

**Get CIPF Protection**  
Invest with an IIROC Regulated Member



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## CIPF'S MISSION

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

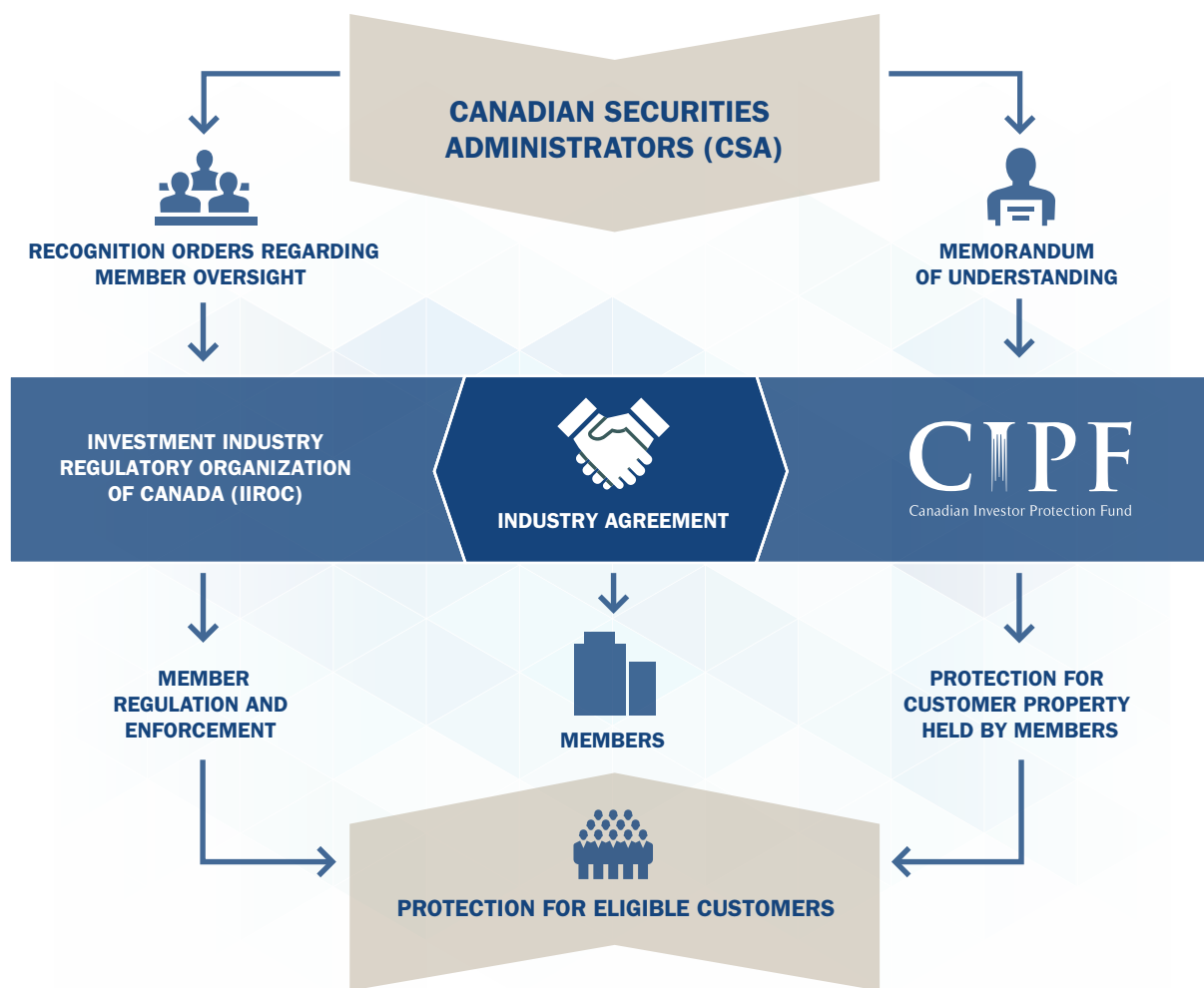
## Governed by Two Agreements

**The Canadian Investor Protection Fund (CIPF) is the 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 also automatically members of CIPF (Members).

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

- A Memorandum of Understanding (MOU) between CIPF and the CSA setting out a program of oversight for CIPF to ensure that CIPF is appropriately discharging its responsibilities as a compensation fund. As provided by securities laws and regulations in many Canadian provinces and territories, certain securities regulators have also issued approval orders in relation to CIPF that address CIPF's responsibilities for investor protection, as well as the governance, funding and maintenance of CIPF and reporting to the CSA.
- An Industry Agreement between CIPF and IIROC that establishes the respective responsibilities of CIPF and IIROC. One key term in the agreement is that IIROC must provide prompt notice to CIPF of any situation that is likely to require a payment by CIPF.



## MESSAGE FROM THE CHAIR



**For the investment world, “boring” is good. In performing its essential work, CIPF does not garner headlines but does quietly reinforce the institutional stability that lends confidence to the Canadian investment sector and, ultimately, to Canadian investors.**

Credit for guiding CIPF with intelligent oversight belongs to my fellow industry and public directors, including our newest appointee, Rita Achrekar, who bring deep and diverse expertise and proven commitment to their work.

Directors undertake their duties with indispensable support from a high-functioning professional team led skilfully by CIPF President and CEO Rozanne Reszel. CIPF staff at all levels challenge us appropriately to be our best, and they deliver what we need to be our best. There is genuine and mutual respect between Board and staff. Having served on, and supported, a number of other boards at other well-led organizations, I express this opinion with conviction.

This message arrives at a special time for CIPF. When you read it, the organization will have celebrated its 50th year in operation (you may have seen my contribution to this milestone by video). Recognition for an imaginative, looking-back and looking-forward anniversary event properly goes to Rozanne and Ilana Singer. However, in my view, the “real story” is about CIPF’s enduring role in protecting investors for a half-century in an ever-changing world of new services and products from IIROC member-dealer firms. Let me share select highlights of what the Board did to fulfil these responsibilities during the previous year.

In 2018, the Board closely examined the risk, coverage and disclosure implications of fully paid securities lending. We will apply lessons learned from

communicating with diverse stakeholder groups during past insolvencies to this new line of business. Continuing to inform the industry and to educate the public about CIPF coverage and its limitations, using plain language, will remain top ongoing priorities.

Other strategic developments that came to the Board's attention, like fintech, blockchain and cryptocurrencies, may seem novel. But the process of critically examining them and their implications for Canadian investors is normal course of business. The Board continues to monitor the revolution in how member firms interact with their clients, the changing nature and economics of the business, how services are delivered, the expectations of investors, how these factors interact with one another, and their significance for CIPF.

Looking ahead, we will review how these changes may affect future potential insolvencies. We will ensure CIPF has the preparedness plans, fund/coverage and staff resources to manage the securities recovery process effectively if and when called on. On the theme of leadership renewal, in spring 2020 Debra Hewson will assume the chair's role in my stead – the first woman to lead the organization – ensuring the seamless continuity CIPF needs to be effective.

Solid relationships with other key investment organizations are pivotal to the ability of CIPF to meet its mandate. We will continue to nurture insight-driven governance connections with our key CSA and IIROC counterparts to ensure CIPF can optimally fulfil its investor protection role.

I close by again acknowledging the contribution made by CIPF management and staff over the past decades. I have no doubt they will help the Board keep the organization both highly effective and enviably “boring” for the next 50 years.



Martin L. MacLachlan

## MESSAGE FROM THE PRESIDENT & CEO



**In a rapidly changing world, CIPF has an enduring mission that instils confidence in investors and investment professionals. Having reached 50 years of service in 2019, we remain as focused on achieving our mission for the future as we were when founded in 1969.**

To mark this special anniversary, CIPF held an educational forum at the Toronto Region Board of Trade in June. The event examined past and future challenges, with an emphasis on the impact of technology, including emerging technologies such as blockchain and cryptocurrencies. A video retrospective conveyed how CIPF continues to adapt to changing realities.

The preceding year saw no new insolvencies but much activity aimed at enhancing the effectiveness of our operations and preparing for the next half century.

If you've visited our website, you will have noticed a new video conceived in 2018 and launched in May to explain our responsibilities. The three-minute animated presentation uses the metaphor of a sunken container ship to describe how CIPF recovers assets stranded when a firm becomes insolvent. It reinforces our efforts to connect with stakeholders, including advisors who value CIPF to clarify our mandate. The campaign included a digital advertising campaign targeting investors and advisors, which covered six Canadian cities via Facebook, search engine marketing and Google display ads. It sought to raise awareness, prompt information-seeking and engage these audiences in a meaningful way.

Technology not only contributed to our digital communications with investors and advisors, but also to our cybersecurity: Last year, we moved more servers to the cloud to enhance business continuity and increase both security and data surety.



Because relationships are pivotal to resolving insolvencies and retrieving assets as quickly as possible, CIPF added to its MOUs a formalized connection with the MFDA Investor Protection Corporation. We also organized three regional simulations with IIROC, CSA representatives and insolvency professionals to help participants understand how to work promptly and collaboratively to resolve an insolvency.

To nurture international rapport (essential in complex, cross-border insolvencies), CIPF co-hosted a session with our Hungarian counterparts in Budapest last spring. They shared learnings from three insolvencies and how to contend with social media-fuelled dissent. As this message is being shaped, I am sharing Canadian experiences with a benchmarking study group of academics and regulators in Japan and head next to the IOSCO conference and adjunct meeting of investor compensation funds in Sydney.

Other less visible but equally material developments merit sharing. A change by the regulators will see a more SRO-oriented, permission-based governance model applied to CIPF. As we welcomed a new board member, Rita Achrekar, we also saw a new by-law passed to clarify how the status of industry and public board members will be determined. For our members' benefit, quarterly assessments are now fixed for the calendar year, providing greater cost certainty. CIPF is in the final year of its existing strategic plan which focused on outreach to stakeholders; this fall, we will determine the strategic focus of the next three-year cycle.

As is my tradition, I close by expressing my gratitude to CIPF staff. No organization reaches 50 years without drawing on capable individuals to sustain and build it. It is they who have laid the resilient foundation for our present and for our future. The century milestone awaits.



Rozanne Reszel

## A RECORD OF RETURNING PROPERTY

Since 1969, there have been 21 Member insolvencies involving claims to the Canadian Investor Protection Fund. All eligible customers with missing property have had their property returned to them by CIPF within the limits defined in the CIPF Coverage Policy.

## Providing Confidence

**The Canadian Investor Protection Fund (CIPF) was established by the investment industry in 1969 to protect investors in the event of an Investment Industry Regulatory Organization of Canada (IIROC) Dealer Member insolvency.**

All IIROC Dealer Members are automatically members of CIPF (Members). On December 31, 2018, 161 investment dealers across Canada had CIPF membership. All Members are listed on the CIPF website. Every Member is required to include the CIPF Membership Symbol and the CIPF Explanatory Statement on all confirmations and account statements.

If a CIPF Member becomes insolvent, customers may, in accordance with the CIPF Coverage Policy, claim for missing property. This is property held by a Member on behalf of the customer that is not returned to them following the Member's insolvency. Missing property can include:

- Securities
- Cash balances
- Commodities
- Futures contracts
- Segregated insurance funds
- Other property described in the CIPF Coverage Policy

CIPF does not cover:

- Losses resulting from any of the following:
  - a drop in the value of investments for any reason
  - unsuitable investments
  - fraudulent or other misrepresentations
  - misleading information that was given
  - important information that was not disclosed
  - poor investment advice
  - the insolvency or default of an issuer of securities
- Securities held directly by the customer
- Other exclusions identified in the CIPF Coverage Policy

For more information on what CIPF does and does not cover, please refer to the *CIPF Coverage* section of CIPF's website at [www.cipf.ca](http://www.cipf.ca).

In certain circumstances, CIPF's role may involve requesting the appointment of a trustee in bankruptcy. 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 CIPF. 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 CIPF 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.

### Sound Corporate 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 and that they understand the contents of the CIPF Employee Handbook, and that they have complied with key policies, 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).

## 2018 Corporate Governance Reporting

The approved schedule for director compensation at December 31, 2018 was:

### Board

#### Annual retainer

\$15,000 per year

#### Chair of the Board

An additional \$12,000 per year

#### Board meetings

\$1,500 per meeting

### Committee

#### Committee Chairs

\$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, Assessment Appeal Hearings and preparation

\$400 per hour

### Out-of-town travel fee

\$1,000 per meeting for directors who travel to attend board or committee meetings

Director attendance at board and committee meetings for the year ended December 31, 2018:

DIRECTOR	BOARD MEETINGS	COMMITTEE MEETINGS	BOARD AND COMMITTEE MEETINGS
Rita Achrekar <sup>1</sup>	3/3	5/5	8/8
Ann Davis	4/4	6/6	10/10
Brigitte Geisler	4/4	7/7	11/11
Debra A. Hewson	4/4	5/5	9/9
Donna Howard	4/4	5/5	9/9
Nicholas G. Kirton <sup>2</sup>	1/1	1/1	2/2
Anne La Forest	4/4	6/6	10/10
Martin L. MacLachlan	4/4	5/5	9/9
Pierre Matuszewski	4/4	5/5	9/9
Rozanne E. Reszel	4/4	12/12	16/16
Douglas Stratton	4/4	6/6	10/10
Bernard Turgeon	4/4	7/7	11/11
Peter Virvilis	4/4	5/5	9/9

<sup>1</sup> Ms. Achrekar joined the Board in April 2018

<sup>2</sup> Mr. Kirton completed his term on the Board in April 2018

## CIPF Board at Work

The Board has delegated certain duties to its committees:

COMMITTEE	DUTIES	SIGNIFICANCE
<b>AUDIT, FINANCE &amp; INVESTMENT COMMITTEE</b>	<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 CIPF is exposed</li> <li>• Reviews the adequacy of security of information, information systems and recovery plans</li> <li>• 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>• Oversees and monitors the management controls in place to minimize the financial and investment risks to which CIPF is exposed</li> </ul>
<b>COVERAGE COMMITTEE</b>	<ul style="list-style-type: none"> <li>• Annually reviews the CIPF Coverage Policy, recommends changes to the Board and oversees that procedures are in place to comply with the CIPF Coverage Policy</li> <li>• Reviews issues relating to CIPF coverage eligibility, and coverage-related policy issues</li> <li>• Responsible for overseeing the claim payment process</li> <li>• Oversees and provides guidance on insolvency proceedings, coverage-related litigation, and relevant post-mortem reporting</li> <li>• Recommends any changes to Part XII of the <i>Bankruptcy and Insolvency Act</i> (Canada) to the Board</li> <li>• Interprets and recommends changes regarding the CIPF Disclosure Policy to the Board</li> <li>• Oversees that procedures are in place to review CIPF's communications</li> </ul>	<ul style="list-style-type: none"> <li>• Oversees that payments from CIPF 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</li> <li>• Oversees that adequate procedures are in place to minimize risk of payments beyond what is intended by the CIPF Coverage Policy</li> <li>• Provides procedures and process to hear claims appeals</li> <li>• Oversees that CIPF's communications are clear, accurate and express the nature and intent of available coverage</li> </ul>

COMMITTEE	DUTIES	SIGNIFICANCE
<b>GOVERNANCE, NOMINATING &amp; HUMAN RESOURCES COMMITTEE</b>	<ul style="list-style-type: none"> <li>• Manages the process for identifying potential future board members</li> <li>• Oversees the ongoing development for directors</li> <li>• Annually reviews the succession plan for the Chair and each committee chair</li> <li>• Conducts a biennial evaluation of overall board performance, each committee and directors and reports to the Board</li> <li>• Monitors governance trends; furthers adoption of best corporate governance practices</li> <li>• Reviews human resources issues that may affect CIPF and oversees the management controls, processes and succession plans</li> <li>• Reviews human resource policies and procedures, benefits and pension plans, and oversees and monitors compliance with relevant regulatory requirements</li> </ul>	<ul style="list-style-type: none"> <li>• Oversees CIPF decision-makers and their adherence to good governance</li> <li>• Oversees and monitors the management of human resources opportunities and risks</li> </ul>
<b>INDUSTRY RISK COMMITTEE</b>	<ul style="list-style-type: none"> <li>• Monitors adequacy of financial resources in relation to the risk exposure from the failure of Members</li> <li>• Monitors and oversees the procedures CIPF has in place to monitor the adequacy of, and any changes to, IIROC capital requirements</li> <li>• Monitors and oversees the procedures CIPF has in place to identify and respond to Members that may pose a risk to CIPF</li> <li>• Recommends the annual target assessment for board approval and monitors and oversees the fair allocation to Members, as specified by CIPF's Assessment Policy</li> <li>• Reviews the Assessment Policy and the Assessment Appeal Procedures, recommends changes to the Board, and monitors and oversees the procedures established to ensure compliance with policies and procedures</li> <li>• Hears and decides Member assessment appeals</li> <li>• Provides guidance on Member insolvency-related issues, including non-coverage-related litigation</li> </ul>	<ul style="list-style-type: none"> <li>• Provides risk-monitoring and mitigation measures that offer critical safeguards to CIPF, Members and other key stakeholders</li> <li>• Provides oversight for the critical determination of the appropriate financial resources and related adequacy thereof</li> </ul>

## Committed to Investors

### CIPF 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 of a customer is determined. The CIPF Coverage Policy also establishes coverage limits. For more information about this policy, including examples and case studies, please refer to the *CIPF Coverage* section of CIPF's website at [www.cipf.ca](http://www.cipf.ca).

### What CIPF Covers

If a customer has an account with a Member, and that Member becomes insolvent, CIPF works to ensure that any property being held for the customer by the Member at that time is given back to the customer, within certain limits. Property can include securities, cash and other property described in the CIPF Coverage Policy.

For an individual holding one or more accounts with a Member, the limits on CIPF protection are generally as follows:

- \$1 million for all general accounts combined (such as cash accounts, margin accounts and TFSAs), plus
- \$1 million for all registered retirement accounts combined (such as RRSPs, RRIAs and LIFs), plus
- \$1 million for all registered education savings plans (RESPs) combined where the customer is the subscriber of the plan.

All coverage by CIPF is subject to the terms and conditions of the CIPF Coverage Policy and Claims Procedures. For further information, please refer to the *What Are the Coverage Limits* section of CIPF's website at [www.cipf.ca](http://www.cipf.ca).

### Protecting Eligible Customers

CIPF continues to fulfil its role of protecting eligible customers of insolvent Members. A customer is generally eligible for CIPF protection if:

- they have an account with a Member that is disclosed in the records of the firm, and
- property being held by the Member on the customer's behalf is not returned to the customer following the firm's insolvency

Certain customers are not eligible for CIPF protection. Please refer to the CIPF Coverage Policy for complete details.

The bankruptcy trustee in the Octagon Capital Corporation (Octagon) insolvency returned \$5.0 million to CIPF in 2018 further to the settlement of two legal actions in 2017. The net cost of the estate to CIPF as at December 31, 2018 is \$1.7 million. CIPF originally advanced \$7.1 million in funding to the Octagon estate following the firm's failure in late 2015. The funding provided by CIPF facilitated the prompt transfer of eligible customer accounts, at 100% net equity, to another IIROC Dealer Member.

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 CIPF was established in 1969, all eligible customers with missing property have had their property returned to them by CIPF within the limits defined in the CIPF Coverage Policy. This record is a tribute to the management and resources of CIPF and a reflection of the organization's commitment to protecting investors within the framework of the CIPF Coverage Policy.

Members reported that net assets held for clients, a proxy for the property eligible for CIPF protection, were approximately \$2.25 trillion at December 31, 2018.

advisor and investor awareness of CIPF and obtain information to assist with structuring future communications initiatives. As a result of positive reviews by research participants, a short animated video, developed to increase awareness of CIPF, was posted to CIPF's website and social media accounts.

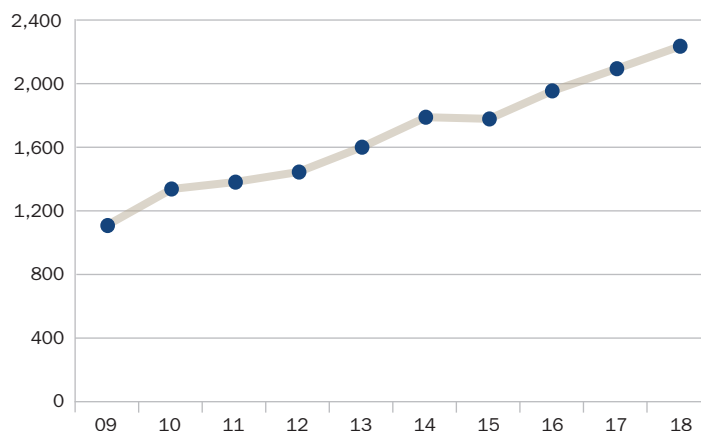
Following a successful pilot digital campaign in 2017, a follow-up digital campaign was conducted in 2018. The campaign was designed to broaden awareness of CIPF and encourage discussions about CIPF between advisors and investors by using three major online platforms in select Canadian cities.

CIPF's webcast training seminar, "Overview of the Canadian Investor Protection Fund", continued to be available on the IIROC website at [www.iiroc.ca](http://www.iiroc.ca) throughout 2018. The seminar is accredited as an IIROC continuing education compliance program and is offered in English and French.

CIPF continues to work closely with Members on compliance with the CIPF Disclosure Policy, which sets out requirements for disclosing membership in CIPF.

#### NET CLIENT ASSETS REPORTED BY MEMBERS (\$ Billions)

At December 31, for the years 2009 to 2018



#### Informing Members and Investors

Providing clear and accessible information to Members and investors about CIPF protection is an ongoing priority for CIPF. To this end, CIPF engaged a research firm to conduct quantitative and qualitative research to gauge

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## MEMBER—CANADIAN INVESTOR PROTECTION FUND

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

### Promoting Awareness of Investor Protection

CIPF wants investors to know they are protected, and the limits of the protection. Several ways that this message is communicated are:

- The CIPF website, [www.cipf.ca](http://www.cipf.ca), provides information, including videos and case studies, about CIPF Coverage
- The *Member Directory* section of the CIPF website lists the legal entity names of all Members, so investors can confirm their status
- All Members must provide the CIPF Official Brochure to all new clients at the time of account opening and to all other clients upon request
- 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 is one of the sponsors for 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

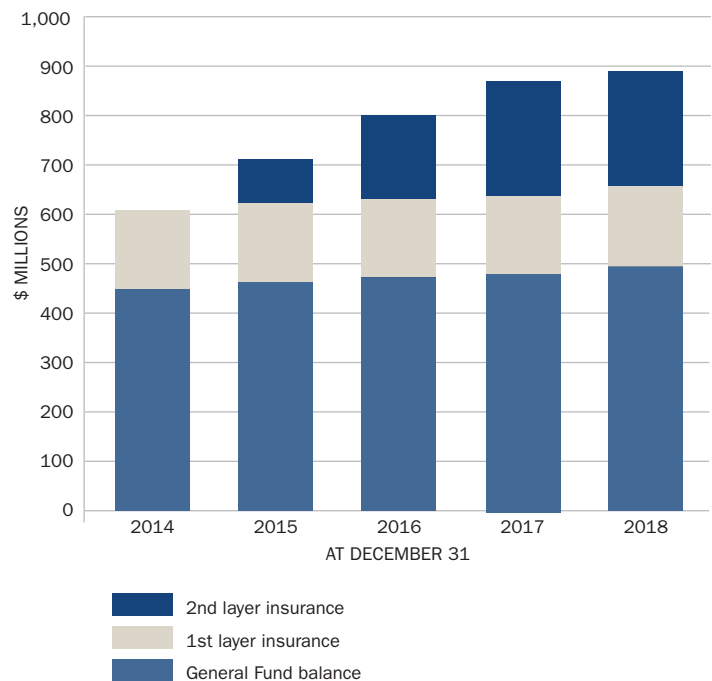
### The CIPF Board is responsible for:

- Overseeing the ability of CIPF to 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.

CIPF uses a credit-risk based model to estimate the financial resources required to fulfil 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 will generally present less relative risk to CIPF.

In 2018, the Board confirmed that the target financial resources remain constant at \$1 billion, to be reviewed in 2019. The current resources amount to \$0.9 billion.

**GROWTH OF FINANCIAL RESOURCES**  
2014 to 2018



## CIPF Can Draw on Several Sources to Pay Customer Claims

- The General Fund of \$495.6 million at the 2018 year end;
- An insurance policy in the amount of \$160 million in the annual aggregate, in respect of losses to be paid by CIPF in excess of \$150 million, and a second layer of insurance in the amount of \$230 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, CIPF maintains committed lines of credit totalling \$125 million from two Canadian chartered banks to provide liquidity if required.

The General Fund of \$495.6 million at December 31, 2018 comprises the following:

- A portfolio of investments with a fair value of \$501.5 million at December 31, 2018; and
- The net of all other assets and liabilities held by CIPF, which at December 31, 2018 amounted to a net liability of \$5.9 million.

CIPF has an Investment Policy reviewed regularly by the CIPF Board. In 2018, the Board-approved changes to the Investment Policy, including shortening the ladder of maturities from 10 years to 7 years were implemented. These changes were made to align the Investment Policy more closely with the mandate of CIPF by reducing interest rate risk and credit risk and increasing liquidity.

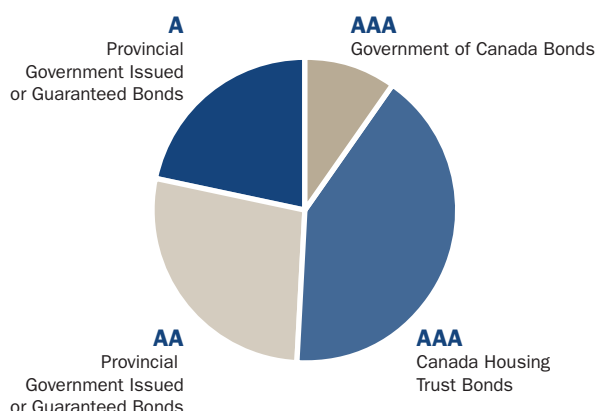
The Investment Policy provides that all investment debt obligations must be issued or guaranteed by the Government of Canada or provincial or territorial governments. The policy requires all counterparties to meet minimum ratings by two nationally recognized rating agencies. The minimum ratings are the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

## CIPF Investment Portfolio of \$501.5 Million (Fair Value)

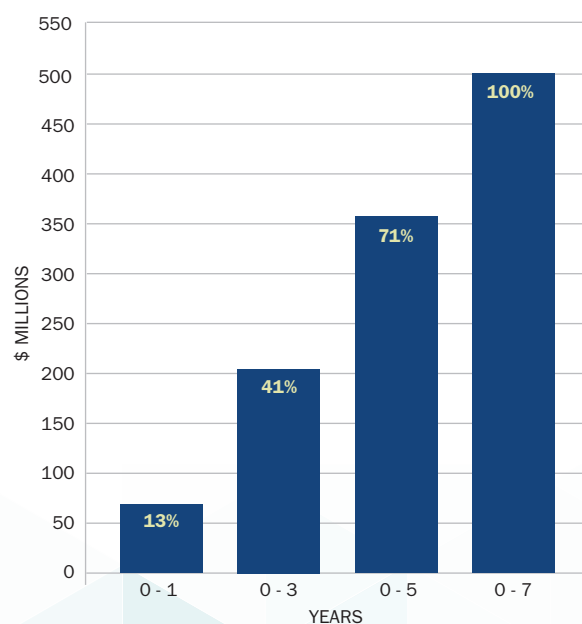
At December 31, 2018

### DISTRIBUTION OF CREDIT RATINGS

As rated by DBRS Limited



### MATURITY BY TIME BAND



## Financial Review and Outlook

### Balance Sheet

CIPF holds investments with a fair value of \$501.5 million, that represent most of the total assets of \$506.4 million. All investments are Government of Canada or provincial government guaranteed and are carried at fair value.

At December 31, 2018, the investments at fair value include an unrealized gain of \$3.3 million (2017: \$4.0 million), due to yields at the time of purchase exceeding market yields at December 31, 2018. 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.

In 2018, the Board-approved change to the Investment Policy to shorten the ladder of maturities from 10 years to 7 years was implemented. This reduced the impact of a hypothetical 100 basis point increase/decrease in interest rates to a decrease/increase in the fair value of the investments to \$16.5 million (2017: \$20.7 million).

The balance in the General Fund at December 31, 2018 was \$495.6 million, an increase of \$11.6 million over the prior year. The increase resulted from the excess of revenues over expenses of \$11.5 million, plus employee future benefits remeasurements of \$0.2 million, less transfer to the Investment in Capital Assets Fund of \$0.1 million.

The Investment in Capital Assets Fund was \$0.3 million at December 31, 2018.

### GENERAL FUND GROWS

The General Fund had net assets of \$495.6 million at the end of 2018, an increase of \$11.6 million from the previous year.

### Revenues and Expenses

CIPF's excess of revenues over expenses was \$11.5 million for the year ended December 31, 2018, compared to an excess of revenues over expenses of \$12.2 million in 2017.

The excess of revenues over expenses of \$11.5 million was the net of:

- Excess of revenues over expenses before other items of \$15.2 million (2017: \$15.1 million)
- Realized losses on sale of investments of \$2.8 million (2017: \$nil) following the shortening of the ladder from 10 years to 7 years
- Unrealized losses during the year on investments due to the movement in market value of \$0.8 million (2017: \$10.3 million)
- The total of the realized losses on sale of investments and unrealized losses during the year on investments of \$3.6 million is less than the prior year total of \$10.3 million
- Provision for claims and/or related expenses of \$0.1 million (2017: \$7.4 million recovery)

CIPF generates revenue from assessments and from investment income on the investment portfolio.

# COMMENTARY ON FINANCIAL RESULTS

## Assessments in 2018

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

- The Board sets the annual assessment amount, a component of financial resources, by using its risk-based assessment methodology and considering the target for the financial resources
- 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 2018 was \$12.4 million versus \$12.1 million in 2017. The increase is due to the Board-approved increase of 2% in the 2018 target assessment over the prior year.

CIPF also assessed capital deficiency assessments of \$24,000 in 2018 (2017: \$42,000) to Members that incurred capital deficiencies pursuant to IIROC rules in any month, in accordance with the CIPF Assessment Policy.

## Investment Income for 2018

The investment income for the year ended December 31, 2018 was \$12.3 million, less than the 2017 investment income of \$12.7 million due to the lower yield environment.

## Expenses for 2018

Operating expenses for the year ended December 31, 2018 were \$9.4 million, in line with the prior year of \$9.8 million.

A provision for claims and/or related expenses of \$0.1 million was recorded during 2018 compared to a recovery of \$7.4 million in 2017. The 2018 provision related to a reduction in the estimated recovery from the estate of Octagon Capital Corporation.

## Outlook for 2019

The Board-approved target assessment was set at \$12.1 million in 2019.

Investment income at amortized cost is forecasted to be \$12.5 million in 2019, higher than the 2018 income of \$12.3 million due to an expected increase in the amount of investments held in the General Fund.

Investments in the General Fund balance are recorded at fair value, which at December 31, 2018 was \$3.3 million higher than the amortized cost (2017: \$4.0 million). The movement in fair value compared to the amortized cost is a function of interest rates and cannot be predicted.

CIPF is forecasting the 2019 operating expenses to be \$10.2 million, \$0.8 million higher than in 2018 due to higher professional fees, computer server hosting and maintenance and communications expenses.

# INDEPENDENT AUDITOR'S REPORT

## **To the Board of Directors of the Canadian Investor Protection Fund**

### **Opinion**

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

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

### **Basis for Opinion**

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

we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with ASNPO, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS



will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis

of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Organization to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Deloitte LLP

Chartered Professional Accountants  
Licensed Public Accountants  
March 27, 2019

# FINANCIAL STATEMENTS

## Balance Sheet as at December 31, 2018 (In thousands of dollars)

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

Approved by the Board

 Director

 Director

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

Statement of Revenues and Expenses and Changes in General Fund Balance  
for the year ended December 31, 2018  
(In thousands of dollars)

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

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

# FINANCIAL STATEMENTS

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

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

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

Statement of Cash Flows  
for the year ended December 31, 2018  
(In thousands of dollars)

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

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

# NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

(In thousands of dollars)

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**1. Organization**

The Canadian Investor Protection Fund ("CIPF") was established in 1969 by an Agreement and Declaration of Trust, by its then sponsoring Self-Regulatory Organizations ("SROs"), to protect customers who have suffered financial loss due to the insolvency of a Member of any one of the sponsoring SROs.

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

Effective January 1, 2002, an industry agreement (the "Original Industry Agreement") was established between the SROs and CIPF, replacing the Agreement and Declaration of Trust. The parties to this agreement included the Investment Dealers Association of Canada ("IDA") and CIPF.

Effective June 1, 2008, the IDA combined with Market Regulation Services Inc. to become the Investment Industry Regulatory Organization of Canada ("IIROC"). At that time, IIROC was the only SRO that carried on Member regulation activities in respect of its Members and accordingly, IIROC and CIPF agreed that the Original Industry Agreement be terminated and replaced by a new Industry Agreement (the "Industry Agreement") effective September 29, 2008. The parties to the new Industry Agreement are IIROC and CIPF. Throughout these financial statements, the reference to Member means a Dealer Member of IIROC.

CIPF is a not-for-profit member corporation, as described in Section 149(1)(l) of the Income Tax Act and, as such, is not subject to either federal or provincial income taxes.

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

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

**3. Summary of significant accounting policies**

The more significant accounting policies are as follows:

*General Fund*

The purpose of the General Fund is to provide protection to customers of Members who, in accordance with the CIPF Coverage Policy, have suffered or may suffer financial loss as a result of the insolvency of a Member, all on such terms and conditions as may be determined by CIPF in its sole discretion.

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

*Investment in Capital Assets Fund*

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

*Use of estimates*

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The most significant areas requiring the use of estimates are provision for claims and/or related expenses, and employee future benefits obligation. Actual results could differ from those estimates.

December 31, 2018

(In thousands of dollars)

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

*Financial instruments*

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

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

*Cash*

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

*Investments*

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

*Regular assessments and assessments for capital deficiencies*

Regular assessment amounts are set by the Board of Directors and are payable by Members each quarter. The amount assessed by the Board is allocated to each Member based on a differential rate, which is derived from a Member's risk relative to other Members. Regular assessments are subject to a minimum and maximum amount. New members pay twice their regular assessment for the first three years of membership. Additional assessments are paid by Members that have incurred capital deficiencies.

The Industry Agreement provides for a limit on assessments in any calendar year such that no Member shall be assessed more than 1% of its aggregate gross revenue (maximum amount) unless an additional amount is required to either cover operational expenses or to permit CIPF to meet the obligations under its bank lines of credit. This limit does not apply to the minimum, new member and capital deficiency assessments.

Regular assessments and assessments for capital deficiencies are recorded in these financial statements when they are assessed. As provided for in the Industry Agreement, the assessments are collected by IIROC on behalf of CIPF. IIROC is required, under the terms of the Industry Agreement, to pay to CIPF the amount of the assessments (whether or not collected from Members).

*Investment income*

Investment income includes interest earned, net of any amortization of bond premiums or discounts using the effective interest rate method. Realized gains and losses on maturity or sale of an investment are recorded separately on the Statement of Revenues and Expenses and Changes in General Fund Balance.

*Provision for claims and/or related expenses*

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

# NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

(In thousands of dollars)

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

### *Capital assets and intangible assets*

Capital assets and intangible assets are recorded at cost and are amortized in the Investment in Capital Assets Fund on the following basis:

Office furniture and equipment	Straight-line method over 5 years
Leasehold improvements	Straight-line method over the term of the lease
Computers	Straight-line method over 3 years
Software development	Straight-line method over 3 years

### *Deferred lease inducements*

Deferred lease inducements are taken into income over the term of the lease.

### *Employee future benefits*

CIPF accrues for its obligations under employee future benefit plans and the related costs, net of plan assets, as follows:

- The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of salary escalation, retirement ages of employees and expected health care costs.
- Actuarial gains (losses) on the accrued benefit obligation arise from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation. These differences between actual results and actuarial assumptions are recognized directly in the General Fund balance in the Balance Sheet and reported as pension remeasurements as a separate item in the Statement of Revenues and Expenses and Changes in General Fund Balance.
- Past service costs for plan amendments are immediately recognized as pension remeasurements in the Statement of Revenues and Expenses and Changes in General Fund Balance.

## 4. Investments

The investments are held by CIBC Mellon Global Securities Company as custodian.

The following table discloses the fair value, maturity and average yields to maturity of CIPF's investments at December 31, 2018. The weighted average yield to maturity of the portfolio at December 31, 2018 is 2.21% (2017 – 2.10%).

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



December 31, 2018

(In thousands of dollars)

**5. Capital assets and intangible assets**

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

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

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

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

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

**7. Employee future benefits**

CIPF has the following defined benefit pension plans:

- pension benefits to a retired employee since September 1, 1998. This pension benefit is not registered under the Income Tax Act, nor is it funded.
- a Supplementary Executive Retirement Plan (SERP) for certain executives, effective April 9, 2002. This plan is not registered under the Income Tax Act, nor is it funded.

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

# NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

(In thousands of dollars)

## 7. Employee future benefits (continued)

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

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

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

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

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

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

## 8. Lease commitments

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

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

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

## December 31, 2018

(In thousands of dollars)

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

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

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

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

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

#### (a) MF Global Canada Co.

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

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

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

#### (b) Barret Capital Management Inc.

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

# NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

(In thousands of dollars)

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

### (c) Octagon Capital Corporation

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

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

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

## 10. Financial instruments

The fair value of a financial instrument is the estimated amount CIPF would receive or pay to settle a financial asset or financial liability as at the reporting date.

The fair value of cash, member assessments receivable, and payables and accruals approximates their carrying value due to the immediate or short-term nature of these financial instruments.

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

### ***Risk management***

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

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

- Ontario - 35% to 55%
- Quebec - 20% to 40%
- British Columbia and Alberta combined - 10% to 20%
- All other provinces and territories combined - 10% to 20%

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

December 31, 2018

(In thousands of dollars)

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**10. Financial instruments (continued)**

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

Interest rate risk

Interest rate risk is the risk that the fair value of investments will fluctuate due to changes in market interest rates. CIPF manages the interest rate risk exposure of its investment portfolio by following the investment policy described above and by holding all investments until maturity, unless required to make a payment in accordance with the mandate of CIPF or as directed by the Board.

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

Liquidity risk

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

Credit risk

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

Market risk

Market risk is the risk that the fair value of investments will fluctuate as a result of changes in market conditions, whether these changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market. CIPF manages the market risk exposure of its investment portfolio by following the investment policy described above.

Currency risk

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

# BOARD OF DIRECTORS

DECEMBER 31, 2018

## Chair



**Martin L. MacLachlan**<sup>3</sup>  
LL.M, LL.B, ICD.D  
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)

## President & CEO



**Rozanne E. Reszel**  
FCPA, FCA, CFA, ICD.D  
Toronto, Ontario  
(joined September 1998)

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

## Public Directors



**Ann Davis**<sup>1,4</sup>  
FCPA, FCA  
Toronto, Ontario  
Former Partner, KPMG LLP  
(joined April 2017)



**Donna Howard**<sup>2\*,4</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)



**Anne La Forest**<sup>2,3</sup>  
LL.M, LL.B  
Fredericton, New Brunswick  
Faculty of Law at University of New Brunswick  
Former Member of the New Brunswick Securities Commission  
(joined April 2014)



**Douglas Stratton**<sup>1\*,4</sup>  
CFA, ICD.D  
Edmonton, Alberta  
Vice-President, Alberta Investment Management Corporation  
(joined June 2016)



**Bernard Turgeon**<sup>1,3</sup>  
Ph.D.  
Quebec City, Quebec  
Former Associate Deputy Minister at the Ministry of Finance of Quebec  
(joined April 2017)

## Industry Directors



**Rita Achrekar**<sup>3,4</sup>  
FRM  
Toronto, Ontario  
Former Senior Vice-President,  
Global Risk Management, Scotiabank  
(joined April 2018)



**Brigitte Geisler**<sup>1,3\*</sup>  
LL.M, LL.B  
Toronto, Ontario  
Capital Markets Professional Consultant  
Former Director of Market Regulation at  
Ontario Securities Commission  
(joined April 2014)



**Debra A. Hewson**<sup>2,4\*</sup>  
Vice-Chair  
Vancouver, British Columbia  
President &  
Chief Executive Officer, Odium Brown Limited  
(joined March 2011)



**Pierre Matuszewski**<sup>1,2</sup>  
ICD.D  
Montreal, Quebec  
Former President and CEO of Société Générale  
(Canada Branch) and of Société Générale  
Capital Canada Inc.  
(joined April 2016)



**Peter Virvilis**<sup>2,4</sup>  
Vancouver, British Columbia  
Chief Financial Officer, Haywood Securities Inc.  
(joined April 2017)

## Officers

**Martin L. MacLachlan**  
LL.M, LL.B, ICD.D  
Chair

**Debra Hewson**  
Vice-Chair

**Rozanne E. Reszel**  
FCPA, FCA, CFA, ICD.D  
President & Chief Executive  
Officer

**Joseph Campos**  
CFA, FRM  
Vice-President, Industry Risk

**Linda G. Pendrill**  
CPA, CA  
Chief Financial Officer

**Ilana Singer**  
LL.B  
Vice-President & Corporate  
Secretary

## Committees

<sup>1</sup> Audit, Finance &  
Investment Committee

<sup>2</sup> Coverage Committee

<sup>3</sup> Governance, Nominating &  
Human Resources Committee

<sup>4</sup> Industry Risk Committee

\* Committee Chair



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