

ALBERTA SECURITIES COMMISSION

APPROVAL ORDER

Canadian Investor Protection Fund (CIPF)

Background

1. Pursuant to Section 28(2) of the *Alberta Securities Commission Rules (General)*, every broker, investment dealer, and mutual fund dealer must participate in and contribute to a compensation fund or contingency trust fund approved by the Executive Director under subsection (1);
2. The Canadian Investor Protection Fund (**CIPF**) was established by sponsoring self-regulatory organizations (SROs); currently, the Investment Industry Regulatory Organization of Canada (**IIROC**) (formerly the Investment Dealers Association of Canada (**IDA**)) is the only sponsoring SRO of the CIPF;
3. The Alberta Securities Commission (**Commission**) has recognized IIROC as an SRO under Section 64 of the Act;
4. The CIPF, the IDA, The Toronto Stock Exchange Inc., TSX Venture Exchange Inc. and Bourse de Montréal Inc. entered into an agreement dated December 14, 2001 (**Original Industry Agreement**), pursuant to which the CIPF, among other things, provides certain financial compliance oversight of these SROs and financial examination of members of these SROs;
5. IIROC became a party to the Original Industry Agreement as of June 1, 2008;
6. The parties to the Original Industry Agreement wish to terminate and replace the agreement with an agreement between the CIPF and IIROC as the Sole SRO (**Industry Agreement**) that reflects the realignment of their respective regulatory roles and responsibilities, including the elimination of the CIPF's SRO oversight role and member examination functions;
7. The Industry Agreement contemplates that other SROs may become parties to the Industry Agreement (together with IIROC, **Participating SROs**);
8. Pursuant to the Industry Agreement, the Participating SROs must levy assessments on their members (**Member Firms**) and the Participating SROs must pay to the CIPF the amount of these assessments;
9. The CIPF entered into a Memorandum of Understanding (**MOU**) with twelve of the members of the Canadian Securities Administrators (**CSA**). The CIPF also entered into a

MOU with the Commission des valeurs mobilières du Québec (now, the Autorité des marchés financiers (**Autorité**)). The CIPF and the twelve members of the CSA have amended and restated the MOU to reflect the proposed realignment of regulatory roles and responsibilities as between the CIPF and its Participating SROs. The Autorité has rescinded its MOU with the CIPF and has become a party to the amended and restated MOU between the CSA and the CIPF;

10. The CIPF provides protection on a discretionary basis to prescribed limits to eligible customers (Customers) of Participating SRO Member Firms suffering losses if Customer property comprising securities, cash and other property held by such Member Firms is unavailable as a result of the insolvency of the Member Firm and, in connection with such coverage, will engage in risk management activities to minimize the likelihood of such losses (**CIPF Mandate**);

Decision

11. Based on the application of the CIPF and the representations and undertakings the CIPF has made to the Executive Director, the Executive Director is satisfied that the approval of the CIPF would not be prejudicial to the public interest;
12. Effective September 30, 2008, the Executive Director grants the approval of the CIPF as a compensation fund pursuant to Section 28(1) of the Rules (**Approval Order**), subject to the terms and conditions set out in Schedule A.

November 19, 2008

“original signed by”

David C. Linder
Executive Director
Alberta Securities Commission

Schedule A – Terms and Conditions

1. Authority and Purpose

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

2. Corporate Governance

- (a) The board of directors for the CIPF (Board of Directors) must be selected in a fair and reasonable manner and must fairly represent the interests of all Member Firms and their Customers and properly balance the interests of Member Firms and their Customers.
- (b) The Board of Directors must be composed of an equal number of Industry Directors and Public Directors, as defined in the CIPF's By-law Number 1, together with the Chair and the President and Chief Executive Officer of the CIPF.
- (c) The CIPF's governance structure must provide for:
 - (i) fair and meaningful representation on the Board of Directors and any committees of the Board of Directors, having regard to the differing interests between Member Firms and their Customers;
 - (ii) appropriate representation of persons independent of the Participating SROs or any of their Member Firms or of any affiliated or associated company of such Member Firm on the CIPF committees and on any executive committee or similar body;
 - (iii) appropriate qualification, remuneration, conflict of interest provisions and limitation of liability and indemnification protections for directors and officers and employees of the CIPF generally; and
 - (iv) an audit committee, the majority of which must be made of Public Directors.
- (d) The CIPF must file any changes to the CIPF's By-law Number 1 with the Commission for prior approval, according to the provisions of the MOU between the CSA and the CIPF.

3. Funding and Maintenance of the CIPF

- (a) The CIPF must institute a fair, transparent, and reasonable method of establishing assessments for each Member Firm's contribution. The assessments must:
 - (i) be allocated on an equitable basis among Member Firms and may be based on the amount of risk a Member Firm exposes the CIPF fund (Fund) to; and

- (ii) balance the need for the CIPF to have sufficient revenues to satisfy claims in the event of an insolvency of a Member Firm and to have sufficient financial resources to satisfy its operations costs against the goal that there be no unreasonable financial barriers to becoming a member of an SRO.
- (b) The CIPF must make all necessary arrangements for the notification to Member Firms of the CIPF assessments and the collection of such assessments, either directly or indirectly through a Participating SRO.
- (c) The Board of Directors of the CIPF must determine the appropriate level of assets for the CIPF. The Board of Directors will conduct an annual review of the adequacy of the level of assets, assessment amounts, and assessment methodology and will ensure that the level of assets of the CIPF remains, in its opinion, adequate to cover potential claims.
- (d) Moneys in the Fund must be invested in accordance with policies, guidelines or other instruments approved by the Board of Directors, who will be responsible for regular monitoring of the investments. All moneys and securities must be held by a qualified custodian, which are those entities considered suitable to hold securities on behalf of a Member Firm, for both inventory and client positions, without capital penalty, pursuant to the bylaws, rules or regulations of the Participating SROs.
- (e) The CIPF must implement an appropriate accounting system, including a system of internal controls for maintaining CIPF assets.

4. Customer Protection

- (a) The CIPF must establish and maintain coverage policies (Coverage Policies) to provide for fair and adequate coverage, on a discretionary basis, for all Customers of Member Firms, who are not ineligible claimants as determined pursuant to the Coverage Policies, for losses of property comprising securities, cash, and other property held by Member Firms resulting from the insolvency of a Member Firm.
- (b) The Coverage Policies must include fair and reasonable policies for assessing claims made to the CIPF. The CIPF will respond as quickly as practicable in assessing and paying claims made pursuant to those policies.
- (c) The CIPF must establish within its Coverage Policies a fair and reasonable internal claim review process whereby claims that are not accepted for payment by the CIPF staff or by an appointed committee will be reconsidered by the Board of Directors or a review panel of one or more Directors, if requested by a Customer of a Member Firm or by the CIPF staff. The Coverage Policies must include criteria established by the Board of Directors for the selection of the review panel members, including criteria that no Director involved in the initial decision will be involved in reconsidering that decision.
- (d) The CIPF must adequately inform Customers of Member Firms, either directly or indirectly through a Participating SRO, of 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.

5. Financial and Operational Viability

The CIPF must maintain adequate financial and operational resources, including adequate staff resources or external professional advisers, to permit the CIPF to exercise its rights and perform its duties under the MOU between the CSA and the CIPF and this Approval Order and to conduct Member Firm reviews as required pursuant to Article 4 of the MOU.

6. Risk Management

The CIPF must ensure that it has policies and procedures, including a process to identify and request all necessary information from a Participating SRO, in order for the CIPF to:

- (a) fulfill its mandate and manage risks to the public and to CIPF assets;
- (b) assess whether the prudential standards and operations of the CIPF are appropriate for the coverage provided and the risk incurred by the CIPF; and
- (c) identify and deal with Member Firms that may be in financial difficulty.

7. Agreement between the CIPF and the IDA

The CIPF must enter into and comply with the Industry Agreement signed with the IDA and any Participating SRO.

8. Assistance to Participating SRO

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

9. Collection of Information

The CIPF must, subject to applicable legislation, collect, use and disclose personal information only to the extent reasonably necessary to carry out the CIPF Mandate.

10. Memorandum of Understanding

The CIPF must comply with the MOU between the CSA and the CIPF that takes effect on September 30, 2008.