

## ASSESSMENTS

CIPF is authorized to assess all Investment Dealer Members<sup>1</sup> of the **Canadian Investment Regulatory Organization**, as it is currently named or as it may be renamed from time to time (**CIRO**) in order to provide liquidity resources for the Investment Dealer Fund that it maintains to pay losses to eligible customers of insolvent Investment Dealers that are members of the Investment Dealer Fund (**Investment Dealer Members**), to repay any of its obligations under the Investment Dealer Fund credit facilities, and to pay operating expenses allocated to the Investment Dealer Fund. CIPF is also authorized to assess CIRO Dually Registered Investment Dealer Members to pay pre and post-amalgamation merger and integration expenses incurred by, or otherwise allocated to, CIPF's predecessor (**the MFDA Investor Protection Corporation**) or the Mutual Fund Dealer Fund (**Mutual Fund Dealer Allocated Merger Expenses**). All CIRO Investment Dealer Members are required to be members of the Investment Dealer Fund and are required to pay an assessment to CIPF for the benefit of the Investment Dealer Fund and, in the case of CIRO Dually Registered Investment Dealer Members, the benefit of CIPF's Mutual Fund Dealer Fund to the extent of Mutual Fund Dealer Allocated Merger Expenses. The Investment Dealer assessment is collected by the CIRO and remitted to CIPF under the terms of the Industry Agreement as modified from time to time.

## POLICY

This Investment Dealer Assessment Policy (**the Policy**) has been adopted by the CIPF Board to describe the basis and rate on which it intends to assess Investment Dealer Members or certain classes or groups of Investment Dealer Members or individual Investment Dealer Members. Investment Dealer assessments are levied according to a formula and methodology which is determined by the CIPF Board in its discretion and may, without limitation, reflect risks relating to all Investment Dealer Members, classes or groups of Investment Dealer Members or individual Investment Dealer Members including such risks as are identified in risk models adopted by either CIPF or the CIRO.

In the case of any question or dispute, the interpretation of this Policy by the CIPF Board shall be final and conclusive. This Policy and any matters determined by the CIPF Board in respect of Investment Dealer Member assessments may be amended from time to time in the sole discretion of the CIPF Board.

## BASIS OF INVESTMENT DEALER ASSESSMENT

### Quarterly Investment Dealer Assessment

An Investment Dealer assessment is levied each quarter as of the due date of the March, June, September and December Monthly Financial Report.

The quarterly Investment Dealer assessment is subject to a maximum and minimum amount.

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<sup>1</sup> All references to CIRO Investment Dealer Members in this Investment Dealer Assessment Policy mean CIRO Members duly registered under Canadian securities legislation (i) in the category of "investment dealer" or (ii) in the categories of both "investment dealer" and "mutual fund dealer" (**CIRO Dually Registered Investment Dealer Members**).

## Additional Investment Dealer Assessments

The following additional assessments may also be levied on Investment Dealer Members (or, where determined appropriate in the discretion of CIPF, certain classes or groups of Investment Dealer Members or individual Investment Dealer Members):

- During an Investment Dealer Member’s first 36 months of new Investment Dealer Membership (**New Investment Dealer Member Assessment**);
- For the largest capital deficiency an Investment Dealer Member incurs in any month (**Capital Deficiency Assessment**);
- [Where an Investment Dealer acts as carrying broker for a Mutual Fund Dealer](#);
- If required to cover the operational expenses of CIPF; and
- To the extent necessary to permit CIPF in any calendar year to meet its obligations, when due, under any credit facilities provided to CIPF exclusively in relation to the Investment Dealer Fund.

## RATE OF ASSESSMENT

### I) QUARTERLY INVESTMENT DEALER ASSESSMENT

The CIPF Board determines an annual Investment Dealer Fund Assessment target that takes into consideration various factors such as:

- (a) Any shortfall between the actual fund size and the fund size required for the risks identified
- (b) Total Investment Dealer Fund expenses for the period
- (c) Income earned on the Investment Dealer Fund assets
- (d) The expected Investment Dealer Member loss for the period as determined by the model

The Investment Dealer Fund assessment target is allocated to Investment Dealer Members quarterly using the differential assessment formula under which each Investment Dealer Member pays a percentage of the Investment Dealer Fund assessment target in proportion to its risk relative to all Investment Dealer Members.

The differential assessment formula is the Investment Dealer Member’s share of risk multiplied by the Investment Dealer Fund assessment target.

Where the Investment Dealer Member’s share of the risk is determined is as follows:

$$(PD * EaD_{\{Industry\}} * LD_{\{Industry\}} * CNE)_{\{Member\}}$$

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$$\sum (PD * EaD_{\{Industry\}} * LD_{\{Industry\}} * CNE)_{\{All Members\}}$$

PD is the probability of an Investment Dealer Member defaulting and is determined using a model approved by the CIPF Board from time to time ~~and posted to the Members’ section of the CIPF website.~~

$EaD_{(industry)}$  is an estimated percentage loss to CIPF assumed to occur at the date of default. It is constant for all Investment Dealer Members and is approved by the CIPF Board from time to time.

$LD_{(industry)}$  is an estimated percentage loss to CIPF assumed to exist after the trustee has completed administration of the defaulting Investment Dealer Member's estate. It is constant for all Investment Dealer Members and is approved by the CIPF Board from time to time.

CNE is the client net equity reported on the Form 1 filed by Investment Dealer Members. An Investment Dealer Member's monthly reported CNE total may be reduced, at the Investment Dealer Member's option, for certain customer accounts approved by the CIPF Board and posted to the Members' section of the CIPF website.

Quarterly Investment Dealer Assessments are prorated for the number of days of membership in the Investment Dealer Fund in the first quarter of membership in the Investment Dealer Fund.

### **Adjustments to PD**

CIPF reserves the right to review and adjust for transactions with related parties<sup>2</sup> that have an impact on an Investment Dealer Member's PD.

## **II) ASSET LOCATION ASSESSMENT**

An Asset Location Assessment may be levied in those instances where an Investment Dealer Member is determined to have a high degree of Asset Location Risk as determined by the Investment Dealer Member specific  $EaD$  calculated using CIPF's Investment Dealer Fund Liquidity Resource Requirement model ( $EaD_{(calculated)}$ ).

Where an Investment Dealer Member's  $EaD_{(calculated)}$  is greater than a percentage approved by the CIPF Board from time to time, an Asset Location Assessment may be levied as follows:

$$PD_{\{Member\}} * LD_{\{Industry\}} * (75\% EaD_{(calculated)} - EaD_{(industry)}) * CNE$$

## **III) MAXIMUM QUARTERLY INVESTMENT DEALER ASSESSMENT**

The maximum Quarterly Investment Dealer Assessment is ¼% of the aggregate of the Investment Dealer Member's Total Revenue as reported in the Monthly Financial Report for the immediately preceding four completed quarters.

### **Adjustments to Total Revenue**

For Investment Dealer Members where the maximum Quarterly Investment Dealer Assessment might otherwise apply, CIPF reserves the right to review and adjust Total Revenue for transactions with related parties.

## **IV) MINIMUM QUARTERLY INVESTMENT DEALER ASSESSMENT**

The minimum Quarterly Investment Dealer Assessment is \$1,250, except for Investment Dealer Members that have entered into a Type 1 Introducing Agreement with another

<sup>2</sup> "Related parties" as defined by International Financial Reporting Standards under IAS 24 – Related party disclosures.

Investment Dealer Member, in which case the minimum Quarterly Investment Dealer Assessment is \$125.

## V) ADDITIONAL ASSESSMENTS

### i. New Investment Dealer Member Assessment

New Investment Dealer Members, or existing Investment Dealer Members that are deemed to be new Investment Dealer Members due to a business combination, pay a New Investment Dealer Member Assessment in addition to the Investment Dealer Quarterly Assessment. The New Investment Dealer Member Assessment is equal to the Investment Dealer Quarterly Assessment and is paid for three years (36 months).

The New Investment Dealer Member Assessment is prorated for the number of days of membership in the Investment Dealer Fund in the first quarter. The final New Investment Dealer Member Assessment is prorated so that it ends on the three-year anniversary of membership in the Investment Dealer Fund.

Where sufficient data is not available to determine the PD of a new Investment Dealer Member, the median of all Investment Dealer Members is used.

Business combinations, such as mergers of Investment Dealer Members, the purchase of an Investment Dealer Member by another Investment Dealer Member, or the purchase of a non-Investment Dealer Member by an Investment Dealer Member are reviewed by CIPF to determine whether or how, in the discretion of CIPF, a New Investment Dealer Member Assessment is levied. Among other factors considered, is the impact of the transaction on the level and type of client assets, and the management of the new entity and the management controls and processes in place.

### ii. Capital Deficiency Assessment

Where an Investment Dealer Member has incurred a capital deficiency pursuant to the CRO Investment Dealer Rules in any month, the Investment Dealer Member is assessed a Capital Deficiency Assessment.

The Capital Deficiency Assessment is determined by multiplying the Risk Adjustment Percentage (“RAP”) by the annualized Investment Dealer Quarterly Assessment for the quarter in which the capital deficiency incurred. The Capital Deficiency Assessment is payable in equal amounts over four quarters beginning with the quarter immediately following the quarter in which the capital deficiency was discovered.

The Capital Deficiency Assessment is subject to a minimum assessment of \$1,250 per quarter, except for Investment Dealer Members that have entered into a Type 1 Introducing Agreement with another Investment Dealer Member, in which case the minimum quarterly Capital Deficiency Assessment is \$125.

RAP is the percentage obtained when the absolute value of the Investment Dealer Member’s capital deficiency is divided by its net allowable assets on the date of the capital deficiency, and such percentage is not to exceed 100%.

A capital deficiency is the largest known capital deficiency during a given month. If a deficiency extends over multiple months, the capital deficiency in each month is considered a separate capital deficiency unless CIPF in its discretion determines otherwise.

### iii. Assessment To Cover Operational Expenses of The Fund

Where a special assessment is required to cover operational expenses not otherwise covered by other assessments, the rate of assessment will be determined by the CIPF Board after considering all relevant facts.

### iv. Mutual Fund Dealer Introduced Asset Assessment (MFD IAA)

Where an Investment Dealer Member acts as carrying broker for an introducing broker that is a Mutual Fund Dealer Member, the Investment Dealer will be assessed a Mutual Fund Dealer Introduced Asset Assessment (MFD IAA).

$$PD_{\text{Member}} * EaD_{\text{Industry}} * LD_{\text{Industry}} * MFDIA_{\text{Member}} * TAM$$

MFDIA is the value of the customer assets in respect of which the Investment Dealer Member acts as carrying broker for a Mutual Fund Dealer Member as reported by the Investment Dealer Member on a quarterly basis.

TAM is the Annual Target Assessment set by the Board divided by the Industry Expected Loss to determine the dollar rate of risk Members are assessed on. The MFD IAA will be based on the TAM in effect for the quarter assessed.

The MFD IAA will use the MFDIA in the quarter in which the MFDIA was reported.

### ~~iv.v.~~ Assessment To Cover Pre and Post-Amalgamation Merger and Integration Expenses

Special assessments are required to cover the pre and post-amalgamation merger and integration expenses incurred by CIPF or its predecessors. The rate of assessment will be determined by the CIPF Board after considering all relevant facts.

CIRO Investment Dealer Members that are neither CIRO Dually Registered Investment Dealer Members nor CIRO Affiliated Investment Dealer Members<sup>3</sup> will not be levied such special assessments.

The investment dealer platforms of CIRO Dually Registered Investment Dealer Members and CIRO Affiliated Investment Dealers will be levied such assessments (calculated using the rate of assessment determined by the CIPF Board and referencing the pre and post-amalgamation merger and integration expenses incurred by, or otherwise allocated to, CIPF's predecessor, the Canadian Investor Protection Fund, or the Investment Dealer Fund) for the benefit of the Investment Dealer Fund.

The mutual fund dealer platforms of CIRO Dually Registered Investment Dealer Members will be levied such assessments (calculated using the rate of assessment determined by the CIPF Board and referencing the Mutual Fund Dealer Allocated Merger Expenses) for the benefit of the Mutual Fund Dealer Fund.

### ~~v.vi.~~ Assessment To Meet Credit Obligations

Where a special assessment is required to permit CIPF in any calendar year to meet its

<sup>3</sup> All references to CIRO Affiliated Investment Dealer Members in this Investment Dealer Assessment Policy mean CIRO Members duly registered under Canadian securities legislation in the category of "investment dealer" that are affiliated, by reason of the same controlling ownership interest, with CIRO Members duly registered under Canadian securities legislation in the category of "mutual fund dealer".

obligations, when due, under any credit facilities provided to CIPF to meet the liquidity resource requirements of the Investment Dealer Fund, the rate of assessment will be determined by the CIPF Board after considering all relevant facts.

#### VI) RESIGNATIONS, SUSPENSIONS AND TERMINATIONS

A resigning, suspended or terminated Investment Dealer Member will be assessed a final quarterly CIPF assessment in the quarter in which all of the following three conditions have been met:

1. The Investment Dealer Member has transferred all customer accounts to another Investment Dealer Member.
2. The Investment Dealer Member has no remaining approved persons other than shareholders, the Ultimate Designated Person, the Chief Compliance Officer and the Chief Financial Officer.
3. In the case of a resigning Investment Dealer Member, the Investment Dealer Member has provided written notice of its resignation to the CIRO.

Any unpaid Capital Deficiency Assessment will be due on the due date of the final quarterly assessment.