ANNUAL REPORT

2018-2019

IIROC OCRCVM

Investment Industry Regulatory Organization of Canada

Organisme canadien de réglementation du commerce des valeurs mobilières

Public Interest Regulator

Protecting Investors and Supporting Healthy Canadian Capital Markets

MISSION

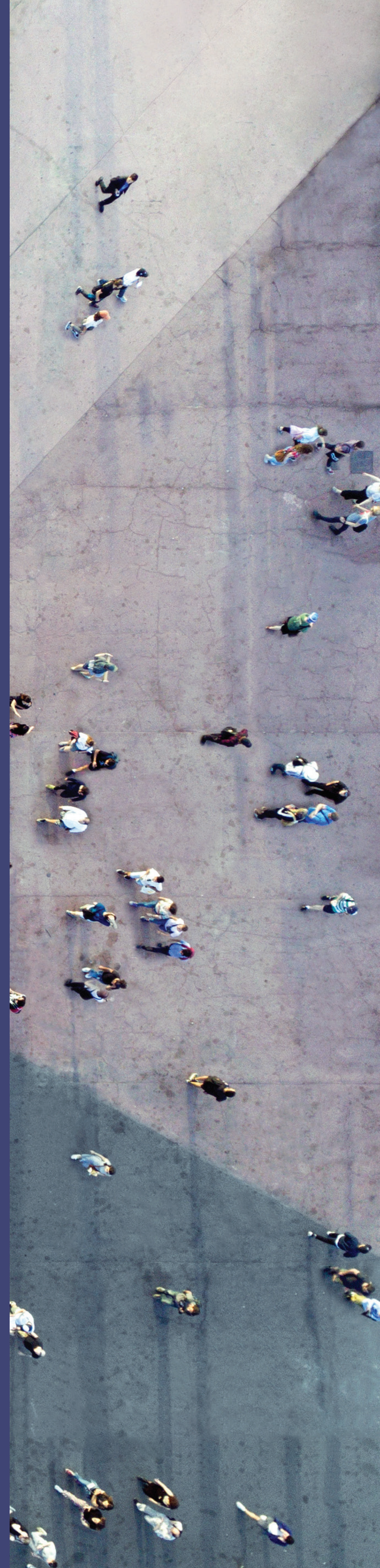
Our mission is to protect investors and support healthy Canadian capital markets.

VISION

IIROC's vision statement describes what we want to achieve over time – it is our definition of long-term success.

We will demonstrate how our self-regulatory model serves the public interest, by:

- inspiring confidence and deterring wrongdoing by having and using robust and appropriate tools
- making the delivery of securities regulation in Canada significantly more efficient
- being known as a trusted, respected and valued partner by our stakeholders
- being a leading-edge securities regulator
- creating a culture that attracts and retains high-quality employees



IIROC is the national self-regulatory organization which oversees all investment dealers and their trading activity in Canada's debt and equity markets.

IIROC sets high-quality regulatory and investment industry standards, protects investors and strengthens market integrity while supporting healthy Canadian capital markets. IIROC carries out its regulatory responsibilities through setting and enforcing rules regarding the proficiency, business and financial conduct of dealer firms and their registered employees, and through setting and enforcing market integrity rules regarding trading activity on Canadian debt and equity marketplaces.

HOW WE WORK

IIROC's regional roots run deep. IIROC's District Councils and policy consultative committees offer insight and invaluable input. Self-regulation helps to ensure that policies and rules keep pace with evolving markets through consultation with industry participants who are confronted by change on a daily basis. This process helps ensure that rules and policies are balanced and practical.

IIROC's National Advisory Committee serves as a forum for representatives of the District Councils to raise and discuss matters of interest, provide input on policy initiatives and report to the IIROC Board of Directors three times a year.

IIROC's 10 District Councils address registration and membership matters, raise issues of regional interest, and add perspective to national issues, including policy issues. They ensure regional input into the regulatory process – an integral component of self-regulation.

IIROC's Policy Advisory Committees

- Financial and Operations Advisory Section
- Conduct, Compliance and Legal Advisory Section
- Proficiency Committee
- Fixed Income Advisory Committee
- Market Rules Advisory Committee

KEY FACTS

140
district council members

65
meetings

114*
dealer firms participating in district councils

424**
decisions

229
committee members

221***
dealer firms and marketplaces represented

* Dealer firms may participate on multiple District Councils and are counted for each District Council on which they are represented. However, within each District Council a firm is counted only once regardless of whether the firm is represented on the Council by more than one individual.

** Includes decisions made by Registration Committees and District Councils.

*** Firms and marketplaces may participate in multiple committees.

MESSAGE FROM THE CHAIR

I have served on IIROC's Board since 2013; I and my fellow Directors have a unique vantage point on how the investment industry and the way we regulate it are changing.

As part of a self-regulatory organization, our Directors bring different experiences and perspectives to our deliberations: from the industry itself, serving investors at firms of different sizes in different regions of the country, from markets where securities are bought and sold for those investors, or as Independent Directors, providing an outside perspective on regulatory matters. But despite our different backgrounds, we are united in agreeing that the changes taking place – in the way Canadians choose to receive advice and when and how they invest – require this organization to keep pace with proportionate, timely regulation that positions IIROC for the future.

My colleagues bring their considerable depth and variety of experience to bear in helping IIROC articulate and achieve its strategy and vision. We are well-versed in the evolving issues facing investors, the investment industry and capital markets and the Board fully supports the ways that IIROC is moving to address them through its Strategic Plan and priorities.

It's important to note that although the annual priorities supporting IIROC's Strategic Plan may change, the overarching goal remains constant year over year: to do excellent work each and every day to ensure that IIROC delivers on its mission as a public interest regulator, both to protect investors and to ensure healthy Canadian capital markets.

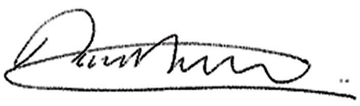
The Board is grateful for the increased enforcement authority granted to IIROC by provincial and territorial governments in the last fiscal year, and applauds the actions taken to strengthen IIROC's legal authority. These powers give us the tools we need to carry out the job we've been assigned. We look forward to other provinces taking similar action to protect investors, hold wrongdoers accountable and deter others who might otherwise be tempted to engage in such activity.

The overarching goal remains constant year over year: to do excellent work each and every day to ensure that IIROC delivers on its mission as a public interest regulator, both to protect investors and to ensure healthy Canadian capital markets.

The importance of IIROC's day-to-day work to protect investors is critical to our success in other areas. Because this work is consistently done well, it builds confidence in the contribution IIROC makes to maintaining the strength of Canada's regulatory framework. The Board as a whole supports both the ongoing regulatory work that is done every day, as well as the strategic initiatives that better position IIROC for tomorrow.

On an individual level, I want to acknowledge the contributions of Rita Achrekar and Thomas A. Wittman, who have left our Board, and welcome Lucie Tedesco and Jos Schmitt as Directors. Lucie was most recently Commissioner of the Financial Consumer Agency of Canada (FCAC) and Jos is President and CEO of the Aequitas NEO Exchange and Aequitas NEO Connect. With their extensive experience, we know they can provide invaluable insights that will strengthen our Board and IIROC.

I would also like to thank IIROC's leadership and all staff for the valuable work that they do to protect Canadian investors and to support healthy capital markets across Canada.



PAUL D. ALLISON
Chair of the Board

REPORT FROM THE PRESIDENT AND CEO

Canadians' attitudes towards investing, saving and the management of their financial lives are being fundamentally altered. A changing demographic and an evolving society, new entrants in financial services, the availability of new digital tools and technologies and the convergence of once discrete financial products into a comprehensive package of financial life management services are all having an impact.

As a result, Canadians are changing the way they want to consume advice and services and how they interact with the firms that provide them. As Canada's financial services industry evolves in response to these changes, IIROC needs to evolve with it.

This past year saw us lay the foundations for IIROC's transformation, a series of changes that will position us to evolve alongside the industry we regulate and the Canadians we serve.

In collaboration with the global advisory firm Accenture, IIROC completed a landmark report on the Canadian wealth management industry – *Enabling the Evolution of Advice in Canada*. The research supporting the report will help us to facilitate financial services innovation and to accommodate new advice and service offerings without compromising investor protection or choice.

Follow-through on the report will require changes to our regulatory framework. In some areas, we can accomplish these changes by creating or augmenting guidance or by very specific changes to individual rules. In other areas, a more fundamental restructuring of our approach will be required. For example, we must acknowledge that many Canadians no longer view their financial relationships the way that securities regulation typically did – through the lens of individual investment or savings accounts – but rather as a portfolio held by one or more people in a household representing one or more generations. Similarly, as artificial intelligence and robotic process automation tools advance, IIROC's rules must welcome the capabilities they give investors while simultaneously ensuring that regulated firms and individuals retain ultimate accountability.

Implementing such changes – particularly when combined with other regulatory reforms already identified by our research or proposed by our

The past year saw us lay the foundations for IIROC's transformation, a series of changes that will position us to evolve alongside the industry we regulate and the Canadians we serve.

regulatory partners at the Canadian Securities Administrators (CSA) – will be a major undertaking. Fortunately, IIROC has set the stage for such changes by completing its multi-year plain-language rewrite of the IIROC rules. The revised rulebook, which governs the activities of dealers and which, together with IIROC's existing Universal Market Integrity Rules, forms our regulatory framework. Now approved, the new rulebook will come into force over the following year, providing the modern architecture needed to evolve our rules alongside the changing needs of Canadians and the rapidly advancing business models and technologies of the industry.

Of course, the preparations for transformative change at IIROC over the last year were not limited to our oversight of the interactions that dealers have with individual Canadians. Working with Nasdaq SMARTS, we also launched the newest generation of the surveillance system that monitors activity in Canada's debt and equity markets. We can now monitor up to one billion messages daily in real time and support cross-market, cross-asset and cross-trader surveillance and investigation. We have also significantly enhanced our operational efficiency by directly linking the surveillance system with a new integrated case management system, used by all IIROC regulatory departments, thus providing a single streamlined path for all cases from identification through investigation and, as necessary, enforcement.

We are also using our enhanced capabilities to support our regulatory partners at the CSA with the launch of their Market Analytics Platform (MAP) by implementing daily processes to securely transfer equity trade data from our Data Sharing Platform using secure cloud and "big data" capabilities.

IIROC not only regained market-leading surveillance capabilities with the launch of the new system, we planned for its future as well. We can now effectively and cost-efficiently integrate the surveillance of additional asset classes should we be called upon to do so as part of our public interest mandate.

For example, crypto-assets represent one emerging asset class where IIROC may be called upon to play a part. To begin to answer the question of what role, if any, IIROC should play, the CSA published jointly with IIROC a proposed framework for crypto-asset trading platforms. Interest in crypto-assets has grown rapidly, along with the recognition that the need to support innovation must be balanced with the appropriate safeguards for potential investors.

These initiatives all support our dual mission of protecting investors and supporting healthy Canadian capital markets. To best protect investors, it is not enough to have a modern, up-to-date regulatory framework, effective and efficient compliance oversight and state-of-the-art market surveillance capabilities. IIROC also needs the tools to permit thorough and effective investigations of potential violations and a sanctions regime with real consequences for those found to have abused the trust of their clients or the markets as a whole.

I am extraordinarily pleased to say that for the second year in a row, IIROC has made significant progress in obtaining the tools we need to do the job. Between April 1, 2018 and June 1, 2019, six provinces adopted legislation to augment our enforcement powers and all three territories enacted regulatory orders with similar effects.

To put this in context, when IIROC launched its efforts to obtain a complete enforcement toolkit in 2015, only Alberta and Quebec had granted IIROC the ability to enforce its disciplinary fines through the courts. Today, those two provinces are joined by Prince Edward Island, Ontario, British Columbia, Manitoba, Nova Scotia, the Yukon, the Northwest Territories, Nunavut, and Saskatchewan.

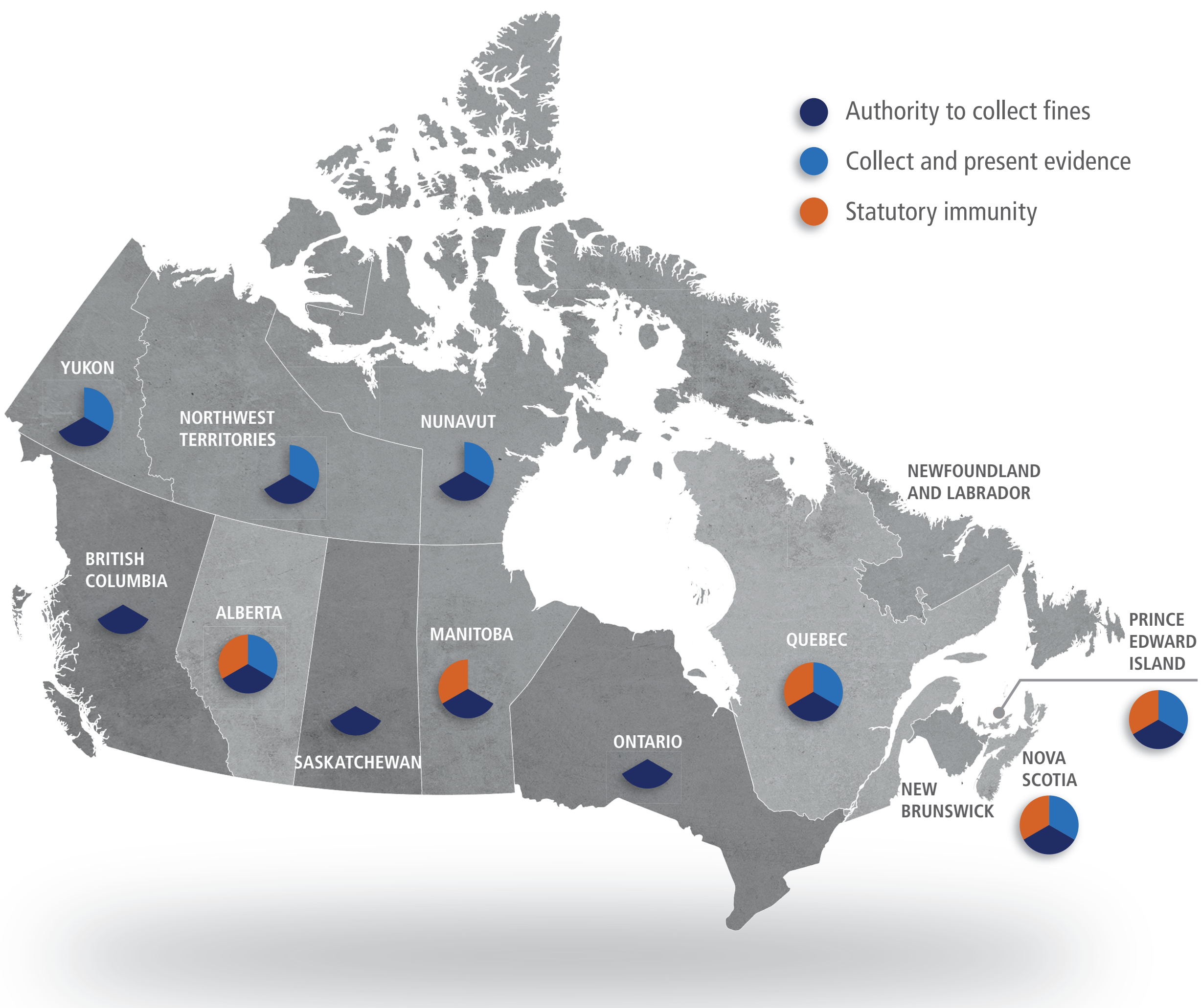
In addition, our ability to effectively pursue investigations has been augmented by the granting of statutory immunity in Alberta, Quebec, Prince Edward Island, Manitoba and Nova Scotia and the ability to require cooperation by third parties with our investigations and hearings in Alberta, Quebec, Prince Edward Island, Nova Scotia and, partially, in the Yukon and the Northwest Territories and Nunavut.

I am incredibly grateful for the trust, support and confidence in IIROC demonstrated by the actions of those governments and their respective securities authorities. We are using and will continue to use these tools in the public interest to protect Canadians. Over the next year, we will also continue to work with governments to ensure that we have a full set of tools across the country so that all Canadians from coast-to-coast benefit from an equal and high level of protection.

As we completed our last fiscal year and put in place so many foundational measures, IIROC was also finalizing our Strategic Plan for the coming three years. In planning and executing strategy, it is all too easy to be consumed by a vision of the future and thus to lose focus on the day-to-day.

IIROC Enforcement's current legal authority and protections

IIROC has made significant progress in the following jurisdictions to strengthen investor protection:



REPORT FROM THE PRESIDENT AND CEO

I want to emphasize that IIROC'S Board of Directors, its staff and management are united in our determination to continue to efficiently and effectively execute on our core regulatory mandate as our highest priority. It is that focus and the strong results that have followed which have earned us trust with Canadians, our regulatory partners at the CSA and their governments. It is only that trust which gives us license to consider how else we might be able to deliver value for Canadians and the financial system.

Last year, in front of the Finance Committee of Quebec's National Assembly, IIROC testified that an important part of the reason we have been successful at the role we have been given is because of our uniquely Canadian model. IIROC is a self-regulatory organization, one that features *autoréglementation supervisée*, or self-regulation combined with public oversight. We are both overseen and supported by our colleagues and partners in each of the CSA jurisdictions and it is by working together with them that we are most effective.

I am grateful to the Board of Directors for their support, their guidance and for their strategic vision. The experience and perspective they bring to the governance of our self-regulatory organization is critical and it has helped chart our course through this rapidly changing world.

Finally but perhaps most importantly, the Board joins me in thanking IIROC's dedicated management and staff in Vancouver, Calgary, Montreal and Toronto. They are the ones who every day truly live our mission of protecting investors and supporting healthy capital markets. I am proud to be their colleague.

ANDREW J. KRIEGLER
President and CEO

EXECUTIVE MANAGEMENT TEAM

ANDREW J. KRIEGLER
President and CEO

LUCY BECKER
Vice-President, Public Affairs and Member Education Services

CLAUDYNE BIENVENU
Vice-President, Québec and Atlantic Canada

IAN CAMPBELL
Chief Information Officer

WARREN FUNT
Vice-President, Western Canada

DOUG HARRIS
Vice-President, General Counsel and Corporate Secretary

VICTORIA PINNINGTON
Senior Vice-President, Market Regulation

ELSA RENZELLA
Senior Vice-President, Registration and Enforcement

IRENE WINEL
Senior Vice-President, Member Regulation and Strategy

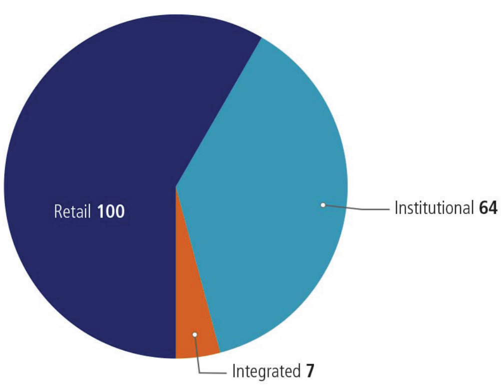
SHUAIB SHARIFF
Senior Vice-President, Finance and Administration

INDUSTRY PROFILE: DEALERS

(All statistics are as at March 31, 2019)

Investment dealers regulated by the Investment Industry Regulatory Organization of Canada vary in size, ranging from the largest financial institutions in the country to small businesses with 10 or fewer staff registered with IIROC. They represent a variety of business models, including a focus on retail or institutional clients, and an integrated approach with both retail clients and investment banking operations.

CATEGORIES OF INVESTMENT DEALERS



As of March 31, 2019, there were 171 dealers, of which 165 were in good standing, 1 was inactive, 1 was in the resignation process and 4 were suspended.

INDIVIDUALS AND FIRMS REGULATED BY IIROC

(by location)

Province	Approved Persons	Branch Offices	Head Offices
AB	3,137	974	15
BC	4,646	1,227	10
MB	609	168	3
NB	307	84	1
NF	113	38	0
NS	521	150	0
NT	1	3	0
NU	0	0	0
ON	14,532	3,194	107
PE	70	25	0
QC	4,934	725	29
SK	605	211	0
YT	5	5	0
U.S.	362	NA	6
Other*	44	NA	0
Total:	29,886	6,804	171

*International

MEMBER FIRMS

(by revenue)

Revenue	% of Firms
Greater than $1 billion	4%
Greater than $100 million	15%
Greater than $10 million	35%
Greater than $5 million	11%
Less than $5 million	35%

Based on 169 dealers that reported revenue during the period from April 1, 2018 to March 31, 2019.

MEMBER FIRMS

(by number of approved persons)

Number of Approved Persons	Number of Firms	% of Firms
Over 1,000	8	5%
501 to 1,000	6	4%
101 to 500	19	11%
11 to 100	77	46%
10 or fewer	56	34%

INDUSTRY PROFILE: MARKETS

IIROC REGULATES TRADING ACTIVITY ON

6 Stock Exchanges

- TORONTO STOCK EXCHANGE (TSX)
- TSX VENTURE EXCHANGE (TSXV)
- ALPHA EXCHANGE (ALPHA)
- CANADIAN SECURITIES EXCHANGE (CSE)
- NEO EXCHANGE INC. (NEO)*
- NASDAQ (CXC) LIMITED (NASDAQ CANADA)**

5 Equity Alternative Trading Systems

- OMEGA ATS (OMEGA)
- LYNX ATS (LYNX)
- TRIACT CANADA MARKETPLACE (MATCH NOW)
- LIQUIDNET CANADA INC. (LIQUIDNET)
- INSTINET CANADA CROSS LIMITED (ICX)

* NEO Exchange operates 3 distinct books
– NEO-L, NEO-N and NEO-D

** Nasdaq (CXC) Limited operates 3 distinct books
– Nasdaq CXC (CXC), Nasdaq CX2 (CX2) and Nasdaq CXD (CXD)

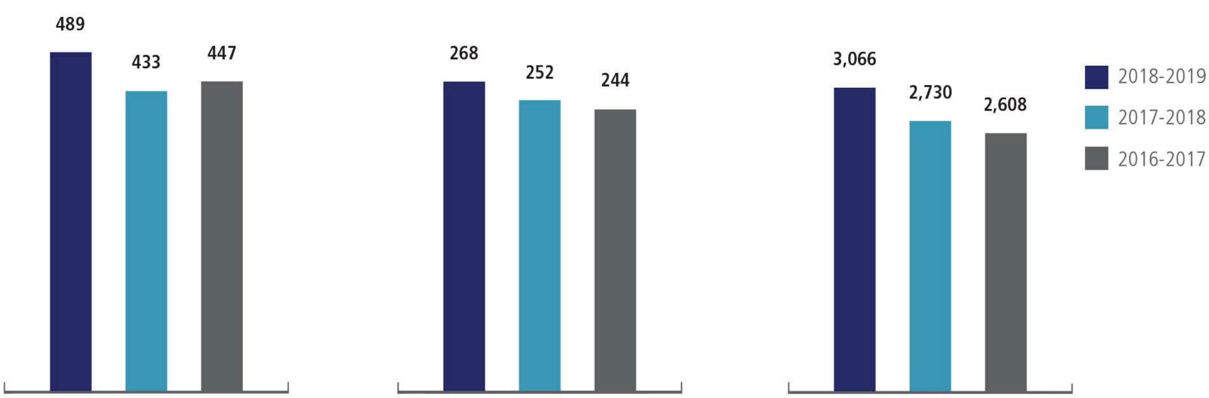
CANADA'S MULTIPLE EQUITY MARKETPLACES

(Where trading took place in 2018-2019 by share volume)*

Listed	TSX	TSXV	CSE	NEO
TSX	53.46%	–	–	–
TSXV	–	68.22%	–	–
CSE	2.46%	2.66%	73.44%	–
Liquidnet	0.14%	0.01%	–	–
MATCH Now	6.23%	8.68%	6.93%	1.36%
Omega	4.45%	1.43%	4.52%	–
CXC	13.06%	2.88%	2.45%	–
Alpha	6.31%	3.08%	–	–
ICX	0.04%	0.00%	0.00%	–
CX2	3.21%	3.67%	2.46%	–
Lynx	0.06%	0.03%	0.13%	–
NEO-N	7.24%	4.39%	3.23%	38.54%
NEO-L	2.42%	4.34%	3.97%	60.10%
CXD	0.94%	0.61%	2.85%	–
NEO-D	0.00%	0.00%	0.00%	0.00%

*For the year ended March 31, 2019

ACTIVITY ON THE EQUITY MARKETPLACES WHOSE TRADING ACTIVITY IS REGULATED BY IIROC



TRADES
Number of Transactions (Millions)

VOLUME
Total Shares Traded (Billions)

VALUE
of Shares Traded ($ Billions)

PRIORITIES PROGRESS REPORT

2018-2019 marked the final year of IIROC's three-year Strategic Plan, originally published in May 2016. IIROC's 2018-2019 priorities focused on significant activities and initiatives for completion in support of the Strategic Plan.

In keeping with IIROC's commitment to transparency and accountability to our stakeholders, we are pleased to present a report on our progress on those activities and initiatives. We will continue to measure and report on our progress each year. This work complements our day-to-day regulatory work to protect investors and promote healthy Canadian capital markets. You can read more in the CEO's message and Key Facts section of this report.

KEY

Achieved – completed
In progress – work is ongoing

GOALS / PROJECTS	DETAILS / MILESTONES
MARKET SUPERVISION	
Complete implementation of new surveillance system to support the continued evolution of market supervision.	Given the industry transformation taking place, we recognized we must be adaptable and flexible in supporting increasingly fast-paced, technology-driven demands for innovation by providing efficient and up-to-the-minute market oversight. As a result, IIROC committed to improving its existing surveillance system. The new system was implemented in March 2019. IIROC now has leading-edge technology from Nasdaq SMARTS that significantly enhances the way IIROC oversees Canada's capital markets and protects investors from potential market abuses. The new system allows IIROC to better detect and respond to potential market abuses, inspiring greater confidence among all market participants that Canada's capital markets are operating fairly and with integrity, and that investors are protected.
CONDUCT AND PRUDENTIAL	
Implement improved Trading Conduct Compliance and Business Conduct Compliance risk models.	IIROC uses risk models to inform the frequency of our compliance examinations, allowing us to focus on dealers who present the highest risk. Following a comprehensive review of our risk models to ensure they remain current and achieve their intended predictive purpose, we implemented the new models at the end of March 2019.
Conduct industry tabletop exercises and second self-assessment to improve dealers' cybersecurity preparedness.	Cybersecurity is a complex issue facing all industries, and it remains a focus for IIROC. Working with dealers to help improve their cybersecurity preparedness has been a priority for several years. • We completed a cybersecurity tabletop exercise for small/mid-size dealers (June 2018) • Second self-assessment (all dealers) completed (December 2018) • Dealers provided with cyber risk report cards (March 2019)

IIROC OVERSEES

29,886
approved persons

171*
firms

* includes 4 suspended members, 1 inactive member, and 1 pending resignation

INTERVENED

32
trades cancelled or varied

879
transactions affected

COORDINATED

1,634
trading halts

46
cease trade orders

TRIGGERED

36
single stock circuit breakers

GOALS / PROJECTS	DETAILS / MILESTONES

ENFORCEMENT

Continue to pursue additional powers, protections and tools.

Pursue alternative forms of disciplinary action

IIROC completed a review and evaluation of comparable alternative programs adopted by other regulators (both domestic and foreign). In February 2018, we published for comment a proposal for two programs: a Minor Contravention Program and Early Resolution Offers. We also consulted directly with approximately 1,000 Canadian investors from our online pool of 10,000 Canadian investors and published the results in November 2018.

Following consideration of our stakeholder feedback a revised proposal and a second request for comments were published on April 25, 2019.

Expanded legal authorities

To fulfill our investor protection mandate and more effectively deter wrongdoing, we will continue to pursue the authority to:

- Increase our fine collection against individuals through the courts;
- Obtain statutory immunity for IIROC and its personnel when acting in the public interest; and,
- Strengthen evidence collection during investigations and presentation at hearings.

Since January 2017, eight provinces and three territories have enhanced our enforcement toolkit. Since April 2018, we obtained the following enforcement authority:

Fine Collection

- British Columbia
- Manitoba
- Nova Scotia
- Northwest Territories
- Nunavut
- Yukon
- Saskatchewan

Statutory Immunity

- Manitoba
- Quebec
- Nova Scotia
- Prince Edward Island

MONITORED

488,821,052

trades on 6 stock exchanges and 5 equity alternative trading systems

CONDUCTED

82

on-site Business Conduct Compliance firm reviews

89

on-site Financial and Operations Compliance firm reviews

46

on-site Trading Conduct Compliance firm reviews

0

integrated on-site Compliance firm reviews

GOALS / PROJECTS	DETAILS / MILESTONES
ENFORCEMENT (CONTINUED)	
Continue to pursue additional powers, protections and tools. (CONTINUED)	**Power to require cooperation with investigations and hearings** • Nova Scotia • Prince Edward Island • Quebec • Northwest Territories (Hearings only) • Nunavut (Hearings only) • Yukon (Hearings only)
POLICY DEVELOPMENT	
Issue additional guidance on compensation-related conflicts and align with CSA on client-focused reforms and embedded commissions.	We continue to actively participate in the Canadian Securities Administrators' (CSA's) work on client-focused reforms and will continue toward harmonizing our conflict-of-interest requirements across regulatory platforms. Discussions with the CSA continue regarding embedded commissions.
Propose a safe-harbour rule complemented by additional tools to help dealers protect the interests of vulnerable investors.	IIROC is participating in the CSA working group to develop a safe-harbour rule to protect vulnerable investors. IIROC also conducted a national survey of investors showing an overwhelming majority believe that protective measures should be put in place to ensure that investment firms and advisors can take action when they suspect investors have become vulnerable or that others might be attempting to financially exploit them.
Implement the Plain Language Rulebook (PLR) and introduce dealer training.	IIROC's Plain Language Rulebook was approved by the CSA. The rules will be published and there will be a 10-month implementation period. During this implementation period, we will conduct dealer training on the rules and complete our work on updating our guidance and other related reference materials and internal documents (e.g., our examination modules) to reflect the plain language rules.
Finalize the requirements for the mandatory use of client identifiers.	We published proposed rule changes in June 2018 in response to comments received and industry consultation. These amendments were approved by the applicable securities regulatory authorities in April 2019.

COMPLETED

127
ENFORCEMENT INVESTIGATIONS

46
DISCIPLINARY HEARINGS
(including settlement hearings)
(36 individuals/10 firms)

ISSUED

17
SUSPENSIONS

3
PERMANENT BANS

GOALS / PROJECTS	DETAILS / MILESTONES
POLICY DEVELOPMENT (CONTINUED)	
Conduct investor research on key policy issues.	Through our commitment to direct investor engagement, we established an online community of 10,000 Canadian investors to better understand their needs and experiences and actively consult on key policy issues. In this fiscal year, we surveyed Canadians to determine their awareness of and potential support for regulatory tools that could help protect them if they become vulnerable due to incapacity and/or exploitation and provide support to IIROC firms and registrants. We also surveyed Canadians regarding our proposals to introduce two new programs to provide more timely and proportionate resolution of enforcement matters.
SUPPORT INDUSTRY TRANSFORMATION	
Complete industry consultation on evolution of advice and identify opportunities for improvement.	IIROC, in collaboration with Accenture, completed an extensive consultation with industry leaders on the evolution of advice in Canada. We discussed the changing needs and expectations of Canadian investors, how they are accessing financial advice and services, how firms are responding, the barriers firms face when trying to innovate, and opportunities for more engaged relationships with our members. The insights and learnings from this consultation, published in our report entitled *Enabling the Evolution of Advice in Canada* (http://www.iiroc.ca/industry/Enabling-the-Evolution-of-Advice-in-Canada/Pages/default.aspx), are shaping IIROC's strategy and approach to both regulation and engagement with stakeholders, in support of our investor protection mandate. The report is a key element of our multi-part strategy to accommodate new business models and help facilitate greater access to appropriate wealth management advice and services for Canadians.
Prepare to regulate blockchain applications and digital assets.	Our internal working group continued to actively monitor developments in this industry and is developing a framework to assess new business models in this space. IIROC published a joint consultation paper with the CSA on a proposed framework for crypto-asset trading platforms in March 2019.
INFORMATION SHARING	
Add government debt to IIROC's Debt Information Processor Service.	In May 2018, the CSA proposed that IIROC become the Government Debt Information Processor (Debt IP), increasing transparency and improving market integrity without duplicating effort or cost. Since July 2016, IIROC has been publishing all corporate debt trades executed on the secondary market by IIROC-regulated firms through our public portal. This year, IIROC was also entrusted by the Bank of Canada with the publication of the Canadian Banker's Acceptance (BA) Rates and monthly Bond and Money Market Secondary Trading Statistics.

ASSESSED

$3,067,500

fines (excluding costs and disgorgement) against firms and individuals

$860,000
FIRMS

$2,207,500
INDIVIDUALS

COLLECTED

$1,410,750

46% of total fines assessed

fines (excluding costs and disgorgement) against firms and individuals

$860,000 of discipline penalties against firms, representing

100% of fines assessed

$550,750 of discipline penalties against individuals, representing

25% of fines assessed

GOALS / PROJECTS	DETAILS / MILESTONES
INFORMATION SHARING (CONTINUED)	
Continue to enhance data-sharing platform and capabilities.	We are supporting our regulatory partners at the CSA with the launch of their Market Analytics Platform (MAP) in the summer by implementing daily processes to securely transfer equity trade data from our Data Sharing Platform using secure cloud and "big data" capabilities. The data we collect through our interactions with market participants and third parties continues to grow in size and complexity as the industry and our mandate evolves. The efficient collection, augmentation, validation, classification, storage, retention, protection and integration of this data is critical to fulfilling our mandate. Given the quality and comprehensive nature of the data we gather, we have been able to leverage this data externally with the CSA, the Bank of Canada and the Department of Finance Canada in support of their initiatives without adding any additional effort or cost to the system.
VALUE DELIVERY AND THE CANADIAN MARKETPLACE	
Continue working with regulators to reduce regulatory arbitrage and increase information sharing.	In May 2019, in order to increase effective and efficient regulation, we announced a Memorandum of Understanding (MOU) with the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) to better protect against money laundering and terrorist financing while reducing the compliance burden on IIROC-regulated investment firms. Under this agreement, IIROC and FINTRAC will share with each other the anti-money laundering-related findings from their audits and examinations of Canadian investment firms. The two organizations will also maintain close, timely and ongoing communications about any activities that may impact each other in their pursuit to protect Canadian investors. IIROC continues to pursue collaborative agreements with other regulators and authorities to prevent individuals who have been disciplined for wrongdoing from avoiding the consequences of their actions by switching their registration to another regulator and carrying on business with unsuspecting consumers who are unaware of their past misdeeds. The agreements also enable joint investigations when the same individual is under investigation by both regulatory organizations.

PROVIDED

a variety of compliance education opportunities, including:

9
Educational webcasts

6
Live events

22,703
Total views of all existing webcasts

875
Industry participants

HELD

our annual compliance conferences, where staff from IIROC-regulated firms attended

364 TORONTO

122 MONTREAL

134 VANCOUVER

GOALS / PROJECTS	DETAILS / MILESTONES
INVESTOR AWARENESS	
Continue to rebuild our corporate website to improve user experience.	We undertook an in-depth external user research project to help us develop our vision and plan for a new website. We are continuing to analyze what we heard from both internal and external users, combined with our research into best practices. We continue to work on content improvements in preparation for migration to the new platform. We are also exploring what we need to do to be compliant with accessibility legislation by 2021.
TECHNOLOGY CAPABILITIES	
Transition IT infrastructure and information security operations to a new, secure, hybrid cloud platform.	We signed an agreement with a new managed services provider to transform the delivery of IT Infrastructure and Security services in support of our business agenda and strategy. The new platform will utilize scalable hybrid cloud services to improve agility and cost and provide access to tools to manage and use the data we receive more effectively including "big data" repositories, advanced analytics, self-serve reporting, dashboards, and data sharing capabilities. Service transition from incumbent service providers to the new service provider is in progress.
PEOPLE AND ORGANIZATIONAL CULTURE	
Attract, retain and invest in our people and culture to deliver on our objectives.	We continue to make strategic investments in our core business applications and technology infrastructure to better enable operational effectiveness and position us for industry transformation. We have consolidated our case management and examination systems and integrated them across our business functions. We replaced our core accounting and financial planning systems, implemented a new portfolio management system and the initial phase of our governance, risk and compliance systems. We have also recently selected a new human capital management system following an RFP process. We have replaced our video conference/collaboration tools and technologies to enable our staff to work more effectively. All of these initiatives are strengthening our infrastructure and will position us well for the future. We are investing in our people capabilities by attracting key talent, developing our existing talent and strengthening our succession planning program. We continue to improve our employee-facing technologies and supporting programs.

RESPONDED TO

2,081
investor inquiries and

925
inquiries and

521
complaints related to **business conduct**

575
complaints related to **trading**

through IIROC's Complaints and Inquiries department, which includes front-line staff in Calgary, Toronto, Vancouver and Montreal

PUBLISHED

4
Member Policy rule proposals

3
Member Policy rule amendments

3
Market Policy rule proposals

3
Market Policy rule amendments

GOVERNANCE REPORT

BOARD OF DIRECTORS

The Recognition Orders set out by the Canadian Securities Administrators (CSA) provide that IIROC's governance structure and arrangements must ensure fair, meaningful and diverse representation on its Board of Directors and any committees of the Board, including a reasonable proportion of Independent Directors. IIROC also reviews its governance on an ongoing basis to ensure that there is a proper balance between, and effective representation of, the public interest and the marketplaces, dealers and other entities desiring access to the services provided by IIROC.

All IIROC Directors are responsible for ensuring that IIROC serves the public interest in protecting investors and market integrity, by articulating and ensuring it meets a clear public interest mandate for its regulatory functions.

Seven of IIROC's 15 Directors are Independent Directors who are not affiliated with an IIROC member. In addition, the Corporate Governance Committee – which is charged with overseeing IIROC's governance – is made up entirely of Independent Directors.

We also pay close attention to ensuring that the Dealer Directors on the IIROC Board represent a wide range of dealers. Of our five Dealer Directors, three are from independent firms, two of which are based in Western Canada.

We believe that the IIROC Board is uniquely positioned to act in the public interest to protect investors and market integrity and support healthy capital markets across Canada.

ANDREW J. KRIEGLER
(JOINED NOVEMBER 2014)
President and CEO, IIROC
TORONTO, ONTARIO

PAUL D. ALLISON, CHAIR
(JOINED OCTOBER 2013)
Industry Director
Chairman and CEO,
Raymond James Ltd.
TORONTO, ONTARIO
Member of Human Resources and Pension Committee

CATHERINE SMITH, VICE-CHAIR
(JOINED SEPTEMBER 2012)
Corporate Director (Independent)
TORONTO, ONTARIO
Member of Corporate Governance Committee
Member of Human Resources and Pension Committee

INDUSTRY DIRECTORS

JEAN-PAUL BACHELLERIE
(JOINED SEPTEMBER 2013)
President and CEO
PI Financial Corp.
VANCOUVER, BRITISH COLUMBIA
Member of Human Resources and Pension Committee

HOLLY A. BENSON
(JOINED JANUARY 2015)
Vice-President, Finance and CFO, Peters & Co. Limited
CALGARY, ALBERTA
Member of Finance, Audit and Risk Committee

LUC FORTIN
(JOINED JANUARY 2018)
President and CEO, Montréal Exchange and Global Head of Trading, TMX Group
MONTRÉAL, QUÉBEC
Member of Finance, Audit and Risk Committee

LUC PAIEMENT
(JOINED SEPTEMBER 2016)
Executive Advisor
National Bank Financial
MONTRÉAL, QUÉBEC
Member of Human Resources and Pension Committee

JOS SCHMITT
(JOINED SEPTEMBER 2018)
Founder and President and CEO, Aequitas NEO Exchange
TORONTO, ONTARIO
Member of Human Resources and Pension Committee

As noted on page 20, Paul D. Allison (Chair) is an Industry Director.

RESIGNED AS INDUSTRY DIRECTORS

RITA ACHREKAR
(JOINED SEPTEMBER 2015)
Senior Vice-President
Global Risk Management, Scotiabank
TORONTO, ONTARIO
Member of Finance, Audit and Risk Committee

THOMAS A. WITTMAN
(JOINED SEPTEMBER 2016)
Executive Vice-President of Nasdaq and Head of Global Trading and Market Services
PHILADELPHIA, U.S.A.
Member of Human Resources and Pension Committee

INDEPENDENT DIRECTORS

MICHÈLE COLPRON
(JOINED SEPTEMBER 2017)
Corporate Director
MONTRÉAL, QUÉBEC
Member of Finance, Audit and Risk Committee

JAMES DONEGAN
(JOINED SEPTEMBER 2012)
Corporate Director
TORONTO, ONTARIO
Member of Corporate Governance Committee
Member of Finance, Audit and Risk Committee

BRIAN HEIDECKER
(JOINED SEPTEMBER 2011)
Corporate Director
EDMONTON, ALBERTA
Member of Corporate Governance Committee
Member of Finance, Audit and Risk Committee

EDWARD IACOBUCCI
(JOINED SEPTEMBER 2012)
Dean
Faculty of Law, University of Toronto
TORONTO, ONTARIO
Member of Corporate Governance Committee

GERRY O'MAHONEY
(JOINED SEPTEMBER 2013)
Principal and Founder
Tralee Capital Markets
OAKVILLE, ONTARIO
Member of Corporate Governance Committee

LUCIE TEDESCO
(JOINED SEPTEMBER 2018)
Corporate Director
OTTAWA, ONTARIO
Member of Human Resources and Pension Committee
Member of Finance, Audit and Risk Committee

As noted on page 20, Catherine Smith (Vice-Chair) is an Independent Director.

2018-2019 BOARD MEETINGS

APRIL 1, 2018 TO MARCH 31, 2019 BOARD MEETINGS

A total of 29 meetings were held during the fiscal year ended March 31, 2019. Below is a breakdown of attendance.

Director	Board of Directors	Finance and Audit	Corporate Governance	Human Resources and Pension	Human Resources and Pension Special	Regulatory Rules Brief	Total Compensation
Rita Achrekar*	4/5	3/3	N/A	N/A	N/A	3/3	
Paul D. Allison	6/6	2/0	4/0	4/4	3/4	3/4	
Jean-Paul Bachellerie	6/6	N/A	N/A	4/4	4/4	4/4	
Holly A. Benson	6/6	5/5	N/A	N/A	N/A	4/4	
Michèle Colpron**	6/6	5/5	N/A	N/A	N/A	4/4	$ 53,276.75
James Donegan**	6/6	4/5	6/6	4/4	4/4	4/4	$ 60,631.05
Luc Fortin	4/6	4/5	N/A	N/A	N/A	4/4	
M. Marianne Harris* **	2/2	2/2	1/0	N/A	N/A	1/1	$ 27,517.11
Brian Heidecker**	6/6	5/5	6/6	N/A	N/A	4/4	$ 54,033.50
Edward Iacobucci**	6/6	N/A	6/6	N/A	N/A	4/4	$ 44,190.25
Andrew J. Kriegler	6/6	5/5	6/6	4/4	3/3	4/4	
Gerry O'Mahoney**	6/6	3/3	6/6	N/A	N/A	4/4	$ 51,155.53
Luc Paiement	6/6	N/A	N/A	3/4	4/4	4/4	
Jos Schmitt	4/4	N/A	N/A	3/3	2/3	3/3	
Catherine Smith**	6/6	N/A	6/6	4/4	4/4	4/4	$ 64,083.84
Lucie Tedesco**	4/5	5/3	N/A	3/4	3/3	4/4	
Thomas A. Wittman*	0/2	N/A	N/A	0/1	N/A	0/1	

* Director stepped down during the year.
** Only Independent Directors are compensated by IIROC.

DIRECTOR COMPENSATION

IIROC does not compensate Industry Directors for their participation on IIROC's Board or on its Committees. IIROC compensates Independent Directors in accordance with the following framework:

Board

Annual retainer – $15,000 per annum

Chair of the Board – an additional $15,000 if the Chair is an Independent Director

Vice-Chair of the Board – an additional $4,000 if the Vice-Chair is an Independent Director

Board meetings of less than two hours in duration – $1,000

Board meetings of two hours or longer – $1,500

Committee

Committee Members – $1,500 per annum

Committee Chairs – $4,000 per annum

Committee meetings of less than two hours in duration – $1,000

Committee meetings of two hours or longer – $1,500

In the event that the location of a Board meeting requires an additional travel day and the Director attends in person, a supplementary travel fee of $1,000 is allowed.

Directors are paid half the compensation of the committee member per diem attendance fee when invited by the Chair of a Board Committee to attend the Committee's meeting, of which they are not a member.

BOARD COMMITTEE MANDATES

Corporate Governance Committee

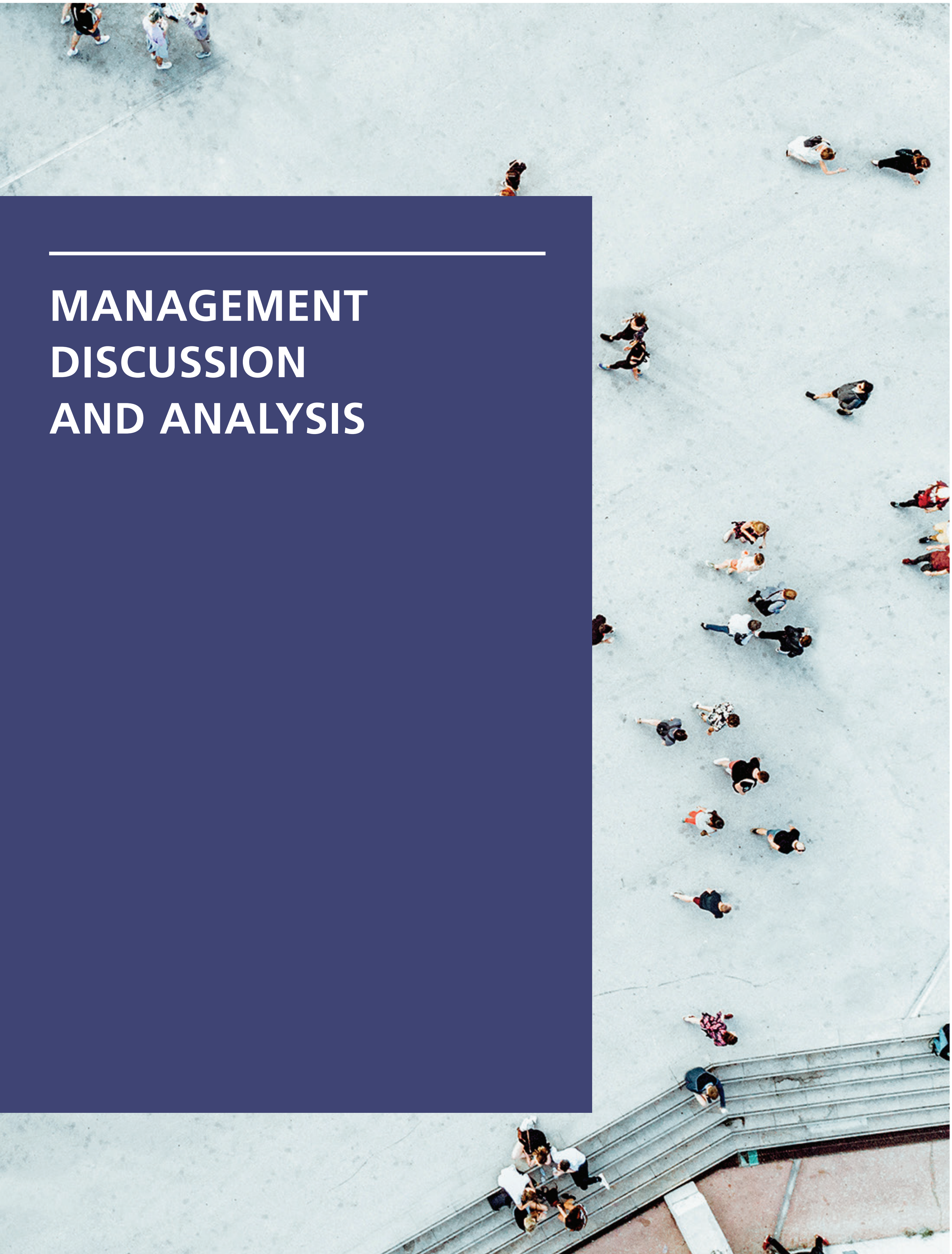
Recommends candidates eligible to serve on the Board and its committees; reviews IIROC governance principles and practices; identifies and manages potential conflicts of interest; establishes Board self-assessment process; and appoints individuals to the Hearing Committee.

Finance, Audit and Risk Committee

Assists Board in oversight of: accounting and financial reporting processes; qualifications, independence and performance of IIROC's independent auditor; IIROC's internal control systems; and IIROC's risk management processes.

Human Resources and Pension Committee

Ensures IIROC can attract and retain personnel with the appropriate status and experience to achieve its objectives and enhance the professionalism and effectiveness of the organization; assists the Board in its oversight of IIROC's human resources policies and procedures, benefits and pension plans and with related regulatory compliance.



MANAGEMENT DISCUSSION AND ANALYSIS

The Management Discussion and Analysis (MD&A) on IIROC's operations and financial condition are presented for the fiscal year ended March 31, 2019, compared with the previous year ended March 31, 2018. The MD&A should be read in conjunction with the Financial Statements for the year ended March 31, 2019.

IIROC is a cost-recovery, not-for-profit national organization that recovers its operating expenses from several sources. The primary source is through fees for dealer regulation, equity market regulation, debt market regulation and Debt Information Processor (Debt IP) activities which are collected through the application of their respective fee models. Dealer regulation secondary sources of revenue include underwriting levies, which represent a stipulated percentage share of the value of most public equity and debt underwritings in Canada, and registration fees based on fee-sharing agreements with some* provincial securities commissions and authorities. Another significant revenue source for market regulation is timely disclosure fees from the TSX, TSXV, CSE and Aequitas exchanges for administering their timely disclosure policies.

Certain statements in this MD&A are forward-looking and are therefore subject to risks and uncertainties. The financial performance or events forecast in these statements may differ materially from actual financial performance or events. IIROC has based these forward-looking statements on its current views of future events and financial performance. Any assumptions, although reasonable in our judgment at the time of publication, are not guarantees of future performance.

KEY CHANGES IN SENIOR MANAGEMENT

During the year, Wendy Rudd, previously in the role of Senior Vice-President, Member Regulation and Strategic Initiatives, left the Organization. Irene Winel has since been appointed as Senior Vice-President of Member Regulation and Strategy effective April 29, 2019.

* The following provinces share registration fees with IIROC:
- Alberta
- New Brunswick
- Ontario
- Saskatchewan

MANAGEMENT DISCUSSION AND ANALYSIS (IN THOUSANDS OF DOLLARS)

SUMMARY FINANCIAL INFORMATION

UNRESTRICTED FUND

	FY 2019 $	FY 2018 $	Variance $	Variance %
REVENUE				
Dealer regulation				
Membership fees	50,544	50,013	531	1%
Underwriting levies	8,709	10,465	(1,756)	(17%)
Registration fees	2,730	2,612	118	5%
Entrance fees	130	85	45	53%
	62,113	63,175	(1,062)	(2%)
Market regulation				
Equity regulation	25,768	25,768	0	0%
Debt regulation	2,266	1,970	296	15%
Timely disclosure	2,929	2,925	4	0%
Marketplace revenue*	187	195	(8)	(4%)
	31,150	30,858	292	1%
Debt Information Processor (Debt IP)	461	461	0	0%
Other revenue				
Investment revenue including interest	2,338	1,578	760	48%
Miscellaneous	136	150	(14)	(9%)
	2,474	1,728	746	43%
Total Unrestricted Fund revenue	96,198	96,222	(24)	(0%)
EXPENSES				
Dealer regulation operating expenses	65,220	63,156	2,064	3%
Market equity regulation operating expenses	28,251	27,701	550	2%
Market debt regulation operating expenses	2,578	1,956	622	32%
Debt IP operating expenses	458	570	(112)	(20%)
Total Unrestricted Fund operating expenses	96,507	93,383	3,124	3%
(DEFICIENCY) EXCESS OF REVENUE OVER EXPENSES	(309)	2,839	(3,148)	(111%)

* Marketplace revenue includes fees from the Bank of Canada for data and reports and administration fees from exchanges.

MANAGEMENT DISCUSSION AND ANALYSIS (IN THOUSANDS OF DOLLARS)

EXTERNALLY RESTRICTED FUND

	FY 2019 $	FY 2018 $	Variance $	Variance %
OTHER REVENUE				
Entrance fees	20	34	(14)	(41%)
Disciplinary fines and other fines	2,167	1,512	655	43%
Investment revenue including interest	221	144	77	53%
Total Externally Restricted Fund revenue	2,408	1,690	718	42%
EXTERNALLY RESTRICTED FUND EXPENSES				
Hearing panel expenses	912	1,036	(124)	(12%)
Prosper Canada research project		242	(242)	(100%)
Member education	340	296	44	15%
Canadian Foundation for Advancement of Investor Rights (FAIR)	250	–	250	100%
Cybersecurity tabletop test	89	29	60	207%
Cybersecurity self-assessment survey	143	–	143	100%
Institute of Financial Education and Literacy		75	(75)	(100%)
Amortization, impairment and disposals	317	698	(381)	(55%)
Total Externally Restricted Fund expenses	2,051	2,376	(325)	(14%)
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	357	(686)	1,043	152%

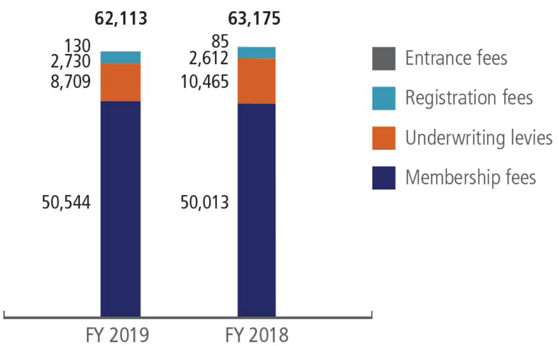
REVENUE

Unrestricted Fund revenues for the period amounted to $96,198, in line with FY 2018 of $96,222.

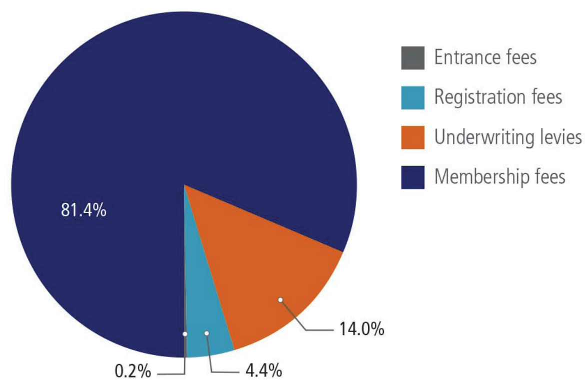
Fees for dealer regulation, equity market regulation, debt market regulation, and Debt IP are the primary fee model based sources of revenue. Fees collected from these four fee models at an aggregate of $79,039 represent approximately 82% of total IIROC revenue (81% in FY 2018).

Dealer regulation membership fees increased by $531 or 1% at $50,544 compared with $50,013 in FY 2018. Equity market regulation fees remained at $25,768 in FY 2019 compared with FY 2018. Debt

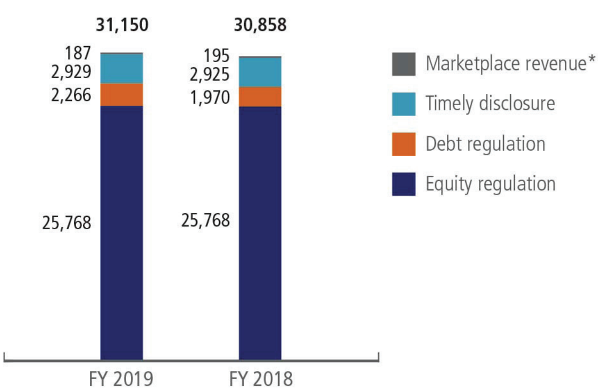
DEALER REGULATION REVENUE ($)



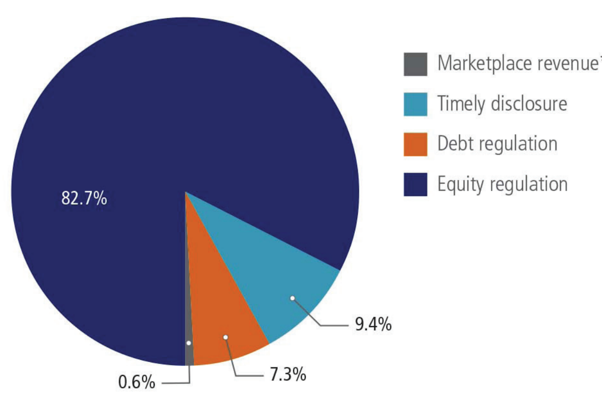
FY 2019 DEALER REGULATION REVENUE (%)



MARKET REGULATION REVENUE ($)



FY 2019 MARKET REGULATION REVENUE (%)



* Marketplace revenue includes fees from the Bank of Canada for data and reports and administration fees from exchanges.

market regulation fees increased by $296 or 15% to $2,266 compared with $1,970 in FY 2018. Debt IP fees remained at $461 in FY 2019 compared with FY 2018.

Fees are based on approved operating expense budgets, reduced by any related secondary sources of revenue and may be adjusted to take into account the sufficiency of our fund balances, and the reasonableness of our proposed fees in each category. Furthermore, eligible capital and operating expenditures approved for the Restricted Fund are not recovered through membership fees but are instead absorbed by the Restricted Fund.

On a year-over-year basis, the combined revenue from secondary sources decreased by $1,597 (10%) from $16,282 to $14,685.

Underwriting levies, a significant secondary source of dealer regulation revenue, decreased by $1,756 (17%) to $8,709 from $10,465 in FY 2018 due to a decrease in volume of issues in both equity and debt markets. Revenue from registration fees, the other significant secondary source of revenue, increased by $118 (5%) to $2,730 in FY 2019.

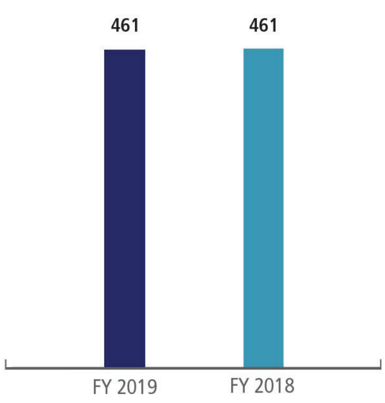
A significant secondary revenue source for market regulation is timely disclosure fees, operated on a cost-recovery basis, from the TSX, TSXV, CSE and Aequitas exchanges for administering their timely disclosure policies. These totaled $2,929 in FY 2019 in line with FY 2018 of $2,925.

Other revenue increased by $746 to $2,474 (43%) mainly due to higher investment revenue.

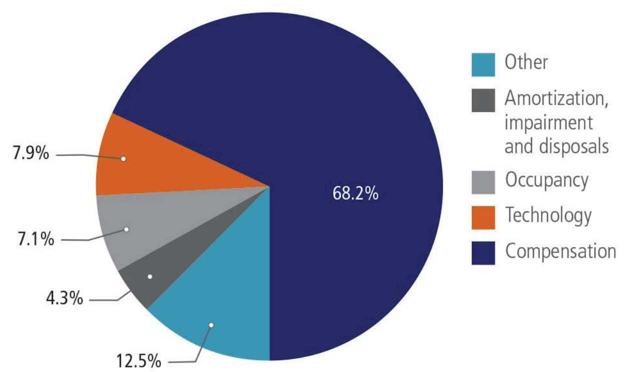
EXPENSES (UNRESTRICTED FUND)

IIROC is a cost-recovery, national not-for-profit organization. IIROC's operating expenses consist of five main categories.

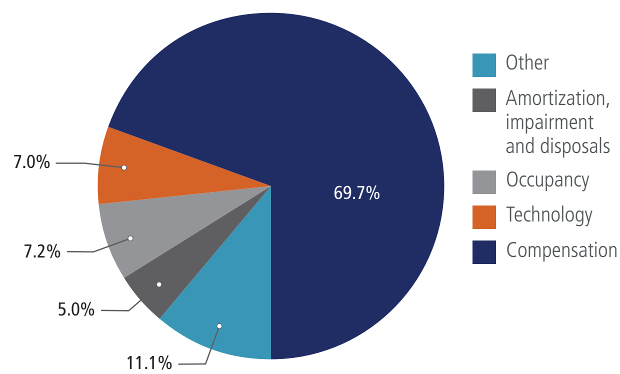
DEBT INFORMATION PROCESSOR REVENUE ($)



FY 2019 TOTAL OPERATING EXPENSES (%)



FY 2018 TOTAL OPERATING EXPENSES (%)

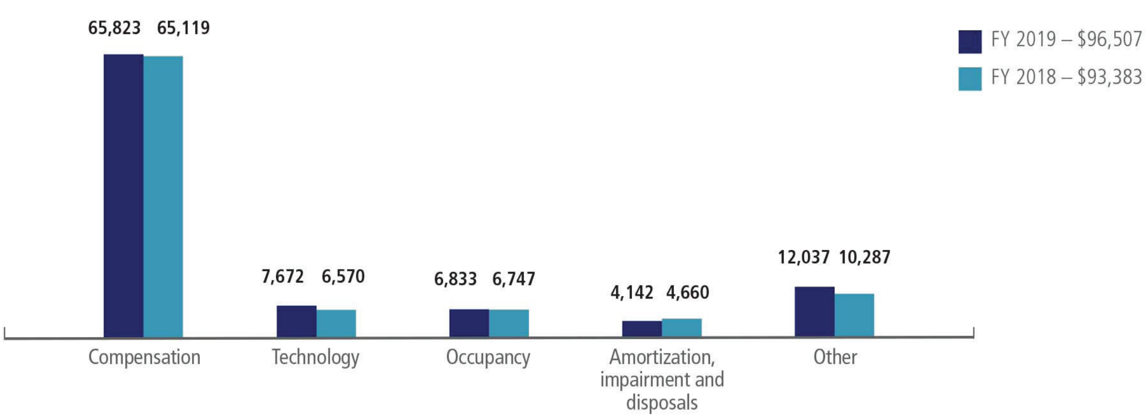


The categories of compensation, technology, occupancy, and amortization, impairment and disposals made up 87.5% (89% in FY 2018) of IIROC's operating expenses. The proportion of other expenses increased to 12.5% from 11% (FY 2018) mainly due to higher consulting expenses to support key initiatives in both dealer and market regulation.

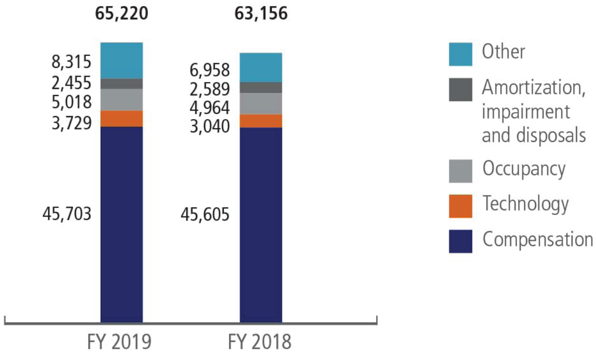
To facilitate proper fee allocations, direct business unit expenses are separately captured for each of the four fee models with indirect expenses being allocated using a cost allocation model based on either direct business unit expenses or headcount as appropriate.

IIROC's total operating expenses were $96,507 in FY 2019, an increase of $3,124 or 3% from $93,383 in FY 2018.

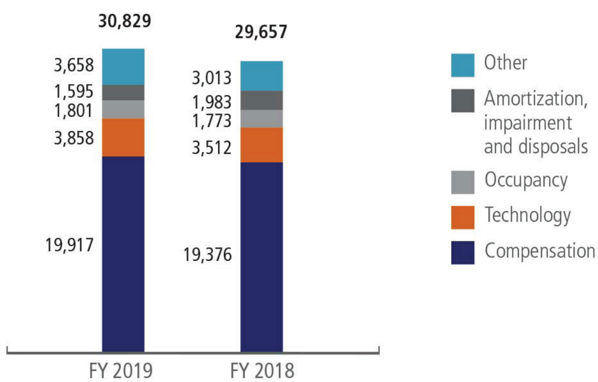
TOTAL OPERATING EXPENSES ($)



DEALER REGULATION OPERATING EXPENSES ($)



MARKET REGULATION OPERATING EXPENSES ($)

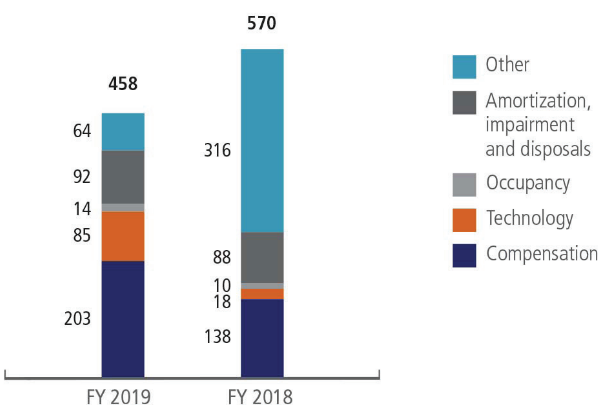


Dealer regulation expenses increased by $2,064 (3%) to $65,220, while market regulation expenses were $30,829, an increase of $1,172 (4%), of which equity market regulation increased by $550 and debt market regulation expenses increased by $622. The Debt IP expenses decreased by $112 (20%) to $458.

The increase in dealer regulation expenses was primarily due to:

- Higher allocation of technology expenses mainly related to software licensing for implemented strategic initiatives. There were also higher allocations of both technology and consulting services expenses associated with transitioning of IT infrastructure and information security operations to a new consolidated, secure hybrid-cloud platform. In addition, increased corporate IT infrastructure support resulted in a higher allocation of consulting services expenses.
- Higher allocation of communication-related expenses associated with implementing a new video conferencing solution, as well as renegotiated contracts for news release and mobile communication services.

DEBT INFORMATION PROCESSOR OPERATING EXPENSES ($)



The increase was partially offset by lower amortization expenses in FY 2019 due to assets impaired in FY 2018 as a result of transitioning our IT infrastructure and information security operations to a new platform. In addition, investments in IT infrastructure were primarily operating versus capital expenditures.

The increase in market regulation costs was primarily due to:

- Higher compensation expenses from vacant FY 2018 roles filled for the full year FY 2019 to support market debt and equity surveillance systems. Additionally, there were compensation increases reflecting our pay-for-performance culture.

- Higher allocation of technology expenses mainly related to software licensing for implemented strategic initiatives. There were also higher allocations of both technology and consulting services expenses associated with transitioning of IT infrastructure and information security operations to a new consolidated, secure hybrid-cloud platform.

The increase was partially offset by lower amortization expenses due to the previous market surveillance system being amortized for the full FY 2018, but only for the first six months in FY 2019. The previous system was fully amortized on September 30, 2018.

The decrease in Debt IP expenses was primarily due to:

- Lower consulting services costs mainly resulting from market research completed in FY 2018, with lower expenditures incurred in FY 2019 before the start of the next phase of the Debt IP project.

The decrease was partially offset by higher internal IT resource costs to support our Debt IP activities.

UNRESTRICTED FUND

There was a deficiency of revenues versus expenses in FY 2019 of $309. This compares with an excess of revenues over expenses in FY 2018 of $2,839.

The deficiency of revenues over expenses for FY 2019 and what is primarily a net remeasurement loss of $652 for the pension plans and the post-retirement benefit plan decreased the Unrestricted Fund balance from $55,663 to $54,702.

EXTERNALLY RESTRICTED FUND

Revenues for the Externally Restricted Fund come from the collection of fines, penalties and disgorgement of profits as determined by IIROC Hearing Panels, interest earned on fund balances, and entrance fees.

The use of monies from the Fund is restricted by IIROC's Recognition Orders. All expenses, other than hearing panel-related expenses, must both be eligible and approved by IIROC's Corporate Governance Committee.

Total revenues for the year amounted to $2,408, compared with $1,690 for FY 2018, an increase of $718 (42%).

Total expenses decreased from $2,376 to $2,051, a decrease of $325 (14%). The decrease was primarily due to completion of a Prosper Canada research project, lower hearing panel expenses, and lower amortization expenses with the Equity Data Warehouse system being fully amortized in FY 2018. These decreases were partially offset by funding for the Canadian Foundation for Advancement of Investor Rights and higher costs for member education initiatives.

The resulting excess of revenue over expenses for the year was $357, compared to a deficit of $686 in the previous year.

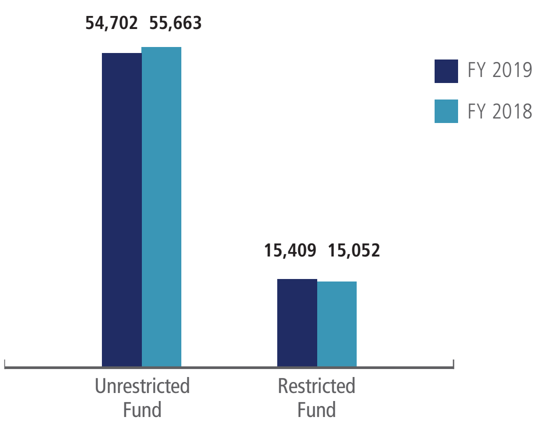
The Fund balance increased from $15,052 to $15,409 by the end of the year. An IIROC policy is in place to ensure adequate funding is maintained for hearing panel-related expenses.

In FY 2018, an amount of $1,237 for the new market surveillance system project was appropriated from the Externally Restricted fund. All remaining funds required came from the Unrestricted Fund.

LIQUIDITY AND CAPITAL RESOURCES

At the end of FY 2019, IIROC held total combined fund balances in the Unrestricted and Externally Restricted Fund of $70,111, down $604 from the FY 2018 balance of $70,715. The decrease in fund balances arose from what is primarily a net remeasurement loss for the pension plans and post-retirement benefit plan of $652, partially offset by an excess of revenues over expenses of $48.

FUND BALANCES AT YEAR END ($)



During the year, the Organization increased its capital asset by $6,374 ($7,685 in FY 2018). These included capital leases associated with technology infrastructure comprising server, network and security hardware ($2,656), and hardware for a new market surveillance system ($1,181). Other technology infrastructure ($800), information security ($414), and a reporting application for District Council submissions ($412) also contributed to the total.

IIROC has an internal liquidity guideline for the Unrestricted Fund of a minimum of three months' of operating expenses. Based on FY 2020 budgeted operating expenses, the Fund holds more than the minimum required by the guideline.

IIROC holds investments of $43,324 in highly liquid short-term marketable securities such as government-issued treasury bills, debt instruments of financial institutions with remaining maturities of greater than three months, and mutual funds.

The Unrestricted Fund balance provides protection against adverse moves in valuations for pension; non-registered Supplemental Plan for Executives (SERP), Post-Retirement Benefits (PRB), and non-registered Supplemental Income Plan (SIP); liquidity requirements; the Canadian Investor Protection Fund (CIPF) loan guarantee; and other contingencies.

COMMITMENTS

As at March 31, 2019, IIROC has in place basic minimum aggregate annual rental commitments of $20,094 (FY 2018 – $22,921), excluding GST/HST and shared operating expenses under long-term operating leases, with varying expiry dates to February 28, 2029. In addition to minimum lease payments, IIROC is also obligated to pay its share of operating expenses, which fluctuate from year to year.

CAPITAL LEASE

In August 2018, IIROC entered into a multi-year contract for a managed information technology platform including hardware and infrastructure support services. The contract term includes a transition period plus five years, taking into account both renewal options and early termination options, and the likelihood of exercising those options. Certain arrangements relating to the use of dedicated physical hardware were assessed to be leases of a capital nature. The leased capital assets were deployed and installed during the fiscal year, but will not be fully connected and available for use until completion of the transition period in fiscal 2020, at which point the lease payments and amortization will begin. As of March 31, 2019, the total estimated payment obligations for leased capital assets are $2,903 for the duration of the lease term, which is about five and a half years.

CONTINGENCIES

IIROC is the sponsor of the Canadian Investor Protection Fund (CIPF), which was established to protect clients who have suffered financial loss due to the insolvency of an IIROC-registered dealer. IIROC has provided a $125,000 (2018 – $125,000) guarantee on bank lines of credit of CIPF. At March 31, 2019, CIPF has not drawn on these lines of credit. Any amount drawn on the guarantee would be assessed to dealer firms. In order to meet potential financial obligations, CIPF has the following resources in place:

i) a contingency fund balance of $495,583 on hand as at December 31, 2018 (2017 – $483,927);

ii) lines of credit provided by two Canadian chartered banks totaling $125,000 as at December 31, 2018 (2017 – $125,000); and,

iii) insurance in the amount of $160,000 as at December 31, 2018 (2017 – $160,000) in the annual aggregate in respect of losses to be paid by CIPF in excess of $150,000 (2017 – $150,000) in the event of member insolvency, and a second layer of insurance in the amount of $230,000 as at December 31, 2018 (2017 – $230,000) in respect of losses to be paid in excess of $310,000 (2017 – $310,000) in the event of member insolvency.

IIROC also provides pension and post-retirement benefits to employees as described in Note 9 of the Financial Statements. The Organization funds these obligations on a regular basis through the use of trusts and by setting aside further funds, as approved by the Board, in an externally managed investment program. The net employee future benefits liability of all plans is $31,051.

Following the accidental loss in the 2013 fiscal year of a portable device that contained personal information relating to clients of a number of dealers, IIROC undertook a number of measures to notify potentially affected dealers and potentially affected clients, and to provide potentially affected clients with ongoing support services. On April 30, 2013, IIROC was served with a motion for authorization to institute a class action and to obtain the status of representative in the Superior Court of Quebec. The petitioner's class action motion on behalf of persons in Canada whose personal information was lost by the Organization sought $1, plus interest, on behalf of each class member, in relation to damages for stress, inconvenience and measures rendered necessary as a result of the loss of personal information by the Organization.

The motion for authorization of the class action was dismissed in August 2014. The petitioner appealed and the appeal was dismissed on November 6, 2015. A new motion for authorization was filed on November 16, 2015 on behalf of a new petitioner.

The new motion was filed by the same counsel as in the original motion for authorization, and is based mainly on the same alleged facts and grounds as the previous motion, but in addition alleges that the petitioner has been the victim of identity theft. The motion for authorization was granted in October 2017. The Organization is defending against this action.

The total costs of the incident to date, including legal fees for responding to the two motions for authorization are $5,530 of which $61 was recovered from insurance in fiscal 2019 (2018 – $10 expense). It is not possible to estimate potential damages or the range of further possible losses, if any, resulting from this incident.

USE OF ESTIMATES

Management reviews the carrying amounts of items in the financial statements at each fiscal year-end date to assess the need for revision or any possibility of impairment. Many items in the preparation of these financial statements require the use of management's judgment in arriving at a best estimate. Management determines these estimates based on assumptions that reflect the most probable set of economic conditions and planned courses of action. These estimates are reviewed periodically and adjustments are made to the Statement of Operations as appropriate in the year they become known.

Items subject to significant management estimates include:

a) Allowances for doubtful accounts – estimates are determined based on the dealers' financial viability. The allowance for doubtful accounts as at March 31, 2019 was $NIL (FY 2018 – $NIL).

b) Date amortization begins – this is the date at the commencement of the fiscal quarter following when an asset is considered substantially complete and available for use.

c) Useful lives of capital assets – amortization of office furniture and equipment is generally over five years; computer equipment, software and technology projects hardware are over three to five years. Leasehold improvements are amortized over the term of the respective leases.

d) Employee future benefits asset/liability – IIROC management, in consultation with actuaries Willis Towers Watson, estimates the future earnings, discount rates and future salary increases or a prescribed range thereof for the purpose of the benefit asset/liability calculation which is carried out by the actuaries.

e) Lease discount rate – IIROC management determines an appropriate discount rate to apply in calculating the present value of lease payments for capital leases. A reasonable basis was determined to be the Organization's proxy rate for incremental borrowing. Considerations were given to IIROC's credit risk, the weighted average life of the leases, and comparable yield curves.

f) Lease payment estimates – IIROC management leverages vendor-estimated monthly lease payments in determining the capital lease asset and obligation to record at the time that leased assets are deployed and installed. Final monthly lease payments are determined upon completion of transition period activities.

RISK

IIROC utilizes a three line of defense approach for risk management: business units and support functions are the first line; the Enterprise Risk Management (ERM) department is the second line; and Internal Audit is the third line. Oversight of risk management is provided by IIROC's Risk Committee (RC), comprising senior executives of IIROC, and the Finance, Audit and Risk (FAR) Committee of the Board, as set out in their respective Charters.

IIROC has established a Risk Management Policy that sets out the framework for the identification and management of risks. IIROC's risk management framework includes an annual self-assessment that combines a top-down and bottom-up evaluation of risks facing organizational units (both business units and support functions) as well as the organization as a whole, including both current and emerging risks. The results of the self-assessments are reviewed and discussed with the RC, the FAR Committee, and the Board. Throughout the year, the Vice-President, Enterprise Risk and Project Management, provides a formal update on risks and risk management activities at RC and FAR Committee meetings.

The Internal Audit function is governed by an Internal Audit Charter, approved by IIROC's Board of Directors. KPMG LLP is IIROC's outsourced Internal Auditor. The Internal Auditor reports to the FAR Committee and provides a minimum of four updates per year. IIROC works closely with its Internal Auditor and the CSA to develop an annual risk-based Internal Audit plan. The audits performed pursuant to the plan independently assess the adequacy and operating effectiveness of IIROC's internal controls. The FY 2019 Internal Audit work covered four areas; no high severity findings were identified.

Litigation risk

IIROC is currently subject to litigation as disclosed in Note 12 to the Financial Statements and from time to time, IIROC may face claims by employees, the public and other third parties arising from the ordinary course and conduct of its business.

IIROC mitigates the risk of such claims by implementing appropriate controls and policy and procedural safeguards, and by defending against any and all claims which in our judgment are without merit. IIROC continually reviews and enhances, as appropriate, its insurance coverage against various risks with a view to having sufficient coverage against potential losses, for existing and emerging risks whenever possible.

Cybersecurity

IIROC continues to monitor and respond to the evolving cybersecurity landscape leveraging available threat intelligence services. Where appropriate, IIROC applies hardware/software security updates in a timely fashion, makes the required technology investments and leverages third-party service provider capabilities to prevent unauthorized access to, or leakage of, personal and confidential information.

Revenue risk

About 82% of IIROC's revenue comes from dealer membership fees and equity and debt market regulation fees. Failure of a significant number of firms or a relatively large firm would have a critical impact on IIROC's financial operations. Prudent operating cost management and ongoing monitoring of the financial adequacy of firms helps to mitigate this risk. Additional risk arises from possible reductions in market activity that could adversely affect underwriting levies and from possible adverse changes in provincial registration-related revenues.

Registered Pension, SERP and PRB risk

Registered Pension risk refers to the risk that the Organization's financial condition on the Statement of Financial Position would be adversely affected because of the impact on the Organization's two registered plans of possible reductions in the future market value of the plan investments and/or increases in the pension liability if interest rates were to fall below current levels. These risks are mitigated by maintaining sufficient unrestricted fund balances and by holding a diversified set of investments, which are managed by professional investment managers operating under specified mandates. IIROC also carefully monitors and manages funding levels and makes contributions required by law and, in addition, makes special contributions to maintain desired funding levels. Similar risks and funding considerations apply to the unregistered plans including SERP and PRB although funding levels for these plans are not dictated by law. IIROC monitors and manages funding levels for all unregistered plans for which it makes predetermined and special contributions to achieve desired funding levels.

Financial instruments risks

IIROC's main financial instrument risk exposure is detailed as follows:

Credit risk

IIROC has determined that the primary financial assets with credit risk exposure are accounts receivable since failure of any of these parties to fulfill their obligations could result in financial losses for the Organization. The risk is mitigated by the distribution of receivables over the entire membership with the most significant amounts exposed to highly rated bank-owned dealers. Marketable securities also expose the Organization to credit risk which the Organization limits by investing in high-quality securities. Mutual fund investments also indirectly expose the Organization to credit risk. The risk is mitigated by the diversified holdings in mutual funds. The entity is also exposed to concentration risk in that all of its cash is held with financial institutions and the balances held are in excess of Canadian Deposit Insurance Corporation (CDIC) limits.

Liquidity risk

IIROC's liquidity risk represents the risk that the Organization could encounter difficulty in meeting obligations associated with its financial liabilities. The Organization is exposed to liquidity risk with respect to its accounts payable. The Organization mitigates its liquidity risk by preparing and monitoring forecasts of cash flows from operations, anticipating investing and financing activities and holding assets that can be readily converted into cash, and maintaining a minimum of three months' of budgeted operating expense as required by IIROC's internal liquidity guideline.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Adverse or volatile capital market conditions both in the primary market and secondary markets could have an impact on IIROC's ability to collect revenues to cover expenses through underwriting levies, as well as dealer regulation and market regulation membership fees. IIROC minimizes its exposure to market risk through its policy of investing a portion of its investments in Government of Canada treasury bills, bankers' acceptances and promissory notes. Market risk is comprised of currency risk, interest rate risk and other price risk.

Currency risk

Currency risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate relative to the Canadian dollar due to changes in foreign exchange rates. The functional currency of IIROC is the Canadian dollar. IIROC invests a portion of its investment portfolio in mutual funds which invest in foreign equities. IIROC mitigates its currency risk exposure by limiting the extent of foreign currency exposure.

Interest rate risk

Interest rate risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate due to changes in market interest rates. Fixed rate financial instruments are subject to fair value risk and floating rate financial instruments are subject to cash flow risk. The Organization is exposed to interest rate risk with respect to cash and cash equivalents and interest bearing investments. Fluctuations in market rates of interest on cash and cash equivalents, short-term investments and guaranteed investment certificates do not have a significant impact on IIROC's results of operations. The objective of IIROC with respect to interest bearing investments is to ensure the security of principal amounts invested, provide for a high degree of liquidity, and achieve a satisfactory investment return.

Other price risk

Other price risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate because of changes in market prices (other than those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all similar instruments traded in the market.

RESILIENCY

IIROC has developed crisis management plans and business continuity plans (BCPs) as part of a larger resiliency program to ensure critical regulatory and support services can continue in the event of a disruption. BCPs are updated as changes are made, and IIROC continues to work on strengthening its resiliency program.

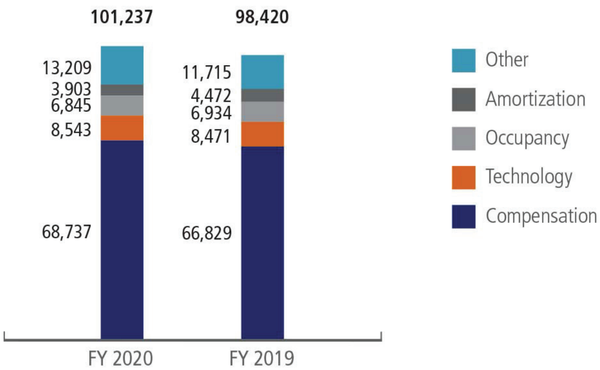
OUTLOOK

IIROC published an updated, three-year Strategic Plan in June 2019, with seven key strategies to support the delivery of our mandate and our Mission and Vision:

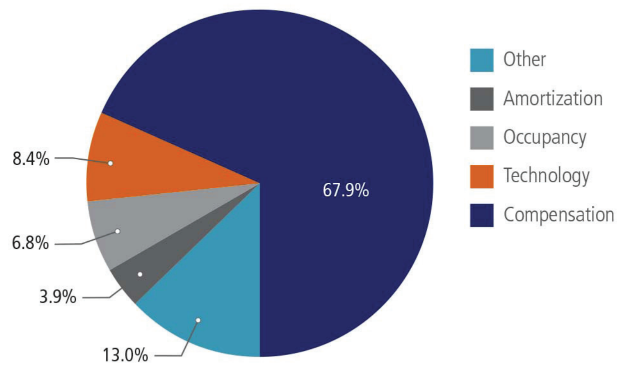
- Deliver value for Canadians and the financial system
- Support industry transformation
- Leverage data and analytics
- Help firms with compliance
- Strengthen enforcement
- Drive efficiency and operational effectiveness
- Attract, retain and enable skilled people

There is a significant transformation underway across our industry, driven by the changing needs and expectations of Canadians and the ways in which technological advances allow them to be met. Much of our focus over the next three years will involve responding and adapting to new industry and market realities, as well as ensuring organizational readiness for future change as we deliver on our public mandate.

BUDGETED OPERATING EXPENSES ($)



FY 2020 BUDGETED OPERATING EXPENSES (%)



Our FY 2020 budget and strategic priorities reflect IIROC's commitment to investor protection and enhancing its regulatory effectiveness while operating in an efficient, cost-effective and sustainable manner. Examples of our priorities for next year include:

- evolving our self-regulatory model to more effectively and efficiently serve Canadians
- working with the CSA to propose a safe-harbour rule and developing additional tools to help dealers protect vulnerable investors
- using leading-edge analytic capabilities (artificial intelligence, machine learning) and data that IIROC collects for regulatory purposes to improve effectiveness and predictive capabilities
- continuing to partner with the CSA on the development of a regulatory framework for crypto trading platforms
- beginning the multi-phased implementation of client identifier requirements
- continuing to pursue and implement expanded enforcement authorities
- implementing the Plain Language Rulebook and training for dealers and staff
- evolving our HR and workplace strategies to ensure we can continue to attract, develop and retain the talent we need to be a leading-edge regulator
- completing the transition to a new digital services platform and continued business application renewal, consolidation and integration.

Total operating expenses for the coming year are budgeted to increase by $2,817 to $101,237 compared to last year's budget of $98,420. The increase in expenses is driven by compensation and benefits expenses due to base salary increases, and increased headcount in areas such as Finance and Market Surveillance. Other increases in expenses, mainly in the area of consulting services, are for new project initiatives and include one-time expenses to complete an information technology platform transition to a managed services model. The increase in expenses is partially offset by lower amortization expenses mainly due to impaired assets as a result of the change in IT infrastructure, and our current market surveillance system being fully amortized in FY 2019, as well as lower translation expenses.

For underwriting levies, FY 2019 actuals of $8,709 were lower than the past five-year average of approximately $10,200. Our underwriting levies are currently expected to be slightly higher than FY 2019 actuals for both debt and equity issuances. However, actual volume of issues are impacted by market conditions.

Registration fees are expected to be lower by $230 due to lower projected activities. IIROC is reviewing the allocation basis of our fees with commissions to ensure our principles of transparency and fairness are consistently applied.

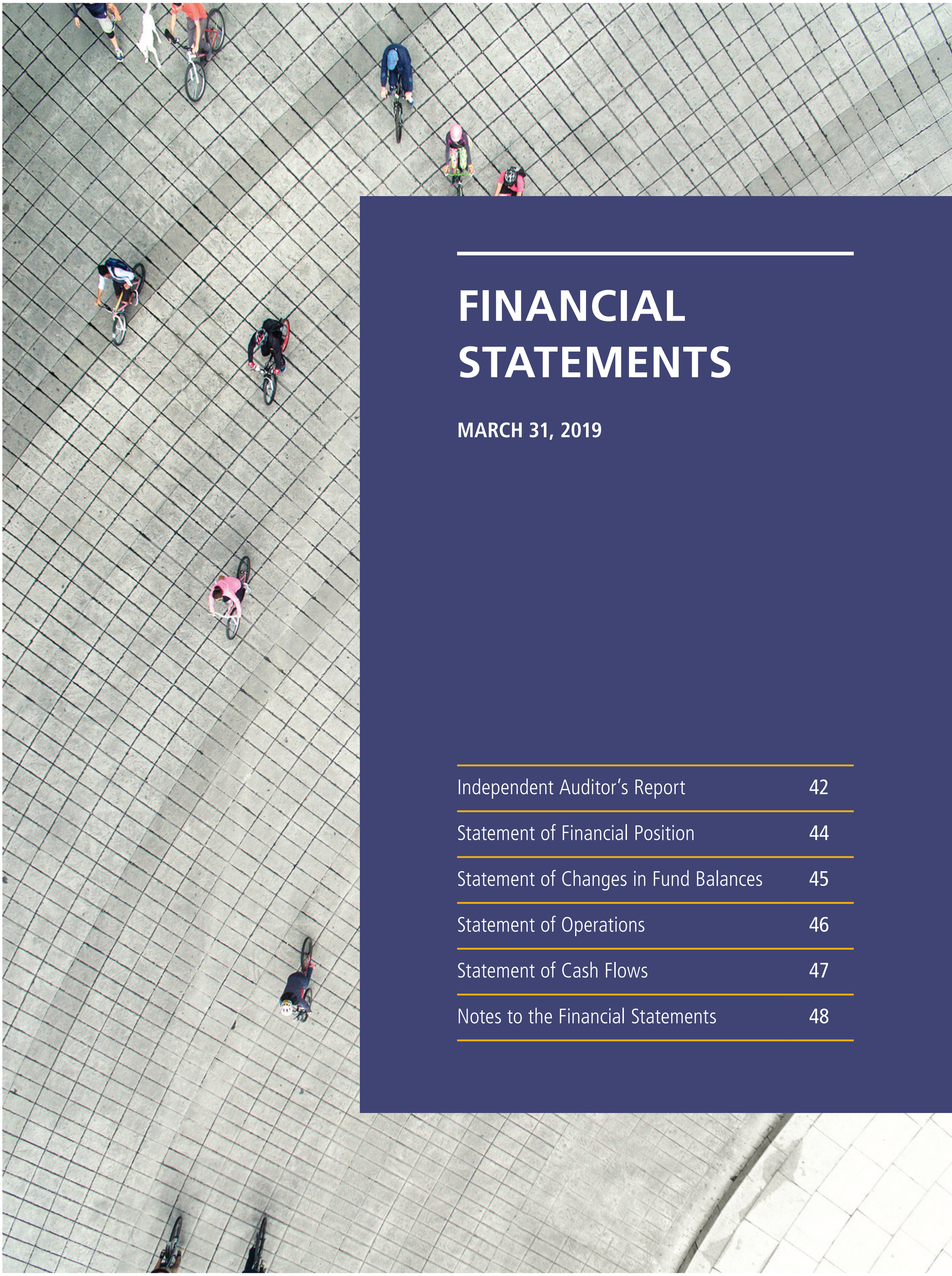
FY 2020 fees for dealer regulation activities will increase by $1,515 (3%) when compared to FY 2019 fees. Equity Market Regulation fees in FY 2020 are projected to decrease by $258 (1%), and fees for Debt Market Regulation will decrease by $24 (1%). Debt IP fees are projected to increase by $1,173 (254%) in FY 2020. The primary reason for the increase in Debt IP fees is due to a change in costing methodology from incremental to full costing.

Subsequent to year end, IIROC approved a re-assessment of membership fees to member firms for fiscal year 2015 through 2019, inclusive. This arose as a result of IIROC identifying and confirming that some member firms had not been reporting certain revenue information on the basis required by the Organization's membership fee billing model. This incorrect reporting resulted in certain firms underpaying their fees. The re-assessment corrects this and will result in amounts both collectible from and owing to member firms, with no net impact expected to either revenues or to IIROC's reported financial position. The reporting issues at the relevant member firms have already been remediated and as such, IIROC does not expect this matter to have any effect on the future operations of the Organization.

IIROC's total fees for FY 2020 and the past three years have been consistent at approximately 30 basis points of industry revenue.[1] The four-year compound annual growth rate (CAGR) of fees including projections for FY 2020 is 2.0%, which is less than the industry revenue CAGR of approximately 12.4%[2] over the same period. IIROC revenue (which, for this purpose[3], includes regulatory fees and levies but excludes fines, penalties and interest) and expenses are projected to grow at CAGRs of 1.7% and 4.6% respectively, both of which compare very favorably to prior year growth rates at other Canadian investment industry regulators.

Management believes it is prudent to retain the Unrestricted Fund balance to provide protection against adverse moves in valuations for pension; non-registered Supplemental Plan for Executives (SERP), Post-Retirement Benefits (PRB), and non-registered Supplemental Income Plan (SIP); liquidity requirements; the Canadian Investor Protection Fund (CIPF) loan guarantee; and other contingencies.

1 Industry revenues and expenses are based on IIROC-compiled data (IIROC monthly financial report statistics).
2 Industry revenue for FY 2020 is assumed to be the same as FY 2019 (due to data availability).
3 Unrestricted Fund revenues only.



FINANCIAL STATEMENTS

MARCH 31, 2019

INDEPENDENT AUDITOR'S REPORT

To the Members of the **Investment Industry Regulatory Organization of Canada**

OPINION

We have audited the financial statements of the Investment Industry Regulatory Organization of Canada (the "Organization"), which comprise the statement of financial position as at March 31, 2019, and the statements of operations, changes in fund balances, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Investment Industry Regulatory Organization of Canada as at March 31, 2019, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

BASIS FOR OPINION

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Organization in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OTHER INFORMATION

Management is responsible for the other information. The other information comprises the information included in Management Discussion and Analysis in the Organization's Annual Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Organization's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Organization's financial reporting process.

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Organization to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Toronto, Canada
June 25, 2019

Grant Thornton LLP

Chartered Professional Accountants
Licensed Public Accountants

(IN THOUSANDS OF DOLLARS)

STATEMENT OF FINANCIAL POSITION

March 31	2019	2018
ASSETS		
Current		
Cash and cash equivalents	$ 55,285	$ 48,508
Investments (Note 4)	43,324	46,813
Receivables (Note 5)	7,898	7,475
Prepaids	1,690	1,550
Current portion of long-term receivable (Note 6)	74	51
	108,271	104,397
Employee future benefits (Note 9)	460	497
Long-term receivables (Note 6)	44	57
Capital assets (Note 7)	18,566	16,652
Deposit	173	173
	$ 127,514	$ 121,776
LIABILITIES		
Current		
Payables and accruals	$ 17,841	$ 17,976
Government remittances payable	572	415
Current portion of capital lease obligations (Note 8)	450	–
Deferred revenue	75	75
Lease inducement	567	397
	19,505	18,863
Long-term capital lease obligations (Note 8)	2,226	–
Lease inducement	4,161	3,027
Employee future benefits (Note 9)	31,511	29,171
	57,403	51,061
FUND BALANCES		
Unrestricted Fund	54,702	55,663
Externally Restricted Fund	15,409	15,052
	70,111	70,715
	$ 127,514	$ 121,776

Certain comparative figures have been reclassified to conform to the financial statement presentation for the current year.
Commitments (Note 11); Contingencies (Note 12); and, Subsequent event (Note 15).
The accompanying notes to the financial statements are an integral part of these financial statements.

On behalf of the Board:

Andrew J. Kriegler, President and CEO

Paul D. Allison, Chair

(IN THOUSANDS OF DOLLARS)

STATEMENT OF CHANGES IN FUND BALANCES

Year ended March 31		Unrestricted Fund		Externally Restricted Fund		2019 Total		2018 Total
Fund balances, beginning of year	$	55,663	$	15,052	$	70,715	$	67,162
(Deficiency) excess of revenue over expenses		(309)		357		48		2,153
Remeasurements and other items (Note 9)		(652)		–		(652)		1,400
Fund balances, end of year	$	54,702	$	15,409	$	70,111	$	70,715

The accompanying notes to the financial statements are an integral part of these financial statements.

(IN THOUSANDS OF DOLLARS)

STATEMENT OF OPERATIONS

Year ended March 31	Unrestricted Fund	Externally Restricted Fund	2019 Total	2018 Total
REVENUE				
Dealer regulation				
Membership fees	$ 50,544	$ –	$ 50,544	$ 50,013
Underwriting levies	8,709	–	8,709	10,465
Registration fees	2,730	–	2,730	2,612
Entrance fees	130	20	150	119
	62,113	20	62,133	63,209
Market regulation				
Equity regulation	25,768	–	25,768	25,768
Debt regulation	2,266	–	2,266	1,970
Timely disclosure	2,929	–	2,929	2,925
Marketplace revenue	187	–	187	195
	31,150	–	31,150	30,858
Debt Information Processor	461	–	461	461
Other revenue				
Disciplinary fines and other fines	–	2,167	2,167	1,512
Investment revenue including interest	2,338	221	2,559	1,722
Miscellaneous	136	–	136	150
	2,474	2,388	4,862	3,384
	96,198	2,408	98,606	97,912
EXPENSES				
Dealer regulation operating expenses (Note 10)	65,220	–	65,220	63,156
Market equity regulation operating expenses (Note 10)	28,251	–	28,251	27,701
Market debt regulation operating expenses (Note 10)	2,578	–	2,578	1,956
Debt Information Processor operating expenses (Note 10)	458	–	458	570
Externally restricted fund expenses (Note 10)	–	2,051	2,051	2,376
	96,507	2,051	98,558	95,759
(DEFICIENCY) EXCESS OF REVENUE OVER EXPENSES	$ (309)	$ 357	$ 48	$ 2,153

The accompanying notes to the financial statements are an integral part of these financial statements.

(IN THOUSANDS OF DOLLARS)

STATEMENT OF CASH FLOWS

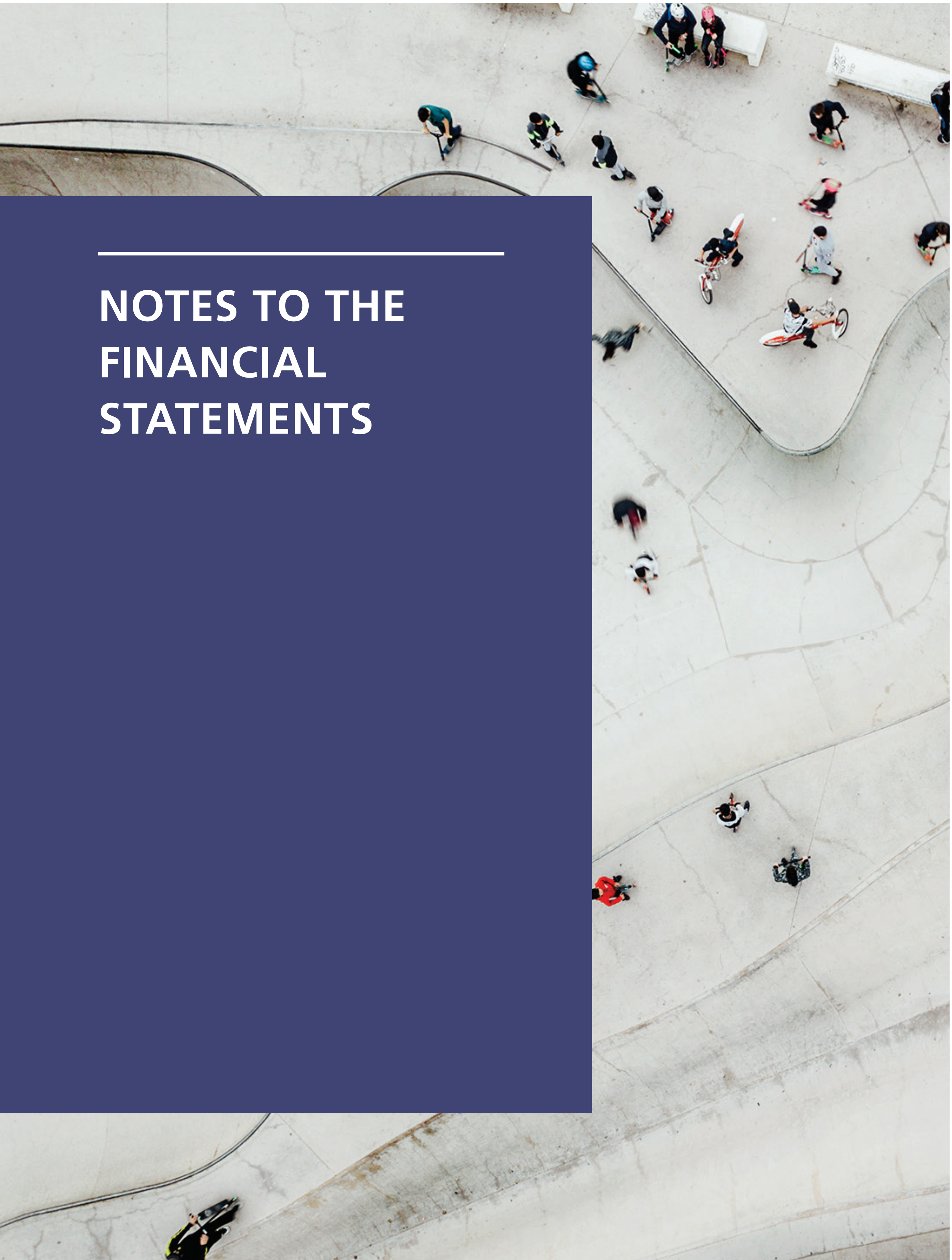
Year ended March 31	2019	2018
Increase (decrease) in cash and cash equivalents		
Operating activities		
Excess of revenue over expenses	$ 48	$ 2,153
Add (deduct) non-cash items		
Amortization	4,059	4,679
Rent amortization	386	(354)
Interest accrued on capital lease obligations	20	–
Net loss from disposal of capital assets	357	229
Impairment write-down of capital assets (Note 7)	44	448
Employee future benefits expense (Note 9)	5,247	5,195
	10,161	12,350
Change in non-cash operating working capital		
Receivables	(423)	482
Prepaids	(140)	(61)
Deposit	–	7
Payables and accruals	22	2,962
Lease inducements	918	361
Deferred revenue	–	15
	10,538	16,116
Investing activities		
Disposal (purchase) of investments, net	3,489	(13,915)
Purchase of capital assets	(3,718)	(7,685)
Proceeds from disposal of capital assets	–	13
Employer contributions for employee future benefits (Note 9)	(3,522)	(2,442)
Change in long-term receivables, net	(10)	33
	(3,761)	(23,996)
Financing activities		
Repayment on long-term debt (Note 13)	–	(997)
Release of Restricted Fund cash (Note 13)	–	4,000
	–	3,003
Increase (decrease) in cash and cash equivalents	6,777	(4,877)
Cash and cash equivalents, beginning of the year	48,508	53,385
Cash and cash equivalents, end of the year	$ 55,285	$ 48,508
Cash and cash equivalents consist of:		
Cash on hand and balances with bank	$ 18,647	$ 15,453
Cash equivalents	36,638	33,055
Cash and cash equivalents, end of year	$ 55,285	$ 48,508

Certain comparative figures have been reclassified to conform to the financial statement presentation for the current year.

Supplemental cash flow information: Acquisition of capital assets under capital lease	$ 2,656	$ –

The accompanying notes to the financial statements are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS



1. ORGANIZATION

The Investment Industry Regulatory Organization of Canada (IIROC or the Organization) was incorporated on March 17, 2008 as a Corporation without share capital under provisions of Part II under the Canada Corporations Act. The Organization transitioned to the new Canada Not-for-profit Corporations Act ("CNCA") in fiscal 2015. As a not-for-profit organization, IIROC is exempt from income taxes under Section 149(1) (l) of the Income Tax Act (Canada).

IIROC is the national self-regulatory organization which oversees all investment dealers and trading activity on debt and equity marketplaces in Canada.

The Organization's mandate is to set and enforce high quality regulatory and investment industry standards, protect investors and strengthen market integrity while maintaining fair, efficient and competitive capital markets.

IIROC carries out its regulatory responsibility through setting and enforcing rules regarding the proficiency, business conduct, and financial conduct of dealer firms and their registered employees, and market integrity rules regarding trading activity on Canadian debt and equity markets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The Organization has prepared these financial statements in accordance with Canadian accounting standards for not-for-profit organizations using the restricted fund method of accounting.

Fund accounting

The Unrestricted Fund includes:

a) Dealer regulation and market regulation revenue and expenses, including amortization of Unrestricted Fund capital assets;

b) Debt Information Processor revenue and expenses; and

c) Funding of the deficit in the IIROC Supplemental Plan for Executives (IIROC SERP) – Non-Registered Defined Benefit Pension Plan, IIROC Non-Pension Post-Retirement Benefits Plan (IIROC PRB), Defined Benefit provisions of the Retirement Plan for Employees of IIROC (IIROC RPP) and the formerly Regulation Services (RS) sponsored Supplemental Income Plan for former TSX Employee (Former RS SIP) – Non-Registered Defined Benefit Plan.

The Externally Restricted Fund includes:

d) The collection of fines and settlement monies arising from enforcement actions (disciplinary fines) and other revenue and the use of these funds in accordance with the terms and conditions of respective provincial securities commissions' and authorities' Recognition Orders. This Fund is to be used for any of the following:

   i) expenditures for the development of systems or other non-recurring capital expenditures to address emerging regulatory issues arising from changing market conditions, and which are directly related to investor protection and capital markets integrity;

   ii) education of market participants and the public about or research into investing, financial matters, or the operation of regulation of securities markets;

   iii) donations to non-profit, tax-exempt organizations for investor protection and education; and,

   iv) costs associated with the administration of IIROC's hearing panels.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

IIROC operates on a cost recovery basis generally through published fee models which set out the basis of the cost recovery for each of IIROC's activities.

Unrestricted revenues are recognized as revenue as follows:

DEALER REGULATION

Annual membership fees are assessed upon dealers for the fiscal year as approved by the Board and are recognized as revenue on a straight-line basis over the fiscal year. Underwriting levies are recognized when the underwriting transaction closes. Registration fees and entrance fees are recorded as revenue when billed and collectability is reasonably assured.

MARKET REGULATION

Under the marketplace regulation services agreements, revenue from equity regulation fees are governed by the Market Regulation Fee Model. Fees are assessed for the fiscal year as approved by the Board. These fees are then allocated to dealers and Marketplace Members. Revenue is initially recognized monthly based on the prior year cost recovery rate and then upon Board approval, adjusted to current cost recovery rates over the remainder of the year. For attribution to each dealer on each marketplace, technology costs are assessed on the number of messages sent, while non-technology costs are assessed on the number of trades executed.

Effective November 1, 2015, the Organization began to charge debt regulation fees. Debt regulation fees are assessed for the fiscal year as approved by the Board. These fees are allocated to dealers who trade debt securities. Revenue is initially recognized monthly based on the prior year cost recovery rate and then upon Board approval, adjusted to current cost recovery rates over the remainder of the year. Fees are allocated to each dealer based on its prorated share of the number of primary, secondary and repurchase agreement (repos) transactions, with a monthly fee reduction for repos on costs recovered from the Bank of Canada.

Timely disclosure revenue and marketplace revenue are recognized as billed, and when collection is reasonably assured.

DEBT INFORMATION PROCESSOR

Debt Information Processor fees are initially recognized monthly based on the prior year cost recovery rate, and then upon Board approval, adjusted to current cost recovery rates over the remainder of the year. The Organization began charging for these services on April 1, 2017.

OTHER REVENUE

Disciplinary fines and other fines due from member firms are recognized as revenue in the Externally Restricted Fund when they are assessed, amounts can be reasonably estimated, and collection is reasonably assured. Late filing fees and initiation fees from new member firms are recognized as revenue in the Externally Restricted Fund when received. Disciplinary fines, continuing education fines and late filing fees from registrants of member firms are recognized as revenue in the Externally Restricted Fund when received.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks and highly liquid marketable securities such as government-issued promissory notes and treasury bills, and debt instruments of financial institutions with remaining maturities of three months or less.

Investments

Investments consist mainly of highly liquid marketable securities such as government-issued promissory notes and treasury bills, and debt instruments of financial institutions with remaining maturities of greater than three months, mutual funds and an equity investment.

Financial instruments

The Organization considers any contract creating a financial asset, liability or equity instrument as a financial instrument. A financial asset or liability is recognized when the Organization initially becomes party to contractual provisions of the instrument.

INITIAL MEASUREMENT

The Organization initially measures its financial instruments at fair value. For financial instruments subsequently measured at cost or amortized cost, the initial fair value incorporates the amount of the related financing fees and transaction costs that are directly attributable to its origination, acquisition issuance or assumption. Transaction costs and financing fees relating to financial instruments that are measured subsequently at fair value are recognized in operations immediately when issued or acquired.

SUBSEQUENT MEASUREMENT

At each reporting date, the Organization measures its financial assets and liabilities at cost or amortized cost (less impairment in the case of financial assets) or at fair value. Fair value treatment is applied to all cash equivalents and investments, both equity and debt, which the Organization has elected to measure at fair value. The financial instruments measured at cost or amortized cost are cash, receivables, loans receivable, and payables. The Organization uses the effective interest rate method to amortize any premiums, discounts, transaction fees and financing fees in the Statement of Operations for those items measured at cost or amortized cost.

For financial assets measured at cost or amortized cost, the Organization regularly assesses whether there are any indicators of impairment. If there is an indication of impairment, and the Organization determines that there is a significant adverse change in the expected timing or amount of future cash flows from the financial asset, it immediately recognizes an impairment loss in the Statement of Operations. Any reversals of previously recognized impairment losses are recognized in operations in the year the reversal occurs.

The Organization's investments (see Note 4) include an equity investment that is not traded on an active market and is carried at a zero cost base.

Capital assets

Capital assets are initially measured at cost and subsequently measured at cost less accumulated amortization. Amortization of office furniture and equipment is computed by the straight-line method at 20% per annum, and computer equipment, software and technology projects at 33 1/3% per annum except for certain technology projects, which are amortized at 20% per annum to better reflect the useful life of these assets. Leasehold improvements are amortized over the term of the respective leases. Amortization commences the quarter after the assets are available for use.

When a capital asset no longer has any remaining service potential to the Organization, the net carrying amount is immediately written off and recognized as an expense in the Statement of Operations. A partial impairment loss is recognized when a capital asset still has remaining service potential but where the net carrying amount of a capital asset exceeds the asset's

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

fair value or replacement value (Note 3). Impairment losses are recognized as an expense in the Statement of Operations. The Organization assesses whether fair value or replacement cost is applied to measure the write-down on an asset-by-asset basis. The Organization undertakes an annual review to assess whether capital assets should be written off entirely, and also to identify partial impairment. Previously recognized write-downs are not reversed.

ASSETS AND OBLIGATIONS UNDER CAPITAL LEASE

Leased capital assets are recognized when installed, and are accounted for at cost, which corresponds to the present value of the estimated minimum lease payments at the inception of the lease. Amortization is based on the lesser of estimated useful life of the asset or term of the lease, and begins in the quarter after the asset is available for use. Leased technology hardware has an estimated useful life of five years or 20% per annum.

An obligation under a capital lease is similar to a loan. Lease payments are allocated to a reduction of the obligation, interest expense and any related executor costs. The interest expense is calculated using the discount rate used in computing the present value of the estimated minimum lease payments applied to the remaining balance of the obligation. The discount rate used is equal to the Organization's rate for incremental borrowing.

Lease inducements

Certain of the Organization's operating leases contain predetermined fixed escalations of minimum rentals during the original lease terms. The Organization recognizes the related rental expense on a straight-line basis over the life of the lease, and records the difference between the amounts charged to operations and amounts paid as deferred rent (included in lease inducement) in the early years of the lease, when cash payments are generally lower than straight-line rent expense. Deferred rent is reduced in the later years of the lease when payments begin to exceed the straight-line expense. The Organization also receives certain lease incentives in conjunction with entering into operating leases. These lease incentives are recorded as a lease inducement at the beginning of the lease term and recognized as a reduction of rent expense over the lease term.

Employee future benefits

The Organization accrues its obligation under employee defined benefit plans and related costs as follows:

- The defined benefit obligation is measured based on an actuarial valuation for accounting purposes at the Statement of Financial Position date. The defined benefit obligation is determined using the projected benefit method prorated on services, which incorporates management's best estimate for each actuarial assumption. Actuarial assumptions are used in the calculation of the benefit obligation and the assumptions relate to administrative expenses and taxes, termination rates, disability claim rates, rates of employee turnover, retirement age, mortality, dependency status, per capita claims cost by age and by type of benefit, health care cost trend rates, discount rates to reflect the time value of money, and future salary and benefits level.

- Plan assets are measured at fair value at the Statement of Financial Position date. The Organization recognizes a valuation allowance for any excess of plan surpluses over the expected future benefit.
- The cost of the defined benefit plans relating to current service cost and financing cost (net interest on the defined benefit liability) is recorded on the Statement of Operations.
- Remeasurements and other items are recorded directly on the Statement of Changes in Fund Balances. These relate to:
    - a) the difference between the actual return on plan assets and the return calculated using the discount rate used to determine the defined benefit obligation;
    - b) actuarial gains and losses;
    - c) the effect of any valuation allowance;
    - d) past service costs; and,
    - e) gains and losses arising from settlements and curtailments.

The Organization also offers a defined contribution pension plan to employees. An expense is recorded in the period when the Organization is obligated to make contributions for services rendered by the employee. Any unpaid contributions are included on the Statement of Financial Position under payables and accruals.

Allocation of expenses

IIROC engages in dealer regulation, equity market regulation, debt market regulation, and is the Debt Information Processor for certain securities.

To facilitate proper fee allocations, direct costs are separately captured for dealer regulation, market equity and debt regulation activities, and Debt Information Processor activities with indirect costs being allocated to each of these using a cost allocation model based on either direct business unit cost or headcount as appropriate.

Use of estimates

Management reviews the carrying amounts of items in the financial statements at each fiscal year-end date to assess the need for revision or any possibility of impairment. Many items in the preparation of these financial statements require the use of management's judgment in arriving at a best estimate. Management determines these estimates based on assumptions that reflect the most probable set of economic conditions and planned courses of action. These estimates are reviewed periodically and adjustments are made to the Statement of Operations as appropriate in the year they become known. Items subject to significant management estimates include accruals, allowance for doubtful accounts, eligibility of expenditures for capitalization, date of substantial completion of technology projects to begin amortization, useful lives of capital assets, minimum lease payments, lease discount rate, and valuation of employee future benefits asset/liability.

NOTES TO THE FINANCIAL STATEMENTS (IN THOUSANDS OF DOLLARS) | MARCH 31, 2019

3. CHANGE IN ACCOUNTING POLICIES

In fiscal 2018, the Organization chose to early adopt the recommendations of the CPA Canada Handbook – Accounting – Part III – Accounting Standards for Not-for-Profit Organizations in *Section 4433 Tangible Capital Assets held by Not-for-Profit Organizations* and *Section 4434 Intangible Assets Held by Not-for-Profit Organizations.* These new standards replaced *Section 4431 Tangible Capital Assets held by Not-for-Profit Organizations* and *Section 4432 Intangible Assets Held by Not-for-Profit Organizations.*

As a result of the new standards, an impairment loss is immediately recognized when the carrying amount of a capital asset exceeds the fair value or replacement value of the asset. Previously, an impairment loss was only recognized when a capital asset no longer had any long-term service potential to the Organization.

The Organization applied the new standards on a prospective basis, effective for all transactions and other events and conditions occurring after April 1, 2017. Under the transitional provisions of the new standards, the Organization was permitted to recognize an adjustment to opening fund balances as at April 1, 2017 to reflect partial impairments of capital assets existing at that date. The Organization elected not to apply this transitional provision. As a result, it recognized a partial impairment expense in fiscal 2019 of $44 (2018 – $448).

4. INVESTMENTS

Investments consist of the following:

	2019	2018
Marketable securities, at fair value	$ 28,251	$ 34,458
Mutual funds, at fair value	15,073	12,355
	$ 43,324	$ 46,813

The Organization owns a 10% interest in the common shares of FundSERV Inc. (FundSERV), an organization created as a depository and clearing house for the investment fund industry, which is recorded at its original cost at $Nil.

5. RECEIVABLES

	2019	2018
Trade	$ 7,898	$ 7,475
Allowance for doubtful accounts	–	–
	$ 7,898	$ 7,475

6. LONG-TERM RECEIVABLES

Long-term receivables consist of the long-term portions of employee loans receivable, accounts receivable related to agreed upon payment plans on enforcement fines, and pension-related receivables.

Employee loans receivable are loans provided to employees of the Organization for the purchase of home computers. Repayment terms and maturity dates were negotiated with employees at the time of making the loans. The loans are unsecured, non-interest bearing and are due on or before April 30, 2022.

NOTES TO THE FINANCIAL STATEMENTS (IN THOUSANDS OF DOLLARS) | MARCH 31, 2019

7. CAPITAL ASSETS

	Cost	Accumulated Amortization	2019 Net Book Value	2018 Net Book Value
Unrestricted Fund:				
Tangible				
Office furniture and equipment	$ 9,394	$ 7,323	$ 2,071	$ 1,687
Leasehold improvements	9,978	4,906	5,072	5,779
Computer equipment and software	3,788	3,631	157	269
Technology projects hardware	6,648	6,269	379	829
Leased technology hardware	2,656	–	2,656	–
Intangible				
Technology projects software	20,583	15,408	5,175	5,863
	53,047	37,537	15,510	14,427
Externally Restricted Fund:				
Tangible				
Technology projects hardware	1,459	855	604	641
Leasehold improvements	673	401	272	327
Intangible				
Technology projects software	4,997	2,817	2,180	1,257
	7,129	4,073	3,056	2,225
	$ 60,176	$ 41,610	$ 18,566	$ 16,652

LEASED TECHNOLOGY HARDWARE

In August 2018, the Organization entered into a multi-year contract to transition IT infrastructure services and information security operations to a new, secure, hybrid-cloud platform. Certain arrangements relating to the use of dedicated physical hardware were assessed to be leases of a capital nature. The leased capital assets were installed during the fiscal year, but will not be fully connected and available for use until completion of the transition period in fiscal 2020, at which point the lease payments and amortization will begin.

CAPITAL ASSETS IN PROGRESS

As at March 31, 2019, there are five projects (leasehold improvement and software) which are in progress with a total cost of $1,310, plus leased technology hardware capital assets in progress of $2,656. As such, these assets are not yet being amortized. In addition, there are nine other projects with a total cost of $3,707 in office furniture and equipment, leasehold improvements, and technology projects that were completed in the last quarter of 2019. No amortization was recorded on these assets as amortization begins in the quarter after assets are available for use.

During the year, the Organization recognized an impairment loss in the amount of $44 on computer equipment and software (2018 – $448 on computer equipment, software, office furniture and equipment). The assets were written down to their estimated fair value as management has determined that the assets will be decommissioned before the end of their previously estimated useful lives. The impairment loss was recognized in the Statement of Operations.

NOTES TO THE FINANCIAL STATEMENTS (IN THOUSANDS OF DOLLARS) | MARCH 31, 2019

8. CAPITAL LEASE OBLIGATIONS

Concurrent to the recognition of capital lease assets (Note 7), an equivalent capital lease obligation was recorded at the present value of estimated lease payments using the Organization's estimated rate for incremental borrowing of 2.98% as the lease discount rate. The lease maturity dates will be five years after completion of the transition period and assignment notices, estimated to be June 30, 2024. The capital lease obligation as of year end of $2,676 includes $20 of accrued interest expense.

As of March 31, 2019, the estimated future minimum lease payments for obligations under capital lease in each of the next five years are:

2020	$	442
2021		586
2022		582
2023		577
2024		573
Thereafter		143

9. EMPLOYEE FUTURE BENEFITS

The Organization provides retirement and post-employment benefits for its employees and has both defined benefit and defined contribution pension plans. The defined benefit plans provide benefits that are based on a combination of years of service and a percentage of the participant's plan earnings. Under the defined contribution plan provisions, the Organization makes contributions based on a percentage of the participant's plan earnings as well as a match based on an employee's contributions. The matching percentage depends on the employee's age and years of service.

Prior to amalgamation, the Investment Dealers Association (IDA) and Market Regulation Services (RS) sponsored various defined benefit and defined contribution pension plans. At amalgamation, the IDA defined benefit plan became the defined benefit component of the IIROC RPP and the plan was amended to accommodate new IIROC defined contribution accruals. The former IDA also sponsored a SERP which became the IIROC SERP. The legacy RS pension plans, which included the registered plan (Former RS RPP) and the non-registered Supplemental Income Plan (Former RS SIP) were closed at December 31, 2010 and its active members began accruing benefits under the IIROC RPP and the IIROC SERP after that date. However, these legacy plans were not terminated as legacy accrued benefits remain. On April 1, 2013 the defined benefit component of the IIROC RPP was closed to new members. New hires can only join the defined contribution provision of the IIROC RPP.

The Organization has the following pension plans:

1. IIROC Pension Plan for Former RS Pension Plan Members (Former RS RPP), Defined Benefit Plan – inactive

2. Former RS-sponsored SIP for former TSX Employees (Former RS SIP), Non-Registered Defined Benefit Plan – inactive

3. Retirement Plan for Employees of IIROC (IIROC RPP) – includes Defined Benefit and Defined Contribution provisions

4. IIROC Supplemental Plan for Executives (IIROC SERP), Non-Registered Defined Benefit (DB) Pension Plan

NOTES TO THE FINANCIAL STATEMENTS (IN THOUSANDS OF DOLLARS) | MARCH 31, 2019

IIROC also has a Non-Pension Post-Retirement Benefits Plan (IIROC PRB). The benefits provided under the plan to retired employees are medical care, dental care, a health care spending account, and catastrophic coverage to eligible retirees.

The most recent actuarial valuation of the pension benefit plans for funding purposes was as of April 1, 2017. An interim actuarial valuation of the IIROC PRB plan was also conducted at April 1, 2016. The next actuarial valuations for the IIROC PRB and for all defined benefit pension arrangements will be prepared with an effective date of April 1, 2019 and April 1, 2020, respectively.

IIROC closed the defined benefit provisions of the IIROC RPP to new hires beginning April 1, 2013. Effective September 1, 2015, IIROC eliminated non-pension post-retirement benefits for new hires and members who are not eligible for benefits by September 1, 2020.

On April 3, 2018, IIROC changed the fund custodian for a portion of the defined benefit plans assets. As a result, assets totaling $8,969 for the Former RS RPP and $61,534 for the IIROC RPP were transferred to the new custodian.

The asset (liability) on the Statement of Financial Position is as follows:

	March 31, 2019			March 31, 2018		
	Pension Plans(1)	Pension Plans(2)	Other Benefits Plan(3)	Pension Plans(1)	Pension Plans(2)	Other Benefits Plan(3)
Accrued benefit obligation	$ (8,819)	$ (103,803)	$ (7,143)	$ (8,356)	$ (93,168)	$ (6,689)
Fair value of plan assets	10,524	79,435		10,021	70,686	–
Fund status – plans surplus/(deficit)	1,705	(24,368)	(7,143)	1,665	(22,482)	(6,689)
Valuation Allowance (VA)	(1,245)			(1,168)	–	–
Accrued benefit asset (liability) (net of VA)	$ 460	$ (24,368)	$ (7,143)	$ 497	$ (22,482)	$ (6,689)

(1) Plans (Former RS RPP) with Accrued Benefit Asset
(2) Plans (Former RS SIP, DB provisions of IIROC RPP, IIROC SERP) with Accrued Benefit Obligation
(3) Non-Pension Post-Retirement Benefits Plan (IIROC PRB)

NOTES TO THE FINANCIAL STATEMENTS (IN THOUSANDS OF DOLLARS) | MARCH 31, 2019

9. EMPLOYEE FUTURE BENEFITS (CONTINUED)

The employee future benefit expense is as follows:

	Year Ended					
	March 31, 2019			March 31, 2018		
	Pension Plans(1)	Pension Plans(2)	Other Benefits Plan(3)	Pension Plans(1)	Pension Plans(2)	Other Benefits Plan(3)
Current service cost	$ –	$ 3,946	$ 177	$ –	$ 3,873	$ 167
Interest cost on accrued benefit obligation	295	3,485	240	309	3,484	236
Interest income on market value of assets	(354)	(2,584)	–	(365)	(2,545)	–
Interest on Valuation Allowance (VA)	42	–	–	36	–	–
Employee future benefit expense	$ (17)	$ 4,847	$ 417	$ (20)	$ 4,812	$ 403

(1) Plans (Former RS RPP) with Accrued Benefit Asset
(2) Plans (Former RS SIP, DB provisions of IIROC RPP, IIROC SERP) with Accrued Benefit Obligation
(3) Non-Pension Post-Retirement Benefits Plan (IIROC PRB)

The remeasurements and other items charged on the Statement of Changes in Fund Balances is a loss of $652 (2018 – gain of $1,400) as follows:

	March 31, 2019			March 31, 2018		
	Pension Plans(1)	Pension Plans(2)	Other Benefits Plan(3)	Pension Plans(1)	Pension Plans(2)	Other Benefits Plan(3)
Actuarial losses (gains)	$ 19	$ 426	$ 172	$ (132)	$ (1,683)	$ 228
Change in Valuation Allowance (VA)	35	–	–	187	–	–
Remeasurements and other items	$ 54	$ 426	$ 172	$ 55	$ (1,683)	$ 228

(1) Plans (Former RS RPP) with Accrued Benefit Asset
(2) Plans (Former RS SIP, DB provisions of IIROC RPP, IIROC SERP) with Accrued Benefit Obligation
(3) Non-Pension Post-Retirement Benefits Plan (IIROC PRB)

NOTES TO THE FINANCIAL STATEMENTS (IN THOUSANDS OF DOLLARS) | MARCH 31, 2019

In addition to the above, there is $Nil outstanding liability for the defined contribution plan as at March 31, 2019 (2018 – $Nil). Current period expense for the defined contribution provisions of the IIROC RPP was $1,849 (2018 – $1,698).

The significant actuarial assumptions adopted in measuring the Organization's accrued benefit obligations are as follows:

	2019	2018
Discount rate	3.20% to 3.38%	3.42% to 3.59%
Rate of compensation increase	3.25%	3.25%

For measurement purposes, inflation of medical expenses was assumed to be 5.0% in 2019. Inflation of dental costs was assumed to remain constant at 4.5%.

The following is a summary of contributions and benefits paid:

	Year Ended					
	March 31, 2019			March 31, 2018		
	Pension Plans(1)	Pension Plans(2)	Other Benefits Plan(3)	Pension Plans(1)	Pension Plans(2)	Other Benefits Plan(3)
Employer contributions – regular	$ –	$ 3,387	$ 135	$ –	$ 2,348	$ 94
Employee contributions	–	1,077	–	–	1,118	–
Benefits paid	(145)	(2,086)	(135)	(140)	(1,887)	(94)

(1) Plans (Former RS RPP) with Accrued Benefit Asset
(2) Plans (Former RS SIP, DB provisions of IIROC RPP, IIROC SERP) with Accrued Benefit Obligation
(3) Non-Pension Post-Retirement Benefits Plan (IIROC PRB)

Registered pension, SERP, and PRB risk

Registered pension risk refers to the risk that the Organization's financial condition on the Statement of Financial Position would be adversely impacted because of the impact on the Organization's two registered plans of possible reductions in the future market value of the plan investments and/or increases in the pension liability if interest rates were to fall below current levels. These risks are mitigated by maintaining sufficient funding levels and by holding a diversified set of investments, which are managed by professional investment managers operating under specified mandates. IIROC also carefully monitors and manages funding levels and makes contributions required by law and, in addition, makes special contributions to maintain desired funding levels. Similar risks and funding considerations apply to the unregistered plans including SERP and PRB, although funding levels for these plans are not dictated by law. IIROC monitors and manages funding levels for all unregistered plans for which it makes predetermined and special contributions to achieve desired funding levels.

NOTES TO THE FINANCIAL STATEMENTS (IN THOUSANDS OF DOLLARS) | MARCH 31, 2019

10. EXPENSES

	Year Ended	
	March 31, 2019	March 31, 2018
Unrestricted Fund Expenses		
Dealer Regulation Operating Expenses		
Compensation	$ 45,703	$ 45,605
Technology	3,729	3,040
Occupancy	5,018	4,964
Amortization, impairment and disposals	2,455	2,589
Other	8,315	6,958
	65,220	63,156
Market Equity Regulation Operating Expenses		
Compensation	18,282	18,071
Technology	3,509	3,286
Occupancy	1,679	1,656
Amortization, impairment and disposals	1,437	1,874
Other	3,344	2,814
	28,251	27,701
Market Debt Regulation Operating Expenses		
Compensation	1,635	1,305
Technology	349	226
Occupancy	122	117
Amortization, impairment and disposals	158	109
Other	314	199
	2,578	1,956
Debt Information Processor Operating Expenses		
Compensation	203	138
Technology	85	18
Occupancy	14	10
Amortization, impairment and disposals	92	88
Other	64	316
	458	570
Total Unrestricted Fund Expenses	$ 96,507	$ 93,383
Externally Restricted Fund Expenses		
Hearing panel expenses	$ 912	$ 1,036
Prosper Canada research project	–	242
Member education	340	296
Canadian Foundation for the Advancement of Investor Rights (FAIR)	250	–
Cybersecurity tabletop test	89	29
Cybersecurity self-assessment survey	143	–
Institute of Financial Education and Literacy	–	75
Amortization, impairment and disposals	317	698
Total Restricted Fund Expenses	$ 2,051	$ 2,376

NOTES TO THE FINANCIAL STATEMENTS (IN THOUSANDS OF DOLLARS) | MARCH 31, 2019

11. COMMITMENTS

As at March 31, 2019, the basic minimum aggregate annual rental payments, excluding GST/HST and shared operating costs under long-term leases, with varying expiry dates to February 28, 2029, for the Organization's premises are as shown below. In addition to the minimum lease payments noted below, the Organization is also obligated to pay its share of operating costs, which fluctuate from year to year.

2020	$ 3,287
2021	3,442
2022	3,453
2023	3,375
2024	2,931
Thereafter	3,606
	$ 20,094

12. CONTINGENCIES

The Organization is the sponsor of the Canadian Investor Protection Fund (CIPF), which was established to protect clients who have suffered financial loss due to the insolvency of an IIROC-registered dealer. IIROC has provided a $125,000 (2018 – $125,000) guarantee on bank lines of credit of CIPF. At March 31, 2019, CIPF has not drawn on these lines of credit. Any amount drawn on the guarantee would be assessed to dealer firms. In order to meet potential financial obligations, CIPF has the following resources in place:

i) a contingency fund balance of $495,583 on hand as at December 31, 2018 (2017 – $483,927);

ii) lines of credit provided by two Canadian chartered banks totaling $125,000 as at December 31, 2018 (2017 – $125,000); and

iii) insurance in the amount of $160,000 as at December 31, 2018 (2017 – $160,000) in the annual aggregate in respect of losses to be paid by CIPF in excess of $150,000 (2017 – $150,000) in the event of member insolvency, and a second layer of insurance in the amount of $230,000 as at December 31, 2018 (2017 – $230,000) in respect of losses to be paid in excess of $310,000 (2017 – $310,000) in the event of member insolvency.

Following the accidental loss in the 2013 fiscal year of a portable device that contained personal information relating to clients of a number of dealers, the Organization undertook a number of measures to notify potentially affected dealers and potentially affected clients, and to provide potentially affected clients with ongoing support services. On April 30, 2013, the Organization was served with a motion for authorization to institute a class action and to obtain the status of representative in the Superior Court of Quebec. The petitioner's class action motion on behalf of persons in Canada whose personal information was lost by the Organization sought $1, plus interest, on behalf of each class member, in relation to damages for stress, inconvenience and measures rendered necessary as a result of the loss of personal information by the Organization.

The motion for authorization of the class action was dismissed in August 2014. The petitioner appealed and the appeal was dismissed on November 6, 2015. A new motion for authorization was filed on November 16, 2015 on behalf of a new petitioner. The new motion was filed by the same counsel as in the original motion for authorization, and is based mainly on the same alleged facts and grounds as the previous motion, but in addition alleges that the petitioner has been the victim of identity theft. The motion for authorization was granted in October 2017. The Organization is defending against this action.

NOTES TO THE FINANCIAL STATEMENTS (IN THOUSANDS OF DOLLARS) | MARCH 31, 2019

12. CONTINGENCIES (CONTINUED)

The total costs of the incident to date, including legal fees for responding to the two motions for authorization are $5,530 of which $61 was recovered from insurance in fiscal 2019 (2018 – $10 expense). It is not possible to estimate potential damages or the range of further possible losses, if any, resulting from this incident.

13. CREDIT FACILITY

On July 29, 2011, the Organization entered into a credit agreement with the Canadian Imperial Bank of Commerce (CIBC) to finance the Organization's working capital, Toronto head office and Calgary office refurbishment requirements. The credit agreement included a committed two-year extendable non-revolving term construction credit facility (the "Term Facility"), extended to July 2017, of $6,000 repayable in monthly instalments beginning June, 2012 with interest at the banker's acceptance rate plus 0.85% (the "Term Facility").

In July 2017, IIROC paid off the outstanding balance on the Term Facility in full. The $4,000 in cash and cash equivalents held as collateral security in support of the loan was discharged by CIBC at that time.

14. FINANCIAL INSTRUMENTS RISKS

Carrying amount of financial assets

As at March 31, 2019, the carrying amount of the Organization's financial assets measured at amortized cost and at fair value are as follows:

	Year Ended					
	March 31, 2019			March 31, 2018		
	Cost or Amortized Cost	Fair Value	Total Carrying Value	Cost or Amortized Cost	Fair Value	Total Carrying Cost
Cash and cash equivalents	$ 18,647	$ 36,638	$ 55,285	$ 15,453	$ 33,055	$ 48,508
Investments	–	43,324	43,324	–	46,813	46,813
Accounts receivable	7,898	–	7,898	7,475	–	7,475
Long-term receivables	118	–	118	108	–	108
	$ 26,663	$ 79,962	$ 106,625	$ 23,036	$ 79,868	$ 102,904

The Organization's main financial instrument risk exposure is detailed as follows:

Credit risk

The Organization has determined that the primary financial assets with credit risk exposure are accounts receivable since failure of any of these parties to fulfill their obligations could result in financial losses for the Organization. The risk is mitigated by the distribution of receivables over the entire membership with the most significant amounts exposed to highly-rated bank-owned dealers. Marketable securities also expose the Organization to credit risk which the Organization limits by investing in high-quality securities. Mutual fund investments also indirectly expose the Organization to credit risk. The risk is mitigated by the diversified holdings in mutual funds. The entity is also exposed to concentration risk in that all of its cash is held with financial institutions and the balances held are in excess of Canadian Deposit Insurance Corporation (CDIC) limits.

Liquidity risk

The Organization's liquidity risk represents the risk that the Organization could encounter difficulty in meeting obligations associated with its financial liabilities. The Organization is exposed to liquidity risk with respect to its accounts payable. The Organization mitigates its liquidity risk by preparing and monitoring forecasts of cash flows from operations, anticipating investing and financing activities and holding assets that can be readily converted into cash, and maintaining a minimum of three months of budgeted operating expense as required by IIROC's internal liquidity guideline.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of currency risk, interest rate risk or other price risk.

Currency risk

Currency risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate relative to the Canadian dollar due to changes in foreign exchange rates. The functional currency of IIROC is the Canadian dollar. IIROC invests a portion of its investment portfolio in mutual funds which invest in foreign equities. IIROC mitigates its currency risk exposure by limiting the extent of foreign currency exposure.

Interest rate risk

Interest rate risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate due to changes in market interest rates. Fixed rate financial instruments are subject to fair value risk and floating rate financial instruments are subject to cash flow risk. The Organization is exposed to interest rate risk with respect to cash and cash equivalents and interest bearing investments. Fluctuations in market rates of interest on cash and cash equivalents, short-term investments and guaranteed investment certificates do not have a significant impact on IIROC's results of operations. The objective of IIROC with respect to interest bearing investments is to ensure the security of principal amounts invested, provide for a high degree of liquidity, and achieve a satisfactory investment return.

14. FINANCIAL INSTRUMENTS RISKS (CONTINUED)

Other price risk

Other price risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate because of changes in market prices (other than those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all similar instruments traded in the market. IIROC is exposed to other price risk because of its investment in mutual funds.

15. SUBSEQUENT EVENT

Dealer member prior year revenue re-assessments

Subsequent to year end, IIROC approved a re-assessment of membership fees to member firms for fiscal years 2015 through 2019, inclusive. This arose as a result of IIROC identifying and confirming that some member firms had not been reporting certain revenue information on the basis required by the Organization's membership fee billing model. This incorrect reporting resulted in certain firms underpaying their fees. The re-assessment corrects this and will result in amounts both collectible from and owing to member firms, with no net impact expected to either revenues or to IIROC's reported financial position. The reporting issues at the relevant member firms have already been remediated and as such, IIROC does not expect this matter to have any effect on the future operations of the Organization.

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