



RAISING THE BAR

ANNUAL REPORT 2011–2012

How We Work

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

IIROC's National Advisory Committee	IIROC's 10 District Councils	Policy Advisory Committees
<ul style="list-style-type: none">• Serves as a forum for Chairs of the District Councils to raise and discuss matters of interest, provide input on policy initiatives and report to the IIROC Board of Directors three times a year.	<ul style="list-style-type: none">• Address registration and membership matters, raise issues of regional interest and add perspective to national issues, including policy issues.• Ensure regional input into the regulatory process – an integral component of self-regulation.<ul style="list-style-type: none">• District Council members: 156• Member Firms participating in District Councils: 125• Meetings: 78• Decisions: 179	<ul style="list-style-type: none">• Financial Administrators Section• Compliance and Legal Section• Fixed Income Committee• Market Rules Advisory Committee• Education and Proficiency Committee<ul style="list-style-type: none">• Committee members: 595• Firms and Marketplaces represented: 130• Meetings: 76

IIROC – Key Facts

Oversees

211 Members and
28,870
approved individuals

Conducted

303
on-site Business Conduct,
Financial and Operations and
Trading Conduct compliance
firm reviews

Provided compliance education
opportunities for

37,224 registrants
28 educational webcasts with nearly
36,000 industry participants and 10 live
events with 1,225 industry participants

Held

73
disciplinary hearings, issued
29 suspensions and 9 terminations

Completed

189 enforcement
investigations

Published

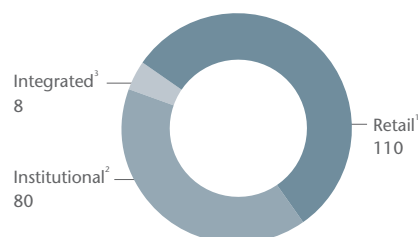
12 rule proposals and
implemented **4** rule revisions

INDUSTRY PROFILE – DEALERS

(All statistics are as at March 31, 2012)

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



* Based on the number of Dealer Members that filed financial statements with IIROC as of March 31, 2012.

¹ Managed Accounts, Type 1 & 2 Introducers and Discount Brokers.

² Includes Corporate Finance and Proprietary Trading.

³ National firms engaged in proprietary trading, retail and institutional business.

Individuals and Firms under IIROC Regulation (By Province)

Province	Approved Persons	Branch Offices	Head Offices
YT	4	5	0
NT	0	2	0
NU	0	0	0
BC	4,574	1,130	16
AB	2,934	852	17
SK	539	196	0
MB	552	139	3
ON	14,554	2,835	136
QC	4,722	612	29
PE	68	18	0
NB	293	90	1
NS	514	157	3
NF	116	31	0
TOTAL	28,870	6,067	205

Member Firms (By Revenue)

Revenue	% of Firms
Greater than \$1 billion	3
Greater than \$100 million	9
Greater than \$10 million	30
Greater than \$1 million	40
Less than \$1 million	18

Member Firms (By Number of Approved Individuals) % of Firms

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

54-to-1

Ratio of orders to trades on Canadian equity markets.

Monitored

399,648,130

trades on 3 exchanges and 9 Alternative Trading Systems

Coordinated

1,345

 trading halts,

881

 resumptions and

96

 cease trade orders

Received

734

 complaints

about Marketplace issues, an increase of 6.2%

Received

448

 complaints

about Dealer firms, a decrease of 0.7%

Received

1,365

 complaints

indirectly that were filed by clients with Dealer firms and then reported to IIROC, a 9.4% increase

INDUSTRY PROFILE – MARKETS

(All statistics are as at March 31, 2012)

IIROC regulates trading activity on three stock exchanges (TSX, TSX-Venture and CNSX, which also operates the Pure Trading facility) and nine Alternative Trading Systems (ATSs). These include four lit or displayed ATSs (Chi-X Canada, TMX Select, Alpha ATS, Omega ATS) and five dark pools (Instinet Canada Cross Ltd., TriAct MATCH Now, Liquidnet Canada, Bloomberg Tradebook Canada and Sigma ATS).

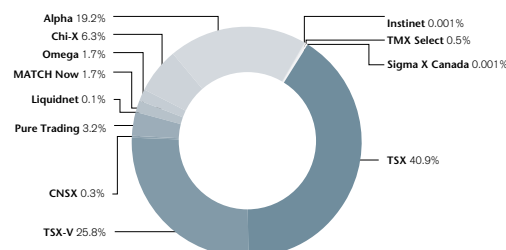
* Alpha changed from an ATS to an exchange in April of 2012.

* Sigma X Canada ceased operations as a marketplace in April 2012.

* Bloomberg Tradebook Canada is an active member but has recorded no trading volume.

Canada's Multiple Marketplaces

Where trading took place in 2011-12 (by volume)*

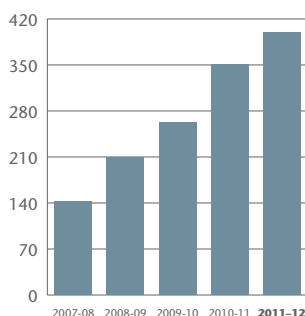


* Based on the average of the percentages for the four quarters ended March 31, 2012.

Activity on the Equity Marketplaces Whose Trading Activity Is Regulated by IIROC

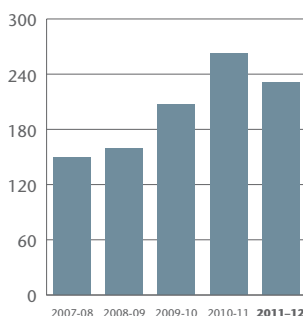
TRADES

number of transactions (millions)



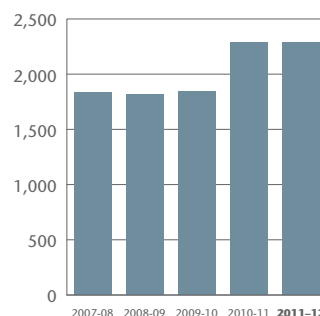
VOLUME

total shares traded (billions)



VALUE

of shares traded (\$ billion)





IIROC is the national self-regulatory organization that oversees all investment dealers and trading activity on debt and equity marketplaces in Canada. IIROC sets high-quality regulatory and investment industry standards, protects investors and strengthens market integrity while maintaining efficient and competitive capital markets. IIROC carries out its regulatory responsibilities through setting and enforcing rules regarding the proficiency, business and financial conduct of dealer firms and their registered employees through setting and enforcing market integrity rules regarding trading activity on Canadian equity markets.

IIROC MANDATE	IIROC VISION	IIROC VALUES
We set and enforce high-quality regulatory and investment industry standards, protect investors and strengthen market integrity while maintaining efficient and competitive capital markets.	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.	<p>Act with Integrity – We conduct ourselves in an ethical manner in accordance with the highest degree of fairness and professionalism.</p> <p>Be Accountable – We act in a timely, diligent and responsive manner.</p> <p>Be Proactive – We are open to new ideas as we anticipate and collaborate to meet the challenges of a constantly changing environment.</p>

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Message from the Chair

It has been a year of significant achievements for the Investment Industry Regulatory Organization of Canada, against the backdrop of continued dramatic change and transformation in Canadian capital markets and the financial services industry.

The guidance of the Board of Directors, the effective leadership of the management team and tremendous commitment of staff continue to serve IIROC well in performing its regulatory mandate in this challenging environment.

This year saw important policy reforms in both dealer member and marketplace regulation, including the much-anticipated Client Relationship Model initiative, the implementation of new fee models, as well as numerous reforms to continue to safeguard market integrity during a period of change in capital markets.

I wish to acknowledge the work and commitment of our outgoing Directors, who have contributed strategic and practical guidance on complex issues and emerging trends, and welcome our incoming Directors, whose energy and expertise will prove invaluable.



I would also like to recognize the important contribution made by the industry we regulate, through our District Councils, numerous committees and widespread participation in the policy process and IIROC's stakeholder outreach initiatives.

It has been my honour to have been involved in the stewardship of this self-regulatory organization, this past year as IIROC's first independent Chair and earlier as a Director. Since serving on the steering committee that oversaw the merger of the Investment Dealers Association of Canada and Market Regulation Services Inc. in 2008, I have been witness to the impressive evolution of IIROC as it delivers on its strategic vision under the leadership of Susan Wolburgh Jenah, its dedicated chief executive.

Gerry Rocchi
Chair

Report from the President and CEO

I am pleased to report on our progress in raising the bar on standards of market and dealer member regulation and investor protection.

In 2011–12, we pursued an active but focused regulatory agenda aimed at strengthening confidence in the integrity of Canada's capital markets domestically and internationally through effective market and investment dealer regulation and supervisory oversight.

The past year was marked by a number of important dealer- and market-focused reforms, based on extensive stakeholder consultations and empirical input, to inform our understanding of new issues and trends and their impact on investors and market participants.

In addition to moving forward with major policy reforms, we continued to transform our compliance and examination program to reflect changes in market structure, business risks, investment products and demographics.

We actively communicated our regulatory expectations through timely guidance notices and industry education events. We continued to focus our regulatory oversight efforts on suitability, product due diligence relating to structured and complex products and outsourcing and liquidity risks to promote sound prudential and business conduct standards.



We are collaborating with other regulators and organizations at home and abroad to influence the standard-setting process and maintain consistency in principle between global and domestic standards where appropriate. We do this through participation in a number of international bodies including: the SRO Consultative Committee (SROCC) of the International Organization of Securities Commissions (IOSCO), the Council of Securities Regulators of the Americas (COSRA), the International Council of Securities Associations (ICSA), the Inter-market Surveillance Group (ISG) and the International Forum for Investor Education (IFIE).

For the first time, IIROC will also have representation on IOSCO's policy committee on market regulation issues. IOSCO is responsible for setting global standards on securities regulation and we are pleased to directly participate in their important work.

We are part of a global environment that continues to face significant economic challenges and pressures. Yet Canada's profile and brand in the global financial markets remain strong. We are committed to leveraging that strength by enhancing the fairness, integrity and competitiveness of the Canadian capital markets to better serve the future needs of issuers, investors and market participants.

Enhanced investor protection

In 2011–2012, IIROC staff moved expeditiously to suspend two IIROC-regulated firms and safeguard Canadian client assets when events at their U.S.-based parent dealers significantly impacted their Canadian subsidiary operations.

In November 2011, IIROC announced the suspension of MF Global Canada Co. when it became capital deficient as a result of the bankruptcy of the U.S. parent. IIROC took immediate steps to protect the assets of MF Global Canada Co. customers. We worked closely with the Canadian Investor Protection Fund (CIPF) – which is funded by mandatory contributions of IIROC-regulated firms for the benefit of clients of member firms which become insolvent – to obtain a bankruptcy order appointing a trustee in bankruptcy to administer the Canadian accounts and manage their orderly transfer to another IIROC member firm.

In July 2012, Peregrine Financial Group, Inc., a U.S.-based firm, filed for bankruptcy. IIROC staff took immediate steps to protect the clients of the Canadian subsidiary, Peregrine Financial Group Canada, Inc. and to ensure that the events and actions taken in the U.S. did not adversely impact these Canadian clients. Within a week, all customer futures accounts of the Canadian firm were accounted for and successfully transferred to another IIROC-regulated firm.

IIROC staff continue to proactively and regularly monitor all member firms to ensure they are appropriately capitalized.

MF Global Canada Co.'s bankruptcy was the first of an IIROC member firm since 2002, and brought to light how the operations of affiliates can have a significant impact on IIROC member firms and their clients. In today's rapidly changing environment, business structures increasingly involve interconnections with affiliates, both domestically and cross-border. In dealing with the fallout from the MF Global and Peregrine situations, we gained valuable insights on the need to identify these interconnections and to ensure that we continue to have the tools necessary to effectively monitor and mitigate the associated risks.

We have worked to ensure that our regulatory framework holds member firms to high prudential regulatory standards. IIROC staff continue to proactively and regularly monitor all member firms to ensure they are appropriately capitalized. We remain focused on the identification of material financial and operational risks, and the imposition of heightened supervisory oversight in response.

A greater focus on seniors, suitability and accessibility

Enhancing standards of investor protection is core to IIROC's mandate.

With changing demographics and an aging population, there is increased risk that seniors may become the target of unscrupulous behaviour and may be sold investments and products that are not suitable for them.

We have therefore made seniors' issues a regulatory priority by revising our compliance modules to better identify and track seniors-related business practices and making improvements to firms' supervisory controls in this regard. We have revised our enforcement case selection criteria to give greater priority to complaints and investigations involving seniors. These enhancements to our case selection process have also allowed us to focus more effectively on cases involving unsuitable investments.

Going forward, we will continue to sharpen our analytical capability in order to better monitor, elevate and respond to other developing trends and emerging regulatory concerns.

This past fiscal year, we fully implemented the transition to a dedicated Complaints and Inquiries team to serve as a front-line resource for investors and members of the public.

The launch of this new team allows us to more effectively provide one-stop access and assistance to the investing public and to gain deeper insights into emerging trends and issues affecting clients of the firms we regulate. In the first 10 months of operation, the team has responded to more than 1,400 inquiries from across the country.

In this age of social media, we recognize that the web is a powerful resource for information that is easily accessible. As such, last year we undertook a complete redesign of IIROC's website to make it more accessible, easier to navigate and more-user friendly for all stakeholders. Throughout the year, we conducted extensive internal and external consultations, including focus groups and user testing with investors in Toronto and Montreal.

The new IIROC website, launched in both official languages in June 2012, has generated very positive feedback. We continue to proactively monitor user feedback to identify opportunities for future improvements.

Enhancing investor education and financial literacy

Last year, in response to the proliferation of titles and designations used by registrants and the risk of resulting investor confusion, we conducted a survey among IIROC-regulated firms to better understand the use of titles and designations by approved individuals and firm supervision practices in relation to title use.

We continued to develop and promote resources that help investors make informed choices, including our popular IIROC AdvisorReport.

We followed up the survey by conducting qualitative investor research to better understand whether and how titles and designations affect investors and their decision-making process. We conducted investor focus groups and a series of one-on-one interviews with investor representatives. These combined results will help us determine the appropriateness of regulatory oversight and/or guidance in this area, as well as identify opportunities for enhanced investor education and information in this regard.

We continued to develop and promote resources that help investors make informed choices, including our popular IIROC *AdvisorReport*. This online service enables investors and others to research the background, qualifications, employment and disciplinary history of advisors at IIROC-regulated firms. A total of 45,851 reports were generated over the past fiscal year.

We began work earlier this year on a gap analysis to review the existing investor education landscape in Canada. This review will form the basis for developing a framework for contributing to the investor education program in Canada and for identifying areas that may be underserved by available resources.

In May, 2012, I was appointed Chair of the International Forum for Investor Education (IFIE) at the organization's annual conference in Seoul, South Korea. An alliance of 26 organizations of regulators, industry associations and other interested stakeholders from 14 countries, IFIE promotes higher standards and information sharing in financial and investor education.

I look forward to helping IFIE use its global representation and reach to leverage best standards and practices and work collectively to improve the state of investor education and financial literacy.

Distribution of ABCP settlement funds to investors

In March 2012, IIROC, together with the Ontario Securities Commission (OSC), received confirmation from the Superior Court of Justice of Ontario that our joint plan to distribute settlement proceeds to investors who purchased certain third-party Asset-Backed Commercial Paper would not violate an earlier Court order.

This paved the way for the subsequent appointment of Ernst & Young Inc. to administer the distribution to eligible investors of nearly \$60 million previously collected by IIROC and the Ontario Securities Commission pursuant to settlement agreements with several affected firms.

Dealer member regulation

In March 2012, we achieved a significant milestone with the approval of our Client Relationship Model (CRM) reform package by the Canadian Securities Administrators (CSA) and have since focused our efforts on ensuring its effective implementation.

We have provided detailed guidance to the industry and held a series of cross-country interactive forums in June 2012 in conjunction with the Investment Industry Association of Canada (IIAC). These regional forums provided an opportunity to engage senior IIROC member firm representatives in candid discussions of implementation challenges and opportunities, and to share best practices. We recognize that the success of CRM ultimately depends upon member firms and individual advisors embracing the animating principles and spirit of the CRM model.

CRM builds on the existing standard of care to act fairly, honestly and in good faith. It is designed to ensure that the interests of investors and advisors are better aligned by requiring meaningful disclosure obligations for advisors and enhancing the standards they must meet when assessing the suitability of investments for their clients. The objective is increased transparency for investors surrounding the fees they pay, the services they receive, potential conflicts of interest and the performance of their accounts.

CRM is an important reform which, when fully implemented, will raise the bar on industry professionalism and bolster investor confidence.

Establishing, updating and improving proficiency standards for advisors to ensure they remain current are critical to effective investor protection. IIROC staff worked closely with CSI Global Education Inc. to update 11 regulatory courses and to develop competency profiles for registered representatives, traders and supervisors who deal with institutional clients, in order to inform future course content updates.

Throughout the year, we made progress on a number of other dealer regulation policy initiatives and developed guidance for members and their representatives on a range of important topics such as borrowing to invest, know your client and suitability, use of social media and disclosure of outside business activities.

In July 2012, following consultations with the Canadian Securities Administrators, we issued a concept paper aimed at bringing certain exempt market dealers within IIROC's regulatory regime and leveling the playing field for Canadian investment dealers and certain foreign investment dealers operating in Canada. The framework, proposed for comment, would facilitate transitioning those firms that are currently carrying out brokerage activities through an exempt market dealer registration to investment dealer registration subject to IIROC oversight.

Engaging the industry

We continued to solicit stakeholder input on a number of proposals, priorities and initiatives throughout the year through various channels of consultation and dialogue.

In 2011, with the assistance of an independent research firm, we conducted a survey of investment dealer and marketplace members to gain insight into their views with regard to our strategic priorities and regulatory operations.

Drawing on responses from 142 Chief Executives, Chief Financial Officers and Chief Compliance Officers, the survey findings were generally positive, with two-thirds satisfied with how we conduct our regulatory functions as a business conduct regulator, market regulator and licensing body.

There was also broad endorsement of IIROC's Strategic Plan. In most cases, members responded positively to specific strategic initiatives. Many respondents agreed that providing guidance to firms on new product or complex product due diligence should be a priority. Most respondents felt that IIROC provides timely, clear and helpful guidance on relevant or emerging issues that facilitates compliance.

An area where smaller member firms in particular identified room for improvement was our consultation process. As a result, we have extended our outreach and dialogue with this stakeholder group by leveraging the existing IIAC Small Dealer Committee, with its broad representation from small- and medium-sized firms.

We are also pursuing more frequent and informal opportunities to engage in dialogue and raise awareness of regulatory issues and concerns with the broader IIROC membership to more effectively convey regulatory expectations and enhance compliance.

The survey results also indicated that 63% of the respondents would support exploring merger discussions with the Mutual Fund Dealers Association of Canada (MFDA). The IIROC Board and management remain open to such discussions.

Responding to the Maple bid

IIROC has actively engaged with its members, stakeholders and other regulators in navigating through significant changes to the regulatory framework and evolution of capital markets in Canada.

In June 2011, Maple Group Acquisition Corporation (Maple) announced its bid for the TMX Group Inc. (TMX). As a condition of its bid for TMX, Maple indicated it would also seek to acquire CDS Clearing and Depository Services Inc. (CDS), subject to regulatory approval. IIROC held a 15.2% interest in CDS.

Immediately following the launch of the Maple bid, we struck an Industry Advisory Committee on CDS comprised of senior executives from 18 non-conflicted firms, to solicit views and advise IIROC management and the Board on the strategic, operational and competitive implications of the Maple bid for CDS.

Over the ensuing months, the Committee engaged in discussions with Maple representatives and communicated the industry's principal concerns to both Maple and the regulators. Committee members submitted comment letters to and appeared at hearings held by the Ontario Securities Commission and the Autorité des marchés financiers (AMF) in order to ensure that issues and concerns relating to clearing fees and costs, access and governance were effectively addressed through the regulatory approval process.

Market regulation and surveillance

The equity trading environment continues to evolve in the face of competition, innovation and technological change.

In the past year, we implemented several initiatives designed to mitigate volatility and build confidence in market integrity in the aftermath of the May 6, 2010 Flash Crash.

IIROC has actively engaged with its members, stakeholders and other regulators in navigating through significant changes to the regulatory framework and evolution of capital markets in Canada.

We implemented a new framework for triggering single-stock circuit breakers and published a concept paper on market-wide circuit breakers as a result of proposed changes to U.S. market-wide circuit breakers. We are overseeing the development of harmonized volatility controls across the exchanges and alternative trading systems (ATSS). Finally, we implemented changes to our policies and procedures related to when and how we intervene to vary or cancel trades, bringing greater consistency and transparency to this component of our market oversight program.

We issued guidance focused on how the choice of certain order types, such as stop loss orders, can significantly impact the quality of execution in today's high-speed markets. We followed up with an educational forum and online tutorial directed at informing and educating investors and market participants.

Earlier this year, IIROC collaborated with the Canadian Securities Administrators in creating a new framework to govern the use of orders entered without pre-trade transparency ("dark liquidity").

While dark pools represent a relatively small percentage of overall trading volume in Canada, the Canadian Securities Administrators and IIROC adopted a dark liquidity regime for implementation in October 2012 that seeks to strike an appropriate balance between displayed and dark liquidity.

Our goal is to ensure Canadian markets continue to evolve in a fair and competitive manner that preserves healthy price discovery, strengthens market integrity and protects investors.

In June 2012, we co-hosted a well-attended market structure conference with the Ontario Securities Commission. We brought together a diverse group of market participants from Canada and abroad to engage in a robust, thought-provoking dialogue around how our markets are evolving, whom they are serving and what more needs to be done to ensure confidence in their fairness and integrity.

An enhanced surveillance platform

In 2010, IIROC launched the Surveillance Technology Enhancement Program (STEP), a unique, multi-market surveillance platform that we continue to enhance.

All messages from the equity exchanges and alternative trading systems (ATSs) currently operating in Canada feed into STEP. Through the STEP system, IIROC is able to effectively conduct surveillance of all equity markets on an intra- and inter-market basis. In lieu of monitoring venues separately, it provides significant cost efficiencies for all market participants including issuers, intermediaries and investors.

STEP enables both real-time surveillance and post-trade analysis to detect trading patterns and trends, identify harmful trading behaviour and inform policy development.

We are developing and will soon publish for comment a proposed framework for supervisory oversight and surveillance monitoring of IIROC dealer activity in the large and growing Canadian fixed-income market. Late last year, we implemented the Over-the-Counter (OTC) Securities Fair Pricing Rule for fixed-income and other OTC securities to ensure prices paid are fair and to enhance disclosure requirements on related trade confirmations.

In addition, we developed enhanced compliance programs for the surveillance and supervision of fixed-income trading activity and sales practices.

Electronic and high frequency trading

We recognize that increased reliance on algorithmic trading programs and the advent of high frequency trading have fundamentally altered the trading and investment landscape in recent years.

In June 2012, we issued a package of proposed rule changes to align our market trading rules with the implementation of the Canadian Securities Administrators's regulatory framework for the oversight and management of risks associated with electronic trading on Canadian marketplaces.

Our proposed amendments will introduce specific supervision and gatekeeper obligations for IIROC dealer members in order to manage and mitigate risks related to electronic trading and the increased speed and automation it entails.

As a complementary measure, we published for comment proposed guidance to clarify how and when new forms of trading strategies and behaviour may violate long-standing prohibitions against market manipulation and deceptive trading.

The STEP system gives us access to a rich repository of regulatory market data consisting of all orders and trades executed on Canadian equity markets and a holistic cross-market view of trading. Using this data, we have undertaken a study to shed light on the nature and extent of high frequency trading in the Canadian marketplace and its impact on liquidity, price formation, stability, volatility and overall market confidence.

We are committed to addressing issues associated with high frequency trading in a fair and balanced way based on empirical data and findings in collaboration with other regulators.

New fee models – leveling the playing field

We developed new dealer and market regulation fee models that took effect April 1, 2012 and were designed to reflect the drivers of our regulatory costs in order to fairly allocate them.

These new fee models followed extensive stakeholder consultations and are based on principles of fairness, transparency, cost recovery and industry competitiveness. They level the playing field and reduce subsidization by taking into account member firm consumption of regulatory resources.

The dealer regulation fee model continues to be largely based on the number of registrants in a firm and firm revenue. Under the market regulation fee model, dealers' market regulation fees are now based on: share of the total number of messages processed by our surveillance system (for technology costs) and total number of trades (for all other regulatory costs). As a result of the changes introduced, approximately 85% of IIROC member firms who pay market regulation fees are expected to experience a decrease in those fees in the coming year.

IIROC is a global leader in allocating and recovering market regulation technology costs based on message traffic. We are reviewing the impact of this new fee model and will adjust it as necessary.

Prudent fiscal management

We remain committed to prudent fiscal management. While our overall operating costs have increased, we remain vigilant in how we allocate regulatory resources.

We have made necessary investments in people, facilities and technology in order to effectively discharge our regulatory mandate. We have been able to minimize the impact on member fees by funding some of the year-over-year increase by accessing the Restricted Fund for particular initiatives when appropriate and in accordance with the criteria in our Recognition Orders. Our budgeted costs for 2013 are 4% lower than budgeted costs were for 2012 and 6% lower than actual costs over that same period. As a result, the 2013 market regulation fee is decreasing by 15% and the dealer regulation fee is increasing by 3%.

We have deepened our market regulation expertise in order to respond to rapidly changing markets. We continually review existing processes to realize greater efficiencies and cut unnecessary costs. We consolidated our two Toronto offices into one location, thereby reducing long-term lease costs and improving operational efficiency and interaction between staff.

We successfully negotiated a new arrangement with the TMX Group to use IIROC's STEP platform in providing single-market monitoring services to the TSX and the TSX Venture Exchange. As a result, trading on all Canadian equity marketplaces is now monitored on an intra- and inter-market basis using a single surveillance platform administered by IIROC. This change, which took effect April 1, 2012, will result in estimated market regulation cost savings of \$7 million annually that will benefit all market participants.

I extend my sincere thanks to Gerry Rocchi, who concludes his term as Chair of the IIROC Board of Directors, and to the entire Board for their guidance and support. A special acknowledgement is owed to our outgoing Directors for their long-standing service, dedication and contributions to the work of IIROC. I welcome the incoming Directors who will bring a diverse range of experiences and perspectives to the Board.

Above all, I wish to express my deep appreciation to IIROC staff whose commitment to our strategic priorities and to meeting the numerous challenges of the past year has been instrumental to all that we have accomplished.

I am pleased to lead IIROC's efforts to raise the bar in a period of rapid change as we work to strengthen confidence in Canada's capital markets and financial services industry.



Susan Wolburgh Jenah
President and CEO

Management Report



A Risk-Based Approach to Compliance

Rosemary Chan

Senior Vice President,
Member Compliance,
General Counsel and Corporate Secretary

At IIROC, we take a risk-based approach to regulatory compliance examinations as part of our commitment to high industry standards and investor protection. A risk-based compliance approach enables regulatory resources to be targeted to areas where they are most needed and will prove the most effective. This approach also helps firms identify areas where they should be devoting their supervision, compliance and risk management efforts. Our approach recognizes that there are different ways in which a firm can implement an effective supervision, compliance and risk management framework to monitor and comply with IIROC rules, and adopt industry best practices. To achieve greater efficiency and effectiveness, we have developed integrated financial and operations, business conduct and trading conduct compliance examinations, starting with higher-risk firms. We have raised the bar with our compliance modules, which better assess for risk in supervisory and other practices.



Strengthening Our Enforcement Activities

Paul Riccardi

Senior Vice President,
Enforcement, Member Policy and Registration

Last year, we implemented strategic and operational improvements in our enforcement process, including the revision of our case selection criteria to enhance our ability to identify and prosecute high-priority matters involving unsuitable recommendations, seniors and vulnerable investors and unsatisfactory firm supervision. The implementation of an integrated team model concept, where investigators and prosecution counsel collaborate throughout the investigation process, has enhanced the efficiency and effectiveness of our Enforcement activities. These initiatives, together with IIROC's ongoing commitment to continuous improvement, played an important role in our results. Last year, we suspended 26 individuals, banned 9 individuals from the industry and suspended 3 firms, in comparison to 18 individual suspensions, 13 individual bans and 1 firm suspension in the previous year. Operational improvements also played a role in Enforcement, completing 73 prosecutions, 13 more than the previous year.



Market Regulation Informed by Empirical Research

Wendy Rudd

Senior Vice President,
Market Regulation and Policy

We rely on the proactive use of data analysis and empirical research to gain a deeper understanding of trends and the unique characteristics of the Canadian market. This insight is invaluable as it informs our policy development efforts and supports us in our commitment to deliver effective and expert regulation that enhances market integrity. For example, in the past year we repealed the "tick test" restriction on short sales, but only after our own studies demonstrated that the restriction had no appreciable impact on price movement and found no correlation between short sales and high failure rates. Last year we also took steps to gain a better understanding of the nature and extent of high-frequency trading in Canadian markets. With detailed analysis in hand, we and other regulators will be in a stronger position to determine the appropriate policy response.



New Fee Models

Keith Persaud

Senior Vice President,
Finance and Administration

Dealer and Market regulation fees represent 83% of IIROC revenues, with the remainder coming from underwriting levies and fees related to timely disclosure and registration. It is a priority at IIROC to ensure that the fees we collect reflect the drivers of our regulatory costs, do not inhibit new entrants and are fairly allocated across dealers and marketplaces. Our new dealer regulation fee model was implemented on April 1, 2012.

The amount paid by IIROC-regulated firms is based on the number of registered staff and revenue, as well as a risk premium, where applicable, to reflect IIROC's additional compliance costs in overseeing higher-risk firms. Our new marketplace regulation fee model now recovers our surveillance technology costs based on each firm's pro rata share of messages and recovers all other costs based on trades.



Carmen Crépin

Vice-President, Québec



Warren Funt

Vice President, Western Canada

A Regional and National Reach

IIROC maintains a significant presence in each of our four offices across Canada. This allows us to deliver national consistency in the implementation of regulatory policy across the country. Each of IIROC's regional offices plays an important role in delivering local regulatory oversight and market supervision and in helping to ensure that IIROC's strategic priorities are achieved. For example, the new Complaints and Inquiries Unit, led out of our Calgary office, handled almost 1,400 inquiries between its establishment last June and our year-end at March 31, 2012. Our Montreal office plays a key role in supporting Registration operations by fielding all web-based registration inquiries. Our Vancouver office specializes in Surveillance and Monitoring trading activity and disclosure involving firms on the TSX-Venture Exchange, reviewing more than 5,000 press releases each month. It also serves in a back-up function to the Toronto Surveillance operations, which monitor trading on all other equity exchanges and ATSS.

2011–2012 Strategic Plan Scorecard

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

WHAT WE DID IN FY 2012	HOW WE DID IT	WHY IT MATTERS
Provided timely and clear guidance on key and emerging issues.	<p>Issued 7 Guidance Notices in final form (e.g. Price Guarantees, Social Media, Client Relationship Model amendments, Know Your Client and Suitability).</p> <p>Issued 12 Guidance Notices in draft form requesting comment (e.g. Disclosure and approval of outside business activities; The role of compliance and supervision).</p>	Proactively communicating regulatory expectations promotes a strong culture of compliance.
Encouraged a continued focus by firms on compliance, risk management, monitoring and internal controls.	<p>Issued Annual Compliance Report identifying common examination deficiencies, trends and the regulatory focus of future examinations.</p> <p>Conducted 303 on-site compliance reviews of member firms and held 10 industry compliance seminars/workshops and produced 28 educational webcasts reaching nearly 36,000 participants.</p>	Compliance in accordance with high standards of fairness and integrity benefits investors, the industry and capital markets overall.
Advanced the Rule Book Rewrite project toward implementation.	Completed the initial phase of rewriting Dealer Member rules in plain language, with updates, consolidations and revisions where needed. Published 14 of these rules and issued 2 related guidance notes for comment.	Simpler rules in plain language improve comprehension of regulatory requirements and enhance compliance.

Goal 2: Deliver effective, efficient and expert regulation

WHAT WE DID IN FY 2012	HOW WE DID IT	WHY IT MATTERS
Improved effectiveness and efficiency of compliance examinations at member firms.	Restructured, updated and streamlined our compliance examination modules with a focus on risk assessment.	Assists IIROC staff and member firms in allocating compliance resources to higher-risk activities, results in more effective outcomes and emphasizes good corporate governance.
Proactively identified investor protection issues through focused compliance examinations and surveys.	Conducted focused examinations of compliance with new complaint handling rules and with product due diligence obligations.	Allows staff to assess whether a systemic compliance issue exists at firms or to identify emerging trends. IIROC uses the results in policy development and to formulate guidance notes which remind dealers of their regulatory obligations and sets out best practices for the industry.

Goal 2: Deliver effective, efficient and expert regulation (continued)

WHAT WE DID IN FY 2012	HOW WE DID IT	WHY IT MATTERS
Enhanced our ability to identify emerging enforcement issues and trends.	Developed and implemented changes to improve how matters are referred to Enforcement from other IIROC departments. Updated systems and processes used to collect and monitor member firm filings, including complaints.	Identifying emerging enforcement issues and trends helps IIROC to prioritize, better protect investors and allocate resources to where they are most needed.
Improved our capacity in enforcement to track and screen for key issues and vulnerable groups of investors.	Developed and implemented new case selection criteria, to assist us in identifying and focusing on key issues, such as those involving seniors and unsuitable investment recommendations.	More precision in our case selection criteria enhances our ability to identify cases involving significant harm to individuals and/or market integrity.

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

WHAT WE DID IN FY 2012	HOW WE DID IT	WHY IT MATTERS
Strengthened our complaint intake and resolution process.	Built a dedicated Complaints & Inquires Unit with a team of knowledgeable and experienced staff, which responded to 1,400 inquiries in its first year of operation.	Improves the interaction with members of the public through more effective, streamlined and timely responses while enabling operational departments to focus on other core regulatory functions. Provides insights into emerging trends involving individuals and firms under IIROC jurisdiction so we can take proactive measures to address them.
Began phased implementation of the Client Relationship Model (CRM).	Published guidance to firms (followed in June by a series of regional symposiums) to assist in implementation.	CRM enhances investor protection and raises industry standards. It improves transparency and disclosure of fees, conflicts and account performance, and enhances suitability assessment.
Increased regulatory oversight of the fixed income market.	Finalized the Over-The-Counter (OTC) Securities Fair Pricing Rule and enhanced IIROC trade desk compliance exams. Began developing a plan for surveillance and oversight of dealer trading activity in the fixed-income market.	Clearly articulated standards make fixed-income and OTC-traded securities markets more transparent, robust and competitive.
Developed a stronger regulatory focus on issues relating to senior investors.	Revised our compliance modules to more effectively identify suitability cases, especially those involving seniors. Prioritized enforcement cases involving seniors. Surveyed the industry's use and supervision of titles that connote a specific "seniors" focus.	An added emphasis in this important area helps to protect a vulnerable segment of the investing public.

2011–2012 Strategic Plan Scorecard

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

WHAT WE DID IN FY 2012	HOW WE DID IT	WHY IT MATTERS
Implemented the recommendations of the report on the events of the Flash Crash of May 6, 2010.	Held investor forum addressing use of Stop Loss Orders under volatile conditions; issued Request for Comments on marketplace thresholds; implemented single-stock circuit breakers; requested comments on market-wide circuit breaker policy; and republished for further comment our trade variation and cancellation policy.	Taking measures to mitigate excessive volatility contributes to fair and orderly trading and fosters investor and industry confidence in the integrity of Canada's capital markets.
Collaborated with the Canadian Securities Administrators (CSA) on addressing emerging regulatory challenges in a period of rapid change for marketplaces.	Worked with the CSA on a variety of market structure issues, including the launch of a new Dark Liquidity framework and other initiatives that address electronic trading, direct market access, transparency of short sales and failed trade reporting.	These initiatives are designed to ensure that Canadian equity markets continue to evolve in a fair and competitive manner that strengthens market integrity and investor protection.
Redesigned and rebuilt the IIROC website, our primary vehicle for stakeholder communications, in French and English.	Consulted with various stakeholders across the country to redesign the site for ease of access and use by investors, staff, regulated firms and other stakeholders.	A stronger Internet presence with improved navigation supports our commitment to be accessible, transparent and accountable.

Goal 4: Be a cost-effective organization

WHAT WE DID IN FY 2012	HOW WE DID IT	WHY IT MATTERS
Implemented new dealer and marketplace member fee models.	IIROC developed the new fee models with industry committees representing a cross-section of firms and marketplaces, and provided guidelines and support ahead of implementation to assist firms with the transition.	The new models more fairly allocate fees by reflecting the drivers of costs to IIROC in discharging its regulatory mandate.
Completed the implementation and enhancements of STEP, a multi-market trading surveillance system.	Successfully negotiated with TMX Group Inc. for the use of STEP for single-market surveillance of TSX and TSX-Venture. Implemented further enhancements to STEP including the single-stock circuit breaker and new alerts and reports.	Monitoring of TSX and TSX-Venture on STEP significantly reduces industry surveillance costs, and enhancements provide IIROC with greater ability to detect multi-market issues.
Consolidated Toronto staff resources in one office.	Successfully executed consolidation plan on time and on budget.	The consolidation improved workflow and internal communication which promotes greater efficiency and reduces long-term lease costs.

Goal 5: Be an accountable, fair and flexible organization

WHAT WE DID IN FY 2012	HOW WE DID IT	WHY IT MATTERS
Responded to the results of our employee survey.	Provided cost-effective, job-specific and management training programs. Created a task force to recommend improvements to internal communications and information sharing.	Helps to support and foster a positive workplace environment that attracts and retains expert and engaged staff.
Explored the views of Dealer Member firms and Marketplaces on IIROC's strategic priorities and key regulatory activities.	Developed a detailed questionnaire for members and hired an independent research consultant to conduct it.	Insight into the views of this stakeholder group provides valuable feedback on current priorities in our Strategic Plan and informs future priorities and initiatives.
Continued to proactively seek industry and stakeholder input to inform our policy development and regulatory programs.	Actively participated in various industry committees, District Councils and other industry forums. Conducted focus groups with investors on our website redesign and the use of titles and designations by registered individuals.	Feedback received through these efforts improves our effectiveness as a self-regulatory organization and brings added transparency to our regulatory process.

Governance Report – IIROC Board of Directors

Directors

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

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

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

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

President & CEO

Susan Wolburgh Jenah

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

Industry Directors

Michelle Khalili, Vice Chair

(joined December 2008)
Managing Director, Equity Capital Markets, CIBC World Markets
Toronto, Ontario

- Member of Human Resources and Pension Committee

Robert C. Blanchard

(joined August 2010)
President, Haywood Securities Inc.
Toronto, Ontario

- Member of Human Resources and Pension Committee

Tal Cohen

(joined November 2009)
Chief Executive Officer, Chi-X Global
New York, New York, USA

- Member of Human Resources and Pension Committee

M. Marianne Harris

(joined September 2010)
Managing Director and President,
Merrill Lynch Canada, Inc.
Toronto, Ontario

- Member of Finance and Audit Committee

Thomas A. Kloet

(joined October 2008)
CEO, TMX Group Inc.
Toronto, Ontario

- Member of Finance and Audit Committee

Yves Néron

(joined September 2010)
Senior Vice President and
Head of Private Client Services,
Desjardins Securities
Montréal, Quebec

- Member of Human Resources and Pension Committee



Susan Wolburgh
Jenah

Michelle Khalili,
Vice Chair

Robert C. Blanchard

Tal Cohen

M. Marianne Harris

Thomas A. Kloet

Yves Néron

Independent Directors

Gerry Rocchi, Chair

(joined August 2004)

CEO, Green Power Action Inc.
Toronto, Ontario

- Member of Corporate Governance Committee

Mike Gagné

(joined September 2009)

Corporate Director
Invermere, British Columbia

- Member of Corporate Governance Committee
- Member of Finance and Audit Committee

Brian Heidecker

(joined September 2011)

Board Chair, University of Alberta
Edmonton, Alberta

- Member of Corporate Governance Committee

Eric Kirzner

(joined August 2010)

Professor, Rotman School of
Management, University of Toronto
Toronto, Ontario

- Member of Finance and Audit Committee

Daniel Leclair

(joined June 2004)

Corporate Director
Shefford, Quebec

- Member of Finance and Audit Committee

Daniel F. Muzyka

(joined June 2005)

Professor and Dean,
Sauder School of Business,
The University of British Columbia
Vancouver, British Columbia

- Member of Corporate Governance Committee
- Member of Human Resources and Pension Committee

Grant Vingoe

(joined August 2004)

Partner, Arnold & Porter LLP
New York, New York, USA

- Member of Corporate Governance Committee

Outgoing Directors

Kerry Adams

(served May 2008 to September 2011)

Investment Consultant
Aurora, Ontario

- Member of Corporate Governance Committee

George Gosbee

(served September 2011 to January 2012)

Chairman, President & CEO,
AltaCorp Capital Inc.
Calgary, Alberta

Doug McGregor

(served September 2009 to September 2011)

Chairman and Co-CEO,
RBC Capital Markets
Toronto, Ontario

- Member of Finance and Audit Committee



Gerry Rocchi,
Chair

Mike Gagné

Brian Heidecker

Eric Kirzner

Daniel Leclair

Daniel F. Muzyka

Grant Vingoe

Governance Report – IIROC Board of Directors

2011–2012 Board Meetings

(April 1, 2011 to March 31, 2012)

A total of 32 meetings were held during the fiscal year ended March 31, 2012. Below is a breakdown of attendance.

Director	Board of Directors	Finance & Audit	Corporate Governance	Human Resources and Pension	Special Meeting	Total Compensation**
Kerry Adams [^]	0/2		4/5			\$11,106.70
Robert C. Blanchard	6/6			4/5	1/1	
Tal Cohen	5/6			5/5	1/1	
Mike Gagné	6/6	6/6	13/13		1/1	\$56,661.85
George Gosbee* [^]	2/2					
M. Marianne Harris	5/6	5/6	3/3	1/2	1/1	
Brian Heidecker*	4/4		7/8		1/1	\$27,204.75
Michelle Khalili	6/6			5/5	1/1	
Eric Kirzner	6/6	2/3	5/5		1/1	\$37,290.00
Thomas A. Kloet	5/6	4/6			1/1	
Daniel Leclair	6/6	6/6			1/1	\$38,310.74
Doug McGregor [^]	2/2	2/3			1/1	
Daniel F. Muzyka	6/6		10/13	5/5	1/1	\$49,535.22
Yves Néron	6/6			3/4	1/1	
Gerry Rocchi	6/6	3/3	7/8		1/1	\$48,910.19
Grant Vingoe	6/6		13/13		1/1	\$42,000.00
Susan Wolburgh Jenah	6/6	6/6	9/9	4/4	1/1	

* Director joined Board during the year.

[^] Director stepped down during the year.

** Only Independent Directors are compensated by IIROC.

Director Compensation	Board Committee Mandates
<p>IIROC does not compensate Industry Directors for their participation on IIROC’s Board or its committees. IIROC compensates Independent Directors in accordance with the following framework:</p> <p>Board</p> <ul style="list-style-type: none"> • Annual retainer – \$15,000 per annum • Chair of the Board – an additional \$7,500 if the Chair is an Independent Director • Vice Chair of the Board – an additional \$4,000 if the Vice Chair is an Independent Director • Board meetings of less than two hours in duration – a fee of \$1,000 • Board meetings of two hours or longer – a fee of \$1,500 <p>Committee</p> <ul style="list-style-type: none"> • Committee Members – \$1,500 per annum • Committee Chairs – \$4,000 (except in the case of the Human Resources and Pension Committee Chair where the retainer will be \$3,500) • Committee meetings of less than two hours in duration – \$1,000 • Committee meetings of two hours or longer – \$1,500 <p>In the event that the location of a Board meeting requires an additional travel day and the Director attends in person, a supplementary travel fee of \$1,000 is allowed.</p>	<p>Corporate Governance Committee</p> <p>Recommends candidates eligible to serve on the Board and its committees; reviews IIROC governance principles and practices; identifies and manages potential conflicts of interest; establishes Board self-assessment process; and appoints individuals to the Hearing Committee.</p> <p>Finance and Audit Committee</p> <p>Assists Board in oversight of accounting and financial reporting processes; qualifications, independence and performance of IIROC’s independent auditor; and IIROC’s risk management processes and control system.</p> <p>Human Resources and Pension Committee</p> <p>Ensures IIROC can attract and retain personnel with the appropriate status and experience to achieve its objectives and enhance the professionalism and effectiveness of the organization; assists the Board in its oversight of IIROC’s human resources policies and procedures, benefits and pension plans and with related regulatory compliance.</p>

Management Discussion and Analysis

(In thousands of dollars)

The Management Discussion and Analysis (MD&A) comments on IIROC's (IIROC or the Organization) operations and financial condition are presented for the fiscal year ended March 31, 2012, compared to the previous year ended March 31, 2011. The MD&A should be read in conjunction with the financial statements for the year ended March 31, 2012.

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

During the past fiscal year, IIROC submitted to the Canadian Securities Administrators (CSA) and received approval for two new fee models, one for Dealer Regulation activities and one for Market Regulation activities. These models have been implemented for the fiscal year beginning April 1, 2012 and therefore have had no significant impact on the current year revenue.

Summary of financial information

Unrestricted Fund Revenue

(In thousands of dollars)

	FY 2012	FY 2011	Variance	Variance
			\$	%
Revenue				
Dealer regulation				
Membership fees	\$ 45,329	\$ 40,598	\$ 4,731	12%
Underwriting levies	7,602	8,122	(520)	(6%)
Registration fees	2,500	2,371	129	5%
Entrance fees	155	270	(115)	(43%)
	55,586	51,361	4,225	8%
Market regulation				
UMIR	25,435	25,435	0	0%
Timely disclosure	3,408	3,213	195	6%
Marketplace revenue	120	165	(45)	(27%)
	28,963	28,813	150	1%
Other revenue				
Interest	445	294	151	51%
Miscellaneous	5	10	(5)	(50%)
	450	304	146	48%
Total unrestricted fund revenue	84,999	80,478	4,521	6%
Unrestricted fund expenses				
Dealer regulation operating costs	56,271	51,004	5,267	10%
Market regulation operating costs	36,391	26,398	9,993	38%
	92,662	77,402	15,260	20%
(Deficiency) excess of revenue over expenses	\$ (7,663)	\$ 3,076	\$ (10,739)	(349%)

Revenues

Unrestricted Fund revenues for the period amounted to \$84,999, up \$4,521 (6%) from \$80,478 in FY 2011.

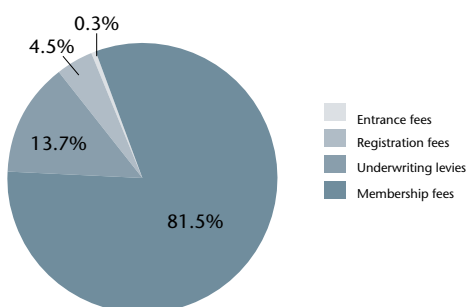
Membership fees for Dealer Regulation and Market Regulation (Universal Market Integrity Rules) are the primary sources of revenue. They represent approximately 83% (82% in FY 2011) of the total revenue of IIROC and are collected through the respective fee models.

Dealer Regulation membership fees were \$45,329, up by \$4,731 (12%) from \$40,598 in FY 2011, reflecting an increase in Dealer Regulation costs of \$5,267 (10%) and lower funds available for subsidy compared to last year. Dealer fees were subsidized in FY 2012 by the use of \$780 of the FY 2011 excess of revenue over expenses compared with a subsidy of \$3,000 surplus in FY 2011.

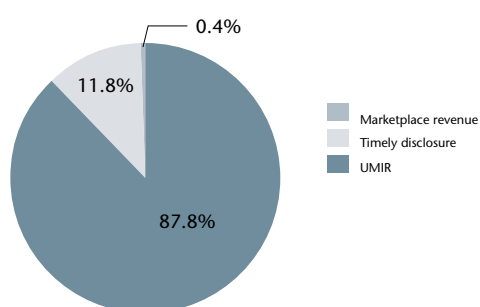
UMIR fees remained constant at \$25,435 despite increases in Market Regulation operating costs of \$9,993 (38%) due primarily to (i) the capital costs of the Surveillance Technology Enhancement Platform (STEP) being funded through the Restricted Fund; (ii) the early termination fee of the Technology Services Agreement between TSX Inc. and IIROC relating to SMARS (surveillance monitoring system for the Toronto Stock Exchange and TSX Venture Exchange marketplaces) ("the SMARS agreement") being funded by the Restricted Fund; and (iii) the use of \$2,092 excess of revenue over expenses funds from FY 2011. The excess of revenue over expenses applied to FY 2011 was \$1,200. The termination fee for SMARS is further described below.

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

Dealer Regulation Revenue FY 2012



Market Regulation Revenue FY 2012



The combined revenue from secondary sources declined by \$356 (3%) from \$14,141 to \$13,785 during the period under review.

The main secondary sources of Dealer revenue are Underwriting levies, which declined by \$520 (6%) to \$7,602 from \$8,122 in FY 2011 due to lower market activity for new issues, and Registration fees, which increased to \$2,500 in FY 2012, an increase of \$129 (5%).

Underwriting levies represent a fractional percentage share of the value of most public equity and debt underwritings in Canada. Registration fees are based on fee-sharing agreements with provincial securities commissions.

The secondary revenue source for Market Regulation is Timely disclosure fees from the TSX, TSX-V and CNSX for administering their Timely disclosure policies. This was \$3,408 in FY 2012, an increase of \$195 (6%) from FY 2011.

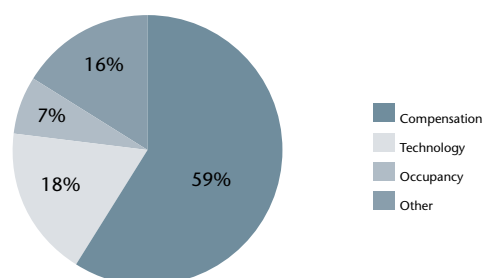
Management Discussion and Analysis

(In thousands of dollars)

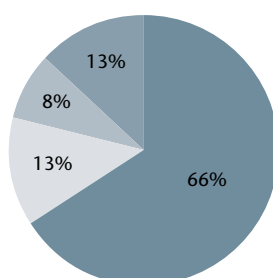
Costs

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

Operating Costs FY 2012



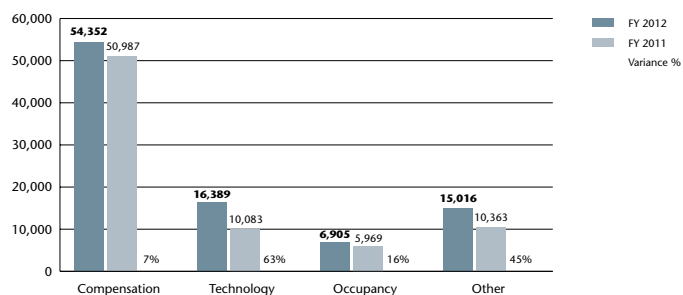
Operating Costs FY 2011



The major categories of Compensation, Technology and Occupancy make up approximately 84% (87% in FY 2011) of IIROC's operating costs. To facilitate proper fee allocation, direct costs are segregated between Dealer Regulation and Market Regulation activities and indirect costs are apportioned using a cost allocation model based on direct business unit cost or headcount.

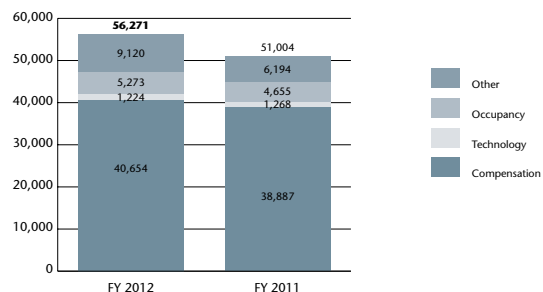
IIROC's total operating costs were \$92,662 in FY 2012, an increase of \$15,260 or 20% from \$77,402 in FY 2011.

Operating Costs (\$)

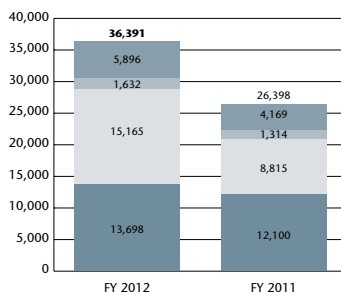


Dealer Regulation costs increased by 10% to \$56,271, while Market Regulation costs increased by 38% to \$36,391.

Dealer Regulation Operating Costs (\$)



Market Regulation Operating Costs (\$)



Dealer Regulation Compensation costs increased due to increased staffing in Complaints and Inquiries to implement a new complaints handling process, in Business Conduct Compliance for more field reviews and in IT to address infrastructure upgrades and provide greater operational capability. Other factors in the increase included market salary increases and a one-time restructuring expenditure that will provide future savings. Occupancy costs were higher due to one-time transition costs arising from the consolidation of Toronto office staff into one location. Other cost increases were in the areas of hearing and legal expenses attributable to greater use of outside counsel for challenges to IIROC's Enforcement process and jurisdiction and for the review of the Maple Group offer for the TMX Group, Alpha and The Canadian Depository for Securities (CDS). Other cost increases also include one-time costs of disposal of assets pertaining to the consolidation of the premises and a provision related to Underwriting levies.

The increase in Market Regulation Technology costs is attributable to the aforementioned one-time charge for the termination of SMARS. The TSX and TSX-V marketplaces are now monitored by STEP, and as a result of the early termination of the Technology Services Agreement between TSX and IIROC relating to SMARS, there was a termination fee of \$4,420. The funding of this fee was made through the Restricted Fund and as such does not involve Membership fees. The use of STEP to monitor all Canadian equity marketplaces will result in future savings as expenses for a duplicate surveillance system are now eliminated. Another factor contributing to higher technology costs was a one-time credit in FY 2011 of \$1,331 associated with SMARS which lowered that year's expenses. Increased compensation costs arose from higher staffing in Trading Review & Analysis and Market Surveillance for increased capacity and market salary increases. Occupancy costs were higher due to additional transition costs arising from the consolidation of Toronto office staff into one location. Other costs were higher due to the accelerated amortization of assets connected with the termination of SMARS.

Excess of Unrestricted Fund revenues over expenses

There was a deficiency of revenues compared to expenses in FY 2012 of \$6,634. This compares with an excess of revenues over expenses in FY 2011 of \$3,076, which represents a year-over-year decrease of \$9,710 (316%). This deficiency, combined with the purchase of capital assets of \$10,701 related mainly to the consolidation of the Toronto office facilities and fund transfers, reduced the Unrestricted Fund balance to \$25,327, compared with the opening balance of \$34,871.

Externally Restricted Fund

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

The Fund is restricted by the Recognition Orders from provincial securities commissions. All expenses other than hearing panel-related costs are approved by IIROC's Corporate Governance Committee.

Total revenues for the year amounted to \$2,911, compared with \$1,975 for FY 2011, an increase of \$936 (47%). The increase is primarily due to higher investigation fines, which increased by \$982 (66%) from \$1,496 to \$2,478. Fine revenue was up this year as a result of increased assessments on individuals. IIROC endeavours to collect all fines imposed by hearing panels; however, IIROC continues to work towards enhancing its ability to collect all fines.

Hearing panel-related costs increased by 11% to \$1,897 during the period due to increased hearing activity.

Management Discussion and Analysis

(In thousands of dollars)

The resulting deficit for the year was \$611, a reduction in deficit of \$1,086 (64%) from \$1,697 of the previous year. Capital projects expended from the Fund for the year were \$754 down from \$2,147 in FY 2011. The deficit and capital expenses together with the Fund transfer noted above for the SMARS termination fee reduced the Fund from \$23,516 to \$17,739 by the end of the year. An IIROC policy is in place to ensure adequate funding is maintained for hearing panel-related costs.

Internally Restricted Benefits Fund

The purpose of this Fund is to hold monies to cover the deficits in the Supplemental Plan for Executives Non-Registered DB Pension (SERP) and Non-Pension Post-Retirement Benefits (PRB) plans. The funds are currently invested in accordance with IIROC's investment policy. The Fund balance was \$624 at the end of the year.

Externally Restricted ABCP Fund

Asset-Backed Commercial Paper (ACBP) interest of \$316 increased the Fund balance to \$32,804 at the end of the year.

Disposition of these funds in accordance with a joint OSC/IIROC distribution plan was approved by the Corporate Governance Committee and exemption orders from the Restricted Fund requirements in the Recognition Orders were obtained from applicable provincial securities commissions. Subsequent to the fiscal year end, these funds were transferred to an independent Administrator retained jointly by Ontario Securities Commission and IIROC who will administer the distribution of funds, less administrative expenses, to eligible investors under the plan.

Merger Fund

This Fund was set up to support the Investment Dealers Association/Market Regulation Services Inc. merger. Capital assets purchased through the Fund of \$673 reduced the balance to a deficit of \$58.

Liquidity and capital resources

At the end of FY 2012, IIROC held total net assets of \$95,218, down \$7,354 from \$102,572 the last year, from the Capital Asset Fund, Unrestricted Fund, Externally Restricted Fund, Internally Restricted Benefits Fund, Externally Restricted ABCP Fund and the Merger Fund.

During the year, IIROC invested \$12,128 in assets related primarily to the build-out (\$5,532) and furniture and equipment (\$3,844) for the consolidation of the Toronto office premises into one location. Also included were investments in the STEP market surveillance system, infrastructure rationalization, hardware upgrades for Dealer Regulation and a case tracking system which will be eventually rolled out as a standard system across all departments in IIROC.

On July 26, 2011, the Organization entered into a two-year extendable credit agreement with Canadian Imperial Bank of Commerce to finance the Organization's working capital and head office refurbishment requirements. To the end of March 31, 2012, IIROC has utilized \$2,949 of this facility. IIROC also entered into a two-year extendable revolving credit facility of \$4,000. As a result, \$4,000 in cash or cash equivalents is held as collateral by the bank.

IIROC maintains the Unrestricted Fund balance at approximately three months' operating cost level, in accordance with an internal guideline. At \$25,327, down \$9,544 from the beginning balance, it holds excess funds of \$3,632 after taking into account FY 2013 budgeted expenses. This is comprised of a deficit of \$2,256 for Dealer Regulation and an excess of revenue over expenses of \$5,887 for Market Regulation. The deficit for Dealer Regulation arose from the consolidation of the Toronto offices and was covered by a bank loan, which, when taken into account, results in a liquidity excess of \$694 for the division. Potential uses for the Market Regulation excess include pension funding and future capital expenditures, while the Dealer Regulation surplus may be used to reduce the bank loan balance.

Commitments

At the end of the year, IIROC had total minimum rental commitments of \$30,446, excluding GST/HST, under long-term leases with varying expiry dates to February 29, 2024. There is no significant change from last year.

IIROC is the sponsor of the Canadian Investor Protection Fund (CIPF), which was established to protect customers who have suffered financial loss due to the insolvency of a Dealer Member regulated by IIROC. All IIROC-regulated firms must contribute to CIPF. IIROC has provided a \$125 million guarantee on the CIPF bank lines of credit, up from \$100 million in FY 2011. As of March 31, 2012, these lines have not been utilized. Any amount drawn on the guarantee would be assessed to Dealer Member firms. In order to meet potential financial obligations, the CIPF has the following resources in place: (i) a contingency fund balance of \$409 million on hand as at December 31, 2011 (2010 – \$381 million); and (ii) the lines of credit for \$125 million (2011 – \$100 million).

Additionally, IIROC has committed to fund the Investor Education Foundation for the Funny Money for High Schools Assembly Program to a maximum of \$958, up from \$558 last year. As at March 31, 2012, the remaining commitment is \$474.

Future accounting changes

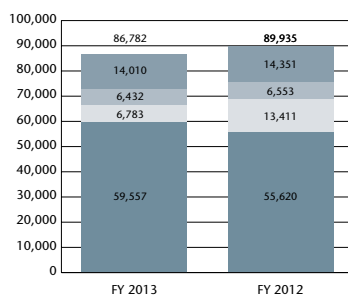
On December 31, 2010, the Accounting Standards Board (AcSB) issued Part III of the Accounting Handbook: Accounting Standards for Not-for-Profit Organizations (ASNPO). The standards are effective for annual financial statements relating to fiscal years beginning on or after January 1, 2012. The standards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

Outlook

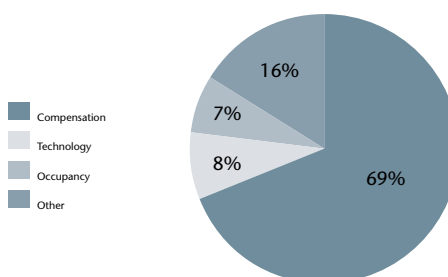
Against the background of the current economic and industry performance, the FY 2013 budget reflects similar costs in the Dealer Regulation division and lowered costs in the Market Regulation division, while maintaining the ability to effectively discharge IIROC's regulatory mandate.

Total operating expenses for the coming year are budgeted to decrease by \$3,171 (4%) to \$86,782, driven primarily by lowered Market Regulation technology costs due to the elimination of SMARS and use of STEP to monitor TSX and TSX-V trading on an intra- as well as inter-market basis. Other areas where costs are budgeted to decrease are in rental payments and telecommunications. Some areas where costs are budgeted to increase are compensation for market increases and pension expenses, and amortization arising from the build-out of the consolidated Toronto offices.

Budgeted Operating Costs (\$)



FY 2013 Budgeted Operating Costs



Management Discussion and Analysis

(In thousands of dollars)

Underwriting levies, the main secondary source of revenue, are expected to continue to decline in FY 2013 due to anticipated lower underwriting activity.

During the upcoming year IIROC will commence development of a Data Analytic System. This platform will enable IIROC to conduct data mining for studies, identify trends and conduct deeper reviews of trading in Canadian equity markets to inform policy making. Further work will be carried out to complete the rationalization of our data centres to reduce costs and improve controls. Also planned for the upcoming year is the build-out and furnishing of new office space in Calgary.

As a result of these upcoming objectives, FY 2013 member fees will increase by 5% for Dealer Regulation activities and decrease by 8% for Market Regulation activities, when compared to FY 2012 fees, which were subsidized with an excess of revenue over expenses of \$780 for Dealer Regulation and \$2,092 for Market Regulation from the prior year. If compared to FY 2012 fees without the subsidy, the increase is 3% for Dealer Regulation and a decrease of 15% for Market Regulation. The total excess of revenue over expenses returned to IIROC members is almost \$10 million since IIROC was launched in 2008.

Financial Statements

Investment Industry Regulatory Organization of Canada

March 31, 2012

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Independent Auditors' Report

To the Members of the
Investment Industry Regulatory Organization of Canada

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Investment Industry Regulatory Organization of Canada** as at March 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

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

Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
June 27, 2012

Statement of Operations

(In thousands of dollars)

Year ended March 31,	2012	2011
Unrestricted fund revenue		
Dealer regulation		
Membership fees	\$ 45,329	\$ 40,598
Underwriting levies	7,602	8,122
Registration fees	2,500	2,371
Entrance fees	155	270
	55,586	51,361
Market regulation		
Universal market integrity rules (UMIR)	25,435	25,435
Timely disclosure	3,408	3,213
Marketplace revenue	120	165
	28,963	28,813
Other revenue		
Interest	445	294
Miscellaneous	5	10
	450	304
Total unrestricted fund revenue	84,999	80,478
Unrestricted fund expenses		
Dealer regulation operating costs (Note 8)	56,271	51,004
Market regulation operating costs (Note 8)	36,391	26,398
	92,662	77,402
(Deficiency) excess of unrestricted fund revenue over expenses	(7,663)	3,076
Other funds		
Externally restricted fund (Note 9)	(611)	(1,697)
Internally restricted benefits fund (Note 10)	5	—
Externally restricted ABCP fund (Note 11)	316	226
Merger fund (Note 12)	599	414
(Deficiency) excess of revenue over expenses	\$ (7,354)	\$ 2,019

See accompanying notes to the financial statements.

Statement of Cash Flows

(In thousands of dollars)

Year ended March 31,	2012	2011
(Decrease) increase in cash and cash equivalents		
Operating activities		
(Deficiency) excess of revenue over expenses	\$ (7,354)	\$ 2,019
Depreciation and amortization	3,998	3,819
Rent amortization	576	(201)
Loss (gain) from write off of capital assets	1,029	(2)
Employee future benefits	(467)	126
	(2,218)	5,761
Change in non-cash operating working capital		
Receivables	(969)	(519)
Prepays	(148)	71
Deposit	—	(120)
Payables and accruals	7,503	1,625
Deferred revenue	57	—
	4,225	6,818
Investing activities		
Purchase of capital assets	(12,128)	(3,282)
Proceeds from sale of capital assets	—	2
Repayment (advances) of loans receivable, net	2	(6)
	(12,126)	(3,286)
Financing activities		
Increase in restricted cash	(4,000)	—
Proceeds from long-term debt	2,949	—
	(1,051)	—
(Decrease) increase in cash and cash equivalents	(8,952)	3,532
Cash and cash equivalents, beginning of the year	107,371	103,839
Cash and cash equivalents, end of the year	\$ 98,419	\$ 107,371
Cash and cash equivalents consist of:		
Cash on hand and balances with bank	\$ 21,486	\$ 15,141
Term deposits and treasury bills	76,933	92,230
Cash and cash equivalents, end of year	\$ 98,419	\$ 107,371

See accompanying notes to the financial statements.

Statement of Changes in Net Assets

(In thousands of dollars)

Year ended March 31, 2012	Investment in Capital Assets	Unrestricted Fund	Externally Restricted Fund	Internally Restricted Benefits Fund	Externally Restricted ABCP Fund	Merger Fund	Total Net Assets
Balance, beginning of year	\$ 11,681	\$ 34,871	\$ 23,516	\$ —	\$ 32,488	\$ 16	\$ 102,572
(Deficiency) excess of revenue over expenses	(1,029)	(6,634)	(611)	5	316	599	(7,354)
Depreciation and amortization	(3,998)	3,990	8	—	—	—	—
Fund transfers	—	3,801	(4,420)	619	—	—	—
Purchase of capital assets	12,128	(10,701)	(754)	—	—	(673)	—
Balance, end of year	\$ 18,782	\$ 25,327	\$ 17,739	\$ 624	\$ 32,804	\$ (58)	\$ 95,218

See accompanying notes to the financial statements.

Statement of Financial Position

(In thousands of dollars)

March 31,	2012	2011
Assets		
Current		
Cash and cash equivalents	\$ 98,419	\$ 107,371
Receivables	6,840	5,871
Prepays	747	599
Current portion of loans receivable (Note 4)	17	17
	106,023	113,858
Restricted cash (Note 6)	4,000	—
Employee future benefits (Note 7)	1,603	868
Loans receivable (Note 4)	10	12
Capital assets (Note 5)	18,782	11,681
Deposit	125	125
	\$ 130,543	\$ 126,544
Liabilities		
Current		
Payables and accruals	\$ 23,617	\$ 16,114
Current portion of long-term debt (Note 6)	392	—
Deferred revenue	57	—
Lease inducement	180	251
	24,246	16,365
Long-term debt (Note 6)	2,557	—
Lease inducement	1,527	880
Employee future benefits (Note 7)	6,995	6,727
	35,325	23,972
Fund balances		
Investment in capital assets	18,782	11,681
Unrestricted fund	25,327	34,871
Externally restricted fund	17,739	23,516
Internally restricted benefits fund	624	—
Externally restricted ABCP fund	32,804	32,488
Merger fund	(58)	16
	95,218	102,572
	\$ 130,543	\$ 126,544

Commitments (Note 13)

Subsequent event (Note 15)

See accompanying notes to the financial statements.

On behalf of the Board:



Susan Wolburgh Jenah, **President and CEO**



Gerry Rocchi, **Chair**

Notes to the Financial Statements

(In thousands of dollars)
March 31, 2012

1. Organization

The Investment Industry Regulatory Organization of Canada (IIROC or the Organization) is the national self-regulatory organization which oversees all investment dealers and trading activity on debt and equity marketplaces in Canada. IIROC commenced operations in June 2008 through the combination of the Investment Dealers Association (IDA) and Market Regulation Services Inc. (RS), and carries out its regulatory responsibilities through setting and enforcing rules regarding the proficiency, business and financial conduct of dealer firms and their registered employees and through setting and enforcing market integrity rules regarding trading activity on Canadian equity marketplaces. The net assets of the IDA and RS were contributed to the new Organization at their carrying values.

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

The Organization owns a 15.2% interest in the common shares of the Canadian Depository for Securities Limited (CDS), an organization created as a depository and clearing house for the securities industry. Decisions with respect to the voting, use or disposition of these shares and the application of any proceeds from their disposition shall be made solely by the persons who are at the time Dealer Directors of IIROC, and any such decision shall be binding on and complied with by IIROC. IIROC has undertaken to do all acts and things as may be necessary or desirable to carry out and achieve the intent of the foregoing.

The Organization owns a 10% interest in the common shares of FundSERV Inc. (FundSERV), an organization created as a depository and clearing house for the investment fund industry. Decisions with respect to the voting, use or disposition of these shares and the application of any proceeds from their disposition shall be made solely by the persons who are at the time Dealer Directors of IIROC, and any such decisions shall be binding on and complied with by IIROC. IIROC has undertaken to do all acts and things as may be necessary or desirable to carry out and achieve the intent of the foregoing.

IIROC was incorporated on March 17, 2008 as a Corporation without share capital under provisions of Part II of the Canada Corporations Act. As a not-for-profit organization, IIROC is exempt from income taxes under Section 149(1)(l) of the *Income Tax Act (Canada)*.

2. Summary of significant accounting policies

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

Use of estimates

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

Cash and cash equivalents

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

Notes to the Financial Statements

(In thousands of dollars)
March 31, 2012

2. Summary of significant accounting policies (continued)

Financial instruments

The Organization follows the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3861 – Financial Instruments – Disclosures and Presentation instead of Section 3862 – Financial Instruments – Disclosures and Section 3863 – Financial Instruments – Presentation. Cash and cash equivalents are classified as held for trading and are stated at fair value. The receivable and loans receivables are classified as loans and receivables and are measured at amortized cost. The payables and accruals and long-term debt are classified as other financial liabilities and are measured at amortized cost.

Revenue recognition

Dealer Regulation

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

Market Regulation

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

Capital assets

Capital assets are recorded at cost. Depreciation of office furniture and equipment is computed by the straight-line method at 20% per annum, and computer equipment and software and technology projects at 33⅓% per annum, except for two technology projects, which are amortized over 60 months. Leasehold improvements are amortized over the term of the respective leases. Depreciation commences when assets are placed in operation.

Fund accounting

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

- (a) **Investment in Capital Assets** represents the Organization's net investment in property and equipment, which is comprised of the unamortized balance of its capital assets.
- (b) The **Unrestricted Fund** comprises the remaining excess of revenue over expenses from operations that are available for general operating requirements.
- (c) The **Externally Restricted Fund** is the net of revenue from fines and interest and expenses incurred for the following purposes in accordance with the terms and conditions of respective provincial securities commissions:
 - (i) Non-recurring capital expenditures to address emerging regulatory issues arising from changing market conditions, and are directly related to investor protection and capital markets integrity.
 - (ii) Education of market participants and the public about or research into investing, financial matters, or the operation or regulation of securities markets.
 - (iii) Donations to non-profit, tax-exempt organizations for investor protection and education.
 - (iv) Costs associated with the administration of IIROC's hearing panels.

- (d) The **Internally Restricted Benefits Fund** was formed under the guidance of IIROC's Board of Directors for the purpose of funding the deficit in IIROC Supplemental Plan for Executives Non-Registered DB Pension Plan (IIROC SERP) and IIROC Non-Pension Post-Retirement Benefits Plan (IIROC PRB). The funds are currently invested in accordance with IIROC's investment policy.
- (e) The **Externally Restricted ABCP Fund** is an externally restricted fund set up to hold the asset-backed commercial paper (ABCP) fines received by IIROC. The use of fine monies is externally restricted by the Canadian Securities Administrators under IIROC's Recognition Order.
- (f) The **Merger Fund** was funded by the **Externally Restricted Fund** and is for expenses of the Organization relating to the creation of IIROC.

Lease inducements

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

Employee future benefits

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

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

Future accounting changes

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

3. Capital disclosures

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

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

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

Notes to the Financial Statements

(In thousands of dollars)
March 31, 2012

4. Loans receivable

Loans receivable from employees of the Organization are for the purchase of home computers. Repayment terms and maturity dates were negotiated with the Organization at the time of making the loans. The loans are non-interest bearing and are due on or before March 30, 2015.

5. Capital assets

	Cost	Accumulated Depreciation	2012 Net Book Value	2011 Net Book Value
Unrestricted Fund				
Office furniture and equipment	\$ 4,849	\$ 892	\$ 3,957	\$ 556
Leasehold improvements	7,170	866	6,304	1,558
Computer equipment and software	2,714	1,929	785	1,528
Technology projects	12,521	4,791	7,730	8,029
	27,254	8,478	18,776	11,671
Externally Restricted Fund				
Technology projects	76	70	6	10
	\$ 27,330	\$ 8,548	\$ 18,782	\$ 11,681

6. Long-term debt

	2012	2011
Loan payable – interest at lender’s prime less 0.15%, due June 2016, repayable in monthly instalments of \$45 including interest	\$ 2,949	\$ —
Less: current portion	392	—
	\$ 2,557	\$ —

On July 26, 2011, the Organization entered into a credit agreement with Canadian Imperial Bank of Commerce (CIBC) to finance the Organization’s working capital and head office refurbishment requirements. The credit agreement includes the following two facilities: (i) a committed two-year extendable revolving credit facility of \$4,000 (the “Revolving Credit Facility”), and (ii) a committed two-year extendable non-revolving term construction credit of \$6,000 repayable in monthly instalments beginning June 2012 with interest at the prime rate of CIBC less 0.15% (the “Term Facility”). The Organization has not borrowed any amounts under the Revolving Credit Facility as at March 31, 2012.

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

- (i) \$40,000 in aggregate Fund Balances, of which a minimum of \$6,000 shall be held in the Unrestricted Fund and
- (ii) a minimum of \$4,000 included in cash and cash equivalents, which will be held as collateral by the bank.

The Organization was in compliance with the covenants at March 31, 2012.

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

2013	\$	392
2014		483
2015		497
2016		511
2017		526

7. Employee future benefits

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

1. IIROC Pension Plan for former RS Pension Plan Members (Former RS RPP)
2. The formerly RS-sponsored Non-Registered SIP revenue for former TSX Employees (Former RS SIP)
3. Retirement Plan for Employees of IIROC (IIROC RPP)
4. IIROC Supplemental Plan for Executives Non-Registered DB Pension Plan (IIROC SERP)
5. IIROC Non-Pension Post-Retirement Benefits Plan (IIROC PRB)
6. IIROC SIP Defined Contribution Plan
7. IIROC Employee Defined Contribution Plan

The most recent actuarial valuation of the pension benefit and PRB plan for funding purposes was as of April 1, 2011. There was also an actuarial valuation of the Non-Pension Post-Retirement Benefits (IIROC PRB) Plan at April 1, 2011.

The Organization's net benefit expense is as follows:

March 31, 2012	Former RS RPP	Former RS SIP	IIROC RPP	IIROC SERP	IIROC PRB
Net expense	\$ 40	\$ 9	\$ 2,521	\$ 779	\$ 570
March 31, 2011	Former RS RPP	Former RS SIP	IIROC RPP	IIROC SERP	IIROC PRB
Net expense	\$ 196	\$ 13	\$ 2,000	\$ 729	\$ 509

Notes to the Financial Statements

(In thousands of dollars)
March 31, 2012

7. Employee future benefits (continued)

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

March 31, 2012	Former RS RPP	Former RS SIP	IIROC RPP	IIROC SERP	IIROC PRB
Accrued benefit obligation					
Balance at end of year	\$ (6,135)	\$ (281)	\$ (42,470)	\$ (7,999)	\$ (5,843)
Plan assets					
Fair value at end of year	\$ 5,267	\$ —	\$ 27,888	\$ 4,368	\$ —
<hr/>					
March 31, 2012	Former RS RPP	Former RS SIP	IIROC RPP	IIROC SERP	IIROC PRB
Funded status					
Plan deficit	\$ (868)	\$ (281)	\$ (14,582)	\$ (3,631)	\$ (5,843)
Unrecognized transitional (asset)/obligation	—	—	(1,056)	—	153
Unrecognized past service costs	—	—	—	—	(1,274)
Unrecognized net actuarial (gain)/loss	2,279	41	15,830	3,041	857
Accrued benefit asset (liability), March 31, 2012	\$ 1,411	\$ (240)	\$ 192	\$ (590)	\$ (6,107)
<hr/>					
March 31, 2011	Former RS RPP	Former RS SIP	IIROC RPP	IIROC SERP	IIROC PRB
Accrued benefit obligation					
Balance at end of year	\$ (5,370)	\$ (201)	\$ (30,040)	\$ (6,996)	\$ (5,240)
Plan assets					
Fair value at end of year	\$ 4,755	\$ —	\$ 23,440	\$ 4,767	\$ —

March 31, 2011	Former RS RPP	Former RS SIP	IIROC RPP	IIROC SERP	IIROC PRB
Funded status					
Plan deficit	\$ (615)	\$ (201)	\$ (6,600)	\$ (2,229)	\$ (5,240)
Unrecognized transitional (asset)/obligation	—	—	(1,174)	—	190
Unrecognized past service costs	—	—	—	—	(1,428)
Unrecognized net actuarial (gain)/loss	1,294	(30)	7,047	2,418	857
Accrued benefit asset (liability), March 31, 2011	\$ 679	\$ (231)	\$ (727)	\$ 189	\$ (5,621)

In addition to the above, there is a benefit obligation of \$58 (2011 – \$148) for an SIP defined contribution plan. Current period expense for this plan was \$4 (2011 – \$22). Current period expense for the employee defined contribution plan was \$855 (2011 – \$820).

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

Plan assets by asset category are as follows:

March 31, 2012	Former RS RPP	Former RS SIP	IIROC RPP	IIROC SERP	IIROC PRB
Equity securities	58.9%	0.0%	59.0%	18.7%	0.0%
Bonds	32.9%	0.0%	32.8%	19.8%	0.0%
Short term	—%	0.0%	—%	9.8%	0.0%
Deposit with CRA	—%	0.0%	—%	51.7%	0.0%
Real estate assets	8.2%	0.0%	8.2%	—%	0.0%
	100.0%	0.0%	100.0%	100.0%	0.0%

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

Notes to the Financial Statements

(In thousands of dollars)
March 31, 2012

7. Employee future benefits (continued)

The significant actuarial assumptions adopted in measuring the Organization's accrued benefit obligations are as follows (weighted-average assumptions as of March 31, 2012):

March 31, 2012	Former RS RPP	Former RS SIP	IIROC RPP	IIROC SERP	IIROC PRB
Discount rate	4.50%	4.25%	4.50%	4.25%	4.50%
Expected rate of return on plan assets	6.00%	—	6.00%	3.00%	—
Rate of compensation increase	4.00%	4.00%	4.00%	4.00%	—

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

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

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

March 31, 2012	Former RS RPP	Former RS SIP	IIROC RPP	IIROC SERP	IIROC PRB
Employer contributions	\$ 821	\$ —	\$ 3,441	\$ —	\$ 84
Employee contributions	\$ —	\$ —	\$ 767	\$ —	\$ —
Benefits paid	\$ (377)	\$ —	\$ (437)	\$ (443)	\$ (84)

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

8. Unrestricted Fund expenses

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

	2012	2011
Dealer Regulation Operating Costs		
Compensation	\$ 40,654	\$ 38,887
Technology	1,224	1,268
Occupancy	5,273	4,655
Other	9,120	6,194
	56,271	51,004
Market Regulation Operating Costs		
Compensation	13,698	12,100
Technology	15,165	8,815
Occupancy	1,632	1,314
Other	5,896	4,169
	36,391	26,398
Total Operating Costs	\$ 92,662	\$ 77,402

Notes to the Financial Statements

(In thousands of dollars)
March 31, 2012

9. Externally Restricted Fund

	2012	2011
Revenue		
Investigation fines	\$ 2,478	\$ 1,496
Interest	205	154
Late uniform termination notice	128	172
Continuing education fines	56	—
New membership fees	26	139
Late filing fines	18	14
	2,911	1,975
Expenses		
Hearing panel costs	1,897	1,715
FAIR	895	743
Member education	289	261
Capital Market Cooperative Research Centre	149	150
Funny Money sponsorship (Note 13)	142	141
Portfolio Margining Project	126	—
Fixed Income Surveillance Project	17	—
Amortization	7	8
Social and Enterprise Development Innovations	—	281
Rule Book Project	—	265
IOSCO sponsorship	—	75
Brokercheck	—	33
	3,522	3,672
Deficiency of revenue over expenses	\$ (611)	\$ (1,697)

10. Internally Restricted Benefits Fund

	2012	2011
Revenue		
Interest	\$ 5	\$ —
Excess of revenue over expenses	\$ 5	\$ —

11. Externally Restricted ABCP Fund

	2012	2011
Revenue		
ABCP interest	\$ 316	\$ 226
Excess of revenue over expenses	\$ 316	\$ 226

12. Merger Fund

	2012	2011
Revenue		
Interest	\$ 3	\$ 3
Expenses (recovery)		
Sales tax recovery	(671)	(646)
Compensation	1	8
Legal	52	165
Miscellaneous	22	62
	(596)	(411)
Excess of revenue over expenses	\$ 599	\$ 414

13. Commitments

As at March 31, 2012, the basic minimum aggregate annual rental payments, excluding GST/HST and occupancy costs under long-term leases with varying expiry dates to February 29, 2024, for the Organization's premises are as shown below.

2013	\$ 2,868
2014	2,788
2015	2,788
2016	2,708
2017	2,434
Thereafter	16,860
	\$ 30,446

The Organization is a sponsor of the Canadian Investor Protection Fund (CIPF), which was established to protect customers who have suffered financial loss due to the insolvency of a Dealer Member of IIROC. IIROC has provided a \$125 million (2011 – \$100 million) guarantee on bank lines of credit of the CIPF. At March 31, 2012, the CIPF has not drawn on these lines of credit. Any amount drawn on the guarantee would be assessed to dealer member firms. In order to meet potential financial obligations, the CIPF has the following resources in place: (i) a contingency fund balance of \$409 million on hand as at December 31, 2011 (2010 – \$381 million), and (ii) lines of credit provided by two Canadian chartered banks totalling \$125 million (2011 – \$100 million) as noted above.

The Organization has committed to fund the Investor Education Foundation for the Funny Money Program to a maximum of \$958. As at March 31, 2012, the remaining commitment was \$474.

Notes to the Financial Statements

(In thousands of dollars)
March 31, 2012

14. Financial instruments

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

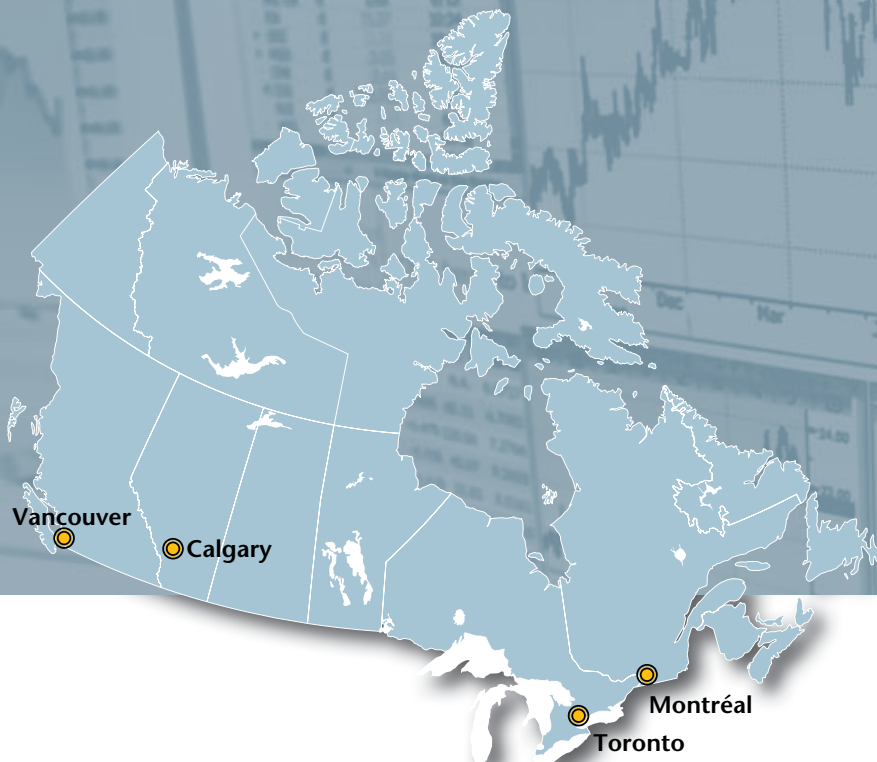
It is management's opinion that the Organization is not exposed to significant interest or concentration of credit risks arising from these financial instruments. Credit risk is considered minimal as surplus funds are only invested in Canadian government-backed securities or short-term deposits with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

15. Subsequent event

Subsequent to the year end, the Organization transferred the entire balance of the Externally Restricted ABCP Fund to an independent Administrator retained jointly by the Ontario Securities Commission and IIROC. The Administrator, under the supervision of the OSC and IIROC will administer the distribution of funds, less administrative expenses, to eligible investors who purchased third-party ABCP.

Visit our new website at
www.iiroc.ca





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