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CIPF Canadian Investor Protection Fund 50 YEARS

2019 ANNUAL REPORT

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.

50 YEARS

In 2019, the Canadian Investor Protection Fund (CIPF) celebrated fifty years of service to investors since it was established in 1969. Having reached this milestone, CIPF remains steadfast in its commitment to fulfilling its mission and protecting investors.

CIPF's Role in the Canadian Regulatory System

1991

CIPF and the Canadian Securities Administrators formalized their relationship in a Memorandum of Understanding defining the role and responsibilities of CIPF.

Governed by Two Agreements

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

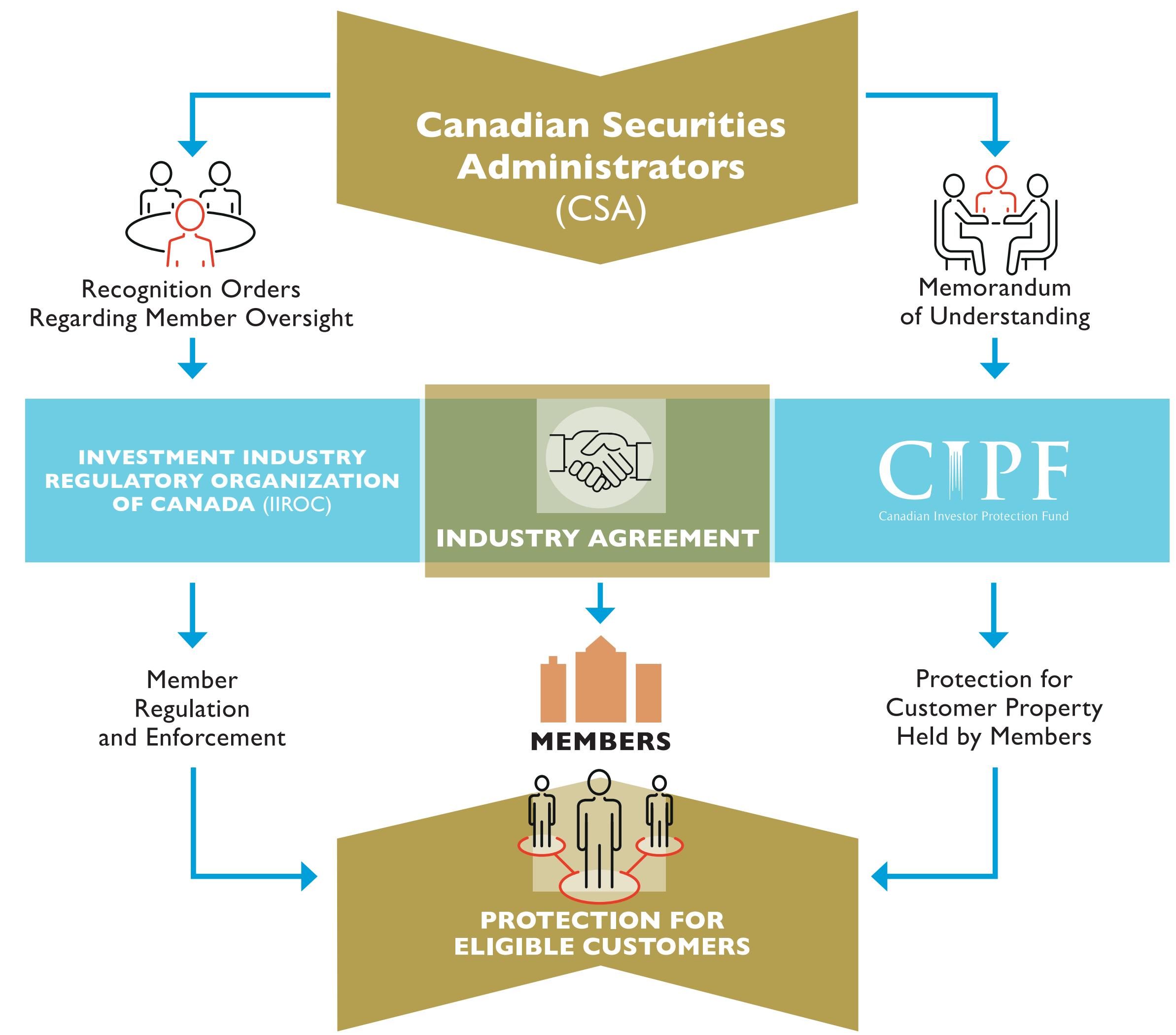
The CSA consists of the authority in each Canadian province and territory that, under statute, regulates the securities industry within its jurisdiction. Each regulator is responsible for promoting both investor protection and fair and efficient capital markets in its jurisdiction. IIROC operates under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

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

- A Memorandum of Understanding (MOU) between CIPF and the CSA setting out a program of oversight for CIPF to ensure that CIPF is appropriately discharging its responsibilities as a compensation fund. As provided by securities laws and regulations in many Canadian provinces and territories, certain securities regulators have also issued approval orders in relation to CIPF that address CIPF's responsibilities for customer protection, as well as the governance, funding and maintenance of 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.

The CSA has proposed changes to the structure of the oversight of CIPF, which is anticipated to take place in 2020. The proposed changes include the following:

- Amendments to the terms and conditions of CIPF's approval as an investor protection fund,
- Amendments to CIPF's reporting requirements, and
- New MOU among CSA members regarding the oversight of CIPF.



Message from the Chair

CIPF has been compelled to transition nimbly from celebrating a major milestone to a rapidly changing and possibly much changed future as a result of a once-in-a-generation, global upheaval.

That the organization has responded to COVID-19 with composure owes everything to an extremely qualified and highly functional Board of Directors, an exceptionally capable professional staff, and its focus on protecting investors.

While 2019 saw no new insolvencies and the celebration of 50 years of service, what may be recalled most in future years is that CIPF had been "firehouse-ready" to meet its responsibilities when it mattered most. In celebrating its half-century, the organization emphasized looking ahead to meet coming challenges rather than on extolling its past accomplishments. In retrospect – and with COVID-19 as an interpretive frame – that orientation seems especially farsighted.

This lean-forward philosophy reveals the merit of our ongoing approach to good governance: CIPF maintains a continual state of preparedness. Our experience with 21 insolvencies makes it clear there is no merit in making predictions. CIPF strives to always be ready and this allowed our staff to quickly convert to a virtual operational model when we all had to work from home.

As I think about key developments during 2019, a number reveal how the organization will proceed regardless of any outcomes arising from COVID-19.

During the year, CIPF wound down significant matters related to the Octagon Capital Corporation insolvency. The absence of new fires to fight allowed the Board, staff and external allies to undertake robust tabletop simulation exercises to gain insights into how best to respond if and when needed and to reinforce training by "gaming out" possibilities.

In 2019, we strengthened essential connections with IIROC, the CSA, and with IIROC Dealer Members and investment professionals to help them grasp what CIPF does, the scope of our coverage, and our value for them and investors. It's critical that CIPF protection limits be understood, and one area where we ensured this was providing clarity regarding fully-paid securities lending programs.

The Board addressed internal leadership and succession planning requirements vital for high functionality. The organization is blessed with deep expertise and diverse experience at the Board level and remarkably competent executive and staff resources. CIPF President & CEO Rozanne Reszel is a unique treasure and is working diligently to foster the talents of her staff. The Board also aims to continue this culture of excellence.

I have had the honour to serve as CIPF Chair during an exceptionally dynamic period in financial services. The ascent of fintech and of cryptocurrencies and their associated opportunities and risks will not cease because a pandemic has temporarily unsettled markets. Still on the horizon, a merger between IIROC and the Mutual Fund Dealers Association of Canada (MFDA) is being contemplated.

CIPF must and will be ready to manage all contingencies. I firmly believe in the robustness of institutional strengths and doing the important work assigned to an organization: CIPF is very good at this and its performance during – and despite – COVID-19 proves the point.

I now resume my seat on the Board with confidence in and respect and admiration for my successor, Debra Hewson. A strong leader and team player, Debra has the full support of her directors and a team of professionals committed to protecting Canadian investors into our 51st year and far beyond.

Martin MacLachlan

The organization is blessed with deep expertise and diverse experience at the Board level and remarkably competent executive and staff resources.

Message from the President & CEO

50 YEARS

On the heels of celebrating a major milestone in 2019, CIPF – like organizations in Canada and worldwide – has found itself confronted by an event of unprecedented magnitude: the COVID-19 pandemic.

With a half-century of service completed last year, we remain focused on addressing present-day duties, preparing for pending changes and managing the new challenges now before us. COVID-19 is testing our mettle, proving our resilience, and will ultimately reaffirm our commitment to protect Canadian investors.

The importance of our 50th anniversary – and what we have achieved since 1969 – should not be lost amidst "new realities." I wish to acknowledge the leadership of our Chair, incoming Chair and Board of Directors (past and present) who have ensured the continuity of care that brought us here and who will bring us into tomorrow. Canadian investors benefit greatly from their calm, decisive guidance.

CIPF has evolved from a virtual, industry-sponsored organization into a team of 25 with a sophisticated understanding of risk, an orientation to best practices and a watchful eye on rapid change driven by diverse factors. Our distinct focus (returning customer property if an IIROC Dealer Member becomes insolvent) underpins confidence among professionals and investors.

CIPF has managed 21 insolvencies, but when none occur we are never idle. Like other emergency responders, we prepare continuously so that redress can be as efficient as possible under all circumstances. Accordingly, in 2019, we undertook many simulation exercises, some with partners and others, to assess our processes and readiness.

Like other financial sector authorities, CIPF aims to be responsive, responsible with our resources, and ready to meet critical contingencies. We know the next insolvency will always be unique: this compels us to think creatively about risk management and communication. We therefore engage in continuing education to help advisors and investors understand the nature and limits of our coverage; this will be essential in the wake of COVID-19. We are primed to carry forward.

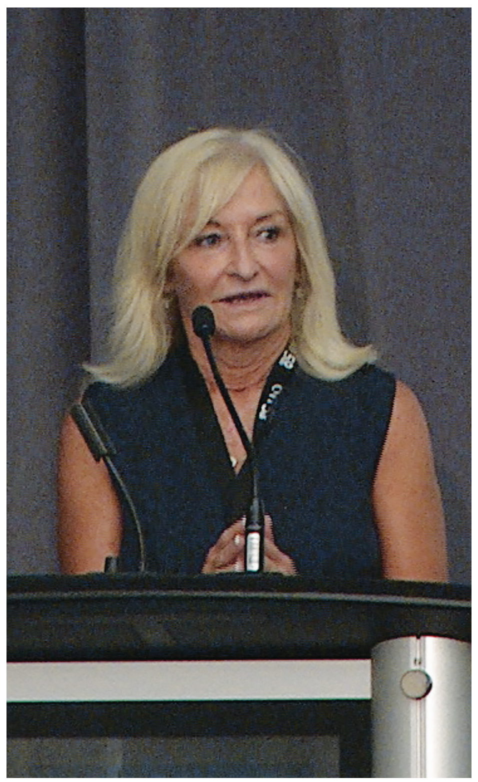
Being trusted demands operational reliability. There is no better evidence of our team's embrace of this principle than its response to the pandemic. I want to commend the professionalism of CIPF staff who quickly implemented our Business Continuity Plan and seamlessly adjusted to new ways of working. They are a credit to the organization and to those we serve.

Although our immediate priorities for 2020 are clear, we will continue to monitor coming trends that could affect investors. For example, CIPF must grasp the impact of cryptocurrencies, stablecoins, blockchain and other fintech innovations and their implications for our protection. We cannot predict the likelihood of a merger of the self-regulatory organizations (IIROC and the MFDA), but we remain vigilant for potential integration and its effect on our responsibilities. We will also continue with "background work" to support prompt asset recovery and to ensure our risk model aligns with recent market data and reflects reasonable asset recovery assumptions.

I am honoured to be the second-longest serving staff member with CIPF and begin my 30th year as the financial and broader world are much altered by recent developments. There can be no doubt that the future will be different, but then it always has been. If I am confident in our ability to fulfil our mandate within this unpredictable, fluid environment, it is because we have done so for more than 50 years.

Rozanne Reszel

We know the next insolvency will always be unique: this compels us to think creatively about risk management and communication.



Looking Back While Thinking Ahead

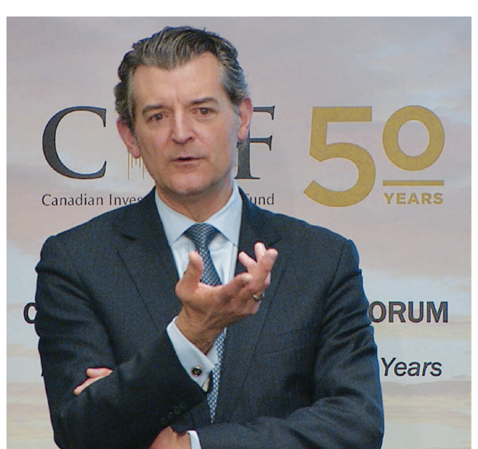
For CIPF, celebrating a half-century of service to investors, the investment sector and investment professionals was primarily about preparing to meet the challenges of the next 50 years and beyond.

So when current and former Board members and staff assembled along with invited guests on June 19, 2019 at the Toronto Region Board of Trade to mark the milestone, the event was focused on the future. That outlook is an enduring hallmark of CIPF's operational philosophy. What began in 1969 as the National Contingency Fund, a virtual organization with volunteer Board oversight, has matured into a sophisticated, forward-looking organization charged with protecting more than $2.4 trillion of IIROC Dealer Member-managed assets.

Featuring an array of expert speakers and panellists from Canada and the United States, the anniversary forum ("Looking to the Future After 50 Years") was a daylong series of enlightening presentations and insightful panel discussions on themes related to seismic shifts in the financial world and their implications for CIPF.

Everything from macroeconomic trends and changing investor behaviour, to innovative financial technologies – the true focal point of the sessions – were examined in detail. Co-hosted by then Vice-Chair Debra Hewson and President & CEO Rozanne Reszel, the seminars reflected CIPF's emphasis on meaningful stakeholder engagement and its ongoing priority to educate the "street" about the nature and limits of its coverage.

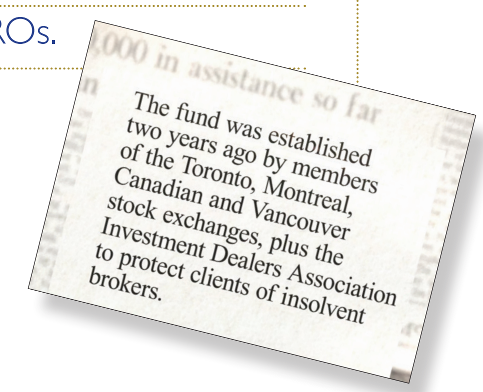
For anyone who did not attend the forum, a seven-minute video about CIPF's evolution posted to the CIPF website (www.cipf.ca) offers a solid overview of the organization's origins, orientation and mandate. Featuring highlights of interviews with past and present Board members, advisory and professional leaders, the video tells the story of how it emerged, the matters it has resolved, and the "nimble and forward-looking" perspective that will inform its journey into tomorrow.



Overview and Corporate Governance Practices

1969

CIPF, originally named the National Contingency Fund, was established by several sponsoring self-regulatory organizations (SROs) at the time: the Canadian, Montreal, Toronto and Vancouver Stock Exchanges, and the Investment Dealers Association of Canada. Its purpose was to protect customers who suffered financial loss due to the failure of a Member of any of its SROs.



The fund was established two years ago by members of the Toronto, Montreal, Canadian and Vancouver stock exchanges, plus the Investment Dealers Association to protect clients of insolvent brokers.

Providing Confidence

CIPF was established by the investment industry in 1969 to protect investors in the event of an IIROC Dealer Member insolvency.

All IIROC Dealer Members are automatically members of CIPF. On December 31, 2019, 167 investment dealers across Canada had CIPF membership. All Members are listed on the CIPF website. Every Member is required to include the CIPF Membership Symbol and the CIPF Explanatory Statement on all confirmations and account statements made available to customers.

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

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

CIPF does not cover:

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

For more information on what CIPF does and does not cover, please refer to the CIPF website at 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 Member insolvencies involving claims to CIPF. All eligible customers with missing property have had their property returned to them by CIPF within the limits defined in the CIPF Coverage Policy.

1997

The *Bankruptcy and Insolvency Act* (Canada) was amended to include Part XII, a section specific to the insolvency of investment dealers. Part XII names CIPF as a party that can apply to the court to appoint a trustee.

Overview and Corporate Governance Practices (Continued)

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 & CEO. 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.

In 2019, the CSA approved a change to CIPF's By-law No. 1 to remove the potential overlap in the definitions of Industry Director and Public Director. The revised by-law, effective March 27, 2019, provides that an Industry Director, at the time they are first elected, must be actively engaged in the securities industry. Previously, an Industry Director could be either actively engaged in the securities industry or "familiar with most aspects of the securities industry." A grandparenting clause was added to the definition of Industry Director so that the change to the definition did not inadvertently disqualify any current director.

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 staff to raise serious concerns about violations of CIPF's Code of Conduct. As outlined by the policy, staff may report complaints and allegations concerning violations of CIPF's Code of Conduct to the Chair of CIPF's Audit, Finance & Investment Committee.

Besides empowering staff to report violations of CIPF's 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 on the CIPF website at www.cipf.ca.

2019 Corporate Governance Reporting

The approved schedule for director compensation at December 31, 2019 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, 2019:

DIRECTOR	BOARD MEETINGS	COMMITTEE MEETINGS	BOARD AND COMMITTEE MEETINGS
Rita Achrekar	4/4	5/5	9/9
Ann Davis	4/4	7/7	11/11
Brigitte Geisler	4/4	8/8	12/12
Debra Hewson	4/4	5/5	9/9
Donna Howard	4/4	5/5	9/9
Anne La Forest	4/4	6/6	10/10
Martin MacLachlan	4/4	3/3	7/7
Pierre Matuszewski	4/4	6/6	10/10
Rozanne Reszel	4/4	12/12	16/16
Douglas Stratton	4/4	8/8	12/12
Bernard Turgeon	4/4	8/8	12/12
Peter Virvilis	4/4	5/5	9/9


OSC, TSE lay charges against Osler, executives

The insolvency will have cost the contingency fund, the industry's compensation fund, more than $25 million.

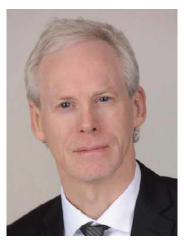
1987

The insolvency of Osler Inc. in 1987 was the largest insolvency in CIPF's history and prompted a review of CIPF by the Board and its advisors, and a restructuring of CIPF.

Committee Duties

CIPF Board at Work

The Board has delegated certain duties to its Committees:

COMMITTEE	DUTIES	SIGNIFICANCE
AUDIT, FINANCE & INVESTMENT COMMITTEE  Douglas Stratton Chair	• Reviews the operating budget relative to the goals and objectives for the year • Oversees the investment policies • Reviews financial statements and financial disclosure • Reviews systems of internal controls • Reviews significant legal agreements • Monitors independence and performance of external auditors • Reviews the financial and investment risks to which CIPF is exposed • Reviews the adequacy of security of information, information systems and recovery plans • Responsible for the Whistleblower Policy and its underlying procedures	• 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 • Oversees and monitors the management controls in place to minimize the financial and investment risks to which CIPF is exposed
COVERAGE COMMITTEE  Donna Howard Chair	• 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 • Reviews issues relating to CIPF coverage eligibility, and coverage-related policy issues • Responsible for overseeing the claim payment process • Oversees and provides guidance on insolvency proceedings, coverage-related litigation, and relevant post-mortem reporting • Recommends any changes to Part XII of the *Bankruptcy and Insolvency Act* (Canada) to the Board • Interprets and recommends changes regarding the CIPF Disclosure Policy to the Board • Oversees that procedures are in place to review CIPF's communications	• Oversees that CIPF's communications are clear, accurate and express the nature and intent of available coverage • 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 • Oversees that adequate procedures are in place to minimize risk of payments beyond what is intended by the CIPF Coverage Policy • Provides procedures and process to hear claims appeals

COMMITTEE	DUTIES	SIGNIFICANCE
GOVERNANCE, NOMINATING & HUMAN RESOURCES COMMITTEE  Anne La Forest Chair	• Manages the process for identifying potential future Board members • Oversees the ongoing development for directors • Annually reviews the succession plan for the Chair and each Committee Chair • Conducts a biennial evaluation of overall Board performance, each Committee and directors and reports to the Board • Monitors governance trends; furthers adoption of best corporate governance practices • Reviews human resources issues that may affect CIPF and oversees the management controls, processes and succession plans • Reviews human resource policies and procedures, benefits and pension plans, and oversees and monitors compliance with relevant regulatory requirements	• Oversees CIPF decision-makers and their adherence to good governance • Oversees and monitors the management of human resources opportunities and risks
INDUSTRY RISK COMMITTEE  Peter Virvilis Chair	• Monitors adequacy of available liquidity resources in relation to the risk exposure from the failure of Members • Monitors and oversees the procedures CIPF has in place to monitor the adequacy of, and any changes to, IIROC capital requirements • Monitors and oversees the procedures CIPF has in place to identify and respond to Members that may pose a risk to CIPF's available liquidity resources • Recommends the annual assessment target to be paid by Members for Board approval • Monitors and oversees the fair allocation of the annual assessment target to Members, as specified by the CIPF Assessment Policy • Reviews the CIPF Assessment Policy and the Assessment Appeal Procedures, recommends changes to the Board, and monitors and oversees the procedures established to ensure compliance with policies and procedures • Hears and decides Member assessment appeals on behalf of the Board • Provides guidance on Member insolvency-related issues, including non-coverage-related litigation	• Provides oversight of risk-monitoring and mitigation measures that offer critical safeguards to CIPF, Members and other key stakeholders • Provides oversight and monitoring for the critical determination of the appropriate liquidity resources and related adequacy thereof

CIPF Coverage

Committed to Investors

CIPF Coverage Policy

Responsibility for determining the eligibility of customers and customer losses 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 FAQs and case studies, please refer to the CIPF website at 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, RRIFs 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 the CIPF Claims Procedures. For further information, please refer to the CIPF website at www.cipf.ca.

Protecting Eligible Customers

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

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

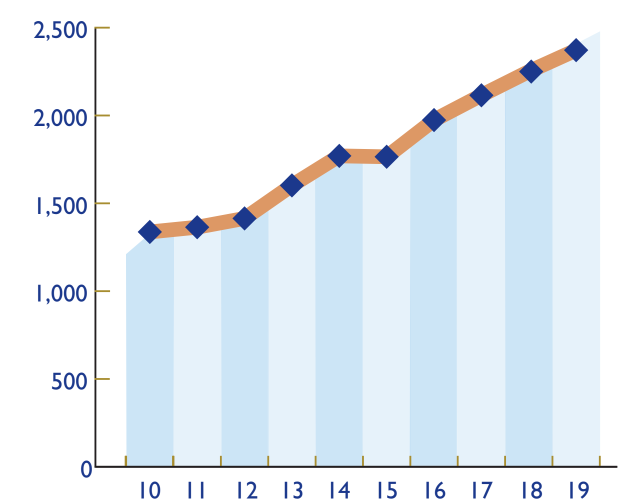
Certain customers are not eligible for CIPF protection. Please refer to the CIPF Coverage Policy for complete details.

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 customers, a proxy for the property eligible for CIPF protection, were approximately $2.4 trillion at December 31, 2019.

NET CLIENT ASSETS REPORTED BY MEMBERS
At December 31, for the years 2010 to 2019
($ Billions)



Informing Members and Investors

Providing clear and accessible information about CIPF protection to Members, advisors, and investors is an ongoing priority for CIPF. In 2019, this priority was furthered by (i) the engagement of a communications firm to develop an 18-month communications plan, which was launched in early 2020, and (ii) a second animated educational video.

The purpose of the second educational video is to increase CIPF awareness among investors by addressing two key questions: "How does CIPF help investors?" and "What does CIPF cover?", and in doing so, help bring a higher level of clarity regarding CIPF's role and mandate.

The video is follow-up to a short animated video posted to the CIPF website in 2018. It reflects the research results, which indicated investors' desire for short bursts of easily digestible information. The video is available on the CIPF website at www.cipf.ca.

The communications plan focuses on tactics to increase the level of awareness and education about CIPF among advisors and investors, by drawing on the results of quantitative and qualitative research studies conducted in late 2018 and early 2019. Tactics developed in 2019 for launch in 2020 include: learning modules, media interviews and articles, infographics of top CIPF facts, podcasts, and an animated depiction of the CIPF claims process.

CIPF's webcast training seminar, "Overview of the Canadian Investor Protection Fund," continued to be available on the IIROC website at www.iiroc.ca throughout 2019. The seminar is accredited as an IIROC continuing education compliance program and is offered in English and French. A new continuing education accredited CIPF webcast is being developed as part of the 18-month communications plan, and is expected to be available in 2020.

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

CIPF Coverage (Continued)

1990

To more accurately reflect the organization's role, the name of the fund was changed from the National Contingency Fund to the Canadian Investor Protection Fund. For the first time, coverage limits for customers were formally defined and Board membership was broadened to include Public Directors.

Promoting Awareness of Investor Protection

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

- The CIPF website, www.cipf.ca, provides information, including animated videos and case studies, about CIPF coverage.
- 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 customers at the time of account opening and to all other customers upon request.
- All Members must include the CIPF Explanatory Statement and the CIPF Membership Symbol on all confirmations and account statements made available to customers.
- Members must display the CIPF Decal at each business location where customers may visit.

CIPF is one of the sponsors for the web portal 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. For complete CIPF contact information, please see the back cover.

Member—Canadian Investor Protection Fund

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

Liquidity Resources

50 YEARS

Financial Strengths

The CIPF Board is responsible for:

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

CIPF uses a credit-risk based model to estimate the liquidity resources required to fulfil its mandate. Key inputs into the model include quantitative and qualitative factors that estimate Member insolvency risk and asset recovery risk. Members with good corporate governance, profitability and capital will generally present less relative risk to CIPF.

In 2019, a number of reviews were undertaken in support of the ongoing use of CIPF's credit-risk based model. These reviews included a validation of the assumptions underlying the credit-risk based model, a recalibration review of the factors used by the credit-risk based model to determine probabilities of default, and stress testing considerations.

In 2019, CIPF actively began a process of engaging with Members with high asset location risk. The engagement process was designed to encourage Members to change current asset locations to less risky locations and to provide more detailed information allowing CIPF to validate its projection of asset location risk. Where the asset location risk is deemed to be high, an Asset Location Assessment may be levied in accordance with the CIPF Assessment Policy.

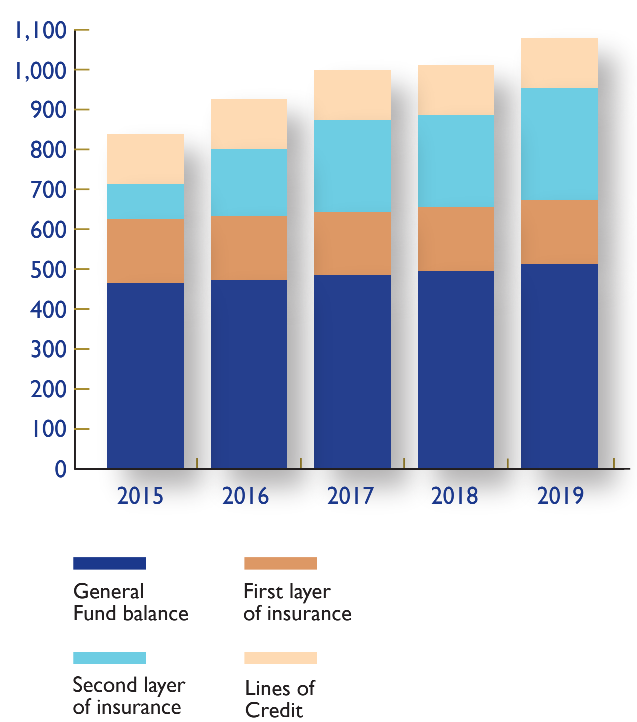
Liquidity Resources (Continued)

In 2019, the Board confirmed that CIPF's target liquidity resources remain constant at $1 billion. The available liquidity resources, as at December 31, 2019, amount to $1.08 billion. CIPF's target liquidity resources will be reviewed by the Board in 2020.

AVAILABLE LIQUIDITY RESOURCES

At December 31, for the years 2015 to 2019

($ Millions)



CIPF can draw on several liquidity resources to pay customer claims:

- The General Fund of $513.6 million at December 31, 2019,
- A primary insurance policy in the amount of $160 million in the annual aggregate, in respect of losses to be paid by CIPF in excess of $200 million in one year, and a second layer of excess insurance policy in the amount of $280 million in respect of losses to be paid in excess of $360 million in one year in the event of Member insolvency,
- Committed lines of credit totalling $125 million from two Canadian chartered banks, and
- The ability to assess Members.

The General Fund of $513.6 million at December 31, 2019 comprises the following:

- A portfolio of investments with a fair value of $518.9 million at December 31, 2019, and
- The net of all other assets and liabilities held by CIPF, which at December 31, 2019 amounted to a net liability of $5.3 million.

CIPF has an Investment Policy reviewed regularly by the CIPF Board.

The Investment Policy provides that all investment debt obligations must be issued or guaranteed by the Government of Canada or provincial or territorial governments. The policy requires all counterparties to meet the following rating equivalents, as determined by the rating agencies recognized by FTSE TMX Canada:

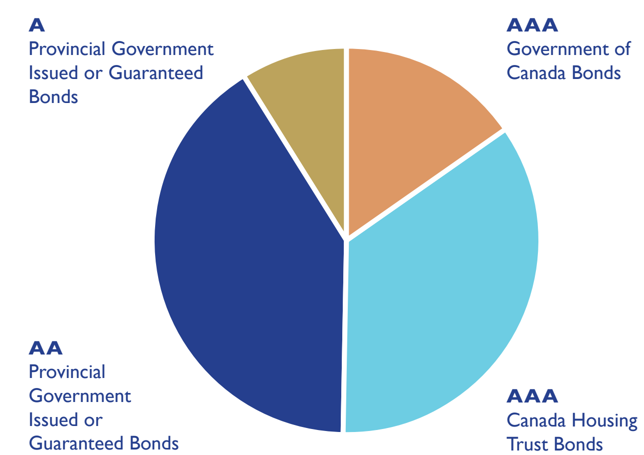
- For maturities beyond one year – DBRS Limited's "A," and
- For cash and equivalents, DBRS Limited's "R-1 Low."

CIPF Investment Portfolio of $518.9 Million (Fair Value)

At December 31, 2019

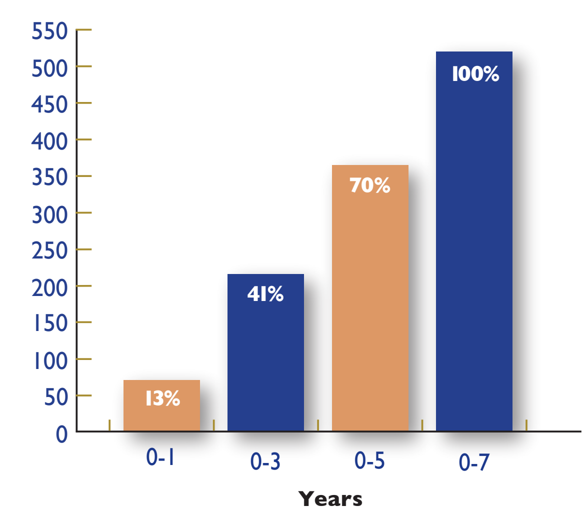
DISTRIBUTION OF CREDIT RATINGS

As rated by DBRS Limited



MATURITY BY TIME BAND

($ Millions)



Commentary on Financial Results

50 YEARS

General Fund Grows

The General Fund had net assets of $513.6 million at the end of 2019, an increase of $18.0 million from the previous year.

Financial Review and Outlook

Balance Sheet

CIPF holds investments with a fair value of $518.9 million, that represent most of the total assets of $524.5 million. All investments are Government of Canada or provincial government guaranteed and are carried at fair value. At December 31, 2019, the investments at fair value include an unrealized gain of $5.9 million (2018: $3.3 million), due to yields at the time of purchase exceeding market yields at December 31, 2019. 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/decrease in interest rates would decrease/increase the fair value of the investments by $16.9 million (2018: $16.5 million).

The balance in the General Fund at December 31, 2019 was $513.6 million, an increase of $18.0 million over the prior year. The increase resulted from the excess of revenues over expenses of $18.1 million, plus employee future benefits remeasurements of $0.3 million, less transfer to the Investment in Capital Assets Fund of $0.4 million. CIPF made a one time expenditure of $0.3 million during the year for leasehold improvements to the office premises. CIPF has five years remaining on its ten year lease.

The Investment in Capital Assets Fund was $0.5 million at December 31, 2019.

Revenues and Expenses

CIPF's excess of revenues over expenses was $18.1 million for the year ended December 31, 2019, compared to an excess of revenues over expenses of $11.5 million in 2018.

The excess of revenues over expenses of $18.1 million was the net of:

- Excess of revenues over expenses before other items of $15.3 million (2018: $15.2 million).
- Unrealized gains during the year on investments due to the movement in market value of $2.6 million (2018: unrealized losses of $0.8 million).
- Recovery of provision for claims and/or related expenses of $0.3 million (2018: $0.1 million provision).

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

Assessments in 2019

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 liquidity resources, by using its risk-based assessment methodology and considering the target for the liquidity resources.
- The assessment is then allocated based on each Member's relative risk, subject to a minimum assessment of $5 thousand 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 2019 was $12.6 million versus $12.4 million in 2018. The increase is due to the Board-approved increase of 1.9% in the 2019 target assessment over the prior year.

CIPF also assessed capital deficiency assessments of $34 thousand in 2019 (2018: $24 thousand) to Members that incurred capital deficiencies pursuant to IIROC rules in any month, in accordance with the CIPF Assessment Policy.

Investment Income for 2019

The investment income for the year ended December 31, 2019 was $12.4 million, an increase from the 2018 investment income of $12.3 million due to the increase in the amount of the investments held in the General Fund, offset by the lower yield environment.

Expenses for 2019

Operating expenses for the year ended December 31, 2019 were $9.7 million, an increase of 3% over the prior year of $9.4 million due to increases in salaries and communications expenses.

A recovery of provision for claims and/or related expenses of $0.3 million was recorded during 2019 compared to a provision of $0.1 million in 2018. The 2019 recovery of provision related to additional recoveries from the estate of Octagon Capital Corporation.

Outlook for 2020

The Board-approved target assessment was set at $12.1 million for 2020, the same level as in 2019.

Investment income at amortized cost is forecasted to be $12.5 million in 2020, higher than the 2019 income of $12.4 million due to an expected increase in the amount of investments held in the General Fund, offset by the reinvestment of funds at lower rates.

Investments in the General Fund balance are recorded at fair value, which at December 31, 2019 was $5.9 million higher than the amortized cost (2018: $3.3 million). The movement in fair value compared to the amortized cost is a function of interest rates and cannot be predicted.

CIPF is forecasting the 2020 operating expenses to be $10.1 million, $0.4 million higher than in 2019 due to higher salaries and computer server hosting expenses.

Independent Auditor's Report

To the Members and Board of Directors of the
Canadian Investor Protection Fund

Opinion
We have audited the financial statements of the Canadian Investor Protection Fund (the "Organization"), which comprise the balance sheet as at December 31, 2019, and the statements of revenues and expenses and changes in fund balances and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with Canadian Accounting Standards for Not-For-Profit Organizations ("ASNPO").

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

Other Information
Management is responsible for the other information. The other information comprises the information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Annual Report prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Organization to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
March 27, 2020

Financial Statements

Balance Sheet
as at December 31, 2019

(In thousands of dollars)

	2019	2018
	$	$
Assets		
Current assets		
Cash	**1,041**	858
Prepaid insurance and recoverables	**591**	625
Investments, at fair value (Note 4)	**518,882**	501,480
Recoverable from the estate trustee (Note 9)	**333**	450
Member assessments receivable	**3,155**	2,684
	524,002	506,097
Tangible capital assets (Note 5)	**471**	244
Software development (Note 5)	**43**	90
	524,516	506,431
Liabilities		
Current liabilities		
Payables and accruals	**353**	369
Deferred lease inducements	**29**	29
	382	398
Long-term deferred lease inducements	**115**	144
Employee future benefits (Note 7)	**9,944**	9,972
Fund balances		
Investment in Capital Assets Fund	**514**	334
General Fund	**513,561**	495,583
	514,075	495,917
	524,516	506,431

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 Fund Balances
for the year ended December 31, 2019

(In thousands of dollars)

	General Fund	Investment in Capital Assets Fund	**2019 Total**	2018 Total
	$	$	**$**	$
Revenues				
Regular assessments	12,572	-	**12,572**	12,372
Assessments for capital deficiencies	34	-	**34**	24
Investment income	12,386	-	**12,386**	12,278
	24,992	-	**24,992**	24,674
Expenses				
Salaries and employee benefits (Note 7)	4,384	-	**4,384**	4,277
Bank lines of credit fees and insurance premium	2,247	-	**2,247**	2,277
Professional fees	572	-	**572**	540
Pension and other employment benefits (Note 7)	530	-	**530**	524
Directors' fees, travel and education	495	-	**495**	480
Other operating costs	478	-	**478**	447
Occupancy	408	-	**408**	407
Communications	257	-	**257**	158
Computer server hosting and maintenance	240	-	**240**	218
Amortization of tangible capital assets and software development	-	215	**215**	172
Custodial fees	121	-	**121**	117
	9,732	215	**9,947**	9,617
Excess (deficiency) of revenues over expenses before the undernoted items	15,260	(215)	**15,045**	15,057
Recovery of (provision for) claims and/or related expenses (Note 9)	283	-	**283**	(146)
Realized losses on sale of investments	-	-	**-**	(2,772)
Unrealized gains (losses) on investments	2,584	-	**2,584**	(775)
Excess (deficiency) of revenues over expenses	18,127	(215)	**17,912**	11,364
Fund balances, beginning of year	495,583	334	**495,917**	484,313
Excess (deficiency) of revenues over expenses	18,127	(215)	**17,912**	11,364
Transfer to the Investment in Capital Assets Fund for additions	(395)	395	**-**	-
Employee future benefits remeasurements (Note 7)	246	-	**246**	240
Fund balances, end of year	513,561	514	**514,075**	495,917

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

Statement of Cash Flows
for the year ended December 31, 2019
(In thousands of dollars)

	2019	2018
	$	$
Operating activities		
Excess of revenues over expenses	**17,912**	11,364
Items not affecting cash		
Amortization of tangible capital assets and software development	**215**	172
Amortization of deferred lease inducements	**(29)**	(30)
Interest accrued	**(248)**	(552)
Bond premium amortization	**4,131**	3,994
Realized losses on sale of investments	**-**	2,772
Unrealized (gains) losses on investments	**(2,584)**	775
Employee future benefits remeasurements	**246**	240
Changes in non-cash working capital		
Prepaid insurance and recoverables	**34**	(28)
Member assessments receivable	**(471)**	382
Recoverable from the estate trustee	**117**	5,146
Payables and accruals	**(16)**	(42)
Employee future benefits	**(28)**	(28)
	19,279	24,165
Investing activities		
Purchases of capital assets	**(395)**	(120)
Purchases of investments	**(85,469)**	(160,119)
Proceeds from maturities and sales of investments	**66,768**	136,062
	(19,096)	(24,177)
Increase (decrease) in cash during the year	**183**	(12)
Cash, beginning of year	**858**	870
Cash, end of year	**1,041**	858

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

Notes to the financial statements
December 31, 2019
(In thousands of dollars, unless otherwise noted)

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* (Canada) and, as such, is not subject to either federal or provincial income taxes.

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

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

3. Summary of significant accounting policies

The significant accounting policies are as follows:

General Fund

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

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

Investment in Capital Assets Fund

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

Use of estimates

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

Notes to the financial statements
December 31, 2019
(In thousands of dollars, unless otherwise noted)

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 Fund Balances. Accrued interest on the fixed income securities is included in the Investments balance.

Regular assessments and assessments for capital deficiencies

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

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

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

Investment income

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

Provision for claims and/or related expenses

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

Notes to the financial statements
December 31, 2019
(In thousands of dollars, unless otherwise noted)

3. Summary of significant accounting policies (continued)

Tangible capital assets and software development

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

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

Deferred lease inducements

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

Employee future benefits

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

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

4. Investments

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

In accordance with CIPF's board-approved investment policy, investments are held until maturity, unless directed by the Board or to make a payment in accordance with the mandate of CIPF. During 2018, the Board approved changes to the investment policy, including shortening the ladder of maturities from ten years to seven years. These changes were implemented during 2018, and resulted in the sale of bonds and the purchase of shorter term bonds.

The following table discloses the fair value, maturity and average yields to maturity of CIPF's investments at December 31, 2019. The weighted average yield to maturity of the portfolio at December 31, 2019 is 1.92% (2018 – 2.21%).

	Less than 1 year	1 year to 3 years	3 years to 5 years	More than 5 years	2019 Total fair value	2018 Total fair value
	$	$	$	$	$	$
Canada bonds	9,811	16,596	23,519	29,912	79,838	49,858
Yield	1.79%	1.74%	1.69%	1.59%	1.71%	1.88%
Canada Housing Trust bonds	16,602	58,880	69,958	36,128	181,568	206,792
Yield	1.81%	1.80%	1.95%	1.99%	1.90%	2.17%
Provincial bonds	43,156	69,629	56,318	88,373	257,476	244,830
Yield	1.83%	1.88%	1.99%	2.19%	2.00%	2.30%
	69,569	145,105	149,795	154,413	518,882	501,480

Notes to the financial statements
December 31, 2019
(In thousands of dollars, unless otherwise noted)

5. Tangible capital assets and software development

			2019
	Cost	**Accumulated amortization**	**Net book value**
	$	**$**	**$**
Office furniture and equipment	**309**	**240**	**69**
Leasehold improvements	**591**	**213**	**378**
Computers	**221**	**197**	**24**
Tangible capital assets	**1,121**	**650**	**471**
Software development	**1,411**	**1,368**	**43**

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

6. Committed bank lines of credit and insurance

CIPF has committed lines of credit provided by two Canadian chartered banks totalling $125 million (2018 – $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 (2018 – $160 million) in the annual aggregate, in respect of losses to be paid by CIPF in excess of $200 million (2018 – $150 million) in the event of Member insolvency. CIPF has arranged a second layer of insurance in the amount of $280 million (2018 – $230 million) in respect of losses to be paid in excess of $360 million (2018 – $310 million) in the event of Member insolvency.

7. Employee future benefits

CIPF has the following defined benefit pension plans:

- pension benefits to a retired employee since September 1, 1998. This pension benefit plan is not registered under the *Income Tax Act* (Canada), 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* (Canada), nor is it funded.

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

Notes to the financial statements
December 31, 2019
(In thousands of dollars, unless otherwise noted)

7. Employee future benefits (continued)

The most recent actuarial valuations of the pension plans and health benefit plan for accounting purposes was made on December 31, 2019.

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

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

	Pension benefit plan		**SERP**		**Other benefit plan**	
	2019	2018	**2019**	2018	**2019**	2018
	%	%	**%**	%	**%**	%
Discount rate	**3.0**	3.2	**3.0**	3.2	**3.0**	3.2
Rate of compensation increase	**-**	-	**3.0**	3.0	**-**	-

For measurement purposes, inflation of medical expenses was assumed to be 7% in 2020, grading down to 4.5% over five years. Inflation of dental costs was assumed to be 4% per year.

In addition to these plans, the salaries and employee benefits expense on the Statement of Revenues and Expenses and Changes in Fund Balances includes $0.21 million (2018 – $0.20 million) related to CIPF's contribution to the Group RSP plan.

8. Lease commitments

At December 31, 2019, CIPF has future minimum annual lease commitments of $1,216 (2018 – $1,577) for office space, office equipment and information technology services as follows:

	$
2020	330
2021	242
2022	221
2023	221
2024	202
	1,216

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.

Notes to the financial statements
December 31, 2019
(In thousands of dollars, unless otherwise noted)

9. Recoverable from the estate trustee

The recoverable from the estate trustee and the change in the recoverable and receipts during the year are as follows:

	Recoverable at January 1, 2019	**Increase (Decrease) in Recoverable**	**Receipts during the year**	**Recoverable at December 31, 2019**
	$	**$**	**$**	**$**
Octagon Capital Corporation	**450**	**283**	**(400)**	**333**

	Recoverable at January 1, 2018	Increase (Decrease) in Recoverable	Receipts during the year	Recoverable at December 31, 2018
	$	$	$	$
Octagon Capital Corporation	5,596	(146)	(5,000)	450

At December 31, 2019, the following Member insolvency continued to be under the administration of a trustee in bankruptcy:

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, 2019, CIPF received $0.4 million (2018 – $5.0 million) from the trustee due to settlement agreements reached by the trustee. The recovery of provision for claims and/or related expenses for the year ended December 31, 2019 was $0.28 million (2018 – $0.15 million provision).

At December 31, 2019, CIPF has a recovery from the estate trustee on the Balance Sheet of $0.33 million (2018 – $0.45 million) as a result of settlement agreements reached by the trustee. The trustee continues to administer the estate.

10. Financial instruments

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

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

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

Notes to the financial statements
December 31, 2019
(In thousands of dollars, unless otherwise noted)

10. Financial instruments (continued)

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.

The investment policy provides for the following minimum and maximum exposures to any one province or territory, including entities guaranteed by that province or territory, in relation to the provincial and territorial unamortized book value:

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

The policy provides for investing in a laddered portfolio with a maximum term to maturity of 7 years.

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

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

An immediate hypothetical 100 basis point increase/decrease in interest rates would decrease/increase the fair value of the investments by $16.9 million (2018 – $16.5 million).

<u>Liquidity risk</u>
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 (2018 – $125 million).

<u>Credit risk</u>
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, 2019 and 2018, 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).

<u>Market risk</u>
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.

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

Board of Directors

December 31, 2019

Chair

Martin MacLachlan[3]
LL.M, LL.B, ICD.D
Toronto, Ontario
General Counsel and Senior Vice-President, Legal Affairs and Corporate Secretary of Canaccord Genuity Group Inc. and of its wholly owned subsidiary, Canaccord Genuity Corp.
(joined April 2013)

President & CEO

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

Officers

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

Debra Hewson
Vice-Chair

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

Joseph Campos
CFA, FRM
Vice-President, Industry Risk

Linda Pendrill
CPA, CA
CFO

Ilana Singer
LL.B
Vice-President
& Corporate Secretary

Public Directors

Ann Davis[1,4]
FCPA, FCA
Toronto, Ontario
Former Partner, KPMG LLP
(joined April 2017)

Donna Howard[2*,4]
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[2,3*]
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[1*,2]
CFA, ICD.D
Edmonton, Alberta
Vice-President, Alberta Investment Management Corporation
(joined June 2016)

Bernard Turgeon[1,3]
Ph.D.
Quebec City, Quebec
Former Associate Deputy Minister at the Ministry of Finance of Quebec
(joined April 2017)

Biographical information about each director and officer is available on the CIPF website at www.cipf.ca.

Brigitte Geisler, Bernard Turgeon, Donna Howard, Debra Hewson, Douglas Stratton, Martin MacLachlan, Pierre Matuszewski, Rozanne Reszel, Rita Achrekar, Anne La Forest, Peter Virvilis, Ann Davis

Industry Directors

Rita Achrekar[3,4]
FRM
Toronto, Ontario
Former Senior Vice-President, Global Risk Management, Scotiabank
(joined April 2018)

Brigitte Geisler[1,3]
LL.M, LL.B
Toronto, Ontario
Capital Markets Professional Consultant
Former Director of Market Regulation at Ontario Securities Commission
(joined April 2014)

Debra Hewson[1]
Vice-Chair
Vancouver, British Columbia
President & CEO, Odlum Brown Limited
(joined March 2011)

Pierre Matuszewski[2,4]
ICD.D
Montreal, Quebec
Former President & CEO of Société Générale (Canada Branch) and of Société Générale Capital Canada Inc.
(joined April 2016)

Peter Virvilis[2,4*]
Vancouver, British Columbia
CFO, Haywood Securities Inc.
(joined April 2017)

Committees

[1] Audit, Finance & Investment Committee
[2] Coverage Committee
[3] Governance, Nominating & Human Resources Committee
[4] Industry Risk Committee
[*] Committee Chair