



# Canadian Investor Protection Fund

## Fonds canadien de protection des épargnants



### **COVERAGE POLICY as of January 22, 2009**

#### **COVERAGE**

CIPF covers customers of Members who have suffered or may suffer financial loss solely as a result of the insolvency of a Member. Such loss must be in respect of a claim for the failure of the Member to return or account for securities, cash balances, commodities, futures contracts, segregated insurance funds [or other property] received, acquired or held by the Member in an account for the customer. The Board of Directors of CIPF may exercise its discretion in respect of determining the customers eligible for protection and the financial loss suffered.

#### **POLICY**

This Policy has been adopted by the Board of Directors to describe the basis on which it intends to exercise its discretion in authorizing CIPF to make payments to customers of insolvent CIPF Members. The Directors' discretion may be exercised in a manner that is consistent with the right and extent to which a person may be entitled to claim against the customer pool fund of a Member under the Bankruptcy and Insolvency Act (Canada), subject to other restrictions in this Policy and the sole discretion of the Directors to determine protection by CIPF. CIPF and the Directors reserve the right to authorize or withhold payments in a manner other than as prescribed in this Policy.

In the case of any question or dispute as to the eligibility of a customer, the financial loss incurred by a customer for the purposes of payment by CIPF, and the maximum amounts to be paid to a customer, the interpretation of this Policy by the Board of Directors shall be final and conclusive.

#### **ELIGIBLE CUSTOMERS**

CIPF maintains on its website at [www.cipf.ca](http://www.cipf.ca) a list of Members whose eligible customers are entitled to protection subject to the terms of this Policy.

A customer eligible for protection by CIPF shall be any customer having a securities or commodity and futures contracts account with a Member used solely for the purpose of transacting securities or commodity and futures contracts business (dealing as principal or agent).

Securities or commodity future accounts are to be opened in accordance with the rules governing accounts prescribed by a sponsoring self-regulatory organization (SRO) of CIPF or specified under any Canadian securities legislation. Such accounts are to be fully disclosed in the records of the insolvent Member and are normally evidenced by receipts, contracts and statements that have been issued by the Member.

A customer may be an individual, a corporation, a partnership, an unincorporated syndicate, an unincorporated organization, a trust, a trustee, an executor, an administrator or other legal representative.

Customers introduced to a Member by a foreign affiliate of the Member, in accordance with SRO requirements, are customers of the Member eligible for coverage.

All the accounts of a customer that have been opened with a Member by a domestic investment counselor registered with a Canadian securities regulatory authority, and whose accounts are fully disclosed in the records of the Member shall be combined or aggregated to constitute a single General account, unless such accounts are otherwise Separate Accounts under this Policy.

**AN ELIGIBLE CUSTOMER SHALL NOT INCLUDE a person who at the date of insolvency or any relevant time as determined by the Directors was:**

- i) a Member of a sponsoring SRO of CIPF or any other dealer registrant such as a securities dealer, mutual fund dealer, limited market dealer or futures commission merchant, or a foreign securities dealer registered with a Canadian securities regulatory authority or foreign equivalent;
- ii) an institution, securities dealer or other person, and its customers, dealing with a Member of an SRO on an omnibus basis (being an account in which the transactions of two or more persons are combined without the disclosure to the Member of the identity of the persons);
- iii) a clearing corporation;
- iv) any person who owns in aggregate five percent or more of the capital of the insolvent Member consisting of equity securities of any class and/or subordinated debt of the Member;
- v) a general partner or director of the insolvent Member;
- vi) a limited partner with a participation of five percent or more in the net assets or net profits of the insolvent Member;
- vii) a person with the power to exercise a controlling influence over the management or policies of the insolvent Member;
- viii) a person who caused or materially contributed to the insolvency of the Member;
- (x) a person who did not deal at arm's length with the insolvent Member or with a person who is excluded as a customer, or

(xi) a customer of a foreign approved participant of an SRO which is not considered by the Board of Directors to be a Member of an SRO. Such participants include foreign dealers or other organizations regulated in recognized jurisdictions, without a place of business in Canada, and who do not deal with customers in Canada except as permitted by applicable Canadian securities legislation.

## **LOSSES OF ELIGIBLE CUSTOMERS NOT COVERED**

The following customer losses are not eligible for payment by CIPF:

(i) Losses which do not result from the insolvency of a Member, such as, customers' losses that result from changing market values of securities, unsuitable investments, or the default of an issuer of securities;

(ii) Losses in accounts of customers related to business financing purposes of a Member, such as securities lending and purchase/repurchase transactions;

(iii) Losses where the customer has not filed a claim with CIPF, or the trustee in bankruptcy of the insolvent Member, within 180 days of the date of insolvency; or

(iv) Securities or segregated funds that are not held by a Member, or recorded in a customer's account as being held by a Member, such as a mutual fund that is registered directly in the name of the customer with the mutual fund company and is, therefore, not held by the Member for the customer in its records.

## **LIMITS OF COVERAGE**

### **MAXIMUM LIMITS OF COVERAGE**

A limit has been placed by CIPF on the coverage provided for a customer's General Account, and each Separate Account after combination with other Separate Accounts as described below, equal to \$1 million for losses of securities, commodity and futures contracts, segregated insurance funds and cash.

### **DETERMINATION OF CUSTOMER LOSSES**

The date at which the financial loss of a customer is determined shall be fixed by the Directors as the date of bankruptcy of the Member, if applicable, or the date on which, in the opinion of the Directors, the Member became insolvent. The 180-day period for filing a claim to CIPF commences on, but does not include, the date of bankruptcy.

The maximum amount of financial loss that CIPF may pay to a customer of an insolvent firm shall be calculated after taking into account both the delivery of any available securities, commodity and futures contracts, segregated insurance funds and cash to which the customer is entitled and the distribution of any assets of the insolvent Member, less any amounts owed by the customer to the Member. The Directors may rely on the trustee in bankruptcy or the receiver under applicable law in determining the amount and validity of claims of a customer and for the purpose of calculating financial loss.

The amount of securities delivered to a customer in satisfaction of a claim shall be the amount to which the customer was entitled as at the date for determining financial loss without regard to subsequent market fluctuations. Where the securities are not available to be delivered, cash in an amount equal to their value as at the date for determining financial loss may be paid to the customer even though the amount of such cash may not be equal to the value of such securities as at the date of payment. Open positions in a client's account may, with or without notice, be closed out or liquidated pursuant to the terms of the account with the Member or correspondent broker, clearing house or exchange requirements or applicable insolvency legislation or orders.

For the purposes of authorizing payments, the Board of Directors may in its discretion reduce the amount of the financial loss of a customer by the amount of compensation the customer may receive from any other source. For example, a customer's claim for cash will be reduced to the extent that the customer is entitled to deposit insurance in respect of all or any of the cash held for an account or to compensation in respect of other securities or property.

## **GENERAL ACCOUNTS**

Each account of a customer eligible for protection by CIPF that is not a Separate Account shall be part of the General Account of the customer. For example, the interest of a customer in an account of a personal holding company, or that is held on a joint or shared ownership basis, shall be treated as part of the General Account of the customer. An account held by a nominee or agent for another person who is the principal or beneficial owner shall, except as otherwise provided in this Policy, be deemed to be the account of the principal or beneficial owner.

The General and Separate Accounts that a customer has with a Member will not be combined with the General and Separate Accounts that the same customer may have with another Member, including another Member who has an introducing /carrying agreement with the first Member.

## **SEPARATE ACCOUNTS**

Each account of a customer held in the capacity or circumstance set out below shall be considered a Separate Account of the customer. Unless otherwise indicated below, each Separate Account held by a customer in the same capacity or circumstance shall be combined or aggregated so as to constitute a single Separate Account. The burden shall be on the customer to establish each capacity or circumstance in which the customer claims to hold Separate Accounts. An account of a customer shall not be a Separate Account if it existed on the date of insolvency primarily for the purpose of increasing protection by CIPF.

**Registered Retirement Plans:** Accounts of registered retirement or deferred income plans such as registered retirement savings plans (RRSPs), registered retirement income funds (RRIFs), life income funds (LIFs), locked-in retirement

accounts or plans (LIRAs or LIRSPs), and locked-in retirement income funds (LRIFs) established for the account of the same customer. Accounts established with respect to a customer through the same or different trustees shall be combined and aggregated.

**Registered Education Savings Plans:** Accounts of education savings plans that comply with the requirements under the Income Tax Act (Canada) for registered education savings plans and that have been accepted by the Minister under such Act, where the customer is the subscriber of the plan. Accounts established with respect to a customer through the same trustee shall be combined and aggregated by trustee, but not if established through different trustees.

**Testamentary Trusts:** Accounts held in the name of a decedent, his or her estate or the executor or administrator of the estate of the decedent. Accounts of testamentary trusts held by the same executor or administrator shall not be combined or aggregated unless held in respect of the same decedent.

**Inter-vivos Trusts and Trusts Imposed by Law:** Accounts of inter-vivos trusts which are created by a written instrument and trusts imposed by law. Such Separate Accounts of customers shall be distinct from the trustee, the settlor or any beneficiary.

**Guardians, Custodians, Conservators, Committees, etc.:** Accounts maintained by a person as a guardian, custodian, conservator, committee or similar capacity in respect of which accounts such person has no beneficial interest. Such accounts held by the same person in any such capacity shall not be combined or aggregated unless held in respect of the same beneficial owner.

**Personal Holding Corporation:** Accounts of corporations controlled by a customer provided that the beneficial ownership of a majority of the equity capital of the corporation is held by persons other than the customer, as might be the case in a corporation created pursuant to an estate freeze.

**Partnerships:** Accounts of partnerships controlled by a customer provided that the beneficial ownership of a majority of the equity interests in the partnership is held by persons other than the customer.

**Unincorporated Associations or Organizations:** Accounts of unincorporated associations or organizations controlled by a customer provided that the beneficial ownership in a majority of the assets of the association or organization is held by persons other than the customer.