



2007 FAS ANNUAL CONFERENCE
FAIRMONT CHATEAU MONTEBELLO
SEPTEMBER 27 – 30, 2007

**REPORTS FROM KEY INDUSTRY INSTITUTIONS – CANADIAN INVESTOR
PROTECTION FUND (CIPF)**

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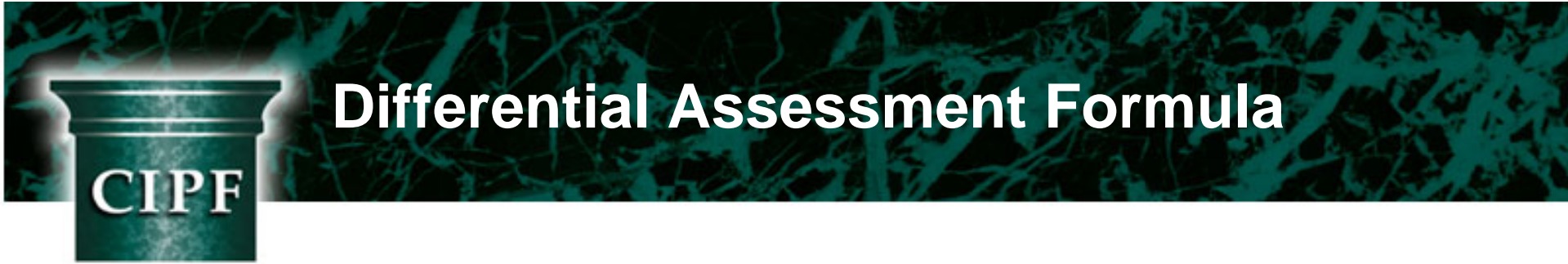
September 28, 2007

The Need for Change

- Significant growth in the investment industry
 - Client net equity was \$1.2 trillion at end of 2006
 - Industry revenue has grown substantially
- CIPF's existing formula, based on growth of revenue and capital employed, not a good predictor of the Fund size required for its risk exposure
- An assessment based on a flat percentage of revenue does not reflect differences in the level of risk presented by CIPF's various Members



- In 2006, contracted Oliver Wyman to:
 - develop a model to determine the Fund size in relation to its risk exposure, and
 - provide guidance on determining and implementing differential assessments (an approach already used by other compensation funds, e.g., CDIC, FDIC)
- Client Net Equity to be used as the measure for the Fund's risk exposure due to Member insolvency
- In the interim, assessment rate was capped



Why develop a new model when the IDA already has a risk assessment model?

- CIPF wanted a model to determine CIPF's exposure to loss if a Member fails and to ensure we have adequate resources to compensate the Members' customers



Differential Assessment Formula (cont'd)

- IDA risk assessment model is:
 - “A tool to help identify, define and assess risk and determine areas for priority focus by the IDA.
 - Gives an indication of the level of risks pertaining to member firms, and areas within a member firm for IDA examination purpose
 - Forms part of examination methodology”

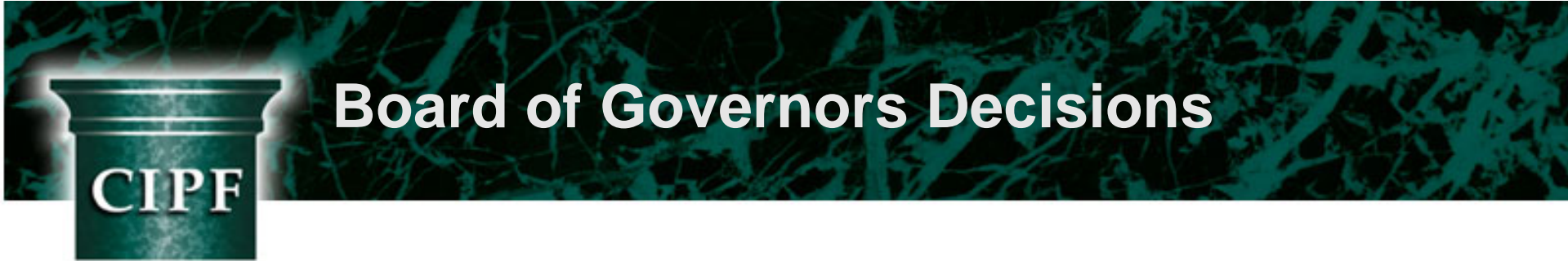
Deloitte & Touche LLP

- To be cost effective CIPF used information that populates IDA model

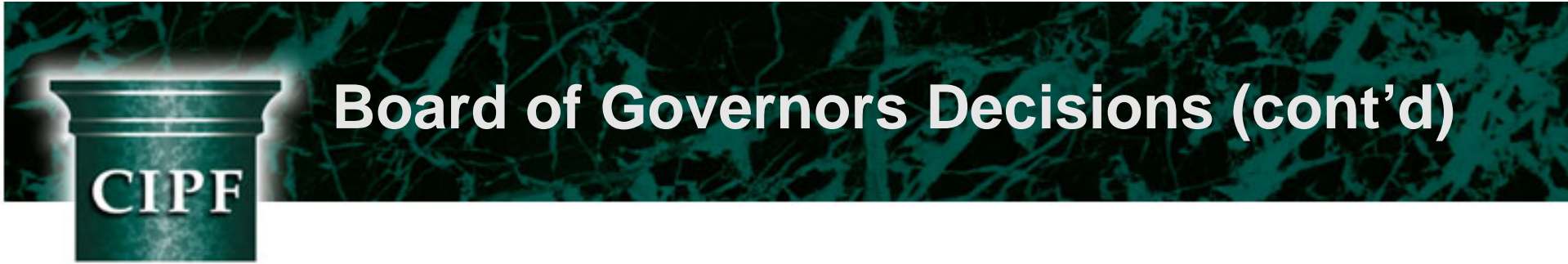


Oliver Wyman Review: Fund Size

- Oliver Wyman developed a model to measure CIPF's "credit worthiness" as a function of its size in relation to the probability of loss from the underlying portfolio of Members that it protects
- Desired "credit worthiness" is a Board decision, but Oliver Wyman noted that "insurance providers" need to operate at an exceptional solvency standard so that the insurer is at least as safe as those to whom it is providing insurance



- As a result of Oliver Wyman review, CIPF Board:
 - Increased size of the Fund in order to stay within a range of “investment grade” credit rating equivalent by securing a \$100 million “reinsurance” policy - reduce impact on Member firms
 - Changed assessment calculation from:
 - flat percentage to a differential basis
 - gross revenue to client net equity
 - Introduced New Member Assessment



- Two-year implementation period, during which:
 - Members will be charged the lesser of the two assessments, i.e. flat percent of revenue versus differential basis of client net equity
 - Client Net Equity base will be reviewed to determine if different classes of securities should have different weightings




- Size of Fund is a compilation each Members
Probability of Default
times
Loss to CIPF Given Default
adjusted for
Correlation Between Members

The logo for CIPF (Canadian Investor Protection Fund) is located in the top left corner. It features a stylized classical column with the letters 'CIPF' in a serif font on its shaft. The background of the slide is a dark teal color with a complex, organic, branching pattern.

CIPF

Loss Given Default

- Loss after all recoveries from the estate
- Oliver Wyman reviewed previous CIPF insolvencies and estimated amount was .9% of Client Net Equity



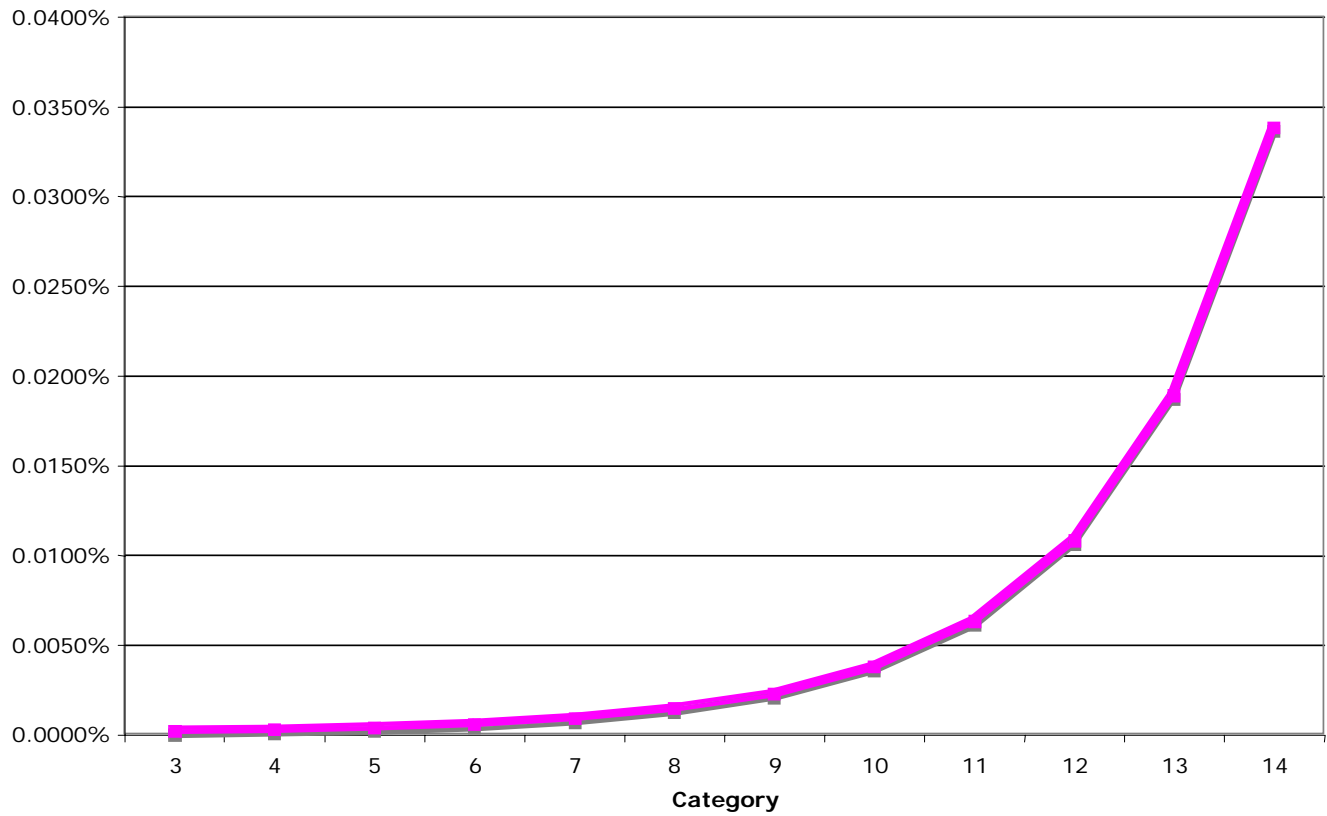
Probability of Default

Category	Category Percent	Factor	CIPF Factor %
Business Factors	28.58	EW Level	11.43
		Adequate Resources	5.21
		Financial Reporting	5.21
		Combined Other Business Factors	6.73
Risk Control Factors	36.42	Corporate Governance	11.29
		Organizational Culture	6.29
		Risk Management Framework	4.71
		Internal Audit	4.71
		Insurance Risk Management	4.71
		Quality Internal Control	4.71
Financial Factors	35.00	Equity	5.00
		Return on Equity	7.50
		Return on Assets	7.50
		Revenue	5.00
		Liquidity	10.00
Total	100.00		100.00

Probability of Default (cont'd)



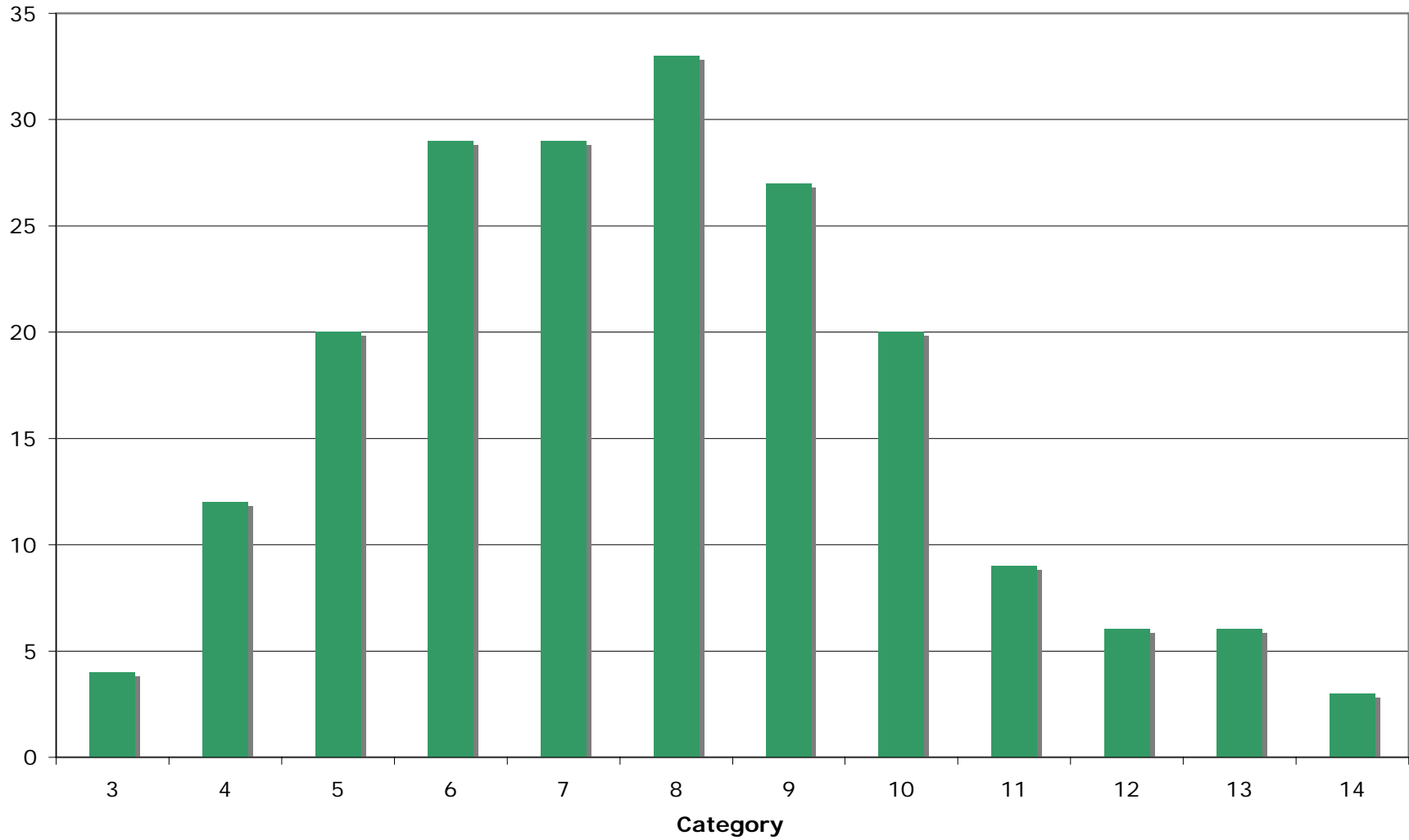
Differential Assessment Rate ("DAR")



Probability of Default (cont'd)



Members per Category





Differential Assessment Model Explained

Differential Assessment =

Member's share of industry risk

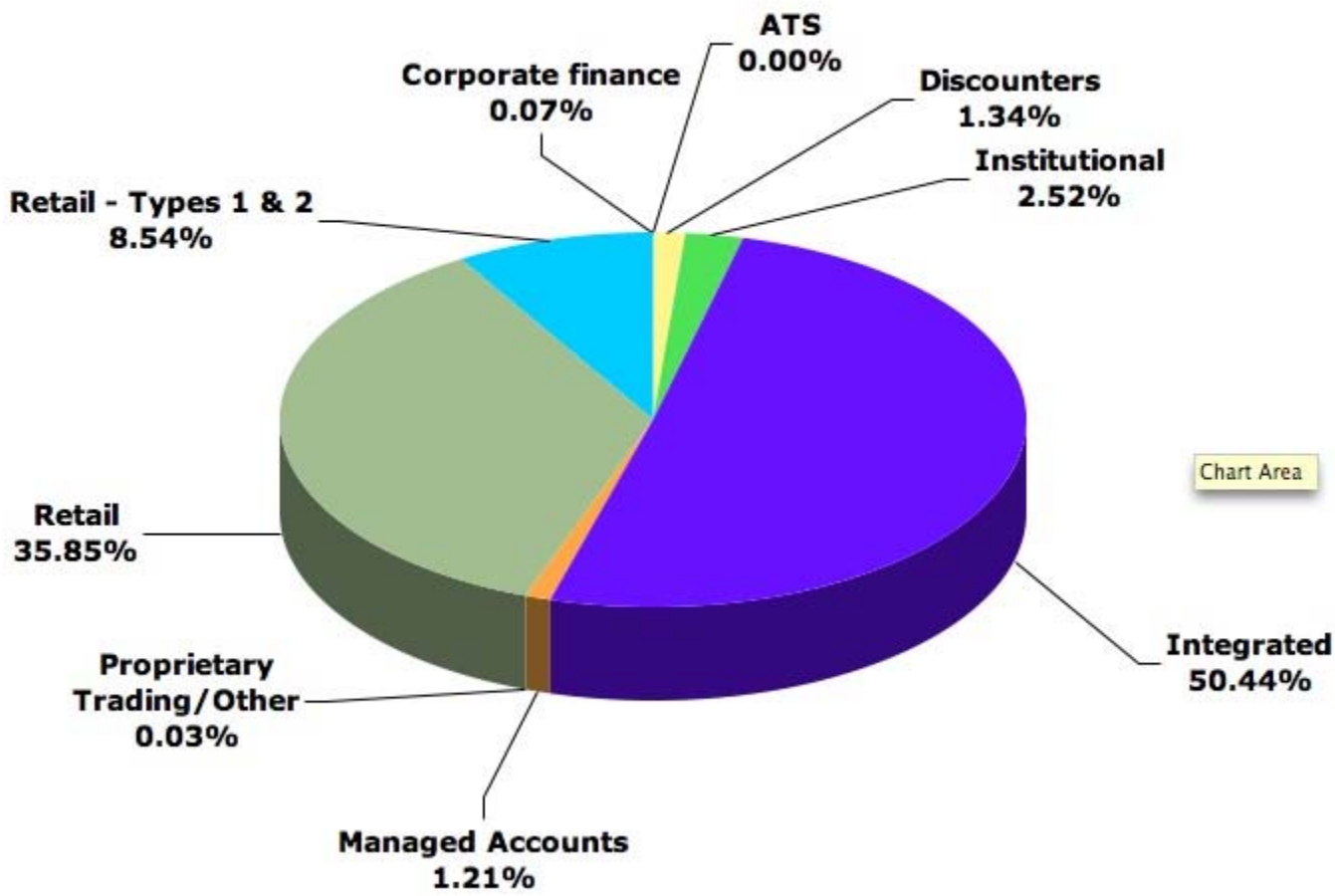
Multiplied by

Total Assessment to be collected

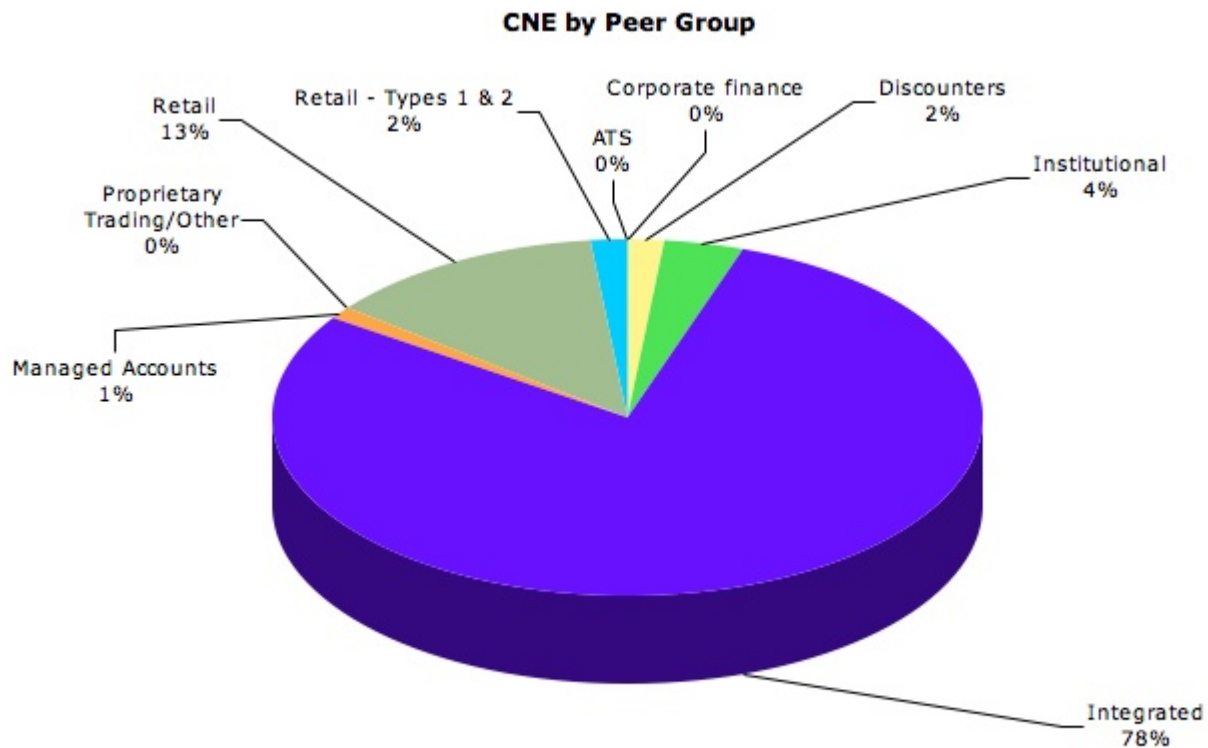
(Based on Dec 31 information)



Impact - Differential Assessments: by Peer Group



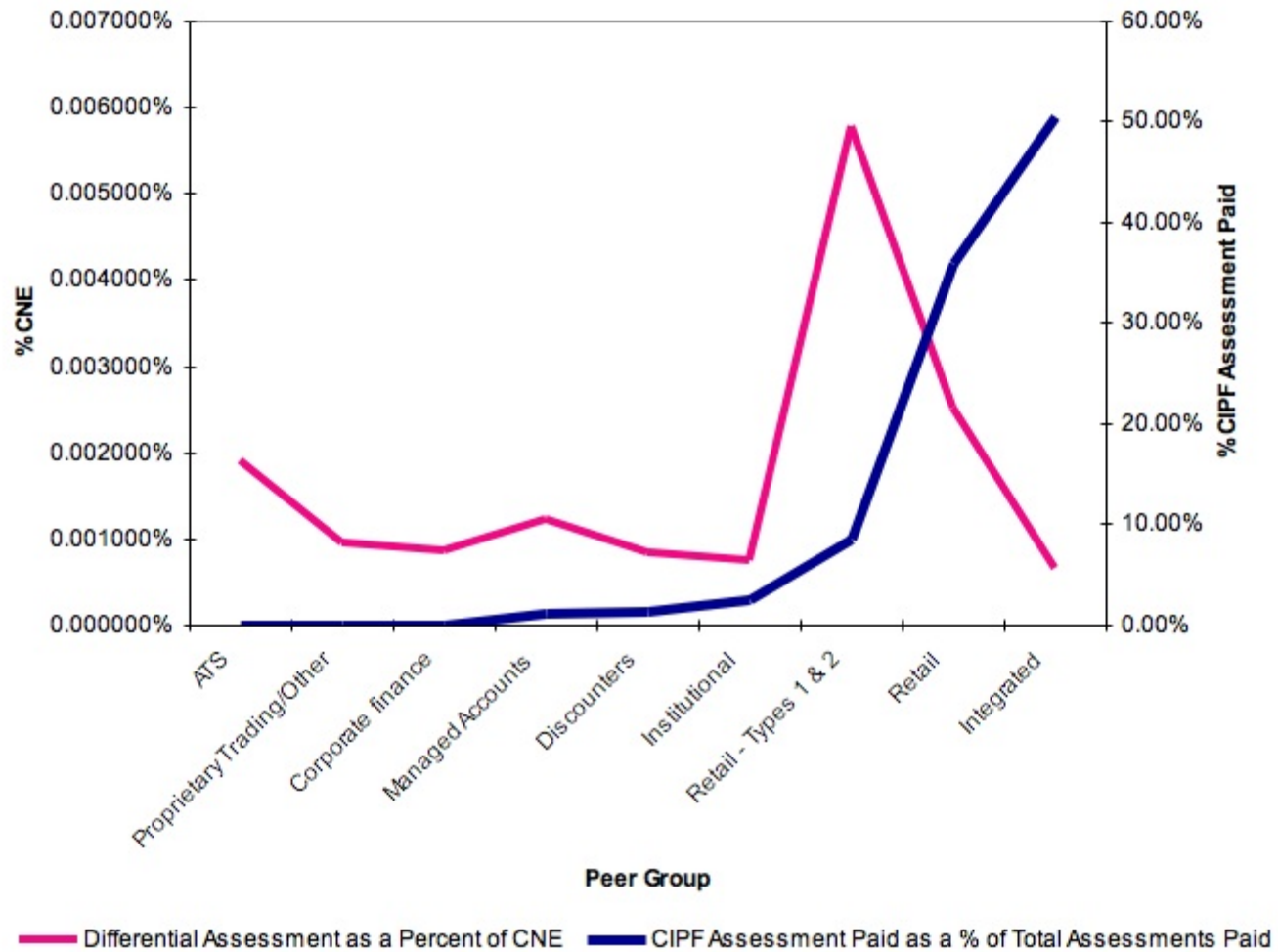
Impact - CNE Peer Group





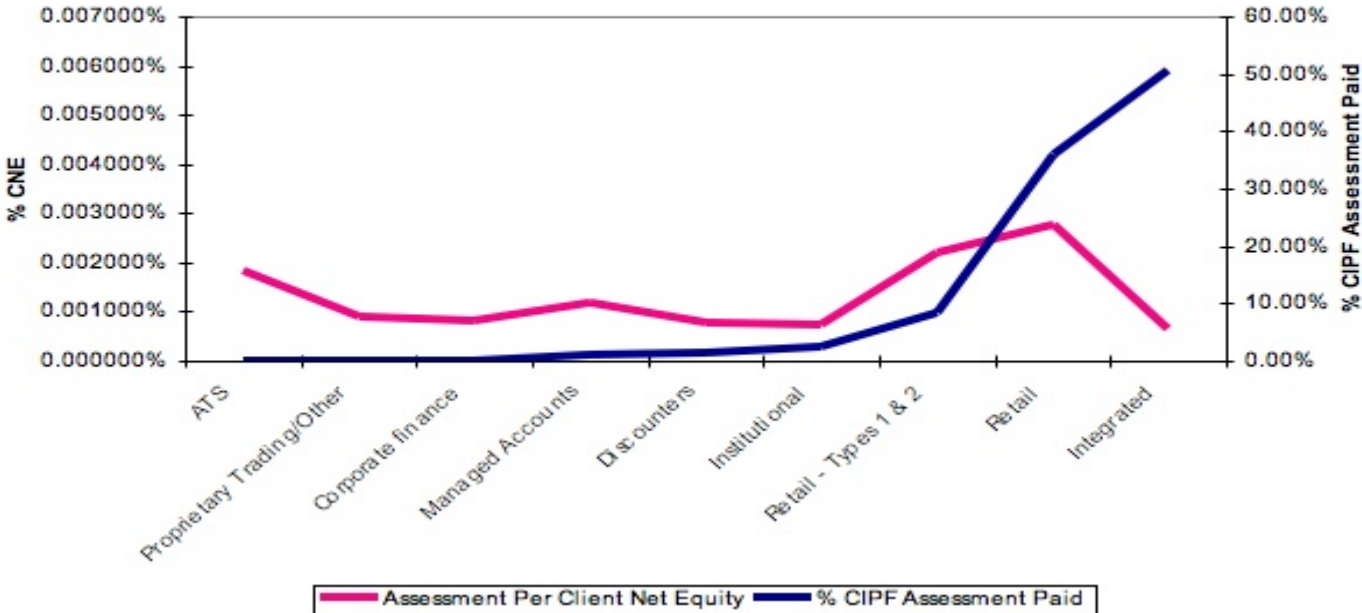
Impact

Assessment Per CNE vs % CIPF Assessment Paid

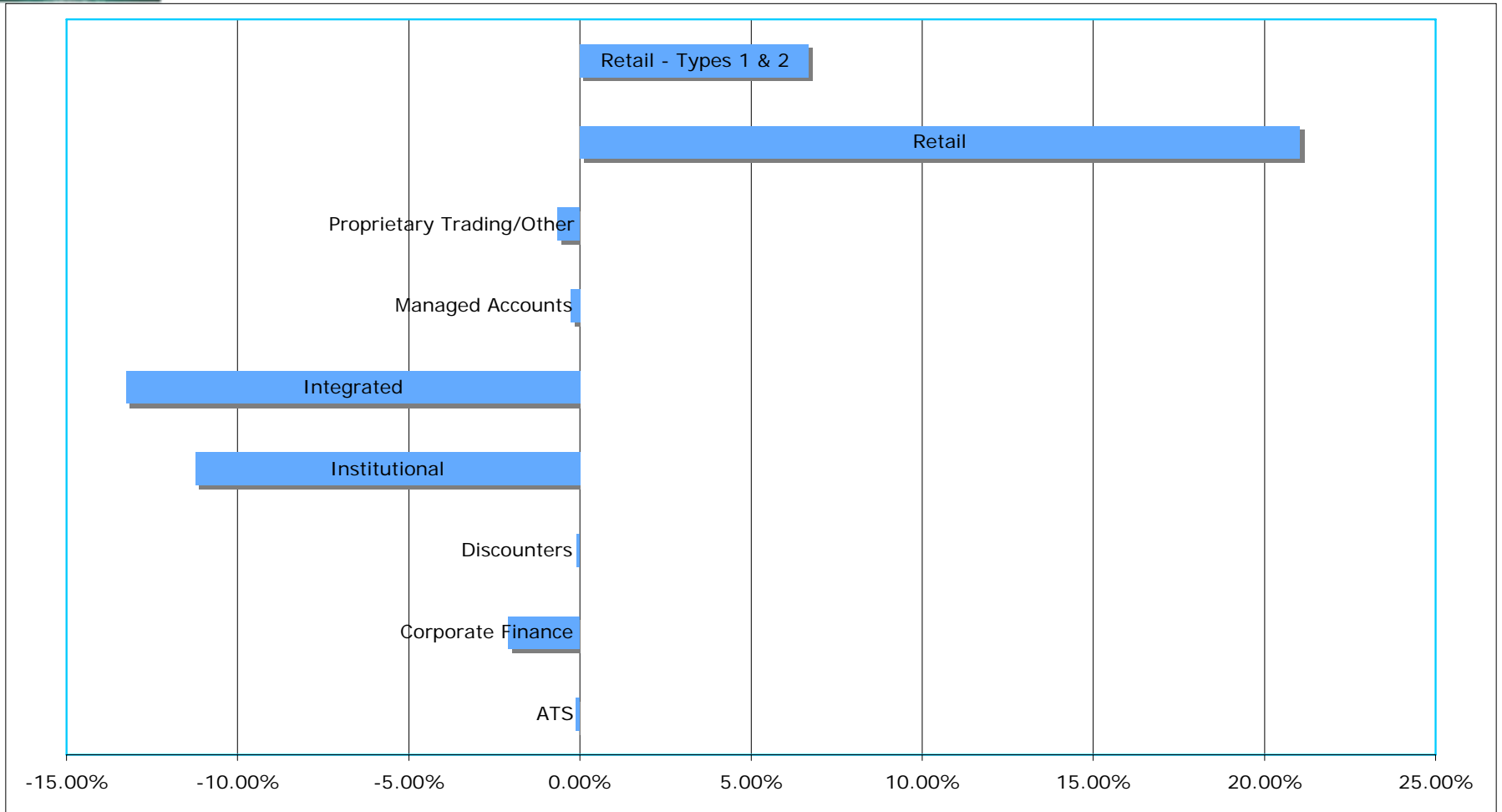




**Assessment Per CNE vs % CIPF Assessment Paid
(adjusted for 3 Members)**



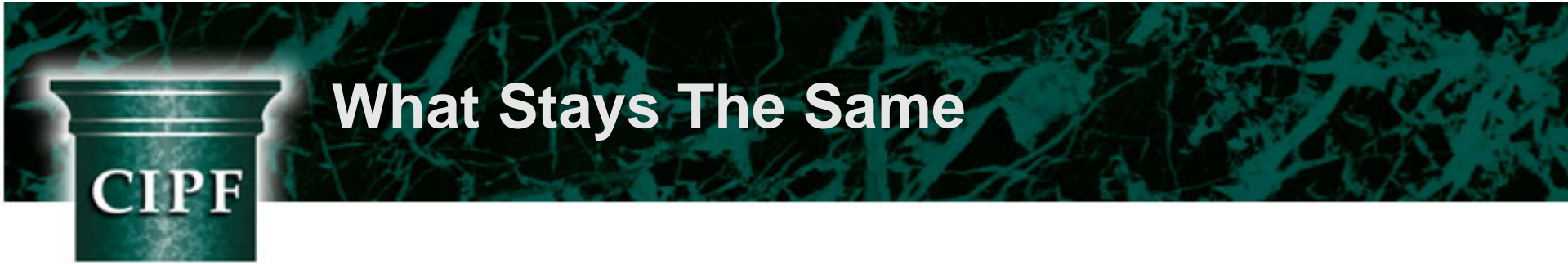
Impact - Differential Assessments vs Revenue Assessments by Peer Group



Percentage Increase (Decrease) by Peer Group



- **Review CNE**
 - Margin lending
 - Type 2 introducers
- **Review some measures in model (use of line E28, liquidity calculation)**
- **Frequency of Calculation**
- **Appeal process**
- **Review minimum assessment level**



- Risk Adjustment Percentage Premium (RAP Premium)
- IDA to Collect Assessments for CIPF
- Minimum Assessments



Questions?

Member feedback

The new assessment model provides an incentive to Members to manage and minimize the credit ring's exposure to loss