

Annex A

History of IIROC's relationship with CSI and the Agreement

CSI was created in 1970 by the then Investment Dealers Association (IDA) and the Canadian stock exchanges to educate and test individuals entering the industry. In 2002, CSI converted to a for-profit corporation with the IDA as its sole shareholder. In 2005, following a decision by the IDA Board of Directors and a targeted auction of CSI, the IDA sold CSI to ONCAP II, LP (a private equity fund managed by ONCAP Management Partners) for \$57 million. A total amount of \$28.5 million of those proceeds was applied as a membership fee reduction distributed across the IDA membership over two years. \$28 million of the proceeds were employed to fund the creation of the Investment Industry Association of Canada.

As part of the sale of CSI, IIROC and CSI entered into the Agreement. The Agreement engaged CSI as the exclusive course provider for IIROC regulatory courses. Schedule 1 contains a list of the regulatory courses that are governed by the Agreement. The Agreement was comprised of two five-year terms. CSI had an option to renew the agreement after the first five years subject to certain conditions discussed in more detail below.

On November 22, 2010, Moody's Corporation acquired CSI from ONCAP. CSI operates within Moody's Analytics under the CSI Global Education name. CSI's management team, staff and operations continue to be based in Canada.

The Agreement

The Agreement provided that CSI is the exclusive course provider of IIROC regulatory courses for the initial term of the contract (January 6, 2006-January 6, 2011) and gave CSI an option to renew for another five year term (five years ending January 6, 2016) conditional upon:

- (i) CSI and IIROC entering into and successfully concluding good faith negotiations, with the parties acting reasonably, with respect to the pricing of the courses, with reference to a benchmarking study; and
- (ii) CSI having met the quality and service standards set out in the agreement during the initial five year term.

On May 3, 2010 CSI provided IIROC with written notice of its intention to exercise the renewal option under the Agreement and extend the term of the agreement for another five years ending January 6, 2016.

Course Pricing – Initial Term of Agreement

The Agreement contained a number of provisions that capped the amount of price increases that CSI could introduce on regulatory courses over the initial term of the agreement (January 6, 2006 to January 6, 2011). The Agreement capped price increases as follows:

- The annual aggregate price increase on the basket of CSI courses subject to the Agreement could not be greater than 4% per annum weighted by enrolments;
- The price of an individual course could not increase by more than 10% per year; and
- The price of each course could not increase by more than 50% over the initial five years of the agreement.

IIROC members initially received preferential pricing through a discount structure set between 15-25% off retail prices, depending on volume. In 2008 CSI, with IIROC approval, modified this discount structure to a flat 20% off for all IIROC Dealer Members (regardless of a firm's volume of annual purchases) in order to extend the benefit of a deeper discount to more IIROC Dealer Members. CSI also committed to not raise course prices in the absence of revisions or updates to the courses.

Renewal mechanism and course pricing

As noted previously, the Agreement gave CSI an option to renew for another five year term conditional upon CSI and IIROC agreeing upon the pricing of the courses for the extended term with reference to a benchmarking study that compared the pricing, delivery methods and content of an agreed basket of courses.

On May 3, 2010, CSI exercised its option.

The Agreement had required completion of an initial benchmarking study within nine months of the sale of CSI and an update of the benchmarking study four years thereafter. IIROC and CSI retained an independent third party consultant to perform both phases of the benchmarking study. The consultant delivered its first report to IIROC in January 2008 and its second report in June 2010 (amended November 2010).

The benchmarking study was intended to provide an independent report that would compare selected CSI courses with similar programs of other financial services education

providers. Its primary objective was to assess the pricing of CSI's courses relative to the pricing of similar courses/programs provided by comparable institutions.

The June 2010 benchmarking study compared the results of the 2010 review with the baseline data gathered in 2007, using the same criteria. The study's findings on 2007-2010 CSI price and service changes were reflected in the negotiations to renew the Agreement.

Pricing terms agreed to by IIROC and CSI for the renewal period

The following are the course pricing terms which were negotiated by IIROC management, and approved by the IIROC Board of Directors, for the renewal period:

- CSI cannot increase course prices for IIROC members by more than: (i) 2.3% per annum for the basket of CSI regulatory courses (reduced from 4% over the initial term); (ii) 10% per annum for individual courses; and (iii) 25% for an individual course over the renewal period (reduced from 50% over the initial term).
- CSI cannot increase course prices for the retail sector (e.g. non IIROC members) by more than: (i) 4% per annum for the basket of CSI regulatory courses; (ii) 10% per annum for individual courses; and (iii) 25% for an individual course over the renewal period (reduced from 50% over the initial period).
- The IIROC member discount must always be greater than or equal to 20% off the retail price for CSI's regulatory courses.
- 2 year price freeze (years 2011 and 2012) for IIROC members on the Canadian Securities Course, the Conduct and Practices Handbook Course, and the Wealth Management Essentials Course (i.e., the minimum required proficiencies for IIROC approved Registered Representatives). The combined annual costs for the remaining basket of CSI courses cannot increase by more than 2.3% per annum during the freeze period.
- CSI may only increase the price of a course (both for IIROC and retail) where a course has been updated or revised as per the Agreement.
- The 10% per annum maximum allowable price increase on individual courses can only be utilized by CSI in situations where a particular course has undergone a major value enhancement or has been substantially revised to coincide with a major regulatory shift or where the price of a particular course has been held flat for an extended period of time.

- CSI must maintain the frequency of course updates and revisions currently set out under the Agreement, even where the price of a course has been frozen.
- IIROC and IIROC members must be provided 60 days prior notice of any price increases.

Over the 2006-2013 timeframe, the prices of CSI courses bound by the Agreement have increased by an average of 2.5% per year for IIROC Members. Price increases have been under the 4% limit during the initial term (2006-2010), with the exception of the 12 month period beginning April 2006,²⁰ and under the 2.3% limit during the renewal term (2011-2013).

Table: CSI average increases 2006-2013 (April-March) weighted by enrolments

2006	2007	2008	2009	2010	2011	2012	2013
4.3%	3.8%	3.6%	2.7%	2.3	1.4% ²¹	1.3	2.1

Schedule 2 to this Annex provides the history of pricing of CSI regulatory courses.

Schedule 3 sets out historical enrolment numbers for CSI courses.

Quality and Service Standards

The existing Agreement requires CSI to meet specific quality and service standards relating to course participants, IIROC and IIROC Dealer Members. CSI is also required under the Agreement to provide an annual self-assessment of its activities and to report on its compliance with the specific metrics outlined in the Agreement. This is intended to ensure that CSI maintains and ultimately improves the quality and service levels that were in place prior to the sale of CSI.

The quality standards set out in the Agreement relate to, among other things, CSI maintaining: (i) the quality of course content (breadth/depth of material, currency and relevance, pedagogical approach); and (ii) prevailing examination standards and procedures which are based upon nationally recognized competency assurance standards. It should be emphasized that CSI is required under the Agreement to keep the

²⁰ That year, changes to the discount structure contributed to a total price increase of 4.3%. This, however, was offset by increases of 3.8% and 3.6% in the following years. During the financial turmoil of 2009 and 2010, CSI price increases amounted to 2.7% and 2.3% respectively on the basket of CSI course offerings. These price increases complied with the course pricing restrictions set out in the Agreement.

²¹ The actual aggregate price change for 2011 for IIROC members was -0.4%. This overall price reduction was attributable to changes relating to the Effective Management Seminar (EMS). The price of the EMS was lowered in 2011 to \$1,600 from \$1,900 in 2010 as the length of the EMS was shortened from a three day seminar to a two day seminar. If this change in the EMS is not taken into account, the average price increase is 1.4% for 2011.

curriculum and materials of all regulatory courses current according to a specified revision and update schedule.

The service standards set out in the Agreement include metrics relating to response time for email and telephone inquiries, receipt of enrolment material, accessibility to online materials, academic support, examination results, and course completion notices.

Schedule 4 includes the quality and service standards under the Agreement.