Financial statements of

Canadian Investor Protection Fund

December 31, 2012 and 2011

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December 31, 2012 and 2011

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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 sheets as at December 31, 2012, December 31, 2011and January 1, 2011, and the statements of revenues and expenses and changes in general fund balance, changes in investment in capital assets fund and cash flows for the years ended December 31, 2012 and December 31, 2011, 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 audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits 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 in our audits 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, 2012, December 31, 2011 and January 1, 2011 and the results of its operations and its cash flows for the years ended December 31, 2012 and December 31, 2011 in accordance with Canadian accounting standards for not-for-profit organizations.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
April 16, 2013

Canadian Investor Protection Fund

Balance Sheets

(In thousands of dollars)

	December 31, 2012	December 31, 2011	January 1, 2011 (Note 3)
	$	$	$
Assets			
Current			
Cash	**561**	304	285
Prepaid insurance and recoverables	**358**	318	170
Investments, at fair value (Note 5)	**431,877**	416,912	385,179
Member assessments receivable	**2,460**	2,448	1,992
	435,256	419,982	387,626
Tangible capital assets (Note 6)	**57**	89	136
Software development (Note 6)	**69**	131	351
	435,382	420,202	388,113
Liabilities			
Current			
Payables and accruals	**690**	587	787
Provision for claims and related expenses (Note 11)	**3,826**	4,631	117
Deferred lease inducements	**24**	48	73
	4,540	5,266	977
Employee future benefits (Note 8)	**6,108**	5,446	5,063
Commitments (Note 10)			
Fund balances			
Investment in capital assets (Note 6)	**126**	220	487
General	**424,608**	409,270	381,586
	435,382	420,202	388,113

Approved on behalf of the Board

______________________________ Director

______________________________ Director

See accompanying notes to the financial statements.

Canadian Investor Protection Fund

Statements of Revenues and Expenses and Changes in General Fund Balance
years ended December 31, 2012 and 2011

(In thousands of dollars)

	2012	2011 (Note 3)
	$	$
Revenues		
Regular assessments	**9,526**	8,406
Assessments for capital deficiencies	**168**	293
Investment income	**14,365**	14,351
	24,059	23,050
Expenses		
Salaries and employee benefits	**2,857**	2,900
Bank lines of credit fees and insurance	**1,216**	1,142
Pension and other employment benefits	**792**	513
Professional fees	**548**	332
Directors' fees, travel and education	**404**	402
Other operating costs	**307**	292
Occupancy	**305**	313
Computer server hosting and maintenance	**109**	127
Custodial fees	**101**	96
Communications	**72**	73
	6,711	6,190
Excess of revenues over expenses before the undernoted items	**17,348**	16,860
Recovery of (provision for) claims (Note 11)	**467**	(3,105)
Gain on value of CDS preferred shares (Note 9)	**2,691**	-
Unrealized (losses) gains on investments	**(5,123)**	13,962
Excess of revenues over expenses	**15,383**	27,717
General Fund, beginning of year	**409,270**	381,586
Excess of revenues over expenses	**15,383**	27,717
Transfer to the Investment in Capital Assets Fund for capital asset additions	**(45)**	(33)
General Fund, end of year	**424,608**	409,270

See accompanying notes to the financial statements.

Canadian Investor Protection Fund

Statements of Changes in Investment in Capital Assets Fund
years ended December 31, 2012 and 2011

(In thousands of dollars)

	2012	2011
	$	$
Investment in Capital Assets Fund, beginning of year	**220**	487
Transfer from the General Fund for capital asset additions	**45**	33
Amortization of capital assets	**(139)**	(300)
Investment in Capital Assets Fund, end of year	**126**	220

See accompanying notes to the financial statements.

Canadian Investor Protection Fund

Statements of Cash Flows

years ended December 31, 2012 and 2011

(In thousands of dollars)

	2012	2011 (Note 3)
	$	$
Operating activities		
Excess of revenues over expenses	**15,383**	27,717
Interest accrued	**(41)**	126
Bond premium amortization	**1,496**	1,489
Unrealized (gains) losses on investments	**5,123**	(13,962)
Changes in non-cash working capital		
Prepaid insurance and recoverables	**(40)**	(148)
Member assessments receivable	**(12)**	(455)
Payables and accruals	**103**	(201)
Provision for claims and related expenses	**(805)**	4,514
Deferred lease inducements	**(24)**	(24)
Employee future benefits	**662**	383
	21,845	19,439
Investing activities		
Purchases of capital assets	**(45)**	(33)
Purchases of investments	**(106,899)**	(121,864)
Proceeds from maturities and sale of investments	**85,356**	102,477
	(21,588)	(19,420)
Net increase in cash during the year	**257**	19
Cash, beginning of year	**304**	285
Cash, end of year	**561**	304

See accompanying notes to the financial statements.

(In thousands of dollars)

1. Organization

The Canadian Investor Protection Fund (the “Fund” or “CIPF”) was established in 1969 by an Agreement and Declaration of Trust, by its 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.

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 and sponsor of CIPF 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.

3. Adoption of accounting standards for not-for-profit organizations

Effective January 1, 2012, CIPF adopted the new accounting standards for not-for-profit organizations contained in Part III of the Handbook (“Part III”). These are CIPF’s first annual financial statements prepared in accordance with the new standards. In accordance with Section 1501 of the CICA Handbook, “First-time adoption”, (“Section 1501”), the date of transition to the new standards is January 1, 2011 and CIPF has presented an opening balance sheet as at that date. The accounting policies set out in Note 4 have been consistently applied to years ended December 31, 2012 and 2011, and adjustments resulting from the adoption of the new standards have been applied retrospectively.

The impact of the adoption of Part III on the Balance Sheet as at January 1, 2011 is as follows:

	Reference	Balance as previously reported December 31, 2010	Adjustments	Balance as adjusted January 1, 2011
		$	$	$
Balance sheet				
General Fund				
Cumulative excess of revenues over expenses (excluding unrealized gains and losses) and interfund transfers	(i)	363,211	18,375	381,586
Cumulative net unrealized gains and losses on investments	(i)	18,375	(18,375)	-
General Fund - Total		381,586	-	381,586

(In thousands of dollars)

3. Adoption of accounting standards for not-for-profit organizations (continued)

(i) Under the requirements of Section 3856, Financial Instruments, the Fund has elected to measure its Investments at fair value and unrealized gains and losses resulting from the difference between fair value and amortized cost are recorded in the Statement of Revenues and Expenses. Pre-transition, the investments were carried at fair value and unrealized gains and losses were recorded directly in the Statement of Changes in General Fund balance as a separate component. Hence, the amount of unrealized gains and losses at January 1, 2011 has been reclassified to the General Fund balance.

The effect of adopting Part III on the Balance Sheet and the Statements of Revenues and Expenses and Changes in General Fund balance for the year ended December 31, 2011 (previously reported in accordance with CICA Handbook – Accounting Part V) is as follows:

	Reference	Balance as previously reported December 31, 2011	Adjustments	Balance as adjusted December 31, 2011
		$	$	$
Balance sheet				
General Fund				
Cumulative excess of revenues over expenses (excluding unrealized gains and losses) and interfund transfers	(ii)	376,933	32,337	409,270
Cumulative net unrealized gains and losses on investments	(ii)	32,337	(32,337)	-
General Fund - Total		409,270	-	409,270

Statement of Revenues and Expenses and Changes in General Fund Balance:

	Reference	Balance as previously reported December 31, 2011	Adjustments	Balance as adjusted December 31, 2011
		$	$	$
Excess of revenues over expenses	(ii)	13,755	13,962	27,717
General Fund, beginning of year		381,586	-	381,586
Reclassification to earnings of opening unrealized gains and losses for investments maturing in the year	(ii)	(220)	220	-
Unrealized gains (losses) on investments arising during the year	(ii)	14,182	(14,182)	-
Transfer to the investment in Capital Assets Fund for capital assets additions		(33)	-	(33)
Excess of revenues over expenses	(ii)	13,755	13,962	27,717
General Fund, end of year		409,270	-	409,270

3. Adoption of accounting standards for not-for-profit organizations (continued)

(ii) As noted above, the Fund has elected to measure its investments at fair value and unrealized gains and losses resulting from the difference between fair value and amortized cost are recorded in the Statement of revenues and expenses. Pre-transition, the investments were carried at fair value and unrealized gains and losses were recorded in the General Fund balance as a separate component. The $13.96 million in the Statement of Revenues and Expenses represents the change in unrealized gains on investments recognized for the year ended December 31, 2011 resulting from the retrospective application of this method.

The Statement of Cash Flows has been adjusted to reflect the above changes.

Certain of the Fund's disclosures included in these financial statements reflect the new disclosure requirements of Part III.

4. Summary of significant accounting policies

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

General Fund

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

In the event of Member insolvencies, the claims against the Fund are limited to the financial losses suffered by customers of Members solely as a result of the insolvency of a Member. In the event that CIPF would be unable to satisfy such claims in their entirety, the Board would determine over what period to assess Members to make up the shortfall.

Investment in capital assets fund

The investment in capital assets fund represents the Fund's unamortized balance of its capital assets.

Use of estimates

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

Financial instruments

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

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

Cash

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

4. Summary of significant accounting policies (continued)

Investments

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

Regular assessments and assessments for capital deficiencies

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

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

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

Investment income

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

Provision for claims and related expenses

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

Capital assets

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

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

Deferred lease inducements

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

(In thousands of dollars)

4. Summary of significant accounting policies (continued)

Employee future benefits

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

- The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of salary escalation, retirement ages of employees and expected health care costs.
- Past service costs for plan amendments are amortized on the straight-line basis over the average remaining service period of employees active at the date of amendment.
- The excess of the net actuarial gain (loss) over 10% of the accrued benefit obligation is amortized over the estimated average remaining service period of active employees.

5. Investments

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

The following table discloses the fair value, maturity and average yields to maturity of the Fund's investments at December 31, 2012. The weighted average yield to maturity of the portfolio at December 31, 2012 is 1.68% (December 31, 2011 - 1.65%; January 1, 2011 - 2.53%).

					December 31, 2012	December 31, 2011	January 1, 2011
	Less than 1 year	**1 year to 3 years**	**3 years to 5 years**	**More than 5 years**	**Total fair value**	Total fair value	Total fair value
	$	**$**	**$**	**$**	**$**	$	$
Treasury bills	**33,022**	**-**	**-**	**-**	**33,022**	35,059	36,249
Yield	**0.99%**	**-**	**-**	**-**	**0.99%**	0.87%	1.11%
Canada bonds	**9,168**	**49,860**	**9,805**	**114,236**	**183,069**	168,995	159,682
Yield	**1.06%**	**1.15%**	**1.37%**	**1.76%**	**1.54%**	1.40%	2.18%
Provincial bonds	**20,432**	**18,996**	**83,576**	**92,782**	**215,786**	212,858	189,248
Yield	**1.20%**	**1.37%**	**1.74%**	**2.33%**	**1.92%**	1.98%	3.10%
	62,622	**68,856**	**93,381**	**207,018**	**431,877**	416,912	385,179

6. Capital assets

			December 31, 2012
	Cost	**Accumulated amortization**	**Net book value**
	$	**$**	**$**
Office furniture and equipment	**301**	**288**	**13**
Leasehold improvements	**276**	**244**	**32**
Computers	**89**	**77**	**12**
Tangible assets	**666**	**609**	**57**
Software development	**970**	**901**	**69**
Total capital assets	**1,636**	**1,510**	**126**

(In thousands of dollars)

6. Capital assets (continued)

			December 31, 2011
	Cost	Accumulated amortization	Net book value
	$	$	$
Office furniture and equipment	307	304	3
Leasehold improvements	276	213	63
Computers	84	61	23
Tangible assets	667	578	89
Software development	952	821	131
Total capital assets	1,619	1,399	220

			January 1, 2011
	Cost	Accumulated amortization	Net book value
	$	$	$
Office furniture and equipment	312	303	9
Leasehold improvements	276	181	95
Computers	74	42	32
Tangible assets	662	526	136
Software development	934	583	351
Total capital assets	1,596	1,109	487

7. Bank lines of credit and insurance

The Fund has lines of credit provided by two Canadian chartered banks totalling $125 million (December 31, 2011 - $125 million, January 1, 2011 - $100 million). IIROC has guaranteed these lines of credit by pledging its ability to assess Members.

The Fund By-laws limit the aggregate amount of borrowings the Fund may have, which is equal to 1 ½% of the prior year's aggregate gross revenue of all Members. The limit on the amount of borrowings for 2013 will be $232.8 million, and was $241.5 million for 2012 (January 1, 2011 - $238.2 million).

The Fund has arranged insurance in the amount of $131 million (December 31, 2011 - $116 million) for any one loss and in the annual aggregate in respect of losses to be paid by the Fund in excess of $100 million in the event of Member insolvency.

8. Employee future benefits

The Fund has provided retirement benefits to a retired employee since September 1, 1998. Assets of the Fund have not been segregated for this obligation.

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

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

(In thousands of dollars)

8. Employee future benefits (continued)

The most recent actuarial valuation of the pension benefit plan and the SERP for accounting purposes was made on December 31, 2012, and the most recent actuarial valuation of the health benefit plan for accounting purposes was made on December 31, 2011.

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

	Pension	SERP	Other	2012 Total	2011 Total
	$	$	$	$	$
Net benefit plan expense	**117**	**648**	**27**	**792**	513
Benefits paid	**125**	**-**	**5**	**130**	130

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

	Pension	SERP	Other	December 31, 2012 Total	December 31, 2011 Total	January 1, 2011 Total
	$	$	$	$	$	$
Accrued benefit obligation						
Balance at end of year	**1,771**	**6,249**	**236**	**8,256**	7,698	5,594
Funded status						
Plan deficit	**1,771**	**6,249**	**236**	**8,256**	7,698	5,594
Unamortized past service cost	**-**	**(119)**	**-**	**(119)**	(143)	(168)
Unamortized net actuarial losses	**(543)**	**(1,435)**	**(51)**	**(2,029)**	(2,109)	(363)
Accrued benefit liability	**1,228**	**4,695**	**185**	**6,108**	5,446	5,063

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

	Pension benefit plan			SERP		
	December 31, 2012	December 31, 2011	January 1, 2011	**December 31, 2012**	December 31, 2011	January 1, 2011
	%	%	%	**%**	%	%
Discount rate	**3.0**	3.3	5.0	**3.0**	3.3	5.0
Rate of compensation increase	**-**	-	-	**3.0**	3.0	3.0

	Other benefit plan		
	December 31, 2012	December 31, 2011	January 1, 2011
	%	%	%
Discount rate	**3.0**	3.3	5.0

In addition to these plans, the salaries and employee benefits expense on the Statement of Revenues and Expenses includes $0.12 million (December 31, 2011 - $0.11 million) related to the Fund's contribution to the Group RSP plan.

(In thousands of dollars)

9. Investment in shares of the Canadian Depository for Securities Limited

In 1982, the IDA, the TSX, The Montréal Exchange and the Vancouver Stock Exchange gifted their investments in the Canadian Depository for Securities Limited to the Fund. These investments were in the form of 2,690,834 non-voting, non-cumulative, redeemable preferred shares and, as the Fund received the shares at no cost and did not have a quoted market value, the investments were carried at $0 (2011 - $0) in the financial statements. During 2012, these shares were redeemed by the issuer for one dollar per preferred share and a gain of $2.69 million was realized and recorded in the Statement of Revenues and Expenses.

10. Lease commitments

At December 31, 2012 the Fund has future minimum annual lease commitments on office space, office equipment and information technology services as follows:

	$
2013	235
2014 and thereafter	69
	304

The Fund is also committed to its share of operating costs and taxes with respect to the office lease, which approximates $0.18 million per year. The current office lease expires in 2014 and the Fund is considering its options, which include renewing the existing lease.

11. Provision for claims and related expenses

At December 31, 2012, two Member insolvencies are under the administration of trustees in bankruptcy and two Member insolvencies are being administered in respect of which no trustee was appointed. The provision for claims and related expenses and the change in the provision during the year and payments made for these insolvencies are as follows:

	Provision at January 1, 2012	**(Decrease) increase in Provision**	**Payments during the year**	**Provision at December 31, 2012**
	$	**$**	**$**	**$**
Rampart Securites Inc. (a)	**-**	**-**	**-**	**-**
Thomson Kernaghan & Co. Limited (b)	**1,831**	**(1,831)**	**-**	**-**
MF Global Canada Co. (c)	**2,800**	**(134)**	**(264)**	**2,402**
Barret Capital Management Inc. (d)	**-**	**1,161**	**(42)**	**1,119**
First Leaside Securities Inc. (e)	**-**	**337**	**(32)**	**305**
	4,631	**(467)**	**(338)**	**3,826**

	Provision at January 1, 2011	(Decrease) increase in Provision	Receipts (payments) during the year	Provision at December 31, 2011
	$	$	$	$
Rampart Securites Inc. (a)	-	-	-	-
Thomson Kernaghan & Co. Limited (b)	117	96	1,618	1,831
MF Global Canada Co. (c)	-	3,009	(209)	2,800
	117	3,105	1,409	4,631

11. Provision for claims and related expenses (continued)

(a) Rampart Securities Inc.

Rampart Securities Inc. ("Rampart") was suspended by the IDA on August 14, 2001, and a trustee in bankruptcy was appointed on October 24, 2001. At December 31, 2012 there were no known customer claims on the estate and the estate is in the process of winding down.

(b) Thomson Kernaghan & Co. Limited

Thomson Kernaghan & Co. Limited ("TK") was suspended by the IDA on July 11, 2002 and a trustee in bankruptcy was appointed on July 12, 2002. The estate was discharged from bankruptcy on November 8, 2012.

CIPF received $1.8 million in 2011 from the liquidation of unclaimed cash and securities pursuant to a court order that required CIPF to recognize and pay valid claims for a period of two years, which ended on November 26, 2012. No claims were received related to these unclaimed amounts, and the $1.8 million provision set up in 2011 was reversed in 2012.

(c) 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.

At December 31, 2011, there was pending litigation between the trustee in bankruptcy of MFGC and the trustee of its US affiliate, MF Global Inc. ("MFGI"), concerning the interpretation of the omnibus account agreements between MFGC and MFGI. During 2012, a settlement was reached between the parties which allowed the finalization of net equity claims into the MFGC estate and similarly toward finalizing CIPF's liabilities for customer claims. The Trustee has paid 100% of the net equity claims as at the date of bankruptcy.

The court approved a bulk transfer of certain customer accounts to another Member and cash payments to customers with foreign exchange accounts. CIPF entered into a support agreement with the trustee in bankruptcy to allow for the transfers at 100% of the net equity and to provide surplus funding for futures customers (subject to eligibility for CIPF coverage and coverage limits), if the value in their accounts on the date of transfer, exceeded the value on the date of insolvency.

At December 31, 2012, the provision of $2.4 million represents the amount of the surplus funding to certain customers, in accordance with the settlement agreements reached with these customers, and third party costs. As at April 16, 2013, approximately $2.0 million of this amount was paid.

At December 31, 2012, there were no known customer claims on the estate and the estate continues to be administered by the trustee.

(d) Barret Capital Management Inc.

Barret Capital Management Inc. (Barret) was suspended by IIROC on February 13, 2012 and has been 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. At December 31, 2012, claims have been received from customers of Barret and a provision of $1.1 million has been made for amounts expected to be paid to claimants and third party costs.

(e) First Leaside Securities Inc.

First Leaside Securities Inc. (FLSI) was suspended by IIROC on February 24, 2012 and has been determined by the Board of Directors of CIPF to be insolvent as of that date for the purpose of claims by customers of FLSI against CIPF. CIPF has received claims from customers of FLSI and expects to receive additional claims. Until such time as the claim forms for FLSI are reviewed and assessed, management does not believe it is possible to make a reliable estimate of the amount of potential claims payable by the Fund. At December 31, 2012, a provision of $0.3 million has been made only in respect of third party costs.

12. Financial instruments

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

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

The fair value of the Fund's fixed income investments are determined by reference to published bid price quotations at year-end. These investments have maturity dates and effective interest rates as disclosed in Note 5.

Risk management

Risk management relates to the understanding and active management of risks associated with invested assets. Investments can be exposed to interest rate, credit, market and currency risk. The Fund manages its exposure to the risks associated with its investment portfolio by following the Board-approved investment policy that restricts the types and amounts of its eligible investments and requires dealing with highly rated counterparties. The policy requires that at least 50% of investments be held in Government of Canada issued or guaranteed instruments, with the balance in provincial or territorial government issued or guaranteed instruments, 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 11 years, with a minimum of 15% of the unamortized book value held in short-term instruments to meet liquidity needs.

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

Interest rate risk

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

Credit risk

Credit rate risk is the risk of financial loss due to a counterparty failing to meet its contractual obligations. The Fund manages the credit rate risk exposure of its investment portfolio by following the investment policy described above. At December 31, 2012, 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 financial instruments will fluctuate as a result of changes in market conditions, whether these changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market. The Fund manages the market risk exposure of its investment portfolio by following the investment policy described above.

Currency risk

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