Investor Alert: Information for Clients of IIROC-Regulated Firms if an Investment Dealer Stops Doing Business

In light of the market turbulence affecting the financial services industry globally, clients of IIROC-regulated firms may have questions about what would happen to their account should their investment dealer cease to do business. This Notice explains the roles that the Investment Industry Regulatory Organization of Canada (IIROC) and the Canadian Investor Protection Fund (CIPF) play when a firm goes out of business, either voluntarily or as a result of regulatory action. It also provides information about what clients should know and do in the event that their firm ceases to operate or becomes insolvent.

In virtually all cases when an IIROC-regulated investment dealer fails or becomes insolvent, customer assets are protected and typically there is an orderly transfer of accounts to another IIROC-regulated firm. In situations where a firm is ceasing operations due to bankruptcy, CIPF coverage is available to make sure that customer assets are protected. Although it is not commonplace for an investment dealer in Canada to fail or become insolvent, there are a number of important protections that investors should be aware of.

IIROC's Regulatory role: Measures to prevent investment dealer firms from failing

IIROC-regulated firms are required to follow specific rules that are intended to minimize the possibility of financial failure and to protect clients' assets should a firm become insolvent. Client assets include both fully paid and excess margin securities and non-invested "free credit" monies.

All IIROC-regulated firms must maintain certain levels of assets (after accounting for its liabilities) as a measure of the liquidity and solvency of the firm. IIROC Dealer Member Rule 17.1 sets a minimum capital requirement for each firm based on its size and business model. This ensures that a firm not only has capital available to cover known risks but also excess capital to cover unforeseen risks. IIROC's minimum capital requirements are aimed at ensuring that firms do not assume excessive leverage or engage in business practices which expose them to too much risk.

IIROC also requires firms to have their financial statements audited annually by independent accounting firms that are approved by IIROC. IIROC conducts ongoing surveillance of the financial condition of all member firms, conducts "surprise" on-site financial and operation audits and requires regular and comprehensive financial reporting by the firm. IIROC Financial Compliance staff review firms' books and records to verify that they are current, accurate and are in compliance with regulatory requirements. They also review each firm's supervisory systems and internal controls.

IIROC requires firms to keep fully paid or excess margin securities that they are holding on behalf of their clients separate or segregated from the assets of the firm. The segregated securities must be held in trust for the firm's clients, in compliance with IIROC Dealer Member Rule 17.3. Segregation of client securities also helps minimize the risk of client assets being lost in the event of a firm failure or insolvency.

IIROC monitors and enforces compliance with the minimum capital and securities segregation regulations. If a firm is in compliance with the minimum capital and segregation requirements, then it should be able to cease operations and either return or transfer all customer fully paid and excess margin securities and client non-invested monies in an orderly and timely fashion.

What happens if an investment dealer becomes insolvent?

In the unlikely event that an investment dealer does fail or become insolvent, clients will be notified by the bankruptcy trustee or other insolvency official handling the firm's affairs. CIPF works closely with the Trustee to ensure that clients' assets are returned to them, typically by a transfer to another investment dealer.

It is important to keep in mind that investment dealer failures are a relatively rare occurrence in Canada, because of the regulations that are in place governing investment dealers, as well as the strict monitoring and enforcement of those regulations.

What protects you if your investment dealer becomes insolvent?

The Canadian Investor Protection Fund was created by the investment industry so that client assets (including cash, securities and certain other property such as segregated insurance funds) within defined limits are protected. All IIROC-regulated investment dealers must be CIPF members. Coverage is therefore automatic when a client opens an account with an investment dealer that is a member of CIPF. For a current list of CIPF members, please visit the CIPF website at www.cipf.ca.

This Notice summarizes CIPF's coverage and related practices. Reference should be made to CIPF's website at www.cipf.ca for the definitive terms and further information.

If clients' assets are missing because of an investment dealer's insolvency, CIPF covers the shortfall in a client account up to a maximum of $1 million per account. Most investors will have at least two accounts, a general account and a retirement account, that are each eligible for $1,000,000 in coverage. If an investor has several general accounts, such as cash, margin and $US dollar accounts, they are combined into one account for coverage purposes. Similarly, retirement accounts such as RRSP, RIF, LIF and LIRA accounts are combined into one account for coverage purposes.

CIPF does not compensate clients for losses due to market fluctuation or the insolvency of an issuer of a security or deposit instrument held in an account.

Most clients will complete the claim process by confirming their account to the Trustee. Any other claims must be made by completing a claim form provided by the Trustee or available on the CIPF website within 180 days of the insolvency. To make a claim to CIPF, investors must contact either CIPF or the insolvency official handling their firm's insolvency within 180 days of the insolvency.

Canadian Investor Protection Fund (CIPF) vs. Canadian Deposit Insurance Corporation (CDIC)

CIPF provides coverage for investor assets in all IIROC- regulated firms. CDIC's deposit insurance insures Canadians' savings against the failure of a CDIC member, such as a bank or other financial institution. The chart below outlines the major differences in coverage:

	CDIC	**CIPF**
What's Covered	• Bank deposits (savings and chequing accounts), • GICs of 5 years or less, money orders, certified cheques, travelers' cheques and bank drafts issued by CDIC members, and • debentures issued by loan companies.	• Securities and cash held with Dealer Members of IIROC.
Protection Limits	Up to $100,000 per depositor for each eligible account.	A maximum of $1,000,000 (any combination of cash and securities) for each eligible account. There are two types of eligible accounts: • General accounts • Separate accounts

What's not covered

- Mutual funds and stocks.
- GICs and other term deposits of more than 5 years.
- Money orders, certified cheques, travellers' cheques and bank drafts issued by non-CDIC members.
- Bonds, notes and debentures issued by governments or corporations, including banks and other CDIC members (except for debentures issued by loan companies to evidence deposits).
- Principal protected notes issued by corporations, including banks or other CDIC members.
- Treasury bills.
- U.S. dollar or other foreign currency deposits.
- Losses which do not result from the insolvency of a firm, such as, customers' losses that result from changing market values of securities, unsuitable investments, or the default of an issuer of securities.
- Losses in accounts of customers related to business financing purposes of a firm, such as securities lending and purchase/repurchase transactions.
- Securities or segregated funds that are not held by a Member, or recorded in a customer's account as being held by a firm.
- Losses where a customer's claim is not filed within 180 days of the date of insolvency.