

Get CIPF Protection—  
Invest with an IIROC  
Regulated Member

ANNUAL REPORT 2014

**CIPF**

Canadian Investor Protection Fund



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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 assets to eligible customers in cases where a Member becomes insolvent.



# GOVERNED BY TWO AGREEMENTS

## CIPF's Role in the Canadian Regulatory System

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

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

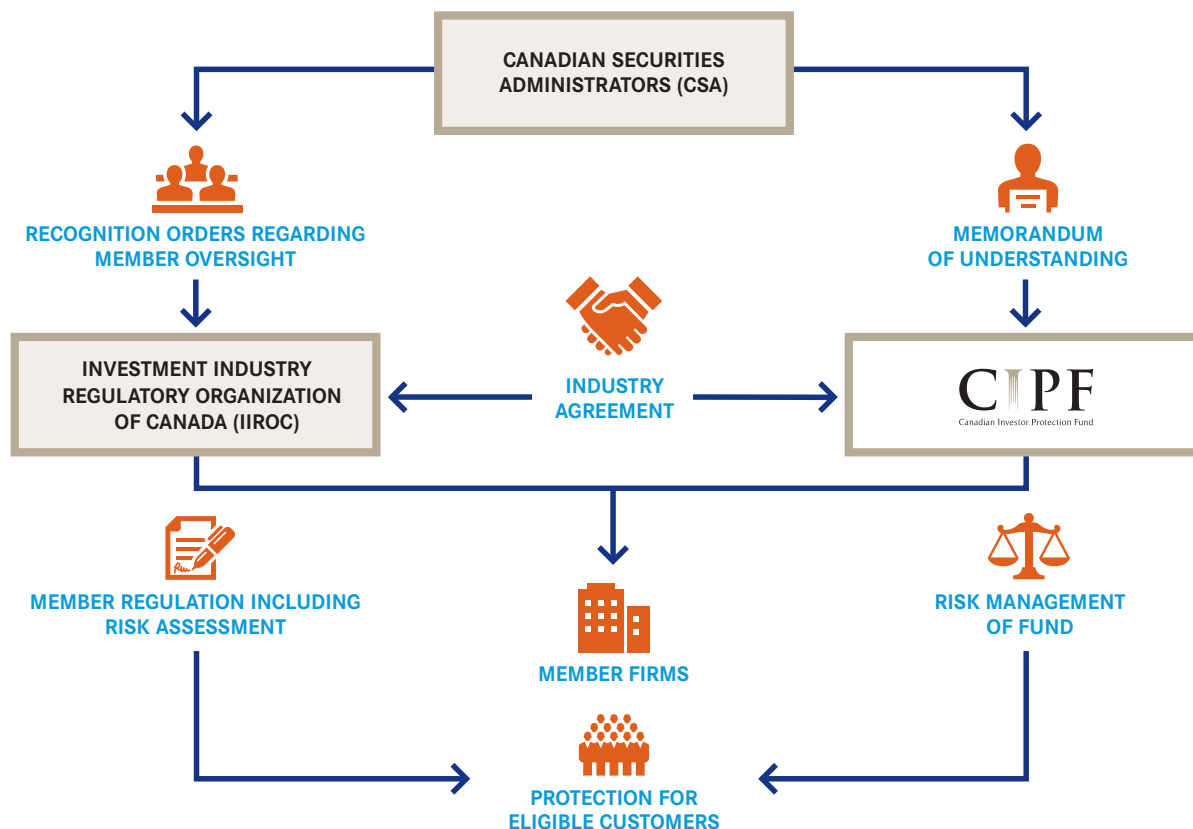
funded by IIROC-regulated Dealer Members, and all IIROC Dealer Members are CIPF Members.

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

- A Memorandum of Understanding (MOU) with the CSA that addresses the governance, funding and maintenance of CIPF as well as CIPF's responsibilities for investor protection and reporting to the CSA. As provided for by securities laws and

regulations in many Canadian provinces and territories, certain regulators have also issued Approval Orders regarding CIPF

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



# CONSTANTLY MEETING OUR MANDATE— EVOLVING TO MEET FUTURE CHALLENGES

## Message from the Chair

**By any previous standard, 2014 was an exceptional year for the Canadian Investor Protection Fund (CIPF), one that demonstrated its resilience in meeting its professional obligations under all circumstances.**

CIPF has addressed multiple claims arising from an insolvency during its 45-year history, but never before had it handled more than 150 in any single insolvency. Yet, in managing the insolvency of First Leaside Securities Inc. (FLSI), CIPF has tackled an unprecedented 900 claims, testing its mettle and proving its capabilities.

FLSI was 2014's top priority, although the resolution of all claims cannot happen imminently. Within the framework of the CIPF Coverage Policy, that was created to protect investors in a specific set of circumstances, CIPF has been equitably and thoughtfully responding to all claimants. This reflects the ongoing commitment of the CIPF Board and staff to executing the CIPF mandate within the Canadian capital markets.

Other milestones in the preceding year have included advancing work on location-based risk, increasing the insurance policy and making changes to the Fund investment policy that increases its yield without increasing credit risk. Significantly, these latter improvements have enabled CIPF to limit assessment increases to Members in a difficult business environment. Acting responsibly toward investors and Member firms who support CIPF will always be a key factor in Board decision-making.

The past year also saw an expansion and revitalization of our Board, providing it with enhanced capabilities and diversity. We added two highly capable Directors with special skill sets (increasing the Board to 12 from 10) and replaced a retired Director. This essential self-renewal process will continue in 2015 when I, together with one other Director, retire. We now have significant female representation on the CIPF Board, reflecting a deliberate alignment with societal goals to have more women serve on boards and in executive positions. Thank you to all Board members for their contribution to an extraordinary year.

It's also worth noting that my successor, Alain Rhéaume, is the first individual to become the Chair from our Public Directors. He is highly qualified to assume these duties and has been effectively initiated into his role. I know I speak for the Board when I wish Alain much success in fulfilling CIPF's important mandate.

While fully engaged in their skillful management of claims and other files, Rozanne Reszel and her team continued to nurture connections with regulatory and industry organizations here and abroad. Ensuring good rapport is critical for the efficient resolution of increasingly complex insolvencies.

I would like to take this opportunity to thank Rozanne and her team for an excellent year.

Reflecting on my entire experience with CIPF, there have been a number of highlights. Among these highlights include: ensuring the continuing vitality of the risk model, enhancing claims processing, furthering succession planning and cultivating leadership for future effectiveness. It has been rewarding to contribute to these initiatives.

CIPF must continue to evolve to meet new challenges. Its organizational foundation is very disciplined, providing it with great strength. But the emergence of novel and perhaps unforeseen risks that affect Member firms and individual investors means that it must continue to change and adapt to ensure it can meet its crucial responsibilities.

Through its ongoing vigilant emphasis on making incremental and major improvements, I am confident that it will do so.



William R. Fulton

# MEETING EXTERNAL CHALLENGES FOR 45 YEARS—CONSISTENTLY ACTING WITH INTEGRITY





## Message from the President & Chief Executive Officer

**In 2014, the Canadian Investor Protection Fund (CIPF) managed one of the largest claim files we have ever faced. It drew deeply on two core strengths: operational efficiency and absolute integrity in addressing investor claims.**

The volume of claims made directly to CIPF relating to the insolvency of First Leaside Securities Inc. (FLSI) was unprecedented. To prudently and fairly address 900 individual claims is no small undertaking. The majority of claimants received management decisions at year-end and most of the balance will be completed in the second quarter of 2015. In accordance with our Claims Procedures and our mandate, and in the context of the Canadian regulatory framework, claimants are entitled to a meticulous appeals process; their decisions to pursue appeals of management decisions will affect when we will be fully discharged of our responsibilities.

The demands of managing the claims from former FLSI customers required a temporary expansion of our resources (we now have almost 30 staff onsite), tested our adjudication procedures and heightened our sensitivity to demands placed on the Board and the organization to ensure a fair and consistent approach to all claims. It prompted CIPF to increase its Board by two Directors with legal and adjudicative training and expertise—the Hon. Patrick LeSage and Brigitte Geisler. We welcome the legal expertise they and Anne La Forest (who replaced the retired Hon. Aldéa Landry) have brought to our Board.

While resolving FLSI claims remains our top priority, it was not our only responsibility. Finalizing claims for Barret Capital Management Inc. (Barret) occurred early in the year; it demonstrated that CIPF protection applies no matter where a claimant is located, since many of Barret's clients resided outside of Canada.

CIPF continued to update the risk methodology it uses to determine the funds necessary to protect investors. Extensive work is being done analyzing the locations where Members hold customer assets and understanding the risk associated with recovering those assets on a timely basis, should a Member default, so that the risk can be incorporated into our methodology.

At this time, we await a report from the Canadian Securities Administrators (CSA) largely centred on CIPF's commitments under its Approval Orders and Memorandum of Understanding. The CSA conducts a review of CIPF every three to four years and completed its most recent one in the fourth quarter of 2014.

The continuing low interest rate motivated CIPF to “tweak” its investment policy to provide greater flexibility. It has led to an increased investment in higher-yielding Canada Mortgage Bonds, which provides the Fund with additional financial resources.

Our international networking to reinforce co-operative relationships with counterparts in other jurisdictions continues; we look forward to supporting the next conference with our companion agencies in London this June. Maintaining these contacts has proven invaluable when an international insolvency occurs.

I cannot meaningfully conclude these comments without noting the contribution of our Board to our effective governance and extending my thanks to Bill Fulton for his decade of involvement as a Director and his thoughtful leadership during the past two years as Chair. Our staff, led by three senior officers, tirelessly uphold our mission daily. A special nod is owed to our technology and administrative teams who provided a seamless move to our new facilities last spring.

CIPF remains committed to discharging its mandate and to ensuring the responsible use of Member funds for that purpose. We are well primed to confidently meet the inevitable challenges of 2015.



Rozanne Reszel

## PROVIDING CONFIDENCE





## Overview and Corporate Governance Practices

**The Canadian Investor Protection Fund (CIPF or the Fund) was established by the investment industry in 1969 to protect investors.**

CIPF's Members are investment dealers that are regulated by the Investment Industry Regulatory Organization of Canada (IIROC). On December 31, 2014, 183 investment dealers across Canada were Members of CIPF. All Members are listed on the CIPF website. Every Member is required to include the CIPF Membership Symbol on customer contracts and statements.

If a CIPF Member becomes insolvent, customers may claim for losses involving:

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

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

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### A Record of Returning Assets

**Since 1969, there have been 20 insolvencies of Canadian Investor Protection Fund Members. All eligible customers have had their assets returned to them by CIPF within the limits defined in CIPF's Coverage Policy.**

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### Governance

#### Board Composition

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

To provide CIPF with additional claims processing capacity and expertise, the Board was expanded in 2014 from 10 to 12 directors. In keeping with Fund by-laws, the Board comprises an equal number of Public Directors and Industry 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 have experience with the various aspects of the nature of the business carried on by Members.

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

## Overview and Corporate Governance Practices

Annually, CIPF Directors confirm compliance with the following:

- Receiving the Directors' Handbook, having reviewed it and being familiar 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 understood the contents of the CIPF Employee Handbook and have complied with the Handbook, including CIPF's Code of Conduct.

CIPF 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 [cipf.ca](http://cipf.ca).



## Overview and Corporate Governance Practices

### 2014 Corporate Governance Reporting

The approved schedule for director compensation in 2014 was:

Board	Committee	Out-of-town travel fee
Annual retainer: \$15,000 per year	Committee Chairs: \$3,500 per year (except the Audit, Finance & Investment Committee Chair, for whom the fee is \$4,000 per year)	\$1,000 per meeting for Public Directors who travel to attend Board or committee meetings
Chair of the Board: An additional \$7,500 per year		
Board meetings: \$1,500 per meeting	Committee meetings: \$1,000 for meetings less than two hours, \$1,500 for meetings in excess of two hours	
	Coverage-related Appeal Hearings and preparation: \$400 per hour	

Director attendance at Board and committee meetings for the year ended December 31, 2014:

DIRECTOR	BOARD MEETINGS	COMMITTEE MEETINGS	BOARD AND COMMITTEE MEETINGS
<b>Roger G. Casgrain</b>	4/4	5/5	9/9
<b>William R. Fulton</b>	4/4	9/9	13/13
<b>Brigitte Geisler<sup>1</sup></b>	3/3	1/1	4/4
<b>Debra A. Hewson</b>	4/4	6/6	10/10
<b>Nicholas G. Kirton</b>	4/4	5/5	9/9
<b>Anne La Forest<sup>1</sup></b>	3/3	3/3	6/6
<b>Hon. Aldéa M. Landry<sup>2</sup></b>	1/1	2/2	3/3
<b>Hon. Patrick LeSage<sup>1</sup></b>	3/3	1/1	4/4
<b>Martin L. MacLachlan</b>	4/4	10/10	14/14
<b>T. Hugh McNabney</b>	4/4	5/5	9/9
<b>Rozanne E. Reszel</b>	4/4	12/12	16/16
<b>Alain Rhéaume</b>	4/4	11/11	15/15
<b>Michael J. White</b>	4/4	10/11	14/15

<sup>1</sup> Joined the Board in April 2014.

<sup>2</sup> Ms. Landry completed her term on the Board in April 2014.

## Committee Duties and Reports from Committee Chairs

### Audit, Finance & Investment Committee

#### Michael J. White, FCPA, FCA

Fulfilled mandated core oversight responsibilities pertaining to financial statement preparation, budget, auditors and the CIPF investment portfolio

Two key activities in 2014:

- Provided oversight review of the costs to manage the First Leaside Securities Inc. insolvency—the primary focus of the Board for the year
- Ensured move by CIPF to new offices was cost-effective

Oversaw a major transition in investment portfolio to enhance yield *without* increasing credit risk:

- Following significant due diligence, swapped Government of Canada bonds for Canada Mortgage Bonds issued by Canada Mortgage Housing Corporation (a Crown corporation) guaranteed by the Government of Canada
- CIPF gains additional return of \$0.5 million annually

Provided oversight to management on ensuring proper security and disaster recovery protection

The Board has delegated certain duties to its committees:

#### Audit, Finance & Investment Committee

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

## Coverage Committee

### Nicholas G. Kirton, FCA, ICD.D

The Committee's primary focus in 2014—Oversaw review of approximately 900 claims from former customers of First Leaside Securities Inc. (FLSI):

- Created and ensured execution of a fair and robust claims review and appeals process
- Implemented specific guidelines and procedures for appeals
- Supported the Governance, Nominating & Human Resources Committee in creating Appeal Committees, including selecting Directors with relevant experience and training
- Created, managed and oversaw the FLSI claims review budget

Continued to oversee wind-down of other insolvencies: Rampart Securities Inc., MF Global Canada Co. and Barret Capital Management Inc.

Remained current on financial sector policy initiatives that could impact CIPF coverage

In 2015, will work on key policy initiatives, including:

- Regulatory initiatives regarding segregation and portability of customer assets
- Communication through webcasts, presentations, the media and other vehicles to educate the public about CIPF coverage

The Board has delegated certain duties to its committees:

### Coverage Committee

DUTIES	SIGNIFICANCE
<ul style="list-style-type: none"> <li>• Annually reviews the Coverage Policy, recommends changes to the Board and ensures procedures in place to comply with the Coverage Policy</li> <li>• Reviews issues relating to CIPF coverage eligibility</li> <li>• Is responsible for overseeing the claim payment process</li> <li>• Oversees insolvency proceedings and related litigation</li> <li>• Recommends any changes to Part XII of the <i>Bankruptcy and Insolvency Act (Canada)</i> to the Board</li> <li>• Interprets and recommends changes regarding the CIPF Disclosure Policy to the Board</li> <li>• Ensures procedures are in place to review CIPF's communications</li> </ul>	<ul style="list-style-type: none"> <li>• Ensures payments from the Fund are made to eligible customers for valid claims in an unbiased manner and that all claimants, whether dealing with an appointed insolvency official or directly with CIPF, receive fair and consistent treatment</li> <li>• Ensures adequate procedures to minimize risk of payments being made other than in accordance with the Coverage Policy</li> <li>• Provides oversight in the critical area of insolvency related issues</li> <li>• Ensures CIPF's communications express the nature and intent of its coverage and are accurate</li> </ul>



## Committee Duties and Reports from Committee Chairs

### Governance, Nominating & Human Resources Committee

#### Alain Rhéaume

Key activity in 2014 was hiring of three directors (two new), increasing the Board from 10 to 12

- Two new Board members will join in fiscal 2015, replacing two retiring directors

Have focused on, and will continue focusing on, ensuring Board newcomers have skill set needed for effectively managing complex insolvencies and ensuring their effective integration

Conducted the biennial evaluation of the Board as scheduled

Reviewed the matrix identifying key capabilities required of new Board members

Introduced (for the first time) and adopted formal position descriptions for Chairs of CIPF Board Committees

Reviewed the succession planning for CIPF officers and key staff to ensure continuity of required capabilities through 2015 and beyond

The Board has delegated certain duties to its committees:

#### Governance, Nominating & Human Resources Committee

##### DUTIES

##### SIGNIFICANCE

- Establishes and implements process for identifying potential future Board members
- Provides ongoing development for the Directors
- Annually reviews the succession plan for the Chair and each Committee Chair
- Conducts a biennial evaluation of overall Board performance, each committee and a Director self-evaluation
- Monitors governance trends; furthers adoption of best corporate governance practices
- Recommends Fund goals and objectives for Board approval for the following year
- Reviews human resources issues that may affect the Fund and ensures proper management controls, processes and succession plans

- Provides breadth and depth of governance oversight of CIPF decision-makers that is integrated and thorough
- Ensures that strategic human resources opportunities and risks are properly identified and are well managed through appropriate and early intervention

With input from an external consultant, established solid compensation benchmarks for officers

Provided the Board with counsel on staffing requirements to manage First Leaside Securities Inc. insolvency

## Industry Risk Committee

### Hugh McNabney, CPA, CGA

Fulfilled mandated core oversight responsibilities pertaining to fund size and resources, Member assessments and monitoring the risk that Members may pose to CIPF

Major undertaking in 2014 was to advance the comprehensive location-based asset allocation risk model:

- Obtained data about where Members hold assets and assessed the timing and likelihood of recovery if a Member were to default
- Multi-year effort with data to be collected annually
- Data fed into risk-based model to determine resource requirements
- In 2015, will investigate incorporating this information into CIPF's risk-based Member assessments

Outcomes from location-based asset allocation risk model:

- For investors: CIPF better equipped to more quickly recover assets in insolvencies
- For industry: Insights to mitigate location-based risk and assessments based on risk exposure
- For CIPF: More refined measurement of risk of loss to CIPF in the event of a Member insolvency

The Board has delegated certain duties to its committees:

### Industry Risk Committee

DUTIES	SIGNIFICANCE
<ul style="list-style-type: none"> <li>• Monitors adequacy of Fund resources in relation to the risk exposure from the failure of Members</li> <li>• Recommends the annual assessment for Board approval and ensures 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 ensures procedures are established to ensure compliance with policies and procedures</li> <li>• Hears and decides Member assessment appeals</li> <li>• Ensures procedures are in place to monitor the adequacy of IIROC capital requirements and any changes thereto</li> <li>• Ensures procedures are in place to identify and respond to Members that may pose a risk to the Fund</li> </ul>	<ul style="list-style-type: none"> <li>• Provides risk-monitoring and mitigation measures that offer critical safeguards to the Fund, CIPF Members and other key stakeholders</li> <li>• Provides oversight for the critical determination of the appropriate fund size and related adequacy of Fund resources</li> </ul>

Continued to examine types of resources available and appropriate for CIPF to fund its potential liabilities to customers of a defaulted Member

2015 priority is to continue work on the location-based risk model and incorporate it into Member assessments

# COMMITTED TO INVESTORS

## CIPF Coverage

### Coverage Policy

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

### Protecting Investors

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

### Protecting Eligible Customers

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

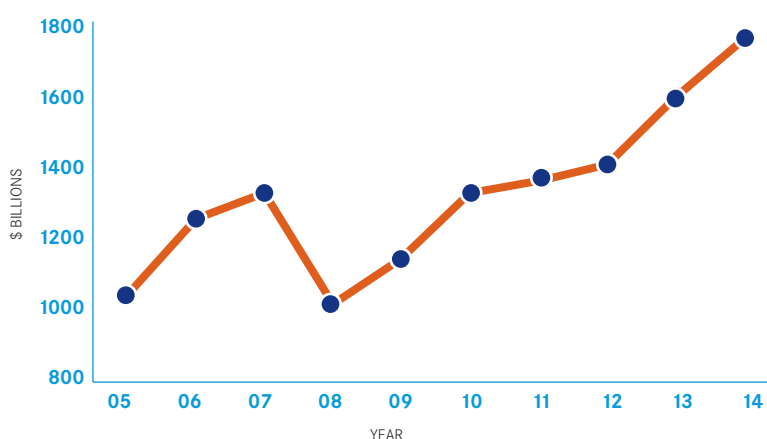
During 2012, the CIPF Board of Directors determined that two Members that had been suspended by IIROC—Barret Capital Management Inc. (Barret) and First Leaside Securities Inc. (FLSI)—were insolvent for the purposes of customers making claims against CIPF.

The Barret insolvency provided new challenges of communication with claimants given that many claimants resided outside of Canada. At the end of 2014, the processing of the customer claims from former customers of Barret was completed. During 2014, CIPF paid \$0.5 million to claimants, for a total amount paid to claimants of \$1.8 million.

CIPF is currently reviewing and responding to the approximately 900 claims received from former FLSI customers. CIPF is assessing the eligibility of each individual claim received based on the criteria set out in the CIPF Coverage Policy, and in accordance with the CIPF Claims Procedures. CIPF has communicated determinations regarding claim eligibility to the majority of the individuals who have submitted claims to CIPF. Under the CIPF Claims Procedures, after being advised of the determination regarding coverage eligibility, claimants have the right to request

## Net Client Assets Reported by Members

At December 31, for the years 2005 to 2014



Members reported that net assets held for clients, a proxy for assets eligible for CIPF protection, increased by approximately \$0.2 trillion from the previous year, to more than \$1.8 trillion at December 31, 2014.



an appeal of the determination to the CIPF Coverage Committee. CIPF has been processing a number of such requests submitted by claimants.

In late 2011, MF Global Canada Co. (MF Global) was declared bankrupt and a trustee in bankruptcy was appointed. CIPF entered into a support agreement with the trustee that allowed for the early transfer of most accounts eligible for CIPF coverage at 100% of the net equity of eligible customers. At December 31, 2014, MF Global continues to be under the administration of a trustee in bankruptcy who has paid 100% of net equity claims as at the date of bankruptcy. Information on the provision for claims and/or related expenses is provided in CIPF's financial statements, which are available at [cipf.ca](http://cipf.ca).

Since the Canadian Investor Protection Fund was established 45 years ago, *all eligible customers* have had their assets returned to them by CIPF within the limits defined in CIPF's Coverage Policy. This record is a tribute to the management and resources of the Fund and a reflection of CIPF's commitment to protecting investors within the framework of its Coverage Policy.

### **Informing Members and Investors**

Investment advisors play a pivotal role in building investor knowledge and confidence: that is why CIPF has developed material to help

them inform their clients about CIPF protection. Partnering with IIROC, CIPF has developed two compliance-accredited continuing education modules. These are available as webcasts at [iiror.ca](http://iiror.ca). Advisors may register for them directly from the *Investment Advisors* section on [cipf.ca](http://cipf.ca).

### **Promoting Awareness of Investor Protection**

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

- The *Member Directory* section of the CIPF website lists the legal entity names of all CIPF Members, so investors can confirm their status
- All Members must include either the words "Member—Canadian Investor Protection Fund" or the CIPF logo on customer contracts and statements
- Members must display the CIPF Decal at *each* business location where clients may visit

CIPF sponsors the web portal [financeprotection.ca](http://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.

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### **Member—Canadian Investor Protection Fund**

**Every Member is responsible for including the CIPF Membership Symbol on customer contracts and statements.**

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## FINANCIAL STRENGTHS





## Fund Resources

The CIPF Board is responsible for:

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

The Board uses a model to guide it in setting the fund size. The model considers client assets in the context of the relative risk of the Member responsible for them. Members with strong internal controls, profitability and capital will have lower risk scores.

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

- The *General Fund* of \$448 million at the 2014 year-end
- An *insurance policy* that pays up to \$160 million in the annual aggregate in respect of losses to be paid by CIPF in excess of \$150 million
- The *ability* to assess Members

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

The General Fund of \$448 million at December 31, 2014 comprises the following:

- A portfolio of investments with a fair value of \$459 million
- The net of all other assets and liabilities held by the Fund, which

at December 31, 2014 amounted to a net liability of \$11 million

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

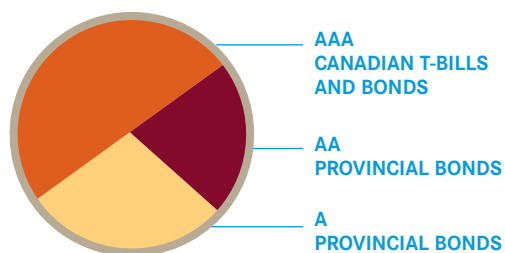
During 2014, the Board approved changes to the Investment Policy. The most significant changes were the shortening of the ladder from an 11-year ladder to a 10-year ladder and the elimination of the requirement to keep 15% of the portfolio in investments maturing in one year or less.

## CIPF Investment Portfolio of \$459 Million (Fair Value)

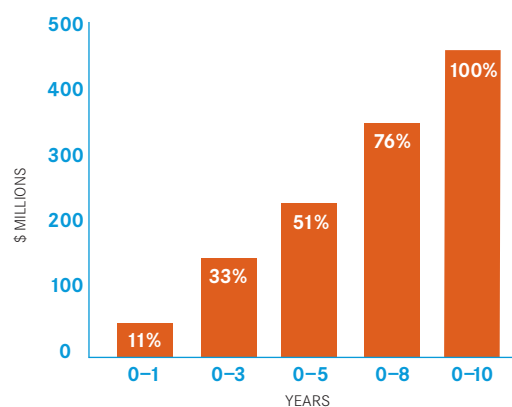
At December 31, 2014

### DISTRIBUTION OF CREDIT RATINGS

As rated by DBRS Limited



### MATURITY BY TIME BAND



## Commentary on Financial Results

### Balance Sheet

Total assets of \$463.6 million are comprised primarily of investments at fair value of \$459.3 million. All investments are Government of Canada or provincial government issued or guaranteed and are carried at fair value. At December 31, 2014, the investments at fair value include an unrealized gain of \$19.6 million (2013: \$12.6 million) due to yields at the time of purchase exceeding market yields at December 31, 2014. If interest rates rise, this unrealized gain could be materially diminished or even reversed to an unrealized

loss, depending on the magnitude of the rate change. An immediate hypothetical 100 basis point increase in interest rates would decrease the fair value of the investments by \$20.2 million (2013: \$18.3 million).

The balance in the General Fund at December 31, 2014 was \$448.1 million, an increase of \$25.7 million over the prior year. The increase resulted from:

Excess of revenues over expenses of \$27.0 million; less:

- Transfer to the Capital Assets Fund of \$0.6 million

- Employee future benefits remeasurements of \$0.7 million

The balance in the General Fund at December 31, 2013 was restated from \$423.3 million as originally reported to \$422.3 million as a result of adopting the new accounting policy for employee future benefits.

The Investment in Capital Assets Fund was \$0.5 million at December 31, 2014, an increase of \$0.4 million due to leasehold improvements for the new office lease.



## Revenues and Expenses

CIPF's excess of revenues over expenses was \$27.0 million for the year ended December 31, 2014, compared to a deficiency of revenues over expenses of \$1.0 million in 2013. The excess of revenues over expenses of \$27.0 million was the net of the following items:

- Excess of revenues over expenses before other items of \$18.7 million, plus gain on sale of investments of \$4.0 million and unrealized gains during the year on investments due to the movement in market value of \$7.0 million, reduced by the provision for claims and/or related expenses of \$2.7 million

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

### Assessments in 2014

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

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

After allowing for minimum and maximum assessments, the net amount assessed to Members was \$11.3 million in 2014 versus \$10.3 million for 2013. The increase

## General Fund Grows

**The General Fund had net assets of \$448.1 million at the end of 2014, an increase of \$25.7 million from the previous year.**

of \$1.0 million was due to the Board-approved increase in the annual assessment amount to \$11.2 million effective Q1 2014.

CIPF also assessed capital deficiency assessments of \$0.1 million in 2014 (2013: \$0.1 million) to Members that incurred capital deficiencies pursuant to IIROC rules in any month, in accordance with CIPF's Assessment Policy.

### Investment Income for 2014

The investment income for the year ended December 31, 2014 was \$14.1 million, the same as the prior year.

### Expenses for 2014

Operating expenses for the year ended December 31, 2014 were \$6.9 million, a \$0.1 million decrease compared to 2013 (as restated), due to the following:

- Salaries and employee benefits were \$0.1 million lower due to open staff positions
- Other operating costs were \$0.2 million higher due to the one-time cost of moving office
- Occupancy costs were \$0.1 million higher due to the accounting treatment of the free rent period and other leasehold inducements
- Professional fees were \$0.3 million lower due to lower consulting fees for the fund size project

A provision for claims and/or related expenses of \$2.7 million was recorded during 2014 compared to \$3.9 million in 2013. The 2014 expense comprises an accrual for the estimated costs to administer the claims submitted by former customers of FLSI to CIPF.

### Outlook for 2015

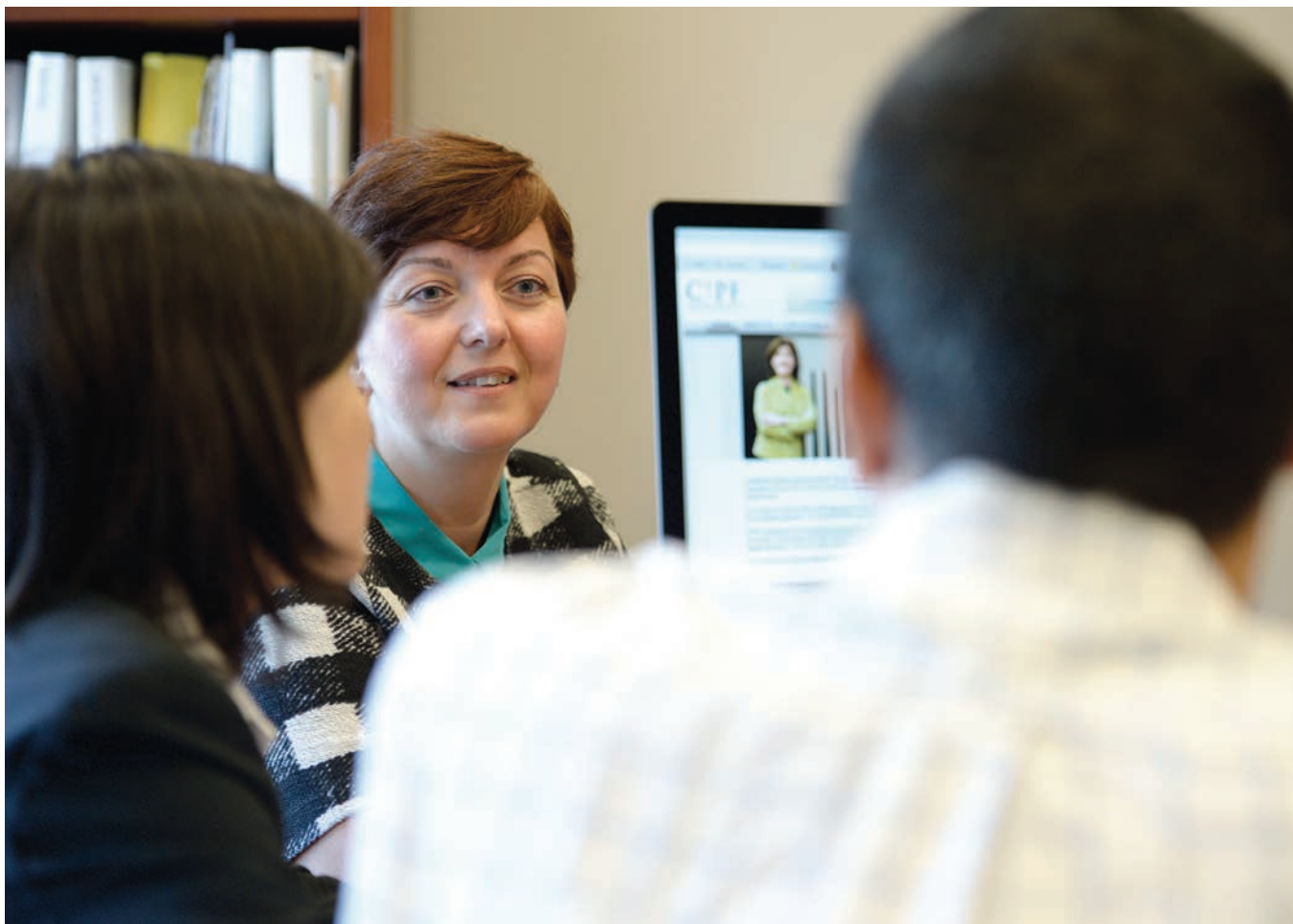
Regular assessment income is expected to be \$11.3 million in 2015. This is not expected to change from 2014.

Investment income at amortized cost is forecasted to be \$13.8 million in 2015, a decrease of \$0.3 million due to the lower interest rate environment.

Investments in the General Fund balance are recorded at fair value, which at December 31, 2014 was \$19.6 million higher than the amortized cost (2013: \$12.6 million). The movement in fair value compared to the amortized cost is a function of interest rates and cannot be predicted.

The Fund is forecasting the 2015 operating expenses to be \$7.7 million, an increase of \$0.8 million over the previous year, primarily due to increased staffing levels.

# REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL STATEMENTS



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

The accompanying summary financial statements, which comprise the summary balance sheet as at December 31, 2014 and the summary statement of revenues and expenses and changes in general fund balance for the year ended December 31, 2014, are derived from the audited financial statements of the **Canadian Investor Protection Fund** as at December 31, 2014 and for the year then ended. We expressed an unmodified audit opinion on those financial statements in our report dated March 30, 2015.

The summary financial statements do not contain all the disclosures required by Canadian generally accepted accounting principles. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of the **Canadian Investor Protection Fund**.

### **Management's responsibility for the summary financial statements**

Management is responsible for the preparation of a summary of the audited financial statements on the basis described in the notes to the summary financial statements.

### **Auditor's responsibility**

Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted in accordance with Canadian Auditing Standard 810, "Engagements to Report on Summary Financial Statements."

### **Opinion**

In our opinion, the summary financial statements derived from the audited financial statements of the **Canadian Investor Protection Fund** for the year ended December 31, 2014 are a fair summary of those financial statements, in accordance with the basis described in the notes to the summary financial statements.

The signature of Deloitte LLP is written in a stylized, cursive script.

Chartered Professional Accountants  
Chartered Accountants  
Licensed Public Accountants  
March 30, 2015  
Toronto, Canada



# SUMMARY FINANCIAL STATEMENTS

## SUMMARY BALANCE SHEET

(IN THOUSANDS OF DOLLARS)

	DECEMBER 31, 2014	DECEMBER 31, 2013
	\$	\$
		Restated [Note 2]
<b>Assets</b>		
Current		
Cash	547	466
Prepaid insurance and recoverables	311	358
Investments, at fair value	459,324	431,460
Member assessments receivable	2,870	2,694
	463,052	434,978
Tangible capital assets	449	43
Software development	84	49
	463,585	435,070
<b>Liabilities</b>		
Current		
Payables and accruals	568	684
Provision for claims and/or related expenses	5,223	4,223
Deferred lease inducements	291	–
	6,082	4,907
Employee future benefits	8,908	7,727
<b>Fund balances</b>		
Investment in Capital Assets	533	92
General	448,062	422,344
	463,585	435,070

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

FOR THE YEAR ENDED DECEMBER 31 (IN THOUSANDS OF DOLLARS)

	2014	2013
	\$	\$
		Restated [Note 2]
<b>Revenues</b>		
Regular assessments and assessments for capital deficiencies	11,396	10,426
Investment income	14,141	14,074
	25,537	24,500
<b>Expenses</b>		
Operating expenses	6,879	6,933
<b>Excess of revenues over expenses before the undernoted items</b>	18,658	17,567
Provision for claims and/or related expenses	(2,697)	(3,914)
Gain on sale of investments	4,041	–
Unrealized gains (losses) on investments	7,048	(14,611)
<b>Excess (deficiency) of revenues over expenses</b>	27,050	(958)
<b>General Fund, beginning of year</b>	422,344	422,460
Excess (deficiency) of revenues over expenses	27,050	(958)
Transfer to the Investment in Capital Assets Fund for capital asset additions	(586)	(108)
Employee future benefits remeasurements [Note 2]	(746)	950
<b>General Fund, end of year</b>	448,062	422,344

## Note 1—Applied criteria in the preparation of the summary financial statements

The criteria applied by management in the preparation of these summary financial statements are as follows:

- the information in the summary financial statements is in agreement with the related information in the audited financial statements;
- the summary statements of cash flows and of changes in investment in capital assets fund have not been presented, as the relevant information can be obtained from the audited financial statements; and
- the summary financial statements contain the information necessary to avoid distorting or obscuring matters disclosed in the related audited financial statements, including the notes thereto.

**Note 2**—CIPF retrospectively adopted Sections 3462 and 3463 for employee future benefits and as a result, the 2013 financial statements were restated.

Reference may be made to the audited set of financial statements which are available on the Canadian Investor Protection Fund's website cipf.ca.

# BOARD OF DIRECTORS



**William R. Fulton** <sup>3</sup>

CPA, CA

Chair  
Former Executive Vice-President,  
Wealth Management,  
The Toronto-Dominion Bank  
King City, Ontario

(joined as an Industry  
Director in June 2008)



**Rozanne E. Reszel**

FCPA, FCA, CFA, ICD.D

President & Chief Executive Officer  
Toronto, Ontario

(joined September 1998)



**Nicholas G. Kirton** <sup>2,4</sup>

FCA, ICD.D

Professional Director  
Former Partner, KPMG LLP  
Calgary, Alberta

(joined June 2008)



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

LLM, LL.B

Faculty of Law at University of New Brunswick  
Former Member of the New Brunswick  
Securities Commission  
Fredericton, New Brunswick

(joined April 2014)



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

C.M., O.Ont., Q.C.

Former Chief Justice of the Superior  
Court of Justice in Ontario  
Toronto, Ontario

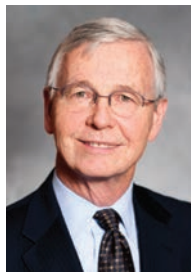
(joined April 2014)



**Alain Rhéaume** <sup>2,3</sup>

Founder and Managing Partner,  
Trio Capital Inc.  
Former Deputy Minister of Finance  
for the Government of Quebec  
Outremont, Quebec

(joined January 2009)



**Michael J. White** <sup>1,3</sup>

FCPA, FCA

President & Chief Executive Officer,  
Addenda Capital Inc.  
Toronto, Ontario

(joined April 2007)

## Public Directors

## Industry Directors

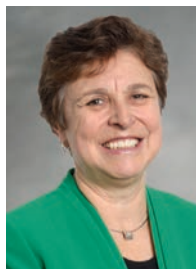


### **Roger G. Casgrain**<sup>1,4</sup>

CFA

Executive Vice-President,  
Casgrain & Company Limited  
Montreal, Quebec

(joined June 2008)



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

LLM, LL.B

Capital Markets Professional Consultant  
Formerly Director of Market Regulation  
at Ontario Securities Commission  
Toronto, Ontario

(joined April 2014)



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

President & Chief Executive Officer,  
Odlum Brown Limited  
Vancouver, British Columbia

(joined March 2011)



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

LL.B

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.  
Toronto, Ontario

(joined April 2013)



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

CPA, CGA

Consultant to the financial services industry  
Former Chief Financial Officer,  
Scotia McLeod Inc.  
Orillia, Ontario

(joined January 2009)

## Officers

### **William R. Fulton**

CPA, CA

Chair

### **Alain Rhéaume**

Vice-Chair

### **Rozanne E. Reszel**

FCPA, FCA, CFA, ICD.D

President & Chief Executive Officer

### **Barbara D. Love**

CPA, CA, CFA

Senior Vice-President & Secretary

### **Linda G. Pendrill**

CPA, CA

Chief Financial Officer

### **Ilana Singer**

LL.B

Vice-President

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

<sup>1</sup> Member of the Audit,  
Finance & Investment Committee

<sup>2</sup> Member of the Coverage Committee

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

<sup>4</sup> Member of the Industry Risk Committee

Canadian Investor Protection Fund

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Canadian Investor Protection Fund