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(CEP News) Ottawa - As markets react to the shockwaves of Lehman Brothers' filing for bankruptcy, Canadian investors may be wondering what would happen to their investments if their brokerage were to collapse.

While those experts are quick to point out the large difference between the ownership structure of the U.S. and Canadian brokerage industries, they say one similarity between the two countries is that there are layers of protection for investors' holdings.

"When a brokerage firm goes bankrupt it doesn't mean the clients are losing their investments," said David Phipps, senior financial adviser at Assante Capital Management Ltd. "Clients' assets are segregated from the assets of the dealer. Creditors cannot attack the assets of clients of an insolvent brokerage."

In Canada, clients of brokerages that are members of the Canada Investor Protection Fund (CIPF) are protected from financial losses of up to \$1 million, Phipps said. While investors' cash and securities are to be held in trust and kept separate from the finances of brokerages, the CIPF coverage kicks in if one of its members fails to "return or account for securities, cash balances, commodities, futures contracts, segregated insurance funds [or other property] received, acquired or held by the Member in an account for the customer," the CIPF website says.

The CIPF only covers losses relating to the insolvency of brokerages and doesn't cover losses relating to changing market values, bad investments or issuer defaults. It also won't cover losses relating to business financing purposes of CIPF members, such as securities lending and purchase/repurchase transactions.

"Our protection is there to return (clients') assets; to return their cash and securities, but clearly it's not there to guarantee the market value of those assets," said Rozanne Reszel, president and CEO of the CIPF.

The U.S. has a similar organization called the Securities Investor Protection Corporation (SIPC) which operates in a similar fashion, although it will only cover losses of up to \$500,000 with a maximum of only \$100,000 for cash claims.

The SIPC says its coverage relates to cash and securities held by customers at financially troubled brokerage firms. However, it doesn't cover "commodity futures contracts and currency, as well as investment contracts (such as limited partnerships) and fixed annuity contracts that are not registered with the U.S. Securities and Exchange Commission under the Securities Act of 1933," the SIPC website says.

Just as in Canada, U.S. brokerages are required to hold their clients' investments in trust and keep them segregated from the assets of the brokerage, said Laurentian bank economist Carlos Leitao.

"Those portfolios are always held in trust. It's the shareholders of Lehman who are going to get wiped out, and holders of debt and people who lent money to Lehman. It's the counterparty risk that is the most worrisome," said Leitao, adding that the retail brokerage unit of Lehman Brothers will likely be sold.

Indeed, Lehman Brothers Holdings Inc. issued a statement this week saying that its broker-dealer subsidiaries, Lehman Brothers Inc. and Neuberger Berman LLC, would continue to operate. The U.S. Financial Industry Regulatory Authority issued a statement saying the Lehman Brothers subsidiaries are expected to close "only after

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the orderly transfer of customer accounts to another registered and SIPC-insured broker-dealer."

On Thursday, the SIPC issued a statement saying it will file a proceeding placing Lehman Brothers Inc. in liquidation under the Securities Investor Protection Act (SIPA) with a view to the subsidiary's ultimate sale to Barclays Capital Inc.

"After extensive discussions and consultation with representatives of the firm and its parent company, as well as representatives of the Securities and Exchange Commission, the Federal Reserve, the Commodity Futures Trading Commission, the Financial Industry Regulatory Authority and others, SIPC has decided that such action is appropriate for the protection of customers and to facilitate the transfer of customer accounts of LBI and an orderly unwinding of the business of the brokerage firm," the SIPC statement said.

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24/09 02:45	FR	Business Confidence Indicator
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