



CDIC

Canada Deposit
Insurance Corporation

**COMPLIMENTARY CONTINUING EDUCATION COURSE
FOR FINANCIAL ADVISORS**

PROTECTION FOR YOUR CLIENTS UP TO \$100,000 FOR ELIGIBLE DEPOSITS

CE Module

OBJECTIVE

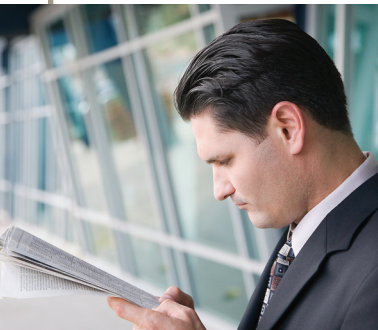
Many investors are unaware of the benefits provided by the Canada Deposit Insurance Corporation (CDIC) should a member institution fail. By communicating these benefits to your clients, you can reassure them that all or a portion of their life savings will be protected if the financial institution that holds their eligible deposits becomes insolvent and is a member of CDIC. CDIC has prepared a simple continuing education module for financial advisors that includes an examination component.

CE CREDITS

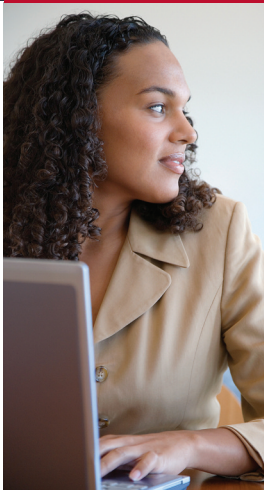
- The CDIC's Complimentary Continuing Education Course for Financial Advisors is accredited for one credit hour by Advocis, the IQPF and CSF, and 0.50 credit hour with IIROC.

INSTRUCTIONS

This course is a simple "read and learn" program. The examination component is composed of 16 multiple-choice questions. The questions are based on material found in the course, many of which are word-for-word. Certificates will be issued electronically.



Valuable information
for your clients



On June 4, 1996, about 2,600 Canadians discovered that their savings were not immediately available from their financial institution. They had entrusted a total of \$42 million in deposits to Calgary-based Security Home Mortgage Corporation, which had now closed its doors for good. The news must have momentarily sent a shiver of fear through each one of this financial institution's clients. Fortunately, this failed financial institution was a member of the Canada Deposit Insurance Corporation (CDIC) and CDIC made payment of all insured deposits.

Knowing that their savings are protected against failure helps Canadians feel confident about keeping their savings in banks and other financial institutions that are CDIC members. Since its creation in 1967, CDIC has stepped in to help depositors following the failure of 43 member institutions like Security Home. In fact, during the past four decades, it has protected more than two million people holding about \$26 billion in insured deposits at these failed institutions.

Yet many investors are unaware of the benefits of CDIC insurance when a member institution fails. By communicating these benefits to your clients, you can reassure them that all or a portion of their life savings will be protected if the financial institution that holds their eligible deposits becomes insolvent.

WHAT IS CDIC?

CDIC is a federal Crown corporation created by Parliament. It provides insurance to depositors against the loss, in whole or in part, of deposits made at member institutions, namely banks, trust companies, loan companies and cooperative credit associations that have CDIC membership, in the event of their failure.

It is important to note that some financial institutions that take deposits are NOT members of CDIC—for example, credit unions and caisses populaires, Canadian branches of foreign banks and some Canadian chartered banks. Deposits with credit unions and caisses populaires may be covered by provincial deposit insurance programs. Canadian branches of foreign banks, and those Canadian chartered banks that are not CDIC members are required by law to inform depositors that they are not CDIC members and that savings at such banks are not insured.

A complete list of CDIC member institutions is available at www.cdic.ca



CDIC does not receive federal tax dollars to finance its operations and any necessary payments to depositors. Instead, its funding comes directly from the premiums paid by member institutions. CDIC is accountable to Canada's Parliament through the Minister of Finance. The Corporation's actions are governed by the *Canada Deposit Insurance Corporation Act*, which describes CDIC's mandate and powers. CDIC is also empowered to pass its own by-laws dealing with various matters. CDIC is an internationally recognized deposit insurer and many countries have been eager to learn from CDIC's experience as they adopt their own deposit insurance to protect small depositors and maintain confidence in institutions that accept deposits.

WHAT'S COVERED?

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

To be eligible for deposit insurance, deposits must be payable in Canada, and in Canadian currency. As a general rule, a deposit is considered to be payable in Canada if it is held at a branch or office of a CDIC member institution in Canada.

Eligible deposits include savings accounts, chequing accounts, GICs or other term deposits with an original term to maturity of five years or less, money orders, certified cheques and bank drafts issued by CDIC members, and debentures issued by loan companies that are CDIC members.

WHAT'S NOT COVERED?

Not all deposits and financial products held at CDIC member institutions are insurable. The following are examples of what is NOT covered by CDIC deposit insurance:

- U.S. and other foreign currency deposits;
- term deposits longer than five years;
- corporate or government bonds, debentures and notes;
- treasury bills (T-bills);
- bankers' acceptances;
- principal protected notes;
- investments in mortgages;
- stocks; and
- mutual funds.

HOW DOES CDIC CALCULATE INSURANCE?

Many people deposit money into more than one account or financial product. For example, you might have a personal chequing account, a joint savings account with a spouse, as well as a GIC that is registered in an RRSP. CDIC takes this into account. We insure eligible deposits SEPARATELY (up to \$100,000, including principal and interest) for EACH of the following:

- Savings held in one name (personal, business or other organization),
- Savings held in more than one name (joint deposits),
- Savings held in trust,
- Savings held in an RRSP,
- Savings held in a RRIF,
- Savings held in TFSAs, and
- Savings held for paying realty taxes on mortgage payments.

Savings Held in One Name

CDIC deposit insurance covers money held in eligible accounts and financial products in the name of one depositor—for example, an individual, an association of persons, a partnership, a corporation or a government.

Up to \$100,000 of the total amount in savings accounts, chequing accounts, GICs or other term deposits with an original term to maturity of five years or less, money orders, certified cheques and bank drafts issued by CDIC members, and debentures issued by loan companies that are CDIC members, ***all held in the same name***, are covered. These deposits must be held in ***Canadian dollars*** at a ***CDIC member***.

EXAMPLE

Your client has the following deposits at a CDIC member institution:

- Canadian-dollar savings account worth \$15,000, including interest earned
- five-year GICs worth \$20,000, including interest earned
- U.S.-dollar savings account worth \$10,000
- mutual fund investments worth \$15,000.

Only the Canadian-dollar savings account and five-year GICs are eligible for deposit insurance, so your client will receive \$35,000 if the institution fails.

Savings Held in More Than One Name (Joint Deposits)

Separate deposit insurance coverage is provided for eligible deposits held in more than one name (joint deposits) up to a maximum of \$100,000.

CDIC deposit insurance covers money held in eligible joint accounts and financial products. Married couples, a parent and child, and business partners are

all examples of people who might have a joint account or financial product.

CDIC covers up to \$100,000 of the total amount in savings accounts, chequing accounts, GICs or other term deposits with an original term to maturity of five years or less, money orders, certified cheques and bank drafts issued by CDIC members, and debentures issued by loan companies that are CDIC members, ***all held (jointly) in the same names***. These deposits must be held in ***Canadian dollars*** at a ***CDIC member***.

In order for this separate deposit insurance coverage to apply, the records of the member institution must show that the deposit is jointly owned and contain the names and addresses of each of the joint owners.

EXAMPLE

Your client has the following joint deposits at a CDIC member institution:

- eligible deposits worth \$75,000 held with a spouse
- eligible deposits worth \$75,000 held with a spouse and a child
- eligible deposits worth \$125,000 held with two business partners.

The \$75,000 held by your client jointly with a spouse is eligible for separate deposit insurance. So is the \$75,000 held jointly with the spouse and a child. In addition, \$100,000 of the \$125,000 held jointly with the two business partners is protected. A total of \$250,000 of your client's joint deposits will be reimbursed if the institution fails, payable to each set of joint owners (NOT to each individual joint owner).

Savings Held in Trust

Separate deposit insurance coverage is provided for eligible deposits held in trust up to a maximum of \$100,000.

CDIC deposit insurance covers money in eligible accounts and financial products held in trust for another person or persons. For example, a grandmother (the trustee) might deposit money in trust for her grandson (the beneficiary) to use when he is an adult. Eligible deposits held in trust for another person (or persons) are insured separately from other deposits held by the trustee or a beneficiary in his/her own name at the same CDIC member, to a maximum of \$100,000.

CDIC covers up to \$100,000 of the total amount in the savings accounts, chequing accounts, GICs or other term deposits with an original term to maturity of 5 years or less, money orders, certified cheques and bank drafts issued by CDIC members, and debentures issued by loan companies, *all held in trust for the same beneficiary*. These deposits must be held in *Canadian dollars* at a *CDIC member*.

Depositors can check with their member institution to find out which eligible deposits the institution offers.

It should be noted that for this protection to apply to trust deposits, there must be a legal trust as determined by trust law in the province where the trust is established. In addition, certain other criteria must be met, as follows: For the separate deposit insurance protection to apply to a deposit in trust, the records of the CDIC member institution must:

- (i) contain the name and address of the trustee (or of each one, if there are co-trustees),
- (ii) indicate that the deposit is held in trust, and
- (iii) contain the name and address of the beneficiary (or of each one, if there is more than one).

In addition, if there is more than one beneficiary of the trust, the records of the CDIC member institution must:

- (iv) show, by no later than May 30th in each year, the interest of each of the beneficiaries as at April 30th of that year, stated as a dollar amount or a percentage (which includes a fraction, share or other statement that is readily translated into a percentage).

EXAMPLE

Your client has the following deposits at a CDIC member institution:

- He/She is the trustee of a family trust, and in that capacity, holds a five-year term deposit worth \$250,000 for the benefit of Mary and Ron Jones. The CDIC member institution has a copy of the

trust deed, which shows that Mary is entitled to 60% and Ron is entitled to 40%.

- He/She is the executor of the estate of his late brother, Fred Jones, and in that capacity holds a savings account for the benefit of the sole heir Sue Jones, worth \$25,000.
- He/She has a chequing account worth \$15,000 and a three-year term deposit worth \$90,000.

The eligible deposits held in trust for Mary and Ron 60-40 would be eligible for separate coverage and would be insured up to \$100,000 in respect of each beneficiary (\$200,000 in total). The \$25,000 your client holds in a savings account in trust (as executor) for Sue would be eligible for separate coverage up to \$100,000. The \$15,000 your client holds in a chequing account and the \$90,000 in a three-year term deposit, which total \$105,000, would be eligible for separate coverage, also up to \$100,000.

Savings Held in an RRSP or RRIF

Separate deposit insurance coverage is provided for eligible deposits held in Registered Retirement Savings Plans (RRSPs) or Registered Retirement Income Funds (RRIFs) up to a maximum of \$100,000.

Where the same person has both an eligible RRSP deposit and an eligible RRIF deposit at the same CDIC member institution, each is entitled to its own separate CDIC protection.

RRSPs and RRIFs can be structured in two different ways, in that a plan may or may not involve a trust company acting as the trustee of investments held in the plan.

RRSPs and RRIFs **that do not have a trustee** can be issued by banks, loan companies and cooperative credit associations. An RRSP or a RRIF of this type can **ONLY** hold one or more deposits with the plan issuer.

The “depositor” of an eligible deposit held in a RRSP or RRIF that does not involve a trustee is the plan owner.

RRSPs and RRIFs **that have a trustee** (“trusteed plans”) can only be issued by trust companies (although they can be arranged with trust companies through agency relationships with other financial services providers including banks, loan companies and cooperative credit associations). A trustee RRSP or RRIF can hold deposits and can also hold a variety of investments that are not eligible for

CDIC protection. ONLY eligible deposits are insurable by CDIC. Eligible deposits include moneys held in savings accounts, GICs or other term deposits with an original term to maturity of five years or less, and debentures issued by loan companies, **all held in an RRSP**. These deposits must be held in **Canadian dollars** at a **CDIC member**.

The “depositor” of an eligible deposit held in a trustee RRSP or RRIF is the trustee.

Therefore, if an individual has both an RRSP or a RRIF that does not involve a trustee and a trustee RRSP or RRIF, and both plans hold eligible deposits at the same CDIC member institution, the eligible deposit in the individual’s name and the eligible deposit in the trustee’s name are not added together. Rather, they are separately insured because there are two different “depositors.”

EXAMPLE (RRSP)

Your client and your client’s spouse have the following RRSP deposits at a CDIC member institution:

- five-year GICs that your client contributed to his/her RRSP worth \$95,000 at maturity
 - three-year GIC that your client contributed to his/her RRSP through XYZ Trust Co. as RRSP-trustee for your client worth \$100,000
 - mutual funds that your client contributed to his/her RRSP worth \$225,000
 - three-year GICs worth \$80,000 at maturity that your client’s spouse contributed to his/her own RRSP
 - three-year GICs worth \$35,000 at maturity that your client contributed to his/her spouse’s RRSP.
- Your client’s mutual fund investments are not protected by CDIC, as mutual funds are not deposits. However, the five-year GIC deposits worth \$95,000 (including interest) in your client’s RRSP are eligible deposits, and are insurable separately from the three-year GIC deposit worth \$100,000 in your client’s trustee RRSP, which is also insurable. Your client’s spouse’s RRSP deposits would be added together (as the spouse is the annuitant of both the deposits contributed by your client to the spousal RRSP and those contributed by the spouse to his/her own RRSP) to determine eligibility ($\$80,000 + \$35,000 = \$115,000$); the maximum total of \$100,000 will be reimbursed if the institution fails, leaving \$15,000 unprotected by deposit insurance.

EXAMPLE (RRIF)

Your client has the following RRIF deposits at a CDIC member institution:

- savings account worth \$8,000
- 60-day term deposits worth \$20,000
- one-year term deposits worth \$50,000
- three-year GIC through XYZ Trust Co. as RRIF trustee for your client, worth \$100,000
- mutual funds worth \$22,000.

Your client’s mutual fund investments are not protected by CDIC, as mutual funds are not deposits. The remaining deposits are eligible for deposit insurance, as follows: the non-trusteed deposits (savings account [\$8,000], sixty-day term deposits [\$20,000] and one-year terms deposits [\$50,000]) totalling \$78,000, are insurable separately from the three-year GIC (\$100,000) in the trustee RRIF.

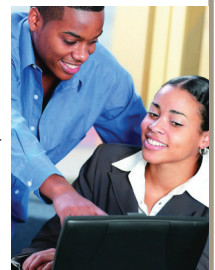
Savings Held in a TFSA

Separate deposit insurance coverage is provided for eligible deposits held in Tax Free Savings Accounts (TFSAs) up to a maximum of \$100,000. Deposits must be held in **Canadian dollars** at a CDIC member.

A TFSA can be structured in two different ways, in that a TFSA may or may not involve a trust company acting as the trustee of investments held in the TFSA.

- TFSAs **that do not have a trustee** can be offered by banks, loan companies and cooperative credit associations. A TFSA of this type can ONLY hold one or more deposits with the issuer. The “depositor” of an eligible deposit held in this type of TFSA is the account owner.
- TFSAs **that have a trustee** can only be offered by trust companies (although they can be arranged with trust companies through agency relationships with other financial services providers, including banks, loan companies and cooperative credit associations). A trustee TFSA can hold deposits and can also hold a variety of investments that are **not eligible for CDIC protection**. ONLY **eligible deposits** are insurable by CDIC.

The “depositor” of an eligible deposit held in this type of TFSA is the trustee. Therefore, the separate deposit insurance for **deposits in trust** can apply. This means that eligible deposits held in a



TFSA that does not have a trustee are not added together with eligible deposits held in a TFSA that has a trustee.

EXAMPLE

Your client has the following TFSA deposits at a CDIC member institution:

- \$15,000 in a two-year GIC and \$70,000 in a savings account, for a total of \$85,000,
- \$95,000 in a one-year GIC and \$25,000 in a savings account in a trustee TFSA through XYZ Trust Co, for a total of \$120,000.

The \$85,000 in eligible deposits in the non-trustee TFSA would be insured up to a maximum of \$100,000 separately from the eligible deposits in the trustee TFSA, also to a maximum of \$100,000.

Therefore the full \$85,000 would be covered in the non-trustee TFSA and \$100,000 of the \$120,000 would be covered in the trustee TFSA.

Savings Held for Paying Realty Taxes on Mortgage Payments

CDIC deposit insurance covers deposits made toward realty taxes on mortgaged properties held in Canadian dollars at a CDIC member. Some people pay monthly installments into a mortgage tax account. Their financial institution draws money from that account to pay municipal taxes on their property. CDIC covers up to \$100,000 held in eligible mortgage tax accounts. The deposits must be held in *Canadian dollars* at a *CDIC member institution*.

EXAMPLE

Your client has two mortgage tax accounts in the same financial institution, as follows:

- \$500 in one mortgage tax account and \$300 in the other, for a total of \$800.

CDIC would add up the amount in both accounts and pay up to \$100,000 of the total. Therefore, your client would get \$800 from CDIC.

WHAT HAPPENS WHEN TWO INSTITUTIONS MERGE?

CDIC insures eligible deposits at each CDIC member institution up to a maximum of \$100,000 (principal and interest combined) per depositor (or, in the case of

VISIT www.cdic.ca FOR MORE INFORMATION

You and your clients can find valuable additional information about CDIC and deposit insurance at www.cdic.ca, including a Deposit Insurance Calculator, an up-to-date list of CDIC member institutions, a news archive and a variety of online publications. The website also features links to other organizations that may be of interest to advisors and their clients, including Canadian supervisory organizations for financial institutions, provincial deposit insurance corporations, other consumer financial agencies and international organizations.

joint deposits, **per set of joint owners**), for each of the following:

- savings held in one name,
- joint deposits (savings held in more than one name),
- savings held in trust for another person,
- savings held in Registered Retirement Savings Plans (RRSPs),
- savings held in Registered Retirement Income Funds (RRIFs),
- savings held in tax-free savings accounts (TFSAs), and
- savings held for paying realty taxes on mortgaged property.

Existing deposit insurance coverage does not change when one CDIC member buys another, or when two or more members join together to become one member institution. Any money that had been deposited before the merger would still be insured at the new member institution.

In the event of a merger of CDIC member institutions, the total of insured deposits made at each institution before the merger continues to be insured separately up to \$100,000. For term deposits, this separate protection applies until they mature. For demand deposits, separate protection remains in effect until the money is withdrawn; that is, it is reduced by the amount of any withdrawals as they occur.

EXAMPLE 1

Your client has the following eligible deposits at the time of amalgamation:

- at member institution A, a total of \$50,000
- at member institution B, a total of \$75,000.

After the amalgamation, the full \$125,000 will continue to be insured—but that amount will

decrease as your client withdraws money or as term deposits mature until the insured deposits at the merged institution reach the \$100,000 maximum. New deposits will not be insured until the total amount of insured deposits that existed at the time of the amalgamation drops below \$100,000.

EXAMPLE 2

Your client has the following eligible deposits at the time of amalgamation:

- At member institution A, a total of \$25,000
- At member institution B, a total of \$45,000.

If your client deposits an additional \$40,000 in the amalgamated institution, he or she will only be insured up to the \$100,000 maximum. A portion of the new deposit—\$10,000—will not be insured.

WHAT HAPPENS WHEN AN INSTITUTION FAILS?

As soon as possible after the failure of a member institution, CDIC sets up a dedicated toll-free number that depositors can call for information and to request an advance payment out of their insured balance if there is some urgent need.

The speed at which depositors will receive their deposit insurance payment will depend primarily on the size and type of financial institution that failed. However, CDIC can pay deposit insurance in interim payments to depositors. For example, CDIC could decide to pay a portion of each depositor's insured balance very quickly and then pay the rest once all the necessary deposit insurance calculations have been completed.

CDIC also sends out letters to depositors explaining how they will receive their reimbursement. Your clients do not have to file a claim to receive this money. Depositors usually receive their payment either by cheque in the mail or by direct deposit into a new account in their name set up by CDIC at another member institution.

In the case of RRSPs and RRIFs, CDIC makes sure it has approval from the Canada Revenue Agency to place the insured funds in new registered plans with a new member institution without triggering the tax consequences of collapsing a registered plan. Payments are deposited into a savings account within an RRSP or

RRIF so that you and your clients can decide how to reinvest the money.

The amount of each insurance payment is based on the member institution's records, but is calculated independently by CDIC. In very rare cases, your clients may be asked to provide proof of their deposits, but on the whole CDIC relies on an audit of the failed institution's books to satisfy itself that the records are complete and reliable.

To speed up the calculation and distribution process, which can be quite complex, CDIC has invested in sophisticated information systems. CDIC also sometimes arranges to examine the books, records and accounts of a member institution in trouble if it believes that preparing to make payments will serve depositors' best interests. An external accounting firm audits the payout process to verify its integrity.

MONITORING AND INTERVENTION

CDIC's mandate is both to provide deposit insurance and to contribute to the stability of Canada's financial system. Member institutions operate within a regulatory environment that is designed to promote sound and prudent practices and, where possible, prevent the failure of institutions.

As part of its own risk management strategy, CDIC gathers and analyzes financial and other information that its members publish or file with their regulator. It also looks closely at reports published by rating agencies. There is a regular exchange of data among CDIC, the Office of the Superintendent of Financial Institutions (OSFI), the Department of Finance and the Bank of Canada that helps all of these organizations stay up to date on the status of CDIC member institutions.

When a potential problem is identified, CDIC and OSFI or the relevant provincial regulator may intervene. CDIC may, for example, ask the member institution to provide additional information, such as financial statements, deposit records, descriptions of deposit systems, details about assets and liabilities, a business plan and other reports, documents and information about the member institution, its subsidiaries and its affiliates.

If an analysis of this additional information leaves CDIC with unanswered questions and continued

concerns—often the case when there are serious liquidity or solvency problems—CDIC may conduct a “special examination” of the member institution. A special examination is an examination of the affairs of a member institution conducted by or on behalf of CDIC for a specified purpose at such times as CDIC may require.

If CDIC is concerned about the solvency or viability of a member institution, it may take various actions, including implementing action plans concerning the amalgamation or sale of the institution or accepting an appointment as liquidator, receiver or inspector of the institution or a subsidiary of the institution.

That said, every member institution is examined at least once a year by OSFI or, in the case of provincial members, a person CDIC designates. If CDIC believes that a member institution is in breach of any CDIC by-laws, or is in breach of any condition of CDIC’s policy of deposit insurance, and the institution fails to demonstrate satisfactory progress in remedying the situation, CDIC may terminate the institution’s deposit insurance policy. The *Canada Deposit Insurance Corporation Act* governs the process and timing of the termination. Deposits cannot be accepted after termination, so this will ultimately lead to the failure of the member institution.

A BRIEF HISTORY OF INSTITUTION FAILURES

Most of the failed institutions with deposits insured by CDIC collapsed in the 1980s and early 1990s. The first, Commonwealth Trust Company, failed just three years after CDIC was formed, in 1970, and was closely followed by Security Trust Company Limited in 1972. But the years when CDIC had to step in most frequently were 1983 and 1985, each of which saw seven institutions fail. Security Home Mortgage Corporation’s collapse in 1996 was the last member institution failure at the time of writing.

TALKING TO CLIENTS ABOUT CDIC

Making an effort to communicate some basic information about CDIC to your clients will give them more confidence in their financial institutions and in you, their advisor. Most importantly, they need to understand which savings are covered by deposit insurance and which are not.

In an unpredictable world, CDIC deposit insurance can provide a measure of security to nervous clients who want to protect all or part of their savings from the possibility that a financial institution will fail — as 43 have since 1967. Ultimately, the objective is not to promote only insured financial products, but to help investors make informed decisions and understand that they have an option that covers a significant sum of money when they place funds in eligible deposits at member institutions, and that separate coverage may protect assets in joint accounts, trust accounts, RRSPs, RRFs, TFSAs and realty tax accounts. Then they can rest assured that, if not all, at least a portion of their hard-earned savings will be underwritten by a federal Crown corporation with a long record of fulfilling its commitments to Canadian depositors.

If your client has detailed questions on deposit insurance, you can invite them to contact CDIC’s toll-free information line at 1-800-461-2342, or you can call CDIC on their behalf to get further details about deposit insurance. Additional information is available to you and your clients at www.cdic.ca where you can find a Deposit Insurance Calculator, an up-to-date list of CDIC member institutions, a news archive and a variety of online publications.

After carefully reading this material,
visit our Continuing Education website at
www.cdic.advisorce.com to answer each question.

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