ANNUAL REPORT 2012 – 2013

PROTECTING INVESTORS AND FOSTERING FAIR, EFFICIENT AND COMPETITIVE CAPITAL MARKETS ACROSS CANADA

IIROC OCRCVM
Investment Industry Regulatory Organization of Canada
Organisme canadien de réglementation du commerce des valeurs mobilières

HOW WE WORK

IIROC is a national self-regulatory organization whose regional roots run deep. Its 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 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 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.

Ensure regional input into the regulatory process – an integral component of self-regulation.

- District Council members: 155
- Member Firms participating in District Councils: 119
- Meetings: 66
- Decisions: 65

Policy Advisory Committees

Financial Administrators Section

Compliance and Legal Section

Fixed Income Committee

Market Rules Advisory Committee

Education and Proficiency Committee

- Committee members: 241
- Firms and Marketplaces represented: 231
- Meetings: 71

* Note: the number of Firms and Marketplaces represented is non-unique meaning each Firm or Marketplace is counted as many times as it is represented on various sections or committees.

KEY FACTS

OVERSEES

207 Members and
28,638
approved individuals

HELD

58 disciplinary hearings, issued
26 suspensions and
7 terminations

MONITORED

320,140,007
trades on four stock exchanges, and seven equity Alternative Trading Systems

* Bloomberg Tradebook Canada is an active member but has recorded no trading volume. Sigma X Canada ceased operations effective April 27, 2012.

ASSESSED

$5,672,000
in fines (excluding costs and disgorgement) against firms and individuals

COORDINATED

1,343 trading halts,
957 resumptions and
92 cease trade orders

PROVIDED COMPLIANCE EDUCATION OPPORTUNITIES FOR

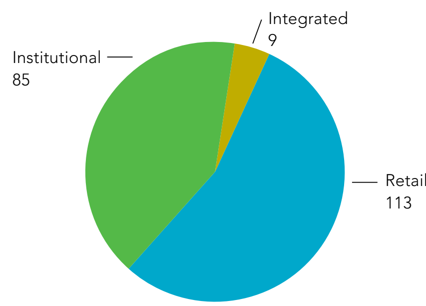
11,522 registrants:
18 educational webcasts with 10,005 industry participants and 11 live events with 1,517 industry participants

INDUSTRY PROFILE
DEALERS

(All statistics are as at March 31, 2013)

Investment dealers regulated by the Investment Industry Regulatory Organization of Canada ("IIROC") 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



Note: 207 Dealer Members as of March 31, 2013, of which 194 were in good standing, 6 were in the resignation process, 6 were suspended and 1 was inactive.

INDIVIDUALS AND FIRMS UNDER IIROC REGULATION (BY PROVINCE)

Province	Approved Persons	Branch Offices	Head Offices
AB	2,787	853	17
BC	4,537	1,166	17
MB	581	137	3
NB	300	89	1
NF	118	33	0
NS	524	156	3
NT	0	2	0
NU	0	0	0
ON	14,387	2,806	128
PE	68	20	0
QC	4,733	613	28
SK	542	198	0
YT	5	5	0
U.S.	62	0	10
Total:	28,644	6,078	207

Note: 207 Dealer Members, of which 194 were in good standing, 6 are in the resignation process, 6 were suspended and 1 is inactive as of March 31, 2013.3.

MEMBER FIRMS (BY REVENUE)

Revenue	% of Firms
Greater than $1 billion	3
Greater than $100 million	8
Greater than $10 million	29
Greater than $5 million	44
Less than $5 million	16

Note: Based on 201 Dealer Members that reported revenue during the period of April 1, 2012 to March 31, 2013.

MEMBER FIRMS (BY NUMBER OF APPROVED INDIVIDUALS)

Number of Approved Individuals	% of Firms
Over 1,000	4
501 to 1,000	3
101 to 500	11
11 to 100	49
10 or fewer	33

CONDUCTED

346 on-site Business Conduct, Financial and Operations and Trading Conduct compliance firm reviews

RECEIVED

559 complaints about Marketplace issues, a 23.8% decrease from last year

COMPLETED

270 enforcement investigations

RECEIVED

481 complaints about Dealer firms, a 7.4% increase from last year

PUBLISHED

6 Dealer and 3 Market rule proposals, and 1 Dealer and 2 Market final rule amendments

RECEIVED

1,484 complaints indirectly that were filed by clients with Dealer firms and then reported to IIROC electronically using ComSet, a 8.7% increase

INDUSTRY PROFILE
MARKETS

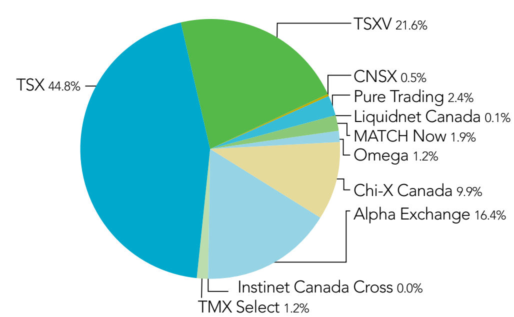
(All statistics are as at March 31, 2013)

IIROC regulates trading activity on four stock exchanges (Toronto Stock Exchange, TSX Venture Exchange, Alpha Exchange and Canadian National Stock Exchange, which also operates the Pure Trading facility) and seven equity Alternative Trading Systems (Chi-X Canada, TMX Select, Omega ATS, Instinet Canada Cross, TriAct MATCH Now, Liquidnet Canada and Bloomberg Tradebook Canada).

* This information is based on fiscal year 2012 – 2013.
* Bloomberg Tradebook Canada is an active member but has recorded no trading volume. Sigma X Canada ceased operations effective April 27, 2012.

CANADA'S MULTIPLE MARKETPLACES

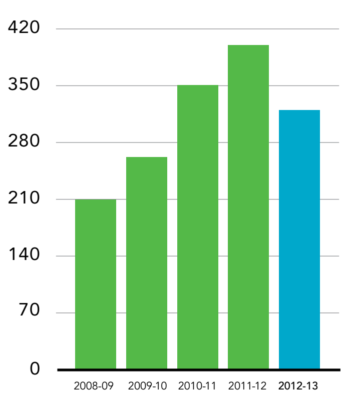
(WHERE TRADING TOOK PLACE IN 2012-13 BY SHARE VOLUME*)



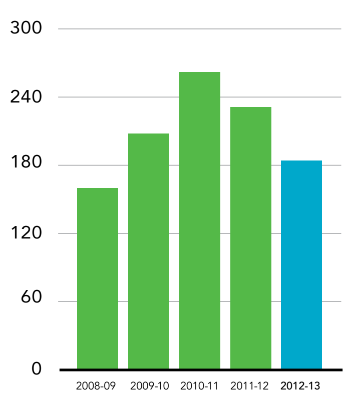
* Based on the average of the percentage of four quarters ended March 31, 2013.

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

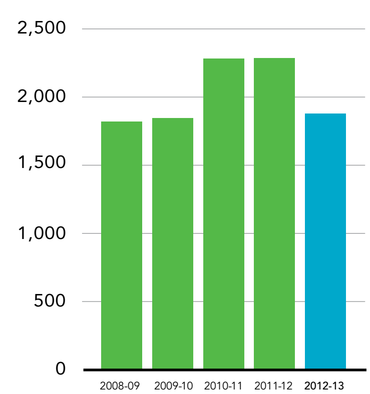
TRADES
NUMBER OF TRANSACTIONS (MILLIONS)



VOLUME
TOTAL SHARES TRADED (BILLIONS)



VALUE
OF SHARES TRADED ($ BILLIONS)



IIROC IS THE NATIONAL SELF-REGULATORY ORGANIZATION

which oversees all investment dealers and trading activity on debt and equity marketplaces in Canada. IIROC sets high-quality regulatory and investment industry standards, protects investors and strengthens market integrity while maintaining efficient and competitive 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 through setting and enforcing market integrity rules regarding trading activity on Canadian equity markets.

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, intelligent deliberation 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.

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MESSAGE FROM THE CHAIR

In our role as directors we are focused on ensuring that we keep pace with evolving changes while being cognizant of the challenges that the investment industry and capital markets are facing.

It is a very fast paced changing industry which requires an awareness of how all stakeholders are affected by global as well as local pressures. These factors are taken into consideration when focusing on the implementation of our priorities set out in the 2012 – 2015 Strategic Plan.

Our strategy is shaped by taking all stakeholders into account and the effective and cost-efficient delivery of regulation to the capital markets while protecting the investor.

To assist us in meeting our goal, the Board has enhanced its Regulatory Rules Briefing sessions prior to each Board meeting. These sessions enable us to have broader, more in-depth discussions about proposed rules being presented to the Board.

I would like to thank our outgoing Directors for their contributions and strategic guidance in helping to address the complexities and challenges associated with these economic times. In my first term as Chair, I have greatly appreciated the support and insights of Vice-Chair Dan Muzyka. The Board has also benefited from having a number of new Directors join us over the past year bringing fresh perspectives.

On behalf of the Board, I want to acknowledge the contributions of the industry through their active participation in both formal and ad hoc advisory committees, and other forums in which they provide valuable input into the policy process and consultations undertaken by IIROC staff.

It has been my privilege to meet members of the industry at the regional receptions we have hosted in conjunction with our Board meetings. These forums provide informal opportunities to discuss significant issues and trends and to hear suggestions first-hand about how we can all work together to inspire confidence in the industry and in IIROC members.

I'd like to thank our management team and all the employees, under the strong leadership of President and CEO Susan Wolburgh Jenah, for the hard work over the past year. I have the utmost confidence that IIROC will continue to protect investors and foster fair, efficient and competitive capital markets.

On behalf of the Board of Directors,

M. Marianne Harris

M. MARIANNE HARRIS
CHAIR OF THE BOARD

REPORT FROM THE PRESIDENT AND CEO

This Annual Report outlines the steps we have taken over the past year to protect investors, foster fair, efficient, competitive capital markets and promote compliance and effective risk management.

REGULATING IN A CHALLENGING ENVIRONMENT

In recent years, Canada's capital markets structure has undergone significant and continual change, presenting new challenges for the industry, investors, regulators and market participants. The recent performance of the equity market reflects Canada's dependence on the natural resources and commodities sectors. It has been a challenging environment for capital raising and traditional equity underwriting and trading activity.

Within the dealer environment, firms are introducing new business lines. Many on the IIROC platform are building on their wealth management offering and placing a greater emphasis on holistic financial planning. The range of investment products has expanded – as have complex products.

In addition to cyclical challenges, fundamental structural changes have impacted market participants. Technology, innovation and competition have and continue to transform equity trading in Canada and globally.

EFFECTIVELY DISCHARGING OUR MANDATE

We are aware of the challenges and impact that these rapid changes and global and domestic developments have had on all of our stakeholders. We are focused on the importance of maintaining a competitive landscape for compliant firms of diverse sizes and business models, promoting consistent standards of investor protection and allowing an appropriate degree of flexibility in regulatory approach and implementation.

We have adopted an integrated approach to compliance examinations across IIROC, resulting in a streamlined process and enterprise-wide view of those we regulate. We continue to refine our risk-based approach to compliance to better focus resources both within IIROC and at regulated firms.

We are leveraging technology to conduct effective market surveillance and keep pace with new forms of trading, new strategies and products, more complex technologies and the launch of new markets.

Throughout this report, we highlight initiatives undertaken in this challenging environment to strike the right regulatory balance – one that protects investors while promoting fair, efficient and competitive capital markets.

In 2012, we published our renewed Strategic Plan outlining our goals and priorities for 2013 – 2015. In parallel, we began developing key performance indicators to help us internally monitor and assess performance against our goals. This process entailed extensive benchmarking against other regulators to gain insight and identify best practices.

Several of the strategic priorities established under our plan are externally focused on desired outcomes: promoting a culture of compliance; protecting the investing public; delivering effective and expert regulation; and strengthening the fairness, integrity and competitiveness of the Canadian capital markets. Our remaining priorities focus internally on how we conduct ourselves and interact with our stakeholders: in a cost-effective and efficient manner; with accountability, transparency and fairness; and as an employer of choice.

Consistent with our commitment to transparency and accountability, this Report features our annual scorecard describing progress achieved against previously identified goals. Highlights include: the work we are doing to objectively determine the impact of high frequency trading on the quality, integrity and functioning of Canadian equity markets; our ongoing work with IIROC-regulated firms to successfully implement the Client Relationship Model (CRM) reforms; and our efforts to promote a strong culture of compliance.

REGULATING IN A GLOBAL MARKET

Many of the issues and trends we face transcend boundaries and present challenges to regulators worldwide. We focus on solutions that are broadly consistent with international principles but are appropriately tailored and adapted to the Canadian environment and established standards.

In international forums, we advocate for high standards of regulation, market conduct and investor protection in Canada. We actively engage with other regulators and self-regulatory organizations in order to influence the standard-setting process and maintain consistency in principle with global standards.

In May 2013, IIROC hosted the annual International Organization of Securities Commissions (IOSCO) Self-Regulatory Organization Consultative Committee mid-year meeting and training session, which provided an opportunity for regulators around the world to exchange ideas on how to improve regulatory practices and outcomes and to discuss emerging regulatory issues.

IIROC was also privileged to host the June 2013 International Forum for Investor Education (IFIE) Conference. This global event, co-sponsored by IFIE and IOSCO, brought together investor education experts from around the world committed to sharing their knowledge and experience. Investor education practitioners, regulators, academics and attendees from several continents discussed how to effectively influence investor behaviour as they confront "life cycle" challenges.

The thought-provoking research findings presented at the conference underscore the limitations of traditional disclosure as the default tool for influencing investor behaviour and reinforce the growing importance of social media channels for effective program delivery.

REGULATING WITH TRANSPARENCY AND INTEGRITY

In the aftermath of the global credit crisis, legislators and regulators around the world have been redefining the perimeter of regulation to encompass unregulated or under-regulated markets, products and market participants.

In recent years, trading in debt securities has increased significantly, including greater retail investor participation, but this market remains relatively opaque in Canada. In February 2013, we issued for comment a proposed rule and framework to enable timely surveillance and enhanced regulatory oversight of Canadian debt market activity.

This proposal will facilitate the collection of detailed transaction data related to debt trading by Canadian dealers. It will allow IIROC to better monitor and enforce compliance with existing investor protection and market integrity rules and to analyze trading patterns as between different asset classes. It will also enable us to test compliance with existing obligations such as the requirement that clients receive fair prices with respect to over-the-counter (OTC) fixed-income securities.

In 2012, the LIBOR scandal prompted regulatory scrutiny of survey-based reference rates. International reviews established the importance of the LIBOR benchmark reference rate for international financial markets and made several recommendations to strengthen it. In July 2012, we initiated a review of the Canadian Dealer Offered Rate (CDOR) against the backdrop of newly emerging international standards relating to the composition, calculation, participation and transparency of financial benchmark rates.

In January 2013, we published recommendations designed to strengthen the integrity, transparency and oversight of CDOR. A working group comprising representatives of the Bank of Canada, IIROC and other Canadian regulators is considering the issues identified in our review, as well as relevant issues identified by global regulators relating to survey-based reference rates.

In recent years, we have seen the growth of new and significant market participants, activities and service offerings. Our Strategic Plan describes our commitment to strengthen the fairness, integrity and competitiveness of our capital markets by identifying and addressing opportunities for regulatory arbitrage.

Currently, the broad scope of brokerage activity being conducted under the Exempt Market Dealer (EMD) registration category presents issues of investor protection, regulatory arbitrage and an un-level playing field between firms registered as investment dealers and those firms carrying out the same activities as EMDs.

In July 2012, IIROC published a concept paper outlining possible options to address this situation and we are working with the Canadian Securities Administrators to implement changes that would appropriately limit these activities.

MONITORING THE IMPACT OF OUR POLICIES

We are committed to enhancing our capacity to conduct appropriate impact analysis on significant initiatives pre- and post-adoption. Examples of this commitment include IIROC's High Order-to-Trade (HOT) Study and on-going analysis of the impact of new dark liquidity rules, the repeal of the "tick test" restrictions on short sales and implementation of single-stock circuit breakers, which took effect in 2012.

We are building on our capacity to conduct policy impact analysis and broader economic assessment of industry trends to help establish appropriate regulatory priorities and inform policy development.

Internally, we are prioritizing our policy agenda and reviewing it periodically to ensure we are focusing on the right issues and risks and moving forward with important initiatives in a timely way. In August 2013, we published the results of this internal prioritization process – "IIROC Policy Priorities" – to ensure that market participants impacted by our pending regulatory initiatives know what to expect in the year ahead and can appropriately plan and prepare.

The annual publication of our Consolidated Compliance Report, Enforcement Report and Exemption Report, all of which have been introduced in recent years, provide member firms with important information to enhance their internal focus on compliance and supervisory oversight programs and to better identify, manage and mitigate regulatory and business risks.

COMMUNICATION AND CONSULTATION

Communication and consultation with the industry, investors and other stakeholders is core to our policy development process. We are committed to constructive engagement with our stakeholders because it results in more effective regulation and enhanced compliance.

We continue to strengthen our consultation process and outreach. In 2012 – 2013, we sought input through the issuance of proposed guidance on topics such as the use of business titles and designations, outsourcing arrangements and borrowing to invest.

Building on IIROC's rich tradition of engaging the industry through District Councils and Standing Committees, we established a broadly representative ad-hoc industry committee to provide input on the development of underwriting due diligence standards.

We conducted information sessions across the country to discuss how IIROC's framework relating to "third-party electronic access to marketplaces" addresses rapidly evolving trading technologies and practices. The rule amendments, which take effect in 2014, will help manage financial and regulatory risks associated with electronic trading between IIROC-regulated dealers and other parties.

IIROC management and staff have actively participated in various forums and committees to discuss and respond to issues faced by the industry. We held regional meetings in 2013 with senior member firm representatives to discuss the economic and regulatory environment, the challenges faced by investors (retail and institutional) and industry and ways to help address them.

REGULATING IN A COST-EFFECTIVE, EFFICIENT AND FISCALLY PRUDENT MANNER

Over the year, we have made significant progress on a number of important initiatives. At the same time, through efficiency gains and prudent fiscal management, we have kept the total combined Dealer and Market Regulation fees close to flat in 2012 – 2013 when compared to the previous fiscal year. Combined Dealer and Market Regulation fees increased by less than one per cent — lower than the rate of inflation.

Last year, we negotiated a new agreement with the TMX Group to use IIROC's Surveillance Technology Enhancement Program (STEP) to provide single-market monitoring services to the TSX and the TSX Venture Exchange. This change took effect April 1, 2012 resulting in significant cost savings for IIROC member firms. Market Regulation fees decreased 8% in 2012 – 2013 over the previous fiscal year, primarily as a result of this new agreement.

Dealer Regulation fees increased by 5% in 2012 – 2013 over the previous fiscal year, but were largely offset by overall lower expenses. This year, we took steps to manage higher pension costs by increasing employee contribution rates effective September 1, 2013 and offering only a Defined Contribution Plan for new employees effective April 1, 2013.

We distributed proceeds of $23.8 million to eligible IIROC members from the sale of our 15.2% interest in the Canadian Depository for Securities Limited (CDS) in March 2013. We received these proceeds as a result of the August 2012 acquisition of CDS by the Maple Group.

We take a conservative approach to budgeting and have returned surpluses over the years in order to maintain fees at the level necessary to effectively carry out our regulatory mandate. Combined with the CDS proceeds returned to eligible members this year, we have returned to members more than $40 million of surplus revenue over expenses since 2008.

MOVING FORWARD

Our goal is to keep Dealer and Market Regulation fees flat for 2013 – 2014, despite remedial costs resulting from the loss of a portable device containing confidential information. We are managing the costs associated with this incident through a number of measures outlined in the Financial Statements and related Management Discussion and Analysis contained in this Report.

The protection of confidential information is paramount to IIROC. We continue to strengthen our overall security and information management environment using the International Organization for Standardization (ISO) 27001 security standard as our benchmark. Further information about our enterprise-wide strategy to strengthen the protection of information in our possession and enhance our security and business processes is outlined in a special insert in this Report.

In closing, I extend my thanks to the IIROC Directors and to Marianne Harris, Board Chair, for their wonderful guidance and support and give special acknowledgement to our outgoing Directors for their service and contributions to the work of IIROC.

Most importantly, I thank the hard-working and dedicated management and staff in all of IIROC's offices across the country. Their passion for what we do and commitment to protecting investors and fostering fair, efficient and competitive capital markets will continue to drive our success going forward.

SUSAN WOLBURGH JENAH
PRESIDENT AND CEO

ROSEMARY CHAN
SENIOR VICE-PRESIDENT, MEMBER COMPLIANCE, GENERAL COUNSEL & CORPORATE SECRETARY

KEITH PERSAUD
SENIOR VICE-PRESIDENT, FINANCE AND ADMINISTRATION

PAUL R. RICCARDI
SENIOR VICE-PRESIDENT, ENFORCEMENT, MEMBER POLICY & REGISTRATION

CARMEN CRÉPIN
VICE-PRESIDENT, QUÉBEC

EXECUTIVE MANAGEMENT TEAM

WARREN FUNT
VICE-PRESIDENT, WESTERN CANADA

LUCY BECKER
VICE-PRESIDENT, PUBLIC AFFAIRS

WENDY RUDD
SENIOR VICE-PRESIDENT, MARKET REGULATION AND POLICY

CLOCKWISE FROM TOP LEFT:
ELSA RENZELLA
DOUG HARRIS
ROSSANA DI LIETO
RICHARD CORNER

PROTECTING INVESTORS

Investor protection is central to IIROC's regulatory mandate. We work to achieve this goal through a variety of means, including – rule-making, compliance examinations, member education, proactive guidance and enforcement.

STRENGTHENING THE ADVISOR-CLIENT RELATIONSHIP

A critical component to protecting investors is the statutory obligation that IIROC registrants act fairly, honestly and in good faith with their clients. Over the past year, IIROC has worked with the industry to build on this standard of care by focusing on the effective implementation of the Client Relationship Model (CRM) reform package approved in 2012 by the Canadian Securities Administrators (CSA).

The CRM reforms, which are being implemented in stages that began in 2012, are designed to enhance the relationship between advisors and their clients through enhanced conflict of interest management requirements and account disclosure and suitability assessment standards, as well as greater transparency regarding fees and charges through mandatory performance and cost reporting that will become operational over a three-year-period.

In 2012, IIROC, together with the Investment Industry Association of Canada (IIAC), held a number of interactive forums across the country with dealer members in order to discuss best practices and approaches to effectively implement the CRM reforms. IIROC has continued to use other formal and informal forums and opportunities, including our annual Compliance Conference held in September 2012 to address issues and assist members in understanding and implementing these important regulatory requirements.

We believe that CRM will serve to enhance investor confidence and improve investors' understanding of the client-advisor relationship.

ENHANCING PROFICIENCY AND PROMOTING HIGH STANDARDS

Improving proficiency standards is essential to enhancing professional standards within the industry and building investor confidence.

IIROC-regulated retail investment advisors are required to complete a rigorous curriculum that includes the Canadian Securities Course, the Conduct and Practices Handbook Course and an intensive training program. Within 30 months of registration, retail investment advisors must also complete the Wealth Management Essentials Course.

Retail advisors are expected to stay current and as such, must participate in a Continuing Education program that requires 12 hours of compliance and 30 hours of professional development courses every three years. IIROC-regulated retail investment advisors are currently halfway through the current cycle.

Over the past year, IIROC continued to develop various member education webcasts and guidance focused on important investor-related topics such as accredited investors, borrowing to invest, distribution of non-arm's length investment products and compensation structures. A total of 11,522 registrants participated in 18 educational webcasts and 11 live events in 2012 – 2013. The sessions were well received with participants surveyed providing a rating of good to excellent.

IIROC not only sets proficiency standards for individual registrants who work at IIROC firms, we also continually review these standards with input from IIROC's Education and Proficiency Committee, to ensure that opportunities to improve educational content are identified and addressed in collaboration with Canadian Securities Institute (CSI) Global Education Inc., and that course content reflects current marketplace realities. In 2012, CSI revised and updated 15 regulatory courses to align content with market and regulatory trends and improve learning efficiency. CSI also worked with IIROC staff, industry experts and an ad hoc IIROC advisory committee, to finalize competency profiles for institutional registered representatives, traders, supervisors and senior compliance staff.

> "I support the work of your organization and believe transparency and communication is crucial in the marketplace. With so much information available today, it is necessary for investors to do their due diligence when it comes to investing. Your organization does an excellent job of providing access to the right information."
>
> ▷ **STEVE KENT,** PARLIAMENTARY SECRETARY TO THE MINISTER RESPONSIBLE FOR THE OFFICE OF PUBLIC ENGAGEMENT (DECEMBER 4, 2012)

INVESTOR EDUCATION CRITICAL TO INVESTOR PROTECTION

Investor education and financial literacy are important elements of investor protection. Improving consumers' financial literacy helps them make more informed decisions, which in turn better enables them to achieve their personal savings and retirement goals.

Over the past year, we increased our efforts to create, promote and make various investor education tools more readily accessible to the investing public. Last November, IIROC participated in the national launch of Financial Literacy Month in Ottawa hosted by the Financial Consumer Agency of Canada (FCAC) where we showcased our online *AdvisorReport* educational tool.

The *AdvisorReport* is a free online service that allows people to search the backgrounds, including education, qualifications and discipline histories, of more than 22,000 investment advisors registered at over 200 IIROC-regulated firms in Canada.

During this same period, IIROC distributed over 75,000 handouts explaining the advisor check service to the provincial and federal constituency offices of elected officials across the country. We followed up in March 2013 with the distribution of 225,000 *AdvisorReport* bookmarks to libraries throughout various regions. These efforts resulted in 53,570 individuals generating *AdvisorReports* to learn about the backgrounds and qualifications of advisors working at IIROC-regulated firms in 2012 – 2013.

To complement the *AdvisorReport*, IIROC is developing a glossary of common financial designations and certifications that will be launched on our website in English and French in the Fall of 2013. This initiative, together with proposed guidance directed to IIROC-regulated firms on the use and supervision of business titles and financial designations, will help improve transparency and provide investors with a better understanding of the proficiencies related to various designations.

Response to our new IIROC website launched in June 2012, which enables us to communicate in real time with members of the public, industry, media and other stakeholders, has been positive and we continue to promote and encourage investors to visit it. In the five-month period since we implemented new web metrics, over 180,000 web pages have been viewed. We continue to make improvements to the website that focus on enhancing the content, accessibility and ease of navigation so that visitors can quickly and easily locate the information they need.

The increased use of web-based technology and social media were featured prominently in the June 2013 IFIE-IOSCO Global Investor Education Conference that IIROC hosted. The conference theme "Delivering Dynamic Financial Capability and Investor Education Programmes: Changing Behavior Across Life Stages" gave presenters an opportunity to challenge participants to think more deeply about how we should be delivering effective programming. Creating useful investor content is only a partial solution in helping investors become more financially savvy. It is equally, if not more important, to use creative and innovative methods to effectively reach and engage people to truly influence behaviour.

> "I was moved by the wonderful and extremely useful conference. I have never experienced such a superb conference in years."
>
> ▷ **TOSHIHIKO SASAKI,** EXECUTIVE DIRECTOR, JAPAN SECURITIES DEALERS ASSOCIATION (JSDA) (JUNE 24, 2013)

FOCUSING ON SENIORS AND SUITABILITY

The protection of seniors and vulnerable investors, as well as an enhanced focus on suitability, are key strategic priorities for IIROC. Allegations of unsuitable investment recommendations are one of the most common client complaints each year, particularly among seniors.

Over the past fiscal year, more than 45% of all case assessment files dealt with suitability complaints, while approximately 43% involved seniors. About 30% dealt with seniors and suitability. Complaints involving unsuitable investments continued to be one of the top two complaints referred to our investigation team and were one of the top three violations prosecuted by IIROC in 2012 – 2013.

Our dedicated Complaints and Inquiries Department, which includes front-line staff in Toronto, Montreal, and Calgary, continued to provide one-stop access and knowledgeable, timely and accessible responses to investor inquiries, fielding nearly 1,800 inquiries during the past fiscal year.

"Thank you for your quick response to my complaint… I was not sure how to deal with it and you had shed some light on the direction I need to take... I appreciate that….Once again, thank you for taking the time to look after my interests."

▷ **FEEDBACK FROM INVESTOR** WHO CONTACTED IIROC COMPLAINTS AND INQUIRIES DEPARTMENT (MAY 26, 2012)

IIROC published its first comprehensive annual Enforcement Report in March 2013. This report is intended to provide stakeholders with a better understanding of our enforcement process, mandate and priorities, as well as the results of our enforcement efforts for the calendar year ending December 31, 2012.

DISBURSEMENT OF ABCP SETTLEMENT FUNDS TO INVESTORS

As part of IIROC's enforcement process, IIROC levies fines and penalties which go into a Restricted Fund which may only be used for certain purposes as set out in IIROC's recognition orders. In 2012, we jointly announced, with the Ontario Securities Commission, our intention to distribute to eligible investors the monies we collected as a result of settlements with five investment dealers relating to the sale of certain third-party Asset-Backed Commercial Paper (ABCP). Ernst & Young Inc. was retained to administer the distribution of the settlement funds. The distribution of $59.875 million to eligible investors was completed in March 2013.

Earlier in 2013, IIROC announced a similar distribution with respect to approximately $1 million in ABCP settlement monies collected from another investment dealer. Ernst & Young Inc. was retained to administer the distribution, which is expected to be completed in the Fall of 2013.





CLOCKWISE FROM TOP LEFT:
JOE YASSI
MIKE PRIOR
ERIC WHALEY
LOUIS PIERGETI
MAYSAR AL-SAMADI

COMPLIANCE & EFFECTIVE RISK MANAGEMENT

Effective risk management and intervening proactively to address harmful activity is a priority for IIROC in discharging our regulatory responsibilities.

TAKING A RISK-BASED APPROACH

IIROC works closely with the industry to ensure that firms have robust compliance and risk control programs in place and are devoting appropriate attention and resources to these goals. To that end, we have taken a risk-based approach to compliance, focusing more on higher-risk firms and activities and dedicating our resources to areas within firms where they are most needed.

In an effort to enhance our efficiency, we have also developed an integrated approach to examinations by all three compliance areas of IIROC: financial and operations, business conduct and trading conduct. 2012 – 2013 represented the first full year in which we implemented this new integrated approach where we conducted a total of 12 integrated exams. Moving forward, we intend to increase the number of integrated exams every year as we coordinate our exam cycles within the three compliance areas to review those firms that are suitable candidates for the integrated exam.

This approach enables our examiners to view and understand the business models and activities of IIROC-regulated firms on an enterprise-wide basis and to better assess the risks relating to such activities at a given point in time. This process also enables IIROC-regulated firms to respond to coordinated requests from IIROC and address compliance issues holistically.

> "…I'm pleased at how well the most recent exam was executed. In particular, how engaging you two were as examiners and how – at many times during the exam you evaluated the issues and risk at hand in a balanced fashion."
>
> ▷ **IIROC-REGULATED FIRM SUBJECT TO A BUSINESS CONDUCT COMPLIANCE EXAM**
> NOVEMBER 8, 2012

OUTLINING KEY EXAM PRIORITIES – ANNUAL CONSOLIDATED COMPLIANCE REPORT

In December 2012, we published our Annual Consolidated Compliance Report outlining key examination priorities for the coming year in order to help IIROC-regulated firms identify, manage and mitigate key risks. Areas of priority include Know-Your-Client documentation, non-arm's length investment products, capital and liquidity risk management, electronic trading controls and outsourcing. The Report also contains the results of targeted reviews and surveys including a complaints handling survey of dealer policies and procedures. Currently, IIROC is in the process of targeted reviews of the distribution of non-arm's length products, the practices of order-execution only service platforms, the approaches firms take to achieve best execution, and the handling of stop loss orders.

PRUDENTIAL REGULATIONS AND RISKS ASSOCIATED WITH INTERCONNECTIONS

We regularly monitor firms to ensure they are appropriately capitalized and in recent years, we have seen business structures that increasingly involve interconnections with affiliates, both domestically and cross-border – which bring new risks and challenges.

Last year's Annual Report highlighted the impact of bankruptcies of two U.S. based firms (MF Global and Peregrine) on their respective Canadian subsidiaries. In both cases, IIROC took steps quickly to protect assets of the clients of the Canadian firms. Within a week, all customer futures accounts of Peregrine Financial Group Canada were accounted for and successfully transferred to another IIROC-regulated firm.

Late in 2012, IIROC began overseeing the orderly wind-down of another Canadian firm (Penson) impacted by developments relating to its U.S. parent company.

These events sensitized us to the risks Canadian firms, and their clients, may be exposed to as a result of their parent company operations. We also gained valuable insights on the risks and potential impacts associated with such interconnections and through outsourcing core functions to third parties. In October 2012, we issued a proposed guidance note for comment on this important subject.

The proposed guidance sets out IIROC staff's expectations regarding the appropriate due diligence procedures and the supervisory structures that should be put in place by IIROC-regulated firms before they outsource important functions. Staff are carefully considering the comment letters received in response to the draft guidance to ensure we strike the right balance between requiring the appropriate protections while reflecting the business realities that prompt firms to outsource functions.

CLOCKWISE FROM TOP LEFT:
DEANNA DOBROWSKY
JAMES TWISS
VICTORIA PINNINGTON

FOSTERING FAIR, EFFICIENT AND COMPETITIVE CAPITAL MARKETS

Canada's capital market structure has evolved significantly in recent years with the dramatic speed of trading presenting new challenges and multiple equity trading platforms offering lit and/or dark trading.

ENHANCED SURVEILLANCE

To conduct effective market surveillance in this environment, we have focused on keeping pace with new forms of trading (HFT and algorithmic), new strategies and products, more complex technologies, and the launch of new markets and greater volatility.

A key tool to help us effectively monitor this rapidly changing environment has been our Surveillance Technology Enhancement Platform (STEP), launched in May 2010, through which we continue to conduct surveillance of all Canadian equity markets on both an intra- and inter-market basis.

In April 2013, we launched a new facility called the "Equity Data Warehouse" (EDW) to complement the real-time surveillance capability of STEP. This facility enables IIROC staff to analyze historical trade data to better identify trading patterns and trends, and to inform policy development. It also enhances our ability to monitor the quality and integrity of the markets and to conduct studies based on empirical data, such as the impact study of a new dark liquidity framework and short sale tick test repeal.

MITIGATING VOLATILITY AND PROMOTING FAIR AND ORDERLY MARKETS

In addition to enhancing surveillance, we implemented several important initiatives in 2012 – 2013 to mitigate market volatility, build confidence in market integrity and promote fair and orderly markets.

In 2012, together with the Canadian Securities Administrators (CSA), we announced the implementation of a new Dark Liquidity framework, recognizing the increasing use of dark liquidity and the need to balance displayed and dark liquidity to safeguard a healthy price discovery process.

In August 2012, we published final guidance identifying the guidelines that IIROC follows when making its determination to vary or cancel trades. The intent is to provide transparency and greater certainty respecting the criteria for discretionary intervention, which may be exercised in certain circumstances.

To date, we have now completed or commenced work on all initiatives we identified in response to the 2010 Flash Crash. For example, in February 2013, we published final guidance harmonizing Canadian market-wide circuit breakers with those in the U.S. with an April 8, 2013 effective date. This set of market controls is intended to help mitigate extraordinary short-term price volatility on a market-wide basis in order to maintain fair and orderly markets.

ELECTRONIC TRADING AND HIGH FREQUENCY TRADING

Electronic markets and high frequency traders have been credited by some with creating benefits for investors – including greater liquidity, lower costs and tighter spreads. But the impact of high-speed automated trading, with little human intervention, needs to be understood in terms of how it may affect our markets and investor confidence in their integrity.

At IIROC we believe it is important to address identified regulatory concerns relating to HFT using empirical data and objective analysis. Accordingly, we undertook a comprehensive three-part study designed to shed light on HFT activity in the Canadian equity markets. We are relying on our repository of regulatory data consisting of all orders and trades executed on Canadian equity markets collected through our STEP system and stored in the EDW. This ongoing study, when finished, will help Canadian and global regulators and market participants to better understand the nature and impact of HFT and related trading.

> "Describing the subject matter is a very important step, and points to IIROC's dedication to understanding the nature of high frequency trading…There is no doubt that our regulators are taking "HFT," however defined, seriously – and we commend them for it."
>
> ▷ **TD SECURITIES CANADIAN INDEX & MARKET STRUCTURE BULLETIN**
> PUBLISHED DECEMBER 17, 2012

IIROC staff completed the first two parts of the study and published the results in December 2012. The "HOT Study" focused on the activity of a group of traders who were responsible for a high number of orders, compared to the number of trades they actually completed over a three-month period in 2011 on Canadian equity markets.

In May 2013, we issued a Request for Assistance so that we could engage third-party involvement in the final phase of our study, which will examine the impact of HFT on market quality and integrity.

In February 2013, we also issued final guidance setting out IIROC's views on how certain specific trading strategies may violate long-standing prohibitions against market manipulation and deceptive trading practices. Our goal was to clarify our expectations of market participants who trade and have gatekeeping responsibilities in the Canadian markets so they can adjust their trading behaviours and supervisory processes accordingly.

Together with the CSA, we established a final framework in March 2013 for the oversight and management of risks associated with electronic trading on Canadian marketplaces. IIROC-regulated dealers now have clear supervisory and gatekeeper responsibilities to help protect against the impact of errors. In July 2013, we also adopted rule amendments to manage the risks associated with electronic trading relationships between IIROC-regulated dealers and other parties. The amendments create a uniform rule framework, applicable to all IIROC dealer members, that defines permissible electronic trading relationships and prescribes appropriate supervisory and compliance procedures. These changes help to bolster market integrity by ensuring electronic trading risks are mitigated through appropriate controls for all trading activity, regardless of source.

In July 2013, we issued final guidance on the management of stop loss orders in order to reduce disruptions to fair and orderly markets. We have noted a number of circumstances in which the execution of market stop loss orders without limits resulted in the need for intervention by IIROC to vary or cancel unreasonable trades. The guidance confirms that dealers' obligations under IIROC's electronic trading rules extend to the entry of stop loss orders and the execution of triggered stop loss orders.

"The average investor is doing far better today – in terms of the market impact costs of making a large trade – than at any time in history.... The trick for regulators lies in being able to selectively target predatory strategies rather than the technology itself—something IIROC's been doing effectively....They are now able to take a scalpel to remove the small unwanted activities instead of using a hatchet to a swath of good and bad players from the market."

▷ **DOUG CLARK,** MANAGING DIRECTOR, ITG CANADA CORP. IN A MARCH 6, 2013 ADVISOR.CA ARTICLE

GOAL 1 ▷ PROMOTE A CULTURE OF COMPLIANCE

WHAT WE DID IN FY 2013	HOW WE DID IT	WHY IT MATTERS
Encouraged a continued focus by firms on compliance, risk management and internal controls.	In December 2012, we issued our Annual Compliance Report identifying common examination deficiencies and trends with a focus on Know-Your-Client documentation, non-arm's length investment products, capital and liquidity risk management, outsourcing and electronic trading controls. We held our first annual Compliance Conference in Toronto, Montreal and Vancouver. More than 350 senior staff from IIROC-regulated firms attended in Toronto, with another 100 joining us in Montreal and 94 in Vancouver. The conferences included updates from financial and operations compliance, business conduct compliance and registration. There were also workshops on small dealer issues, social media and the Client Relationship Model. Conducted 346 on-site compliance reviews of member firms, held 11 industry compliance seminars/workshops and produced 18 educational webcasts reaching 10,050 participants.	Compliance with high standards of fairness and integrity benefits investors, the industry and capital markets overall.
Provided timely and clear guidance on key and emerging issues.	Issued 11 Guidance Notices in final form (e.g. Market-Wide Circuit Breakers, Manipulative and Deceptive Trading). Issued 10 Guidance Notices in draft form requesting comment (e.g. Borrowing to Invest, Outsourcing).	Proactively communicating regulatory expectations promotes a strong culture of compliance while providing necessary flexibility in implementation for firms of different sizes and business models.
Advanced the Rule Book Rewrite Project toward implementation.	With initial publication for public comment of the entire set of Plain Language Rules (PLR) now complete, IIROC is at the stage of making rule revisions and drafting final responses to comments from the public and Canadian Securities Administrators (CSA) staff, in order to advance the project to completion. Four of the eight PLR have been completed.	Simpler rules in plain language improve comprehension of regulatory requirements and should enhance compliance.
Conducted Best Execution Survey.	We completed a survey of all Dealer Members to assess current practices by Dealers to meet their Best Execution obligation and determine whether further regulatory intervention is required.	Sharing best practices helps members to fulfill their obligations related to Best Execution.
Various phases of Client Relationship Model (CRM) took effect.	Held cross country workshops with industry to share best practices for effective implementation. Our September Compliance Conferences featured sessions that focused on implementation, challenges and opportunities.	CRM enhances investor protection and raises industry standards. It improves transparency of fees and account performance, reduces conflicts and enhances suitability assessment.

GOAL 2 ▷ PROMOTE THE PROTECTION OF THE INVESTING PUBLIC

WHAT WE DID IN FY 2013	HOW WE DID IT	WHY IT MATTERS
Focused on issues related to retail investors including seniors and more vulnerable investors.	Continued to actively pursue complaints relating to suitability with a special focus on those involving seniors. Released our first comprehensive Enforcement Report which outlines strategic priorities and initiatives and provides a summary of certain cases initiated over the past year.	Adds focus to this important area and helps to protect a growing segment of the investing public. Supports our commitment to transparency and sends a strong regulatory message to deter potential wrongdoers.
Raised awareness of IIROC's investor education resources, tools and use of titles and designations.	Produced and distributed 327,025 bookmarks promoting our *AdvisorReport* (accessible through a searchable database) to investors through libraries and constituency offices across Canada. This resulted in 53,570 individuals accessing *AdvisorReport* to learn about the backgrounds and qualifications of advisors working at IIROC-regulated firms in 2012-2013. Issued Proposed Guidance on the use of Business Titles and Financial Designations. Began development of an online glossary of financial designations and certifications.	Investors make more informed decisions when choosing or working with an advisor on the IIROC platform. Once the final guidance and online glossary is launched, this will help investors to better understand the requirements for certain financial designations.
Strengthened our complaint intake and resolution process.	Our dedicated Complaints and Inquiries Department, which includes front line staff in Calgary, Toronto and Montreal, responded to 1,795 inquiries from investors.	Provides one-stop access to knowledgeable, timely and accessible responses to investor inquiries.

GOAL 3 ▷ DELIVER EFFECTIVE AND EXPERT REGULATION

WHAT WE DID IN FY 2013	HOW WE DID IT	WHY IT MATTERS
Improved effectiveness and efficiency of compliance examinations at member firms.	Continued to update and streamline our compliance examination modules with a focus on risk assessment for all three areas of compliance (Business Conduct & Compliance, Financial & Operations Compliance and Trading Conduct Compliance). Conducted 12 integrated dealer member exams with risks assessed holistically by a combination of at least two of the three areas of compliance instead of 28 separate exams conducted at different intervals at the same firms.	Assists IIROC staff and member firms in allocating compliance resources to higher-risk activities and results in more effective outcomes. Integrated examinations can provide a holistic view of firms and streamline the oversight process.

GOAL 3 ▷ DELIVER EFFECTIVE AND EXPERT REGULATION (CONTINUED)

WHAT WE DID IN FY 2013	HOW WE DID IT	WHY IT MATTERS
Used data and research to analyze market trends in order to identify emerging risks and inform appropriate regulatory responses.	Created an Equity Data Warehouse to provide greater insight and more effective information gathering for future studies – i.e. dark liquidity, short selling. Concluded Phases 1 & 2 of our study on High Frequency Trading (the "HOT Study") and issued a Request for Assistance for Phase III of the study.	The analysis of trends and empirical data helps inform our regulatory approach to emerging issues in a rapidly evolving market environment.
Enhanced our ability to identify emerging enforcement issues and trends.	Our Complaints & Inquiry Department tracks retail complaint data and has begun compiling that information to help identify emerging trends or issues related to retail investors. The first report was presented internally earlier this year and another report will be produced for September 2013.	Identifying emerging enforcement issues and trends helps us prioritize, better protect investors and allocate resources to where they are most needed.

GOAL 4 ▷ STRENGTHEN THE FAIRNESS, INTEGRITY AND COMPETITIVENESS OF CANADIAN CAPITAL MARKETS

WHAT WE DID IN FY 2013	HOW WE DID IT	WHY IT MATTERS
Continued to implement the recommendations of the report on the events of the Flash Crash of May 6, 2010.	Introduced electronic trading rules. Published Final Guidance on Market-wide Circuit Breakers to confirm that a market-wide circuit breaker would be triggered in Canada concurrent with the triggering of a market-wide circuit breaker in the United States. Issued Final Guidance setting out IIROC's Trade Variation and Cancellation policy.	These measures mitigate risks, excessive volatility, contribute to fair and orderly trading and foster confidence in the integrity of Canada's capital markets. Making our approach with respect to trade variation and cancellation public is consistent with our commitment to transparency.
Enhanced electronic surveillance/alerts.	Realtime alerts and post-trade reports were developed to help us identify instances of layering, quote manipulation, quote stuffing and spoofing.	Enables us to identify and address manipulative and deceptive trading practices.
Continued to address emerging regulatory challenges in a period of rapid change for marketplaces.	Worked with the CSA on a variety of market structure issues, including the launch of a new dark liquidity framework to safeguard a healthy price discovery process, short-selling rule enhancements and new electronic trading requirements to mitigate market risks.	These initiatives are designed to ensure that Canadian equity markets continue to evolve in a fair and efficient manner.
Focused on oversight of trading in debt markets.	We issued for comment a framework for timely surveillance, aimed to enhance oversight of the Canadian debt market.	As the debt market is less transparent than the equity markets, this surveillance framework, once implemented, will enable us to better monitor and enforce compliance with investor protection and market integrity rules.

GOAL 5 ▷ ACT IN AN ACCOUNTABLE, FAIR AND TRANSPARENT MANNER

WHAT WE DID IN FY 2013	HOW WE DID IT	WHY IT MATTERS
Developed and published policy priorities.	Reviewed and reassessed our policy priorities and published those priorities for the coming year.	Provides stakeholders with an overview of our policy agenda and assists members to prepare for implementation.
Published 2nd Annual Exemption Report.	The report includes a summary of exemptions granted to members from certain Dealer Member Rules including proficiency requirements and specific Universal Market Integrity Rules (UMIR). Published Enforcement and Consolidated Compliance Reports.	In keeping with our commitment to transparency, the Annual Exemption Report helps firms understand the types of exemptions that IIROC may grant in appropriate circumstances. These annual reports allow our stakeholders to understand and respond to IIROC'S priorities and compliance focus.

GOAL 6 ▷ BE A COST-EFFECTIVE AND EFFICIENT ORGANIZATION

WHAT WE DID IN FY 2013	HOW WE DID IT	WHY IT MATTERS
Distributed proceeds of the sale of shares in CDS to eligible Dealer Members.	Distributed proceeds, net of transaction-related costs and the adjusted cost base of the shares, to eligible dealer members in March 2013.	Returned money to dealers for their use in challenging times.
Improved STEP surveillance system to allow for more robust and efficient operation.	Upgraded the underlying operating system and increased storage capacity.	Allows more efficient maintenance of STEP which mitigates operating cost increases.
Rationalised our data centres to reduce costs and strengthen controls.	Migrated hosting of systems and data from three data centres into one virtual data centre.	Lowers operating costs by consolidating services, enhances internal controls and enables IIROC to build capacity in anticipation of market changes.

GOAL 7 ▷ BE AN EMPLOYER OF CHOICE

WHAT WE DID IN FY 2013	HOW WE DID IT	WHY IT MATTERS
Solicited feedback from employees with the goal of enhancing employee engagement.	Conducted second employee survey and developed an action plan to address results of survey.	Helps us be an effective organization by fostering a positive workplace environment that attracts and retains expert and engaged staff.
Increased employee participation in community volunteer programs.	Launched a corporate partnership with Junior Achievement to help young people develop financial skills and leverage employee expertise.	Enhances workplace spirit and promotes financial awareness and literacy in our youth.
Provided training and development opportunities for employees.	Expanded training offered to employees in areas specific to their roles, e.g., best practices in audit techniques, business writing and presentation skills.	Provides employees with opportunities for professional development.

"In the US there are already rigorous trade reporting standards in place and it is my understanding that IIROC is creating a similar framework in Canada. I believe transparency is an important aspect of public markets and facilitates client services and market participation."

▷ **ANDY DICKISON,** MANAGING DIRECTOR AND HEAD, CREDIT DERIVATIVES, SCOTIA CAPITAL, COMMENT PUBLISHED IN FINANCIAL POST, FEBRUARY 21, 2013 IN RESPONSE TO IIROC DEBT MARKET PROPOSAL

IIROC BOARD OF DIRECTORS

GOVERNANCE REPORT

IIROC'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.

Seven Independent Directors

Five Dealer Member Directors

Two Marketplace Directors

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

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

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President and CEO

SUSAN WOLBURGH JENAH [1]
PRESIDENT AND CEO
(JOINED FEBRUARY 2007)
TORONTO, ONTARIO

Industry Directors

M. MARIANNE HARRIS, CHAIR [2]
(JOINED SEPTEMBER 2010)
MANAGING DIRECTOR AND PRESIDENT, MERRILL LYNCH CANADA, INC.
TORONTO, ONTARIO

- Member of Finance and Audit Committee

LUC BACHAND [3]
(JOINED SEPTEMBER 2012)
VICE CHAIR AND HEAD, BMO CAPITAL MARKETS, QUÉBEC
MONTRÉAL, QUÉBEC

- Member of Human Resources and Pension Committee

ROBERT C. BLANCHARD [4]
(JOINED AUGUST 2010)
PRESIDENT, HAYWOOD SECURITIES INC.
VANCOUVER, BRITISH COLUMBIA

- Member of Human Resources and Pension Committee

TAL COHEN [5]
(JOINED OCTOBER 2009)
CEO, CHI-X GLOBAL
NEW YORK, NEW YORK, USA

- Member of Human Resources and Pension Committee

K. PRUYN HASKINS [6]
(JOINED SEPTEMBER 2012)
MANAGING DIRECTOR, CO-HEAD OF GLOBAL EQUITY SALES & TRADING, SCOTIABANK GLOBAL BANKING AND MARKETS
TORONTO, ONTARIO

- Member of Human Resources and Pension Committee

THOMAS A. KLOET [7]
(JOINED OCTOBER 2008)
CEO, TMX GROUP INC.
TORONTO, ONTARIO

- Member of Finance and Audit Committee

Independent Directors

MICHAEL T. BOYCHUK [1]
(JOINED SEPTEMBER 2012)
PRESIDENT, BIMCOR INC.
MONTRÉAL, QUÉBEC
- Member of Corporate Governance Committee

JAMES DONEGAN [2]
(JOINED SEPTEMBER 2012)
PRESIDENT AND CEO,
OMERS CAPITAL MARKETS
TORONTO, ONTARIO
- Member of Finance and Audit Committee

MIKE GAGNÉ [3]
(JOINED SEPTEMBER 2009)
CORPORATE DIRECTOR
INVERMERE, BRITISH COLUMBIA
- Member of Finance and Audit Committee
- Member of Corporate Governance Committee

BRIAN HEIDECKER [4]
(JOINED SEPTEMBER 2011)
CHAIR EMERITUS,
UNIVERSITY OF ALBERTA
EDMONTON, ALBERTA
- Member of Corporate Governance Committee
- Member of Finance and Audit Committee

EDWARD IACOBUCCI [5]
(JOINED SEPTEMBER 2012)
PROFESSOR, FACULTY OF LAW AND
ASSOCIATE DEAN OF RESEARCH,
UNIVERSITY OF TORONTO
TORONTO, ONTARIO
- Corporate Governance Committee

DANIEL F. MUZYKA, VICE-CHAIR [6]
(JOINED JUNE 2005)
PRESIDENT AND CEO,
THE CONFERENCE BOARD OF CANADA
OTTAWA, ONTARIO
- Member of Corporate Governance Committee
- Member of Human Resources and Pension Committee

CATHERINE SMITH [7]
(JOINED SEPTEMBER 2012)
CORPORATE DIRECTOR
TORONTO, ONTARIO
- Member of Corporate Governance Committee
- Chair, Human Resources and Pension Committee


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Outgoing Directors

MICHELLE KHALILI, VICE-CHAIR
(JOINED DECEMBER 2008)
MANAGING DIRECTOR, EQUITY CAPITAL MARKETS, CIBC WORLD MARKETS
TORONTO, ONTARIO
- Member of Human Resources and Pension Committee

GERRY ROCCHI, CHAIR
(JOINED AUGUST 2004)
PRESIDENT AND CEO,
GREEN POWER ACTION INC.
TORONTO, ONTARIO
- Member of Corporate Governance Committee

ERIC KIRZNER
(JOINED AUGUST 2010)
PROFESSOR, ROTMAN SCHOOL OF MANAGEMENT, UNIVERSITY OF TORONTO
TORONTO, ONTARIO
- Member of Finance and Audit Committee

DANIEL LECLAIR
(JOINED JUNE 2004)
CORPORATE DIRECTOR
SHEFFORD, QUÉBEC
- Chair, Finance and Audit Committee

YVES NÉRON
(JOINED SEPTEMBER 2010)
SENIOR VICE-PRESIDENT AND HEAD OF PRIVATE CLIENT SERVICES, DESJARDINS SECURITIES
MONTRÉAL, QUÉBEC
- Member of Human Resources and Pension Committee

D. GRANT VINGOE
(JOINED AUGUST 2009)
PARTNER, ARNOLD AND PORTER LLP
NEW YORK, NEW YORK, USA
- Chair, Corporate Governance Committee

IIROC BOARD OF DIRECTORS

GOVERNANCE REPORT

2012 – 2013 Board Meetings

A TOTAL OF 32 MEETINGS WERE HELD DURING THE FISCAL YEAR ENDED MARCH 31, 2013. BELOW IS A BREAKDOWN OF ATTENDANCE.

(APRIL 1, 2012 TO MARCH 31, 2013)

DIRECTOR	BOARD OF DIRECTORS	FINANCE AND AUDIT	CORPORATE GOVERNANCE	HUMAN RESOURCES AND PENSION	REGULATORY RULES BRIEF	SPECIAL MEETING	TOTAL COMPENSATION
LUC BACHAND*	4/4			4/5	3/4	2/2	
ROBERT BLANCHARD	5/6			4/6	3/4	5/5	
MICHAEL BOYCHUK*	4/4		4/4		4/4		$27,871.08
TAL COHEN	5/6			5/6	4/4	1/3	
JAMES DONEGAN*	4/4	3/3			4/4		$26,267.58
MIKE GAGNÉ	6/6	5/5	2/2		4/4	3/3	$55,436.38
M. MARIANNE HARRIS***	6/6	5/5			4/4	3/3	
BRIAN HEIDECKER	6/6	3/3	6/6		4/4	3/3	$51,221.96
PRUYN HASKINS*	4/4			5/5	4/4	2/2	
EDWARD IACOBUCCI*	4/4		4/4		4/4		$26,802.08
ERIC KIRZNER^	1/2	2/2				3/3	$15,683.45
MICHELLE KHALILI^	1/2			1/1			
THOMAS A. KLOET	5/6	4/5			4/4	1/1	
DANIEL LECLAIR^	2/2	2/2				3/3	$17,548.90
DANIEL MUZYKA	6/6		6/6	3/2	4/4	2/3	$49,704.49
YVES NÉRON^	4/4			4/4	2/2	2/3	
GERRY ROCCHI^	2/2		2/2			3/3	$22,077.30
CATHERINE SMITH*	4/4		4/4	5/5	4/4	3/3	$34,468.98
GRANT VINGOE^	2/2		2/2			3/3	$17,497.22
SUSAN WOLBURGH JENAH	6/6	5/5	6/6	4/4	4/4	5/5	

* Director joined Board during the year.
^ Director stepped down during the year.
** Only Independent Directors get compensated by IIROC.
*** In the 2011 – 2012 Annual Report the meetings data was incorrectly reported for M. Marianne Harris. The correct numbers are 3/3 Finance & Audit meetings and N/A for Corporate Governance meetings.

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
- 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 – 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 and Pension Committee Chair where the retainer will be $3,500)
- 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.

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 AND AUDIT COMMITTEE

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

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.

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

MANAGEMENT DISCUSSION AND ANALYSIS

The Management Discussion and Analysis (MD&A) comments on IIROC's operations and financial condition are presented for the fiscal year ended March 31, 2013, compared with the previous year ended March 31, 2012 (adjusted to conform to the adoption of Canadian Accounting Standards for Not-for-Profit Organizations during the current year). The MD&A should be read in conjunction with the financial statements for the year ended March 31, 2013.

IIROC is a cost-recovery, not-for-profit organization that recovers its operating costs from several sources. The primary source is through member fees for Dealer Regulation and Market Regulation activities which are collected through the application of respective fee models. Dealer Regulation secondary sources of revenue include Underwriting levies, which represent a fractional percentage share of the value of most public equity and debt underwritings in Canada and Registration fees based on fee-sharing agreements with provincial securities commissions. Another significant revenue source for Market Regulation is Timely Disclosure fees from the TSX, TSX-V and CNSX for administering their Timely Disclosure policies.

NEW FEE MODELS

On April 1, 2012 IIROC implemented new fee models for Dealer Regulation activities and for Market Regulation activities.

The key changes in the Dealer Regulation fee model were the introduction of tiered revenue rates for the calculation of fees, elimination of the capital computation, introduction of a risk component and an increase in the minimum fee. The Underwriting and Registration fee and interest components of the model remained unchanged with more clarity introduced into the definition of securities that attract Underwriting levies and the respective calculations.

The primary change to the Market Regulation fee model was the introduction of a fee component based on the number of messages processed by IIROC's surveillance system to recover the IT costs of the surveillance system. The balance of costs is attributed to member fees based on the number of trades instead of volume of shares traded with a minimum marketplace fee.

The models are revenue neutral to IIROC subject to budgeted increases or decreases as fees are charged based on a cost recovery basis; however there was some impact on Underwriting levies revenue due to the expansion of the pool of securities that attract levies.

On a consolidated basis, when comparing FY 2013 fees (based on the new fee models) and estimates for FY 2013 based on the old fee models, 49% (98) of all IIROC firms experienced a decline in fees with 73% (85) of firms who pay both Dealer and Market Registration fees experiencing a decline.

When compared on a separate fee model basis, 78% of member firms who pay Dealer Regulation fees experienced an increase with 39% of these firms experiencing increases due to the minimum fee change. 22% of firms experienced no change or a decline in Dealer Regulation fees. 86% of member firms that pay Market Regulation fees experienced a decline with 96% of market makers experiencing declines.

PROCEEDS OF THE CANADIAN DEPOSITORY FOR SECURITIES ("CDS") SHARE SURRENDER AND REFUND OF DEALER MEMBER FEES

On August 1, 2012 upon the acquisition of CDS by the Maple Group Acquisition Corporation ("Maple") and based on an aggregate acquisition price of $167,500 for all of the outstanding shares of CDS, IIROC received cash proceeds of $25,481 in return for its holding of 15.2% of the outstanding common shares of CDS.

The application of the proceeds from the disposition and the method of distribution to dealer members was determined solely by the Dealer Directors of IIROC in accordance with the IDA/RS combination agreement.

The total proceeds of $25,481 net of transaction related costs and the cost base of the investment were distributed to eligible dealer members in March 2013 as a refund of Dealer Member fees.

TRANSITION TO ACCOUNTING STANDARDS FOR NOT-FOR-PROFIT ORGANIZATIONS (ASNPO)

On April 1, 2012 IIROC adopted ASNPO. The accounting policies presented in the financial statements in accordance with ASNPO were used to prepare the financial statements for the year ended March 31, 2013, the comparative information and the opening statement of financial position as at the date of transition.

The adoption of ASPNO had the following transitional impacts compared to the accounting standards used in the prior year's financial statements:

a) Recognition of the net transition asset for employee future benefits plans of $984 and the initial investment in CDS of $617 on April 1, 2011, increasing the net assets and Unrestricted Fund balance as at the beginning of FY 2012 by $1,601.

b) Increase of the Future Benefit expense in FY 2012 by $81, due to the elimination of a transitional asset, increasing the net assets and Unrestricted Fund balance as at the end of the year by $1,520.

The adjusted total (deficiency) excess of revenue over expenses for FY 2012 was ($7,435) and the adjusted total net assets were $96,738.

IIROC has elected to carry forward the unamortized balances for actuarial gains and losses and past service costs connected with employee future benefits that were determined previously under pre-changeover generally accepted accounting policies.

Under adoption of ASNPO, certain disbursements which were previously recorded as transfers out of the Restricted Funds to the Unrestricted Funds are now recorded as expenses or capital assets of the Restricted Funds instead of inter-fund transfers.

Due to the transition to ASNPO, the Investment in Capital Assets was combined with the respective funds; Unrestricted Fund, Externally Restricted Fund and the Merger Fund. This resulted in amortization being allocated to the Unrestricted Fund, the Externally Restricted Fund and the Merger Fund. There was no overall impact on the total net assets or the total (deficiency) excess of revenue over expenses.

The adoption had the following transitional impacts on the excess (deficiency) of revenue over expenditure of individual funds for FY 2012:

a) Recognition of the one-time costs of the early termination of the SMARS (surveillance monitoring system for the Toronto Stock Exchange and TSX Venture Exchange marketplaces) agreement of $4,420 in the Externally Restricted Fund instead of the Unrestricted Fund.

b) Recognition of amortization of $37 on investments in the surveillance system in the Externally Restricted Fund and $14 on investments in the consolidation of the Toronto office in the Merger Fund instead of the Unrestricted Fund.

(in thousands of dollars)

The net impact on the funds excess (deficiency) of revenue over expenditure for the FY 2012 and the net assets of the funds as at March 31, 2012 was:

	Unrestricted Fund	Externally Restricted Fund	Merger Fund
Excess (deficiency) of revenue over expenditure	4,471	(4,457)	(14)
Net Assets	(1,378)	719	659

The Board of Directors decided to combine the Investment in Capital Assets into the Unrestricted Fund, the Externally Restricted Fund and the Merger Fund. The Unrestricted Fund, Externally Restricted Fund and the Merger fund balances on a combined basis are as follows:

	Unrestricted Fund	Capital Assets	Total
Net assets, Year End FY 2012 (Adjusted)	26,847	17,404	44,251
Net assets, Year End FY 2013	29,733	17,864	47,597

	Externally Restricted Fund	Capital Assets	Total
Net assets, Year End FY 2012 (Adjusted)	17,739	719	18,458
Net assets, Year End FY 2013	15,189	2,195	17,384

	Merger Fund	Capital Assets	Total
Net assets, Year End FY 2012 (Adjusted)	(58)	659	601
Net assets, Year End FY 2013	22	604	626

SUMMARY FINANCIAL INFORMATION

Unrestricted fund

(in thousands of dollars)	**FY 2013**	FY 2012 Adjusted	Variance $	Variance %
REVENUE				
Dealer regulation				
Membership fees	**47,570**	45,329	2,241	5%
Refund of membership fees	**(23,783)**	0	(23,783)	N/A
Underwriting levies	**9,830**	7,602	2,229	29%
Registration fees	**2,319**	2,500	(181)	(7%)
Entrance fees	**90**	155	(65)	(42%)
	36,026	55,586	(19,560)	(35%)
Market regulation				
Universal Market Integrity Rules (UMIR)	**23,488**	25,435	(1,947)	(8%)
Timely disclosure	**3,821**	3,408	413	12%
Marketplace revenue	**93**	120	(27)	(22%)
	27,402	28,963	(1,561)	(5%)
Other revenue				
Gain on surrender of CDS shares	**23,783**	0	23,783	N/A
Interest	**583**	445	138	31%
Miscellaneous	**120**	5	115	2,306%
	24,486	450	24,036	5,341%
Total unrestricted fund revenue	**87,914**	84,999	2,915	3%
UNRESTRICTED FUND EXPENSES				
Dealer regulation operating costs	**56,252**	56,343	(91)	(0%)
Market regulation operating costs	**28,316**	31,929	(3,613)	(11%)
	84,568	88,272	(3,704)	(4%)
(DEFICIENCY) EXCESS OF REVENUE OVER EXPENSES	**3,346**	(3,273)	6,619	(202%)

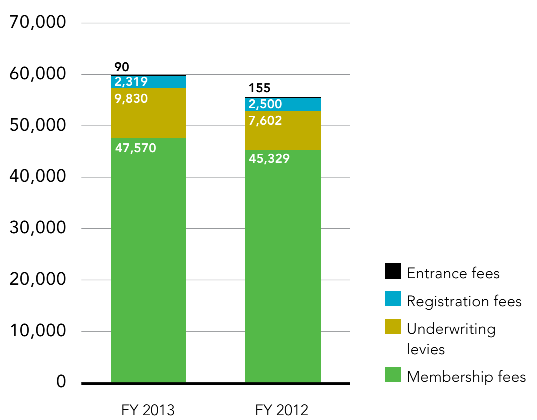
REVENUE

Unrestricted Fund revenues for the period amounted to $87,914, up $2,915 (3%) from $84,999 in FY 2012.

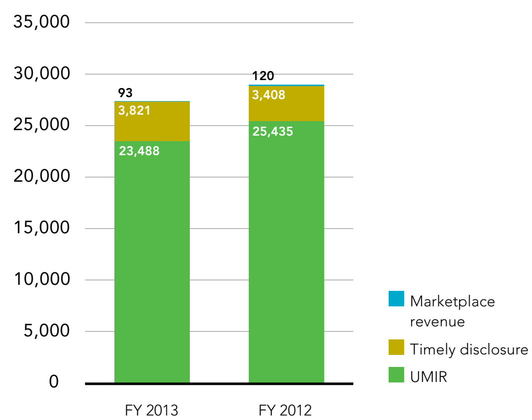
Revenue includes a one-time refund of Dealer Regulation fees equal to the gain on the surrender of CDS shares net of transaction costs in FY 2013.

Membership fees for Dealer Regulation and Market Regulation (UMIR) are the primary sources of revenue. They represent approximately 81% (excluding the one-time refund of fees, 83% in FY 2012) of the total revenue of IIROC and are collected through the respective fee models.

DEALER REGULATION REVENUE ($)



MARKET REGULATION REVENUE ($)

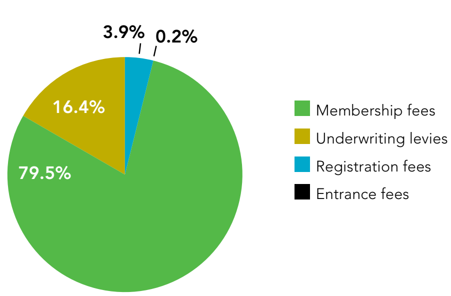


Dealer Regulation membership fees were $47,570 (excluding the one-time refund of fees) up by $2,241 (5%) from $45,329 in FY 2012 due to budgeted increases in costs and zero subsidy in FY 2013 compared with the subsidy of $780 in FY 2012.

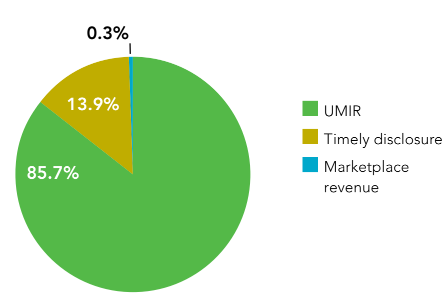
UMIR fees declined by $1,947 (8%) to $23,488 from $25,435 in FY 2012 reflecting reduced technology costs and the elimination of the FY 2012 subsidy of $2,092.

Fees are based on approved operating cost budgets, which are then reduced by secondary sources of revenue and adjusted appropriately for any excess of revenue over expenses or deficit from the preceding year. Furthermore, approved capital and operating expenditures funded by the Restricted Fund are not recovered through membership fees but are charged to the Restricted Fund operations.

DEALER REGULATION REVENUE FY 2013



MARKET REGULATION REVENUE FY 2013



The combined revenue from secondary sources increased by $2,368 (17%) from $13,785 to $16,154 on a year-over-year basis.

Underwriting levies, a main secondary source of Dealer revenue increased by $2,229 (29%) to $9,830 from $7,602 in FY 2012 due to: (i) an increased pool of securities that attracted levies; and (ii) the reversal of a prior year provision of $780. The other secondary source of revenue, Registration fees declined to $2,319 in FY 2013 by $181 (7%).

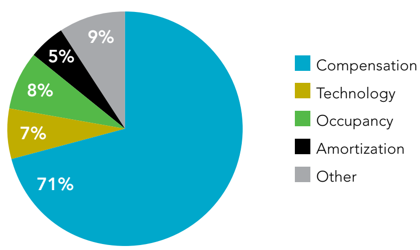
The secondary revenue source for Market Regulation is Timely Disclosure fees from the TSX, TSX-V and CNSX for administering their Timely Disclosure policies. This was $3,821 in FY 2013, an increase of $413 (12%) from FY 2012 based on improved tracking of consumed resources.

Other revenue includes the gain on the surrender of CDS shares of $23,783, being the proceeds of $25,481, net of $1,081 expenses and the cost base of the investment of $617.

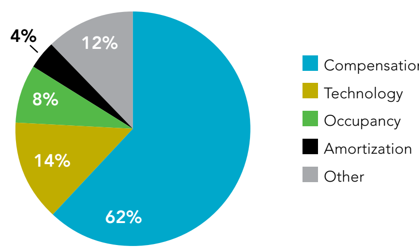
COSTS

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

OPERATING COSTS FY 2013



OPERATING COSTS FY 2012



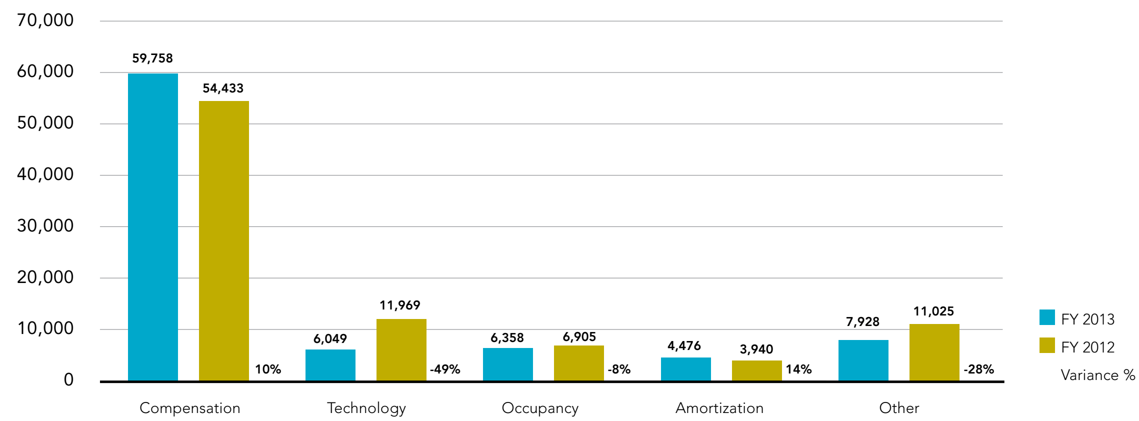
The categories of Compensation, Technology and Occupancy and Amortization make up approximately 91% (88% in FY 2012) of IIROC's operating costs. The proportion of Technology costs in FY 2013 dropped to 7% from 14% in FY 2012 primarily due to savings in FY 2013 arising from the elimination of the duplicate surveillance system (SMARS) used to monitor the TSX and TSX-V. The proportion of Compensation costs increased mainly due to increases in pension expense, and increased staffing in Market Regulation. The increase in pension expense was caused by lower discount rates along with reduced market performance (more information can be found in Note 9 of the Financial Statements).

IIROC will implement changes to its Defined Benefit plan next year which comprise of
a) closing the plan to new employees and
b) increasing the contribution rates of employees in the plan.

To facilitate proper fee allocation, direct costs are segregated between Dealer Regulation and Market Regulation activities and indirect costs are apportioned using a cost allocation model based on direct business unit cost or headcount.

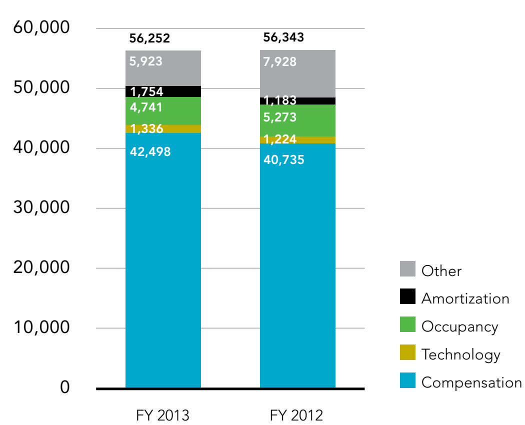
IIROC's total operating costs were $84,568 in FY 2013, a decrease of $3,704 or 4% from $88,272 (adjusted balance) in FY 2012.

OPERATING COSTS ($)

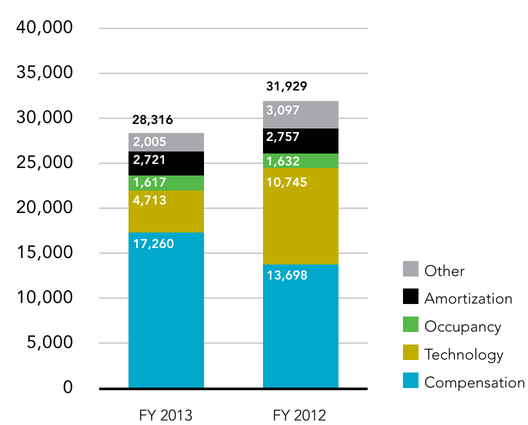


Dealer Regulation costs remained relatively constant at $56,252, while Market Regulation costs decreased by $3,613 (11%) to $28,316.

DEALER REGULATION OPERATING COSTS ($)



MARKET REGULATION OPERATING COSTS ($)



Dealer Regulation Compensation costs increased primarily due to increased pension expense while market salary increases were offset by reduced staffing. Occupancy costs decreased due to the consolidation of Toronto office staff into one location in FY 2012, as 2012 costs included duplicate one-time facilities costs. Other costs declined in FY 2013 compared with FY 2012 due to a one-time cost of a provision related to Underwriting levies incurred in FY 2012 and the recovery of legal fees previously incurred on the review of the Maple Group offer for the TMX Group, Alpha and the CDS, which were treated as a CDS transaction related expense.

The decrease in Market Regulation Technology costs is attributable to savings due to the elimination of SMARS and use of STEP to monitor TSX and TSX-V trading. Compensation costs increases were driven by pension expense, increased staffing in the areas of Trading Review and Analysis, Market Regulation and Policy, as well as market salary increases. Other costs declined in FY 2013 due to reduced communication expenses and the absence of the one-time costs incurred in FY 2012 for the accelerated amortization of assets connected with the termination of SMARS.

EXCESS OF UNRESTRICTED FUND REVENUES OVER EXPENSES

There was an excess of revenues compared to expenses in FY 2013 of $3,346. This compares with a deficiency of revenues over expenses in FY 2012 of $3,273, which represents a year-over-year positive increase of $6,619 (202%). The excess was driven mainly by an increase in Underwriting levies and other sources of revenue and lower Technology costs due to the elimination of SMARS and use of STEP to monitor TSX and TSX-V trading on an intra as well as an inter-market basis.

The excess of revenues over expenses increased the Unrestricted Fund balance to $47,597, compared with the adjusted opening balance of $44,251.

EXTERNALLY RESTRICTED FUND

Revenues for the Externally Restricted Fund are made up of the collection of fines, penalties and disgorgement of profits determined by IIROC Hearing Panels on existing members, plus new member contributions as part of their entrance fees and interest.

The use of monies from the Fund is restricted by the Recognition Orders from provincial securities commissions. All expenses, other than Hearing Panel-related costs, are approved by IIROC's Corporate Governance Committee.

Total revenues for the year amounted to $2,955, compared with $2,911 for FY 2012, a marginal increase of $44 (2%).

Total expenses declined from $7,979 to $4,029, a decrease of $3,950 (50%) primarily due to the one-time costs of $4,420 in FY 2012 for the early termination of the SMARS agreement and higher Hearing Panel costs of $2,825, which increased by $928 (49%) in FY 2013 as a result of multiple lengthy and contested hearings.

The resulting deficit for the year was $1,074, a decrease in deficit of $3,994 (79%) from the adjusted deficit of $5,068 of the previous year.

Capital projects invested through the Fund included $1,222 on a Data Warehouse System and the total for the year was $1,607, up from $754 in FY 2012. This system will enable IIROC to conduct data mining and analysis for studies, identify trends and conduct deeper reviews of trading in Canadian equity markets to inform policy making.

The deficit reduced the combined Fund from the adjusted balance of $18,458 to $17,384 by the end of the year. An IIROC policy is in place to ensure adequate funding is maintained for Hearing Panel-related costs.

INTERNALLY RESTRICTED BENEFITS FUND

Funding of the deficits in the Supplemental Plan for Executives Non-Registered Defined Benefit DB Pension (SERP) and Non-Pension Post-Retirement Benefits (PRB) plans are reported in this Fund. The funds are currently invested in accordance with IIROC's investment policy. The Fund balance was $630 at the end of the year.

EXTERNALLY RESTRICTED ASSET BACKED COMMERCIAL PAPER (ABCP) FUND

In FY 2013, IIROC transferred a balance of $32,819 of the Externally Restricted ABCP Fund to an independent Administrator, Ernst & Young Inc., retained jointly by the Ontario Securities Commission (OSC) and IIROC. The Administrator, under the supervision of the OSC and IIROC, administered the distribution of funds, less administrative expenses, to eligible investors who purchased third-party ABCP. The distribution was completed prior to the end of the year.

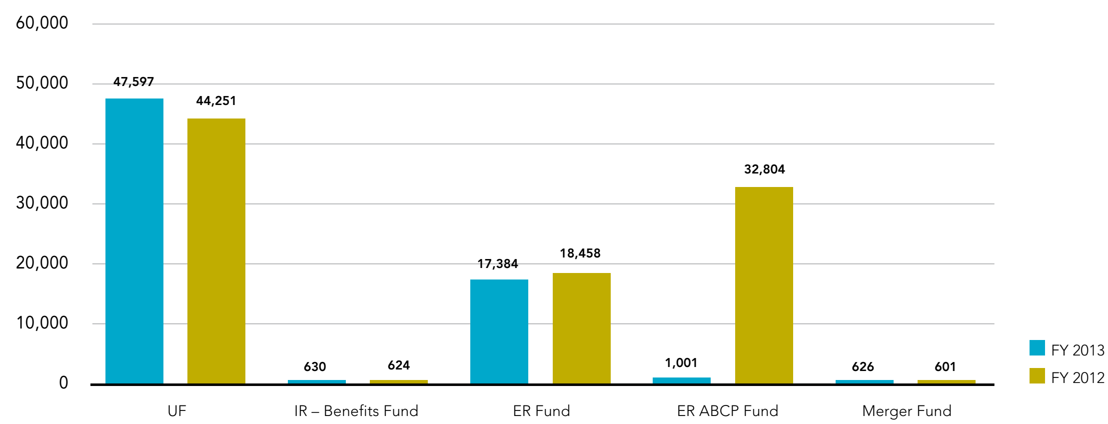
During the year, IIROC received an additional $1,000 in ABCP fines from a firm not involved in the original ABCP settlement. After March 31, 2013, IIROC received regulatory approval to retain the same Administrator to administer the distribution of these additional funds, less administrative expenses, to eligible investors who purchased third-party ABCP from this settling firm. IIROC transferred the balance of these funds to the Administrator after March 31, 2013.

MERGER FUND

Funded by the Externally Restricted Fund, the Merger Fund was set up for expenses of the Organization relating to the creation of IIROC. A sales tax refund net of expenses increased the Fund balance at the end of the year to $626 from an adjusted balance of $601 at the end of FY 2012.

LIQUIDITY AND CAPITAL RESOURCES

NET ASSETS AS AT YEAR END ($)



At the end of FY 2013, IIROC held total net assets of $67,238, down $29,500 from the adjusted balance of $96,738 last year, in the Unrestricted Fund, Externally Restricted Fund, Internally Restricted Benefits Fund, Externally Restricted ABCP Fund and the Merger Fund. This reflects the outflow of $32,819 from the ABCP Fund.

During the year, IIROC invested $6,552 in assets related primarily in the Data Warehouse System ($1,222) and the build-out and furnishing of new office space in Calgary ($1,529), as the lease in the old office could not be renewed. Also included were investments in the Surveillance Technology Enhancement Platform (STEP) market surveillance system ($1,437) and infrastructure rationalization.

On July 29, 2011, IIROC entered into a two-year extendable credit agreement with Canadian Imperial Bank of Commerce (CIBC) to finance the Organization's working capital and head office refurbishment requirements. To the end of March 31, 2013 IIROC has utilized $5,015 of this facility. IIROC also entered into a two-year extendable revolving credit facility of $4,000. IIROC has not borrowed any amounts under this facility as at March 31, 2013.

Pursuant to the credit agreement, $4,000 in cash or cash equivalents is held as collateral by the bank.

IIROC maintains the Unrestricted Fund balance net of capital assets at approximately three months' operating cost level, in accordance with an internal guideline. At $29,733, up $2,886 from the beginning adjusted balance, it holds excess funds of $6,801 after taking into account FY 2014 budgeted expenses. This is comprised of a surplus of $1,947 for Dealer Regulation and a surplus of $4,854 for Market Regulation. The consolidation of the Toronto offices is covered by a bank loan of $5,015, which when taken into account results in a liquidity excess of $6,962 for Dealer Regulation and a total surplus of $11,816.

Potential uses for the Market Regulation excess include deficit pension funding and future capital expenditures, while the Dealer Regulation surplus may be used to reduce the bank loan balance, deficit pension funding and the funding of the costs connected with the lost device as indicated in the following section.

COMMITMENTS AND CONTINGENCIES

At the end of the year, IIROC had total minimum rental commitments of $27,970, excluding GST/HST, under long-term leases with varying expiry dates to February 29, 2024. There is no significant change from last year.

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 a dealer member regulated by IIROC. All IIROC-regulated firms must contribute to CIPF. IIROC has provided a $125 million guarantee on the CIPF bank lines of credit, the same as in FY 2012. As of March 31, 2013 these lines have not been utilized. Any amount drawn on the guarantee would be assessed to dealer member firms. In order to meet potential financial obligations, the CIPF has the following resources in place: (i) a contingency fund balance of $424 million on hand as at December 31, 2012 (2011 – $409 million); and (ii) the lines of credit for $125 million (2012 – $125 million).

IIROC has committed to extend funding to the Investor Education Foundation for the Funny Money for High Schools Assembly Program; the remaining commitment is $200, down from $474 last year. In addition, IIROC has committed to extend funding to the Canadian Foundation for the Advancement of Investor Rights ("FAIR") to a maximum of $350 per year over a two-year period commencing May 2012. As at March 31, 2013, the remaining commitment was $350.

Following the accidental loss of a portable device that contained personal information relating to clients of a number of dealer members, IIROC undertook a number of measures to notify affected dealer members and potentially affected clients, and to provide ongoing support services for the benefit of affected clients, including credit alerts, credit monitoring and a dedicated call center. The total costs to IIROC for this incident are projected to be $5,208, $408 of which was incurred in FY 2013. This cost estimate includes credit alerts, credit monitoring and support costs provided to affected clients; professional services; a dedicated call center and other anticipated expenses. In arriving at this projection IIROC has made certain cost assumptions. While IIROC Management feels these assumptions are reasonable, material variations in the outcome could impact IIROC's funding requirement but is not expected to materially impact IIROC's operations.

IIROC has taken certain steps to help ensure that member fees do not increase due to this and other expenditures arising from this incident. Budgeted salary increases will not be awarded to staff for FY 2014. Discretionary expenses such as outside counsel costs, travel and consultancy will be further reduced for FY 2014 and the residual expenses will be set off against a partial use of the FY 2013 surplus.

To date of approval of these financial statements on June 26, 2013, IIROC has received no reports of identity theft or fraud resulting from the loss of the portable device. Accordingly, it is not possible to estimate the total amount of potential damages or range of possible loss, if any, resulting from settlements or other remedies in connection with this matter.

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 lawsuit on behalf of persons in Canada whose personal information was lost by IIROC seeks $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. Management does not expect a ruling on this motion until late 2014. Given the preliminary status of this proceeding, it is not possible to reasonably quantify the effect, if any, of this proceeding on the financial performance of IIROC.

RISK

IIROC's risk management process starts with a top-down approach with the Executive Management Team ("EMT") identifying the broad principal risks of IIROC's business, as well as risk trends that require the focus of management. A bottom-up approach is used to identify key business unit risks and evaluate them for likelihood and impact based on mitigation strategies that are in place or planned. The Finance and Audit Committee reviews the risk report which is then presented to the Board.

Litigation risk

IIROC is currently subject to litigation as disclosed in Note 12 to the financial statements and from time to time, faces risk of claims by employees, the public, member organizations and other third parties arising from the ordinary course and conduct of its business.

IIROC seeks to mitigate this risk by implementing appropriate controls and safeguards, and by defending against any and all such claims. IIROC will also seek coverage against potential losses, if any, through insurance.

Market risk

Adverse or volatile capital market conditions both in the primary market and secondary markets could have an impact on IIROC's ability to collect fees to cover costs through Underwriting levies as well as Dealer Regulation and Market Regulation membership fees. As well, lower market returns may have a negative effect on IIROC's defined benefit pension costs.

IIROC adopts prudent cost management and timely use of surpluses to mitigate this risk.

Revenue risk

About 80% of IIROC's revenue comes from member fees. A loss of a significant number of firms or a relatively large firm would have a critical impact on IIROC's financial operations. The likelihood of occurrence is low and prudent operating cost management and on-going monitoring of the financial adequacy of firms helps to mitigate this risk.

Financial instruments risks

IIROC's main financial instrument risks are credit risk exposure, interest rate risk and liquidity risk.

Credit risk

The financial assets with credit risk exposure are accounts receivable since failure of any of the members to fulfill their obligations could result in financial losses. The risk is mitigated by the spread of receivables over the entire membership.

IIROC is also exposed to concentration risk in that all of its cash is held with two financial institutions and the balances held are in excess of Canadian Deposit Insurance Corporation Limits.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. IIROC is exposed to interest rate risk with respect to cash and cash equivalents, and long-term debt. The risk with respect to cash and cash equivalents is mitigated by the short term of the investments, usually less than 90 days.

Liquidity risk

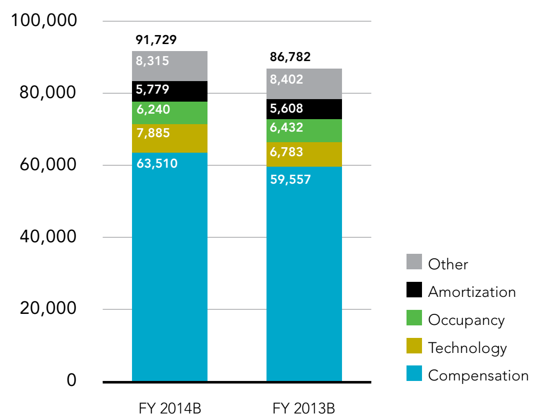
IIROC's liquidity risk represents the risk that IIROC could encounter difficulty in meeting obligations associated with its financial liabilities. IIROC is, therefore, exposed to liquidity risk with respect to its accounts payable and its long-term debt. This risk is mitigated by maintaining the Unrestricted Fund balance net of capital assets at approximately three months' operating cost level, in accordance with an internal guideline.

OUTLOOK

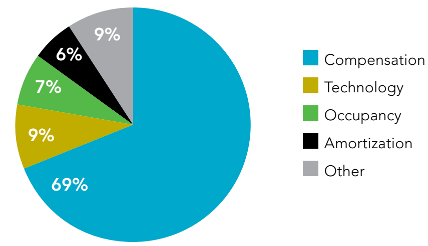
The FY 2014 budget reflects the need to maintain the ability to effectively discharge IIROC's regulatory mandate against the backdrop of the current economic and industry performance.

Total operating expenses for the coming year are budgeted to increase by $4,947 (6%) to $91,729, driven primarily by increased Compensation costs due to a decrease in vacant positions and pension expense. Technology costs are higher due to anticipated vendor contractual increases and the Data Warehouse System operating costs coming in for the first time as the system goes live. Other areas where costs are budgeted to increase are Telecommunications and Hearing costs, which were partially offset by decreases in consultant expenses, reduced discretionary travel and savings in Calgary office rent arising from the move to premises with a lower rent. IIROC will implement changes to its Defined Benefit plan which comprise of a) closing the plan to new employees and b) increasing the contribution rates of employees in the plan.

BUDGETED OPERATING COSTS ($)



FY 2014 BUDGETED OPERATING COSTS



During the upcoming year IIROC will commence development of a Debt Surveillance system. The platform will enable IIROC to conduct ongoing debt market surveillance which will expand the scope, and improve the reliability and comparability of trading statistics. Other projects planned for this year include STEP enhancements, Phase II of the Data Warehouse System and a case management and tracking system for Enforcement.

As a result of the upcoming objectives, FY 2014 member fees were to increase by 3% for Dealer Regulation activities and by 9% for Market Regulation when compared with FY 2013 fees. Subsequent to the approval of the budget, the Board approved the use of $1,483 of the FY 2013 surplus of the Dealer Regulation division as well as the use of $2,156 of the FY 2013 Market Regulation surplus to hold fees flat for both Dealer and Market Regulation divisions for FY 2014 on a post-subsidy basis.

IIROC management follows a conservative approach to budgeting to avoid unexpected intra-year fee assessments while adopting a practice of returning surpluses to maintain fees as low as possible. The return of the FY 2013 surplus brings the total excess of revenue over expenses returned to IIROC members to more than $16 million since IIROC was launched in 2008. Additionally, the Dealer Directors of the Board decided to return all of the CDS proceeds (less costs and the adjusted cost of the shares) to eligible dealer members in good standing. When combined, the total excess of revenue over expenses returned to members since 2008 is $40 million.

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

FINANCIAL STATEMENTS

March 31, 2013

To the Members of the
Investment Industry Regulatory Organization of Canada

We have audited the accompanying financial statements of **Investment Industry Regulatory Organization of Canada** which comprise the statements of financial position as at March 31, 2013, March 31, 2012 and April 1, 2011, and the statements of operations, changes in net assets and cash flows for the years ended March 31, 2013 and March 31, 2012, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY 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.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Investment Industry Regulatory Organization of Canada** as at March 31, 2013, March 31, 2012 and April 1, 2011, and the results of its operations and its cash flows for the years ended March 31, 2013 and March 31, 2012 in accordance with Canadian standards for not-for-profit organizations.

Grant Thornton LLP

Toronto, Ontario
June 26, 2013

Chartered Accountants
Licensed Public Accountants

STATEMENT OF FINANCIAL POSITION

(in thousands of dollars)	March 31, 2013	March 31, 2012	April 1, 2011
ASSETS			
Current			
Cash and cash equivalents	$ 64,640	$ 98,419	$ 107,371
Receivables (Note 4)	6,567	6,840	5,871
Prepaids	949	747	599
Current portion of loans receivable (Note 5)	16	17	17
	72,172	106,023	113,858
Restricted cash (Note 8)	4,000	4,000	–
Employee future benefits (Note 9)	2,726	2,659	1,314
Loans receivable (Note 5)	12	10	12
Investments (Note 6)	–	617	617
Capital assets (Note 7)	20,663	18,782	11,681
Deposit	125	125	125
	$ 99,698	$ 132,216	$ 127,607
LIABILITIES			
Current			
Payables and accruals	$ 15,516	$ 23,424	$ 15,899
Government remittances payable	200	193	215
Current portion of long-term debt (Note 8)	1,028	392	–
Deferred revenue	20	57	–
Lease inducement	251	180	251
	17,015	24,246	16,365
Long-term debt (Note 8)	3,987	2,557	–
Lease inducement	2,604	1,527	880
Employee future benefits (Note 9)	8,854	7,148	6,189
	32,460	35,478	23,434
NET ASSETS			
Unrestricted Fund	47,597	44,251	48,143
Internally restricted			
– Internally Restricted Benefits Fund	630	624	–
Externally restricted			
– Externally Restricted Fund	17,384	18,458	23,526
– Externally Restricted ABCP Fund	1,001	32,804	32,488
– Merger Fund	626	601	16
	67,238	96,738	104,173
	$ 99,698	$ 132,216	$ 127,607

Subsequent events (Note 11 and 12)
Commitments and contingencies (Note 12)
See accompanying notes to the financial statements.

On behalf of the Board:

SUSAN WOLBURGH JENAH, PRESIDENT AND CEO

M. MARIANNE HARRIS, CHAIR

STATEMENT OF CHANGES IN NET ASSETS

(in thousands of dollars) Years ended March 31	Unrestricted Fund	Internally Restricted Benefits Fund	Externally Restricted: Externally Restricted Fund	Externally Restricted: Externally Restricted ABCP Fund	Merger Fund	**2013 Total**
Net assets, beginning of year	$ 44,251	$ 624	$ 18,458	$ 32,804	$ 601	**$ 96,738**
Excess (deficiency) of revenue over expenditures	3,346	6	(1,074)	(31,803)	25	**(29,500)**
Net assets, end of year	$ 47,597	$ 630	$ 17,384	$ 1,001	$ 626	**$ 67,238**

(in thousands of dollars) Years ended March 31	Unrestricted Fund	Internally Restricted Benefits Fund	Externally Restricted: Externally Restricted Fund	Externally Restricted: Externally Restricted ABCP Fund	Merger Fund	2012 Total
Net assets, beginning of year	$ 48,143	$ –	$ 23,526	$ 32,488	$ 16	$ 104,173
Excess (deficiency) of revenue over expenditures	(3,273)	5	(5,068)	316	585	(7,435)
Fund transfers						
– Cash transfers (Note 2 (b))	(619)	619	–	–	–	–
Net assets, end of year	$ 44,251	$ 624	$ 18,458	$ 32,804	$ 601	$ 96,738

See accompanying notes to the financial statements.

STATEMENT OF OPERATIONS

(in thousands of dollars) Year ended March 31, 2013	Unrestricted Fund	Internally Restricted Benefits Fund	Externally Restricted Fund	Externally Restricted ABCP Fund	Merger Fund	**Total**
REVENUE						
DEALER REGULATION						
Membership fees	$ 47,570	$ –	$ –	$ –	$ –	**$ 47,570**
Refund of membership fees (Note 6)	(23,783)	–	–	–	–	**(23,783)**
Underwriting levies	9,830	–	–	–	–	**9,830**
Registration fees	2,319	–	–	–	–	**2,319**
Entrance fees	90	–	–	–	–	**90**
	36,026	–	–	–	–	**36,026**
MARKET REGULATION						
Universal market integrity rules (UMIR)	23,488	–	–	–	–	**23,488**
Timely disclosure	3,821	–	–	–	–	**3,821**
Marketplace revenue	93	–	–	–	–	**93**
	27,402	–	–	–	–	**27,402**
OTHER REVENUE						
Investigative fines and other fines	–	–	2,796	1,000	–	**3,796**
Gain on disposition of CDS shares (Note 6)	23,783	–	–	–	–	**23,783**
Interest	583	6	159	16	–	**764**
Merger fund expense recovery	–	–	–	–	80	**80**
Miscellaneous	120	–	–	–	–	**120**
	24,486	6	2,955	1,016	80	**28,543**
	87,914	6	2,955	1,016	80	**91,971**
EXPENSES						
Dealer regulation operating costs (Note 10)	56,252	–	–	–	–	**56,252**
Market regulation operating costs (Note 10)	28,316	–	–	–	–	**28,316**
Externally restricted fund expenses (Note 10)	–	–	4,029	–	–	**4,029**
ABCP fine disbursements (Note 11)	–	–	–	32,819	–	**32,819**
Merger fund expenses	–	–	–	–	55	**55**
	84,568	–	4,029	32,819	55	**121,471**
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	$ 3,346	$ 6	$ (1,074)	$ (31,803)	$ 25	**$(29,500)**

See accompanying notes to the financial statements.

STATEMENT OF OPERATIONS

(in thousands of dollars) Year ended March 31, 2012	Unrestricted Fund	Internally Restricted Benefits Fund	Externally Restricted Fund	Externally Restricted ABCP Fund	Merger Fund	Total
REVENUE						
DEALER REGULATION						
Membership fees	$ 45,329	$ –	$ –	$ –	$ –	$ 45,329
Underwriting levies	7,602	–	–	–	–	7,602
Registration fees	2,500	–	–	–	–	2,500
Entrance fees	155	–	–	–	–	155
	55,586	–	–	–	–	55,586
MARKET REGULATION						
Universal market integrity rules (UMIR)	25,435	–	–	–	–	25,435
Timely disclosure	3,408	–	–	–	–	3,408
Marketplace revenue	120	–	–	–	–	120
	28,963	–	–	–	–	28,963
OTHER REVENUE						
Investigative fines and other fines	–	–	2,706	–	–	2,706
Interest	445	5	205	316	3	974
Merger fund expense recovery	–	–	–	–	596	596
Miscellaneous	5	–	–	–	–	5
	450	5	2,911	316	599	4,281
	84,999	5	2,911	316	599	88,830
EXPENSES						
Dealer regulation operating costs (Note 10)	56,343	–	–	–	–	56,343
Market regulation operating costs (Note 10)	31,929	–	–	–	–	31,929
Externally restricted fund expenses (Note 10)	–	–	7,979	–	–	7,979
Merger fund expenses	–	–	–	–	14	14
	88,272	–	7,979	–	14	96,265
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	$ (3,273)	$ 5	$ (5,068)	$ 316	$ 585	$ (7,435)

See accompanying notes to the financial statements.

STATEMENT OF CASH FLOWS

(in thousands of dollars)

Years ended March 31	2013	2012
Increase (decrease) in cash and cash equivalents		
OPERATING ACTIVITIES		
Deficiency of revenue over expenses	$ (29,500)	$ (7,435)
Depreciation and amortization	4,662	3,998
Gain on disposition of CDS shares	(23,783)	–
Rent amortization	1,148	576
Loss from write off of capital assets	8	1,029
Employee future benefits	1,639	(386)
	(45,826)	(2,218)
Change in non-cash operating working capital		
Receivables	273	(969)
Prepaids	(202)	(148)
Payables and accruals	(7,901)	7,503
Deferred revenue	(37)	57
	(53,693)	4,225
INVESTING ACTIVITIES		
Purchase of capital assets	(6,552)	(12,128)
Proceeds from disposition of CDS shares	24,400	–
Proceeds from sale of capital assets	1	–
Repayment (advances) of loans receivable, net	(1)	2
	17,848	(12,126)
FINANCING ACTIVITIES		
Increase in restricted cash	–	(4,000)
Proceeds from long-term debt, net of repayments	2,066	2,949
	2,066	(1,051)
Decrease in cash and cash equivalents	(33,779)	(8,952)
Cash and cash equivalents, beginning of the year	98,419	107,371
Cash and cash equivalents, end of the year	$ 64,640	$ 98,419
CASH AND CASH EQUIVALENTS CONSIST OF:		
Cash on hand and balances with bank	$ 15,479	$ 21,486
Term deposits and treasury bills	49,161	76,933
Cash and cash equivalents, end of year	$ 64,640	$ 98,419

See accompanying 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. 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. IIROC commenced operations in June, 2008 through the combination of the Investment Dealers Association (IDA) and Market Regulation Services Inc. (RS), and 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 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.

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 (ASNPO) using the restricted fund method of accounting.

Fund accounting

Assets, liabilities, revenues and expenses are reported as follows:

a) Dealer regulation and Market regulation revenue and expenses, including amortization of **Unrestricted Fund** capital assets, are reported in the **Unrestricted Fund**.

b) funding of the deficit in the unrestricted IIROC Supplemental Plan for Executives Non-Registered Defined Benefit Pension Plan (IIROC SERP) and IIROC Non-Pension Post-Retirement Benefits Plan (IIROC PRB) is reported in the **Internally Restricted Benefits Fund**.

c) the collection of fines and settlement monies arising from enforcement actions (investigative fines) and other revenue and the use of these funds in accordance with the terms and conditions of respective provincial Securities Commissions' Recognition Orders are reported in the **Externally Restricted Fund**. These expenditures relate to:

   i. expenditures for the development of systems or other 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 of regulation of securities markets,

   iii. donations to non-profit, tax exempt organizations for investor protection and education, or

   iv. costs associated with the administration of IIROC's Hearing Panels.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund accounting (continued)

d) the collection of the asset backed commercial paper (ABCP) fines received by IIROC are recorded in the **Externally Restricted ABCP Fund**. Expenses are restricted in use by a Canadian Securities Administrators (CSA) Recognition Order (see Note 11).

e) the **Merger Fund** was funded by the **Externally Restricted Fund** and is for expenses of the Organization relating to the creation of IIROC.

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

Initial measurement

The Organization's financial instruments are measured at fair value when issued or acquired. For financial instruments subsequently measured at cost or amortized cost, fair value is adjusted by the amount of the related financing fees and transaction costs. Transaction costs and financing fees relating to financial instruments that are measured subsequently at fair value are recognized in operations in the year in which they were incurred.

Subsequent measurement

At each date, the Organization measures its financial assets and liabilities at cost or amortized cost (less impairment in the case of financial assets), except for equities quoted in an active market (if any), which must be measured at fair value. The Organization uses the effective interest rate method to amortize any premiums, discounts, transaction fees and financing fees to the statement of operations. The financial instruments measured at amortized cost are cash and cash equivalents, restricted cash, receivables, loans receivable, investments, payables and accruals, government remittances payable and long-term debt. The Organization's investments (see Note 6) are not equities quoted in an active market and therefore, are accounted for at 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 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.

Revenue recognition

Unrestricted revenue are recognized as revenue as follows:

Dealer regulation

Annual membership fees are assessed upon the member firms for the fiscal year and are recorded 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 as earned.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

Market regulation

Under the marketplace regulation services agreements, UMIR revenues are based on a fixed revenue amount, allocated to broker/dealer participants or marketplaces and assessed on the number of messages sent for attribution of Technology costs and trades executed for attribution of non Technology costs by each dealer member on each marketplace. The fees are invoiced on a monthly basis in arrears within the first ten days of any month for the aggregate of marketplace-regulation costs incurred during a particular month. Timely disclosure revenue and marketplace revenue is recognized as earned.

Restricted revenues are recognized in the appropriate fund when the amounts can be reasonably estimated and collection is reasonably assured. Investigation fines, termination notices and late filing fees due from member firms are recognized as revenue in the Externally Restricted Fund when assessed. Investigation fines, continuing education fines and late filing fees from registrants of member firms are recognized as revenue in the Externally Restricted Fund when received. Late filing fees and initiation fees from new member firms are recognized as revenue in the Externally Restricted Fund when received. Recoveries of expenses are recognized as revenue in the Merger Fund in the year of recovery.

Interest income in each fund is recorded on an accrual basis over the period from date of acquisition to maturity of the investment.

Investments

Investments are recorded using the cost method. Income is recorded based on dividends received on the investments. Gains are recorded on the investments when sold and are calculated on the difference between proceeds and original cost.

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, software and technology projects at 33 1/3% per annum except for certain technology projects , which are amortized over 60 months to better reflect the useful life of these assets. Leasehold improvements are amortized over the term of the respective leases. Depreciation commences when assets are placed in operation.

When a capital asset no longer has any long-term service potential to be the Organization, the excess of its net carrying amount over any residual value is recognized as an expense in the statement of operations. Any write-downs recognized are not reversed.

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 in the early years of the lease, when cash payments are generally lower than straight-line rent expense, and 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 lease inducements at the beginning of the lease term and recognized as a reduction of rent expense over the lease term.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.
- The Organization uses the deferral and amortization method to account for its employee benefit plans. The excess of net actuarial gain (loss) over 10% of the greater of the benefit obligations and fair value of plan assets is amortized over the estimated average remaining service period of active employees. 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. (2013 – 10 years for Plans with Accrued Benefit Asset, 8 to 11 years for Plans with Accrued Benefit Obligation and 17 years for Non-Pension Post-Retirement Benefits Plan; 2012 – 11 to 14 years for Plans with Accrued Benefit Asset, 7 to 11 years for Plans with Accrued Benefit Obligation and 18 years for Non-Pension Post-Retirement Benefits Plan).

Allocation of expenses

IIROC engages in Dealer Regulation and Market Regulation. The costs of each function include mainly the costs of Compensation, Technology, Occupancy and Amortization. IIROC also incurs general administrative support expenses that are common to the administration of IIROC and its functions. IIROC allocates its general administrative support expenses based on the proportion of direct dealer and market activities on a per capita basis where there is a direct causal link of costs related to staff size, and cost ratios where there is no direct causal link. This basis is applied consistently each year. The general administrative support expenses allocation was $2,427 (2012 – $3,978) to Dealer Regulation and $868 (2012 – $1,837) to Market Regulation during the year.

Use of estimates

Management reviews the carrying amounts of items in the financial statements at each balance sheet date to assess the need for revision or any possibility of impairment. Many items in the preparation of these financial statements require management's 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 statement of operations as appropriate in the year they become known.

Items subject to significant management estimates include allowance for doubtful accounts, amortization periods for capital assets and employee future benefits asset/liability.

(in thousands of dollars)

3. FIRST-TIME ADOPTION

These financial statements are the Organization's first financial statements prepared using ASNPO. The date of transition to ASNPO is April 1, 2011. The accounting policies presented in Note 2 to the financial statements were used to prepare the financial statements for the year ended March 31, 2013, the comparative information and the opening statement of financial position as at the date of transition.

The adoption of ASNPO resulted in adjustments to the previously reported assets, liabilities, net assets, and excess of revenue over expenses of the Organization. The transition to ASNPO did not result in any adjustments to the statement of cash flows. Additionally, it was determined that an asset of the Organization had not previously been reflected in the records of the Organization. This asset has been recorded and is reflected in the date of transition to ASNPO statement of financial position.

The changes to net assets at the date of transition of April 1, 2011 and March 31, 2012 were as follows:

	April 1, 2011	March 31, 2012
Net assets in accordance with previous GAAP	$ 102,572	$ 95,218
Changes to net assets on transition		
Recognition of net transition asset for employee future benefit plans (i)	984	903
Recognition of investment in CDS (ii)	617	617
Net assets in accordance with ASNPO	$ 104,173	$ 96,738

A reconciliation of the deficiency of revenue over expenses reported in the Organization's most recent previously issued financial statements to its deficiency of revenue over expenses under ASNPO for the same period is as follows:

Deficiency of revenue over expenses for the year ending March 31, 2012 in accordance with previous GAAP	$ (7,354)
Changes in deficiency of revenue over expenses on transition	
Adjustment to employee future benefit expense (i)	(81)
Deficiency of revenue over expenses for the year ending March 31, 2012 in accordance with ASNPO	$ (7,435)

(i) As required by ASNPO, the previously unrecognized transitional asset of $984 was recognized in net assets at the date of transition. The change in the previously unrecognized transitional asset of $81 for the year ended March 31, 2012 was recorded as employee future benefit expense for the year ended March 31, 2012.

(ii) An investment held on behalf of members was sold during the year as described in Note 6. The initial investment by the members of $617 has been recorded as an adjustment to opening equity.

(in thousands of dollars)

3. FIRST-TIME ADOPTION (CONTINUED)

Section 1501 – First-time Adoption by Not-for-Profit Organizations, contains optional exemptions to full retrospective application of ASNPO which the Organization may use upon transition. The Organization elected the use the following exemption at the date of transition to ASNPO:

Employee future benefits

The Organization has elected to carry forward the unamortized balances for actuarial gains and losses and past service costs that were determined previously under pre-changeover generally accepted accounting policies.

The Board of Directors has decided to combine the Investment in Capital Assets into the Unrestricted Fund, the Externally Restricted Fund and the Merger Fund. For comparative purposes, the allocation of the Investment in Capital Assets is as follows:

	Unrestricted Fund	Investment in Capital Assets (Note 7)	Total
Net assets, April 1, 2011*	$ 36,472	$ 11,671	$ 48,143
Net assets, March 31, 2012**	$ 26,847	$ 17,404	$ 44,251

* after ASNPO conversion adjustment of $984 and recognition of investment in CDS of $617
** after ASNPO conversion adjustment of $903 and recognition of investment in CDS of $617

	Externally Restricted Fund	Investment in Capital Assets (Note 7)	Total
Net assets, April 1, 2011	$ 23,516	$ 10	$ 23,526
Net assets, March 31, 2012	$ 17,739	$ 719	$ 18,458

	Merger Fund	Investment in Capital Assets (Note 7)	Total
Net assets, March 31, 2012	$ (58)	$ 659	$ 601

Upon adoption of ASNPO, certain disbursements which were previously recorded as transfers out of the Restricted Funds to the Unrestricted Fund are now recorded as expenses or Capital Assets of the Restricted Funds instead of inter-fund transfers. There is no impact on total revenues or expenses for the year ended March 31, 2012 or the total net asset balance as at March 31, 2012. However, the comparative figures have been adjusted from the Organization's previously issued financial statements as follows:

NET ASSETS AS AT MARCH 31, 2012	
Decrease in Unrestricted Fund	$ (1,378)
Increase in Externally Restricted Fund	719
Increase in Merger Fund	659
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES FOR YEAR ENDED MARCH 31, 2012	
Increase in Unrestricted Fund	4,471
Decrease in Externally Restricted Fund	(4,457)
Decrease in Merger Fund	(14)

(in thousands of dollars)

4. RECEIVABLES

		March 31, 2013		March 31, 2012		April 1, 2011
Trade	**$**	**6,942**	$	7,093	$	6,335
Allowance for doubtful accounts		**375**		253		464
	$	**6,567**	$	6,840	$	5,871

The gross carrying amount of the impaired trade receivables was $375 (March 31, 2012 – $253 and April 1, 2011 – $464). The amount of impaired loss recorded in the Statement of Operations related to the trade receivables is $121 (2012 – $149).

5. 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 unsecured, non-interest bearing and are due on or before March 30, 2016.

6. INVESTMENTS

During the year, the 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, was acquired by an outside party. Proceeds in the amount of $25,481 were recorded. After deduction of $1,081 of transaction costs and the cost base of the investment of $617, the Organization recorded a gain of $23,783. Membership fees were refunded to the members prior to year-end in an amount equal to the gain.

In addition, 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. Decisions with respect to the voting, use or disposition of these shares and the application of any proceeds from their disposition shall be made solely by the persons who are at the time Dealer Directors of IIROC and any such decisions shall be binding on and complied with by IIROC. IIROC has undertaken to do all acts and things as may be necessary or desirable to carry out and achieve the intent of the foregoing.

(in thousands of dollars)

7. CAPITAL ASSETS

	March 31, 2013		
	Cost	Accumulated Amortization	**Net Book Value**
UNRESTRICTED FUND:			
Office furniture and equipment	$ 5,766	$ 1,839	**$ 3,927**
Leasehold improvements	8,010	1,457	**6,553**
Computer equipment and software	2,892	2,384	**508**
Technology projects	14,030	7,154	**6,876**
	30,698	12,834	**17,864**
EXTERNALLY RESTRICTED FUND:			
Technology projects	2,433	238	**2,195**
MERGER FUND:			
Leasehold improvements	673	69	**604**
	$ 33,804	$ 13,141	**$ 20,663**

	March 31, 2012		
	Cost	Accumulated Amortization	Net Book Value
UNRESTRICTED FUND:			
Office furniture and equipment	$ 4,849	$ 892	$ 3,957
Leasehold improvements	6,497	852	5,645
Computer equipment and software	2,714	1,929	785
Technology projects	11,771	4,754	7,017
	25,831	8,427	17,404
EXTERNALLY RESTRICTED FUND:			
Technology projects	826	107	719
MERGER FUND:			
Leasehold improvements	673	14	659
	$ 27,330	$ 8,548	$ 18,782

(in thousands of dollars)

7. CAPITAL ASSETS (CONTINUED)

	April 1, 2011		
	Cost	Accumulated Amortization	Net Book Value
UNRESTRICTED FUND:			
Office furniture and equipment	$ 1,276	$ 720	$ 556
Leasehold improvements	2,614	1,056	1,558
Computer equipment and software	4,290	2,762	1,528
Technology projects	11,669	3,640	8,029
	19,849	8,178	11,671
EXTERNALLY RESTRICTED FUND:			
Technology projects	73	63	10
	$ 19,922	$ 8,241	$ 11,681

8. LONG-TERM DEBT

	March 31, 2013	March 31, 2012	April 1, 2011
Loan payable – interest at lender's prime less 0.15%, due May 2018, repayable in monthly instalments of $83 excluding interest	**$ 5,015**	$ 2,949	$ –
Less: current portion	**1,028**	392	–
	$ 3,987	$ 2,557	$ –

On July 29, 2011, the Organization entered into a credit agreement with Canadian Imperial Bank of Commerce (CIBC) to finance the Organization's working capital, head office and Calgary office refurbishment requirements. The credit agreement includes the following two facilities (i) a committed two-year extendable revolving credit facility of $4,000 (the "Revolving Credit Facility"), and (ii) a committed two-year extendable non-revolving term construction credit of $6,000 repayable in monthly instalments beginning June, 2012 with interest at the prime rate of CIBC less 0.15% (the "Term Facility"). The Organization has not borrowed any amounts under the Revolving Credit Facility as at March 31, 2013.

Pursuant to the credit agreement, the Organization must comply with certain general covenants, which include, among others, maintaining the following minimum balances:

(i) $40,000 in aggregate Fund Balances, of which a minimum of $6,000 shall be held in the Unrestricted Fund, and

(ii) $4,000 in cash and cash equivalents to be held as collateral by the bank.

The Organization was in compliance with the covenants at March 31, 2013.

(in thousands of dollars)

8. LONG-TERM DEBT (CONTINUED)

Scheduled principal repayments on the bank loan for the next five years are as follows:

2014	$ 1,028
2015	997
2016	997
2017	997
2018	996
	$ 5,015

9. EMPLOYEE FUTURE BENEFITS

The Organization provides retirement and post-employment benefits for its employees and has 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:

1. IIROC Pension Plan for former RS Pension Plan Members Deferred Benefit Plan (Former RS RPP – Inactive)
2. The formerly RS-sponsored Non-Registered SIP revenue for former TSX Employees Deferred Benefit Plan (Former RS SIP)
3. Retirement Plan for Employees of IIROC (IIROC RPP)
4. The IIROC Supplemental Plan for Executives Non-Registered DB Pension Plan (IIROC SERP)
5. The IIROC SIP Defined Contribution Plan; and
6. The IIROC Employee Defined Contribution Plan.

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, health care spending account, catastrophic coverage, and life insurance to eligible retirees.

The most recent actuarial valuation of the pension benefit plans for funding purposes was as of April 1, 2011. There was also an actuarial valuation of the IIROC PRB plan at April 1, 2011. The effective date of the next required actuarial evaluation for funding purposes is April 1, 2014.

(in thousands of dollars)

9. EMPLOYEE FUTURE BENEFITS (CONTINUED)

March 31, 2013	**Pension Plans(1)**	**Pension Plans(2)**	**Other Benefits Plan(3)**
Accrued benefit obligation	**$ (6,497)**	**$ (57,921)**	**$ (6,752)**
Fair value of plan assets	**7,854**	**38,132**	**–**
Fund status – plans deficit	**1,357**	**(19,789)**	**(6,752)**
Unamortized actuarial losses	**2,070**	**17,773**	**(25)**
Accrued benefit asset (liability)	**3,427**	**(2,016)**	**(6,777)**
Valuation Allowance (VA)	**(701)**	**–**	**–**
Accrued benefit asset (liability)(net of VA)	**$ 2,726**	**$ (2,016)**	**$ (6,777)**

March 31, 2012	Pension Plans(1)	Pension Plans(2)	Other Benefits Plan(3)
Accrued benefit obligation	$ (48,605)	$ (8,280)	$ (5,843)
Fair value of plan assets	33,155	4,368	–
Fund status – plans deficit	(15,450)	(3,912)	(5,843)
Unamortized actuarial losses	18,109	3,082	(417)
Accrued benefit asset (liability)	2,659	(830)	(6,260)
Valuation Allowance (VA)	–	–	–
Accrued benefit asset (liability)(net of VA)	$ 2,659	$ (830)	$ (6,260)

April 1, 2011	Pension Plans(1)	Pension Plans(2)	Other Benefits Plan(3)
Accrued benefit obligation	$ (42,406)	$ (201)	$ (5,240)
Fair value of plan assets	32,962	–	–
Fund status – plans deficit	(9,444)	(201)	(5,240)
Unamortized actuarial losses	10,758	(29)	(571)
Accrued benefit asset (liability)	1,314	(230)	(5,811)
Valuation Allowance (VA)	–	–	–
Accrued benefit asset (liability)(net of VA)	$ 1,314	$ (230)	$ (5,811)

(1) Plans with Accrued Benefit Asset

(2) Plans with Accrued Benefit Obligation

(3) Non-Pension Post-Retirement Benefits Plan

(in thousands of dollars)

9. EMPLOYEE FUTURE BENEFITS (CONTINUED)

The total deferred benefit cost recognized for the year is as follows:

	Year Ended					
	March 31, 2013			March 31, 2012		
	Pension Plans(1)	**Pension Plans(2)**	**Other Benefits Plan(3)**	Pension Plans(1)	Pension Plans(2)	Other Benefits Plan(3)
Current year benefit cost	**$ –**	**$ 4,092**	**$ 433**	$ 2,154	$ 401	$ 376
Interest on accrued benefit obligation	**275**	**2,463**	**280**	1,957	369	292
Actual return on plan assets	**(513)**	**(3,024)**	**–**	(794)	(44)	–
Difference between actual return and expected return on plan assets	**191**	**1,113**	**–**	(996)	(93)	–
Amortization of actuarial losses	**167**	**1,304**	**16**	358	155	19
Amortization of past service costs	**–**	**–**	**(154)**	–	–	(154)
Change in Valuation Allowance (VA)	**701**	**–**	**–**	–	–	–
Employee future benefit expense	**$ 821**	**$ 5,948**	**$ 575**	$ 2,679	$ 788	$ 533

(1) Plans with Accrued Benefit Asset
(2) Plans with Accrued Benefit Obligation
(3) Non-Pension Post-Retirement Benefits Plan

In addition to the above, there is a benefit obligation of $61 (2012 – $58 and 2011 – $148) for a SIP defined contribution plan. Current period expense for this plan was $3 (2012 – $4). Current period expense for the employee defined contribution plan noted above was $924 (2012 – $855).

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

	March 31, 2013	March 31, 2012	April 1, 2011
Discount rate	**4.00% to 4.25%**	4.25% to 4.50%	5.00% to 5.25%
Expected rate of return on plan assets	**3.00% to 6.00%**	3.00% to 6.00%	3.00% to 6.00%
Rate of compensation increase	**3.50%**	4.00%	4.00%

For measurement purposes, inflation of medical expenses was assumed to be 8.5% declining to 5% in annual increments of 0.5%. Inflation of dental costs was assumed to remain constant at 4.5%.

(in thousands of dollars)

9. EMPLOYEE FUTURE BENEFITS (CONTINUED)

	Year Ended					
	March 31, 2013			March 31, 2012		
	Pension Plans(1)	**Pension Plans(2)**	**Other Benefits Plan(3)**	Pension Plans(1)	Pension Plans(2)	Other Benefits Plan(3)
Employer contribution	**$ 2,136**	**$ 3,513**	**$ 58**	$ 4,262	$ –	$ 84
Employee contributions	**–**	**797**	**–**	767	–	–
Benefits paid	**(62)**	**(1,458)**	**(58)**	(814)	(443)	(84)

(1) Plans with Accrued Benefit Asset
(2) Plans with Accrued Benefit Obligation
(3) Non-Pension Post-Retirement Benefits Plan

10. EXPENSES

	Year Ended	
	March 31, 2013	March 31, 2012
UNRESTRICTED OPERATING FUND EXPENSES		
Dealer Regulation Operating Costs		
Compensation	**$ 42,498**	$ 40,735
Technology	**1,336**	1,224
Occupancy	**4,741**	5,273
Amortization	**1,754**	1,183
Other	**5,923**	7,928
	$ 56,252	$ 56,343
Market Regulation Operating Costs		
Compensation	**$ 17,260**	$ 13,698
Technology	**4,713**	10,745
Occupancy	**1,617**	1,632
Amortization	**2,721**	2,757
Other	**2,005**	3,097
	$ 28,316	$ 31,929
EXTERNALLY RESTRICTED FUND EXPENSES		
Computer software costs	**$ –**	$ 4,420
Hearing panel costs	**2,825**	1,897
FAIR	**350**	895
Member education	**395**	289
Capital Market Cooperative Research Centre	**–**	149
Funny Money sponsorship	**274**	142
Portfolio Margining Project	**4**	126
Fixed Income Surveillance Project	**–**	17
High Frequency Trading	**25**	–
Third Party Electronic Access to Marketplaces	**26**	–
Amortization	**130**	44
	$ 4,029	$ 7,979

(in thousands of dollars)

11. EXTERNALLY RESTRICTED ABCP FUND

During the year, the Organization transferred a balance of $32,819 of the **Externally Restricted ABCP Fund** to an independent Administrator, Ernst & Young Inc., retained jointly by the Ontario Securities Commission (OSC) and IIROC. The Administrator, under the supervision of the OSC and IIROC, administered the distribution of funds less administrative expenses, to eligible investors who purchased third-party ABCP. The distribution was completed prior to the end of the year. Also during the year, IIROC received an additional $1,000 in ABCP fines from a firm not involved in the original ABCP settlement. After March 31, 2013, IIROC received regulatory approval to retain the same Administrator to administer the distribution of these additional funds less administrative expenses to eligible investors who purchased third-party ABCP from this settling firm. IIROC transferred the balance of these funds to the Administrator after March 31, 2013.

12. COMMITMENTS AND CONTINGENCIES

As at March 31, 2013, the basic minimum aggregate annual rental payments, excluding GST/HST and occupancy costs under long term leases with varying expiry dates to February 29, 2024, for the Organization's premises are as shown below.

2014	$ 2,788
2015	2,788
2016	2,708
2017	2,434
2018	2,750
Thereafter	14,502
	$ 27,970

In addition to the above noted minimum lease payments, the Organization is also obligated to pay its share of operating costs, which fluctuate year to year.

The Organization is a sponsor of the Canadian Investor Protection Fund (CIPF), which was established to protect clients who have suffered financial loss due to the insolvency of a dealer member of IIROC. IIROC has provided a $125 million (2012 – $125 million and 2011 – $100 million) guarantee on bank lines of credit of the CIPF. At March 31, 2013, the CIPF has not drawn on these lines of credit. Any amount drawn on the guarantee would be assessed to dealer member firms. In order to meet potential financial obligations, the CIPF has the following resources in place: i) a contingency fund balance of $424 million on hand as at December 31, 2012 (2011 – $409 million); and, ii) lines of credit provided by two Canadian chartered banks totaling $125 million (2012 – $125 million and 2011 – $100 million).

The Organization has committed to extend funding to the Investor Education Foundation for the Funny Money Program to a maximum of $200. In addition, the Organization has committed to extend funding to the Canadian Foundation for the Advancement of Investor Rights ("FAIR") to a maximum of $350 per year over a two-year period commencing May 2012. As at March 31, 2013, the remaining commitment was $350.

The Organization is subject to a lawsuit for wrongful dismissal. The outcome of this lawsuit and amount of ultimate loss is not reasonably estimable at this time. Management believes the action is without merit and will be defending the action vigorously.

12. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Following the accidental loss of a portable device that contained personal information relating to clients of a number of Dealer Members, the Organization undertook a number of measures to notify potentially affected Dealer Members and potentially affected clients, and to provide potentially affected clients with ongoing support services. The total costs to IIROC of the incident is projected to be $5,208 of which $408 has been incurred in fiscal 2013. To date of approval of these financial statements on June 26, 2013, IIROC has received no reports of identity theft or fraud resulting from the loss of the portable device. It is not possible to estimate the total amount of potential damages or range of possible loss, if any, resulting from settlements or other remedies in connection with this matter.

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 seeks $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. Management does not expect a ruling on this motion until late 2014. Given the preliminary status of this proceeding, it is not possible to reasonably quantify the effect, if any, of this proceeding on the financial performance of the Organization.

13. FINANCIAL INSTRUMENTS RISKS

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

Credit risk

The Organization has determined that the 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 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.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Organization is exposed to interest rate risk with respect to cash and cash equivalents, and long-term debt.

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, therefore, exposed to liquidity risk with respect to its accounts payable and its long-term debt.

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INTEGRITY AND CONFIDENCE IN

INFORMATION MANAGEMENT & SECURITY

AUGUST 2013

The protection of confidential information is a high priority for IIROC. Our commitment is reflected in our overall approach to information management and security, which we continue to strengthen. We have adopted the International Organization for Standardization (ISO) 27001 security standard as our benchmark.

The continual evolution of technology also requires us to update and refine our security and business policies, procedures and protocols on an ongoing basis with the goal of meeting or exceeding the ISO standards.

IIROC has created a new Information Security Steering Committee comprised of senior executives whose mandate is to set, direct and monitor a corporate-wide strategy to ensure a secure information management environment. This governance structure will ensure a consistent approach to prioritizing and delivering on IIROC's security objectives.

IIROC OCRCVM
Investment Industry Regulatory Organization of Canada
Organisme canadien de réglementation du commerce des valeurs mobilières

THIS FACT SHEET OUTLINES IMPORTANT ENHANCEMENTS WE HAVE OR ARE IN THE PROCESS OF IMPLEMENTING.

Improved Business Policies, Procedures and Protocols:	▷ All regulatory business units, which are required to collect and retain confidential information, have thoroughly reviewed, updated and strengthened their business policies, procedures and protocols ensuring they are applied consistently. As part of this process, we reviewed the type and quantity of information we request to further reduce the risk of having information in our possession. Staff members receive ongoing training and must regularly confirm they are complying with applicable policies, procedures and protocols.
A Secure Environment for Transferring Information:	▷ In the course of discharging our regulatory responsibilities, IIROC requires certain confidential information from IIROC dealer members. We are designing the architecture for a secure portal (Gateway Project) which will strengthen the method for exchanging information. Our goal is to have this fully operational by mid calendar year 2014.
Information Technology Measures in place:	▷ IIROC has policies and practices in place to ensure that portable devices, as well as desktop computers, are both password- protected and encrypted.
Security Awareness Training:	▷ We have established a comprehensive Security Awareness program with mandatory annual participation for all current and new IIROC employees (as part of our employee orientation program). This awareness program includes information regarding cybercrime and how to defend against it, as well as general security awareness tools and techniques available to IIROC employees.
Ongoing and Future Projects:	▷ Increased data management controls: We are reviewing the data we house and manage to establish a well-defined classification model for all information in our possession. This will ensure that the most appropriate security controls are applied. ▷ Continued maintenance and administration: IIROC will continue on a long-term basis to align with ISO 27001 and other appropriate methods and standards, including those established by privacy commissions across Canada.