

## **CIPF ASSESSMENT POLICY as of February 2, 2018**

### **ASSESSMENTS**

CIPF is authorized to assess Members in order to provide resources for the Fund that it maintains to pay losses to eligible customers of insolvent Members, **to repay any of its obligations under its credit facilities, and to pay operating expenses.** All IIROC Dealer Members are required to be Members of CIPF and are required to pay an assessment to CIPF. The assessment is collected by IIROC and remitted to CIPF under the terms of the Industry Agreement.

### **POLICY**

This Policy has been adopted by the CIPF Board to describe the basis and rate on which it intends to assess CIPF Members. 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 Members, classes or groups of Members or individual Members including such risks as are identified in risk models adopted by IIROC.

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 CIPF Member assessments may be amended from time to time in the sole discretion of the CIPF Board.

### **BASIS OF ASSESSMENT**

#### **Quarterly Assessment**

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

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

#### **Additional Assessments**

The following additional assessments may also be levied:

- During a Member's first 36 months of CIPF Membership (**New Member Assessment**);
- For the largest capital deficiency a Member incurs in any month (**Capital Deficiency Assessment**);
- 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.

## RATE OF ASSESSMENT

### I) QUARTERLY ASSESSMENT

The CIPF Board determines an annual **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 Fund expenses for the period
- (c) Income earned on the fund assets
- (d) The expected Member loss for the period as determined by the model

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

The **Differential Assessment Formula** is the Member's share of risk multiplied by the Assessment Target.

Where the Member's share of the risk is determined 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 a Member defaulting and is determined using a model approved by the CIPF Board from time to time and posted to the Member's 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 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 Member's estate. It is constant for all Members and is approved by the CIPF Board from time to time.

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

Quarterly Assessments are prorated for the number of days of Membership in the first quarter of Membership.

## Adjustments to PD

CIPF reserves the right to review and adjust for transactions with related parties<sup>1</sup> that have an impact on a Member's PD.

### II) ASSET LOCATION ASSESSMENT

An Asset Location Assessment may be levied in those instances where a Member is determined to have a high degree of Asset Location Risk as determined by the Member specific EaD calculated using CIPF's fund resource model (EaD<sub>(calculated)</sub>).

Where a Member's EaD<sub>(calculated)</sub> is greater than a percentage approved by the 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 ASSESSMENT

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

#### Adjustments to Total Revenue

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

### IV) MINIMUM QUARTERLY ASSESSMENT

The minimum quarterly assessment is \$1,250, except for Members that have entered into a Type 1 Introducing Agreement with another Member, in which case the minimum quarterly assessment is \$125.

### V) ADDITIONAL ASSESSMENTS

#### i. New Member Assessment

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

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

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

Business combinations, such as mergers of Members, the purchase of a Member by another Member, or the purchase of a non-Member by a Member are reviewed by CIPF to determine whether or how, in the discretion of CIPF, a New Member

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<sup>1</sup> "Related parties" as defined by International Financial Reporting Standards under IAS 24 – Related party disclosures.

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 a Member has incurred a capital deficiency pursuant to IIROC rules in any month, the Member is assessed a Capital Deficiency Assessment.

The Capital Deficiency Assessment is determined by multiplying the Risk Adjustment Percentage (“RAP”) by the annualized 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 Members that have entered into a Type 1 Introducing Agreement with another Member, in which case the minimum quarterly assessment is \$125.

RAP is the percentage obtained when the absolute value of the 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. Assessment To Meet Credit Obligations**

Where a special assessment is required to permit CIPF in any calendar year to meet its obligations, when due, under any credit facilities provided to CIPF, 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 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 Member has transferred all customer accounts to another Member.
2. The 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 Member, the Member has provided written notice of its resignation to IIROC.

Any unpaid capital deficiency assessment will be due on the due date of the final quarterly assessment.