

# PUBLIC INTEREST REGULATOR

ANNUAL REPORT 2014 – 2015



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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: **143**
- ▶ Member firms participating in District Councils: **114\***
- ▶ Meetings: **85**
- ▶ Decisions: **758\*\***

\* The number of firms and marketplaces represented is non-unique, meaning 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: **225**
- ▶ Firms and Marketplaces represented: **118\***
- ▶ Meetings: **28**

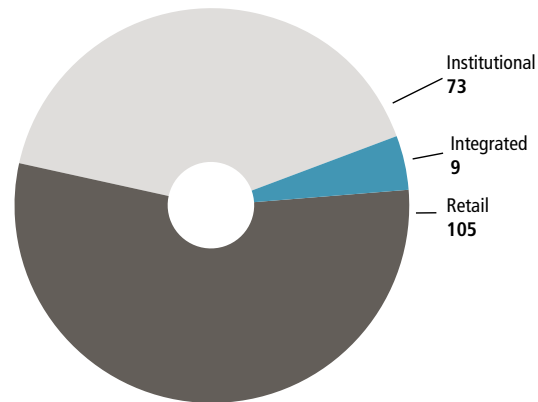
\* Firms and marketplaces may participate in multiple committees.

INDUSTRY PROFILE  
**DEALERS**

(All statistics are as at March 31, 2015)

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: 187 Dealer Members as of March 31, 2015, of which 178 were in good standing, 4 were in the resignation process, and 5 were suspended.

**INDIVIDUALS AND FIRMS REGULATED BY IIROC**

(by Location)

| Location      | Approved Persons | Branch Offices | Head Offices |
|---------------|------------------|----------------|--------------|
| AB            | 2,878            | 950            | 15           |
| BC            | 4,510            | 1,220          | 14           |
| MB            | 607              | 163            | 1            |
| NB            | 296              | 91             | 1            |
| NF            | 117              | 34             | 0            |
| NS            | 512              | 168            | 3            |
| NT            | 0                | 3              | 0            |
| NU            | 0                | 0              | 0            |
| ON            | 13,764           | 3,095          | 119          |
| PE            | 70               | 21             | 0            |
| QC            | 4,646            | 713            | 27           |
| SK            | 545              | 203            | 0            |
| YT            | 6                | 6              | 0            |
| U.S.          | 285              | 12             | 7            |
| Other*        | 28               | 0              | 0            |
| <b>Total:</b> | <b>28,264</b>    | <b>6,679</b>   | <b>187</b>   |

Note: 187 Dealer Members as of March 31, 2015, of which 178 were in good standing, 4 were in the resignation process, and 5 were suspended.

\*International locations.

**MEMBER FIRMS**

(by Revenue)

| Revenue                    | % of Firms |
|----------------------------|------------|
| Greater than \$1 billion   | 3          |
| Greater than \$100 million | 8          |
| Greater than \$10 million  | 35         |
| Greater than \$5 million   | 14         |
| Less than \$5 million      | 40         |

Note: Based on 185 Dealer Members that reported revenue during the period of April 1, 2014 to March 31, 2015.

**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                 | 22              | 12         |
| 11 to 100                  | 85              | 45         |
| 10 or fewer                | 67              | 36         |

INDUSTRY PROFILE  
**MARKETS**

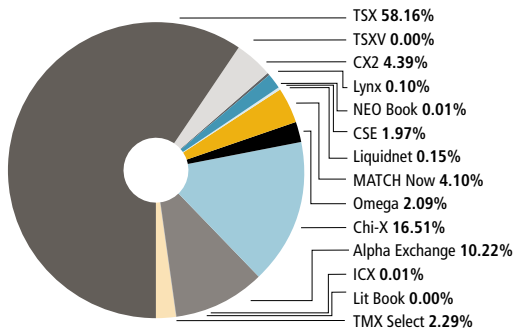
(All statistics are as at March 31, 2015)

IROC regulates trading activity on five stock exchanges (Toronto Stock Exchange (TSX), TSX Venture Exchange (TSXV), Alpha Exchange, Canadian Securities Exchange (CSE) and Aequitas Neo Exchange\*); and performs real-time surveillance of nine Alternative Trading Systems (ATSs) that trade equities (Chi-X Canada (Chi-X), TMX Select, Omega ATS (Omega), Instinet Canada Cross Limited (ICX), TriAct Canada Marketplace (MATCH Now), Liquidnet Canada Inc. (Liquidnet), Lynx ATS (Lynx), CX2 Canada ATS (CX2) and Bloomberg Tradebook Canada).

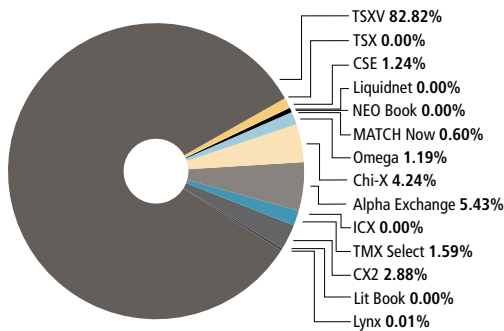
### Canada's Multiple Marketplaces

(Where Trading Took Place in 2014-2015 by Share Volume)\*\*

#### TSX-LISTED PERCENTAGE



#### TSXV-LISTED PERCENTAGE

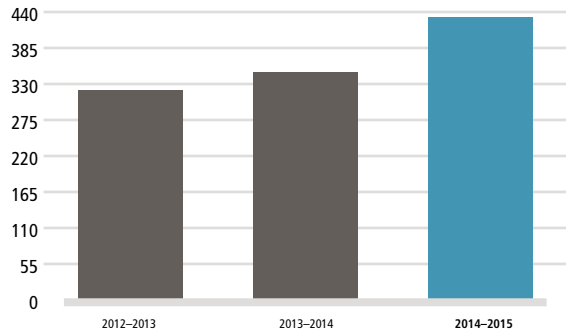


\* Aequitas NEO Exchange began trading on March 27, 2015 (NEO Book, Lit Book and Crossing Facility)

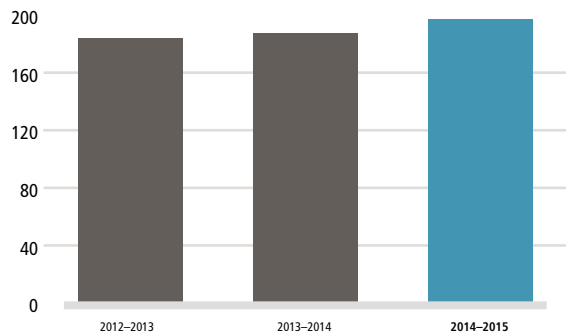
\*\* For the year ended March 31, 2015.

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

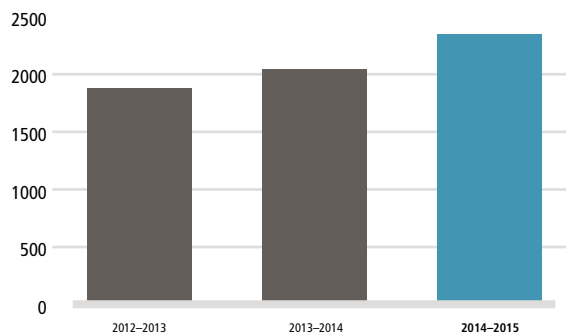
**TRADES**  
Number of Transactions (Millions)



**VOLUME**  
Total Shares Traded (Billions)



**VALUE**  
of Shares Traded (\$ Billions)



#### CANADIAN SECURITIES EXCHANGE (CSE)

99.7% of CSE-listed securities traded on the CSE.

The remaining 0.3% of trading took place on Omega ATS.

## 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.



**MESSAGE  
FROM THE CHAIR**

2014-2015 was another year marking significant change in Canada's capital markets and investment industry – an evolution that continues to re-define overall market structure and the services being offered to investors, along with the investor-advisor relationship itself.

It has also been a year of change for IIROC, with the Board appointing Andrew Kriegler as President and CEO after an extensive search and selection process managed by a special committee of IIROC Directors. The transition has been smooth thanks to the strong support and the depth of experience of the management team combined with Andrew's extensive financial services background.

The Board is confident that Andrew, with his proven leadership skills, extensive expertise in risk management and commitment to investor protection, will be able to effectively advance IIROC's role as a public interest regulator.

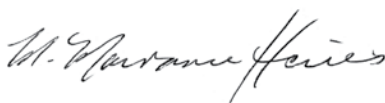
This is a pivotal time for the organization and the capital markets in Canada. With fiscal year 2015 marking the completion of our previous three-year strategic plan, we have undertaken the critical process to assess emerging trends and their impacts on all stakeholders, develop strategic directions and set priorities for the next three years.

The Board has been actively engaged in this process, providing input and supporting broader consultations to ensure that the views, perspectives and needs of our diverse stakeholders are taken into consideration.

On behalf of the Board, I want to thank members of the industry, investors, our regulatory partners and other stakeholders for contributing to this important strategic planning process, as well as continuing to provide valuable input to inform policy matters.

I am grateful to my colleagues on IIROC's Board for contributing to the great stability and continuity of governance during these transformative times. I also want to acknowledge all IIROC staff who work tirelessly across the country to protect investors and ensure fair and orderly capital markets. These collective efforts help form the foundation for investor confidence and trust.

On behalf of the Board of Directors,



**M. Marianne Harris**  
Chair of the Board





**REPORT FROM  
THE PRESIDENT AND CEO**



I am pleased to present IIROC's 2014-2015 Annual Report. It gives us the opportunity to report to you on the efforts we have undertaken in the public interest over the past year, to highlight the accomplishments of the organization and to note the challenges we see ahead.

The period since I joined IIROC in November 2014 has been marked by continued rapid change in Canada's capital markets and in the legal and regulatory landscape across the country. Not only is technology drastically transforming the structure of the markets we oversee and the business models that operate within them, it is providing investors with new ways to access those markets and to select the level and type of investment advice that is appropriate for their needs. At the same time, changing demographics and investor expectations are simultaneously creating new opportunities and posing significant challenges for the financial services industry as a whole.

Amid this evolution, IIROC must balance its efforts between a continuing focus on our core work – protecting investors and fostering fair, efficient and competitive capital markets – and preparation for the future. It is only by finding the appropriate balance that we can ensure that Canadian markets have integrity and the confidence of investors.

## Sharpening our focus for the future

This past fiscal year marked the final year of IIROC's three-year strategic plan and significant progress has been made in advancing our key strategic, operational and policy goals.

In April 2015, we published a statement of priorities which signaled key initiatives for the current fiscal year as we embarked on a new and more comprehensive consultation that will lead to a strategic long-term plan.

Given all of the changes that have taken place over the past several years, we concluded that a mere evolution of that plan could not support the needs of our stakeholders over the coming years. As a result, we have launched a robust strategic review to consider the needs and expectations of our diverse stakeholders, and to identify trends in markets and in the structure of securities regulation across Canada. This process will result in a renewed strategic vision for the organization, objectives for the following three years and ways to measure our progress.

In July 2015, we published a request for comment to obtain broad-based input on strategic issues from investors, capital market participants, the investment industry, regulatory partners and other stakeholders. We have



asked for comments on three specific questions including what important trends stakeholders see in the industry and regulatory environment that could impact IIROC and our public interest mandate.

## Collaboration, coordination and harmonization

As a public interest regulator, among our priorities is strengthening enforcement against those who break the rules. IIROC makes every reasonable effort to collect the penalties imposed on dealers and individual registrants who, through our disciplinary process, have been sanctioned for breaking the rules of good conduct.

We typically collect 100% of fines and other penalties levied against firms across the country, but collecting from individuals is much more challenging – in fiscal 2014-2015, we collected but 13.3% from

individuals. However, our collection rates are dramatically higher in the two Canadian provinces where legislation gives IIROC clear authority to seek court certification of our disciplinary decisions and enables us to pursue payments as if the fines were decisions of the court. In 2014-2015, we expanded our efforts on pursuing similar powers in provinces where they currently don't exist.

Having this uniform ability will send a strong deterrent message, hold registrants accountable for their actions regardless of where they do business – and indeed whether they stayed as registrants – and give investors greater confidence in the strength of the regulatory system.

It also reflects our priority to strengthen our collaboration, coordination and harmonization with our partner regulators, their governments and other relevant stakeholders.

These unifying principles underlie, for example, the work being done across the industry to effectively implement the Client Relationship Model (CRM) which will result in enhanced transparency, disclosure and suitability. CRM raises the bar for industry standards, better informs investors about the fees and performance of their investments and improves communication and understanding between advisors and their clients.

In January 2015, IIROC announced approval of the final set of CRM reforms for implementation over the next couple of years, as approved by the Canadian Securities Administrators (CSA). IIROC's enhanced disclosure requirements, which are harmonized with the CSA's rules, are designed to bring greater transparency of account information so that advisors and clients can have more meaningful conversations.

## **Enhancing regulatory transparency and oversight**

Not only has the relationship among advisors and clients evolved, so has the pace of innovation, competition and complexity of capital markets in Canada and globally. These realities highlight the importance of robust regulatory oversight in enhancing market integrity and investor confidence.

IIROC is in a unique position in that we conduct surveillance of all Canadian equity markets – which provides valuable regulatory data and insights into the markets. The information we derive helps us to better identify patterns and trends including inappropriate trading, and informs both enforcement actions and policy development at IIROC and at the provincial authorities.

Given the debt market's obvious size and importance to Canada's economic growth and financial stability, IIROC has also been working with the Bank of Canada and the CSA to improve the timeliness and comprehensiveness of regulatory oversight of debt market activity. We have made significant progress over the past year on our debt transaction reporting initiative and, beginning in November 2015 with firms classified as government securities dealers, all IIROC-regulated firms will be required to report all debt security transactions they execute.

In collecting this new information we will have valuable data to help us determine what regulatory response will best correct any identified unfairness among participants. It will also help to inform other regulators' efforts – such as the CSA's complementary initiative to enhance regulation of fixed income markets by increasing transparency, improving market integrity and evaluating access.

The knowledge gained through our investments in IIROC's surveillance, oversight and analytical work is especially important at a time when the environment is increasingly challenging securities regulators, the investment industry and all market participants. These tools will help us meet the challenges and demands for the future and provide enduring value for all stakeholders and regulatory partners.

At the same time, as a self-regulatory organization IIROC is committed to prudent fiscal management on all fronts. While adapting to the growing needs for information, analysis and insight, and real-time oversight, we will continue to control costs, strengthen our performance management culture and deliver smart, effective and efficient regulation

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I would like to acknowledge the contributions of all of my IIROC colleagues across the country: it is their hard work and commitment that allow us to deliver securities regulation in the public interest.

I am also thankful for the help and support provided to me by the IIROC Board of Directors and my partners on the management team for ensuring a seamless transition during my first months here. With these dedicated and talented colleagues, I am confident that IIROC will continue to ensure that investors have Canadian capital markets they can count on and trust.



**Andrew J. Kriegler**  
President and CEO

## Executive Management Team



**KEITH PERSAUD**  
Senior Vice-President,  
Finance and Administration



**WENDY RUDD**  
Senior Vice-President,  
Market and Member Regulation



**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



**IAN CAMPBELL**  
Chief Information Officer



**VICTORIA PINNINGTON**  
Vice-President,  
Trading Review and Analysis



**ELSA RENZELLA**  
Vice-President,  
Enforcement

## KEY FACTS

### OVERSEES

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**187** members and  
**28,264** approved persons

### COMPLETED

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**146** enforcement investigations  
**58** disciplinary hearings including  
settlement hearings

### ASSESSED

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**\$3,521,000**  
in fines (excluding costs and disgorgement)  
against firms and individuals

## ISSUED

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**22** suspensions

**10** permanent bans

## TRIGGERED

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**13** Single Stock Circuit Breakers

## MONITORED

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**431,000,000**  
trades on five stock exchanges\* and eight equity  
Alternative Trading Systems\*\*

\* includes Aequitas Neo Exchange, which launched March 27, 2015

\*\* excludes Bloomberg Tradebook Canada.

## INTERVENED BY

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varying or cancelling trades **42** times,  
affecting **15,699** transactions

## COORDINATED

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**1,259** trading halts and  
**99** cease trade orders

## CONDUCTED

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**231**<sup>+</sup>  
on-site Business Conduct, Financial and Operations  
and Trading Conduct compliance firm reviews

<sup>+</sup> In addition, IROC staff conducted 23 Integrated on-site compliance firm reviews.

## GOAL ONE – 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 Consolidated Compliance Report in January 2015 as a resource for firms to leverage to strengthen their oversight and day-to-day compliance and risk management practices.

The Report: focuses on firm implementation and compliance issues related to the Client Relationship Model's enhanced suitability assessment obligation, the relationship disclosure document, and fee disclosure; outlines common registration deficiencies including registration applications and changes, notices of termination, and ownership changes of firms; and signals areas of upcoming focus by IIROC, including cyber-security preparedness and best practices, the assessment and monitoring of systemic risk, and electronic trading rule compliance.

### WHY IT MATTERS

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

Continued to send examiners into firms to ensure they are complying with business and trading requirements, and are financially solvent.

Conducted 129 Business Conduct Compliance firm reviews, 83 Financial and Operations Compliance firm reviews, and 19 Trading Conduct Compliance firm reviews. We also conducted 23 integrated compliance firm reviews, where two or more types of reviews were conducted at the same time.

Examinations provide insights into challenges and enable firms to correct issues.

Integrated exams provide IIROC examiners with a holistic view of the firm and are more effective.

Continued to communicate regulatory priorities, educate and discuss best practices.

Held our annual Compliance Conferences in Toronto, Montreal and Vancouver. More than 400 staff from IIROC-regulated firms attended in Toronto, with another 74 joining us in Montreal and 152 in Vancouver. The conferences covered a variety of topics and workshops including sessions on prudential regulation, cyber-security, market regulation and the Client Relationship Model.

Provided a variety of compliance education opportunities, including seven educational webcasts that were viewed by more than 40,000 industry participants and five live events attended by 525 industry participants.

As the industry and capital markets continue to evolve and become more complex, it is important for firms to understand regulatory priorities and commit to a culture of continuous learning.

Finalized all elements of the Client Relationship Model (CRM) reform initiative for implementation by IIROC-regulated firms.

Published final remaining rules with specific requirements for pre-trade disclosure of charges, trade confirmation disclosure of debt security trade compensation and relationship disclosure relating to investment performance benchmarks for implementation on July 15, 2014. Further housekeeping changes were published in June 2015.

Compiled and published in October 2014, frequently asked questions (FAQs) to support IIROC firms in implementing CRM requirements. We updated the FAQ document in February 2015 and will continue to update periodically as needed.

New dealer member rules concerning account statement requirements, annual performance and annual fee/charge reports and a new trade confirmation disclosure requirement were approved by the Canadian Securities Administrators in January 2015. These amendments will be phased in over a two-year period ending in 2016.

The CRM initiative enhances investor protection and understanding, 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 ONE – PROMOTE A CULTURE OF COMPLIANCE (continued)

| WHAT WE DID  | HOW WE DID IT  | WHY IT MATTERS   |
|--|--|--|
| <p>Provided timely and clear guidance on key and emerging issues.</p>  | <p>Issued six Guidance Notices in final form, including but not limited to guidance on:</p> <ul style="list-style-type: none"> <li>• expansion of single-stock circuit breakers</li> <li>• order execution services as a form of third-party electronic access to marketplaces</li> <li>• Foreign Organized Regulated Markets</li> <li>• part-time chief financial officers</li> </ul> | <p>Proactively communicating regulatory expectations promotes a strong culture of compliance; guidance enables firms to exercise an appropriate level of flexibility, reflecting their different sizes and business models.</p>  |
| <p>Advanced the Rule Book Rewrite Project toward implementation.</p>   | <p>Published initially for comment the entire set of Plain Language Rules (PLR). Continued to revise the draft PLR and drafted final responses to comments from the public and CSA staff.</p>  | <p>Simpler rules in plain language improve comprehension of regulatory requirements and should enhance compliance.</p>   |
| <p>Drafted proposed amendments to IIROC's registration rules.</p>  | <p>In conjunction with the advancement of the Plain Language Rules project (see above), reviewed and drafted proposed amendments to registration-related rules with the goal of harmonizing IIROC requirements with recent CSA amendments and changes related to continuing education.</p>   | <p>Harmonizing IIROC rules with CSA rules helps to streamline the registration process and provides consistency of standards.</p>  |
| <p>Published final guidance outlining common due diligence practices and suggestions for IIROC-regulated firms involved as underwriters in the offering of securities to the public.</p> | <p>Provided final guidance to expand on key principles relating to underwriting due diligence, including due diligence planning, due diligence Q&amp;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.</p>              | <p>The capital-raising process is vital to a vibrant economy. The guidance promotes consistency and enhanced underwriting due diligence practices to assist IIROC-regulated firms to more effectively perform their role and to ensure the protection of the investing public.</p> |

## GOAL TWO – PROMOTE THE PROTECTION OF THE INVESTING PUBLIC

### WHAT WE DID

### HOW WE DID IT

### WHY IT MATTERS

Continued to strengthen IIROC's enforcement efforts as a public interest regulator.

Published IIROC's third Annual Enforcement Report in March 2015, reporting on our activities and progress in 2014. The report provides an overview of IIROC's enforcement priorities, including seniors, vulnerable investors and supervision, as well as highlights of key enforcement cases and policy initiatives.

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

Finalized a framework to serve as a guide in determining sanctions in disciplinary proceedings.

Following review of written public comments received in 2014 to IIROC's proposed revised Sanction Guidelines and companion Staff Policy Statements, hosted a roundtable meeting in April 2014 for discussion with commenters.

Published the Guidelines and related Staff Policy Statement in final form in January 2015 to take effect February 2, 2015.

Disciplinary proceedings serve to maintain high standards of conduct and to protect market integrity. Sanction Guidelines promote consistency, fairness and transparency by clearly communicating how IIROC will approach sanctioning decisions.

Continued to work to improve fine collection rates from individuals sanctioned by IIROC.

Began publishing in June 2014 the names of individuals with outstanding fines, as part of a quarterly Unpaid Fines Report on IIROC's website.

Making this information public improves transparency and sends a deterrent message to wrongdoers.

Conducted a "mystery shopping" initiative in conjunction with the Ontario Securities Commission and the Mutual Fund Dealers Association of Canada.

Completed the mystery shopping exercise following development of the methodology – including setting scenarios, developing questionnaires, creating an evaluation framework, and determining the specific criteria for assessing the quality of advice and the investor experience.

The project focused on critical aspects of the initial client-registrant interaction including the collection of client information (know-your-client, sales practices, suitability assessment and the overall quality of advice).

It is important to gain insights into typical experiences of retail investors when seeking investment advice from licensed securities advisors so that IIROC can use this research to inform policy making and investor and member education.

Conducted research to gain insights into the investor experience with the know-your-client (KYC) process.

Convened focus groups in early 2015 in Toronto and Montreal, with groups of investors organized according to life stages (young investors, mid-career investors, pre-retirement investors and retired investors). The sessions delved into investor perceptions of the KYC process, with investors reviewing various KYC questionnaires, and facilitated discussions about the information collected when opening a retail account.

Research, combined with mystery shopping results and other inputs, will help inform future regulatory responses and IIROC's investor and member education efforts.

It is important for investors and advisors to discuss the importance of providing/collecting appropriate information before investment decisions are made.

Focused on identifying risks among firms and working with them to resolve these issues.

Issued Risk Trend Reports on July 31, 2014 and held follow-up meetings with senior executives of all high-risk IIROC-regulated firms to discuss key considerations and recommendations for addressing risks. IIROC met with 21 of the 23 firms identified as high risk; the two firms without meetings resigned their memberships.

Identifying potential risks and proactively working with firms to address these issues can prevent the need for regulatory intervention and harm to investors.



## GOAL TWO – PROMOTE THE PROTECTION OF THE INVESTING PUBLIC (continued)

### WHAT WE DID

Continued to focus on making seniors and vulnerable investors a priority for compliance, enforcement and education.

### HOW WE DID IT

Created an internal, multi-departmental working group dedicated to issues relevant to seniors. This initiative has spurred enhancements that enable examiners to better identify, track and test for seniors-related business practices and to review supervisory controls implemented by firms in this regard.

More than 25 per cent of disciplinary actions against individual registrants related to seniors' issues.

Worked with the Ontario Seniors' Secretariat to raise awareness among 11 of the largest seniors' organizations in the province about where seniors can turn if they encounter issues and to provide resources that can help them become better informed.

Participated in the Financial Consumer Agency of Canada's (FCAC) national financial literacy conference in November 2014 in Vancouver which featured break-out sessions to discuss strategies to help educate the public, including seniors.

At the conference, the FCAC launched a Financial Literacy Database: a searchable list of money-related websites, tools, publications, educational programs and other resources that has been widely publicized. IIROC's investor resources are featured in the database.

Distributed more than 2,500 bookmarks promoting IIROC's *AdvisorReport* and the Glossary of Financial Certifications to local community and senior centres across Ontario during a series of 25 Active Living Fairs.

### WHY IT MATTERS

Greater focus on this important area helps to proactively protect a growing segment of the investing public.

Continued to raise awareness of IIROC's investor education resources.

Over the course of Financial Literacy Month, in November 2014, developed and promoted IIROC investor resources through various media, including:

- an editorial – *Be Better Informed: Ask yourself key questions* – in The Toronto Star's Financial Literacy Month supplement.
- a new online Investor Knowledge Quiz to test investors' understanding of investing basics and encourage them to improve their financial knowledge. Through IIROC's ongoing partnership with the Better Business Bureau (BBB), the Quiz was promoted by the BBB and distributed through its cross-country network.
- bookmarks to highlight IIROC *AdvisorReport*, an online tool for researching the background and history of IIROC-registered advisors, and the Glossary of Financial Certifications. In total, 251,000 bookmarks were distributed to 335 public libraries across Canada.

Launched an improved "Internet Resources for Investors" section of the IIROC website in November 2014. There were more than 31,000 visitors to IIROC's website in the year, with nearly 41,000 *AdvisorReports* produced and more than 420,000 page views.

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

Raising awareness of the tools available to investors and the public is core to helping them become more informed.

Continued to strengthen our complaint intake and resolution process.

Responded to 1,785 inquiries and complaints related to member conduct, and 739 trading-related inquiries and complaints from investors through IIROC's Complaints and Inquiries department, which includes front-line staff in Calgary, Toronto and Montreal.

A dedicated department provides one-stop access to knowledgeable, timely and accessible responses to investor inquiries.

## GOAL THREE – DELIVER EFFECTIVE AND EXPERT REGULATION

### WHAT WE DID

### HOW WE DID IT

### WHY IT MATTERS

Worked to improve the regulatory reporting process for IIROC-regulated firms.

Developed *IIROC Services*, a secure website portal that is easy to navigate and provides streamlined access to all IIROC regulatory reporting applications. The new portal was launched in April 2015 and provides IIROC-regulated firms with a secure single point of access to manage their firms' regulatory reporting requirements.

The portal enables IIROC-regulated firms to efficiently and securely fulfill their regulatory reporting requirements.

Improved effectiveness and efficiency of compliance examinations at member firms.

Continued to streamline our integrated compliance examinations, where two or more exams (Business Conduct Compliance, Financial and Operations Compliance, and Trading Conduct Compliance) are coordinated and one combined report is issued, as noted in Goal One.

Helps IIROC staff and member firms better utilize firm and compliance department resources, which results in more cost-effective outcomes.

Continued to proactively mine market data for research and conduct analysis.

Substantially completed the build of an Analytics Factory, a utility that enables IIROC to derive meaningful metrics and insights utilizing IIROC's trading dataset.

Initiated the design and build of a web interface designed to provide IIROC users with self-service access to metrics built on IIROC's dataset.

In September 2014, published a study, "Identifying Trading Groups – Methodology and Results", which described the use of machine learning techniques to identify different market participants.

Provided the CSA with monthly market activity dashboards to help monitor trends.

Analyzing emerging trends helps IIROC and other regulators anticipate potential issues and informs the appropriate regulatory response in a rapidly changing market environment.

Continued to study the impact of High Frequency Trading and related market activities.

Selected four academic teams, based on their extensive international experience in researching high frequency trading (HFT), algorithmic trading and other market structure issues.

Published four of five scheduled academic papers which examined:

- the behaviour of high frequency traders during times of market stress, using the execution of large institutional trades as a proxy
- the role of HFT in liquidity provision, risk management and information transmission across multiple trading venues
- the effects of the relaxation of short sale restrictions on market liquidity, stability, and price discovery on Canadian securities markets
- the effects of the introduction in October 2012 of new requirements regarding the execution of dark orders on Canadian securities markets

Empirical data and objective study, combined with IIROC's internal work, will help to inform any further policy making or regulatory interventions that may be required.

## GOAL THREE – DELIVER EFFECTIVE AND EXPERT REGULATION (continued)

### WHAT WE DID

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

### HOW WE DID IT

In anticipation of the expiry of IIROC's exclusive proficiency services agreement with the Canadian Securities Institute in January 2016, began a process to evaluate whether the existing proficiency assurance model or another approach would best serve the public interest and meet IIROC's regulatory needs, as well as the industry's needs going forward.

Published a consultation paper in July 2014 and held regional consultation roundtables to engage stakeholders in IIROC's consideration of proficiency assurance alternatives. IIROC has reviewed the input and is analyzing the feedback and options to inform the next phase of IIROC's proficiency assurance model.

Completed a multi-year initiative to evaluate and improve proficiency training for approved persons in the institutional segment of the market.

### WHY IT MATTERS

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

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

Maintained ongoing dialogue with, and provided leadership on issues to international regulators, through the International Organization of Securities Commissions, Intermarket Surveillance Group (IIROC staff is current chair of ISG), the International Forum for Investor Education and other forums, to share expertise, best practices and market intelligence.

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

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

### WHAT WE DID

### HOW WE DID IT

### WHY IT MATTERS

Continued to implement measures to mitigate market volatility.

Expanded the single-stock circuit breaker (SSCB) program in February 2015 to encompass more securities, extend the times when SSCBs are active, and allow more than one SSCB to trigger for a particular security during the same trading day. A list of all securities that are part of the SSCB program is maintained on the IIROC website.

Re-published proposed guidance in March 2015 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. The 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. The revised guidance reflects comments received on our April 2014 proposal.

Together with other complementary measures these initiatives enhance market integrity and foster investor confidence by helping to maintain fair and orderly markets.

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.

Continued to focus on ensuring consistent standards for regulatory oversight of all electronic trading.

Published final rule amendments and guidance in November 2014 to address Order Execution Services (OES) as a distinct form of electronic trading offered by some IIROC-regulated firms.

Under the new requirements, firms that offer OES must apply a unique identifier for each OES client that exceeds a set trading activity threshold and for accounts of certain other clients. The amendments and guidance took effect on June 1, 2015.

By focusing on electronic trading by IIROC-regulated firms that offer OES accounts, we are ensuring regulatory oversight of OES that is consistent with other methods of access.

Continued to move toward enhanced oversight of trading in debt markets.

Finalized a debt transaction reporting rule for more timely surveillance and enhanced regulatory oversight of Canadian debt market activity, to be implemented in two stages beginning in November 2015.

The rule was developed after extensive consultation with stakeholders, including the Bank of Canada.

Published for comment a proposal for a cost-recovery fee model for debt market oversight in December 2014, following consultation with a working group representing a cross-section of IIROC-regulated firms.

The debt market represents an asset class held by many Canadians and is less transparent than equity markets. An effective surveillance framework enables better monitoring and enforcement, strengthens the fairness and integrity of the debt market, and builds investor confidence and protection.

Fostered discussion on the emerging risk of Canadian dealers routing retail orders to U.S. wholesalers.

Published guidance in December 2014 to reaffirm the existing IIROC requirement that orders sent to a market outside of Canada be executed on a Foreign Organized Regulated Market (FORM). FORMs, as defined in Universal Market Integrity Rules (UMIR), have substantially the same regulatory monitoring and dissemination of data to the public as would be present if the trade were conducted on a marketplace in Canada.

Republished for comment, in January 2015, a proposed "anti-avoidance" provision that would permit the execution of small client orders on a non-Canadian market only when the order is entered on a FORM that displays order information, or if the order receives meaningful price improvement (a "better price" as defined in UMIR). The proposed amendments are designed to support healthy price discovery on Canadian markets.

Re-publishing the proposal fosters constructive discussion about the best approach to maintaining healthy and competitive Canadian markets.

## GOAL FIVE – ACT IN AN ACCOUNTABLE, FAIR AND TRANSPARENT MANNER

### WHAT WE DID

Continued to publish IIROC’s policy priorities.

### HOW WE DID IT

Continued to publish quarterly Policy Priorities Update Reports, setting out timeframes and objectives of IIROC’s Dealer and Market Regulation policy initiatives for the upcoming 12 months.

### WHY IT MATTERS

Publication supports transparency and alerts all stakeholders about the status of various policy initiatives so they can provide input and plan for effective implementation.

Continued to publish regular annual reports.

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.

Published all policy initiatives and investor and dealer resources regularly on IIROC’s website.

Analyzed metrics to identify areas of focus for website users.

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

Fostered constructive discussion of venture market trading issues.

Hosted a roundtable in Vancouver in May 2014, to facilitate discussion among diverse stakeholders about issues facing junior markets.

To support the discussion, IIROC compiled and published background research as “Selected Background Information for the IIROC Venture Market Roundtable.”

Worked with the British Columbia Securities Commission to examine the activity of high frequency traders in the venture market.

It is important that all industry participants have relevant facts and can engage in meaningful discussions.

## GOAL SIX – BE A COST EFFECTIVE AND EFFICIENT ORGANIZATION

### WHAT WE DID

### HOW WE DID IT

### WHY IT MATTERS

Implemented new, more secure ways to communicate and exchange confidential documents with IIROC-regulated firms.

On September 1, 2014, completed implementation of a new encryption e-mail exchange service for the transmission of confidential, private or sensitive information between IIROC and regulated firms.

Protection of personal information is critical to investor protection and confidentiality is required due to the sensitive nature of regulatory information.

Continued to strengthen security environment and protocols, especially in light of the evolving cyber-security environment.

Continued information security vigilance employing a strong security governance structure, aligning our information management and security framework to the International Organization for Standardization (ISO) 27001 security standard and utilizing artifacts from the National Institute of Standards and Technology (NIST) and the SANS Institute.

Proactive measures strengthen the security and protection of IIROC assets and data entrusted to us.

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

Completed audits of targeted IT operating environments to ensure compliance with policies and procedures.

Completed mapping and classification of data by department.

Enhanced staff capabilities by strengthening security awareness including mandatory training, phishing tests and distribution of “quick reference” cards to all staff.

Selected and implemented new advanced malware protection software, USB port lockdown, reporting tools and a 24x7 Managed Security Services agreement to enhance security posture.

Improved enterprise risk management (ERM) processes.

Implemented improvements including enhanced verification of mitigation controls, formal semi-annual reviews, increased ERM training and updated risk categories.

Identifying and mitigating potential risks is key to ensuring IIROC operates efficiently and effectively in discharging our mandate.

Implemented an internal audit function.

Executed the full audit plan for the first year of the internal audit function with all initial recommendations addressed or with implementation underway. Four internal audits were conducted examining processes, policies and controls.

Serves as a valuable tool to ensure our healthy evolution as an organization. By looking at how we do things, internal audits help strengthen internal controls and improve efficiency.

## GOAL SEVEN – BE AN EMPLOYER OF CHOICE

### WHAT WE DID

Conducted third employee engagement survey.

### HOW WE DID IT

Enlisted the same independent third party who performed the previous two surveys to administer the third survey, to ensure consistency and better understand progress.

A total of 80 per cent of employees participated in the survey and the results were communicated internally.

While employee engagement increased significantly over the previous survey, high-impact engagement drivers were identified and focus groups were conducted to help IIROC develop an action plan to further improve engagement.

### 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 staff.

Continued to participate in community volunteer programs.

IIROC employees across the country continued to participate in financial literacy, charity events and fundraising for national and local causes:

- Participated for the third year in Junior Achievement’s program, where IIROC staff in Vancouver and Toronto spent a day in schools helping young people build skills and financial knowledge they need to make sound financial decisions throughout their lives.
- IIROC staff in Montréal took part in a Moisson Montréal’s project to process orders for “Good Food” boxes that were distributed to families in need through community organizations over the Holiday season.
- Fundraising initiatives supported by IIROC staff included the United Way of Greater Toronto, JDRF Ride for diabetes research and Heart & Stroke Foundation’s Big Bike event to support research on heart disease and stroke.

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

Expanded opportunities for employee training and development.

Expanded on-line training to include more courses for all employees that would help develop new skills and improve existing capability.

Provides employees with more cost-efficient opportunities for professional development, and allows staff to identify additional opportunities within IIROC.

## 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.

### INDUSTRY DIRECTORS



#### ANDREW KRIEGLER

(JOINED NOVEMBER 2014)

President and CEO  
TORONTO, ONTARIO



#### PAUL D. ALLISON

(JOINED OCTOBER 2013)

Chairman and CEO  
Raymond James Ltd.  
TORONTO, ONTARIO

- ▶ Member of Finance, Audit and Risk Committee



#### LUC BACHAND

(JOINED SEPTEMBER 2012)

Vice-Chair and Head  
BMO Capital Markets, Québec  
MONTREAL, 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



#### HOLLY BENSON

(JOINED JANUARY 2015)

Vice President and CFO  
Peters & Co. Limited  
CALGARY, ALBERTA

- ▶ Member of Human Resources and Pension Committee



#### 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; STEPPED DOWN JULY 2015)

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

- ▶ Member of Finance, Audit and Risk Committee





### M. MARIANNE HARRIS, CHAIR

(JOINED SEPTEMBER 2010)

Corporate Director  
TORONTO, ONTARIO

- ▶ Member of Finance, Audit and Risk Committee



### MIKE GAGNÉ, VICE-CHAIR

(JOINED SEPTEMBER 2009)

Corporate Director  
INVERMERE, BRITISH COLUMBIA

- ▶ Member of Finance, Audit and Risk Committee



### JAMES DONEGAN

(JOINED SEPTEMBER 2012)

Corporate Director  
TORONTO, ONTARIO

- ▶ Member of Corporate Governance Committee



### BRIAN HEIDECKER

(JOINED SEPTEMBER 2011)

Corporate Director  
EDMONTON, ALBERTA

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



### EDWARD IACOBUCCI

(JOINED SEPTEMBER 2012)

Dean  
Faculty of Law  
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

### 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 and Trading  
Scotiabank Global Banking and Markets  
TORONTO, ONTARIO

- ▶ Member of Human Resources and Pension Committee

### SUSAN WOLBURGH JENAH

(JOINED FEBRUARY 2007)

President and CEO, IIROC  
(Retired from IIROC October 2014)  
TORONTO, ONTARIO

2014-2015

# BOARD MEETINGS

A total of 40 meetings were held during the fiscal year ended March 31, 2015.

Below is a breakdown of attendance.

(April 1, 2014 to March 31, 2015)

| Director              | Board of Directors | Special Meetings | Finance, Audit and Risk (FAR) | FAR Special Meetings | Corporate Governance (CGC) | CGC Special Meetings | Human Resources and Pension (HR and P) | HR and P Special Meetings | CEO Search† | Regulatory Rules Brief | Total Compensation** † |
|-----------------------|--------------------|------------------|-------------------------------|----------------------|----------------------------|----------------------|--|---------------------------|-------------|------------------------|------------------------|
| Paul Allison          | 3/6                | 2/2              | 5/6                           | 0/1                  |                            |                      |  |                           |             | 2/5                    |                        |
| Luc Bachand           | 6/6                | 0/2              |                               |                      |                            |                      | 1/2                                    | 2/2                       | 6/7         | 4/5                    |                        |
| Jean-Paul Bachelier   | 6/6                | 2/2              |                               |                      |                            |                      | 2/2                                    | 2/2                       | 7/7         | 5/5                    |                        |
| Holly Benson*         | 1/1                |                  |                               |                      |                            |                      | 1/1                                    |                           |             |                        |                        |
| Tal Cohen             | 5/6                | 2/2              |                               |                      |                            |                      | 2/2                                    | 2/2                       | 5/7         | 4/5                    |                        |
| Kevan Cowan           | 6/6                | 2/2              | 5/6                           | 1/1                  |                            |                      |  |                           |             | 3/5                    |                        |
| James Donegan         | 5/6                | 2/2              |                               |                      | 6/6                        | 1/1                  |  | 1/1                       |             | 5/5                    | \$ 46,328.23           |
| Sheldon Dyck^         | 2/3                | 1/1              |                               |                      |                            |                      | 0/1                                    | 1/1                       | 2/7         | 1/4                    |                        |
| Mike Gagné            | 6/6                | 2/2              | 6/6                           | 1/1                  |                            |                      |  |                           |             | 5/5                    | \$ 64,031.01           |
| M. Marianne Harris    | 6/6                | 2/2              | 5/6                           | 1/1                  |                            |                      | 2/2                                    | 1/1                       | 9/9         | 5/5                    | \$ 75,404.58           |
| Pruyn Haskins^        | 5/5                | 2/2              |                               |                      |                            |                      | 1/1                                    | 2/2                       | 6/9         | 4/5                    |                        |
| Brian Heidecker       | 6/6                | 2/2              | 6/6                           | 1/1                  | 6/6                        | 1/1                  |  |                           |             | 5/5                    | \$ 65,522.25           |
| Edward Iacobucci      | 6/6                | 2/2              |                               |                      | 6/6                        | 1/1                  |  |                           |             | 5/5                    | \$ 51,138.75           |
| Andrew Kriegler*      | 3/3                |                  | 3/3                           |                      | 3/3                        |                      | 1/1                                    | 1/1                       |             | 2/2                    |                        |
| Gerry J. O'Mahoney    | 5/6                | 2/2              |                               |                      | 5/6                        | 1/1                  |  |                           |             | 4/5                    | \$ 48,590.00           |
| Catherine Smith       | 6/6                | 2/2              |                               |                      | 6/6                        | 1/1                  | 2/2                                    | 2/2                       | 9/9         | 5/5                    | \$ 72,040.36           |
| Susan Wolburgh Jenah^ | 3/3                | 1/1              | 3/3                           | 1/1                  | 4/4                        | 1/1                  | 1/1                                    | 1/1                       |             | 3/3                    |                        |

\* Director joined Board during the year

^ Director stepped down during the year

\*\* Only Independent Directors are compensated by IIROC.

† A special committee of directors was formed to conduct the CEO search between May and August 2014. Independent Directors were compensated for attendance at meetings of this special committee.

## 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, Audit and Risk Committee

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

### 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**

The Management Discussion and Analysis (MD&A) comments on IIROC's operations and financial condition are presented for the fiscal year ended March 31, 2015, compared with the previous year ended March 31, 2014. The MD&A should be read in conjunction with the financial statements for the year ended March 31, 2015.

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.

### Key Changes in Senior Management

During the year, the organization's President and Chief Executive Officer (CEO), Susan Wolburgh Jenah, retired. After a comprehensive search conducted by the Board, Andrew Kriegler was hired as IIROC's new President and CEO. Also in the same year IIROC's Chief Information Officer resigned, and was replaced by Ian Campbell after a search of qualified candidates.

### Adoption of new accounting standard

Effective April 1, 2014, the organization adopted the requirements of Section 3463 of Part III of the Chartered Professional Accountants of Canada Handbook, "Reporting Employee Future Benefits by Not-for-Profit Organizations". The most significant impact of the new standard is that actuarial gains and losses and past service costs which were previously deferred and amortized through the Statement of Operations are now recorded directly to the Unrestricted Fund in the Statement of Changes in Net Assets.

#### Fiscal 2014

The organization has applied this change retrospectively and the amounts for 2014 have been restated resulting in a net reduction of \$16,556 to the Unrestricted Fund balance as follows:

- a) Adjustment to the opening employee future benefits assets and liabilities resulting in net assets charge of \$19,818 to the Unrestricted Fund balance;
- b) Offset by a gain on re-measurement and other items to net assets of \$2,525 and;
- c) Offset by a decrease in employee future benefits expense of \$737. Operating costs in the FY 2014 Statement of Operations were also restated for this decrease.

#### Fiscal 2015

The pension re-measurement loss charged to the Unrestricted Fund in FY 2015 was \$2,758.

(IN THOUSANDS OF DOLLARS)

## Summary financial information

### Unrestricted Fund

|   | FY 2015       | FY 2014<br>Restated | Variance<br>\$ | Variance<br>% |
|---|---------------|---------------------|----------------|---------------|
| <b>REVENUE</b>                          |               |                     |                |               |
| Dealer regulation                       |               |                     |                |               |
| Membership fees                         | 47,543        | 47,599              | (56)           | (0%)          |
| Underwriting levies                     | 10,965        | 9,393               | 1,572          | 17%           |
| Registration fees                       | 2,491         | 2,391               | 100            | 4%            |
| Entrance fees                           | 95            | 140                 | (45)           | (32%)         |
|   | <b>61,094</b> | <b>59,523</b>       | <b>1,571</b>   | <b>3%</b>     |
| Market regulation                       |               |                     |                |               |
| Universal Market Integrity Rules (UMIR) | 23,496        | 23,494              | 2              | 0%            |
| Timely disclosure                       | 3,066         | 3,214               | (148)          | (5%)          |
| Marketplace revenue                     | 273           | 151                 | 122            | 81%           |
|   | <b>26,835</b> | <b>26,859</b>       | <b>(24)</b>    | <b>(0%)</b>   |
| Other revenue                           |               |                     |                |               |
| Interest revenue                        | 579           | 460                 | 119            | 26%           |
| Miscellaneous revenue                   | 91            | 94                  | (3)            | (3%)          |
|   | <b>670</b>    | <b>554</b>          | <b>116</b>     | <b>21%</b>    |
| Total Unrestricted Fund revenue         | <b>88,599</b> | <b>86,936</b>       | <b>1,663</b>   | <b>2%</b>     |
| <b>UNRESTRICTED FUND EXPENSES</b>       |               |                     |                |               |
| Dealer regulation operating costs       | 53,952        | 58,003              | (4,051)        | (7%)          |
| Market regulation operating costs       | 27,978        | 28,389              | (411)          | (1%)          |
|   | <b>81,930</b> | <b>86,392</b>       | <b>(4,462)</b> | <b>(5%)</b>   |
| <b>EXCESS OF REVENUE OVER EXPENSES</b>  | <b>6,669</b>  | <b>544</b>          | <b>6,125</b>   | <b>*</b>      |

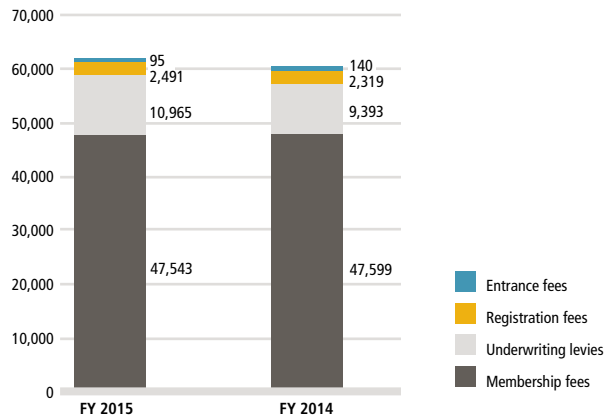
\* Variance is greater than +/-100%

## Revenue

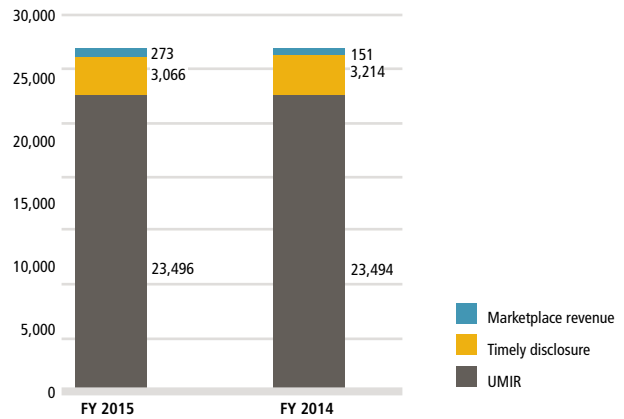
Unrestricted Fund revenues for the period amounted to \$88,599, up \$1,663 (2%) from \$86,936 in FY 2014.

Membership fees for Dealer Regulation and Market Regulation under UMIR are the primary sources of revenue. They represent approximately 80% (82% in FY 2014)) of the total revenue of IIROC and are collected through their respective fee models.

DEALER REGULATION REVENUE (\$)



MARKET REGULATION REVENUE (\$)

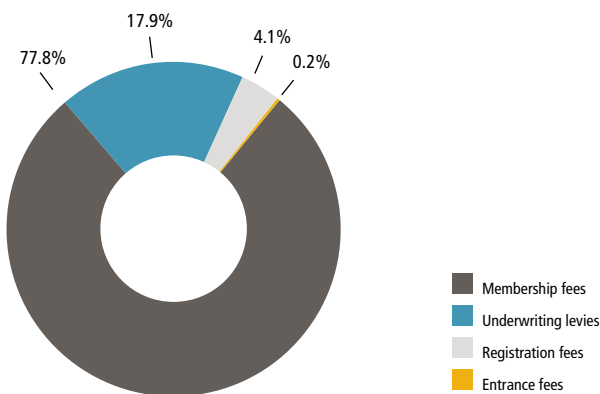


Dealer Regulation membership fees remained flat at \$47,543 compared with \$47,599 in FY 2014.

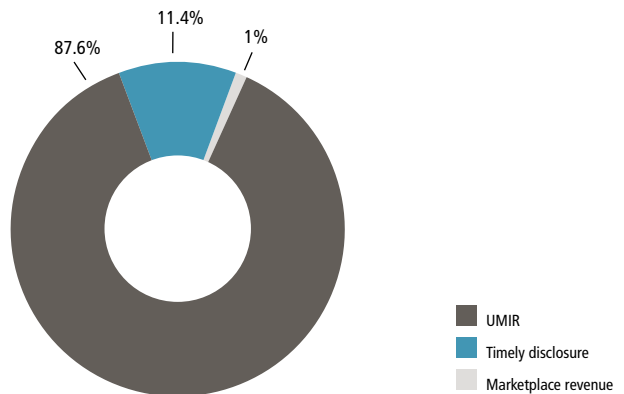
UMIR fees remained relatively unchanged at \$23,496 compared with \$23,494 in FY 2014 despite budgeted cost increases in compensation and technology due to the application of a surplus from FY 2014 of \$2,650.

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.

DEALER REGULATION REVENUE FY 2015



MARKET REGULATION REVENUE FY 2015



(IN THOUSANDS OF DOLLARS)

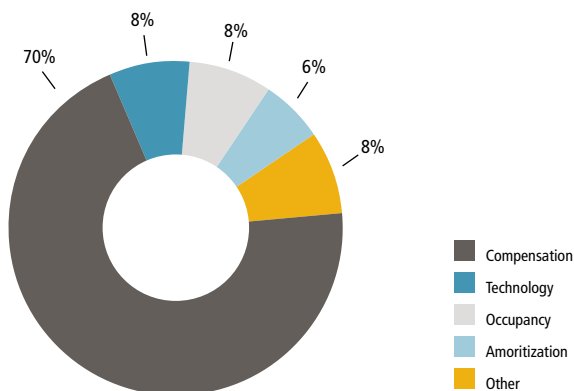
On a year-over-year basis, the combined revenue from secondary sources increased by \$1,601 (11%) from \$15,289 to \$16,890.

Underwriting levies, a main secondary source of Dealer revenue increased by \$1,572 (17%) to \$10,965 from \$9,393 in FY 2014 due to the increased volume of issues in both Debt and Equity markets. The other major secondary source of revenue, Registration fees, increased by \$100 (4%) to \$2,491 in FY 2015.

## Costs

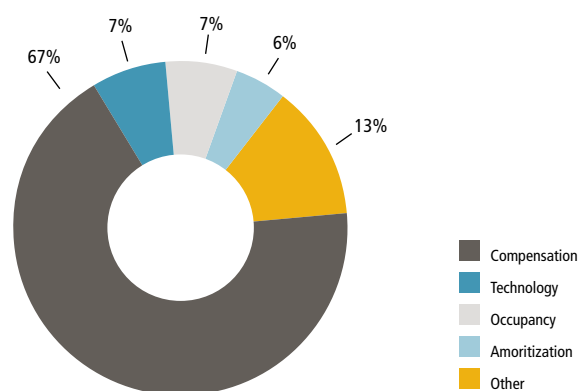
IIROC is a cost-recovery, not-for-profit organization. IIROC's operating costs consist of five main categories:

OPERATING COSTS FY 2015



The categories of Compensation, Technology, Occupancy and Amortization made up approximately 92% (87% in FY 2014) of IIROC's operating costs. The distribution of costs for FY2015 is more in line with historical averages. The proportion of other costs decreased to 8% from 13% (FY 2014) mainly due to the absence of the one-time mitigation costs connected to the accidental loss of a portable device in the previous year.

OPERATING COSTS FY 2014

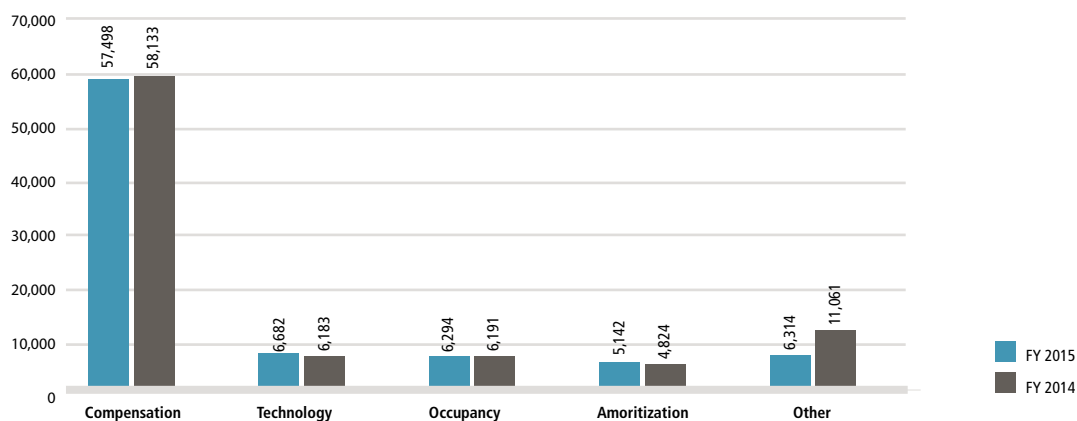


To facilitate proper fee allocation, direct costs are segregated between Dealer Regulation and Market Regulation activities and indirect costs are apportioned using a cost allocation model based on direct business unit cost or headcount.

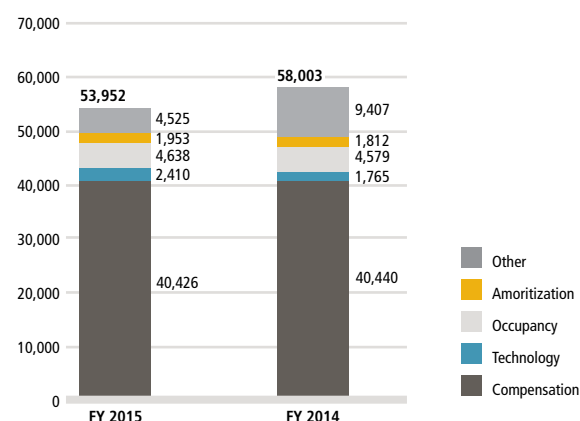
IIROC's total operating costs were \$81,930 in FY 2015, a decrease of \$4,462 or 5% from \$86,392 in FY 2014.



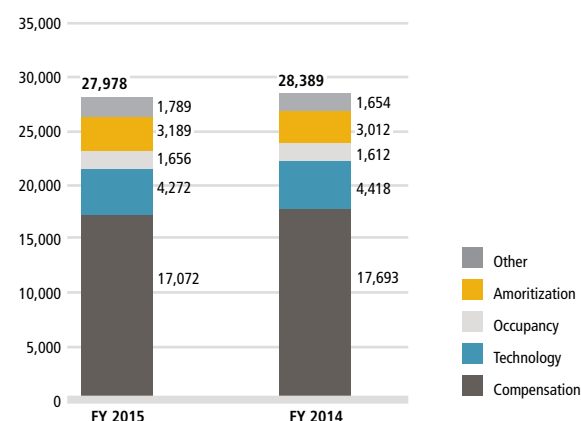
## OPERATING COSTS (\$)



## DEALER REGULATION OPERATING COSTS (\$)



## MARKET REGULATION OPERATING COSTS (\$)



Dealer Regulation costs decreased by \$4,051 (7%) to \$53,952, while Market Regulation costs were \$27,978, a decrease of \$411 (1%).

The decrease in Dealer Regulation costs is primarily attributable to the absence of the one-time mitigation costs connected to the accidental loss of a portable device in the previous year; this is reflected in lower Other costs. The decline in Other costs was partially offset by increased strategic initiative costs for Enterprise Risk Management (ERM), internal audit, consulting and technology.

Market Regulation costs decreased due to Compensation arising from higher vacancies compared to FY 2014 and technology costs saving in our Surveillance Technology Enhancement Platform (STEP) equity system. These reductions were partially offset by increased amortization and strategic initiative consulting costs.

## Excess of Unrestricted Fund revenues over expenses

There was a surplus of revenues compared to expenses in FY 2015 of \$6,669. This compares with an excess of revenues over expenses in FY 2014 of \$544, and represents a year-over-year increase of \$6,125. The surplus was mainly due to higher revenues from underwriting levies as a result of increased volume of issues in both debt and equity markets, lower compensation, and lower technology costs.

The FY 2015 excess of revenues over expenses increased the Unrestricted Fund balance to \$32,645, compared with the restated opening balance of \$30,848.

### 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, and from 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 \$1,585, compared with \$2,390 for FY 2014, a decrease of \$805 (34%).

Total expenses declined from \$3,521 to \$2,343, a decrease of \$1,178 (33%). The decrease is primarily due to decreased Hearing Panel costs of \$1,141, which were lower by \$792 (41%) in FY 2015 due to less activity, and was partially offset by higher Amortization costs due to the operation of the Equity Data Warehouse System (EDW), which complements real-time surveillance, for a full year compared to a partial year in FY 2014. The EDW system enables IIROC to analyze historical trade data to better identify trading patterns and trends, and to help inform policy development.

The resulting deficit for the year was \$758, higher by \$373 (33%) than the deficit of \$1,131 in the previous year.

Capital projects invested through the Fund included \$404 on development of a Debt Surveillance system. The total for the year was \$412, a decrease of \$288 from FY 2014. The Debt Surveillance platform will enable IIROC to perform debt market regulatory oversight in a timely and cost-effective way, and enhance market integrity and investor protection.

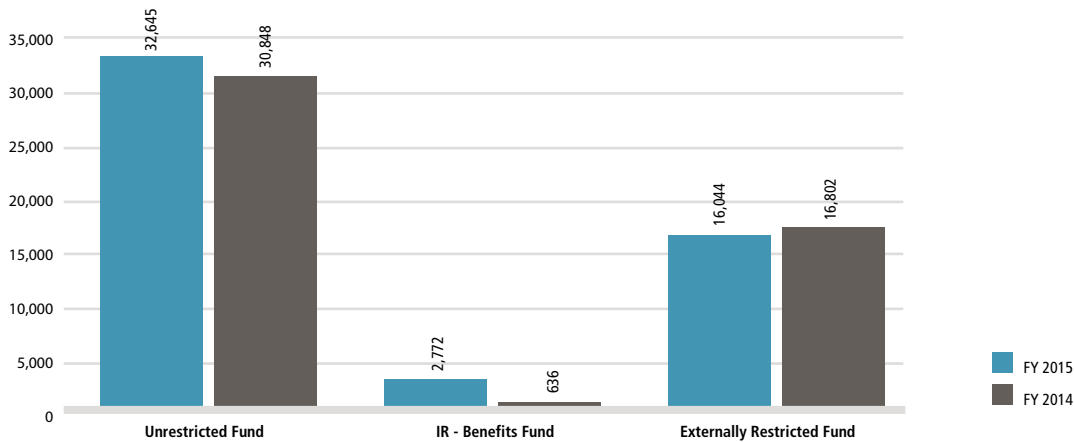
The deficit reduced the Fund balance from \$16,802 to \$16,044 by the end of the year.

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 SERP is also funded by assets held in a trust. The monies in the Internally Restricted Benefits Fund are currently invested in accordance with IIROC’s investment policy. The Fund balance was \$2,772 at the end of the year compared to \$636 at the beginning of the year. The Board approved a transfer of \$2,114 from the Unrestricted Fund to cover deficits in the SERP and PRB. IIROC intends to continue to set aside funds to bridge the deficit over a reasonable period of time.

NET ASSETS AS AT YEAR END (\$)



## Liquidity and Capital Resources

At the end of FY 2015, IIROC held total net assets of \$51,461, up \$3,175 from the FY 2014 balance of \$48,286, in the Unrestricted Fund, Internally Restricted Benefits Fund and Externally Restricted Fund. The FY 2014 ending balance of \$64,842 was adjusted by \$16,556 due to the adoption of the Section 3463 accounting policy for pension plans commencing on April 1, 2014. The reduction in net assets was partially mitigated by an excess of revenues over expenses \$5,933 for FY 2015.

During the year, IIROC invested \$4,242 in assets (\$2,235 in FY 2014) primarily in information security (\$1,531), development of the Debt Surveillance System (\$404), increasing the capacity for corporate and infrastructure (\$542), STEP (\$537) and the upgrading of video conferencing technology (\$441). Investments in computer hardware and software of \$222 and furniture and equipment of \$266 were also included in the total.

On July 29, 2011, 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, 2015 the loan payable on this facility is \$2,990. 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 with CIBC. IIROC has not borrowed any amounts under this facility as at March 31, 2015.

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

IIROC has an internal liquidity guideline in the Unrestricted Fund of approximately three months of operating costs. The Fund holds an amount in excess of the guideline of \$10,140 after taking into account FY 2016 budgeted expenses.

IIROC holds investments of \$20,908 in highly liquid marketable securities such as government issued promissory notes and treasury bills with maturities at acquisition of less than a year.

Potential uses for both the Dealer and Market Regulation surplus include registered pension plan deficit funding, SERP and PRB funding, future capital expenditures and mitigating any negative impact of the new accounting standard (Section 3463) mentioned above.

## Commitments and Contingencies

At the end of the year, IIROC had total minimum rental commitments of \$22,394 (\$25,182 – FY 2014), 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 (2014 – \$125,000) guarantee on bank lines of credit of CIPF. At March 31, 2015, 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 \$448,062 as at December 31, 2014 (2013 – \$422,344); ii) lines of credit provided by two Canadian chartered banks totaling \$125,000 as at December 31, 2014 (2013 – \$125,000); and iii) insurance in the amount of \$160,000 as at December 31, 2014 (2013 – \$131,000) in the annual aggregate in respect of losses to be paid by CIPF in excess of \$150,000 (2013 – \$110,000) in the event of member insolvency.

IIROC also provides pension and retirement benefits to employees as described in note 9 of the financial statements. The organization funds these obligations on a regular basis through the use of trusts and by setting aside further funds, as approved by the Board, in the Internally Restricted Benefits Fund. The total unfunded liability of all plans is \$25,680.

The organization is subject to two lawsuits for wrongful dismissal. The outcome of these lawsuits and amount of any ultimate loss is not reasonably estimable at this time. Based upon the advice of counsel management believes that both actions are without merit and will be defending the actions

vigorously. The trial in the first action is scheduled to begin on September 15, 2015. There is no trial date set for the second action, but the court has ordered that it must be scheduled for trial by December 1, 2015, failing which the action will be dismissed.

Following the accidental loss in the 2013 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 to date is \$5,576 of which \$163 has been incurred in fiscal 2015, net of insurance proceeds of \$101 (2014 – \$5,005). Additional defense costs may be incurred in the future for the matter described below, but is not determinable at this time. To date of approval of these financial statements on June 25, 2015, 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 of the class action was dismissed in August 2014. The petitioner appealed and the appeal is expected to be heard later this year. 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.

## 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) Allowances for doubtful accounts – estimates are determined based on the Dealer Members' financial viability. The allowance for doubtful debts as at March 31, 2015 was 0.006% of FY 2015 fees (FY 2014 – 0.3%).
- 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 was 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 uses the three lines of defence approach for managing risk. Regulatory or operating groups are the first line of defence, Enterprise Risk Management (ERM) is the second line and Internal Audit is the third.

### Enterprise risk management (ERM)

IIROC engaged a third party to conduct an independent assessment of IIROC's ERM program in FY 2014. This assessment encompassed a review of the ERM program in place, interviews of key stakeholders in the ERM program and external benchmark organizations, with the objective to further strengthening the ERM program.

IIROC is utilizing the ERM as a key input into strategic and business planning processes and has aligned the ERM framework with ISO 31000:2009. The ERM is governed by a management Risk Committee and the Finance, Audit and Risk (FAR) Committee as set out in its Charters. The FAR Committee is responsible for a semi-annual review and approval of the risk management programs and procedures.

### Internal audit

During FY 2015, IIROC continued to focus on improvement and controls and instituted an internal audit function to strengthen internal controls and build on efforts to improve efficiencies.

The internal audit function is governed by a Charter approved by IIROC's Board of Directors and by an annual internal audit plan that is approved by the Board. The Internal Auditor reports to the FAR Committee and provides a minimum of four updates per year. The Internal Auditor reviewed three areas during the first year in FY 2015.

### Litigation risk

IIROC is currently subject to litigation as disclosed in note 11 to the Financial Statements and from time to time, IIROC may face claims by employees, the public, member organizations and other third parties arising from the ordinary course and conduct of its business.

IIROC mitigates the risk of such claims by implementing appropriate controls and safeguards, and by defending against any and all such claims. IIROC enhanced insurance coverage in the current year and will continue to 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 revenues to cover costs through underwriting levies, as well as Dealer Regulation and Market Regulation membership fees. In addition, lower market returns may have a negative effect on IIROC's defined benefit pension costs and an impact on liabilities due to the new accounting standard (Section 3463). IIROC minimizes its exposure to market risk through its policy of investing in Government of Canada Treasury Bills, Bankers Acceptances and promissory notes and through a governance process on the organization's investment strategy for IIROC and Pension Fund Assets.

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

### Cyber security

IIROC continues to invest in cyber security measures to prevent unauthorized access to personal and confidential information.

### Revenue risk

About 80% of IIROC's revenue comes from Dealer Member fees. Failure of a significant number of firms or a relatively large firm would have a critical impact on IIROC's financial operations. 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 distribution 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 Canada 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, investments, long-term debt, employee future benefits expenses and liabilities due to the new accounting standard (Section 3463).

### Liquidity risk

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

### Business continuity

IIROC has a Business Continuity Plan (BCP) to ensure critical regulatory services can continue if an external disruption occurs. The BCP is ongoing and continues to be updated.

### Outlook

Next year's budget reflects the need to maintain the ability to effectively discharge IIROC's regulatory mandate in an environment that continues to be challenging. The budget reflects the financial resources required for IIROC to accomplish its priorities as listed in the Administrative Notice 15-0094 published on April 28, 2015.

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.

IIROC will continue upgrading business technology for both Market and Dealer Regulation with continued focus on efficiency, information security and risk mitigation. The Organization will also update its analysis of future capital expenditures and related funding as part of the strategic review mentioned in Administrative Notice 15-0094.

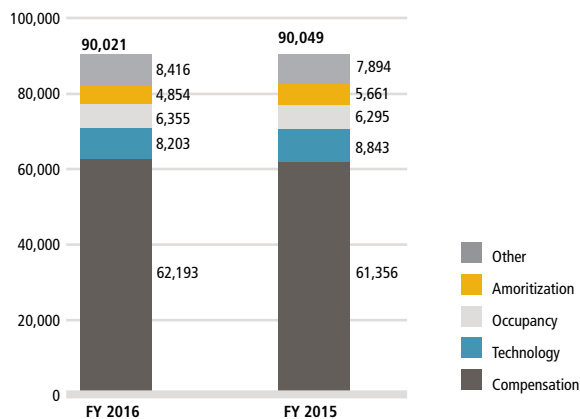
Market Regulation priorities will include, among others, consultation with stakeholders on the results of IIROC's High Frequency Trading study, issuing guidance on marketplace thresholds, the start of implementation of infrastructure to share market data and metrics with other Canadian regulators and stakeholders, and rule amendments and/or guidance regarding best execution.

Market Regulation also intends to implement the Debt Surveillance system in November 2015 which will enable IIROC to expand the scope of debt market surveillance. IIROC operates on a cost-recovery basis and has developed a Debt Market fee model, through industry consultation, which was published for comment in December 2014. The fee model is based on usage or consumption of IIROC's regulatory services provided. Dealer Members who are connected to the Debt Surveillance system will pay fees based on their proportionate share of the number of reported debt transactions. It will also be implemented in November 2015.

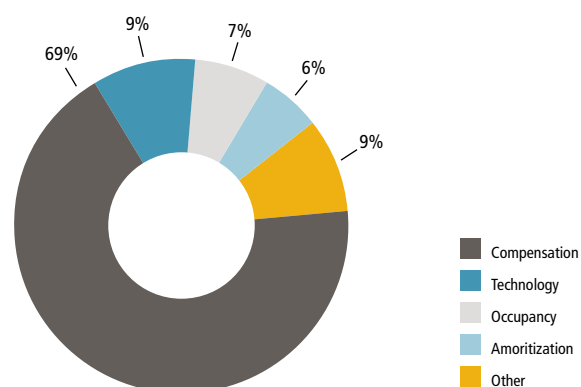
Dealer Regulation priorities will include, among others, a study on practices to address conflicts of interest, participation in the Ontario Securities Commission's mystery shopping exercise, targeted compliance audits and surveys to assess practices in the use of social media, enhancement of Dealer Member rule book web capabilities, and publication of the aggregated plain language rule book for comment.

Total Operating Expenses for the coming year are budgeted to remain flat at \$90,021 compared to last year's budget of \$90,049. This occurred despite new costs associated with the implementation of Debt Surveillance in Market Regulation. There were increases in compensation due to market salary increases to employees below the Director level and increased staffing mainly in Information Technology. Consultant costs are higher for Information Technology and Market Regulation. Costs for strategic initiatives are also budgeted to increase as well for strategic planning and internal audit. These increases were offset by reduced technology operating costs for the Equity Data Warehouse, lower telecommunication and information security costs, and lower amortization expense.

### BUDGETED OPERATING COSTS (\$)



### FY 2016 BUDGETED OPERATING COSTS



As a result of upcoming priorities, FY 2016 Dealer Member fees increased slightly by \$0.8 or 1.8% for Dealer Regulation activities and Market Equity Regulation fees will increase by 11.2% over FY 2015 fees. The Equity Market Regulation fees for FY 2015 were reduced by \$2,650 using a surplus from the prior year. A fee reduction was not provided for FY 2016 fees. When FY 2016 Equity Market Regulation fees are compared to unreduced FY 2015 fees there is a modest decrease of 0.1%. The increase of \$783 for Debt Market Regulation fees is new for FY 2016.

Our underwriting levy fees are expected to be lower than FY 2015 actuals for both debt and equity issuances. The expected decrease may be attributed to lower prices in the oil and gas sector and uncertain global market conditions.


IIROC management follows a conservative approach to budgeting to lessen the potential of unexpected intra-year fee assessments. IIROC has in the past returned surpluses to maintain fees as low as possible. However, due to the reduction of the Unrestricted Fund balance arising from the adoption of the new Employee Future Benefits accounting standard noted previously, and the upcoming analysis of capital expenditures and related funding mentioned above, management believes it is prudent to retain surpluses at this time. The total excess of revenue over expenses returned to IIROC members is close to \$19,000 since IIROC was created in 2008.

Investment Industry Regulatory  
Organization of Canada

# FINANCIAL STATEMENTS

March 31, 2015





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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, 2015 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, 2015 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, 2015

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

Chartered Accountants  
Licensed Public Accountants

## Statement of Financial Position

(in thousands of dollars)

| March 31,                                    | 2015              | 2014                 |
|--|-------------------|----------------------|
|  |                   | Restated<br>(Note 3) |
| <b>ASSETS</b>                                |                   |                      |
| Current                                      |                   |                      |
| Cash and cash equivalents                    | \$ 52,638         | \$ 67,606            |
| Investments                                  | 20,908            | —                    |
| Receivables (Note 4)                         | 6,455             | 6,403                |
| Prepays                                      | 958               | 1,009                |
| Current portion of loans receivable (Note 5) | 8                 | 15                   |
|  | <b>80,967</b>     | 75,033               |
| Restricted cash                              | 4,000             | 4,000                |
| Employee future benefits (Note 9)            | 609               | 613                  |
| Loans receivable (Note 5)                    | 5                 | 6                    |
| Capital assets (Note 6)                      | 15,949            | 17,476               |
| Deposit                                      | 139               | 139                  |
|  | <b>\$ 101,669</b> | <b>\$ 97,267</b>     |
| <b>LIABILITIES</b>                           |                   |                      |
| Current                                      |                   |                      |
| Payables and accruals                        | \$ 15,595         | \$ 15,401            |
| Government remittances payable               | 212               | 227                  |
| Current portion of long-term debt (Note 8)   | 997               | 997                  |
| Deferred revenue                             | —                 | 20                   |
| Lease inducement                             | 259               | 252                  |
|  | <b>17,063</b>     | 16,897               |
| Long-term debt (Note 8)                      | 1,993             | 2,990                |
| Lease inducement                             | 2,091             | 2,349                |
| Employee future benefits (Note 9)            | 29,061            | 26,745               |
|  | <b>50,208</b>     | 48,981               |
| <b>NET ASSETS</b>                            |                   |                      |
| Unrestricted Fund                            | 32,645            | 30,848               |
| Internally Restricted Benefits Fund          | 2,772             | 636                  |
| Externally Restricted Fund                   | 16,044            | 16,802               |
|  | <b>51,461</b>     | 48,286               |
|  | <b>\$ 101,669</b> | <b>\$ 97,267</b>     |

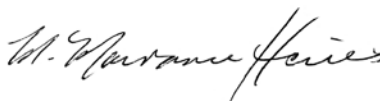
See accompanying notes to the financial statements

Commitments and contingencies (Note 11)

On behalf of the Board:



Andrew Kriegler, 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<br>Fund | Internally<br>Restricted<br>Benefits Fund | Externally<br>Restricted<br>Fund | 2015<br>Total | 2014<br>Total        |
|--|----------------------|---|----------------------------------|---------------|----------------------|
| Net assets, beginning of year                |                      |   |                                  |               | Restated<br>(Note 3) |
| As previously reported                       | \$ 47,404            | \$ 636                                    | \$ 16,802                        | \$ 64,842     | \$ 67,238            |
| Adoption of accounting policy (Note 3)       | (16,556)             | –   | –                                | (16,556)      | (19,818)             |
| As restated                                  | 30,848               | 636                                       | 16,802                           | 48,286        | 47,420               |
| Excess (deficiency) of revenue over expenses | 6,669                | 22  | (758)                            | 5,933         | (1,659)              |
| Fund transfer                                | (2,114)              | 2,114                                     | –                                | –             | –                    |
| Remeasurements and other items (Note 9)      | (2,758)              | –   | –                                | (2,758)       | 2,525                |
| Net assets, end of year                      | \$ 32,645            | \$ 2,772                                  | \$ 16,044                        | \$ 51,461     | \$ 48,286            |

See accompanying notes to the financial statements.

## Statement of Operations

(in thousands of dollars)

| Year ended March 31,                                | Unrestricted | Internally    | Externally | <b>2015</b>  | 2014                 |
|---|--------------|---------------|------------|--------------|----------------------|
|   | Fund         | Restricted    | Restricted |              |                      |
|   |              | Benefits Fund | Fund       | <b>Total</b> | Total                |
|   |              |               |            |              | Restated<br>(Note 3) |
| <b>REVENUE</b>                                      |              |               |            |              |                      |
| <b>Dealer regulation</b>                            |              |               |            |              |                      |
| Membership fees                                     | \$ 47,543    | \$ –          | \$ –       | \$ 47,543    | \$ 47,599            |
| Underwriting levies                                 | 10,965       | –             | –          | 10,965       | 9,393                |
| Registration fees                                   | 2,491        | –             | –          | 2,491        | 2,391                |
| Entrance fees                                       | 95           | –             | –          | 95           | 140                  |
|   | 61,094       | –             | –          | 61,094       | 59,523               |
| <b>Market regulation</b>                            |              |               |            |              |                      |
| Universal market integrity rules (UMIR)             | 23,496       | –             | –          | 23,496       | 23,494               |
| Timely disclosure                                   | 3,066        | –             | –          | 3,066        | 3,214                |
| Marketplace revenue                                 | 273          | –             | –          | 273          | 151                  |
|   | 26,835       | –             | –          | 26,835       | 26,859               |
| <b>Other revenue</b>                                |              |               |            |              |                      |
| Investigative fines and other fines                 | –            | –             | 1,450      | 1,450        | 2,255                |
| Interest  | 579          | 22            | 135        | 736          | 603                  |
| Miscellaneous                                       | 91           | –             | –          | 91           | 94                   |
|   | 670          | 22            | 1,585      | 2,277        | 2,952                |
|   | 88,599       | 22            | 1,585      | 90,206       | 89,334               |
| <b>EXPENSES</b>                                     |              |               |            |              |                      |
| Dealer regulation operating costs (Note 10)         | 53,952       | –             | –          | 53,952       | 58,003               |
| Market regulation operating costs (Note 10)         | 27,978       | –             | –          | 27,978       | 28,389               |
| Externally restricted fund expenses (Note 10)       | –            | –             | 2,343      | 2,343        | 3,521                |
| ABCP fine disbursements                             | –            | –             | –          | –            | 1,003                |
| Merger fund expenses                                | –            | –             | –          | –            | 77                   |
|   | 81,930       | –             | 2,343      | 84,273       | 90,993               |
| <b>EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES</b> | \$ 6,669     | \$ 22         | \$ (758)   | \$ 5,933     | \$ (1,659)           |

See accompanying notes to the financial statements.

## Statement of Cash Flows

(in thousands of dollars)

| Year ended March 31,                             | 2015             | 2014                 |
|--|------------------|----------------------|
|  |                  | Restated<br>(Note 3) |
| Increase in cash and cash equivalents            |                  |                      |
| <b>Operating activities</b>                      |                  |                      |
| Excess (deficiency) of revenue over expenses     | \$ 5,933         | \$ (1,659)           |
| Depreciation and amortization                    | 5,769            | 5,387                |
| Rent amortization                                | (251)            | (254)                |
| Gain from sale of capital assets                 | –                | (46)                 |
| Employee future benefits expense                 | 5,607            | 5,792                |
|  | <b>17,058</b>    | 9,220                |
| Change in non-cash operating working capital     |                  |                      |
| Receivables                                      | (52)             | 164                  |
| Prepays  | 51               | (60)                 |
| Deposit  | –                | (14)                 |
| Payables and accruals                            | 179              | (88)                 |
| Deferred revenue                                 | (20)             | –                    |
|  | <b>17,216</b>    | 9,222                |
| <b>Investing activities</b>                      |                  |                      |
| Purchase of investments                          | (20,908)         | –                    |
| Purchase of capital assets                       | (4,242)          | (2,235)              |
| Proceeds from sale of capital assets             | –                | 81                   |
| Employee future benefits contributions           | (6,045)          | (3,081)              |
| Repayment of loans receivable, net               | 8                | 7                    |
|  | <b>(31,187)</b>  | (5,228)              |
| <b>Financing activities</b>                      |                  |                      |
| Repayment on long-term debt                      | (997)            | (1,028)              |
|  | <b>(997)</b>     | (1,028)              |
| (Decrease) increase in cash and cash equivalents | <b>(14,968)</b>  | 2,966                |
| Cash and cash equivalents, beginning of the year | <b>67,606</b>    | 64,640               |
| Cash and cash equivalents, end of the year       | <b>\$ 52,638</b> | \$ 67,606            |
| <b>Cash and cash equivalents consist of:</b>     |                  |                      |
| Cash on hand and balances with bank              | \$ 12,213        | \$ 8,151             |
| Cash equivalents                                 | 40,425           | 59,455               |
| Cash and cash equivalents, end of year           | <b>\$ 52,638</b> | \$ 67,606            |

See accompanying notes to the financial statements.

## 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*. The Organization transitioned to the new *Canada Not-for-profit Corporations Act* ("CNCA") in fiscal 2015. 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 debt and 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 non-registered 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.

### 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.

## 2. Summary of significant accounting policies

(continued)

### Revenue recognition (continued)

#### Market regulation

Under the marketplace regulation services agreements, Universal Market Integrity Rules (UMIR) revenues are based on a fixed revenue amount for the fiscal year, 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.

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 consist mainly of highly liquid marketable securities such as government issued promissory notes and treasury bills with maturities at acquisition of greater than three months.

Other investments also consist of equity instruments of a private entity (see Note 7).

Investments are recorded at amortized cost, representing the initial recognition cost of the financial asset, less any impairment if applicable. Income is recorded based on interest or dividends received, if any, on the investment. Gains or losses 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.

#### 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, investments, receivables, loans receivable, restricted cash, payables and accruals, government remittances payable and long-term debt. The Organization's investments (see Note 7) include equities that are not traded 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 $\frac{1}{3}$ % 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, but is limited to 50% of the annual charge in the year of acquisition.

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. The Organization undertakes an annual review for the potential impairment of capital asset values. 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 obligation under employee defined benefit plans and related costs as follows:

- The defined benefit obligation is measured based on an actuarial valuation for accounting purposes at the balance sheet date. The defined benefit obligation is determined using the projected benefit method prorated

on services. Under the projected benefits method, an equal portion of the total estimated future benefit is attributed to each year of service. Actuarial assumptions are used in the calculation of the benefit obligation and the assumptions relate to administrative expenses and taxes, termination rates, disability claim rates, rates of employee turnover, retirement age, mortality, dependency status, per capita claims cost by age and by type of benefit, health care cost trend rates, discount rates to reflect the time value of money, and future salary and benefits level.

- Plan assets are measured at fair value at the balance sheet date. The Organization recognizes a valuation allowance for any excess of plan surpluses over the expected future benefit.
- The cost of the defined benefit plans relating to current service cost and financing cost (net interest on the defined benefit liability) is recorded on the statement of operations.
- Remeasurements and other items are recorded directly on the statement of changes in net assets. These relate to:
  - a) the difference between the actual return on plan assets and the return calculated using the discount rate used to determine the defined benefit obligation;
  - b) actuarial gains and losses;
  - c) the effect of any valuation allowance;
  - d) past service costs; and
  - e) gains and losses arising from settlements and curtailments.

The Organization also offers a defined contribution pension plan to employees. An expense is recorded in the period when the Organization is obligated to make contributions for services rendered by the employee. Any unpaid contributions are included on the statement of financial position.

## 2. Summary of significant accounting policies

(continued)

### Allocation of expenses

IIROC engages in Dealer Regulation and Market Regulation. The costs of each function primarily includes 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 \$2,520 (2014 – \$7,169) to Dealer Regulation and \$996 (2014 – \$884) 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 valuation of employee future benefits asset/liability.

### 3. Adoption of new accounting standard

Effective April 1, 2014, the Organization adopted the requirements of Section 3463 of Part III of the CPA Canada Handbook, "Reporting Employee Future Benefits by Not-for-Profit Organizations". The most significant impact of the new standard is that actuarial gains and losses and past service costs which were previously deferred and amortized through the statement of operations are now recorded directly in the statement of changes in net assets. The Organization has applied this change retrospectively and the amounts for 2014 have been restated.

**3. Adoption of new accounting standard** (continued)

The changes to the Statement of Financial Position at the date of transition of April 1, 2013 and March 31, 2014 are as follows:

|  | As previously reported | Increase (decrease) | As restated |
|--|------------------------|---------------------|-------------|
| <b>APRIL 1, 2013</b>                   |                        |                     |             |
| Assets – employee future benefits      | \$ 2,726               | \$ (2,070)          | \$ 656      |
| Liabilities – employee future benefits | 8,854                  | 17,748              | 26,602      |
| Net assets – unrestricted fund         | 47,597                 | (19,818)            | 27,779      |
| <b>MARCH 31, 2014</b>                  |                        |                     |             |
| Assets – employee future benefits      | 2,440                  | (1,827)             | 613         |
| Liabilities – employee future benefits | 12,016                 | 14,729              | 26,745      |
| Net assets – unrestricted fund         | 47,404                 | (16,556)            | 30,848      |

The changes to the Statement of Changes in Net Assets for the year ended March 31, 2014 are as follows:

|  | As previously reported | Increase (decrease) | As restated |
|--|------------------------|---------------------|-------------|
| Net assets, beginning of the year            | \$ 67,238              | \$ (19,818)         | \$ 47,420   |
| Excess (deficiency) of revenue over expenses | (2,396)                | 737                 | (1,659)     |
| Remeasurements and other items               | –                      | 2,525               | 2,525       |
| Net assets, end of the year                  | 64,842                 | (16,556)            | 48,286      |

The changes to the Statement of Operations for the year ended March 31, 2014 are as follows:

|  | As previously reported | Increase (decrease) | As restated |
|--|------------------------|---------------------|-------------|
| Expenses – Dealer regulation operating costs | \$ 58,484              | \$ (481)            | \$ 58,003   |
| Expenses – Market regulation operating costs | 28,645                 | (256)               | 28,389      |
| Excess (deficiency) of revenue over expenses | (2,396)                | 737                 | (1,659)     |

The changes to the Statement of Cash Flows for the year ended March 31, 2014 are as follows:

|  | As previously reported | Increase (decrease) | As restated |
|--|------------------------|---------------------|-------------|
| Excess (deficiency) of revenue over expenses | \$ (2,396)             | \$ 737              | \$ (1,659)  |
| Employee future benefits expense             | 6,529                  | (737)               | 5,792       |

## 4. Receivables

|                                 | 2015            | 2014            |
|---------------------------------|-----------------|-----------------|
| Trade                           | \$ 6,459        | \$ 6,629        |
| Allowance for doubtful accounts | (4)             | (226)           |
|                                 | <b>\$ 6,455</b> | <b>\$ 6,403</b> |

The gross carrying amount of the impaired trade receivables was \$4 (2014 – \$226). The amount of impaired loss recorded in the Statement of Operations related to the trade receivables is \$Nil (2014 – \$99).

## 6. Capital assets

|                                    | Cost             | Accumulated<br>Amortization | 2015<br>Net<br>Book Value | 2014<br>Net<br>Book Value |
|------------------------------------|------------------|-----------------------------|---------------------------|---------------------------|
| <b>Unrestricted Fund:</b>          |                  |                             |                           |                           |
| <u>Tangible</u>                    |                  |                             |                           |                           |
| Office furniture and equipment     | \$ 6,427         | \$ 3,829                    | <b>\$ 2,598</b>           | \$ 2,976                  |
| Leasehold improvements             | 8,134            | 2,906                       | <b>5,228</b>              | 5,905                     |
| Computer equipment and software    | 3,132            | 2,901                       | <b>231</b>                | 184                       |
| Technology projects hardware       | 4,936            | 3,532                       | <b>1,404</b>              | 1,486                     |
| <u>Intangible</u>                  |                  |                             |                           |                           |
| Technology projects software       | 13,247           | 9,478                       | <b>3,769</b>              | 3,989                     |
|                                    | 35,876           | 22,646                      | <b>13,230</b>             | 14,540                    |
| <b>Externally Restricted Fund:</b> |                  |                             |                           |                           |
| <u>Tangible</u>                    |                  |                             |                           |                           |
| Technology projects hardware       | 997              | 371                         | <b>626</b>                | 673                       |
| Leasehold Improvements             | 673              | 180                         | <b>493</b>                | 549                       |
| <u>Intangible</u>                  |                  |                             |                           |                           |
| Technology projects software       | 2,547            | 947                         | <b>1,600</b>              | 1,714                     |
|                                    | 4,217            | 1,498                       | <b>2,719</b>              | 2,936                     |
|                                    | <b>\$ 40,093</b> | <b>\$ 24,144</b>            | <b>\$ 15,949</b>          | <b>\$ 17,476</b>          |

## 7. 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

## 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 March 28, 2018.

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.

## 8. Long-term debt

|   | 2014            | 2013            |
|---|-----------------|-----------------|
| Loan payable – interest at Banker’s Acceptance rate plus 0.85% (1.85% at March 31, 2015), due March 2018, repayable in monthly instalments of \$83 excluding interest | \$ 2,990        | \$ 3,987        |
| Less: current portion   | 997             | 997             |
|   | <b>\$ 1,993</b> | <b>\$ 2,990</b> |

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, extended to July 2015, 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, 2015.

Pursuant to the credit agreement, as amended on February 25, 2015, the Organization must comply with certain general covenants, which include maintaining the following minimum balances:

- (i) \$30,000 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, 2015.

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

|      |                 |
|------|-----------------|
| 2016 | \$ 997          |
| 2017 | 997             |
| 2018 | 996             |
|      | <b>\$ 2,990</b> |

## 9. Employee future benefits

The Organization provides retirement and post-employment benefits for its employees and has both defined benefit and defined contribution pension plans. The defined benefit plans provide benefits that are based on a combination of years of service and a percentage of the participants’ plan earnings. Under the defined contribution provisions, the Organization makes contribution based on the percentage of the participants’ plan earnings as well as a match on the employee contributions. The matching percentage depends on the employee’s age plus years of service.

The Organization has the following pension plans:

1. IIROC Pension Plan for Former RS Pension Plan Members Defined Benefit Plan (Former RS RPP) – inactive;
2. The Formerly RS-sponsored Non-Registered SIP for former TSX Employees Defined Benefit Plan (Former RS SIP);
3. Retirement Plan for Employees of IIROC (IIROC RPP) – includes defined benefit and defined contribution provisions;
4. IIROC Supplemental Plan for Executives Non-Registered Defined Benefit (DB) Pension Plan (IIROC SERP); and
5. IIROC SIP Defined Contribution Plan.

## 9. Employee future benefits (continued)

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, 2014. An actuarial valuation of the IIROC PRB plan was also conducted at April 1, 2014. The next actuarial valuations for all defined benefit arrangements and for the IIROC PRB are scheduled for April 1, 2017.

IIROC closed the defined benefit provisions of the IIROC RPP to new hires beginning April 1, 2013.

The asset (liability) on the Statement of Financial Position is as follows:

|   | March 31, 2015       |                      |                                 | March 31, 2014<br>Restated (Note 3) |                      |                                 |
|---|----------------------|----------------------|---------------------------------|-------------------------------------|----------------------|---------------------------------|
|   | Pension              | Pension              | Other                           | Pension                             | Pension              | Other                           |
|   | Plans <sup>(1)</sup> | Plans <sup>(2)</sup> | Benefits<br>Plan <sup>(3)</sup> | Plans <sup>(1)</sup>                | Plans <sup>(2)</sup> | Benefits<br>Plan <sup>(3)</sup> |
| Accrued benefit obligation                    | \$ (7,807)           | \$ (76,242)          | \$ (8,775)                      | \$ (6,735)                          | \$ (63,645)          | \$ (7,638)                      |
| Fair value of plan assets                     | 9,421                | 55,956               | –                               | 8,265                               | 44,538               | –                               |
| Fund status – plans surplus/(deficit)         | 1,614                | (20,286)             | (8,775)                         | 1,530                               | (19,107)             | (7,638)                         |
| Valuation Allowance (VA)                      | (1,005)              | –                    | –                               | (917)                               | –                    | –                               |
| Accrued benefit asset (liability) (net of VA) | \$ 609               | \$ (20,286)          | \$ (8,775)                      | \$ 613                              | \$ (19,107)          | \$ (7,638)                      |

(1) Plans (Former RS RPP) with Accrued Benefit Asset

(2) Plans (Former RS SIP, DB provisions of IIROC RPP, IIROC SERP) with Accrued Benefit Obligation

(3) Non-Pension Post-Retirement Benefits Plan (IIROC PRB)

The employee future benefit expense is as follows:

|   | March 31, 2015       |                      |                                 | March 31, 2014<br>Restated (Note 3) |                      |                                 |
|---|----------------------|----------------------|---------------------------------|-------------------------------------|----------------------|---------------------------------|
|   | Pension              | Pension              | Other                           | Pension                             | Pension              | Other                           |
|   | Plans <sup>(1)</sup> | Plans <sup>(2)</sup> | Benefits<br>Plan <sup>(3)</sup> | Plans <sup>(1)</sup>                | Plans <sup>(2)</sup> | Benefits<br>Plan <sup>(3)</sup> |
| Employee service cost                       | \$ –                 | \$ 3,831             | \$ 472                          | \$ –                                | \$ 4,091             | \$ 464                          |
| Interest cost on accrued benefit obligation | 302                  | 3,026                | 362                             | 275                                 | 2,632                | 304                             |
| Interest income on market value of assets   | (371)                | (2,056)              | –                               | (333)                               | (1,671)              | –                               |
| Interest on Valuation Allowance (VA)        | 41                   | –                    | –                               | 30                                  | –                    | –                               |
| Employee future benefit expense             | \$ (28)              | \$ 4,801             | \$ 834                          | \$ (28)                             | \$ 5,052             | \$ 768                          |

(1) Plans (Former RS RPP) with Accrued Benefit Asset

(2) Plans (Former RS SIP, DB provisions of IIROC RPP, IIROC SERP) with Accrued Benefit Obligation

(3) Non-Pension Post-Retirement Benefits Plan (IIROC PRB)

**9. Employee future benefits** (continued)

The remeasurements and other items charged on the Statement of Changes in Net Assets is as follows:

|                                    | March 31, 2015       |                      |                                 | March 31, 2014<br>Restated (Note 3) |                      |                                 |
|------------------------------------|----------------------|----------------------|---------------------------------|-------------------------------------|----------------------|---------------------------------|
|                                    | Pension              | Pension              | Other                           | Pension                             | Pension              | Other                           |
|                                    | Plans <sup>(1)</sup> | Plans <sup>(2)</sup> | Benefits<br>Plan <sup>(3)</sup> | Plans <sup>(1)</sup>                | Plans <sup>(2)</sup> | Benefits<br>Plan <sup>(3)</sup> |
| Actuarial (gains) losses           | \$ (15)              | \$ 2,338             | \$ 388                          | \$ (115)                            | \$ (2,771)           | \$ 175                          |
| Change in valuation allowance (VA) | 47                   | –                    | –                               | 186                                 | –                    | –                               |
| Remeasurements and other items     | \$ 32                | \$ 2,338             | \$ 388                          | \$ 71                               | \$ (2,771)           | \$ 175                          |

(1) Plans (Former RS RPP) with Accrued Benefit Asset

(2) Plans (Former RS SIP, DB provisions of IIROC RPP, IIROC SERP) with Accrued Benefit Obligation

(3) Non-Pension Post-Retirement Benefits Plan (IIROC PRB)

In addition to the above, there is no outstanding liability for the defined contribution plans as at March 31, 2015 (2014 – \$Nil). Current period expense for the IIROC SIP Defined Contribution Plan was \$Nil (2014 - \$8) and for the defined contribution provisions of the IIROC RPP was \$1,157 (2014 – \$1,015).

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

|                               | 2015           | 2014           |
|-------------------------------|----------------|----------------|
| Discount rate                 | 3.25% to 3.75% | 4.25% to 4.50% |
| Rate of compensation increase | 3.50%          | 3.50%          |

For measurement purposes, inflation of medical expenses was assumed to be 7% in 2015 declining to 5% in annual increments of 0.5%. Inflation of dental costs was assumed to remain constant at 4.5%.

|                        | March 31, 2015       |                      |                                 | March 31, 2014       |                      |                                 |
|------------------------|----------------------|----------------------|---------------------------------|----------------------|----------------------|---------------------------------|
|                        | Pension              | Pension              | Other                           | Pension              | Pension              | Other                           |
|                        | Plans <sup>(1)</sup> | Plans <sup>(2)</sup> | Benefits<br>Plan <sup>(3)</sup> | Plans <sup>(1)</sup> | Plans <sup>(2)</sup> | Benefits<br>Plan <sup>(3)</sup> |
| Employer contributions | \$ –                 | \$ 5,960             | \$ 85                           | \$ –                 | \$ 2,963             | \$ 57                           |
| Employee contributions | –                    | 1,341                | –                               | –                    | 1,149                | –                               |
| Benefits paid          | (60)                 | (1,630)              | (85)                            | (60)                 | (2,296)              | (57)                            |

(1) Plans (Former RS RPP) with Accrued Benefit Asset

(2) Plans (Former RS SIP, DB provisions of IIROC RPP, IIROC SERP) with Accrued Benefit Obligation

(3) Non-Pension Post-Retirement Benefits Plan (IIROC PRB)

## 10. Expenses

|   | Year Ended       |                      |
|---|------------------|----------------------|
|   | March 31, 2015   | March 31, 2014       |
|   |                  | Restated<br>(Note 3) |
| <b>Unrestricted Fund expenses</b>   |                  |                      |
| Dealer Regulation Operating Costs   |                  |                      |
| Compensation  | \$ 40,426        | \$ 40,440            |
| Technology  | 2,410            | 1,765                |
| Occupancy   | 4,638            | 4,579                |
| Amortization  | 1,953            | 1,812                |
| Other   | 4,525            | 9,407                |
|   | <b>\$ 53,952</b> | <b>\$ 58,003</b>     |
| Market Regulation Operating Costs   |                  |                      |
| Compensation  | \$ 17,072        | \$ 17,693            |
| Technology  | 4,272            | 4,418                |
| Occupancy   | 1,656            | 1,612                |
| Amortization  | 3,189            | 3,012                |
| Other   | 1,789            | 1,654                |
|   | <b>\$ 27,978</b> | <b>\$ 28,389</b>     |
| <b>Externally Restricted Fund expenses</b>  |                  |                      |
| Hearing panel costs   | \$ 1,141         | \$ 1,933             |
| Foundation for the Advancement of Investor Rights (FAIR Canada)   | 200              | 350                  |
| Member education  | 147              | 315                  |
| Funny Money financial literacy program  | –                | 200                  |
| Rule Book Project   | 6                | –                    |
| Fixed Income Surveillance Project   | –                | 24                   |
| High Frequency Trading initiative   | 52               | 55                   |
| Cyber Security  | 63               | –                    |
| Self Regulatory Organizations Consultative Committee (SROCC)<br>and International Forum for Investor Education (IFIE)<br>Conferences sponsorships | 107              | 136                  |
| Amortization  | 627              | 508                  |
|   | <b>\$ 2,343</b>  | <b>\$ 3,521</b>      |



## 11. Commitments and contingencies

As at March 31, 2015, 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. In addition to the minimum lease payments noted below, the Organization is also obligated to pay its share of operating costs, which fluctuate from year to year.

|            |           |
|------------|-----------|
| 2016       | \$ 2,708  |
| 2017       | 2,434     |
| 2018       | 2,750     |
| 2019       | 2,414     |
| 2020       | 2,429     |
| Thereafter | 9,659     |
|            | <hr/>     |
|            | \$ 22,394 |

The Organization 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 (2014 – \$125,000) guarantee on bank lines of credit of CIPF. At March 31, 2015, 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 \$448,062 on hand as at December 31, 2014 (2013 – \$422,344 (as restated)); ii) lines of credit provided by two Canadian chartered banks totaling \$125,000 as at December 31, 2014 (2013 – \$125,000); and iii) CIPF has arranged insurance in the amount of \$160,000 as at December 31, 2014 (2013 – \$131,000) in the annual aggregate in respect of losses to be paid by CIPF in excess of \$150,000 (2013 – \$110,000) in the event of member insolvency.

The Organization is subject to two lawsuits for wrongful dismissal. The outcome of these lawsuits and amount of any ultimate loss is not reasonably estimable at this time. Based upon the advice of counsel management believes that both actions are without merit and will be defending the actions vigorously. The trial in the first action is scheduled to begin

on September 15, 2015. There is no trial date set for the second action, but the court has ordered that it must be scheduled for trial by December 1, 2015, failing which the action will be dismissed.

Following the accidental loss in the 2013 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 to date are \$5,576 of which \$163 have been incurred in fiscal 2015, net of insurance proceeds of \$101 (2014 – \$5,005). Additional defense costs may be incurred in the future for the matter described below, but are not determinable at this time. To date of approval of these financial statements on June 25, 2015, 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 of the class action was dismissed in August 2014. The petitioner appealed and the appeal is expected to be heard later this year. 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.

## 12. 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, investments, long-term debt and employee future benefits.

### *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. This also affects investment assets used for employee future benefits. IIROC minimizes its exposure to market risk due to its policy of investing in Government of Canada Treasury Bills, Bankers' Acceptances and promissory notes and through a governance process on the Organization's investment strategy. Market risk is considered to be minimal.

## 13. Comparative figures

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

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