ANNUAL REPORT 2017-2018

Public Interest Regulator

Protecting Investors and Supporting Healthy Canadian Capital Markets

IIROC OCRCVM
Investment Industry Regulatory Organization of Canada
Organisme canadien de réglementation du commerce des valeurs mobilières

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.

IIROC's National Advisory Committee

Serves as a forum for representatives 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: 136**
- **Dealer firms participating in District Councils: 112***
- **Meetings: 69**
- **Decisions: 391****

Policy Advisory Committees

Financial and Operations Advisory Section

Conduct, Compliance and Legal Advisory Section

Proficiency Committee

Fixed Income Advisory Committee

Market Rules Advisory Committee

- **Committee members: 239**
- **Dealer firms and Marketplaces represented: 229*****

* Dealer 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 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.

*** Firms and marketplaces may participate in multiple committees.

MESSAGE FROM THE CHAIR

REFLECTING ON THE PAST YEAR AND PAST DECADE

IIROC celebrates an important milestone in 2018, its 10th anniversary. And it has been an immense honour and privilege to have served on the IIROC Board for eight of these ten years, during six of which I have been the Chair.

As this is my last message, I want to take the opportunity to thank my fellow directors and everyone at IIROC for working in the public interest to protect investors and make our capital markets in Canada the envy of many others around the world.

When I was first approached to join the IIROC Board, I saw this as an opportunity to give back by applying decades of my financial services experience in Canada and the United States to making the regulation of one of this country's business pillars better. As I look back, I am immensely proud of the work and the significant progress we have made together to strengthen investor protection. I am equally proud that our capital markets today operate with fairness, transparency and integrity – hallmarks of a strong economy and the foundation of investor confidence, which is essential to Canada's markets.

While there has been a transformative change in the investment landscape, investor demographics, needs and behaviours and the role that regulators play, much has also changed during the last 18 months with IIROC's success in strengthening its enforcement toolkit. Since January 2017, six provincial governments have made changes in their jurisdictions that ensure Canadians receive a high level of investor protection by giving IIROC new tools to hold accountable wrongdoers who breach IIROC rules and harm investors.

More work needs to be done in this area to ensure that all investors from coast-to-coast receive a consistent level of protection but the steps taken by these governments demonstrate confidence in IIROC's ability to work in the public interest as a national self-regulatory organization.

On behalf of the Board, I thank IIROC for pursuing these important legislative changes so that the hard-earned savings of Canadians are protected and that there are real consequences for those who take advantage of the investing public.

I also want to acknowledge the evolution of IIROC not only as a conduct and prudential regulator but as a market regulator valued by its stakeholders and regulatory partners, including the Canadian Securities Administrators (CSA), which continues to leverage IIROC's capabilities.

Over the past ten years, IIROC has developed a state-of-the-art surveillance system to support its mandate of monitoring equity and debt trading in Canada. In 2017/18 and beyond, IIROC is building on its market oversight and analytical capabilities in order to make the delivery of securities regulation even more efficient and effective. For example, over the past year IIROC has also taken on the responsibility of bringing transparency to Canada's debt markets as the CSA's information processor for all corporate debt trading and is poised to broaden that further to include government debt securities. In doing so, the CSA is leveraging the information that IIROC collects to fulfill its market surveillance role without duplication of effort or cost.

These are just a couple of examples of the way IIROC has transformed itself and how it contributes to the regulatory framework across the country. As I conclude my tenure as Chair and as a Director, I look forward to seeing how IIROC continues to be a forward-looking, value-added regulator. I believe it has a solid and strong foundation and a professional and dedicated workforce, which is supported by a knowledgeable and capable Board.

I would like to pay particular tribute to the other IIROC Board Directors, past and present, with whom I have had the privilege of working these many years. Their knowledge and dedication have made this a very fulfilling endeavor and I know my successor will be able to count on their continued support and wisdom.

I would also like to thank Andrew Kriegler for his leadership and the entire staff of IIROC for doing the daily work that ensures we protect investors and ensures our capital markets remain a place all Canadians can safely entrust with their investments.

M. MARIANNE HARRIS
Chair of the Board

REPORT FROM THE PRESIDENT AND CEO

IIROC'S 10TH ANNIVERSARY MARKS CHANGE AND OPPORTUNITY

Today's social and political environment reflects Canadians' desire for the evolution of more effective and responsive financial services regulation. Equally, financial services companies, driven by developments in technology, changing demographics and consumer behaviour, are overseeing an evolution in their products and services to meet their clients' changing needs.

As IIROC enters its second decade in 2018, our challenge – and that of other financial services regulators in Canada and around the world – is to provide a bridge between two expectations: that investors should continue to be protected by regulation, and that the public interest is served by healthy, efficient capital markets that provide the products and services to help Canadians meet their financial goals. We created our now two-year-old Strategic Plan with this in mind.

ADDRESSING EVOLVING BUSINESS MODELS AND INVESTOR PREFERENCES

As a self-regulatory organization with a public interest mandate, we must keep pace as the financial services industry responds to the demands of its customers, in a landscape where the old distinctions between products offered on different platform silos – and the distinctions between the platforms themselves – don't make as much sense as they used to.

That is why IIROC recently announced a three-part strategy that supports industry transformation and the evolution that is changing the way Canadians make investment decisions.

First, recognizing that these environmental changes are affecting the products and services offered by the firms we regulate, we have enhanced our process for reviewing changes in dealers' business models to allow for a faster, more efficient process while still adhering to our underlying principles.

We also issued guidance to direct-investing firms to clarify the products, tools and information they can provide on their largely online platforms.

Lastly, we launched a focused, forward-looking consultation with industry to better understand how IIROC's rules affect the evolution of advice and service, and where we might find opportunities for improvement.

We believe this strategy will go a long way towards ensuring that IIROC's regulation remains relevant in the face of ongoing change – while ensuring investors are protected no matter how they choose to access investment advice and service.

CHANGING CLIENT-ADVISOR RELATIONSHIP

In recent years, the client-advisor relationship has continued to evolve, particularly as the industry moves to take a more holistic view of their clients and helping them with both their short and long-term financial needs and goals.

IIROC has been working collaboratively with the Canadian Securities Administrators (CSA) in the development of their client-focused reforms, which will fundamentally enhance the client-registrant relationship. The reforms are designed to better align the interests of investment dealers, advisors and representatives with the interests of their clients, improve outcomes for clients and make clearer to clients the nature and terms of their relationships with registered advisors.

We have actively participated in this important initiative because we share a commitment to requiring registrants to put their clients' interest first. It is also important that we continue to work together to harmonize these requirements across regulatory platforms and set a high standard of conduct for all registrants.

ANDREW J. KRIEGLER
President and CEO

IIROC believes that the proper management of conflicts of interest, and compensation-related conflicts in particular, which are among the issues dealt with in these reforms, is critical to improving public confidence in our capital markets and the broader financial system.

EVOLVING TECHNOLOGICAL ADVANCEMENTS

While technological advancements have contributed greatly to the way in which Canadians manage their finances, they have also created an environment where cybersecurity is a significant, growing and rapidly changing risk.

Individual Canadians and financial services firms share a common goal – to protect the privacy of their information. By working to support the firms we regulate, particularly those that may not have the scale to deal with what is a global threat, we not only enhance their ability to withstand cyberattacks but also enhance the protection of their clients' personal data.

In 2016 we issued peer-ranked cybersecurity preparedness scorecards to all firms, helping them to identify any gaps in their defenses. This past year we followed up with individual meetings with firms and retained an expert external cybersecurity consultant to help them address these gaps. Recently, we conducted industry cyberattack tabletop exercises in Toronto and Calgary to allow firms to test their plans in a safe, collaborative environment. Later this year, we will proceed with a second assessment of firms' preparedness and finalize a cyber-reporting rule that would help us identify emerging threats and ensure that industry is prepared to meet them. This is just one example of IIROC leveraging its scale and expertise to help firms protect their businesses and their clients as the world in which we operate continues to change.

IIROC's market surveillance is also evolving to keep pace with the evolution in technology that is affecting trading on Canada's capital markets. Over the past year, we selected a vendor that will build an enhanced technology platform for market surveillance and trading review and analysis. Using the latest technology, this system will improve IIROC's surveillance capabilities to allow cross-asset and cross-platform views of trading on Canadian markets. As well, this system will incorporate artificial intelligence and machine learning into IIROC's surveillance and analysis, allowing us to focus our resources on the greatest risks to market integrity.

ENHANCING INVESTOR CONFIDENCE

Many things are needed for Canada's capital markets to be healthy, efficient and effective. One of the most critical is investor confidence; for without confidence that the markets and those who work in them operate with integrity, investors simply won't participate.

Investor confidence demands that wrongdoers are held accountable for their actions and that the consequences are both timely and proportionate to the violation.

In February 2018, we published for comment a proposal for two new alternative forms of disciplinary action. The proposed minor violations and early settlement proposals would allow IIROC to focus enforcement resources on the greatest threats to investor protection. The proposed changes would provide IIROC with added tools and the flexibility to more fairly address varying degrees of rule breaches and improve the timeliness of enforcement actions.

IIROC has also continued to work with our government partners to give us the legal tools we need to provide effective investor protection through our enforcement activities. In fact, over the last 18 months, six provinces have strengthened IIROC's enforcement abilities.

This spring, Manitoba gave IIROC fine collection authority and added legal protection when carrying out its public interest mandate to protect investors. British Columbia passed legislation giving IIROC legal authority to pursue the collection of disciplinary fines through the courts. In Quebec, recent legislation clarified that IIROC has legal protection when acting in the public interest and gave us more effective authority to collect and present evidence when pursuing wrongdoers.

Last June, the Alberta government passed legislation giving us a complete enforcement toolkit, similar to what we now have in Quebec. The governments in these two provinces have continued to play a leadership role in strengthening investor protection.

Prince Edward Island began this wave of change in early 2017 by providing us with the ability to collect fines through the courts and enhance cooperation at the disciplinary hearing stage. They were shortly followed by Ontario which gave IIROC the ability to collect fines through the courts.

We continue to pursue similar legislation in other provinces, so that investors in every Canadian province and territory have the same protections, regardless of where they live.

This substantial progress speaks to the confidence that the securities commissions that recognize IIROC, and their respective governments are placing in IIROC to provide effective investor protection from coast-to-coast. We are grateful to each of the provinces that has given us the additional tools we needed. We would also like to thank our community partners CARP and Prosper Canada for their support throughout this journey.

We will continue to keep pace with changes in investor demands, with changes in products and services and in the technological landscape so that we can effectively deliver our mandate in a cost-effective, fiscally prudent manner.

I invite you to read on in this Annual Report to review the significant progress we have made in the second year of our three-year Strategic Plan, which is our roadmap to that future.

I would like to thank IIROC's Board of Directors for their consistent support, as well as our executive and management teams for their diligence and leadership. I would also like to thank all of my IIROC colleagues for doing the daily work required to protect investors, and to foster fair, efficient and competitive capital markets across the country.

As we mark our 10th anniversary, it is worth noting that their conscientiousness and persistence allows us to fulfill our mandate. They are committed to carrying out their duties with respect, transparency and fairness for investors and the industry we regulate. Their work has been instrumental in achieving the progress detailed 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 and 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
Senior Vice-President, Registration and Enforcement

WENDY RUDD
Senior Vice-President, Member Regulation and Strategic Initiatives

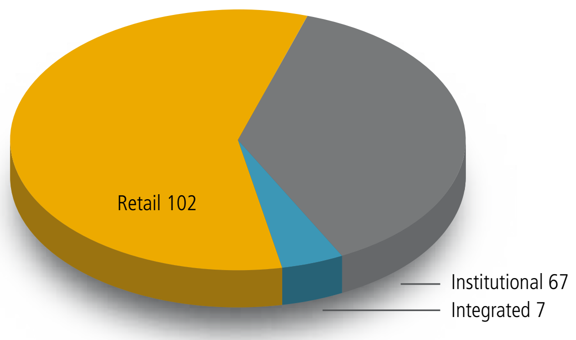
SHUAIB SHARIFF
Senior Vice-President, Finance and Administration

INDUSTRY PROFILE: DEALERS

(All statistics are as at March 31, 2018)

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



As of March 31, 2018, there were 176 dealers, of which 168 were in good standing, 2 were in the resignation process and 6 were suspended.

INDIVIDUALS AND FIRMS REGULATED BY IIROC

(by location)

Province	Approved Persons	Branch Offices	Head Offices
AB	3,051	954	16
BC	4,556	1,249	11
MB	598	165	2
NB	305	85	1
NF	116	36	0
NS	526	146	0
NT	0	2	0
NU	0	0	0
ON	14,218	3,188	110
PE	67	24	0
QC	4,862	726	30
SK	591	215	0
YT	5	5	0
U.S.	342	N/A	6
Other*	47	N/A	0
Total:	29,284	6,795	176

*International

MEMBER FIRMS

(by revenue)

Revenue	% of Firms
Greater than $1 billion	4%
Greater than $100 million	12%
Greater than $10 million	40%
Greater than $5 million	13%
Less than $5 million	31%

Based on 168 dealers that reported revenue during the period from April 1, 2017 to March 31, 2018.

MEMBER FIRMS

(by number of approved persons)

Number of Approved Persons	Number of Firms	% of Firms
Over 1,000	8	5%
501 to 1,000	6	4%
101 to 500	18	11%
11 to 100	78	46%
10 or fewer	58	34%

INDUSTRY PROFILE: MARKETS

IIROC REGULATES TRADING ACTIVITY ON

6 Stock Exchanges

- TORONTO STOCK EXCHANGE (TSX)
- TSX VENTURE EXCHANGE (TSXV)
- ALPHA EXCHANGE (ALPHA)
- CANADIAN SECURITIES EXCHANGE (CSE)
- AEQUITAS NEO EXCHANGE INC. (AQN)*
- NASDAQ (CXC) LIMITED (NASDAQ CANADA)**

* Aequitas Neo Exchange operates 2 distinct books – Aequitas Neo Book (NEO-N) and Aequitas Lit Book (NEO-L)

** Nasdaq (CXC) Limited operates 3 distinct books – Nasdaq CXC (CXC), Nasdaq CX2 (CX2) and Nasdaq CXD (CXD)

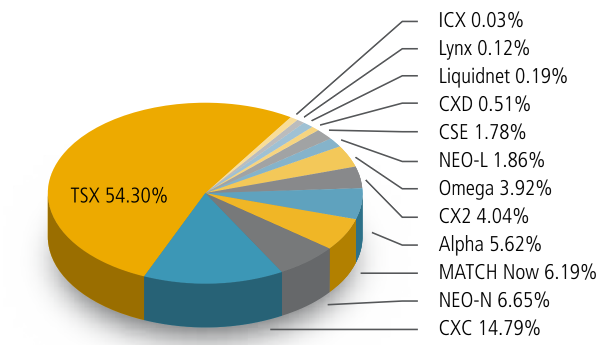
5 Equity Alternative Trading Systems

- OMEGA ATS (OMEGA)
- LYNX ATS (LYNX)
- TRIACT CANADA MARKETPLACE (MATCH NOW)
- LIQUIDNET CANADA INC (LIQUIDNET)
- INSTINET CANADA CROSS LIMITED (ICX)

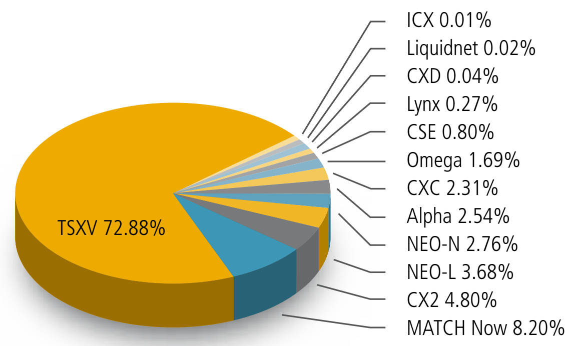
Canada's Multiple Equity Marketplaces

(Where trading took place in 2017-2018 by share volume)*

TSX-LISTED PERCENTAGE



TSXV-LISTED PERCENTAGE

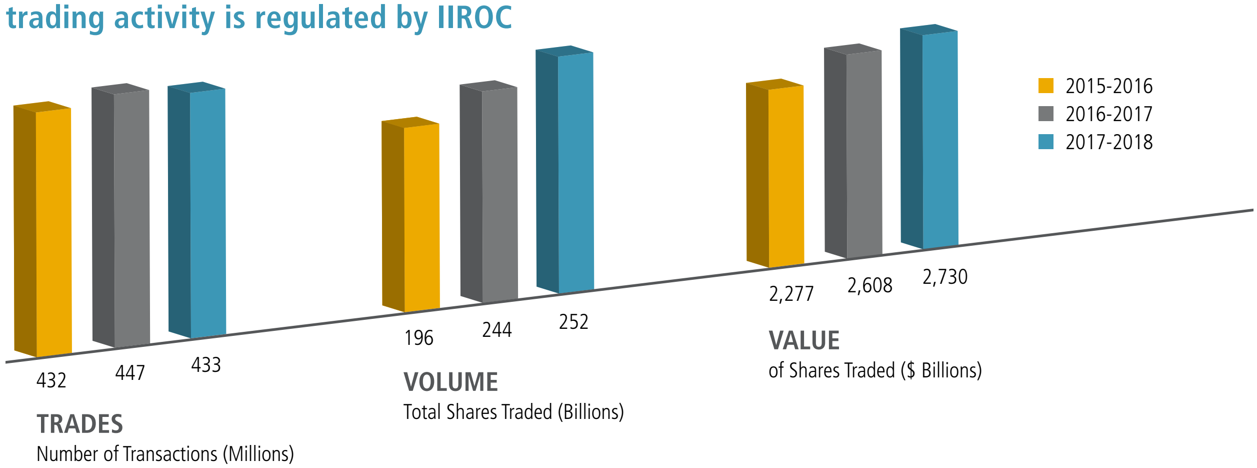


*For the year ended March 31, 2018

Aequitas Neo Exchange (AQN): 99.50% of AQN-listed securities traded on an Aequitas NEO marketplace. The remaining 0.50% of trading took place on MATCH Now.

Canadian Securities Exchange (CSE): 93.54% of CSE-listed securities traded on the CSE. The remaining 6.46% of trading took place on Omega, MATCH Now, Lynx, ICX, NEO-N and NEO-L.

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



PRIORITIES PROGRESS REPORT

2017-2018 marked the second year of IIROC's three-year Strategic Plan, originally published in May 2016. IIROC's 2017-2018 priorities focused on significant activities and initiatives for completion in support of the Strategic Plan.

In keeping with IIROC's commitment to 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 regulatory work to protect investors and promote healthy Canadian 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	
Implement a new Integrated Case Management System.	IIROC completed the development of the new Integrated Case Management System that was implemented at the end of March 2018. The new system allows IIROC staff to: • streamline case tracking and processing • manage an end-to-end investigation life-cycle • address a Canadian Securities Administrators' (CSA) audit finding by providing access controls and • promote cases in a seamless manner.
Complete vendor selection for an enhanced Market Surveillance System.	IIROC undertook a robust vendor selection process to ensure the organization has the best surveillance system to continue to support its mandate of monitoring equity and debt trading in Canada for the next five years. We finalized the contract in June 2017 and have begun the implementation of an enhanced market surveillance system. The system builds on our current cross-market, cross-dealer capabilities and will enable us to conduct cross-product and cross-asset surveillance.
CONDUCT AND PRUDENTIAL	
Recalibrate compliance risk models to ensure dealers are appropriately risk-ranked.	IIROC uses risk models to inform the frequency of our compliance examinations, allowing us to focus on dealers that present the highest risk. Having conducted a comprehensive review of our risk models to ensure they remain current and achieve their intended predictive purpose, we are now in the process of enhancing them. Our Financial and Operations Compliance Department has implemented its updated risk model for FY 2019. Trading Conduct Compliance (TCC) and Business Conduct Compliance (BCC) are in the process of making changes to their models, with implementation expected for FY 2020. We will inform dealers of the resulting changes or to their rankings as each risk model is recalibrated and changes are implemented.
Enhance training program for compliance examiners to improve application of risk-based approach.	Business Conduct Compliance has now substantially completed implementing a comprehensive training program for compliance examiners.

IIROC OVERSEES

29,284 approved persons

176* firms

* includes 6 suspended firms and 2 pending resignations

COORDINATED

1,622 TRADING HALTS

58 CEASE TRADE ORDERS

INTERVENED

BY VARYING OR CANCELLING TRADES

61 TIMES AFFECTING

4,368 TRANSACTIONS

TRIGGERED

121 Single Stock Circuit Breakers

MONITORED

433,336,767 trades on **6** stock exchanges and **5** equity alternative trading systems

CONDUCTED

103
ON-SITE BUSINESS CONDUCT COMPLIANCE FIRM REVIEWS

106
ON-SITE FINANCIAL AND OPERATIONS COMPLIANCE FIRM REVIEWS

46
ON-SITE TRADING CONDUCT COMPLIANCE FIRM REVIEWS

6
INTEGRATED ON-SITE COMPLIANCE FIRM REVIEWS

GOALS / PROJECTS	DETAILS / MILESTONES
CONDUCT AND PRUDENTIAL (CONTINUED)	
Monitor efforts to implement T+2 settlement in Canada and assess the impact to our members by participation on 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 and monitored industry testing and dealer preparedness certification. The transition to T+2 settlement was successfully completed on September 7, 2017.
Continue to help dealers improve cybersecurity awareness and preparedness.	Cybersecurity is a complex issue facing all industries, and it remains a focus for IIROC. All dealers completed a self-assessment in FY 2017, and we have since provided each of them with a cybersecurity "report card". Throughout FY 2018 we met with all dealers that scored as moderate- or high-risk to review their specific business models and systems, and provide them with a follow-up report giving recommendations on the high-priority opportunities we identified to improve their cybersecurity preparedness. This year, we will continue to work with dealers on improving their cybersecurity preparedness by: • conducting two tabletop exercises, and a second self-assessment survey • alerting dealers on emerging security threats to facilitate timely mitigation • finalizing a rule requiring dealers to report cybersecurity incidents, which we published for comment in April 2018.
ENFORCEMENT	
Research and evaluate potential alternative forms of disciplinary action and determine next steps.	IIROC completed a review and evaluation of comparable alternative programs adopted by other regulators (both domestic and foreign). In February 2018, we published for comment a proposal for two programs: a Minor Contravention Program and Early Resolution Offers. We also consulted directly with approximately 1,000 Canadian investors from our online pool of 10,000 Canadian investors and plan to publish the results of the survey. In FY 2019, we intend to respond to the comments we received and make any necessary revisions to the proposals.
Continue to pursue expanded legal authority to strengthen enforcement.	To fulfill our investor protection mandate and more effectively deter wrongdoing, we will continue to pursue the authority to: • increase our fine collection against individuals through the courts

GOALS / PROJECTS	DETAILS / MILESTONES
	• obtain statutory immunity for IIROC and its personnel when acting in the public interest • strengthen evidence collection during investigations and presentation at hearings and • appeal hearing panel decisions to securities authorities. In May 2017, Ontario granted IIROC the legal authority to enforce fines. In June 2017, Alberta was the first province to grant IIROC statutory immunity and the ability to enhance evidence collection. (IIROC already had received from Alberta fine collection authority and the ability to enhance cooperation at disciplinary hearings.) In British Columbia, an amendment to the British Columbia Securities Act passed on May 7, 2018, giving IIROC legal authority to collect disciplinary fines directly through the courts. In June 2018, IIROC received from Manitoba the authority to collect fines and statutory immunity. In October 2017, Quebec introduced similar legislation. In June 2018, the National Assembly passed amendments enhancing IIROC's ability to collect evidence from third parties during investigations as well as improved cooperation at the disciplinary hearings stage. Bill 141 also clarified that IIROC has full protection against malicious lawsuits.

POLICY DEVELOPMENT

GOALS / PROJECTS	DETAILS / MILESTONES
Ensure IIROC requirements, including KYC and suitability, accommodate new advice and service models.	Our work in this area continued as we actively participated in the CSA's work on client-focused reforms to National Instrument 31-103, which relate to core areas of our dealer rules – including know your client, know your product, suitability, conflicts of interest and relationship disclosure. The CSA's notice on embedded commissions, published at the same time as the client-focused reforms, will also impact our requirements. We will continue to monitor and participate in these initiatives with a view to ensuring our requirements are materially harmonized with the CSA's requirements, once finalized. We also started a multi-part strategy to accommodate new business models, while continuing to ensure investors are protected and have access to financial advice and services. The strategy includes a series of workshops and interviews, and a survey with a cross-section of dealers and other industry participants, to: • gain a better understanding of perceived regulatory barriers to innovation • facilitate open dialogue with dealers about their ideas and what they are seeing on the horizon • identify how regulation may need to change to accommodate innovation.

COMPLETED

127 ENFORCEMENT INVESTIGATIONS

42△ DISCIPLINARY HEARINGS (INCLUDING SETTLEMENT HEARINGS)

ISSUED

18 SUSPENSIONS

6 PERMANENT BANS

△ 42 disciplinary hearings (including settlement hearings) (39 individuals/three firms)

ASSESSED

$3.29 million

FINES (EXCLUDING COSTS AND DISGORGEMENT) AGAINST FIRMS AND INDIVIDUALS

COLLECTED

$615,000

FINES (EXCLUDING COSTS AND DISGORGEMENT) AGAINST FIRMS AND INDIVIDUALS

$420,000

of discipline penalties against firms, representing

100% of fines assessed

$195,000

of discipline penalties against individuals, representing

6.8% of fines assessed

GOALS / PROJECTS	DETAILS / MILESTONES
POLICY DEVELOPMENT (CONTINUED)	
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.	Last year, we issued supplemental guidance on compensation-related conflicts, and enhanced our BCC examination procedures, putting greater focus on: • compensation grids and programs • whether/how dealers are addressing conflicts in the best interest of clients • the quality of disclosures • sales targets • compliance with National Instrument 81-105 – Mutual Fund Sales Practices. As stated above, we actively participated in the CSA's work on client-focused reforms and will continue toward harmonizing our conflict-of-interest requirements across regulatory platforms.
Finalize Plain Language Rule Book (PLR) and repeal, revise or issue new guidance as appropriate to align with it.	IIROC's Market Regulation policy team is reviewing and responding to the dealer comments we received when we published PLR for comment in January 2018. In addition, we have 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 and we anticipate that it will be finalized by the end of 2018. The goal is to implement final rules in plain language and establish an appropriate implementation period. Old rules have been simplified and clarified, and some have changed substantively. Dealers will receive training prior to the introduction of the new rules taking effect, and on an ongoing basis.
Conduct investor research on key policy issues.	As part of our commitment to consult directly and effectively with investors, IIROC has established a national online pool of 10,000 Canadian investors who are surveyed to gain a better understanding of their perceptions on key policy issues. In 2017-18, investors were surveyed to gauge their awareness and understanding of market regulation and how these perceptions affect their investment decisions. We also surveyed investors on their views on IIROC's proposals to provide alternative disciplinary procedures in its Enforcement process, providing valuable investor input directly into IIROC's policy development process.

GOALS / PROJECTS	DETAILS / MILESTONES
INFORMATION SHARING	
Explore expanded Debt Information Processor (IP) service.	We continue to explore the possible distribution of downloadable bulk data for a fee, through an expanded Debt IP service.
Enhance data-sharing platform and capabilities.	In FY 2018 IIROC completed the implementation of Release 1 of the data-sharing platform including the transfer of two years of equity and debt trading transactions into the data repository. IIROC continued to support the CSA's Market Analytics Platform initiative through their vendor selection phase by providing architecture and design documentation and a sample of equity trade data. In advance of the engagement with their vendor IIROC has recently delivered one year of equity trading data to the CSA. We will continue to discuss information sharing with other regulators, as well as enhancing our internal processes for providing information and acting on the information we receive.
VALUE DELIVERY AND THE CANADIAN MARKETPLACE	
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 Capital Markets Regulatory Authority.
Increase cooperation and information sharing with other self-regulatory organizations and regulatory authorities.	Over the past year IIROC has continued to expand the number of 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) and the Financial Consumer Agency of Canada (September 2017). 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. Discussions are underway with regulators in other jurisdictions.

PROVIDED

a variety of compliance education opportunities, including:

16 EDUCATIONAL WEBCASTS

62,716 TOTAL VIEWS OF ALL EXISTING WEBCASTS

7 LIVE EVENTS

1,180 INDUSTRY PARTICIPANTS

HELD

our annual compliance conferences, where staff from IIROC-regulated firms attended.

Toronto 373

Montreal 109

Calgary 134

RESPONDED TO

2,017

investor inquiries and

516

complaints related to **business conduct**

1,299

investor inquiries and

430

complaints related to **trading**

THROUGH IIROC'S COMPLAINTS AND INQUIRIES DEPARTMENT, WHICH INCLUDES FRONT-LINE STAFF IN CALGARY, TORONTO AND MONTREAL

GOALS / PROJECTS	DETAILS / MILESTONES

VALUE DELIVERY AND THE CANADIAN MARKETPLACE

(CONTINUED)

Continue to participate in various government consultations to strengthen investor protection and ensure consistent approach to regulation across regulatory jurisdictions and platforms.	IIROC continues to participate in government consultations where changes are being considered that impact investor protection and/or those working in the investment industry. For example, over the past fiscal year IIROC was invited to and participated in an Ontario Financial Planning Working Group established by the Ontario Ministry of Finance. This group was following up on the work of the Expert Committee to Consider Advisory and Financial Planning Policy Alternatives and its recommendations for the regulation of financial planning in Ontario.
Identify and work to reduce regulatory arbitrage in Canada.	IIROC continues to work towards reducing fragmentation, burden and arbitrage across regulatory platforms, with a particular focus this year on aligning our requirements with the CSA's client-focused reforms.
Conduct biennial Dealer Survey.	In 2017, we engaged an independent research firm to conduct a survey of chief executive officers, chief compliance officers and chief financial officers at IIROC-regulated firms as one method of obtaining feedback about our regulatory effectiveness in order to help them comply with our requirements. More than 70% of those we regulate responded with three-quarters rating IIROC as effective at our various regulatory functions. The responses also indicated there is strong alignment and support for IIROC's Strategic Plan key objectives. A full 97% of participants indicated that being a trusted, respected and valued partner by our stakeholders is important; 96% indicated that making the delivery of securities regulation in Canada significantly more efficient is important; and 93% said that inspiring confidence and deterring wrongdoing by having and using robust and appropriate tools is important. This research complements the investor research we are also conducting to ensure that we get input from various stakeholders.

GOALS / PROJECTS	DETAILS / MILESTONES
INVESTOR AWARENESS	
Develop, refresh and distribute new and existing collateral materials which explain the standards and protections that are in place for investors.	In 2017, we reworked our complaints brochure to make it more user-friendly and to make it clear for investors how they can make a complaint and how they can get their money back. IIROC continues to revise and create new investor materials to raise awareness about the protections in place when working with IIROC-regulated firms and advisors.
Begin rebuild of IIROC website.	IIROC moved ahead in its request for proposal (RFP) process to select a vendor to undertake the comprehensive redesign and rebuild of its website and hosting services on a new technology platform. Potential vendors were short-listed and their proposals reviewed and assessed, in preparation for the recommendation of the successful bidder, with which to complete contract negotiations. In the interim, work continues on improvements to content on the current site in preparation for migration to the new platform and architecture.
TECHNOLOGY CAPABILITIES	
Continue to optimize investments in information technology.	In FY 2018 IIROC undertook a robust procurement process to select a new managed services provider that will transform the delivery of IT Infrastructure and Information Security services in support of the IIROC business agenda and strategy. Finalization of the contract will occur in June 2018. Service transition from incumbent service providers to the new service provider is expected to be completed by the end of the fiscal year.
PEOPLE AND ORGANIZATIONAL CULTURE	
Improve employee experience through full roll-out of work-from-home program.	This program was successfully implemented and we are monitoring its use to refine as appropriate. IIROC remains committed to enhancing employee engagement and improving productivity and workflows.

PUBLISHED

SIX
DEALER POLICY RULE PROPOSALS

SEVEN
DEALER POLICY RULE AMENDMENTS

THREE
MARKET POLICY RULE PROPOSALS

TWO
MARKET POLICY RULE AMENDMENTS

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

PAUL D. ALLISON, VICE-CHAIR
(JOINED OCTOBER 2013)
Industry Director
Chairman and CEO,
Raymond James Ltd.
TORONTO, ONTARIO
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 dealers. Of our five Dealer Directors, three are 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 and support healthy capital markets across Canada.

Industry Directors

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

JEAN-PAUL BACHELLERIE
(JOINED SEPTEMBER 2013)
President and COO
PI Financial Corp.
VANCOUVER, BRITISH COLUMBIA
Member of Human Resources and Pension Committee

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

LUC FORTIN
(JOINED JANUARY 2018)
President and CEO,
Montréal Exchange and Global
Head of Trading, TMX Group
MONTRÉAL, QUÉBEC
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

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

As noted on page 20, Paul D. Allison is an Industry Director.

Independent Directors

MICHÈLE COLPRON
(JOINED SEPTEMBER 2017)
Corporate Director
MONTRÉAL, QUÉBEC
Member of Finance, Audit and Risk Committee

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) is an Independent Director.

Resigned as Industry Director

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

2017-2018 BOARD MEETINGS

April 2017 to March 2018 Board Meetings

A total of 28 meetings were held during the fiscal year ended March 31, 2018.
Below is a breakdown of attendance.

Director	Board of Directors	Finance and Audit	Finance and Audit Special	Corporate Governance	Human Resources and Pension	Human Resources and Pension Special	Regulatory Rules Brief	Total Compensation
Rita Achrekar	5/6	5/5	1/1	N/A	N/A	N/A	5/5	
Paul D. Allison	6/6	N/A	N/A	N/A	3/3	2/2	4/5	
Jean-Paul Bachellerie	6/6	N/A	N/A	N/A	3/3	2/2	5/5	
Holly A. Benson	6/6	5/5	1/1	N/A	N/A	N/A	5/5	
Michèle Colpron**	4/4	3/3	1/1	N/A	N/A	N/A	4/4	$ 36,811.29
James Donegan**	6/6	5/5	1/1	6/6	3/3	2/2	5/5	$ 62,303.85
Luc Fortin	1/2	1/1	0/1	N/A	N/A	N/A	0/1	
Mike Gagné*	2/2	2/2	N/A	N/A	N/A	N/A	1/1	$ 23,202.72
M. Marianne Harris**	6/6	5/5	1/1	4/4	3/3	2/2	5/5	$ 67,512.73
Brian Heidecker**	6/6	5/5	1/1	6/6	N/A	N/A	5/5	$ 54,543.25
Edward Iacobucci**	6/6	N/A	N/A	6/6	N/A	N/A	5/5	$ 44,724.75
Andrew J. Kriegler	6/6	5/5	1/1	6/6	3/3	1/1	5/5	
Gerry O'Mahoney**	6/6	N/A	N/A	6/6	N/A	N/A	5/5	$ 48,025.00
Luc Paiement	6/6	N/A	N/A	N/A	3/3	2/2	3/5	
Catherine Smith**	6/6	N/A	N/A	6/6	3/3	2/2	5/5	$ 56,483.73
Nicholas Thadaney*	4/4	3/3	N/A	N/A	N/A	N/A	4/4	
Thomas A. Wittman	3/6	N/A	N/A	N/A	1/3	0/2	3/5	

* Director stepped down during the year.
** Only Independent Directors get compensated by IIROC.

DIRECTOR COMPENSATION

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

Board

Annual retainer – $15,000 per annum

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

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

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

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

Committee

Committee Members – $1,500 per annum

Committee Chairs – $4,000 per annum

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, 2018, compared with the previous year ended March 31, 2017. The MD&A should be read in conjunction with the Financial Statements for the year ended March 31, 2018.

IIROC is a cost-recovery, not-for-profit national organization that recovers its operating expenses from several sources. The primary source is through fees for dealer regulation, equity market regulation, debt market regulation and Debt Information Processor (Debt IP) activities which are collected through the application of their respective fee models. Dealer regulation secondary sources of revenue include underwriting levies, which represent a stipulated percentage share of the value of most public equity and debt underwritings in Canada, and registration fees based on fee-sharing agreements with some* provincial securities commissions and authorities. Another significant revenue source for market regulation is timely disclosure fees from the TSX, TSXV, CSE and Aequitas exchanges for administering their timely disclosure policies.

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

KEY CHANGES IN SENIOR MANAGEMENT

During the year Elsa Renzella, previously in the role of Vice-President, Enforcement, was appointed to the position of Senior Vice-President, Registration and Enforcement.

* The following provinces share registration fees with IIROC:
- Alberta
- New Brunswick
- Ontario
- Saskatchewan

(IN THOUSANDS OF DOLLARS)

SUMMARY FINANCIAL INFORMATION

UNRESTRICTED FUND

	FY 2018 $	FY 2017 $	Variance $	Variance %
REVENUE				
Dealer regulation				
Membership fees	50,013	49,930	83	0%
Underwriting levies	10,465	11,283	(818)	(7%)
Registration fees	2,612	2,501	111	4%
Entrance fees	85	230	(145)	(63%)
	63,175	63,944	(769)	(1%)
Market regulation				
Equity regulation	25,768	26,471	(703)	(3%)
Debt regulation	1,970	1,205	765	63%
Timely disclosure	2,925	2,735	190	7%
Marketplace revenue[1]	195	160	35	22%
	30,858	30,571	287	1%
Debt Information Processor (Debt IP)	461	–	461	NA
Other revenue				
Investment revenue including interest	1,578	894	684	77%
Miscellaneous[1]	150	96	54	56%
	1,728	990	738	75%
Total Unrestricted Fund revenue	96,222	95,505	717	1%
EXPENSES				
Dealer regulation operating expenses	63,156	58,618	4,538	8%
Market equity regulation operating expenses	27,701	28,548	(847)	(3%)
Market debt regulation operating expenses	1,956	1,347	609	45%
Debt IP operating expenses	570	312	258	83%
Total Unrestricted Fund operating expenses	93,383	88,825	4,558	5%
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	2,839	6,680	(3,841)	(58%)

1 Marketplace revenue and miscellaneous revenue for FY 2017 have been reclassified to conform to the financial statement presentation for the current year.

(IN THOUSANDS OF DOLLARS)

EXTERNALLY RESTRICTED FUND

	FY 2018 $	FY 2017 $	Variance $	Variance %
OTHER REVENUE				
Entrance fees[1]	34	213	(179)	(84%)
Disciplinary fines and other fines	1,512	1,929	(417)	(22%)
Investment revenue including interest	144	80	64	80%
Total Externally Restricted Fund revenue	1,690	2,222	(532)	(24%)
EXTERNALLY RESTRICTED FUND EXPENSES				
Hearing panel expenses	1,036	1,399	(363)	(26%)
Member education[1]	296	288	8	3%
Prosper Canada research project	242	–	242	NA
Cybersecurity tabletop	29	–	29	NA
Institute of Financial Education and Literacy	75	75	–	–
Amortization, impairment and disposals	698	840	(142)	(17%)
Total Externally Restricted Fund expenses	2,376	2,602	(226)	(9%)
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	(686)	(380)	(306)	(81%)

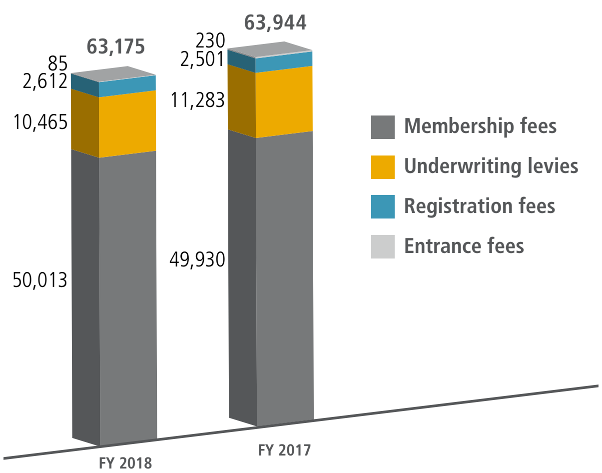
1 Entrance fees and Member Education expenses for FY 2017 have been reclassified to conform to the financial statement presentation for the current year.

REVENUE

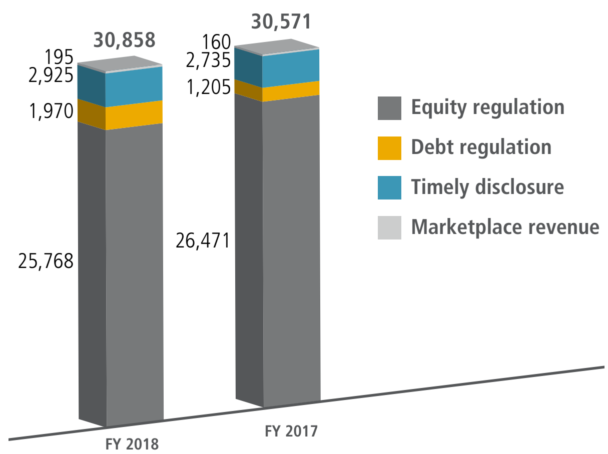
Unrestricted Fund revenues for the period amounted to $96,222, up $717 (1%) from $95,505 in FY 2017.

Fees for dealer regulation, equity market regulation, debt market regulation, and Debt IP are the primary sources of revenue. Fees collected from these four fee models at an aggregate of $78,212 represent approximately 81% of total IIROC revenue (81% in FY 2017, which excludes Debt IP revenue which was collected for the first time in FY 2018).

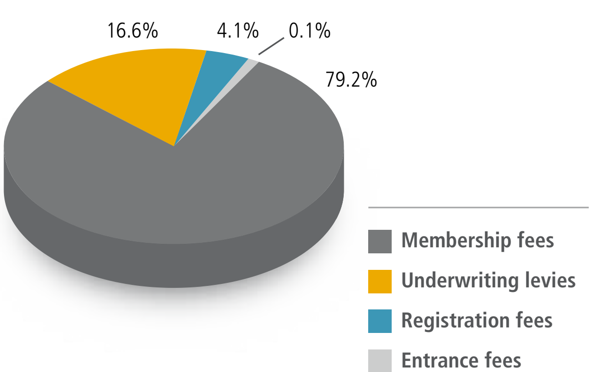
DEALER REGULATION REVENUE ($)



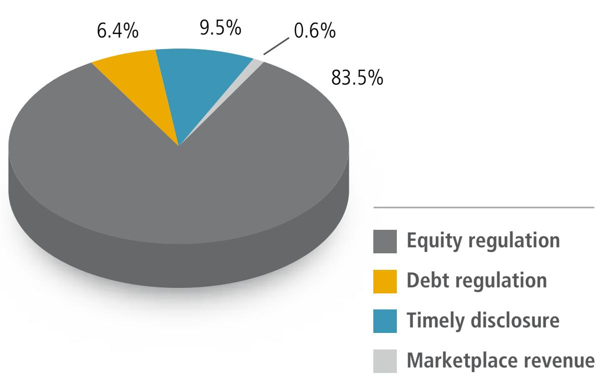
MARKET REGULATION REVENUE ($)



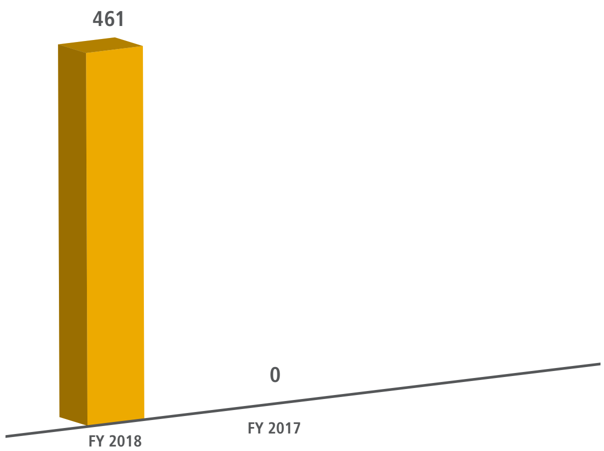
DEALER REGULATION REVENUE



MARKET REGULATION REVENUE



DEBT INFORMATION PROCESSOR REVENUE ($)



Dealer regulation membership fees increased by $83 or 0.2% at $50,013 compared with $49,930 in FY 2017. Equity market regulation fees of $25,768 decreased by $703 or 3% compared with $26,471 in FY 2017. Debt market regulation fees increased by $765 or 63% to $1,970 compared with $1,205 in FY 2017. Debt IP fees, introduced for the first time in FY 2018, were $461.

Fees are based on approved operating expense budgets, reduced by secondary sources of revenue and may be adjusted to take into account the sufficiency of our fund balances, and the reasonableness of our proposed fees in each category. Furthermore, eligible capital and operating expenditures approved for the Restricted Fund are not recovered through membership fees but are instead absorbed by the Restricted Fund.

On a year-over-year basis, the combined revenue from secondary sources decreased by $627 (4%) from $16,909 to $16,282.

Underwriting levies, a main secondary source of dealer regulation revenue, decreased by $818 (7%) to $10,465 from $11,283 in FY 2017 due to decreased volume of issues in both debt and equity markets. Revenue from registration fees, the other major secondary source of revenue, increased by $111 (4%) to $2,612 in FY 2018.

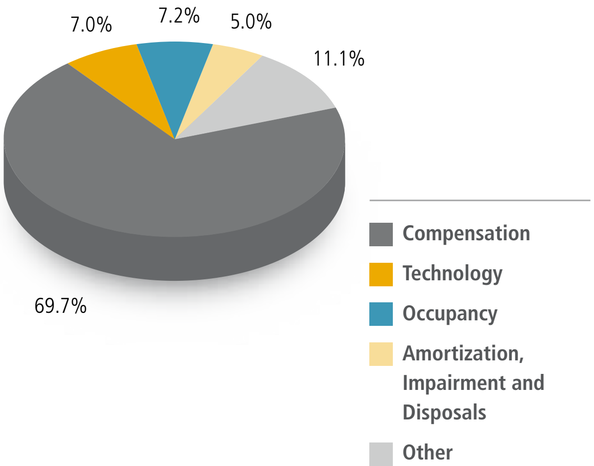
The main secondary revenue source for market regulation is timely disclosure fees from the TSX, TSXV, CSE and Aequitas for administering their timely disclosure policies. These totaled $2,925 in FY 2018, an increase of $190 (7%) from $2,735 in FY 2017.

Other revenue increased by $738 to $1,728 (75%) mainly due to higher investment revenue.

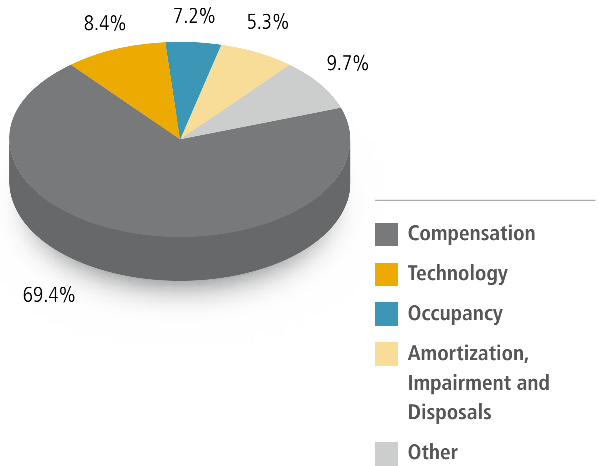
EXPENSES (UNRESTRICTED FUND)

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

TOTAL OPERATING EXPENSES FY 2018



TOTAL OPERATING EXPENSES FY 2017

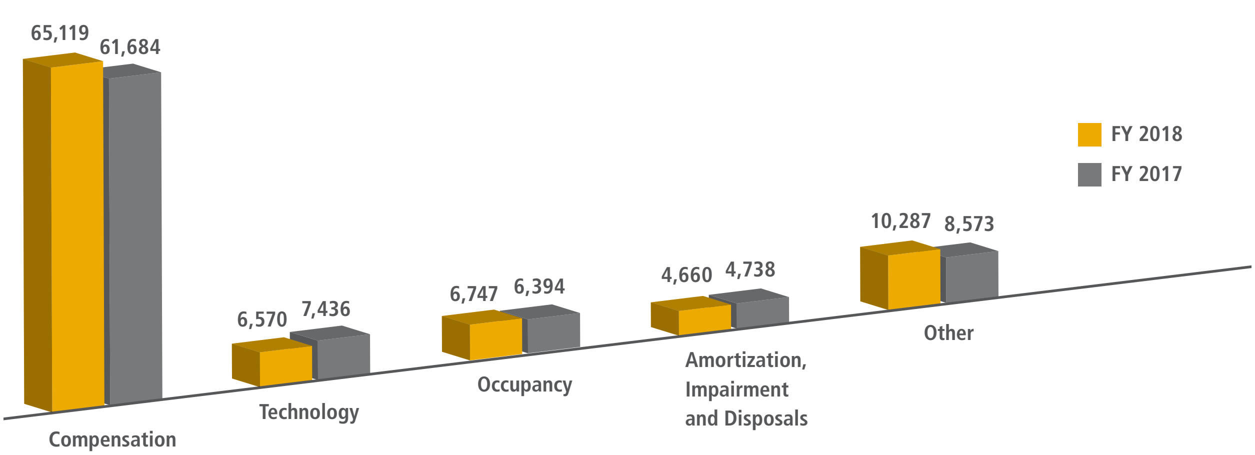


The categories of compensation, technology, occupancy, and amortization, impairment and disposals made up 89% (90% in FY 2017; in addition, FY 2017 had no impairment and disposals) of IIROC's operating expenses. The proportion of other expenses increased to 11% from 10% (FY 2017) mainly due to higher consulting expenses to support key initiatives in both dealer and market regulation.

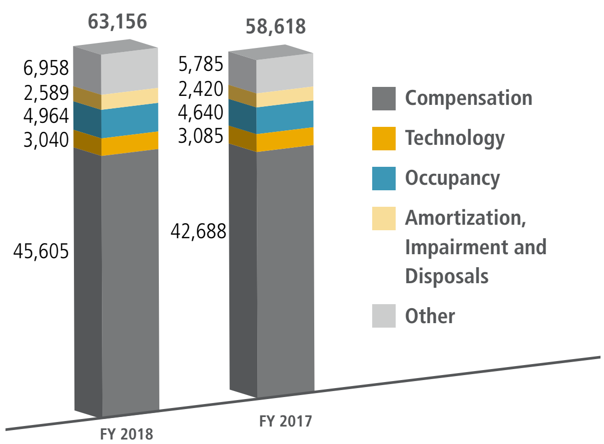
To facilitate proper fee allocations, direct business unit expenses are separately captured for each of the four fee models with indirect expenses being allocated using a cost allocation model based on either direct business unit expenses or headcount as appropriate.

IIROC's total operating expenses were $93,383 in FY 2018, an increase of $4,558 or 5% from $88,825 in FY 2017.

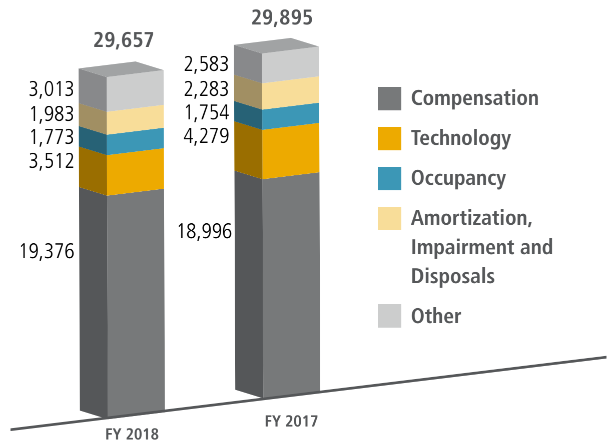
TOTAL OPERATING EXPENSES ($)



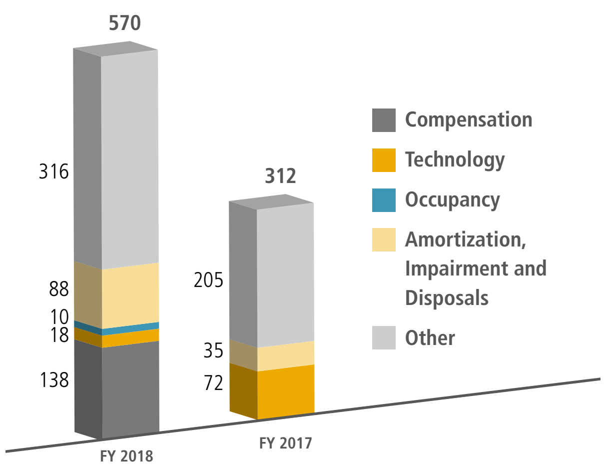
DEALER REGULATION OPERATING EXPENSES ($)



MARKET REGULATION OPERATING EXPENSES ($)



DEBT INFORMATION PROCESSOR OPERATING EXPENSES ($)



Dealer regulation expenses increased by $4,538 (8%) to $63,156, while market regulation expenses were $29,657, a decrease of $238 (1%), of which equity market regulation decreased by $847 and debt market regulation expenses increased by $609. The Debt Information Processor expenses increased by $258 (83%) to $570.

The increase in dealer regulation expenses was primarily due to:

- Higher compensation expenses from lower vacancy rates and higher severance expenses, and additional headcount to support Financial and Operations Compliance, Enterprise Project Management Office, and Information Technology. Additionally, there were compensation increases reflecting our pay for performance culture.
- Higher allocation of consulting expenses (included in other expenses) to support strategic initiatives including costs associated with transitioning our IT infrastructure and information-security operations to a new consolidated, secure hybrid-cloud platform.

The increase was partially offset by lower expenses for hearings due to an overall decrease in the use of external counsel and other experts, and lower internal education expenses.

The decrease in market regulation costs was primarily due to:

- lower amortization expenses mainly due to several components of our current market surveillance system being fully amortized.

These expenses were partially offset by increases in headcount for market debt surveillance, and consulting and legal expenses (other expenses) to support the new market surveillance system project.

The increase in Debt Information Processor expenses was primarily due to:

- FY 2018 being the first complete year (twelve months) of operations for Debt IP versus nine months of operations in FY 2017. IIROC became the information processor for corporate debt securities effective July 6, 2016. Additionally, there were consulting expenses to support the second phase of the Debt IP project.

UNRESTRICTED FUND

There was an excess of revenues compared to expenses in FY 2018 of $2,839. This compares with an excess of revenues over expenses in FY 2017 of $6,680 and represents a year-over-year decrease of $3,841.

The excess of revenues over expenses for FY 2018 and what is primarily a net re-measurement gain of $1,400 for the pension plans and the post-retirement benefit plan increased the Unrestricted Fund balance from $51,424 to $55,663.

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 expenses, must both be eligible and approved by IIROC's Corporate Governance Committee.

Total revenues for the year amounted to $1,690, compared with $2,222 for FY 2017, a decrease of $532 (24%).

Total expenses decreased from $2,602 to $2,376, a decrease of $226 (9%). The decrease was primarily due to lower hearing panel expenses and lower amortization expenses with our current market surveillance system and the Equity Data Warehouse project. These decreases were partially offset by funding for a Prosper Canada research project and cybersecurity tabletop initiatives.

The resulting deficit for the year was $686, compared to a deficit of $380 in the previous year.

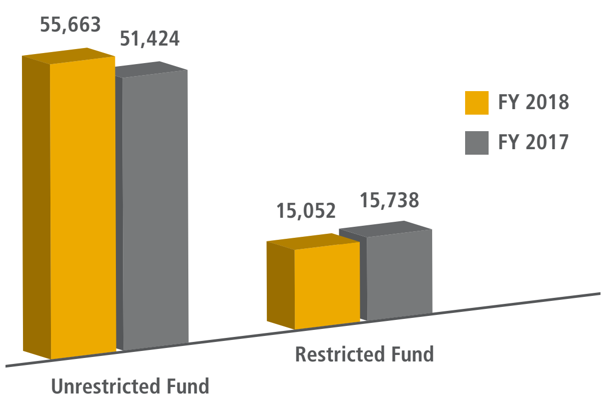
The Fund balance decreased from $15,738 to $15,052 by the end of the year. An IIROC policy is in place to ensure adequate funding is maintained for hearing panel-related expenses.

An amount of $1,237 has been appropriated for the new market surveillance system project.

LIQUIDITY AND CAPITAL RESOURCES

At the end of FY 2018, IIROC held total combined fund balances in the Unrestricted and Externally Restricted Fund of $70,715, up $3,553 from the FY 2017 balance of $67,162. The increase in fund balances arose from an excess of revenues over expenses of $2,153 and what is primarily a net remeasurement gain for the pension plans and post-retirement benefit plan of $1,400.

FUND BALANCES AT YEAR END ($)



During the year, IIROC invested $7,685 in assets ($4,933 in FY 2017). Investments included the construction of new office premises in Montreal ($2,738); a new market surveillance system ($1,237); and an integrated case management solution ($940). Investments in technology infrastructure ($620); technology applications and upgrades/renewals ($438); information sharing solutions ($416); and information security ($254) also contributed to the total.

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

- a committed two-year extendable revolving credit facility of $4,000 (the "Revolving Credit Facility") and
- 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").

IIROC had not borrowed any amounts under the Revolving Credit Facility as at March 31, 2017. The Facility expired on July 29, 2017 and was not renewed.

In July 2017, IIROC paid off the outstanding balance on the Term Facility in full (March 31, 2017 – $997 outstanding). The $4,000 in cash and cash equivalents held as collateral security in support of the loan was discharged by CIBC at that time.

IIROC has an internal liquidity guideline in the Unrestricted Fund of a minimum of three months' of operating expenses. Based on FY 2019 budgeted operating expenses, the Fund holds more than the minimum required by the guideline.

IIROC holds investments of $46,813 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 Unrestricted Fund balance include pension solvency; non-registered Supplemental Plan for Executives (SERP), Post-Retirement Benefits (PRB), and non-registered Supplemental Income Plan (SIP); liquidity requirements; Canadian Investor Protection Fund (CIPF) loan guarantee; and other contingencies.

COMMITMENTS

As at March 31, 2018, IIROC has in place basic minimum aggregate annual rental commitments of $22,921 (FY 2017 – $20,926), excluding GST/HST and shared operating expenses under long-term leases, with varying expiry dates to February 28, 2029. In addition to minimum lease payments, IIROC is also obligated to pay its share of operating expenses, 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 an IIROC-registered dealer. IIROC has provided a $125,000 (2017 – $125,000) guarantee on bank lines of credit of CIPF. At March 31, 2018, CIPF has not drawn on these lines of credit. Any amount drawn on the guarantee would be assessed to dealer firms. In order to meet potential financial obligations, CIPF has the following resources in place: i) a contingency fund balance of $483,927 on hand as at December 31, 2017 (2016 – $471,985); ii) lines of credit provided by two Canadian chartered banks totaling $125,000 as at December 31, 2017 (2016 – $125,000); and iii) CIPF has arranged insurance in the amount of $160,000 as at December 31, 2017 (2016 – $160,000) in the annual aggregate in respect of losses to be paid by CIPF in excess of $150,000 (2016 – $150,000) in the event of member insolvency, and a second layer of insurance in the amount of $230,000 as at December 31, 2017 (2016 – $170,000) in respect of losses to be paid in excess of $310,000 (2016 – $310,000) in the event of member insolvency.

IIROC also provides pension and post-retirement benefits to employees as described in Note 9 of the Financial Statements. The organization funds these obligations on a regular basis through the use of trusts and by setting aside further funds, as approved by the Board, in an externally managed investment program. The net employee future benefits liability of all plans is $28,674.

IIROC is subject to one lawsuit for wrongful dismissal that was commenced in August 2017. The Organization is defending against this action.

Following the accidental loss in the 2013 fiscal year of a portable device that contained personal information relating to clients of a number of dealers, the Organization undertook a number of measures to notify potentially affected dealers 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 granted in October 2017. The Organization is defending against this action.

The total expenses of the incident to date, including legal fees for responding to the two motions for authorization are $5,591 of which $10 have been incurred in fiscal 2018, (2017 – insurance recoveries net of expenses of $57). It is not possible to estimate potential damages or the range of further possible losses, if any, resulting from this incident. Losses up to a certain maximum amount are covered by an existing insurance policy.

USE OF ESTIMATES

Management reviews the carrying amounts of items in the Financial Statements at each balance sheet date to assess the need for impairment, related write-downs or other adjustments. 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 dealers' financial viability. The allowance for doubtful accounts as at March 31, 2018 was $NIL (FY 2017 – $NIL).

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 the quarter after the assets are available for use. 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, business operations and support functions are the first line; Enterprise Risk Management (ERM) is the second line; and Internal Audit is the third line.

The Finance, Audit and 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 12 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 continues to invest 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.

REGISTERED PENSION, SERP AND PRB RISK

Registered Pension risk refers to the risk that the organization's financial condition on the Statement of Financial Position would be adversely impacted because of the impact on the organization's two registered plans of possible reductions in the future market value of the plan investments and/or increases in the pension liability if interest rates were to fall below current levels. These risks are mitigated by maintaining sufficient funding levels and by holding a diversified set of investments, which are managed by professional investment managers operating under specified mandates. IIROC also carefully monitors and manages funding levels and makes contributions required by law and in addition makes special contributions to maintain desired funding levels. Similar risks and funding considerations apply to the unregistered plans although funding levels for these plans are not dictated by law. IIROC monitors and manages funding levels for all unregistered plans for which it makes predetermined and special contributions to achieve desired funding levels.

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 risk is mitigated by the diversified holdings in the mutual funds. 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. As at July 31, 2017, IIROC had fully paid its loan under the term facility and closed this facility. The revolving credit facility was also closed. The Organization is, therefore, exposed to liquidity risk with respect to its accounts payable. 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. IIROC mitigates liquidity risk by maintaining a minimum of three months' of budgeted operating expense as required by IIROC's internal liquidity guideline.

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 expenses through underwriting levies, as well as dealer regulation and market regulation membership fees. IIROC minimizes its exposure to market risk through its policy of investing in Government of Canada treasury bills, bankers' acceptances and promissory notes.

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 limiting 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 and interest bearing investments. 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 interest bearing investments is to ensure the security of principal amounts invested, provide for a high degree of liquidity, and achieve a satisfactory investment return. 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.

RESILIENCY

IIROC has developed crisis management plans and business continuity plans (BCPs) as part of a larger resiliency program to ensure critical regulatory and support services can continue in the event of a disruption. BCPs are updated as changes are made, and IIROC continues to work on strengthening its resiliency program.

PLATFORM CHANGE FROM MANULIFE TO CIBC

Subsequent to year end, on April 3, 2018, IIROC changed the fund custodian for a portion of the defined benefit plans' assets. As a result, assets totaling $8,969 for the Former RS RPP and $61,534 for the IIROC RPP were transferred to the new custodian. Market Regulation Services (RS), is one of IIROC’s predecessor organizations.

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 annual priorities in support of its three-year Strategic Plan.

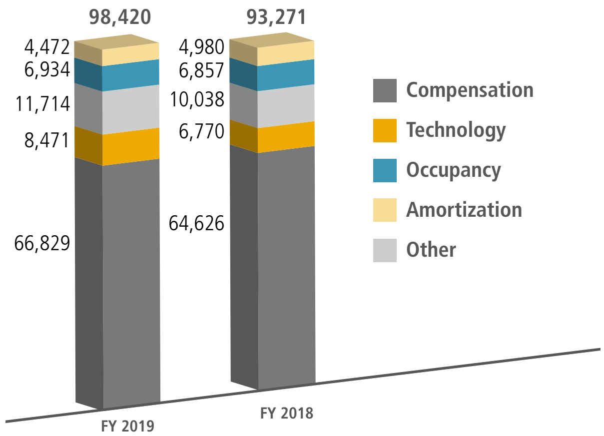
FY 2019 priorities, published in June 2018, maintain IIROC’s commitment to enhancing its regulatory effectiveness while operating in an efficient and cost-effective manner by leveraging technology and allocating resources based on strategic priorities and risk assessments. Key examples of our priorities for next year include:

- continuing to pursue and implement expanded legal authority to collect fines
- completing the implementation of a new surveillance system to support the continued evolution of market supervision
- conducting a targeted industry consultation to inform our approach to facilitating advice and service model evolution
- continuing the exploration of industry and investor implications related to digital assets and advance supporting initiatives
- proposing a safe harbour rule, complemented by additional tools to help dealers protect the interests of vulnerable investors
- conducting industry tabletop exercises and a second self-assessment to help dealers improve cybersecurity preparedness
- transitioning our IT infrastructure services and information security operations to a new, secure, hybrid-cloud platform and
- initiating the implementation of a new human resources management system that is designed to manage our resources more effectively and improve the employee experience.

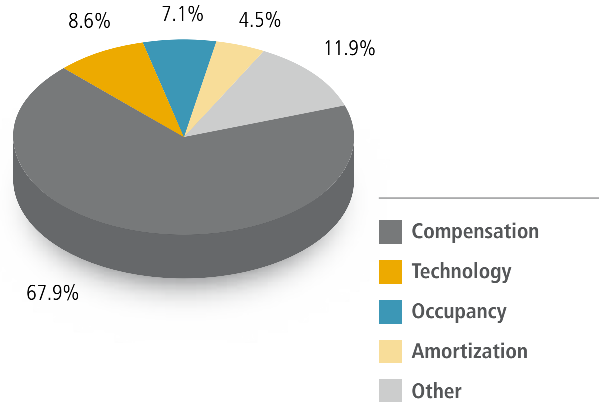
Additionally, IIROC will be updating its Strategic Plan, as FY 2019 marks the final year of the three-year Strategic Plan published in May 2016.

Total Operating Expenses for the coming year are budgeted to increase by $5,149 to $98,420 compared to last year’s budget of $93,271. The increase in expenses is driven predominantly by compensation and benefits expenses due to base salary increases, and increased headcount in areas such as information technology. Other increases in expenses, mainly in the areas of technology and consulting, are for new project initiatives and include one-time expenses for an information technology platform transition to a managed services model. The increase in expenses is partially offset by lower amortization expenses mainly due to our current market surveillance system expected to be fully amortized in the second quarter of FY 2019, as well as lower translation expenses.

BUDGETED OPERATING EXPENSES ($)



FY 2019 BUDGETED OPERATING EXPENSES



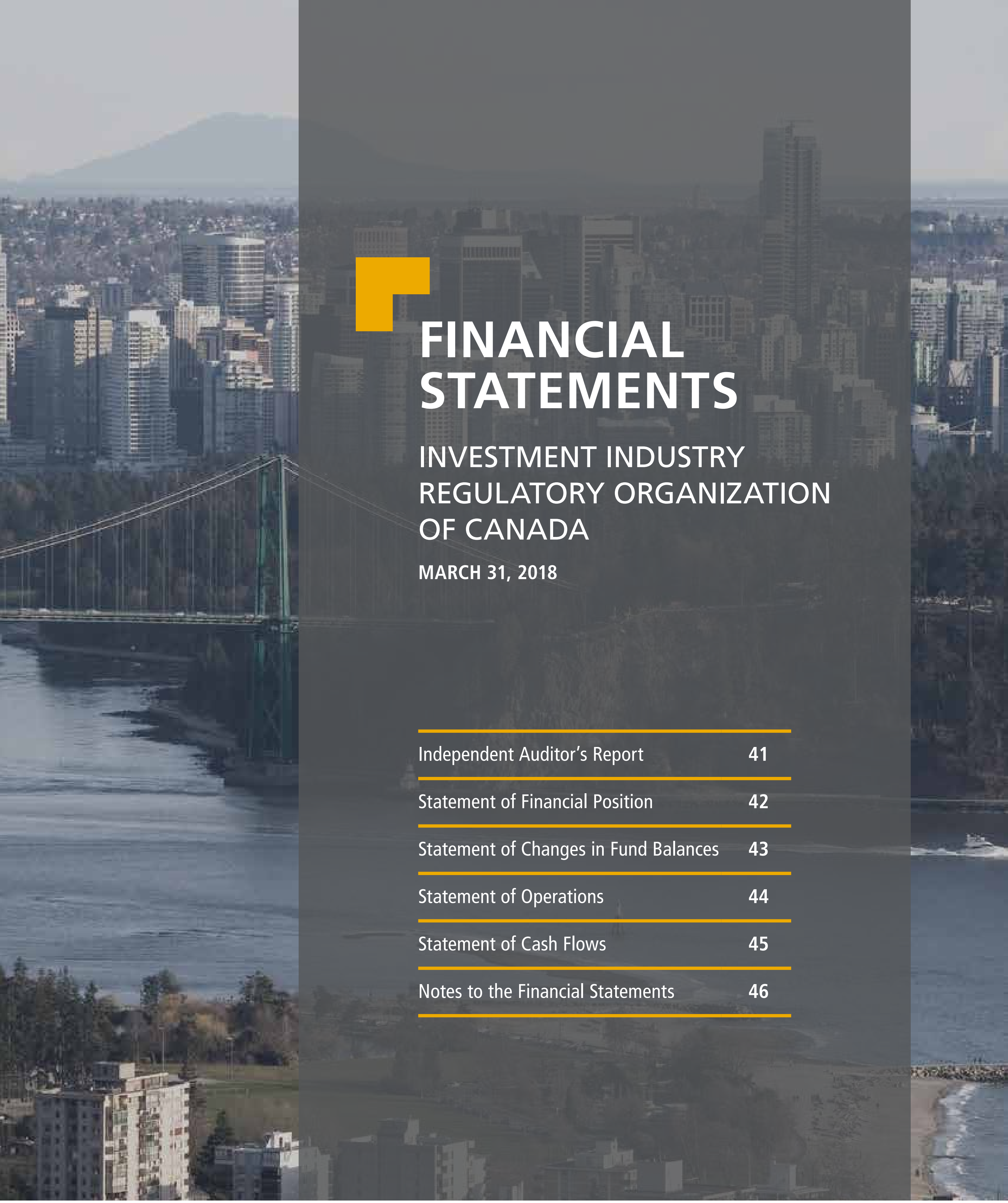
For underwriting levies, FY 2018 actuals of $10,465 were higher than the past five-year average of approximately $10,200. Our underwriting levies are expected to be slightly lower than FY 2018 actuals for both debt and equity issuances. Registration fees are expected to be lower by $112 due to lower projected activities.

FY 2019 fees for dealer regulation activities will increase by $513 (1%) when compared to FY 2018 fees. This increase is considered reasonable particularly since the dealer regulation fee was kept flat last fiscal year. IIROC has also replaced the two minimum fee categories (of $15 and $27.5) by introducing one minimum fee of $22.5. As a result, most minimum fee payers in FY 2018 will see a decrease in their annual fees in FY 2019. While Equity Market Regulation fees in FY 2019 are projected to be flat, fees for Debt Market Regulation will increase by $296 (15%) as the function matures. Debt IP fees, which were introduced for the first time in FY 2018, will remain flat in FY 2019.

IIROC's total fees for FY 2019 and the past three years have been consistent at approximately 40 basis points of industry revenue.[1] The four-year compound annual growth rate (CAGR) of fees including projections for FY 2019 is 2.7%, which is less than the industry revenue CAGR of approximately 3.4%[2] over the same period. IIROC revenue (which, for this purpose[3], includes regulatory fees and levies but excludes fines, penalties and interest) and expenses are projected to grow at CAGRs of 1.9% and 4.7% 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 Unrestricted Fund balance at this time due to a number of factors including pension solvency; non-registered Supplemental Plan for Executives (SERP), Post-Retirement Benefits (PRB), and non-registered Supplemental Income Plan (SIP); liquidity requirements; Canadian Investor Protection Fund loan guarantee; and other contingencies.

1 Industry revenues and expenses are based on IIROC-compiled data (IIROC monthly financial report statistics).
2 Industry Revenue for FY 2019 is assumed to be the same as FY 2018 (due to data availability).
3 Unrestricted Fund revenues only.



FINANCIAL STATEMENTS

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

MARCH 31, 2018

INDEPENDENT AUDITOR'S REPORT

To the Members of the **Investment Industry Regulatory Organization of Canada**

We have audited the accompanying financial statements of the **Investment Industry Regulatory Organization of Canada** which comprise the statement of financial position as at March 31, 2018 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 the **Investment Industry Regulatory Organization of Canada** as at March 31, 2018 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 27, 2018

Grant Thornton LLP

Chartered Professional Accountants
Licensed Public Accountants

(IN THOUSANDS OF DOLLARS)

STATEMENT OF FINANCIAL POSITION

March 31	2018	2017
ASSETS		
Current		
Cash and cash equivalents	$ 48,508	$ 53,385
Investments (Note 4)	46,813	32,898
Receivables (Note 5)	7,551	8,067
Prepaids	1,550	1,489
Current portion of loans receivable (Note 6)	17	16
	104,439	95,855
Restricted cash (Note 8)	–	4,000
Employee future benefits (Note 9)	497	532
Loans receivable (Note 6)	15	15
Capital assets (Note 7)	16,652	14,336
Deposit	173	180
	$ 121,776	$ 114,918
LIABILITIES		
Current		
Payables and accruals	$ 17,976	$ 15,190
Government remittances payable	415	239
Current portion of long-term debt (Note 8)	–	997
Deferred revenue	75	60
Lease inducement	397	437
	18,863	16,923
Lease inducement	3,027	2,980
Employee future benefits (Note 9)	29,171	27,853
	51,061	47,756
FUND BALANCES		
Unrestricted Fund	55,663	51,424
Externally Restricted Fund	15,052	15,738
	70,715	67,162
	$ 121,776	$ 114,918

The accompanying notes to the financial statements are an integral part of these financial statements.

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	2018 Total	2017 Total
Fund balances, beginning of year	$ 51,424	$ 15,738	$ **67,162**	$ 62,005
Excess (deficiency) of revenue over expenses	2,839	(686)	**2,153**	6,300
Remeasurements and other items (Note 9)	1,400	–	**1,400**	(1,143)
Fund balances, end of year	$ 55,663	$ 15,052	$ **70,715**	$ 67,162

The accompanying notes to the financial statements are an integral part of these financial statements.

(IN THOUSANDS OF DOLLARS)

STATEMENT OF OPERATIONS

Year ended March 31	Unrestricted Fund	Externally Restricted Fund	2018 Total	2017 Total
REVENUE				
Dealer regulation				
Membership fees	$ 50,013	$ –	$ **50,013**	$ 49,930
Underwriting levies	10,465	–	**10,465**	11,283
Registration fees	2,612	–	**2,612**	2,501
Entrance fees	85	34	**119**	443
	63,175	34	**63,209**	64,157
Market regulation				
Equity regulation	25,768	–	**25,768**	26,471
Debt regulation	1,970	–	**1,970**	1,205
Timely disclosure	2,925	–	**2,925**	2,735
Marketplace revenue	195	–	**195**	160
	30,858	–	**30,858**	30,571
Debt Information Processor	461	–	**461**	–
Other revenue				
Disciplinary fines and other fines	–	1,512	**1,512**	1,929
Investment revenue including interest	1,578	144	**1,722**	974
Miscellaneous	150	–	**150**	96
	1,728	1,656	**3,384**	2,999
	96,222	1,690	**97,912**	97,727
EXPENSES				
Dealer regulation operating expenses (Note 10)	63,156	–	**63,156**	58,618
Market equity regulation operating expenses (Note 10)	27,701	–	**27,701**	28,548
Market debt regulation operating expenses (Note 10)	1,956	–	**1,956**	1,347
Debt Information Processor operating expenses (Note 10)	570	–	**570**	312
Externally Restricted Fund expenses (Note 10)	–	2,376	**2,376**	2,602
	93,383	2,376	**95,759**	91,427
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	$ 2,839	$ (686)	$ **2,153**	$ 6,300

The accompanying notes to the financial statements are an integral part of these financial statements.

(IN THOUSANDS OF DOLLARS)

STATEMENT OF CASH FLOWS

Year ended March 31	2018	2017
Increase (decrease) in cash and cash equivalents		
Operating activities		
Excess of revenue over expenses	$ 2,153	$ 6,300
Depreciation and amortization	4,679	5,578
Rent amortization	(354)	1,087
Net loss from disposal of capital assets	229	–
Impairment write-down of capital assets (Note 7)	448	–
Employee future benefits expense	5,195	4,996
	12,350	17,961
Change in non-cash operating working capital		
Receivables	516	(932)
Prepaids	(61)	(206)
Deposit	7	(18)
Payables and accruals	2,962	(499)
Lease inducement	361	–
Deferred revenue	15	15
	16,150	16,321
Investing activities		
Disposal (purchase) of investments, net	(13,915)	2,229
Purchase of capital assets	(7,685)	(4,933)
Proceeds from disposal of capital assets	13	–
Employer contributions for employee future benefits	(2,442)	(6,092)
Increase in loans receivable, net	(1)	(8)
	(24,030)	(8,804)
Financing activities		
Repayment on long-term debt	(997)	(997)
Release of Restricted Fund cash	4,000	–
	3,003	(997)
(Decrease) increase in cash and cash equivalents	(4,877)	6,520
Cash and cash equivalents, beginning of the year	53,385	46,865
Cash and cash equivalents, end of the year	$ 48,508	$ 53,385
Cash and cash equivalents consist of:		
Cash on hand and balances with bank	$ 15,453	$ 6,619
Cash equivalents	33,055	46,766
Cash and cash equivalents, end of year	$ 48,508	$ 53,385

The accompanying notes to the financial statements are an integral part of these 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, business conduct, and financial conduct of dealer firms and their registered employees, and market integrity rules regarding trading activity on Canadian debt and equity marketplaces.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

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

FUND ACCOUNTING

The Unrestricted Fund includes:

a) Dealer regulation and market regulation revenue and expenses, including amortization of Unrestricted Fund capital assets

b) Debt Information Processor revenue and expenses and

c) Funding of the deficit in the IIROC Supplemental Plan for Executives (IIROC SERP) – Non-Registered Defined Benefit Pension Plan, IIROC Non-Pension Post-Retirement Benefits Plan (IIROC PRB), Defined Benefit provisions of the Retirement Plan for Employees of IIROC (IIROC RPP) and the formerly Market Regulation Services (RS) sponsored Supplemental Income Plan for former TSX Employees (Former RS SIP) – Non-Registered Defined Benefit Plan.

The Externally Restricted Fund includes:

a) The collection of fines and settlement monies arising from enforcement actions (disciplinary 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. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE RECOGNITION

Unrestricted revenues are recognized as revenue as follows:

Dealer regulation

Annual membership fees are assessed upon dealers 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 dealers 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 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 dealers 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 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.

Debt Information Processor fees are recognized as billed and when collection is reasonably assured. The Organization began charging for these services on April 1, 2017.

Timely disclosure revenue and marketplace revenue are recognized as billed and when collection is reasonably assured.

Disciplinary fines, termination notices and late filing fees due from dealer firms are recognized as revenue in the Externally Restricted Fund when they are assessed, amounts can be reasonably estimated, and collection is reasonably assured. Late filing fees and initiation fees from new member firms are recognized as revenue in the Externally Restricted Fund when received. Disciplinary fines, continuing education fines and late filing fees from registrants of dealer 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. 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.

The Organization's investments (see Note 4) include an equity investment that is not traded on an active market and, therefore, is accounted for at cost.

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.

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 the quarter after the assets are available for use.

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. A partial impairment loss is recognized when the net carrying amount of a capital asset exceeds the asset's fair value or replacement value (Note 3). The impairment loss is recognized as an expense in the statement of operations. The Organization assesses whether fair value or replacement cost is applied to measure the write-down on an asset-by-asset basis. The Organization undertakes an annual review to assess whether assets should be written off, and to identify partial impairment 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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 under payables and accruals.

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.

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

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 the use of management's judgement in arriving at a 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 accruals, allowance for doubtful accounts, eligibility of expenditures for capitalization, date of substantial completion of technology projects to begin amortization, amortization periods for capital assets and valuation of employee future benefits asset/liability.

(IN THOUSANDS OF DOLLARS) | MARCH 31, 2018

3. CHANGE IN ACCOUNTING POLICIES

The Organization has chosen to early adopt the new recommendations of the CPA Canada Handbook – Accounting – Part III – Accounting Standards for Not-for-Profit Organizations in *Section 4433 Tangible Capital Assets held by Not-for-Profit Organizations* and *Section 4434 Intangible Assets Held by Not-for-Profit Organizations*. These new standards replace *Section 4431 Tangible Capital Assets held by Not-for-Profit Organizations* and *Section 4432 Intangible Assets Held by Not-for-Profit Organizations.*

As a result of the new standards, an impairment loss is recognized when the carrying amount of a capital asset exceeds the fair value or replacement value of the asset. Previously, an impairment loss was only recognized when a capital asset no longer had any long-term service potential to the Organization.

The Organization has applied the new standards on a prospective basis, effective for all transactions and other events and conditions occurring after April 1, 2017. Under the transitional provisions of the new standards, the Organization is permitted to recognize an adjustment to opening fund balances as at April 1, 2017 to reflect partial impairments of capital assets existing at that date. The Organization has elected not to apply this transitional provision. As a result, it recognized an impairment expense in the current period of $448.

4. INVESTMENTS

Investments consist of the following:

	2018	2017
Marketable securities, at amortized cost	$ 34,458	$ 25,266
Mutual funds, at fair value	12,355	7,632
	$ 46,813	$ 32,898

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.

5. RECEIVABLES

	2018	2017
Trade	$ 7,551	$ 8,067
Allowance for doubtful accounts	–	–
	$ 7,551	$ 8,067

The gross carrying amount of the impaired trade receivables was $Nil (2017 – $Nil). The amount of impaired loss recorded in the Statement of Operations related to the trade receivables is $Nil (2017 – $Nil).

6. 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 February 25, 2021.

(IN THOUSANDS OF DOLLARS) | MARCH 31, 2018

7. CAPITAL ASSETS

	Cost	Accumulated Amortization	2018 Net Book Value	2017 Net Book Value
Unrestricted Fund:				
Tangible				
Office furniture and equipment	$ 8,462	$ 6,775	**$ 1,687**	$ 1,390
Leasehold improvements	9,863	4,084	**5,779**	4,319
Computer equipment and software	3,739	3,470	**269**	338
Technology projects hardware	6,604	5,775	**829**	1,669
Intangible				
Technology projects software	19,912	14,049	**5,863**	4,934
	48,580	34,153	**14,427**	12,650
Externally Restricted Fund:				
Tangible				
Technology projects hardware	1,470	829	**641**	154
Leasehold Improvements	673	346	**327**	383
Intangible				
Technology projects software	3,839	2,582	**1,257**	1,149
	5,982	3,757	**2,225**	1,686
	$ 54,562	$ 37,910	**$ 16,652**	$ 14,336

As at March 31, 2018, there are fifteen technology projects (hardware and software) which are in progress with a total cost of $3,906. As such, these assets are not yet being amortized. In addition, there are five other projects with a total cost of $3,306 in office furniture and equipment, leasehold improvements, and technology projects that were completed in the last quarter of 2018. No amortization was recorded on these assets as amortization begins in the quarter after assets are available for use.

During the year, the Organization recognized an impairment loss in the amount of $265 on office furniture and equipment, and $183 on computer equipment and software. The assets were written down to their estimated fair value as management has determined that the assets will be disposed of before the end of their previously estimated useful lives. The impairment loss was recognized in the statement of operations.

(IN THOUSANDS OF DOLLARS) | MARCH 31, 2018

8. LONG-TERM DEBT

	2018	2017
Loan payable – interest at banker's acceptance rate plus 0.85% (1.84% at March 31, 2017), due March 2018, repayable in monthly instalments of $83 excluding interest	$ –	$ 997
Less: current portion	–	997
	$ –	$ –

On July 29, 2011, the Organization entered into a credit agreement with the Canadian Imperial Bank of Commerce (CIBC) to finance the Organization's working capital, Toronto head office and Calgary office refurbishment requirements. The credit agreement included 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 had not borrowed any amounts under the Revolving Credit Facility as at March 31, 2017. The Facility expired on July 29, 2017 and was not renewed.

In July 2017, IIROC paid off the outstanding balance on the Term Facility in full (March 31, 2017 – $997 outstanding). The $4,000 in cash and cash equivalents held as collateral security in support of the loan was discharged by CIBC at that time.

9. EMPLOYEE FUTURE BENEFITS

The Organization provides retirement and post-employment benefits for its employees and has both defined benefit and defined contribution pension plans. The defined benefit plans provide benefits that are based on a combination of years of service and a percentage of the participant's plan earnings. Under the defined contribution plan provisions, the Organization makes contributions based on a percentage of the participant's plan earnings as well as a match based on an employee's 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-defined contribution accruals. The former IDA also sponsored a SERP which became the IIROC SERP. The legacy RS pension plans, which included the registered plan (Former RS RPP) and the non-registered Supplemental Income Plan (Former RS SIP) were closed at December 31, 2010 and its active members began accruing benefits under the IIROC RPP and the IIROC SERP after that date. However, these legacy 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 (Former RS RPP), Defined Benefit Plan – inactive
2. The Formerly RS-sponsored SIP for former TSX Employees (Former RS SIP), Non-Registered Defined Benefit Plan – inactive

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9. EMPLOYEE FUTURE BENEFITS (CONTINUED)

3. Retirement Plan for Employees of IIROC (IIROC RPP) – includes Defined Benefit and Defined Contribution provisions
4. IIROC Supplemental Plan for Executives (IIROC SERP), Non-Registered Defined Benefit (DB) Pension 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, a 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, 2017. An interim actuarial valuation of the IIROC PRB plan was also conducted at April 1, 2016. The next actuarial valuations for the IIROC PRB and for all defined benefit pension arrangements will be prepared no later than April 1, 2019 and April 1, 2020 respectively.

IIROC closed the defined benefit provisions of the IIROC RPP to new hires beginning April 1, 2013. Effective September 1, 2015, IIROC eliminated non-pension post-retirement benefits for new hires and members who are not eligible for benefits by September 1, 2020.

Subsequent to year end, on April 3, 2018, IIROC changed the fund custodian for a portion of the defined benefit plans assets. As a result, assets totaling $8,969 for the Former RS RPP and $61,534 for the IIROC RPP were transferred to the new custodian.

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

	March 31, 2018			March 31, 2017		
	Pension Plans(1)	Pension Plans(2)	Other Benefits Plan(3)	Pension Plans(1)	Pension Plans(2)	Other Benefits Plan(3)
Accrued benefit obligation	$ (8,356)	$ (93,168)	$ (6,689)	$ (8,205)	$ (87,236)	$ (6,152)
Fair value of plan assets	10,021	70,686	–	9,682	65,535	–
Fund status – plans surplus/(deficit)	1,665	(22,482)	(6,689)	1,477	(21,701)	(6,152)
Valuation Allowance (VA)	(1,168)	–	–	(945)	–	–
Accrued benefit asset (liability) (net of VA)	$ 497	$ (22,482)	$ (6,689)	$ 532	$ (21,701)	$ (6,152)

(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, 2018

The employee future benefit expense is as follows:

	Year Ended					
	March 31, 2018			March 31, 2017		
	Pension Plans[(1)]	Pension Plans[(2)]	Other Benefits Plan[(3)]	Pension Plans[(1)]	Pension Plans[(2)]	Other Benefits Plan[(3)]
Current service cost	$ –	$ 3,873	$ 167	$ –	$ 3,649	$ 167
Interest cost on accrued benefit obligation	309	3,484	236	306	3,257	226
Interest income on market value of assets	(365)	(2,545)	–	(366)	(2,281)	–
Interest on Valuation Allowance (VA)	36	–	–	38	–	–
Employee future benefit expense	$ (20)	$ 4,812	$ 403	$ (22)	$ 4,625	$ 393

(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 remeasurements and other items charged on the Statement of Changes in Fund Balances is a gain of $1,400 (2017 – loss of $1,143) as follows:

	March 31, 2018			March 31, 2017		
	Pension Plans[(1)]	Pension Plans[(2)]	Other Benefits Plan[(3)]	Pension Plans[(1)]	Pension Plans[(2)]	Other Benefits Plan[(3)]
Actuarial losses (gains)	$ (132)	$ (1,683)	$ 228	$ 90	$ 1,167	$ (77)
Change in valuation allowance (VA)	187	–	–	(37)	–	–
Remeasurements and other items	$ 55	$ (1,683)	$ 228	$ 53	$ 1,167	$ (77)

(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 $Nil outstanding liability for the defined contribution plan as at March 31, 2018 (2017 – $Nil). Current period expense for the defined contribution provisions of the IIROC RPP was $1,698 (2017 – $1,546).

(IN THOUSANDS OF DOLLARS) | MARCH 31, 2018

9. EMPLOYEE FUTURE BENEFITS (CONTINUED)

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

	2018	2017
Discount rate	3.42% to 3.59%	3.44% to 3.83%
Rate of compensation increase	3.25%	3.50%

For measurement purposes, inflation of medical expenses was assumed to be 5.5% in 2018 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, 2018			March 31, 2017		
	Pension Plans(1)	Pension Plans(2)	Other Benefits Plan(3)	Pension Plans(1)	Pension Plans(2)	Other Benefits Plan(3)
Employer contributions – regular	$ –	$ 2,348	$ 94	$ –	$ 2,282	$ 85
Employer contributions – special	–	–	–	–	3,725	–
Employee contributions	–	1,118	–	–	1,178	–
Benefits paid	(140)	(1,887)	(94)	(88)	(2,095)	(85)

(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)

REGISTERED PENSION, SERP, AND PRB RISK

Registered Pension risk refers to the risk that the Organization's financial condition on the Statement of Financial Position would be adversely impacted because of the impact on the Organization's two registered plans of possible reductions in the future market value of the plan investments and/or increases in the pension liability if interest rates were to fall below current levels. These risks are mitigated by maintaining sufficient funding levels and by holding a diversified set of investments, which are managed by professional investment managers operating under specified mandates. IIROC also carefully monitors and manages funding levels and makes contributions required by law and in addition makes special contributions to maintain desired funding levels. Similar risks and funding considerations apply to the unregistered plans although funding levels for these plans are not dictated by law. IIROC monitors and manages funding levels for all unregistered plans for which it makes predetermined and special contributions to achieve desired funding levels.

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10. EXPENSES

	Year Ended March 31, 2018	Year Ended March 31, 2017
Unrestricted Fund Expenses		
Dealer Regulation Operating Expenses		
Compensation	$ 45,605	$ 42,688
Technology	3,040	3,085
Occupancy	4,964	4,640
Amortization, impairment and disposals	2,589	2,420
Other	6,958	5,785
	63,156	58,618
Market Equity Regulation Operating Expenses		
Compensation	18,071	18,164
Technology	3,286	4,024
Occupancy	1,656	1,711
Amortization, impairment and disposals	1,874	2,208
Other	2,814	2,441
	27,701	28,548
Market Debt Regulation Operating Expenses		
Compensation	1,305	832
Technology	226	255
Occupancy	117	43
Amortization, impairment and disposals	109	75
Other	199	142
	1,956	1,347
Debt Information Processor Operating Expenses		
Compensation	138	–
Technology	18	72
Occupancy	10	–
Amortization, impairment and disposals	88	35
Other	316	205
	570	312
Total Unrestricted Fund Expenses	$ 93,383	$ 88,825
Externally Restricted Fund Expenses		
Hearing panel expenses	$ 1,036	$ 1,399
Prosper Canada research project	242	–
Member education	296	288
Cybersecurity tabletop	29	–
Institute of Financial Education and Literacy	75	75
Amortization, impairment and disposals	698	840
Total Restricted Fund Expenses	$ 2,376	$ 2,602

(IN THOUSANDS OF DOLLARS) | MARCH 31, 2018

11. COMMITMENTS

As at March 31, 2018, the basic minimum aggregate annual rental payments, excluding GST/HST and shared operating costs under long term leases, with varying expiry dates to February 28, 2029, 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.

2019	$ 2,827
2020	3,287
2021	3,442
2022	3,453
2023	3,374
Thereafter	6,538
	$ 22,921

12. 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 (2017 – $125,000) guarantee on bank lines of credit of CIPF. At March 31, 2018, CIPF has not drawn on these lines of credit. Any amount drawn on the guarantee would be assessed to dealer firms. In order to meet potential financial obligations, CIPF has the following resources in place: i) a contingency fund balance of $483,927 on hand as at December 31, 2017 (2016 – $471,985); ii) lines of credit provided by two Canadian chartered banks totaling $125,000 as at December 31, 2017 (2016 – $125,000); and iii) CIPF has arranged insurance in the amount of $160,000 as at December 31, 2017 (2016 – $160,000) in the annual aggregate in respect of losses to be paid by CIPF in excess of $150,000 (2016 – $150,000) in the event of member insolvency, and a second layer of insurance in the amount of $230,000 as at December 31, 2017 (2016 – $170,000) in respect of losses to be paid in excess of $310,000 (2016 – $310,000) in the event of dealer insolvency.

The Organization is subject to one lawsuit for wrongful dismissal that was commenced in August 2017. The Organization is defending against this action.

Following the accidental loss in the 2013 fiscal year of a portable device that contained personal information relating to clients of a number of dealers, the Organization undertook a number of measures to notify potentially affected dealers 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 granted in October 2017. The Organization is defending against this action.

The total costs of the incident to date, including legal fees for responding to the two motions for authorization are $5,591 of which $10 have been incurred in fiscal 2018 (2017 – insurance recoveries net of expenses of $57). It is not possible to estimate potential damages or the range of further possible losses, if any, resulting from this incident.

13. FINANCIAL INSTRUMENTS RISKS

CARRYING AMOUNT OF FINANCIAL ASSETS

As at March 31, 2018, the carrying amount of the Organization's financial assets that are measured at amortized cost totals $90,549 (2017 – $90,749) and the carrying amount of financial assets that are measured at fair value totals $12,355 (2017 – $7,632).

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. 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 risk is mitigated by the diversified holdings in the mutual funds. 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. As at July 31, 2017, IIROC had fully paid its loan under the term facility and closed this facility. The revolving credit facility was also closed. The Organization is, therefore, exposed to liquidity risk with respect to its accounts payable. 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. The Organization mitigates liquidity risk by maintaining a minimum of three months' of budgeted operating expense as required by IIROC's internal liquidity guideline.

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 the risk of an adverse change in value due to currency risk, interest rate risk or 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 invest in foreign equities. IIROC mitigates its currency risk exposure by limiting the extent of foreign currency exposure.

13. FINANCIAL INSTRUMENTS RISKS

(CONTINUED)

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 and interest bearing investments. 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 interest-bearing investments is to ensure the security of principal amounts invested, provide for a high degree of liquidity, and achieve a satisfactory investment return. 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.

14. COMPARATIVE FIGURES

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

IIROC
Investment Industry
Regulatory Organization
of Canada

OCRCVM
Organisme canadien de
réglementation du commerce
des valeurs mobilières