ANNUAL REPORT 2016-2017

Public Interest Regulator

Protecting Investors and Supporting

Healthy Capital Markets Across Canada

IIROC OCRCVM

Investment Industry Regulatory Organization of Canada

Organisme canadien de réglementation du commerce des valeurs mobilières

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: **129**
- Dealer Member firms participating in District Councils: **104***
- Meetings: **74**
- Decisions: **308****

* 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 and Operations Advisory Section

Conduct, Compliance and Legal Advisory Section

Proficiency Committee

Fixed Income Committee

Market Rules Advisory Committee

- Committee members: **198**
- Dealer Member firms and Marketplaces represented: **121***

* Firms and marketplaces may participate in multiple committees.

Table of Contents

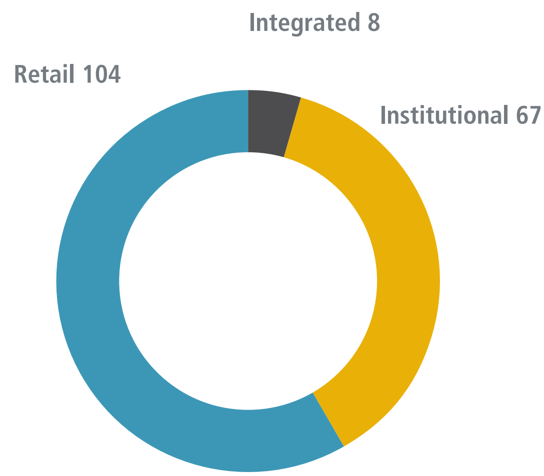
INDUSTRY PROFILE :

DEALERS

(All statistics are as at March 31, 2017)

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	2,994	938	15
BC	4,500	1,237	12
MB	593	162	1
NB	311	88	1
NF	123	37	0
NS	517	148	0
NT	0	2	0
NU	0	0	0
ON	13,959	3,157	113
PE	64	23	0
QC	4,851	722	30
SK	571	202	0
YT	5	5	0
U.S.	305	0	7
Other*	38	0	
Total:	**28,831**	**6,721**	**179**

* International locations.

MEMBER FIRMS

(by Revenue)

Revenue	% of Firms
Greater than $1 billion	4
Greater than $100 million	10
Greater than $10 million	39
Greater than $5 million	12
Less than $5 million	35

Note: Based on 173 Dealer Members that reported revenue during the period from April 1, 2016 to March 31, 2017.

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	20	11
11 to 100	84	47
10 or fewer	62	35

Note: As of March 31, 2017, there were 179 Dealer Members, of which 171 were in good standing, 2 were in the resignation process and 6 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 Inc. (AQN)*), and on eight Equity Alternative Trading Systems (ATSs) that trade equities (Nasdaq CXC (CXC), Nasdaq CX2 (CX2), Nasdaq CXD (CXD), Omega ATS (Omega), Lynx ATS (Lynx), TriAct Canada Marketplace (MATCH Now), Liquidnet Canada Inc. (Liquidnet) and Instinet Canada Cross Limited (ICX)).

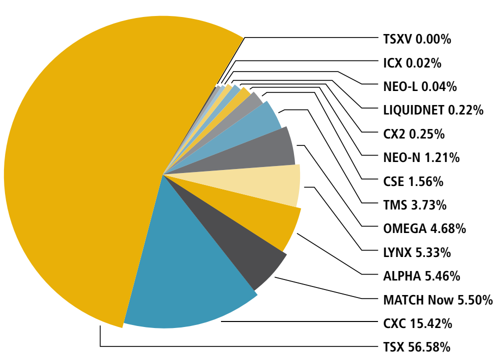
See debt statistics under Key Facts.

* Aequitas Neo Exchange operates two distinct books – Aequitas Neo Book (NEO-N) and Aequitas Lit Book (NEO-L)

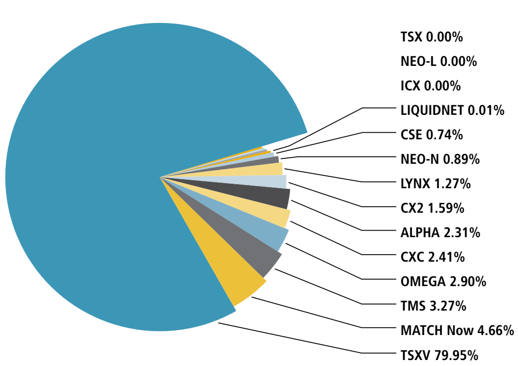
Canada's Multiple Equity Marketplaces

Where Trading Took Place in 2016-2017 by Share Volume

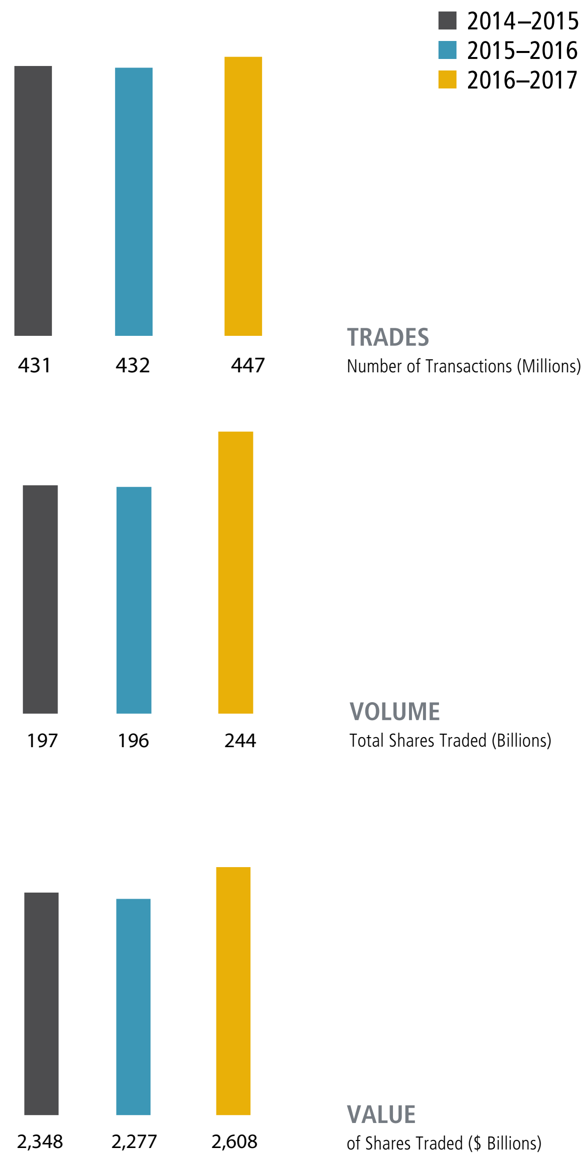
TSX-LISTED PERCENTAGE



TSXV-LISTED PERCENTAGE



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



Aequitas Neo Exchange (AQN): 100% of AQN-listed securities traded on an Aequitas NEO marketplace.
Canadian Securities Exchange (CSE): 97.50% of CSE-listed securities traded on the CSE. The remaining 2.49% of trading took place on Omega, Lynx and MATCH Now.

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 debt and 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.

MESSAGE FROM THE CHAIR

ADVANCING IIROC'S STRATEGIC PLAN PRIORITIES

Over the past year, IIROC made significant progress in the implementation of its ambitious three-year Strategic Plan. We remain committed to realizing IIROC's mission, to protect investors and support healthy capital markets across Canada.

The Board recognizes the necessity of keeping pace with, and in some cases, getting ahead of the changing regulatory and investor/investment landscape in Canada and abroad. We are also supportive of the direction of the Strategic Plan, the annual priorities Management has set out, and we greatly appreciate the advances made to date in the first year of the Plan. The legislative amendments that were passed in two provinces within the past year, along with the authorization order from Prince Edward Island, significantly strengthen IIROC's enforcement authority. They send an important message to potential wrongdoers that if you harm investors, you will be held accountable for your actions.

Although IIROC's primary role is as a regulator, the information IIROC collects also offers significant value to the financial system across Canada, other regulators, the investor community and the industry as a whole. For example, the selection of IIROC by the Canadian Securities Administrators to be the Information Processor for debt security trading in Canada makes more information available to all Canadian market participants, increases transparency and promotes investor confidence.

Investor confidence also requires stakeholder participation in our policy-making process. We welcome stakeholder input, which the Board hears firsthand during our regional receptions, as this feedback contributes to our ability to effectively protect investors, enhances confidence in our regulatory system and builds support for robust capital markets – which fuel the Canadian economy. We are pleased a broad group of stakeholders and regulatory partners participate in these informal forums.

Reflecting our unique pan-Canadian role, IIROC's directors come from different regions of the country and represent a variety of business models and stakeholders, bringing to our Board diverse and valuable perspectives, one of IIROC's strengths.

Last year, two Board members joined us as industry directors, bringing a wealth of experience and insights from the dealer and marketplace communities. Luc Paiement is the Executive Advisor to the President and Chief Executive Officer of the National Bank of Canada and former Co-President and Co-CEO of National Bank Financial Inc. in Montréal. Thomas Wittman is Executive Vice-President of Nasdaq and Head of Global Trading and Market Services. They have provided valuable input in the short time they have served and I look forward to their continuing contributions.

I also want to acknowledge the contributions of those who have left our Board. Luc Bachand served as an industry director from 2012 to 2016 and was an active contributor expressing his unique perspective and inquisitive nature. I would also like to acknowledge and thank Vice-Chair Mike Gagné, who recently completed his term. Mike has been an incredible resource to me in my role as Chair and to the many directors he served with over the years. I would like to note his invaluable counsel since becoming a director in 2009. We are grateful for his many years of service and thoughtful approach to every role he held as a director, particularly as Chair of the Finance, Audit and Risk Committee.

It is my privilege to work with such a hard-working and dedicated Board and I would like to thank all of our directors for their contributions to IIROC over the past year.

On behalf of the Board, I would also like to extend my sincere thanks to IIROC's management team for their leadership and vision — and to all IIROC employees for their efforts in moving IIROC forward with the priorities outlined in the Strategic Plan and for their consistent daily work in the public interest. It is a pleasure to work with such an informed and engaged group, all of whom share a commitment to fulfilling IIROC's public interest mandate to protect investors and promote healthy capital markets across Canada.

M. Marianne Harris
Chair of the Board

REPORT FROM THE PRESIDENT AND CEO

BUILDING A BETTER AND STRONGER IIROC

This was a very successful year for IIROC. We made significant progress on the priorities we had set out for the first year of our three-year Strategic Plan and successfully completed a number of initiatives that will help make us a stronger and more effective regulator.

A full accounting of our progress is laid out in the report that follows, but I think it is important to highlight a few of the past year's most significant accomplishments.

ADVANCING THE LEGISLATIVE AGENDA TO ENHANCE INVESTOR PROTECTION

It is essential that IIROC has the right tools to investigate, prosecute and enforce the penalties levied by our disciplinary panels against those who have violated the trust of their clients.

I want to acknowledge and to thank the governments of Alberta, Ontario and Prince Edward Island for their leadership in taking action to enable us to better protect investors. As a result of their efforts, IIROC now has the ability to collect fines through the courts in Ontario and PEI, joining Alberta and Quebec in sending a strong deterrent message to potential wrongdoers that they will not be able to walk away from paying the price when they breach our rules.

The Government of Alberta was also the first in Canada to amend its securities act providing us with more effective legal authority to collect evidence during investigations and disciplinary hearings. As well, IIROC and our disciplinary tribunals now have statutory protection against legal action in that jurisdiction while undertaking our regulatory responsibilities in good faith.

These successes have generated considerable momentum and we plan to build on it by continuing our efforts with our Canadian Securities Administrators (CSA) and government colleagues across the country.

Our goal is to have the tools to provide a consistent level of investor protection across Canada and while much work remains to be done, I'm extremely pleased at what has been accomplished so far.

It is important to acknowledge that IIROC would not have been able to achieve as much as we have without broad support from both the investment industry and from investor and consumer organizations.

CLOSING GAPS IN THE BROADER FINANCIAL SERVICES REGULATORY SYSTEM

I am also pleased to report that during the past fiscal year we signed agreements with insurance regulators in Alberta and British Columbia aimed at better protecting investors by closing gaps in Canada's financial services regulatory system. And then in June, we concluded another agreement with the Life Insurance Council of Saskatchewan. The regulators in these provinces join those in Ontario and Quebec, with whom we signed memoranda of understanding in 2015-16. We also negotiated a Memorandum of Understanding with the Canada Deposit Insurance Corporation (CDIC) in November 2016 that will allow them to better protect

depositors and investors through enhanced cooperation when a CDIC member institution or a connected IIROC-regulated firm encounters serious financial difficulties.

These agreements allow us to share information on investigations and discipline and enable joint inquiries when the same individual is under investigation by both regulators. Doing so prevents wrongdoers from moving to a new jurisdiction or switching designations and hiding their prior offences from new clients or other regulators.

A VALUE-ADDED PARTNER TO ALL STAKEHOLDERS

As the CSA's appointed Information Processor for corporate debt securities, IIROC launched a new website in July 2016 providing greater transparency in corporate debt trading information for the benefit of all market participants. This site publishes a subset of the information IIROC collects for regulatory purposes, without duplication of effort or cost. In July 2017, we expanded this transparency by extending the site's reporting to include all corporate bond trades by all IIROC-regulated firms.

IIROC has also been able to provide value to the system in the area of cybersecurity. The global "WannaCry" ransomware attack in May targeted companies in at least 150 countries by encrypting data and demanding ransom payments. This served as a stark reminder of the vital importance of cybersecurity preparedness.

However, recognizing that not all firms have the resources or in-house expertise to keep up with quickly evolving cyber risks, we built upon the best practices guide and cyber incident management planning guide we previously provided to IIROC-regulated firms. This past year, we worked with firms to conduct self-assessments to determine their level of cybersecurity preparedness. All firms received a report showing their risk ranking by peer group, identifying gaps and recommending actions to improve their preparedness. We engaged cybersecurity expertise to work with firms that scored moderate or high risk to help them manage the specific risks identified and protect their clients' data and their businesses.

Finally, we also created and issued complaints statistics reports to firms for the first time. These reports provided firms information that ranked them against their peers to help them improve compliance and enhance customer service. We will continue to produce these annually so firms can strengthen their internal processes and address investor issues before they become formal complaints.

TAKING STRONG, PRINCIPLED POLICY POSITIONS

Nationwide, discussion continues on the potential establishment of a best interest standard and other targeted reforms to better align the interests of investment advisors with those of their clients. IIROC is committed to working with all CSA members to provide consistently high standards across all jurisdictions and regulatory platforms.

In our view, the core of the best interest debate relates to conflicts of interest and to compensation-related conflicts in particular. In other words, how firms and their advisors act when their interests conflict or are perceived to conflict with those of their clients.

This year IIROC completed a comprehensive review of a cross-section of firms to assess how well they are meeting the best interest requirements of our conflicts rules vis-à-vis compensation. We published the results to share best practices and identify areas in need of improvement, provide guidance in clarifying our existing rules and change our compliance examinations to focus more attention on this important issue.

STRENGTHENING OUR CORE REGULATORY RESPONSIBILITIES

While I am pleased with our progress on our Strategic Plan, I would be remiss if I didn't emphasize the importance of the regulatory work that IIROC's employees execute every day to protect investors and support healthy Canadian capital markets.

For example, our teams in Vancouver and Toronto carried out surveillance of nearly 447 million equity trades on five stock exchanges and eight alternative trading systems this past year and reviewed 3,584,951 debt security transactions.

Our Complaints and Inquiries team headed up in Calgary responded to more than 3,500 complaints and inquiries.

Our examiners across the country conducted more than 261 on-site firm compliance reviews and our enforcement staff completed 128 enforcement investigations with 59 disciplinary hearings conducted coast to coast.

COMMITTED TO SMART, EFFECTIVE AND EFFICIENT REGULATION

As a public interest regulator, we have a responsibility to ensure that we invest appropriately to advance our priorities and ensure we have the appropriate resources and systems in place to fulfill our core regulatory mandate through the activities I outlined above.

We practice strong fiscal discipline. Our revenue and operating expense growth continues to be among the lowest of our peer regulators. I am pleased that our fiscal year 2018 fees for continuing activities will be flat with a modest 0.6 per cent overall increase attributed to our new corporate debt information processor activity.

We remain committed to delivering smart, effective and efficient regulation and working with the CSA to ensure a level playing field for all market participants and consistent investor protection across the country.

I would like to take this opportunity to thank the IIROC Board of Directors for their ongoing support, our executive and management teams for their leadership and all of my IIROC colleagues for their diligence and unwavering commitment to protecting investors and fostering fair, efficient and competitive capital markets across Canada.

Without their dedication and integrity, it would be impossible for us to achieve our goals. They do their jobs with respect both for those we regulate and those we protect, in the spirit of fairness and transparency, to deliver efficient regulation in the public interest. I am grateful for all their efforts and I hope you will also appreciate them as you read of our progress in this Annual Report.

Andrew J. Kriegler
President and CEO

EXECUTIVE MANAGEMENT TEAM

Andrew J. Kriegler
President and CEO

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

Claudyne Bienvenu
Vice-President, Québec & Atlantic Canada

Ian Campbell
Chief Information Officer

Warren Funt
Vice-President, Western Canada

Doug Harris
Vice-President, General Counsel and Corporate Secretary

Victoria Pinnington
Senior Vice-President, Market Regulation

Elsa Renzella
Vice-President, Enforcement

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

Shuaib Shariff
Senior Vice-President, Finance and Administration

2016-2017

PRIORITIES PROGRESS REPORT

2016 – 2017 marked the first full year of IIROC's Strategic Plan, originally published in May 2016. IIROC's 2017 priorities focused on significant activities and initiatives that were to be completed in support of the Strategic Plan.

In keeping with IIROC's commitment of transparency and accountability to our stakeholders, we are pleased to present a report on our progress on those activities and initiatives. We will continue to measure and report on our progress each year. This work complements our 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. You can read more in the CEO's message and Key Facts section of this report.

KEY

- Achieved – completed
- In progress – work is ongoing

GOALS / PROJECTS	DETAILS / MILESTONES
MARKET SUPERVISION	
Hold roundtables to discuss specific market structure issues affecting small-cap issuers.	IIROC published a summary of the comments it received at a roundtable discussion of market structure issues affecting small-cap issuers and outlined next steps based on stakeholder input in October 2016. IIROC remains committed to working with our partners to strengthen this market and foster confidence in its fairness and integrity.
Restructure the Trading Conduct Compliance (TCC) program to support multiple asset classes, non-equity execution venues and non-Participant Dealer Member reviews.	The restructuring was completed in February 2017. TCC now conducts reviews of all Dealer firms engaged in trading. By expanding the depth and breadth of TCC reviews, we will include firms that trade listed equities through another dealer, as well as firms that trade other asset classes directly. This restructuring aligns IIROC expertise with the activity under review making the delivery of securities regulation in Canada significantly more efficient.
Provide Canadian Securities Administrators (CSA) with access to interactive tool for market data metrics.	As part of our commitment to being seen as a trusted and valued partner to our stakeholders, IIROC completed this initiative in October 2016 by providing the CSA with a self-service tool to analyze our equity data.
Complete implementation of the Debt Trade Reporting Requirements for all remaining Dealer Members.	As of November 2016, IIROC is receiving reports of debt transactions from all Dealer firms that trade debt. This has expanded IIROC's monitoring beyond Government Securities Distributors (GSDs) to all Dealer firms and strengthened our ability to enforce compliance to enhance investor protection and market integrity.
Complete vendor selection for an enhanced Market Surveillance System.	While we had originally anticipated having the vendor selection completed in March 2017, our Request for Proposals resulted in a number of strong and comprehensive submissions and as a result, the analysis and negotiation process took longer. At the time of publication of this report, we had selected a vendor and begun the implementation phase.

GOALS / PROJECTS	DETAILS / MILESTONES
Implement a new Integrated Case Management System.	While this project was originally targeted for completion in July 2017, an increased complexity to the implementation has resulted in a delay. At the time of publication of this report, the project is on track to be completed in the winter of 2018.

CONDUCT AND PRUDENTIAL

GOALS / PROJECTS	DETAILS / MILESTONES
Conduct a comprehensive survey of Dealer Member practices in addressing compensation-related conflicts of interest.	IIROC conducted a targeted review of firms' policies and procedures for meeting the regulator's "best interest" requirements and published high-level results in December 2016. The review was conducted among a cross-section of 20 IIROC-regulated investment firms representing various sizes, business models and products. Final detailed findings, together with new guidance, were published in April 2017. While we identified some best practices, we identified three significant areas of concern: • reliance on disclosure without first addressing the conflict, and poor quality of disclosure • a lack of comprehensive oversight of compensation programs and their associated conflicts by investment firms • a shift to fee-based and managed accounts without appropriate supervision and monitoring of the unique risks associated with these account offerings.
Enhance Business Conduct Compliance (BCC) examination test procedures in the areas of "Know Your Client" (KYC) and suitability and deliver a webcast to inform Dealer Members about ways to enhance the collection of KYC information.	IIROC's BCC exam modules have been enhanced and new test procedures were implemented in early 2016. We made available to firms a webcast in July 2016 which included tips on how to improve the KYC process. It outlined what IIROC looks for when examining KYC procedures and made recommendations for enhancing the KYC collection process.
Conduct dealer self-assessment survey to determine level of dealer and industry cybersecurity preparedness. Report to firms their risk ranking by peer group, gaps and recommended actions.	Recognizing the importance of cybersecurity preparedness, IIROC engaged Deloitte Canada to assist with the development of an extensive survey tool and the creation of report cards for all IIROC-regulated firms. As part of the assessment, we measured firms' responses against a National Institute of Standards and Technology (NIST) cybersecurity framework. The information collected from these surveys provided IIROC with a better understanding of the adequacy of each firm's governance structure, policies and systems for cybersecurity risk management. In October 2016, each IIROC Dealer received a confidential report card that evaluated how well their cybersecurity practices compared to the industry and to firms of a similar size and business model. The report card also identified areas that should receive priority attention. In January 2017, we began following up with firms that have a cybersecurity maturity level below the expected target for their industry peer group. The goal of these reviews is to confirm the firms' self-assessment responses, and collaborate with and advise firms on how to improve their preparedness for the overall protection of customer data and market integrity.

GOALS / PROJECTS	DETAILS / MILESTONES
Enhance Business Conduct Compliance (BCC) examination test procedures related to the use of social media and deliver a webcast to inform Dealer Members about ways to enhance their social media policies and procedures.	IIROC's BCC exam modules were enhanced, and we created a webcast in October 2016 which highlighted the use of social media in the investment industry. The webcast addressed several relevant social media topics including: • how social media is being deployed by Dealer Members • IIROC rules and guidance related to the use of social media • results of IIROC's review of social media practices • risks associated with the use of social media and how they are addressed • supervision and record retention • recommended best practices.
Distribute first, annual suite of complaint and inquiry statistics and trend information to the public and Dealer Members.	In October 2016, IIROC published a comprehensive report with statistics showing that unsuitable investments continue to be the top investor complaint we receive. In conjunction with publishing statistics for the past two fiscal years, IIROC issued confidential Complaints and Inquiries Statistics Reports to all the firms it regulates showing them firm-specific information and ranking compared to their peers. Sharing this information helps IIROC-regulated firms improve their compliance with our rules and customer service.
Recalibrate compliance risk models to ensure Dealer Members are appropriately risk-ranked.	Our risk models are designed to recognize the diversity in business models, structures and profiles among Dealer firms. We use the risk rankings to allocate and prioritize our resources – to efficiently manage regulatory costs while focusing appropriately on higher-risk activities. IIROC engaged Deloitte to do a comprehensive review of our Business Conduct Compliance (BCC), Trading Conduct Compliance (TCC) and Financial and Operations Compliance (FinOps) firm risk models, and to recommend changes to improve their predictive value. This initiative was completed in March 2017, and three projects (one in each compliance department) are now underway to modify the risk models based on the recalibration recommendations. We will inform Dealers of any resulting changes to the models or to their rankings as each model is recalibrated.
Enhance training program for compliance examiners to improve application of risk-based approach.	Two of three planned BCC training modules have been completed and rolled out. The third is underway with completion expected by December 2017.
Monitor efforts to implement T+2 settlement in Canada and assess the impact to our Members by participation in Canadian Capital Markets Association (CCMA) Board and committees.	IIROC staff participated on the CCMA Board, as well as on various T+2 committees and working groups. IIROC published for comment the rule changes necessary to facilitate the transition to T+2. We have helped to coordinate testing by all Canadian Depository for Securities (CDS) participants, and will review all T+2 readiness certifications filed by CDS Dealer participants and take appropriate regulatory measures to ensure all firms are ready for T+2. This initiative is on track and ongoing.

ENFORCEMENT

Finalize and implement Consolidated Enforcement Rules.	IIROC's new Consolidated Enforcement Rules took effect September 1, 2016. They combine and replace various provisions of IIROC's Dealer Member Rules and Universal Market Integrity Rules into a single set of rules for all enforcement proceedings and a consolidated standard of conduct. They also clarify current rules relating to compliance exams and update rules relating to registration approvals and reviews. Doing so provides all stakeholders with greater clarity and consistency in the application of IIROC's enforcement, examination and registration processes.

GOALS / PROJECTS	DETAILS / MILESTONES
Research and evaluate potential alternative forms of disciplinary action and determine next steps.	Research continues to be conducted to consider and evaluate potential alternative forms of disciplinary action, with an extensive consultation to take place in fiscal year 2017-2018. Stakeholders will be invited to comment on various options that will be considered before any final decisions are made.
Continue to pursue expanded legal authority to collect fines.	IIROC made significant progress in obtaining new legal authority to strengthen the effectiveness of its enforcement actions. In January 2017, the PEI Office of the Superintendent of Securities issued an authorization order which gave IIROC the authority to collect fines against disciplined individuals directly through the Supreme Court of PEI. The Order also authorized IIROC to compel evidence and summon and enforce the attendance of witnesses at disciplinary hearings. In May 2017, the Ontario Government passed amendments to the securities act to give IIROC the legal authority to pursue the collection of disciplinary fines directly through the courts. In May, the Alberta Government introduced amendments to its securities act to enhance IIROC's ability to collect evidence during investigations and to provide IIROC and its disciplinary tribunals with protection against lawsuits for acting in good faith when carrying out its public interest mandate to protect investors. The Alberta legislation, which became law in June 2017, means that IIROC has the full toolkit of enforcement authority in Alberta that it seeks in other jurisdictions – IIROC already had the authority in Alberta to enforce fines through the courts and the power to compel evidence at the disciplinary hearing stage.
Continue to seek statutory immunity for IIROC and its personnel when acting in the public interest.	IIROC obtained statutory immunity in Alberta as outlined above. We continue to seek this authority in other jurisdictions.

POLICY DEVELOPMENT

Issue seniors' guidance complemented by a Dealer Member and investor education webcast and investor bulletin.	IIROC issued guidance in June 2016 as part of Seniors' Month to help firms and advisors more effectively work with clients who are seniors. The guidance draws on a number of existing IIROC resources, including rules and guidance, as well as industry best practices that may be particularly relevant to Dealer Members in dealing with senior clients. In addition, there are a number of resources provided by other regulators, governmental agencies and not-for-profit organizations that may be useful to Dealer Members and their representatives, which can be accessed through a dedicated senior client section on IIROC's web site, which can be found at: **http://www.iiroc.ca/investors/Pages/seniors.aspx.** In tandem, IIROC produced an investor bulletin and webcast that highlighted useful practices and resources that are available to advisors and their clients. To date, 3,321 individuals working for IIROC-regulated firms have viewed this webcast, making it the most viewed webcast over the past year.
Publish updated guidance on Order-Execution-Only (OEO) service offerings.	IIROC published for comment proposed guidance in November 2016 setting out expectations and requirements for all IIROC-regulated firms engaged in OEO activities. We consulted extensively in developing the proposed guidance, including creation of an industry working group and conducting a survey of all IIROC-regulated OEO firms. IIROC also engaged an independent research firm to survey investors who use OEO services to better understand their expectations. The objective was to seek input from a broad range of industry and investor stakeholders before finalizing this guidance. We received over 30 comments and are now reviewing them with the aim of finalizing the guidance.

GOALS / PROJECTS	DETAILS / MILESTONES
Refine our approach to consulting directly with investors through independent research.	In order to engage investors directly in our policy development process and to better understand their needs and perceptions, IIROC selected The Strategic Counsel, an independent research firm, in September 2016 to assist in the process and establish an online pool of 10,000 Canadian investors. We intend to use this national pool to conduct research and gather investors' input on various policy issues throughout the current fiscal year.
Add checkpoints to our policy-development procedures to verify that proposals are proportionate and enforceable, and materials are in plain language.	We added procedures to the Policy and Procedures Manual for the IIROC Member and Market Regulation Policy teams which require staff to review the proportionality, enforceability and plain-language writing of each policy matter at appropriate stages throughout the policy development process. This was completed in September 2016 and is in full use.
Assess existing KYC and suitability requirements in the context of evolving service offerings, and determine next steps.	Our work in this area continues as we coordinate with the CSA and other stakeholders on related initiatives, such as the 33-404 targeted reforms, which will impact our requirements in these areas.
Consider the results of our compensation-related conflicts survey and CSA Consultation Paper 33-404, and determine next steps required to clarify our best interest requirements.	IIROC published new guidance in April 2017 to address the findings of our compensation-related conflicts of interest review (as outlined above) and to help clarify the regulatory requirements IIROC already has in place. The notice also laid out our next steps, which include the following: • Where we identified significant issues we believe were the result of clear breaches of IIROC rules as part of this review, we are investigating and may pursue enforcement action as appropriate • IIROC's Business Conduct Compliance (BCC) team is taking immediate steps to strengthen our oversight of compensation-related conflicts by significantly enhancing our exam processes • We will work with the CSA to ensure our requirements are materially harmonized and will be implemented on the same schedule. As we collaborate, we will ensure that any amendments to and/or revised guidance on the IIROC Conflicts Rule clarify that: › disclosure alone is not sufficient to address conflicts, particularly compensation-related conflicts › conflicts must be avoided or addressed in another way before disclosure is considered.
Review and, where necessary, modify advisory committee structure & mandates to optimize stakeholder consultation.	In March 2017, we completed a comprehensive review, which identified the need to: • bring issues to the advisory committees at an earlier stage in the policy-development process • incorporate feedback from senior business representatives, in addition to compliance and legal representatives, in our consultations with the Compliance and Legal Section (to be renamed the Conduct, Compliance and Legal Section).
Respond to comments on Dealer Member Plain Language Rule Book (PLR) and finalize rules or republish for comment.	The complete PLR was published for comment in March 2017 and the comment period closed in May. Pending our response to the comments and CSA approval, IIROC's goal in fiscal year 2018 is to finalize the PLR.
Repeal, revise or issue new guidance as appropriate to align with the Plain Language Rule Book.	IIROC's policy team has been reviewing all PLR-related guidance and preparing to repeal or publish revised/new guidance concurrent with the implementation of PLR. This work is ongoing.

GOALS / PROJECTS	DETAILS / MILESTONES

INFORMATION SHARING

As Information Processor, implement the first phase of a public corporate debt transparency service.	In July 2016, IIROC began publishing corporate bond trade data on a new website, providing all market participants with free information that can help them make better investment decisions. The site is the result of IIROC being selected by the Canadian Securities Administrators (CSA) as the Information Processor (IP) for corporate debt securities, supporting efforts to increase post–trade transparency and enhance debt market regulation. The corporate bond information site demonstrates how we can leverage the information that IIROC collects as a public-interest regulator to increase transparency and improve market integrity, without duplicating efforts or costs. It underscores how all market participants in Canada can benefit from IIROC's pan-Canadian role.
Complete a technology proof of concept to create a shareable trade data repository for our regulatory partners.	As part of the Information Sharing Strategy, IIROC and the CSA worked collaboratively to develop a conceptual deployment architecture – one under which IIROC would provide a data repository of raw and enriched equity and fixed income data that the CSA can access for investigative and analytical purposes. Originally scheduled for December 2016 this phase was completed in June 2017.

VALUE DELIVERY AND THE CANADIAN MARKETPLACE

Open discussions with the CSA to enhance their reliance on IIROC in Registration matters.	IIROC opened discussions with those commissions that have not delegated to IIROC registration authority for firms, and those discussions are continuing.
Review and respond to the comments we received on our White Paper on Proficiency Upgrade and Directed Commissions.	In October 2016, we published IIROC's response to comments on our November 2015 White Paper. IIROC is committed to making the delivery of securities regulation in Canada more efficient by reducing regulatory gaps and overlaps and harmonizing our requirements and standards with those on other regulatory platforms, while maintaining or enhancing investor protection. With this goal in mind, we sought comment on an illustrative proposal that would allow firms and individuals to conduct, under IIROC's regulatory oversight, a business that is limited to mutual funds and exchange-traded funds. The proposal would achieve a consistent approach to the regulation of the Mutual Fund Dealers Association of Canada and IIROC registrants on two key fronts: proficiency and directed commissions. In response to the comments on the White Paper, we committed to: • actively participate in the CSA consultation on enhancing registrant obligations towards clients (which included targeted reforms to enhance proficiency requirements on some platforms) • seek clarification from federal authorities on the tax rules applicable to directed commissions • on a case-by-case basis, work with interested firms to help their advisors upgrade to meet IIROC's proficiency requirements as efficiently as possible • engage our partner regulators, government authorities, investors and other stakeholders in initiatives to reduce fragmentation, burden and arbitrage across regulatory platforms while maintaining or increasing investor protection.
Establish tracking of Key Measures – including investor, Dealer Member and regulatory partner satisfaction – to assess our progress in achieving our Vision.	In March 2017, we finalized the list of Strategic Metrics that we will use to assess our progress toward the vision articulated in our 2017-2019 Strategic Plan and we have put in place mechanisms to track those metrics.

GOALS / PROJECTS	DETAILS / MILESTONES
Seek delegated firm and individual Registration authority from the proposed Capital Markets Regulatory Authority (CMRA).	These discussions will take place upon the launch of the CMRA.
Increase cooperation and information sharing with other self-regulatory organizations and regulatory authorities.	Over the past year IIROC has continued to make significant progress in negotiating Memoranda of Understanding/information sharing agreements with other regulators in order to close gaps and increase consumer protection. IIROC signed agreements with the Life Insurance Council of Saskatchewan (June 2017), the Alberta Insurance Council (January 2017) and the Insurance Council of British Columbia (June 2016). IIROC had previously signed agreements with the Financial Services Commission of Ontario (March 2016) and with la Chambre de la sécurité financière in Québec (November 2015). These agreements are designed to prevent individuals who have been disciplined for wrongdoing from avoiding the consequences of their actions by switching their registration to another regulator and carrying on business with unsuspecting consumers who are unaware of their past misdeeds. The agreements also enable joint investigations when the same individual is under investigation by both regulatory organizations. Negotiations are underway with regulators in other jurisdictions.
Continue to participate in various government consultations to strengthen investor protection and ensure a consistent approach to regulation across regulatory jurisdictions and platforms.	IIROC has continued to participate in government consultations where changes are being considered that impact investor protection and/or those working in the investment industry. For example, IIROC participated in consultations by the Expert Committee to Consider Advisory and Financial Planning Policy Alternatives setting out our support for the regulation of financial planning in Ontario. IIROC agrees that a harmonized regulatory framework for financial planning and financial advice would not only better protect consumers but provide a more streamlined and consistent approach to the regulation of financial planning services in Ontario.

INVESTOR AWARENESS

GOALS / PROJECTS	DETAILS / MILESTONES
Implement rule changes that require Dealer Members to disclose they are regulated by IIROC on client account statements, on their websites and through mandatory distribution of brochures.	In July 2016, IIROC published final rule amendments that require IIROC Dealer firms to disclose that they are regulated by IIROC and link their websites directly to IIROC's searchable database of advisors working for these firms. These rule changes are designed to help investors have a better understanding of the regulatory protections and expectations for IIROC-regulated firms and their representatives. The first phase of the requirements took effect January 1, 2017 and requires firms to display the IIROC logo at each business location, distribute the IIROC official brochure to new retail clients at account opening, and include the IIROC logo and a link to the IIROC website on the home page of their websites. As of July 1, 2018, investment firms will be required to include the IIROC logo on all client account statements.
Develop, refresh and distribute new and existing collateral materials which explain the standards and protections that are in place for investors.	IIROC continues to revise and create new investor materials to raise awareness about the protections in place when working with IIROC-regulated firms. In preparation for the new membership disclosure rules which took effect in January 2017, IIROC created a new official brochure called *How IIROC Protects Investors*, which must be distributed by advisors to new retail clients. IIROC continues to develop and revise other brochures and collateral materials to better inform investors of regulatory protections.

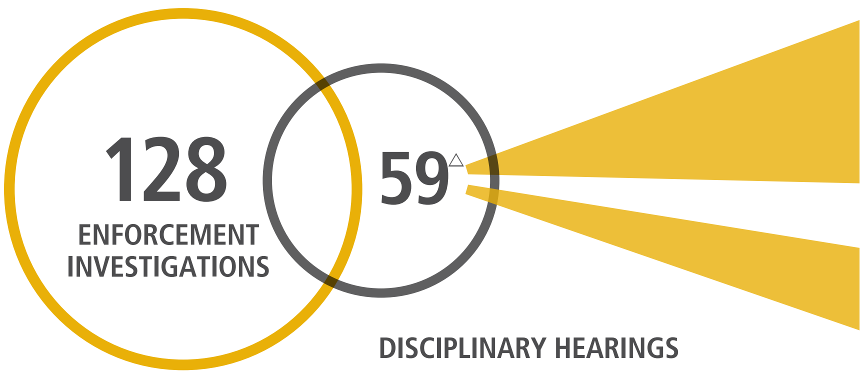
GOALS / PROJECTS	DETAILS / MILESTONES
TECHNOLOGY CAPABILITIES	
Enhance data management and governance practices and refine the enterprise data architecture to anticipate regulatory evolution.	IIROC implemented a new IT Portfolio Management system to enhance and support information governance and management practices. IIROC has compiled a comprehensive inventory of all internal and external data sources across all of its operations, mapped them to the relevant business, technology and application components, and has implemented this information into the IT Portfolio Management System.
Complete implementation of new finance management information system to support financial planning and forecasting.	IIROC implemented a new Corporate Performance Planning System for budgeting and planning accompanied by a revamped Chart of Accounts. The solution was designed to meet IIROC's business needs and allows for a more accurate allocation of costs to fee models. Along with the implementation of the Corporate Performance Planning System, a new Enterprise Resource Management System to meet our core accounting and financial operations requirements was also installed. Together, these systems substantially eliminate the use of end user computing applications, provide a reliable financial platform, support operational efficiencies and will improve the timeliness and quality of reporting and our analytical capabilities.
PEOPLE & ORGANIZATIONAL CULTURE	
Improve employee experience and realize cost efficiencies through piloting hoteling and work-from-home (WFH) initiatives.	IIROC conducted a pilot on the feasibility of providing our employees with the ability to optionally work from home at certain times on a regular basis. With the success of the pilot, based on positive feedback from both employees and their managers, the program is now being rolled out more broadly. The success of the program will be evaluated in fiscal year 2019. The hotelling initiative, focused primarily on compliance staff whose positions call for significant time away from our premises, has also been implemented successfully and has reduced pressure on our space requirements.
Extend succession planning deeper into the organization and enhance development plans accordingly.	IIROC sees succession planning as an important business practice that ensures stability and continuity in our operations and helps with a smoother transition when there are key personnel changes. Investing in staff helps develop them to their potential, is good for the culture of the organization and is efficient over the long term. Over the past fiscal year, we completed our goal to extend succession planning deeper into the organization throughout senior management ranks. Talent development continues to be an area of focus.

KEY FACTS

OVERSEES

28,831 Approved Persons & **179** Member Firms

COMPLETED



DISCIPLINARY HEARINGS
INCLUDING SETTLEMENT HEARINGS

ISSUED

26 suspensions

7 permanent bans

RESPONDED TO

2,473
inquiries and complaints related to member conduct and

1,029
trading-related inquiries and complaints from investors

△ 59 disciplinary hearings (including settlement hearings)
49 individual/10 firm

COORDINATED

1,470 TRADING HALTS AND **83** CEASE TRADE ORDERS

TRIGGERED

53 Single Stock Circuit Breakers

MONITORED

446,844,673 TRADES ON 5 STOCK EXCHANGES AND 8 * EQUITY ALTERNATIVE TRADING SYSTEMS

3,584,951 Debt Security Transactions

RELAYED

775,432 Repurchase & Reverse Repurchase ("Repo") Transactions to the Bank of Canada

CONDUCTED

261 ON-SITE BUSINESS CONDUCT, FINANCIAL AND OPERATIONS AND TRADING CONDUCT COMPLIANCE FIRM REVIEWS ‡

‡ In addition, IIROC staff conducted 12 integrated on-site compliance firm reviews.

* Excludes Bloomberg Tradebook Canada

INTERVENED

by varying or cancelling trades **35** times affecting **1,946** transactions

PROVIDED

NEW EDUCATIONAL WEBCASTS **19**

TOTAL VIEWS OF ALL EXISTING WEBCASTS **16,135**

HOSTED

7 LIVE EVENTS

1,013 INDUSTRY PARTICIPANTS

HELD OUR ANNUAL COMPLIANCE CONFERENCES

More than **375** staff from IIROC-regulated firms attended in **TORONTO**

with another **102** joining us in **MONTREAL**

and **140** in **VANCOUVER**

ASSESSED

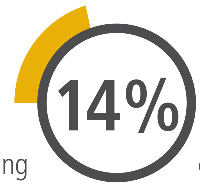
$3,314,000 in discipline penalties **against individuals** ◊ and

$770,000 in discipline penalties **against firms** ◊

COLLECTED**

$447,601

of discipline penalties **against individuals** ◊, representing



of fines assessed and

$570,000

of discipline penalties **against firms** ◊, representing

of fines assessed

PUBLISHED

4 Member Policy rule proposals

6 Member Policy rule amendments

5 Market Policy rule proposals

2 Market Policy rule amendments

GENERATED

55,487 reports on advisors based on requests from IIROC website users

◊ Excludes fines, disgorgements and investigation costs

** Amounts collected in 2016-2017 in respect of fines assessed in 2016-2017

GOVERNANCE REPORT

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

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

LUC PAIEMENT
(JOINED SEPTEMBER 2016)
Executive Advisor
National Bank Financial
MONTRÉAL, QUÉBEC
Member of Human Resources and Pension Committee

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

THOMAS A. WITTMAN
(JOINED SEPTEMBER 2016)
Executive Vice-President of Nasdaq
and Head of Global Trading
and Market Services
PHILADELPHIA, U.S.A.
Member of Human Resources and Pension Committee

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

as Industry Director

LUC BACHAND
(JOINED SEPTEMBER 2012)
Vice-Chair and Head
BMO Capital Markets, Québec
MONTRÉAL, QUÉBEC
Member of Human Resources and Pension 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, three were from independent firms, two of which are based in Western Canada.

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

2016-2017

BOARD MEETINGS

(April 1, 2016 to March 31, 2017)

A total of 32 meetings were held during the fiscal year ended March 31, 2017.
Below is a breakdown of attendance.

Director	Board of Directors	Finance & Audit	Finance & Audit Special	Corporate Governance	Human Resources and Pension	Human Resources and Pension Special	Regulatory Rules Brief	Total Compensation
Rita Achrekar	6/6	5/5	1/1				5/6	
Paul Allison	6/6				2/3	5/5	4/6	
Luc Bachand*	1/2				1/1		0/2	
Jean-Paul Bachellerie	6/6				3/3	4/5	6/6	
Holly Benson	6/6	5/5	1/1				6/6	
James Donegan**	6/6	5/5	0/1	6/6	3/3	5/5	6/6	$60,549.70
Mike Gagné**	6/6	5/5	1/1				6/6	$55,360.31
M. Marianne Harris**	6/6	4/5	1/1		2/2	3/3	6/6	$58,163.91
Brian Heidecker**	6/6	5/5	1/1	6/6			6/6	$52,504.25
Edward Iacobucci**	6/6			6/6			6/6	$43,655.75
Andrew Kriegler	6/6	5/5	0/1	6/6	3/3	5/5	6/6	
Gerry O'Mahoney**	6/6			6/6			6/6	$45,765.00
Luc Paiement***	4/4				3/3	3/3	2/3	
Catherine Smith**	6/6			6/6	3/3	5/5	6/6	$56,483.73
Nicholas Thadaney	5/6	3/5	0/1				5/6	
Thomas Wittman***	4/4				3/3	3/3	3/3	

* Director stepped down during the year.
** Only Independent Directors are compensated by IIROC.
*** Directors joined Board during the fiscal year.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

The Management Discussion and Analysis (MD&A) on IIROC's operations and financial condition are presented for the fiscal year ended March 31, 2017, compared with the previous year ended March 31, 2016. The MD&A should be read in conjunction with the Financial Statements for the year ended March 31, 2017.

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, equity market regulation and debt market regulation activities which are collected through the application of their 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 and authorities. 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.

(IN THOUSANDS OF DOLLARS) MANAGEMENT DISCUSSION AND ANALYSIS

SUMMARY FINANCIAL INFORMATION

UNRESTRICTED FUND

	FY 2017 **$**	FY 2016 $	Variance $	Variance %
REVENUE				
Dealer Regulation				
Membership fees	**49,930**	48,414	1,516	3%
Underwriting levies	**11,283**	9,126	2,157	24%
Registration fees	**2,501**	2,650	(149)	(6%)
Entrance fees	**230**	85	145	171%
	63,944	60,275	3,669	6%
Market Regulation				
Equity regulation	**26,471**	26,122	349	1%
Debt regulation	**1,205**	783	422	54%
Timely disclosure	**2,735**	2,946	(211)	(7%)
Marketplace revenue	**95**	48	47	98%
	30,506	29,899	607	2%
Other revenue				
Interest and investment revenue	**894**	378	516	136%
Miscellaneous revenue	**161**	103	58	56%
	1,055	481	574	119%
Total Unrestricted Fund revenue	**95,505**	90,655	4,850	5%
UNRESTRICTED FUND EXPENSES				
Dealer regulation operating costs	**58,618**	56,872	1,746	3%
Market equity regulation operating costs	**28,548**	26,994	1,554	6%
Market debt regulation operating costs	**1,347**	673	674	100%
Debt information processor costs	**312**	–	312	*
	88,825	84,539	4,286	5%
EXCESS OF REVENUE OVER EXPENSES	**6,680**	6,116	564	9%

* Variance is greater than +/-100%

(IN THOUSANDS OF DOLLARS) MANAGEMENT DISCUSSION AND ANALYSIS

EXTERNALLY RESTRICTED FUND

	FY 2017 $	FY 2016 $	Variance $	Variance %
OTHER REVENUE				
Investigative fines and other fines	**2,142**	2,178	(36)	(2%)
Interest and investment revenue	**80**	90	(10)	(11%)
Total Externally Restricted Fund revenue	**2,222**	2,268	(46)	(2%)
EXTERNALLY RESTRICTED FUND EXPENSES				
Hearing panel costs	**1,399**	1,030	369	36%
Bad debts	–	50	(50)	*
Member education	**283**	252	31	12%
High Frequency Trading initiative	–	27	(27)	*
Cybersecurity	–	115	(115)	*
Self Regulatory Organizations Consultation Committee and International Forum for Investor Education Conference	**5**	–	5	*
Institute of Financial Education and Literacy	**75**	–	75	*
Amortization	**840**	720	120	17%
	2,602	2,194	408	19%
EXCESS (DEFICIT) OF REVENUE OVER EXPENSES	**(380)**	74	(454)	(21%)

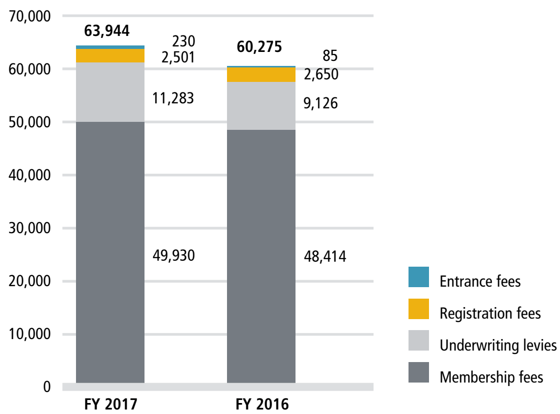
*Variance is greater than +/-100%

REVENUE

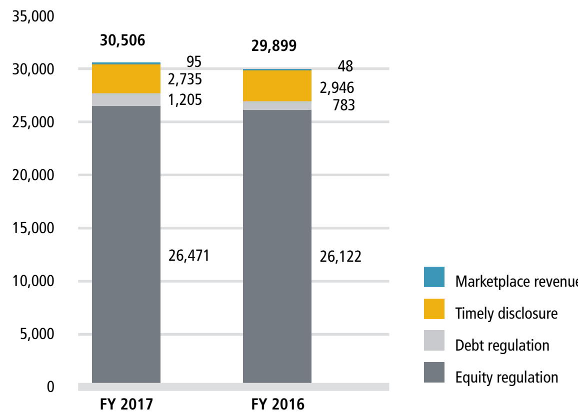
Unrestricted Fund revenues for the period amounted to $95,505, up $4,850 (5%) from $90,655 in FY 2016.

Membership fees for dealer regulation, equity market regulation, and debt market regulation are the primary sources of revenue. The dealer membership fees and the equity and debt market regulation fees represent approximately 81% (83% in FY 2016) of total IIROC revenue and are collected through their respective fee models.

DEALER REGULATION REVENUE ($)



MARKET REGULATION REVENUE ($)

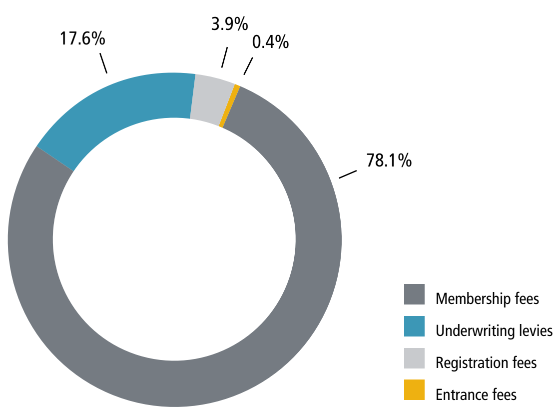


Dealer regulation membership fees increased by $1,516 or 3% at $49,930 compared with $48,414 in FY 2016.

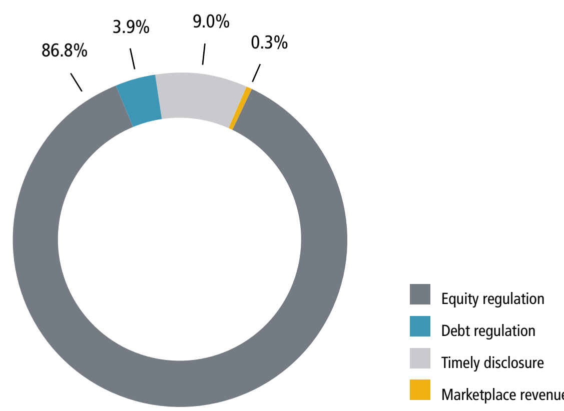
Equity market regulation fees of $26,471 increased by $349 or 1% compared with $26,122 in FY 2016. Debt market regulation fees increased by $422 or 54% to $1,205 for the full fiscal year compared with $783 for five months in FY 2016.

Fees are based on approved operating cost budgets, which are then reduced by secondary sources of revenue and may be adjusted, if applicable, after taking into account the sufficiency of our fund balances. Furthermore, capital and operating expenditures approved for the Restricted Fund are not recovered through membership fees but are instead absorbed by the Restricted Fund.

DEALER REGULATION REVENUE FY 2017



MARKET REGULATION REVENUE FY 2017



On a year-over-year basis, the combined revenue from secondary sources increased by $1,989 (13%) from $14,855 to $16,844.

Underwriting levies, a main secondary source of dealer regulation revenue, increased by $2,157 (24%) to $11,283 from $9,126 in FY 2016 due to several large deals in both equity and debt markets. Revenue from registration fees, the other major secondary source of revenue, decreased by $149 (6%) to $2,501 in FY 2017. The reduction in registration fees was due to the British Columbia Securities Commission's (BCSC) decision to cease sharing registration fees with IIROC, partially offset by increased activity from other registration fee sharing arrangements.

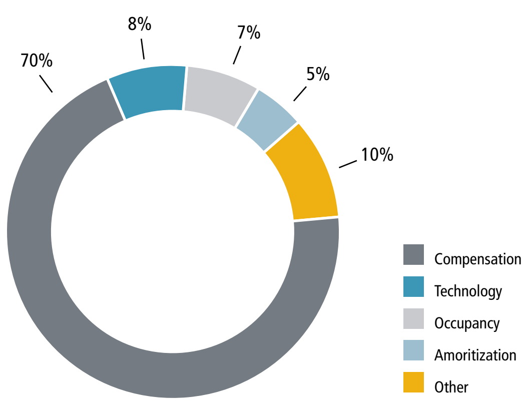
The main secondary revenue source for market regulation is timely disclosure fees from the TSX, TSXV, CSE and Aequitas for administering their timely disclosure policies. These totaled $2,735 in FY 2017, a decrease of $211 (7%) from FY 2016.

Other revenue increased by $574 to $1,055 (119%) mainly due to higher investment revenue.

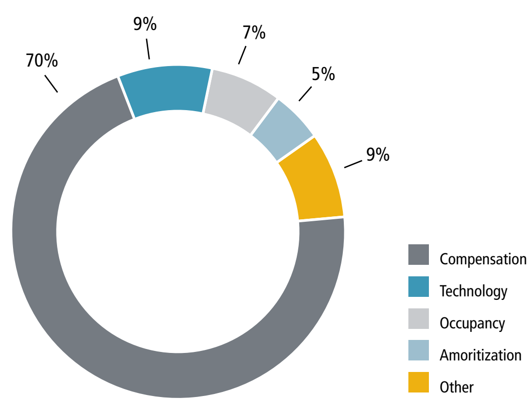
COSTS

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

TOTAL OPERATING COSTS FY 2017



TOTAL OPERATING COSTS FY 2016

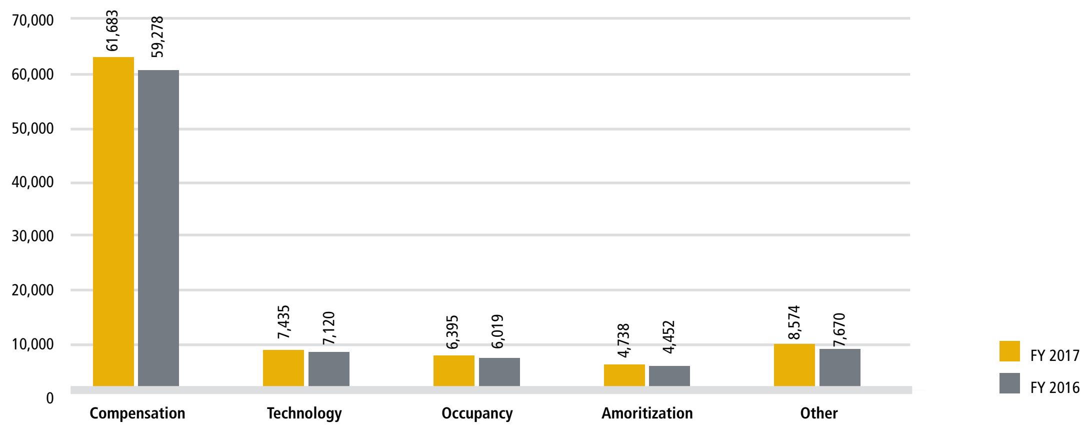


The categories of compensation, technology, occupancy and amortization made up approximately 90% (91% in FY 2016) of IIROC's operating costs. The proportion of other costs increased to 10% from 9% (FY 2016) mainly due to higher consulting costs to support key initiatives in both dealer and market regulation.

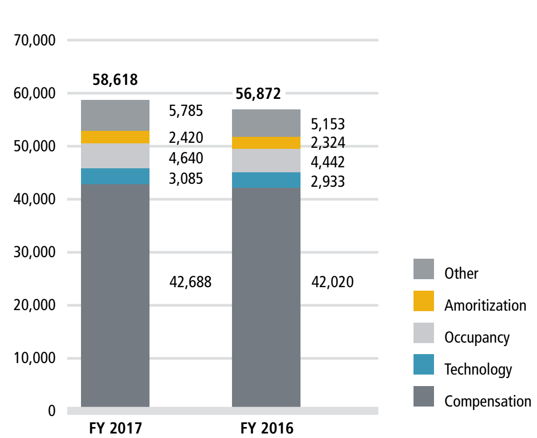
To facilitate proper fee allocations, direct costs are separately captured for dealer regulation and market equity and debt regulation activities as well as Debt Information Processor activities with indirect costs being allocated using a cost allocation model based on either direct business unit cost or headcount as appropriate.

IIROC's total operating costs were $88,825 in FY 2017, an increase of $4,286 or 5% from $84,539 in FY 2016.

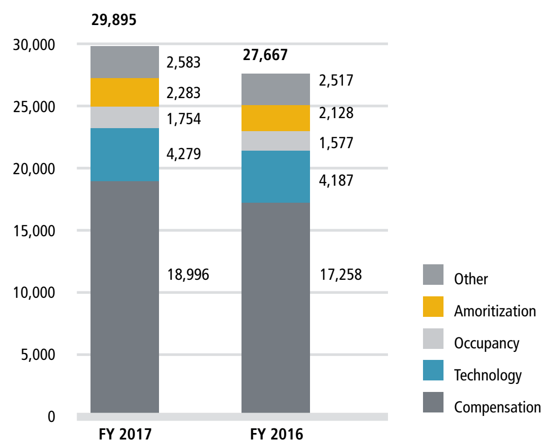
TOTAL OPERATING COSTS ($)



DEALER REGULATION OPERATING COSTS ($)



MARKET REGULATION OPERATING COSTS ($)



Dealer regulation costs increased by $1,746 (3%) to $58,618, while market regulation costs were $29,895, an increase of $2,228 (8%), of which equity market regulation increased by $1,554 and debt market regulation costs increased by $674. Debt market regulation costs were $673 for five months in FY 2016.

The increase in dealer regulation costs was primarily due to:

- Higher compensation costs from lower vacancy rates and establishing a new Strategic Initiative function partially offset by lower direct staff and lower severance costs. Additionally, there were merit-based increases reflecting our pay for performance culture
- consulting costs (included in other costs) to support strategic initiatives such as conducting a cybersecurity self-assessment survey for dealer members and following up with firms to help dealer members strengthen their cybersecurity preparedness

The increase was partially offset by lower translation costs.

The increase in market regulation costs was primarily due to:

- Higher compensation costs from activities associated with maintenance of the Surveillance Technology Enhancement Platform (STEP), Compliance and Analytics. Additionally, there were merit-based increases reflecting our pay for performance culture.

Further, debt regulation costs reflect a full year versus a partial year in FY 2016

- consulting and legal costs (other costs) such as to support the Market Surveillance RFP project

These costs were partially offset by a reduction in administrative costs.

Effective July 6, 2016, IIROC became the information processor for corporate debt securities (Debt IP). Debt IP costs, incurred for the first time in FY 2017 (there were no costs in FY 2016) were $312. There were no related revenues earned in the current fiscal year.

UNRESTRICTED FUND

There was an excess of revenues compared to expenses in FY 2017 of $6,680. This compares with an excess of revenues over expenses in FY 2016 of $6,116, and represents a year-over-year increase of $564. The excess was mainly due to higher than planned revenues from underwriting levies ($2,983) as a result of several large deals in both equity and debt markets; lower than planned technology costs due to lower data hosting costs, deferred project start dates, and lower helpdesk and network services costs; and lower than planned compensation and benefits mainly due to pension estimate variance.

The excess of revenues over expenses for FY 2017 offset by a re-measurement loss of $1,143 for the pension plans and post-retirement benefit plan, increased the Unrestricted Fund balance to $51,424, compared with an opening balance of $45,887.

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.

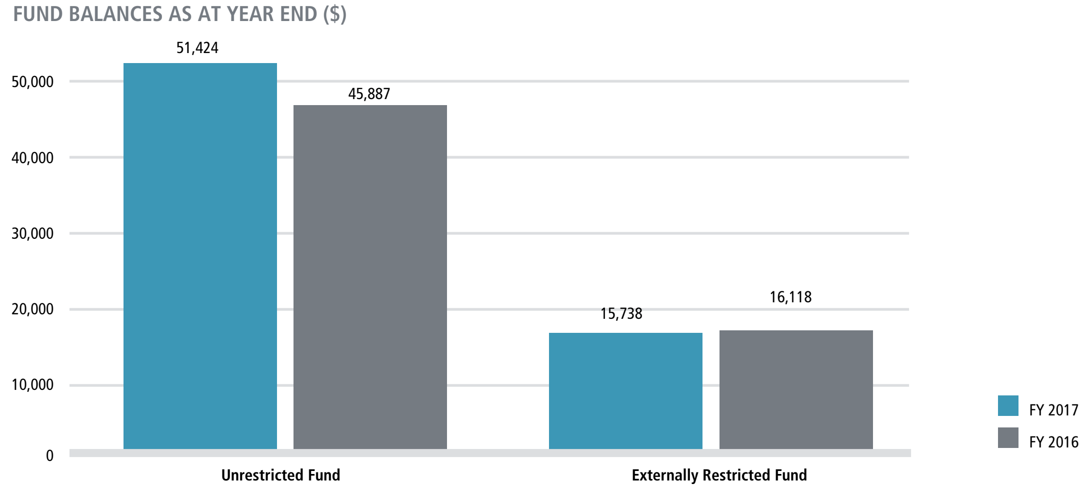
The use of monies from the Fund is restricted by IIROC's Recognition Orders. All expenses, other than hearing panel-related costs, must be approved by IIROC's Corporate Governance Committee.

Total revenues for the year amounted to $2,222, compared with $2,268 for FY 2016, a decrease of $46 (2%).

Total expenses increased from $2,194 to $2,602, an increase of $408 (19%). The increase was primarily due to increases in hearing panel costs, higher amortization costs with the debt surveillance project and support to the Institute of Financial Education and Literacy for a financial literacy program for Canadian investors. These increases were partially offset by reduced requirements for cybersecurity funding from the Externally Restricted Fund.

The resulting deficit for the year was $380, compared to an excess of $74 in the previous year.

FUND BALANCES AS AT YEAR END ($)



The capital project investment through the fund was $82 on development of a debt surveillance system, and this concluded the first phase of implementation of debt trade reporting requirements for dealer members. The Fund balance decreased from $16,118 to $15,738 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 2017, IIROC held total fund balances of $67,162, up $5,157 from the FY 2016 balance of $62,005, in the combined balances in the Unrestricted Fund and Externally Restricted Fund. The increase in fund balances arose from an excess of revenues over expenses of $6,300 offset by a re-measurement loss for the pension plans and post-retirement benefit plan of $1,143 for FY 2017.

During the year, IIROC invested $4,933 in assets ($4,204 in FY 2016). Investments, which were primarily in technology ($2,519), included: a new Enterprise Resource Planning (ERP) solution and Corporate Performance Management (CPM) solution ($1,325), and Server/Network/Desktop Refresh ($745). Investments in furniture, equipment, leasehold improvements, and premises accessibility ($1,007) and market supervision ($872) also contributed to the total.

On July 29, 2011, IIROC entered into a two-year extendable credit agreement of $6,000 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, 2017 the loan payable on this facility is $997.

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, 2017. 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 three months of operating costs. The Fund holds more than the $23,318 required by the guideline, based on FY 2018 budgeted operating costs.

IIROC holds investments of $32,898 in highly liquid marketable securities such as government-issued treasury bills, and debt instruments of financial institutions with remaining maturities of greater than three months, mutual funds and an equity investment.

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

COMMITMENTS

As at March 31, 2017, IIROC has in place basic minimum aggregate annual rental commitments of $20,926 (FY 2016 – $23,359), excluding GST/HST and shared operating costs under long-term leases, with varying expiry dates to October 31, 2026. In addition to minimum lease payments, IIROC is also obligated to pay its share of operating costs, which fluctuate from year to year.

CONTINGENCIES

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 (2016 – $125,000) guarantee on bank lines of credit of CIPF.

At March 31, 2017, 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 $471,985 on hand as at December 31, 2016 (2015 – $464,376); ii) lines of credit provided by two Canadian chartered banks totaling $125,000 as at December 31, 2016 (2015 – $125,000); and iii) CIPF has arranged insurance in the amount of $160,000 as at December 31, 2016 (2015 – $160,000) in the annual aggregate in respect of losses to be paid by CIPF in excess of $150,000 (2015 – $150,000) in the event of member insolvency, and a second layer of insurance in the amount of $170,000 as at December 31, 2016 (2015 – $90,000) 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 $27,321.

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 plaintiff 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. The motion for authorization was argued in February 2017. A decision has not yet been rendered by the court.

The total costs of the incident to date including legal fees for responding to the two motions for authorization are $5,581. Insurance recoveries, net of expenses of $57, were recorded in fiscal 2017 (2016 – net expenses of $62). It is not possible to estimate potential damages or the range of further possible losses, if any, resulting from this incident.

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, 2017 was $Nil (FY 2016 – $60 or 0.10%).

b) Date amortization begins – This is the date when an asset is considered substantially complete and available for use.

c) 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.

d) 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 utilizes the three lines of defence framework for risk management. Management and business operations are the first line; Enterprise Risk Management (ERM) is the second line; and Internal Audit is the third line.

The Finance, Audit & Risk (FAR) Committee exercises overall governance over ERM as set out in its Committee 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 RC Charter.

The ERM self-assessment process entails a top-down/bottom-up self-assessment of IIROC's risks, which is conducted 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. Throughout the year, the Head of ERM provides a formal update on risk management activities at FAR Committee meetings.

The Internal Audit function is governed by an Internal Audit 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 and the CSA in developing a risk-based Internal Audit plan. The Internal Audit work consisted of four audits in four different areas of IIROC. The audits independently verified 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 11 to the Financial Statements and from time to time, IIROC may face claims by employees, the public, member organizations and other third parties arising from the ordinary course and conduct of its business.

IIROC mitigates the risk of such claims by implementing appropriate controls and policy and procedural safeguards, and by defending against any and all claims which in our judgement 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.

CYBERSECURITY

IIROC is maintaining its investment in cybersecurity measures to prevent unauthorized access to personal and confidential information, in response to an evolving threat landscape.

REVENUE RISK

About 81% 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 ongoing monitoring of the financial adequacy of firms helps to mitigate this risk.

FINANCIAL INSTRUMENTS RISKS

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

CREDIT RISK

IIROC has determined that the primary 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 risk is mitigated by the distribution of receivables over the entire membership with the most significant amounts exposed to highly rated bank-owned dealers. Marketable securities also expose the Organization to credit risk which the Organization limits by investing in high-quality securities. Mutual fund investments also indirectly expose the Organization to credit risk. 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

IIROC'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, 2017 and 2016, 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. 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.

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. Fixed rate financial instruments are subject to fair value risk and floating rate financial instruments are subject to cash flow risk. 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. The long-term debt bears interest at a variable rate and the Organization is, therefore, exposed to cash flow risk resulting from interest rate fluctuations. Additionally, the mutual fund investments indirectly expose the Organization to interest rate risk.

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. The Organization is exposed to other price risk on the mutual fund investments since changes in market prices could result in changes in fair value or cash flows of these investments. Risk and volatility of investment returns are mitigated through diversification of investments.

BUSINESS CONTINUITY

IIROC has a Business Continuity Plan (BCP) to ensure critical regulatory services can continue if an external disruption occurs. BCPs have been updated and IIROC is working on strengthening the resiliency program.

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 includes the financial resources required for IIROC to accomplish its priorities and advance initiatives reflected in the Three-Year Strategic Plan which is now in its second year. These are listed in the IIROC Strategic Plan 2017-2019 (Administrative Notice 16-0109) published on May 26, 2016, and IIROC 2018 Priorities (Administrative Notice 17-0117) published on June 1, 2017.

More than half of the initiatives defined in the three-year plan have been completed in FY 2017. These initiatives include: implementation of the debt trade reporting requirements for all Dealer Members; enhancing Business Conduct Compliance (BCC) examination test procedures in the areas of "Know Your Client" (KYC), suitability and social media; and conducting a dealer self-assessment survey to determine the level of dealer and industry cybersecurity preparedness.

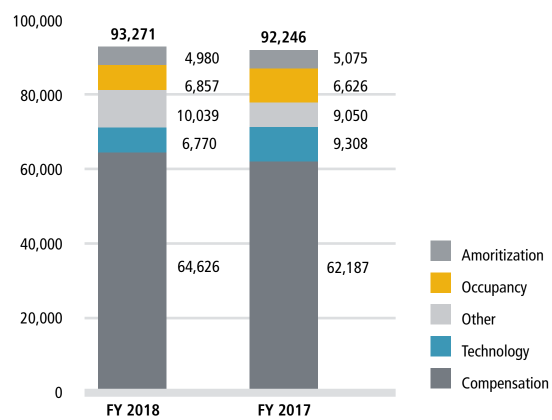
In addition, extensive work has been done on a number of initiatives in subsequent stages of delivery. These include completion of the new Enterprise Resource Planning (ERP) solution and implementation of significant aspects of the Corporate Performance Management (CPM) solution. As the corporate debt IP, IIROC implemented the first phase of a public transparency service. The Debt IP service is a new activity where processes will likely evolve; IIROC will review the Debt IP Fee Model in due course and adjust it, if required.

FY 2018 priorities, published in June 2017, maintain IIROC's commitment 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. These priorities include:

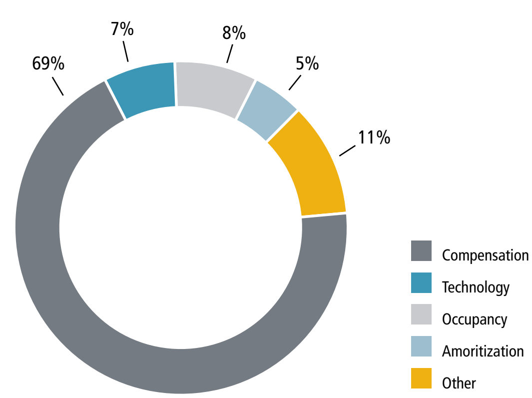
- continuing to pursue expanded legal authority to collect fines
- initiating implementation of a new surveillance system to support the continued evolution of market supervision
- identifying and working to reduce regulatory arbitrage in Canada
- enhancing data-sharing platform and capabilities
- beginning the rebuild of IIROC's website
- continuing to optimize investments in information technology
- finalizing the Plain Language Rule Book and introducing Dealer training
- exploring an Expanded Debt Information Processor Service

Total Operating Expenses for the coming year are budgeted to increase by $1,025 to $93,271 compared to last year's budget of $92,246. The increase in costs is driven by compensation and benefits costs due to base salary increases, and increased headcount in areas such as debt market surveillance and information technology. The increase in costs is partially offset by decreases in technology costs due to lower data hosting costs, and redesign of data center infrastructure to reduce complexity and ongoing costs.

BUDGETED OPERATING COSTS ($)



FY 2018 BUDGETED OPERATING COSTS



Our underwriting levies are expected to be lower than FY 2017 actuals for both debt and equity issuances. FY 2017 actuals of $11,283 were the highest over the past five years (FY 2013 to FY 2017); the average over this period is approximately $10,120. Registration fees are expected to be higher by $500 due to increased activity in Quebec and New Brunswick and a fee increase by Alberta.

FY 2018 fees will remain flat for Dealer Regulation activities when compared to FY 2017 Fees. While total Market Regulation fees are projected to be flat, Debt Market Regulation operations will for the first time assume their proportionate allocation of corporate overheads. As a result, some $500 in Equity Market allocated costs and other overheads will be shifted to Debt Market. Debt Market staff complement has increased by two to support regulation of non-Government Securities Distributors and other activities as requested by the CSA. Equity Market Regulation fees will reduce by $700 (2.6%) and Debt Market Regulation fees will increase by $700 (55.1%) in consequence. Debt IP Fees will be $461 in FY 2018.

IIROC's total fees for FY 2018 and the past three years have been consistent at approximately 40 bps of industry revenue[1]. The four-year compound annual growth rate (CAGR) of fees including projections for FY 2018 is 2.4%, which is less than the industry revenue CAGR of approximately 5%[2] over the same period. IIROC revenue (which for this purpose[3], includes regulatory fees and levies but excludes fines and penalties) and costs are projected to grow at CAGRs of 2.2% and 1.9% respectively, both of which compare very favorably to prior year growth rates at other Canadian investment industry regulators.

Management believes it is prudent to retain the accumulated excess of revenue over expenses at this time to fund IIROC's registered pension plan deficit, unregistered SERP and PRB deficits, and for funding of capital assets.

1 Industry revenues and expenses are based on IIROC compiled data (IIROC monthly financial report statistics).
2 Industry Revenue for FY 2018 is assumed to be the same as FY 2017 (due to data availability).
3 Unrestricted Fund revenues only.

FINANCIAL STATEMENTS

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

March 31, 2017

INDEPENDENT AUDITOR'S REPORT

To the Members of the
Investment Industry Regulatory Organization of Canada

We have audited the accompanying financial statements of **Investment Industry Regulatory Organization of Canada** which comprise the statement of financial position as at March 31, 2017 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, 2017 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 28, 2017

Grant Thornton LLP

Chartered Professional Accountants
Licensed Public Accountants

(IN THOUSANDS OF DOLLARS)

STATEMENT OF FINANCIAL POSITION

March 31		2017		2016
ASSETS				
Current				
Cash and cash equivalents	$	**53,385**	$	46,865
Investment (Note 3)		**32,898**		35,127
Receivables (Note 4)		**8,067**		7,135
Prepaids		**1,489**		1,283
Current portion of loans receivable (Note 5)		**16**		11
		95,855		90,421
Restricted cash (Note 7)		**4,000**		4,000
Employee future benefits (Note 8)		**532**		563
Loans receivable (Note 5)		**15**		12
Capital assets (Note 6)		**14,336**		14,981
Deposit		**180**		162
	$	**114,918**	$	110,139
LIABILITIES				
Current				
Payables and accruals	$	**15,190**	$	15,817
Government remittances payable		**239**		111
Current portion of long-term debt (Note 7)		**997**		997
Deferred revenue		**60**		45
Lease inducement		**437**		322
		16,923		17,292
Long-term debt (Note 7)		**–**		997
Lease inducement		**2,980**		2,008
Employee future benefits (Note 8)		**27,853**		27,837
		47,756		48,134
FUND BALANCES				
Unrestricted Fund		**51,424**		45,887
Externally Restricted Fund		**15,738**		16,118
		67,162		62,005
	$	**114,918**	$	110,139

See accompanying notes to the financial statements.
Commitments (Note 10)
Contingencies (Note 11)

On behalf of the Board:

Andrew J. Kriegler, President and CEO

M. Marianne Harris, Chair

(IN THOUSANDS OF DOLLARS)

STATEMENT OF CHANGES IN FUND BALANCES

Year ended March 31	Unrestricted Fund	Externally Restricted Fund	**2017 Total**	2016 Total
Fund balances, beginning of year	$ 45,887	$ 16,118	**$ 62,005**	$ 51,461
Excess (deficiency) of revenue over expenses	6,680	(380)	**6,300**	6,190
Remeasurements and other items (Note 8)	(1,143)	–	**(1,143)**	4,354
Fund balances, end of year	$ 51,424	$ 15,738	**$ 67,162**	$ 62,005

See accompanying notes to the financial statements.

(IN THOUSANDS OF DOLLARS)

STATEMENT OF OPERATIONS

Year ended March 31	Unrestricted Fund	Externally Restricted Fund	**2017 Total**	2016 Total
REVENUE				
Dealer regulation				
Membership fees	$ 49,930	$ –	**$ 49,930**	$ 48,414
Underwriting levies	11,283	–	**11,283**	9,126
Registration fees	2,501	–	**2,501**	2,650
Entrance fees	230	–	**230**	85
	63,944	–	**63,944**	60,275
Market regulation				
Equity regulation	26,471	–	**26,471**	26,122
Debt regulation	1,205	–	**1,205**	783
Timely disclosure	2,735	–	**2,735**	2,946
Marketplace revenue	95	–	**95**	48
	30,506	–	**30,506**	29,899
Other revenue				
Investigative fines and other fines	–	2,142	**2,142**	2,178
Interest and investment revenue	894	80	**974**	468
Miscellaneous	161	–	**161**	103
	1,055	2,222	**3,277**	2,749
	95,505	2,222	**97,727**	92,923
EXPENSES				
Dealer regulation operating costs (Note 9)	58,618	–	**58,618**	56,872
Market equity regulation operating costs (Note 9)	28,548	–	**28,548**	26,994
Market debt regulation operating costs (Note 9)	1,347	–	**1,347**	673
Debt information processor costs (Note 9)	312	–	**312**	–
Externally restricted fund expenses (Note 9)	–	2,602	**2,602**	2,194
	88,825	2,602	**91,427**	86,733
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	$ 6,680	$ (380)	**$ 6,300**	$ 6,190

See accompanying notes to the financial statements.

(IN THOUSANDS OF DOLLARS) | MARCH 31, 2017

STATEMENT OF CASH FLOWS

Year ended March 31		2017		2016
Increase (decrease) in cash and cash equivalents				
Operating activities				
Excess of revenue over expenses	$	**6,300**	$	6,190
Depreciation and amortization		**5,578**		5,172
Rent amortization		**1,087**		(19)
Employee future benefits expense		**4,996**		5,646
		17,961		16,989
Change in non-cash operating working capital				
Receivables		**(932)**		(680)
Prepaids		**(206)**		(325)
Deposit		**(18)**		(23)
Payables and accruals		**(499)**		121
Deferred revenue		**15**		45
		16,321		16,127
Investing activities				
Disposal (purchase) of investments, net		**2,229**		(14,219)
Purchase of capital assets		**(4,933)**		(4,204)
Employee future benefits contributions		**(6,092)**		(2,470)
Increase in loans receivable, net		**(8)**		(10)
		(8,804)		(20,903)
Financing activities				
Repayment on long-term debt		**(997)**		(997)
		(997)		(997)
Increase (decrease) in cash and cash equivalents		**6,520**		(5,773)
Cash and cash equivalents, beginning of the year		**46,865**		52,638
Cash and cash equivalents, end of the year	$	**53,385**	$	46,865
Cash and cash equivalents consist of:				
Cash on hand and balances with bank	$	**6,619**	$	10,707
Cash equivalents		**46,766**		36,158
Cash and cash equivalents, end of year	$	**53,385**	$	46,865

See accompanying notes to the financial statements.

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 markets.

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.

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) is reported in the Unrestricted Fund.

b) 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' and authorities' 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 which 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.

COST RECOVERY

IIROC operates on a cost recovery basis generally through published fee models which set out the basis of the cost recovery for each of IIROC's activities.

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 billed and collectability is reasonably assured.

Market regulation – equity
Under the marketplace regulation services agreements, revenue from equity regulation fees governed by the Market Regulation Fee Model are based upon a fixed amount for the fiscal year, allocated to Dealer Members and Marketplace Members. Fees are 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.

Market regulation – debt
Effective November 1, 2015, the Organization began to charge debt regulation fees. Debt regulation revenues are based on a fixed 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 debt market regulation. 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. The fees are invoiced on a monthly basis in arrears within the first ten days of any month.

Timely disclosure revenue and marketplace revenue are recognized as billed and when 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, and the amounts can be reasonably estimated and when collection is reasonably assured. 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. Interest received, if any, is recorded, using the effective interest rate method.

INVESTMENTS

Investments consist mainly of highly liquid marketable securities such as government-issued promissory notes and treasury bills, and debt instruments of financial institutions with remaining maturities of greater than three months, mutual funds and an equity investment.

Government-issued promissory notes and treasury bills, and debt instruments of financial institutions 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income is recorded, using the effective interest rate method. Gains or losses are recorded on 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 an investment that is not traded on an active market and, therefore, is 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 1/3% 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 available for use, 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. Where useful life is shortened, the net carrying value is amortized over its shorter life. The Organization undertakes an annual review for the potential impairment or shortened useful life of capital assets. Previously recognized write-downs are not reversed.

LEASE INDUCEMENTS

Certain of the Organization's operating leases contain predetermined fixed escalations of minimum rentals during the original lease terms. The Organization recognizes the related rental expense on a straight-line basis over the life of the lease, and records the difference between the amounts charged to operations and amounts paid as deferred rent (included in lease inducements) 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, debt market regulation, and is the debt information processor for certain securities. Effective July 6, 2016, IIROC launched debt information processing for corporate debt securities. Initial costs related to debt information processing were incurred in the current fiscal year.

To facilitate proper fee allocations, direct costs are separately captured for dealer regulation and market equity and debt regulation activities as well as Debt Information Processor activities with indirect costs being allocated using a cost allocation model based on either direct business unit cost or headcount as appropriate.

(IN THOUSANDS OF DOLLARS) | MARCH 31, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, date of substantial completion of technology projects to begin amortization, amortization periods for capital assets and valuation of employee future benefits asset/liability.

3. INVESTMENTS

Investments consist of the following:

		2017		2016
Marketable securities, at amortized cost	$	**25,266**	$	29,658
Mutual funds, at fair value		**7,632**		5,469
	$	**32,898**	$	35,127

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 as there is no active market for the investment.

4. RECEIVABLES

		2017		2016
Trade	$	**8,067**	$	7,195
Allowance for doubtful accounts		**–**		(60)
	$	**8,067**	$	7,135

The gross carrying amount of the impaired trade receivables was $Nil (2016 – $60). The amount of impaired loss recorded in the Statement of Operations related to the trade receivables is $Nil (2016 – $60).

5. LOANS RECEIVABLE

Loans receivable are from employees of the Organization and relate to 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 January 30, 2020.

(IN THOUSANDS OF DOLLARS) | MARCH 31, 2017 NOTES TO THE FINANCIAL STATEMENTS

6. CAPITAL ASSETS

		Cost		Accumulated Amortization		2017 Net Book Value		2016 Net Book Value
Unrestricted Fund:								
Tangible								
Office furniture and equipment	$	7,592	$	6,202	$	**1,390**	$	2,068
Leasehold improvements		8,693		4,374		**4,319**		4,519
Computer equipment and software		3,595		3,257		**338**		324
Technology projects hardware		6,750		5,081		**1,669**		2,112
Intangible								
Technology projects software		17,856		12,922		**4,934**		3,513
		44,486		31,836		**12,650**		12,536
Externally Restricted Fund:								
Tangible								
Technology projects hardware		895		741		**154**		349
Leasehold Improvements		673		290		**383**		438
Intangible								
Technology projects software		3,178		2,029		**1,149**		1,658
		4,746		3,060		**1,686**		2,445
	$	49,232	$	34,896	$	**14,336**	$	14,981

As at March 31, 2017, included in unrestricted fund technology projects software are six technology projects which are in progress with a total cost of $2,395. As such, these assets are not yet being amortized. Amortization will begin when the asset is available for use.

7. LONG-TERM DEBT

		2017		2016
Loan payable – interest at banker's acceptance rate plus 0.58% (1.84%) at March 31, 2017), due March 2018, repayable in monthly instalments of $83 excluding interest	$	**997**	$	1,994
Less: current portion		**997**		997
	$	**–**	$	997

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

7. LONG-TERM DEBT (CONTINUED)

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, 2017.

Scheduled principal repayments on the non-revolving term construction facility for the next year is $997.

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 participant's plan earnings. Under the defined contribution provisions, the Organization makes contributions based on the percentage of the participant's plan earnings as well as a match on the employee contributions. The matching percentage depends on the employee's age and years of service.

Prior to amalgamation, the Investment Dealers Association (IDA) and Market Regulation Services (RS) sponsored various defined benefit and defined contribution pension plans. At amalgamation the IDA defined benefit plan became the defined benefit component of the IIROC Plan and the plan was amended to accommodate new IIROC DC accruals. The former IDA also sponsored a SERP which became the IIROC SERP. The legacy RS pension plans, which included the registered plan and the non-registered Supplemental Income Plan (SIP) were closed at December 31, 2010 and its active members began accruing benefits under the IIROC Plan and the IIROC SERP after that date. However, these plans were not terminated as legacy accrued benefits remain. On April 1, 2013 the defined benefit component of the IIROC plan was closed to new members. New hires can only join the defined contribution provision of the plan.

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.

(IN THOUSANDS OF DOLLARS) | MARCH 31, 2017 NOTES TO THE FINANCIAL STATEMENTS

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.

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

	March 31, 2017			March 31, 2016		
	Pension Plans (1)	**Pension Plans (2)**	**Other Benefits Plan (3)**	Pension Plans (1)	Pension Plans (2)	Other Benefits Plan (3)
Accrued benefit obligation	**$ (8,205)**	**$ (87,236)**	**$ (6,152)**	$ (7,676)	$ (78,383)	$ (5,921)
Fair value of plan assets	**9,682**	**65,535**	**–**	9,183	56,467	–
Fund status – plans surplus / (deficit)	**1,477**	**(21,701)**	**(6,152)**	1,507	(21,916)	(5,921)
Valuation Allowance (VA)	**(945)**	**–**	**–**	(944)	–	–
Accrued benefit asset (liability) (net of VA)	**$ 532**	**$ (21,701)**	**$ (6,152)**	$ 563	$ (21,916)	$ (5,921)

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

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

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

The employee future benefit expense is as follows:

	Year Ended					
	March 31, 2017			March 31, 2016		
	Pension Plans (1)	**Pension Plans (2)**	**Other Benefits Plan (3)**	Pension Plans (1)	Pension Plans (2)	Other Benefits Plan (3)
Employee service cost	**$ –**	**$ 3,649**	**$ 167**	$ –	$ 4,167	$ 333
Interest cost on accrued benefit obligation	**306**	**3,257**	226	292	3,004	294
Interest income on market value of assets	**(366)**	**(2,281)**	–	(352)	(2,130)	–
Interest on Valuation Allowance (VA)	**38**	**–**	–	38	–	–
Accrued benefit asset (liability) (net of VA)	**$ (22)**	**$ 4,625**	**$ 393**	$ (22)	$ 5,041	$ 627

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

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

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

(IN THOUSANDS OF DOLLARS) | MARCH 31, 2017 NOTES TO THE FINANCIAL STATEMENTS

8. EMPLOYEE FUTURE BENEFITS (CONTINUED)

The remeasurements and other items charged on the Statement of Changes in Fund Balances is a loss of $1,143 (2016 – gain of $4,354) as follows:

	March 31, 2017			March 31, 2016		
	Pension Plans (1)	**Pension Plans (2)**	**Other Benefits Plan (3)**	Pension Plans (1)	Pension Plans (2)	Other Benefits Plan (3)
Actuarial losses (gains)	**$ 90**	**$ 1,167**	**$ (77)**	$ 167	$ (1,021)	$ (1,314)
Prior service cost (credit)	**–**	**–**	**–**	–	–	(2,087)
Change in Valuation Allowance (VA)	**(37)**	**–**	**–**	(99)	–	–
Remeasurements and other items	**$ 53**	**$ 1,167**	**$ (77)**	$ 68	$ (1,021)	$ (3,401)

(1) Plans (Former RS RPP) with Accrued Benefit Asset
(2) Plans (Former RS SIP, DB provisions of IIROC RPP, IIROC SERP) with Accrued Benefit Obligation
(3) Non-pension Post-Retirement Benefits plan (IIROC PRB)

In addition to the above, there is no outstanding liability for the defined contribution plans as at March 31, 2017 (2016 – $Nil). Current period expense for the IIROC SIP Defined Contribution Plan was $Nil (2016 – $Nil) and for the defined contribution provisions of the IIROC RPP was $1,546 (2016 – $1,332).

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

	2017	2016
Discount rate	**3.44% to 3.83%**	3.50% to 4.00%
Rate of compensation increase	**3.50%**	3.50%

For measurement purposes, inflation of medical expenses was assumed to be 6.0% in 2017 declining to 5.0% 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, 2017			March 31, 2016		
	Pension Plans (1)	**Pension Plans (2)**	**Other Benefits Plan (3)**	Pension Plans (1)	Pension Plans (2)	Other Benefits Plan (3)
Employer contributions – regular	**$ –**	**$ 2,282**	**$ 85**	$ –	$ 2,390	$ 80
Employer contributions – special	**–**	**3,725**	**–**	–	–	–
Employee contributions	**–**	**1,178**	**–**	–	1,231	–
Benefits paid	**$ (88)**	**$ (2,095)**	**$ (85)**	$ (60)	$ (2,176)	$ (80)

(1) Plans (Former RS RPP) with Accrued Benefit Asset
(2) Plans (Former RS SIP, DB provisions of IIROC RPP, IIROC SERP) with Accrued Benefit Obligation
(3) Non-pension Post-Retirement Benefits plan (IIROC PRB)

(IN THOUSANDS OF DOLLARS) | MARCH 31, 2017 NOTES TO THE FINANCIAL STATEMENTS

9. EXPENSES

	Year Ended			
	March 31, 2017		March 31, 2016	
Unrestricted Fund expenses				
Dealer Regulation Operating Costs	**$**	**42,688**	$	42,020
Compensation		**3,085**		2,933
Technology		**4,640**		4,442
Occupancy		**2,420**		2,324
Amortization		**5,785**		5,153
Other				
	$	**58,618**	$	56,872
Market Equity Regulation Operating Costs				
Compensation	**$**	**18,164**	$	16,895
Technology		**4,024**		4,032
Occupancy		**1,711**		1,542
Amortization		**2,208**		2,101
Other		**2,441**		2,424
	$	**28,548**	$	26,994
Market Debt Regulation Operating Costs				
Compensation	**$**	**832**	$	363
Technology		**255**		155
Occupancy		**43**		35
Amortization		**75**		27
Other		**142**		93
	$	**1,347**	$	673
Debt Information Processor				
Technology	**$**	**72**	**$**	–
Amortization		**35**		–
Other		**205**		–
	$	**312**	$	–
Total Unrestricted Fund expenses	**$**	**88,825**	$	84,539
Externally Restricted Fund expenses				
Hearing panel costs	**$**	**1,399**	$	1,030
Bad debts		–		50
Member education		**283**		252
High Frequency Trading initiative		–		27
Cybersecurity		–		115
Self Regulatory Organizations Consultative Committee (SROCC) and International Forum for Investor Education (IFIE) Conference		**5**		–
Institute of Financial Education and Literacy		**75**		–
Amortization		**840**		720
	$	**2,602**	$	2,194

(IN THOUSANDS OF DOLLARS) | MARCH 31, 2017 NOTES TO THE FINANCIAL STATEMENTS

10. COMMITMENTS

As at March 31, 2017, the basic minimum aggregate annual rental payments, excluding GST/HST and shared operating 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.

2018	$	3,091
2019		2,787
2020		2,801
2021		2,955
2022		2,967
Thereafter		6,325
	$	20,926

11. CONTINGENCIES

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 (2016 – $125,000) guarantee on bank lines of credit of CIPF. At March 31, 2017, 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 $471,985 on hand as at December 31, 2016 (2015 – $464,376); ii) lines of credit provided by two Canadian chartered banks totaling $125,000 as at December 31, 2016 (2015 – $125,000); and iii) CIPF has arranged insurance in the amount of $160,000 as at December 31, 2016 (2015 – $160,000) in the annual aggregate in respect of losses to be paid by CIPF in excess of $150,000 (2015 – $150,000) in the event of member insolvency, and a second layer of insurance in the amount of $170,000 as at December 31, 2016 (2015 – $90,000) 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 plaintiff 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. The motion for authorization was argued in February 2017. A decision has not yet been rendered by the court.

The total costs of the incident to date including legal fees for responding to the two motions for authorization are $5,581. Insurance recoveries, net of expenses of $57, were recorded in fiscal 2017 (2016 – net expenses of $62). It is not possible to estimate potential damages or the range of further possible losses, if any, resulting from this incident.

12. FINANCIAL INSTRUMENTS RISKS

CARRYING AMOUNT OF FINANCIAL ASSETS

As at March 31, 2017, the carrying amount of the Organization's financial assets that are measured at amortized cost totals $90,749 (2016 – $87,681) and the carrying amount of financial assets that are measured at fair value totals $7,632 (2016 – $5,469).

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

CREDIT RISK

The Organization has determined that the primary 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. Marketable securities also expose the Organization to credit risk which the Organization limits by investing in high-quality securities. Mutual fund investments also indirectly expose the Organization to credit risk. 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, 2017 and 2016, 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. Fixed rate financial instruments are subject to fair value risk and floating rate financial instruments are subject to cash flow risk. 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.

12. FINANCIAL INSTRUMENTS RISKS (CONTINUED)

The long-term debt bears interest at a variable rate and the Organization is, therefore, exposed to cash flow risk resulting from interest rate fluctuations. Additionally, the mutual fund investments indirectly expose the Organization to interest rate risk.

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. The Organization is exposed to other price risk on the mutual fund investments since changes in market prices could result in changes in fair value or cash flows of these investments. Risk and volatility of investment returns are mitigated through diversification of investments.

Visit us at

www.iiroc.ca

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

MONTRÉAL
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

IIROC
Investment Industry
Regulatory Organization
of Canada

OCRCVM
Organisme canadien de
réglementation du commerce
des valeurs mobilières