

Annual Report 2008–2009



Delivering value through self-regulation



IIROC Mandate

We set and enforce high-quality regulatory and investment industry standards, protect investors and strengthen market integrity while maintaining efficient and competitive capital markets.

IIROC Vision

We will be known for our integrity, our transparency and our fair and balanced solutions. We aim for excellence and regulatory best practices. Our actions are driven by sound deliberation, analysis and consultation.

IIROC Values

- *Act with Integrity* – We conduct ourselves in an ethical manner in accordance with the highest degree of fairness and professionalism.
- *Be Accountable* – We act in a timely, diligent and responsive manner.
- *Be Proactive* – We are open to new ideas as we anticipate and collaborate to meet the challenges of a constantly changing environment.

Delivering value through self-regulation

To fulfill our mandate as a national self-regulatory organization and meet the goals of our Strategic Plan, we must be aware of and balance the interests of each of our stakeholder groups – dealer and marketplace members, investors, our employees, other regulators – while acting with integrity, transparency and fairness.

If we achieve our goals and effectively execute on our strategies, we will deliver value to our stakeholder groups and promote the fairness, efficiency and integrity of Canada's capital markets.

Message from the Chair

This has been an historic year. On June 1, 2008, we officially merged the Investment Dealers Association of Canada (IDA) and Market Regulation Services Inc. (RS), commencing our first year of operations as the Investment Industry Regulatory Organization of Canada (IIROC).



Ronald S. Lloyd
Chair

Bringing market and member regulation together in a single national self-regulatory organization was a significant step in modernizing, simplifying and strengthening Canada's self-regulatory system.

The merger has allowed IIROC to more effectively allocate regulatory resources while improving the performance of self-regulation for the benefit of investors and Canadian capital markets. This Annual Report details IIROC's progress in realizing these important benefits. It also demonstrates the value of self-regulation in developing and enforcing high quality industry and regulatory standards that enhance investor protection, fair markets and integrity.

I would like to acknowledge our Board of Directors whose leadership and commitment has been critically important during this first year of IIROC's operations. The Board of Directors and various committees of the Board have overseen the implementation of a governance structure and practices that support high ethical standards and are designed to promote accountability and effectiveness. These initiatives include the adoption of a Board and Employee Code of Conduct and Board practices which ensure that accurate and relevant information is considered in a timely manner.

In addition to its oversight responsibilities, the Board of Directors has provided strategic guidance to management on emerging trends and key issues.

The Board has provided wise counsel and enthusiastic support for our dedicated President and CEO Susan Wolburgh Jenah, her management team and staff. I cannot thank them enough.

I have been actively involved in self-regulation for the past four years, first with the IDA and now IIROC. It has been a privilege to serve during this historic and transformative time in the Canadian regulatory and investment environment. I leave my role knowing that this new self-regulatory organization is on a very firm foundation to effectively address the challenges of today and tomorrow.

A handwritten signature in black ink, appearing to read 'R. Lloyd', written in a cursive style.

Ronald S. Lloyd
Chair

This has been an important and challenging year for IIROC. During a period of unprecedented market turmoil, we have created a new national self-regulatory organization that builds upon and strengthens the foundation of self-regulation in Canada and contributes to its continuous improvement.



Susan Wolburgh Jenah
President and CEO

Delivering on our Strategic Plan

One of our first priorities was the development of a Strategic Plan to identify the challenges we face and establish goals and strategies to achieve success.

Our Strategic Plan sets out five goals. For each goal we identified enabling strategies and committed to undertake specific projects over the next few years. We will review and update our plan annually to ensure it remains relevant and responsive to new and emerging issues. This Annual Report details our progress in meeting the objectives identified under each goal.

We have pursued our strategic priorities with a commitment to transparency, accountability, and collaboration. We have managed our operations in a fiscally responsible manner, providing fee reductions for dealer regulation through effective cost management. These results were achieved in the face of volatile market conditions and increased work demands through: organizational priority-setting, increased productivity, the efficient allocation of resources and the use of technology as a strategic enabler.

We are encouraged by the promising results which this Annual Report documents and inspired by the work that remains to be done.

Collaboration and consultation

Promoting compliance with high industry standards requires working in close and effective partnership with our members. Enhancing industry compliance requires timely, clear and concise guidance.

We issued our first annual *Consolidated Compliance Report* to assist firms in their compliance efforts. We

provided more timely and relevant direction on dealer and marketplace issues, including best practices for product due diligence and guidance on 'locked' and 'crossed' markets and the 'best price' obligation in a multi-market environment.

We made significant progress on our initiative to re-write all former IDA rules: recasting them in plain language, articulating clearly the underlying principle, eliminating redundant and out-dated requirements and proposing substantive revisions to many instruments. The result will be clearer, more accessible rules that will support and promote enhanced industry compliance.

We strengthened our ties with domestic and international regulators expanding institutional knowledge of regulatory practices and industry trends.

We signed a formal agreement of cooperation with the US Financial Industry Regulatory Authority (FINRA). We issued a joint guidance notice to our respective members on Exchange-Traded Funds. We launched an IIROC Whistleblower Service, similar to that recently established by FINRA, to take prompt action on reported first-hand knowledge or tangible evidence of potential systemic wrongdoing or fraud relating to those we regulate. More effective cross-border regulatory collaboration benefits both industry and investors.

I reported earlier that we were taking steps to establish a more open, inclusive and transparent approach to policy development. We now publish all comments received on policy proposals. We have and will continue to extend the timing and scope of policy consultation to provide stakeholders with more meaningful opportunities for input. We hosted two Roundtables to

solicit stakeholder perspectives on proposals relating to Financial Planning and the Client Relationship Model.

We commissioned, with the Joint Standing Committee on Retail Issues, independent research surveying Canadian investors about the information they receive from advisors and other sources and how they rely on this information in making investment decisions. We will use the survey data and analysis to inform our policy-making.

Strengthening confidence in the fairness and integrity of capital markets

We proposed a rule for debt and other over-the-counter traded securities which sets specific criteria for their fair pricing and requires effective yield disclosure. The proposal will improve our ability to conduct oversight and enforce compliance against a set of higher standards.

We continued to work on developing new and robust complaint handling standards aimed at ensuring the fair and timely resolution of client complaints. We advanced the proposed Client Relationship Model which focuses on enhanced disclosure about the client-advisor relationship, including costs, conflicts and compensation and performance reporting.

During the year, we made important progress on the *Surveillance Technology Enhancement Platform (STEP)* project. STEP will ensure that we can continue to conduct effective real-time market surveillance across multiple equity marketplaces and exchanges operating in Canada.

Looking ahead

This has been a year of unprecedented market and economic turmoil. Market volatility and uncertainty have shaken investor confidence.

The current market crisis offers an important opportunity to rebuild confidence in the capital markets and demonstrate the value of the self-regulatory partnership.

The foundation of self-regulation is a shared commitment to maintaining high industry standards. Today's challenge – for regulators and industry working together – is to realign incentives that will encourage the desired behaviour through compensation structures, enterprise-wide risk management and a longer-term focus on sound business practices and overall client satisfaction.

We are committed to working with our regulatory partners, industry participants and the investing public to address these challenges and improve the efficiency of the regulatory system and the overall integrity of the Canadian capital markets.

I conclude by expressing my appreciation to IIROC Chair Ron Lloyd and the entire Board for their unwavering support and guidance. Above all, I extend my deepest thanks to IIROC staff for their enormous hard work and commitment during a year of significant challenges, change and growth. It has been a privilege to lead the organization during this transformational and historic year.



Susan Wolburgh Jenah
President and CEO

Executive Management Team

Keith Persaud
*Senior Vice President,
Finance and Administration*

Rosemary Chan
*Senior Vice President, General Counsel
and Corporate Secretary*

Warren Funt
Vice President, Western Canada

Susan Wolburgh Jenah
President and CEO

Connie Craddock
Vice President, Public Affairs

Paul Bourque
*Senior Vice President, Enforcement,
Policy and Registration*

Carmen Crépin
Vice President, Quebec

Maureen Jensen
*Senior Vice President,
Surveillance & Compliance*



IROC's Board of Directors is comprised of 15 Directors, including the President and CEO, with an even number of Independent and Industry (Marketplace or Dealer Member) Directors.

Directors

- Seven Independent Directors
- Five Dealer Member Directors
- Two Marketplace Directors

The Chair of the Board can be an Industry Director or an Independent Director.

TSX is entitled to nominate one of the Marketplace Directors in accordance with IROC By-Laws. The other Marketplace Director is a representative of a Marketplace other than one associated or affiliated with TSX.

After the first annual meeting, Directors will serve for staggered two-year terms (first terms all expire in 2009). All Directors other than the President are restricted to term limits of four consecutive terms.

Independent Directors

Kerry Adams
Investment Consultant
Aurora, Ontario
• *Member of the Corporate Governance Committee*

David Denison
President and Chief Executive Officer
CPP Investment Board
Toronto, Ontario
• *Chair, Human Resources & Pension Committee*

Michael Grandin
Corporate Director
Calgary, Alberta
• *Member of the Corporate Governance Committee*
• *Member of the Finance and Audit Committee*

Daniel Leclair
Corporate Director
Shefford, Quebec
• *Chair, Finance and Audit Committee*

Daniel Muzyka
Dean and Professor
University of British Columbia
Vancouver, British Columbia
• *Member of the Corporate Governance Committee*

Gerry Rocchi
Principal
Green Power Action Inc.
Toronto, Ontario
• *Member of the Finance and Audit Committee*

Grant Vingoe
Partner
Arnold & Porter LLP
New York, New York
• *Chair, Corporate Governance Committee*

Industry Directors

Ronald S. Lloyd, Chair
Chairman and Chief Executive Officer
Credit Suisse Securities (Canada), Inc.
Toronto, Ontario
• *Member of the Corporate Governance Committee*
• *Member of the Human Resources & Pension Committee*

Roger Casgrain
Executive Vice-President
Casgrain & Company Limited
Montreal, Quebec
• *Member of the Human Resources & Pension Committee*

Michelle Khalili
Managing Director
CIBC World Markets
Toronto, Ontario

Thomas A. Kloet
Chief Executive Officer
TMX Group Inc.
Toronto, Ontario
• *Member of the Finance and Audit Committee*

Robert LeSourd
President and Chief Executive Officer
J.F. Mackie & Company Ltd.
Calgary, Alberta
• *Member of the Human Resources & Pension Committee*

H. Sanford Riley, C.M.
Chairman
Richardson Partners Financial Limited
Winnipeg, Manitoba

Wendy Rudd
Chief Executive Officer
TriAct Canada Marketplace LP
Toronto, Ontario
• *Member of the Finance and Audit Committee*

President and CEO

Susan Wolburgh Jenah
President and Chief Executive Officer
Investment Industry Regulatory Organization of Canada
Toronto, Ontario
• *Ex-officio Member of the Human Resources & Pension Committee*

from left

Kerry Adams
David Denison
Michael Grandin
Daniel Leclair
Daniel Muzyka
Gerry Rocchi
Grant Vingoe



2008–2009 Board Meetings

Twenty-one meetings, including seven Board meetings, were held during the ten-month period ending March 31, 2009.

Director Attendance at Board and Committee Meetings

Director	Attendance at Board Meetings	Attendance at Committee Meetings
Kerry Adams	6/7	5/5
Roger Casgrain	7/7	4/4
David Denison	5/7	4/4
Michael Grandin	5/7	10/10
Michelle Khalili	3/3*	n/a
Thomas A. Kloet	4/5*	2/3
Daniel Leclair	6/7	5/5
Robert LeSourd	6/7	2/4
Ronald S. Lloyd (Chair)	6/7	5/9
Daniel Muzyka	7/7	5/5
H. Sanford Riley C.M.	6/6*	n/a
Gerry Rocchi	7/7	5/5
Wendy Rudd	6/7	4/5
Grant Vingoe	6/7	5/5
Susan Wolburgh Jenah	7/7	13/14

The following committees held meetings during this period:

- Corporate Governance Committee – Five meetings
- Finance and Audit Committee – Five meetings
- Human Resources & Pension Committee – Four meetings

* Director joined Board part-way through year.

Ronald S. Lloyd, *Chair*
 Roger Casgrain
 Michelle Khalili
 Thomas A. Kloet
 Robert LeSourd
 H. Sanford Riley, *C.M.*
 Wendy Rudd
 Susan Wolburgh Jenah

Director Compensation

IIROC does not compensate Industry Directors for their participation on IIROC's Board or 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 \$7,500, if the Chair is an Independent Director
- Board meetings less than two hours in duration – a fee of \$1,000
- Board meetings of two hours or longer – a fee of \$1,500

Committee

- Committee Members – \$1,500 per annum
- Committee Chairs – \$4,000 (except in the case of the Human Resources & Pension Committee Chair where the retainer will be \$3,500)
- Committee meetings 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.



1. Driving a culture of compliance among those subject to IIROC'S jurisdiction



Promoting a strong culture of compliance that benefits investors, industry, and the capital markets.

COMPLIANCE → PARTNERSHIP → GUIDANCE

We must work in close and effective partnership with our members to achieve this goal. To ensure balanced, practical regulation, we need to engage the industry in regulatory initiatives in a timely and meaningful way. This will require providing timely, clear and concise guidance that will lead to enhanced industry performance.

The Canadian market structure is developing rapidly and IIROC's members and those subject to our jurisdiction must be able to adjust to these changes while maintaining a continued focus on high standards of compliance.

Providing timely, clear and concise information and guidance

In this year of market turmoil, IIROC worked to promote a strong culture of compliance and the highest standards of fairness and integrity.

IIROC issued 12 Guidance Notices on matters such as:

- Maintaining effective compliance during economic and market downturns;
- Best practices for product due diligence;
- Compliance with the "best price" obligation in an environment of multiple marketplaces; and
- Guidance on aspects of "locked" and "crossed" markets.

Conducting compliance reviews

We conduct compliance reviews to ensure our members adopt and maintain policies to identify, evaluate, assess, document and control the full range of credit, market, operational, legal and reputational risks associated with their business model and activities.

In our first year of operations, IIROC conducted 275 member firm compliance reviews and provided each firm with recommendations to improve their practices and reduce risk.

We conducted a sweep of branch office operations, examining 28 branches and 10 head offices, focusing on the effectiveness of supervisory controls by the head office over branch operations. A summary of the findings was issued.

We conducted a review of the sale of Principal-Protected Notes (PPN) which examined:

- The marketing materials used;
- The suitability assessment undertaken when PPNs were sold to investors; and
- How PPNs are currently valued on customer month-end statements.

This review is scheduled to be completed in Q2 2009–10 following which we will be assessing our findings and determining appropriate follow-up action.

On-site firm reviews conducted June 1, 2008 to March 31, 2009

Financial Operations Compliance: 144

Business Conduct Compliance: 87

Trade Conduct Compliance: 44

Providing timely and relevant industry education programs

IIROC's Member Education Services develops educational programs, including webcasts and conferences, to share compliance practices with member firms, help them implement policies and procedures, and solicit feedback on new or existing policies.

Consulting with regulated entities to promote their understanding of and input into regulatory initiatives

As a self-regulatory organization, effective engagement with members is vital to promoting high standards of integrity, professionalism, and a culture of compliance. IIROC's district councils and policy advisory committees provide important industry input in policy development.

During the past year, 377 individuals representing 116 Dealer and Marketplace Member organizations served on IIROC's five policy advisory committees:

- Fixed Income Committee
- Market Rules Advisory Committee
- Education and Proficiency Committee
- Compliance Legal Section
- Financial Administrators Section

Educational services delivered in FY 2008–09

25 educational webcasts
with 13,964 industry participants

12 live events across the country
with 1,353 industry participants

We have continued work on the Rule Book Re-write Project to reorganize and reformat all Dealer Member rules. The outcome of this project will be improved industry compliance through enhanced comprehension and accessibility while achieving a better balance between principle-based and prescriptive rules. During the year, a total of 55 rules were redrafted, 24 of which involved substantive changes. A members-only website was created to facilitate input, and the redrafted rules will be published for public comment and subject to regulatory approvals.

We are also harmonizing the Dealer Member and Market Integrity Rules, beginning with the investigations and enforcement provisions. This exercise involves identifying any differences and benchmarking requirements to other regulatory organizations.

2. Delivering effective, efficient and expert regulation



Maintaining a continual focus on the quality and relevance of our regulation.

PROACTIVE → COLLABORATIVE → BALANCED

Today's capital markets are innovative, complex and evolving rapidly.

Regulating effectively, efficiently and expertly requires employing all the information and intelligence from all levels of our organization.

In this increasingly global environment, proactive approaches to emerging domestic and international developments along with coordination with other domestic and foreign regulators will enhance our effectiveness.

Using research and risk analysis to identify important trends and emerging issues

This year IIROC published comprehensive studies examining trends in trading activity of listed securities on Canadian equity marketplaces. We also reported on the impact of the ban imposed on the short sale of inter-listed financial sector issuers in the fall of 2008 and reviewed short selling activity in specific sectors.

We formed an *Emerging Regulatory Issues Committee* to identify and address emerging issues that pose potential risk to investors and the integrity of our markets.

Employing and continually evaluating effective regulatory tools

We introduced compliance reviews on specific issues (e.g., PPNs), and industry-wide systemic issues (e.g., Asset-Backed Commercial Paper (ABCP)) to supplement periodic firm compliance reviews. We benchmarked our firm review programs and compliance modules with those of the Financial Industry Regulatory Authority (FINRA), our U.S. counterpart. We also reviewed the Madoff and Stanford cases in the United States to identify and implement any required safeguards.

Taking a risk-based approach

A risk-based approach helps effectively prioritize and allocate staff resources where they are most needed.

- Trade Conduct Compliance introduced a new risk model. Firm Risk Trend Reports now address trading conduct compliance as well as financial operations and business conduct compliance;
- Business Conduct Compliance updated and streamlined its current risk model; and
- Registration began testing a new risk model.

Integrating regulatory oversight

This year IIROC's Business Conduct Compliance, Financial Operations and Trade Conduct Compliance departments completed the first integrated reviews of several firms.

We introduced a new integrated process for the admission of Dealer and Marketplace Members. This entailed harmonizing new membership standards and procedures across all IIROC offices in order to achieve greater efficiency and consistency in the new member application process.

Employing all the expertise within IIROC

We introduced a more collaborative and cross-functional approach to dealing with broad systemic issues such as the collapse of the third-party ABCP market. Our Regulatory Policy development process now draws more effectively on IIROC-wide expertise.

Working with other regulators to ensure effective regulation

We strengthened our ties with domestic and foreign regulators to improve the flow of information and identify and reduce regulatory gaps.

We worked with the Canadian Securities Administrators (CSA) on key policy initiatives, including:

- Changes to Dealer Member Rules relating to the CSA Registration Reform initiative that simplify, streamline and modernize IIROC's approval and compliance-related requirements and better harmonize to the CSA and Mutual Fund Dealers Association (MFDA) requirements;
- Review of the proposed Trade-through Rules, the production of a Dark Pools policy paper, and short sale issues; and
- The Client Relationship Model (CRM) proposal.

In 2009 we signed a Memorandum of Understanding with FINRA which establishes a formal basis for cooperation, including the exchange of information and other assistance.

IIROC collaborates with regulatory organizations and participates on numerous international regulatory fora:

- Financial Industry Regulatory Authority (FINRA)
- SRO Consultative Committee (SROCC)
- International Organization of Securities Commissions (IOSCO)
- Council of Securities Regulators of the Americas (COSRA)
- Intermarket Surveillance Group (ISG)
- International Council of Securities Organizations (ICSA)
- World Federation of Exchanges (WFE)

Balancing made-in-Canada solutions against maintaining consistency with global approaches

The Canadian Accounting Standards Board is requiring all Canadian public issuers and certain private companies to convert from Canadian Generally Accepted Accounting Principles (GAAP) to International Financial Reporting Standards (IFRS). IIROC surveyed Dealer Members to determine the potential impact of IFRS implementation. We used survey findings to develop a fair, appropriate and balanced approach to IFRS adoption for IIROC member firms.

This year saw significant domestic and international debate on how to address short selling. IIROC continues to monitor international developments and alternative approaches to determine the best response for the Canadian markets. IIROC's Board of Directors approved additional tools to effectively address potential abusive short selling and failed trade activity. A previous proposal to repeal price restrictions on short selling (beyond U.S. inter-listed securities) was deferred in light of the rapidly evolving global regulatory framework.

3. Strengthening confidence in the fairness and integrity of Canadian financial markets



We must do our part to earn and maintain confidence in the fairness and integrity of the financial markets.

TRANSPARENCY → COORDINATION → ROBUST ENFORCEMENT

Investors today are faced with enormous choice among increasingly complex financial instruments, and many investors place considerable reliance on their financial advisors to ensure adequate retirement income. At the same time the participation of Canadian pension funds in the equity and fixed income markets we regulate means that almost every Canadian is a stakeholder in a well-run industry and in IIROC's regulatory effectiveness.

Reflecting and addressing investors' interests through regulatory activity and priority-setting

This year we published three regulatory policy initiatives to address investor interests, including:

- Setting specific standards and timelines for firms to acknowledge, investigate and respond to client complaints;
- Setting standards to improve communications and transparency in the advisor-client relationship (the Client Relationship Model); and
- Enhancing transparency and fair pricing for over-the-counter traded securities including fixed-income securities.

Access to fair and timely dispute resolution and compensation options is a priority for IIROC, its regulated firms and their clients. This year we:

- Undertook a review of IIROC's Dealer Member arbitration program to assess whether it is providing effective, fair and timely dispute resolution and to identify potential improvements; and
- Responded to the Ombudsman for Banking Services and Investments (OBSI) proposal to strengthen its governance framework, more clearly articulate its principal powers and duties, the scope of its mandate, and the duties of participating firms. Our comments were designed to ensure that our respective roles continue to be complementary and mutually supportive.

IIROC took steps to communicate more effectively and transparently with investors, including:

- Developing a new *Investors* section of the IIROC website;
- Creating a new investor brochure, “Why IIROC Matters to You, the Investor”; and
- Producing a webcast to help investors make a complaint to IIROC or IIROC-regulated firms.

We also initiated a comprehensive review to strengthen our internal complaint-handling processes within IIROC.

Canada’s investor community often lacks the legal and research resources available to other stakeholders. The IIROC Board approved funding for the establishment of a national independent organization, the Canadian Foundation for the Advancement of Investors Rights (FAIR), to support a stronger voice on investor and shareholder-related matters.

Taking action to address unfair, fraudulent, misleading or abusive practices

Client complaints related to Dealer Members increased during IIROC’s first period of operations (June 1, 2008 to March 31, 2009), while marketplace-related complaints decreased somewhat over the same period.

Marketplace-related complaints filed with IIROC
totalled **798**, a **10%** decrease (annualized).

Dealer-related complaints filed with IIROC
totalled **389**, a **22%** increase (annualized).

Client complaints filed directly with Dealer Member firms
(and reported to IIROC electronically) totalled
1,940, a **28.5%** increase (annualized).

Despite these challenges, we met our benchmarks for timely responses.

We responded to the freeze of third-party Asset-Backed Commercial Paper (ABCP) with a comprehensive compliance review of the manufacture and distribution of the product by IIROC-regulated firms. We dedicated significant staff resources to the investigation of complaints and other issues relating to the sale of ABCP, a key enforcement priority during the year.

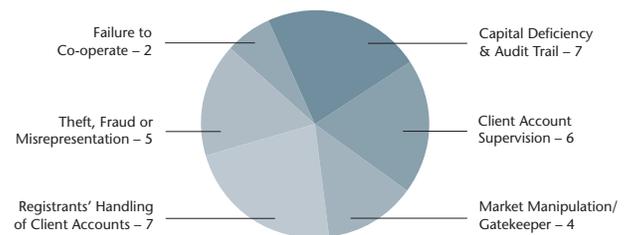
IIROC completed **31** disciplinary proceedings against **12** firms and **19** individuals.

We assessed a total of **\$3.2 million** in fines, suspended **8** individuals and **3** firms and terminated **3** individuals and **1** firm’s membership.

We collected **100%** of firm fines and **36%** of individual registrant fines.

IIROC does not have the statutory ability to collect fines in all provinces and territories. If firms or registrants do not pay their fines, we will rescind their registration approval or will disallow re-approval.

Completed Enforcement Actions: Violation Types



This year, IIROC also faced legal challenges to our ability to prosecute former registrants in three unrelated proceedings in Quebec (Georges Métivier), British Columbia (Charles K. Dass) and Ontario (Stephen Taub). IIROC’s continuing jurisdiction was confirmed on appeal in Quebec and British Columbia, while in Ontario the matter is pending at the Ontario Court of Appeal.

Our Five Strategic Goals

Goal 3 (continued)

Coordinating with other regulators and agencies

IIROC strengthened cooperation and information-sharing with other organizations to ensure effective consumer protection across the financial services industry. To do this, IIROC:

- Participated in the Joint Standing Committee on Retail Investor Issues, (with OSC, MFDA and OBSI); and
- Responded to 1,894 requests for information from members of the Intermarket Surveillance Group (ISG) and referred four cases to appropriate policing authorities and two cases to the Canada Revenue Agency.

Monitoring markets to promote fair and orderly trading activity

Canada's trading environment has changed significantly. Today IIROC conducts surveillance on three exchanges and six equity Alternative Trading Systems. In monitoring this multi-market environment we face the challenges of higher volumes, more complex technologies, different trading strategies and a variety of new products. In this rapidly changing environment, IIROC must continually implement necessary changes to our monitoring activities to ensure we maintain real-time market oversight.

We responded to last year's unprecedented market turmoil by:

- Conducting weekly monitoring of Dealer Members' regulatory capital positions;
- Increasing our regular monitoring of trading on equity marketplaces with heightened surveillance of short sale activity; and
- Paying special attention to any signs of potential price manipulation at market close.

We also developed and implemented a Regulatory Marker Correction System for Dealer Members' use, which has resulted in a more accurate audit trail record.

IIROC is building a new Surveillance Technology Enhancement Platform (STEP), to provide an efficient, cost-effective system for real-time market surveillance across equity marketplaces and exchanges operating in Canada. As the marketplace continues to evolve, STEP will allow IIROC to respond quickly to shifting market structures, different trading strategies and increased trading volumes. IIROC expects to implement STEP in Q1 2010.

4. Be a cost-effective organization

“IIROC must continuously manage costs through the strategic utilization of resources and effective planning and execution of important initiatives.”

ACCOUNTABLE → COST-EFFECTIVE → INTEGRATED

Cost pressures, our not-for-profit status and the importance of being accountable for cost-effective operations drive the need for increased productivity within our organization.

Integrating the business processes and technology of our predecessor organizations

This year we focused on integrating our predecessor organizations, adopting the best approaches from each and achieving synergies. We developed an integrated budget, set up an integrated general ledger, and developed an automated cost allocation model. We integrated former IDA and RS departments, including Finance, Information Technology, Public Affairs and Human Resources. We focused on eliminating duplicate expenses such as insurance, where new coverage was arranged, resulting in additional cost savings. We continue to make progress integrating the IDA and RS Business Continuity plans.

Leveraging information technology to increase our productivity and streamline processes

We are using technology as a strategic enabler, employing our IT resources where they provide the greatest value. We developed a three-year IT Strategic Plan to improve security, operations and effective use of resources. We created and filled a new Chief Information Officer position, and we have undertaken the following projects:

- Established project portfolio management and prioritization;

- Began integrating our case management system to allow Enforcement and Trade Review and Analysis staff to work with a common system; and
- Began building a centralized compliance audit software platform to allow all Compliance staff to access all information available on a firm or marketplace.

We have also begun the process of implementing IT changes necessitated by the CSA Registration Reform project.

The STEP project (see page 12) will provide IIROC with a more cost-effective trading surveillance system which will offer full cross-market functionality and avoid the current system's high costs of capacity increases.

Developing an equitable fee model

This year IIROC began developing an integrated fee model to replace the IDA and RS models. The initiative began with a review of the IDA model, and a Committee of IIROC Dealer Member representatives was organized that reflects members' diversity of size, business models, and geographical locations. The Committee identified drivers for direct costs and benchmarked fee model alternatives against similar organizations. We will recommend a fee model for Dealer Members based on the guiding principles of fairness, competition, transparency and cost recovery, in compliance with IIROC's Recognition Orders.

5. Be an accountable, fair and flexible organization



Our goal is to be and be seen as a flexible and dynamic organization.

DYNAMIC → UNIFIED → EMPLOYER OF CHOICE

To succeed, we must build on our greatest strength, our skilled and engaged staff, by building a culture that promotes independent thought, judgment and creativity.

Building a unified culture

Every newly-merged organization spends considerable effort integrating its predecessor organizations and building a new culture that will define it. IIROC undertook this challenge at a time when the capital markets were experiencing unprecedented volatility. We completed key integration tasks, took on new assignments, and continued to be inspired by our key values:

- Act with integrity;
- Be accountable; and
- Be proactive.

We made progress integrating the predecessor organizations' six office locations across the country, including consolidating our Vancouver staff into one location. In Toronto, we maintained two locations while integrating staff into departmental teams across these two locations.

IIROC's newly-created General Counsel's Office (GCO) provides in-house legal expertise to the CEO, the Board and Staff. The GCO developed an IIROC Code of Conduct and an Employee Trading Policy that ensures trading by IIROC employees meets appropriate standards of integrity and accountability. Through the GCO, IIROC has access to legal advice and support on a number of strategic and operational initiatives, including:

- Surveillance Technology Enhancement Platform (STEP);
- IIROC Strategic Plan; and
- Memoranda of Understanding with domestic and international regulatory bodies.

Providing competitive compensation

This year we implemented new pension and benefit plans which respect the employee agreements from the predecessor organizations. We have undertaken a review of our compensation practices to develop a new framework that provides competitive, fair, motivating and rewarding compensation.

Management Discussion and Analysis

(In thousands of dollars)

The Investment Industry Regulatory Organization of Canada (IIROC or Organization) is a not-for-profit Canadian corporation, with locations in Toronto, Calgary, Montreal and Vancouver. IIROC is the national self-regulatory organization (SRO) which oversees all investment dealers and trading activity on debt and equity marketplaces in Canada. The Organization tracks its operating costs within two main divisions: Dealer Regulation, which provides regulation of investment dealers, and Market Regulation, which regulates debt and equity marketplaces. IIROC carries out its regulatory responsibilities through setting and enforcing rules regarding the proficiency, business and financial conduct of investment dealers and their registered employees; and through setting and enforcing Universal Market Integrity Rules (UMIR) regarding trading activity on Canadian equity marketplaces. The Organization operates on a cost recovery basis and assesses its members annual fees to recover operating costs. Membership consists of all investment dealers and Alternative Trading Systems. Furthermore, the TSX, TSX-V and CNSX exchanges have agreements with IIROC for surveillance of their markets. IIROC commenced operations on June 1, 2008, through the combination of Market Regulation Services Inc. (RS) and the Investment Dealers Association (IDA), and its statements reflect ten months of revenues and costs up to March 31, 2009. The opening Statement of Financial Position of IIROC consists of the transferred closing assets, liabilities and fund balances of RS and the IDA.

Unrestricted Fund

Revenues

Unrestricted Fund revenues for the period were \$61,768. Almost all (approximately 99%) revenues during the period arose from payments by members and exchanges. Interest and Miscellaneous revenue made up the remainder. Revenues from Dealer Regulation are made up of Membership fees, Underwriting levies, Registration fees and Entrance fees. Market Regulation revenues consist of UMIR fees and Timely Disclosure fees.

Dealer Regulation revenues were \$41,137 for the period or 67% of Unrestricted Fund revenues.

- Membership fees are assessed to investment dealers to provide sufficient funding for Dealer Regulation Operating costs, less other revenue components described below. For the period, Membership fees were \$33,076 and made up 80% of Dealer Regulation revenues. Membership fees also take into account IIROC's requirement to maintain an Unrestricted Fund balance of at least three months of operating costs. Any Unrestricted Fund balance in excess of this requirement may be returned to investment dealers by reduction of membership fees in the following year. Conversely, any shortfall will be collected via an increase in membership fees in the following year. Fees to individual members are calculated based on a prescribed formula which takes into account the capital, number of registered employees and revenues of each member. These fees are invoiced on a quarterly basis.
- Underwriting levies are fees generally assessed proportionately to investment dealer syndicate members for each Canadian non-auctioned public offering or private placement (equity or debt). These fees were \$5,480, or 13% of Dealer Regulation fees for the period, and quarterly amounts varied with capital markets underwriting activity.
- Registration fees were \$2,411 representing 6% of Dealer Regulation revenues for the period. These fees are primarily based on revenue sharing agreements with provincial Securities Commissions that have delegated investment dealer registration activities to IIROC. In addition to the revenue sharing connected with delegated provincial registration activities, IIROC also charges fees, as a national SRO, for registration activities in provinces where delegation has not been granted.
- New investment dealer members are assessed an Entrance fee to cover costs related to the review of applications. For the period these fees were \$170.

Management Discussion and Analysis

(In thousands of dollars)

Market Regulation fees were \$19,953 or 32% of Unrestricted Fund revenue for the period. These fees are comprised of two components:

- UMIR fees are assessed to investment dealers that carry out trading activity on Canadian equity marketplaces to provide sufficient funding for Market Regulation Operating costs, less Timely Disclosure fees. For the period, UMIR fees were \$17,138 and made up 86% of Market Regulation revenues. Like Dealer Regulation Membership fees, UMIR fees also take into account IIROC's requirement to maintain an Unrestricted Fund balance of at least three months of Operating costs. Fees to individual investment dealers are calculated based on each firm's proportionate share of total marketplace trading volumes. These fees are invoiced on a monthly basis.
- Timely Disclosure fees are for administering the Timely Disclosure Policies of the TSX and TSX-V. Fees for the period were \$2,815, making up the remaining amount of Market Regulation fees.

Expenses

Operating Costs for the year amounted to \$58,609, distributed approximately 68% to Dealer Regulation and 32% to Market Regulation. Costs are made up of Compensation, 65%; Technology, 14%; and Occupancy, 8%, with other costs comprising the remaining 13%. To ensure costs, upon which fees are based, are segregated between Dealer Regulation and Market Regulation, IIROC developed a methodology based on staffing and occupancy costs and technology requirements.

- Dealer Regulation costs were \$39,941 for the period. The primary components were Compensation, 74%, and Occupancy at 10%.
- Market Regulation costs were \$18,668 for the period. Its primary components were Compensation, 45%, Technology, 40%, and Occupancy, 6%. Technology costs are primarily made up of expenses connected with the market surveillance technology system (SMARS) supplied, hosted and managed by the TMX Group.

Excess of Unrestricted Fund revenues over expenses

Revenues exceeded expenses for the period by \$3,159, which increased the Unrestricted Fund balance to \$26,199. IIROC is required to retain three months operating costs in the Unrestricted Fund under its Recognition Order. Any of this year's excess will be used to reduce fees for Dealer Regulation and to finance capital upgrades for the SMARS system in the upcoming year. The surplus when allocated to Dealer Members is estimated as \$1,587 and \$1,572 for Market Members.

Liquidity and Capital Resources

At the end of the year IIROC was in a surplus position of \$65,888 consisting of the Capital Asset Fund, Unrestricted Fund, the Externally Restricted Fund and the Merger Fund.

The Unrestricted Fund surplus of \$26,199 must be maintained at three month's operating costs. Based on the FY 2010 budget of \$77,758, the surplus must be maintained at \$19,440, leaving an excess surplus with Dealer Regulation of \$2,910 and Market Regulation of \$3,850. As noted above, the excess surplus will be used to reduce Dealer Regulation fees in FY 2010 and to finance technology upgrades for Market Regulation.

During the year, investments were made with the purchase of capital assets in the amount of \$3,420. The primary components are development of a new market surveillance technology system (STEP), \$2,375; furniture and leasehold improvements related to office consolidation in Vancouver, \$485; and computer hardware, \$325. IIROC repaid \$361

of its bank loan during the period, and fund balances transferred by IDA and RS as part of the opening Statement of Financial Position were \$59,597.

These activities led to an end of period cash and cash equivalents of \$73,208. This was comprised of cash in banks of \$12,070 as well as Treasury Bills and Term Deposits of \$61,138 guaranteed by the Canadian or a Provincial government.

Externally Restricted Fund

Total revenues for the period amounted to \$3,893, with \$3,285 in fines, \$536 in interest and one-time payments from new members of \$72. Expenses totalled \$1,729, increasing the fund balance by \$2,164 to \$28,682. The main expenses were Hearing panels of \$1,254 followed by the Rule book project of \$224 and DeGroot lecture series of \$125.

Merger Fund

Set up for the IDA/RS combination costs amounted to \$4,031 for the period. Major expenses for the period were for pension consulting related to establishing new plans, consolidating offices in Vancouver, run off insurance, sales tax, severance, and branding. At the end of the period, the balance of the Merger Fund stands at \$3,373. Any funds not required will be returned to the Externally Restricted Fund.

Outlook

IIROC's budget for the coming year was prepared to at least maintain its current level of operational capability with respect to Dealer and Market Regulation responsibility. Operating costs for FY 2010 are expected to be \$77,758, on a twelve-month basis. Next year, costs are expected to be made up of Compensation, 64%; Technology, 17%; Occupancy, 8% and other costs comprising the remaining 11%.

Without considering any subsidies, Membership fees for the upcoming year are expected to decrease by 1.2% due to savings in General and Administration, and Occupancy. Subsequent to approval of the budget, the Board approved the use of \$2,900 of the FY 2009 surplus to reduce fees for FY 2010. On a post subsidy basis, fees will be decreasing by 2.3%. Other revenue sources are expected to decrease by 5.7% primarily due to lower interest rates.

In the Market Regulation division, UMIR fees are expected to increase by 12.8%. The driver of the increase is market surveillance technology costs. The new system, STEP, is scheduled for launch in Q4 of the upcoming year. It is expected to carry out single market surveillance of non-TSX and non-TSX-V marketplaces, and surveillance of all cross market activity on all Canadian equity marketplaces. Additionally, the present market surveillance system, SMARS, is expected, upon the launch of STEP, to provide single market surveillance of TSX and TSX-V marketplaces. However, as with any project of the scope and complexity of STEP, there are risks, including dependencies from third parties, that may negatively impact the project. The processing and storage capacity of SMARS is also being upgraded to handle present trading volumes. Consequently, UMIR fees are expected to include one quarter of STEP operating costs and higher operating costs connected with the SMARS upgrade. Other revenue components are estimated to increase by 23.7% primarily due to an increase in Timely Disclosure fees.

Financial Statements

Investment Industry Regulatory Organization of Canada

March 31, 2009

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To the Members of the
Investment Industry Regulatory Organization of Canada

We have audited the statement of financial position of the Investment Industry Regulatory Organization of Canada as at March 31, 2009 and the statements of operations, cash flows and changes in net assets for the ten months from the commencement of operations on June 1, 2008 to March 31, 2009. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Organization at March 31, 2009 and the results of its operations and its cash flows for the ten months from the commencement of operations on June 1, 2008 to March 31, 2009 in accordance with Canadian generally accepted accounting principles.

The logo for Grant Thornton LLP, featuring the company name in a cursive script font.

Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
May 27, 2009

Statement of Operations

(In thousands of dollars)

Ten months from date of commencement of operations on June 1, 2008 to March 31, 2009 (Note 1)

	2009
Unrestricted Fund revenue	
Dealer regulation	
Membership fees	\$ 33,076
Underwriting levies	5,480
Registration fees	2,411
Entrance fees	170
	<u>41,137</u>
Market regulation	
Universal market integrity rules (UMIR)	17,138
Timely disclosure	2,815
	<u>19,953</u>
Other revenue	
Interest	541
Miscellaneous	137
	<u>678</u>
Total Unrestricted Fund revenue	61,768
Unrestricted Fund expenses	
Dealer regulation operating costs	39,941
Market regulation operating costs	18,668
	<u>58,609</u>
Excess of Unrestricted Fund revenue over expenses	3,159
Other funds	
Externally Restricted Fund (Note 7)	2,164
Merger Fund (Note 8)	(3,984)
Excess of revenue over expenses	\$ 1,339

See accompanying notes to financial statements.

Statement of Cash Flows

(In thousands of dollars)

Ten months from date of commencement of operations on June 1, 2008 to March 31, 2009 (Note 1)

	2009
Increase (decrease) in cash and cash equivalents	
Operating activities	
Excess of revenue over expenses	\$ 1,339
Depreciation and amortization	1,827
Rent amortization	512
Gain from sale of capital assets	(2)
Employee future benefits	491
	4,167
Increase (decrease) from non-cash operating working capital	
Receivables	10,187
Prepays	102
Deposits	(90)
Payables and accruals	6,299
Deferred revenue	(3,280)
	17,385
Investing activities	
Purchase of capital assets	(3,420)
Repayment of loans receivable	7
	(3,413)
Financing activities	
Repayment of bank loan	(361)
Contribution from IDA	47,156
Contribution from RS	12,441
	59,236
Cash and cash equivalents, end of period	\$ 73,208
Cash and cash equivalents consist of:	
Cash on hand and balances with bank	\$ 12,070
Term Deposits and Treasury Bills	61,138
Cash and cash equivalents, end of period	\$ 73,208
Interest paid	\$ 43

See accompanying notes to financial statements.

Statement of Changes in Net Assets

(In thousands of dollars)

Ten months from date of commencement of operations on June 1, 2008 to March 31, 2009 (Note 1)

	Investment in Capital Assets	Unrestricted Fund	Externally Restricted Fund	Merger Fund	Total Net Assets
Balance, beginning of period	\$ —	\$ —	\$ —	\$ —	\$ —
Contribution from RS	824	9,239	4,112	—	14,175
Contribution from IDA	4,131	13,449	29,180	3,614	50,374
Excess of revenue over expenses	—	3,159	2,164	(3,984)	1,339
Depreciation and amortization	(1,827)	1,757	48	22	—
Purchase of capital assets	4,506	(1,646)	(2,374)	(486)	—
Fund transfer	—	241	(4,448)	4,207	—
Balance, end of period	\$ 7,634	\$ 26,199	\$ 28,682	\$ 3,373	\$ 65,888

See accompanying notes to financial statements.

Statement of Financial Position

(In thousands of dollars)

March 31, 2009 (Note 1)

2009

Assets

Current

Cash and cash equivalents	\$ 73,208
Receivables	3,330
Prepays	835
Current portion of loans receivable	12

77,385

Employee future benefits (Note 6) 1,954

Loans receivable, less current portion (Note 4) 5

Capital assets (Note 5) 7,634

Deposit 90

\$ 87,068

Liabilities

Current

Payables and accruals	\$ 11,833
Deferred revenue	33
Current portion of long-term debt (Note 10)	433
Lease inducement	153

12,452

Long-term debt (Note 10) 506

Lease inducement 1,211

Employee future benefits (Note 6) 7,011

21,180

Fund balances

Investment in property and equipment 7,634

Unrestricted Fund 26,199

Externally Restricted Fund (Note 7) 28,682

Merger Fund (Note 8) 3,373

65,888

\$ 87,068

Commitments (Note 9)

See accompanying notes to financial statements.

On behalf of the Board:



Susan Wolburgh Jenah, **President and CEO**



Ronald S. Lloyd, **Chair**

Notes to the Financial Statements

(In thousands of dollars)
March 31, 2009

1. Organization

The Investment Industry Regulatory Organization of Canada (IIROC or Organization) is the national self-regulatory organization which oversees all investment dealers and trading activity on debt and equity marketplaces in Canada. Created in June of 2008 through the combination of the Investment Dealers Association (IDA) and Market Regulation Services Inc. (RS), 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 equity marketplaces. The net assets of the IDA and RS were contributed to the new Organization at their carrying values.

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

The Organization, in trust for the beneficial interest of its dealer members, holds a 10% interest in common shares of FundSERV Inc., an organization created as a depository and clearing house for the investment fund industry.

The Organization, in trust for the beneficial interest of its dealer members, holds a 15.2% interest in the common shares of the Canadian Depository for Securities Limited (CDS), an organization created as a depository and clearing house for the securities industry.

2. Summary of Significant Accounting Policies

The Organization follows accounting principles appropriate for not-for-profit organizations, in accordance with Canadian generally accepted accounting principles.

Future accounting changes

The CICA has released the following new Handbook standards which are applicable to the Organization effective April 1, 2009:

- Section 4400, "Financial Statement Presentation," has been amended to permit a not-for-profit organization to present net assets invested in capital assets as a category of internally restricted net assets and to clarify presentation of revenue and expenses on a gross basis when the entity is acting as a principal in a transaction.
- Section 4470, "Disclosure of Allocated Expenses," establishes disclosure standards for a not-for-profit organization that classify its expenses by function and allocate its expenses to a number of functions to which the expenses relate.

The Organization has not yet assessed the impact of these new standards on its financial statements. Other new standards have been issued but they are not expected to have a material impact on the Organization's financial statements.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks and short-term investments with maturities at acquisition of three months or less.

Financial instruments

The Organization follows CICA Handbook Section 3861, "Financial Instruments – Disclosures and Presentation," instead of Sections 3862, "Financial Instruments – Disclosures," and 3863, "Financial Instruments – Presentation." Cash and cash equivalents are classified as held for trading and are stated at fair value. The receivable and loans receivables are classified as loans and receivables and are measured at cost. The payables and accruals and bank loan are classified as other financial liabilities and are measured at amortized cost.

Revenue recognition

Dealer regulation

Annual fees are assessed upon the member firms and are recorded as income on a fiscal year basis. Underwriting levies are recognized when the underwriting transaction closes. Registration fees and other payments are recorded as income on a fiscal year basis. Fines and late filing fees due from member firms are recognized as revenue when levied. Fines from registrants of member firms, late filing fees and initiation fees from new member firms are recognized as revenue in the period they are received.

Market regulation

Under the marketplace regulation services agreements, Universal Market Integrity Rules (UMIR) revenues are based on a fixed revenue amount, allocated to broker/dealer participants or marketplaces primarily by proportionate share of volumes to total marketplace volumes as well as an annual fixed fee. Marketplace regulation services agreement revenue is earned through services provided by IIROC for marketplaces under the regulation services agreements. Fines from member firms are recognized as revenue when levied. Fines from registrants of member firms and employees of access firms are recognized as revenue in the period they are received.

Capital assets

Capital assets are recorded at cost. Depreciation of office furniture and equipment is computed by the straight-line method at 20% per annum, and computer equipment and software and technology projects at 33 1/3% per annum. Leasehold improvements are amortized over the term of the respective leases. Depreciation commences when assets are placed in operation.

Fund accounting

The Organization uses the restricted fund method of accounting. Net asset balances are allocated as follows:

- (a) the **Unrestricted Fund** comprises the remaining excess of revenue over expenses from operations that are available for general operating requirements.
- (b) the **Externally Restricted Fund** is the net of revenue from fines and interest and expenses for the following purposes in accordance with the terms and conditions of respective provincial Securities Commissions:
 - (i) Non-recurring capital expenditures to address emerging regulatory issues arising from changing market conditions, and 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 or regulation of securities markets.
 - (iii) Donations to non-profit, tax-exempt organizations for investor protection and education.
 - (iv) Costs associated with the administration of IIROC's Hearing Panels.
- (c) the **Merger Fund** was funded by the Externally Restricted Fund and is for expenses of the Organization relating to the creation of IIROC.

Notes to the Financial Statements

(In thousands of dollars)
March 31, 2009

2. Summary of Significant Accounting Policies (continued)

(d) **Investment in Capital Assets** represents the Organization's net investment in property and equipment, which is comprised of the unamortized balance of its capital assets purchased with unrestricted funds.

Lease inducements

The values of the rent-free periods and tenant inducements received by the Organization under office leases are being amortized over the term of the leases.

Employee future benefits

The Organization accrues its obligations under employee benefit plans and the related costs, net of plan assets, as follows:

- The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method and management's best estimate of expected plan investment performance for funded plans, salary escalation, retirement ages of employees and expected health care costs.
- For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.
- Past service costs for plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.
- The excess of net actuarial gain (loss) over 10% of the greater of the benefit obligation and fair value of plan assets is amortized over the estimated average remaining service period of active employees.

3. Capital Disclosures

The capital structure of the Organization consists of fund balances comprised of internally and externally restricted and unrestricted funds.

The Organization's objective when managing capital is to safeguard its ability to continue as a going concern, so that it can continue to provide the appropriate level of benefits and services to its members and its stakeholders.

A portion of the Organization's capital is restricted as described in Note 2. The Organization employs internal control processes to ensure the restrictions are met prior to the utilization of these resources and has been in compliance with these restrictions throughout the year.

4. Loans Receivable

Loans receivable from employees of the Organization are for the purchase of home computers. Repayment terms and maturity dates were negotiated with the Organization at the time of making the loans. The loans are non-interest bearing and are due on or before February 25, 2011.

5. Capital Assets

	Cost	Accumulated Depreciation	Net Book Value
Unrestricted Fund:			
Office furniture and equipment	\$ 1,079	\$ 209	\$ 870
Leasehold improvements	2,617	323	2,294
Computer equipment and software	2,248	873	1,375
Technology projects	3,465	374	3,091
	9,409	1,779	7,630
Externally Restricted Fund:			
Technology projects	52	48	4
	\$ 9,461	\$ 1,827	\$ 7,634

Included in the technology projects cost in the unrestricted fund are unamortized deferred development costs of \$2,374. Amortization will commence when the development is placed in operation.

6. Employee Future Benefits

The Organization provides retirement and post-employment benefits for its employees under both defined contribution and defined benefit pension plans. The plans provide benefits that are based on a combination of years of service and a percentage of the participants' plan earnings. The Organization has established the following pension plans during the year:

1. IIROC Pension Plan for former RS Pension Plan members (Former RS RPP)
2. The formerly RS-sponsored Non-Registered SIP for former TSX employees (Former RS SIP)
3. Retirement Plan for employees of IIROC (Former IDA RPP)
4. IIROC Supplemental Plan for executives Non-Registered DB Pension Plan formerly sponsored by IDA (Former IDA SERP)
5. IIROC Non-Pension Post Retirement Benefits Plan (IIROC PRB)
6. IIROC SIP defined contribution plan
7. IIROC employee defined contribution plan

The most recent actuarial valuation of the pension benefit and other benefits plans for funding purposes was as of June 1, 2008. There was also an actuarial valuation of the Non-Pension Post Retirement Benefits (IIROC PRB) plan at January 1, 2009.

Notes to the Financial Statements

(In thousands of dollars)
March 31, 2009

6. Employee Future Benefits (continued)

The Organization's net benefit expense is as follows:

	Former RS		Former IDA		IIROC
	RPP	SIP	RPP	SERP	PRB
Net expense	\$ 180	\$ 27	\$ 1,458	\$ 343	\$ 463

Information about the Organization's defined benefit plans is as follows:

	Former RS		Former IDA		IIROC
	RPP	SIP	RPP	SERP	PRB
Accrued benefit obligation					
Balance at end of year	\$ (3,583)	\$ (139)	\$ (17,463)	\$ (5,817)	\$ (3,312)
Plan assets					
Fair value at end of year	\$ 3,198	\$ —	\$ 14,139	\$ 4,958	\$ —
Funded status					
Plan surplus (deficit)	\$ (385)	\$ (139)	\$ (3,324)	\$ (859)	\$ (3,312)
Unrecognized transitional (asset)/obligation	—	—	(1,410)	—	264
Unrecognized past service costs	—	—	—	—	(1,736)
Unrecognized net actuarial (gain)/loss	714	(70)	2,840	2,484	(33)
Accrued benefit asset (liability), March 31, 2009	\$ 329	\$ (209)	\$ (1,894)	\$ 1,625	\$ (4,817)

In addition to the above, there is a benefit obligation of \$91 for a SIP defined contribution plan. Current period expense for this plan was \$13. Current period expense for the employee defined contribution plan was \$327.

Effective January 1, 2009, the Former IDA RPP plan was amended to allow current defined benefit members to stop accruing service under the defined benefit plan and join the defined contribution plan for future service. This resulted in a curtailment of the plan and, accordingly, assets and obligations were re-measured as at January 1, 2009. The effect of the curtailment was an increase in pension expense of \$25.

Plan assets by asset category are as follows:

	Former RS		Former IDA		IIROC
	RPP	SIP	RPP	SERP	PRB
Equities securities	37.0%	—	57.4%	22.6%	—
Bonds	62.0%	—	36.7%	19.8%	—
Short term	1.0%	—	5.9%	1.5%	—
Deposit with CRA	—	—	—	56.1%	—
	100.0%	—	100.0%	100.0%	—

The significant actuarial assumptions adopted in measuring the Organization's accrued benefit obligations are as follows (weighted-average assumptions as of March 31, 2009):

	Former RS		Former IDA		IIROC
	RPP	SIP	RPP	SERP	PRB
Discount rate	6.50%	6.25%	6.50%	6.00%	6.50%
Expected rate of return on plan assets	6.00%	—	6.00%	3.00%	—
Rate of compensation increase	4.00%	4.00%	4.00%	4.00%	—

For measurement purposes, inflation of medical expenses was assumed to be 10% declining to 5% in annual increments of 1%. Inflation of dental costs was assumed to remain constant at 3.5%.

Other information about the Organization's benefit plans is as follows:

	Former RS		Former IDA		IIROC
	RPP	SIP	RPP	SERP	PRB
Employer contributions	\$ 368	\$ —	\$ 1,588	\$ —	\$ 36
Employee contributions	\$ 47	\$ —	\$ 488	\$ —	\$ —
Benefits paid	\$ —	\$ —	\$ (234)	\$ (334)	\$ (36)

Notes to the Financial Statements

(In thousands of dollars)
March 31, 2009

7. Externally Restricted Fund

Revenue

Investigation fines	\$	3,028
Interest		536
Late uniform termination notice		138
Continuing education fines		77
New membership fees		72
Late filing fines		42
		<hr/>
		3,893

Expenses

Hearing panel costs		1,254
Rule book project		224
DeGrootte lecture series on market structure		125
Regulatory resources management systems		67
Amortization		48
Social and Enterprise Development Innovations		8
FAIR (Note 9)		2
Transition costs		1
		<hr/>
		1,729

Excess of revenue over expenses	\$	2,164
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8. Merger Fund

Revenue

Interest	\$	47
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Expenses

Hiring and professional		615
Compensation		281
Communication		235
Space and facilities		190
Legal		161
Information technology transition		106
Consultation		60
Governance		28
Sales tax		2,123
Miscellaneous		232
		<hr/>
		4,031

Excess of expenses over revenue	\$	(3,984)
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9. Commitments

As at March 31, 2009, the basic minimum aggregate annual rental payments, excluding GST and occupancy costs, net of expected recoveries from other parties under long-term leases with varying expiry dates to October 31, 2016, for the Organization's premises are as shown below.

2010	\$	2,642
2011		2,731
2012		2,791
2013		2,113
2014		1,756
Thereafter		4,347
	\$	16,380

The Organization has also entered into agreements to lease office equipment and information technology equipment for various periods until 2011. Minimum rent payable for equipment for each of the next two years and in aggregate is as follows:

2010	\$	12
2011		1
	\$	13

The Organization has also provided a \$100 million guarantee on the Canadian Investor Protection Fund (CIPF) bank lines of credit. At March 31, 2009, the CIPF has not drawn on these lines of credit. Any amount drawn on the guarantee would be assessed to dealer member firms.

The Organization has agreed to establish the Canadian Foundation for the Advancement of Investor Rights (FAIR). The Organization is committed to funding the foundation over a three-year period to a maximum of \$3,750. As at March 31, 2009, the remaining commitment is \$1,922. Additionally, the Organization has committed to fund the Investor Education Foundation for the "Funny Money" program to a maximum of \$558, the Capital Markets CRC for research work to a maximum of \$450 and Social and Enterprise Development Innovations in the amount of \$100 for the Investments in Youth Program.

10. Long-Term Debt

The bank loan is repayable by May 5, 2011 in equal monthly payments of \$36 and bears interest of ¼% over bank prime and is unsecured. The balance at March 31, 2009 is \$939 (\$433 payable in fiscal 2009, \$506 payable in fiscal 2010). Interest paid during the year was \$43. The terms include a requirement for the organization to maintain a 3:1 ratio of current assets to current liabilities at all times.

Notes to the Financial Statements

(In thousands of dollars)
March 31, 2009

11. Financial Instruments

The carrying values of the Organization's financial instruments, which consist of cash and cash equivalents, receivables, loans receivable, payables and accruals and bank loans, approximate their fair value due to their relatively short periods to maturity.

It is management's opinion that the Organization is not exposed to significant interest or concentration of credit risks arising from these financial instruments. Interest rates are adjusted to market rates within three months. Liquidity risk is considered minimal as funds are only invested in Canadian government backed securities or short-term deposits with Canadian chartered banks.

At present, all of the Organization's investments are short-term in nature with initial maturities of three months or less.

Self-Regulation **At Work**

IIROC is a national self-regulatory organization whose regional roots run deep and whose 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 ten District Councils

- Address registration and membership matters, raise issues of regional interest, and add perspective to national issues, including policy issues
- Ensure regional input into the regulatory process – an integral component of self-regulation

IIROC's National Advisory Committee

- Serves as a forum for Chairs of the District Councils to raise and discuss matters of interest, provide input on policy initiatives and report to the IIROC Board of Directors semi-annually.
 - District Council members: 206
 - Member firms participating in District Councils: 117
 - Meetings: 82
 - Decisions: 220
 - Policies reviewed: 122

Policy Advisory Committees

Financial Administrators Section
Compliance and Legal Section
Fixed Income Committee
Market Rules Advisory Committee
Education and Proficiency Committee

- Committee members: 377
- Firms and marketplaces represented: 116
- Meetings: 150

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

Montréal

Suite 1550, 5 Place Ville Marie
Montréal, Quebec, H3B 2G2

Toronto

Suite 1600, 121 King Street West
Toronto, Ontario, M5H 3T9

Calgary

Suite 2300, 355 Fourth Avenue S.W.
Calgary, Alberta, T2P 0J1

Vancouver

Suite 2800, Royal Centre
1055 West Georgia Street
P.O. Box 11164
Vancouver, British Columbia, V6E 3R5

1-877-442-4322

Web address: www.iiroc.ca

IIROC – Key Facts

- Oversees **212** members and their **30,588** registered employees
- Monitored **182,521,521** trades on three Exchanges and **6** equity Alternative Trading Systems
- Coordinated **1,087** trading halts, **693** resumptons and **76** cease-trade orders
- Conducted **275** on-site Business Conduct, Financial Operations and Trade Conduct Compliance firm reviews
- Completed **145** enforcement investigations
- Conducted **31** disciplinary hearings, issued **11** suspensions and **4** terminations, and assessed **\$3.2 million** in fines for firms and individuals
- Provided compliance education opportunities for **15,317** registrants
- Published **11** rule proposals and implemented **8** rule revisions

IIROC Offices

