

Building confidence in Canada's capital markets

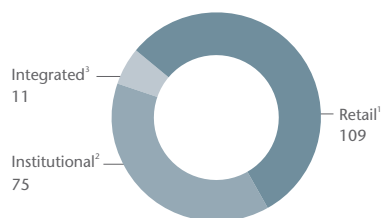


INDUSTRY PROFILE – DEALERS

(All statistics are as at March 31, 2011)

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



* Total number of Dealer Members, excluding ATSS, that filed Financial Statements at March 31, 2011.
¹ Managed Accounts, Type 1 & 2 Introducing and Discount Brokers.
² Includes Corporate Finance and Proprietary Trading.
³ National firms engaged in proprietary trading, retail and institutional business.

Individuals and Firms under IIROC Regulation (By Province)

Province	Head Offices	Branch Offices	Approved Persons
YT	0	6	7
NT	0	2	0
NU	0	0	0
BC	17	1,107	4,557
AB	17	806	2,919
SK	1	199	531
MB	4	141	552
ON	132	2,708	14,452
QC	30	565	4,602
PE	0	19	61
NB	1	86	283
NS	3	147	521
NF	0	30	113
TOTAL	205	5,816	28,598

Member Firms (By revenue)

Revenue	% of Firms
Greater than \$1 billion	2
Greater than \$100 million	11
Greater than \$10 million	33
Greater than \$1 million	43
Less than \$1 million	12

Member Firms (By number of approved individuals) % of Firms

Number of Approved Individuals	% of Firms
Over 1,000	3
501 to 1,000	3
101 to 500	11
11 to 100	52
10 or fewer	30

Totals for above tables do not equal 100% due to rounding.

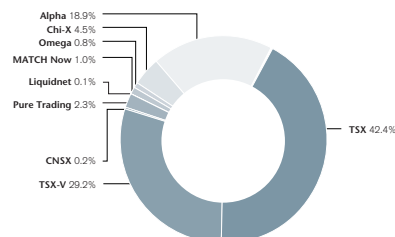
INDUSTRY PROFILE – MARKETS

(All statistics are as at March 31, 2011)

IIROC regulates trading activity on **three stock exchanges** (TSX, TSX-Venture and CNSX, which also operates the Pure Trading facility) and **six Alternative Trading Systems (ATSS)**. These include **four lit ATSS** (Chi-X Canada, Alpha ATS, Bloomberg Tradebook and Omega ATS) and **two dark pool ATSS** (MATCH Now and Liquidnet Canada).

Canada's Multiple Marketplaces

Where trading took place in 2010-11 (by volume*)

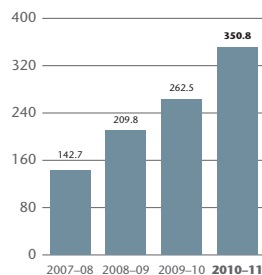


* Note: Based on average of the percentages for the four quarters ended March 31, 2011.

Activity on the equity marketplaces whose trading activity is regulated by IIROC

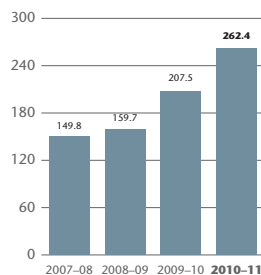
TRADES

number of transactions (millions)



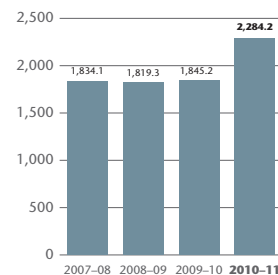
VOLUME

total shares traded (billions)



VALUE

of shares traded (\$ billion)





Building confidence in Canada's capital markets

IIROC is the national self-regulatory organization which oversees all investment dealers and trading activity on debt and equity marketplaces in Canada. Created in 2008 through the consolidation of the Investment Dealers Association of Canada and Market Regulation Services Inc., 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 and through setting and enforcing market integrity rules regarding trading activity on Canadian equity marketplaces.



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

Doug McGregor
Chair



This Annual Report documents the organization’s progress in responding to changes in the capital markets and its efforts to build trust by developing and enforcing high-quality industry and regulatory standards.

The leadership, commitment and guidance of the Investment Industry Regulatory Organization of Canada’s Board of Directors and management team have been critically important in a year where we continued to see tremendous change and transformation in the financial services industry and in the markets.

It has been my honour to serve a two-year term as Chair of the organization. The Board and management have worked together to establish a strong governance structure and practices that support high ethical standards and promote accountability, transparency and effectiveness.

This year, we successfully implemented key recommendations from our recently completed Corporate Governance Review Report, which was completed in accordance with Recognition Orders issued by the Canadian Securities Administrators. We established and filled a new Vice-Chair position on the Board, expanded the self-assessment framework for the Board and its Committees and conducted peer self-assessments for individual Directors.

I would like to acknowledge the work and commitment of our outgoing Directors. Their contribution has been critical during this period of tremendous change, providing strategic as well as practical guidance on emerging trends and key issues. I would also like to welcome our incoming Directors.

I would also like to recognize the ongoing input and support from the industry we regulate and whose continuing participation is so critical to self-regulation.

As I leave the Board, I am pleased to reflect on two years of achievement and growth at IIROC. It has been a pleasure to work with and support the commitment and efforts of IIROC CEO Susan Wolburgh Jenah, her management team and staff.

A handwritten signature in black ink, appearing to be 'DM', written in a cursive style.

Doug McGregor
Chair

Message from the President and CEO

Susan Wolburgh Jenah
President and CEO



I am pleased to present our Annual Report which documents the steps we have taken to strengthen trust and confidence in the Canadian capital markets and in those we regulate.

A common theme runs through our strategic priorities, operational focus and policy initiatives – to ensure that industry and marketplace standards are fair and robust. During the past year, we pursued an active agenda to elevate standards of conduct and compliance in the industry. We complemented these efforts with significant progress on many market policy initiatives to enhance the stability and reliability of our capital markets and confidence in their integrity.

Confidence in the client/advisor relationship

Complex product innovation and an increased focus on wealth management underscore the importance of expert, unbiased and reliable advice. Making suitable recommendations necessitates both knowing the client and understanding the broad array of available product and service offerings. Last year, we identified best practices regarding the introduction and supervision of new products. This year, we continued this compliance focus by undertaking various reviews, including those relating to new product due diligence and sales practices.

We are also taking steps to strengthen the core suitability standard through our compliance, policy and enforcement work. The revised Client Relationship Model (CRM) enhances the suitability assessment process, addresses conflicts of interest and improves disclosure relating to compensation practices, fees and account performance. The CRM proposal has been filed with the Canadian Securities Administrators (CSA) for final approval and staged implementation.

Fair, timely and consistent treatment of client complaints by IIROC-regulated firms is key to earning and maintaining investors' confidence. Last year, we introduced a complaint handling framework with clear standards and timelines for firms to acknowledge, investigate and respond to client complaints. Response times have significantly improved since the rule was implemented, with 78.3% of firms providing a substantive response to their clients' complaints within 90 days, compared to just 47.6% in the same period a year earlier.

Extending our regulatory focus

In the aftermath of the global credit crisis, regulators continue to focus on redefining the perimeter of regulation and extending oversight to significant market sectors which have grown in scope and importance.

We are taking steps to establish an appropriate supervisory framework for our regulated firms' participation in the large and growing Canadian fixed-income market which, at more than \$2.1 trillion on deposit, now exceeds the value of equities held by investors.

We have finalized a new fair pricing rule for fixed-income and other Over-the-Counter (OTC) securities, which will improve our ability to conduct oversight and enforce compliance with clear, principle-based standards. This broadening of our regulatory focus will result in more effective surveillance and risk-based

We are committed to continuous operational improvements and to attracting and developing the specialized knowledge and expertise necessary to respond to new issues and refine existing regulatory approaches.

oversight of our members' trading activity and sales practices.

We created a new Trading Review and Analysis team to enhance our ability to conduct post-trade trend analysis and expand our detection, prevention and deterrence capabilities. More effective post-trade analysis will improve our understanding of the impact of new rules, technologies and products and changes in market structure.

We are committed to delivering cost-effective, efficient regulation and to exploring opportunities to reduce regulatory gaps and duplication. To that end, we have had exploratory discussions with the Mutual Fund Dealers Association of Canada (MFDA) about the prospect of a merger. We have conducted surveys with our respective member firms to assess the level of support and to identify the key drivers of that support – such as changing business models, potential cost synergies and minimizing or eliminating regulatory duplication.

Confidence in reliable and stable marketplaces

The events of May 6th served as a catalyst for broader debate about marketplace structure, trading activity and the reliability and stability of our equity trading venues.

Canada's market regulation framework offers advantages in a complex, multi-market environment for equity trading. Although equity trading is dispersed across multiple trading venues, oversight of trading activity in Canada's equity markets is centralized through IIROC. Moreover, IIROC ensures compliance with a single set of rules (the Universal Market Integrity Rules) – a regulatory strength virtually unique to Canada.

We have made investment in technology a key priority to ensure we can effectively carry out our market surveillance and analysis functions. On May 5th 2010, we launched STEP, the Surveillance Technology Enhancement Platform, to conduct intra- and cross-market surveillance and analysis.

The benefits of this new system were tested and demonstrated during the May 6th "Flash Crash" and in

its aftermath. Relying on STEP, we conducted a thorough review across market venues and participants to identify and understand the contributing factors. As a result of our analysis, we issued a comprehensive report outlining practical recommendations designed to help mitigate volatility and enhance the reliability and stability of our markets.

We followed up on the above-noted recommendations, including a proposal to implement single stock circuit breakers. We provided guidance to dealer firms and investors and hosted an Investor Forum on Trading on Equity Marketplaces. To provide greater transparency and predictability, we published for comment IIROC's policy and practice relating to trade cancellations or price variations when transactions are deemed to be in violation of trading rules or appear to be "unreasonable."

As market structure evolves, we are working with the CSA to address current and emerging market developments including dark pools, dark orders, and direct market access. We jointly proposed limits on dark orders to preserve and protect the price discovery process that is integral to marketplace quality. We continue to monitor and assess the scope and impact of algorithmic and high-frequency trading. Finally, IIROC published for comment proposals relating to short sales and failed trades based on comprehensive studies and data.

Confidence in IIROC

Building trust and confidence in capital markets depends on stakeholders having trust and confidence in us to deliver efficient, expert and cost-effective regulation.

We are committed to continuous operational improvements and to attracting and developing the specialized knowledge and expertise necessary to respond to new issues and refine existing regulatory approaches.

We have better integrated our investigative and prosecutorial teams to ensure a seamless transition of cases and to produce more effective and efficient enforcement outcomes. We have significantly revised



Executive Management Team

Keith Persaud
Senior Vice President,
Finance and
Administration

Rosemary Chan
Senior Vice President,
General Counsel and
Corporate Secretary

Carmen Crépin
Vice President,
Quebec

Susan Wolburgh Jenah
President and CEO

Paul R. Riccardi
Senior Vice President,
Enforcement, Policy
and Registration

Connie Craddock
Vice President,
Public Affairs

Warren Funt
Vice President,
Western Canada

Maureen Jensen
Senior Vice President,
Surveillance and
Compliance

our Business Conduct examination program to make it more relevant and risk-based. And we created a specialized Complaints and Inquiries unit to better respond to the public.

This year, we surveyed member firms to elicit input on the robustness of current proficiency standards. Establishing and updating proficiency standards for individual registrants to ensure they remain current is critical to investor protection. We are working with CSI Global Education Inc. on a number of course improvements. In addition, we re-negotiated our pricing agreement with CSI, resulting in significantly improved pricing for IIROC-regulated firms, including a two-year price freeze on the core course requirements and reductions to caps on future increases.

An Ongoing Commitment to Strengthening Confidence

One of IIROC's five strategic goals is to "drive a culture of compliance at its regulated firms." A shared commitment to high standards and a culture of compliance is the foundation of self-regulation. It is

vital to strengthening and maintaining confidence in the Canadian investment industry and the integrity of our capital markets.

I extend my appreciation to outgoing IIROC Board Chair Doug McGregor and to the entire Board for their support and dedication.

Finally, I offer my heartfelt thanks to IIROC staff. It has been a year of unexpected challenges and renewed commitment to our strategic priorities and to the successful completion of many key initiatives.

It is a privilege to lead the organization's efforts to enhance the fairness and efficiency of the Canadian capital markets and strengthen confidence and trust in their integrity.

Susan Wolburgh Jenah
President and CEO

2010–2011 Strategic Plan Scorecard

Goal 1: Drive a culture of compliance among those subject to IIROC’s jurisdiction

WHAT WE DID IN FY2011	HOW WE DID IT	WHY IT MATTERS
Rewrote the Dealer Member rules in plain language format.	Delivered substantial portion of project to rewrite rules in plain language, with updates, consolidations and revisions where needed. Published 28 related rules and 31 guidance notes for comment.	Simpler, more easily understandable rules improve comprehension of regulatory requirements and enhance compliance.
Provided timely, clear guidance on key and emerging issues.	Issued 10 guidance notes in final form (e.g. PPNs, anti-money laundering, locked and crossed markets, best execution and management of orders and the use of certain order types) and in draft form (e.g. social media, suitability, variation/cancellation of trades and Client Relationship Model).	Proactively communicating regulatory expectations promotes a strong culture of compliance.
Encouraged a continued focus by firms on compliance, risk management, monitoring and internal controls.	Our three compliance teams (Financial & Operations, Business Conduct and Trading Conduct) conducted 305 onsite compliance reviews at member firms and shared their findings and recommendations, identifying material regulatory risks.	A strong culture of compliance in accordance with high standards of fairness and integrity benefits investors, the industry and capital markets overall.

Goal 2: Deliver effective, efficient, and expert regulation

WHAT WE DID IN FY2011	HOW WE DID IT	WHY IT MATTERS
Expanded our risk-based practices in Registration.	Implemented a Registration Risk Model to help identify high-risk submissions and more effectively support approval and registration decisions.	A risk-based approach helps IIROC prioritize and allocate resources to where they are most needed.
Adopted modified International Financial Reporting Standards (“IFRS”) framework for IIROC-regulated firms, and incorporated it into our compliance oversight program and reporting system.	Delivered workshops, websites, webinars and guidance to help IIROC-regulated firms implement the IFRS standard. Changed the reporting format to allow for IFRS reporting and monitored its implementation.	Provides member firms with necessary support to comply with the new IFRS changes, consistent with a global move to embrace a single set of regulatory standards.
Designed and implemented a new national Business Conduct Compliance (BCC) examination program.	Updated all BCC compliance examination modules; streamlined the process with technological improvements; added new guidance for testing; and trained staff.	Allows BCC to use a risk-based approach to focus on firm-specific operations and inherent risks in a more timely, efficient manner, allowing for more effective use of internal resources.

Goal 3: Strengthen confidence in the fairness and integrity of Canadian financial markets

WHAT WE DID IN FY2011	HOW WE DID IT	WHY IT MATTERS
Enhanced IIROC’s ability to monitor and analyze cross-market trading activity.	Launched a new surveillance system called Surveillance Technology Enhancement Platform (STEP) that allows IIROC to monitor trading across all equity markets using customized and improved alerts and reports.	STEP allows IIROC to monitor and analyze trading activity on all equity markets more effectively and to monitor cross-market activity.
Revised Enforcement procedures to improve timeliness and effectiveness.	Created a dedicated enforcement unit to specialize in violations of Universal Market Integrity Rules. Adopted an integrated investigation/litigation team model.	More effective enforcement outcomes promote investor confidence.

Goal 3: (cont'd)

WHAT WE DID IN FY2011	HOW WE DID IT	WHY IT MATTERS
Developed an enhanced investor information service about registrants at IIROC-regulated firms.	Launched electronic, web-based IIROC <i>AdvisorReport</i> to provide investors with information on approval categories, licensing, courses/programs and disciplinary history of advisors at IIROC-regulated firms.	Offers investors a faster and easier way to obtain information to make informed decisions when choosing an advisor. Users ran more than 43,000 reports in the first seven months after launch.
Continued to refine the Client Relationship Model (CRM) toward implementation.	Re-published revised version of proposals and draft guidance to clarify roles of dealer, advisor and client, as well as to improve disclosure of conflicts of interests and strengthen suitability assessments.	CRM will promote investor protection by improving transparency and disclosure concerning fees, suitability assessment, conflicts and account performance.
Completed a comprehensive review of the IIROC Arbitration Program, including an extensive stakeholder consultation.	Changes included an increase to the award limit to \$500,000 and giving investors the option to eliminate the arbitrator's discretion to award legal costs.	Arbitration provides a viable option for expeditious and cost-effective dispute resolution and a meaningful alternative to resolving disputes through lengthy, expensive court actions.
Published a rule outlining our disclosure, compliance and supervisory expectations for members that trade in Over-the-Counter and fixed-income markets.	Adopted in final form the OTC Securities Fair Pricing rule and trade confirmation disclosure requirements, before submitting to the CSA for approval.	Clearly articulates standards of fair pricing and improves trade confirmation disclosure as they apply to fixed-income and OTC-traded securities.
Monitored current market structure issues to develop appropriate policy responses.	Completed two comprehensive studies on short sales and failed trades on Canadian marketplaces and proposed rule amendments which included a repeal of the tick test.	Ensures that rulemaking is based on analysis and allows IIROC to balance made-in-Canada solutions against consistency with global regulatory approaches.

Goal 4: Be a cost-effective organization

WHAT WE DID IN FY2011	HOW WE DID IT	WHY IT MATTERS
Completed the Dealer Regulation fee model and published the proposed Market Regulation fee model for comment.	With consultation from IIROC-regulated firms and marketplaces, we developed two new fee models designed to fairly allocate regulatory costs of IIROC's regulation activities.	Ensures that IIROC fees are assessed in a fair and transparent manner and enables IIROC to achieve full cost recovery.
Leveraged technology by expanding a software platform to all IIROC compliance units.	Invested in and implemented an audit software system for planning, execution, report generation, analysis and storage.	Increases staff efficiency and productivity across the compliance review process and facilitates more information and intelligence sharing.

Goal 5: Be an accountable, fair and flexible organization

WHAT WE DID IN FY2011	HOW WE DID IT	WHY IT MATTERS
Monitored employee satisfaction.	Conducted an employee survey and internal focus groups for additional feedback.	Supports and fosters a workplace environment that attracts and retains expert and engaged staff.
Took steps to provide relevant and timely training to support IIROC staff in their development.	Hired a Director of Training and Development to develop in-house programs, developed customized management training and provided specialized subject matter training opportunities.	Training assists us in developing staff with deep and broad knowledge of the marketplace and industry we regulate.

Raising the bar



Many investors rely on an advisor to help them achieve their financial objectives. In this relationship, the client expects **knowledgeable, unbiased advice** that is consistent with his or her financial circumstances, investment needs, investing experience and tolerance for risk. Our Client Relationship Model (CRM) builds on a statutory duty of care for advisors to act fairly, honestly and in good faith.

We revised the CRM proposals to clarify existing advisor obligations, including the need to manage conflicts of interest, and to impose enhanced disclosure guidelines relating to compensation practices, fees and account performance, as well as enhanced suitability assessment requirements.

We are moving forward on other initiatives related to suitability, including changes to enhance our compliance and enforcement efforts, as well as a stronger focus on suitability issues relating to seniors.

Registration, proficiency and titles

Investors need to have confidence in the quality, integrity and professionalism of IIROC-regulated firms and their IIROC-approved staff. In the past year, we increased our focus on higher-risk applications by individuals where “fit and proper” issues were raised. Our Registration staff made almost 350 recommendations to impose terms and conditions on individual approvals this past year. Further, staff have increased their efforts to review firms’ internal recruitment and hiring policies and procedures and conducted a mini sweep of higher-risk firms to ensure that they have the required supervisory personnel approved under IIROC rules.

IIROC sets proficiency standards for approved individuals and reviews these standards to ensure they continue to reflect current marketplace realities and investor needs. This year, we surveyed our member firms and identified a number of proficiency improvements that IIROC will be pursuing with the firms and CSI Global Education Inc. in the coming year.



We conducted a survey to better understand the use of titles and designations by approved individuals at IIROC-regulated firms, in response to the proliferation and use of various titles and designations. These results will provide insight into firm policies and procedures relating to titles and designations, including applicable approval and compliance processes. The survey results will help us determine the appropriateness of regulatory oversight and/or guidance in this area.

In order to help investors more easily access background information on IIROC-approved individuals employed by investment dealers under our regulation, we launched the IIROC *AdvisorReport* service. This online search and report-generating tool supports informed decision-making by investors by providing them with information about the services that individuals have been approved to offer, their work and education history, as well as a record of any disciplinary actions. In the seven months after the service's launch, more than 43,000 IIROC *AdvisorReports* were generated in fiscal 2010–11.

Focusing on fixed income

Over the past year, we have focused regulatory resources on the oversight of the large and growing Canadian fixed-income market.

Our increased focus reflects the importance of this market to institutional and retail investors alike and the reduced level of transparency in the Over-the-Counter fixed-income markets compared to the market for listed equities.

Our new fair pricing rule for fixed-income and other OTC securities, which was adopted in final form this year, sets out clear standards to ensure that prices paid or received by clients are fair and reasonable and that there is clear disclosure of whether a commission was paid in relation to the transaction.

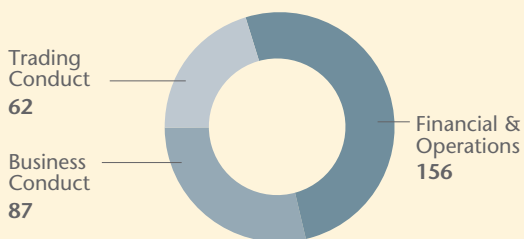
Registration Activity

Actions involving individual registrants for the 12 months ended March 31, 2011

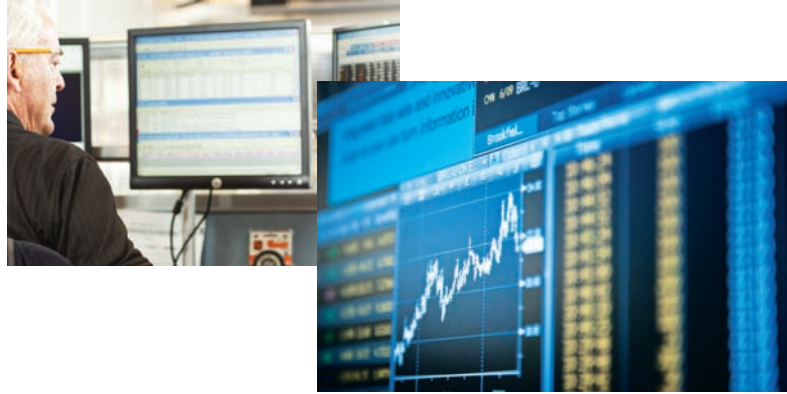
Applications for registration	3,759
Amendments to registration status	5,688
Total	9,447

Onsite Compliance Reviews of Firms by IIROC Compliance Teams

for the 12 months ended March 31, 2011



Innovative and proactive regulation



We have made investment in technology a key priority. In 2010 we launched **STEP**, the Surveillance Technology Enhancement Platform, to keep pace with higher volumes and faster trading in a multiple marketplace environment. Last year, we monitored 351 million trades on nine marketplaces, a 34-per-cent increase over the previous year. Daily 'message' traffic – which includes quotes, orders and cancels as well as trades – continues to grow, averaging 160 million daily, and the total number of orders now outnumbers the number of trades on average by a factor of 57 to 1.

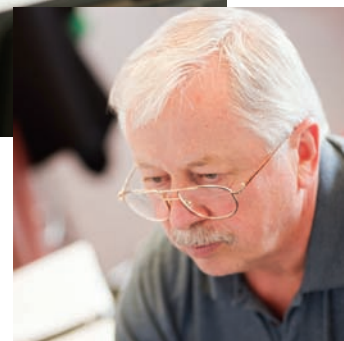
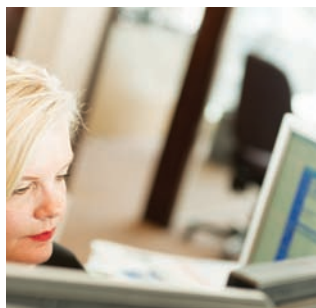
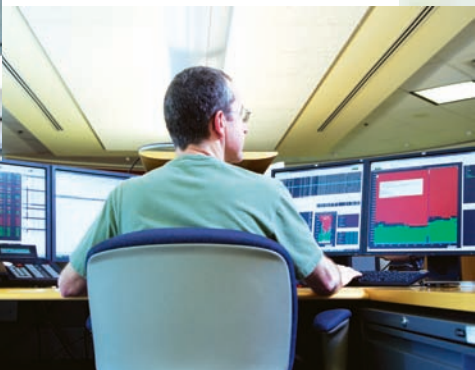
We invested in technology to help staff to more effectively identify potential regulatory infractions and to identify and analyze trading patterns, a capability which will allow us to better understand the impact of different technologies, rules and strategies on trading. STEP enables staff to quickly and effectively design alerts based on that analysis, to assist in monitoring for potential violations across all marketplaces, based on a consolidated view and in real-time.

Last year, we implemented a common audit platform for our Business Conduct, Trading Conduct and Financial and Operations compliance departments. As a result, IIROC compliance departments are now on the same audit platform, examination files are electronic and easily accessible and staff members can work on a file simultaneously. This investment in technology has increased efficiency and productivity.

Made-in-Canada regulatory responses

In responding to the complexity of our regulatory challenges, we must always balance made-in-Canada approaches and solutions against maintaining broad consistency with global approaches.

We conducted two comprehensive studies involving short sales and failed trades, which guided us in charting a regulatory approach appropriate to Canada's particular market environment. These studies provided data and analysis that are integral to effective policy making and ensure that our rules for market integrity in Canada are informed by relevant and timely data.



Based on the findings, rule amendments were proposed, including the repeal of the tick test, a requirement that short sales can only be made at a price not lower than the previous sale price of a security on a specific marketplace.

We are also developing a made-in-Canada approach to regulation of dark orders. IIROC, together with the CSA, has proposed limits on the use of dark orders, including a requirement, subject to certain exceptions, for execution priority for visible over dark orders and for dark orders to provide meaningful price improvement. We believe these limits are necessary to maintain the quality of the price discovery mechanism and to address concerns about the impact of dark orders on the quality of the Canadian capital market.

Proactive and innovative

Our proposed new Marketplace Regulation Fee Model reflects an adaptive approach to changes in the market environment. The model includes total messages and trades on marketplaces in its calculation to more fairly reflect the drivers of market regulation costs. Both the proposed Marketplace Regulation and Member Regulation fee models were developed through direct consultation with IIROC-regulated firms and marketplaces. Both of the proposed fee models aim to treat IIROC members fairly in a transparent manner, are supportive of industry competition and allow us to operate on a cost-recovery basis.

The Flash Crash of May 6, 2010: In a matter of minutes, North American stocks dropped then recovered in dramatic fashion. **8.5%** of TSX-listed securities and **13.8%** of TSX-V-listed securities suffered drops in price of 10% or more.

IIROC's Response:

- Ruled to vary or cancel 223 trades in 5 different securities.
- Conducted reviews of trading involving 230 million data points, focused on the 47 securities which had fallen 20% or more.
- Issued 5 recommendations:
 1. Review appropriateness of current market-wide circuit breaker and whether an independent Canadian-based circuit breaker level is required.
 2. Investigate whether single-stock circuit breakers in the form of temporary trading halts should be implemented in Canada.
 3. Marketplaces should adopt volatility controls, with form and level of controls reviewed to assess need for harmonization.
 4. Dealers should consider how to effectively manage stop loss orders in the current high-speed, multi-market environment, and provide guidance to staff and clients, including those who are self-directed.
 5. Review the current erroneous and unreasonable price policies and procedures.

Fair and transparent markets



Fair, timely and consistent treatment of complaints is essential to earning the confidence of investors in the financial services industry.

In the final quarter of fiscal 2010, we introduced a new complaint handling rule that sets clear standards and timelines for investment dealers to acknowledge, investigate and respond to client complaints. During the past year, we monitored dealer compliance with the new, stricter guidelines. We conducted a survey to examine how firms were implementing the new rule and will be reviewing their practices in our compliance reviews.

The new complaint handling standard called for firms to provide a substantive response to clients within 90 calendar days or communicate with the client and IIROC within 90 days, explaining the reason for any delay and providing an expected new response time. During the first year of implementation, firms provided a substantive response to their clients within 90 days in 78.3% of cases, compared to just 47.6% in the same period a year earlier (prior to implementation of the new rule). IIROC is monitoring all cases where a firm has not been able to meet the 90-day standard.

Internally, we strengthened our intake and resolution process for complaints and inquiries by creating a new unit to assist members of the public in a more effective and timely manner. This new

unit is staffed by a dedicated team of knowledgeable, experienced staff whose sole focus is to assist the public with their inquiries.

Dispute resolution

We completed a comprehensive review and evaluation of the IIROC Arbitration Program to identify opportunities to improve its effectiveness and accessibility.

The resulting changes, now in effect, included an increase in the maximum award limit to \$500,000 from the previous award limit of \$100,000. We also introduced an option for investors to choose whether participants will pay their own legal costs or leave the decision relating to the awarding of all legal costs with the arbitrator. We are developing new web-based videos to help investors better understand the different dispute resolution and compensation options available to them as clients of IIROC-regulated firms, including the services offered by the two arbitration providers designated by IIROC. We are monitoring the programs to see if more clients of our regulated firms opt to use the revised arbitration program to resolve disputes.

Enforcement process and priorities

We continued to improve the efficiency and timeliness of our enforcement procedures and operations. Operationally, we created a dedicated market enforcement unit to specialize in marketplace rule violations. We also adopted an integrated team model



where investigators and counsel work together throughout the enforcement process to jointly determine strategy and ensure that enforcement outcomes are fair, timely and effective.

We undertook a comprehensive review, with resulting changes to our case selection criteria for pursuing enforcement proceedings, and through closer collaboration with our compliance branches, we are focusing on priority disciplinary issues, including those involving supervision and suitability matters.

We also took steps to clarify our enforcement jurisdiction by publishing a proposal to establish a clearly defined limitation period of six years, within which staff must commence proceedings against current or former member firms or approved individuals.

We are consolidating and updating the enforcement rules applicable to investigations of investment dealers' business conduct and trading activities on Canadian marketplaces supervised by IIROC. These proposed rules will be published for comment following Board approval. This consolidation of former Investment Dealers Association of Canada (IDA) and Market Regulation Services Inc. (RS) procedural enforcement rules marks an important step forward in our ongoing efforts to create a single consistent set of rules that are fair, transparent and easily understood by our stakeholders.

Last year, our enforcement staff completed a total of 303 investigations, 60 disciplinary proceedings (47 against individuals and 13 against firms) and referred four cases to the appropriate police authorities. IIROC suspended one firm and 18 individuals, permanently

banned 13 individuals, terminated two firms and assessed fines of \$4.9 million. We collected 98.8% of fines assessed against firms and 14.6% against individuals, based on the total assessed after appeals.

Violation Type in Enforcement Actions

Individual – Breakdown by Violation

Discretionary trading	4
Fail to cooperate	9
Forgery	4
Fraud	1
Gatekeeper	10
Due diligence/suitability	16
Inappropriate personal financial dealings	7
Misappropriation	6
Misrepresentation	11
Off book transactions	6
Outside business activities	1
Supervision	5
Trading conflict of interest	1
Trading order violation	3
Trading without appropriate registration	4
Unauthorized trading	5
Undisclosed conflict of interest	6
Total*	99

Firm – Breakdown by Violation

Capital deficiency	5
Failure to handle client accounts	2
Failure to meet best price obligations	3
Inadequate books and records	2
Internal controls	4
Supervision	8
Total*	24

* Note: Totals reflect the range of violations found in disciplinary proceedings in aggregate and therefore exceed the total number of 47 actual proceedings against individuals and 13 against firms.

Governance Report – IIROC Board of Directors

Directors

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.

President & CEO

Susan Wolburgh Jenah (joined February 2007)
President & CEO, IIROC
Toronto, Ontario

Industry Directors

Doug McGregor, Chair (joined September 2009)
Chairman and Co-CEO, RBC Capital Markets
Toronto, Ontario
• Member of Finance and Audit Committee

Robert C. Blanchard (joined August 2010)
President, Haywood Securities Inc.
Toronto, Ontario
• Member of Human Resources and Pension Committee

Tal Cohen (joined November 2009)
CEO, Chi-X Global
New York, New York, USA
• Member of Human Resources and Pension Committee

M. Marianne Harris (joined September 2010)
Managing Director and President,
Merrill Lynch Canada, Inc.
Toronto, Ontario
• Member of Human Resources and Pension Committee

Michelle Khalili (joined December 2008)
Managing Director, Equity Capital Markets,
CIBC World Markets
Toronto, Ontario
• Member of Human Resources and Pension Committee

Thomas A. Kloet (joined October 2008)
CEO, TMX Group Inc.
Toronto, Ontario
• Member of Finance and Audit Committee

Yves Néron (joined September 2010)
Senior Vice-President, Desjardins Securities
Montreal, Quebec
• Member of Human Resources and Pension Committee

Independent Directors

Gerry Rocchi, Vice Chair (joined August 2004)
CEO, Green Power Action Inc.
Toronto, Ontario
• Member of Corporate Governance Committee
• Member of Finance and Audit Committee

Kerry Adams (joined May 2008)
Investment Consultant
Aurora, Ontario
• Member of Corporate Governance Committee

Mike Gagné (joined September 2009)
Corporate Director
Invermere, British Columbia
• Member of Corporate Governance Committee
• Member of Finance and Audit Committee

Eric Kirzner (joined August 2010)
Professor, Rotman School of Management,
University of Toronto
Toronto, Ontario
• Member of Corporate Governance Committee

Daniel Leclair (joined June 2004)
Corporate Director
Shefford, Quebec
• Chair, Finance and Audit Committee

Daniel F. Muzyka (joined June 2005)
Professor and Dean, Sauder School of Business,
The University of British Columbia
Vancouver, British Columbia
• Member of Corporate Governance Committee
• Member of Human Resources and Pension Committee

Grant Vingoe (joined August 2004)
Partner, Arnold & Porter LLP
New York, New York, USA
• Chair, Corporate Governance Committee

Outgoing Directors

Roger Casgrain (served June 2005 to September 2010)
Executive Vice President, Casgrain & Company
Limited
Montreal, Quebec
• Member of Human Resources and Pension Committee

Jill Denham (served September 2009 to May 2010)
Consultant
Toronto, Ontario
• Member of Corporate Governance Committee

Robert LeSourd (served May 2008 to April 2010)
EVP and Managing Partner, Western
Operations, Mackie Research Capital
Calgary, Alberta
• Member of Human Resources and Pension Committee

Ronald S. Lloyd (served June 2004 to September 2010)
Chairman and CEO, Credit Suisse Securities
(Canada) Inc.
Toronto, Ontario
• Chair, Human Resources and Pension Committee

From left
Susan Wolburgh Jenah
Doug McGregor, Chair
Robert C. Blanchard
M. Marianne Harris
Michelle Khalili
Thomas A. Kloet
Yves Néron
Tal Cohen



2010–2011 Board meetings

(April 1, 2010 to March 31, 2011)

A total of 32 meetings were held during the fiscal year ended March 31, 2011, including nine Board meetings, and one Annual General Meeting of Members. Below is a breakdown of attendance.

Director	Board of Directors	Finance and Audit	Corporate Governance	Human Resources and Pension	Special Meetings	Total Compensation**
Kerry Adams	6/6		14/14		2/3	\$42,972.18
Robert C. Blanchard*	4/4			2/2	1/1	
Roger Casgrain [^]	3/4				1/2	
Tal Cohen	5/6			1/2	2/3	
Jill Denham [^]	1/1		3/3			\$6,117.89
Mike Gagné	6/6	6/6	14/14		3/3	\$55,548.35
M. Marianne Harris*	4/4			2/2	1/1	
Michelle Khalili	6/6			2/2	3/3	
Eric Kirzner*	4/4		4/5		1/1	\$22,529.38
Thomas A. Kloet	5/6	6/6			2/3	
Daniel Leclair	6/6	6/6			3/3	\$45,095.02
Robert LeSourd [^]						
Ronald S. Lloyd [^]	1/2				1/2	
Doug McGregor	6/6	3/6			2/3	
Daniel F. Muzyka	5/6		10/12	2/2	2/3	\$45,076.60
Yves Néron*	4/4			2/2	1/1	
Gerry Rocchi	6/6	6/6	11/11		3/3	\$52,667.04
Grant Vingoe	6/6		14/14		3/3	\$48,500.00
Susan Wolburgh Jenah	6/6	6/6	14/14	2/2	3/3	

* Director joined Board during the year.

[^] Director stepped down during the year.

** Only Independent Directors are compensated by IIROC.

Director compensation

IIROC does not compensate Industry Directors for their participation on IIROC's Board or 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 \$2,500, if the Vice Chair is an Independent Director
- Board meetings less than two hours in duration – a fee of \$1,000
- Board meetings of two hours or longer – a fee of \$1,500

Committee

- Committee Members – \$1,500 per annum
- Committee Chairs – \$4,000 (except in the case of the Human Resources and Pension Committee Chair where the retainer will be \$3,500)
- Committee meetings less than two hours in duration – \$1,000
- Committee meetings of two hours or longer – \$1,500

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

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 the 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 systems.

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.



From left
Kerry Adams
Mike Gagné
Eric Kirzner
Daniel Leclair
Daniel Muzyka
Gerry Rocchi, *Vice Chair*
Grant Vingoe

Management Discussion and Analysis

(In thousands of dollars)

The financial statements presented are for the year ended March 31, 2011, with comparative numbers for the year ended March 31, 2010, and include accompanying notes.

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 via application of respective fee models. For Dealer Regulation, secondary sources of revenue are 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. The other significant revenue source for Market Regulation is Timely Disclosure fees from the TSX and TSX-V for administering their Timely Disclosure policies.

IIROC developed two new proposed fee models over the past year, one for Dealer Regulation activities and one for Market Regulation activities, and has submitted both for approval to the Canadian Securities Administrators ("CSA"). If they are approved, our intention is to implement the two fee models for the fiscal year beginning April 1, 2012. As IIROC operates on a cost-recovery basis, it is expected that the implementation of the two fee models will have a minimal impact on revenues.

Summary financial information

Unrestricted Fund

(In thousands of dollars)

	FY2011	FY2010	Variance	Variance
			\$	%
Unrestricted Fund Revenue				
Dealer Regulation				
Membership fees	\$ 40,598	\$ 38,846	\$ 1,752	5%
Underwriting levies	8,122	8,404	(282)	(3%)
Registration fees	2,371	2,381	(10)	0%
Entrance fee	270	160	110	69%
	51,361	49,791	1,570	3%
Market Regulation				
UMIR fees	25,435	23,074	2,361	10%
Timely Disclosure	3,378	3,260	118	4%
	28,813	26,334	2,479	10%
Other Revenue				
Interest	294	66	228	345%
Miscellaneous	10	326	(316)	(97%)
	304	392	(88)	(22%)
Total Unrestricted Fund revenue	80,478	76,517	3,961	5%
Unrestricted Fund Expenses				
Dealer Regulation operating costs	51,004	48,591	2,413	5%
Market Regulation operating costs	26,398	24,150	2,248	9%
	77,402	72,741	4,661	6%
Excess of revenue over costs – Unrestricted Fund	\$ 3,076	\$ 3,776	\$ (700)	(19%)

Revenues

Unrestricted Fund revenues for the period amounted to \$80,478, up \$3,961 (5%) from \$76,517 in FY2010. The increase is primarily the result of higher Dealer Regulation Membership Fees and UMIR fees. Membership and UMIR fees represent approximately 82% of the total revenue of IIROC. Since IIROC operates on a cost-recovery basis, these fees have a direct relationship to Dealer Regulation and Market Regulation operating costs which were up 5% and 9%, respectively.

Dealer Regulation Membership Fees are based on approved budgets and are reduced by other sources of revenue that included Underwriting Levies, Registration Fees and Entrance Fees. Furthermore, any surplus or deficit from the preceding year will also affect Membership Fees. Membership Fees were \$40,598, an increase of \$1,752 (5%) from \$38,846 a year ago. The increase was primarily attributable to higher budgeted operating costs, and was offset by the application of a \$3,000 surplus from last year which reduced the impact of increased costs.

Underwriting levies of \$8,122 declined compared to last year, coming in \$282 (3%) lower than \$8,404 as FY2011 did not produce the volume of large offerings that occurred in FY2010.

Registration fees remained essentially flat in FY2011 compared to last year.

Entrance fees for the year amounted to \$270 an increase of 69% from \$160 the year before as new member applications increased year-over-year.

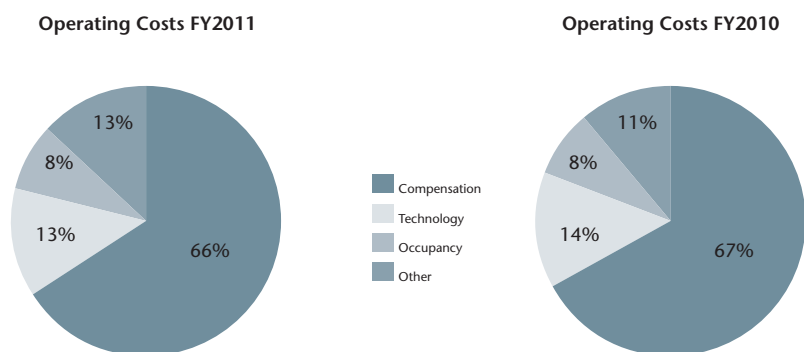
Market Regulation UMIR fees are also based on approved budgets and are reduced by Timely Disclosure revenue. As with Dealer Regulation, any surplus or deficit from the preceding year will also affect fees. UMIR Fees for the year came in at \$25,435, up \$2,361 (10%) from the \$23,074 in the prior year. The increase was the result of operating cost increases which were reduced by the use of \$1,200 of the previous year's surplus.

Timely Disclosure revenue for the year was \$3,378, which is an increase of \$118 (4%) from last year due to the receipt of prior-year credits in FY2011.

Interest revenue of \$294 ended the year 345% ahead of last year due to the increase in interest rates. IIROC's investment policy is focused on capital preservation and narrows its investments to short-term Canadian and provincial government debt and single A grade Canadian chartered bank paper.

Operating costs

IIROC operating costs consist of four main categories.



The major categories of Compensation, Technology and Occupancy make up approximately 90% of IIROC's operating costs. 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 cost or headcount.

Management Discussion and Analysis

(In thousands of dollars)

(In thousands of dollars)	FY2011	FY2010	Variance	Variance
	Actual	Actual	\$	%
Unrestricted Fund expenses				
Dealer Regulation operating costs	\$ 51,004	\$ 48,591	\$ 2,413	5%
Market Regulation operating costs	26,398	24,150	2,248	9%
	\$ 77,402	\$ 72,741	\$ 4,661	6%

Dealer Regulation costs of \$51,004 were up \$2,413 (5%) over the prior year primarily as a result of increased staffing, salary increases and the impact of the Harmonized Sales Tax ("HST"), which added an additional 8% to the non-compensatory costs of Dealer Regulation for the last nine months of the year when compared to the prior year. Furthermore, since Membership Fees are exempt from HST, the corresponding input tax credit to help reduce HST on costs was not realized, which compounded the impact of HST.

Costs of the Market Regulation activities increased up to \$26,398, a \$2,248 (9%) increase over the previous year. IIROC introduced a second surveillance system, the Surveillance Technology Enhancement Program ("STEP") in May 2010 for cross-market surveillance and to handle increased volumes. Higher technology costs were incurred as a result. This increase, however, was partially offset by the reduced costs of the first surveillance system, SMARS, as hardware and data feeds previously used by SMARS were either made redundant or were transferred to STEP. Compensation was higher for Market Regulation due to salary increases and increased staffing for the launch of STEP. The impact of HST for Market Regulation costs was lower compared to Dealer Regulation as UMIR Fees are taxable, resulting in the use of input tax credits to reduce HST-eligible costs below what they were prior to implementation of HST.

Excess of Unrestricted Fund revenues over expenses

Revenues exceeded expenses in FY2011 by \$3,076, increasing the Unrestricted Fund balance to \$34,871 compared to the opening balance of \$29,107. This compared with \$3,776 from the year prior, a \$700 (19%) decrease. Internal policy requires IIROC to retain three months' operating costs as a minimum balance in the Fund. Potential uses of any excess surplus are future capital projects, pension funding and the consolidation of the Toronto office facilities.

Externally Restricted Fund

Revenues for the 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 Fund is restricted by the Recognition Orders of IIROC from provincial securities commissions to qualifying expenditures. Those expenditures include:

- 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,
- Education of market participants and the public about or research into investing, financial matters or the operation or regulation of securities markets,
- Donations to non-profit, tax-exempt organizations for investor protection and education, and
- Costs associated with the administration of IIROC's Hearing Panels.

Total revenues for the year amounted to \$1,975, compared to \$1,130 for FY2010, an increase of \$845 (75%). The increase mainly arose from higher fines which increased by \$706 (89%) from \$790 to \$1,496. Fine revenue is up this year as a result of an increased number of completed disciplinary hearings from which fines were assessed and collected. IIROC endeavors to collect all fines imposed by Hearing Panels; however, its ability to recover fine money from former registrants is extremely limited in most provinces. IIROC continues to work towards enhanced ability to collect its fines.

Hearing Panel related costs amounted to \$1,715, down \$83 (5%) from \$1,798 due to the complexity of the Hearings that took place last year. Other major qualifying expenditures during the year were for contributions to the Canadian Foundation for Investors Rights ("FAIR") of \$743, bringing the total contributed to the program to \$2,855, including contributions from the predecessor organizations; a contribution of \$281 for the Social and Enterprise Development Innovations; costs of \$265 for the IIROC Rule Book Rewrite project; and Member Education initiatives of \$261. Spending on other projects was \$407. As a result, total expenditures for the year amounted to \$3,672, up by 30% from the \$2,816 spent last year.

The resulting deficiency for the year was \$1,697, \$11 (0.7%) higher than the \$1,686 deficit last year. Capital projects expended from the fund for the year amounted to \$2,147, primarily for the STEP market surveillance system. The deficit and capital expenses reduced the Fund from \$27,532 to \$23,516 by the end of the year. An IIROC policy is in place to ensure adequate Hearing Panel related costs are maintained.

Externally Restricted ABCP Fund

Activity in this fund was limited to interest of \$226, an increase of \$214, up from \$12 the prior year. Investments are governed by IIROC's investment policy. This brought the Fund balance up to \$32,488 from its beginning-year balance of \$32,262. IIROC is waiting for the release of an OSC panel decision before proceeding to distribute these funds according to a previous agreement with the OSC.

Merger Fund

This Fund was set up to support the Investment Dealers Association/Market Regulation Services Inc. combination and the only activity in the current year was for legal costs for the Consolidated Enforcement Rules and the development of the proposed integrated fee model; the latter in accordance with IIROC's Recognition Orders. The balance at the end of FY2011 was \$16.

Liquidity and capital resources

At the end of FY2011, IIROC held consolidated surpluses of \$102,572, up \$2,019 from the \$100,553 last year, including the Capital Asset Fund, Unrestricted Fund, Externally Restricted Fund, Externally Restricted ABCP Fund and the Merger Fund.

During the year, IIROC invested \$3,282 in capital assets consisting of the completion of phase one of the STEP market surveillance system, website enhancements and rebuild, annual PC and laptop refresh and an HR system.

IIROC maintains the Unrestricted Fund balance at approximately three months' operating cost level in accordance with an internal guideline. At \$34,871, up \$5,764 from the beginning balance, it holds excess funds of \$12,387 after taking account of FY2012 budgeted expenses; \$4,379 for the Dealer Regulation and \$8,008 for the Market Regulation. Potential uses for this surplus include fee reductions, pension funding, future capital expenditures and construction costs for the consolidation of the Toronto office facilities.

Management Discussion and Analysis

(In thousands of dollars)

Commitments

At the end of the year IIROC had total minimum rental commitments of \$29,801 excluding Goods and Services Tax/HST and occupancy costs, net of expected recoveries from other parties, under long-term leases with varying expiry dates to February 18, 2024. This is an increase from last year's amount of \$13,743, as IIROC entered into a lease for additional premises to consolidate Toronto offices and to extend the lease term by eight years.

Subsequent to the end of the year, the organization has entered into a credit facility with a Canadian financial institution for financing connected to the Toronto office consolidation.

The Organization has commitment obligations under a services agreement for information technology and other administrative services with TMX Group Inc. which expires in May 2014 amounting to \$13,520, compared to \$22,523 the year before.

Subsequent to the year end, IIROC entered into discussions with the TMX Group in respect of IIROC using the STEP market surveillance platform to monitor the TSX and TSX-V marketplaces. In conjunction with these discussions, IIROC and the TMX Group are also discussing an early termination of the services agreement, including a potential early termination fee payable by IIROC.

The Organization is a sponsor of the Canadian Investor Protection Fund ("CIPF"), which was established to protect customers who have suffered financial loss due to the insolvency of a Dealer Member of IIROC. IIROC has provided a \$100 million guarantee on bank lines of credit of the CIPF. At March 31, 2011, 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 \$381 million on hand as at December 31, 2010 (2009 – \$359 million); and ii) lines of credit provided by two Canadian chartered banks totaling \$100 million (2009 – \$100 million) as noted above.

The Organization has agreed to establish the Canadian Foundation for the Advancement of Investor Rights ("FAIR"). The Organization is committed to funding the foundation over a three-year period to a maximum of \$3,750. As at March 31, 2011, the remaining commitment is \$897. Additionally, the Organization has committed to fund the Investor Education Foundation for the "Funny Money" program to a maximum of \$558. As at March 31, 2011, the remaining commitment is \$216. The Organization has also committed to fund the Capital Markets CRC for research work to a maximum of \$450. As at March 31, 2011, the remaining commitment is \$150.

Future changes in accounting policies

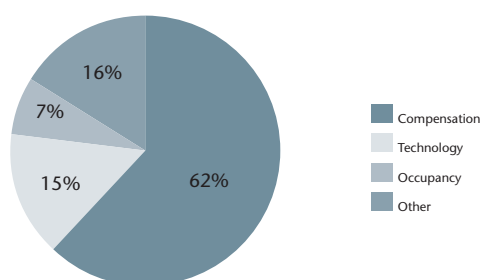
On December 31, 2010, the Accounting Standards Board (AcSB) issued Part III of the Accounting Handbook: Accounting Standards for Not-for-Profit Organizations ("ASNFPPO"). The standards are effective for annual financial statements relating to fiscal years beginning on or after January 1, 2012. The standards are applicable to all not-for-profit organizations. Additionally, not-for-profit organizations maintain the option to adopt International Financial Reporting Standards. IIROC has decided to adopt Part III ASNFPPO.

Outlook

Operating expenses for the coming year are budgeted to be \$89,935, which is driven by additional human resource requirements in response to increasing demands of IIROC's regulatory mandate. These demands include the expansion of the complaint resolution process and increased branch reviews in the compliance areas. Additional IT staff will be added in order to provide greater operational capability, infrastructure and marketplace testing.

The budget for IIROC's 2012 fiscal year was prepared on the assumption that IIROC increases capability for Dealer Regulation in the areas of Business Conduct Compliance and complaints handling, and Market Regulation by enhancing STEP.

FY2012 Budgeted Operating Costs



New projects and programs being introduced in the upcoming year include regulatory reviews for specific firm compliance and updated compliance programs to address new practices and products at the member firms. IIROC plans to partake in special studies for new regulatory issues. From an efficiency perspective, IIROC intends to automate single-issue compliance reviews. IIROC plans to enhance the complaint handling process by adding new staff in that area. We will also place an emphasis on investor issues for seniors. IIROC will be implementing an organization-wide staff training program designed to ensure standardized training is delivered to our managers and will also focus on relevant functional specific training.

IIROC has extended its current lease and added additional space for the consolidation in the coming year of the Toronto staff. IIROC will also migrate next year to a VoIP telephony technology, easing communication between all its facilities. During the upcoming year, IIROC has planned an enhancement to STEP's architecture to increase its processing and storage capacity up to a billion messages per day. Additionally, IT infrastructure and data centres will be updated and streamlined to provide better support.

As a result of these upcoming objectives, FY2012 member fees were to increase by 12% for Dealer Regulation activities and 8% for Market Regulation activities when compared to FY2011 fees that were subsidized with a surplus of \$3,000 for Dealer Regulation and \$1,200 for Market Regulation from the prior year. If compared to FY2011 fees without the subsidy, the increase would have been 6% for Dealer Regulation and 3% for Market Regulation. Subsequent to the approval of the budget, the Board approved the use of \$780 of the FY2011 surplus of the Dealer Regulation division to reduce fee increases to 4% on a post subsidy basis. The Board also approved the use of \$2.092 million of the FY2011 Market Regulation surplus to reduce fees so they decrease by 4.5% on a post subsidy basis. The return of the FY2011 surplus brings the total surplus returned to IIROC members in the form of fee reductions up to almost \$10 million since IIROC was launched in 2008.

In FY2011, IIROC ended the year with a surplus in the Market Regulation division. Potential uses of the surplus include pension funding, future capital projects and construction of the Toronto facilities.

Financial Statements

Investment Industry Regulatory Organization of Canada

March 31, 2011

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Independent Auditors' Report

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 statement of financial position as at March 31, 2011, the statements of operations, changes in net assets and cash flows for the year then ended, 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 generally accepted accounting principles, 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 audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit 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, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

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

Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
June 29, 2011

Statement of Operations

(Dollars in thousands)

Year ended March 31,	2011	2010
Unrestricted fund revenue		
Dealer regulation		
Membership fees	\$ 40,598	\$ 38,846
Underwriting levies	8,122	8,404
Registration fees	2,371	2,381
Entrance fees	270	160
	51,361	49,791
Market regulation		
Universal market integrity rules (UMIR)	25,435	23,074
Timely disclosure	3,378	3,260
	28,813	26,334
Other revenue		
Interest	294	66
Miscellaneous	10	326
	304	392
Total unrestricted fund revenue	80,478	76,517
Unrestricted fund expenses		
Dealer regulation operating costs (Note 7)	51,004	48,591
Market regulation operating costs (Note 7)	26,398	24,150
	77,402	72,741
Excess of unrestricted fund revenue over expenses	3,076	3,776
Other funds		
Externally restricted fund (Note 8)	(1,697)	(1,686)
Externally restricted ABCP fund (Note 9)	226	32,262
Merger fund (Note 10)	414	313
Excess of revenue over expenses	\$ 2,019	\$ 34,665

See accompanying notes to the financial statements.

Statement of Cash Flows

(Dollars in thousands)

Year ended March 31,	2011	2010
Increase (decrease) in cash and cash equivalents		
Operating activities		
Excess of revenue over expenses	\$ 2,019	\$ 34,665
Depreciation and amortization	3,819	2,597
Rent amortization	(201)	(32)
(Gain) loss from sale of capital assets	(2)	6
Employee future benefits	126	676
	5,761	37,912
Increase (decrease) from non-cash operating working capital		
Receivables	(519)	(168)
Prepays	71	165
Deposit	(120)	85
Payables and accruals	1,625	802
Deferred revenue	—	(33)
	6,818	38,763
Investing activities		
Purchase of capital assets	(3,282)	(7,187)
Proceeds from sale of capital assets	2	—
Advances of loans receivable, net	(6)	(6)
	(3,286)	(7,193)
Financing activities		
Repayment of long term debt	—	(939)
Increase in cash and cash equivalents	3,532	30,631
Cash and cash equivalents, beginning of the year	103,839	73,208
Cash and cash equivalents, end of the year	\$ 107,371	\$ 103,839
Cash and cash equivalents consist of:		
Cash on hand and balances with bank	\$ 15,141	\$ 13,341
Term deposits and treasury bills	92,230	90,498
Cash and cash equivalents, end of year	\$ 107,371	\$ 103,839
Interest paid	\$ —	\$ 11

See accompanying notes to the financial statements.

Statement of Changes in Net Assets

(Dollars in thousands)

Year ended March 31, 2011	Investment in Capital Assets	Unrestricted Fund	Externally Restricted Fund	Externally Restricted ABCP Fund	Merger Fund	Total Net Assets
Balance, beginning of year	\$ 12,218	\$ 29,107	\$ 27,352	\$ 32,262	\$ (386)	\$ 100,553
Excess (deficiency) of revenue over expenses	—	3,076	(1,697)	226	414	2,019
Depreciation and amortization	(3,819)	3,811	8	—	—	—
Purchase of capital assets	3,282	(1,123)	(2,147)	—	(12)	—
Balance, end of year	\$ 11,681	\$ 34,871	\$ 23,516	\$ 32,488	\$ 16	\$ 102,572

See accompanying notes to the financial statements.

Statement of Financial Position

(Dollars in thousands)

March 31	2011	2010
Assets		
Current		
Cash and cash equivalents	\$ 107,371	\$ 103,839
Receivables	5,871	5,352
Prepays	599	670
Current portion of loans receivable (Note 4)	17	13
	113,858	109,874
Employee future benefits (Note 6)	868	1,443
Loans receivable (Note 4)	12	10
Capital assets (Note 5)	11,681	12,218
Deposit	125	5
	\$ 126,544	\$ 123,550
Liabilities		
Current		
Payables and accruals	\$ 16,114	\$ 14,489
Lease inducement	251	240
	16,365	14,729
Lease inducement	880	1,092
Employee future benefits (Note 6)	6,727	7,176
	23,972	22,997
Fund balances		
Investment in capital assets	11,681	12,218
Unrestricted fund	34,871	29,107
Externally restricted fund	23,516	27,352
Externally restricted ABCP fund	32,488	32,262
Merger fund	16	(386)
	102,572	100,553
	\$ 126,544	\$ 123,550

Commitments (Note 11)

Subsequent event (Note 14)

See accompanying notes to the financial statements.

On behalf of the Board:



Susan Wolburgh Jenah, **President and CEO**



Doug McGregor, **Chair**

Notes to the Financial Statements

(Dollars in thousands)
March 31, 2011

1. Organization

The Investment Industry Regulatory Organization of Canada (“IIROC” or the “Organization”) 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 net assets of the IDA and RS were contributed to the new Organization at their carrying values.

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

The Organization owns a 15.2% interest in the common shares of The Canadian Depository for Securities Limited (“CDS”), an organization created as a depository and clearing house for the securities industry. 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 decision 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.

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. 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.

IIROC 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).

2. Summary of significant accounting policies

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

Use of estimates

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

Cash and cash equivalents

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

Financial instruments

The Organization follows the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3861 – Financial Instruments – Disclosures and Presentation instead of Section 3862 – Financial Instruments – Disclosures and

Section 3863 – Financial Instruments – Presentation. Cash and cash equivalents are classified as held for trading and are stated at fair value. The receivable and loans receivables are classified as loans and receivables and are measured at amortized cost. The payables and accruals are classified as other financial liabilities and are measured at amortized cost.

Revenue recognition

Dealer regulation

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

Market regulation

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

Capital assets

Capital assets are recorded at cost. Depreciation of office furniture and equipment is computed by the straight-line method at 20% per annum and computer equipment and software and technology projects at 33¹/₃% per annum except for two technology projects, which are amortized over 60 months. Leasehold improvements are amortized over the term of the respective leases. Depreciation commences when assets are placed in operation.

Fund accounting

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

- (a) the **Unrestricted Fund** comprises the remaining excess of revenue over expenses from operations that are available for general operating requirements.
- (b) the **Externally Restricted Fund** is the net of revenue from fines and interest and expenses incurred for the following purposes in accordance with the terms and conditions of respective provincial Securities Commissions:
 - (i) Non-recurring capital expenditures to address emerging regulatory issues arising from changing market conditions, and are directly related to investor protection and capital markets integrity.
 - (ii) Education of market participants and the public about or research into investing, financial matters or the operation or regulation of securities markets.
 - (iii) Donations to non-profit, tax exempt organizations for investor protection and education.
 - (iv) Costs associated with the administration of IIROC’s Hearing Panels.
- (c) the **Merger Fund** was funded by the **Externally Restricted Fund** and is for expenses of the Organization relating to the creation of IIROC.
- (d) the **Externally Restricted ABCP Fund** is an externally restricted fund set up to hold the asset backed commercial paper (“ABCP”) fines received by IIROC. The use of fine monies is externally restricted by the Canadian Securities Administrators under IIROC’s recognition order.

Notes to the Financial Statements

(Dollars in thousands)
March 31, 2011

2. Summary of significant accounting policies (continued)

(e) **Investment in Capital Assets** represents the Organization's net investment in property and equipment which is comprised of the unamortized balance of its capital assets.

Lease inducements

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

Employee future benefits

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

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

Future accounting changes

On December 31, 2010, the Accounting Standards Board (AcSB) issued Part III of the Accounting Handbook: Accounting Standards for Not-for-Profit Organizations ("ASNFP"). The standards are effective for annual financial statements relating to fiscal years beginning on or after January 1, 2012. The standards are applicable to all not-for-profit organizations. Not-for-profit organizations maintain the option to adopt International Financial Reporting Standards. Early adoption is permitted. IIROC has decided to adopt Part III ASNFP for the fiscal year beginning April 1, 2012.

3. Capital disclosures

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

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

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

4. Loans receivable

Loans receivables from employees of the Organization are for the purchase of home computers. Repayment terms and maturity dates were negotiated with the Organization at the time of making the loans. The loans are non interest bearing and are due on or before January 14, 2014.

5. Capital assets

	Cost	Accumulated Depreciation	2011 Net Book Value	2010 Net Book Value
Unrestricted Fund:				
Office furniture and equipment	\$ 1,276	\$ 720	\$ 556	\$ 662
Leasehold improvements	2,614	1,056	1,558	1,925
Computer equipment and software	4,290	2,762	1,528	1,390
Technology projects	11,669	3,640	8,029	8,229
	19,849	8,178	11,671	12,206
Externally Restricted Fund:				
Technology projects	73	63	10	12
	\$ 19,922	\$ 8,241	\$ 11,681	\$ 12,218

6. Employee future benefits

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

1. IIROC Pension Plan for former RS Pension Plan Members ("Former RS RPP")
2. The formerly RS-sponsored Non-Registered SIP revenue for former TSX Employees ("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 Non-Pension Post-Retirement Benefits Plan ("IIROC PRB")
6. The IIROC SIP Defined Contribution Plan; and
7. The IIROC Employee Defined Contribution Plan.

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

Notes to the Financial Statements

(Dollars in thousands)
March 31, 2011

6. Employee future benefits (continued)

The Organization's net benefit expense is as follows:

March 31, 2011	Former RS RPP	Former RS SIP	IIROC RPP	IIROC SERP	IIROC PRB
Net expense	\$ 196	\$ 13	\$ 2,000	\$ 729	\$ 509

March 31, 2010	Former RS RPP	Former RS SIP	IIROC RPP	IIROC SERP	IIROC PRB
Net expense	\$ 230	\$ 9	\$ 1,611	\$ 707	\$ 413

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

March 31, 2011	Former RS RPP	Former RS SIP	IIROC RPP	IIROC SERP	IIROC PRB
Accrued benefit obligation					
Balance at end of year	\$ (5,370)	\$ (201)	\$ (30,040)	\$ (6,996)	\$ (5,240)
Plan assets					
Fair value at end of year	\$ 4,755	\$ —	\$ 23,440	\$ 4,767	\$ —
Funded status					
Plan deficit	\$ (615)	\$ (201)	\$ (6,600)	\$ (2,229)	\$ (5,240)
Unrecognized transitional (asset)/obligation	—	—	(1,174)	—	190
Unrecognized past service costs	—	—	—	—	(1,428)
Unrecognized net actuarial (gain)/loss	1,294	(30)	7,047	2,418	857
Accrued benefit asset (liability), March 31, 2011	\$ 679	\$ (231)	\$ (727)	\$ 189	\$ (5,621)

March 31, 2010	Former RS RPP	Former RS SIP	IIROC RPP	IIROC SERP	IIROC PRB
Accrued benefit obligation					
Balance at end of year	\$ (4,481)	\$ (171)	\$ (23,377)	\$ (6,574)	\$ (4,296)
Plan assets					
Fair value at end of year	\$ 4,059	\$ —	\$ 18,968	\$ 5,060	\$ —
Funded status					
Plan deficit	\$ (422)	\$ (171)	\$ (4,409)	\$ (1,514)	\$ (4,296)
Unrecognized transitional (asset)/obligation	—	—	(1,292)	—	227
Unrecognized past service costs	—	—	—	—	(1,582)
Unrecognized net actuarial (gain)/loss	947	(47)	4,041	2,432	477
Accrued benefit asset (liability), March 31, 2010	\$ 525	\$ (218)	\$ (1,660)	\$ 918	\$ (5,174)

In addition to the above, there is a benefit obligation of \$148 (2010 – \$124) for a SIP defined contribution plan. Current period expense for this plan was \$22 (2010 – \$33). Current period expense for the employee defined contribution plan was \$820 (2010 – \$734).

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

Plan assets by asset category are as follows:

March 31, 2011	Former RS RPP	Former RS SIP	IIROC RPP	IIROC SERP	IIROC PRB
Equity securities	61.8%	0.0%	62.3%	23.9%	0.0%
Bonds	26.2%	0.0%	26.6%	17.6%	0.0%
Short term	5.3%	0.0%	4.3%	7.2%	0.0%
Deposit with CRA	0.0%	0.0%	0.0%	51.3%	0.0%
Real Estate Assets	6.7%	0.0%	6.8%	0.0%	0.0%
	100.0%	0.0%	100.0%	100.0%	0.0%

Notes to the Financial Statements

(Dollars in thousands)
March 31, 2011

6. Employee future benefits (continued)

March 31, 2010	Former RS		IIROC		IIROC
	RPP	SIP	RPP	SERP	PRB
Equity securities	50.9%	0.0%	59.2%	27.7%	0.0%
Bonds	47.2%	0.0%	34.3%	19.6%	0.0%
Short term	1.9%	0.0%	6.5%	0.7%	0.0%
Deposit with CRA	0.0%	0.0%	0.0%	52.0%	0.0%
	100.0%	0.0%	100.0%	100.0%	0.0%

The significant actuarial assumptions adopted in measuring the Organization's accrued benefit obligations are as follows (weighted-average assumptions as of March 31, 2011):

March 31, 2011	Former RS		IIROC		IIROC
	RPP	SIP	RPP	SERP	PRB
Discount rate	5.25%	5.00%	5.25%	5.00%	5.25%
Expected rate of return on plan assets	6.00%	—	6.00%	3.00%	—
Rate of compensation increase	4.00%	4.00%	4.00%	4.00%	—

March 31, 2010	Former RS		IIROC		IIROC
	RPP	SIP	RPP	SERP	PRB
Discount rate	5.75%	5.50%	5.75%	5.25%	5.75%
Expected rate of return on plan assets	6.00%	—	6.00%	3.00%	—
Rate of compensation increase	4.00%	4.00%	4.00%	4.00%	—

For measurement purposes, inflation of medical expenses was assumed to be 9.0% declining to 5% in annual increments of 0.5%. Inflation of dental costs was assumed to remain constant at 4.5%.

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

March 31, 2011	Former RS		IIROC		IIROC
	RPP	SIP	RPP	SERP	PRB
Employer contributions	\$ 350	\$ —	\$ 2,933	\$ —	\$ 62
Employee contributions	\$ 36	\$ —	\$ 705	\$ —	\$ —
Benefits paid	\$ (29)	\$ —	\$ (602)	\$ (443)	\$ (62)

March 31, 2010	Former RS		IIROC		IIROC	
	RPP	SIP	RPP	SERP	PRB	
Employer contributions	\$ 426	\$ —	\$ 1,845	\$ —	\$ 56	
Employee contributions	\$ 52	\$ —	\$ 687	\$ —	\$ —	
Benefits paid	\$ (130)	\$ —	\$ (554)	\$ (432)	\$ (56)	

7. Unrestricted Fund Expenses

The major categories of Compensation, Technology, Occupancy and Other costs make up IIROC's Operating Costs. In order to ensure costs, upon which fees are based, are segregated between Dealer Regulation and Market Regulation, IIROC uses a cost allocation model. These expense categories are first allocated to respective departments and then allocated to the two divisions. Indirect department costs are allocated to the divisions 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 the staff size and cost ratios where there is no direct causal link.

	2011	2010
Dealer Regulation Operating Costs		
Compensation	\$ 38,887	\$ 37,571
Technology	1,268	1,245
Occupancy	4,655	4,411
Other	6,194	5,364
	51,004	48,591
Market Regulation Operating Costs		
Compensation	12,100	11,508
Technology	8,815	8,607
Occupancy	1,314	1,206
Other	4,169	2,829
	26,398	24,150
Total Operating Costs	\$ 77,402	\$ 72,741

Notes to the Financial Statements

(Dollars in thousands)
March 31, 2011

8. Externally Restricted Fund

	2011	2010
Revenue		
Investigation fines	\$ 1,496	\$ 790
Interest	154	55
Late uniform termination notice	172	184
Continuing education fines	—	14
New membership fees	139	57
Late filing fines	14	30
	1,975	1,130
Expenses		
Hearing panel costs	1,715	1,798
Rule book project	265	91
Regulatory resources management systems	—	(67)
Amortization	8	7
Social and Enterprise Development Innovations	281	100
FAIR (Note 11)	743	282
Capital Market Cooperative Research Centre (Note 11)	150	150
Brokercheck	33	19
Funny Money Sponsorship (Note 11)	141	201
Member Education	261	232
Financial Industry Regulatory Authority course materials	—	3
IOSCO Sponsorship	75	—
	3,672	2,816
Deficiency of revenue over expenses	\$ (1,697)	\$ (1,686)

9. Externally Restricted ABCP Fund

	2011	2010
Revenue		
ABCP fines	\$ —	\$ 32,250
ABCP interest	226	12
	226	32,262
Excess of revenue over expenses	\$ 226	\$ 32,262

10. Merger Fund

	2011	2010
Revenue		
Interest	\$ 3	\$ —
Expenses (recovery)		
Sales tax recovery	(646)	(544)
Hiring and professional	—	21
Compensation	8	21
Space and facilities	—	11
Legal	165	80
Information technology transition	—	41
Miscellaneous	62	57
	(411)	(313)
Excess of revenue over expenses	\$ 414	\$ 313

11. Commitments

As at March 31, 2011, the basic minimum aggregate annual rental payments, excluding GST/HST and occupancy costs, net of expected recoveries from other parties under long term leases with varying expiry dates to February 18, 2024, for the Organization's premises are as shown below.

2012	\$ 2,769
2013	2,776
2014	2,419
2015	2,419
2016	2,339
Thereafter	17,079
	\$ 29,801

The Organization has also entered into a services agreement for the next three years until 2014 under which information technology and other administrative services are provided. Minimum payments for the upcoming years and in aggregate are as follows:

2012	\$ 6,240
2013	6,240
2014	1,040
	\$ 13,520

Notes to the Financial Statements

(Dollars in thousands)
March 31, 2011

11. Commitments (continued)

The Organization is a sponsor of the Canadian Investor Protection Fund (“CIPF”), which was established to protect customers who have suffered financial loss due to the insolvency of a Dealer Member of IIROC. IIROC has provided a \$100 million guarantee on bank lines of credit of the CIPF. At March 31, 2011, 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 \$381 million on hand as at December 31, 2010 (2009 – \$359 million); and, ii) lines of credit provided by two Canadian chartered banks totaling \$100 million (2009 – \$100 million) as noted above.

The Organization has agreed to establish the Canadian Foundation for the Advancement of Investor Rights (“FAIR”). The Organization is committed to funding the Foundation over a three year period to a maximum of \$3,750. As at March 31, 2011 the remaining commitment is \$897. Additionally, the Organization has committed to fund the Investor Education Foundation for the “Funny Money” program to a maximum of \$558. As at March 31, 2011 the remaining commitment is \$216. The Organization has also committed to fund the Capital Markets CRC for research work to a maximum of \$450. As at March 31, 2011 the remaining commitment is \$150.

12. Financial instruments

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

It is management’s opinion that the Organization is not exposed to significant interest or concentration of credit risks arising from these financial instruments. Credit risk is considered minimal as surplus funds are only invested in Canadian government backed securities or short-term deposits with Canadian chartered banks.

13. Comparative figures

Certain of the comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.

14. Subsequent event

Subsequent to year end, the Organization entered into a financing agreement to obtain a \$6,000,000 non-revolving term construction credit facility which will be used to finance the construction and refurbishment of the Organization’s main location and a \$4,000,000 revolving operating credit facility which will be used to finance the Organization’s ongoing working capital requirements.

Self-Regulation **At Work**

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

IIROC's 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: 153
 - Member Firms participating in District Councils: 121
 - Meetings: 68
 - Decisions: 220

Policy Advisory Committees

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

- Committee members: 357
- Firms and Marketplaces represented: 133
- Meetings: 59

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

Montréal

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Calgary

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Calgary, Alberta, T2P 0J1

Vancouver

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

1-877-442-4322

Web address: www.iroc.ca

IIROC – Key Facts

- Oversees **212** members and their **28,598** approved individuals
- Monitored **350,874,680** trades on **3** exchanges and **6** equity Alternative Trading Systems
- Coordinated **1,549** trading halts, **1,029** resumptions and **60** cease trade orders
- Conducted **305** on-site Business Conduct, Financial and Operations and Trading Conduct compliance firm reviews
- Completed **303** enforcement investigations
- Conducted **60** disciplinary hearings, issued **19** suspensions and **15** terminations, and assessed **\$4.9 million** in fines (excluding costs and disgorgement) for firms and individuals
- Published **16** rule proposals and implemented **9** rule revisions
- Provided compliance education opportunities for **11,066** registrants:
 - **27** educational webcasts with **10,010** industry participants
 - **6** live events with **1,056** industry participants
- Received **691** complaints about Marketplace issues, an increase of **43.9%**
- Received **449** complaints about Dealer firms, an increase of **4.7%**
- Received **1,248** complaints indirectly that were filed by clients with Dealer firms and then reported to IIROC electronically using ComSet, a **15.7%** decrease

IIROC Offices

