



SIPA has a mission:

- to aid public awareness of how the investment industry operates;
- to provide guidance to those who have a complaint about investments with a bank, broker, financial advisor, or other seller of financial products;
- and to pursue improvement of industry regulation and enforcement.

Small Investor Protection Association - A voice for the small investor

Welcome new members!

You should receive your membership card and your User Name and Password to enable you to access the Member's Pages of SIPA's website at www.sipa.to. If you have not received them please contact SIPA by e-mail or post.

SIPA Sentinel

The SIPA Sentinel is a newsletter for members. It contains material we hope is of interest to members. Members are welcome to submit comments for including in a future issue. From time to time SIPA will be including articles that offer opinions on subjects related to investing and the regulatory system. These are meant to help increase investor awareness, and SIPA may not share these opinions.

OSC Fair Dealing Model

The OSC has published the Fair Dealing Model (FDM) Concept Paper. It is available on the OSC website or hard copies are available for the asking. The OSC has requested comments by April 30th, 2004. Along with many others SIPA had submitted comments during the development of the FDM and these comments are included in the FDM Concept Paper. SIPA will be reviewing the FDM document and will be submitting comments. You can submit comments directly to the OSC or you can make suggestions to SIPA for consideration to be included in SIPA's comments, or both. Have your voice heard! As Glorienne Stromberg has said many times, if small investors do not take action the situation will not improve!

Canadian Securities Committee proposes National Instrument 81-107

The members of the Canadian Securities Administrators (the CSA) are publishing proposed National Instrument 81-107 *Independent Review Committee for Mutual Funds* (the Proposed Rule) for public comment. They will take your comments on the Proposed Rule until April 9, 2004. The document is available on the web or you can contact your provincial securities commission for details. The Proposed Rule appears to weaken the fund governance originally envisioned. See Stromberg's comments in the Star March 23, 2004.

Ken Kivenko, Chair SIPA Advisory Committee, has been heading a mutual fund initiative which includes working with others on a report on mutual funds that is expected to be released in the next couple months, and is responding to issues regarding the mutual fund industry. Ken has reviewed the CSA Proposed Rule and believes there are major negative implications for small investors. Ken has prepared a draft letter for you to send to your provincial member of parliament and it is included on page six of this issue.

The CSA request for comment issued includes a section that states:

"A broad oversight role for the IRC and significant relaxation of product regulation

Our current proposal to introduce fund governance, while eliminating the self-dealing and conflict of interest provisions, is much narrower than what we described in the Concept Proposal. The Concept Proposal set out a very robust system of fund governance in which a group of independent people would oversee all of the fund manager's activities.

Among other things, this group would have been asked to oversee performance, monitor fees, and act as audit committee. Given the level of oversight that would have been provided by this group, we proposed to relax much of the product regulation in NI 81- 102. Our decision to narrow the role of the IRC in the Proposed Rule came largely in response to public comment."

A footnote states "We have replaced the term "governance agency" with "independent review committee" because it is more descriptive and less prone to confusion."

As the comments were mostly from industry participants it is no surprise that the revised proposal is watered down. Investors must learn to speak out. To assist you to do so, Ken has drafted a letter to your provincial member of parliament. We ask that you send this letter to him and support the call for re-consideration of 81-107 and the provision of legislation for investor protection.

Is Regulation better in Quebec?

On February 1, 2004, Quebec unveiled a new Authority that reports to the Minister of Finance and is responsible for investment regulation in Quebec. The CVMQ (Quebec Securities Commission) is integrated into this new authority.

The authority has a Claims Section to which investors can submit claims. They also have a Fund, Fonds d'indemnisation des services financiers (FISF), that enables restitution to be paid to small investors with certain limitations.

These two initiatives are of primary importance for small investors and these changes are consistent with what SIPA has been requesting from our regulatory system. Investor protection by the SROs does not work and the initiative by the Quebec government in establishing this new authority should propel the rest of Canada to take similar action.

What is covered by the Fonds d'indemnisation des services financiers (FISF)?

The FISF covers 3 specific acts in 8 specific sectors

It is important to carefully distinguish acts that qualify for indemnification by the FISF from those that are not.

The role of the Fonds d'indemnisation des services financiers is to provide financial compensation to any person who is the victim of fraudulent acts, deceptive practices, or embezzlement.

FISF compensation is designed to cover these three categories of acts within the scope of the eight sectors regulated by the Act respecting the distribution of financial products and services:

- 1. Insurance of persons (life, health, disability, etc.)*

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2. *Group insurance of persons (insurance offered in the workplace)*
3. *Damage insurance (liability, auto, home insurance, etc.)*
4. *Claims adjustment*
5. *Financial planning*
6. *Group savings plan brokerage (mutual funds)*
7. *Investment contract brokerage*
8. *Scholarship plan brokerage.*

In order for your claim to be eligible, the person to whom you remitted sums of money and who committed the fraud must also hold a valid right of practice at the time of this action. The FISF will verify this point once you have filed your claim for compensation.

If you are wondering whether your situation qualifies among the acts covered by the FISF, or if you would like additional information, feel free to contact the Information and Referral Centre.

Likewise, in order to validate a representative's right to practice or to learn about the other types of recourse provided under the Act respecting the distribution of financial products and services for consumers, please contact an agent of the Information and Referral Centre:

Tel: 1 866 338-FOND (3663)

e-mail: info@fisf.qc.ca

Whistleblower Protection Act

The federal government plans to legislate a new act that will provide protection for federal civil servants who will stand up and tell the truth to expose wrongdoing.

SIPA has written to the Privy Council and requested that the legislation's scope be broadened to include all Canadians. This would help to alert regulators to cases of wrongdoing in the investment industry.

Please take the time to telephone or write your MP and your MPP with support for Whistleblower or TruthTeller protection for all Canadians. Your individual action will help.

Already there are some positive results with individuals coming forward to tell the truth about wrongdoing in the federal government.

Five Year Review ~ the Small Investors' Perspective of Investor Protection in Canada

The SIPA Report was released February 27, 2004 and 25 copies were delivered to leaders across Canada. The Prime Minister, the provincial Premiers, the Chairs of Securities Commissions and several others received copies. A copy was hand delivered to the Chair of the Ontario Securities Commission on February 27th.

The report is based largely on anecdotal evidence gathered over the past five years. There are quotes from over 60 voices in the report. The intent of the report is to make leaders aware of the impact that widespread industry wrongdoing has on small investors and how it effects their lives. Most of the studies and reports on regulation to date have overlooked how Canadian citizens are being compromised by the lack of investor protection. The recent Wise Persons Committee failed to address this important issue. SIPA approached the regulators for statistics regarding complaints but there is no data made available to quantify the losses nor to indicate the age groups most effected.

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The SIPA Report will be available to members on the SIPA website. The report is about 100 pages including an appendix of small investor voices. A copy of the executive summary will be included in the next issue of the SIPA Sentinel.

SIPA Fundraising

In its first five years SIPA has survived with a minimum of funding. Since 1998 SIPA has received a grant of \$10,000 from the Ontario Securities Commission, a \$5,000 donation from a Markham resident, and a grant of \$12,500 from the OSC education fund. The latter enabled SIPA to engage a webmaster to design SIPA's new website and purchase software and hardware to operate the website. The upgraded website resulted in Industry Canada inviting SIPA to participate in the Consumer Gateway program.

Late last year SIPA submitted proposals to Industry Canada for some project funding. This year SIPA will be approaching other organizations for development funding.

SIPA website - www.sipa.to

SIPA plans to revise our website this year. The purpose of our website is twofold:

1. To aid with public awareness of the investment industry
2. To provide information for members

SIPA's website provides information and includes links to media and investment information sources. It is an English language website but there are some links to sites in other languages. Members are requested to let us know which sections you find useful and which you feel are not useful. Let us know what you would like to see on your website. Is there information you believe would be helpful that could be placed on our website? Are there other websites that are helpful to which SIPA could provide links?

Send us your comments so they may be considered when our website is revised.

SIPA has reserved and parked a new URL www.sipa.ca and change over is planned in 2004.

Volunteers

SIPA is looking for volunteers. There are several projects that require computer work, so if you have a computer and use e-mail your location does not matter, you can still provide input. Since last year SIPA's focus is on development. SIPA has become established over five years and now we need to ensure SIPA's sustainability as a voice for the small investor.

Ken Kivenko has been actively pursuing mutual funds, and Rob Kyle has been heading SIPA's funding initiative, and is also involved in the preparation of the mutual fund report. Rob is actively pursuing regulatory issues with government and regulators. Diane Urquhart is supporting SIPA's TruthTeller (whistleblowing) initiative and prepared SIPA's submission to the Privy Council. SIPA now has local representatives in Alberta (Bob Ivkovic) and BC (Bob & Jackie Beehler). Ted Myerscough will be providing webmaster input for SIPA's website.

Need help with writing your MP and MPP?

Rob Kyle is willing to help prepare letters for members who wish to support SIPA initiatives, Contact Rob at 416-925-6230 or e-mail at RobKyle@SIPA.to.

The Toronto Star, Jan. 18, 2004

Hark, RRSP hunting season has begun

BILL CARRIGAN

Investors beware, for this is the beginning of the annual "RRSP Hunting Season" that is sponsored by your local financial institution. They are the hunters and you are the hunted.

Here is how they catch you. You will be told that you have a virus called "MINI-RRSP."

This is a deadly financial illness that prevents you from retiring, and the only cure is early diagnosis by a financial institution. Watch for those early warnings.

According to a TD Waterhouse poll, women avoid risk and have lower expectations for RRSPs. When it comes to RRSP investing, there are significant differences between the sexes in terms of risk tolerance and expected rates of return.

Studies demonstrate that many (women) still lack confidence, and feel they "lack investment knowledge and consider themselves low-risk investors."

I gather the cure for women is to get a Waterhouse account and crank up those trades.

A national survey conducted for Winnipeg-based Investors Group reveals that, if they had to do it over again, many Canadian retirees would have saved more money and begun to do so earlier. How profound!

The poll did not ask how much more or how many years earlier, but found only 31 per cent would have sought professional financial advice earlier.

I gather the survey omitted questions about retirees' early decisions to invest in education, buy a home, and possibly start a family business.

The folks at Altamira Investment Services suggest, "Unless you're comfortable going it alone, you'll probably want to enlist the services of an investment professional, even if only for a second opinion."

They claim, "A good adviser will take the time to learn about your personal situation in order to give the most appropriate investment advice possible."

I gather an "appropriate investment" will be one of their in-house investment products.

The real problem with all this information from the financial services industry is that it is self-serving and, in many cases, of the "I told you" variety. In reality the financial services industry exaggerates the importance of the capital markets to the public.

Surely home ownership, education, personal skills and living within your means should precede the purchase of any investment product.

Personal skills should also include some knowledge of the stock market. It only takes a few hours a week on the Internet to acquire reasonable knowledge on most investment products. Investor education is the key for avoiding disasters like Bre-X Minerals Ltd. and the great technology bubble of 2000.

It appears that investors' appetite for investment knowledge has been responsible for the growing interest in technical analysis. When investors new to technical analysis ask me for advice, I tell them to stick to the basic tools such as trend lines and moving averages.

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SAMPLE LETTER TO BE SENT TO PROVINCIAL MEMBER OF PARLIAMENT

Provincial MPP

(date)

(address)

Subject: National Instrument 81-107 *Independent Review Committee for Mutual Funds* released January 9, 2004 for public comment

Dear Sir/Madam:

Our provincial securities regulator is in the midst of altering mutual fund rules that will greatly increase the risks of mutual fund investing in Canada. Mutual funds are the investment of choice for small investors planning for retirement or saving for a child's education.

Under the relaxed rules, Fund managers would be free to enter into any transactions (including those with related parties, affiliates and parent) despite the fact that their interests are in conflict with those of the managed fund(s). There will be a non-elected Independent Review Committee, paid for from fund assets, but decisions will be non-binding.

This initiative has been driven by the \$450 billion mutual fund industry. Inputs from consumer groups, SIPA, investor advocates and previous research reports were totally ignored. Given the checkered history of the Canadian fund industry, the fund scandals uncovered in the U.S. and the fact that mutual funds are not insured, it is unconscionable that regulators should expose retirees, pensioners, widows and others to reduced investor protection and higher risk.

The elimination of transaction prohibitions and other important safeguards will seriously undermine investor protection in an investment that should be straightforward and limited to market risk.

I urge you to do all that is possible to have this proposed Rule recalled and replaced with true, sorely needed investor protecting legislation including meaningful fund governance.

Sincerely,

cc. Small Investor Protection Association

SIPA's First Alert System

Earlier this year, Rob Carrick wrote an article in the Globe and Mail about SIPA's First Alert System. For the benefit of members who may not be aware, information on the FAS follows. In addition to matching up members, SIPA plans to develop packages of information for some of the major companies about which complaints have been made. Some of these companies have been disciplined for failure to supervise when their registered representatives have breached the rules and caused client loss. Some have faced legal actions. Small investors with complaints should be aware of these issues.

GIVEN:

While it is possible to determine whether your Registered Representative has been disciplined by the Regulatory agencies, the regulators will not reveal whether there is an ongoing investigation or whether there are complaints that allege wrongdoing.

The time that elapses from the complaint to the final disciplinary action can take several years and often the wrongdoing continues during that period.

Industry sponsored dispute resolution mechanisms do not appear to be acting in the best interests of the small investor. Investors are experiencing extensive delays at all steps of the process. Settlements offered by these agencies appear to be unfair to the small investor.

SIPA believes that civil litigation is the only solution that can provide some degree of justice, but this process is long and costly. It may not be possible for many to proceed with civil litigation for various reasons. The expense of civil litigation can be significant. However, in some cases legal services may be available based upon contingency fees. Contingency fees are payable only after the case is settled. Rates can vary from about 15% to about 35% depending upon the size and complexity of the case.

SIPA ACTION:

SIPA determined that Group Action would make it possible for more investors to pursue civil litigation if they could band together. However it is difficult to find out the names of other clients to form a group. Our First Alert System attempts to match aggrieved clients.

In its first year SIPA, by chance, was able to introduce members who had common problems with the same broker. SIPA then proceeded to develop our First Alert System.

Initially it was a manually operated list of complaints. Then SIPA expanded its database that was first established for the member register. This enabled SIPA to utilize the search function to match members with a complaint against the same firm or advisor.

RESULTS:

The First Alert System has enabled SIPA to match several members with other members with complaints against the same company and even the same broker. One of these groups has already achieved some success in settling their disputes. Another group is in the final stages of resolving their disputes.

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Name _____

Member No. _____ Date _____

Advisor _____

Company _____

Product Type:

- Bonds
- Mutual Funds
- Segregated Funds
- Stocks
- Limited Partnerships
- Guaranteed Certificates
- Offshore investments
- Other

Complaint:

- No copy of Know Your Client form
- KYC not accurate
- Advisor not responding
- Don't understand advisor
- Intimidated by advisor
- Statements not understood
- Trading without written approval
- Excessive trading
- Leveraged investment
- Margin Calls
- Other

Written Complaint to:

- Advisor _____
- Compliance _____
- President _____
- Ombudsman _____
- IDA _____
- MFDA _____
- CSA _____
- Other _____

Date:

Mediation or Litigation Experts used:

- Accountant _____
- Suitability _____
- Mediator _____
- Arbitrator _____
- Lawyer _____
- Other _____

Details of Complaint: Please append a written outline of your story indicating why you think the losses occurred and how these losses affect your lifestyle.

Photocopies of Documents:

- Written outline of complaint
- New account opening form (KYC)
- Initial portfolio statement(s)
- Recent portfolio statement(s)
- Complaint submitted
- Company response
- Ombudsman response
- Regulator response

Return to SIPA at address below.

DO NOT SEND ORIGINAL DOCUMENTS