

# Annual Report

# 2015 – 2016

Public Interest Regulator

Protecting Investors and Supporting  
Healthy Canadian Capital Markets



## Table of Contents

Message from the Chair	2
Report from the President and CEO	4
Executive Management Team	9
Priorities Progress Report	10
Key Facts	17
Governance Report	20
Management Discussion and Analysis	24
Financial Statements	37

### 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: **141**
- ▶ Dealer Member firms participating in District Councils: **114\***
- ▶ Meetings: **71**
- ▶ Decisions: **583\*\***

\* Dealer Member firms may participate on multiple District Councils and are counted for each District Council on which they are represented. However, within each District Council a Dealer Member firm is counted only once regardless of whether the firm is represented on the Council by more than one individual.

\*\* Includes decisions made by Registration Committees and District Councils.

### POLICY ADVISORY

## Committees

Financial Administrators Section

Compliance and Legal Section

Education and Proficiency Committee

Fixed Income Committee

Market Rules Advisory Committee

- ▶ Committee members: **235**
- ▶ Dealer Member firms and Marketplaces represented: **123\***

\* Firms and marketplaces may participate in multiple committees.



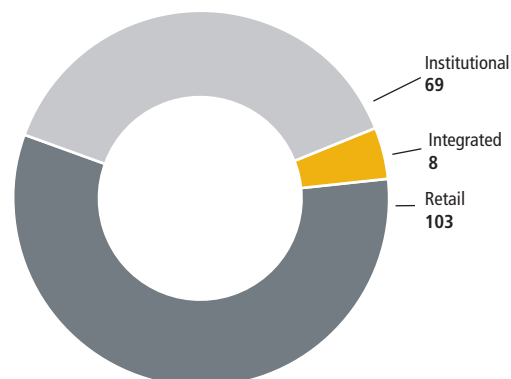
## INDUSTRY PROFILE :

# Dealers

(All statistics are as at March 31, 2016)

Investment dealers regulated by the Investment Industry Regulatory Organization of Canada 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



### INDIVIDUALS AND FIRMS REGULATED BY IIROC

(by Location)

Province	Approved Persons	Branch Offices	Head Offices
AB	2,995	940	16
BC	4,555	1,213	14
MB	601	163	1
NB	306	93	1
NF	122	36	0
NS	503	168	2
NT	0	3	0
NU	0	0	0
ON	13,888	3,104	115
PE	67	21	0
QC	4,785	719	27
SK	568	207	0
YT	5	6	0
U.S.	275	5	4
Other*	34	0	0
<b>Total:</b>	<b>28,704</b>	<b>6,678</b>	<b>180</b>

\*International locations.

### MEMBER FIRMS

(by Revenue)

Revenue	% of Firms
Greater than \$1 billion	3
Greater than \$100 million	8
Greater than \$10 million	36
Greater than \$5 million	19
Less than \$5 million	34

Note: Based on 180 Dealer Members that reported revenue during the period of April 1, 2015 to March 31, 2016.

### 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	23	13
11 to 100	88	49
10 or fewer	56	31

Note: 180 Dealer Members as at March 31, 2016, of which 170 were in good standing, 3 were in the resignation process, and 7 were suspended.



# INDUSTRY PROFILE :

# Markets

**Equity markets:** IIROC regulates trading activity in real time on five stock exchanges (Toronto Stock Exchange (TSX), TSX Venture Exchange (TSXV), Alpha Exchange (Alpha), Canadian Securities Exchange (CSE) and Aequitas Neo Exchange\*), and nine Alternative Trading Systems (ATSs) that trade equities (Nasdaq CXC (CXC), Nasdaq CX2 (CX2), Omega ATS (Omega), Lynx ATS (Lynx), TriAct Canada Marketplace (MATCH Now), Liquidnet Canada Inc. (Liquidnet), Bloomberg Tradebook Canada, Instinet Canada Cross Limited (ICX), TMX Select Inc. (TMS)\*\*).

**Debt markets:** IIROC regulates three debt Alternative Trading Systems (ATSs) – CanDeal.ca Inc., MarketAxxess Canada Co. and Perimeter Markets Inc. (CBID).

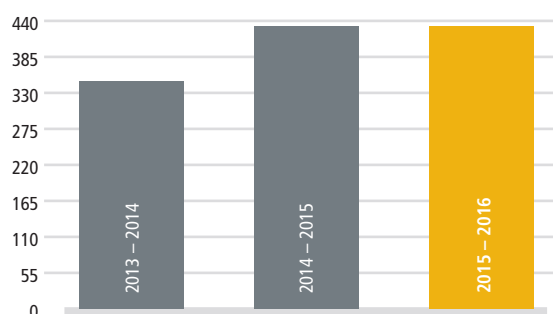
\* Aequitas Neo Exchange operates two distinct books – Aequitas Neo Book (AEN) and Aequitas Lit Book (AEL)

\*\* TMX Select Inc. ceased operations on September 18, 2015

## ACTIVITY ON THE EQUITY MARKETPLACES WHERE TRADING ACTIVITY IS REGULATED BY IIROC

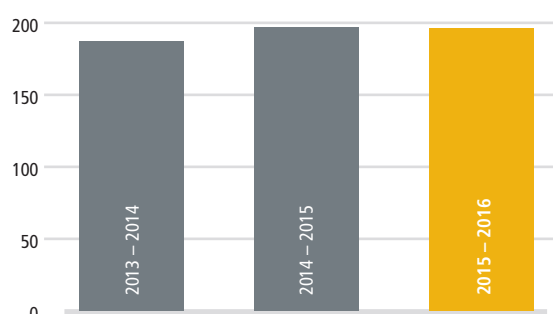
### TRADES

Number of Transactions (Millions)



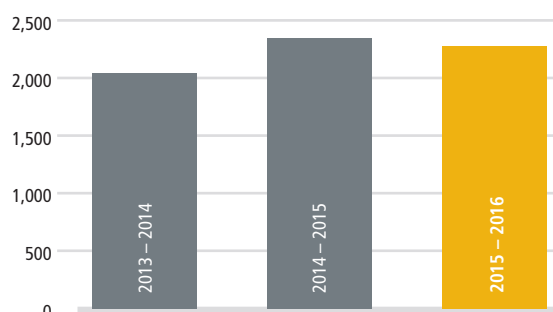
### VOLUME

Total Shares Traded (Billions)



### VALUE

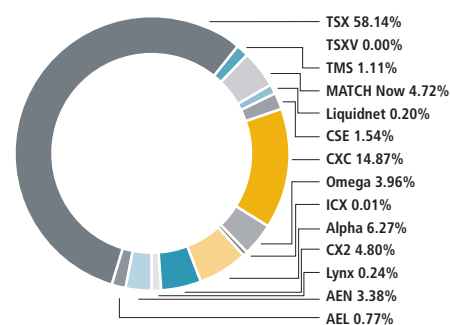
of Shares Traded (\$ Billions)



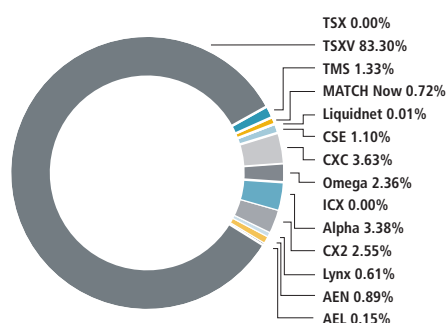
## Canada's Multiple Marketplaces

Where Trading Took Place in 2015-2016 by Share Volume

### TSX-LISTED PERCENTAGE



### TSXV-LISTED PERCENTAGE



**Aequitas Neo Exchange (AQN):** 100% of AQN-listed securities traded on an Aequitas NEO marketplace.

**Canadian Securities Exchange (CSE):** 98.85% of CSE-listed securities traded on the CSE. The remaining 1.15% of trading took place on Omega ATS and Lynx ATS.



## Mission

Our mission is to protect investors and support healthy Canadian capital markets.

## Vision

IIROC's vision statement describes what we want to achieve over time – it is our definition of long-term success.

We will demonstrate how our self-regulatory model serves the public interest, by:

- inspiring confidence and deterring wrongdoing by having and using robust and appropriate tools
- making the delivery of securities regulation in Canada significantly more efficient
- being known as a trusted, respected and valued partner by our stakeholders
- being a leading-edge securities regulator
- creating a culture that attracts and retains high-quality employees.

# IIROC is the national self-regulatory organization

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

## 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.



A series of horizontal lines of varying lengths and shades of gray, stacked vertically on the right side of the page, creating a textured, architectural effect.

# Message from the Chair



Over the past year IIROC engaged in a rigorous strategic planning process to articulate a new vision and map out a comprehensive long-term strategy for the organization. We recognized that this undertaking was timely in light of the changes taking place in the regulatory and investment landscape in Canada and abroad.

IIROC's Board of Directors was fully supportive of the process – one that was more extensive and transparent than ever. The Board also participated with several Directors being interviewed by the independent consultant who helped facilitate the consultation process.

In the strategic planning discussion and beyond, the unique perspectives contributed by our Directors underscore the tremendous value of a broadly diverse Board that represents IIROC's various stakeholders and can contribute different, meaningful views to important conversations.

For instance, IIROC's 15-member Board includes seven independent Directors who bring a wealth of experience and expertise to governance. They are joined on the Board by five industry Directors employed by investment dealers of varying sizes and business models based in different parts of the country. The group is rounded out by two industry Directors representing marketplaces in Canada, as well as by IIROC's CEO.

As the Board for a pan-Canadian organization it is important not only that our Directors come from various regions but that we consult with stakeholders throughout the country. We meet and host stakeholder events each year in Western Canada, Ontario and Quebec. These occasions provide us with valuable opportunities to interact directly and informally with stakeholders in the regions and learn firsthand what is important to them.

This input, combined with other feedback we solicit, enables IIROC to more effectively protect investors, foster confidence in the regulatory framework and support healthy capital markets – all important elements of a strong Canadian economy.



On behalf of the Board, I would like to acknowledge IIROC's management team for their commitment and leadership in developing a strong vision for the future. The Board also recognizes the critical regulatory work carried out by IIROC staff across the country to fulfill IIROC's public interest mandate.

Finally, I would like to extend my gratitude to my colleagues on the IIROC Board. At a time when change seems to be the only constant, we are fortunate to have not only their collective insights but also the continuity and stability brought about by this dedicated group.

On behalf of the Board of Directors,

A handwritten signature in dark ink, reading "M. Marianne Harris". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

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





# Report from the President and CEO



## Preparing for the future...

IIROC is a national public interest regulator with a mission to protect investors and support healthy Canadian capital markets.

Capital markets in Canada and around the world have continued to evolve significantly in recent years with innovations in technology and trading, shifting investor demographics and other changes that are reshaping the regulatory and investment landscape.

In order to not only adapt and keep pace with this environment but also ensure that we are well-positioned to deliver on our mandate for the future, IIROC began a new strategic planning process in 2015. In May 2016, we published our Strategic Plan which sets out our vision for moving forward for the next three years.

Our planning process was built upon the most comprehensive stakeholder consultation that we have ever conducted. The results of the consultation and the Strategic Plan which emerged from it both reaffirmed the foundation for IIROC's mission and described our vision in five key goals that explain what we want to accomplish and why.

### 1. MAKING THE DELIVERY OF SECURITIES REGULATION IN CANADA SIGNIFICANTLY MORE EFFICIENT

As Canada's national securities self-regulatory organization, we can and must provide leverage to the system in the delivery of not only our own rules and guidance but those which we deliver for and on behalf of our partners in the Canadian Securities Administrators (CSA).

Increasing the efficiency of securities regulatory delivery will also make it more effective and, we believe, be the basis for reducing the gaps, overlaps and regulatory arbitrages which today harm investors and the health of the capital markets themselves.



### 2. BEING KNOWN AS A TRUSTED, RESPECTED, AND VALUED PARTNER BY OUR STAKEHOLDERS

Given IIROC's role, we can achieve most of our public policy objectives only in partnership with our stakeholders: investors, our member firms, our regulatory partners, their governments and other agencies.

To serve them together in the public interest, we also need their support and collaboration. To have their support, we must earn it through our efforts. We must also work together with our regulatory partners to ensure that investors benefit from consistent high standards of protection and that there is a level playing field across the broader financial services industry.

### 3. BEING A LEADING-EDGE SECURITIES REGULATOR

We earn the support of our stakeholders by being good at what we do on behalf of the public.

The quality of our work will be shown, in many cases, through delivery of tangible outputs: the introduction of a new market surveillance system that supports cross-product, cross-asset surveillance, a revised plain language rule book that is easier to use and to enforce, and updated risk models that allocate compliance resources where they are needed most.



Equally though, the value of what we do can and will be measured by the policy positions we take: we have made it clear, for example, that our rules and guidance put the best interest of the client before the interests of IIROC-regulated dealers and their representatives.

#### 4. INSPIRING CONFIDENCE AND DETERRING WRONGDOING BY HAVING AND USING ROBUST AND APPROPRIATE TOOLS

Our stakeholders also rightfully demand that IIROC supports and is seen to support the integrity of the Canadian capital markets by taking action against wrongdoers. To do so, we need the right tools – tools that will strengthen our enforcement efforts.

IIROC will continue to pursue the power to collect our fines through the courts and to implement agreements with other regulators across Canada to exchange information and implement mutual recognition of disciplinary actions to better protect investors.

Together, these steps would ensure that sanctioned individuals could not work in another registered capacity in the financial services industry, and could not avoid payment of a monetary sanction once they have left the industry. Closing this gap would give the public the confidence of knowing that they can trust their financial services providers and, in turn, have trust in Canada's capital markets from coast to coast.

#### 5. CREATING A CULTURE THAT ATTRACTS AND RETAINS HIGH-QUALITY EMPLOYEES

IIROC's employees who together are called upon to deliver on our mission are highly skilled and dedicated to working in the public interest. We continue to focus on attracting and retaining top talent by engaging our employees, investing in them and by creating a strong performance culture.

### ...by building upon the past

As we pursue our work, we will be transparent and accountable to you, our stakeholders. IIROC will continue the practice we began last year of publishing a statement of priorities for the

coming year and evaluating our performance against those priorities in the following year's Annual Report.

While you can read about the progress we made against last year's objectives further in this report, I would like to highlight a few key initiatives here.

## Difficult conversations lead to better public policy

Last November, we published a White Paper designed to stimulate dialogue about ways to make the delivery of securities regulation in Canada more efficient by reducing overlaps and harmonizing our requirements and standards with those on other regulatory platforms – while pursuing the public interest and maintaining or enhancing investor choice and protection.

The paper and its illustrative proposal generated considerable debate and, over an extended comment period, we received more than 30 differing and thoughtful opinions. These are hallmarks of healthy and sometimes difficult conversations that need to take place in order to develop strong public policy that takes into consideration the views and needs of all stakeholders.

We are in the process of analyzing what we have heard and will continue to consult extensively on any future steps we may take.

Another public policy issue that continues to generate significant discussion in Canada and around the world is the concept of a "best interest" standard.

IIROC already requires, under Dealer Member Rule 42, that those on the IIROC platform address conflicts of interest, whether existing or potential, in the best interest of the client. In April we published guidance affirming our intention to strengthen compliance by our Dealer Members with the best interest requirements of this rule, with a particular focus on the management of compensation-related conflicts – which we believe is a key part of any discussion of aligning the interests of investment firms, their registrants and their clients.



We believe that, taken together, our Dealer Member Rules and guidance put the best interest of the client before the interests of IIROC-regulated dealers and their representatives.

Having said that, we are committed to improving oversight of our Dealer Members and their representatives and are enhancing our compliance test procedures in this area.

We also more recently completed a comprehensive survey of IIROC-regulated firms. These results will enable us to more accurately and completely assess the quality of controls being used and assist firms in more effectively managing compensation-related conflicts, while at the same time recognizing that materiality and reasonability need to be taken into consideration. We are in the process of conducting targeted follow-up exams to address concerns resulting from the survey. The survey and the exam results will also help inform the appropriate regulatory response.

We agree with the CSA that regulatory action is required to better align the interests of registrants with the interests of their clients in order to improve outcomes for clients. We are committed to working with the CSA through this process to ensure a consistent standard of care across all regulatory platforms.

## **Collaborations to strengthen enforcement and enhance investor protection**

In IIROC's renewed vision, investor protection remains a critical responsibility – and one that can't be fulfilled in isolation. Investors benefit from greater protections when there is regulatory coordination across regulated sectors.

Collaboration with regulatory and government partners helps to improve harmonization across regulatory platforms and level the playing field for market participants, while strengthening and making more consistent protections for investors.

It's not acceptable, for example, that disciplined individuals can abandon their registration and move to a different part of financial services or a jurisdiction where another regulator and potential clients are unaware of their past wrongdoings.

Over the past year, IIROC has negotiated formal cooperative and information-sharing agreements with the Chambre de la sécurité financière in Québec, the Financial Services Commission of Ontario and the Insurance Council of British Columbia. These agreements institute a range of tools to protect investors – from early detection and joint investigations to restrictions on registration/licensing. While we currently have more than a dozen agreements with other Canadian and international regulatory organizations, we continue to pursue additional arrangements to improve the consistency and effectiveness of the regulatory system that protects Canadian investors.

We have also continued to pursue legislative changes in various provinces so that we can more effectively collect fines levied against IIROC-regulated firms and individuals who have breached our rules. To provide some perspective, more than \$28 million in fines against individuals we have sanctioned across the country since 2008 are uncollected.

Currently, we have the ability only in Alberta and Quebec to enforce sanction decisions through the courts against those who break the rules. In seeking amendments to securities laws in other jurisdictions, we believe we will be able to collect more fines and ensure there is consistency and fairness across the country.

A valuable resource that enables investors, firms and other regulators to check to see if an IIROC registrant has been disciplined or has any restrictions in place is our online advisor check service. It also enables people and organizations to search and learn about the qualifications, educational backgrounds and employment histories of individuals registered with IIROC.



IIROC has made it clear, as part of our submission to the Ontario Government's Expert Committee Considering Financial Advisory and Financial Planning Policy Alternatives, that we support the creation of a Central Registry for Ontario. We have also offered that IIROC's comprehensive advisor check database and expertise could be leveraged for this purpose. We look forward to discussing this potential with other financial services regulatory partners as a way to provide one-stop shopping for the investing public.

## Leveraging information to enhance market integrity

Another important priority for us is leveraging the information we collect as part of our market oversight role.

Last November, our new debt transaction reporting rule took effect. It requires IIROC-regulated firms classified as government securities distributors with the Bank of Canada to report all debt trade information to IIROC.

Earlier this year, the CSA announced that it had selected IIROC to be the Information Processor for corporate debt securities. In doing so, the CSA is leveraging IIROC and the information we collect to enhance debt market transparency and regulatory oversight without duplicating efforts or costs.

These objectives align with IIROC's public interest mandate and our commitment to ensuring that the Canadian market operates with integrity. We are pleased to be an essential partner in this effort to bring more transparency to the debt market.

On July 6, in our capacity as the Information Processor we launched a new website providing wide access to corporate debt trading information for the investing public and other market participants.

In addition to helping retail and institutional investors make more informed decisions, this initiative underscores how securities

regulation in Canada can and does benefit from IIROC's national scope of work and unique pan-Canadian role.

## Keeping pace and providing predictability

The trends we identified as part of our strategic planning process impact all regulators – everything from the rapid pace of technological change to changes in the profile of those we regulate and changing investor behaviours. We, like other regulators, face significant challenges resulting from these transformative and often complex changes and must be not only prepared but also flexible in our approach to regulation.

Investing for the future is a necessity, not a choice. IIROC is committed to building and improving the infrastructure, resources and expertise needed to adapt to the changing environment so that we can continue fulfilling our regulatory responsibilities. In the near future this includes, for example, bringing in the next generation of real-time and post-trade surveillance technology to enhance our cross-product, cross-asset and cross-dealer oversight capabilities.

At the same time, we appreciate the varying business models employed by IIROC-regulated firms and remain mindful of the pressures facing market participants. Our focus continues to be on flexibility in our regulatory approach and a fee model framework that is both fair and predictable. This enables all firms – no matter their size or business model – to plan to meet their regulatory responsibilities.

Cost control, planning and predictability are as crucial to IIROC as they are to the firms we regulate. Our need to balance revenues with required spending was challenged this year as we faced a significant unforeseen revenue shortfall from one of our regulatory partners in respect of the registration services provided by IIROC. We are adapting to this shortfall and working with our regulatory partners to avoid any unexpected changes in the future.



I am pleased to report that over the past five years IIROC member fees have grown at a rate that is among the lowest for Canadian financial services regulators. This result is especially gratifying as we continue to balance the growing challenges and demands of investor protection and of maintaining well-functioning capital markets with our overarching commitment to fiscal prudence.

I would like to acknowledge and thank one of our key regulatory partners, the Canadian Securities Administrators, as well as others for their ongoing support. In today's shifting landscape, it is more important than ever that we work collaboratively to protect investors and ensure a level playing field for all market participants. Partnerships such as this one form the basis for harmonization and consistency in regulation, which support healthy capital markets and strong protections for investors.

Sincere thanks also to my IIROC colleagues across the country for their continuing efforts and commitment. They carry out the important day-to-day work of regulation with diligence and with respect for those we regulate and for all who participate in Canada's capital markets.

Finally, I am grateful to my talented partners on IIROC's management team for their dedication and hard work, and for the valuable guidance of IIROC's Board of Directors in serving the public interest and in delivering effective and efficient securities regulation across Canada.



**Andrew J. Kriegler**  
President and CEO

## EXECUTIVE MANAGEMENT TEAM



(L to R) :

**Doug Harris** – Vice-President, General Counsel and Corporate Secretary

**Elsa Renzella** – Vice-President, Enforcement

**Claudyne Bienvenu** – Vice-President, Québec

**Victoria Pinnington** – Senior Vice-President, Market Regulation

**Shuaib Shariff** – Senior Vice-President, Finance and Administration

**Andrew J. Kriegler** – President and CEO

**Lucy Becker** – Vice-President, Public Affairs and Member Education Services

**Warren Funt** – Vice-President, Western Canada

**Ian Campbell** – Chief Information Officer

**Wendy Rudd** – Senior Vice-President, Member Regulation and Strategic Initiatives



2015-2016 was a transitional year that saw the creation of IIROC's new Strategic Plan, published in May 2016.

Our Statement of Priorities for 2015-2016 focused on the operational activities and significant initiatives that were to be completed in parallel with the creation of our longer term vision.

In keeping with IIROC's commitment to transparency and accountability to our stakeholders, we are pleased to report our progress on those activities and initiatives. We will continue to measure and report on our progress each year.

#### KEY

■ Achieved ■ In progress

ACTIVITY / PROJECT	DETAILS / MILESTONES
<b>MEMBER REGULATION PROJECTS</b>	
<div></div> <b>Conduct a survey of Dealer Member practices in addressing conflicts of interest</b>	<p>In June 2015 we surveyed a representative sample of Dealer Members to review their overall framework for addressing conflicts of interest, the effectiveness of controls used to identify and address conflicts related to compensation practices, and the effectiveness of controls used to identify and address conflicts relating to the marketing and distribution of new products.</p> <p>The study results revealed that most firms sampled lacked a meaningful process to identify, deal with, monitor and supervise compensation-related conflicts. As a result, we enhanced our compliance test procedures to more closely examine compensation and conducted a more comprehensive survey on the oversight and monitoring of compensation-related conflicts. The results of the examinations and the comprehensive survey will inform how we can help firms comply with best interest requirements and determine whether additional guidance or rule changes are necessary.</p>
<div></div> <b>Participate in a Mystery Shopping exercise, jointly with the Ontario Securities Commission (OSC) and the Mutual Fund Dealers Association (MFDA), to assess and help firms improve the quality of service and advice provided by IIROC registrants to investors</b>	<p>IIROC, the OSC and the MFDA jointly published the final report summarizing the project in September 2015. Together with insights gained from IIROC's "Know Your Client" (KYC) focus groups conducted in March 2015 (see below), the findings are helping IIROC improve investors' experiences so that they are better served and protected. For example, IIROC published an Investor Bulletin to help investors better understand the KYC process and is producing a webcast to help advisors guide their clients through the process. We are also ensuring our compliance examinations promote KYC compliance among the firms and individuals we regulate and developing guidance to help them better explain to clients the importance of the KYC process and its requirements.</p>
<div></div> <b>Conduct targeted compliance audits and surveys to assess Dealer Member practices in the use of social media</b>	<p>We analyzed the results from regular examinations of Dealer Members in 2015 to learn how social media/advertising is being used and how such use is being supervised. This information will help us determine whether there is a need for further guidance and/or rule changes to assist firms in supervising and monitoring their Approved Persons' social media practices.</p>



ACTIVITY / PROJECT	DETAILS / MILESTONES
Review products, tools and services made available to Order Execution Only (OEO), otherwise known as “discount brokerage”, clients to assess compliance with existing rules and to inform possible policy development or guidance	<p>IIROC established an OEO Working Group composed of OEO dealers and IIROC staff to consider the tools being used by OEO dealers in the context of current rules. We also conducted a quantitative survey of investors to learn their views on OEO services and tools and whether they viewed such tools as advice.</p> <p>Based on what we found, IIROC has begun updating Dealer Member guidance to help clarify what constitutes a recommendation and what services may be offered on an OEO platform.</p>
Publish proposed amendments to IIROC’s registration rules to conform to recent National Instrument 31-103 amendments and changes related to continuing education	<p>The amendments will harmonize IIROC’s registration requirements with those of the Canadian Securities Administrators (CSA). They update IIROC’s continuing education program to change the length of the continuing education cycle to two years from three, as well as providing credit if an Approved Person repeats an approved ethics course. Importantly, the amendments will also institute automatic suspension if an Approved Person does not complete their continuing education requirements.</p> <p>These proposed changes enhance the educational and experience prerequisites for approval on the IIROC platform, as well as the continuing education requirements that Approved Persons must meet, to ensure that individuals regulated by IIROC meet high proficiency standards.</p>
Introduce amendments to the proficiency assurance regime for IIROC registrants	<p>High proficiency standards, rigorous ethical requirements and mandatory continuing education are fundamental to investor protection and the integrity and efficiency of capital markets. IIROC announced a new proficiency assurance model in September 2015 after extensive consultation. Under the new model, competency standards will be set and published by IIROC for IIROC licensing courses. The new model also calls for a single provider to be selected through a transparent and competitive procurement process, providing the benefits of competition within a single provider context. IIROC retained the Canadian Securities Institute (CSI) to provide regulatory courses for an initial five-year term under an agreement that includes high performance standards, robust oversight and improved pricing caps.</p>
Implement the consolidated enforcement rules	<p>The Consolidated Rules were approved by the CSA in June 2016 and implementation is set for September 1, 2016, with the exception of certain requirements relating to hearing panels which were implemented in June 2016. A single consolidated set of rules will provide all stakeholders with greater clarity and transparency and ensure consistency in their application.</p>
Publish the aggregated Plain Language Rule Book (PLR) for final review and comment	<p>In March 2016, IIROC published the proposed PLR in its entirety for the first time, with a 120-day public comment period. Rules that are organized, clear and concise are beneficial to Dealer Members, their representatives and investors.</p>



ACTIVITY / PROJECT	DETAILS / MILESTONES
Use the results of our tabletop cyber-security test involving IIROC Dealer Members and key service providers to develop a plan to assist Member Firms to establish cyber-security protocols	We published two resources – <i>Cyber-Security Best Practices Guide</i> and <i>Cyber Incident Management Planning Guide</i> – to help firms manage cyber-security risks and prepare effective internal response plans for cyber-threats and cyber-attacks, conducted an interactive webinar highlighting the two Guides and have made the webinar available as a webcast. We are continuing to work with Dealer Members to assess and improve cyber-security preparedness.
Enhance Dealer Member Rule Book (DMR) web capabilities	The DMR was integrated with the main IIROC website in August 2015, enabling users to navigate and search all IIROC Dealer Member Rules and Universal Market Integrity Rules from a single interface. In November 2015 we conducted a survey to learn what further improvements to the DMR were important to users and in response to feedback we published the DMR in a consolidated, searchable format. We continue to make incremental improvements to navigation and functionality of the DMR ahead of a rebuild of the full IIROC website which is part of IIROC's three-year Strategic Plan.

## MARKET REGULATION PROJECTS

Consult with industry stakeholders on the results of IIROC's high frequency trading (HFT) study and the implications of the results	In October 2015, IIROC hosted a public forum following publication of the final academic paper in the HFT study. The forum was held in collaboration with the Capital Markets Institute at the Rotman School of Management, University of Toronto, and provided an opportunity for academics, industry participants, regulators and other stakeholders to discuss the study results and implications, and other related market issues.
Commence surveillance of debt market activity by IIROC Dealer Members	Phase 1 of the debt transaction reporting initiative was implemented on November 1, 2015, and IIROC is now receiving reports of all over-the-counter debt transactions from Dealer Members who are Government Securities Distributors (GSDs) or affiliated with a GSD. Phase 2, which will require all other Dealer Members that trade debt instruments to begin reporting, is in development with planned implementation on November 1, 2016.
Implement a fair and transparent debt market fee model	IIROC has implemented a fee model based on usage or consumption of regulatory services, representing a fair and balanced approach for recovering costs associated with the provision of debt market surveillance.
Issue final guidance on marketplace thresholds	In August 2015, we published final guidance that establishes a framework for marketplaces to adopt price thresholds in order to mitigate short-term, unexplained price movements in the trading of individual securities. The guidance is in effect as of August 2016.



## ACTIVITY / PROJECT

## DETAILS / MILESTONES

**Consult with industry stakeholders on IIROC's proposed dark rules anti-avoidance provisions**

IIROC hosted a roundtable with stakeholders in June 2015 to explore alternatives to the dark rules anti-avoidance proposal. Based on these discussions and the results from IIROC's best execution survey, we concluded that enhanced best execution requirements and guidance may help address concerns about systematic routing of small orders southbound. We are also proposing additional requirements to help Dealer Members better understand the circumstances under which routing to a foreign market may not achieve best execution. IIROC intends to withdraw the proposed dark rules anti-avoidance provisions.

**Introduce rule amendments and/or guidance to address issues identified in IIROC's best execution survey of Dealer Members**

In December 2015, we introduced proposed provisions and guidance to address issues identified in IIROC's best execution survey of Dealer Members and an IIROC-hosted roundtable on the proposed dark rules anti-avoidance provisions. The proposals:

- clarify that the systematic routing of orders outside of Canada without considering domestically available liquidity is not compliant with best execution obligations;
- update and streamline existing best execution requirements for IIROC-regulated firms; and
- align IIROC requirements with proposed amendments by the CSA regarding best execution.

**Begin implementing infrastructure to enable market-related data, reports and metrics to be shared with other Canadian regulators and stakeholders through interactive, self-service delivery channels**

IIROC has launched an internal analytics data portal as part of foundational work towards providing access to information by partner regulatory agencies.

## RESPONDING TO THE MEMBER SURVEY

**Provide regular updates to Dealer Members on the status and timing expectations of each compliance examination**

Communicating clear expectations is important to ensuring examinations are conducted in a fair and transparent manner. IIROC compliance staff update firms regularly on the status and timing of exams. A survey is issued to each Dealer Member at the conclusion of each compliance exam to solicit feedback on the examiners' timeliness in communicating concerns, providing status updates and the timing of the final report.

**Enhance our consideration and communication of potential impacts and consequences of regulatory actions on all relevant stakeholders**

For each new policy project undertaken, IIROC staff conducts an initial qualitative analysis to determine the impact on relevant stakeholders of each alternative approach. These analyses, which are communicated to Dealer Members, help inform IIROC on the implications of pursuing policy projects and ensure IIROC does not impose unnecessary regulatory burden.



## WORKING WITH OTHER REGULATORS AND STAKEHOLDERS

### Participate in government consultations on the Cooperative Capital Markets Regulatory (CCMR) System

IIROC's December 2015 submission to the CCMR System consultations highlighted the need for stronger enforcement powers related to two particular areas: the ability for IIROC to enforce sanction decisions through the courts in jurisdictions where we currently do not have that ability; and statutory immunity for IIROC and IIROC staff when actions are taken in good faith to carry out IIROC's public interest mandate.

### Participate in consultations on the Ontario government's initiatives regarding the regulation of financial planning

In our June 2016 submission to the Ontario Government Expert Committee, IIROC articulated our view that fragmentation and inconsistent regulation of individuals who carry on the same or similar activities on different platforms can lead to consumer confusion, duplication, cost and regulatory gaps, and that it is in the public interest to ensure all those who hold themselves out as financial planners meet a defined and rigorous standard of competence, proficiency and ethical practice. We also stated our opinion that there should be greater overall harmonization among financial regulators, including consistent standards of proficiency, registration and discipline, and that the creation of a central registry co-ordinated among all financial regulators and mutual recognition of sanctions among financial regulators would be important first steps.

### Use feedback from investor focus groups regarding their perceptions and experiences with the collection of know-your-client (KYC) information to develop an appropriate regulatory response and improve member and investor education

IIROC has started a policy project to consider the breadth and depth of KYC information collection and suitability assessment that is appropriate in relation to each type of service offering currently available, and to enhance our rules and/or guidance accordingly.

Informed by what we learned from the focus groups conducted in March 2015 and the Mystery Shop initiative, we published a new investor bulletin, *Ensuring your investments are right for you*, to explain the KYC concept and what to expect when working with an advisor and why the collection of KYC information is important. Additional investor and member education resources, including webcasts, are being developed to help improve the KYC process and to better serve investors.

## IMPROVING IIROC OPERATIONS

### Determine a target operating model for IIROC's market and member regulation functions to support our future business and regulatory objectives

As part of the strategic planning process, we conducted a current state assessment of IIROC systems, processes and resources, developing and prioritizing our target future state requirements, and completing a gap analysis.

Based on this analysis, we developed a business and technology roadmap which has been incorporated into the Strategic Plan and which will provide greater efficiency, flexibility, and cost-effectiveness in our market and member regulation activities.



ACTIVITY / PROJECT	DETAILS / MILESTONES
<b>Expand IIROC's cost/benefit analysis process for significant proposed capital expenditures to include consistent post-expenditure reviews</b>	We conducted a review and as a result we have identified the need to develop a new framework around the management of capital expenditures and projects more generally. Work on the new framework has begun and is expected to be completed in fiscal 2017.
<b>Enhance IIROC's enterprise risk management (ERM) framework by implementing semi-annual risk reporting and more effective verification of risk mitigation strategies</b>	<p>We implemented a semi-annual self-assessment process that requires risk management reports to be completed in June and January each year. For higher risk areas, we test the mitigating controls independently and incorporate the results into the overall risk evaluation.</p> <p>Enhancement to our ERM framework and the addition of a second assessment provides IIROC with the ability to thoroughly assess its risks more frequently. This allows for more responsive action in areas requiring risk management. As well, control verification provides assurance that the identified controls relied upon for risk mitigation are operating as designed.</p>
<b>Adjust the focus of our internal audit function to include key processes in a greater number of departments</b>	<p>We developed an internal audit plan with input from the Executive Management Team to identify departments and key processes for focus, and to align audit resources with key areas of risk.</p> <p>We expanded the scope of internal audit to include key processes based on our assessment of risk in each area.</p>
<b>Begin the phased migration of legacy applications to new supported platforms</b>	<p>We developed a roadmap to migrate old systems for which support will be discontinued to supported existing or new systems.</p> <p>We completed significant upgrades of our telephony and call centre software and replaced our call recording software. Work was also completed on a revamped New Issues System, which has since been implemented, and on a comprehensive procurement process to select a new set of financial planning and management systems, which is being implemented in two phases during 2016-2017.</p>
<b>Improve employee engagement by responding to the latest employee survey using employee focus and work groups</b>	Based on the latest employee survey and focus and work groups, follow-up action plans specific to each department were developed and implemented to address four key areas: career development, performance management, recognition and work processes. Corporate-wide initiatives have also been undertaken in these and other areas identified in the survey.



## Additional Highlights

We have described below additional initiatives that are key to IIROC's work in the public interest. Further, *IIROC's Enforcement Report* and *Compliance Priorities Report* contain other notable highlights of our activities and progress.

### THE CLIENT RELATIONSHIP MODEL (CRM) INITIATIVE

The CRM initiative enhances investor protection and understanding, raises industry standards and helps to promote confidence in the quality of advice and integrity of those who provide it. For example, specific elements of CRM improve transparency of fees and account performance, ensure that conflicts are identified and addressed, and enhance suitability assessment.

IIROC finalized all elements of the CRM reform initiative for implementation by IIROC-regulated firms, with publication in May 2015 of final Dealer Member rules regarding revised trade confirmation and account statement requirements, and new annual performance and fee/charge reporting requirements. These amendments are being phased in over a two-year period ending in 2016.

To support firms in effectively implementing CRM requirements, IIROC has been compiling and publishing frequently asked questions (FAQs).

### EFFECTIVE POLICY DEVELOPMENT

An effective policy development process includes communication and consultation with stakeholders and reflects key and emerging issues.

IIROC regularly engages stakeholders, communicates regulatory expectations and publishes timely and clear rules, guidance and FAQs to help ensure policies reflect the evolving investment landscape. This helps all IIROC-regulated firms, which represent differing sizes and business models, to exercise an appropriate level of flexibility.

In 2015-2016, IIROC issued for comment proposed rule amendments on best execution and requirements for disclosure of IIROC membership. We also issued four Guidance Notices in final form related to marketplace thresholds, inside order marking, synchronization of clocks and short-sale and short-marking exempt order designations; and implemented amendments in final form to various rules including those governing research report quiet periods, dark order price improvement obligations when trading against an odd-lot order, short-marking exempt orders, Basis Orders, and unprotected transparent marketplaces and the order protection rule.

### HELPING INVESTORS MAKE INFORMED DECISIONS

IIROC is helping Canadians make informed investment decisions by producing a suite of investor resources.

In 2015-2016, IIROC published three bulletins for investors:

- *Risk and its impact on your investments*, which explains the basic concept of risk and the different types of risk associated with investments;
- *Ensuring your investments are right for you*, which explains the concept of Know Your Client (KYC), what to expect as part of the KYC process when working with an advisor and why collection of information from clients is important; and
- *Are you financially prepared for what's ahead?*, which highlights IIROC resources and tools for seniors.



## OVERSEES

**28,704** Approved Persons  
and **180** Member Firms

## MONITORED

**431,939,574** TRADES ON 5 STOCK EXCHANGES  
AND 8 \* EQUITY ALTERNATIVE  
TRADING SYSTEMS

**1,069,560** bond  
transactions and

**128,085** money market transactions representing retail and  
institutional transactions reported by Government Securities  
Distributors (GSDs) who are IIROC Dealer Members<sup>†</sup>

## RELAYED

**283,982** REPURCHASE ("REPO") TRANSACTIONS TO THE BANK OF CANADA<sup>†</sup>

## INTERVENED

by varying or  
cancelling trades **32** times affecting **1,526**  
transactions

\* Excludes Bloomberg Tradebook Canada and includes TMX Select

† For the five-month period from November 1, 2015 (when Phase 1 of IIROC's  
Debt Transaction Reporting Rule took effect) to March 31, 2016



## COORDINATED

**1,135** TRADING HALTS AND **123** CEASE TRADE ORDERS

## TRIGGERED

**34** Single Stock Circuit Breakers

## CONDUCTED

**260** ON-SITE BUSINESS CONDUCT, FINANCIAL  
AND OPERATIONS AND TRADING CONDUCT  
COMPLIANCE FIRM REVIEWS<sup>‡</sup>

## RESPONDED TO

**2,123** inquiries and complaints related  
to member conduct and

**580** trading-related inquiries and  
complaints from investors

## COMPLETED

**132** ENFORCEMENT  
INVESTIGATIONS AND  
**45** DISCIPLINARY HEARINGS  
INCLUDING SETTLEMENT  
HEARINGS

## ISSUED

**22**<sup>△</sup>  
suspensions and  
**4** permanent bans

<sup>‡</sup> In addition, IIROC staff conducted 16 integrated on-site compliance firm reviews.

<sup>△</sup> 19 suspensions against individuals and 3 suspensions against firms



## ASSESSED

**\$2,399,069** in discipline penalties  
**against individuals** ◇ and

**\$1,547,500** in discipline penalties **against firms** ◇

## COLLECTED \*\*

**\$373,680**  
of discipline penalties **against individuals** ◇, representing **16%** of fines assessed and

**\$1,343,150**  
of discipline penalties **against firms** ◇, representing **87%** of fines assessed

## GENERATED

**453,571** page views on the IROC website | **42,271** reports on advisors based on requests from IROC website users

## PRODUCED

**13**  
NEW EDUCATIONAL WEBCASTS WITH

**8,150**  
TOTAL VIEWS OF ALL EXISTING WEBCASTS

## HOSTED

**6**  
LIVE EVENTS ATTENDED BY

**925**  
INDUSTRY PARTICIPANTS

## KEY FACTS

◇ Includes fines, disgorgements and investigation costs

\*\* Amounts collected in 2015-2016 in respect of fines assessed in 2015-2016



## BOARD OF DIRECTORS

The Recognition Orders set out by the Canadian Securities Administrators (CSA) provide that IIROC's governance structure and arrangements must ensure fair, meaningful and diverse representation on its Board of Directors and any committees of the Board, including a reasonable proportion of independent directors. IIROC also reviews its governance on an ongoing basis to ensure that there is a proper balance between, and effective representation of, the public interest and the marketplaces, dealers and other entities desiring access to the services provided by IIROC.



**ANDREW J. KRIEGLER**  
(JOINED NOVEMBER 2014)  
President and CEO  
IIROC  
TORONTO, ONTARIO



**M. MARIANNE HARRIS, CHAIR**  
(JOINED SEPTEMBER 2010)  
Corporate Director (Independent)  
TORONTO, ONTARIO  
Member of Finance, Audit and Risk Committee



**MIKE GAGNÉ, VICE-CHAIR**  
(JOINED SEPTEMBER 2009)  
Corporate Director (Independent)  
INVERMERE, BRITISH COLUMBIA  
Member of Finance, Audit and Risk Committee

## Industry Directors



**RITA ACHREKAR**  
(JOINED SEPTEMBER 2015)  
Senior Vice-President  
Global Risk Management, Scotiabank  
TORONTO, ONTARIO  
Member of Finance, Audit and Risk Committee



**PAUL D. ALLISON**  
(JOINED OCTOBER 2013)  
Chairman and CEO  
Raymond James Ltd.  
TORONTO, ONTARIO  
Member of Human Resources and Pension 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 Corp.  
VANCOUVER, BRITISH COLUMBIA  
Member of Human Resources and Pension Committee



**HOLLY BENSON**  
(JOINED JANUARY 2015)  
Vice President, Finance and CFO  
Peters & Co. Limited  
CALGARY, ALBERTA  
Member of Finance, Audit and Risk Committee



**NICHOLAS THADANEY**  
(JOINED SEPTEMBER 2015)  
President and CEO  
Global Equity, Capital Markets  
TMX Group  
TORONTO, ONTARIO  
Member of Finance, Audit and Risk Committee



All IIROC Directors are responsible for ensuring that IIROC serves the public interest in protecting investors and market integrity, by articulating and ensuring it meets a clear public interest mandate for its regulatory functions.

Seven of IIROC's 15 Directors are Independent Directors who are not affiliated with an IIROC member. In addition, the Corporate Governance Committee – which is charged with overseeing IIROC's governance – is made up entirely of Independent Directors.

We also pay close attention to ensuring that the Dealer Directors on the IIROC Board represent a wide range of Dealer Members. Of our five Dealer Directors during the year, three were from independent firms, two of which are based in Western Canada. The Marketplace Directors on our Board were drawn from the TMX Group and Chi-X Global, an independent operator of alternative trading systems.

We believe that the IIROC Board is uniquely positioned to act in the public interest to protect investors and market integrity.

## Independent Directors



**JAMES DONEGAN**

(JOINED SEPTEMBER 2012)

Corporate Director

TORONTO, ONTARIO

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

As noted on page 20, M. Marianne Harris (Chair) and Mike Gagné (Vice-Chair) are Independent Directors.

## Resigned

**TAL COHEN**

(JOINED OCTOBER 2009;  
STEPPED DOWN AS  
MARKETPLACE DIRECTOR  
FEBRUARY 2016)

**KEVAN COWAN**

(JOINED APRIL 2013;  
STEPPED DOWN AS  
MARKETPLACE DIRECTOR  
JULY 2015)

Appointment of a  
Marketplace Director was  
pending at June 30, 2016.



## (April 1, 2015 to March 31, 2016)

A total of 30 meetings were held during the fiscal year ended March 31, 2016.  
Below is a breakdown of attendance.

Director	Board of Directors	Special Meetings	Finance, Audit and Risk (FAR)	FAR Special Meetings	Corporate Governance (CGC)	Human Resources and Pension (HR and P)	HR and P Special Meetings	Regulatory Rules Brief	Total Compensation
Rita Achrekar*	4/4	3/3	3/3	1/1				3/3	
Paul Allison	5/6	2/3	2/2					2/3	
Luc Bachand	5/6	1/3				2/2	3/4	3/3	
Jean-Paul Bachelier	6/6	3/3				2/2	4/4	2/3	
Holly Benson	6/6	3/3	3/3	1/1		1/1	2/2	3/3	
Tal Cohen^	4/5	1/2				1/1	2/3	1/2	
Kevan Cowan^	2/2		1/1						
James Donegan**	6/6	3/3	3/3	1/1	6/6		1/1	3/3	\$ 52,301.27
Mike Gagné**	6/6	3/3	5/5	1/1				3/3	\$ 60,180.71
M. Marianne Harris**	6/6	3/3	5/5	1/1	2/2	1/1	4/4	3/3	\$ 66,384.33
Brian Heidecker**	6/6	3/3	5/5	1/1	6/6			3/3	\$ 58,111.50
Edward Iacobucci**	6/6	3/3			6/6			3/3	\$ 45,793.75
Andrew J. Kriegler	6/6	3/3	5/5	1/1	6/6	2/2	4/4	3/3	
Gerry J. O'Mahoney**	6/6	3/3			6/6			3/3	\$ 49,155.00
Catherine Smith**	6/6	3/3			6/6	2/2	4/4	3/3	\$ 59,156.23
Nicholas Thadanev*	3/3	3/3	2/3	1/1				2/2	

\* Director joined Board during the year.

^ Director stepped down during the year.

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



## DIRECTOR COMPENSATION

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

### Board

Annual retainer – \$15,000 per annum

Chair of the Board – an additional \$15,000 if the Chair is an Independent Director

Vice-Chair of the Board – an additional \$4,000 if the Vice-Chair is an Independent Director

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

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

### Committee

Committee Members – \$1,500 per annum

Committee Chairs – \$4,000

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

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

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

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

## BOARD COMMITTEE MANDATES

### Corporate Governance Committee

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

### Finance, 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) on IIROC's operations and financial condition are presented for the fiscal year ended March 31, 2016, compared with the previous year ended March 31, 2015. The MD&A should be read in conjunction with the Financial Statements for the year ended March 31, 2016.

IIROC is a cost-recovery, not-for-profit national organization that recovers its operating costs from several sources. The primary source is through member fees for dealer regulation and market regulation for equity and debt 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, CSE and Aequitas 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, in our judgment, although reasonable at the time of publication, are not guarantees of future performance.

## Key Changes in Senior Management

During the year the Senior Vice-President, Finance and Administration, Keith Persaud, resigned from the organization and was replaced by Shuaib Shariff. The Senior Vice-President, Member Regulation, Paul Riccardi, resigned and Wendy Rudd, previously in the role of Senior Vice-President, Market Regulation, was appointed to the position of Senior Vice-President, Member Regulation and Strategic Initiatives. Victoria Pinnington was appointed to the role of Senior Vice-President, Market Regulation. Carmen Crépin, Vice-President, Québec, retired and was replaced by Claudyne Bienvenu.

## Closure of Internally Restricted Benefits Fund (IRBF)

The Finance, Audit and Risk (FAR) Committee approved the closure of the Internally Restricted Benefits Fund effective April 1, 2015. The IRBF opening fund balance was transferred to the Unrestricted Fund.



## Summary financial information

### Unrestricted Fund

	FY 2016 \$	FY 2015 \$	Variance \$	Variance %
<b>REVENUE</b>				
Dealer Regulation				
Membership fees	48,414	47,543	871	2%
Underwriting levies	9,126	10,965	(1,839)	(17%)
Registration fees	2,650	2,491	159	6%
Entrance fees	85	95	(10)	(11%)
	60,275	61,094	(819)	(1%)
Market Regulation				
Equity regulation	26,122	23,496	2,626	11%
Debt regulation	783	—	783	*
Timely disclosure	2,946	3,066	(120)	(4%)
Marketplace revenue	48	273	(225)	(82%)
	29,899	26,835	3,064	11%
Other revenue				
Interest and investment revenue	378	579	(201)	(35%)
Miscellaneous revenue	103	91	12	13%
	481	670	(189)	(28%)
Total Unrestricted Fund revenue	90,655	88,599	2,056	2%
<b>UNRESTRICTED FUND EXPENSES</b>				
Dealer regulation operating costs	56,872	53,952	2,920	5%
Market equity regulation operating costs	26,994	27,978	(984)	(4%)
Market debt regulation operating costs	673	—	673	*
	84,539	81,930	2,609	3%
<b>EXCESS OF REVENUE OVER EXPENSES</b>	<b>6,116</b>	<b>6,669</b>	<b>(553)</b>	<b>(8%)</b>

\* Variance is greater than +/-100%



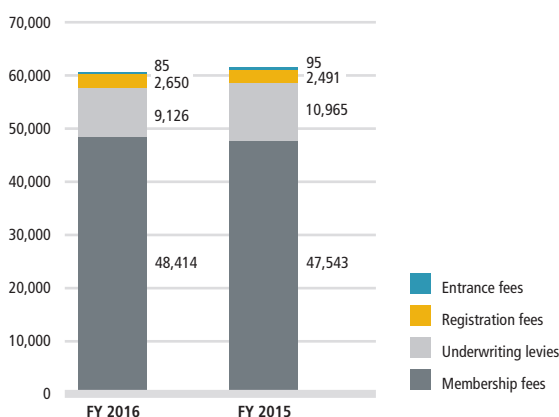
## Revenue

Unrestricted Fund revenues for the period amounted to \$90,655, up \$2,056 (2%) from \$88,599 in FY 2015.

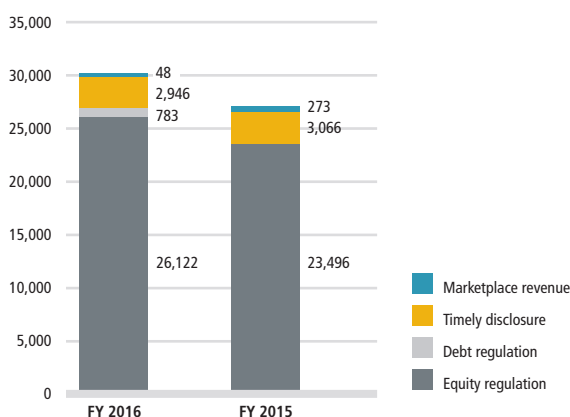
Membership fees for dealer regulation, equity market regulation under Universal Market Integrity Rules (UMIR) and debt market regulation are the primary

sources of revenue. IIROC commenced regulation of debt trading activities in Canada in November, 2015. A new debt market regulation fee model was implemented to recover the regulatory costs for this activity. The dealer membership fees and the equity and debt market regulation fees represent approximately 83% (80% in FY 2015) of the total revenue of IIROC and are collected through their respective fee models.

DEALER REGULATION REVENUE (\$)



MARKET REGULATION REVENUE (\$)

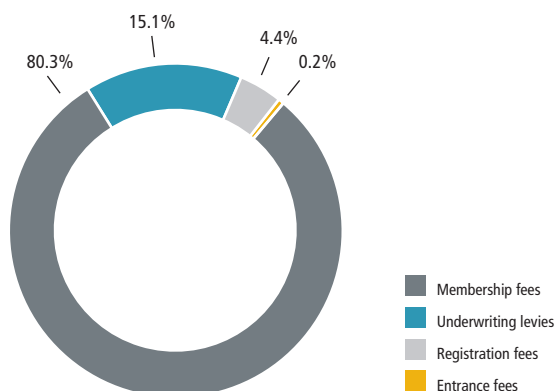


Dealer regulation membership fees increased by \$871 or 2% at \$48,414 compared with \$47,543 in FY 2015.

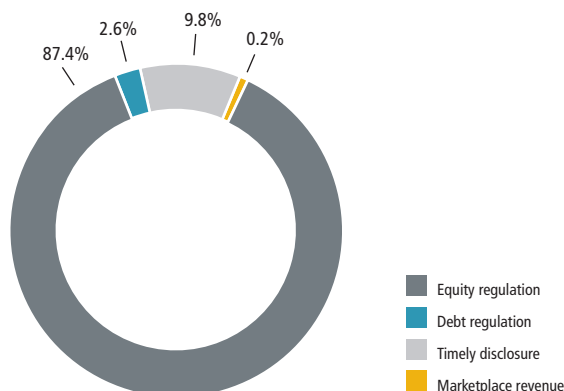
Equity market regulation fees of \$26,122 increased by \$2,626 or 11% compared with \$23,496 in FY 2015. Debt market regulation, which commenced in November 2015, resulted in fees of \$783 for the five months.

Fees are based on approved operating cost budgets, which are then reduced by secondary sources of revenue and may be adjusted if applicable for some or all of any excess or deficit of revenue over expenses from the preceding year. Furthermore, capital and operating expenditures approved for the Restricted Fund are not recovered through membership fees but are instead absorbed by the Restricted Fund operations.

DEALER REGULATION REVENUE FY 2016



MARKET REGULATION REVENUE FY 2016





(IN THOUSANDS OF DOLLARS)

On a year-over-year basis, the combined revenue from secondary sources decreased by \$2,035 (12%) from \$16,890 to \$14,855.

Underwriting levies, a main secondary source of dealer revenue, decreased by \$1,839 (17%) to \$9,126 from \$10,965 in FY 2015 due to the decreased volume of issues in both debt and equity markets, with lower activity in the oil and gas sector contributing to the decline in revenues in FY 2016. Revenue from registration fees – the other major secondary source of revenue – increased by \$159 (6%) to \$2,650 in FY 2016.

The main secondary revenue source for market regulation is timely disclosure fees from the TSX, TSXV, CSE and Aequitas for administering their timely disclosure policies. These totaled \$2,946 in FY 2016, a decrease of \$120 (4%) from FY 2015.

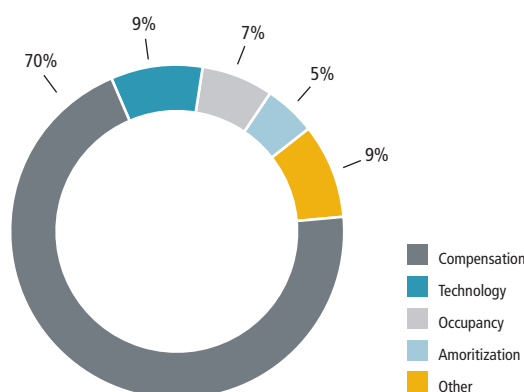
Marketplace revenue decreased by \$225 to \$48 (82%) primarily due to lower set-up and information technology cost recoveries from new entrants in FY 2016.

Other revenue decreased by \$189 to \$481 (28%) as a result of lower interest revenue due to a decrease in interest rates.

## Costs

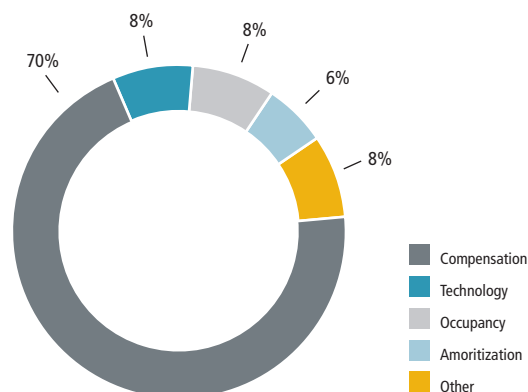
IIROC is a cost-recovery, national not-for-profit organization. IIROC's operating costs consist of five main categories:

TOTAL OPERATING COSTS FY 2016



The categories of compensation, technology, occupancy and amortization made up approximately 91% (92% in FY 2015) of IIROC's operating costs. The proportion of other costs increased to 9% from 8% (FY 2015) mainly due to higher consulting costs in both dealer and market regulation.

TOTAL OPERATING COSTS FY 2015



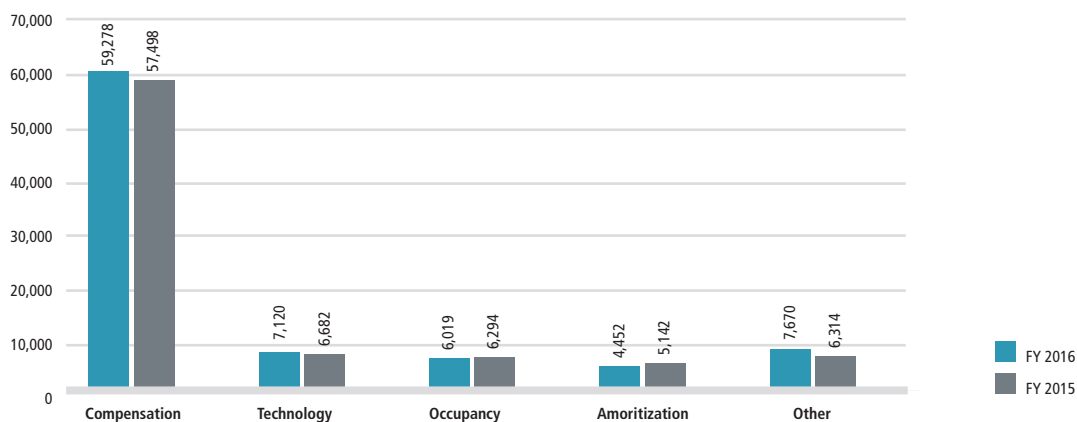
To facilitate proper fee allocation, direct costs are segregated between dealer regulation and market regulation activities and indirect costs are apportioned using a cost allocation model based on direct business unit cost or headcount.

IIROC's total operating costs were \$84,539 in FY 2016, an increase of \$2,609 or 3% from \$81,930 in FY 2015.

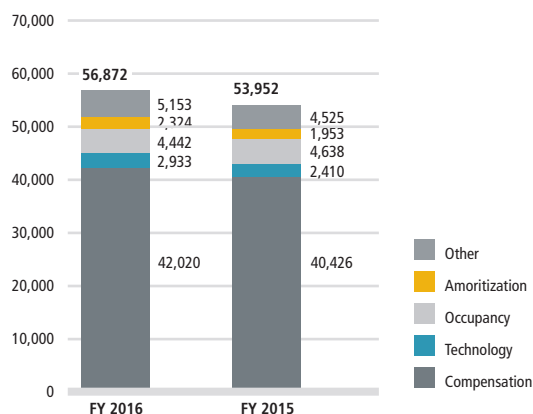


(IN THOUSANDS OF DOLLARS)

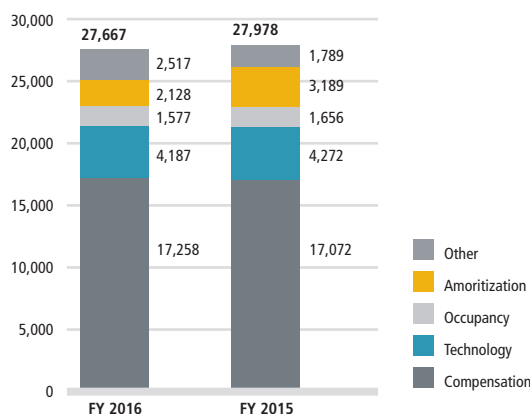
## TOTAL OPERATING COSTS (\$)



## DEALER REGULATION OPERATING COSTS (\$)



## MARKET REGULATION OPERATING COSTS (\$)



Dealer regulation costs increased by \$2,920 (5%) to \$56,872, while market regulation costs were \$27,667, a decrease of \$311 (1%) of which equity market regulation decreased by \$984 offsetting debt market regulation costs which were \$673 for the five months.

The increase in dealer regulation costs is primarily due to: higher compensation costs, specifically increases in salaries to market levels primarily for those below the Director level; technology costs relating to computer hardware and software and network services; consulting relating to IIROC's 2017-2019 Strategic Plan; amortization costs and higher compliance costs. The increase was partially offset

by lower occupancy costs due to one-time realty tax refunds for prior years. The decrease in market regulation costs was due to a reduction in technology costs associated with the Surveillance Technology Enhancement Platform (STEP) (\$377) and savings in amortization relating to STEP (\$1,516). These decreases were partially offset by an increase in consulting costs associated with developing IIROC's 2017-2019 Strategic Plan.



(IN THOUSANDS OF DOLLARS)

## Unrestricted Fund

There was an excess of revenues over expenses in FY 2016 of \$6,116. This compares with an excess of revenues over expenses in FY 2015 of \$6,669, and represents a year-over-year decrease of \$553. The excess was due to lower than planned compensation and benefits, with technology costs and amortization also coming in lower than planned due in part to certain projects beginning later than intended.

On September 1, 2015, non-pension post-retirement benefits were eliminated for members who are not eligible for benefits by September 1, 2020. The excess of revenues over expenses for FY 2016, a re-measurement gain of \$4,354 – resulting from an actuarial gain and the curtailment of post-retirement benefits – and the transfer of the Internally Restricted Benefits Fund of \$2,772 increased the Unrestricted Fund balance to \$45,887, compared with an opening balance of \$32,645.

The FAR Committee approved the transfer of the opening fund balance of the Internally Restricted Benefits Fund to the Unrestricted Fund and the closure of the Internally Restricted Benefits Fund in the current fiscal year.

## Externally Restricted Fund

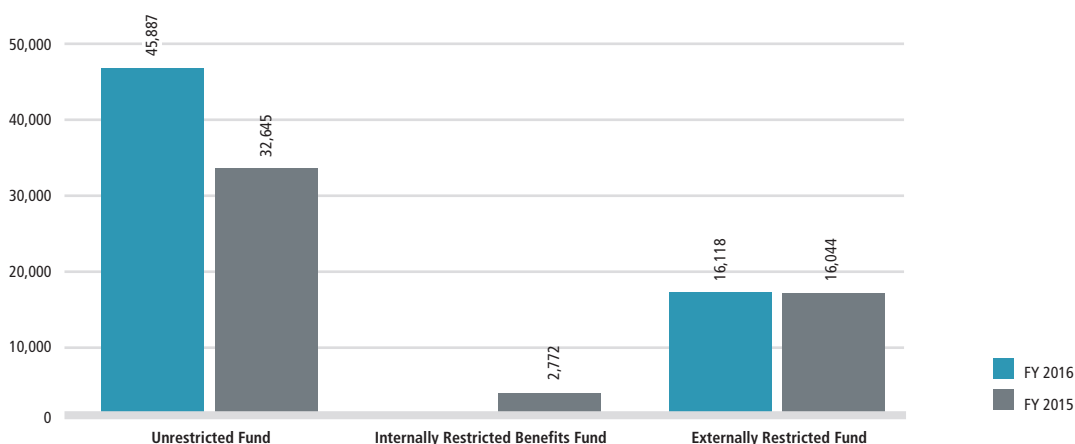
Revenues for the Externally Restricted Fund come from the collection of fines, penalties and disgorgement of profits determined by IIROC hearing panels, and interest earned.

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, must be approved by IIROC's Corporate Governance Committee.

Total revenues for the year amounted to \$2,268, compared with \$1,585 for FY 2015, an increase of \$683 (43%).

Total expenses declined from \$2,343 to \$2,194, a decrease of \$149 (6%). The decrease is primarily due to completion, in FY2015, of IIROC's funding commitments to the Canadian Foundation for the Advancement of Investor Rights (FAIR Canada), which was nil in the year compared to \$200 in the prior year. There were decreases in other projects costs which were partially offset by higher amortization costs due to the operation of the Equity Data Warehouse (EDW) system which complements real-time surveillance and the Debt Data Warehouse (DDW) system. The EDW and DDW systems enable IIROC to analyze historical trade data to better identify trading patterns and trends, and to help inform policy development.

FUND BALANCES AS AT YEAR END (\$)





The resulting excess for the year was \$74, compared to a deficit of \$758 in the previous year.

Capital projects invested through the Fund mainly included \$441 on development of a debt surveillance system. The total for the year was \$446, an increase of \$34 from FY 2015. The debt surveillance platform enables IIROC to better monitor and enforce compliance with investor protection and market integrity rules in a cost-effective way and to simultaneously assist the CSA and the Bank of Canada in carrying out their own mandates without duplicating costs or efforts. In addition, the CSA is working with IIROC to enhance fixed income market oversight and increase post-trade transparency. IIROC is directly leveraging the information we are collecting to serve as the Information Processor for the Canadian corporate debt market, effective July 2016.

The Fund balance increased from \$16,044 to \$16,118 by the end of the year.

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

### Liquidity and Capital Resources

At the end of FY 2016, IIROC held total fund balances of \$62,005, up \$10,544 from the FY 2015 balance of \$51,461, in the Unrestricted Fund and Externally Restricted Fund. The increase in fund balances arose from an excess of revenues over expenses of \$6,116 and a re-measurement gain for the pension plans and post-retirement benefit plan of \$4,354 for FY 2016.

During the year, IIROC invested \$4,204 in assets (\$4,242 in FY 2015). Investments, which were primarily in corporate infrastructure (\$2,464), included: a STEP hardware upgrade of \$434; NetApp hardware, software and license upgrades of \$558; telephone system upgrade of \$337; information

security (\$509) and development of the debt surveillance system (\$441). Investments in furniture and equipment (\$388) and computer hardware and software (\$254) also contributed to the total.

On July 29, 2011, IIROC entered into a two-year extendable term facility with Canadian Imperial Bank of Commerce (CIBC) to finance IIROC's working capital, and head office and Calgary office refurbishment requirements. On July 25, 2015, IIROC extended the term facility for a period of two years. As at March 31, 2016 the loan payable on this facility is \$1,993.

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, 2016. The facility is scheduled to expire on July 29, 2017 and may be extended thereafter.

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 more than the \$23,061 required by the guideline, based on FY 2017 budgeted operating costs.

IIROC holds investments of \$35,127 in highly liquid marketable securities such as government-issued treasury bills, bankers' acceptances, promissory notes with maturities greater than three months and mutual funds.

Planned uses for the excess of revenues over expenses include registered pension plan deficit funding, and Supplemental Plan for Executives (SERP) and Post-Retirement Benefits (PRB) deficit funding.



## Commitments and Contingencies

As at March 31, 2016, IIROC has in place basic minimum aggregate annual rental commitments of \$23,359 (FY2015 – \$22,394), excluding GST/HST and occupancy costs under long-term leases, with varying expiry dates to October 31, 2026.

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 (2015 – \$125,000) guarantee on bank lines of credit of CIPF. At March 31, 2016, 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 \$464,376 on hand as at December 31, 2015 (2014 – \$448,062); ii) lines of credit provided by two Canadian chartered banks totaling \$125,000 as at December 31, 2015 (2014 – \$125,000); and iii) CIPF has arranged insurance in the amount of \$160,000 as at December 31, 2015 (2014 – \$160,000) in the annual aggregate in respect of losses to be paid by CIPF in excess of \$150,000 (2014 – \$150,000) in the event of member insolvency, and a second layer of insurance in the amount of \$90,000 as at December 31, 2015 (2014 – nil) in respect of losses to be paid in excess of \$310,000 in the event of member insolvency.

IIROC also provides pension and retirement benefits to employees as described in Note 8 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 an externally managed investment program. The net employee future benefits liability of all plans is \$27,274.

IIROC was subject to two lawsuits for wrongful dismissal, one of which was dismissed in January 2016. A judgment was issued in the second action on April 28, 2016. The defendant was awarded damages of \$22, plus interest and costs.

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.

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 sought \$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 was dismissed on November 6, 2015. A new motion for authorization was filed on November 16, 2015 on behalf of a new petitioner. The new motion was filed by the same counsel as in the original motion for authorization, and is based mainly on the same alleged facts and grounds as the previous motion, but in addition alleges that the petitioner has been the victim of identity theft. There is currently no scheduled date for the hearing of this new motion. Based upon the advice of counsel, management believes that the action is entirely without merit and will be defending the action vigorously.



The total costs to IIROC of the incident to date, including legal fees for responding to the two motions for authorization are \$5,638 of which \$62 have been incurred in fiscal 2016, (2015 – \$101). It is not possible to estimate the total amount of potential damages or range of possible loss, if any, resulting from the loss of the portable device.

### 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 accounts as at March 31, 2016 was \$60 or 0.10% of FY 2016 fees (FY 2015 – \$4 or 0.006%).
- b) Amortization periods for capital assets – IIROC begins amortization of an asset based on a half-year amortization in the first year. Amortization of office furniture and equipment is generally over five years; computer equipment, software and technology projects hardware are over three to five years. Leasehold improvements are amortized over the term of the respective leases.

- c) Employee future benefits asset/liability – IIROC management, in consultation with actuaries Willis 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 three lines of defence 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.

The Finance, Audit and Risk (FAR) Committee exercises overall governance over ERM as set out in its Charter. A Risk Committee (RC) has also been established which is comprised of IIROC's Executive Management Team (EMT) that governs ERM as set forth in the Risk Committee Charter.

The ERM process entails a top-down/bottom-up self-assessment of IIROC's risks, which is conducted semi-annually within a defined framework. The assessment is performed by the RC and business units, with support from the Head of ERM. The results of the assessments are consolidated, reviewed, and presented in the form of a risk management report to the RC, the FAR Committee and the Board.

The internal audit function is governed by a charter approved by IIROC's Board of Directors. KPMG LLP is IIROC's outsourced internal auditor. The internal auditor reports to the FAR Committee and provides a minimum of four updates per year.

IIROC has worked closely with its internal auditor in developing a risk-based internal audit plan. The internal auditor interviewed members of IIROC's EMT and the FAR Committee Chair to determine the internal audit plan. The internal audit work consisted of three audits in two areas of risk and was geared



(IN THOUSANDS OF DOLLARS)

towards independently verifying the adequacy and operating effectiveness of IIROC's internal controls. No high severity findings were identified.

### LITIGATION RISK

IIROC is currently subject to litigation as disclosed in note 10 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 policy and procedural safeguards, and by defending against any and all claims which in our judgment are without merit. IIROC continually reviews and enhances, as appropriate, its insurance coverage against various risks with a view to having sufficient coverage against potential losses, for existing and emerging risk whenever possible, 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. This also affects investment assets used for employee future benefits. 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 including SERP and PRB.

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 83% of IIROC's revenue comes from dealer membership fees and equity and debt market regulation 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 members to fulfill their obligations could result in financial losses. The risk is mitigated by the distribution of receivables over the entire membership with the most significant amounts exposed to highly rated bank-owned dealers.

IIROC is also exposed to concentration risk in that all of its cash deposits are held with two financial institutions and the balances held exceed Canada Deposit Insurance Corporation (CDIC) limits. However, these two financial institutions are Canadian Schedule 1 chartered banks.

### 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 equivalents, investments and long-term debt.



## 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 its ongoing operations including through accounts payable and long-term debt. This risk is mitigated by maintaining the Unrestricted Fund balance at a level of at least 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 and the first year of the new three-year Strategic Plan. These are listed in the IIROC Administrative Notices 16-0109 and 16-0110 published on May 26, 2016.

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.

IIROC's three-year Strategic Plan includes key deliverables such as: evaluation and selection of a market surveillance platform to monitor cross-asset classes and improve real-time and post-trade productivity; establishing an end-to-end case management system; completing the implementation of the debt trade reporting requirements for the remaining Dealer Members; rebuilding of IIROC's website and installation of a new Enterprise Resource Planning (ERP) solution and Corporate Performance Management (CPM) solution.

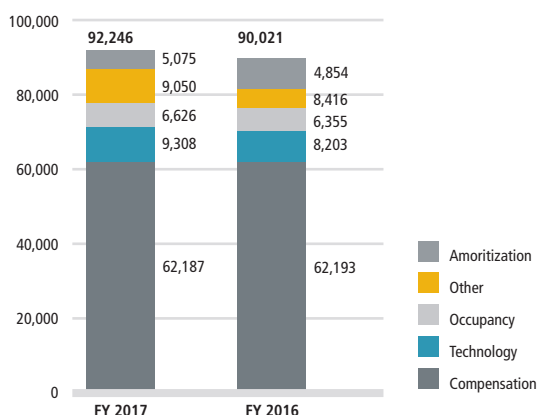
IIROC's dealer regulation priorities will include enhancing Business Conduct Compliance (BCC) examination test procedures in the areas of "Know Your Client" (KYC) and suitability; conducting a dealer self-assessment survey to determine level of dealer and industry cyber-security preparedness and enhancing BCC examination test procedures related to the use of social media.

Total operating expenses for the coming year are budgeted to increase by \$2,225 to \$92,246 compared to last year's budget of \$90,021. The increases in costs are driven by operational activities and strategic initiatives. Organizational strategic initiatives are funded partially through reductions in costs for operations and staff. There are increases in technology costs mainly due to the first full year of debt market surveillance and contingency costs for debt transparency as it relates to T+2 and real-time, consulting due to strategic costs for cyber-security and risk model review, occupancy costs for contractual rate increase in our Toronto premises, communication costs due to translation for the plain language rules project and other policies; and compensation with a slight decrease in costs for legal, seminars and training programs.

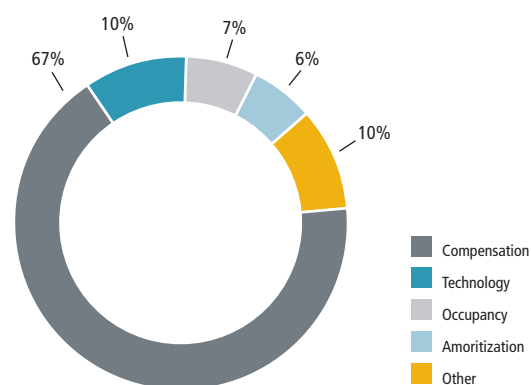


(IN THOUSANDS OF DOLLARS)

## BUDGETED OPERATING COSTS (\$)



## FY 2017 BUDGETED OPERATING COSTS



Our underwriting levy fees are expected to be lower than FY 2016 actuals for both debt and equity issuances due to the weakened performance in the energy sector. Registration fees are lower by \$400 due to British Columbia Securities Commission (BCSC) ceasing to split registration fees with IIROC. IIROC continues to perform its delegated registration responsibilities in British Columbia even though it now receives no fees from BCSC.

As a result of upcoming priorities, including those driven by the Strategic Plan, FY 2017 Dealer Member fees will increase for services the organization provides – by 3.3% for dealer regulation activities, and 1.6% for market equity regulation. Market debt regulation fees will increase by 10.7% when compared to FY 2016 annualized cost of \$1,070 excluding dealer on-boarding cost of \$150.

IIROC's total fees for FY 2017 and the past three years have been consistent at approximately 40 bps of industry revenue<sup>1</sup>. The four-year compound annual growth rate (CAGR) of fees including projections for FY 2017 is 2.2% which is less than the industry

revenue CAGR of 5%<sup>2</sup> over the same period. (Industry information sourced from Investment Industry Association of Canada (IIAC) Securities Industry Statistics Summary). IIROC revenue, which, for this purpose<sup>3</sup>, includes regulatory fees and levies but excludes fines and penalties, and costs are projected to grow at CAGRs of 1.2% and 2.2% respectively both of which compare very favourably to prior year growth rates at other Canadian investment industry regulators.

IIROC management follows a conservative approach to budgeting to lessen the potential of unexpected intra-year fee assessments. IIROC has in the past used the excess of revenues over expenses to maintain fees as low as possible. Management believes it is prudent at this time to retain the excess for funding IIROC's registered pension plan deficit and the SERP and PRB deficits, and for funding capital assets.

<sup>1</sup> IIROC data is based on fiscal year while industry data is from the closest comparable calendar year.

<sup>2</sup> Industry Revenue for FY 2017 is an extrapolation of the first calendar quarter.

<sup>3</sup> Unrestricted Fund revenues only.



Investment Industry Regulatory  
Organization of Canada

# Financial Statements

March 31, 2016

38	Independent Auditor's Report
39	Statement of Financial Position
40	Statement of Changes in Fund Balances
41	Statement of Operations
42	Statement of Cash Flows
43	Notes to the Financial Statements



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, 2016 and the statements of operations, changes in fund balances 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, 2016 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, Canada  
 June 29, 2016

*Grant Thornton LLP*

Chartered Professional Accountants  
 Licensed Public Accountants



## Statement of Financial Position

(in thousands of dollars)

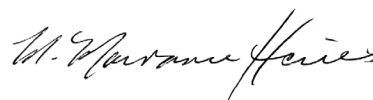
March 31	2016	2015
<b>ASSETS</b>		
Current		
Cash and cash equivalents	\$ 46,865	\$ 52,638
Investments (Note 3)	35,127	20,908
Receivables (Note 4)	7,135	6,455
Prepays	1,283	958
Current portion of loans receivable (Note 5)	11	8
	<b>90,421</b>	<b>80,967</b>
Restricted cash	4,000	4,000
Employee future benefits (Note 8)	563	609
Loans receivable (Note 5)	12	5
Capital assets (Note 6)	14,981	15,949
Deposit	162	139
	<b>\$ 110,139</b>	<b>\$ 101,669</b>
<b>LIABILITIES</b>		
Current		
Payables and accruals	\$ 15,817	\$ 15,595
Government remittances payable	111	212
Current portion of long-term debt (Note 7)	997	997
Deferred revenue	45	—
Lease inducement	322	259
	<b>17,292</b>	<b>17,063</b>
Long-term debt (Note 7)	996	1,993
Lease inducement	2,009	2,091
Employee future benefits (Note 8)	27,837	29,061
	<b>48,134</b>	<b>50,208</b>
<b>FUND BALANCES</b>		
Unrestricted Fund	45,887	32,645
Internally Restricted Benefits Fund	—	2,772
Externally Restricted Fund	16,118	16,044
	<b>62,005</b>	<b>51,461</b>
	<b>\$ 110,139</b>	<b>\$ 101,669</b>

See accompanying notes to the financial statements.  
Commitments and contingencies (Note 10)

On behalf of the Board:



Andrew J. Kriegler, President and CEO



M. Marianne Harris, Chair



## Statement of Changes in Fund Balances

(in thousands of dollars)

Year ended March 31	Unrestricted Fund	Internally Restricted Benefits Fund	Externally Restricted Fund	<b>2016 Total</b>	2015 Total
Fund balances, beginning of year	\$ 32,645	\$ 2,772	\$ 16,044	<b>\$ 51,461</b>	\$ 48,286
Excess of revenue over expenses	6,116	—	74	<b>6,190</b>	5,933
Closure of Internally Restricted Benefits Fund into Unrestricted Fund	2,772	(2,772)	—	<b>—</b>	—
Remeasurements and other items (Note 8)	4,354	—	—	<b>4,354</b>	(2,758)
Fund balances, end of year	\$ 45,887	\$ —	\$ 16,118	<b>\$ 62,005</b>	\$ 51,461

See accompanying notes to the financial statements.



## Statement of Operations

(in thousands of dollars)

Year ended March 31	Unrestricted Fund	Externally Restricted Fund	2016 Total	2015 Total
<b>REVENUE</b>				
<b>Dealer Regulation</b>				
Membership fees	\$ 48,414	\$ —	\$ 48,414	\$ 47,543
Underwriting levies	9,126	—	9,126	10,965
Registration fees	2,650	—	2,650	2,491
Entrance fees	85	—	85	95
	60,275	—	60,275	61,094
<b>Market Regulation</b>				
Equity regulation	26,122	—	26,122	23,496
Debt regulation	783	—	783	—
Timely disclosure	2,946	—	2,946	3,066
Marketplace revenue	48	—	48	273
	29,899	—	29,899	26,835
<b>Other revenue</b>				
Investigative fines and other fines	—	2,178	2,178	1,450
Interest and investment revenue	378	90	468	736
Miscellaneous	103	—	103	91
	481	2,268	2,749	2,277
	90,655	2,268	92,923	90,206
<b>EXPENSES</b>				
Dealer regulation operating costs (Note 9)	56,872	—	56,872	53,952
Market equity regulation operating costs (Note 9)	26,994	—	26,994	27,978
Market debt regulation operating costs (Note 9)	673	—	673	—
Externally restricted fund expenses (Note 9)	—	2,194	2,194	2,343
	84,539	2,194	86,733	84,273
<b>EXCESS OF REVENUE OVER EXPENSES</b>	\$ 6,116	\$ 74	\$ 6,190	\$ 5,933

See accompanying notes to the financial statements.



## Statement of Cash Flows

(in thousands of dollars)

Year ended March 31	2016	2015
Increase (decrease) in cash and cash equivalents		
<b>Operating activities</b>		
Excess of revenue over expenses	\$ 6,190	\$ 5,933
Depreciation and amortization	5,172	5,769
Rent amortization	(19)	(251)
Employee future benefits expense	5,646	5,607
	<b>16,989</b>	<b>17,058</b>
Change in non-cash operating working capital		
Receivables	(680)	(52)
Prepays	(325)	51
Deposit	(23)	—
Payables and accruals	121	179
Deferred revenue	45	(20)
	<b>16,127</b>	<b>17,216</b>
<b>Investing activities</b>		
Purchase of investments	(14,219)	(20,908)
Purchase of capital assets	(4,204)	(4,242)
Employee future benefits contributions	(2,470)	(6,045)
(Advance) repayment of loans receivable, net	(10)	8
	<b>(20,903)</b>	<b>(31,187)</b>
<b>Financing activities</b>		
Repayment on long-term debt	(997)	(997)
	<b>(997)</b>	<b>(997)</b>
Decrease in cash and cash equivalents	<b>(5,773)</b>	<b>(14,968)</b>
Cash and cash equivalents, beginning of the year	<b>52,638</b>	<b>67,606</b>
Cash and cash equivalents, end of the year	<b>\$ 46,865</b>	<b>\$ 52,638</b>
<b>Cash and cash equivalents consist of:</b>		
Cash on hand and balances with bank	\$ 10,707	\$ 12,213
Cash equivalents	<b>36,158</b>	<b>40,425</b>
Cash and cash equivalents, end of year	<b>\$ 46,865</b>	<b>\$ 52,638</b>

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.

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), IIROC Non-Pension Post-Retirement Benefits Plan (IIROC PRB) and Regulation Services (RS) Non-registered Supplemental Income Plan (SIP) (former RS SIP) was reported in the Internally Restricted Benefits Fund. Effective April 1, 2015, the Board of Directors approved the transfer of the opening balance in the Internally Restricted Benefits Fund to the Unrestricted Fund, and the resulting closure of 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.



## 2. Summary of significant accounting policies (continued)

### REVENUE RECOGNITION

Unrestricted revenues are recognized as revenue as follows:

#### *Dealer regulation*

Annual membership fees are assessed upon Dealer Members 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 when earned.

#### *Market regulation – equity*

Under the marketplace regulation services agreements, equity regulation fees governed by the Market Regulation Fee Model are based upon a fixed revenue amount for the fiscal year, allocated to Dealer Members and Marketplace Members. Revenue is charged on a cost recovery basis based on budgeted costs associated with equity market regulation. 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.

#### *Market regulation – debt*

Effective November 1, 2015, the Organization began to charge debt regulation fees. Debt regulation revenues are based on a fixed revenue amount for the fiscal year, allocated to Dealer Members who trade debt securities. Revenue is collected on a cost recovery basis based on the budgeted costs associated with the ongoing operation and maintenance of the debt surveillance system. The

monthly costs are allocated to each Dealer Member based on the prorated share of the number of primary, secondary and repurchase agreement (repos) transactions, with a monthly fee reduction for repos on costs recovered from the Bank of Canada.

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. However, late filing fees and initiation fees from new member firms are recognized as revenue in the Externally Restricted Fund when received. 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.

Interest income in each fund is recorded using the effective interest rate method 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 remaining maturities of three months or less. Income is recorded, using the effective interest rate method, based on interest received, if any, on the short-term investments.

### INVESTMENTS

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

Other investments also consist of equity instruments of a private entity (see Note 3).



Government-issued promissory notes and treasury bills are recorded at amortized cost, representing the original cost of the financial asset plus transaction costs, plus accrued interest, less any impairment if applicable, which constitutes the carrying value. Income is recorded, using the effective interest rate method, based on interest received, if any, on the investment. Gains or losses are recorded on the investments when sold, and are calculated on the difference between proceeds less transactions costs and the carrying value.

Mutual funds are recorded at fair value. Transaction costs are expensed. Changes in fair value are recognized in the Statement of Operations. Realized and unrealized gains and losses, interest and dividend income are reported in the Statement of Operations.

## 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, the carrying amount incorporates 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 immediately when issued or acquired.

### *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 investments quoted in an active market, which are measured at fair value. The Organization uses the effective interest rate method to amortize any premiums, discounts, transaction fees and financing fees in the Statement of Operations. The financial instruments measured at amortized cost are cash and cash equivalents, investments (with

the exception of investments quoted in an active market), receivables, loans receivable, restricted cash, payables, government remittances payable and long-term debt.

The Organization's investments (see Note 3) include common shares 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 immediately 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 ⅓% per annum except for certain technology projects, which are amortized at 20% per annum 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, at 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 immediately recognized as an expense in the Statement of Operations. The Organization undertakes an annual review for the potential impairment of capital asset values. Previously recognized write-downs are not reversed.



## 2. Summary of significant accounting policies (continued)

### 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 Statement of Financial Position 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 Statement of Financial Position 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 Fund Balances. 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.



**ALLOCATION OF EXPENSES**

IIROC engages in dealer regulation, equity market regulation, and debt market regulation. The costs of each function primarily include 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 \$2,850 (2015 – \$2,520) to dealer regulation and \$1,689 (2015 – \$996) to equity market regulation and \$63 (2015 – \$Nil) to debt 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. 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.

Investments consist of the following:

	2016	2015
Marketable securities and treasury bills	\$ 29,658	\$ 20,908
Mutual funds	5,469	–
	<b>\$ 35,127</b>	<b>\$ 20,908</b>

**4. Receivables**

	2016	2015
Trade	\$ 7,195	\$ 6,459
Allowance for doubtful accounts	(60)	(4)
	<b>\$ 7,135</b>	<b>\$ 6,455</b>

The gross carrying amount of the impaired trade receivables was \$60 (2015 – \$4). The amount of impaired loss recorded in the Statement of Operations related to the trade receivables is \$60 (2015 – \$Nil).

**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 employees at the time of making the loans. The loans are unsecured, non-interest bearing and are due on or before December 13, 2019.



## 6. Capital assets

	Cost	Accumulated Amortization	2016 Net Book Value	2015 Net Book Value
<b>Unrestricted Fund:</b>				
<u>Tangible</u>				
Office furniture and equipment	\$ 7,123	\$ 5,055	\$ 2,068	\$ 2,598
Leasehold improvements	8,163	3,644	4,519	5,228
Computer equipment and software	3,386	3,062	324	231
Technology projects hardware	6,352	4,240	2,112	1,404
<u>Intangible</u>				
Technology projects software	14,611	11,098	3,513	3,769
	39,635	27,099	12,536	13,230
<b>Externally Restricted Fund:</b>				
<u>Tangible</u>				
Technology projects hardware	895	546	349	626
Leasehold Improvements	673	235	438	493
<u>Intangible</u>				
Technology projects software	3,096	1,438	1,658	1,600
	4,664	2,219	2,445	2,719
	\$ 44,299	\$ 29,318	\$ 14,981	\$ 15,949

## 7. Long-term debt

	2016	2015
Loan payable – interest at banker's acceptance rate plus 0.85% (1.85% at March 31, 2016), due March 2018, repayable in monthly instalments of \$83 excluding interest		
	\$ 1,993	\$ 2,990
Less: current portion	997	997
	\$ 996	\$ 1,993

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 2017, 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, 2016. The Facility is scheduled to expire on July 29, 2017 and may be extended thereafter.

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, 2016.

Scheduled principal repayments on the non-revolving term construction facility for the next two years are as follows:

2017	\$	997
2018		996
	\$	1,993

## 8. 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 contributions 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 and 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

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 interim actuarial valuation of the IIROC PRB plan was also conducted at April 1, 2016. The next actuarial valuations for all defined benefit arrangements and for the IIROC PRB are scheduled for April 1, 2017 and April 1, 2019 respectively.

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

Effective September 1, 2015, IIROC eliminated non-pension post-retirement benefits for new hires and members who are not eligible for benefits by September 1, 2020.



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

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

	March 31, 2016			March 31, 2015		
	Pension Plans <sup>(1)</sup>	Pension Plans <sup>(2)</sup>	Other Benefits Plan <sup>(3)</sup>	Pension Plans <sup>(1)</sup>	Pension Plans <sup>(2)</sup>	Other Benefits Plan <sup>(3)</sup>
Accrued benefit obligation	\$ (7,676)	\$ (78,383)	\$ (5,921)	\$ (7,807)	\$ (76,242)	\$ (8,775)
Fair value of plan assets	9,183	56,467	–	9,421	55,956	–
Fund status –						
plans surplus / (deficit)	1,507	(21,916)	(5,921)	1,614	(20,286)	(8,775)
Valuation allowance (VA)	(944)	–	–	(1,005)	–	–
Accrued benefit asset (liability) (net of VA)	\$ 563	\$ (21,916)	\$ (5,921)	\$ 609	\$ (20,286)	\$ (8,775)

(1) Plans with accrued benefit asset (Former RS RPP)

(2) Plans with accrued benefit obligation (Former RS SIP, DB provisions of IIROC RPP, IIROC SERP)

(3) Non-pension Post-Retirement Benefits plan (IIROC PRB)

The employee future benefit expense is as follows:

	Year Ended					
	March 31, 2016			March 31, 2015		
	Pension Plans <sup>(1)</sup>	Pension Plans <sup>(2)</sup>	Other Benefits Plan <sup>(3)</sup>	Pension Plans <sup>(1)</sup>	Pension Plans <sup>(2)</sup>	Other Benefits Plan <sup>(3)</sup>
Employee service cost	\$ –	\$ 4,167	\$ 333	\$ –	\$ 3,831	\$ 472
Interest cost on accrued benefit obligation	292	3,004	294	302	3,026	362
Interest income on market value of assets	(352)	(2,130)	–	(371)	(2,056)	–
Interest on valuation allowance	38	–	–	41	–	–
Employee future benefit expense	\$ (22)	\$ 5,041	\$ 627	\$ (28)	\$ 4,801	\$ 834

(1) Plans with accrued benefit asset (Former RS RPP)

(2) Plans with accrued benefit obligation (Former RS SIP, DB provisions of IIROC RPP, IIROC SERP)

(3) Non-pension Post-Retirement Benefits plan (IIROC PRB)



The remeasurements and other items charged on the Statement of Changes in Fund Balances is a gain of \$4,354 (2015 – loss of \$2,758) as follows:

	March 31, 2016			March 31, 2015		
	Pension Plans <sup>(1)</sup>	Pension Plans <sup>(2)</sup>	Other Benefits Plan <sup>(3)</sup>	Pension Plans <sup>(1)</sup>	Pension Plans <sup>(2)</sup>	Other Benefits Plan <sup>(3)</sup>
Actuarial losses (gains)	\$ 167	\$ (1,021)	\$ (1,314)	\$ (15)	\$ 2,338	\$ 388
Prior service cost (credit)	–	–	(2,087)	–	–	–
Change in valuation allowance	(99)	–	–	47	–	–
Remeasurements and other items	\$ 68	\$ (1,021)	\$ (3,401)	\$ 32	\$ 2,338	\$ 388

(1) Plans with accrued benefit asset (Former RS RPP)

(2) Plans with accrued benefit obligation (Former RS SIP, DB provisions of IIROC RPP, IIROC SERP)

(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, 2016 (2015 – \$Nil). Current period expense for the IIROC SIP Defined Contribution Plan was \$Nil (2015 – \$Nil) and for the defined contribution provisions of the IIROC RPP was \$1,332 (2015 – \$1,157).

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

	2016	2015
Discount rate	3.50%	3.25%
	to 4.00%	to 3.75%
Rate of compensation increase	3.50%	3.50%

For measurement purposes, inflation of medical expenses was assumed to be 6.5% in 2016 declining to 5% in annual increments of 0.5%. Inflation of dental costs was assumed to remain constant at 4.5%.

The following is a summary of contributions and benefits paid:

	Year Ended March 31, 2016			March 31, 2015		
	Pension Plans <sup>(1)</sup>	Pension Plans <sup>(2)</sup>	Other Benefits Plan <sup>(3)</sup>	Pension Plans <sup>(1)</sup>	Pension Plans <sup>(2)</sup>	Other Benefits Plan <sup>(3)</sup>
Employer contributions	\$ –	\$ 2,390	\$ 80	\$ –	\$ 5,960	\$ 85
Employee contributions	–	1,231	–	–	1,341	–
Benefits paid	(60)	(2,176)	(80)	(60)	(1,630)	(85)

(1) Plans with accrued benefit asset (Former RS RPP)

(2) Plans with accrued benefit obligation (Former RS SIP, DB provisions of IIROC RPP, IIROC SERP)

(3) Non-pension Post-Retirement Benefits plan (IIROC PRB)



## 9. Expenses

	Year Ended	
	March 31, 2016	March 31, 2015
<b>Unrestricted Fund expenses</b>		
Dealer regulation operating costs		
Compensation	\$ 42,020	\$ 40,426
Technology	2,933	2,410
Occupancy	4,442	4,638
Amortization	2,324	1,953
Other	5,153	4,525
	<b>\$ 56,872</b>	<b>\$ 53,952</b>
Market equity regulation operating costs		
Compensation	\$ 16,895	\$ 17,072
Technology	4,032	4,272
Occupancy	1,542	1,656
Amortization	2,101	3,189
Other	2,424	1,789
	<b>\$ 26,994</b>	<b>\$ 27,978</b>
Market debt regulation operating costs		
Compensation	\$ 363	\$ –
Technology	155	–
Occupancy	35	–
Amortization	27	–
Other	93	–
	<b>\$ 673</b>	<b>\$ –</b>
<b>Total Unrestricted Fund expenses</b>	<b>\$ 84,539</b>	<b>\$ 81,930</b>
<b>Externally Restricted Fund expenses</b>		
Hearing panel costs	\$ 1,030	\$ 1,141
Bad debts	50	–
Foundation for the Advancement of Investor Rights (FAIR Canada)	–	200
Member education	252	147
Rule book project	–	6
High frequency trading initiative	27	52
Cyber security initiative	115	63
Self Regulatory Organizations Consultative Committee (SROCC) and International Forum for Investor Education (IFIE) Conferences sponsorships	–	107
Amortization	720	627
	<b>\$ 2,194</b>	<b>\$ 2,343</b>



## 10. Commitments and contingencies

As at March 31, 2016, the basic minimum aggregate annual rental payments, excluding GST/HST and occupancy costs under long term leases, with varying expiry dates to October 31, 2026, 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.

2017	\$	2,434
2018		3,091
2019		2,787
2020		2,801
2021		2,955
Thereafter		9,291
	\$	23,359

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 (2015 – \$125,000) guarantee on bank lines of credit of CIPF. At March 31, 2016, 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 \$464,376 on hand as at December 31, 2015 (2014 – \$448,062); ii) lines of credit provided by two Canadian chartered banks totaling \$125,000 as at December 31, 2015 (2014 – \$125,000); and iii) CIPF has arranged insurance in the amount of \$160,000 as at December 31, 2015 (2014 – \$160,000) in the annual aggregate in respect of losses to be paid by CIPF in excess of \$150,000 (2014 – \$150,000) in the event of member insolvency, and a second layer of insurance in the amount of \$90,000 as at December 31, 2015 (2014 – nil) in respect of losses to be paid in excess of \$310,000 in the event of member insolvency.

The Organization was subject to two lawsuits for wrongful dismissal, one of which was dismissed in January 2016. A judgment was issued in the second action on April 28, 2016. The defendant was awarded damages of \$22, plus interest and costs.

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. 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 sought \$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 was dismissed on November 6, 2015. A new motion for authorization was filed on November 16, 2015 on behalf of a new petitioner. The new motion was filed by the same counsel as in the original motion for authorization, and is based mainly on the same alleged facts and grounds as the previous motion, but in addition alleges that the petitioner has been the victim of identity theft. There is currently no scheduled date for the hearing of this new motion. Based upon the advice of counsel, management believes that the action is entirely without merit and will be defending the action vigorously.

The total costs to IIROC of the incident to date, including legal fees for responding to the two motions for authorization are \$5,638 of which \$62



## 10. Commitments and contingencies

(continued)

have been incurred in fiscal 2016, (2015 – \$101). It is not possible to estimate the total amount of potential damages or range of possible loss, if any, resulting from the loss of the portable device.

## 11. 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.

### 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. The Organization meets its liquidity requirements by preparing and monitoring forecasts of cash flows from operations, anticipating investing and financing activities and holding assets that can be readily converted into cash, and having facilities available should it be required to meet temporary fluctuations in cash requirements. At March 31, 2016 and 2015, no amounts have been drawn under the revolving credit facility.

### MARKET RISK

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of currency risk, interest rate risk and other price risk.

### CURRENCY RISK

Currency risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate relative to the Canadian dollar due to changes in foreign exchange rates. The functional currency of IIROC is the Canadian dollar. IIROC invests a portion of its investment portfolio in mutual funds which invests in foreign equities. IIROC mitigates its currency risk exposure by monitoring the extent of foreign currency exposure.

### INTEREST RATE RISK

Interest rate risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate due to changes in market interest rates. The Organization is exposed to interest rate risk with respect to cash and cash equivalents, interest bearing investments, and long-term debt. Fluctuations in market rates of interest on cash and cash equivalents, short-term investments and guaranteed investment certificates do not have a significant impact on IIROC's results of operations. The objective of IIROC with respect to its fixed income investments and guaranteed investment certificates is to ensure the security of principal amounts invested, provide for a high degree of liquidity, and achieve a satisfactory investment return.

### OTHER PRICE RISK

Other price risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate because of changes in market prices (other than those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all similar instruments traded in the market. IIROC is exposed to other price risk because of its investment in mutual funds. Risk and volatility of investment returns are mitigated through diversification of investments.



Visit us at

[www.iroc.ca](http://www.iroc.ca)



#### CALGARY

Bow Valley Square 3  
255-5th Avenue S.W.  
Suite 800  
Calgary, Alberta  
T2P 3G6

#### MONTREAL

5 Place Ville Marie  
Suite 1550  
Montréal, Québec  
H3B 2G2

#### TORONTO (HEAD OFFICE)

121 King Street West  
Suite 2000  
Toronto, Ontario  
M5H 3T9

#### VANCOUVER

Royal Centre  
1055 West Georgia Street  
Suite 2800  
P.O. Box 11164  
Vancouver, British Columbia  
V6E 3R5

1-877-442-4322

[www.iiroc.ca](http://www.iiroc.ca)