

ICPM's - OSC Registration - Insurance

Mandatory – Bonding

Consider this like a “fraud” insurance policy formally called a “Form 14 Financial Institution Bond”. Primarily this policy is intended to cover theft by employees of corporate or client funds. The amount of insurance required depends on whether the advisor takes possession of clients’ funds or securities – as more fully delineated here:

http://www.osc.gov.on.ca/Dealers/Requirements/OSA/rrq_20050401_osa-ac-xprovincial.jsp.

An advisor which does not take possession of clients’ funds or securities is required to maintain insurance coverage in the amount of \$50,000 in the form of a Financial Institution Bond 14, with coverage extending to insuring agreements D and E. An advisor which does take possession of clients’ funds or securities is required to carry the same form of insurance to a limit of \$200,000. [These are only minimums!]

- A - Employee Fidelity
- B - Loss of Money & Securities & Property Inside (burglary)
- C - Loss of Money & Securities Outside (delivery)
- D - Loss due to Forged or Altered Negotiable Instruments
- E - Loss due to Forged, Altered, Lost or Stolen Securities
- F - Loss due to Counterfeit Currency

Options can include credit card fraud, funds transfer fraud, computer fraud coverage, and Canada Savings Bond cover.

There are insurance companies that specialize in this form of Bond. A completed application is required to obtain terms – including attached financial statements. Your Form 3 and 1's are required for initial bond issuance.

Potential Impact of CSA Registration standards?

In late February, 2007, the CSA published for comment proposed NI 31-103 – Registration Requirements and accompanying companion policy. Obviously, the impetus for the Proposed Registration Rule is the harmonization and streamlining of the registration regime.

Insurance-wise, to plan effectively, you should be aware that Form 14 Bond Insurance requirements will be similar among dealers, advisers, and investment fund managers. Those that don't have access to client monies will stick with the \$50,000 limit requirement but those that do will have to comply as follows:

A registered adviser that handles, holds, or has access to client cash or assets must maintain a financial institution bond with clauses A to E, in the greater of the following amounts:

- (a) 1% of assets under management, as calculated using the adviser's most recent financial records, or \$25,000,000, whichever is less;
- (b) \$200,000;
- (c) the amount indicated to be necessary by a resolution of the board of directors of the adviser.

In all cases, the amount of insurance will have to be based on a double aggregate limit or a provision for reinstatement to full limits of coverage after a claim is paid.

Not Mandatory - Professional Liability

This coverage, which is not a requirement of the OSC for registration, protects a firm for policy against losses due to negligent acts, error or omissions committed in the scope of their duties as investment counselors/advisors. Those who serve institutional clients find that they insist that the manager have this coverage. Your board might consider it to be highly desirable protection for retail clients too. You can expect Directors & Officers Liability to be tied into the conversation. This coverage is reasonably complex and deserves a case by case analysis and discussion.

To execute any of these items: Charlie Smith or Brooke Hunter 416.323.9300

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