

Protecting investors and fostering fair, efficient and
competitive capital markets across Canada.

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IIROC’s National Advisory
Committee

Serves as a forum for Chairs of the District Councils to raise and discuss matters of interest, provide input on policy initiatives and report to the IIROC Board of Directors three times a year.

IIROC’s 10 District
Councils

Address registration and membership matters, raise issues of regional interest, and add perspective to national issues, including policy issues.

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

- ▶ District Council members: 155
- ▶ Member Firms participating in District Councils: 123*
- ▶ Meetings: 72
- ▶ Decisions: 554**

* The number of Firms and Marketplaces represented is non-unique. Each Firm or Marketplace is counted as many times as it is represented on various sections or committees.

** Includes decisions made by committees and sub-committees.

Policy Advisory
Committees

Financial Administrators Section

Compliance and Legal Section

Fixed Income Committee

Market Rules Advisory Committee

Education and Proficiency Committee

- ▶ Committee members: 224
- ▶ Firms and Marketplaces represented: 217*
- ▶ Meetings: 16

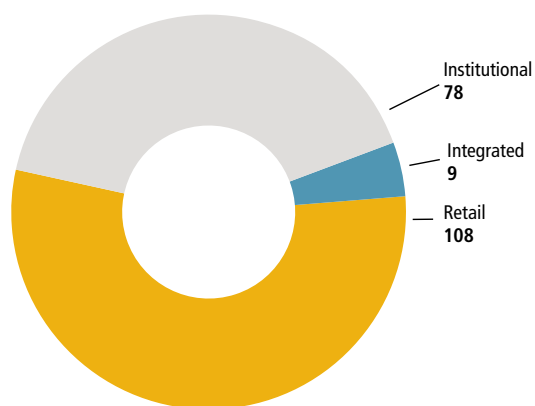
* Firms are counted in each committee of which they are members.

Industry Profile : Dealers

(All statistics are as at March 31, 2014)

Investment dealers regulated by the Investment Industry Regulatory Organization of Canada ("IIROC") vary in size, ranging from the largest financial institutions in the country to small businesses with 10 or fewer staff registered with IIROC. They represent a variety of business models, including a focus on retail or institutional clients, and an integrated approach with both retail clients and investment banking operations.

Categories of Investment Dealers



Note: 195 Dealer Members as of March 31, 2014, of which 187 were in good standing, 2 were in the resignation process, and 6 were suspended.

Individuals and Firms Under IIROC Regulation

(by Location)

Location	Approved Persons	Branch Offices	Head Offices
AB	2,838	914	17
BC	4,535	1,207	17
MB	593	156	2
NB	306	94	1
NF	116	35	0
NS	508	163	3
NT	0	2	0
NU	0	0	0
ON	13,682	2,990	121
PE	70	21	0
QC	4,633	693	28
SK	546	204	0
YT	6	6	0
U.S.	280	0	6
Other*	32	0	0
Total:	28,145	6,485	195

Note: 195 Dealer Members as of March 31, 2014, of which 187 were in good standing, 2 were in the resignation process, and 6 were suspended.

* International

Member Firms (by Revenue)

Revenue	% of Firms
Greater than \$1 billion	3
Greater than \$100 million	7
Greater than \$10 million	31
Greater than \$5 million	15
Less than \$5 million	44

Note: Based on 198 Dealer Members that reported revenue during the period from April 1, 2013 to March 31, 2014.

Member Firms (by Number of Approved Persons)

Number of Approved Persons	Number of Firms	% of Firms
Over 1,000	8	4
501 to 1,000	5	3
101 to 500	21	11
11 to 100	90	46
10 or fewer	71	36

Industry Profile : Markets

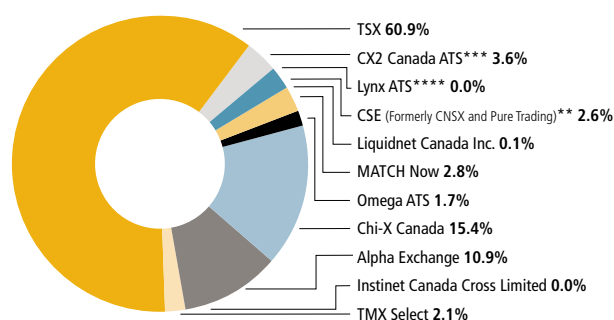
(All statistics are as at March 31, 2014)

IIROC regulates trading activity on four stock exchanges (Toronto Stock Exchange, TSX Venture Exchange, Alpha Exchange and Canadian Securities Exchange); and performs real-time surveillance of nine Alternative Trading Systems (ATSs) that trade equities (Chi-X Canada, TMX Select, Omega ATS, Instinet Canada Cross, TriAct MATCH Now, Liquidnet Canada, Lynx ATS, CX2 Canada ATS and Bloomberg Tradebook Canada).

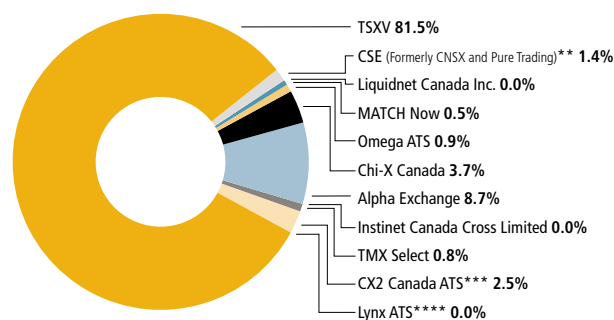
Canada's Multiple Marketplaces

(Where Trading Took Place in 2013-2014 by Share Volume)*

TSX-Listed Percentage



TSXV-Listed Percentage



* For the year ended March 31, 2014.

** As of December 1, 2013, the Canadian Stock Exchange and Pure Trading consolidated onto the Canadian Securities Exchange platform. After that date, statistics reported under "CSE" reflect a consolidation of CNSX and Pure Trading activity.

*** CX2 Canada ATS began trading on May 3, 2013.

**** Lynx ATS began trading on February 3, 2014.

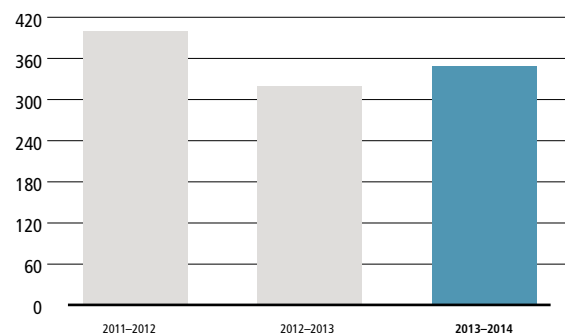
Canadian Securities Exchange

99.7% of CSE-listed securities traded on the CSE. The remaining 0.3% of trading took place on Omega ATS.

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

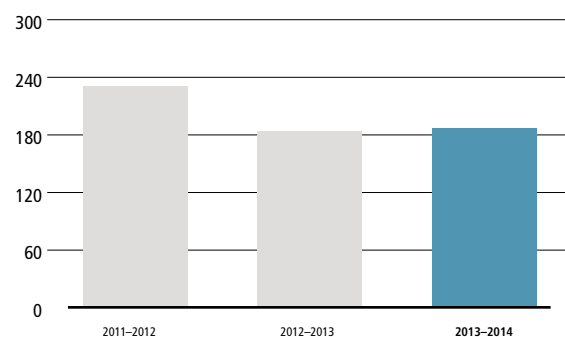
Trades

Number of Transactions (Millions)



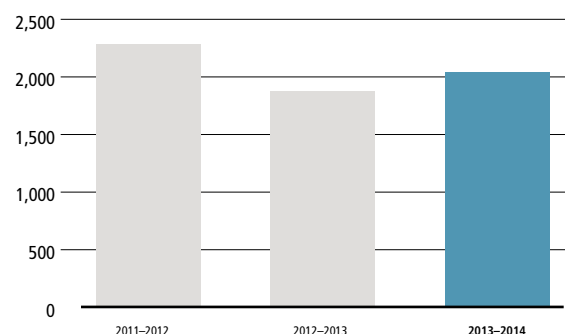
Volume

Total Shares Traded (Billions)



Value

of Shares Traded (\$ Billions)



IIROC Mandate

We set and enforce high-quality regulatory and investment industry standards, protect investors and strengthen market integrity while maintaining efficient and competitive capital markets.

IIROC Vision

We will be known for our integrity, our transparency and our fair and balanced solutions. We aim for excellence and regulatory best practices. Our actions are driven by sound, intelligent deliberation and consultation.

IIROC Values

Act with Integrity

We conduct ourselves in an ethical manner in accordance with the highest degree of fairness and professionalism.

Be accountable

We act in a timely, diligent and responsive manner.

Be proactive

We are open to new ideas as we anticipate and collaborate to meet the challenges of a constantly changing environment.

IIROC is the national self-regulatory organization

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

IIROC carries out its regulatory responsibilities through setting and enforcing rules regarding the proficiency, business and financial conduct of dealer firms and their registered employees, and through setting and enforcing market integrity rules regarding trading activity on Canadian equity markets.

How we work

IIROC's regional roots run deep. IIROC's 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.



In 2013–2014, we continued to witness profound changes taking place within the capital markets, not only in Canada but also internationally, and focused our efforts on addressing the challenges they present for the industry, investors and other stakeholders.

Message from the Chair

In the context of the dynamic regulatory environment, this Annual Report provides a high level overview of IIROC's progress over the past fiscal year in delivering effective and efficient regulation as measured against the priorities set out in the organization's three-year Strategic Plan. A great deal was accomplished in 2013–2014 through the diligent efforts of the IIROC Board, management and staff.

Earlier this year, President and CEO Susan Wolburgh Jenah announced her intention to retire from IIROC. Susan was key to the successful creation of IIROC as a national self-regulatory organization through the consolidation of the Investment Dealers Association of Canada (IDA) and Market Regulation Services Inc. (RS). During Susan's tenure, IIROC advanced tremendously in its objective to maintain fair and orderly markets, and to develop an effective risk-based approach to regulating the industry and oversight of capital markets in Canada.

IIROC has been fortunate to have had Susan leading the organization throughout a transformative period in financial markets in a manner that is proactive, responsive and sensitive to the challenges of regulating in evolutionary times and the impact this environment has on stakeholders.

The IIROC of today has a strong foundation upon which to build, with a talented and dedicated team of professionals who continue to execute on the strategic priorities and direction established in our Strategic Plan.

On behalf of the Board, I want to extend our deepest appreciation to Susan, not only for her leadership over this past year, but for her vision, hard work and unrelenting commitment to creating a modern, respected and relevant regulator as the head of IIROC since its creation in 2008.

I also want to acknowledge the ongoing contributions, commitment and continuity of our Board members. We have a strong Board in place with directors who are actively engaged and who bring a diverse set of skills, expertise and perspectives to their roles.

Stakeholder consultation and engagement are critical components to our success in making regulation efficient and effective. The Board appreciates the time, effort and meaningful input that members of the industry, investors and other stakeholders have contributed on important regulatory issues and policy initiatives over the course of the year.

Finally, I thank IIROC's management team and staff across the country who work diligently to protect investors and foster fair, efficient and competitive capital markets.

On behalf of the Board of Directors,

M. Marianne Harris

Chair of the Board



Report from the President and CEO

This Annual Report describes our regulatory priorities and how we are discharging our mandate in a dynamic and rapidly changing capital markets environment. We highlight the key strategic, operational and policy initiatives undertaken in 2013–2014 to protect investors, strengthen industry standards and enhance market integrity.

As in prior years, we welcome this opportunity to report to stakeholders on our progress in achieving or advancing previously announced objectives in our annual “Scorecard”.

Effective policy making

Last year we began to publish quarterly Policy Priorities Update Reports that set out all pending IIROC regulatory initiatives for the ensuing 12-month period.

These reports are the result of careful review and prioritization of pending policy changes — a discipline that ensures we move forward on important regulatory issues in a timely manner. Communicating our agenda alerts stakeholders so they can comment on our proposals and assists members in planning for effective implementation of new regulatory requirements.

We are committed to enhancing our impact analysis in the policy development stage and to monitoring the impact of new regulatory reforms post-adoption. Using the tools and infrastructure built in recent years — such as the Surveillance Technology Enhancement Platform (STEP) system, the Equity Data Warehouse (EDW) and a specialized analytics team — we are better able to mine the market and trade data we receive and analyze emerging trends.

This capability is critical in the context of profound changes occurring in the industry, in the structure of capital markets and within the regulatory environment. Competition, new innovations, advances in technology and the sheer speed of trading have resulted in more complexity and fragmentation of markets in Canada and around the world. These changes have presented opportunities, challenges and unanticipated consequences. Using empirical data and objective analysis, we strive to understand how these developments are impacting stakeholders, investor confidence and market integrity, and to determine if regulatory measures are necessary.

We collect and maintain a rich repository of market data that helps inform policy-making. We are exploring ways to share this information with other regulators, researchers and the public to enhance our collective understanding of capital markets operations and their impact on investors, institutional and retail.

In recent years, we've dealt with the launch of new exchanges and trading venues, dark pools, high frequency and algorithmic trading and a proliferation of complex order types.

This past year, we advanced our three-phase study into how high frequency trading (HFT) and related activity impact the Canadian equity markets. Work is underway on the final phase of the study with three project teams comprised of academic experts with international experience. This study complements other initiatives we have undertaken including final guidance on manipulative and deceptive trading, newly implemented surveillance alerts and monitoring to detect rule violations and predatory trading behaviour.

We implemented a new framework governing trading in dark pools in 2012 with the Canadian Securities Administrators and are monitoring the impact of these new rules post adoption. This framework was designed to protect the price discovery process on lit, transparent exchanges and requires meaningful price improvement and priority for lit over dark orders at the same price. While dark pools have experienced significant growth in other jurisdictions, particularly in the U.S., the volume of off-exchange trading on dark pools remains low in Canada representing less than 5% of overall equity trading.

Enhanced communication and consultation

Communication and consultation with the industry, investors and other stakeholders are core elements of the policy development process. We are committed to constructive engagement with stakeholders because it results in more effective regulation, enhanced compliance and increased confidence in our markets. We continue to strengthen our consultation process to ensure it is inclusive and helps us to identify the most effective way to achieve our objectives and avoid unintended consequences.

Last year, we conducted a survey to solicit members' views on a wide range of topics, including our Strategic Plan priorities. We held regional meetings with senior member representatives to engage them in discussions about the economic and regulatory environment and the challenges faced by investors and the industry generally.

Earlier this year, we hosted a venture capital roundtable bringing together over 100 stakeholders in Vancouver. Exchanges, issuers, dealers, investors and regulators shared their insights as we collectively explored ways to strengthen the venture capital market in Canada.

In 2014, we also hosted a member forum to communicate recent changes in operating procedures and terms of reference of the Ombudsman for Banking Services and Investments (OBSI). We have long required IIROC-regulated firms to participate in OBSI and we are now part of a Joint Regulators Committee, which includes IIROC, CSA designates and the Mutual Fund Dealers Association. This Committee meets with OBSI on a regular basis to discuss governance and operational matters and other significant issues that could impact the effectiveness of the dispute resolution system.

Strengthening proficiency standards

As the capital markets become more complex, as new products are available and as investor needs and demographics shift, proficiency standards and continuing education are more important than ever.

Proficiency standards and continuing education requirements applicable to IIROC registrants are a key priority. Educational and proficiency content is regularly revised to reflect current marketplace issues and practices. Over the past year, IIROC staff have worked with the Canadian Securities Institute (CSI) to update the majority of CSI courses, aligning content with new IIROC rules and market trends.

In July 2014, we published a consultation paper to obtain the views of industry and other stakeholders with regard to our proficiency assurance model. This paper highlights the upcoming expiry of IIROC's service level agreement with CSI in January 2016 and provides stakeholders with information about the current and alternative models for licensing courses and examinations in the future.

With the benefit of industry and broader stakeholder input, we will evaluate the current IIROC proficiency assurance model against alternatives to determine the approach that best serves the public interest, IIROC's regulatory requirements and the needs of the industry.

Robust proficiency standards play a critical role in investor protection and confidence in capital market participants. IIROC's consultation, which will be supplemented by presentations and roundtable discussions, represents an opportunity for meaningful, transparent dialogue with interested stakeholders to ensure we continually enhance the level of professionalism in the financial services industry.

Last year, the Ontario Ministry of Finance announced a plan to explore the merits of tailored regulation of financial planners. We participated in a forum convened by the Ontario Government and filed a submission outlining our views on this important subject.

Consistent proficiency, ethical and professional requirements applied to those who hold themselves out as "financial planners" – regardless of licensure – would have important benefits for both investors and the financial planning community.

We also believe, however, that the existing regulatory and self-regulatory framework can be effectively leveraged to address any identified gaps and public policy concerns so that consumers and industry alike are not burdened by additional costs resulting from unnecessary fragmentation, overlap and duplication.

With the continuing evolution of the client-advisor relationship and many consumers turning to advisors to help them prepare for their future, we are working with IIROC members on the effective implementation of the Client Relationship Model (CRM). CRM will help investors understand the services offered by their advisor, the costs of those services and their account performance results – information that is critical to enhancing investor protection.

Protecting investors and preventing harmful activity

While prosecuting regulatory misconduct is an IIROC enforcement priority, so too is the prevention of harmful activity. Our priorities continue to be the protection of seniors and vulnerable investors, unsuitable investment recommendations and member firm supervision of their retail operations. Preventative measures include effective compliance reviews, setting high proficiency and continuing education requirements and promoting a culture of compliance among the firms and individuals we regulate.

When emerging market risks or investor protection concerns are identified, we consider the full range of regulatory tools available in determining how best to achieve the desired outcome. While rule-making is one such tool, we also rely on guidance notices, member education, compliance reviews, market surveillance and day-to-day supervisory oversight to address identified concerns in a timely and cost-effective way.

Our compliance reviews, as well as the trend information we compile from investor complaints and inquiries, provide insight into areas that merit regulatory attention. Over the past year, we issued guidance for firms and registrants, an investor bulletin and a webcast on the subject of borrowing to invest.

We also know from investor focus groups we've conducted that it can be confusing to understand the many titles and designations in use and the skills and experience that underlie such titles. We therefore issued guidance regarding the use of business titles and designations by registrants when dealing with retail clients and dealer supervision of title usage.

In November 2013, following extensive testing with investors and seniors, we launched a new investor resource to help consumers navigate the multitude of financial designations. This tool is a free online searchable glossary of over 50 of the most commonly used certifications in the Canadian financial services industry and has drawn significant use since its roll-out.

Improved surveillance and oversight

In recent years, participation in the debt market by institutional and retail investors has increased significantly. The value of bond trading in Canada in 2013 was estimated to be \$11.9 trillion, as compared with \$1.95 trillion in the equity markets.

Recently the Ontario Securities Commission announced its intention to review corporate bond transparency. At IIROC, we are closer to achieving our complementary goal of more timely and effective regulatory oversight of trading activity in the debt markets.

In January, we re-issued for comment a revised debt transaction reporting proposal following extensive and ongoing consultation with various stakeholders. The proposed reporting requirements will be implemented in two phases. At the completion of the first phase, targeted for 2015, more than 90% of dealer member debt trading activity will be subject to IIROC regulatory oversight. Our goal is to better monitor and enforce compliance with existing investor protection and market integrity rules in a cost-effective manner.

Prudent fiscal stewardship

Over the past year, we have continued to exercise prudent fiscal stewardship and management of our resources. We have made progress on important regulatory initiatives and necessary investments in our human resource and technology infrastructure while carefully controlling our costs. As a result, our Dealer and Market Regulation fees remain unchanged for fiscal 2015.

Since 2008, IIROC has returned to members over \$42.5 million consisting of excess of revenue over expenses and proceeds from the Maple acquisition of IIROC's shares in the Canadian Depository for Securities (CDS) last year.

In 2013–2014, we began implementing an internal audit function to help us strengthen internal controls and build on our ongoing efforts to improve efficiency.

This is my last report as IIROC's inaugural President and CEO. I am leaving with a sense of pride and gratitude for all that we have accomplished over my term.

I joined the organization in February 2007 to effect a merger between the Investment Dealers Association of Canada and Market Regulation Services Inc. to establish IIROC in 2008. I have had the privilege of leading the organization during a transformative and pivotal period of change in the industry, market structure and stakeholder expectations.

I am deeply grateful to all the employees of IIROC across the country, my management team and the Board for their support, hard work and dedication over the years. I am confident that the IIROC team will continue to successfully execute on the strategic priorities and direction we have established and champion our important work in the public interest.



Susan Wolburgh Jenah
President and CEO

Executive Management Team



KEITH PERSAUD

Senior Vice-President,
Finance and Administration



PAUL RICCARDI

Senior Vice-President,
Member Regulation



WENDY RUDD

Senior Vice-President,
Market Regulation and Policy



DOUG HARRIS

Vice-President,
General Counsel and Corporate Secretary



LUCY BECKER

Vice-President, Public Affairs



CARMEN CRÉPIN

Vice-President, Québec



WARREN FUNT

Vice-President, Western Canada



ERIC WHALEY

Chief Information Officer

Key Facts*

Oversees



195 members and
28,145 approved persons

Assessed



\$5,393,500
 in fines (excluding costs and disgorgement)
 against firms and individuals

Completed



222 enforcement investigations
52 disciplinary hearings including
 settlement hearings

Monitored



348,000,000
 trades on four stock exchanges, and nine equity
 Alternative Trading Systems

Issued



28 suspensions and
8 permanent bans

Conducted



251⁺
 on-site Business Conduct, Financial and Operations
 and Trading Conduct compliance firm reviews

⁺ In addition, IIROC staff conducted 27 integrated on-site compliance firm reviews.

Coordinated



1,286 trading halts,
987 resumptions and
95 cease trade orders

* more key facts available at www.iiroc.ca

GOAL 1

> Promote a culture of compliance.

The industry and markets we oversee should operate with high standards of fairness and integrity so that the confidence of all market participants is preserved and enhanced. Accordingly, a strong culture of compliance benefits investors and contributes significantly to the competitiveness of the Canadian capital markets.

IIROC Dealer Members face many compliance challenges. Canadian market structure continues to rapidly evolve, against the backdrop of a challenging economic environment and ongoing market volatility. Business structures increasingly involve interconnections with affiliates, both domestically and cross-border. The proliferation and complexity of products available to investors require enhanced due diligence and proficiency.

In this environment, robust risk management, internal controls and supervisory systems are more critical than ever. Dealer Members must adopt and maintain policies and procedures designed to manage the full range of credit, market, operational, legal and reputational risks associated with their business models. Effective regulation requires a continued emphasis on promoting a strong culture of enterprise-wide risk management and compliance at IIROC-regulated firms.

GOAL 1 – PROMOTE A CULTURE OF COMPLIANCE

What we did



Encouraged firms to continue to focus on compliance risk management and internal controls.

How we did it



Issued our Annual Compliance Report in December 2013. The Report identified common examination deficiencies and trends, and focused on the results from the current cycle of examinations, as well as rules that have been introduced to implement the core elements of the Client Relationship Model (CRM). The Report also highlighted results of previous reviews that examined dealers' compliance with:

- obligations to collect know-your-client (KYC) information and assess suitability;
- requirements relating to the disclosure of account relationship details; and
- requirements to identify and manage conflicts of interest.

The Annual Compliance Report also outlined the results of IIROC's targeted reviews of firms relating to:

- the manufacturing and distribution of non-arms-length investment products;
- the impact of excessive balance sheet leverage;
- liquidity risk management practices of self-clearing firms;
- the documentation of firms' business structures; and
- the assessment of firms' outsourcing risk management practices against IIROC's best-practice guidance.

Began work on a joint "mystery shopping" program, together with the Ontario Securities Commission and Mutual Fund Dealers Association.

Conducted 112 on-site Business Conduct compliance reviews of firms, 106 on-site Financial and Operations compliance firm reviews, and 33 on-site Trading Conduct compliance firm reviews. We also conducted 27 on-site integrated compliance firm reviews.

Held our annual Compliance Conferences in Toronto, Montreal and Calgary. More than 400 senior staff from IIROC-regulated firms attended in Toronto, with another 80 joining us in Montreal and 118 in Calgary. In addition to hearing from IIROC's CEO and senior leadership, these events included updates from Business Conduct Compliance, Financial & Operations Compliance, Market and Member Regulation Policy, Enforcement and Registration and workshops on small dealer issues, social media and the Client Relationship Model.

Provided a variety of compliance education opportunities, including nine educational webcasts that were viewed by 9,269 industry participants and five live events attended by 698 industry participants.

Why it matters



Compliance with regulatory requirements and maintaining high ethical standards of fairness and integrity benefits investors, the industry and capital markets overall.

Obtaining first-hand knowledge about investors' experience, combined with our oversight and compliance exam programs, will be shared with firms we regulate to improve compliance and help enhance the customer experience. It also helps to inform further policy development and IIROC initiatives.

Integrated exams provide IIROC with a holistic view of the firms we regulate, helps us identify potential enterprise-wide risk and makes the examination process more efficient for those we regulate.

As the industry continues to evolve and become more complex, it is important for IIROC to facilitate, and for firms to commit to a culture of continuous learning.

Continued to implement the Client Relationship Model (CRM) initiative.

In December 2013, published for comment, as part of our continuing CRM initiative, proposed rule amendments (CRM2) that will increase the transparency of account performance, account fees and charges through enhanced disclosure. CRM2 rule proposals, once approved by the Canadian Securities Administrators (CSA), will be phased in over a two-year period, ending in 2016.

The CRM initiative enhances investor protection and raises industry standards. It improves transparency of fees and account performance, ensures that conflicts are identified and addressed, and enhances suitability assessment. It also helps to promote confidence in the quality and integrity of those who provide advice.

GOAL 1 CONTINUED – PROMOTE A CULTURE OF COMPLIANCE

What we did



Provided timely and clear guidance on key and emerging issues.

How we did it



Issued seven Guidance Notices in final form, covering:

- outside business activities
- marketplace and average price trade confirmation disclosure
- clearing arrangements
- outsourcing
- borrowing to invest
- use of business titles
- management of stop loss orders

Why it matters



Proactively communicating regulatory expectations promotes a strong culture of compliance and ensures an appropriate level of flexibility that reflects the different sizes and business models of firms.

Advanced the Rule Book Rewrite Project toward implementation.

Initial publication for public comment of the entire set of Plain Language Rules (PLR) is completed.

Continued to make rule revisions and drafted final responses to comments from the public and CSA staff, to advance the project to completion.

Seven of eight tranches of PLR have been completed.

Simpler rules in plain language improve comprehension of regulatory requirements and assist firms in ensuring compliance with regulatory expectations.

Published results of the Best Execution Survey.

Issued a Notice outlining the results of our survey of all Dealer Members that trade equity securities for clients. The survey assessed current practices and identified areas in which rules and/or guidance may be developed.

Sharing best practices and identifying common industry issues helps members fulfill their obligations to obtain best execution for their clients.

Published for comment proposed guidance outlining common and sound due diligence practices for IIROC Dealer Members involved as underwriters in the offering of securities to the public.

The Proposed Guidance expands on key principles relating to underwriting due diligence, including due diligence planning, due diligence Q&A sessions, business due diligence, legal due diligence, reliance on experts and other third parties, reliance on the lead underwriter, due diligence record-keeping and the role of supervision and compliance in the underwriting process.

Established an industry advisory committee on underwriting due diligence standards to solicit input into current and best practices for underwriting due diligence, and to identify any gaps or deficiencies in current practices and ways to address them. The industry committee was composed of senior industry representatives from 21 Dealer Members that are involved in underwriting activities and reflected a cross-section of large, medium and small firms with regional representation across Canada.

Consulted with IIROC's National Advisory Committee, the Executive of the Compliance and Legal Section (CLS) advisory committee, a group of western Dealer Members with specific experience in the venture market, the IIAC Small Dealers / Introducing Firms Committee and a group of senior securities lawyers who represent Dealer Members in public offerings.

The capital-raising process is vital to a vibrant economy. The proposed guidance is intended to promote consistency and enhanced underwriting due diligence practices to assist Dealer Members to more effectively perform this vital role and to ensure the protection of the investing public and capital markets integrity.

The examiner's approach was collaborative in nature. Very conducive to information exchange.

Response from an IIROC-regulated firm subject to Financial and Operations compliance review in March 2014

As part of the securities regulatory framework in Canada, IIROC's mandate includes a strong focus on investor protection. We continue to look for opportunities in our regulatory activities to enhance investor protection given changing demographics and to promote investors' awareness of who we are, the regulatory function we perform and the resources available.

GOAL 2

> Promote the protection of the investing public.

Investors should have a clear understanding of their client/advisor relationship, including the services offered, the cost of those services and the performance/results actually achieved. Achieving these goals is critical to enhancing investor protection. IIROC will continue to work with the industry and the investing public to ensure that there is clear, ongoing communication and access to fundamentally important information to help investors make informed choices/decisions.

Rapid changes in the capital markets also bring investor protection to the forefront. The advent of electronic trading and growth of algorithmic and "high frequency" trading in recent years has changed the dynamics of the equity markets, with significant implications for the investing public and IIROC's investor protection mandate. We will therefore actively monitor and address new developments in market structure in order to ensure that market integrity is maintained and investor protection is strengthened.

GOAL 2 – PROMOTE THE PROTECTION OF THE INVESTING PUBLIC

What we did



Continued to focus Enforcement activities on issues related to retail investors, including seniors and investor groups who may be more vulnerable.

How we did it



Continued to actively pursue complaints relating to suitability with a special focus on those involving seniors. In 2013, 37% of complaints reviewed by Enforcement involved seniors. This translated to approximately 40% of disciplinary actions against individual registrants related to seniors' issues. Similarly, a high percentage of investigations (approximately 40%) initiated this past year related to suitability, also resulting in 40% of disciplinary actions against individuals involving suitability issues.

In April 2014, released IIROC's Annual Enforcement Report covering the calendar year 2013. The report provides an overview of IIROC's enforcement priorities, including seniors, vulnerable investors, and manipulative and deceptive trading, and highlights key Enforcement cases and policy initiatives.

In November 2013, published revised Sanction Guidelines for comment to help respondents and their legal counsel understand the criteria that go into determining appropriate sanctions in IIROC disciplinary proceedings.

In November 2013, republished for comment revised Consolidated Enforcement Rule amendments that will result in the consolidation of the relevant Dealer Member and Universal Market Integrity Rules previously adopted by the IDA and RS and that predated the creation of IIROC. The rule proposals also clarify current rules relating to compliance exams and update rules relating to registration approvals and reviews.

Why it matters



Seniors represent a large portion of the investing public.

Publishing annual results supports our commitment to transparency and sends a strong regulatory message to potential wrongdoers.

Ensures consistency and promotes greater transparency by clearly communicating how IIROC will approach sanctioning decisions.

Provides greater clarity and transparency, and ensures consistency in the application of these processes.

Raised awareness of IIROC's current investor education resources.

Promoted IIROC's *AdvisorReport* and *Glossary of Financial Certifications* to 1.35 million public library users across Canada through "due date" receipts. In addition, during Financial Literacy Month (November 2013) 39,600 English-language, and 6,000 French-language bookmarks were distributed to consumers across the country through a new partnership with the Better Business Bureau of Canada.

The number of visitors to IIROC's website increased from 26,250 to 36,900, and the number of *AdvisorReports* generated by website users rose to 70,619 from 53,570 in 2013.

Resources help investors make more informed decisions when choosing or working with an advisor on the IIROC platform.



Issued Final Guidance on the use of Business Titles and Financial Designations.

Published a final guidance notice that outlines best practices for member firms relating to the approval and supervision of use of business titles and financial designations by individual registrants who deal with retail investors. The guidance was developed following a member survey of IIROC-regulated firms in 2011, as well as investor-focused research undertaken in 2012.

This Guidance helps firms improve transparency and increase clarity around a registrant's role in a firm, and/or expertise. Retail investors gain a better understanding about the services registrants are trained to provide and the skills and experience that underlie the titles.

GOAL 2 CONTINUED ON NEXT PAGE

GOAL 2 CONTINUED – PROMOTE THE PROTECTION OF THE INVESTING PUBLIC

What we did	How we did it	Why it matters
 <p>Developed and launched an online glossary of financial designations and certifications.</p>	 <p>Focus-tested glossary of financial designations with groups of investors in all life stages to ensure that it is easily understood and meaningful.</p> <p>Investors provided helpful feedback before the launch allowing IIROC to make improvements so that it would be more useful to Glossary users.</p> <p>Developed and launched an online Glossary of Financial Certifications during Financial Literacy Month (November 2013), which provides one-stop access to information about 50 of the most commonly used financial designations in Canada.</p>	 <p>Glossary helps investors navigate through the large number of financial designations in use and thereby better understand the skills and experience that underlie the various designations.</p>
<p>Participated in the Financial Consumer Agency of Canada's (FCAC) national event on financial literacy, as well as other investor education forums throughout the year.</p>	<p>Hosted an exhibit to promote IIROC's investor resources, including <i>AdvisorReport</i> and the <i>Glossary of Financial Certifications</i>, to kick off a month-long campaign. The event included a press conference with the federal Minister of State for Finance, and other provincial, national and non-profit organizations involved in investor education and financial literacy.</p> <p>Developed and published two Investor Bulletins: Borrowing to Invest and Understanding Financial Certifications.</p> <p>Helped to organize and participated in the annual International Forum for Investor Education (IFIE) global conferences (2013, 2014).</p>	<p>Raising awareness of the tools available to investors and the public is core to helping them become more informed.</p>
<p>Participated in government consultations exploring merits of more tailored regulation of financial planners.</p>	<p>Participated in a round table forum hosted by the Ontario Ministry of Finance in February 2014.</p> <p>Filed a submission outlining IIROC's support of efforts – regardless of licensure across various registration platforms – to ensure that those who hold themselves out as <i>financial planners</i> meet clearly defined standards of competence, proficiency and ethical practice without introducing duplicative and/or conflicting rules that would increase costs to the industry and further confuse the investing public.</p>	<p>Consistent proficiency, ethical and professional requirements for those who hold themselves out as "financial planners", regardless of the platform on which they are registered, would have important benefits for consumers and the financial planning community.</p>
<p>Continued to strengthen our complaint intake and resolution process.</p>	<p>IIROC's dedicated Complaints and Inquiries department, which includes front-line staff in Calgary, Toronto and Montreal, responded to 1,830 inquiries from investors in 2013.</p>	<p>A dedicated department provides one-stop access to knowledgeable, timely and accessible responses to investor inquiries.</p>

Just a quick thumbs up to IIROC in regards to the Glossary of Financial Certifications tool and your position that titles and designations regarding seniors' advice expertise require particular scrutiny. This type of initiative should very much help holding companies and advisors to account...

John Klaas, Principal, Canadian Retirement Mentoring Group, March 2014

GOAL 3

> Deliver effective and expert regulation.

Our mandate requires that we balance protecting investors with maintaining efficient and competitive capital markets. In order to achieve this balance, we must take a flexible approach that is appropriate within the context of global market developments, yet tailored to the unique characteristics of the domestic financial services industry.

We will undertake ongoing evaluations of the quality and relevance of our regulatory framework and approach. We will maintain and strengthen the high standards for which the Canadian capital markets are known while achieving regulatory outcomes in a cost-effective manner.

IIROC's strength is a reflection of the expertise and professionalism of our staff. We can build on this strength by promoting continuing education, training and personal development of our staff. We will deliver effective and expert regulation by complementing technical skill with data, research and the effective leveraging of organizational knowledge.

GOAL 3 – DELIVER EFFECTIVE AND EXPERT REGULATION

What we did



Improved effectiveness and efficiency of compliance examinations at member firms.

How we did it



Continued to update and streamline our compliance examination modules with a focus on risk assessment for all three compliance departments (Business Conduct Compliance, Financial & Operations Compliance, and Trading Conduct Compliance).

Conducted 27 integrated dealer member exams (compared to 12 in 2012) which facilitated a holistic assessment of risks. Integrated exams involved at least two of the three compliance departments. These integrated exams eliminated the need to conduct 63 separate compliance exams at different times over the course of the year at these firms.

Why it matters



Helps IIROC staff and member firms better utilize firm and compliance department resources, which results in more cost-effective outcomes. Integrated examinations provide a more holistic view of firms and streamline the oversight process.

Continued to mine data and conduct research to analyze emerging market trends.

Continued to enhance the newly implemented Equity Data Warehouse and build our analytics capability to produce useful information on trends and impacts, provide greater insight and deliver added value to all stakeholders.

Analyzing emerging trends allows us to anticipate potential issues and to inform the appropriate regulatory response in a rapidly changing market environment.

Launched Phase 3 of our study on High Frequency Trading (the HFT Study).

Announced the selection of three academic teams to independently assess the impact of high frequency trading (HFT) and related activity on Canadian equity markets. This third phase of IIROC's HFT study follows the publication of the first two phases which objectively identified a study group of traders and offered a detailed, statistical analysis of their activity.

This research complements other ongoing work by IIROC and will help inform any further policy making or regulatory interventions that may be required.

Addressing identified regulatory concerns relating to HFT by using empirical data and objective study will lead to better understanding of its impact on market integrity and quality, and informed regulatory actions.

Enhanced our ability to identify emerging Enforcement issues and trends.

Our Complaints & Inquiries (C & I) Department tracks retail complaint data and analyzes the information to help identify continuing or emerging trends and issues related to retail investors.

Launched a new enforcement case management (ECM) system in August 2013 to improve data collection and data management capabilities, and the effectiveness and efficiency of the enforcement program. ECM improves IIROC's ability to identify emerging issues and trends.

Enhanced information management will help us better prioritize and allocate compliance and enforcement resources which will allow us to better protect investors.

GOAL 3 CONTINUED ON NEXT PAGE

...our neighbors to the North are once again proving they are way ahead of us when it comes to analyzing [high frequency trading].

Joe Saluzzi, Partner, Themis Trading LLC., November 2013

GOAL 3 CONTINUED – DELIVER EFFECTIVE AND EXPERT REGULATION

What we did



Continued to focus on setting high proficiency standards for IIROC registrants.

How we did it



IIROC staff continued to work with the Canadian Securities Institute (CSI) to revise and update 12 of the 19 regulatory courses in 2013 to reflect industry trends and enhance course content, learning tools and examinations.

Developed a Proficiency Assurance Consultation Paper for publication in the summer of 2014. This paper highlights the upcoming expiry of IIROC's service level agreement with CSI in January 2016 and provides stakeholders with information about the current and alternative models for licensing courses and examinations in the future.

Why it matters



High proficiency standards play a key role in investor protection and capital markets integrity and efficiency.

Evaluating existing and alternative proficiency assurance models will allow IIROC to determine which model best serves the public interest, industry requirements, as well as IIROC's regulatory needs.

Enhanced relationships with other domestic and international regulators and law enforcement organizations.

Participated in various conferences throughout the year and maintained ongoing dialogue with international regulators, including the International Organization of Securities Commissions (IOSCO), Intermarket Surveillance Group (ISG), the International Forum for Investor Education (IFIE) and others, to share expertise, best practices and market intelligence.

Awareness of global developments is essential to harmonizing regulatory approaches, where appropriate, while setting standards in a Canadian context.

...IIROC has one of the best systems in the world in place to monitor the markets.

Lida Prema, Director of Capital Markets Research, Global Finance, G20 Research Group, May 2014

GOAL 4

> Strengthen the fairness, integrity and competitiveness of Canadian capital markets.

Many Canadians, whether as members of a pension plan or through direct market participation, are stakeholders in the Canadian capital markets. Many investors place considerable reliance on their financial advisors to help them plan for retirement. As such, Canadians have the right to expect that the capital markets are operated in a fair and transparent manner by firms and individuals with integrity.

Manipulative and deceptive trading activities, like systemic risk, undermine the fairness and integrity of, and investors' confidence in, markets. IIROC will be vigilant in identifying and addressing aberrant trading activity in order to maintain investor confidence.

Investor confidence also depends in part on ensuring that Canadian capital markets remain competitive and attractive to investors. Accordingly, IIROC is mindful of the potential effect that regulatory initiatives have on capital raising efforts and economic growth. We will ensure that our activities promote behaviour amongst market participants that serves as the foundation for fair, efficient and competitive capital markets.

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

What we did



Continued to implement and develop measures to address short-term volatility and market integrity issues.

How we did it



Adopted rule amendments to manage risks associated with electronic trading relationships between IIROC-regulated dealers and other parties. Amendments which took effect March 2014 create a uniform rule framework, applicable to all IIROC Dealer Members, that defines permissible electronic trading arrangements and prescribes appropriate supervisory and compliance procedures. Dealers are required to manage the financial, regulatory and other risks that may arise when third parties electronically transmit orders directly to a marketplace.

Addressed Order Execution Services (OES) as a distinct form of electronic trading offered by some Dealer Members. Proposed specific provisions (rule amendments and guidance) respecting OES as a form of third-party electronic access to marketplaces. In response to comments, the proposal was revised and re-published for comment in April 2014.

In July 2013, published final guidance that provides specific direction to dealers on the use and management of stop loss orders in relation to their obligations under the Universal Market Integrity Rules (UMIR) electronic trading rule amendments which took effect in March 2013. Conducted a follow-up sweep of all dealers using stop loss orders to confirm their compliance.

Proposed amendments in December 2013 to expand the single-stock circuit breaker (SSCB) program. Proposal would expand the list of securities subject to SSCBs, extend the times when SSCBs are active, and allow more than one SSCB to trigger for a particular security during the same trading day. Public comments have been considered and IIROC published the final guidance with further changes in the summer of 2014.

In April 2014, published proposed guidance to establish a framework for marketplaces to adopt price thresholds in order to mitigate short-term, unexplained price movements in the trading of individual securities.

Why it matters





Together with other complementary measures these initiatives enhance market integrity and foster investor confidence by helping to maintain fair and orderly markets. New framework aligns Canada's regulations with rapidly evolving trading technologies and practices and ensures there are proper controls in place for all trading activity regardless of source.

By focusing on electronic trading by Dealer Members that offer OES accounts, we are ensuring consistent regulatory oversight of OES in line with other methods of access.

Risk controls, price thresholds and circuit breakers help to reduce the number of erroneous trades and unexplained price movements, and lessen the need for regulatory intervention by IIROC.

GOAL 4 CONTINUED ON NEXT PAGE

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

What we did	How we did it	Why it matters
		
Continued to foster dialogue on emerging market-structure challenges and opportunities.	In November 2013, hosted second joint OSC-IIROC Market Structure Conference to examine the structural challenges facing the Canadian equity markets amidst rapid change. The conference examined the regulatory framework in an ever-changing landscape and provided an update on IIROC's studies on the impact of High Frequency Trading and Dark Liquidity, and included expert-led panels on the competitive landscape in North America, trading and data fees, new marketplaces and recent developments affecting market quality.	Discussion of current issues helps ensure that Canadian equity markets continue to evolve in a fair and efficient manner.
Focused on oversight of trading in debt markets.	<p>Re-issued for comment a debt transaction reporting rule proposal for more timely surveillance and enhanced oversight of Canadian debt market activity. The proposal was developed after extensive and ongoing consultation with stakeholders including the Bank of Canada. The proposal would see the replacement of the existing Market Trade Reporting System to facilitate the collection and analysis of detailed transaction data related to debt trading by Canadian dealers.</p> <p>Established an industry working group to assist with the development of a cost-recovery fee model.</p> <p>Industry input into the cost-recovery fee model will help to ensure costs of debt surveillance are fairly allocated.</p>	The debt market is less transparent than equity markets. An effective surveillance framework will enable better monitoring and enforcement, strengthen the fairness and integrity of the debt market, and improve investor protection.
Continued to support greater integrity of, and confidence in CDOR.	<p>In June 2014, IIROC published a voluntary Code of Conduct, developed by an industry panel of Canadian Dealer Offered Rate (CDOR) submitters in consultation with IIROC and the Bank of Canada. The Code includes minimum standards for submission methodology, internal oversight and record retention.</p> <p>CDOR's name also reverted back to the Canadian Dollar Offered Rate reflecting the fact that all CDOR panel members are now banks, and IIROC is no longer involved in the oversight of CDOR or its contributors.</p>	<p>The Code underscores the industry's commitment to enhanced governance and transparency of an important Canadian benchmark and Canadian reference rates in general.</p> <p>Introduction of the Code is one of the steps being taken to improve Canadian reference rates following recommendations from IIROC's 2013 review of CDOR, as well as the establishment of new global principles for financial benchmarks by the International Organization of Securities Commissions (IOSCO).</p>

Everyone I spoke to had positive comments about ... most importantly, [the] relevant content presented in an interactive and engaging format.

IIROC/OSC Market Structure Conference participant, November 2013

GOAL 5

> Act in an accountable, fair and transparent manner.

IIROC is committed to ongoing, constructive dialogue with regulated firms and marketplaces, as well as other industry and investor representatives. Timely and meaningful consultation on important regulatory initiatives will help to ensure balanced and practical regulation and promote a compliance focus within the industry.

We are also committed to developing and refining appropriate measures of our regulatory effectiveness in raising the standards of fairness and integrity in the Canadian capital markets.

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

What we did



How we did it



Why it matters



Published IIROC's policy priorities.

IIROC launched a new quarterly Policy Priorities Update Report in August 2013, setting out the timeframes and objectives of IIROC's Dealer and Market Regulation policy initiatives for the next 12 months.

This approach imposes a stronger policy planning discipline on IIROC and provides stakeholders with important information about IIROC's ongoing policy initiatives. Doing so alerts all stakeholders so they can comment on proposed IIROC initiatives and assists members in planning for effective implementation.

Continued to publish regular annual reports.

In 2013, we published a number of annual reports to better inform IIROC stakeholders, including:

- Annual Compliance Report
- Annual Enforcement Report; and
- Annual Exemption Report.

These reports are integral to transparency and help stakeholders better understand and respond to IIROC's priorities and compliance focus.

Continued to enhance website content.

Continued to focus on publishing announcements, and investor and dealer resources in real time on IIROC's website.

Analyzed metrics to determine stakeholder areas of focus and to improve overall navigation and content.

Metrics showed significant year-over-year increase of website traffic:

- website visitors increased from 26,252 to 36,873
- page views rose from 300,362 to 432,341
- number of *AdvisorReports* generated by users went up from 53,570 to 70,619.

Making information available in multiple formats helps ensure relevant information is accessible to diverse groups of stakeholders.

Published concept paper for comment regarding lower minimum capital requirements.

In March 2014, after benchmarking IIROC minimum capital requirements to those of other securities industry regulators in Canada and the U.S., IIROC published a concept paper that discusses the merits of establishing lower minimum capital requirements for Dealer Members with reduced risk profiles.

It is important to explore opportunities to create a more level playing field for IIROC-regulated firms, without impacting investor protection.

Under [Susan Wolburgh Jenah's] tenure, new rules were put in place to make investment dealers and advisors more accountable to their clients and to improve transparency. IIROC also introduced a technology for real-time market monitoring and data collecting.

Barb Shecter, *Financial Post*, April 2014

GOAL 6

> Be a cost-effective and efficient organization.

Economic pressures impacting industry profitability, and the importance of being accountable for cost-effective operations, drive the need for robust fiscal management and stewardship. Our goal is to increase productivity through effective prioritization and execution of strategic initiatives, and efficient utilization of resources across our operations. We will continue to work with other regulators to avoid unnecessary duplication of effort and reduce the overall costs of regulation in Canada.

GOAL 6 – BE A COST-EFFECTIVE AND EFFICIENT ORGANIZATION

What we did



How we did it



Why it matters



Kept Member fees flat year-over-year.

Continued to manage costs prudently while ensuring that we continue to invest in people, technology and important regulatory initiatives.

Keeping fees flat for Dealer Members while ensuring we are able to effectively discharge our regulatory mandate is especially important in challenging times.

Continued to strengthen security environment and protocols.

Continued to align our information management and security framework to the International Organization for Standardization (ISO) 27001 security standard.

Established and leveraged a strong security governance structure.

Developed and implemented new policies and enhanced existing policies, and put in place corresponding supports and controls.

Enhanced staff capabilities by strengthening security awareness through mandatory training.

Implemented new technologies to enhance security platform.

Strengthens the security and protection of IIROC assets and data entrusted to us.

Enhanced enterprise risk management (ERM) processes.

Engaged a third-party with extensive risk management experience to conduct a review, including benchmarking with other organizations, to enhance IIROC's ERM framework.

Started work to implement recommendations from the review, which include enhanced focus on mitigation strategies, hiring a dedicated ERM resource, and more employee training and education.

Identifying and mitigating potential risks is key to ensuring IIROC operates efficiently and effectively in discharging our mandate, and in a manner that is consistent with our expectations of those we regulate.

Began process to develop an internal audit function.

Selected a third-party, following a request for proposals, to help IIROC establish an internal audit oversight function.

Gathered input from IIROC senior management and IIROC Finance & Audit Committee of the Board on an internal audit charter.

Created a plan to cover the first year of the internal audit function.

Serves as a valuable tool to continually improve how we do things: aims to strengthen internal controls and builds on efforts to improve efficiency.

GOAL 6 CONTINUED ON NEXT PAGE

GOAL 6 CONTINUED – BE A COST-EFFECTIVE AND EFFICIENT ORGANIZATION

What we did



How we did it



Why it matters



Conducted the second IIROC Member Survey.

Engaged The Strategic Counsel, an independent research firm, to solicit members' views on a wide range of topics related to IIROC, including our Strategic Plan priorities, compliance, registration and enforcement operations, policy development processes, and communications.

The survey was administered online in November/December 2013 with a significant increase in participation over the first survey which was administered in 2011. Results were communicated directly to Dealer Members and showed strong levels of support for IIROC's Strategic Plan and Priorities.

Meaningful participation by members provides valuable feedback to help identify areas that require more focus. Together with other inputs from various stakeholders, survey results help us build on our strengths as an organization, improve our effectiveness as a regulator and ensure we are focused on the appropriate priorities.

Continued to engage investors on important initiatives.

Continued to conduct investor focus groups as a way to complement other feedback from investors and consumer groups to proposed policy initiatives.

Held focus groups in August 2013 to pre-test new online investor resource – Glossary of Financial Certifications.

Used investor feedback to enhance IIROC investor resources.

Investor feedback is critical to developing and implementing regulatory policies and consumer resources.

First, let me express my sincere thanks and gratitude for both your professionalism and timely responses to my inquiries. You are a breath of fresh air ...

Investor who contacted IIROC Complaints & Inquiries, July 2013

GOAL 7

We offer our employees the opportunity to work in a dynamic field and to have a direct and positive impact on investors and the industry we regulate. Our goal is to attract and develop a confident, well-trained staff with deep and broad knowledge of the markets we regulate. We will encourage proactive approaches to emerging issues by ensuring that our corporate culture, practices and staff training promote staff judgment and critical analysis, within an appropriate accountability framework.

> Be an employer of choice.

Our goal is to be and to be seen as a dynamic organization. We will provide our employees with competitive compensation, relevant and timely training and a professionally motivating environment to help us attract and retain high-performing staff. We are committed to talent management to recognize, develop and leverage internal resources and help prepare them for lateral, promotional and leadership opportunities as they arise.

GOAL 7 – BE AN EMPLOYER OF CHOICE

What we did



Analyzed, developed and implemented action plan to respond to second Employee Survey conducted in 2012.

How we did it



Identified major areas for focus based on employee feedback, and engaged employees in identifying and developing action plans around key issues including performance management, feedback and recognition.

Why it matters



Helps us be an effective organization by engaging employees in ways to improve the workplace and fosters a positive environment that attracts and retains expert and engaged staff.

Expanded opportunities for employee training and development.

Leveraged technology to offer e-learning covering a broad range of topics including project and time management.
Launched a Job Library that is searchable and includes descriptions of positions, duties and responsibilities for jobs at IIROC.

Provides employees with greater opportunities for professional development, and allows staff to identify additional opportunities within IIROC for applying their skills and developing their core competencies.

Continued corporate support for community programs.

IIROC and employees participated in charity events including Junior Achievement on national and local levels.

Enhances workplace spirit and contributes to the communities in which we live and work.

IIROC BOARD OF DIRECTORS

Governance Report

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

Seven Independent Directors
Five Dealer Member Directors
Two Marketplace Directors

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

TMX Group is entitled to nominate one of the Marketplace Directors in accordance with IIROC By-Laws. The other Marketplace Director is a representative of a Marketplace not associated or affiliated with TMX.

PRESIDENT AND CEO



SUSAN WOLBURGH JENAH

(JOINED FEBRUARY 2007)

President and CEO
 TORONTO, ONTARIO



PAUL D. ALLISON

(JOINED OCTOBER 2013)

Chairman and CEO
 Raymond James Ltd.
 TORONTO, ONTARIO

▶ Member of Finance and Audit Committee



LUC BACHAND

(JOINED SEPTEMBER 2012)

Vice-Chair and Head
 BMO Capital Markets, Québec
 MONTRÉAL, QUÉBEC

▶ Member of Human Resources and Pension Committee



JEAN-PAUL BACHELLERIE

(JOINED SEPTEMBER 2013)

President and COO
 PI Financial Group
 VANCOUVER, BRITISH COLUMBIA

▶ Member of Human Resources and Pension Committee

INDUSTRY DIRECTORS



TAL COHEN

(JOINED OCTOBER 2009)

CEO
 Chi-X Global
 NEW YORK, NEW YORK, USA

▶ Member of Human Resources and Pension Committee



KEVAN COWAN

(JOINED APRIL 2013)

President
 TSX Markets and Group Head of Equities
 TMX Group
 TORONTO, ONTARIO

▶ Member of Finance and Audit Committee



SHELDON DYCK

(JOINED SEPTEMBER 2013)

CEO
 ATB Securities Inc.
 CALGARY, ALBERTA

▶ Member of Human Resources and Pension Committee



PRUYN HASKINS

(JOINED SEPTEMBER 2012)

Managing Director
 Co-Head of Global Equity Sales & Trading
 Scotiabank Global Banking and Markets
 TORONTO, ONTARIO

▶ Member of Human Resources and Pension Committee

INDEPENDENT DIRECTORS

**M. MARIANNE HARRIS, CHAIR**

(JOINED SEPTEMBER 2010)

Corporate Director

TORONTO, ONTARIO

- ▶ Member of Finance and Audit Committee

**MIKE GAGNÉ, VICE-CHAIR**

(JOINED SEPTEMBER 2009)

Corporate Director

INVERMERE, BRITISH COLUMBIA

- ▶ Member of Finance and Audit Committee

**JAMES DONEGAN**

(JOINED SEPTEMBER 2012)

President and CEO

OMERS Capital Markets

TORONTO, ONTARIO

- ▶ Member of Corporate Governance Committee

**BRIAN HEIDECKER**

(JOINED SEPTEMBER 2011)

Chair Emeritus

University of Alberta

EDMONTON, ALBERTA

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

**EDWARD IACOBUCCI**

(JOINED SEPTEMBER 2012)

Professor

Faculty of Law and Associate Dean of Research
University of Toronto

TORONTO, ONTARIO

- ▶ Member of Corporate Governance Committee

**GERRY O'MAHONEY**

(JOINED SEPTEMBER 2013)

Principal and Founder

Tralee Capital Markets

OAKVILLE, ONTARIO

- ▶ Member of Corporate Governance Committee

**CATHERINE SMITH**

(JOINED SEPTEMBER 2012)

Corporate Director

TORONTO, ONTARIO

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

OUTGOING DIRECTORS

ROBERT C. BLANCHARD

(JOINED AUGUST 2010)

President, Haywood Securities Inc.

VANCOUVER, BRITISH COLUMBIA

- ▶ Member of Human Resources and Pension Committee

MICHAEL T. BOYCHUK

(JOINED SEPTEMBER 2012)

President, BIMCOR Inc.

MONTRÉAL, QUÉBEC

- ▶ Member of Corporate Governance Committee

THOMAS A. KLOET

(JOINED OCTOBER 2008)

CEO, TMX Group Inc.

TORONTO, ONTARIO

- ▶ Member of Finance and Audit Committee

DANIEL F. MUZYKA

(JOINED JUNE 2005)

President and CEO,

The Conference Board of Canada

OTTAWA, ONTARIO

- ▶ Member of Corporate Governance Committee












2013–2014

Board Meetings

A total of 45 meetings were held during the fiscal year ended March 31, 2014.

Below is a breakdown of attendance.

(April 1, 2013 to March 31, 2014)

Director	Board of Directors	Special Meetings	Finance and Audit	F&A Special Meetings	Corporate Governance	CGC Special Meetings	Human Resources and Pension	HR&P Special Meetings	Regulatory Rules Brief	Total Compensation**
										
Paul Allison*	3/3		3/4	2/2					3/3	
Luc Bachand	6/6	2/3					2/2	6/6	3/6	
Jean-Paul Bachellerie*	4/4						2/2	4/4	4/4	
Robert C. Blanchard^	0/1	1/1						1/1	0/1	
Michael Boychuk^	2/2	3/3			2/2	3/3			2/2	\$22,767.68
Tal Cohen	6/6	2/3					1/2	4/6	5/6	
Kevan Cowan*	5/6	1/3	5/6	5/5					4/6	
James Donegan	5/6	2/3	1/2	1/2	3/3				4/6	\$39,379.73
Sheldon Dyck*	2/3						0/1	3/4	0/3	
Mike Gagné	6/6	3/3	6/6	5/5					6/6	\$67,408.68
M. Marianne Harris	6/6	3/3	6/6	5/5					6/6	\$36,151.61
Pruyn Haskins	6/6	3/3					2/2	6/6	6/6	
Brian Heidecker	6/6	3/3	6/6	3/5	6/6	5/5			6/6	\$73,450.00
Edward Iacobucci	6/6	3/3			6/6	5/5			6/6	\$51,012.53
Gerry J. O'Mahoney*	4/4				4/4	1/1			4/4	\$29,568.32
Daniel Muzyka^	3/3	3/3			3/3	5/5			3/3	\$31,921.19
Catherine Smith	6/6	3/3			6/6	5/5	2/2	6/6	6/6	\$65,305.33
Susan Wolburgh Jenah	6/6	3/3	6/6	5/5	6/6	4/4	2/2	5/5	6/6	

* Director joined Board during the year.

^ Director stepped down during the year.

** Only Independent Directors are compensated by IIROC.

Director Compensation



IIROC does not compensate Industry Directors for their participation on IIROC's Board or on its Committees. IIROC compensates Independent Directors in accordance with the following framework:

Board

Annual retainer – \$15,000 per annum

Chair of the Board – an additional \$15,000 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 – \$1,000

Board meetings of two hours or longer – \$1,500

Committee

Committee Members – \$1,500 per annum

Committee Chairs – \$4,000

Committee meetings of less than two hours in duration – \$1,000

Committee meetings of two hours or longer – \$1,500

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

Directors to be paid half the compensation of the committee member per diem attendance fee when invited by the Chair of a Board Committee to attend the Committee's meeting, of which they are not a member.

Board Committee Mandates



Corporate Governance Committee

Recommends candidates eligible to serve on the Board and its committees; reviews IIROC governance principles and practices; identifies and manages potential conflicts of interest; establishes Board self-assessment process; and appoints individuals to the Hearing Committee.

Finance and Audit Committee

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

Human Resources and Pension Committee

Ensures IIROC can attract and retain personnel with the appropriate status and experience to achieve its objectives and enhance the professionalism and effectiveness of the organization; assists the Board in its oversight of IIROC's human resources policies and procedures, benefits and pension plans and with related regulatory compliance.

Investment Industry Regulatory Organization of Canada

Management Discussion and Analysis

(in thousands of dollars)

The Management Discussion and Analysis (MD&A) comments on IIROC's operations and financial condition are presented for the fiscal year ended March 31, 2014, compared with the previous year ended March 31, 2013. The MD&A should be read in conjunction with the financial statements for the year ended March 31, 2014.

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

Certain statements in this MD&A are forward-looking and are therefore subject to risks and uncertainties. The financial performance or events forecast in these statements may differ materially from actual financial performance or events. IIROC has based these forward-looking statements on its current views of future events and financial performance. Any assumptions, although reasonable at the time of publication, are not guarantees of future performance.

Combining the Merger Fund with the Externally Restricted Fund

The Merger Fund was funded by the Externally Restricted Fund for expenses of the organization relating to the creation of IIROC.

The remaining balance in the Merger Fund is \$549 representing a net capital asset which will be fully amortized by the end of the Toronto office lease in 2024 bringing the fund balance to zero. At March 31, 2014 the balance of this fund was transferred back into the Externally Restricted Fund to reflect the closure of the Merger Fund.

(in thousands of dollars)

Summary financial information

Unrestricted fund

	FY 2014	FY 2013	Variance \$	Variance %
REVENUE				
Dealer regulation				
Membership fees	47,559	47,570	29	0%
Refund of membership fees	0	(23,783)	23,783	100%
Underwriting levies	9,393	9,830	(437)	(4%)
Registration fees	2,391	2,319	72	3%
Entrance fees	140	90	50	56%
	59,523	36,026	23,497	65%
Market regulation				
Universal Market Integrity Rules (UMIR)	23,494	23,488	6	0%
Timely disclosure	3,214	3,821	(607)	(16%)
Marketplace revenue	151	93	58	62%
	26,859	27,402	(543)	(2%)
Other revenue				
Gain on disposition of Canadian Depository for Securities (CDS) shares	0	23,783	(23,783)	(100%)
Interest	460	583	(123)	(21%)
Miscellaneous	94	120	(26)	(22%)
	554	24,486	(23,932)	(98%)
Total unrestricted fund revenue	86,936	87,914	(978)	(1%)
UNRESTRICTED FUND EXPENSES				
Dealer regulation operating costs	58,484	56,252	2,232	4%
Market regulation operating costs	28,645	28,316	329	1%
	87,129	84,568	2,561	3%
(DEFICIENCY) EXCESS OF REVENUE OVER EXPENSES	(193)	3,346	(3,539)	(106%)

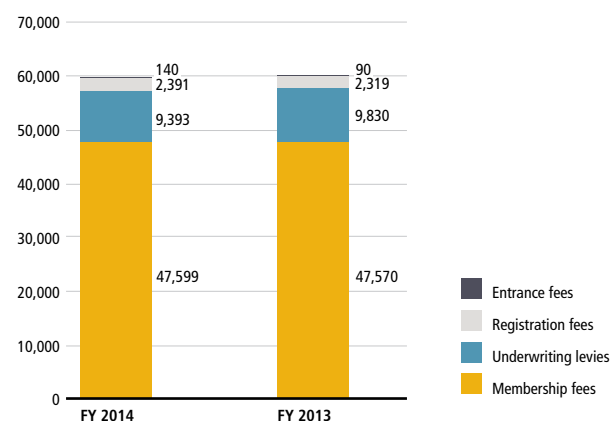
(in thousands of dollars)

Revenue

Unrestricted Fund revenues for the period amounted to \$86,936, down \$978 (1%) from \$87,914 in FY 2013.

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

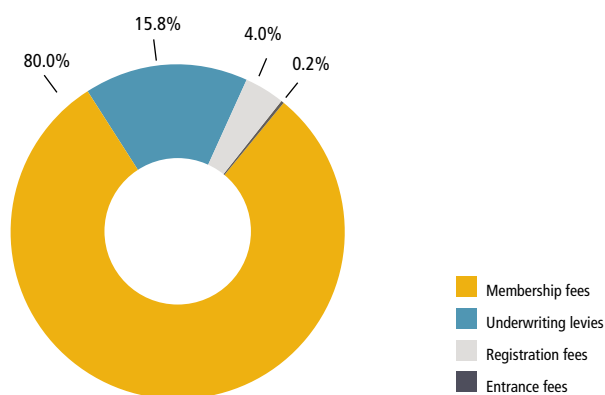
Dealer Regulation Revenue (\$)



Dealer Regulation membership fees remained flat at \$47,599 compared with \$47,570 in FY 2013 (excluding the one-time refund of fees) reflecting increased budgeted compensation and technology costs offset by the use of a surplus from FY 2013 of \$1,483.

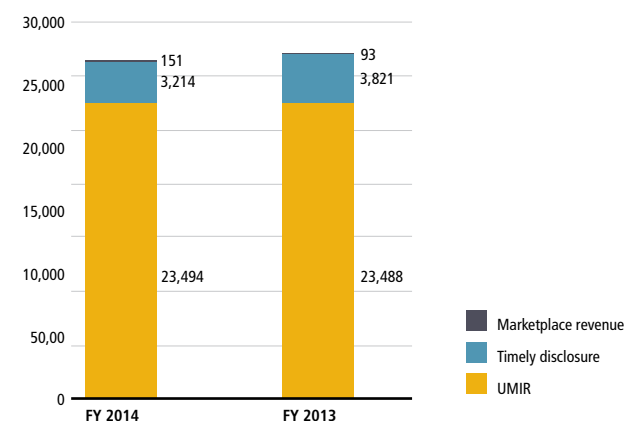
UMIR fees remained unchanged at \$23,494 compared with \$23,488 in FY 2013 despite budgeted cost increases in compensation and technology due to the application of a surplus from FY 2013 of \$2,156.

Dealer Regulation Revenue FY 2014



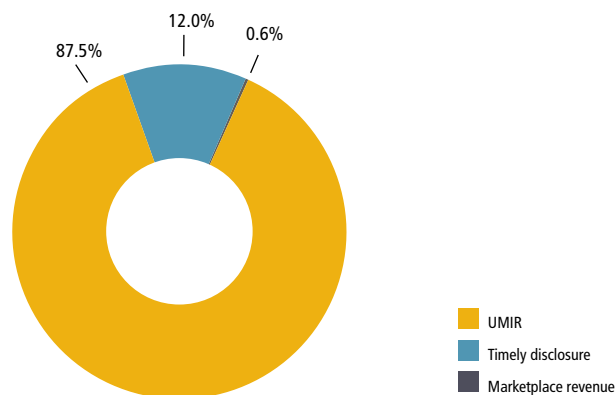
Membership fees for Dealer Regulation and Market Regulation under Universal Market Integrity Rules (UMIR) are the primary sources of revenue. They represent approximately 82% (81% in FY 2013, excluding the one-time refund of fees) of the total revenue of IIROC and are collected through the respective fee models.

Market Regulation Revenue (\$)



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

Market Regulation Revenue FY 2014



The combined revenue from secondary sources decreased by \$864 (5%) from \$16,153 to \$15,289 on a year-over-year basis.

Underwriting levies, a main secondary source of Dealer revenue decreased slightly by \$437 (4%) to \$9,393 from \$9,830 in FY 2013. The other secondary source of revenue, Registration fees increased by \$72 (3%) to \$2,391 in FY 2014.

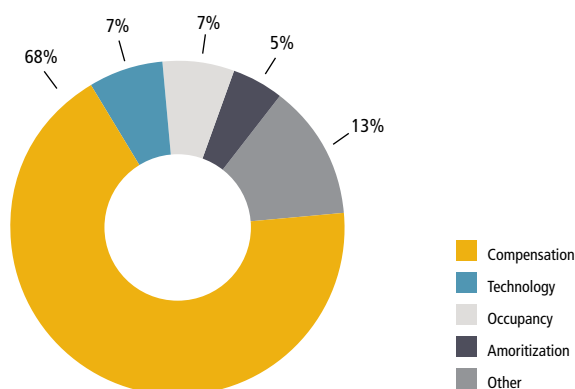
The secondary revenue source for Market Regulation is Timely Disclosure fees from the TSX, TSXV and CSE for administering their Timely Disclosure policies. This was \$3,214 in FY 2014, a decrease of \$607(16%) from FY 2013 due to reduced utilization of resources and prior year credits.

Other revenue declined to \$554 from \$24,486. The decrease of \$23,932 (98%) reflects the one-time gain of \$23,783 in FY 2013 from the disposition of CDS shares.

Costs

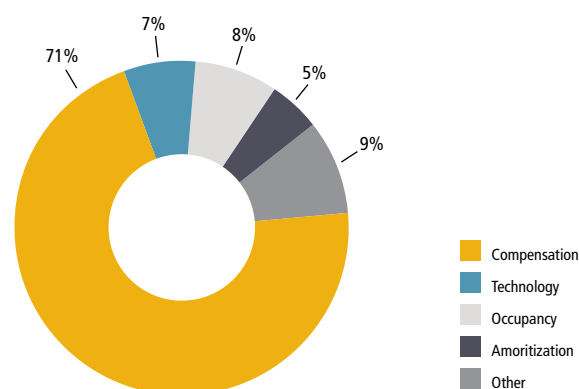
IIROC is a cost-recovery, not-for-profit organization. IIROC's operating costs consist of five main categories:

Operating Costs FY 2014



The categories of Compensation, Technology, Occupancy and Amortization make up approximately 87% (91% in FY 2013) of IIROC's operating costs. The proportion of Compensation costs dropped primarily because no market salary increases were awarded for the year, vacancies were frozen in the first quarter, and pension expense decreased due to an increase in discount rate and changes to the Defined Benefit plan. Changes included a) closing the plan to new employees and b) increasing the contribution rates of employees to the plan.

Operating Costs FY 2013



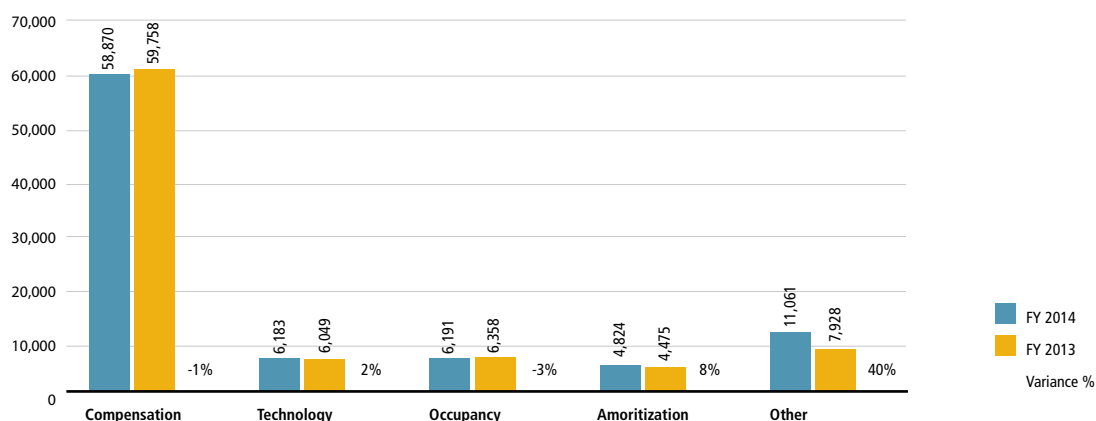
The proportion of Other costs increased to 13% from 9% (FY 2013) mainly due to mitigation costs relating to the accidental loss of a portable device that contained personal information relating to clients of a number of dealer members in the previous fiscal year.

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 \$87,129 in FY 2014, an increase of \$2,561 or 3% from \$84,568 in FY 2013.

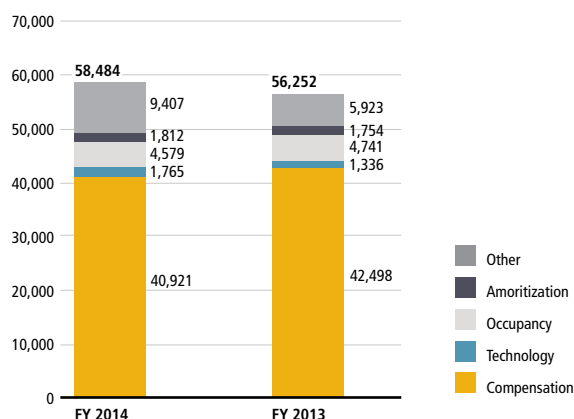
(in thousands of dollars)

Operating Costs (\$)



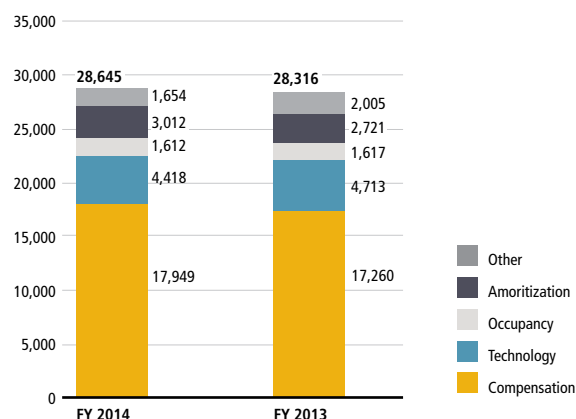
Dealer Regulation costs increased by \$2,232 (4%) to \$58,484, while Market Regulation costs were \$28,645, an increase of \$329 (1%).

Dealer Regulation Operating Costs (\$)



Dealer Regulation Compensation costs decreased primarily due to reduced staffing, market salary increases not awarded for the year and pension expenses being controlled through the implementation of changes to the Defined Benefit plan. Other costs increased in FY 2014 compared with FY 2013 due to costs of \$5,005 relating to the accidental loss of a portable device. These included a number of measures to notify potentially affected dealer members and potentially affected clients, and the provision of ongoing support services to potentially affected clients that included credit alerts, credit monitoring and a dedicated call center. Other costs were partially offset by reduced hearing costs due to the greater reliance on in-house counsel and lower discretionary costs such as the use of consultants.

Market Regulation Operating Costs (\$)



IIROC made an application to its recognizing regulators for permission to use Restricted Funds to pay the direct third party costs of the support services provided to potentially affected investors in connection with the lost portable device. The amount requested was \$2,491. IIROC was recently advised that permission will not be granted. These costs have been paid out of operating funds in FY 2014 and were completely offset by cost saving measures undertaken by IIROC as described above.

Market Regulation Compensation costs increased slightly while salary levels remained constant – due to a combination of higher severance rates and greater use of staff on operations. Costs were partially offset by a reduction in pension expense.

Excess of Unrestricted Fund revenues over expenses

There was a deficiency of revenues compared to expenses in FY 2014 of \$193. This compares with an excess of revenues over expenses in FY 2013 of \$3,346, which represents a year-over-year decrease of \$3,539 (106%). The deficiency was driven mainly by costs relating to the accidental loss of a portable device partially offset by reduced compensation and discretionary expenses. A decrease in secondary revenue also contributed to the deficiency for the year.

The FY 2014 deficiency is a planned deficiency, utilizing the prior year surplus.

The FY 2014 deficiency of revenues over expenses decreased the Unrestricted Fund balance to \$47,404, compared with the opening balance of \$47,597.

Externally Restricted Fund

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

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

Total revenues for the year amounted to \$2,390, compared with \$2,955 for FY 2013, a decrease of \$565 (19%).

Total expenses declined from \$4,029 to \$3,521, a decrease of \$508 (13%). The decrease is primarily due to lower Hearing Panel costs of \$1,933, which decreased by \$892 (32%) in FY 2014, and was partially offset, by higher Amortization costs due to the deployment of the Equity Data Warehouse (EDW) System which complements real-time surveillance. The EDW system enables IIROC to analyze historical trade data to better identify trading patterns and trends, and to inform policy development. The FY 2013 Hearing Panel costs reflected multiple lengthy and contested hearings.

The resulting deficit for the year was \$1,131, higher by \$57 (5%) than the deficit of \$1,074 in the previous year.

Capital projects invested through the Fund included \$367 on development of a Debt Surveillance system and \$321 for enhancements to the Equity Data Warehouse System. The total for the year was \$700, a decrease of \$907 from FY 2013. The Debt Surveillance platform will enable IIROC to perform debt market regulatory oversight in a timely and cost-effective way, to enhance market integrity and investor protection.

At March 31, 2014, the remaining balance of the Merger Fund of \$549 was transferred to this fund to reflect the wind down of that fund.

The deficit, partially offset by the transfer from the Merger Fund, reduced the Fund balance from \$17,384 to \$16,802 by the end of the year.

An IIROC policy is in place to ensure adequate funding is maintained for Hearing Panel-related costs.

Internally Restricted Benefits Fund

Funding of the deficits in the Supplemental Plan for Executives Non-Registered Defined Benefit DB Pension (SERP) and Non-Pension Post-Retirement Benefits (PRB) plans are reported in this Fund. The funds are currently invested in accordance with IIROC's investment policy. The Fund balance was \$636 at the end of the year.

(in thousands of dollars)

Externally Restricted Asset Backed Commercial Paper (ABCP) Fund

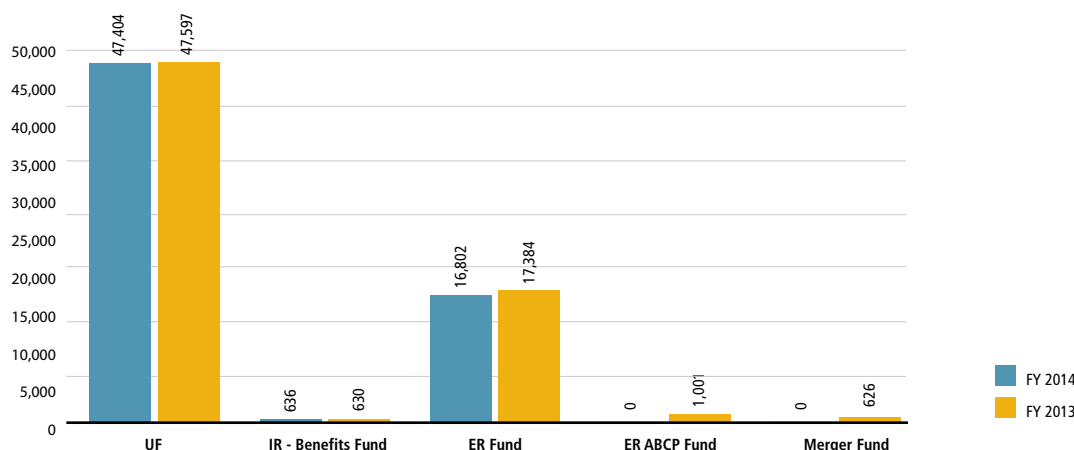
In FY 2014, IIROC transferred the remaining balance of \$1,001 of the Externally Restricted ABCP Fund to an independent Administrator, Ernst & Young Inc., retained jointly by the Ontario Securities Commission (OSC) and IIROC. The Administrator, under the supervision of the OSC and IIROC, administered the distribution of funds less administrative expenses, to eligible investors who purchased third-party ABCP. The distribution was completed in September 2013 and the Fund was closed.

Merger Fund

Funded by the Externally Restricted Fund, the Merger Fund was set up for expenses of the Organization relating to the creation of IIROC. Amortization of \$55 and legal expenses of \$22 decreased the Fund balance at the end of the year to \$549 from a balance of \$626 at the end of FY 2013.

At March 31, 2014, the remaining balance of this Fund was transferred to the Externally Restricted Fund and the Merger Fund was wound down.

Net Assets as at Year End (\$)



At the end of FY 2014, IIROC held total net assets of \$64,842, down \$2,396 from the FY 2013 balance of \$67,238, in the Unrestricted Fund, Externally Restricted Fund, Internally Restricted Benefits Fund, Externally Restricted ABCP Fund and the Merger Fund. This reflects the outflow of \$1,001 from the ABCP Fund.

During the year, IIROC invested \$2,235 in assets (\$6,552 in FY 2013) primarily in the case management and tracking system for Enforcement (\$484), development of the Debt Surveillance System (\$367), enhancing and increasing the reliability (redundancy) for the Equity Data Warehouse System (\$321), and the Surveillance Technology Enhancement Platform (STEP) market surveillance system (\$376). Investments of \$191 in information security were also included in the total.

On July 29, 2011, the IIROC entered into a two-year extendable credit agreement with Canadian Imperial Bank of Commerce (CIBC) to finance IIROC's working capital and head office and Calgary office refurbishment requirements. As at March 31, 2014 the loan payable on this facility is \$3,987. On July 25, 2013, IIROC extended the Term Facility for a period of two years.

IIROC also entered into a two-year extendable revolving credit facility of \$4,000. IIROC has not borrowed any amounts under this facility as at March 31, 2014.

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

IIROC maintains the Unrestricted Fund balance net of capital assets at approximately three months' operating cost level, in accordance with an internal guideline. At \$32,864, up \$3,131 from the beginning balance, it holds

excess funds of \$10,352 after taking into account FY 2015 budgeted expenses. This is comprised of a surplus of \$4,614 for Dealer Regulation and a surplus of \$5,738 for Market Regulation.

Potential uses for the Market Regulation excess include deficit pension funding and future capital expenditures, while the Dealer Regulation surplus may be used to reduce the bank loan balance and deficit pension funding (see Future Accounting Policy – Accounting Standard for Employee Future Benefits).

Commitments and Contingencies

At the end of the year, IIROC had total minimum rental commitments of \$25,182 (\$27,970 FY 2013), excluding GST/HST, under long-term leases with varying expiry dates to February 29, 2024.

IIROC is the sponsor of the Canadian Investor Protection Fund (CIPF), which was established to protect clients who have suffered financial loss due to the insolvency of a dealer member of IIROC. IIROC has provided a \$125,000 (2013 – \$125,000) guarantee on bank lines of credit of CIPF. At March 31, 2014, 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, CIPF has the following resources in place: i) a contingency fund balance of \$423,000 on hand as at December 31, 2013 (2012 – \$424,000); ii) lines of credit provided by two Canadian chartered banks totaling \$125,000 as at December 31, 2013 (2012 – \$125,000); and iii) insurance in the amount of \$131,000 as at December 31, 2013 (2012 – \$131,000) for any one loss and in the annual aggregate in respect of losses to be paid by CIPF in excess of \$110,000 (2012 – \$100,000) in the event of member insolvency.

IIROC is subject to a lawsuit for wrongful dismissal. The outcome of this lawsuit and amount of ultimate loss is not reasonably estimable at this time. Based upon the advice of counsel management believes the action is without merit and is defending the action vigorously.

Following the accidental loss of a portable device in the previous fiscal year that contained personal information relating to clients of a number of Dealer Members, IIROC undertook a number of measures to notify potentially affected Dealer Members and potentially affected clients, and to provide potentially affected clients with ongoing support services. The total costs to IIROC of the incident is projected to be \$5,677 of which \$5,005 has been incurred in fiscal 2014 (2013 – \$408). To date of approval of the financial statements on June 25, 2014, IIROC has received no reports of identity theft or fraud resulting from the loss of the portable device. It is not possible to estimate the total amount of potential damages or range of possible loss, if any, resulting from settlements or other remedies in connection with this matter.

On April 30, 2013, IIROC was served with a motion for authorization to institute a class action and to obtain the status of representative in the Superior Court of Quebec. The petitioner's class action motion on behalf of persons in Canada whose personal information was lost by IIROC seeks \$1, plus interest, on behalf of each class member, in relation to damages for stress, inconvenience and measures rendered necessary as a result of the loss of personal information by IIROC. The motion for authorization will be heard in June 2014 and management does not expect a ruling on the motion until September 2014. Given the preliminary status of this proceeding, it is not possible to reasonably quantify the effect, if any, of this proceeding on the financial performance of IIROC. Based upon the advice of counsel management believes the action is without merit and is defending the action vigorously.

(in thousands of dollars)

Use of estimates

Management reviews the carrying amounts of items in the financial statements at each balance sheet date to assess the need for revision or any possibility of impairment. Many items in the preparation of these financial statements require management's best estimate. Management determines these estimates based on assumptions that reflect the most probable set of economic conditions and planned courses of action. These estimates are reviewed periodically and adjustments are made to the statement of operations as appropriate in the year they become known.

Items subject to significant management estimates include

- a) Allowance for doubtful accounts – estimates are determined based on the member firms' financial viability. The allowance for doubtful debts as at March 31, 2014 was 0.3% of FY 2014 fees.
- b) Amortization periods for capital assets – IIROC begins amortization of an asset in the month after an asset is put into production. From April 1, 2014 amortization will be based on a half-year amortization in the first year. The purpose of the change in estimate is to maintain a consistent start date for the amortization of assets.
- c) Employee future benefits asset/liability – IIROC management, in consultation with actuaries Towers Watson, estimates the future earnings, discount rates and future salary increases within a prescribed range for the purpose of the benefit asset/liability calculation which is carried out by the actuaries.

Risk

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

During the year, IIROC engaged a third party to conduct an independent assessment of IIROC's Enterprise Risk Management (ERM) program. This assessment encompassed a review of current state documentation, interviews of key stakeholders in the ERM program and external benchmark organizations, with a view to further advancing and maturing the ERM program. IIROC is in the initial stages of implementing the recommendations.

Litigation risk

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

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

Market risk

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

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

Revenue risk

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

Financial instruments risks

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

Credit risk

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

IIROC is also exposed to concentration risk in that all of its cash is held with two financial institutions and the balances held exceed the Canadian Deposit Insurance Corporation (CDIC) limits.

Interest rate risk

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

Liquidity risk

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

Future Accounting Policy – Accounting Standard on Employee Future Benefits

IIROC is required to follow the new Section 3463 – Reporting of Employee Future Benefits for Not-for-Profit Organizations of the Canadian Professional Accountants of Canada (CPA) Handbook which replaces the existing Section 3461 – Employee Future Benefits. For IIROC, this will be effective for the fiscal year commencing April 1, 2014. The effect of the change is the elimination of the deferral and amortization approach for the recognition of the actuarial gains and losses of the employee future pension benefits and replacement with immediate recognition. The change in other disclosure requirements is expected to be minor.

For financial reporting purposes, IIROC currently employs the "defer and amortize approach" under Section 3461 of the CPA Handbook for employee pension plan gains and losses. However, with the elimination of the deferral and amortization of reporting pension plan gains and losses, IIROC will be impacted in the following manner:

- a) One-time impact on transition – IIROC has unrecognized losses at the transition date and will be required to recognize and report those amounts immediately through the Unrestricted Fund balance, resulting in an increased balance sheet liability and lower fund balances and operating liquidity. The to-date actuarial gains and losses and future re-measurement will be a direct charge to the Statement of Changes in Net Assets in the year of adoption. The amount of the direct charge would be approximately \$19,818 as at April 1, 2013, the transition date in reporting comparative figures. The amount would be offset by the expected re-measurement gain in FY 2014 of \$2,525, and a decrease in employee future benefits expense for Fiscal 2014 of \$737, resulting in a net reduction of \$16,556 to the Unrestricted Fund balance.

(in thousands of dollars)

b) Potential increase in balance sheet volatility – In addition to the one-time impact on transition, the removal of the deferral and amortization approach could significantly increase the balance sheet volatility since any gains and losses resulting from pension fund investments, and any liability gains and losses resulting from year-over-year changes in the long bond yields used to discount such liabilities, must also be recognized immediately.

c) Potential increase in volatility of fund balances – The effects of changes in pension assumptions or experience gains and losses is classified under the definition of re-measurements under the new Standard and is reflected in the Statement of Net Assets. This has the effect of mitigating the volatility of the excess of revenues over expenses which would otherwise be reflected on the Statement of Operations but potentially increases volatility of fund balances.

Mitigating the Financial Impact of Adopting the New Standards

With the transition to Accounting Standards for Not-for-Profit Organizations in FY 2013 and the approval of the Board of Directors, the Capital Assets Fund was combined with the Unrestricted Fund.

Upon transition to the new Standard, IIROC has elected the special-purpose accounting valuation basis in the new pension accounting standard, be used for the accounting of IIROC's pension obligations in its financial statements commencing April 1, 2014. The two main options available were the special-purpose accounting valuation (current method used) or the pension plan funding valuation basis. In the current environment, the special purpose accounting valuation produces a higher pension expense. This would mitigate the risk that required contributions to IIROC's registered plans exceed the funding collected through member fees, consequently eroding the liquidity reserve in the Unrestricted Fund.

IIROC is reviewing options to further mitigate the impact of adoption of the new standard.

Outlook

The FY 2015 budget reflects the need to maintain the ability to effectively discharge IIROC's regulatory mandate in a challenging environment.

IIROC is committed to enhancing its regulatory effectiveness while operating in an efficient and cost-effective manner by leveraging technology and allocating resources based on strategic priorities and risk assessments.

During the upcoming year, Market Regulation will expand its capacity to conduct policy impact analysis and broader economic assessment of industry trends through the use of the Equity Data Warehouse System and the expansion of the Data Analytics team. IIROC will continue to use STEP for market surveillance on an intra, as well as inter-market basis and intends to complete development of the Debt Surveillance system which will enable IIROC to expand the scope of debt market surveillance and oversight in FY 2016.

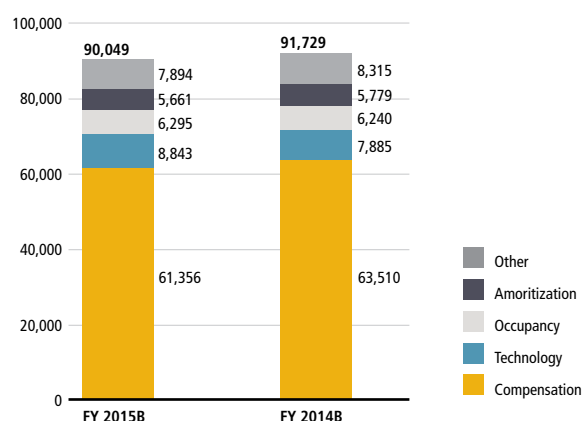
Dealer Regulation will continue to evolve and refine its risk-based approach to compliance examinations. This will include more focus on an integrated approach to compliance examinations involving business conduct, financial operations and trading conduct compliance, and concentration on the effective implementation and phased roll out of the Client Relationship Model framework.

IIROC will also continue to enhance and strengthen its Information security environment, balancing sound protection of assets with tools that enable staff to fulfill their functions effectively and securely.

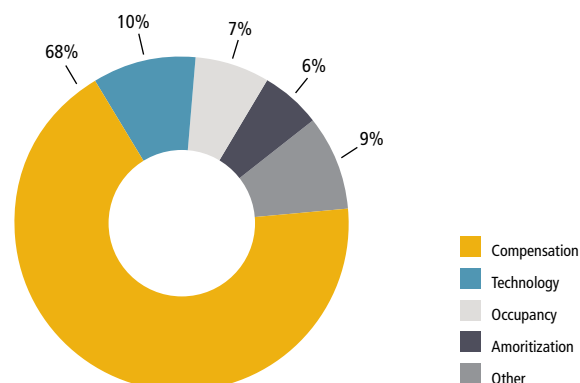
Total operating expenses for the coming year are budgeted to decrease by \$1,681 (2%) to \$90,049, driven primarily by reduced Compensation costs. This is due to an increase in vacant positions and lowered pension expenses partially offset by increased staffing mainly in Market Regulation and Technology and market salary increases. Technology costs are higher due to the Information Security initiative with Other costs expected to be lower due to the greater reliance on in-house counsel.

(in thousands of dollars)

Budgeted Operating Costs (\$)



FY 2015 Budgeted Operating Costs



As a result of the upcoming objectives, FY 2015 member fees were expected to remain flat for Dealer Regulation activities and increase by 11% for Market Regulation when compared with FY 2014 fees. The previous year's fees were reduced by an excess of revenue over expenses of \$1,483 for Dealer Regulation and \$2,156 for Market Regulation from the prior year. Subsequent to the approval of the budget, the Board approved the use of \$2,650 of the FY 2014 surplus of the Market Regulation division to hold fees flat for Market Regulation for FY 2015 on a post-application of surplus basis.

IIROC management follows a conservative approach to budgeting to avoid unexpected intra-year fee assessments while adopting a practice of returning surpluses to maintain fees as low as possible. The return of the FY 2014 surplus brings the total excess of revenue over expenses returned to IIROC members to close to \$19 million since IIROC was created in 2008. When combined with the return of the CDS proceeds (less costs and the adjusted cost of the shares) to eligible dealer members in good standing in FY 2013, the total excess of revenue over expenses returned to members since 2008 is \$42.5 million.

Investment Industry Regulatory Organization of Canada

Financial Statements

March 31, 2014

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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, 2014 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 accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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, 2014 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Toronto, Ontario

June 25, 2014

Grant Thornton LLP

Chartered Accountants

Licensed Public Accountants

(in thousands of dollars)

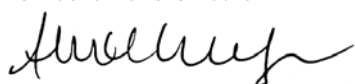
Statement of Financial Position

(in thousands of dollars)

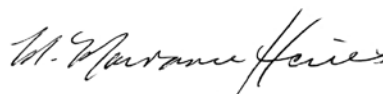
March 31,	2014	2013
ASSETS		
Current		
Cash and cash equivalents	\$ 67,606	\$ 64,640
Receivables (Note 4)	6,403	6,567
Prepays	1,009	949
Current portion of loans receivable (Note 5)	15	16
	75,033	72,172
Restricted cash	4,000	4,000
Employee future benefits (Note 9)	2,440	2,726
Loans receivable (Note 5)	6	12
Capital assets (Note 7)	17,476	20,663
Deposit	139	125
	\$ 99,094	\$ 99,698
LIABILITIES		
Current		
Payables and accruals	\$ 15,401	\$ 15,516
Government remittances payable	227	200
Current portion of long-term debt (Note 8)	997	1,028
Deferred revenue	20	20
Lease inducement	252	251
	16,897	17,015
Long-term debt (Note 8)	2,990	3,987
Lease inducement	2,349	2,604
Employee future benefits (Note 9)	12,016	8,854
	34,252	32,460
NET ASSETS		
Unrestricted Fund	47,404	47,597
Internally restricted		
- Internally Restricted Benefits Fund	636	630
Externally restricted		
- Externally Restricted Fund	16,802	17,384
- Externally Restricted ABCP Fund	—	1,001
- Merger Fund	—	626
	64,842	67,238
	\$ 99,094	\$ 99,698

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

On behalf of the Board:



Susan Wolburgh Jenah, President and CEO



M. Marianne Harris, Chair

(in thousands of dollars)

Statement of Changes in Net Assets

(in thousands of dollars)

Year ended March 31,	Unrestricted Fund	Internally Restricted Benefits Fund	Externally Restricted			2014 Total	2013 Total
			Externally Restricted Fund	Externally Restricted ABCP Fund	Merger Fund		
Net assets, beginning of year	\$ 47,597	\$ 630	\$ 17,384	\$ 1,001	\$ 626	\$ 67,238	\$ 96,738
Excess (deficiency) of revenue over expenses	(193)	6	(1,131)	(1,001)	(77)	(2,396)	(29,500)
Fund transfer (Note 2 (e))	—	—	549	—	(549)	—	—
Net assets, end of year	\$ 47,404	\$ 636	\$ 16,802	\$ —	\$ —	\$ 64,842	\$ 67,238

See accompanying notes to the financial statements.

(in thousands of dollars)

Statement of Operations

(in thousands of dollars)

Year ended March 31, 2014	Unrestricted Fund	Internally Restricted Benefits Fund	Externally Restricted Fund	Externally Restricted ABCP Fund	Merger Fund	2014 Total	2013 Total
REVENUE							
Dealer regulation							
Membership fees	\$ 47,599	\$ —	\$ —	\$ —	\$ —	\$ 47,599	\$ 47,570
Refund of membership fees (Note 6)	—	—	—	—	—	—	(23,783)
Underwriting levies	9,393	—	—	—	—	9,393	9,830
Registration fees	2,391	—	—	—	—	2,391	2,319
Entrance fees	140	—	—	—	—	140	90
	59,523	—	—	—	—	59,523	36,026
Market regulation							
Universal Market Integrity Rules (UMIR)	23,494	—	—	—	—	23,494	23,488
Timely disclosure	3,214	—	—	—	—	3,214	3,821
Marketplace revenue	151	—	—	—	—	151	93
	26,859	—	—	—	—	26,859	27,402
Other revenue							
Investigative fines and other fines	—	—	2,255	—	—	2,255	3,796
Gain on disposition of CDS shares (Note 6)	—	—	—	—	—	—	23,783
Interest	460	6	135	2	—	603	764
Merger fund expense recovery	—	—	—	—	—	—	80
Miscellaneous	94	—	—	—	—	94	120
	554	6	2,390	2	—	2,952	28,543
	86,936	6	2,390	2	—	89,334	91,971
EXPENSES							
Dealer regulation operating costs (Note 10)	58,484	—	—	—	—	58,484	56,252
Market regulation operating costs (Note 10)	28,645	—	—	—	—	28,645	28,316
Externally restricted fund expenses (Note 10)	—	—	3,521	—	—	3,521	4,029
ABCP fine disbursements (Note 11)	—	—	—	1,003	—	1,003	32,819
Merger fund expenses	—	—	—	—	77	77	55
	87,129	—	3,521	1,003	77	91,730	121,471
Excess (deficiency) of revenue over expenses	\$ (193)	\$ 6	\$ (1,131)	\$ (1,001)	\$ (77)	\$ (2,396)	\$ (29,500)

See accompanying notes to the financial statements.

Statement of Cash Flows

(in thousands of dollars)

Year ended March 31,	2014	2013
Increase (decrease) in cash and cash equivalents		
Operating activities		
Deficiency of revenue over expenses	\$ (2,396)	\$ (29,500)
Depreciation and amortization	5,387	4,662
Gain on disposition of CDS shares	—	(23,783)
Rent amortization	(254)	1,148
(Gain)/loss from sale of capital assets	(46)	8
Employee future benefits expense	6,529	7,344
	9,220	(40,121)
Change in non-cash operating working capital		
Receivables	164	273
Prepays	(60)	(202)
Deposit	(14)	—
Payables and accruals	(88)	(7,901)
Deferred revenue	—	(37)
	9,222	(47,988)
Investing activities		
Purchase of capital assets	(2,235)	(6,552)
Proceeds from disposition of CDS shares	—	24,400
Proceeds from sale of capital assets	81	1
Employee future benefits contributions	(3,081)	(5,705)
Repayment (advances) of loans receivable, net	7	(1)
	(5,228)	12,143
Financing activities		
Proceeds from long-term debt	—	5,607
Repayment on long-term debt	(1,028)	(3,541)
	(1,028)	2,066
Increase (decrease) in cash and cash equivalents	2,966	(33,779)
Cash and cash equivalents, beginning of the year	64,640	98,419
Cash and cash equivalents, end of the year	\$ 67,606	\$ 64,640
Cash and cash equivalents consist of:		
Cash on hand and balances with bank	\$ 8,151	\$ 15,479
Term deposits and treasury bills	59,455	49,161
Cash and cash equivalents, end of year	\$ 67,606	\$ 64,640

See accompanying notes to the financial statements.

(in thousands of dollars)
March 31, 2014

1. Organization

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

IIROC is the national self-regulatory organization which oversees all investment dealers and trading activity on debt and equity marketplaces in Canada. IIROC commenced operations in June, 2008 through the combination of the Investment Dealers Association and Market Regulation Services Inc.

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

IIROC carries out its regulatory responsibility through setting and enforcing rules regarding the proficiency, and business and financial conduct of dealer firms and their registered employees, and market integrity rules regarding trading activity on Canadian equity marketplaces.

2. Summary of significant accounting policies

Basis of presentation

The Organization has prepared these financial statements in accordance with Canadian Accounting Standards for Not-for-Profit Organizations using the restricted fund method of accounting.

Fund accounting

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

- a) Dealer regulation and Market regulation revenue and expenses, including amortization of **Unrestricted Fund** capital assets, are reported in the **Unrestricted Fund**.
- b) funding of the deficit in the unrestricted IIROC Supplemental Plan for Executives Non-Registered Defined Benefit Pension Plan (IIROC SERP) and IIROC Non-Pension Post-Retirement Benefits Plan (IIROC PRB) is reported in the **Internally Restricted Benefits Fund**.
- c) the collection of fines and settlement monies arising from enforcement actions (investigative fines) and other revenue and the use of these funds in accordance with the terms and conditions of respective provincial Securities Commissions' Recognition Orders are reported in the **Externally Restricted Fund**. This Fund is to be used for:
 - i. expenditures for the development of systems or other non-recurring capital expenditures to address emerging regulatory issues arising from changing market conditions, and are directly related to investor protection and capital markets integrity,
 - ii. education of market participants and the public about or research into investing, financial matters, or the operation of regulation of securities markets,
 - iii. donations to non-profit, tax-exempt organizations for investor protection and education, or
 - iv. costs associated with the administration of IIROC's Hearing Panels.
- d) the collection of the asset-backed commercial paper (ABCP) fines received by IIROC are recorded in the **Externally Restricted ABCP Fund**. This fund was closed during the year when the fines were distributed by the independent Administrator, Ernst & Young Inc., to eligible investors who purchased third-party ABCP (Note 11).

2. Summary of significant accounting policies

(continued)

Fund accounting (continued)

- e) the **Merger Fund** was originally funded by the **Externally Restricted Fund** and is for expenses of the Organization relating to the creation of IIROC. At March 31, 2014, the remaining balance of this fund was transferred back into the **Externally Restricted Fund** to reflect the closure of the **Merger Fund**.

Revenue recognition

Unrestricted revenues are recognized as revenue as follows:

Dealer regulation

Annual membership fees are assessed upon the member firms for the fiscal year and are recorded as revenue on a straight-line basis over the fiscal year. Underwriting levies are recognized when the underwriting transaction closes. Registration fees and entrance fees are recorded as revenue as earned.

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. For attribution to each dealer member on each marketplace, technology costs are assessed on the number of messages sent, while non-technology costs are assessed on the number of trades executed. The fees are invoiced on a monthly basis in arrears within the first ten days of any month for the aggregate of marketplace-regulation costs incurred during a particular month. Timely disclosure revenue and marketplace revenue are recognized as earned.

Restricted revenues are recognized in the appropriate fund when the amounts can be reasonably estimated and collection is reasonably assured. Investigation fines, termination notices and late filing fees due from member firms are recognized as revenue in the Externally Restricted Fund when assessed. Investigation fines, continuing education fines and late filing fees from

registrants of member firms are recognized as revenue in the Externally Restricted Fund when received. Late filing fees and initiation fees from new member firms are recognized as revenue in the Externally Restricted Fund when received. Recoveries of expenses are recognized as revenue in the Merger Fund in the year of recovery.

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

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.

Investments

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

Financial instruments

Initial measurement

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

(in thousands of dollars)
March 31, 2014

2. Summary of significant accounting policies

(continued)

Financial Instruments (continued)

Subsequent measurement

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

For financial assets measured at cost or amortized cost, the Organization regularly assesses whether there are any indicators of impairment. If there is an indication of impairment, and the Organization determines that there is a significant adverse change in the expected timing or amount of future cash flows from the financial asset, it recognizes an impairment loss in the statement of operations. Any reversals of previously recognized impairment losses are recognized in operations in the year the reversal occurs.

Capital assets

Capital assets are recorded at cost. Depreciation of office furniture and equipment is computed by the straight-line method at 20% per annum, and computer equipment, software and technology projects at 33 1/3% per annum except for certain technology projects, which are amortized over 60 months to better reflect the useful life of these assets. Leasehold improvements are amortized over the term of the respective leases. Depreciation commences when assets are placed in operation.

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

Lease inducements

Certain of the Organization's operating leases contain predetermined fixed escalations of minimum rentals during the original lease terms. The Organization recognizes the related rental expense on a straight-line basis over the life of the lease, and records the difference between the amounts charged to operations and amounts paid as deferred rent in the early years of the lease, when cash payments are generally lower than straight-line rent expense. Deferred rent is reduced in the later years of the lease when payments begin to exceed the straight-line expense. The Organization also receives certain lease incentives in conjunction with entering into operating leases. These lease incentives are recorded as lease inducements at the beginning of the lease term and recognized as a reduction of rent expense over the lease term.

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 determined by actuaries 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.

2. Summary of significant accounting policies

(continued)

Employee future benefits (continued)

- The Organization uses the deferral and amortization method to account for its employee benefit plans. Net actuarial gains (losses) that exceed 10% of the greater of benefit obligation and fair value of plan assets are amortized over the estimated average remaining service of active employees. For 2014 and 2013, the estimated averages were: 10 years for plans with Accrued Benefit Asset; 8 to 11 years for plans with Accrued Benefit Obligation; and 17 years for Non-Pension Post Retirement Benefits Plan. Past service costs for plan amendments are also amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.

Allocation of expenses

IIROC engages in Dealer regulation and Market regulation. The costs of each function primarily include mainly the costs of Compensation, Technology, Occupancy and Amortization. IIROC also incurs general administrative support expenses that are common to the administration costs of IIROC and its functions. IIROC allocates its general administrative support expenses based on the proportion of direct dealer and market activities on a per capita basis where there is a direct causal link of costs related to staff size, and based on cost ratios where there is no direct causal link. This basis is applied consistently each year. The general administrative support expenses allocation during the year was \$7,169 (2013 – \$2,427) to Dealer regulation and \$884 (2013 – \$868) to Market regulation.

Use of estimates

Management reviews the carrying amounts of items in the financial statements at each balance sheet date to assess the need for revision or any possibility of impairment. Many items in the preparation of these financial statements require management's best estimate. Management determines these estimates based on assumptions that reflect the most probable set of economic conditions and planned courses of action. These estimates are reviewed periodically and adjustments are made to statement of operations as appropriate in the year they become known.

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

3. Future Accounting Policies

In December 2013, the Accounting Standards Board approved new Section 3463 – **Reporting of Employee Future Benefits by Not-for-Profit Organizations** which replaces existing Section 3461 – **Employee Future Benefits**. For IIROC, this would be effective for the fiscal year commencing April 1, 2014. The expected effect of the change is the elimination of the deferral and amortization approach for the recognition of the actuarial gains and losses of the employee future benefits with immediate recognition. The to-date actuarial gains and losses and future re-measurement would be a direct charge to the Statement of Changes in Net Assets in the year of adoption. The amount of direct charge would be approximately \$19,818 as at April 1, 2013, the transition date in reporting comparative figures. The amount would be offset by the re-measurement gain in fiscal 2014 of \$2,525, and a decrease in employee future benefits expense for fiscal 2014 of \$737, resulting in a net impact reduction of \$16,556 to the Unrestricted Fund balance. The change in other disclosure requirements is expected to be minor.

4. Receivables

	2014	2013
Trade	\$ 6,629	\$ 6,942
Allowance for doubtful accounts	(226)	(375)
	\$ 6,403	\$ 6,567

The gross carrying amount of the impaired trade receivables was \$226 (March 31, 2013 – \$375). The amount of impaired loss recorded in the Statement of Operations related to the trade receivables is \$99 (2013 – \$32).

(in thousands of dollars)
March 31, 2014

5. Loans receivable

Loans receivable from employees of the Organization are for the purchase of home computers. Repayment terms and maturity dates were negotiated with the employees at the time of making the loans. The loans are unsecured, non-interest bearing and are due on or before September 14, 2016.

6. Investments

The Organization owns a 10% interest in the common shares of FundSERV Inc. (FundSERV), an organization created as a depository and clearing house for the investment fund industry which is recorded at its original cost at Nil. Decisions with respect to the voting, use or disposition of these shares and the application of any proceeds from their disposition shall be made solely by

the persons who are at the time Dealer Directors of IIROC and any such decisions shall be binding on and complied with by IIROC. IIROC has undertaken to do all acts and things as may be necessary or desirable to carry out and achieve the intent of the foregoing.

During fiscal 2013, the Organization's 15.2% interest in the common shares of The Canadian Depository for Securities Limited (CDS), an organization created as a depository and clearing house for the securities industry, was acquired by an outside party. Proceeds in the amount of \$25,481 were recorded. After deduction of \$1,081 of transaction costs and the cost base of the investment of \$617, the Organization recorded a gain of \$23,783. Membership fees were refunded to the members prior to the 2013 fiscal year-end in an amount equal to the gain.

7. Capital assets

	Cost	Accumulated Amortization	2014 Net Book Value	2013 Net Book Value
Unrestricted Fund:				
Office furniture and equipment	\$ 5,854	\$ 2,878	\$ 2,976	\$ 3,927
Leasehold improvements	8,078	2,173	5,905	6,553
Computer equipment and software	2,910	2,726	184	508
Technology projects	15,337	9,862	5,475	6,876
	32,179	17,639	14,540	17,864
Externally Restricted Fund:				
Technology projects	3,134	747	2,387	2,195
Leasehold improvements	673	124	549	—
	3,807	871	2,936	2,195
Merger Fund:				
Leasehold improvements	—	—	—	604
	\$ 35,986	\$ 18,510	\$ 17,476	\$ 20,663

8. Long-term debt

	2014	2013
Loan payable – interest at banker's acceptance rate plus 0.85% (2.17% at March 31, 2014), due March 2018, repayable in monthly instalments of \$83 excluding interest	\$ 3,987	\$ 5,015
Less: current portion	997	1,028
	\$ 2,990	\$ 3,987

On July 29, 2011, the Organization entered into a credit agreement with Canadian Imperial Bank of Commerce (CIBC) to finance the Organization's working capital, head office and Calgary office refurbishment requirements. The credit agreement includes the following two facilities:

- (i) a committed two-year extendable revolving credit facility of \$4,000 (the "Revolving Credit Facility"), and
- (ii) a committed two-year extendable non-revolving term construction credit facility of \$6,000 repayable in monthly instalments beginning June, 2012 with interest at the banker's acceptance rate plus 0.85% (the "Term Facility").

The Organization has not borrowed any amounts under the Revolving Credit Facility as at March 31, 2014. On July 25, 2013, IIROC extended the Term Facility for a period of two years.

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

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

The Organization was in compliance with the covenants at March 31, 2014.

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

2015	\$ 997
2016	997
2017	997
2018	996
	\$ 3,987

9. Employee future benefits

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

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

IIROC also has a Non-Pension Post-Retirement Benefits Plan (IIROC PRB). The benefits provided under the plan to retired employees are medical care, dental care, health care spending account, and catastrophic coverage to eligible retirees.

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

(in thousands of dollars)
March 31, 2014

9. Employee future benefits (continued)

	March 31, 2014			March 31, 2013		
	Pension Plans ⁽¹⁾	Pension Plans ⁽²⁾	Other Benefits Plan ⁽³⁾	Pension Plans ⁽¹⁾	Pension Plans ⁽²⁾	Other Benefits Plan ⁽³⁾
Accrued benefit obligation	\$ (6,735)	\$ (63,645)	\$ (7,638)	\$ (6,497)	\$ (57,921)	\$ (6,752)
Fair value of plan assets	8,265	44,538	–	7,854	38,132	–
Fund status – plans surplus/(deficit)	1,530	(19,107)	(7,638)	1,357	(19,789)	(6,752)
Unamortized past service costs	–	–	(966)	–	–	(1,120)
Unamortized actuarial losses	1,827	14,450	1,245	2,070	17,773	1,095
Accrued benefit asset (liability)	3,357	(4,657)	(7,359)	3,427	(2,016)	(6,777)
Valuation Allowance (VA)	(917)	–	–	(701)	–	–
Accrued benefit asset (liability) (net of VA)	\$ 2,440	\$ (4,657)	\$ (7,359)	\$ 2,726	\$ (2,016)	\$ (6,777)

(1) Plans with Accrued Benefit Asset

(2) Plans with Accrued Benefit Obligation

(3) Non-Pension Post-Retirement Benefits Plan

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

	Year Ended					
	March 31, 2014			March 31, 2013		
	Pension Plans ⁽¹⁾	Pension Plans ⁽²⁾	Other Benefits Plan ⁽³⁾	Pension Plans ⁽¹⁾	Pension Plans ⁽²⁾	Other Benefits Plan ⁽³⁾
Current year benefit cost	\$ –	\$ 4,091	\$ 464	\$ –	\$ 4,092	\$ 433
Interest on accrued benefit obligation	275	2,632	304	275	2,463	280
Actual return on plan assets	(471)	(4,590)	–	(513)	(3,024)	–
Difference between actual return and expected return on plan assets	138	2,334	–	191	1,113	–
Amortization of actuarial losses	128	1,137	25	167	1,304	16
Amortization of past service costs	–	–	(154)	–	–	(154)
Change in Valuation Allowance (VA)	216	–	–	701	–	–
Employee future benefit expense	\$ 286	\$ 5,604	\$ 639	\$ 821	\$ 5,948	\$ 575

(1) Plans with Accrued Benefit Asset

(2) Plans with Accrued Benefit Obligation

(3) Non-Pension Post-Retirement Benefits Plan

9. Employee future benefits (continued)

In addition to the above, there is no benefit obligation (2013 – \$61) for the SIP defined contribution plan. Current period expense for this plan was \$8 (2013 – \$3). Current period expense for the employee defined contribution plan noted above was \$1,015 (2013 – \$924).

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

	2014	2013
Discount rate	4.25% to 4.50%	4.00% to 4.25%
Expected rate of return		
on plan assets	3.00% to 6.00%	3.00% to 6.00%
Rate of compensation increase	3.50%	3.50%

For measurement purposes, inflation of medical expenses was assumed to be 7.5% declining to 5% in annual increments of 0.5%. Inflation of dental costs was assumed to remain constant at 4.5%.

	Year Ended					
	March 31, 2014			March 31, 2013		
	Pension Plans ⁽¹⁾	Pension Plans ⁽²⁾	Other Benefits Plan ⁽³⁾	Pension Plans ⁽¹⁾	Pension Plans ⁽²⁾	Other Benefits Plan ⁽³⁾
Employer contribution	\$ –	\$ 2,963	\$ 57	\$ 2,136	\$ 3,513	\$ 58
Employee contributions	–	1,149	–	–	797	–
Benefits paid	(60)	(2,296)	(57)	(62)	(1,458)	(58)

(1) Plans with Accrued Benefit Asset

(2) Plans with Accrued Benefit Obligation

(3) Non-Pension Post-Retirement Benefits Plan

(in thousands of dollars)
March 31, 2014

10. Expenses

	Year Ended	
	March 31, 2014	March 31, 2013
Unrestricted Fund expenses		
Dealer Regulation Operating Costs		
Compensation	\$ 40,921	\$ 42,498
Technology	1,765	1,336
Occupancy	4,579	4,741
Amortization	1,812	1,754
Other	9,407	5,923
	\$ 58,484	\$ 56,252
Market Regulation Operating Costs		
Compensation	\$ 17,949	\$ 17,260
Technology	4,418	4,713
Occupancy	1,612	1,617
Amortization	3,012	2,721
Other	1,654	2,005
	\$ 28,645	\$ 28,316
Externally Restricted Fund expenses		
Hearing panel costs	\$ 1,933	\$ 2,825
Foundation for the Advancement of Investor Rights (FAIR)	350	350
Member education	315	395
Funny Money financial literacy program	200	274
Portfolio Margining Project	–	4
Fixed Income Surveillance Project	24	–
High Frequency Trading initiative	55	25
Third Party Electronic Access to Marketplaces	–	26
Self Regulatory Organizations Consultative Committee (SROCC) and International Forum for Investor Education (IFIE) Conferences sponsorships	136	–
Amortization	508	130
	\$ 3,521	\$ 4,029

11. Externally Restricted ABCP Fund

During the year, the Organization transferred the remaining balance of \$1,001 of the **Externally Restricted ABCP Fund** to an independent Administrator, Ernst & Young Inc., retained jointly by the Ontario Securities Commission (OSC) and IIROC. The Administrator, under the supervision of the OSC and IIROC, administered the distribution of funds less administrative expenses, to eligible investors who purchased third-party ABCP. The distribution was completed in September 2013.

12. Commitments and contingencies

As at March 31, 2014, 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.

2015	\$ 2,788
2016	2,708
2017	2,434
2018	2,750
2019	2,414
Thereafter	12,088
	<hr/>
	\$ 25,182

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

The Organization is a sponsor of the Canadian Investor Protection Fund (CIPF), which was established to protect clients who have suffered financial loss due to the insolvency of a dealer member of IIROC. IIROC has provided a \$125,000 (2013 – \$125,000) guarantee on bank lines of credit of CIPF. At March 31, 2014, 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, CIPF has the following resources in place: i) a contingency fund balance of \$423,000 on hand as at December 31, 2013 (2012 – \$424,000); ii) lines of credit provided by two Canadian chartered banks totaling \$125,000 as at December 31, 2013 (2012 – \$125,000); and iii) CIPF has arranged insurance in the amount of \$131,000 as at December 31, 2013 (2012 – \$131,000) for any one loss and in the annual aggregate in respect of losses to be paid by CIPF in excess of \$110,000 (2012 – \$100,000) in the event of member insolvency.

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

(in thousands of dollars)
March 31, 2014

12. Commitments and contingencies

(continued)

Following the accidental loss in the prior fiscal year of a portable device that contained personal information relating to clients of a number of Dealer Members, the Organization undertook a number of measures to notify potentially affected Dealer Members and potentially affected clients, and to provide potentially affected clients with ongoing support services. The total costs to IIROC of the incident is projected to be \$5,677 of which \$5,005 has been incurred in fiscal 2014 (2013 – \$408). To date of approval of these financial statements on June 25, 2014, IIROC has received no reports of identity theft or fraud resulting from the loss of the portable device. It is not possible to estimate the total amount of potential damages or range of possible loss, if any, resulting from settlements or other remedies in connection with this matter.

On April 30, 2013, the Organization was served with a motion for authorization to institute a class action and to obtain the status of representative in the Superior Court of Quebec. The petitioner's class action motion on behalf of persons in Canada whose personal information was lost by the Organization seeks \$1, plus interest, on behalf of each class member, in relation to damages for stress, inconvenience and measures rendered necessary as a result of the loss of personal information by the Organization. The motion for authorization will be heard in June 2014 and management does not expect a ruling on the motion until September 2014. Given the preliminary status of this proceeding, it is not possible to reasonably quantify the effect, if any, of this proceeding on the financial performance of the Organization. Based upon the advice of counsel management believes the action is without merit and will be defending the action vigorously.

13. Financial instruments risks

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

Credit risk

The Organization has determined that the financial assets with credit risk exposure are accounts receivable since failure of any of these parties to fulfill their obligations could result in financial losses for the Organization. The entity is also exposed to concentration risk in that all of its cash is held with financial institutions and the balances held are in excess of Canadian Deposit Insurance Corporation (CDIC) Limits.

Interest rate risk

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

Liquidity risk

The Organization's liquidity risk represents the risk that the Organization could encounter difficulty in meeting obligations associated with its financial liabilities. The Organization is, therefore, exposed to liquidity risk with respect to its accounts payable and its long-term debt.

Market risk

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market conditions, whether these changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market. IIROC minimizes its exposure to market risk due to its policy of investing in Government of Canada Treasury Bills and notes. Market risk is considered to be minimal.

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