

Management Discussion and Analysis

[in thousands of dollars]





Management Discussion and Analysis

[in thousands of dollars]

The Management Discussion and Analysis ["MD&A"] on IIROC's operations and financial position are presented for the fiscal year ["FY"] ended March 31, 2022, with comparatives for the previous year ended March 31, 2021. The MD&A should be read in conjunction with the Financial Statements for the year ended March 31, 2022.

IIROC is a cost-recovery, not-for-profit national organization that recovers its operating expenses for each of its key areas of regulation. There are fee models that prescribe the method of cost recovery for each key regulatory area and for the Debt Information Processor ["Debt IP"] activity. The primary source of revenue is through fees for dealer regulation, equity market regulation, debt market regulation and 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 certain public equity and debt underwritings in Canada, and registration fees based on arrangements with provincial securities authorities. As of November 1, 2021, IIROC also started collecting fees upon application for Continuing Education ["CE"] course accreditation services. IIROC assumed direct responsibility over the accreditation of CE courses for the cycle beginning January 1, 2022. In addition, within equity market regulation, IIROC separately recovers expenses for administering timely disclosure services for the TSX, TSXV, CSE and NEO exchanges.

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 judgement at the time of publication, are not guarantees or predictions of future performance.

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FY 2022 Year in Review

Key changes in senior management

During the year, Shuaib Shariff, Senior-Vice President, Finance and Administration, retired effective September 30, 2021. Laura McNeil, Chief Financial Officer, and Paul Dyck, Vice-President, Human Resources and Administration have assumed management responsibilities in Finance and Administration.

COVID-19 & economic impact

The ongoing COVID-19 pandemic has resulted in uncertainty throughout the Canadian economy, which has had an impact on many of IIROC's financial results including:

- Lower compensation costs in the current fiscal year were partially due to increased employee vacation usage and special COVID allowances paid to employees to support their home work space set up in the prior year, offset by higher costs of employee health benefit claims as services reopened;
- Additional technology and other costs were incurred to prepare for the return to office;
- Travel, office costs, conferences and training costs remained low due to continued suspension of business travel and office closures;

- Market and economic conditions have also been impacted by the pandemic and other global factors. Lower interest rates, economic stimulus and supply chain pressures over the last two years have resulted in inflationary costs pressures and, in turn, higher interest rates and market volatility. This has resulted in lower underwriting levies, investment losses and a remeasurement gain for the pension plans and post-retirement benefit plan in FY 2022;
- Member education projects funded from the Externally Restricted Fund remained low as training events were held remotely.

SRO framework

On August 3, 2021, the Canadian Securities Administrators ["CSA"] published its position paper regarding the self-regulatory organization ["SRO"] framework to create a new, single, enhanced self-regulatory organization ["New SRO"]. The main objective of creating the New SRO is to develop a regulatory framework that has a clear public interest mandate and fosters fair and efficient capital markets, by focusing on investor protection to promote public confidence and accommodating innovation and change. The New SRO will consolidate the regulatory activities of IIROC and the Mutual Fund Dealers Association of Canada ["MFDA"] through a legal amalgamation with a scheduled close date of December 31, 2022. The SROs will bring their memberships, assets, liabilities and legal and regulatory responsibilities, including memorandums of understanding, to the New SRO as a result of the amalgamation. The New SRO will be recognized in all the provinces and territories, with transitional provisions for mutual fund dealers and their representatives registered in Quebec.

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In FY 2022, IIROC created the Internally Restricted Integration Fund ["IRIF"] to separately track the costs of integration for the New SRO incurred by IIROC. This will provide transparency for reporting of integration-related costs and enable separate cost recovery. IIROC expects the integration-related costs reported in this fund may contain, but not be limited to:

- [i] integration management consulting fees;
- [ii] legal fees including those relating to the Quebec transition;
- [iii] governance costs to support the Special Joint Committee ["SJC"] and Integrated Working Committee ["IWC"], search firm fees for the new CEO and Board of Directors, and cost of the new CEO and Board of Directors during the transition period prior to the December 31, 2022 close date;
- [iv] human resources costs for staffing to support the integration while maintaining IIROC's regulatory mandate, retention and severance costs resulting from the integration, and advisory costs to support the review of benefits, pension, and compensation plans;
- [v] financial advisory costs to support consolidated reporting;
- [vi] information technology costs to support systems integration;
- [vii] communication costs including branding, website, and translation costs;
- [viii] change management consulting fees and implementation costs;
- [ix] New SRO Investor Advisory Panel and Investor Office set-up costs.

Strategic initiatives

Investments in strategic initiatives and operational improvements included:

- In January 2022, IIROC launched a new Membership Intake team, which will serve to develop and maintain effective and efficient processes for membership applications and the review of business changes filed by dealer members.
- In January 2022, IIROC and the Montreal Exchange ["MX"] entered into a Memorandum of Understanding ["MoU"] to enable cross-asset monitoring of the derivatives and underlying securities markets to help mitigate the risk of market integrity breaches. Under the MOU, IIROC will implement a cross-asset surveillance module in the market surveillance system relying on data provided by the MX. Additionally, as a prerequisite to providing cross-asset surveillance and to accommodate growing transaction volumes, IIROC is expanding the capacity of the existing market surveillance system to support end-of day processing of 2 billion equity transactions and 1 billion derivatives transactions. Collectively, these two technology solutions are referred to as the Cross-Asset Surveillance Program with a planned launch in FY 2023.
- In June 2022, IIROC launched a new website with an improved user experience and in compliance with the Accessibility for Ontarians with Disability Act.
- In FY 2022, IIROC focused priorities on supporting industry transformation and modernizing IIROC rules and approach to regulation through a new team – the Compliance Modernization Group. This team focuses on exploring ways to streamline processes across compliance teams to create efficiencies for both IIROC and dealer members.

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[in thousands of dollars]

Summary Financial Information

UNRESTRICTED FUND				
	FY 2022 \$	FY 2021 \$	Variance \$	Variance %
REVENUE				
Dealer regulation				
Membership fees	53,847	52,044	1,803	3%
Underwriting levies	11,677	12,602	(925)	(7%)
Registration fees	2,075	1,604	471	29%
CE accreditation revenue	199	—	199	N/A
Entrance fees	135	185	(50)	(27%)
	67,933	66,435	1,498	2%
Market regulation				
Equity regulation	26,616	25,510	1,106	4%
Debt regulation	2,299	2,242	57	3%
Timely disclosure	3,075	2,935	140	5%
Marketplace revenue	190	190	—	0%
	32,180	30,877	1,303	4%
Debt Information Processor ["Debt IP"]	1,634	1,633	1	0%
Other revenue				
Investment income (loss) including interest	(663)	2,606	(3,269)	(125%)
Recoveries of enforcement costs	410	243	167	69%
Miscellaneous	83	121	(38)	(31%)
	(170)	2,970	(3,140)	(106%)
Total Unrestricted Fund revenue	101,577	101,915	(338)	(0%)
EXPENSES				
Dealer regulation	63,759	65,561	(1,802)	(3%)
Market equity regulation	28,907	28,837	70	0%
Market debt regulation	2,171	2,244	(73)	(3%)
Debt IP	1,392	1,708	(316)	(19%)
	96,229	98,350	(2,121)	(2%)
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES FOR THE YEAR	5,348	3,565	1,783	50%

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[in thousands of dollars]

Summary Financial Information (continued)

INTERNALLY RESTRICTED INTEGRATION FUND		FY 2022
		\$
REVENUE		—
EXPENSES		
Integration management consulting		1,608
Legal		950
Governance		507
Human resources and related advisory		95
Quebec transition		20
Financial advisory		17
Total Internally Restricted Fund Expenses		3,197
(DEFICIENCY) EXCESS OF REVENUE OVER EXPENSES FOR THE YEAR		(3,197)

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Summary Financial Information (continued)

EXTERNALLY RESTRICTED FUND				
	FY 2022 \$	FY 2021 \$	Variance \$	Variance %
REVENUE				
Entrance fees	31	82	(51)	(62%)
Disciplinary fines and other fines	2,559	1,912	647	34%
Investment revenue including interest	26	105	(79)	(75%)
Total Externally Restricted Fund revenue	2,616	2,099	517	25%
EXTERNALLY RESTRICTED FUND EXPENSES				
Amortization, impairment and disposals [Owned assets]	1,112	690	422	61%
Hearing panel expenses	1,094	993	101	10%
Amortization and interest [Capital assets under lease]	256	211	45	21%
Website implementation	194	31	163	526%
Member education	92	137	(45)	(33%)
Osgoode Hall Law School Investor Protection Clinic	75	75	—	—
University of Toronto Law School Investor Protection Clinic	75	75	—	—
Cybersecurity Survey	68	—	68	NA
Plain Language Rulebook Implementation	47	14	33	236%
MÉDAC [Mouvement d'éducation et de défense des actionnaires]	25	25	—	—
Complainant Research	5	49	(44)	(90%)
Canadian Foundation for Advancement of Investor Rights ["FAIR"]	—	125	(125)	(100%)
Cybersecurity Tabletop Test	—	66	(66)	(100%)
Cybersecurity consultants	—	5	(5)	(100%)
Total Externally Restricted Fund expenses	3,043	2,496	547	22%
(DEFICIENCY) EXCESS OF REVENUE OVER EXPENSES FOR THE YEAR	(427)	(397)	(30)	8%

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[in thousands of dollars]

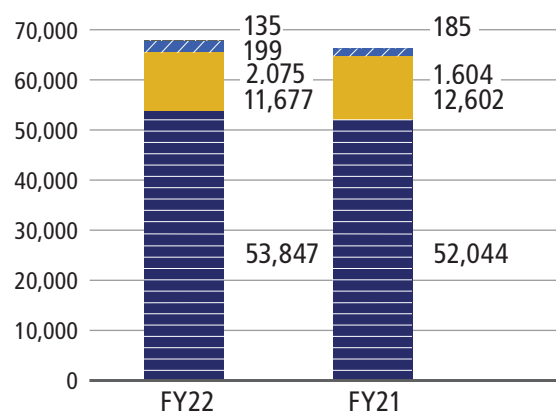
Unrestricted Fund – revenues

Unrestricted Fund revenue for the period amounted to \$101,577, \$338 lower than FY 2021 of \$101,915.

Fees from dealer regulation, equity market regulation, debt market regulation, and Debt IP fee models are the primary sources of revenue. Fees collected from these four fee models at an aggregate of \$84,396 represent

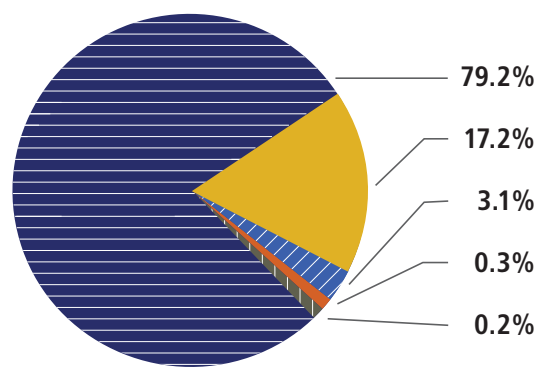
approximately 83% of total IIROC revenue [80% in FY 2021]. Fees are approved by the Board, based on projected operating expenses, and reduced by any related secondary sources of revenue. Fees are also assessed to take into account the reasonableness of proposed fees in total as well as for each category.

Dealer Regulation Revenue (\$)



- Entrance fees
- CE accreditation revenue
- Registration fees
- Underwriting levies
- Membership fees

Dealer Regulation Revenue (%)

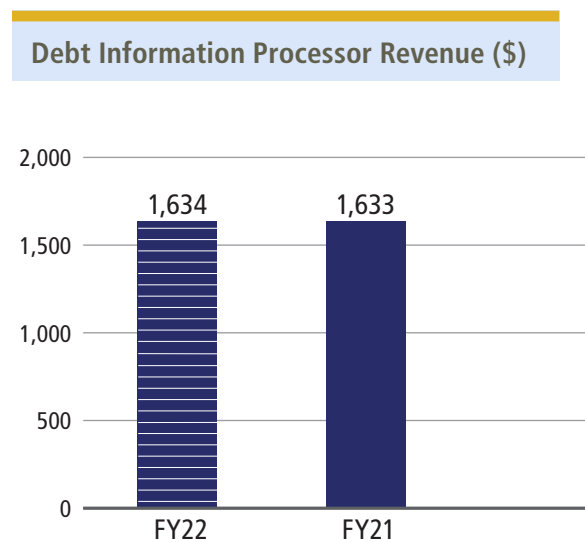
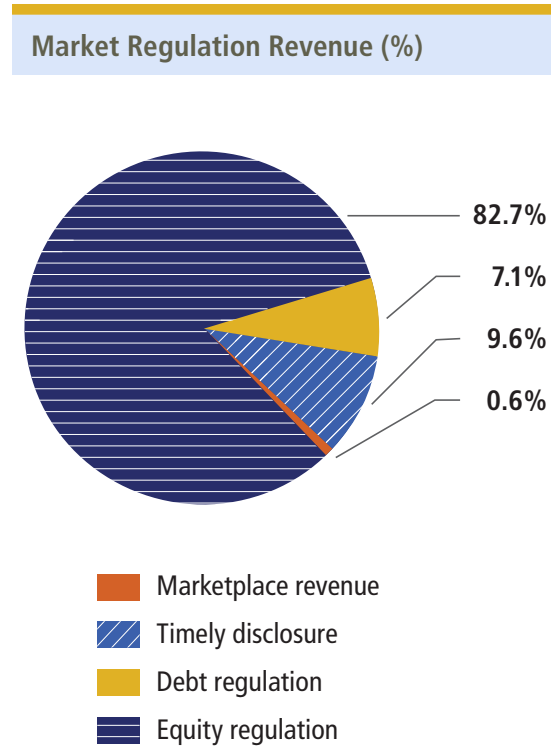
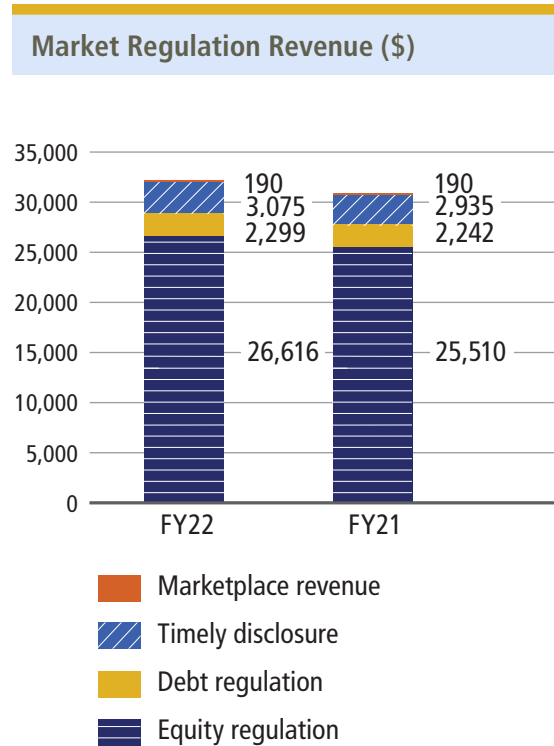


- Entrance fees
- CE accreditation revenue
- Registration fees
- Underwriting levies
- Membership fees

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Unrestricted Fund – revenues (continued)



Management Discussion and Analysis

[in thousands of dollars]

Unrestricted Fund – revenues

(continued)

Dealer regulation membership fees increased by \$1,803 or 3% to \$53,847 compared with \$52,044 in FY 2021. Equity market regulation fees increased by \$1,106 or 4% to \$26,616 compared with \$25,510 in FY 2021. Debt market regulation fees increased by \$57 or 3% to \$2,299 compared with \$2,242 in FY 2021. Note, however, that FY 2021 fees were held flat to FY 2020 to provide relief to dealer members during the COVID-19 pandemic. Debt IP fees were flat to FY 2021 at \$1,634.

On a year-over-year basis, the combined revenue from secondary sources decreased by \$165 [1%] to \$17,351 from \$17,516.

Underwriting levies, a significant secondary source of dealer regulation revenue, decreased by \$925 [7%] to \$11,677 in FY 2022 from \$12,602 in FY 2021 mainly due to a decrease in the volume of debt issuances. Note in FY 2021 there was a high volume of debt issuances, particularly from provinces as a result of COVID measures implemented.

Revenue from registration fees, the other significant secondary source of revenue, increased by \$471 [29%] to \$2,075 in FY 2022 primarily due to additional registration activity as a result of increased personnel movement between dealer member firms in the current fiscal year.

A new source of secondary revenue in FY 2022 is CE accreditation revenue. As of November 1, 2021, IIROC started collecting fees upon application for CE course accreditation services. Revenue totaled \$199 in FY 2022.

A significant secondary revenue source for market regulation is timely disclosure fees from the TSX, TSXV, CSE and NEO exchanges for administering their timely disclosure policies on a cost-recovery basis. Fees totaled \$3,075 in FY 2022, an increase of \$140 or 5% from FY 2021 of \$2,935 due to higher committed resource costs to provide timely disclosure services and a change in methodology of cost recovery.

Other revenue decreased by \$3,140 to a loss of \$170 [106%] mainly due to lower investment revenue, including revenue on earmarked investments for non-registered post-employment benefit plans. The loss in investment revenue is mainly attributable to market fluctuations in the fourth quarter of FY 2022.

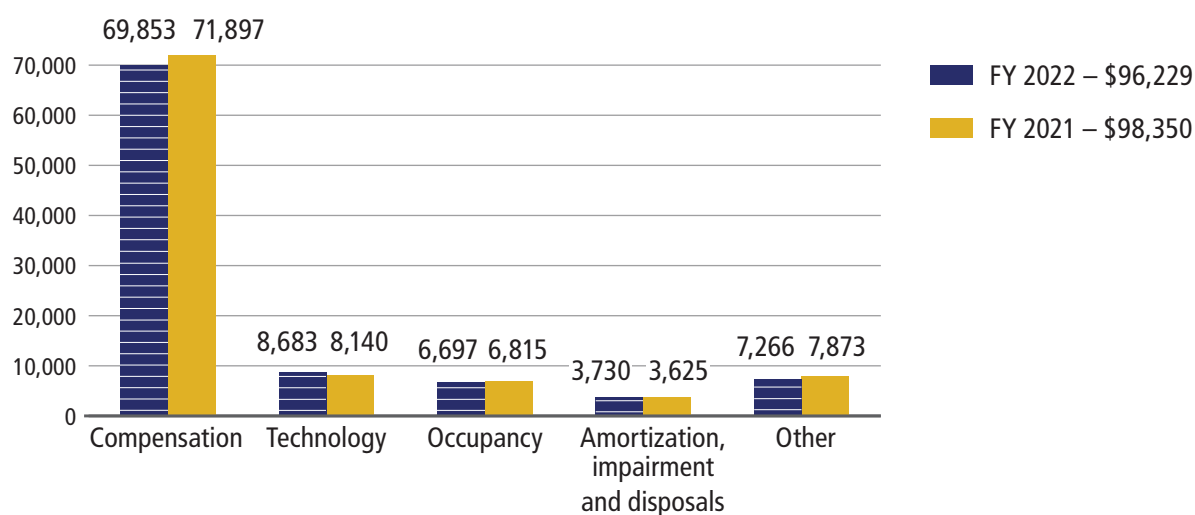
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[in thousands of dollars]

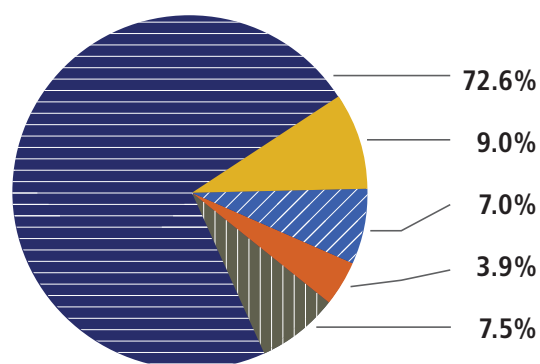
Unrestricted Fund – expenses

IIROC's total operating expenses were \$96,229 in FY 2022, a decrease of \$2,121 or 2% from \$98,350 in FY 2021. IIROC's operating expenses consist of five main categories.

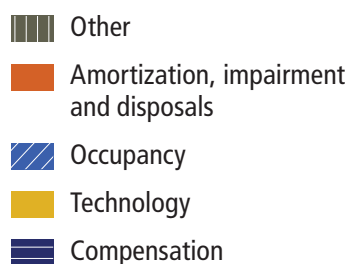
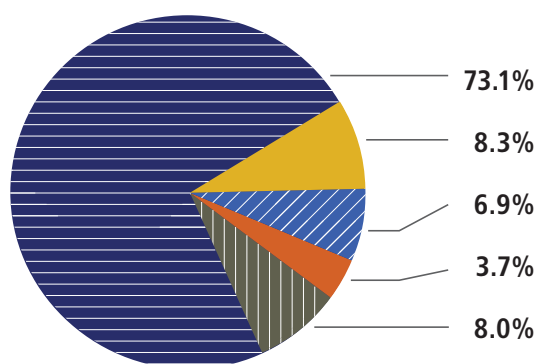
Total Operating Costs (\$)



Total Operating Costs 2022 (%)



Total Operating Costs 2021 (%)



Management Discussion and Analysis

[in thousands of dollars]

Unrestricted Fund – expenses

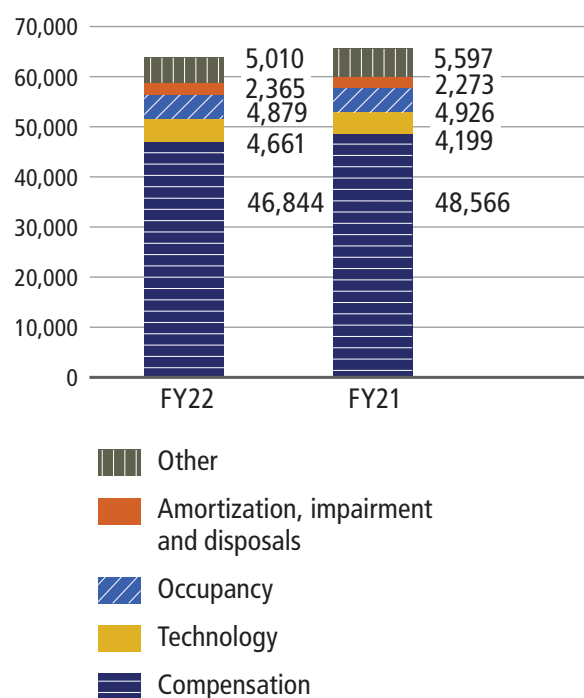
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Compensation represents the largest expense category at approximately 73% of operating expenses in FY 2022 [73% in FY 2021] and represented the largest decrease of \$2,044 [3%]. The decrease was mainly driven by reduced performance management costs, increased vacation usage and the special COVID allowances paid to employees in FY 2021, offset by compensation increases for merit reflecting IIROC's pay for performance culture, investments in resources for various initiatives and support departments, and higher employee benefits including pension and health benefit claims. The Other expenses category also decreased by \$607 [8%] mainly driven by lower costs in consulting

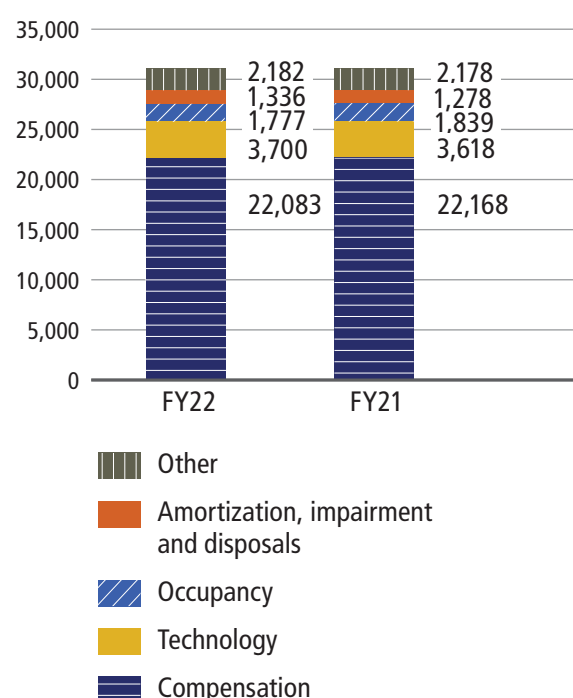
services as there were fewer projects requiring operating expenditure, and resources were drawn to the Cross-Asset Surveillance Program and work on the New SRO integration framework. These lower costs were slightly offset by \$542 [7%] of higher technology costs due to increased information security needs to support the new IIROC website; higher peripheral costs to prepare for the return to office; other application and database costs to support business activities and upgrades.

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 business unit headcount as appropriate.

Dealer Regulation Operating Costs (\$)



Market Regulation Operating Costs (\$)

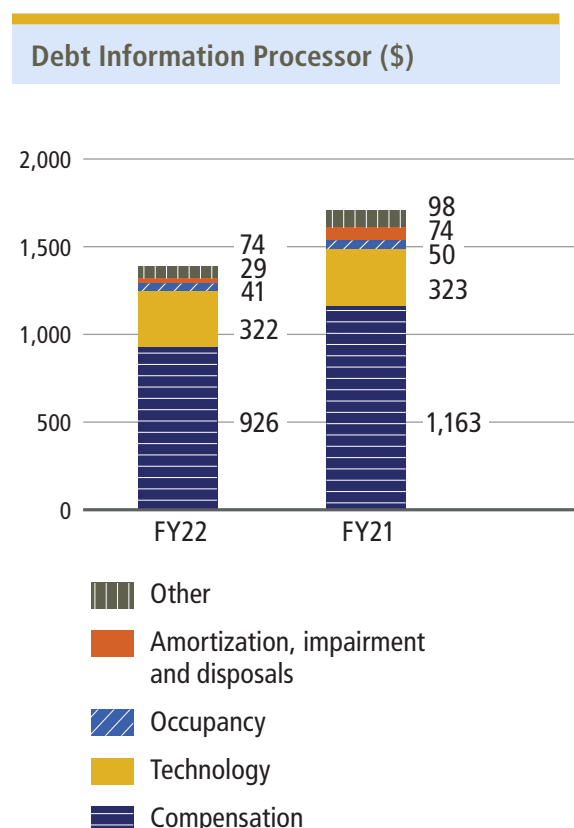


Management Discussion and Analysis

[in thousands of dollars]

Unrestricted Fund – expenses

(continued)



Dealer regulation expenses decreased by \$1,802 [3%] to \$63,759, mainly driven by lower compensation expenses as noted above. Within compensation, the investment in resources included Membership Intake, the Compliance Modernization Group and CE accreditation. The remaining decrease in dealer regulation expenses was primarily due to lower Other costs mainly driven by consulting services as there were fewer projects requiring operating expenditure, and resources were drawn to the Cross-Asset Surveillance program and integration efforts for the New SRO.

Market regulation expenses were relatively flat compared to FY 2021, equity market regulation increased by \$70 and debt market regulation expenses decreased by \$73. Market regulation compensation expense were flat despite lower compensation expenses noted above due to higher allocation of headcount to support market equity regulation services. Other costs were slightly higher due to costs incurred to support the Cross-Asset Surveillance program.

Debt IP expenses decreased by \$316 [19%] to \$1,392, due to lower compensation expenses as fewer IT resources were allocated to support Debt IP activities.

Unrestricted Fund

There was an excess of revenues over expenses of \$5,348 in FY 2022, compared with an excess of revenues over expenses of \$3,565 in FY 2021. The excess in FY 2021 reflected higher underwriting levies, investment income, and lower expenses as a result of the pandemic, and the excess in FY 2022 reflected lower compensation expenses as well as lower Other costs for consulting services as there were fewer projects requiring operating expenditure.

The excess of revenues over expenses for FY 2022 of \$5,348 and a net remeasurement gain of \$10,300 for the pension plans and the post-retirement benefit plan increased the Unrestricted Fund balance from \$58,947 to \$74,595.

In assessing the reasonability of the Unrestricted Fund balance, IIROC notes that the balance provides for liquidity requirements as per internal guidelines, protection against potentially significant adverse moves in the funding position and solvency requirements for pension plans, non-registered Supplemental Executive Retirement Plan ["SERP"], Supplemental Income Plan ["SIP"], and Post Retirement Benefits Plan ["PRB"].

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Unrestricted Fund (continued)

In addition, IIROC set aside reasonable amounts for a portion of the Canadian Investor Protection Fund ["CIPF"] loan guarantee and for other contingencies.

Internally Restricted Integration Fund

Integration expenses for the new SRO are reported in the Internally Restricted Integration Fund. Certain costs may be funded by IIROC on a permanent basis upon approval by the Board and/or by the Externally Restricted Fund for qualified expenses upon approval by the CSA and the Corporate Governance Committee. Integration costs will be recovered through a separate fee model and the proposal will be communicated to members through the member information circular sent in advance of the member vote. Until a cost recovery model is implemented, the build-up of these costs in the IRIF will result in a draw-down of IIROC's reserves. Total expenses were \$3,197 for FY 2022 and were mainly for integration management consulting, legal, and governance. At the end of FY 2022, Internally Restricted Integration Fund balance was at a deficit of \$3,197.

Externally Restricted Fund

Revenues for the Externally Restricted Fund come from fines collected by IIROC and payments made under settlement agreements entered into with IIROC, as determined by IIROC Hearing Panels, interest earned on invested fund balances, and certain entrance fees.

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 for such use and approved by IIROC's Corporate Governance Committee ["CGC"]. According to the Recognition Orders amended and effective April 1, 2021, this fund is to be used for any of the following:

- [i] For the development of systems or other expenditures that are necessary to address emerging regulatory issues and are directly related to protecting investors or the integrity of the capital markets, provided that any such use does not constitute normal course operating expenses;
- [ii] For education or research projects that are directly relevant to the investment industry, are in the public interest, and which benefit the public or the capital markets;
- [iii] To contribute to a non-profit, tax-exempt organization, the purposes of which include protection of investors;
- [iv] For such other purposes as may be subsequently approved by the Commissions.

Total revenues for the year amounted to \$2,616, compared with \$2,099 for FY 2021, an increase of \$517 [25%].

Total expenses increased by \$547 [22%] to \$3,043. The increase was primarily due to higher amortization and impairment costs in FY 2022, primarily from the impairment of a portion of the existing market surveillance system owing to the Cross-Asset Surveillance Program, and amortization of IIROC's new website. Additionally, IIROC incurred higher hearing panel expenses which reflected costs for a biennial training conference for Hearing Committee members in FY 2022. Lastly, there were higher costs incurred on the implementation of the new website in FY 2022.

The resulting deficiency of revenues versus expenses for the year was \$427, compared to a deficiency of \$397 in the previous year.

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Externally Restricted Fund (continued)

The CGC, as noted above, is responsible for approving expenditures in compliance with the Recognition Orders. Any items approved by the CGC are commitments of the funds until the amounts are actually spent. IIROC therefore tracks not just the accounting balances but also the uncommitted funds that are actually available. The uncommitted funds are required by internal policy to fund three years' worth of hearing panel-related expenses, and they may be earmarked for external and internal purposes.

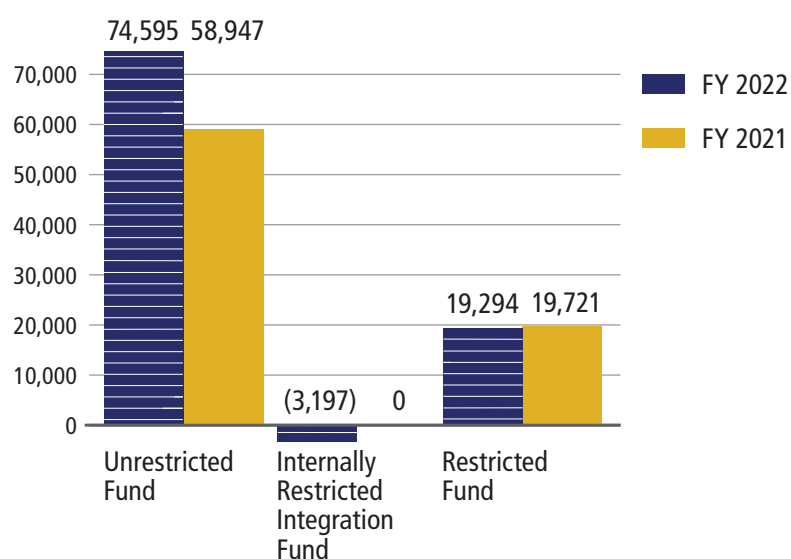
At the end of FY 2022, Externally Restricted Fund balance was \$19,294. Committed funds were \$6,051. Remaining uncommitted funds after accounting for three years' worth of hearing panel expenses, amount to approximately \$7,243. These remaining amounts are expected to be sufficient to fund both upcoming external and internal needs.

Liquidity and Capital Resources

At the end of FY 2022, IIROC held total combined fund balances in the Unrestricted, Internally Restricted Integration, and Externally Restricted Fund of \$90,692, up \$12,024 from the FY 2021 balance of \$78,668. The increase in fund balances arose from an excess of revenues over expenses of \$1,724 [excess of \$5,348 in Unrestricted Fund, partially offset by deficit of \$3,197 and \$427 in the Internally Restricted Integration Fund and Externally Restricted Fund, respectively], and the net remeasurement gain for the pension plans and post-retirement benefit plan of \$10,300.

During the year, IIROC increased its capital assets by \$5,336 [\$4,166 in FY 2021]. The increase arose primarily from the Cross-Asset Surveillance Program which includes enhancements to the market surveillance

Fund Balances at Year End (\$)



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Liquidity and Capital Resources

(continued)

system [\$1,979] and a new module in the market surveillance system to enable cross-asset surveillance [\$1,208], IIROC website [\$897], end-user computer equipment capital lease additions [\$388], and other assets (mostly technology applications) [\$864].

In addition to cash and cash equivalents of \$53,612, IIROC holds investments of \$61,976 in high quality liquid short-term marketable securities such as government-issued treasury bills, debt instruments of financial institutions with remaining maturities of greater than three months, and mutual funds. Mutual funds are earmarked assets to fulfill non-registered post-retirement benefits. Unrestricted cash, cash equivalents and investments excluding earmarked assets are \$78,772.

IIROC has an internal liquidity guideline for the Unrestricted Fund of a minimum of three months' of operating expenses. Based on FY 2023 expected operating expenses of \$105,705 the minimum Fund required by the guideline is \$26,426. IIROC's integration expenses in the Internally Restricted Integration Fund are anticipated to be roughly \$10,000 in FY 2023, and as noted, will draw on IIROC's reserves until an integration cost recovery model is implemented. The Unrestricted Fund holds more than the minimum required and is sufficient to cover immediate integration expenses anticipated.

Commitments

As at March 31, 2022, IIROC has in place basic minimum aggregate annual rental commitments of \$10,049 [FY 2021 – \$13,365], excluding GST/HST and shared operating expenses under long-term operating leases, with varying expiry dates to February 28, 2029. These rental commitments also require IIROC to pay its share of operating expenses, which fluctuate year to year. In addition, there are minimum aggregate executory costs for capital leases of \$1,158 [FY 2021 – \$1,215] pertaining to costs related to the operation of the leased capital assets.

Capital Leases

IIROC has entered into a number of arrangements through an outsourced service model which embeds the use of dedicated capital assets for the majority of useful lives. The key capital assets are:

- IT network, storage, and security hardware;
- Market surveillance hardware;
- End-user computer equipment including laptops and desktops; and
- Copiers.

Contingencies

IIROC has an agreement with CIPF, which protects clients who suffer financial loss due to the insolvency of an IIROC-registered dealer. In order to meet potential financial obligations, CIPF has the following resources in place: [i] a contingency fund balance of \$539,860 on hand as at December 31, 2021 [2020 – \$544,008]; [ii] lines of credit provided by two Canadian chartered

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Contingencies (continued)

banks totaling \$125,000 as at December 31, 2021 [2020 – \$125,000]; and [iii] insurance in the amount of \$160,000 as at December 31, 2021 [2020 – \$160,000] in the annual aggregate in respect of losses to be paid by CIPF in excess of \$200,000 [2019 – \$200,000] in the event of member insolvency, and a second layer of insurance in the amount of \$280,000 as at December 31, 2021 [2020 – \$280,000] in respect of losses to be paid in excess of \$360,000 [2019 – \$360,000] in the event of member insolvency. IIROC has provided a \$125,000 [2021 – \$125,000] guarantee on CIPF bank lines of credit. At March 31, 2022, CIPF has not drawn on these lines of credit. Any amount drawn on the IIROC guarantee would be eligible to be assessed to dealer firms.

In parallel to the creation of New SRO, a new investor protection fund will combine the two existing investor protection funds, CIPF and the MFDA Investor Protection Corporation, into an integrated fund independent of the new SRO. The guarantees will be in place until such time they are renegotiated.

Following the accidental loss in FY 2013 of a portable device that contained personal information relating to clients of a number of dealers, IIROC 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, IIROC was served with a motion for authorization to institute a class action and to obtain the status of representative in the Superior Court of Quebec. The petitioner's class action motion on behalf of persons in Canada whose personal information was lost by IIROC 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 IIROC.

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 was based mainly on the same alleged facts and grounds as the previous motion, but in addition alleged that the petitioner had been the victim of identity theft. The motion for authorization was granted in October 2017. Damages sought were \$1 in compensatory and \$0.5 in punitive damages per class member plus other damages and legal costs. The case proceeded to trial in December 2020. In March 2021, the Superior Court of Quebec dismissed the class action against IIROC in its entirety and awarded IIROC costs against the petitioner. In April 2021, the petitioner appealed the judgment to the Quebec Court of Appeal. The appeal was heard and dismissed by the Court of Appeal in May 2022.

The total costs of the incident incurred by IIROC to date, including legal fees for responding to the two motions for authorization, are \$5,532 of which nil was incurred in FY 2022 [FY 2021 – \$2] as directly paid by the insurer.

Use of Estimates

Management reviews the carrying amounts of items in the financial statements at each fiscal year-end 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.

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Use of Estimates (continued)

Items subject to significant management estimates include:

- [a] Accruals – accruals are made for expenditures incurred but invoices not yet processed as of March 31, 2022. To be eligible for an accrual, IIROC must have received the goods or services as of March 31, 2022. For work-in-progress projects, the accrued amount is determined based on the percentage of completion of the projects.
- [b] Allowances for doubtful accounts – estimates are determined based on the dealers' financial viability. The allowance for doubtful accounts as at March 31, 2022 was \$6 [FY 2021 – \$6].
- [c] Eligibility of expenditures for capitalization – eligibility is determined based on accounting rules. IIROC does not capitalize consumables nor individual assets falling below their capitalization threshold in accordance with their capitalization guideline.
- [d] Date of substantial completion of technology projects to begin amortization – this is the date at the commencement of the fiscal quarter following when an asset is considered substantially complete and available for use.
- [e] Useful lives of capital assets – 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 shorter of their useful life and the term of the respective leases.
- [f] Fair value of capital assets – capital assets are initially measured at cost and subsequently measured at cost less accumulated amortization. IIROC management undertakes an annual review to assess whether capital assets should be written off entirely, and also to identify partial impairment.
- [g] Minimum lease payments – minimum lease payments are estimated based on terms of lease contracts.
- [h] Lease discount rate – IIROC management determines an appropriate discount rate to apply in calculating the present value of lease payments for capital leases. A reasonable basis was determined to be IIROC's proxy rate for incremental borrowing. Considerations were given to IIROC's credit risk, the weighted average life of the leases, and comparable yield curves.
- [i] Valuation of employee future benefits asset/liability – IIROC management, in consultation with actuaries Willis Towers Watson, estimates the future earnings, discount rates and future salary increases or a prescribed range thereof for the purpose of the benefit asset/liability calculation which is carried out by the actuaries.

Risk

IIROC utilizes a three lines of defense approach for risk management: business units and support functions are the first line; the Enterprise Risk Management ["ERM"] department is the second line; and Internal Audit is the third line. Oversight of risk management is provided by IIROC's Risk Committee ["RC"], comprising senior executives of IIROC, and is further overseen by the Finance, Audit and Risk ["FAR"] Committee of the Board, as set out in their respective Charters.

Management Discussion and Analysis

[in thousands of dollars]

Risk (continued)

IIROC has established a Risk Management Policy that sets out the framework for the identification and management of risks. IIROC's risk management framework includes an annual self-assessment that combines a top-down and bottom-up evaluation of risks facing organizational units (both business units and support functions) as well as IIROC as a whole, including both current and emerging risks. The results of the self-assessments are reviewed and discussed with the RC, the FAR Committee, and the Board. Throughout the year, the Vice President, Enterprise Risk and Project Management provides a formal update on risks and risk management activities at RC and FAR Committee meetings.

The Internal Audit function is governed by an Internal Audit Charter, approved by IIROC's FAR Committee. 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 works closely with its Internal Auditor to develop an annual risk-based Internal Audit plan. The audits performed pursuant to the plan independently assess the adequacy and operating effectiveness of IIROC's internal controls.

LITIGATION RISK

The litigation disclosed above and in Note 11 to the Financial Statements was dismissed by the Quebec Court of Appeal in May 2022.

From time to time, IIROC may face claims by employees, the public 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 its 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 risks whenever possible.

CYBERSECURITY RISK

IIROC's cybersecurity program includes working with its Services Providers and industry partners to keep current of ever evolving cybersecurity threats. The program incorporates proactive controls including business and vendor processes to protect IIROC's data and IT environment. Periodic assessments are conducted of the environment and processes with learnings incorporated into remediation activities. With the shift in threats seen in the last 12 months, IIROC will continue to evolve its controls and processes.

REVENUE RISK

About 80% of IIROC's revenue comes from dealer membership fees, equity and debt market regulation fees and Debt IP 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. Additional risk arises from possible reductions in market activity that could adversely affect underwriting levies and from possible adverse changes in provincial registration-related revenues.

REGISTERED PENSION, SERP, SIP AND PRB RISK

Registered pension risk refers to the risk that IIROC's financial position could be adversely impacted because of the impact on IIROC'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

Management Discussion and Analysis

[in thousands of dollars]

Risk (continued)

levels and by holding a diversified set of investments, which are managed by professional investment managers operating under specified mandates and tolerances. 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 including assets earmarked for SERP, SIP and PRB, 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 RISK

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 IIROC. 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 IIROC to credit risk, which IIROC limits by investing in high-quality short-term securities. Mutual fund investments also indirectly expose IIROC to credit risk. The risk is mitigated by the diversified holdings in 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 IIROC could encounter difficulty in meeting obligations associated with its financial liabilities. IIROC is exposed to liquidity risk with respect to its accounts payable. IIROC mitigates its liquidity risk by preparing and monitoring forecasts of cash flows from operations, anticipating investing and financing activities and holding assets that can be readily converted into cash, and 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 due to changes in market prices. IIROC minimizes its exposure to market risk through its policy of investing a portion of its investments 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. In addition, adverse or volatile capital market conditions both in the primary market and secondary markets could have an impact on IIROC's ability to collect underwriting levies.

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 that invest in foreign equities. IIROC mitigates its currency risk exposure by limiting the extent of foreign currency exposure.

Management Discussion and Analysis

[in thousands of dollars]

Risk (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. IIROC 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.

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.

COVID-19 & Geopolitical Risk

The COVID-19 pandemic caused significant economic disruption. Lower interest rates, economic stimulus and supply chain pressures over the last two years compounded by recent geopolitical events, such as the war in Ukraine have resulted in inflationary

costs pressures and in turn higher interest rates and market volatility. IIROC may still be subject to greater operational, credit, liquidity and market risk.

Amalgamation Risk

The upcoming amalgamation between IIROC and MFDA is expected to require significant one-time costs and IIROC may be subject to greater financial and liquidity risk. IIROC expects to have sufficient liquidity to cover its share of the integration costs, while leaving sufficient funds to comply with IIROC's internal liquidity guideline of a minimum of three months of budgeted operating expenses. However, the costs of integration will result in a draw-down of reserves before costs are recovered.

The scheduled closing date is December 31, 2022. To complete the transaction, the CSA must approve the joint application of IIROC and MFDA to recognize the New SRO as a self-regulatory organization under applicable securities legislation, and both IIROC and MFDA members must also approve via vote at a special meeting of their respective members.

Resiliency

IIROC has a robust resiliency program to ensure critical and core regulatory and support services can continue to function in the event of a disruption. This program includes crisis management protocols, playbooks, business continuity plans ["BCPs"] and IT Disaster Recovery protocols. IIROC has processes in place to update and strengthen the program as needed and to periodically test the functioning of various aspects of the program.

Throughout the pandemic, IIROC has deployed a Crisis Management Team to lead and oversee all aspects of its response, including the provision and maintenance

Management Discussion and Analysis

[in thousands of dollars]

Resiliency (continued)

of full remote working. As part of plans to return to the office, IIROC has recently implemented a new remote work policy, significantly increasing the flexibility of employees to work from home. The crisis management team is now overseeing the smooth transition of employees to this new hybrid work environment that started in May 2022.

Outlook

IIROC's strategic priorities for FY 2023 reflect its ongoing commitment to investor protection and market integrity, while operating in an efficient, cost-effective and sustainable manner.

These activities and initiatives will take place in the context of the amalgamation of IIROC and the MFDA that is scheduled to close on December 31, 2022, creating a New SRO effective January 1, 2023.

Key priorities for next year include:

- Advancing various initiatives and commitments related to investor protection, including:
 - » working closely with MFDA to create a New SRO Investor Advisory Panel, which builds on IIROC's initial plan to establish an Expert Investor Issues Panel;
 - » exploring ways to return to investors disgorged funds collected from an advisor or firm disciplined by IIROC, and publishing a proposal for input from stakeholders;
 - » seeking comments from stakeholders on enhancing the current arbitration program, based on recommendations from an independent working group of investor advocates and investment industry and arbitration professionals;
 - » further to IIROC's examination of service levels and access to trading, including online trading availability, functionality and service at Order-Execution-Only dealers, reviewing the information gained from industry Working Group discussions to determine next steps;
 - » developing and publishing competency profiles for Supervisors, Portfolio Managers, Associate Portfolio Managers and Traders; and
 - » pursuing efforts to obtain enhanced powers to collect evidence and statutory protection from malicious lawsuits while carrying out regulatory duties in all Canadian jurisdictions.
- Supporting the industry's transformation to more effectively and efficiently serve Canadians by:
 - » introducing efficiencies in new member application review processes through the creation of the new, dedicated Membership Intake team, and continuing to strengthen IIROC's expertise with respect to crypto asset trading platforms and other new business models;
 - » continuing to work with the CSA in ensuring that crypto asset trading platforms subject to securities law requirements are fully integrated in the Canadian regulatory system;
 - » modernizing IIROC's rules and approach to regulation, including continuing discussions with the industry on requirements related to back-office arrangements and subordinated loan financing;
 - » exploring ways to streamline processes across compliance teams to create efficiencies for both IIROC and the firms IIROC regulates through the creation of the Compliance Modernization Group;

Management Discussion and Analysis

[in thousands of dollars]

Outlook (continued)

- » leveraging data and analytics to create efficiencies internally and support policy development, and publishing a “Failed Trade Study” of settlement processes in Canadian equities to benchmark and assess the current short selling regime;
- » progressing derivatives rule reform to introduce greater consistency between derivatives and securities rule requirements; and
- » helping firms build operational resilience through the effective management of cybersecurity and technology risks.
- Working towards the successful closing of the IIROC and MFDA amalgamation and creation of a new, enhanced self-regulatory organization.
 - » Following the CSA’s decision to consolidate IIROC and the MFDA which was announced in August 2021, IIROC has been working together with the MFDA and the CSA to prepare for the December 2022 closing and creation of a New SRO.
 - » Last fall, IIROC and the MFDA jointly retained Deloitte to act as integration manager and are continuing with the planning and Day 1 readiness efforts related to the operational integration.
 - » On May 12, 2022, the CSA published a comprehensive package of materials for public comment, including the proposed interim rules and Terms of Reference for the New SRO Investor Advisory Panel.
 - » Following the confirmation of the New SRO Board and CEO, IIROC will forge ahead, with MFDA to create a new SRO that delivers effective and efficient regulation in the public interest.

- IIROC is also focused on advancing Equity, Diversity, Inclusion and Anti-Racism program, and adopting a revised remote work policy which provides employees with substantially more flexibility.

These priorities will help inform the development of a new strategic plan and priorities for the New SRO.

The projection presented for the upcoming fiscal year is for IIROC continuing operations as a stand-alone operation and does not take into account the amalgamation with the MFDA nor related costs of integration. Total operating expenses for the coming year are expected to increase to \$105,705 in FY 2023 from \$96,229 in FY 2022, an increase of \$9,476 [9.8%]. The increase in expenses reflects salary increases for merit and market adjustments in FY 2023, annualized impact of headcount and technology costs to support new activities and targeted investments, higher server and storage costs for higher market surveillance transaction volumes and added applications, and the reversal in FY 2023 of expense savings in FY 2022 due to COVID-19 closures and impacts.

For underwriting levies, FY 2022 actuals of \$11,677 were higher than the past five-year average of approximately \$10,253. There was a lower volume of issuances in FY 2022 in comparison to FY 2021, particularly notable in the fourth quarter. FY 2023 underwriting levies are currently estimated to be \$10,000. Actual volume of issuances are impacted by market conditions, and rising interest rates may reduce capital raising activities.

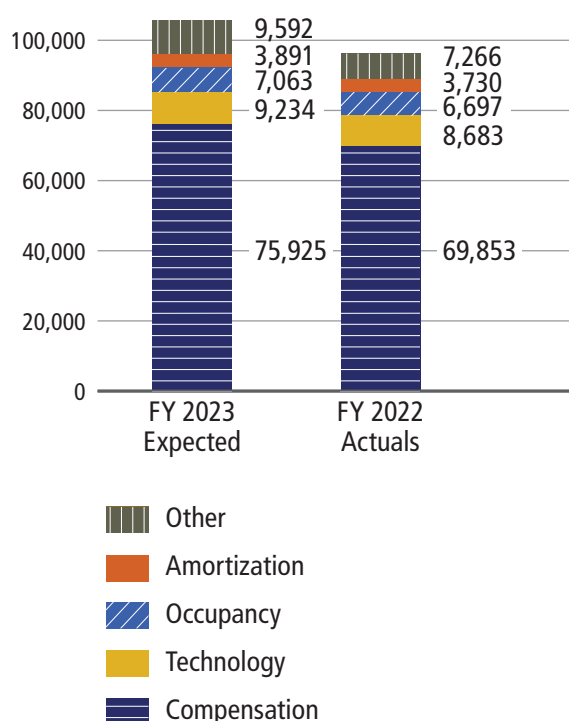
Fees for existing activities will increase by 3.1% in FY 2023. Specifically, Dealer Regulation fees will increase by 3.0% reflecting targeted investments in the Membership Intake Team and Compliance Modernization Group; Equity Market Regulation fees will increase by 3.5% for the same targeted investments

Management Discussion and Analysis

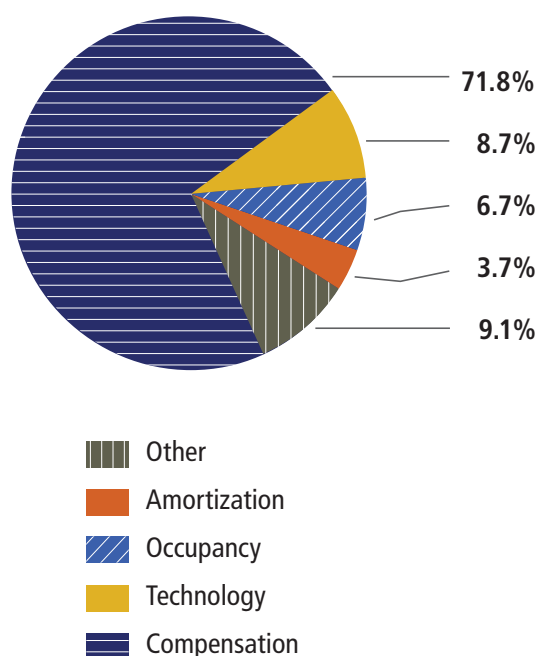
[in thousands of dollars]

Outlook (continued)

2023 Planned Operating Expenses (\$)



2023 Planned Operating Expenses (%)



plus part of the cost to support higher market volumes; Debt Market Regulation fees will increase by 1.0%; and Debt Information Processor ('Debt IP') fees will remain flat.

Equity Market Regulation fees will increase by a further 2.9% for new activities relating to the Cross-Asset Surveillance Program, which includes expansion of market surveillance capacity of 1.8% that benefits both equity and cross-asset surveillance, for a total fee increase of 6.4%. There are no new activities or related fees planned for Dealer Regulation Membership, Debt

Market Regulation and Debt IP in FY 2023. As a result, overall fees charged out will increase by 4.0% versus the previous year.

Given other inflationary pressures faced by members and the adequacy of reserves, fees reflect a planned deficit of \$1,500 in FY 2023 as approved by the Board.

IIROC's total fees as a percentage of industry revenue have been steady at 0.3%¹ for the past five years, and fees as a percentage of industry profitability are lower at 1.5% compared to 1.9% in FY 2019.

¹ Industry revenue and profitability are based on IIROC-compiled data (IIROC monthly financial report statistics). Industry revenue and profitability for FY 2023 are assumed to be the same as FY 2022 (due to data availability).