends changes to the Board and ensures procedures in place to comply with the Coverage Policy	» Ensures payments from the Fund are made for valid claims in an unbiased manner to eligible customers and that all claimants, whether dealing with an appointed insolvency official or directly with CIPF, receive fair and consistent treatment
» Reviews issues relating to CIPF coverage eligibility	
» Is responsible for overseeing the claim payment process	» Ensures adequate procedures to minimize risk of payments beyond what is intended by the Coverage Policy
» Provides guidance regarding issues arising from insolvency proceedings and related litigation	» Provides procedures and process to hear claims appeals
» Recommends any changes to Part XII of the <i>Bankruptcy and Insolvency Act (Canada)</i> to the Board	» Ensures CIPF's communications are accurate and that they express the nature and intent of available coverage
» Interprets and recommends changes regarding the CIPF Disclosure Policy to the Board	
» Ensures procedures are in place to review CIPF's communications	



## CIPF Board at Work

## Committee Duties and Reports from Committee Chairs

### Governance, Nominating & Human Resources Committee

Chair: Martin L. MacLachlan, LL.B

- » Oversaw the induction of two new Board members, Mr. Douglas Baker and Ms. Donna Howard
- » Recommended to the Board the appointee for Vice-Chair, Mr. Nicholas G. Kirton
- » Recommended to the Board a revision to the terms of reference for the President & CEO, to include a new specific oversight responsibility of Enterprise Risk Management
- » Updated the skills matrix for Directors to provide that the skill of enterprise risk management should consider expertise in cyber risk/privacy
- » Identified skills required by new director candidates as a result of the two vacancies in the Board at the 2016 annual general meeting
- » Reviewed the succession planning for CIPF officers and training plans for officers
- » Monitored corporate governance developments, and ensured knowledge transfer following the retirement of CIPF's external lead legal counsel

THE BOARD HAS DELEGATED CERTAIN DUTIES TO ITS COMMITTEES:	
DUTIES	SIGNIFICANCE
» Establishes and implements process for identifying potential future Board members	» Ensures an integrated and thorough oversight of CIPF decision-makers and their adherence to good governance
» Provides ongoing development for the Directors	» Ensures that strategic human resources opportunities and risks are properly identified and are well managed through appropriate and early intervention
» Annually reviews the succession plan for the Chair and each Committee Chair	
» Conducts a biennial evaluation of overall Board performance, each committee and a Director self-evaluation	
» Monitors governance trends; furthers adoption of best corporate governance practices	
» Reviews human resources issues that may affect the Fund and ensures proper management controls, processes and succession plans	
» Reviews human resource policies and procedures, benefits and pension plans and ensures regulatory compliance thereof	



## Industry Risk Committee

Chair: T. Hugh McNabney, CPA, CGA

- » Fulfilled its mandated core oversight responsibilities pertaining to fund size and resources, Member assessments and monitoring the risk that Members may pose to CIPF
- » Continued review of issues identified in the asset location data collected from Members and oversaw the incorporation of asset location data into CIPF's fund size model. This model estimates CIPF's exposure based on a Member's probability of default and the timing and likelihood of recovering the assets required to return to customers
- » Considered preliminary analysis on how the above methodology could be incorporated into Member assessments. This work will continue in 2016
- » Considered cost-effective resources to fund CIPF's ex-ante fund and obtained Board approval for a \$90 million excess layer of insurance to the \$160 million primary layer, with a \$150 million attachment point
- » Provided input on several unique issues, such as the risks associated with non-CIPF Members referring to CIPF coverage and the proposed adoption of the principles of segregation and portability by certain central counterparties

THE BOARD HAS DELEGATED CERTAIN DUTIES TO ITS COMMITTEES:	
DUTIES	SIGNIFICANCE
» Monitors adequacy of Fund resources in relation to the risk exposure from the failure of Members	» Provides risk-monitoring and mitigation measures that offer critical safeguards to the Fund, CIPF Members and other key stakeholders
» Recommends the annual assessment for Board approval and ensures fair allocation to Members, as specified by CIPF's Assessment Policy	» Provides oversight for the critical determination of the appropriate fund size and related adequacy of Fund resources
» Reviews the Assessment Policy and the Assessment Appeal Procedures, recommends changes to the Board, and ensures procedures are established to ensure compliance with policies and procedures	» Ensures timely response to Member failures and determines the CIPF funding required, if any
» Hears and decides Member assessment appeals	
» Ensures procedures are in place to monitor the adequacy of IIROC capital requirements and any changes thereto	
» Ensures procedures are in place to identify and respond to Members that may pose a risk to the Fund	



## Committed to Investors

### Coverage Policy

Responsibility for determining the eligibility of claims and payment of claims lies with CIPF. When making decisions, CIPF is guided by the CIPF Coverage Policy, which defines customers who are eligible for protection and the date when financial loss is determined. The Coverage Policy also establishes coverage limits. For more information about this policy, including examples, please refer to the *Coverage* section at [www.cipf.ca](http://www.cipf.ca).

### Protecting Investors

The Canadian Investor Protection Fund ensures, within defined limits, that the cash and securities of CIPF Member customers are returned to them if a Member becomes insolvent. In most cases, investors hold two accounts: a *general* account and a *separate retirement* account. Each is eligible for \$1 million coverage. If an investor has several *general* accounts, such as cash, margin and a \$US account, they are treated as one account for coverage purposes. Similarly, *individual retirement* accounts (e.g., RRSP, RRIF, LIF and LIRA) are combined and treated as one separate account for coverage purposes.

## CIPF Coverage

### Protecting Eligible Customers

Over the past five years, CIPF has been called on to fulfill its role of protecting customers of insolvent Members.

In late 2015, IIROC found Octagon Capital Corporation (Octagon) to be capital deficient and suspended its membership following an expedited hearing. Given the potential shortfall in customer assets, CIPF sought and obtained a court order appointing a trustee in bankruptcy. CIPF entered into a funding agreement with the trustee in order to transfer eligible customer accounts, at 100% net equity, as quickly as possible to another IIROC Dealer Member. This enabled eligible former Octagon customers to regain control over their accounts on a timely basis. At December 31, 2015, Octagon continues to be under the administration of a trustee in bankruptcy.

During 2012, the CIPF Board of Directors determined that First Leaside Securities Inc. (FLSI) was insolvent and, as a consequence, allowed for customers to make

claims to CIPF. CIPF has completed its review of approximately 900 claims received from former FLSI customers and has communicated to all individuals with active claims its determinations regarding coverage eligibility, based on the CIPF Coverage Policy, and in accordance with the CIPF Claims Procedures. Under the CIPF Claims Procedures, after being advised of the determination regarding coverage eligibility, claimants have the right to request an appeal of the determination to the Coverage Committee. CIPF is continuing to process a number of such requests submitted by claimants and to hold appeal hearings.

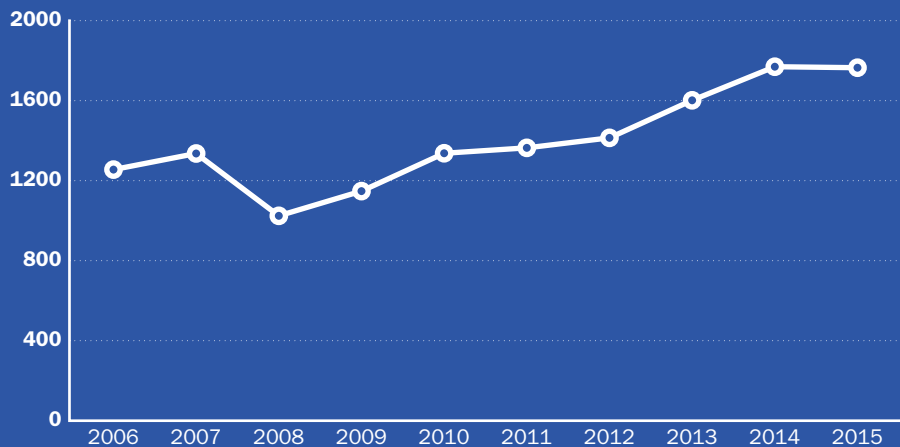
In late 2011, MF Global Canada Co. (MF Global) was declared bankrupt and a trustee in bankruptcy was appointed. CIPF entered into a support agreement with the trustee that allowed for the early transfer of most accounts eligible for CIPF coverage at 100% of the net equity of eligible customers. At December 31, 2015, MF Global continues to be under the administration of a trustee in bankruptcy.

### Member—Canadian Investor Protection Fund

Every Member is responsible for including the CIPF Membership Symbol on all confirmations and account statements.



**Net Client Assets Reported by Members** (\$ Billions)  
At December 31, for the years 2006 to 2015



Members reported that net assets held for clients, a proxy for assets eligible for CIPF protection, were approximately \$1.8 trillion at December 31, 2015.

Information on the provision for claims and/or related expenses is provided in CIPF's financial statements, which are included in this annual report.

Since the Canadian Investor Protection Fund was established 46 years ago, *all eligible customers* have had their assets returned to them by CIPF within the limits defined in CIPF's Coverage Policy. This record is a tribute to the management and resources of the Fund and a reflection of CIPF's commitment to protecting investors within the framework of its Coverage Policy.

**Informing Members and Investors**

Investment advisors play a pivotal role in building investor knowledge and confidence. That is why CIPF has developed material to help them inform their clients about CIPF protection. Partnering with IIROC, CIPF has developed compliance-accredited continuing education modules. These are available as webcasts at [www.iiroc.ca](http://www.iiroc.ca). Advisors may register for the most recent webcast directly from the *Investment Advisors* section on [www.cipf.ca](http://www.cipf.ca).

**Promoting Awareness of Investor Protection**

CIPF wants investors to know they are protected. Here's how that message is communicated:

- » The *Member Directory* section of the CIPF website lists the legal entity names of all CIPF Members, so investors can confirm their status

- » All Members must include the CIPF Explanatory Statement and the CIPF Membership Symbol on all confirmations and account statements
- » Members must display the CIPF Decal at *each* business location where clients may visit

CIPF sponsors the web portal [www.financeprotection.ca](http://www.financeprotection.ca) to help Canadians find out how they are protected in the unlikely event that a Canadian financial institution does fail. Questions about CIPF may be sent directly to [info@cipf.ca](mailto:info@cipf.ca). For complete CIPF contact information, please see the back cover.

## Financial Strengths

The CIPF Board is responsible for:

- » Ensuring the Fund can meet its financial obligations to a Member's clients if an insolvency occurs;
- » Setting the annual Member assessment amount and determining *how* each Member will be assessed; and
- » Setting any additional assessments.

The Board uses a credit-based model to estimate the financial resources required by CIPF to fulfill its mandate. Key inputs into the model include factors that measure Member insolvency risk and asset recovery risk. Members with good corporate governance, profitability and capital generally present less relative risk to CIPF.



## Fund Resources

### The Fund Can Draw on Several Sources to Pay Customer Claims

- » The *General Fund* of \$464 million at the 2015 year-end;
- » An *insurance policy* in the amount of \$160 million in the annual aggregate, in respect of losses to be paid by the Fund in excess of \$150 million, and a second layer of insurance in the amount of \$90 million in respect of losses to be paid in excess of \$310 million in the event of Member insolvency; and
- » The *ability* to assess Members.

In addition, the Fund maintains lines of credit totalling \$125 million from two Canadian chartered banks to provide liquidity if required.

The General Fund of \$464 million at December 31, 2015, comprises the following:

- » A portfolio of investments with a fair value of \$473 million at December 31, 2015; and
- » The net of all other assets and liabilities held by the Fund, which at December 31, 2015 amounted to a net liability of \$9 million.



Based on an Investment Policy reviewed regularly by the CIPF Board, all investment debt obligations are issued or guaranteed by the Government of Canada or provincial or territorial governments. The policy requires all counterparties to meet minimum ratings by two nationally recognized rating agencies. The minimum ratings are the equivalent of DBRS Limited's "A" for maturities beyond one year, and "R1-Low" for cash and equivalents.

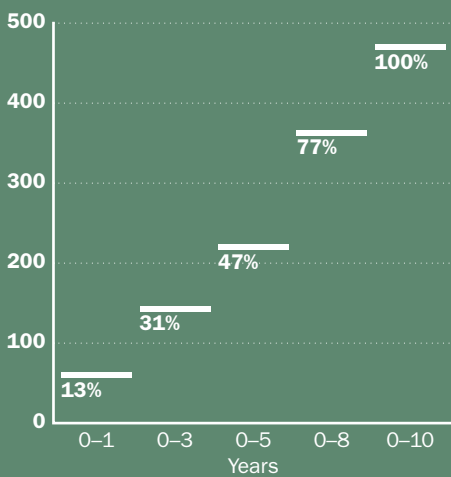
# FINANCIAL INSTITUTIONS



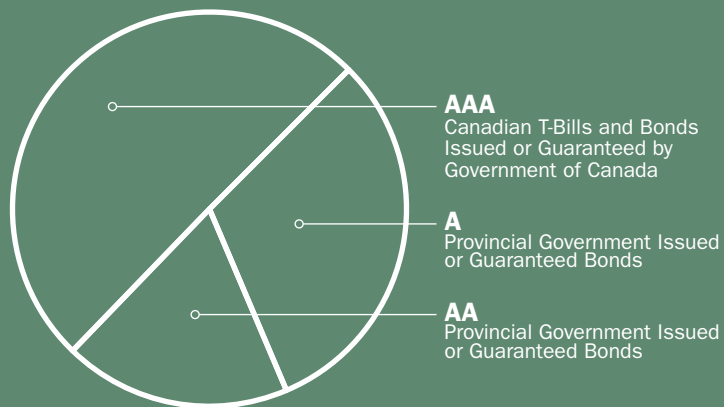
## CIPF Investment Portfolio of \$473 Million (Fair Value)

At December 31, 2015

### Maturity by Time Band (\$ Millions)



### Distribution of Credit Ratings (as rated by DBRS Limited)



## Financial Review and Outlook

### Balance Sheet

Total assets of \$477.6 million are comprised primarily of investments at fair value of \$473.3 million.

All investments are guaranteed by the Government of Canada or by provincial or territorial governments and are carried at fair value. At December 31, 2015, the investments at fair value include an unrealized gain of \$23.1 million (2014: \$19.6 million), due to yields at the time of purchase exceeding market yields at December 31, 2015. If interest rates rise, this unrealized gain could be materially diminished or even reversed to an unrealized loss, depending on the magnitude of the rate change. An immediate hypothetical 100 basis point increase in interest rates would decrease the fair value of the investments by \$21.5 million (2014: \$20.2 million).

The balance in the General Fund at December 31, 2015 was \$464.4 million, an increase of \$16.3 million over the prior year. The increase resulted from the excess of revenues over expenses of \$16.3 million, less transfer to capital assets fund of \$0.1 million plus employee future benefits remeasurements of \$0.1 million.

The Investment in Capital Assets Fund was \$0.4 million at December 31, 2015.

## Commentary on Financial Results

### Revenues and Expenses

CIPF's excess of revenues over expenses was \$16.3 million for the year ended December 31, 2015, compared to an excess of revenues over expenses of \$27.0 million in 2014.

The excess of revenues over expenses of \$16.3 million was the net of:

- » Excess of revenues over expenses before other items of \$17.0 million (2014: \$18.7 million)
- » Gain on sales of investments of \$0.03 million (2014: \$4.0 million)
- » Unrealized gains during the year on investments due to the movement in market value of \$3.5 million (2014: \$7.0 million)
- » Provision for claims and/or related expenses of \$4.2 million (2014: \$2.7 million)

The Fund generates revenue from assessments and from investment income on the investment portfolio.

### Assessments in 2015

The Board takes the following steps to determine the regular quarterly assessments payable by Members:

- » The Board sets the annual assessment amount by using its risk-based assessment methodology and considering the total resources required to achieve a target fund size
- » The assessment is then allocated based on each Member's relative risk, subject to a minimum assessment of \$5,000 annually and a maximum assessment of 1% of a Member's gross revenue

After allowing for minimum and maximum assessments, the net amount of regular assessments in 2015 was \$11.1 million versus \$11.3 million in 2014.

CIPF also assessed capital deficiency assessments of \$0.1 million in 2015 (2014: \$0.1 million) to Members that incurred capital deficiencies pursuant to IIROC rules in any month, in accordance with CIPF's Assessment Policy.







### Investment Income for 2015

The investment income for the year ended December 31, 2015 was \$13.5 million, less than the 2014 investment income of \$14.1 million due to the lower interest rate environment.

### Expenses for 2015

Operating expenses for the year ended December 31, 2015 were \$7.7 million, a \$0.8 million increase compared to 2014, due to the following:

- » Salaries and employee benefits were \$0.4 million higher due to increased staffing levels
- » Bank lines of credit fees and excess insurance premium were \$0.3 million higher due to additional premiums for a second layer of excess insurance placed in 2015

- » Professional fees were \$0.1 million higher due to higher legal and information security consulting costs

A provision for claims and/or related expenses of \$4.2 million was recorded during 2015 compared to \$2.7 million in 2014. The 2015 expense comprises an expense for claims and/or related expenses of \$6.1 million for the Octagon Capital Corporation insolvency, offset by a reduction in the provision for the estimated costs to administer the claims submitted by former customers of First Leaside Securities Inc. to CIPF.

### Outlook for 2016

Regular assessment income is expected to be \$11.5 million in 2016, an increase of \$0.4 million due to a Board-approved increase in the assessment amount.

Investment income at amortized cost is forecasted to be \$13.8 million in 2016, higher than the 2015 income of \$13.5 million due to the expected increase in the size of the fund.

Investments in the General Fund balance are recorded at fair value, which at December 31, 2015 was \$23.1 million higher than the amortized cost (2014: \$19.6 million). The movement in fair value compared to the amortized cost is a function of interest rates and cannot be predicted.

The Fund is forecasting the 2016 operating expenses to be \$9.2 million, an increase of \$1.5 million over the previous year, primarily due to a full year of premium costs on the second layer of excess insurance placed in 2015, increased staffing levels and additional consulting costs for the recalibration of the fund size.

## GENERAL FUND GROWS

The General Fund had net assets of \$464.4 million at the end of 2015, an increase of \$16.3 million from the previous year.



## Independent Auditor's Report

### 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, 2015, the statements of revenues and expenses and changes in general fund balance, changes in 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 accounting standards for not-for-profit organizations, 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 entity'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 entity'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 in our audit 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, 2015 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

The signature of Deloitte LLP is written in a cursive, handwritten style.

Chartered Professional Accountants  
Licensed Public Accountants  
April 11, 2016

# Financial Statements

## BALANCE SHEET

(in thousands of dollars)

	<b>December 31, 2015</b>	December 31, 2014
	\$	\$
<b>Assets</b>		
Current		
Cash	<b>561</b>	547
Prepaid insurance and recoverables	<b>476</b>	311
Investments, at fair value (Note 4)	<b>473,271</b>	459,324
Member assessments receivable	<b>2,836</b>	2,870
	<b>477,144</b>	463,052
Tangible capital assets (Note 5)	<b>379</b>	449
Software development (Note 5)	<b>70</b>	84
	<b>477,593</b>	463,585
<b>Liabilities</b>		
Current		
Payables and accruals	<b>311</b>	568
Provision for claims and/or related expenses (Note 9)	<b>2,936</b>	5,223
Deferred lease inducements	<b>261</b>	291
	<b>3,508</b>	6,082
Employee future benefits (Note 7)	<b>9,260</b>	8,908
Commitments (Note 8)		
<b>Fund balances</b>		
Investment in Capital Assets (Note 5)	<b>449</b>	533
General	<b>464,376</b>	448,062
	<b>477,593</b>	463,585

See accompanying notes to the financial statements.

Approved on behalf of the Board



Director



Director

# Financial Statements

## STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN GENERAL FUND BALANCE

(in thousands of dollars, for the year ended December 31)

	<b>2015</b>	2014
	\$	\$
<b>Revenues</b>		
Regular assessments	<b>11,096</b>	11,291
Assessments for capital deficiencies	<b>50</b>	105
Investment income	<b>13,543</b>	14,141
	<b>24,689</b>	25,537
<b>Expenses</b>		
Salaries and employee benefits (Note 7)	<b>3,433</b>	3,033
Bank lines of credit fees and excess insurance premium	<b>1,608</b>	1,265
Pension and other employment benefits (Note 7)	<b>592</b>	565
Other operating costs	<b>402</b>	466
Occupancy	<b>412</b>	452
Directors' fees, travel and education	<b>480</b>	425
Professional fees	<b>437</b>	360
Computer server hosting and maintenance	<b>160</b>	142
Custodial fees	<b>113</b>	106
Communications	<b>60</b>	65
	<b>7,697</b>	6,879
Excess of revenues over expenses before the undernoted items	<b>16,992</b>	18,658
Provision for claims and/or related expenses (Note 9)	<b>(4,230)</b>	(2,697)
Gain on sales of investments	<b>35</b>	4,041
Unrealized gains on investments	<b>3,495</b>	7,048
Excess of revenues over expenses	<b>16,292</b>	27,050
General Fund, beginning of year	<b>448,062</b>	422,344
Excess of revenues over expenses	<b>16,292</b>	27,050
Transfer to the Investment in Capital Assets Fund for capital asset additions	<b>(88)</b>	(586)
Employee future benefits remeasurements (Note 7)	<b>110</b>	(746)
<b>General Fund, end of year</b>	<b>464,376</b>	448,062

See accompanying notes to the financial statements.

## STATEMENT OF CHANGES IN INVESTMENT IN CAPITAL ASSETS FUND

(in thousands of dollars, for the year ended December 31)

	2015	2014
	\$	\$
<b>Investment in Capital Assets Fund, beginning of year</b>	<b>533</b>	92
Transfer from the General Fund for capital asset additions	<b>88</b>	586
Amortization of capital assets	<b>(172)</b>	(142)
Loss on disposal of capital assets	—	(3)
<b>Investment in Capital Assets Fund, end of year</b>	<b>449</b>	533

## STATEMENT OF CASH FLOWS

(in thousands of dollars, for the year ended December 31)

	2015	2014
	\$	\$
<b>Operating activities</b>		
Excess of revenues over expenses	<b>16,292</b>	27,050
Items not affecting cash		
Amortization of deferred lease inducements	<b>(30)</b>	(2)
Interest accrued	<b>130</b>	(188)
Bond premium amortization	<b>2,377</b>	1,568
Gain on sales of investments	<b>(35)</b>	(4,041)
Unrealized gains on investments	<b>(3,495)</b>	(7,048)
Employee future benefits remeasurements	<b>110</b>	(746)
Changes in non-cash working capital		
Prepaid insurance and recoverables	<b>(165)</b>	47
Member assessments receivable	<b>34</b>	(176)
Payables and accruals	<b>(257)</b>	(116)
Provision for claims and/or related expenses	<b>(2,287)</b>	1,000
Deferred lease inducements	—	293
Employee future benefits	<b>352</b>	1,181
	<b>13,026</b>	18,822
<b>Investing activities</b>		
Purchases of capital assets	<b>(88)</b>	(586)
Purchases of investments	<b>(86,365)</b>	(235,725)
Proceeds from maturities and sales of investments	<b>73,441</b>	217,570
	<b>(13,012)</b>	(18,741)
Net increase in cash during the year	<b>14</b>	81
Cash, beginning of year	<b>547</b>	466
<b>Cash, end of year</b>	<b>561</b>	547

See accompanying notes to the financial statements.



# Notes to the financial statements

December 31, 2015  
(in thousands of dollars)

## 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.

The Fund 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 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. 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 (CPA) Canada Handbook—Accounting.

## 3. 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 accordance with the Coverage Policy, 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 CIPF.

In the event of Member insolvencies, the claims against the Fund are 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 the period over which to assess Members to make up the shortfall.

### 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 revenue and expenses during the reporting period. The most significant area requiring the use of estimates is provision for claims and/or 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 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. 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 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/or related expenses

Provision for claims from customers of insolvent Members is recorded when the Fund is notified of potential claims and the Fund 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 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.

#### Capital assets

Capital 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

The Fund 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 Changes in General Fund Balance.
- » Past service costs for plan amendments are immediately recognized as pension remeasurements in the Statement of 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 the Fund's investments at December 31, 2015. The weighted average yield to maturity of the portfolio at December 31, 2015 is 1.39% (2014–1.73%).

	2015					2014
	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	1,532	—	—	—	1,532	16,456
Yield	0.44%	—	—	—	0.44%	0.86%
Canada bonds	—	—	—	—	—	16,493
Yield	—	—	—	—	—	1.06%
Canada Housing Trust bonds	7,946	18,342	41,659	169,767	237,714	195,487
Yield	0.62%	0.71%	1.05%	1.71%	1.48%	1.88%
Provincial bonds	53,574	64,437	35,297	80,717	234,025	230,888
Yield	0.73%	0.91%	1.31%	2.00%	1.31%	1.70%
	63,052	82,779	76,956	250,484	473,271	459,324

## Notes to the financial statements

December 31, 2015  
(in thousands of dollars)

### 5. Capital assets

	2015		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Office furniture and equipment	398	325	73
Leasehold improvements	313	47	266
Computers	163	123	40
Tangible assets	874	495	379
Software development	1,187	1,117	70
<b>Total capital assets</b>	<b>2,061</b>	<b>1,612</b>	<b>449</b>

	2014		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Office furniture and equipment	403	304	99
Leasehold improvements	313	17	296
Computers	172	118	54
Tangible assets	888	439	449
Software development	1,128	1,044	84
<b>Total capital assets</b>	<b>2,016</b>	<b>1,483</b>	<b>533</b>

### 6. Bank lines of credit and excess insurance

The Fund has lines of credit provided by two Canadian chartered banks totalling \$125 million (2014 – \$125 million). IROC 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 1½% of the prior year's aggregate gross revenue of all Members. The limit on the amount of borrowings for 2016 will be \$293.2 million, and was \$264.1 million for 2015.

The Fund has arranged insurance in the amount of \$160 million (2014 – \$160 million) in the annual aggregate, in respect of losses to be paid by the Fund in excess of \$150 million (2014 – \$150 million) in the event of Member insolvency. The Fund has arranged a second layer of insurance in the amount of \$90 million (2014 – \$nil) in respect of losses to be paid in excess of \$310 million in the event of Member insolvency.

### 7. Employee future benefits

The Fund has provided 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.

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.

The Fund 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.

The most recent actuarial valuation of the pension benefit plan and the SERP for accounting purposes was made on December 31, 2015, and the most recent actuarial valuation of the health benefit plan for accounting purposes was made on December 31, 2014.

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

				2015	2014
	Pension	SERP	Other	Total	Total
	\$	\$	\$	\$	\$
Net benefit plan expense	53	501	38	592	565
Benefits paid	125	—	5	130	130

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

				2015	2014
	Pension	SERP	Other	Total	Total
	\$	\$	\$	\$	\$
Continuity of accrued benefit liability					
Balance, beginning of year	1,769	6,821	318	8,908	7,727
Benefit expense	53	501	38	592	565
Contributions	(125)	—	(5)	(130)	(130)
Remeasurements	(1)	(207)	98	(110)	746
Balance, end of year	1,696	7,115	449	9,260	8,908
Funded status					
Fair value of plan assets	—	—	—	—	—
Accrued benefit liability	1,696	7,115	449	9,260	8,908
Plan deficit	(1,696)	(7,115)	(449)	(9,260)	(8,908)

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

	Pension benefit plan		SERP		Other benefit plan	
	2015	2014	2015	2014	2015	2014
	%	%	%	%	%	%
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 2015, declining to 5% in annual increments of 1%. Inflation of dental costs was assumed to be 8% in 2015, declining to 4% in annual increments of 1%.

In addition to these plans, the salaries and employee benefits expense on the Statement of Revenues and Expenses includes \$0.15 million (2014—\$0.13 million) related to the Fund's contribution to the Group RSP plan.

### 8. Lease commitments

At December 31, 2015 the Fund has future minimum annual lease commitments for office space, office equipment and information technology services as follows:

	\$
2016	287
2017	221
2018	230
2019	206
2020	207
2021 and thereafter	864
	2,015

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

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

At December 31, 2015, four 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) Rampart Securities Inc.

Rampart Securities Inc. ("Rampart") was suspended by the IDA on August 14, 2001, and a trustee in bankruptcy was appointed on October 24, 2001. During the year ended December 31, 2015, CIPF received a payment from the trustee of \$0.04 million as a reimbursement of previous advances, and this was recorded as a decrease in the provision for claims and/or related expenses charged to the General Fund for the year. The estate was discharged from bankruptcy on July 7, 2015.

#### (b) 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, 2015, CIPF made payments of \$0.006 million for third-party costs (2014 – \$0.01 million for third-party costs) and there was no charge to the General Fund for the year for provision for claims and/or related expenses.



# Notes to the financial statements

December 31, 2015  
(in thousands of dollars)

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

At December 31, 2015, the provision for claims and/or related expenses on the balance sheet of \$0.5 million (2014–\$0.5 million) represents the amount owing in accordance with settlement agreements reached with certain customers, plus third-party costs.

At December 31, 2015, there were no known customer claims on the estate and the estate continues to be administered by the trustee.

### (c) Barret Capital Management Inc.

Barret Capital Management Inc. (“Barret”) was suspended by IROC 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, 2015, CIPF made no payments to claimants (2014–\$0.5 million) and paid \$nil in third-party costs (2014–\$nil).

At December 31, 2015, the provision on the balance sheet for third-party costs was \$0.01 million (2014–\$0.01 million).

### (d) First Leaside Securities Inc.

First Leaside Securities Inc. (“FLSI”) was suspended by IROC on February 24, 2012 and was determined by the Board of Directors of CIPF to be insolvent as of that date for the purpose of claims by former customers of FLSI against CIPF. In accordance with CIPF’s Coverage Policy, a claims submission deadline of October 12, 2013 was established. CIPF has received claims from former customers of FLSI in the amount of approximately

\$189 million. CIPF is reviewing each claim received, and assessing and communicating eligibility based on the CIPF Coverage Policy, and in accordance with the CIPF Claims Procedures. During the year ended December 31, 2015, CIPF made payments of \$1.4 million (2014–\$1.2 million) in administrative costs, and as a result of a decrease in estimated costs to administer the claims, recorded a reduction in the provision for claims and/or related expenses charged to the General Fund for the year of \$1.9 million (2014–increase in provision charged to the General Fund of \$2.7 million).

At December 31, 2015, the provision for claims and/or related expenses on the balance sheet of \$1.4 million (2014–\$4.7 million) has been made only in respect of administrative costs.

### (e) Octagon Capital Corporation

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

During the year ended December 31, 2015, CIPF advanced \$5.1 million to the trustee to facilitate the transfer of customer accounts to another investment dealer. The provision for claims and/or related expenses charged to the General Fund for the year ended December 31, 2015 was \$6.1 million (2014–not applicable) and represents the advance of \$5.1 million referred to above, \$0.5 million to transfer customer accounts which was provided by CIPF in January 2016, and the estimated costs to wind down the estate, after certain recoveries.

At December 31 2015, the provision for claims and/or related expenses on the balance sheet of \$1.1 million (2014–not applicable) represents \$0.5 million to transfer customer accounts and the costs to wind down the estate, after certain recoveries. The trustee is pursuing recoveries from other sources, on behalf of the estate.

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 at January 1, 2015	(Decrease) increase in Provision	Receipts (payments) during the year	Provision at December 31, 2015
	\$	\$	\$	\$
Rampart Securities Inc. (a)	—	(45)	45	—
MF Global Canada Co. (b)	492	—	(6)	486
Barret Capital Management Inc. (c)	8	—	—	8
First Leaside Securities Inc. (d)	4,723	(1,902)	(1,442)	1,379
Octagon Capital Corporation (e)	—	6,177	(5,114)	1,063
	<b>5,223</b>	<b>4,230</b>	<b>(6,517)</b>	<b>2,936</b>

	Provision at January 1, 2014	Increase in Provision	Payments during the year	Provision at December 31, 2014
	\$	\$	\$	\$
Rampart Securities Inc. (a)	—	—	—	—
MF Global Canada Co. (b)	495	13	(16)	492
Barret Capital Management Inc. (c)	531	5	(528)	8
First Leaside Securities Inc. (d)	3,197	2,679	(1,153)	4,723
	<b>4,223</b>	<b>2,697</b>	<b>(1,697)</b>	<b>5,223</b>

## 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 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, 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 securities, with the balance in provincial or territorial government issued or guaranteed securities, 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 10 years.

Significant risks that are relevant to the Fund'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. 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 or as directed by the Board.

An immediate hypothetical 100 basis point increase in interest rates would decrease the fair value of the investments by \$21.5 million (2014–\$20.2 million).

### *Credit risk*

Credit risk is the risk of financial loss due to a counterparty failing to meet its contractual obligations. The Fund manages the credit risk exposure of its investment portfolio by following the investment policy described above. At December 31, 2015, 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. 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 investments 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.



## Public Directors

### **Alain Rhéaume<sup>3</sup>**

Chair

*Outremont, Quebec*

Founder and Managing Partner,  
Trio Capital Inc.

Former Deputy Minister of Finance  
for the Government of Quebec

*(joined as a Public Director in January 2009)*

### **Rozanne E. Reszel**

FCPA, FCA, CFA, ICD.D

*Toronto, Ontario*

President & Chief Executive Officer

*(joined September 1998)*

### **Douglas Baker<sup>1,4</sup>**

FCPA, FCA

*Calgary, Alberta*

Independent Professional, Oil and  
Gas Exploration and Development

Professional Director

*(joined March 2015)*

### **Donna Howard<sup>2,3</sup>**

ICD.D

*Smiths Falls, Ontario*

Former Adviser to the Governor of  
the Bank of Canada and former  
Chief of the Financial Markets  
Department for the Bank of Canada

*(joined March 2015)*

### **Nicholas G. Kirton<sup>2,3</sup>**

FCPA, FCA, ICD.D

Vice-Chair

*Calgary, Alberta*

Professional Director

Former Partner, KPMG LLP

*(joined June 2008)*

### **Anne La Forest<sup>1,2</sup>**

LLM, LL.B

*Fredericton, New Brunswick*

Faculty of Law at University  
of New Brunswick

Former Member of the New  
Brunswick Securities Commission

*(joined April 2014)*

### **Hon. Patrick LeSage<sup>2</sup>**

C.M., O.ONT., Q.C.

*Toronto, Ontario*

Former Chief Justice of the Superior  
Court of Justice in Ontario

*(joined April 2014)*





**T. Hugh McNabney**

**Nicholas G. Kirton**

**Alain Rhéaume**

**Donna Howard**

**Hon. Patrick LeSage**

**Debra A. Hewson**

## Industry Directors

### **Roger G. Casgrain<sup>1,4</sup>**

CFA  
*Montreal, Quebec*  
 Executive Vice-President, Casgrain & Company Limited  
*(joined June 2008)*

### **Brigitte Geisler<sup>2</sup>**

LLM, LL.B  
*Toronto, Ontario*  
 Capital Markets Professional Consultant  
 Formerly Director of Market Regulation at Ontario Securities Commission  
*(joined April 2014)*

### **Debra A. Hewson<sup>2,4</sup>**

*Vancouver, British Columbia*  
 President & Chief Executive Officer, Odlum Brown Limited  
*(joined March 2011)*

### **Martin L. MacLachlan<sup>2,3</sup>**

LL.B  
*Toronto, Ontario*  
 General Counsel and Senior Vice-President, Legal Affairs and Corporate Secretary of Canaccord Genuity Group Inc. and of its wholly owned subsidiary, Canaccord Genuity Corp.  
*(joined April 2013)*

### **T. Hugh McNabney<sup>2,4</sup>**

CPA, CGA  
*Orillia, Ontario*  
 Consultant to the financial services industry  
 Former Chief Financial Officer, Scotia McLeod Inc.  
*(joined January 2009)*

## Officers

### **Alain Rhéaume**

Chair

### **Nicholas G. Kirton**

FCCA, FCA, ICD.D  
 Vice-Chair

### **Rozanne E. Reszel**

FCCA, FCA, CFA, ICD.D  
 President & Chief Executive Officer

### **Barbara D. Love**

CPA, CA, CFA  
 Senior Vice-President & Secretary

### **Linda G. Pendrill**

CPA, CA  
 Chief Financial Officer

### **Ilana Singer**

LL.B  
 Vice-President

Biographical information about each Director and Officer is available at [www.cipf.ca](http://www.cipf.ca) under *About Us*.

- 1 Member of the Audit, Finance & Investment Committee
- 2 Member of the Coverage Committee
- 3 Member of the Governance, Nominating & Human Resources Committee
- 4 Member of the Industry Risk Committee





# CIPF

Canadian Investor Protection Fund

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