

## What Protects You if Your Investment Dealer Becomes Insolvent?

In the event that your investment broker/dealer becomes bankrupt, the Canadian Investor Protection Fund (CIPF) will facilitate transferring your account (along with its associated assets) to a solvent firm. CIPF's primary role is to ensure your assets are transferred and that the associated costs are covered.

The CIPF was established by and is financed by the Canadian securities industry self-regulatory organizations (SROs). You can find a list of members on their website, <http://www.cipf.ca>.

Even though your investment broker/dealer may purchase your investment assets on your behalf, these investment securities are electronically recorded at a third party such as Canadian Depository Securities as belonging to you. In the event of an investment broker's bankruptcy, it is necessary to transfer this duty to another broker so your assets are available to you again.

Each investor is guaranteed a minimum coverage of \$1,000,000 for their cash and securities held at a CIPF Member in the event of bankruptcy. The final coverage amount will be dependant on the wrap-up details for the bankrupt firm. This coverage is generally well in excess of \$1,000,000.

Investors automatically receive coverage when they open an account with an investment broker/dealer that is a member of the CIPF.

Losses covered	Losses not covered
<p>The following investments held in your account at a CIPF Member firm:</p> <ul style="list-style-type: none"> <li>• Securities</li> <li>• Cash balances</li> <li>• Commodities</li> <li>• Futures contracts</li> <li>• Segregated insurance funds received, acquired or held by the CIPF Member in an account for the customer</li> </ul>	<ul style="list-style-type: none"> <li>• Losses due to:               <ul style="list-style-type: none"> <li>○ Changing market values of securities</li> <li>○ Unsuitable investments</li> <li>○ Default of an issuer of securities</li> </ul> </li> <li>• In accounts of customers related to business financing purposes of a CIPF Member, such as securities lending and purchase/repurchase transactions</li> <li>• Where the customer has not filed a claim with CIPF or the trustee in bankruptcy of the insolvent CIPF Member within 180 days of the date of insolvency</li> <li>• Securities or segregated funds that are not held by a CIPF Member or recorded in a customer's account as being held by a Member</li> </ul>

General investment accounts for the same client are combined and treated as one account for purposes of the coverage.

Accounts	CIPF Coverage												
<p>For example, Bill has the following non-registered investment accounts in his name with his broker:</p> <table border="0" style="width: 100%;"> <thead> <tr> <th style="text-align: left;">Account</th> <th style="text-align: right;">Value</th> </tr> </thead> <tbody> <tr> <td>• Option account</td> <td style="text-align: right;">\$800,000</td> </tr> <tr> <td>• Cash account</td> <td style="text-align: right;">\$200,000</td> </tr> <tr> <td>• Margin account</td> <td style="text-align: right;">\$700,000</td> </tr> <tr> <td>• Margin-short account</td> <td style="text-align: right;"><u>(\$100,000)</u></td> </tr> <tr> <td></td> <td style="text-align: right;">\$1,600,000</td> </tr> </tbody> </table>	Account	Value	• Option account	\$800,000	• Cash account	\$200,000	• Margin account	\$700,000	• Margin-short account	<u>(\$100,000)</u>		\$1,600,000	<p>Even though the total market value of the accounts is \$1.6 million, only \$1 million is guaranteed to be covered.</p> <p>As noted above, the approach to wrapping up bankrupt firms generally allows for clients with balances well in excess of \$1 million to be fully covered.</p>
Account	Value												
• Option account	\$800,000												
• Cash account	\$200,000												
• Margin account	\$700,000												
• Margin-short account	<u>(\$100,000)</u>												
	\$1,600,000												

If you have any of the following types of accounts, you will be happy to know they are eligible for separate CIPF coverage. They are not consolidated together for the purpose of assessing your CIPF coverage.

- The combination of all registered retirement plans including 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)
- Registered Education Savings Plans (RESPs)
- Joint accounts
- Personal holding corporation accounts
- Trust accounts including: Testamentary trusts and Inter-vivos trust and trusts imposed by law
- Partnership accounts
- Unincorporated associations or organizations

Accounts	CIPF Coverage										
<p>In addition to non-registered investment accounts detailed above, Bill also has these registered accounts with his broker:</p> <table border="0" style="width: 100%;"> <thead> <tr> <th style="text-align: left;">Account</th> <th style="text-align: right;">Value</th> </tr> </thead> <tbody> <tr> <td>• RRSP</td> <td style="text-align: right;">\$800,000</td> </tr> <tr> <td>• RRIF</td> <td style="text-align: right;">\$500,000</td> </tr> <tr> <td>• RESP</td> <td style="text-align: right;"><u>\$200,000</u></td> </tr> <tr> <td></td> <td style="text-align: right;">\$1,500,000</td> </tr> </tbody> </table>	Account	Value	• RRSP	\$800,000	• RRIF	\$500,000	• RESP	<u>\$200,000</u>		\$1,500,000	<p>In addition to the \$1 million coverage for his non-registered accounts, Bill would also have separate coverage as given below:</p> <ul style="list-style-type: none"> <li>• RRSP/RRIF: \$1 million (registered retirement plan accounts are combined and subject to maximum)</li> <li>• RESP: \$200,000 (full coverage)</li> </ul> <p>As noted above, the approach to wrapping up bankrupt firms generally allows for clients with balances well in excess of \$1 million to be fully covered.</p>
Account	Value										
• RRSP	\$800,000										
• RRIF	\$500,000										
• RESP	<u>\$200,000</u>										
	\$1,500,000										

Although bankruptcies of investment brokers/dealers don't happen very often, it should be reassuring to know that the CIPF is there to help protect you in the event one does.

You can learn more about CIPF on their website, [www.cipf.ca](http://www.cipf.ca).

\*\*\*\*\*

This was the second of RetirementAdvisor.ca's three-part series on the safety of your assets:

[Part I CDIC](#) : What happens to your savings if your Bank or Financial Institution becomes bankrupt?

**Part II CIPF: What protects you if your investment dealer goes bankrupt?**

[Part III Assuris](#): What happens if your life insurer goes bankrupt?

Author: Teena Dawson, [www.teenadawson.com](http://www.teenadawson.com)

© 2001-2009 RetirementAdvisor.ca Inc. All rights reserved.