AUTORITÉ DES MARCHÉS FINANCIERS

FINANCIAL GLOSSARY

The simplified, user-friendly definitions in this glossary are provided only as a guide.

- A -

Accredited investor
An accredited investor is a person or entity who:

- earned a net income before taxes of over $200,000 (or over $300,000 with a spouse) in each of the two most recent calendar years;
- holds net assets of at least $5,000,000 alone or with a spouse; and
- meets certain criteria with respect to knowledge and risk tolerance.

It is considered that accredited investors do not need as much information as do average investors due to their ability to assume risk, their net worth, their experience, and their investment knowledge.

Certain institutions are deemed to be accredited investors. These include securities dealers and advisers, banks, trust companies, insurance companies, etc.

Accrued interest
Accumulated interest that is not yet due and payable.

Actuary
Specialist in statistics and mathematics applied to finance and insurance.

Adverse selection
Situation in which an insured knowingly or unknowingly acts to his/her advantage, to the detriment of an insurer. For example, term insurance policyholders in very good health tend not to renew their contract on the renewal date, opting instead for a new policy that costs less than renewal. Conversely, insureds in poor health will draw on their renewal privilege.

All-or-none order
Order that is carried out only when the complete quantity of the chosen security is available on the market at a given price.

Amortization
Reduction of the value of certain property to account for wear or obsolescence. Amortization reduces a company’s earnings but does not constitute a cash outflow and therefore does not reduce its cash assets.

Annuitant
Person who receives an annuity.

Annuity
Contract under which a series of periodic payments are made during a certain period of time in consideration of a certain amount. There are a number of types of annuities, including deferred, indexed, life, and guaranteed annuities.

Annuity certain
Annuity that guarantees payments for a specified period of time.

Arbitrage
The simultaneous purchase and sale of securities, currencies, or commodities, for example, on different exchanges with a view to profiting from price discrepancies. Arbitrage is generally suitable only for sophisticated traders.

Ask price
Lowest price at which a seller would agree to sell a certain quantity of securities (shares, bonds, etc.).

Assets
Your assets are everything that belongs to you—all of your property. This may be the money you have in a chequing or savings account, personal belongings, investments, real estate, etc

Assuris
A non-profit organization that protects Canadian policyholders in the event that their life insurance company becomes insolvent. Backed by insurance companies, it manages the industry's solvency guarantee fund on behalf of consumers. For more information, visit the Assuris website at http://www.assuris.ca.

Autorité des marchés financiers
Body that regulates Québec's financial sector and provides assistance to consumers of financial products and services. Its mission is to protect the public by enforcing the laws and regulations governing the following areas of activity: insurance, securities, deposit institutions (other than banks), and distribution of financial products and services.

Authorized capital
Number of shares that a company is legally authorized to issue.

- B -

Balance sheet
Financial statement indicating the financial position of an individual, an entity, a family, etc. on a given date. It specifies the nature and amount of assets and liabilities. The difference between assets and liabilities is the net value.

Basis point
One-hundredth of a percent. For example, if the mortgage rate posted by your financial institution rose from 6.25% to 6.30%, this would be an increase of 5 basis points.

Beneficiary
Individual designated on an insurance contract to receive insurance benefits.

Benefit
Amount of money the insurer pays the beneficiary of an insurance policy following a loss.

Bid
Highest price a buyer would pay for a security, subject to a quantity limit.

Bond
Bonds are issued by governments and companies and represent a loan granted by the investor to the issuer (governments, public corporations, private companies). In general, the issuer promises to pay a fixed interest rate to the buyer at certain intervals and pay back a predetermined amount at maturity, usually the face value, which is a multiple of $1,000. Bonds can be sold at a price above or below face value. Corporate bonds are generally backed by specific assets. The term is generally from 1 to 30 years.

Borrowing to invest
Borrowing money in order to invest. This increases the potential gains, as well as the potential losses, on any investment. Borrowing to invest thus increases risk and requires caution on the part of investors. If you are thinking of borrowing in order to invest, make sure you fully understand the risk this entails.

Also called margin buying or leveraging.

Business corporation
Business established under law and that is a separate legal entity from its shareholders. Shareholders are therefore not responsible for the corporation’s debts; their risk is limited to the amount (capital) invested in the corporation. Shareholders control the corporation according to the number of voting shares they hold.

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Canadian Life and Health Insurance Association (CLHIA)
Non-profit organization representing the collective interests of its members. Most life and health insurance companies that do business in Canada are CLHIA members. Website: http://www.clhia.ca.

Canadian Payments Association (CPA)
Non-profit association created in 1980 by an Act of Parliament. Its mandate covers national clearing and settlement systems, as well as other activities involved in making or exchanging payments. For more information, visit the CPA website at http://www.cdnpay.ca/home/home.asp.

Callable bond
Bond that may be redeemed by the issuer prior to maturity at the price indicated in the issue contract. Buyers of callable bonds generally receive a higher return than with standard bonds in exchange for assuming the risk that the issuer might redeem the bond when economic conditions are less advantageous for investors.

Cancellation
For the insured or the insurer, ending a contract during an insurance period without waiving past coverage or the premium earned for the expired term, as opposed to termination, which abolishes all coverage under a contract as though it never existed.

Capital gain (loss)
Gain (loss) that results when an investment is disposed of at a higher (lower) price than it was purchased.

Capital loss
Loss on the disposal of property, e.g., stock or real estate, at a price lower than its purchase price.

Cash surrender value
Amount available from the insurer when a policyholder voluntarily cancels a life insurance contract before maturity.

***Chambre de la sécurité financière* (CSF)**
Québec-based agency that protects the public by maintaining discipline and overseeing the training and professional conduct of representatives under its supervision.

CSF members operate in the following six sectors, as provided for in the *Act respecting the distribution of financial products and services*:

- Group savings plan brokerage
- Investment contract brokerage
- Scholarship plan brokerage
- Financial planning
- Insurance of persons
- Group insurance of persons

For more information, you can contact CSF or visit its website at www.chambresf.com.

Civil liability insurance
Insurance that covers the monetary consequences of liability arising from bodily or property damage.

Clearing house
Institution separate from an exchange that ensures payment and delivery of securities between securities dealers.

Concealment
The intention to withhold information that could influence an insurer's risk assessment. This may void the contract or reduce the indemnity the insured is entitled to receive.

Coinsurance
Percentage of the cost of an insured's claim that is assumed by the insurer once the deductible is paid.

Collateral
Assets such as bonds, shares, or other securities pledged against a loan, much like a guarantee. If the borrower fails to repay his/her debts as scheduled, the lender can sell the collateral assets to recover the loan amount, including interest.

Common share
Ownership interest issued by a company. As owners, common shareholders generally have the right to elect directors and to vote on certain decisions concerning the company's operations. They are usually entitled to a portion of the company's remaining assets if the company is dissolved. Common shareholders are also entitled to receive any dividends declared by the company. Common shares have no maturity date.

Consumer price index (CPI)
Measure of changes in the price of a "shopping basket" of items in order to estimate the inflation rate. The higher the CPI, the lower the purchasing power. The lower the CPI, the higher the purchasing power.

Counterparty risk
Risk that the party with whom you are dealing will not fulfill its obligations (delivery, payment, etc.) and that you will incur a loss as a result.

Cover note
Temporary document issued to the insured by an insurance representative or insurer confirming that coverage is in effect. This document precedes the insurance policy.

Conversion privilege
A provision in a term life insurance contract whereby the policyholder may convert the policy into a permanent (whole life) or endowment insurance policy without furnishing evidence of insurability.

Convertible bond
Bond that the holder may convert into common shares.

CPA
Canadian Payments Association. Non-profit association created in 1980 by an Act of Parliament. Its mandate covers national clearing and settlement systems, as well as other activities involved in making or exchanging payments. For more information, visit the CPA website at http://www.cdnpay.ca/home/home.asp.

Credit risk
Risk that a company will no longer be able to meet its obligations.

Critical illness insurance
Insurance that provides a lump sum to the insured when he/she is diagnosed with a critical illness covered by the insurer.

Currency risk
Risk that the currency used to purchase your investment will fluctuate and decrease the value of your investment. For example, if you hold bonds in U.S. dollars and the Canadian dollar appreciates against the U.S. dollar, your bonds will decline in Canadian dollars.

Current assets
Portion of assets that is convertible into cash in the current year.

-D-

Damage insurance
Property or liability insurance in the event of fire, accident, or miscellaneous risks.

Debenture
Fixed-income investment, similar to bonds, except that debentures are generally not backed by specific assets.

Also called unsecured bond.

Debt
Amount of money that a natural or legal person must pay back, generally with interest.

Deductible
The portion of risk assumed by the insured.

Debt security
Debt securities are bonds and debentures, which are loans granted by investors to a company.

Deferred annuity
Annuity that provides periodic payments that do not begin when the annuity is purchased, but at a later date.

Defined contribution pension plan
Pension plan in which employer and employee contributions are determined in advance. For example, the employer might agree to pay the same amount as the employee, who might invest 4% of his/her salary in the plan annually. However, employees do not know the amount of retirement income they will receive, as it will depend on the returns on investments made with these contributions and the cost of annuities at the time of retirement.

Defined benefit pension plan
Pension plan that guarantees a certain level of retirement income in advance. Usually, the income you will receive under this plan is a percentage of your salary multiplied by the number of years of service you have completed.

Deflation
Widespread drop in the price of consumer goods and services. Deflation is the opposite of inflation.

Demutualization
The process of converting from a mutual association to a business corporation. As part of demutualization, the former mutual members, who owned the mutual, generally receive shares in the business corporation, enabling them to retain ownership. In certain cases, they may receive other benefits, such as cash in the form of dividends.

Deposit institution
Bank, trust company, credit union, or other financial institution that accepts deposits from the public and provides a variety of financial services, such as savings accounts.

Discount rate
Interest rate that the Bank of Canada periodically sets for the short-term loans extended to institutions that are members of the Canadian Payments Association.

Disability insurance
Insurance that provides benefits to insureds who are unable to work following an illness or accident, generally based on their salary.

Discount representative (*Securities Act*)
Natural person who acts as representative for a discount broker.

For more information on representatives, see the brochure *Choosing a securities firm and representative*.

Discounting
Method of calculating the current value of future financial flows.

Director
Person elected to a company's board of directors at the shareholders' meeting. Among other matters, directors are responsible for putting in place corporate governance policies.

Diversification
Strategy that consists in choosing a variety of financial products for the same investment portfolio. Each investment product has its own risk profile. Some carry very high risk, others very low. For most investors, the most important factor is the risk profile of their investment portfolio as a whole. By combining various investments in your portfolio, you can reduce the overall level of risk for an expected return.

Dividend
A portion of the earnings that a corporation distributes to shareholders in proportion to their holdings.

- E -

Earnings per common share
A company's earnings for a fiscal year or a given year divided by the number of common shares outstanding.

Employment insurance
Insurance that repays a debt or portion thereof when the borrower loses his/her job. A number of restrictions may apply.

Endorsement
Document appended to an insurance policy indicating changes to the contract.

Endowment insurance
Insurance that pays a certain amount on the death of the insured or on the policy maturity date, whichever comes first.

Exchange
Organized market where securities are traded.

Exchange rate
Price of one currency compared with another. The exchange rate is affected by factors including currency supply and demand.

Exchange-traded fund (ETF)
Exchange-traded funds are traded like shares on stock exchanges. These funds generally track a benchmark index. Under certain conditions, investors can redeem their units directly from the fund in exchange for securities in the index.

Note: In addition to stock ETFs, there are bond ETFs, derivative ETFs, etc.

Exclusion
Risk that is not covered by an insurance policy. For example, in homeowner's insurance, damage caused by war is generally not covered.

Expected return
The gain you expect to earn from your investment in the form of interest income, dividends, or capital gains. Generally, the higher the expected return on an investment, the higher the risk. The return you actually earn may differ significantly from the **expected return**.

Extended term insurance
When permitted under the insurance contract, use of the cash surrender value of a policy in order not to pay insurance premiums. The same insurance coverage is maintained but often for a limited period.

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Face amount
Amount stipulated in an insurance contract that is paid to the beneficiary if the risk covered by the insurance policy occurs.
Also called the insuredamount.
Face value/par value
Price indicated on a bond or debenture certificate that usually corresponds to the amount of money the issuer will pay at maturity.

Financial planner (F. Pl.)
Natural person who assists clients in developing a financial plan by identifying strategies adapted to their needs and considering their constraints and objectives. Unless they are also registered as securities representatives, financial planners are not authorized to recommend or trade securities.

Firm underwriter
Natural or legal person that buys securities directly from the issuer for resale to the public.

First-to-die insurance
Life insurance that covers at least two persons and pays a certain amount on the death of the first insured.

Fixed-yield investment
Investment that generates a fixed yield until maturity, e.g. a guaranteed investment certificate with a five-year term that generates a 4% return each year.

Flexible premium life insurance
Insurance for which the premium amount can be adjusted by the insurer according to the results of a group of insurance policies.

Flow-through share
Share that can be issued by an oil, gas, or mining company. Since shareholders help fund exploration and development costs, they may be entitled to tax deductions and credits that are usually available only to companies.

Foreign currency
Currency issued by a foreign country.

Fundamental analysis
Method for assessing the future value of a company or the value of its shares based on its financial health (financial statements), its competitors, economic conditions, etc.

Futures and forward contracts
There are two types of contracts: futures and forward contracts. In both cases, the parties involved assume a legal obligation to buy or sell a specific quantity of an asset at a predetermined price and date. Futures and forward contracts are traded in a variety of commodities (grain, meat, etc.) and financial products (stock market indexes, bonds, common shares, etc.).

Futures
Futures are traded on an exchange, and their features are standardized based on the quantity, term, place of delivery, and quality of the underlying interest. This facilitates transfer of the asset from one investor to another. The price is thus the only element that fluctuates during the course of the contract. A clearing house acts as an intermediary between the buyer and the seller and ensures compliance with the contract terms, so there is no counterparty risk.

- G -

Grace period
A period granted to the insurance policyholder to make premium payments, other than the first payment. A grace period is not granted for all types of insurance.

Gross domestic product (GDP)
The total value of all goods and services produced within the geographic boundaries of a country, province, or other jurisdiction during a given period.

Group credit insurance
Insurance that repays the balance of a loan if the insured dies. Most insurers also offer disability insurance, which covers the periodic loan payment subject to certain criteria and limits.

Group insurance
Insurance for a group of persons provided under a basic contract, generally without a medical exam. Each participant receives an insurance certificate.

Guaranteed annuity
Life annuity that provides periodic payments while the annuitant is alive, but guarantees payment for a certain number of years. For example, a 5-year guaranteed annuity would provide payments for at least 5 years, even if the annuitant dies (in which case the amount is paid according to the contract terms).

Guaranteed income supplement (GIS)
Monthly benefit paid to lower-income old age security (OAS) recipients living in Canada. This benefit is not taxable.

Guaranteed investment certificate (GIC)
Certificate of deposit issued by a financial institution that represents a loan granted by the investor to the issuer. Terms range from thirty days to ten years.

- H -

Health insurance
Insurance that covers all or part of the cost of medical care and drugs incurred by the insured.

Hedge fund
Fund issued in the form of units. Hedge funds are very flexible in terms of the investment strategies that can be used. These strategies are often called “alternative investment strategies.” Hedge funds are usually structured so that stock or bond market fluctuations have little or no impact on returns.

Hedge fund investments, such as shares of private companies, derivatives, and futures, are generally suitable only for sophisticated investors. The same holds true for the strategies used, which include short selling, leveraging, narrow-based investing, and investing in distressed companies.

Hedging
Hedging consists of buying a financial instrument to offset possible losses on an investment. For example, an investor who owns shares could buy a put option on the shares he/she holds. This way, if the shares decline in value, the investor can exercise the option to offset the decline in value of the shares.

- I -

Income statement
Financial statement indicating a company’s revenue and expenses and therefore the gain or loss generated in a given period.

Incontestable clause
Provision of a life insurance policy that enables an insurer to void a policy because of misrepresentations or concealment of important facts that would have led to rejection by the insurer. An insurer has up to two years to void the contract. This time period does not apply in the event of fraud.

Indemnity
Amount of money paid by an insurer to an insured following a claim to compensate for the loss or damage incurred.

Indexation
Adjustment of income (annuity, salary, etc.) in order to fully or partially offset inflation.

Indexed annuity
Annuity that provides payments that are periodically adjusted in order to fully or partially offset inflation.

Inflation
The average rate of increase in the prices of goods and services. It affects consumer purchasing power.

Inflation risk
Risk that the real return on investments will not offset the increase in the cost of living. For example, if you hold a guaranteed investment certificate (GIC) earning 5% when inflation is 2%, your real rate of return is approximately 3%.

Note: A simple method for measuring the real rate of return on an investment is to subtract the inflation rate from the rate of return.

Insider
Person who holds privileged information, i.e. information not known to the public.

An issuer solicits funds from investors to improve its financial position, carry out projects, or develop new markets. In exchange for the money invested, investors receive securities such as shares traded on a stock exchange or bonds.

Insurability
The ability to meet certain requirements in order to receive insurance coverage. To determine a person's insurability, insurers ask for information such as age, health status, employment, etc.

Insurability guarantee
A guarantee that allows policyholders to take out additional insurance on certain occasions, without evidence of insurability, in an amount not exceeding the amounts specified in the contract.

Insurance contract
Agreement whereby the insurer, in exchange for a premium, undertakes to pay the beneficiary the benefits set out in the contract if a covered risk occurs.

Insurance of persons
Insurance that covers natural persons against accidental bodily injury, disability, illness, and death.

Insurance policy
Written document that states the terms of the insurance contract signed between an insured and an insurer. It outlines the coverage provided, as well as exclusions and limitations.

Insured
Person for whom insurance is taken out.

Insured amount
Amount stipulated in an insurance contract that is paid to the beneficiary if the risk covered by the insurance policy occurs.

Also called face amount.

Insurable interest
A person's interest in property or in the life of an individual that causes the beneficiary to be exposed to monetary loss or moral hazard. For example, you have an insurable interest in your own home, since you would incur a loss if it burned down. However, you do not have an insurable interest in another person's home, because even if it went up in flames, you would lose nothing.

Interest
Amount a borrower must pay an investor in return for a loan.

Interest rate/nominal interest rate
The interest payable on a debt as a percentage, generally expressed over a 12-month period. For example, the interest payable on a $1,000 loan at 6% would be $60.

Intrinsic value
The intrinsic value of a call option, a share right, or a warrant is the difference between the market value of the security and the strike price. If the difference is negative, the intrinsic value is zero. The intrinsic value of a put option is the difference between the strike price and the market value of the security. Once again, if the difference is negative, the intrinsic value is zero.

Investment Industry Regulatory Organization of Canada (IIROC)
Organization created as a result of the combination of the Investment Dealers Association of Canada (IDA) and Market Regulation Services Inc., effective since June 1st, 2008. Professional association that regulates the activities of investment dealers in terms of their capital adequacy and conduct of business and a regulation services provider.

Irrevocable beneficiary
Individual designated on an insurance contract to receive insurance benefits who cannot be removed from the contract without his/her consent.

Issuer
Person who is issuing or plans to issue a security in consideration of capital solicited from the public. This person is normally a legal person, such as a company or mutual fund.

- J -

Joint insurance
Life insurance that covers more than one insured in case of death.

- K -

Key person insurance
Life insurance that covers the life of a critical company employee.

- L -

Labour-sponsored funds and other similar funds
Investment funds consisting of common shares issued by a labour organization or a financial institution. These funds are governed by federal and/or provincial legislation, which establishes certain investment criteria and provides investors with tax benefits. The funds invest a portion of their assets in startups or small and medium-sized enterprises (SMEs) in order to create or maintain jobs.

Last survivor insurance
Life insurance that covers at least two persons and pays a certain amount on the death of the last surviving insured in accordance with the contract.

Leveraging
Borrowing money in order to invest. This increases the potential gains, as well as the potential losses, on any investment. Borrowing to invest thus increases risk and requires caution on the part of investors. If you are thinking of borrowing in order to invest, make sure you fully understand the risk this entails.

Also called margin buying or borrowing to invest.

Liability
An amount owed, e.g. a mortgage balance, bank loans, a credit card balance, etc.

Life annuity
Annuity that provides periodic payments until the death of the annuitant.

Life income fund (LIF)
Tax shelter that allows holders to defer taxes on the investment income it generates. Funds invested in a LIF are often derived from a supplemental pension plan. Unlike an RRSP, a LIF carries minimum and maximum annual withdrawal requirements in order to ensure that income can be provided for the rest of the participant’s lifetime. Amounts withdrawn are taxable.

Life insurance
Contract under which the insurer, in exchange for a premium, undertakes to pay the beneficiary of the policyholder the benefit provided in the contract in the event of the insured’s death or until a specified period during his/her lifetime.

Limited partnership
Limited partnership units are issued by a partnership. A general partner manages the partnership and limited partners supply the capital. The liability of limited partners is limited to their investment outlay. These partnerships usually invest in a particular

sector such as real estate or the oil and gas industry. They often provide tax benefits that may be transferable from the partnership to the limited partners.

Liquidity
The ability to easily convert an investment into cash without significant cost. You should make sure that the liquidity of an investment suits you before investing. As a general rule, the longer your investment horizon, the less importance you place on liquidity.

Liquidation value
Amount that might be obtained on the dissolution of a company.

Listed share
Company share that is traded on a stock exchange. For a company to be registered, it must meet certain criteria, rules, and regulations and pay listing fees.

Locked-in retirement account (LIRA)
Tax shelter that allows investment income to accumulate tax free until the LIRA is cashed out. Funds generally stem from a supplemental pension plan (SPP). Since the money in a LIRA is frozen, you can use it only to draw a lifetime income in retirement. To do this you must transfer the amounts held in the LIRA to a life income fund (LIF) or purchase a life annuity from an insurance company.

Long-term debt
Amount of money that a natural person or legal person must pay back, generally with interest. However, the amount is not due within one year.

Loss
The happening of the event for which insurance pays, e.g. death, illness, fire, accident, etc.

- M -

Margin buying
Borrowing money in order to invest. This increases the potential gains, as well as the potential losses, on any investment. Margin buying thus increases risk and requires caution on the part of investors. If you are thinking of borrowing in order to invest, make sure you fully understand the risk this entails.

Also called leveraging or borrowing to invest.

Marginal tax rate
Tax rate applicable to the highest taxable income bracket.

Market capitalization
The value of a company determined by multiplying the number of common shares comprising the company's share capital by its market price.

Managed account
Account for which a client has given a third party formal written authorization to make all required investment transactions in consideration of a fee.

Margin account
Account opened with a securities dealer that a client may use for margin buying, i.e., using money borrowed through the dealer.

Market price
Most recent price at which a security (e.g. share, bond, etc.) was traded.

Medical history
All diseases and other health problems experienced by a person and his/her ascendants and descendants.

Money market
That part of the financial market in which short-term securities are bought and sold, such as treasury bills, short-term bonds, guaranteed investment certificates, etc.

Mutual benefit association
An association without share capital that provides benefits to members and their families in the event of a loss. Benefits may be available in the event of death, illness, or accident. In most cases, benefits and member contributions can be modified, as needed, according to the association's financial position.

Mutual fund
Fund made up of money pooled by investors and managed on their behalf by a manager. The manager uses the money to purchase stocks, bonds, or other securities according to the fund's objectives. Ownership is in the form of shares if the mutual fund is set up as a business corporation, and in the form of units if the fund is set up as a trust (the most common form). Holders have voting rights. These securities have no maturity.

- N -

Net worth
A person's assets minus his/her debt.

Non-waiver agreement
Document signed by the insured after a claim has been filed. This document states that the insurer is currently investigating the circumstances of the loss and reserves the right to apply possible policy restrictions or exclusions that might result in denial of coverage.

- O -

Odd lot
Number of shares traded other than a round lot. For example, if a round lot is 100 shares and an investor wants to buy or sell 135, he/she will have one round lot of 100 shares and one odd lot of 35 shares.

Old age security pension
Monthly benefit paid by the Government of Canada to eligible citizens age 65 and older, subject to certain conditions.

Opening price
Initial price of a security in a trading session.

Option
Financial instrument that entitles the holder to buy (call option) or sell (put option) an asset at a fixed price for a specified period. The underlying interest may be a common share, a commodity, a currency, or an index (such as a stock market index).

The holder of an option that is traded on an exchange may sell it, exercise it and buy the underlying interest, or let it expire. The Canadian Derivatives Clearing Corporation acts as the buyer with respect to the seller and as the seller with respect to the buyer for derivatives tied to stocks, bonds, and exchange-traded indexes. Over-the-counter products, such as employee stock options granted by corporations as compensation, are issued by the companies themselves.

Over-the-counter market
Market where securities not listed on an exchange are traded. Refers to an interdealer market.

- P -

Participating insurance
Insurance for which policyholders may receive benefits based on company performance. Benefits may include lower policy fees, increased coverage, etc.

Participating security
Participating securities are common shares or preferred shares, which represent an ownership interest in a company.

P&C (property and casualty)
Insurance other than life and health insurance, e.g., fire, accident, or miscellaneous risks. Also called general insurance.

Pension adjustment (PA)
An amount determined by the Canada Revenue Agency and used to calculate the maximum allowable RRSP contribution amount.

For a defined contribution pension plan, the PA is the sum of employer and employee contributions for the year.

Pension fund
Fund made up of contributions and investment income that is used to cover retirement plan benefits.

Periodic fixed amount purchase
Regular investment of a sum of money that does not vary. In the case of shares or mutual funds, this enables investors to purchase more shares or units when prices are low, decreasing the average cost per share or unit.

Policyholder dividend
Benefit for participating insurance policyholders. Insureds often have a choice between receiving cash or paying lower insurance costs. A number of other options may also be available. Dividends are not guaranteed, and the company may pay a higher or lower amount, subject to certain criteria, particularly the results of a group of policies.

Political risk
Risk that a government will not be able to honour its commitments. The risk that a government will alter the rules in place must also be considered. For example, a government may amend tax laws, sometimes even retroactively. Political instability and war are also risk factors.

Preferred share
Share issued by a company. Preferred shareholders have an ownership interest in the issuer and are generally entitled to receive a fixed dividend before any dividends are paid to holders of common shares.

Preferred shareholders are also entitled to a portion of the company’s remaining assets if the company is dissolved. Generally, preferred shareholders are not entitled to vote. In many cases, preferred shares carry special features, such as the shareholder’s right to redeem the shares at certain times. They may also be convertible, in which case the shareholder has the right to convert them into common shares at a specified price. Most carry no term, but some are redeemable at the issuer’s option. Others earn cumulative dividends, meaning that dividends that are not paid during a given year accumulate until paid out.

Preferred share with cumulative dividends
Share that provides dividends that must be fully paid out by a specified date before dividends can be offered to holders of common shares.

Premium
Amount an insured must pay an insurer for an insurance policy to come into and remain in force in exchange for the insurer assuming a risk.

Present value
The value today of one or more streams of future income.

Price/earnings ratio
The price of a common share of a company divided by the net earnings per share over the past fiscal year.

Primary market
Financial market where newly issued securities are traded, as opposed to the secondary market, where securities are bought and sold subsequent to a previous issue.

Principal-protected note
A security whereby the issuer recognizes a debt. Principal-protected notes do not necessarily carry a fixed interest rate—it can fluctuate according to a benchmark portfolio that may be tied to one or more indexes, commodities, currencies or hedge funds. Notes are generally issued for a limited period and reach maturity in five to ten years. In certain cases, the issuer may limit the return earned on a note or redeem the note before maturity.

Some notes are structured so that returns are not overly influenced by swings in the stock or bond markets. They use derivatives and seek broad strategic and geographic diversification.

Privatization
Transfer of a government activity (government corporation or other assets) to the private sector.

Professional liability insurance
Insurance that covers the financial consequences of errors or omissions committed by insureds in carrying out their professional activities when they are personally liable for the consequences of their acts.

Property and Casualty Insurance Compensation Corporation (PACICC)
An industry-funded non-profit corporation that, in the event of the failure of a member insurer, responds to claims of policyholders (subject to a number of restrictions and limitations). For more information, visit the PACICC website at http://www.pacicc.com.

Prospectus
Detailed information document that normally must be prepared whenever an issuer plans to sell securities to the public.

The purpose of a prospectus is to inform investors and their representatives to help them make sound investment decisions. It must provide full, true, and plain disclosure of all material facts relating to the securities to be distributed. It must also disclose all material facts likely to affect the value or the market price of the securities to be distributed. For more information, see the brochure *Prospectuses made clear*.

Some issuers may be exempted from the requirement to prepare a prospectus in order to sell securities, but only under certain conditions. For more information, see our brochure *Prospectus Exemptions*.

- Q -

Québec Pension Plan
A contributory, mandatory plan for Québec workers. It provides current and former Québec workers and their family members with basic financial protection at retirement and in the event of death or disability. For more information, visit the *Régie des rentes du Québec* website at http://www.rrq.gouv.qc.ca.

Quorum
Minimum number of members required to attend a shareholders' meeting to validly deliberate and make decisions.

Quote
Offer of insurance coverage detailing both the premium and the available coverage.

- R -

Real interest rate
The real interest rate is approximated by taking the nominal interest rate and subtracting the inflation rate. In other words, if your investment earns a 6% annual return and the inflation rate is 2%, your real interest rate will be approximately 4% (6% − 2%).

Real return bond
Bond that pays interest at a rate that is adjusted for changes in the consumer price index.

Redeemable share
Share that the issuer can buy back whenever it wishes, at a predetermined price.

Reduced paid-up life insurance
Insurance for which the insured no longer pays premiums but remains insured for a lower face amount.

Registered education savings plan (RESP)
Plan that allows the participant to accumulate tax-sheltered amounts in order to partially or fully fund the beneficiary's postsecondary education costs. It should be noted that plan participants cannot deduct contributions from their taxable income. However, RESP contributions entitle participants to a Canada Education Savings Grant (CESG), subject to certain conditions.

Registered retirement income fund (RRIF)
Tax shelter that allows investment income to accumulate tax free. Amounts invested in an RRIF are generally derived from an RRSP. Unlike with an RRSP, participants in an RRIF must withdraw a minimum amount each year (as for the LIRA). Amounts withdrawn are taxable.

Registered retirement savings plan (RRSP)
Plan that lets participants' assets grow tax free. It is used mainly to accumulate savings for retirement. One benefit of RRSPs is that individuals can deduct RRSP contributions from their earned income when preparing their tax returns, thereby reducing their taxable income.

Registered shareholder
Shareholder whose name is recorded in the books or registers of a company on a given date. Whether or not a shareholder is registered is important, particularly for the distribution of dividends. For example, if a company declares a dividend for registered shareholders, only those shareholders who are recorded in the books on the given date will receive the dividends.

Reporting issuer
Issuer that is subject to the continuous disclosure requirements provided for in the *Securities Act*. Reporting issuers are required to file prospectuses, financial statements, and other public information documents.

Representative
Natural person who works on behalf of a dealer, an adviser, or a firm or on his/her own account.

For more information on representatives, see the brochure *Choosing a securities firm and representative*.

Restricted practice representative
Natural person who acts as representative for a restricted practice dealer or adviser.

For more information on representatives, see the brochure *Choosing a securities firm and representative*.

Restricted share
Share with limited or no voting rights except under special circumstances.

Retractable bond
Bond that the holder may redeem prior to the maturity date.

Retractable share
Share that the holder can redeem at a predetermined date under certain conditions.

Revocable beneficiary
Individual designated on an insurance contract to receive insurance benefits who can be removed from the contract without his/her consent.

Risk
The possibility of earning a lower return than anticipated or losing all or a portion of the amounts invested, and perhaps more. There are several types of risk that can affect the value of an investment, including credit risk, counterparty risk, currency risk, and political risk.

For more information, see the brochure *Short Investment Glossary*.

Round lot
Standard number of shares determined by stock exchanges for the purpose of trading. A round lot generally corresponds to 100 shares.

Rule of 72
Method for estimating the number of years it will take your investment to double if you know the expected return. To apply the rule, simply divide 72 by the rate of return you will receive. For example, if you expect to receive a 6% annual return, it will take 12 years for the value of your investment to double.

- S -

Secured loan
Loan for which the borrower provides collateral.

Savings
Amount of money you are able to set aside. Your savings is the difference between your income and your expenses.

Savings bond
Bond issued in several forms by the federal government and by the governments of certain provinces. They represent a loan granted by the investor to the government issuer. Terms are one year or more.

Secondary market
Financial market where previously issued securities are traded. The secondary market includes exchanges (Montréal Exchange, Toronto Stock Exchange, etc.) and over-the-counter markets.

Securities representative – investment contracts
Natural person who offers a participating interest in investment contracts (in scientific research projects or real estate projects, for example).

Securities representative – scholarship plans
Natural person who offers scholarship plan units.

Securities representative – group savings
Natural person who offers units of mutual funds.

Securitization
Financial transaction that commonly consists of converting receivables into marketable securities for subsequent sale to investors.

Security
A type of investment, e.g. a treasury bill, a guaranteed investment certificate, a savings bond, etc.

Segregated fund
Fund issued by insurers that is similar to a mutual fund, but with additional guarantees. For example, capital may be reimbursed in the event of death, even if

your investments have declined in value. You may also be guaranteed reimbursement at maturity. The invested assets are held by an insurer separately from its other assets, hence the term “segregated fund.”

Share
Ownership interest in a company issued by that company.

Also called stock.

Share capital
Portion of the equity of a business corporation that represents the contribution of shareholders.

Shareholder
A natural person or legal person that holds common shares or preferred shares in one or more companies.

Also called stockholder.

Share right
A privilege a company gives its common shareholders to buy additional shares at a specified price, usually below market price. Investors must exercise their rights within a short period, generally within six to eight weeks.

Also called stock right and subscription right.

Short selling
Selling a security without owning it. An investor expects a security to decline in value and to be able to buy it back at a lower price. The transaction consists of borrowing the security from a financial intermediary and selling it immediately on the market. The investor promises to buy back the security and deliver it back to the intermediary. This investment strategy is extremely risky, because the investor can lose more than the value of the security traded if it rises in price. Theoretically, the loss could be unlimited. For sophisticated investors only.

Simplified pension plan
Defined contribution pension plan administered by a financial institution. Funds accumulated in this plan can be used to purchase an annuity with an insurer or transferred to a locked-in retirement account (LIRA).

Simplified prospectus
An abbreviated prospectus that meets all the legal requirements and provides the information to which investors are entitled.

Stock
Ownership interest in a company issued by that company.

Also called share.

Stock market index
Statistic that measures stock market developments and is frequently used as an indicator of economic conditions.

Stock split
The attribution of two or more shares to every share outstanding. For example, a two-for-one stock split would double the number of shares outstanding. However, as the value of each share would decline by half, shareholders would not gain or lose from a split.

Stockholder
A natural person or legal person that holds common shares or preferred shares in one or more companies.

Also called shareholder.

Strike price
Price at which an underlying interest may be purchased (in the case of a call option) or sold (in the case of a put option).

Stripped bond
Bond whose interest coupons have been detached in order to be sold separately. A stripped bond is therefore similar to a zero coupon bond. The investor earns a return by purchasing the bond at a discount. For example, the investor can pay $950 for a bond with a value of $1,000 at maturity.

Subsidiary
A company controlled by a parent company, which may derive economic benefits from the resources of the controlled company and assumes the related risks.

Substandard risk
Risk that the insurer cannot assume under the conditions of an insurance contract due to the high probability that the insured might make a claim under the contract. As a result, more restrictive clauses are included in the contract or the insured is required to pay an additional premium.

Supplemental pension plan (SPP)
Pension plan that is generally set up by an employer. There are two main types of SPP:
Traditional private pension plans
Simplified pension plans

Swap
Financial contract for the exchange of cash flows between investors, e.g. exchanging the floating interest rate of one security for the fixed interest rate of another financial instrument.

- T -

Takeover bid
Public notification by a natural or legal person to company shareholders of its intent to purchase a certain number of shares within a certain period of time at a given price.

Tax base
The amount to which a tax rate is applied, such as taxable income.

Tax credit
Amount a taxpayer can deduct from taxes due.

Tax deduction
Amount a taxpayer can deduct from his/her total income for the purpose of calculating the tax due.

Tax rate
Percentage paid by a taxpayer on total income earned for a given period, e.g., one year.

Tax shelter
Investment vehicle (e.g. RRSP) or investment (e.g. labour sponsored fund) that provides tax credits, tax deferrals, or other tax benefits for investors.

Technical analysis
Method for assessing the future value of a company or the value of its shares based on the analysis of graphs and charts illustrating share prices and trading volume.

Termination
Ending a contract during an insurance period by cancelling all coverage as though it never existed. Not to be confused with cancellation.

Term life insurance
Life insurance that provides the beneficiary with coverage for a limited period. Term policies are generally renewable at prices that increase periodically and are set out in the contract.

Traditional supplemental pension plan
Contract that must be registered with the *Régie des rentes du Québec* (RRQ) in which the employer—either alone or with plan participants—undertakes to periodically pay into a pension fund.

Travel insurance
Coverage for illness or accidents occurring outside Québec during a vacation or business trip. Travel insurance protects against unforeseen expenses for medical care, hospitalization, trip cancellation/interruption, or stolen luggage, as well as in the event of death.

Treasury bill
Security issued by the federal and provincial governments. Treasury bills represent a loan by the investor to the issuing government. They are sold in large denominations, starting at $1,000, and reach maturity in no more than a year.

Trust
Arrangement under which an individual or company entrusts securities (bonds, shares, etc.) to another party (trustee), who undertakes to hold and administer these securities on behalf of one or more other individuals or companies.

Trustee
Natural person or legal person (generally a trust company) that is responsible for securities placed in trust and must ensure compliance with all provisions of the trust deed.

- U -

Underlying interest
Assets used to determine the value of derivatives (call or put options, futures, etc.).

Universal life insurance
Life insurance that also includes a savings component. By paying a premium that is higher than the cost of insurance, the insured can save money tax free.

However, a number of restrictions apply, and the insured may pay tax on withdrawal of the amounts saved.

Unrestricted practice representative
Natural person who acts as representative for an unrestricted practice dealer or adviser.

For more information on representatives, see the brochure *Choosing a securities firm and representative*.

- V -

Variable annuity
Annuity that provides payments that vary according to the return earned on the underlying investments.

For more information on representatives, see the brochure *Choosing a securities firm and representative*.

- W -

Waiting period
Period during which an insured is not eligible for insurance benefits, even though the covered risk may have occurred. For example, an insured may not be eligible for benefits during the first two weeks of a disability.

Warrant
Warrants entitle the holder to purchase a number of securities from the issuer at a certain price within a specified period—usually three to five years. Warrants are generally offered to investors when they acquire certain types of securities, such as fixed-income securities or preferred shares.

Whole life insurance
Life insurance that provides coverage until the death of the insured. This type of policy has a cash surrender value.