



Corporate Governance Review Report

**Board of Directors
of the Investment Industry Regulatory
Organization of Canada**

May 28, 2010

Board of Directors

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I. Introduction

The Investment Industry Regulatory Organization of Canada (IIROC) was launched on June 1, 2008. IIROC is a self-regulatory organization that carries out the member regulation functions formerly performed by the Investment Dealers Association of Canada (IDA) and the market regulation functions formerly performed by Market Regulation Services Inc. (RS).

The objective of combining the IDA and RS was to create a single, independent self-regulatory organization with broader scope and the requisite capacity to better regulate investment dealers and trading activities on marketplaces and to respond quickly and effectively to rapidly evolving market developments. IIROC has sought to achieve this goal by simplifying, streamlining and consolidating market and dealer regulation within IIROC to enhance the effectiveness of the self-regulatory system, thereby maintaining fair, efficient and transparent markets and strengthening investor protection.

The formation of IIROC also provided an opportunity to improve the corporate governance structure employed by its predecessors.

IIROC's Recognition Order requires that IIROC "review the corporate governance structure, including the composition of the Board ... within two years after the date of recognition and periodically thereafter ... to ensure that there is a proper balance between, and effective representation of, the public interest and the interests of marketplaces, dealers and other entities desiring access to the services provided by IIROC."

The scope of such a review must be determined in light of IIROC's Governance Principles,¹ which must ensure:

- a. Effective oversight of the entity;
- b. Fair, meaningful and diverse representation on the governing body (Board) and any committees of the Board, including a reasonable proportion of independent directors;
- c. A proper balance among the interests of the different persons or companies subject to regulation by IIROC; and
- d. That each director or officer is a fit and proper person.

Accordingly, this report begins with an assessment of how each of these Governance Principles has been achieved under IIROC's current corporate governance structure

¹ The Governance Principles are set out in Section 1a. of Schedule 1 of the Recognition Order.

and concludes with recommendations as to how the governance structure can be improved. This report has been prepared by the Corporate Governance Committee (CGC) of the Board and, after due consideration, has been adopted by the Board of IIROC.

II. Effective oversight of the entity

IIROC is incorporated as a non-share capital corporation with two classes of members: Dealer Members and Marketplace Members. Dealer Members are investment dealers, in accordance with applicable Canadian securities legislation (including Alternative Trading Systems, which are required to be registered dealers and members of a recognized self-regulatory organization (SRO)), who are accepted for membership by the Board. Marketplace Members are the marketplaces that have retained IIROC as their regulation services provider pursuant to a regulation services agreement. Dealer Members and Marketplace Members have the same rights. Each Member has one vote.

Under IIROC's By-laws², IIROC's Board is to be comprised of 15 directors (including IIROC's President) with an equal number of independent directors and non-independent directors. Of the non-independent directors, five (5) must represent Dealer Members and two (2) must represent Marketplace Members (one of whom is to be the TSX's recommended nominee, provided the TSX is a Member and TSX markets have a Market Share of trading activity of all marketplaces of at least 40%. The other is to be associated with a marketplace other than a TSX-affiliated marketplace).

A central element in the present governance structure is the definition of "independence". In the case of public companies, "independence" means independence from management. In the case of IIROC, "independence" has a dual meaning – both independence from management and from the investment dealers that IIROC regulates and the marketplaces for which it provides regulation services. Section 1.1 of IIROC's By-law No. 1 defines "Independent Director" as a director who is not:

- a. an officer (other than the Chair or any Vice-Chair) or an employee of IIROC;
- b. a person who qualifies as a Dealer Director or a Marketplace Director; or
- c. an Associate of a partner, director, officer, employee or person acting in a similar capacity of, or the holder of a Significant Interest in, a Dealer Member or Marketplace Member.

² Extracts of the relevant portions of IIROC's By-law No. 1 are attached as Appendix 1 to this report.

In order to promote an orderly turnover in directors, IIROC's By-laws, with one exception³, provide for two-year terms, with no director, other than the President and CEO, to be eligible to serve more than four consecutive terms. The By-laws do not require prior service on the IDA or RS boards to count toward the foregoing term limits. In practice, however, the CGC, in its role as nominating committee, intends to count prior two-year periods of service at the IDA or RS as terms of service toward the term limits set out in IIROC's By-laws in order to expand opportunities for turnover and for new directors to serve on the Board.

Under IIROC's By-laws, the Board is responsible for supervising the management of the affairs of IIROC. The By-laws also require that IIROC have three standing committees – the Corporate Governance Committee (CGC), the Finance and Audit Committee (FAC) and the Human Resources and Pension Committee (HRPC) – which complement and augment the Board's supervisory mandate and contribute to the effective oversight of IIROC. The Board and each of these standing committees have adopted and adhere to detailed charters outlining the scope of their respective responsibilities, copies of which are appended to this report as Appendix 2.

The Board oversees the appointment of a management team to manage the day-to-day operations of IIROC. It also oversees and supervises the management of the business of IIROC by that team and oversees IIROC's systems of corporate governance and financial reporting and controls. It has a function independent of management and is not responsible for the day-to-day affairs of IIROC but focuses on strategic issues that will enhance the success of IIROC in achieving its mandate. The specific responsibilities of the Board in the areas of (i) appointment and supervision of management, (ii) governance, strategic planning and risk management, (iii) financial management and reporting, (iv) fiduciary and legal requirements and (v) overseeing IIROC's enforcement of rules, subject to the Board's Code of Conduct, as well as requirements as to how the Board is to operate are described in the Board's charter appended to this report.

The FAC's basic responsibility is to review and report to the Board on IIROC's annual financial statements. The FAC must be composed of at least five directors, a majority of whom must be independent directors⁴. IIROC management and staff are not members of the FAC and, under its charter, may attend FAC meetings by invitation only (the President, the Senior Vice President, Finance and Administration, the Vice President, Finance and such other staff members as are deemed appropriate are normally invited to attend FAC meetings or a portion thereof). In order to assist the Board in its oversight of accounting and financial reporting processes and processes related to

³ The only exception is that the initial directors after the launch of IIROC were divided into those with three-year and those with two-year initial terms to facilitate staggered terms, so those directors with an initial term of three years could serve a period of up to nine consecutive years.

⁴ The regulation services agreement entered into between IIROC and the TSX provides that so long as the TSX has a nominee on IIROC's Board, it will be entitled to representation on the FAC.

internal risk management and control systems, the FAC's responsibilities under its charter are more extensive in the financial area than its basic responsibility under the By-laws. Such responsibilities include not only oversight of external audit activities and the preparation of annual financial statements but also the review of: operating and capital budgets; quarterly financial statements; IIROC's fee model; cost allocations; and the adequacy of internal controls and of risk management policies and procedures.

The HRPC has no mandatory independence requirements with respect to its composition, although under its charter, it must be composed of at least five directors. IIROC management and staff are not members of the HRPC and, under its charter, may attend HRPC meetings by invitation only (the President, the Senior Vice President, Finance and Administration, the Director, Human Resources and such other staff members as are deemed appropriate are normally invited to attend HRPC meetings or a portion thereof). Under its charter, the HRPC assists the Board in its oversight of IIROC's human resources policies and procedures, benefits and pension plans and in ensuring regulatory compliance thereof. Specific responsibilities under its charter include reviewing and advising the Board on human resources matters related to executive management (retention, employment and severance), the Chief Executive Officer (succession planning, compensation and development) and independent director compensation and reviewing human resources policies, employee compensation and benefits/pension plans, including funding and compliance with legal requirements. Independent directors on the HRPC recuse themselves when the HRPC deals with independent director compensation matters.

The CGC plays a central role in the governance structure of IIROC. Under its charter, among other responsibilities, the CGC functions as a nominating committee for Board members and monitors the overall effectiveness of IIROC's corporate governance, including the conduct of governance reviews as set out in the Recognition Order. Under the By-laws, the CGC is to be comprised of five directors, all of whom must be independent unless a Chair, who is non-independent, is a member of the CGC. During the first year of IIROC's operation, the Chair, who was a non-independent member of the Board, was a member of the CGC. At the present time, the CGC consists entirely of independent directors. IIROC management and staff are not members of the CGC and, under its charter, may attend CGC meetings by invitation only (the President and such other staff members as are deemed appropriate are normally invited to attend CGC meetings or a portion thereof).

The CGC is responsible for making recommendations to the Board, where necessary, as to the independence of directors. It also makes recommendations to the Board with respect to the assignment of directors to serve on various Board committees. Another key responsibility of the GCG is conducting an appropriate process for, and overseeing the self-assessment of, the Board and its committees and reviewing the performance of incumbent directors for purposes of re-nomination. The CGC also appoints members to the Hearing Committee from which hearing panels are selected, and reviews and approves the use of restricted funds, i.e., fine and settlement monies.

In addition, the CGC is responsible for: ensuring that there is a proper orientation process for new directors; ensuring that IIROC identifies and manages potential conflicts of interest through written policies and procedures and consideration of specific conflict issues as they arise; conveying within IIROC basic values of ethical integrity as well as the imperatives of legal compliance; approving policies and processes designed to ensure high ethical standards and integrity for staff and Board members and periodically reviewing ethical reporting policies and procedures to ensure their effectiveness; and conducting or overseeing, as appropriate, inquiries into any matter brought to its attention within the scope of its duties. The Chair of the CGC also participates in discussions at the HRPC regarding succession planning for the President and CEO.

The key elements of IIROC's present governance structure described above are, in our experience, commensurate with best practices and governance structures of Canadian public companies and public entities and promote the effective oversight of IIROC.

III. Fair, meaningful and diverse representation and a proper balance of interests on the Board and committees of the Board

The Board should be, under IIROC's By-laws, comprised of seven independent directors and seven non-independent directors, plus the President. Presently, as a result of the recent resignations of one non-independent director and one independent director, the Board is comprised of 13 directors (six independent directors, six non-independent directors and the President). The CGC is presently comprised of independent directors and the FAC is comprised of a majority of independent directors (including its Chair).

Of the non-independent directors, the By-laws require that at least two such directors represent Marketplace Members (which is the case at present), thereby ensuring that Marketplace Members (including the TSX) have their views represented on the Board. Of the four Dealer Directors presently on the Board, three are associated with Canadian or foreign bank-owned Dealer Members and one is associated with a non-bank-owned, independent Dealer Member. The Dealer Director who has recently resigned was associated with a non-bank-owned, independent Dealer Member as well.

The independent directors presently in office represent a diverse range of backgrounds and experience in the corporate sector (including "buy side" experience), capital markets regulation, academia, law and accounting.

Geographically, seven of the directors reside in Ontario, two in Quebec, two in Western Canada and two in the United States, thus providing broad diversity across Canada and including a valuable comparative perspective from the United States. The CGC acknowledges, however, the need to seek appropriate representation from Atlantic Canada.

The results above indicate that the present governance structure ensures a fair, meaningful and diverse representation on the Board and its committees and a proper balance among the interests of the differing persons who are regulated by IIROC.

In order to further test that this is indeed the case, the CGC directed IIROC's management to conduct a benchmarking study of board composition comparing comparable organizations with IIROC. The CGC requested that the comparable organizations be the Mutual Fund Dealers Association (MFDA), the Financial Industry Regulatory Authority (FINRA) and the Ontario Securities Commission (OSC), as well as the IDA and RS. The OSC is included as a reference although its Commissioners also have an adjudicative role that goes beyond that of the IIROC Board.

The results of this benchmarking study⁵ indicate that: the size of the IIROC Board, the type and composition of its committees and the percentage of independent directors (50% plus the President and CEO) is consistent with the benchmarked organizations; the IIROC Board is similarly diversified from a geographical and gender perspective; and the representation of different backgrounds among IIROC's directors is in line with the benchmarked organizations.

In terms of the definition of independence in the context of directors, the IIROC definition is similar to the existing benchmarked SROs but does not impose a minimum one-year "cooling-off period" following industry involvement. Also, the FINRA definition of Public Governor combines both aspects of a rule-based approach to independence similar to that of IIROC and aspects of a principles-based approach to independence like that adopted by the OSC with respect to Commissioner independence.

See pages 11-13 for our recommendations concerning the size of the Board, the definition of director independence and the implementation of a "cooling-off period".

IV. Each director or officer is a fit and proper person

Since IIROC was launched in June, 2008, the CGC and management of IIROC have implemented practices designed to improve the director selection process, the assessment of individual directors, Board and committee performance and effectiveness, and the director election process. The objective of such initiatives is to ensure that IIROC's Board is composed of individuals who are not only fit and proper to act as directors of IIROC but also meet the representational requirements and the evolving needs of IIROC, and effectively contribute to the Board and its committees. The CGC believes that IIROC has been successful in meeting these representational requirements and achieving a standard of excellence in Board appointments.

⁵ Appendix 3 sets out the results of the benchmarking study. Appendix 4 sets out the different definitions of director independence used by the benchmarked organizations.

With respect to the officers and other management of IIROC, the Board oversees generally IIROC's management with the assistance of the HRPC, which under its charter has responsibility to review and advise the Board on matters relating to executive management, including recruitment, employment and severance arrangements, development and succession planning. The President and CEO of IIROC is responsible for, and has been provided wide scope in respect of, the selection, recruitment, assessment and remuneration of the management team. In doing so, the President and CEO consults with and reports regularly to the Chair of the Board, the HRPC and the full Board on executive management matters. Officers of IIROC are ultimately appointed (and may be removed) by the Board in consultation with the President and the HRPC. In addition, the senior officers of IIROC frequently present to the Board and the Board has a full opportunity to assess their performance in this context.

a. Director Selection

The primary factors in the selection of directors at IIROC are an assessment of integrity and merit, the mandatory composition requirements of the Board, candidates' qualifications and the fact that the Board as a whole must represent, reflect and be sensitive to the interests of the investors, members and markets that IIROC regulates and serves. Additional considerations are the need to balance regional representation from across Canada, and for a reasonable level of continuity in SRO governance by including former directors of the IDA and RS during IIROC's formative period.

Each potential candidate is required to complete a questionnaire, which is designed to determine whether the candidate meets IIROC's definition of independence. Each candidate is also subject to background checks conducted by IIROC's Office of the General Counsel, based upon IIROC's enforcement database and publicly available information. Finally, the most promising candidates are personally interviewed by representatives of the CGC, the Chair of IIROC and IIROC's Chief Executive Officer in order to both assess the candidate and to answer the candidate's questions about IIROC and the responsibilities of its Board members. The results of these inquiries are reported back to the CGC for use in its evaluation of the candidate's suitability.

The CGC has augmented this general approach with additional structure. The CGC has surveyed the present members of the Board to more systematically determine the characteristics and skill sets of our Board members. This skills matrix is being used by the CGC to more readily identify gaps in such skill sets. This information will be taken into consideration when assessing potential nominees. One of the issues that the CGC (and the Board) has been especially cognizant of is the need to ensure that the interests of institutional and retail investors are represented on the Board. The CGC will continue to assign a high priority to achieving that objective in the director selection process, particularly for independent directors. The Chair of the CGC led a discussion at the March 24, 2010 Board meeting concerning the skill sets that the IIROC Board presently possesses and recruitment priorities.

In 2009, the CGC formalized its recruitment process and timeline (see Appendix 5). This procedure is being followed for the September, 2010 annual meeting.

b. Board and Committee Self-Assessments

To date, the self-assessment process has related to the performance and effectiveness of the Board and each committee on a collective basis. Additionally, comments have been solicited on the effectiveness of the Chair of the Board and the Chair of each committee.

In accordance with best practices for board performance assessment, commencing in the current fiscal year, assessments will also be performed on an individual basis with each director being assessed by his or her peers. This information will be compiled by an outside service provider who will maintain the confidentiality of this information, except that a summary of each director's performance will be made available to the Chair of the Board and the Chair of the CGC. Where material weaknesses are identified, the Chairs of the Board and of the CGC will consider ways of improving performance and will consider this information, and corrective measures, in the re-nomination process. The individual summaries will be made available to each director and summaries concerning the collective performance of the Board and individual committees will be made available to all directors.

c. Background Information about Directors/Nominees

In connection with its first annual meeting in September, 2009, IIROC provided detailed biographical information of its director nominees to its Members.

With respect to these disclosures and the election process generally, we have taken into account that the election must reasonably be on the basis of an entire proposed slate of candidates because of the constituencies required to be represented under the By-laws and the need to strike an overall balance in Board composition – voting for individual directors could result in a failure to achieve the necessary balance and to ensure that the Board as a whole reflects the above-noted requirements.

We propose to provide biographical (and related) information concerning directors that is comparable to that provided by Canadian public companies so that Members exercise an informed vote based on reasonable knowledge of the nominees. See our recommendations at page 13 concerning proposed enhancements to such disclosures.

d. Proxy Solicitation Process

For IIROC's September, 2009 annual meeting, proxies were sent to the Ultimate Designated Person for each Member by IIROC's Office of the General Counsel. However, in the future, when proxies are to be solicited, IIROC recognizes that a conflict of interest may appear to be present if its staff solicits proxies for any matter to be put to a vote of its Members. The Board has therefore directed that the proxy

solicitation process be carried out by an outside service provider. This procedure will be implemented for the 2010 annual meeting.

V. Recommendations

The CGC and the Board believe that the present corporate governance structure is effective and meets the requirements set out in the Recognition Order. We also believe that any governance structure must be viewed as an evolving set of rules and practices, responding to best practices in related fields and experience in practical governance. This is particularly true for a new organization such as IIROC that strives to keep abreast or ahead of changes in the industry for which it is the SRO and the changes in the larger financial community.

In order to further develop the governance structure, we have the following recommendations:

1. Increase the Maximum Size of the Board

We believe that permitting the Board to be composed of up to 17 directors (while maintaining the requirement that there be an equal number of independent and non-independent directors) would allow additional flexibility in ensuring that there is appropriate representation on the Board of the diverse constituencies and interests that are served across Canada by IIROC. With only five Dealer Director seats currently available, it is difficult to ensure that there is appropriate representation from various geographical regions of Canada of the different dealer constituencies, which include bank-owned dealers, independent dealers, foreign-owned dealers, retail firms, including those that offer discretionary management, firms specializing in venture capital finance and proprietary trading firms, among others. Such flexibility would be valuable in addressing this issue and also provide us with the ability to have another independent constituency represented on the Board. We are cognizant of the need to keep the Board's size to a level that will not impede its effectiveness, but believe, based on our practical experience in Board deliberations, that the potential addition of two more directors to represent varied constituencies would not impede the Board's effectiveness.

2. Establish the Position of Vice-Chair

We believe that having a director appointed as Vice-Chair, as permitted by the By-laws, will permit the sharing of the Chair's workload, provide a valuable source of continuity and experience in the face of the increasingly complex work of IIROC and allow for succession planning by allowing the Vice-Chair to prepare for his or her possible appointment as Chair. We anticipate appointing one or more Vice-Chairs following the 2010 annual meeting.

We also recommend that either the Chair or a Vice-Chair, if non-independent directors, be permitted to serve on the CGC. At present, only the Chair, if non-independent, can serve on the CGC. Given the time commitments faced by the Chair, this has meant that the Chair may be unable to serve on the CGC. Both the CGC and the Board believe that having one member from the industry leadership on the Board included on the CGC provides a valuable source of industry insight and experience for the CGC and that one non-independent member out of the five person CGC has not and will not compromise its overall independence.

3. Principles-based Exception to the Definition of Independence

While we recognize that maintaining a proper balance on the Board of industry and non-industry representation is a key tenet of the Board's composition, obtaining the right mix of skills, expertise and experience on IIROC's Board is, we believe, also fundamental to ensuring good governance of IIROC. The present rule-based definition of "Independent Director", particularly when combined with the broad scope of the definition of "Associate" (see Appendix 4) has the effect of being excessively exclusionary on a technical versus substantive basis.

The CGC has found that some very able candidates for the Board with tenuous connections with the industry have been barred from serving as independent directors. Examples of such tenuous industry connections resulting in individuals not being qualified to serve as independent directors are:

- a. An individual who is an independent director of a financial holding company that has the power through partially controlled subsidiaries to vote 10% of the voting rights of a Dealer Member – and her or his spouse;
- b. An individual who is an employee of an entity that is a limited partner in a limited partnership in which a Dealer Member is a limited or general partner and regardless of whether the partnership engages in activities subject to IIROC rules.

At the same time, such candidates would not appropriately be viewed as industry representatives and therefore are unlikely to be nominated as industry directors.

The Board and the CGC believe that we should be seeking the best independent candidates with needed skill sets and that purely technical impediments to independence should not be determinative. We therefore recommend that the definition of independence be modified to provide the CGC with the discretion to determine that an individual is independent if it is satisfied, notwithstanding the technical definition of independence, that he or she does not have, and is not likely to have, an actual conflict of interest based on his or her position or status in relation to a dealer or marketplace. As a further check on the exercise of this discretion, we propose

that this exception to the definition of independence require the unanimous vote of the CGC.

4. Cooling-Off Period for Independence

At present, IIROC's By-laws are silent on what minimum period must elapse after an individual leaves the industry or employment with IIROC, before he or she could be considered to be independent. We propose that the By-laws be modified to require a one-year "cooling-period" before an individual connected with a dealer, a marketplace or with IIROC itself could be considered independent. A one-year "cooling-off period" is consistent with the rules of both the MFDA and FINRA.

5. Background Information Concerning Directors

The CGC proposes that the biographical (and related) information provided to Members in connection with the vote on the slate of directors be enhanced so as to be comparable with that applicable to Canadian public companies. Among other matters, this disclosure would:

- Group directors/nominees as Independent Directors and Industry Directors and provide detailed biographies for directors/nominees similar to that provided for the September, 2009 annual meeting, but also include length of Board tenure, other board commitments and repeat committee membership.
- Expand biographies to more specifically detail each director's area of expertise as it relates to Board/committee requirements.
- Identify directors who serve together on other boards, i.e. interlocking directorships, or disclose there are none.
- Describe the process for soliciting and assessing potential director candidates and the process for reviewing the performance of the Board, its committees and individual directors.
- Continue to provide a summary in the Annual Report of each director's attendance at Board and committee meetings (including the total number of Board and committee meetings held during the year and the director's rate of attendance).
- Continue to provide a summary of director compensation in the Annual Report, including a table of total fees paid to each Independent Director and to the Board as a whole.

We intend to implement the enhanced disclosure starting with IIROC's 2010 annual meeting.

VI. Conclusion

As required under IIROC's Recognition Order, we have conducted a review of IIROC's governance structure and have concluded that the present governance structure, as detailed in this report, does ensure that there is a proper balance between, and effective representation of, the public interest and the interests of marketplaces, dealers and other entities desiring access to the services provided by IIROC. More specifically, we believe that the present governance structure and arrangements ensure: effective oversight of IIROC; fair, meaningful and diverse representation on the Board and its committees, including a reasonable proportion of independent directors; a proper balance among the interests of the persons subject to IIROC regulation; and that each director and officer of IIROC is a fit and proper person.

We also recognize that governance is a dynamic process and that IIROC's governance structure must evolve and change as circumstances and requirements change and as a result of the lessons learned from practical experience with the governance structure. Since IIROC's launch in June, 2008, the Corporate Governance Committee and Board of IIROC have continuously reviewed and monitored our governance structure and considered and implemented changes designed to improve its effectiveness. Our recommended changes to the existing governance structure presented in this report are a reflection of this ongoing process and our commitment at IIROC to developing the most effective governance structure in the interests of our stakeholders.⁶

⁶ The Board wishes to acknowledge the valuable contributions made to this report by Jill Denham, a former director who served on the CGC during its deliberations.

Appendix 1 – Extracts from IIROC By-law No.1

ARTICLE 5 BOARD OF DIRECTORS

Section 5.1 Number and Qualifications

Subject to the Letters Patent, the Board shall be comprised of fifteen Directors. Directors must be individuals, 18 years of age, with power under law to contract. A majority of the Directors shall be resident Canadians. Directors need not be Members.

Section 5.2 First Directors

The applicants for incorporation shall become the first Directors of the Corporation whose term of office on the Board shall continue until their successors are elected in accordance with the following sentence. The First Members referred to in Section 3.1 shall elect a Board comprised of up to fifteen directors, constituted as set forth in Section 5.3(2), who shall replace the Directors named in the Letters Patent and the term of office of such Directors shall continue until their successors are elected at the first annual meeting of Members as set forth in Section 5.4.

Section 5.3 Director Representation

- (1) At all times, the Board shall consist of an uneven number of Directors, which shall include the President and an equal number of Independent Directors and Non-Independent Directors; and
- (2) Subject to Section 5.2, the Board shall be comprised of fifteen Directors as follows:
 - (i) Two Marketplace Directors,
 - (ii) Five Dealer Directors,
 - (iii) Seven Independent Directors, and
 - (iv) The President who shall be appointed to the Board.

Section 5.4 Election and Term

- (1) Subject to Section 5.2 and subsection 5.4(2), the term of each Dealer Director, Independent Director and Marketplace Director elected at a meeting of Members shall expire at the dissolution or adjournment of the second annual meeting of Members following the annual meeting of Members at which the Director was elected.
- (2) At the first annual meeting of Members, fourteen Directors shall be elected and the Board shall designate:

- (a) Three of the positions of Independent Director, two of the positions of Dealer Director and one of the positions of Marketplace Director to be for a term that shall expire at the second annual meeting of Members; and
 - (b) Four of the positions of Independent Director, three of the positions of Dealer Director and one of the positions of Marketplace Director to be for a term that shall expire at the third annual meeting of Members.
- (3) With the exception of the President, a Director may be elected to serve four consecutive terms in office but shall not be eligible to be elected to serve a fifth consecutive term. For purposes of determining the number of consecutive terms in office of a Director elected by the First Members in accordance with Section 5.2 who is re-elected at the first annual meeting of Members in accordance with subsection 5.4(2), his or her term in office prior to the first annual meeting of Members shall not be included. Those Directors elected at the first annual meeting of Members to serve for an initial one year term shall be limited to three additional consecutive terms in office.

Section 5.5 Recommendation of Director Nominees for Election

- (1) Prior to each annual meeting of Members at which Directors are to be elected:
- (a) The Corporate Governance Committee shall review and select for recommendation to the Board as nominees such number of qualified candidates for election as Dealer Directors, Marketplace Directors and Independent Directors as are to be elected at the annual meeting. The Corporate Governance Committee will evaluate individual candidates based on their ability to contribute a range of knowledge, skills and experience and having regard for the required composition of the Board and the fact that the Board, as a whole, should be representative of the Corporation's various stakeholders;
 - (b) In selecting nominees for election at a particular annual meeting the Corporate Governance Committee shall ensure that, if each of the nominees is elected, the Board would have:
 - (i) at least one Director, who need not be a Marketplace Director, with experience and expertise in respect of public venture equity markets,
 - (ii) a Marketplace Director recommended by TSX for nomination by the Corporate Governance Committee if, at the date of the selection of nominees:
 - (A) TSX is a Member, and

- (B) the aggregate of the Market Share of TSX and each Marketplace that is an associate or an affiliated entity of TSX is not less than forty percent, and
- (iii) at least one Director, who need not be a Marketplace Director, who is a partner, director, officer or employee of:
 - (A) a Marketplace,
 - (B) an associate of a Marketplace, or
 - (C) an affiliated entity of a Marketplace,

other than TSX or a Marketplace that is an associate or an affiliated entity of TSX; and
- (c) If a Marketplace Director recommended for nomination by TSX is to be elected at the annual meeting, TSX shall notify the secretary of the Corporation in writing of the recommendation of a qualified candidate for nomination and election as one of the Marketplace Directors.
- (2) The Board shall nominate for election to the Board at the annual meeting the persons as determined in accordance with this Section 5.5.
- (3) The Members shall not elect to the Board at any annual meeting any person who has not been nominated by the Board in accordance with this Section 5.5.

Section 5.6 Vacancies

The office of Director shall be automatically vacated:

- (a) If a resolution to remove the Director has been approved by the Members in accordance with Section 4.7(b);
- (b) In the case of a Director appointed to the Board by reason of holding the office of President, if the Director ceases to be President;
- (c) In the case of an Independent Director, if the Director ceases to be qualified as an Independent Director;
- (d) If a Director shall have resigned the office by delivering a written resignation to the secretary of the Corporation;
- (e) If the Director is found by a court to be of unsound mind;
- (f) If the Director becomes bankrupt; or
- (g) If the Director dies.

Section 5.7 Filling Vacancies

If a vacancy in the Board shall occur for any reason, the vacancy shall be filled (allowing a reasonable period of time for doing so) for the balance of the term of the Director that vacated the office by a resolution passed by the Board appointing a Director, provided that:

- (a) If the vacancy is caused by the departure of the President, the person to be appointed to the office of the President has been appointed by the Board;
- (b) If the vacancy is caused by the departure of an Independent Director, Dealer Director or Marketplace Director, the person to be appointed has been identified and recommended by the Corporate Governance Committee and in the case of a vacancy of:
 - (i) an Independent Director, the person recommended is qualified as an Independent Director,
 - (ii) a Dealer Director, the person recommended is qualified as a Dealer Director, and
 - (iii) a Marketplace Director, the person recommended is qualified as a Marketplace Director;
- (c) In recommending a person for appointment to fill a vacancy the Corporate Governance Committee shall ensure that, if the person recommended is appointed, the Board would have:
 - (i) at least one Director, who need not be a Marketplace Director, with particular experience and expertise in respect of public venture equity markets,
 - (ii) a Marketplace Director recommended for appointment by TSX if, at the date of the recommendation:
 - (A) TSX is a Member, and
 - (B) the aggregate of the Market Share of TSX and each Marketplace that is an associate or an affiliated entity of TSX is not less than forty percent, and
 - (iii) at least one Director, who need not be a Marketplace Director, who is a partner, director, officer or employee of:
 - (A) a Marketplace,

- (B) an associate of a Marketplace, or
- (C) an affiliated entity of a Marketplace,

other than TSX or a Marketplace that is an associate or an affiliated entity of TSX;

- (d) If a Marketplace Director recommended for appointment by TSX is to be appointed, TSX shall notify the secretary of the Corporation in writing of the recommendation of a qualified candidate for appointment; and
- (e) If the vacancy is caused by the failure to elect the required number of Directors, the Board may appoint a Director to fill the vacancy on the basis that the vacancy arose by reason of the departure of an Independent Director, Dealer Director or Marketplace Director (including a Marketplace Director to be recommended by TSX) and the provisions of subsections 5.7(b), (c) and (d) shall apply according to whether the vacancy relates to an Independent Director, Member Director or Marketplace Director, as the case may be.

Section 5.8 Remuneration of Directors

The Board may determine from time to time such reasonable remuneration, if any, to be paid to the Independent Directors for serving as such and the Board may determine that such remuneration need not be the same for all Directors. Non-Independent Directors shall not receive remuneration for serving as such. Directors may be reimbursed for reasonable expenses incurred by a Director in the performance of the Director's duties.

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ARTICLE 6 POWERS OF DIRECTORS

Section 6.1 Administer Affairs

The Board shall supervise the management of the affairs of the Corporation. Subject to the By-laws and the Act, the powers of the Board may be exercised by resolution passed at a meeting at which a quorum is present or by resolution in writing signed by all the Directors entitled to vote on that resolution at a meeting of the Board. If there is a vacancy on the Board, the remaining Directors may exercise all the powers of the Board so long as a quorum remains in office.

Section 6.2 Expenditures

The Board shall have power to authorize expenditures on behalf of the Corporation from time to time and may delegate by resolution to an officer or officers of the Corporation the right to employ and pay salaries to employees.

Section 6.3 Borrowing Power

- (1) The Board is hereby authorized, from time to time, without the authorization of the Members:
 - (a) To borrow money upon the credit of the Corporation;
 - (b) To limit or increase the amount to be borrowed;
 - (c) To issue or cause to be issued, bonds, debentures or other securities of the Corporation and to pledge or sell the same for such sums, upon such terms, covenants and conditions and at such prices as may be deemed expedient by the Board;
 - (d) To secure any such bond, debentures or other securities, or any other present or future borrowing or liability of the Corporation, by mortgage, hypothec, charge or pledge of all or any currently owned or subsequently acquired real and personal, movable and immovable, property of the Corporation, and the undertaking and rights of the Corporation; and
 - (e) Delegate to a committee of the Board, a Director or an officer or officers of the Corporation all or any of the powers conferred on the Board under this subsection to such extent and in such manner as the Board may determine at the time of such delegation.
- (2) The powers hereby conferred shall be deemed to be in supplement of and not in substitution for any powers to borrow money for the purposes of the Corporation possessed by its Directors or officers independently of this By-law.

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ARTICLE 11 COMMITTEES AND ADVISORY BODIES

Section 11.1 Committees of the Board

The Board may from time to time in its discretion appoint from their number one or more committees of the Board with such powers as the Board may determine including, without limitation, the authority to exercise any of the powers of the Board and to act in all matters for and in the name of the Board under the By-laws and Rules, except in each case where By-laws or Rules specifically require an action by, or

approval of, the Board. The members of any committee established by the Board shall be appointed annually at the first meeting of Directors following the annual meeting of Members at which Directors have been elected. Unless otherwise provided in this By-law, any Director shall be entitled to be appointed to any committee and a majority of the members of a committee present in person or by telephone shall constitute a quorum, provided that if Independent Directors must be members of the committee, the quorum must also include a majority of the Independent Directors who are members of the committee.

Section 11.2 Corporate Governance Committee

The Board shall establish a Corporate Governance Committee composed of at least five Directors, and may include the Chair. Unless the Chair is a Non-Independent Director, all of the members shall be Independent Directors. The chair of the Corporate Governance Committee shall be an Independent Director elected by the members of the Corporate Governance Committee. The Corporate Governance Committee shall perform such duties as the Board may delegate or direct from time to time.

Section 11.3 Finance and Audit Committee

The Board shall establish a Finance and Audit Committee composed of at least five Directors of whom a majority shall be Independent Directors. The chair of the Finance and Audit Committee shall be an Independent Director elected by the members of the Finance and Audit Committee. The Finance and Audit Committee shall review and report to the Board on the annual financial statements of the Corporation and shall perform such other duties as the Board may delegate or direct from time to time.

Section 11.4 Human Resources and Pension Committee

The Board shall establish a Human Resources and Pension Committee composed of at least five Directors. The chair of the Human Resources and Pension Committee shall be elected by the members of the Human Resources and Pension Committee. The Human Resources and Pension Committee shall perform such duties as the Board may delegate or direct from time to time.

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Appendix 2 – IIROC Board and Committee Charters

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA ("IIROC")

BOARD CHARTER

Introduction

The mandate of IIROC is to regulate as a self-regulatory organization in respect of persons who are or were formerly (i) dealer members, (ii) members, users or subscribers of or to marketplaces for which IIROC is a RSP, (iii) the respective representatives of any of the foregoing and (iv) other persons subject to the jurisdiction of IIROC. The objectives of IIROC are to protect investors, foster investor confidence and enhance the fairness, integrity and efficiency of Canadian capital markets.

The Board of Directors of IIROC will oversee the appointment of a competent management team to manage the day-to-day operations of IIROC and will oversee and supervise the management of the business of IIROC by that team. The Board will oversee IIROC's systems of corporate governance and financial reporting and controls to ensure that IIROC reports adequate and fair financial information and engages in ethical and legal corporate conduct.

Governance Framework

IIROC is a self-regulatory body, acting in the public interest and subject to oversight by the Canadian Securities Administrators.

The Board is vested with all powers necessary for the management and administration of IIROC's regulatory and business operations. The Board has a function independent of management and is not responsible for the day-to-day affairs of IIROC. Rather, the Board should focus its energy and expertise on those critical strategic issues that will enhance the success of IIROC in achieving its mandate. In this regard, the Board has the responsibility to be informed, investigate and act as necessary to promote IIROC's regulatory mandate and to oversee the management of the financial and other affairs of IIROC, including its strategic planning, resource allocation, risk management, financial reporting policies and procedures, and effectiveness of internal controls and management information systems.

The Board should adopt governance structures and processes in order to support high ethical standards and integrity and superior organizational performance.

The composition and selection of the Board is described in IIROC's By-law No. 1.

Authority and Responsibilities of the Board

Board members are responsible for the oversight of management and must exercise their business judgement on an informed basis, in good faith, and with the honest belief that the actions taken will serve the best interests of IIROC and its stakeholders. Board members are also responsible for ensuring that IIROC complies with its self-regulatory mandate to protect investors, foster investor confidence and enhance the fairness, integrity and efficiency of Canadian capital markets.

Board members are expected to:

- attend Board and Committee meetings;
- participate effectively in all Board and Committee deliberations;
- observe strict confidentiality of all matters presented to the Board or their appropriate Committee;
- raise possible conflicts of interest issues to the appropriate staff or the Corporate Governance Committee for prompt resolution; and
- act in the best interests of IIROC, consistent with their fiduciary duty.

Board members are expected to comply with the Code of Conduct for Directors (“**Board Code**”), which has been adopted to reflect a commitment to the highest standards of ethical and business conduct. Each director should become familiar with and abide by the specific ethical standards set forth in the Board Code, as well as any interpretations and procedures issued thereunder. Board members are encouraged to consult with IIROC’s General Counsel if there is any doubt as to whether a particular transaction or course of conduct complies with or is subject to the Board Code.

The Board shall periodically review the allocation of powers between management and the Board, and determine whether these grants of authority are consistent with the changing needs of IIROC and its stakeholders.

Specific Responsibilities

The Board’s responsibilities include the following:

Appointment and Supervision of Management

Appoint the President and Chief Executive Officer (“**CEO**”) and senior vice presidents and provide them with advice and counsel.

Review and approve the compensation philosophy and guidelines for establishing senior management compensation, including incentive awards and benefit plans.

Monitor the performance of the CEO against a set of mutually agreed upon objectives and approve CEO compensation.

Review the process that is in place with respect to the appointment, development, evaluation and succession of senior management.

Review and approve the entering into by the Corporation of material contracts.

Establish limits of authority delegated to management, including expenditure limits.

Review and consider for approval all major organizational changes, and material amendments or departures proposed by management from established strategy, financial plan or matters of policy.

Governance, Strategic Planning and Risk Management

Review IIROC's corporate governance model periodically to ensure that the model appropriately reflects the evolution of the Canadian capital markets and investment dealer industry.

Review and approve any required changes in IIROC's By-laws or Articles of Incorporation and any other matters requiring member or regulatory approval.

Provide guidance to management on emerging trends and issues.

Adopt a strategic planning process that includes a review of IIROC's vision, mission, values and strategic goals.

Review and approve annually IIROC's strategic and operating plans to ensure that they are consistent with the corporate vision and in compliance with IIROC's regulatory and legal obligations.

Monitor the effectiveness of, and management's implementation of, IIROC's strategic and operating plans.

Review the integrity and effectiveness of IIROC's internal controls and management information systems

Ensure that IIROC has sufficient financial resources for the proper performance of its regulatory responsibilities.

Oversee management's identification of the principal risks affecting IIROC's ability to fulfill its regulatory responsibilities and management's implementation of appropriate processes to manage those risks.

Financial Management and Reporting

Review and approve IIROC's annual financial plan.

Monitor financial results relative to established strategic and financial plans.

Receive and approve annual and quarterly financial statements and review and oversee IIROC's compliance with applicable audit, accounting and financial reporting requirements.

Review IIROC's fee model periodically to ensure that it is charging fees on a cost-recovery basis and the fee model otherwise continues to meet the requirements of all applicable recognition orders.

Meet with external auditors not less frequently than annually.

Fiduciary and Legal Requirements

Review and confirm that IIROC is performing its regulatory functions in accordance with all applicable recognition orders.

Adopt a code of conduct for directors and confirm that management has adopted a code of conduct for officers and employees and monitor compliance with these codes.

Approve significant, in the determination of management, internal policies and procedures of IIROC.

Disciplinary and Settlement Proceedings

Oversee IIROC's enforcement of rules, subject to the Code of Conduct.

Operation of the Board

The Board will meet at least four times a year, or more frequently as it deems necessary to carry out its responsibilities.

The Chair and the CEO, with the support of the Corporate Secretary, will establish an agenda for each Board meeting. Board materials will be distributed to the Board on a timely basis and in advance of the Board meeting.

The Chair will oversee Board meetings to ensure that such meetings are conducted in an orderly fashion.

Board members are expected to attend and participate regularly in Board and Committee meetings consistent with general fiduciary standards and the governance requirements of IIROC.

An in camera session of all directors may be held after every board meeting to offer the opportunity for all Board members (including the CEO) to meet without management as well as for the Board to meet without the CEO. The Chair shall report to the CEO and Corporate Secretary any actions taken during these in camera sessions.

The Board will appoint Board Committees to facilitate and assist in the execution of the Board's responsibilities. IIROC's Board Committees include the Corporate Governance, Finance and Audit and Human Resources and Pension Committees.

In discharging its responsibilities, the Board will have the authority to obtain, at IIROC's expense, advice and assistance from internal resources and external advisors or professionals it deems appropriate.

**INVESTMENT INDUSTRY REGULATORY
ORGANIZATION OF CANADA
("IIROC")**

CORPORATE GOVERNANCE COMMITTEE CHARTER

Mandate

The Corporate Governance Committee (the "**Committee**") is appointed by the Board of IIROC and charged with (a) recommending to the Board candidates eligible to serve on the Board and its committees with a view to ensuring that the Board reflects the national character of IIROC and draws upon the diversity and expertise of its members, (b) reviewing the governance principles and practices of IIROC, (c) ensuring that IIROC identifies and manages potential conflicts of interest, (d) establishing a process for, and overseeing, self-assessment by the Board and its committees, and (e) appointing individuals to IIROC's Hearing Committee.

Membership

The Committee shall consist of five directors and may include the Chair of the Board. Unless the Chair of the Board is a non-Independent Director, all of the Committee members shall be Independent Directors. The Chair of the Committee will be elected by the members of the Committee and shall be an Independent Director.

Members of the Committee, including the Chair, will be appointed by the Board for one year terms.

Organization

The Committee will meet at least four times a year, or more frequently as it deems necessary to carry out its responsibilities. Meetings may be called by the Chair or a majority of the members of the Committee. A majority of the Committee members will constitute a quorum and the act of the majority of the Committee members present at any meeting at which a quorum is present will be the act of the Committee. Each meeting may include a closed session at which only members of the Committee are present.

Attendance by invitation at all or a portion of Committee meetings is determined by the Committee Chair or its members, and would normally include the Chief Executive Officer and such other officers or support staff as may be deemed appropriate.

In discharging its responsibilities, the Committee will have the authority to obtain, at IIROC's expense, advice and assistance from internal resources and external advisors or professionals it deems appropriate.

The Committee has the authority to make recommendations to the Board, but does not have decision-making authority unless such authority is specifically provided by resolution of the Board.

The Committee will periodically report to the Board and will report each year with respect to the activities of the Committee in compliance with this charter. It will assess the adequacy of this charter annually and may propose changes to the Board for approval. The Committee will annually review its own performance and report the results to the Board.

Specific Responsibilities

The Committee's specific responsibilities include the following:

- (1) Broadly consult to identify and recommend to the Board, in accordance with IIROC's By-law, qualified candidates to be elected to the Board and as are necessary to fill vacancies and newly created directorships and determine the eligibility of any proposed nominees based on the By-law criteria and a desire to ensure that the Board, as a whole, reflects the skills, experience, expertise and judgement necessary to effectively oversee the regulatory and other operations of IIROC. The Committee will consider all relevant factors in nominating directors to ensure that the composition of the Board: (a) complies with the requirements of IIROC's by-laws, (b) otherwise reflects, in the judgement of the Committee, the appropriate balance of interests and perspectives of IIROC's Members and stakeholders, and (c) addresses, in the judgement of the Committee, all potential conflicts of interest. Without limiting the generality of the foregoing, the Committee will consider, for each potential director:
 - (i) the business interests of the candidate or entities with which the candidate is associated;
 - (ii) ownership interests in Members held by entities with which the candidate is associated;
 - (iii) the extent of overlap and/or integration of the boards and/or management between Members and entities with which the candidate is associated (for example, consideration of the extent to which there are common managers and/or directors as between the candidate's firms and an ATS); and
 - (iv) contractual relationships between Members or IIROC and the candidate or entities with which the candidate is associated.

- (2) Make recommendations to the Board with respect to determinations of director independence, where necessary.
- (3) Recommend to the Board Committee Chair and membership appointments.
- (4) Appoint qualified individuals to the Hearing Committee (from which disciplinary panels are appointed), in accordance with IIROC's rules. In respect of Dealer Hearing Committee members the appointment process shall be based on the recommendations of the relevant District Councils. In the case of Marketplace Hearing Committee members, the appointment process shall be based on the recommendations of the Marketplace members.
- (5) Monitor the overall effectiveness of IIROC's corporate governance, including:
 - (i) conducting the Board's governance review as set out in the recognition order;
 - (ii) periodically reviewing the appropriateness of IIROC's corporate governance guidelines, policies and practices, including the identification of governance priorities;
 - (iii) monitoring the effectiveness of the Board, including its overall size, structure and composition, and making recommendations to the Board with respect thereto;
 - (iv) periodically reviewing the composition, mandate and membership of each Board Committee and making recommendations to the Board with respect thereto; and
 - (v) ensuring that IIROC's corporate governance practices and policies are transparent and communicated clearly to the public.
- (6) Establish an appropriate process for and oversee the self-assessment of the Board (including Board and Committee self-assessments).
- (7) Review the performance of incumbent directors for purposes of determining whether to nominate such directors for re-election.
- (8) Ensure that there is a proper orientation process for new directors.
- (9) Ensure that IIROC identifies and manages potential conflicts of interest through written policies and procedures (and periodically review and report to the Board as to the appropriateness of such policies and procedures). Consider questions of possible conflicts of interest of Board members and of senior management. Review and approve material transactions with any related party.

- (10) Convey within IIROC basic values of ethical integrity as well as the imperatives of legal compliance.
- (11) Approve policies and processes designed to ensure high ethical standards and integrity for staff and Board members.
- (12) Periodically review the effectiveness of ethical reporting policies and procedures to ensure their effectiveness, including reviewing procedures for the confidential receipt, retention and treatment of complaints or concerns regarding ethical matters or conflicts of interest and for the protection from retaliation of those who report such complaints or raise such concerns in good faith.
- (13) Conduct or oversee, as appropriate, inquiries into any matter brought to its attention within the scope of its duties.
- (14) Review and approve the use of restricted funds (i.e., fine and settlement monies).
- (15) Chair of the Committee will participate in meetings of the Human Resources & Pension Committee with respect to matters relating to CEO succession planning and report to the Committee.

**INVESTMENT INDUSTRY REGULATORY
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("IIROC")**

FINANCE AND AUDIT COMMITTEE CHARTER

Mandate

The Finance and Audit Committee (the "**Committee**") is appointed by the Board of IIROC and charged with assisting the Board in its oversight of (a) the integrity of IIROC's accounting and financial reporting processes, (b) the qualifications, independence and performance of IIROC's independent auditor, and (c) IIROC's processes relating to its internal risk management and control systems.

Membership

The Committee shall consist of at least five directors, including a nominee of TSX (to the extent required pursuant to TSX's Regulation Services Agreement) and a majority of Independent Directors. Each member of the Committee will be financially literate, as such qualification is interpreted by the Board in its business judgement, or become financially literate within a reasonable time after appointment to the Committee. At least one member of the Committee will have accounting or related financial management expertise, as such qualification is interpreted by the Board in its business judgement.

Members of the Committee will be appointed by the Board for one year terms upon the recommendation of the Corporate Governance Committee. The Chair of the Committee will be elected by the members of the Committee and shall be an Independent Director.

Organization

The Committee will meet at least four times a year, or more frequently as it deems necessary to carry out its responsibilities. Meetings of the Committee may be called by the Chair or a majority of the members of the Committee. A majority of the Committee members will constitute a quorum and the act of a majority of the Committee members present at any meeting at which a quorum is present will be the act of the Committee.

Attendance by invitation at all or a portion of Committee meetings is determined by the Committee Chair or its members, and would normally include the Chief Executive Officer, the Senior Vice President, Finance and Administration, the Vice President, Finance and such other officers or support staff as may be deemed appropriate.

The Committee will meet privately in separate sessions with senior management, the independent auditor and the senior internal audit executive and will meet without management present as necessary or appropriate. The Committee is authorized to request information from the CEO or any officer or employee of IIROC or its outside legal counsel or independent auditors or to request that any such persons attend a meeting of the Committee or meet with any members of, or advisors to, the Committee.

In discharging its responsibilities, the Committee will have the authority to obtain, at IIROC's expense, advice and assistance from internal resources and external advisors or professionals it deems appropriate.

The Committee has the authority to make recommendations to the Board, but does not have decision-making authority unless such authority is specifically provided by resolution of the Board.

The Committee will periodically report to the Board and will report each year with respect to the activities of the Committee in compliance with this charter. It will assess the adequacy of this charter annually and may propose changes to the Board for approval. The Committee will annually review its own performance and report the results to the Board.

Specific Responsibilities

The Committee's specific responsibilities include the following:

Oversight of External Audit Activities

- (i) Recommend to the Board the appointment of, oversee the work of, evaluate the qualifications, performance and independence of, and determine compensation for the independent external auditor. In evaluating the performance of the auditor, the Committee will evaluate the performance of the auditor's lead partner and will consider whether the provision of non-audit services is compatible with maintaining the auditor's independence. The Committee will present its conclusions with respect to the auditor to the Board.
- (ii) Review and approval of the annual audit plan, including proposed audit scope, focus areas, timing, staffing and key decisions underlying the audit plan (i.e., materiality), as well as appropriateness and reasonableness of proposed audit fees.
- (iii) Review significant communications from the auditor including material unadjusted items and the management letter to be issued.

- (iv) Review the findings of the audit, including: an assessment of critical accounting policies and practices in use and the impact of any new reporting or accounting requirements; alternative accounting treatments of financial information within generally accepted accounting principles that have been discussed with management and the treatment preferred by the auditor; any material communications between the auditor and management (such as the management representation letter and statement of unadjusted differences).
- (v) Ensure that the underlying accounting policies, disclosure and key estimates are considered to be the most appropriate in the circumstances, within the range of acceptable alternatives.
- (vi) Review with the auditor any problems or difficulties in auditing IIROC's financial statements and management's responses.
- (vii) Facilitate open communications among the auditor, management, any internal audit function and the Board.

Finance, Financial Reporting and Internal Controls

- (i) Review the annual operating and capital budgets for submission to the Board for approval.
- (ii) Review quarterly financial statements and any financial forecasts, including management reports and analysis of key performance indicators, for submission to the Board.
- (iii) Meet to review and discuss with management and the auditor the Company's financial statements and review with them significant financial reporting issues and judgements made in connection with the preparation of such statements, including IIROC's critical accounting principles and any significant changes to those principles or their application, the effect of off-balance sheet structures on IIROC's financial statements, and material or non-financial arrangements that do not appear in IIROC's financial statements.
- (iv) Periodically review IIROC's fee model to ensure that it continues to meet the requirements of the relevant Recognition Orders.
- (v) Periodically review the allocation of costs, to ensure that IIROC operates on a cost-recovery basis and that such costs are allocated equitably.

Oversight of Risk Management and Internal Controls

- (i) Periodically review the adequacy of internal controls and inquire on the practices and procedures of IIROC that enable management's reliance on internal control systems and report or make recommendations to the Board thereon.
- (ii) Review with management and the independent auditor any major issues as to the adequacy of IIROC's internal controls, any special steps adopted in light of material control deficiencies and the adequacy of disclosures about internal controls over financial reporting.
- (iii) Assess the adequacy of risk management policies and procedures of IIROC, including an assessment of the adequacy of insurance coverage.
- (iv) Discuss IIROC's major financial and other significant risk exposures or deficiencies, and the steps management has taken or proposes to take to monitor and control or mitigate such exposures and deficiencies.
- (v) Periodically assess whether IIROC has implemented the appropriate risk management and internal control culture.
- (vi) Review reports on any litigation matters that could materially affect the financial statements or operations of IIROC.

Other Responsibilities

- (i) Review procedures for the confidential receipt, retention and treatment of complaints or concerns regarding accounting or auditing matters or internal controls and for the protection from retaliation of those who report such complaints or raise such concerns in good faith.
- (ii) Conduct or oversee, as appropriate, inquiries into any matter brought to its attention within the scope of its duties.

**INVESTMENT INDUSTRY REGULATORY
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HUMAN RESOURCES AND PENSION COMMITTEE CHARTER

Mandate

The Human Resources and Pension Committee (the "**Committee**") is appointed by the Board of IIROC and charged with ensuring that IIROC can attract and retain personnel with the appropriate status and experience to achieve its corporate objectives by offering compensation, pension and benefit plans that are competitive, motivating and rewarding. The mandate of the Committee includes ensuring that IIROC can attract and retain a workforce that will enhance the professionalism and effectiveness of the organization. The Committee is charged with assisting the Board in its oversight of IIROC's human resources policies and procedures, benefits and pension plans and with ensuring regulatory compliance thereof.

Membership

The Committee shall consist of at least five directors. Members of the Committee will be appointed by the Board for one year terms upon the recommendation of the Corporate Governance Committee. The Chair of the Committee will be elected by the members of the Committee.

Organization

The Committee will meet at least two times a year, or more frequently as it deems necessary to carry out its responsibilities. Meetings of the Committee may be called by the Chair or a majority of the members of the Committee. A majority of the Committee members will constitute a quorum and the act of a majority of the Committee members present at any meeting at which a quorum is present will be the act of the Committee.

Attendance by invitation at all or a portion of Committee meetings is determined by the Committee Chair or its members, and would normally include the Chief Executive Officer, the Senior Vice President, Finance and Administration, the Director, Human Resources and such other officers or support staff as may be deemed appropriate.

In discharging its responsibilities, the Committee will have the authority to obtain, at IIROC's expense, advice and assistance from internal resources and external advisors or professionals (including compensation and pension consultants) it deems appropriate.

The Committee has the authority to make recommendations to the Board, but does not have decision-making authority unless such authority is specifically provided by resolution of the Board.

The Committee will periodically report to the Board and will report each year with respect to the activities of the Committee in compliance with this charter. It will assess the adequacy of this charter annually and may propose changes to the Board for approval. The Committee will annually review its own performance and report the results to the Board.

Specific Responsibilities

The Committee's specific responsibilities include the following:

- (1) Review periodically, and at least annually, IIROC's human resources policies and employee compensation and benefits plans (including pension and supplementary income plans), including oversight of the funded status of such plans and review of compliance of such policies and plans with applicable law and their alignment with IIROC's mission and strategic direction.
- (2) Review and advise the Board and CEO with respect to human resources matters relating to executive management, including recruitment, employment and severance arrangements, development and succession planning.
- (3) Review and advise the Board with respect to human resources matters relating to the CEO, including succession planning, compensation and development plans for the CEO. The Chair of the Corporate Governance Committee will be invited to attend such meetings of HR&P C when CEO succession planning is discussed.
- (4) Review procedures for the confidential receipt, retention and treatment of complaints or concerns regarding human resources or pension matters and for the protection from retaliation of those who report such complaints or raise such concerns in good faith.
- (5) Review and advise the Board with respect to Independent Director compensation.
- (6) Conduct or oversee, as appropriate, inquiries into any matter brought to its attention within the scope of its duties.

Appendix 3 – Governance Benchmarking

	IIROC	RS	IDA	MFDA	OSC	FINRA
Board Size	15 (currently, 13 directors in office)	13	11	13	13	23
Committees	<ul style="list-style-type: none"> • Corporate Governance • Finance and Audit • Human Resources and Pension 	<ul style="list-style-type: none"> • Corporate Governance • Finance and Audit • Human Resources 	<ul style="list-style-type: none"> • Audit • Nominating • Compensation • HR & Pension 	<ul style="list-style-type: none"> • Executive Governance • Audit & Finance • Regulatory Issues 	<ul style="list-style-type: none"> • Governance and Nominating • Audit and Finance • Human Resources and Compensation • External Compensation 	<ul style="list-style-type: none"> • Audit • Finance • Nominating • Small Firm Governor • Large Firm Governor
Independence	<ul style="list-style-type: none"> • 7 Independent (6 currently) • 7 Non-Independent (6 currently) • President & CEO 	<ul style="list-style-type: none"> • 6 Independent • 6 Non-Independent • President & CEO 	<ul style="list-style-type: none"> • 5 Independent • 5 Non-Independent • President & CEO 	<ul style="list-style-type: none"> • 6 Public • 6 Industry • President & CEO 	<ul style="list-style-type: none"> • 3 Full-time • 10 Part-time 	<ul style="list-style-type: none"> • 2 “Neutral” [FINRA’s CEO and NYSE Regulation, Inc.’s rep.] • 11 Public • 10 Industry
Geographic	<ul style="list-style-type: none"> • 7 Ontario • 2 Quebec • 2 Western • 2 U.S. 	<ul style="list-style-type: none"> • 7 Ontario • 2 Quebec • 2 Western • 2 U.S. 	<ul style="list-style-type: none"> • 5 Ontario • 2 Quebec • 3 Western • 1 Eastern 	<ul style="list-style-type: none"> • 9 Ontario • 3 Western • 1 Eastern 	• N/A	• N/A
Gender	<ul style="list-style-type: none"> • 10 men • 3 women 	<ul style="list-style-type: none"> • 10 men • 3 women 	<ul style="list-style-type: none"> • 9 men • 2 women 	<ul style="list-style-type: none"> • 10 men • 3 women 	<ul style="list-style-type: none"> • 9 men • 4 women 	<ul style="list-style-type: none"> • 20 men • 3 women
Representation	<ul style="list-style-type: none"> • Independent: 3 corporate (Adams, LeClair, Rocchi) / 1 academic (Muzyka) / 1 legal (Vingoe) / 1 trading (Gagne) • Non-Independent: 2 bank-owned (McGregor, Khalili) / 1 non-Canadian bank-owned 	<ul style="list-style-type: none"> • Independent : 1 trading (Bertrand) / 1 academic (Kirzner) / 2 legal (Vingoe, Pascutto) / 2 corporate (Rocchi, Perry) • Non-Independent : 1 bank-owned (Moriarty) / 1 small dealer 	<ul style="list-style-type: none"> • Independent: 4 corporate (Black, Copland, Grandin, LeClair) / 1 academic (Muzyka) • Non-Independent: 3 bank-owned (Lounsbery, Barton, Porter) / 1 non-Canadian bank-owned (Lloyd) / 1 	<ul style="list-style-type: none"> • Public: 4 corporate / 1 academic / 1 legal • Industry: 3 bank-owned / 3 independent 	<ul style="list-style-type: none"> • Full-time: 1 industry / 2 legal • Part-time: 4 industry / 3 accounting / 1 academic / 2 legal 	<ul style="list-style-type: none"> • Public: 5 corporate / 4 academic / 2 government • Industry: 1 Floor Member / 1 Independent Dealer/ Insurance Affiliate / 1 Investment Company Affiliate / 3 Small Firm / 1 Mid-Size Firm / 3

	(Lloyd) / 1 independent (Casgrain) / 2 trading (TSX (Kloet), non-TSX (Cohen))	(Jennings) / 1 ATS (Garland) / 1 exchange (Parkhill) / 1 regulatory (Wolburgh-Jenah) / 1 legal (Martel)	independent (Casgrain)			Large Firm
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Appendix 4 - Definitions of Director Independence

IIROC - By-Law No. 1

“Independent Director” means a Director who is not:

- (a) an officer (other than the Chair or any Vice-Chair) or an employee of the Corporation;
- (b) a person who qualifies as a Dealer Director or a Marketplace Director; or
- (c) an Associate of a partner, director, officer, employee or person acting in a similar capacity of, or the holder of a Significant Interest in, a Dealer Member or Marketplace Member.

“Associate”, where used to indicate a relationship with any person, means:

- (a) any corporation of which such person beneficially owns, directly or indirectly, voting securities carrying more than ten percent (10%) of the voting rights attached to all voting securities of the corporation for the time being outstanding;
- (b) a partner of that person;
- (c) any trust or estate in which such person has a substantial beneficial interest or as to which such person serves as trustee or in a similar capacity;
- (d) any relative of that person who resides in the same home as that person;
- (e) any person who resides in the same home as the person and to whom that person is married or with whom that person is living in a conjugal relationship outside of marriage; or
- (f) any relative of a person mentioned in clause (e) above, who has the same home as that person.

“Dealer Director” means a Director, other than a Marketplace Director, who is a partner, director, officer, employee or a person acting in a similar capacity of, or the holder of a Significant Interest in:

- (a) a Dealer Member;
- (b) an Associate of a Dealer Member; or
- (c) an affiliated entity of a Dealer Member.

“Marketplace Director” means a Director, other than a Dealer Director, who is a partner, director, officer, employee or person acting in a similar capacity of, or the holder of a Significant Interest in:

- (a) a Marketplace Member;
- (b) an Associate of a Marketplace Member; or
- (c) an affiliated entity of a Marketplace Member.

“Significant Interest” means in respect of any person the holding, directly or indirectly, of the securities of such person carrying in aggregate 10% or more of the voting rights attached to all of the person’s outstanding voting securities.

MFDA – Proposed By-law 15 adopted at October 2009 Special Meeting

“Public Director” means a Director who is not:

- (a) an officer (other than the Chair or a Vice-Chair) or an employee of the Corporation;
- (b) a current partner, director, officer, employee or person acting in a similar capacity of, or the holder of a Significant Interest in:
 - a. a Member;
 - b. an Associate of a Member; or
 - c. an affiliate of a Member; or
- (c) an Associate of a partner, director, officer, employee or person acting in a similar capacity of, or the holder of a Significant Interest in, a Member.

“Associate”, where used to indicate a relationship with any person, means:

- (a) any corporation of which such person beneficially owns, directly or indirectly, voting securities carrying more than 10 per cent of the voting rights attached to all voting securities of the corporation for the time being outstanding;
- (b) a partner of that person;
- (c) any trust or estate in which such person has a substantial beneficial interest or as to which such person serves as trustee or in a similar capacity;
- (d) any relative of such person who resides in the same home as that person;
- (e) any person who resides in the same home as the person and to whom that person is married, or with whom that person is living in a conjugal relationship outside of marriage; or

- (f) any relative of a person mentioned in clause (e) above who has the same home as such person.

“Significant Interest” means in respect of any person the holding, directly or indirectly, of the securities of such person carrying in aggregate 10% or more of the voting rights attached to all of the person’s outstanding voting securities.

In addition, the Terms of Reference for the MFDA Governance Committee provide for a minimum one-year “cooling-off period” for Public Directors: each nominee for Public Director must have qualified as a Public Director for a period of at least one year prior to the commencement of the nominee’s term of office, provided that “the Committee may determine that a longer period is warranted in any particular circumstance”.

OSC – Member Profile – Member/Director Attributes

Members must be independent of management (with the exception of the Chair and the Vice-Chairs).

All Members must be free from any interest or business or other relationship which could or could reasonably be perceived to materially interfere with the Member’s ability to act with a view to the best interests of the Commission in the achievement of its objectives. Members are not precluded from acting on corporate or not-for-profit boards during their term of office. However, all Members must adhere to the Commission’s Code of Conduct relating to conflicts of interest in relation to the conduct of the affairs of the Commission.

When exercising their independent judgment as a Member, a Director, a member of a Committee, or a member of a tribunal, Members must recuse themselves from any matter that gives rise to conflict of interest concerns, or where there may be a perception of conflict, or a perception that a Member may not bring objective judgment to their consideration of the matter.

FINRA – By-laws

“Public Governor” ... means any Governor or committee member who is not the Chief Executive Officer of the Corporation ... who is not an Industry Governor and who otherwise has no material business relationship with a broker or dealer or a self regulatory organization registered under the Act (other than serving as a public director of such a self regulatory organization).

“Industry Governor” ... means the Floor Member Governor, the Independent Dealer/Insurance Affiliate Governor and the Investment Company Affiliate Governor and any other Governor (excluding the Chief Executive Officer of the Corporation ...) or committee member who: (1) is or has served in the prior year as an officer, director (other than as an independent director), employee or controlling person of a broker or dealer, or (2) has a consulting or employment relationship with or provides professional services to a self regulatory organization registered under the Act, or has

had any such relationship or provided any such services at any time within the prior year.

Appendix 5 – Recruitment Plan 2009/2010

1. CGC reviews Board and committee self-assessments and considers Board effectiveness. For the next fiscal year, the assessments process will be expanded to include peer assessments of individual directors.
2. CGC develops tentative recruiting priorities based on director characteristics.
3. CGC presents Board profile to the full Board and leads a discussion of recruiting priorities.
4. Current Board, outgoing Board members and past Chairs are asked for suggested nominees on a continuing basis.
5. The primary responsibility of the Chair of the Board and/or CEO is to seek recommendations of potential nominees from the industry for all categories of directors and to brief the CGC on these consultations at each meeting. The Chair of the CGC, other members in consultation with the Chair, and/or the Chair's designee will do the same from non-industry groups and report to the CGC.
6. The Chair of the CGC will periodically have a search conducted for Independent Director candidates through selected publicly available director databases and report on results to the CGC.
7. Possible nominees by category and date of inclusion are added to a database maintained by the GCO of possible nominees.
8. GCO will immediately conduct a preliminary review for independence and disciplinary matters from public sources and IIROC records. The Chair of the CGC will raise any issues with the CGC and the CGC will assess fitness and suitability and may determine to remove or defer nominees on the basis of such circumstances.
9. The CGC will identify particular candidates to whom a preliminary approach should be made to gauge their interest and to assess whether serving on the Board is consistent with their other responsibilities. The Chair of the Board or CEO at the Chair's direction shall make the preliminary approach to any potential Dealer or Marketplace Director. The Chair of the CGC or such Chair's designee shall make the initial approach to potential Independent Directors. Other directors may be invited to participate in these preliminary discussions if helpful in facilitating introductions.
10. By the end of the first calendar quarter, the CGC should determine which existing directors will be nominated for re-election and their willingness to serve. The Chair of the Board or the CEO will contact each Dealer or Marketplace

Director expected to continue to determine their willingness to do so. The Chair of the CGC will do the same with Independent Directors.

11. In April and May of each year the CGC will meet to consider their recommendations for the slate of directors.
12. Those potential nominees who have expressed interest and have been tentatively selected for recommendation by the CGC will have an opportunity to be informed about the mission of IIROC and the role and expectations for directors and to ask questions of IIROC representatives. The CEO and staff will make themselves available to answer any questions and meet with any proposed candidates, as applicable. There will also be a formal orientation session for all new directors, either prior or after appointment at the annual general meeting, as appropriate in the circumstances.
13. The potential nominees will be asked to confirm their willingness to serve and the CGC will make a final determination of fitness and suitability. Independent Director nominees will be asked to carefully review and confirm their independent status. The GCO will prepare information to be presented to the Board summarizing the material information obtained concerning the nominee and the process that was undertaken in reaching the recommendation.
14. The CGC will make its recommendations to the Board in June or as soon thereafter as reasonably feasible.