

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



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## CIPF'S MISSION

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

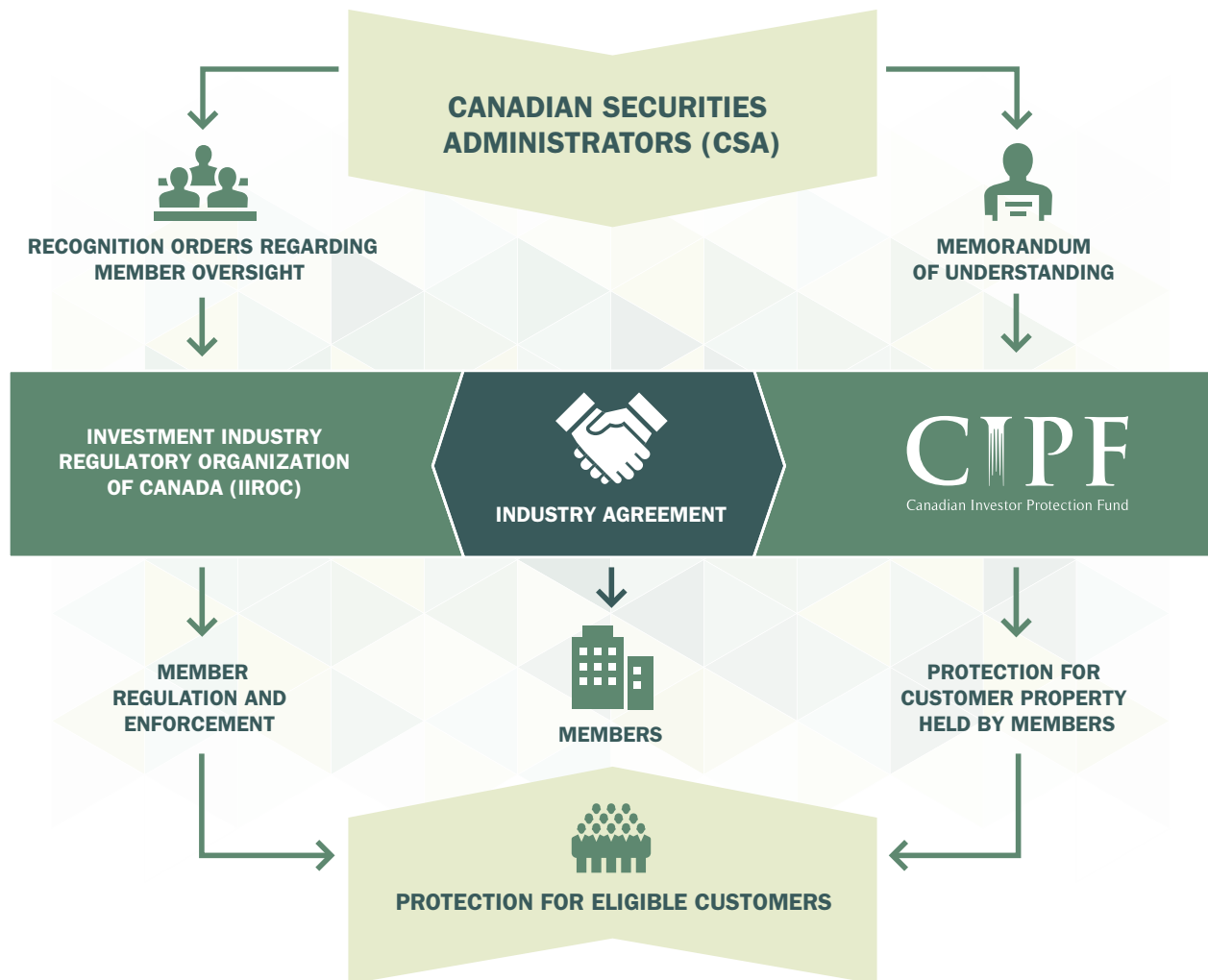
## Governed by Two Agreements

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

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

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

- A Memorandum of Understanding (MOU) between CIPF and the CSA 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. One key term in the agreement is that IIROC must provide prompt notice to CIPF of any situation that is likely to require a payment by CIPF.



## MESSAGE FROM THE CHAIR



**With perspective gained from a decade on the Board and a year as Chair, I am deeply impressed by how strategic, engaged and thoughtful my fellow directors are: CIPF is in very capable hands.**

Board renewal was a key theme for CIPF in 2017. I want to begin by thanking my predecessor as Chair, Alain Rhéaume, who was the first Public Director to hold this position. To our great regret, Doug Baker passed away not long after he completed a single two-year term on the Board; meanwhile, Hugh McNabney finished his eight-year term at the AGM. We genuinely value our directors and miss them when they and their wisdom depart. On a decidedly more positive note, we introduced three new directors—Ann Davis, Bernard Turgeon and Peter Virvilis—who bring valued experience and new energy to our important work. They, and the returning directors, will be led by a new Chair, Martin MacLachlan.

Martin has been on the Board since 2013 and has performed yeoman service over this period. I know he enjoys well-deserved confidence from his fellow directors and will provide the leadership CIPF needs to be effective. As an interesting aside, the Board is truly balanced between male and female directors: this was achieved before and without prompting by any external body.

CIPF benefits from consistently strong senior management and good governance. Over my tenure, the changes in personnel have been modest, resulting in a cohesive team and dedicated long-term service that mirrors the strategic orientation and thoughtfulness of the Board. They enjoy our highest regard and they merit our sincere praise for ensuring that CIPF's mandate is upheld.

When I reflect on 2017, advances made on established initiatives are certainly top of mind.

We completed a comprehensive plain language initiative to improve our communications; there will always be more to do but most of the “heavy lifting” is done.

We continued to mature the method for determining asset location as a major component of our credit-risk based model and Member assessments. The model now being rolled out is a much more advanced, detailed and sensitive approach to determining Member risk exposure.

The financial resources CIPF maintains to protect investors, including the targeted amount, is a perennial subject for re-examination. Last year, CIPF increased the insurance component to assist in fulfilling our duty to prudently manage our resources, while responsibly keeping Member assessments as low as possible.

During 2017, CIPF also wound down several complex and challenging insolvency files, establishing useful precedents for effectively managing future bankruptcies. This is more than the undertaking of our primary duty: it is genuinely good news for affected investors and for CIPF.

I have had the atypical honour of serving on the CIPF Board for a full decade. With the conclusion of my term as Chair, I will not have an official role when CIPF marks its half-century in 2019. However, I will remain an admirer and encourage it to be duly proud of the service CIPF performs for its stakeholders. I wish for its continued success over the next 50 years.



Nicholas G. Kirton

## MESSAGE FROM THE PRESIDENT & CEO



**In 2017, CIPF completed the resolution of a major insolvency, navigated a meaningful transition in our leadership, and strengthened our operational capabilities to address present responsibilities and prepare for a dynamically evolving future.**

The resolution of the Octagon Capital Corporation insolvency—a complex file CIPF began unravelling in December 2015—was a significant milestone. We reached a settlement before litigation proceeded, resulting in \$5.6 million recoverable from the estate trustee. We also completed our responsibilities for the MF Global Canada Co. insolvency, recovering \$2.4 million from the estate.

During 2017, we saw successful succession in CIPF's leadership—through board renewal and with our staff. CIPF Senior Vice-President Barbara Love concluded almost three decades by supporting the Octagon wrap-up. To bring our team back up to strength, Joseph Campos joined us in June as our Vice-President, Industry Risk. He has quickly and ably engaged with Members via regional meetings on enhancements to our credit-risk based model and the risk-based assessment for each Member—a critical communications function to foster industry alignment and understanding. The enhancements included the introduction of a new asset location risk assessment whose impact will first occur in 2019. A protocol will engage Members that pose asset location risk prior to levying the new assessment.

Operationally, we placed significant emphasis on enhancing our communications to relate better with the industry. Sector-building awareness of our function is a continuing priority. This includes using plain language for better clarity, as well as social media to extend the reach of our website. We also delivered Member training via a new continuing education-accredited module, offered live and

by video webcast in English and French. Feedback from the more than 1,200 financial professionals who have participated to advance their knowledge has been encouraging.

Technology is pivotally important for our operations: for addressing business continuity, business interruption and privacy protection. Multiple improvements were undertaken in 2017 to maintain our technical readiness and systems protection and to support CIPF staff, Members and the broader securities sector.

These activities address current and anticipated needs. However, our thinking extends into contemplating an environment that could be redefined by technological innovation. Our job includes monitoring a rapidly emerging future so we are prepared for it, including the potential application of blockchain and new investment alternatives such as cryptocurrencies. Strategically, nothing is unimaginable.

This same philosophy is evident in a Memorandum of Understanding (MOU) established with the Canada Deposit Insurance Corporation (CDIC). While we have always co-ordinated well, the intertwined financial dealings of the largest firms and banks suggested a more formal connection, similar to arrangements we retain internationally. We also maintain valuable linkages with our domestic and international counterparts via ongoing meetings such as last year's session in Beijing, which CIPF co-hosted.

I have customarily closed my comments by expressing my genuine gratitude to our capable staff and do so again with respect and pride. They ensure we fulfill our important mandate to Canadian investors. They have sustained our effectiveness until now and have created the foundation that will see us celebrate 50 years of service in 2019.



Rozanne Reszel

## OVERVIEW AND CORPORATE GOVERNANCE PRACTICES



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

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

## Providing Confidence

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

All IIROC Dealer Members are automatically members of CIPF (Members). On December 31, 2017, 166 investment dealers across Canada had CIPF membership. All Members are listed on the CIPF website. Every Member is required to include the CIPF Membership Symbol on all confirmations and account statements.

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

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

CIPF does not cover:

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

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

In certain circumstances, CIPF's role may involve requesting the appointment of a trustee in bankruptcy. If a trustee is appointed, claims eligible for coverage are normally settled by ensuring the trustee has sufficient assets to transfer the customer accounts to another Member.

# OVERVIEW AND CORPORATE GOVERNANCE PRACTICES

## Governance

### Board Composition

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

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

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

### Sound Corporate Practices

Annually, CIPF directors confirm compliance with the following:

- Receiving the Directors' Handbook, reviewing it and achieving familiarity with its contents
- Disclosing any actual or potential conflicts of interest to the Chair, Vice-Chair or board at large
- Avoiding activities or associations that could reasonably lead to a conflict of interest
- Not using their position as a director of CIPF for personal gain or for the gain of a spouse, dependants or partner
- Maintaining in strict confidence all information received as a result of being a director of CIPF that would reasonably be expected to be maintained in confidence

Annually, all staff must acknowledge that they have read and that they understand the contents of the CIPF Employee Handbook, and that they have complied with key policies, including CIPF's Code of Conduct.

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

Besides empowering employees to report violations of the CIPF Code of Conduct, the Board of Directors has established a confidential and anonymous process so that any financial complaint or concern about accounting or auditing matters relating to CIPF can be reported. Any person with a complaint or concern relating to CIPF may submit, in writing, relevant information directly to the Chair of CIPF's Audit, Finance & Investment Committee. Contact information for the Chair is available under Governance in the *About Us* section at [www.cipf.ca](http://www.cipf.ca).

## 2017 Corporate Governance Reporting

The approved schedule for director compensation at December 31, 2017 was:

### Board

#### Annual retainer

\$15,000 per year

#### Chair of the Board

An additional \$12,000 per year

#### Board meetings

\$1,500 per meeting

### Committee

#### Committee Chairs

\$4,000 per year

#### Committee meetings

\$1,000 for meetings less than two hours, \$1,500 for meetings in excess of two hours

#### Coverage-related Appeal Hearings, Assessment Appeal Hearings and preparation

\$400 per hour

#### Out-of-town travel fee

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

Director attendance at board and committee meetings for the year ended December 31, 2017:

DIRECTOR	BOARD MEETINGS	COMMITTEE MEETINGS	BOARD AND COMMITTEE MEETINGS
Douglas Baker <sup>1</sup>	0/1	0/2	0/3
Ann Davis <sup>2</sup>	3/3	6/6	9/9
Brigitte Geisler	4/4	6/6	10/10
Debra A. Hewson	3/4	6/6	9/10
Donna Howard	4/4	6/7	10/11
Nicholas G. Kirton	4/4	5/5	9/9
Anne La Forest	3/4	5/5	8/9
Martin L. MacLachlan	4/4	6/6	10/10
Pierre Matuszewski	4/4	6/6	10/10
T. Hugh McNabney <sup>3</sup>	1/1	2/2	3/3
Rozanne E. Reszel	4/4	14/14	18/18
Alain Rhéaume <sup>4</sup>	1/1	2/2	3/3
Douglas Stratton	4/4	8/8	12/12
Bernard Turgeon <sup>5</sup>	3/3	5/5	8/8
Peter Virvilis <sup>6</sup>	3/3	4/4	7/7

<sup>1</sup> Mr. Baker completed his term on the Board in April 2017

<sup>2</sup> Ms. Davis joined the Board in April 2017

<sup>3</sup> Mr. McNabney completed his term on the Board in April 2017

<sup>4</sup> Mr. Rhéaume completed his term on the Board in April 2017

<sup>5</sup> Mr. Turgeon joined the Board in April 2017

<sup>6</sup> Mr. Virvilis joined the Board in April 2017

## CIPF Board at Work

The Board has delegated certain duties to its committees:

COMMITTEE	DUTIES	SIGNIFICANCE
<b>AUDIT, FINANCE &amp; INVESTMENT COMMITTEE</b>	<ul style="list-style-type: none"> <li>• Reviews the operating budget relative to the goals and objectives for the year</li> <li>• Oversees the investment policies</li> <li>• Reviews financial statements and financial disclosure</li> <li>• Reviews systems of internal controls</li> <li>• Reviews significant legal agreements</li> <li>• Monitors independence and performance of external auditors</li> <li>• Reviews the financial and investment risks to which CIPF is exposed</li> <li>• Reviews the adequacy of security of information, information systems and recovery plans</li> <li>• Responsible for the Whistleblower Policy and its underlying procedures</li> </ul>	<ul style="list-style-type: none"> <li>• Provides confidence in the following: the integrity of financial reporting and disclosure, associated accounting policies, internal controls, enterprise risk management, and compliance with legal and regulatory requirements</li> <li>• Oversees and monitors the management controls in place to minimize the financial and investment risks to which CIPF is exposed</li> </ul>
<b>COVERAGE COMMITTEE</b>	<ul style="list-style-type: none"> <li>• Annually reviews the CIPF Coverage Policy, recommends changes to the Board and oversees that procedures are in place to comply with the CIPF Coverage Policy</li> <li>• Reviews issues relating to CIPF coverage eligibility, and coverage-related policy issues</li> <li>• Responsible for overseeing the claim payment process</li> <li>• Oversees and provides guidance on insolvency proceedings, coverage-related litigation, and relevant post-mortem reporting</li> <li>• Recommends any changes to Part XII of the <i>Bankruptcy and Insolvency Act</i> (Canada) to the Board</li> <li>• Interprets and recommends changes regarding the CIPF Disclosure Policy to the Board</li> <li>• Oversees that procedures are in place to review CIPF's communications</li> </ul>	<ul style="list-style-type: none"> <li>• Oversees that payments from CIPF are made for valid claims in an unbiased manner to eligible customers and that all claimants, whether dealing with an appointed insolvency official or directly with CIPF, receive fair and consistent treatment</li> <li>• Oversees that adequate procedures are in place to minimize risk of payments beyond what is intended by the CIPF Coverage Policy</li> <li>• Provides procedures and process to hear claims appeals</li> <li>• Oversees that CIPF's communications are clear, accurate and express the nature and intent of available coverage</li> </ul>

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

## Committed to Investors

### CIPF Coverage Policy

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

### What CIPF Covers

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

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

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

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

### Protecting Eligible Customers

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

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

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

During 2017, CIPF reached significant milestones in two Member insolvencies.

CIPF's role in the MF Global Canada Co. (MF Global) insolvency was concluded with the recovery of \$2.8 million from the estate in 2017. CIPF has now recovered the full amount of the funding it provided with respect to MF Global following the firm's bankruptcy in November 2011. As at December 31, 2017, there are no known eligible customer claims on the estate.

A notable highlight for CIPF in 2017 was the settlement by the bankruptcy trustee in the Octagon Capital Corporation (Octagon) insolvency of two legal actions, resulting in an amount recoverable of \$5.6 million from the estate

trustee. The net cost of the estate to CIPF as at December 31, 2017 is \$1.5 million. CIPF has advanced \$7.1 million in funding in the Octagon matter since the firm's failure in late 2015. The funding provided by CIPF facilitated the prompt transfer of eligible customer accounts, at 100% net equity, to another IIROC Dealer Member.

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

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

Members reported that net assets held for clients, a proxy for the property eligible for CIPF protection, were approximately \$2.1 trillion at December 31, 2017.

## Informing Members and Investors

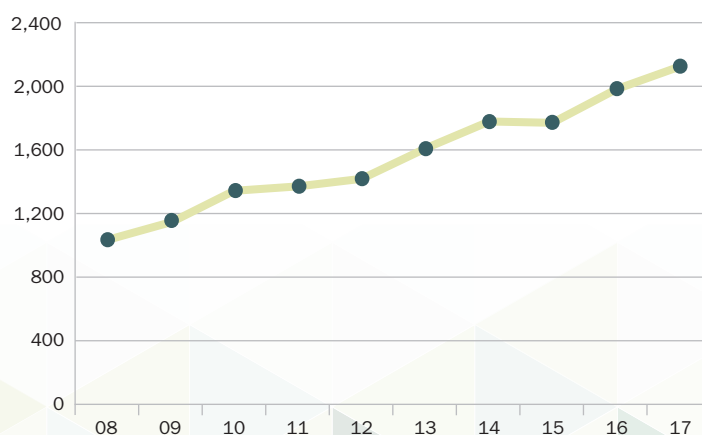
Providing clear and accessible information to Members and investors about CIPF protection is an ongoing priority for CIPF. To this end, CIPF made further enhancements to the CIPF website in 2017 to provide new coverage-related content in plain language, including the addition of new FAQs on portfolio managers, exchange-traded funds and mutual funds.

As a follow-up to research conducted in 2016 to gauge advisor and investor awareness of CIPF, a communications firm worked with CIPF to launch a digital campaign. The campaign was designed to broaden awareness of CIPF and encourage discussions about CIPF between advisors and investors. The pilot digital campaign was conducted in the fall of 2017 on three major online platforms in select Canadian cities. Due to the success of the pilot campaign, CIPF will expand the length and scope of the digital campaign in 2018.

To help educate Members and advisors about CIPF, in 2017 CIPF developed a new training seminar, "Overview of the Canadian Investor Protection Fund." The seminar was accredited as an IIROC continuing education compliance program and is offered in English and French. A webcast of the training seminar went live in December 2017 and is available on the IIROC website at [www.iiroc.ca](http://www.iiroc.ca). The webcast had over 1,200 viewers in the four months following its launch.

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

At December 31, for the years 2008 to 2017



CIPF continues to work closely with Members on compliance with the CIPF Disclosure Policy, which sets out requirements for disclosing membership in CIPF. Amendments to the policy and related guide came into effect on May 1, 2017. The amendments were made to facilitate the distribution of the electronic version of the CIPF Official Brochure to clients.

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## MEMBER—CANADIAN INVESTOR PROTECTION FUND

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

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## 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 Members, so investors can confirm their status
- All Members must provide the CIPF Official Brochure to all new clients at the time of account opening and to all other clients upon request
- All Members must include the CIPF Explanatory Statement and the CIPF Membership Symbol on all confirmations and account statements
- Members must display the CIPF Decal at each business location where clients may visit

CIPF is one of the sponsors for the web portal [www.financeprotection.ca](http://www.financeprotection.ca) to help Canadians find out how they are protected in the unlikely event that a Canadian financial institution does fail. Questions about CIPF may be sent directly to [info@cipf.ca](mailto:info@cipf.ca). For complete CIPF contact information, please see the back cover.

## Financial Strengths

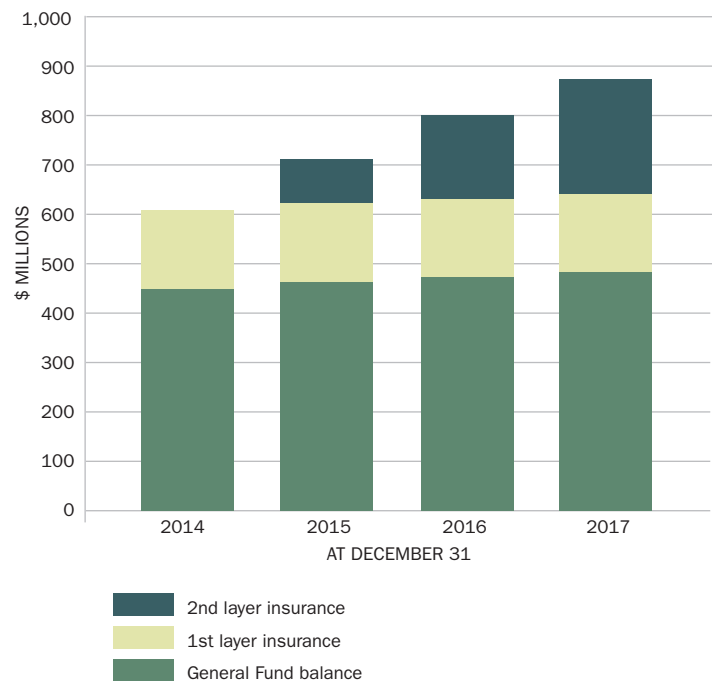
### The CIPF Board is responsible for:

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

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

In 2016, the Board confirmed target financial resources of \$1 billion to be reached by the end of 2023. The current resources amount to \$0.9 billion.

**GROWTH OF FINANCIAL RESOURCES**  
2014 to 2017



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

- The General Fund of \$484 million at the 2017 year end;
- An insurance policy in the amount of \$160 million in the annual aggregate, in respect of losses to be paid by CIPF in excess of \$150 million, and a second layer of insurance in the amount of \$230 million in respect of losses to be paid in excess of \$310 million in the event of Member insolvency; and
- The ability to assess Members.

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

The General Fund of \$484 million at December 31, 2017 comprises the following:

- A portfolio of investments with a fair value of \$484.4 million at December 31, 2017; and
- The net of all other assets and liabilities held by CIPF, which at December 31, 2017 amounted to a net liability of \$0.4 million.

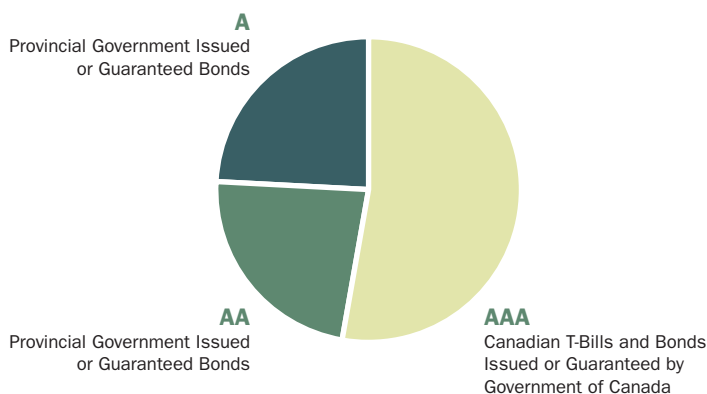
Based on an Investment Policy reviewed regularly by the CIPF Board, all investment debt obligations are issued or guaranteed by the Government of Canada or provincial or territorial governments. The policy requires all counterparties to meet minimum ratings by two nationally recognized rating agencies.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

## CIPF Investment Portfolio of \$484.4 Million (Fair Value)

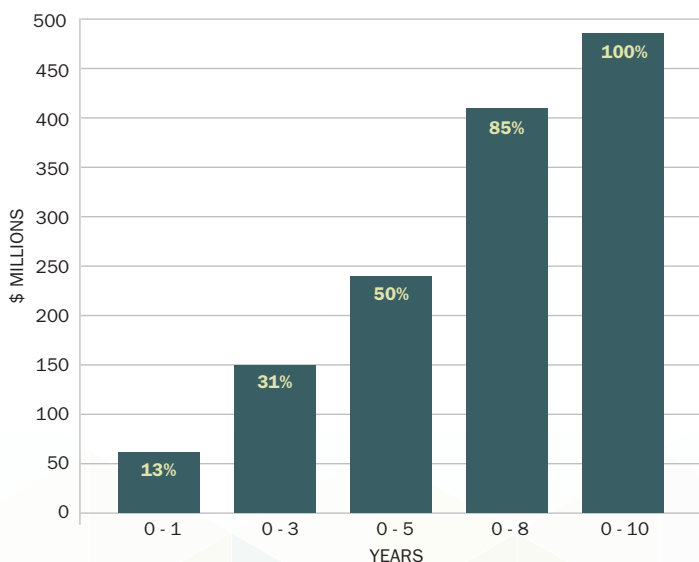
At December 31, 2017

### DISTRIBUTION OF CREDIT RATINGS

By Two Nationally Recognized Rating Agencies Equivalent to DBRS Limited



### MATURITY BY TIME BAND



## Financial Review and Outlook

### Balance Sheet

CIPF holds investments with a fair value of \$484.4 million, that represent most of the total assets of \$494.9 million. All investments are Government of Canada or provincial government guaranteed and are carried at fair value.

At December 31, 2017, the investments at fair value include an unrealized gain of \$4.0 million (2016: \$14.4 million), due to yields at the time of purchase exceeding market yields at December 31, 2017. 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 \$20.7 million (2016: \$22.8 million).

The balance in the General Fund at December 31, 2017 was \$484 million, an increase of \$12 million over the prior year. The increase resulted from the excess of revenues over expenses of \$12.2 million, less transfer to the Investment in Capital Assets Fund of \$0.2 million.

The Investment in Capital Assets Fund was \$0.4 million at December 31, 2017.

### GENERAL FUND GROWS

The General Fund had net assets of \$484 million at the end of 2017, an increase of \$12 million from the previous year.

### Revenues and Expenses

CIPF's excess of revenues over expenses was \$12.2 million for the year ended December 31, 2017, compared to an excess of revenues over expenses of \$7.4 million in 2016.

The excess of revenues over expenses of \$12.2 million was the net of:

- Excess of revenues over expenses before other items of \$15.1 million (2016: \$15.7 million)
- Unrealized losses during the year on investments due to the movement in market value of \$10.3 million (2016: \$8.7 million)
- Recovery related to two estates of the previous provision for claims and/or related expenses of \$7.4 million (2016: \$0.4 million)

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

# COMMENTARY ON FINANCIAL RESULTS

## Assessments in 2017

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

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

After allowing for minimum and maximum assessments, the net amount of regular assessments in 2017 was \$12.1 million versus \$11.4 million in 2016. The increase is attributed to a reduced impact of the revenue cap and the Board approved increase of 2% in the 2017 target assessment over the prior year.

CIPF also assessed capital deficiency assessments of \$0.04 million in 2017 (2016: \$0.01 million) to Members that incurred capital deficiencies pursuant to IIROC rules in any month, in accordance with the CIPF Assessment Policy.

## Investment Income for 2017

The investment income for the year ended December 31, 2017 was \$12.7 million, less than the 2016 investment income of \$13.2 million due to the reinvestment of maturing bonds at lower yields.

## Expenses for 2017

Operating expenses for the year ended December 31, 2017 were \$9.8 million, a \$0.8 million increase compared to 2016, mainly due to the following:

- Salaries and employee benefits were \$0.8 million higher due to increased staffing levels and costs relating to succession
- Bank lines of credit fees and excess insurance premium were \$0.2 million higher due to additional premiums for the increase in second layer of excess insurance
- Professional fees were \$0.2 million lower as the prior year included the professional fees to recalibrate the credit-risk based model

A recovery of provision for claims and/or related expenses of \$7.4 million was recorded during 2017 compared to a recovery of \$0.4 million in 2016. The 2017 recovery includes \$4.6 million from the estate of Octagon Capital Corporation (\$5.6 million recoverable at December 31, 2017 less \$1.0 million additional funding provided during the year), and refunds and reduction of liability related to the estate of MF Global of \$2.8 million.

### Outlook for 2018

Regular assessment income is expected to be the Board approved target assessment of \$11.9 million in 2018.

Investment income at amortized cost is forecasted to be \$12.0 million in 2018, lower than the 2017 income of \$12.7 million due to the expected reinvestments of maturing bonds at lower yields, partially offset by an increase in the amount of investments held in the General Fund.

Investments in the General Fund balance are recorded at fair value, which at December 31, 2017 was \$4.0 million higher than the amortized cost (2016: \$14.4 million). The movement in fair value compared to the amortized cost is a function of interest rates and cannot be predicted. In December 2017, the Board approved shortening the ladder of maturities from 10 years to 7 years, which will reduce interest rate risk.

CIPF is forecasting the 2018 operating expenses to be \$9.8 million, in line with the prior year.

# INDEPENDENT AUDITOR'S REPORT

## **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, 2017, 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, 2017 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.

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

Chartered Professional Accountants  
Licensed Public Accountants  
March 29, 2018

# FINANCIAL STATEMENTS

## Balance Sheet as at December 31, 2017 (In thousands of dollars)

	2017	2016
	\$	\$
<b>Assets</b>		
Current assets		
Cash	870	926
Prepaid insurance and recoverables	597	539
Investments, at fair value (Note 4)	484,412	478,322
Recoverable from the estate trustee (Note 9)	5,596	-
Member assessments receivable	3,066	2,908
	494,541	482,695
Tangible capital assets (Note 5)	314	301
Software development (Note 5)	72	32
	494,927	483,028
<b>Liabilities</b>		
Current liabilities		
Payables and accruals	411	416
Provision for claims and/or related expenses (Note 9)	-	603
Deferred lease inducements	203	232
	614	1,251
Employee future benefits (Note 7)	10,000	9,459
<b>Fund balances</b>		
Investment in Capital Assets Fund	386	333
General Fund	483,927	471,985
	484,313	472,318
	494,927	483,028

Approved by the Board



Director



Director

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

# FINANCIAL STATEMENTS

## Statement of Revenues and Expenses and Changes in General Fund Balance for the year ended December 31, 2017

(In thousands of dollars)

	2017	2016
	\$	\$
<b>Revenues</b>		
Regular assessments	12,092	11,449
Assessments for capital deficiencies	42	13
Investment income	12,727	13,237
	<b>24,861</b>	<b>24,699</b>
<b>Expenses</b>		
Salaries and employee benefits (Note 7)	4,363	3,593
Bank lines of credit fees and excess insurance premium	2,227	2,050
Professional fees	662	860
Pension and other employment benefits (Note 7)	640	612
Directors' fees, travel and education	553	533
Other operating costs	519	437
Occupancy	405	406
Computer server hosting and maintenance	208	186
Custodial fees	114	114
Communications	94	215
	<b>9,785</b>	<b>9,006</b>
<b>Excess of revenues over expenses before the undernoted items</b>	<b>15,076</b>	<b>15,693</b>
Recovery of provision for claims and/or related expenses (Note 9)	7,438	420
Gain on capital asset disposal	48	-
Unrealized losses on investments	(10,343)	(8,754)
<b>Excess of revenues over expenses</b>	<b>12,219</b>	<b>7,359</b>
<b>General Fund, beginning of year</b>	<b>471,985</b>	<b>464,376</b>
Excess of revenues over expenses	12,219	7,359
Transfer to the Investment in Capital Assets Fund for capital asset additions	(213)	(30)
Employee future benefits remeasurements (Note 7)	(64)	280
<b>General Fund, end of year</b>	<b>483,927</b>	<b>471,985</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  
for the year ended December 31, 2017  
(In thousands of dollars)

	2017	2016
	\$	\$
<b>Investment in Capital Assets Fund, beginning of year</b>	<b>333</b>	449
Transfer from the General Fund for capital asset additions	<b>213</b>	30
Amortization of capital assets	<b>(160)</b>	(146)
<b>Investment in Capital Assets Fund, end of year</b>	<b>386</b>	333

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

# FINANCIAL STATEMENTS

## Statement of Cash Flows for the year ended December 31, 2017 (In thousands of dollars)

	2017	2016
	\$	\$
<b>Operating activities</b>		
Excess of revenues over expenses	12,219	7,359
Items not affecting cash		
Amortization of deferred lease inducements	(29)	(29)
Interest accrued	(105)	62
Bond premium amortization	3,584	2,864
Unrealized losses on investments	10,343	8,754
Employee future benefits remeasurements	(64)	280
Gain on capital asset disposal	(48)	-
Changes in non-cash working capital		
Prepaid insurance and recoverables	(58)	(63)
Member assessments receivable	(158)	(72)
Recoverable from the estate trustee	(5,596)	-
Payables and accruals	(5)	105
Provision for claims and/or related expenses	(603)	(2,333)
Employee future benefits	541	199
	20,021	17,126
<b>Investing activities</b>		
Purchases of capital assets, net of disposal	(165)	(30)
Purchases of investments	(51,514)	(82,501)
Proceeds from maturities and sales of investments	31,602	65,770
	(20,077)	(16,761)
(Decrease)/increase in cash during the year	(56)	365
Cash, beginning of year	926	561
<b>Cash, end of year</b>	<b>870</b>	<b>926</b>

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

# NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

(In thousands of dollars)

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## 1. Organization

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

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

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

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

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

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

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

## 3. Summary of significant accounting policies

The more significant accounting policies are as follows:

### *General Fund*

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

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

### *Investment in Capital Assets Fund*

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

### *Use of estimates*

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

# NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

(In thousands of dollars)

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

#### *Financial instruments*

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

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

#### *Cash*

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

#### *Investments*

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

#### *Regular assessments and assessments for capital deficiencies*

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

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

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

#### *Investment income*

Investment income includes interest earned, net of any amortization of bond premiums or discounts using the effective interest rate method, 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 CIPF is notified of potential claims and CIPF makes a determination that the claims are eligible under CIPF's Coverage Policy. Provision for related expenses, such as trustee's fees, legal fees, hearing costs and other administrative costs, is recorded when a reliable estimate can be made of the costs to administer the potential claims. Recoveries of amounts paid or accrued with respect to customers' claims and administrative costs are recorded when reasonably determinable. No amounts are set aside to cover possible losses and customer claims that could arise from future insolvencies.

December 31, 2017

(In thousands of dollars)

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

#### *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*

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

- The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of salary escalation, retirement ages of employees and expected health care costs.
- Actuarial gains (losses) on the accrued benefit obligation arise from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation. These differences between actual results and actuarial assumptions are recognized directly in the General Fund balance in the Balance Sheet and reported as pension remeasurements as a separate item in the Statement of 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 CIPF's investments at December 31, 2017. The weighted average yield to maturity of the portfolio at December 31, 2017 is 2.10% (2016 – 1.69%).

					2017	2016
	Less than 1 year	1 year to 3 years	3 years to 5 years	More than 5 years	Total fair value	Total fair value
	\$	\$	\$	\$	\$	\$
Treasury bills	14,260	-	-	-	14,260	959
Yield	1.03%	-	-	-	1.03%	0.35%
Canada bonds	-	-	-	10,278	10,278	10,510
Yield	-	-	-	2.02%	2.02%	1.72%
Canada Housing Trust bonds	8,568	43,316	59,586	119,441	230,911	229,660
Yield	1.27%	1.74%	2.04%	2.28%	2.08%	1.58%
Provincial bonds	40,283	45,346	29,017	114,317	228,963	237,193
Yield	1.44%	1.90%	2.13%	2.58%	2.18%	1.79%
	63,111	88,662	88,603	244,036	484,412	478,322

# NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

(In thousands of dollars)

## 5. Capital assets

	2017		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Office furniture and equipment	332	292	40
Leasehold improvements	313	107	206
Computers	236	168	68
Tangible assets	881	567	314
Software development	1,304	1,232	72
Total capital assets	2,185	1,799	386

	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

## 6. Bank lines of credit and excess insurance

CIPF has lines of credit provided by two Canadian chartered banks totalling \$125 million (2016 – \$125 million). IIROC has guaranteed these lines of credit by pledging its ability to assess Members.

CIPF has arranged insurance in the amount of \$160 million (2016 – \$160 million) in the annual aggregate, in respect of losses to be paid by CIPF in excess of \$150 million (2016 – \$150 million) in the event of Member insolvency. CIPF has arranged a second layer of insurance in the amount of \$230 million (2016 – \$170 million) in respect of losses to be paid in excess of \$310 million (2016 – \$310 million) in the event of Member insolvency.

## 7. Employee future benefits

CIPF has the following pension plans:

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

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

December 31, 2017

(In thousands of dollars)

## 7. Employee future benefits (continued)

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

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

	2017			2016
	Pension	SERP	Other	Total
	\$	\$	\$	\$
Net benefit plan expense	53	547	40	640
Benefits paid	125	30	8	163

Information about CIPF's defined benefit plans is as follows:

	2017			2016
	Pension	SERP	Other	Total
	\$	\$	\$	\$
Continuity of accrued benefit liability				
Balance, beginning of year	1,611	7,384	464	9,459
Benefit expense	53	547	40	640
Benefits paid	(125)	(30)	(8)	(163)
Remeasurements	53	45	(34)	64
Balance, end of year	1,592	7,946	462	10,000
Funded status				
Fair value of plan assets	-	-	-	-
Accrued benefit liability	1,592	7,946	462	10,000
Plan deficit	(1,592)	(7,946)	(462)	(10,000)

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

	Pension benefit plan		SERP		Other benefit plan	
	2017	2016	2017	2016	2017	2016
	%	%	%	%	%	%
Discount rate	3.1	3.4	3.1	3.4	3.1	3.4
Rate of compensation increase	-	-	3.0	3.0	-	-

For measurement purposes, inflation of medical expenses was assumed to be 12% in 2018, declining to 5% in annual increments of 1%. Inflation of dental costs was assumed to be 8% in 2018, 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 \$0.19 million (2016 – \$0.15 million) related to CIPF's contribution to the Group RSP plan.

# NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

(In thousands of dollars)

## 8. Lease commitments

At December 31, 2017, CIPF has future minimum annual lease commitments of \$1,570 (2016 – \$1,736) for office space, office equipment and information technology services as follows:

	\$
2018	250
2019	227
2020	228
2021	221
2022	221
Thereafter	423
	<u>1,570</u>

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

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

At December 31, 2017, two Member insolvencies continue to either be under the administration of a trustee in bankruptcy or are being administered in respect of which no trustee was appointed.

### (a) MF Global Canada Co.

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

During the year ended December 31, 2017, CIPF received a net refund of \$2.3 million (2016 – \$0.3 million). The recovery of provision for claims and/or related expenses for the year ended December 31, 2017 was \$2.8 million (2016 – \$0.3 million).

At December 31, 2017, the provision for claims and/or related expenses on the Balance Sheet of \$nil (2016 – \$0.5 million) represents the amount owing in accordance with settlement agreements reached with certain customers, plus third-party costs.

At December 31, 2017, there were no known customer claims on the estate and the estate continues to be administered by the trustee.

### (b) Barret Capital Management Inc.

Barret Capital Management Inc. ("Barret") was suspended by IIROC on February 13, 2012 and was determined by the Board of Directors of CIPF to be insolvent as of that date for the purpose of claims by customers of Barret against CIPF. In accordance with CIPF's Coverage Policy, a claims submission deadline of August 11, 2012 was established, which was later extended to October 31, 2013 due to the international location of many claimants. During the year ended December 31, 2017, CIPF made no payments with respect to Barret (2016 – \$nil).

At December 31, 2017, the provision on the Balance Sheet for third-party costs was \$nil (2016 – \$0.01 million).

December 31, 2017

(In thousands of dollars)

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

(c) 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 to CIPF. In accordance with CIPF's Coverage Policy, a claims submission deadline of October 12, 2013 was established. CIPF received claims from former customers of FLSI in the amount of approximately \$189 million. CIPF reviewed each claim received, and assessed and communicated eligibility based on the CIPF Coverage Policy, and in accordance with the CIPF Claims Procedures. CIPF paid no claims or administrative costs in the year ended December 31, 2017 (2016 – \$0.6 million and \$0.7 million respectively). The reduction in the provision for claims and/or related expenses charged to the General Fund for the year was \$nil (2016 – \$0.1 million).

At December 31, 2017, there is no provision for claims and/or related expenses on the Balance Sheet (2016 – \$nil).

(d) 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, 2017, CIPF advanced a further \$1.1 million to fund the trustee (2016 – \$1.0 million). The recovery of provision for claims and/or related expenses for the year ended December 31, 2017 was \$4.6 million (2016 – \$nil).

At December 31, 2017, CIPF has a recovery from the estate trustee on the Balance Sheet of \$5.6 million as a result of settlement agreements reached by the trustee (2016 – provision for claims and/or related expenses of \$0.1 million). The trustee continues to administer the estate.

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

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

# NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

(In thousands of dollars)

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## 10. Financial instruments

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

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

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

### ***Risk management***

Risk management relates to the understanding and active management of risks associated with invested assets. Investments can be exposed to interest rate, liquidity, credit, market and currency risk. CIPF manages its exposure to the risks associated with its investment portfolio by following the Board-approved investment policy that restricts the types and amounts of its eligible investments and requires dealing with highly rated counterparties. 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 CIPF's investments are as follows:

#### **Interest rate risk**

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

An immediate hypothetical 100 basis point increase in interest rates would decrease the fair value of the investments by \$20.7 million (2016 – \$22.8 million).

#### **Liquidity risk**

Liquidity risk is the risk that CIPF will not be able to meet its cash outflow commitments as they fall due. This includes the risk of being forced to sell assets at depressed prices resulting in realized losses on sale. CIPF manages the liquidity risk exposure by following the investment policy described above and by maintaining lines of credit of \$125 million (2016 – \$125 million).

#### **Credit risk**

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

#### **Market risk**

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

#### **Currency risk**

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



CIPF | FCPE

Canadian Investor Protection Fund  
Fonds canadien de protection des épargnants

CIPF

Canadian  
Investor  
Protection  
Fund



# BOARD OF DIRECTORS

DECEMBER 31, 2017



From left to right: Anne La Forest, Bernard Turgeon, Donna Howard, Martin L. MacLachlan, Pierre Matuszewski and Brigitte Geisler.

## Chair

### **Nicholas G. Kirton<sup>3</sup>**

FCPA, FCA, ICD.D

Calgary, Alberta

Professional Director

Former Partner, KPMG LLP

(joined June 2008)

## President & CEO

### **Rozanne E. Reszel**

FCPA, FCA, CFA, ICD.D

Toronto, Ontario

(joined September 1998)

## Public Directors

### **Ann Davis<sup>1,4</sup>**

FCPA, FCA

Toronto, Ontario

Former Partner, KPMG LLP

(joined April 2017)

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

ICD.D

Smiths Falls, Ontario

Former Adviser to the Governor of the Bank of Canada and former Chief of the Financial Markets Department for the Bank of Canada

(joined March 2015)

### **Anne La Forest<sup>2,3</sup>**

LL.M, LL.B

Fredericton, New Brunswick

Faculty of Law at University of New Brunswick

Former Member of the New Brunswick Securities Commission

(joined April 2014)

### **Douglas Stratton<sup>1\*,4</sup>**

CFA, ICD.D

Edmonton, Alberta

Vice-President, Alberta Investment Management Corporation

(joined June 2016)

### **Bernard Turgeon<sup>1,3</sup>**

Ph.D.

Quebec City, Quebec

Former Associate Deputy Minister at the Ministry of Finance of Quebec

(joined April 2017)

## Industry Directors

### **Brigitte Geisler<sup>1,3</sup>**

LL.M, LL.B

Toronto, Ontario

Capital Markets Professional Consultant

Former Director of Market Regulation at Ontario Securities Commission

(joined April 2014)

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



**From left to right:** Ann Davis, Nicholas G. Kirton, Peter Virvilis, Debra A. Hewson, Douglas Stratton and Rozanne E. Reszel.

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

**Martin L. MacLachlan**<sup>2,3\*</sup>  
LL.M, LL.B, ICD.D  
Vice-Chair  
Toronto, Ontario  
General Counsel and Senior  
Vice-President, Legal Affairs  
and Corporate Secretary of  
Canaccord Genuity Group  
Inc. and of its wholly owned  
subsidiary, Canaccord  
Genuity Corp.  
(joined April 2013)

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

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

## Officers

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

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

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

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

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

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

## Committees

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

<sup>2</sup> Coverage Committee

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

<sup>4</sup> Industry Risk Committee

\* Committee Chair



Canadian Investor Protection Fund

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