

Financial statements of

**Canadian Investor Protection Fund**

December 31, 2016

# Canadian Investor Protection Fund

December 31, 2016

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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 sheet as at December 31, 2016, the statements of revenues and expenses and changes in general fund balance, changes in investment in capital assets fund, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

**Opinion**

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

*Deloitte LLP*

Chartered Professional Accountants  
Licensed Public Accountants  
April 3, 2017

# Canadian Investor Protection Fund

## Balance sheet

as at December 31, 2016

(In thousands of dollars)

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

Approved by the Board



Director



Director

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

# Canadian Investor Protection Fund

## Statement of revenues and expenses and changes in general fund balance year ended December 31, 2016

(In thousands of dollars)

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

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

# Canadian Investor Protection Fund

## Statement of changes in investment in capital assets fund year ended December 31, 2016

(In thousands of dollars)

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

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

# Canadian Investor Protection Fund

## Statement of cash flows

year ended December 31, 2016

(In thousands of dollars)

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

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

# Canadian Investor Protection Fund

## Notes to the financial statements

December 31, 2016

(In thousands of dollars)

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### 1. Organization

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

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

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

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

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

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

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

### 3. Summary of significant accounting policies

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

#### *General Fund*

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

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

#### *Investment in Capital Assets Fund*

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

#### *Use of estimates*

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

# Canadian Investor Protection Fund

## Notes to the financial statements

December 31, 2016

(In thousands of dollars)

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

#### *Financial instruments*

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

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

#### *Cash*

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

#### *Investments*

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

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

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

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

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

#### *Investment income*

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

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

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

# Canadian Investor Protection Fund

## Notes to the financial statements

December 31, 2016

(In thousands of dollars)

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

#### *Capital assets*

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

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

#### *Deferred lease inducements*

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

#### *Employee future benefits*

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

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

### 4. Investments

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

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

					2016	2015
	Less than 1 year	1 year to 3 years	3 years to 5 years	More than 5 years	Total fair value	Total fair value
	\$	\$	\$	\$	\$	\$
Treasury bills	959	-	-	-	959	1,532
Yield	0.35%	-	-	-	0.35%	0.44%
Canada bonds	-	-	-	10,510	10,510	-
Yield	-	-	-	1.72%	1.72%	-
Canada Housing Trust bonds	9,413	35,292	37,733	147,222	229,660	237,714
Yield	0.63%	0.98%	1.33%	1.85%	1.58%	1.48%
Provincial bonds	19,820	57,129	43,980	116,264	237,193	234,025
Yield	0.82%	1.04%	1.55%	2.42%	1.79%	1.31%
	<b>30,192</b>	<b>92,421</b>	<b>81,713</b>	<b>273,996</b>	<b>478,322</b>	<b>473,271</b>

# Canadian Investor Protection Fund

## Notes to the financial statements

December 31, 2016

(In thousands of dollars)

### 5. Capital assets

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

  

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

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

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

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

### 7. Employee future benefits

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

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

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

# Canadian Investor Protection Fund

## Notes to the financial statements

December 31, 2016

(In thousands of dollars)

### 7. 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, 2016, and the most recent actuarial valuation of the health benefit plan for accounting purposes was made on December 31, 2014.

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

				2016	2015
	Pension	SERP	Other	Total	Total
	\$	\$	\$	\$	\$
Net benefit plan expense	52	521	39	612	592
Benefits paid	125	-	8	133	130

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

				2016	2015
	Pension	SERP	Other	Total	Total
	\$	\$	\$	\$	\$
Continuity of accrued benefit liability					
Balance, beginning of year	1,696	7,115	449	9,260	8,908
Benefit expense	52	521	39	612	592
Contributions	(125)	-	(8)	(133)	(130)
Remeasurements	(12)	(252)	(16)	(280)	(110)
Balance, end of year	1,611	7,384	464	9,459	9,260
Funded status					
Fair value of plan assets	-	-	-	-	-
Accrued benefit liability	1,611	7,384	464	9,459	9,260
Plan deficit	(1,611)	(7,384)	(464)	(9,459)	(9,260)

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

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

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

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

# Canadian Investor Protection Fund

## Notes to the financial statements

December 31, 2016

(In thousands of dollars)

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### 8. Lease commitments

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

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

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

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

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

#### (a) *Rampart Securities Inc.*

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

#### (b) *MF Global Canada Co.*

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

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

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

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

#### (c) *Barret Capital Management Inc.*

Barret Capital Management Inc. ("Barret") was suspended by IIROC on February 13, 2012 and was determined by the Board of Directors of CIPF to be insolvent as of that date for the purpose of claims by customers of Barret against CIPF. In accordance with CIPF's Coverage Policy, a claims submission deadline of August 11, 2012 was established, which was later extended to October 31, 2013 due to the international location of many claimants. During the year ended December 31, 2016, CIPF made no payments for the estate (2015 - \$nil).

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

# Canadian Investor Protection Fund

## Notes to the financial statements

December 31, 2016

(In thousands of dollars)

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

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

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

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

#### (e) *Octagon Capital Corporation*

Octagon Capital Corporation ("Octagon") was suspended by IIROC on December 3, 2015 and a trustee in bankruptcy was appointed on December 4, 2015.

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

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

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

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

# Canadian Investor Protection Fund

## Notes to the financial statements

December 31, 2016

(In thousands of dollars)

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

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

### 10. Financial instruments

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

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

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

#### *Risk management*

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

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

#### Interest rate risk

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

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

#### Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its cash outflow commitments as they fall due. This includes the risk of being forced to sell assets at depressed prices resulting in realized losses on sale. The Fund manages the liquidity risk exposure by following the investment policy described above and by maintaining lines of credit of \$125 million (2015 - \$125 million).

# Canadian Investor Protection Fund

Notes to the financial statements

December 31, 2016

(In thousands of dollars)

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## 10. Financial instruments (continued)

*Risk management (continued)*

### Credit risk

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

### Market risk

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

### Currency risk

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