

# Building confidence in Canada's capital markets

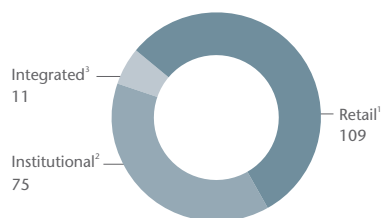


## INDUSTRY PROFILE – DEALERS

(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.  
<sup>1</sup> Managed Accounts, Type 1 & 2 Introducing and Discount Brokers.  
<sup>2</sup> Includes Corporate Finance and Proprietary Trading.  
<sup>3</sup> 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
<b>TOTAL</b>	<b>205</b>	<b>5,816</b>	<b>28,598</b>

### 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.

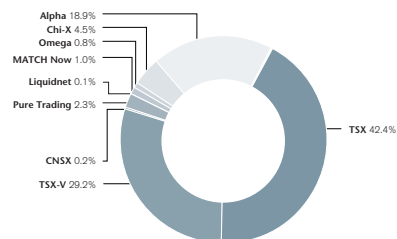
## INDUSTRY PROFILE – MARKETS

(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\*)

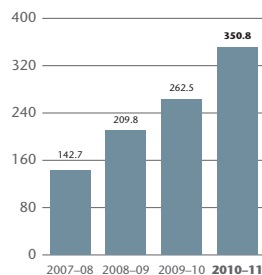


\* Note: Based on average of the percentages for the four quarters ended March 31, 2011.

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

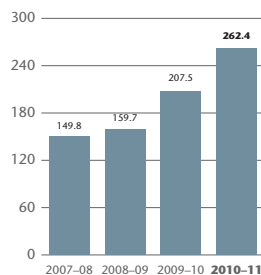
#### TRADES

number of transactions (millions)



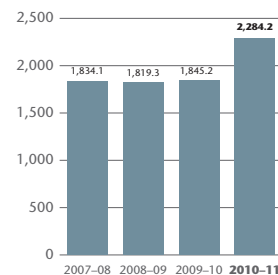
#### VOLUME

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 read '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.