

Executive Summary

In April and May of 2017 Home Capital Group Inc faced a liquidity crisis, and began a series of steps and borrowings to solidify its deposit base, meet debt obligations and redefine its business plan. In June, Warren Buffet, the world's preeminent value investor bought-in and provided Home Capital with a significant boost in confidence, and needed cash to meet its obligations.

Across Canada investors wondered about the safety of their Home Capital, Home Trust, Oaken savings accounts and GICs.

These firms operate in, arguably, the most heavily regulated industry in Canada. They are subject to continuous scrutiny by inspectors, regulators and the marketplace. The financial services industry also affords protection through the Canadian Deposit Insurance Corporation (CDIC), the Canadian Investor Protection Fund (CPIF), and the Mutual Fund Dealers Association Investor Protection Corporation (MFDA IPC).

Each of these organizations protect investors' capital from insolvency of member firms, not fraud, market changes in value or poor advice.

In Quebec, the Chambre de la securite financiere (CSF) provides protection for its mutual fund dealer members. The coverage and protections provided by the CSF are not explained here, but function similarly.

For a complete understanding of rules and conditions consult the organizations (CDIC, CPIF, MFDA IPC) directly, or speak to me. This article is a summary, it is intended to be used for information purposes only, and cannot be relied upon solely in its shortened, written form.

What you need to know

Each organization provides different levels of coverage to different member firms' clients.

Canada Deposit Insurance Corporation

CDIC insures deposits at each member institution up to a maximum of \$100,000 (principal and interest combined) per depositor per insured category.

To be eligible for deposit insurance, deposits must be payable in Canada and in Canadian currency. Foreign currency deposits, including US dollars, are not covered.

Eligible deposits include:

- Savings accounts
- Chequing accounts
- Term deposits, (such as GICs) with original terms to maturity of five years or less
- Debentures issued to evidence deposits by CDIC member institutions (other than banks)



Protection for Investors and Depositors in Canada

- Money orders and bank drafts issued by CDIC members
- Cheques certified by CDIC members

Uninsured financial products include:

- mutual funds (including money market funds), stocks and bonds
- term deposits, such as GICs, with original terms to maturity greater than five years
- foreign currency deposits (e.g., U.S. dollars);
- treasury bills and bankers' acceptances
- Principal Protected Notes that are traded
- debentures issued by banks, governments or corporations
- deposits with receipts payable to bearer (rather than to a named person);
- deposits held at financial institutions that are not CDIC members

Under the *CDIC Deposit Insurance Information By-law*, member institutions must notify depositors when a deposit (or deposit-like) product is not eligible for insurance. For example, if a term deposit is in a foreign currency, the deposit certificate or receipt must state that it is not insured by CDIC.

The CDIC member firms can be found at <http://www.cdic.ca/en/about-di/what-we-cover/Pages/list-members.aspx>

Canadian Investor Protection Fund

If you meet the four criteria below, you are eligible for CIPF protection:

1. You have an account with a member firm that is disclosed in the records of the firm
2. The member firm has become insolvent
3. The firm, because of its insolvency, has failed to return or account for property it was holding on your behalf on the insolvency date
4. You are not considered ineligible for coverage under the CIPF Coverage Policy (see below)

There is no requirement that you live in or be a citizen of Canada.

A member firm is an investment dealer that is a member of IIROC (Investment Industry Regulatory Organization of Canada). Investment dealers that are members of IIROC are also automatically members of CIPF. A list of member firms is available here

<https://www.cipf.ca/Public/MemberDirectory/CurrentMembers.aspx>

Mutual Fund Dealers Association Investor Protection Corporation



The MFDA IPC covers customers who incur losses as a result of the insolvency of an MFDA Member Firm. Loss of customer assets may take the form of shortfalls in the amount and type of assets which are held by the Member Firm at the time of insolvency. The MFDA IPC's objective is to return assets to customers or compensate customers when the assets are not available because the Member Firm has become insolvent.

Coverage is available in the amount of up to \$1 million for each of a customer's general and separate accounts. Most customers will have two "accounts" for coverage purposes, the aggregate of their trading accounts (general account) and the aggregate of their registered retirement accounts, such as RRSPs and RIFs (separate account). Securities, cash and other property of the customer that are unavailable due to the insolvency of the Member Firm are covered by the MFDA IPC.

Customer losses which do not result from the insolvency of a Member Firm such as losses that result from changing market value of securities, unsuitable investments or the default of an issuer of securities, are not covered.

The MFDA IPC's coverage of losses sustained by customers of insolvent Member Firms is within the discretion of the MFDA IPC. The Coverage Policy has been adopted to define the way in which the MFDA IPC uses its discretion to determine whether a customer is eligible for protection and the amount of that protection is available here http://mfda.ca/wp-content/uploads/IPC_Cov_Pol-1.pdf

MFDA IPC member firms are <http://mfda.ca/members/directory-of-members/>

The Bottom Line

If you are concerned, or would like to discuss the protection that these facilities provide, even for deposits held elsewhere, do not hesitate to arrange an appointment to examine your situation.

