



**September 30, 2022**

**TO: Alberta Securities Commission**  
**Autorité des marchés financiers**  
**British Columbia Securities Commission**  
**Manitoba Securities Commission**  
**Financial and Consumer Services Commission of New Brunswick**  
**Office of the Superintendent of Securities, Digital Government and Services,**  
**Newfoundland and Labrador**  
**Office of the Superintendent of Securities, Northwest Territories**  
**Nova Scotia Securities Commission**  
**Office of the Superintendent of Securities, Nunavut**  
**Ontario Securities Commission**  
**Prince Edward Island Office of the Superintendent of Securities**  
**Financial and Consumer Affairs Authority of Saskatchewan**  
**Office of the Yukon Superintendent of Securities**  
(collectively, the “**Regulators**”)

Dear Sirs/Mesdames:

**Re: Canadian Investor Protection Fund / Fonds canadien de protection des investisseurs (“CIPF” or the “Corporation”)**

This letter sets out the application of the Canadian Investor Protection Fund (“**Former CIPF**”) and the MFDA Investor Protection Corporation (“**MFDA IPC**”) (the “**Applicants**”) for approval, designation or consideration, as the case may be, pursuant to the applicable securities legislation

(the “**Legislation**”), of CIPF, a corporation to be formed by the amalgamation of Former CIPF and MFDA IPC, as a compensation fund for customers of investment dealers and mutual fund dealers which are members of the new single self-regulatory organization, New Self-Regulatory Organization of Canada/Nouvel organisme d’autoréglementation du Canada (“**New SRO**”), to be formed from the amalgamation of Investment Industry Regulatory Organization of Canada (“**IIROC**”), the Mutual Fund Dealers Association of Canada (the “**MFDA**”). Differences in coverage for mutual fund dealer activities in Québec are noted in this application.

### **Approval Criteria**

The Regulators have identified certain criteria (the “**Criteria**”) which are to be satisfied in regard to any order approving CIPF. The Criteria are discussed in relevant sections of this application and were provided to the Applicants as Terms and Conditions proposed for the approval orders of the Regulators. References herein to the “**Approval Order**” are references to the approval order for CIPF attached as **Appendix A** to the CSA Notice of Approval for this application (the “**CSA Notice**”).

The proposed Memorandum of Understanding among the Regulators regarding oversight of CIPF, (the “**MOU**”) is attached as **Appendix B** to the CSA Notice.

Capitalized terms that are not defined herein have the meaning given to them in the Approval Order.

### **Dual Registration**

The Criteria contemplate a regulatory environment with two registration categories under the New SRO: investment dealers and mutual fund dealers. The documents contemplated in this application have been prepared on that basis. Where a single legal entity operates as both a registered investment dealer and a registered mutual fund dealer, the Investment Dealer Fund would be available to fund coverage for both of those categories. It is intended that the transitional agreement to be entered into between the SROs and the Applicants (as discussed below under Section 9) will, among other things, contemplate that, pending the execution of an updated industry agreement, the existing agreements between them will be interpreted and applied to give effect to, and otherwise be deemed to reflect, that a dealer that is registered under Canadian securities laws

as an investment dealer and as a mutual fund dealer will be considered to be an investment dealer for all purposes of those agreements.

For convenience this application is divided into the following sections:

1. Background to the Amalgamation
2. Corporate Structure and Authority
3. Corporate Governance
4. Conflicts of Interest
5. Funding and Maintenance of CIPF
6. Customer Protection
7. Financial and Operational Viability
8. Risk Management
9. Agreement between CIPF and New SRO
10. Assistance to New SRO
11. Collection of Information
12. Information Sharing and Regulatory Cooperation
13. Ongoing Reporting Requirements
14. Approval of Amendments
15. Revocation of Former Approval or Acceptance Orders
16. Submissions

Submitted with this application are the following supporting documents:

- Schedule 1 – By-Law No. 1 of CIPF
- Schedule 2 – Coverage Policy
- Schedule 3 – Claims Procedures
- Schedule 4 – Appeal Committee Guidelines
- Schedule 5 – Disclosure Policy

## 1. BACKGROUND TO THE AMALGAMATION

In its Position Paper 25-404 “New Self – Regulatory Organization Framework”, dated August 3, 2021 (the “**Position Paper**”), the CSA advised that it had decided to move forward in combining IIROC and the MFDA to form a new, single, enhanced self-regulatory organization (referring to New SRO), and the consolidation MFDA IPC and Former CIPF into a single legal entity (i.e., CIPF) that is independent from New SRO.

Former CIPF and MFDA IPC are both corporations existing under the *Canada Not-for-profit Corporations Act* (the “**CNCA**”). Former CIPF and MFDA IPC have determined that the most effective way to consolidate their operations, while also meeting the CSA’s objectives for CIPF, is to amalgamate Former CIPF and MFDA IPC to form CIPF under the CNCA (the “**Amalgamation**”).

The Amalgamation will be subject to the terms of an Amalgamation Agreement between Former CIPF and MFDA IPC (the “**Amalgamation Agreement**”), which is discussed in more detail in sections below addressing particular criteria. Since CIPF will be formed by the Amalgamation which cannot become effective until New SRO is formed, approval in respect of CIPF is being sought before CIPF is formed.

## 2. CORPORATE STRUCTURE AND PURPOSE

Relevant Criteria: *Authority and Purpose*

*CIPF has, and must continue to have, the appropriate authority and capacity to carry out the CIPF Mandate.*

***CIPF Mandate** - to provide protection to customers of SRO Members who have suffered or may suffer financial losses as a result of the insolvency of the SRO Member, all on such terms and conditions as may be determined by CIPF in its sole discretion and, in connection with such coverage, to engage in risk management activities to minimize the likelihood of such losses.*

### 2.1 The Corporation

The Amalgamation Agreement provides for the amalgamation of Former CIPF and MFDA IPC to form CIPF under the CNCA. CIPF will be a not-for-profit corporation with no share capital. By adopting a federal not-for-profit corporation structure CIPF will be subject to the governance and

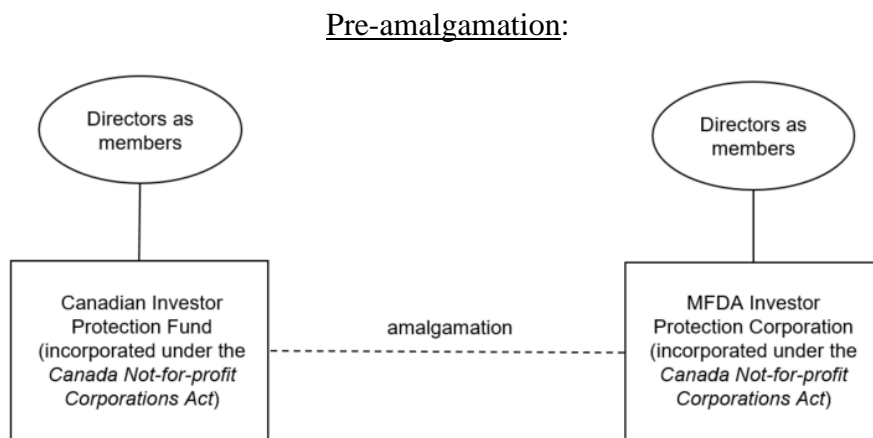
other legal requirements of the CNCA. The Applicants are of the view that the functions and role of CIPF can be best accommodated with the proposed corporate form. Both Former CIPF and MFDA IPC are not-for-profit corporations with no share capital existing under the CNCA.

Former CIPF and MFDA IPC have determined that the English name of CIPF will be “Canadian Investor Protection Fund” which is the same as Former CIPF’s name. They have also determined that the French name of CIPF will be “Fonds canadien de protection des investisseurs” which is different from Former CIPF’s French name, Fonds canadien de protection des épargnants. The Boards of Former CIPF and MFDA IPC decided to maintain the CIPF name (with the slight correction in its French version) in light of the recognition of the name and in an effort to minimize the costs associated with changes to an entirely new name.

## 2.2 Articles of Amalgamation

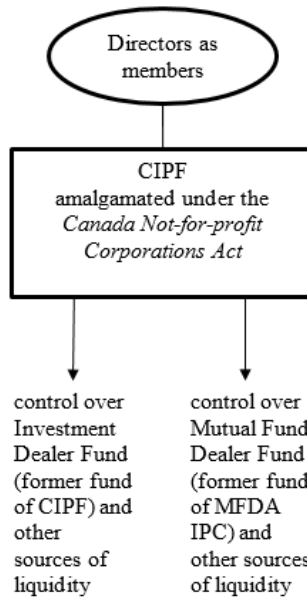
The document that will create CIPF is the Articles of Amalgamation. Among other things, the Articles of Amalgamation sets out the purposes of CIPF, giving it the legal authority to carry them out. The proposed form of Articles of Amalgamation will be attached to the Amalgamation Agreement.

A diagram illustrating the corporate structure before (pre) and after (post) the proposed amalgamation is set out below:



**Note:** Dashed line represents transaction step

Post-amalgamation:



### 2.3 Purposes of the Corporation

The purposes of CIPF are set out in the Articles of Amalgamation as follows:

- a) To provide protection to clients of eligible registered investment dealers and registered mutual fund dealers which are members, approved participants or other similar participating organizations (“SRO Members”) of New Self-Regulatory Organization of Canada/Nouvel organisme d’auto-réglementation du Canada, as it is currently named or as it may be renamed from time to time, who have suffered or may suffer financial loss as a result of the insolvency of the SRO Member, all on such terms and conditions as may be determined by the Corporation in its sole discretion.
- b) For the purposes of the Corporation, to receive, acquire, hold, purchase, convert, lease, mortgage, sell or dispose of any asset or property of the Corporation of any kind and from any source whatsoever; and to invest and reinvest any of the assets or property of the Corporation in investments which the directors in their discretion consider appropriate.
- c) To do all such other things as may be necessary or incidental to the furtherance of the foregoing purposes.

### 3. CORPORATE GOVERNANCE

Relevant Criteria: *Corporate Governance*

- a) *The Board must be selected in a fair and reasonable manner and must fairly represent the interests of all SRO Members and their customers and properly balance the interests of SRO Members and their customers.*
- b) *The Board must be composed of Industry Directors, Public Directors and the chief executive officer. The number of Public Directors must exceed the number of Industry Directors by at least one. The Board must include no more than 15 directors.*
- c) *CIPF's governance structure must provide for:*
  - (i) *fair, meaningful and diverse representation on the Board and any committees of the Board, having regard to the differing interests between SRO Members and their customers;*
  - (ii) *appropriate representation of Public Directors on CIPF Board committees and on any executive committee or similar body;*
  - (iii) *appropriate qualification, remuneration and conflict of interest provisions, and limitation of liability and indemnification protections for directors, officers and employees of CIPF generally; and*
  - (iv) *a governance, nominating and human resources committee and an audit, finance and investment committee, each of which must be constituted by a majority of Public Directors, including the chair.*

#### 3.1 General

The manner in which the affairs of CIPF are governed is critical to its ability to achieve its objectives and fulfil the purposes and functions expected of it.

#### 3.2 Members

As a non-share capital corporation under the CNCA, CIPF will have members rather than shareholders. Section 2.1 of the proposed By-Law No. 1 of CIPF (the “**By-Law**”) provides that membership in the Corporation shall consist only of the persons who compose the Board from time to time. This is for ease of administration as it is impractical for a broader membership to be admitted. A copy of the By-Law is attached to this application as **Schedule 1**.

The Articles of Amalgamation provides for one class of members, all of whom will be voting members. The primary role of members is to elect directors, appoint the auditor of the corporation, receive the financial statements of the corporation and confirm by-laws. The members are required to meet at least annually.

The corporate membership structure of CIPF will help ensure its independence from New SRO and is consistent with the membership structure of each of Former CIPF and MFDA IPC.

### **3.3 Composition and Size of Board of Directors**

The Board will consist of not fewer than 8 or more than 12 directors, provided that the Board may initially consist of 15 directors with such number of directors reduced (to the maximum number of 12 directors) upon the expiry of terms of office held at the time of the Amalgamation (and all renewals thereof contemplated for the transition period). *[By-Law, Section 4.1]*

The Board shall be composed of Industry Directors, Public Directors and CIPF's Chief Executive Officer ("CEO"), subject to their election by the members or appointment by the Board in accordance with the By-law. The number of directors, including the number of Industry Directors and Public Directors, shall be determined from time to time by a resolution passed at a meeting of the members of the Corporation, provided that the number of Public Directors shall exceed the number of Industry Directors by at least one. *[By-Law, Section 4.1]*

### **3.4 Governance, Nominating & Human Resources Committee**

The Board will appoint a Governance, Nominating & Human Resources Committee which shall be composed of 3 or more directors (including one or both of the Chair and Vice-Chair of the Board), a majority of whom shall be Public Directors, and carry out such duties and tasks as set out in the By-law or as determined by the Board from time to time. The chair of the Governance, Nominating & Human Resources Committee shall be a Public Director. The Governance, Nominating & Human Resources Committee shall recommend nominations to the Board for Industry Directors, Public Directors, Chair, Vice-Chair, CEO, and any other nomination as requested by the Board from time to time. *[By-Law, Section 5.1]*



### **3.5 Audit, Finance & Investment Committee**

The Board will appoint an Audit, Finance & Investment Committee composed of 3 or more directors, a majority of whom shall be Public Directors. The chair of the Audit, Finance & Investment Committee shall be a Public Director. The Audit, Finance & Investment Committee shall be responsible for the review of the Corporation's financial statements and such other functions as the Board may determine. *[By-Law, Section 5.2]*

### **3.6 Other Committees**

The By-Law allows the Board to appoint other committees. Among those that will be established are the Risk Committee and the Coverage Committee, both of which are discussed further below. *[By-Law, Section 5.3]*

### **3.7 Mandate of the Governance, Nominating & Human Resources Committee**

The duties delegated by the Board to the Governance, Nominating & Human Resources Committee will include:

- a) Manage the process for identifying and recruiting candidates to be nominated for election or appointment to the Board, taking into consideration cultural, disability, gender, racial, regional and sexual orientation diversity, among other factors.
- b) Oversee the evaluation of the Board and of its committees and directors.
- c) Oversee the ability of CIPF to attract and maintain the appropriate complement of personnel to fulfill its mandate and provide for succession of the Board and its committees and directors.
- d) Recommend to the Board for approval a process for the selection of new directors and biennially review such process and recommend any changes thereto to the Board for approval. The process must be done in a fair and reasonable manner.
- e) Develop and maintain a pool of potential candidates for directors who meet the established criteria.
- f) Review, and recommend to the Board for approval:
  - (i) The selection of the CEO through, if considered appropriate, a recruitment process or such other method determined by the Board.

- (ii) The annual performance goals for the CEO.
  - (iii) The annual performance and compensation for the CEO
- g) Review at least once annually, and approve:
- (i) Succession plans for officers.
  - (ii) The annual performance goals for officers (excluding the CEO).
  - (iii) The annual performance and compensation for officers (excluding the CEO).

### **3.8 Limitation of Liability and Indemnification Protections for Directors, Officers and Employees**

The By-Law provides that no past or present member of the Board or any committee or sub-committee thereof or of the Corporation, nor any past or present officer, employee or agent of any of them shall be liable for any loss, damage or misfortune that happen in the execution of the duties of their office or in relation thereto, provided that the standard of care required of the director or officer under the CNCA and the By-Law has been satisfied, and provided that nothing therein shall relieve any such person from the duty to act in accordance with the CNCA and the regulations thereunder or from liability for any breach thereof. *[By-Law, s. 7.2]*

A standard corporate indemnity is also provided to those persons, provided that:

- a) the person acted honestly and in good faith with a view to the best interests of the Corporation or, as the case may be, to the best interests of the other entity for which the individual acted as director or officer or in a similar capacity at the Corporation's request; and
- b) in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, the person had reasonable grounds for believing that the conduct was lawful. *[By-Law, s. 7.3]*

The Corporation is authorized to purchase and maintain insurance for the benefit of any person referred to above against such liabilities and in such amounts as the Board may from time to time determine and are permitted by the CNCA. *[By-Law, s. 8.1]*

#### **4. CONFLICTS OF INTEREST**

Relevant Criteria: *Conflicts of Interest*

*Subject to applicable legislation, CIPF must identify and avoid real, potential or perceived conflicts of interest between its own interests, or the interests of its directors, officers, or employees and the CIPF Mandate.*

##### **4.1 Conflicts of Interest**

Section 6.1 of the By-Law establishes a policy and procedures for disclosure of and accountability for conflicts of interest for directors and officers of CIPF. The Board will implement the policy and procedures through codes of conduct for directors and for employees [*By-Law, s. 6.1*]

Directors are required by the CNCA and the By-Law to disclose the nature and extent of any interest in a material contract or transaction with CIPF that the director may have. The code of conduct will provide that, apart from a director's interest in contracts or transactions with CIPF, existing or proposed activities, appointments or commercial arrangements may constitute a conflict of interest if they might interfere with, or appear to interfere with, the director's ability to exercise independent judgment in matters pertaining to CIPF. If one or more activities, appointments or commercial arrangements give rise to an actual or potential conflict of interest (or the appearance of such a conflict) by reason of interfering with, or appearing to interfere with, a candidate for the Board's ability to exercise independent judgment in matters pertaining to CIPF, CIPF expects that it will only be an unusual and exceptional circumstance for such candidate to be considered eligible to serve on the Board. Certain exceptions will be made for Industry Directors.

If a director becomes aware of an actual or potential conflict of interest or other matter such as an interest in a contract or transaction or an activity, proceeding, appointment or commercial arrangement, the director will be required to disclose to, and discuss with, the Chair of CIPF.

#### **5. FUNDING AND MAINTENANCE OF CIPF**

Relevant Criteria: *Funding and Maintenance of CIPF*

- a) *CIPF must institute and publish one or more fair, transparent, and reasonable methodologies of establishing assessments for contribution for each category of SRO Members, which are investment dealers and mutual fund dealers (**Assessment Policies**).*

- b) *CIPF will conduct the analysis of risks associated with each category of SRO Members and, following which, determine whether a single assessment methodology is appropriate for all categories of SRO Members. Until such time as the analysis is completed,*
  - (i) *the funds available to satisfy potential claims for coverage by customers of each category of SRO Members must be segregated;*
  - (ii) *the assessments must be calculated and levied discretely on the basis of independent assessment methodologies for each category of SRO Members and contributed to the segregated funds (each, a **Fund**); and*
  - (iii) *CIPF must ensure a moratorium on any changes to the current assessment methodologies applied to fees or assessments that would result in a material increase to the assessments levied by CIPF on each category of SRO Members, unless authorized by the Commission.*
- c) *The assessments must:*
  - (i) *reflect an equitable allocation among SRO Members, which may be based on the level of risk to which each SRO Member exposes CIPF; and*
  - (ii) *balance the need for CIPF to have sufficient revenues to satisfy claims in the event of an insolvency of any member of the relevant category of SRO Members and to have sufficient financial resources to satisfy its operational costs against the goal that there be no unreasonable financial barriers to becoming a member of the SRO.*
- d) *CIPF must make all necessary arrangements for the notification to each category of SRO Members of CIPF's assessments and the collection of such assessments, either directly or indirectly through the SRO.*
- e) *The Board must determine the appropriate level of Coverage Assets for each of the Funds. The Board will conduct an annual review of the adequacy of the Coverage Assets, assessment amounts and assessment methodologies; and will ensure that the level of Coverage Assets of each Fund remains adequate to cover potential claims of customers of the relevant category of SRO Members.*
- f) *Moneys in each Fund must be invested in accordance with the relevant policies, guidelines or other instruments (**Investment Policies**) applicable to that Fund and approved by the Board, who will be responsible for regular monitoring of the investments. The Investment Policies must require safety of principal and a reasonable income while at the same time ensuring that sufficient liquidity is available to pay potential claims in accordance with the Coverage Policies. All moneys and securities must be held by a qualified custodian, which are those entities considered suitable to hold securities on behalf of an SRO Member, for both inventory and client positions, without capital penalty, pursuant to the bylaws, rules or regulations of the SRO.*

- g) *CIPF must implement an appropriate accounting system, including a system of internal controls for maintaining CIPF Coverage Assets.*

## **5.1 Two Fund Structure**

In this application, “**Coverage Policy**” means the Coverage Policy attached to this application, as **Schedule 2**.

The Amalgamation Agreement describes the two fund structure of CIPF. Those provisions are set out below with non-substantive conforming changes:

“**Former CIPF Liabilities**” means liabilities, whether accrued, contingent or otherwise, that may be legally enforced against Former CIPF as at the time immediately prior to the Amalgamation.

“**MFDA IPC Liabilities**” means liabilities, whether accrued, contingent or otherwise, that may be legally enforced against the MFDA IPC as at the time immediately prior to the Amalgamation.

“**Investment Dealer Fund**” means the segregated fund available to satisfy potential claims for coverage by customers of registered investment dealers in accordance with the Coverage Policy which shall be comprised of, without duplication: (i) the Former CIPF Fund net of the Former CIPF Liabilities; (ii) all investment dealer assessments and other amounts received or receivable by the Amalgamated Corporation specifically for the benefit of the Investment Dealer Fund from and after the effective time of the Amalgamation net of liabilities incurred by the Amalgamated Corporation from and after the effective time of the Amalgamation specifically for the benefit of the Investment Dealer Fund together with such proportion of the remaining liabilities incurred by the Amalgamated Corporation from and after the effective time of the Amalgamation (and not otherwise incurred specifically for the benefit of the Mutual Fund Dealer Fund) as may have been determined by the Board to be referable to the Investment Dealer Fund from time to time; and (iii) all net income, proceeds and (re)investments of the assets identified in (i) and (ii) above.

“**Mutual Fund Dealer Fund**” means the segregated fund available to satisfy potential claims for coverage by customers of registered mutual fund dealers in accordance with the Coverage Policy which shall be comprised of, without duplication: (i) the MFDA IPC Fund net of the MFDA IPC Liabilities; (ii) all mutual fund dealer assessments and other amounts received or receivable by the Amalgamated Corporation specifically for the benefit of the Mutual Fund Dealer Fund from and after the effective time of the Amalgamation net of liabilities incurred by the Amalgamated Corporation from and after the effective time of the Amalgamation specifically for the benefit of

the Mutual Fund Dealer Fund together with such proportion of the remaining liabilities incurred by the Amalgamated Corporation from and after the effective time of the Amalgamation (and not otherwise incurred specifically for the benefit of the Investment Dealer Fund) as may have been determined by the Board to be referable to the Mutual Fund Dealer Fund from time to time; and (iii) all net income, proceeds and (re)investments of the assets identified in (i) and (ii) above.

On the effective date of the Amalgamation,

- a) the property of Former CIPF includes cash, securities and receivables held or maintained by Former CIPF as at the time immediately prior to the Amalgamation for purposes of satisfying claims or potential claims made in accordance with the Former CIPF Coverage Policy (the “**Former CIPF Fund**”) and, from and after the effective time of the Amalgamation, the Former CIPF Fund will be designated as (and form part of) the Investment Dealer Fund of CIPF, and
- b) the property of MFDA IPC includes cash, securities and receivables held or maintained by the MFDA IPC as at the time immediately prior to the Amalgamation for purposes of satisfying claims or potential claims made in accordance with the MFDA IPC Coverage Policy (the “**MFDA IPC Fund**”) and, from and after the effective time of the Amalgamation, the MFDA IPC Fund will be designated as (and form part of) the Mutual Fund Dealer Fund of CIPF.

CIPF will maintain the Investment Dealer Fund and the Mutual Fund Dealer Fund as segregated funds such that:

- a) the Investment Dealer Fund will be available to satisfy:
  - (i) claims that may be made by clients of a registered investment dealer for compensation from the Investment Dealer Fund in accordance with the Coverage Policy,
  - (ii) Former CIPF Liabilities, and
  - (iii) those liabilities incurred by the Amalgamated Corporation from and after the effective time of the Amalgamation specifically for the benefit of the Investment Dealer Fund together with such proportion of the remaining

liabilities incurred by the Amalgamated Corporation from and after the effective time of the Amalgamation (and not otherwise incurred specifically for the benefit of the Mutual Fund Dealer Fund) as may have been determined by the Board to be referable to the Investment Dealer Fund from time to time;

- b) the Mutual Fund Dealer Fund will be available to satisfy:
  - (i) claims that may be made by clients of a registered mutual fund dealer for compensation from the Mutual Fund Dealer Fund in accordance with the Coverage Policy,
  - (ii) MFDA IPC Liabilities, and
  - (iii) those liabilities incurred by the Amalgamated Corporation from and after the effective time of the Amalgamation specifically for the benefit of the Mutual Fund Dealer Fund together with such proportion of the remaining liabilities incurred by the Amalgamated Corporation from and after the effective time of the Amalgamation (and not otherwise incurred specifically for the benefit of the Investment Dealer Fund) as may have been determined by the Board to be referable to the Mutual Fund Dealer Fund from time to time;
- c) in no event will claims made by customers of an investment dealer or any Former CIPF Liabilities be satisfied from the Mutual Fund Dealer Fund or from any source of additional liquidity maintained for the benefit of the Mutual Fund Dealer Fund; and
- d) in no event will claims made by customers of a mutual fund dealer or any MFDA IPC Liabilities be satisfied from the Investment Dealer Fund or from any source of additional liquidity maintained for the benefit of the Investment Dealer Fund.

CIPF may only vary these provisions if required by amendments to the Coverage Policy approved by the Board and by each Regulator. *[Amalgamation Agreement, s. 9]*

## **5.2 Assessment Policy and Appeals**

Subject to a transitional moratorium on changes to assessment methodology(ies), CIPF will, in its discretion, adopt (and may approve amendments to) one or more policies establishing the formula(e) or methodology(ies) for, or principles governing, assessments of each category of SRO Members (the “**Assessment Policies**”).

In accordance with the Assessment Policies, CIPF will determine and calculate, from time to time, the basis and rate of assessments levied on each category of SRO Members.

The Assessment Policies may also establish the dates by which assessments are due and payable by New SRO to CIPF and such other terms and conditions relating to the payment of assessments as may be desirable.

The Assessment Policies (and any amendment and proposed amendment thereto) will be in writing and promptly be provided to New SRO. CIPF will consult with, and afford New SRO a reasonable opportunity to comment on, and otherwise provide input to, each amendment proposed to the Assessment Policies. Following such consultation, CIPF will provide written notice of the amendment to be made to the Assessment Policies to the CSA no less than 60 days, and to New SRO no less than 90 days (or such shorter period as may be agreed by New SRO), prior to the effective date of such amendment.

A Risk Committee will be established by the Board of CIPF and its mandate will provide that the Board will delegate to it the duty to oversee and monitor the methodologies used to determine CIPF’s requirements for Coverage Assets and the adequacy of CIPF’s available Coverage Assets given the risk exposure associated with the failure of an SRO Member, as well as to oversee and monitor CIPF’s management of enterprise risk. Among its other duties, the Risk Committee will provide recommendations to the Board in respect the annual assessment targets to be paid by the SRO Members as described in the Assessment Policies (Target Assessments).

Responsibility for approving procedures for the appeal of assessments (the “**Assessment Appeal Procedures**”) will reside with the Board. However, the Risk Committee’s mandate will include the duty for monitoring and overseeing compliance with the Assessment Appeal Procedures, and for deciding appeals, on behalf of the Board. Every fifth year, or as required, the Risk Committee



will review, and provide recommendations to the Board in respect of, the Assessment Policies and the Assessment Appeals Procedures.

### **5.3 Moratorium on Changes to Assessment Methodology**

Initially maintaining separate Funds will allow time for an assessment of risks associated with each category of SRO Members. The approval of the Regulators will be required for any change in the formula(e) or methodology(ies) for, or principles governing, the assessments to be levied on each category of SRO Members, or on any SRO Member or SRO Members individually, where such change could result in a material increase in the assessment(s) levied on the category of SRO Members (or SRO Member or SRO Members individually) in accordance with the Industry Agreement and the Assessment Policy, but only for as long as the approval of the Regulators is required for such changes under the terms of the Approval Order.

### **5.4 Mutual Fund Dealers with Customer Accounts in Québec**

There is currently no coverage by MFDA IPC for mutual fund dealer activities in Québec. Consequently, mutual fund dealers are not subject to assessment to fund MFDA IPC in relation to accounts located in Québec. Mutual fund dealers operating exclusively in Québec are not required to be members of the MFDA, while mutual fund dealers with activities in one or more remaining jurisdictions must be members of the MFDA. It is the Applicants' understanding that all mutual fund dealers in Canada will be members of New SRO. However, until it is required to do so, CIPF will not provide coverage for mutual fund dealer customer accounts located in Québec and SRO Members will not be subject to assessments to contribute to the Mutual Fund Dealer Fund of CIPF in relation to mutual fund dealer customer accounts located in Québec.

### **5.5 Liquidity Resource (Coverage Asset) Requirements**

Upon recommendation of the Risk Committee, the Board will: (i) set the methodologies used to determine the levels of Coverage Assets required for CIPF; (ii) establish CIPF's target Coverage Assets; and, (iii) set the level and mix of available Coverage Assets, taking into account the different purposes of CIPF's two Funds and associated Coverage Assets. The Risk Committee will be responsible for monitoring and overseeing the parameters, inputs, and methodologies used to determine CIPF's Coverage Assets requirements and reviewing the adequacy of CIPF's

available Coverage Assets in relation to CIPF's targets, taking into account the different purposes of CIPF's two separate Funds and associated Coverage Assets.

## **5.6 Investment Policies**

The Board will establish appropriate policies and procedures for investment. The mandate of the Audit, Finance & Investment Committee will include monitoring the performance of the investments and compliance with the investment policies. At least once every three years, the Audit, Finance & Investment Committee will review the investment policies and recommend amendments to the Board as necessary.

## **5.7 Accounting System**

The Audit, Finance & Investment Committee will assist the Board in fulfilling its oversight responsibilities regarding the integrity of financial reporting and disclosure, the associated accounting policies, internal controls, and compliance and legal regulatory requirements, and to assess the financial and investment risks to which CIPF's Coverage Assets are exposed and to ensure that adequate management controls are in place to minimize such risk.

## **6. CUSTOMER PROTECTION**

Relevant Criteria: ***Customer Protection***

- a) *CIPF must establish and maintain Coverage Policies which:*
  - (i) *provide for fair and adequate coverage, on a discretionary basis, for all customers of SRO Members, for losses of property comprising securities, cash, and other property (to the extent not specifically excluded or held in accounts located in Québec as detailed in CIPF's Coverage Policies) held by SRO Members resulting from the insolvency of an SRO Member, including criteria for who is an eligible customer;*
  - (ii) *include fair and reasonable procedures for assessing claims made to CIPF. CIPF will respond as quickly as practicable in assessing and paying claims made pursuant to those procedures; and*
  - (iii) *allow CIPF to adequately disclose to customers of SRO Members, either directly or indirectly through the SRO, the principles and policies on which coverage will be available, including, but not limited to, the process for making a claim and the maximum coverage available per customer account.*

- b) *In a case where a claim is not accepted for payment by CIPF staff or by an appointed committee, the claim must be reconsidered by an internal appeal committee if such a review is requested by a customer of an SRO Member or by CIPF staff. CIPF must establish within its Coverage Policies fair and reasonable internal claim review procedures for this purpose. An appeal committee will be comprised of one or more adjudicators who may or may not be directors. The Coverage Policies or other documentation must include criteria established by the Board for the selection of appeal committee members, including criteria that no director involved in the initial decision will be involved in reconsidering that decision.*
- c) *The Coverage Policies must not prevent a customer of an SRO Member from taking legal action against CIPF in a court of competent jurisdiction in Canada. CIPF must not contest the jurisdiction of such a court to consider a claim where the claimant has exhausted CIPF's internal appeals or review process.*

## **6.1 Coverage Policies**

The Board will establish a Coverage Committee with responsibilities for coverage policies and procedures. The following proposed Coverage Policies are included with this application:

- Coverage Policy, as **Schedule 2**
- Claims Procedures, as **Schedule 3**
- Appeal Committee Guidelines, as **Schedule 4**
- Disclosure Policy, as **Schedule 5**

The Coverage Policy offers fair and adequate coverage, on a discretionary basis, for losses arising from the insolvency of SRO Members, for all customers of SRO Members (except in relation to mutual fund dealer customer accounts located in Québec). Initially, discrete coverage will be afforded (i) to customers of SRO Members who are in the category consisting of investment dealers, whose coverage will be funded only through the Investment Dealer Fund, and (ii) to customers of SRO Members who are in the category consisting of mutual fund dealers, whose coverage is funded only through the Mutual Fund Dealer Fund.

Coverage will not be available to customers in relation to their mutual fund dealer accounts in Québec.

The Disclosure Policy will describe the requirements, prescribed formats, and acceptable practices for disclosure of CIPF membership by an SRO Member (other than with respect to a mutual fund

dealer's customer accounts in Québec). The Disclosure Policy will be part of CIPF Coverage Policies and will be published in the final publication of this Application.

The Claims Procedures develop fair and reasonable procedures for assessing claims and to pay eligible claims pursuant to these procedures, and allow for an internal appeal process if requested by the customer or by CIPF staff. A customer will not be precluded from taking legal action against CIPF where the customer has exhausted CIPF's internal appeal process.

The Appeal Committee Guidelines detail the appeal procedures and the establishment of appeal committees.

## **7. FINANCIAL AND OPERATIONAL VIABILITY**

Relevant Criteria: *Financial and Operational Viability*

*CIPF must maintain adequate financial and operational resources, including adequate staff resources or external professional advisers, to permit CIPF to:*

- a) exercise its rights and perform its duties under this Approval Order; and*
- b) review, in accordance with the Industry Agreement, the business and operations of any SRO Member, or designated groups of SRO Members, where a situation has occurred that in the opinion of CIPF constitutes a reportable condition, as defined in the Industry Agreement.*

### **7.1 Risk Committee**

The Risk Committee will be responsible for monitoring and overseeing:

- a) the parameters, inputs, and methodologies used to determine CIPF's Coverage Asset requirements and reviewing the adequacy of CIPF's available Coverage Assets in relation to CIPF's target level of Coverage Assets, taking into account the different purposes of CIPF's two separate Funds and associated Coverage Assets.
- b) the procedures CIPF will have in place to monitor the adequacy of the New SRO capital requirements for SRO Members, and changes thereto.
- c) the procedures CIPF has in place to identify and respond to member firms that may pose a risk to CIPF's available Coverage Assets.

## 7.2 Assessments

CIPF will levy assessments (including Regular Assessments, Replenishment Assessments, Asset Location Assessments and Additional Assessments) sufficient to meet CIPF's operating costs, to maintain Coverage Assets in the Investment Dealer Fund and the Mutual Fund Dealer Fund and to meet CIPF's obligations, when due, under any credit facility provided to CIPF.

## 8. RISK MANAGEMENT

Relevant Criteria: ***Risk Management***

- a) *CIPF must ensure that it has policies and procedures, including a process to identify and request all necessary information from the SRO, in order for CIPF to:*
  - (i) *fulfill the CIPF Mandate and manage risks to the public and to CIPF assets;*
  - (ii) *assess whether the prudential standards and operations of CIPF are appropriate for the coverage provided and the risk incurred by CIPF; and*
  - (iii) *identify and deal with SRO Members that may be in financial difficulty.*
- b) *While CIPF may rely on the SRO to conduct reviews of SRO Members for CIPF purposes, CIPF must reserve the right to conduct reviews of SRO Members, in particular situations where CIPF has concerns about the integrity of the Coverage Assets or possible claims.*

### 8.1 Rules Regarding Financial Strength and Business Conduct of Members

New SRO will prepare rules regarding the business and financial strength of SRO Members in order to minimize their risk of insolvency and losses to their customers, as well as rules regarding the business conduct of SRO Members to ensure SRO Members handle customers' business within the bounds of ethical conduct ("**Rules**").

New SRO will provide prior written notice of, and permit CIPF an opportunity to comment on any new, amended or deleted Rule. CIPF may, whenever it considers necessary or desirable in the context of changing industry or market practices, changing products, changing circumstances or risks or otherwise, propose to New SRO for consideration by it, its board of directors (or corresponding body) or committees any new Rules, or amendments or deletions to existing Rules, that are in order to enhance protection by CIPF of customers of SRO Members and to reduce risk of loss to be covered by CIPF.

New SRO will enforce the Rules against its SRO Members. The Rules will contain provisions requiring SRO Members (other than with respect to a mutual fund dealer's customer accounts located in Québec) to adhere to the Rules and to permit the exercise of New SRO's and CIPF's respective rights and performance of their respective obligations under the Industry Agreement.

## **8.2 Action Where Member in Financial Difficulty**

When an SRO Member (other than mutual fund dealers that exclusively maintain customer accounts located in Québec) is considered to be in financial difficulty by CIPF, CIPF may recommend to New SRO to take such action with respect to such SRO Member which is reasonable in the circumstances (and which is not contrary to law or to the requirements or order of any securities regulatory authority having jurisdiction in the matter) or take its own appropriate action as agreed to in the Industry Agreement.

## **8.3 Remedial Action For Compliance With Rules**

CIPF determines may recommend to New SRO to take certain measures (other than such action that may be contrary to law to or to the requirements or order of any securities regulatory authority having jurisdiction in the matter) to ensure that SRO Members (other than mutual fund dealers that exclusively maintain customer accounts located in Québec) are complying with its Rules, or take its own appropriate action as agreed to in the Industry Agreement.

## **8.4 New SRO Reviews**

CIPF will be entitled, with respect to each review of an SRO Member by New SRO: (i) to rely upon New SRO's findings; (ii) to review the working papers of the auditors of the SRO Member; (iii) to require the Audited Form 1s and any comparable reporting form approved by New SRO to be addressed to CIPF and available for review by CIPF; and (iv) to require auditor's reports and any special reports prepared by the auditors of the SRO Member or any other professionals in relation to the SRO Member, its financial position, its operations or its business to be addressed to CIPF.

## **9. AGREEMENT BETWEEN CIPF AND NEW SRO**

Relevant Criteria: ***Agreement between CIPF and the SRO***

*CIPF must comply with the Industry Agreement signed with the SRO.*

### **9.1 Industry Agreement**

The SROs and the Applicants are working on a transitional agreement that preserves the essential elements of the existing agreements between them (modified to accommodate the Amalgamation, the Approval Order, the MOU and consequential changes). It is intended that by December 31, 2023, an updated industry agreement will be executed between New SRO and CIPF.

## **10. ASSISTANCE TO NEW SRO**

Relevant Criteria: ***Assistance to the SRO***

*CIPF must assist the SRO when an SRO Member is in or is approaching financial difficulty. Such assistance will be provided in any way CIPF determines to be appropriate.*

### **10.1 Industry Agreement**

When an SRO Member (other than mutual fund dealers that exclusively maintain customer accounts located in Québec) is considered to be in financial difficulty by CIPF, CIPF may recommend to New SRO to take such action with respect to such SRO Member which is reasonable in the circumstances (and which is not contrary to law or to the requirements or order of any securities regulatory authority having jurisdiction in the matter) or take its own appropriate action as agreed to in the Industry Agreement.

## **11. COLLECTION OF INFORMATION**

Relevant Criteria: ***Collection of Information***

*Subject to applicable legislation, CIPF must:*

- a) collect, use and disclose personal information only to the extent reasonably necessary to carry out CIPF regulatory activities and CIPF Mandate; and*
- b) protect personal information and confidential business information in its custody or under its control.*

## **11.1 Privacy Policies**

CIPF will implement, through codes of conduct and otherwise, privacy policies that comply with applicable Canadian personal information legislation.

## **12. INFORMATION SHARING AND REGULATORY COOPERATION**

Relevant Criteria: *Information Sharing and Regulatory Cooperation*

- a) *CIPF must provide the Commission<sup>1</sup> with reports, documents and information as the Commission or its staff may request.*
- b) *CIPF shall have mechanisms in place to enable it to share information and otherwise co-operate with the Commission.*

### **12.1 Cooperation with the Commission**

CIPF will provide to the Commission such reports, documents and information as the Commission or its staff may request. CIPF will have procedures and mechanisms in place to share information and otherwise co-operate with the Commission.

## **13. ONGOING REPORTING REQUIREMENTS**

Relevant Criteria: *Ongoing Reporting Requirements*

*CIPF must comply with the reporting requirements set out in Schedule B of this Approval Order, as amended from time to time by the Commission.*

### **13.1 Reporting to the Commission**

CIPF will have procedures and mechanisms in place to meet the reporting requirements of the Commission referenced in Schedule B to the Approval Order.

## **14. APPROVAL OF AMENDMENTS**

Relevant Criteria: *Approval of Amendments*

- (a) *Prior Commission approval is required for any amendment to the following:*

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<sup>1</sup> “Commission” refers to any Regulator in its draft Approval or Acceptance Order.



- (i) *CIPF's Coverage Policies; or*
- (ii) *[CIPF's by-laws.*
- (b) *Prior Commission approval is required for any material change to the Industry Agreement. A material change is one that directly affects the CIPF Mandate.*
- (c) *When seeking Commission approval of any amendments or material change pursuant to (a) or (b) above, CIPF must comply with the processes outlined in Schedule B of the MOU, as amended from time to time.*

#### **14.1 Commission Approval**

CIPF will seek Commission approval prior to making any amendment to its Coverage Policies or by-laws. Prior Commission approval will be obtained prior to any amendment to the Industry Agreement that directly affects the CIPF Mandate. When seeking such approval, CIPF will comply with the processes outlined in Schedule B of the MOU, as amended from time to time.

#### **15. REVOCATION OF FORMER APPROVAL OR ACCEPTANCE ORDERS**

The approval, designation or consideration, as the case may be, of the Regulators in respect of CIPF will become effective on the effective date of the Amalgamation and will fully replace all approval or acceptance orders currently in effect with respect to Former CIPF and MFDA IPC. The Applicants believe that the revocation of the current orders will promote full public transparency and clarity, especially in light of the similarity in name of CIPF with that of Former CIPF. For these reasons, the Applicants respectfully request that this be considered an application for revocation, in accordance with appropriate CSA securities legislation, of all current approval or acceptance orders applicable to the Applicants, effective upon the date of the Amalgamation and the effectiveness of the new Approval Orders.

#### **16. SUBMISSIONS**

The Applicants respectfully submit that the proposed structure, policies and operations of CIPF satisfy the Criteria and request that CIPF be approved/accepted as a customer compensation/contingency fund under the Legislation. The Applicants respectfully request that all current approval or acceptance orders applicable to the Applicants be revoked on the effective

date of the Amalgamation and the effectiveness of the new Approval Orders. The Applicants consent to the publication of this application by any of the Regulators.

Yours very truly,



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Rozanne Reszel  
President & CEO  
Canadian Investor Protection Fund



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Odarka Decyk  
President  
MFDA IPC

**Schedule 1**

**By-Law No. 1 of CIPF**

**Schedule 2**  
**Coverage Policy**

**Schedule 3**  
**Claims Procedures**

## **Schedule 4**

### **Appeal Committee Guidelines**

**Schedule 5**  
**Disclosure Policy**