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

# 2016 ANNUAL REPORT



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

## 2 CIPF'S ROLE IN THE CANADIAN REGULATORY SYSTEM

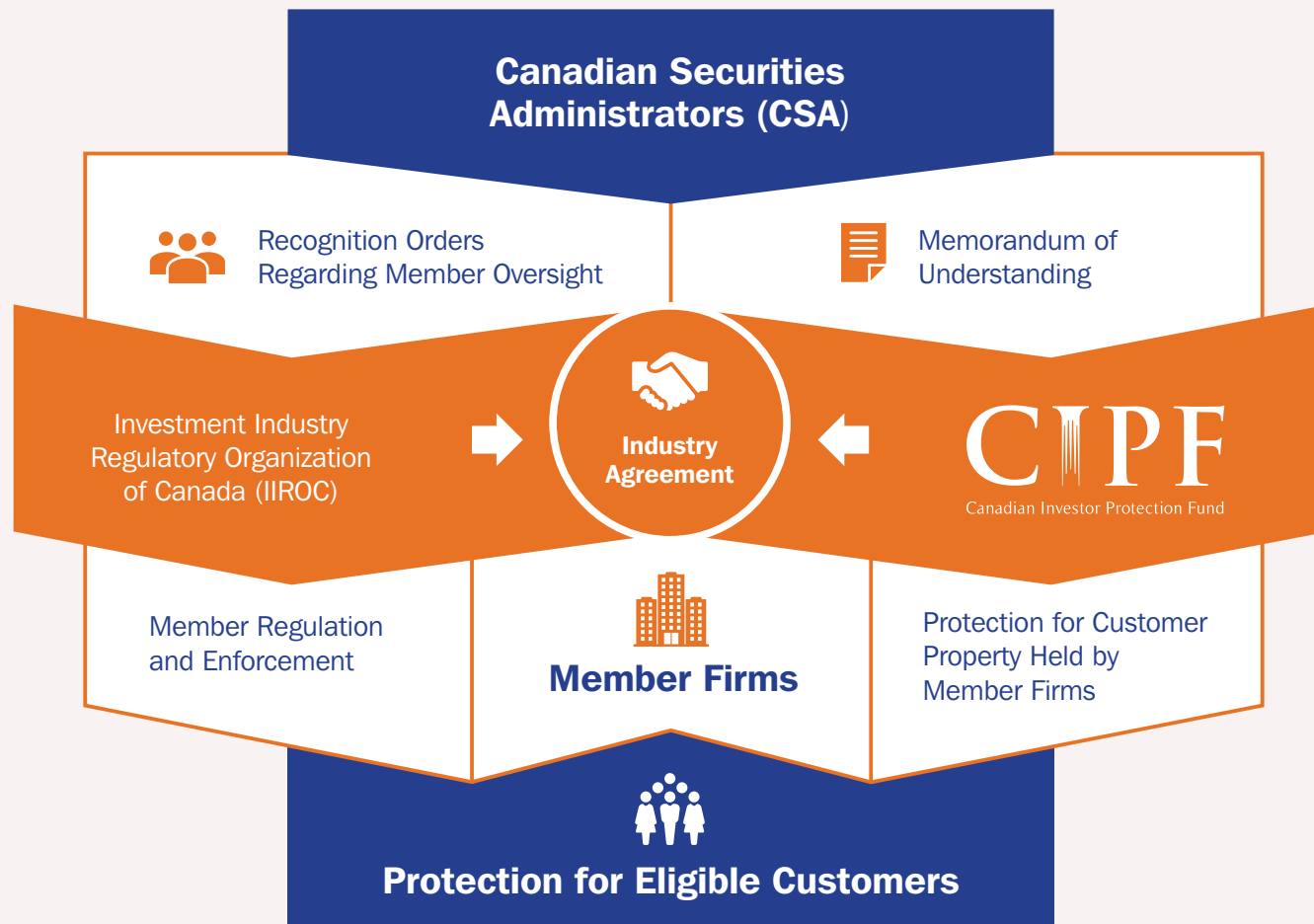
### Governed by Two Agreements

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

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

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

- A Memorandum of Understanding (MOU) between CIPF and the CSA that addresses CIPF's responsibilities for investor protection, as well as the governance, funding and maintenance of CIPF and reporting to the CSA. 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.
- An Industry Agreement between CIPF and IIROC that establishes the 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 by CIPF.



## 4 MESSAGE FROM THE CHAIR



**At CIPF, solid governance practices and Board renewal are among key success factors. I welcome to the Board Pierre Matuszewski as an Industry Director and Douglas Stratton as a Public Director, both of whom bring a wealth of experience that will complement the skills and expertise of the Board. The Board has been proactive in ensuring a robust process for achieving diversity of expertise among its directors.**

**Alain Rhéaume**

CHAIR

Roger Casgrain and Patrick LeSage completed their terms in 2016 as an Industry Director and a Public Director, respectively, and I want to acknowledge their invaluable contributions to the Board.

The year was a busy one, both strategically and operationally. A strategic plan for the period 2017 to 2019 was developed and approved, with an overarching goal of engaging with stakeholders regarding CIPF coverage. The strategic plan also includes principal goals to address the key risks facing the organization.

A major operational milestone over this past year was the completion of the appeal process for claims arising from the insolvency of First Leaside Securities Inc. (FLSI). In total, directors on the Coverage Committee conducted over 130 appeal hearings arising from the approximately 900 claims processed by staff. To ensure transparency, decisions have been posted to the website at [www.cipf.ca](http://www.cipf.ca).

CIPF is always looking to improve the clarity of its communication regarding CIPF coverage, including what it does and does not cover. Reflecting on the FLSI appeal experience and research that we conducted, the Board launched a project to adopt the use of plain language in communication regarding coverage. This resulted in a re-write and re-design of the CIPF website and brochure.

Looking ahead, CIPF recognizes it must maintain an enhanced state of readiness and sufficient financial resources to address future risks. Accordingly, the Industry Risk Committee recommendation that CIPF target total fund resources of \$1 billion, to be reached by the end of 2023, was approved. Significant progress has also been made this past year on initiatives to assess each Member's asset location risk and to research how it might be used to supplement the Member assessment methodology.

It has been an honour serving on the Board for the past eight years, particularly as the first Public Director to serve as Chair. Vice-Chair Nick Kirtton will succeed me as Chair, and I depart with full confidence that he and my Board colleagues will provide CIPF with effective leadership and governance going forward. I extend my thanks to President and CEO Rozanne Reszel and the management team for their dedication towards delivering the CIPF mandate.

CIPF fulfills its mandate with professionalism, perseverance and integrity. Although the next year will undoubtedly bring new challenges, the results of the past year demonstrate that CIPF is ready to meet them.



Alain Rhéaume

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## 6 MESSAGE FROM THE PRESIDENT & CEO



**Enhancing our state of readiness to fulfill CIPF's mandate of returning missing property to all eligible clients is our top priority. Appropriate financial, operational and human resources are each important elements in achieving an enhanced state of readiness.**

**Rozanne Reszel**  
PRESIDENT & CEO



During 2016, we simulated a drawdown of our bank lines of credit that proved instructional and resulted in improved documentation that will speed up the drawdown process in the future. We also conducted a simulation of a claim on our insurance policy, which compensates CIPF for eligible claims paid in any one year, in excess of \$150 million, up to the limit of the policy. The results of this simulation exercise confirmed that the policy operates as intended and can be relied on as a fund resource.

Operationally, CIPF continues to support the trustee, appointed in 2015, in pursuing recoveries for the Octagon Capital Corporation estate. We also concluded the internal claims review and appeal process on the First Leaside Securities Inc. file, which first arose after the suspension of the firm in 2012. Although each insolvency posed different challenges, CIPF has focused on applying a consistent and rigorous approach to discharging its responsibilities.

We undertook extensive work on our fund resource model to ensure that the combination of factors used to assess default risk continue to have a high predictive value. We continued our work incorporating asset location data into the model to ensure that it captures the recovery risk associated with various types of asset locations. We also commenced research on how asset location risk might be incorporated into Member assessments.

CIPF strives to maintain strong working relationships with our regulatory partners. Over the past year, we provided input to the Canadian Securities Administrators and the Investment Industry Regulatory Organization of Canada on a wide range of policy matters impacting CIPF and our membership. These included rules dealing with CIPF disclosure on client account statements and the implementation of a new futures market segregation and portability regime. We also submitted comments to the Department of Finance with recommendations to amend the *Bankruptcy and Insolvency Act* (Canada).

As I reflect on 2016, it is clear that CIPF would not have been able to successfully fulfill its mandate without the commitment of its dedicated staff and Board of Directors. I would like to extend my gratitude for their professionalism and hard work. A special thank you goes to Chair Alain Rhéaume for his many years of service on the Board, during which the organization greatly benefited from his insight and guidance. I also wish to acknowledge the tremendous contribution that our Senior Vice-President, Barbara Love, has made to the organization over the past 27 years, as she prepares for retirement later in 2017.



Rozanne Reszel

### Providing Confidence

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

CIPF's Members are investment dealers that are regulated by the Investment Industry Regulatory Organization of Canada (IIROC). On December 31, 2016, 163 investment dealers across Canada were Members of CIPF. All Members are listed on the CIPF website. Every Member is required to include the CIPF Membership Symbol on all confirmations and account statements.

If a CIPF Member becomes insolvent, customers may, in accordance with the CIPF Coverage Policy, claim for 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 CIPF's Coverage Policy



**Barbara D. Love**  
SENIOR VICE-PRESIDENT

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 *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.

#### **A RECORD OF RETURNING PROPERTY**

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

## **GOVERNANCE**

### **Board Composition**

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

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

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

## 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, that they understand, and that they have complied with the contents of the CIPF Employee Handbook, including CIPF's Code of Conduct.

CIPF also has a Whistleblower Policy that encourages and enables employees to raise serious concerns about violations of CIPF's Code of Conduct. As outlined by the policy, employees may report complaints and allegations concerning violations of the CIPF Code of Conduct to the Chair of CIPF's Audit, Finance & Investment Committee.

Besides empowering employees to report violations of the CIPF Code of Conduct, the Board of Directors has established a confidential and anonymous process so that any financial complaint or concern about



**Ilana Singer**

VICE-PRESIDENT & CORPORATE SECRETARY

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).

## 2016 CORPORATE GOVERNANCE REPORTING

The approved schedule for director compensation at December 31, 2016 was:

### BOARD

**Annual retainer:**  
\$15,000 per year

**Chair of the Board:**  
An additional \$9,750 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 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, 2016:

DIRECTOR	BOARD MEETINGS	COMMITTEE MEETINGS	BOARD AND COMMITTEE MEETINGS
Douglas Baker	4/4	5/5	9/9
Roger G. Casgrain <sup>1</sup>	1/1	2/3	3/4
Brigitte Geisler	4/4	2/2	6/6
Debra A. Hewson	3/4	5/5	8/9
Donna Howard	4/4	8/8	12/12
Nicholas G. Kirton	4/4	8/8	12/12
Anne La Forest	4/4	4/4	8/8
Hon. Patrick LeSage <sup>2</sup>	1/1	0/1	1/2
Martin L. MacLachlan	4/4	8/8	12/12
Pierre Matuszewski <sup>3</sup>	3/3	2/2	5/5
T. Hugh McNabney	4/4	5/5	9/9
Rozanne E. Reszel	4/4	13/13	17/17
Alain Rhéaume	4/4	6/6	10/10
Douglas Stratton <sup>4</sup>	3/3	2/2	5/5

<sup>1</sup> Mr. Casgrain completed his term on the Board in April 2016

<sup>2</sup> Hon. LeSage completed his term on the Board in June 2016

<sup>3</sup> Mr. Matuszewski joined the Board in April 2016

<sup>4</sup> Mr. Stratton joined the Board in June 2016

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## COMMITTEE DUTIES

### 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 the Fund is exposed</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>• Ensures adequate management controls to minimize the financial and investment risks to which the Fund is exposed</li> </ul>
<b>Coverage Committee</b>	<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, 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>• 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 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>• Ensures adequate procedures to minimize risk of payments beyond what is intended by the Coverage Policy</li> <li>• Provides procedures and process to hear claims appeals</li> <li>• Ensures CIPF's communications are clear, accurate and express the nature and intent of available coverage</li> </ul>

COMMITTEE	DUTIES	SIGNIFICANCE
Governance, Nominating & Human Resources Committee	<ul style="list-style-type: none"> <li>• Establishes and implements process for identifying potential future Board members</li> <li>• Provides 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 a Director self-evaluation</li> <li>• Monitors governance trends; furthers adoption of best corporate governance practices</li> <li>• Reviews human resources issues that may affect the Fund and ensures proper management controls, processes and succession plans</li> <li>• Reviews human resource policies and procedures, benefits and pension plans, and ensures compliance with relevant regulatory requirements</li> </ul>	<ul style="list-style-type: none"> <li>• Ensures an integrated and thorough oversight of CIPF decision-makers and their adherence to good governance</li> <li>• Ensures that strategic human resources opportunities and risks are properly identified and are well managed through appropriate and early intervention</li> </ul>
Industry Risk Committee	<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>• Ensures procedures are in place to monitor the adequacy of, and any changes to, IIROC capital requirements</li> <li>• Ensures procedures are in place to identify and respond to Members that may pose a risk to the Fund</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>• 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 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> <li>• Ensures timely response to Member failures and determines the CIPF funding required, if any</li> </ul>



## Committed to Investors

### Coverage Policy

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

### Protecting Investors

If a customer has an account with a Member, and that Member becomes insolvent, the Canadian Investor Protection Fund 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. Customer property can include securities and cash. For an individual holding an account or 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, RRIFs and LIFs), plus
- \$1 million for all registered education savings plans (RESPs) combined where the customer is the subscriber of the plan.

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

Since its creation in 1969, CIPF has been called on to fulfill its role of protecting customers of insolvent Members.

In December 2015, IIROC found Octagon Capital Corporation (Octagon) to be capital deficient and suspended its membership. Given the potential shortfall in customer assets, CIPF sought and obtained a court order appointing a trustee in bankruptcy. CIPF entered into a funding agreement with the trustee in order to transfer eligible customer accounts, at 100% net equity, as quickly as possible to another IIROC Dealer Member. This enabled eligible former Octagon customers to regain control over their accounts on a timely basis. In total, CIPF has advanced approximately \$6 million in funding for Octagon. At December 31, 2016, the Octagon estate continues to be under the administration of a trustee in bankruptcy.

In February 2012, the CIPF Board determined that First Leaside Securities Inc. (FLSI) was insolvent for purposes of customers making claims against CIPF. CIPF processed approximately 900 claims from former FLSI customers and provided determinations to claimants regarding coverage eligibility based on the CIPF Coverage Policy and in accordance with the CIPF Claims Procedures. CIPF Appeal Committees held and completed over 130 appeal hearings involving 256 claimants that requested an appeal of CIPF staff's determination regarding coverage eligibility. Redacted versions of CIPF Appeal Committee decisions have been posted to the CIPF website.

In November 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, 2016, the MF Global estate continues to be under the administration of a trustee in bankruptcy.





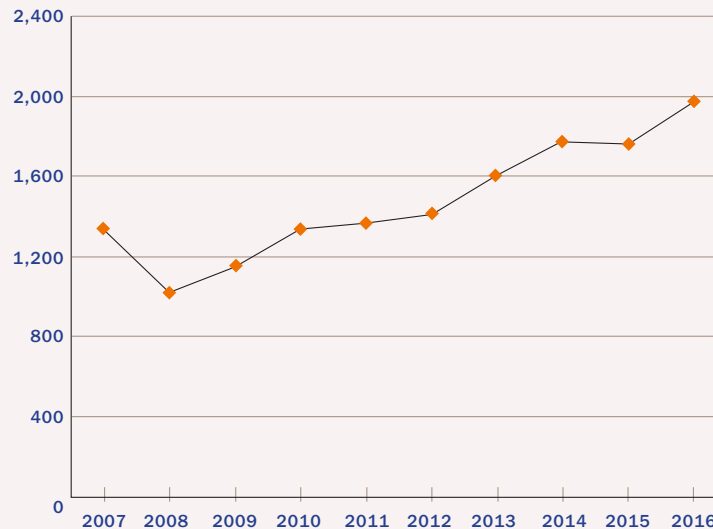
**Suzanne Michaelson**  
SENIOR ANALYST, COVERAGE

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

Since the Canadian Investor Protection Fund was established 47 years ago, *all eligible customers* have had their property 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.

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

At December 31, for the years 2007 to 2016



Members reported that net assets held for clients, a proxy for assets eligible for CIPF protection, were approximately \$2.0 trillion at December 31, 2016.

#### Informing Members and Investors

As part of its initiative to provide clear and accessible information to Members and investors about CIPF protection, CIPF has revised the coverage-related sections of the CIPF website in plain language in 2016. Specifically, the CIPF website was re-designed and expanded with the addition of:

- New and updated Frequently Asked Questions (FAQs) relating to CIPF coverage
- A list of what CIPF covers and does not cover
- Examples of how CIPF coverage works
- A checklist for investors of initial steps to take if a Member fails
- A glossary of key terms

Together with the enhancements to the CIPF website, CIPF released a new, plain language version of the CIPF Official Brochure (dated December 2016). Both the new brochure and CIPF website enhancements incorporated feedback from focus group testing of investors and investment advisors, which was conducted by a research firm engaged by CIPF.

The purpose of this research was to assess the level of awareness of, and the understanding of, CIPF and its mandate.

Key findings from the research include:

- Investment advisors are the main source of information about CIPF for investors
- The most effective way to inform investment advisors about CIPF is through continuing education courses and internal firm training
- Investment advisors prefer communications about CIPF to be made through their firms' compliance officers

These findings are being used to inform CIPF's communication strategy going forward.

Recognizing that investment advisors play a pivotal role in building investor knowledge and confidence, 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 [www.iiroc.ca](http://www.iiroc.ca). Advisors may register for the most recent webcast directly from the *Investment Advisors* section on [www.cipf.ca](http://www.cipf.ca).

#### **MEMBER—CANADIAN INVESTOR PROTECTION FUND**

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

CIPF has also been working closely with Members on compliance with the new version of the CIPF Disclosure Policy, which sets out requirements for disclosing membership in CIPF. The new policy and related guide came into effect on January 1, 2017, and CIPF took a number of steps to prepare and support Members on the transition, including the posting of relevant FAQs to the CIPF website.

#### **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 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.



**Pia Johnson**

ADMINISTRATIVE ASSISTANT

## Financial Strengths

### The CIPF Board is responsible for:

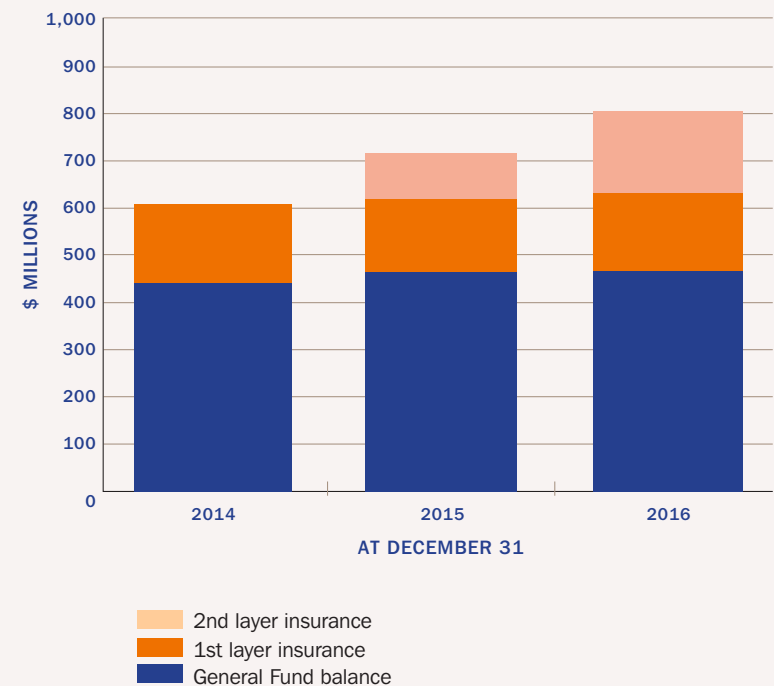
- Ensuring the Fund can meet its financial obligations to a Member's clients if an insolvency occurs;
- Setting the annual Member assessment amount and determining how each Member will be assessed; and
- Setting any additional assessments.

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

In 2016, the Board confirmed a fund resource target of \$1 billion to be reached by the end of 2023. The current resources amount to \$0.8 billion.

### GROWTH OF CIPF RESOURCES

2014-2016



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

- The *General Fund* of \$472 million at the 2016 year end;
- An *insurance policy* in the amount of \$160 million in the annual aggregate, in respect of losses to be paid by the Fund in excess of \$150 million (2015: \$150 million), and a second layer of insurance in the amount of \$170 million (2015: \$90 million) in respect of losses to be paid in excess of \$310 million in the event of Member insolvency; and
- The *ability* to assess Members.

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

The General Fund of \$472 million at December 31, 2016 comprises the following:

- A portfolio of investments with a fair value of \$478 million at December 31, 2016; and
- The net of all other assets and liabilities held by the Fund, which at December 31, 2016 amounted to a net liability of \$6 million.

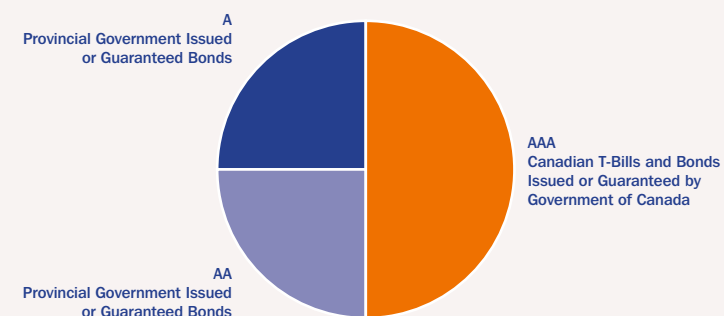
Based on an Investment Policy reviewed regularly by the CIPF Board, all investment debt obligations must be issued or guaranteed by the Government of Canada or provincial or territorial government. The policy requires all counterparties to meet minimum ratings by two nationally-recognized rating agencies. 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 \$478 Million (Fair Value)

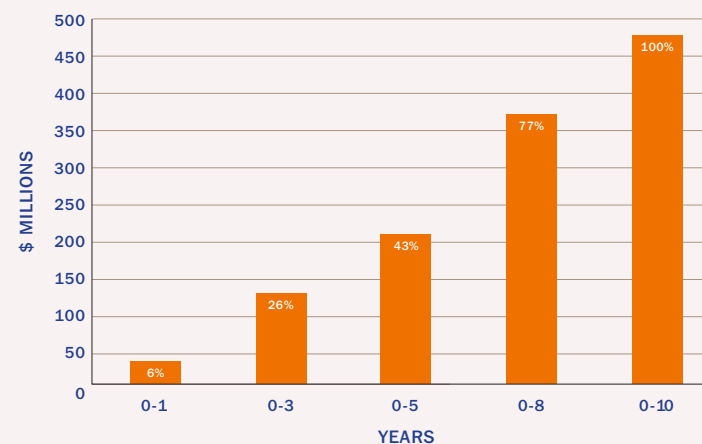
At December 31, 2016

### DISTRIBUTION OF CREDIT RATINGS

By Two Nationally-Recognized Agencies Equivalent to DBRS Limited



### MATURITY BY TIME BAND





**Linda Pendrill**  
CHIEF FINANCIAL OFFICER

## Financial Review and Outlook

### Balance Sheet

Total assets of \$483.0 million are comprised primarily of investments at fair value of \$478.3 million. All investments are Government of Canada or provincial government guaranteed and are carried at fair value. At December 31, 2016, the investments at fair value included an unrealized gain of \$14.4 million (2015: \$23.1 million), due to yields at the time of purchase exceeding market yields at December 31, 2016. 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 \$22.8 million (2015: \$21.5 million).

The balance in the General Fund at December 31, 2016 was \$472.0 million, an increase of \$7.6 million over the prior year. The increase resulted from the excess of revenues over expenses of \$7.4 million, plus employee future benefits remeasurements of \$0.2 million.

The Investment in Capital Assets Fund was \$0.3 million at December 31, 2016.

### GENERAL FUND GROWS

The General Fund had net assets of \$472 million at the end of 2016, an increase of \$7.6 million from the previous year.



**Stephen Pinnell**

SENIOR ANALYST, RISK ASSESSMENT

## Revenues and Expenses

CIPF's excess of revenues over expenses was \$7.4 million for the year ended December 31, 2016, compared to an excess of revenues over expenses of \$16.3 million in 2015.

The excess of revenues over expenses of \$7.4 million was the net of:

- Excess of revenues over expenses before other items of \$15.7 million (2015: \$17.0 million)
- Unrealized losses during the year on investments due to the movement in market value of \$8.7 million (2015: \$3.5 million unrealized gains)
- Recovery of provision for claims and/or related expenses of \$0.4 million (2015: \$4.2 million provision)

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

## Assessments in 2016

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

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

After allowing for minimum and maximum assessments, the net amount of regular assessments in 2016 was \$11.4 million versus \$11.1 million for 2015.

CIPF also assessed capital deficiency assessments of \$0.01 million in 2016 (2015: \$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 2016

The investment income for the year ended December 31, 2016 was \$13.2 million, less than the 2015 investment income of \$13.5 million due to the reinvestment of maturing bonds at lower yields.

### Expenses for 2016

Operating expenses for the year ended December 31, 2016 were \$9.0 million, a \$1.3 million increase compared to 2015, due to the following:

- Salaries and employee benefits were \$0.2 million higher due to increased staffing levels
- Bank lines of credit fees and excess insurance premium were \$0.5 million higher due to additional premiums for the increase in second layer of excess insurance
- Professional fees were \$0.4 million higher due to consulting costs for the recalibration of fund size and higher legal costs
- Communication fees were \$0.2 million higher due to plain language initiatives and research initiatives

A recovery of provision for claims and/or related expenses of \$0.4 million was recorded during 2016 compared to a provision of \$4.2 million in 2015. The 2016 recovery includes a refund of \$0.3 million from the Estate of MF Global.

### Outlook for 2017

Regular assessment income is expected to be \$11.7 million in 2017, an increase of \$0.3 million due to a Board-approved increase in the assessment amount.

Investment income at amortized cost is forecasted to be \$12.5 million in 2017, lower than the 2016 income of \$13.2 million due to the expected reinvestments of maturing bonds at lower yields, offset by an increase in the size of the fund.

Investments in the General Fund balance are recorded at fair value, which at December 31, 2016 was \$14.4 million higher than the amortized cost (2015: \$23.1 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 2017 operating expenses to be \$9.7 million, an increase of \$0.7 million over the previous year, primarily due to increased staffing levels.



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

We have audited the accompanying financial statements of the Canadian Investor Protection Fund, which comprise the balance sheet as at December 31, 2016, the statements of revenues and expenses and changes in general fund balance, changes in investment in capital assets fund, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment

of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Canadian Investor Protection Fund as at December 31, 2016 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.



Chartered Professional Accountants  
Licensed Public Accountants  
April 3, 2017



**Balance sheet** (as at December 31, 2016)

(IN THOUSANDS OF DOLLARS)	2016	2015
	\$	\$
<b>Assets</b>		
Current assets		
Cash	926	561
Prepaid insurance and recoverables	539	476
Investments, at fair value (Note 4)	478,322	473,271
Member assessments receivable	2,908	2,836
	482,695	477,144
Tangible capital assets (Note 5)	301	379
Software development (Note 5)	32	70
	483,028	477,593
<b>Liabilities</b>		
Current liabilities		
Payables and accruals	416	311
Provision for claims and/or related expenses (Note 9)	603	2,936
Deferred lease inducements	232	261
	1,251	3,508
Employee future benefits (Note 7)	9,459	9,260
<b>Fund balances</b>		
Investments in Capital Assets Fund (Note 5)	333	449
General Fund	471,985	464,376
	472,318	464,825
	483,028	477,593

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 (year ended December 31, 2016)

(IN THOUSANDS OF DOLLARS)	2016	2015
	\$	\$
<b>Revenues</b>		
Regular assessments	11,449	11,096
Assessments for capital deficiencies	13	50
Investment income	13,237	13,543
	24,699	24,689
<b>Expenses</b>		
Salaries and employee benefits (Note 7)	3,593	3,433
Bank lines of credit fees and excess insurance premium	2,050	1,608
Professional fees	860	437
Pension and other employment benefits (Note 7)	612	592
Directors' fees, travel and education	533	480
Other operating costs	437	402
Occupancy	406	412
Communications	215	60
Computer server hosting and maintenance	186	160
Custodial fees	114	113
	9,006	7,697
Excess of revenues over expenses before the undernoted items	15,693	16,992
Recovery of (provision for) claims and/or related expenses (Note 9)	420	(4,230)
Gain on sale of investments	-	35
Unrealized gains (losses) on investments	(8,754)	3,495
<b>Excess of revenues over expenses</b>	<b>7,359</b>	<b>16,292</b>
General Fund, beginning of year	464,376	448,062
Excess of revenues over expenses	7,359	16,292
Transfer to the Investment in Capital Assets Fund for capital asset additions	(30)	(88)
Employee future benefits remeasurements (Note 7)	280	110
<b>General Fund, end of year</b>	<b>471,985</b>	<b>464,376</b>

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

**Statement of changes in investment in capital assets fund** (year ended December 31, 2016)

(IN THOUSANDS OF DOLLARS)	<b>2016</b>	2015
	\$	\$
<b>Investment in Capital Assets Fund, beginning of year</b>	<b>449</b>	533
Transfer from the General Fund for capital asset additions	<b>30</b>	88
Amortization of capital assets	<b>(146)</b>	(172)
<b>Investment in Capital Assets Fund, end of year</b>	<b>333</b>	449

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

## Statement of cash flows (year ended December 31, 2016)

(IN THOUSANDS OF DOLLARS)	2016	2015
	\$	\$
<b>Operating activities</b>		
Excess of revenues over expenses	7,359	16,292
Items not affecting cash		
Amortization of deferred lease inducements	(29)	(30)
Interest accrued	62	130
Bond premium amortization	2,864	2,377
Gain on sales of investments	-	(35)
Unrealized (gains) losses on investments	8,754	(3,495)
Employee future benefits remeasurements	280	110
Changes in non-cash working capital		
Prepaid insurance and recoverables	(63)	(165)
Member assessments receivable	(72)	34
Payables and accruals	105	(257)
Provision for claims and/or related expenses	(2,333)	(2,287)
Employee future benefits	199	352
	17,126	13,026
<b>Investing activities</b>		
Purchases of capital assets	(30)	(88)
Purchases of investments	(82,501)	(86,365)
Proceeds from maturities and sales of investments	65,770	73,441
	(16,761)	(13,012)
Net increase in cash during the year	365	14
Cash, beginning of year	561	547
<b>Cash, end of year</b>	<b>926</b>	<b>561</b>

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

## 1. Organization

The Canadian Investor Protection Fund (the “Fund” or “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.

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

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

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

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

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

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

## 3. Summary of significant accounting policies

CIPF follows accounting principles appropriate for not-for-profit organizations, in accordance with Canadian generally accepted accounting principles. The more significant accounting policies are as follows:

### *General Fund*

The purpose of the General Fund is to provide protection to customers of Members who, in accordance with the 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 the Fund are limited to the financial losses suffered by customers of Members solely as a result of the insolvency of a Member. In the event that CIPF would be unable to satisfy such claims in their entirety, the Board would determine the period over which to assess Members to make up the shortfall.

### *Investment in Capital Assets Fund*

The Investment in Capital Assets Fund represents the Fund’s unamortized balance of its capital assets.

*Use of estimates*

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The most significant area requiring the use of estimates is provision for claims and/or related expenses. Actual results could differ from those estimates.

*Financial instruments*

The Fund's financial instruments consist of cash, investments, member assessments receivable, and payables and accruals.

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

*Cash*

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

*Investments*

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

*Regular assessments and assessments for capital deficiencies*

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

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

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

*Investment income*

Investment income includes interest earned, net of any amortization of bond premiums or discounts using the effective interest rate method, plus realized gains and losses on maturity or sale of an investment.

### *Provision for claims and/or related expenses*

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

### *Capital assets*

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

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

### *Deferred lease inducements*

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

### *Employee future benefits*

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

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

#### 4. Investments

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

The following table discloses the fair value, maturity and average yields to maturity of the Fund's investments at December 31, 2016. The weighted average yield to maturity of the portfolio at December 31, 2016 is 1.69% (2015 - 1.39%).

	2016				2015
	Less than 1 year	1 year to 3 years	3 years to 5 years	More than 5 years	Total fair value
	\$	\$	\$	\$	\$
Treasury bills	959	-	-	-	959
Yield	0.35%	-	-	-	0.35%
Canada bonds	-	-	-	10,510	10,510
Yield	-	-	-	1.72%	1.72%
Canada Housing Trust bonds	9,413	35,292	37,733	147,222	229,660
Yield	0.63%	0.98%	1.33%	1.85%	1.58%
Provincial bonds	19,820	57,129	43,980	116,264	237,193
Yield	0.82%	1.04%	1.55%	2.42%	1.79%
	30,192	92,421	81,713	273,996	478,322
					473,271



**5. Capital assets**

	2016		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Office furniture and equipment	401	352	49
Leasehold improvements	313	77	236
Computers	157	141	16
Tangible assets	871	570	301
Software development	1,205	1,173	32
Total capital assets	2,076	1,743	333

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

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

The Fund has lines of credit provided by two Canadian chartered banks totaling \$125 million (2015 - \$125 million). IIROC has guaranteed these lines of credit by pledging its ability to assess Members.

The Fund has arranged insurance in the amount of \$160 million (2015 - \$160 million) in the annual aggregate, in respect of losses to be paid by the Fund in excess of \$150 million (2015 - \$150 million) in the event of Member insolvency. The Fund has arranged a second layer of insurance in the amount of \$170 million (2015 - \$90 million) in respect of losses to be paid in excess of \$310 million in the event of Member insolvency.

**7. Employee future benefits**

The Fund has provided pension benefits to a retired employee since September 1, 1998. This pension benefit is not registered under the Income Tax Act, nor is it funded.

The Fund established a Supplementary Executive Retirement Plan (SERP) for certain executives, effective April 9, 2002. This plan is not registered under the Income Tax Act, nor is it funded.

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

The most recent actuarial valuation of the pension benefit plan and the SERP for accounting purposes was made on December 31, 2016, and the most recent actuarial valuation of the health benefit plan for accounting purposes was made on December 31, 2014.

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

	2016			2015
	Pension	SERP	Other	Total
	\$	\$	\$	\$
Net benefit plan expense	52	521	39	592
Benefits paid	125	-	8	130

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

	2016			2015
	Pension	SERP	Other	Total
	\$	\$	\$	\$
Continuity of accrued benefit liability				
Balance, beginning of year	1,696	7,115	449	8,908
Benefit expense	52	521	39	592
Contributions	(125)	-	(8)	(130)
Remeasurements	(12)	(252)	(16)	(110)
Balance, end of year	1,611	7,384	464	9,260
Funded status				
Fair value of plan assets	-	-	-	-
Accrued benefit liability	1,611	7,384	464	9,260
Plan deficit	(1,611)	(7,384)	(464)	(9,260)

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

	Pension benefit plan		SERP		Other benefit plan	
	2016	2015	2016	2015	2016	2015
	%	%	%	%	%	%
Discount rate	3.4	3.2	3.4	3.2	3.4	3.2
Rate of compensation increase	-	-	3.0	3.0	-	-

For measurement purposes, inflation of medical expenses was assumed to be 12% in 2015, declining to 5% in annual increments of 1%. Inflation of dental costs was assumed to be 8% in 2015, declining to 4% in annual increments of 1%.

In addition to these plans, the salaries and employee benefits expense on the Statement of Revenues and Expenses includes \$0.15 million (2015 - \$0.15 million) related to the Fund's contribution to the Group RSP plan.

## 8. Lease commitments

At December 31, 2016 the Fund has future minimum annual lease commitments of \$1,736 (2015 - \$2,015) for office space, office equipment and information technology services as follows:

	\$
2017	229
2018	230
2019	206
2020	207
2021	221
2022 and thereafter	643
	<hr/> 1,736

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

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

At December 31, 2016, three Member insolvencies continue to either be under the administration of a trustee in bankruptcy or are being administered in respect of which no trustee was appointed.

### (a) Rampart Securities Inc.

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

a decrease in the provision for claims and/or related expenses charged to the General Fund for the year.

### (b) MF Global Canada Co.

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

During the year ended December 31, 2016, CIPF received a net refund of \$0.3 million (2015 - \$.006 million payment) and there was a recovery booked to the General Fund of \$0.3 million (2015 - \$nil) for the year for provision for claims and/or related expenses.

At December 31, 2016, the provision for claims and/or related expenses on the balance sheet of \$0.5 million (2015 - \$0.5 million) represents the amount owing in accordance with settlement agreements reached with certain customers, plus third-party costs.

At December 31, 2016, there were no known customer claims on the estate and the estate continues to be administered by the trustee.

### (c) Barret Capital Management Inc.

Barret Capital Management Inc. ("Barret") was suspended by 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, 2016, CIPF made no payments for the estate (2015 - \$nil).

At December 31, 2016, the provision on the balance sheet for third-party costs was \$0.01 million (2015 - \$0.01 million).

**(d) First Leaside Securities Inc.**

First Leaside Securities Inc. ("FLSI") was suspended by IIROC on February 24, 2012 and was determined by the Board of Directors of CIPF to be insolvent as of that date for the purpose of claims by former customers of FLSI against CIPF. In accordance with CIPF's Coverage Policy, a claims submission deadline of October 12, 2013 was established. CIPF has received claims from former customers of FLSI in the amount of approximately \$189 million. CIPF has reviewed each claim received, and assessed and communicated eligibility based on the CIPF Coverage Policy, and in accordance with the CIPF Claims Procedures. During the year ended December 31, 2016, CIPF paid one claim in the amount of \$0.6 million (2015 - \$Nil) and paid \$0.7 million in administrative costs (2015 - \$1.4 million). The reduction in the provision for claims and/or related expenses charged to the General Fund for the year was \$0.1 million (2015 - \$1.9 million).

At December 31, 2016, there is no provision for claims and/or related expenses on the balance sheet (2015 - \$1.4 million).

**(e) 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, 2016, CIPF advanced a further \$1.0 million to the trustee to facilitate the transfer of customer accounts to another investment dealer (2015 - \$5.1 million). The provision for claims and/or related expenses charged to the General Fund for the year ended December 31, 2016 was \$Nil (2015 - \$6.1 million).

At December 31 2016, the provision for claims and/or related expenses on the balance sheet of \$0.1 million represents the costs to wind down the estate, after certain recoveries (2015 - \$1.1 million). The trustee is pursuing recoveries from other sources on behalf of the estate, and these recoveries are not estimable as at the date of the financial statements.

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

	Provision at January 1, 2016	(Decrease) increase in Provision	Receipts (payments) during the year	Provision at December 31, 2016
	\$	\$	\$	\$
Rampart Securities Inc. (a)	-	-	-	-
MF Global Canada Co. (b)	486	(328)	334	492
Barret Capital Management Inc. (c)	8	-	-	8
First Leaside Securities Inc. (d)	1,379	(92)	(1,287)	-
Octagon Capital Corporation (e)	1,063	-	(960)	103
	2,936	(420)	(1,913)	603

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

## 10. Financial instruments

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

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

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

### *Risk management*

Risk management relates to the understanding and active management of risks associated with invested assets. Investments can be exposed to interest rate, liquidity, credit, market and currency risk. The Fund manages its exposure to the risks associated with its investment portfolio by following the Board-approved investment policy that restricts the types and amounts of its eligible investments and requires dealing with highly rated counterparties. The policy requires that at least 50% of investments be held in Government of Canada issued or guaranteed securities, with the balance in provincial or territorial government issued or guaranteed securities, and a maximum exposure to any one province or territory of 20% of the portfolio. The policy provides for investing in a laddered portfolio with a maximum term to maturity of 10 years.

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

### *Interest rate risk*

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

An immediate hypothetical 100 basis point increase in interest rates would decrease the fair value of the investments by \$22.8 million (2015 - \$21.5 million).

### *Liquidity risk*

Liquidity risk is the risk that the Fund 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. The Fund manages the liquidity risk exposure by following the investment policy described above and by maintaining lines of credit of \$125 million (2015 - \$125 million).



### *Credit risk*

Credit risk is the risk of financial loss due to a counterparty failing to meet its contractual obligations. The Fund manages the credit risk exposure of its investment portfolio by following the investment policy described above. At December 31, 2016, all investments were in securities issued by counterparties that met or exceeded the minimum credit rating of "A" as rated by two nationally recognized rating agencies (DBRS Limited and Standard & Poor's).

### *Market risk*

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

### *Currency risk*

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

## Chair



**Alain Rhéaume<sup>3</sup>**  
Founder and Managing Partner,  
Trio Capital Inc.  
Former Deputy Minister of Finance  
for the Government of Quebec  
*Outremont, Quebec*

(joined as a Public Director in  
January 2009)

## Public Directors



**Douglas Baker<sup>1,4</sup>** FCPA, FCA  
Independent Professional,  
Oil and Gas Exploration and  
Development  
Professional Director  
*Calgary, Alberta*

(joined March 2015)



**Donna Howard<sup>2,3</sup>** ICD.D  
Former Adviser to the Governor  
of the Bank of Canada and  
former Chief of the Financial  
Markets Department for the  
Bank of Canada  
*Smiths Falls, Ontario*

(joined March 2015)



**Nicholas G. Kirton<sup>2,3</sup>** FCPA,  
FCA, ICD.D  
Vice-Chair  
Professional Director  
Former Partner, KPMG LLP  
*Calgary, Alberta*

(joined June 2008)

## President &amp; CEO



**Rozanne E. Reszel** FCPA, FCA,  
CFA, ICD.D  
*Toronto, Ontario*

(joined September 1998)



**Anne La Forest<sup>1,2</sup>** LL.M., LL.B.  
Faculty of Law at University of  
New Brunswick  
Former Member of the  
New Brunswick Securities  
Commission  
*Fredericton, New Brunswick*

(joined April 2014)



**Douglas Stratton<sup>1,4</sup>** CFA, ICD.D  
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Consultant  
Former 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>  
LLM, LL.B, ICD.D  
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)



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



**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

**Alain Rhéaume**  
Chair

**Nicholas G. Kirton**  
FCPA, FCA, ICD.D  
Vice-Chair

**Rozanne E. Reszel**  
FCPA, FCA, CFA, ICD.D  
President & CEO

**Barbara D. Love**  
CPA, CA, CFA  
Senior Vice-President

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

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

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

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First Canadian Place  
100 King Street West  
Suite 2610, P.O. Box 481  
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**Tel:** 416 866 8366  
**Toll free:** 1 866 243 6981  
**Fax:** 416 360 8441  
**E-mail:** [info@cipf.ca](mailto:info@cipf.ca)  
**[www.cipf.ca](http://www.cipf.ca)**



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