

## **IIROC Restricted Fund Policy**

**November 2017**

### **Guiding Principles**

The process to allocate IIROC's restricted funds should be fair and outcome-oriented.

The process should be fair, in that it should be:

- structured – subject to an established process;
- transparent:
  - a summary of the process should be accessible to the public through the IIROC website;
  - funded projects should be publicly disclosed (i.e., listed in the Annual Report, and reports and other deliverables posted on the website, where appropriate);
- accountable – the process should:
  - clearly document the decision points leading to a decision whether or not to fund a proposal; and
  - create responsibility for the status of each proposal leading up to the funding decision.

The process should be outcome-oriented, in that:

- proposals should include concrete and measurable deliverables and outcomes;
- selected projects should and support IIROC's mission / vision / strategic plan;
- selected projects must comply with IIROC's recognition orders, and requests for funding must detail the manner in which a proposed project complies; and
- management should provide updates to the Board on the status and outcomes for each approved project.

The following are the priorities for disbursement of the restricted fund, in order of decreasing importance:

1. First, ensuring that there is an adequate balance in the restricted fund at all times to meet expected hearing costs for a three-year period.
2. Second, funding for projects initiated by IIROC management that promote IIROC's mandate, mission and/or strategic objectives.
3. Third, funding for projects initiated by third parties and presented to IIROC.
4. Fourth, a reserve for unanticipated projects that IIROC management proposes to fund out of the restricted fund.

### **Receipt of Proposals**

A summary of this Policy and the process for approving restricted fund proposals will be posted on the IIROC website.

IIROC management proposals (i.e. specific projects initiated by IIROC management, such as studies to provide data or analysis for specific staff regulatory projects and proposals) requiring the services of third parties should, where feasible, be put to tender through a competitive bidding process. Situations in which a competitive bidding process may not be feasible include time-sensitive projects, projects involving a recognized leader in a field, or projects that represent the continuation or expansion of work previously performed.

IIROC management may, from time to time, issue requests for proposals ("RFP") inviting interested parties to propose projects within the permitted uses, or specific topics within the permitted uses (e.g., retail investor education) based on IIROC's strategic plan and other priorities. Any RFP will be issued in coordination with IIROC's planning / budget cycle, with a deadline (e.g., 90 days following issuance of RFP) for the receipt of proposals.

### **Review and Ranking of Third Party Proposals by IIROC Management**

The Corporate Governance Committee ("CGC") will, in connection with the issuance of each RFP for third party proposals, consider management's proposal for a reasonable allocation of spending among the permitted uses set out in IIROC's recognition orders. Those permitted uses are:

- development of systems or other non-recurring capital expenditures that are necessary to address emerging regulatory issues resulting from changing market conditions and are directly related to protecting investors and the integrity of the capital markets;

- education of securities market participants and members of the public about, or research into, investing, financial matters or the operation or regulation of securities markets
- a contribution to a non-profit, tax-exempt organization, the purposes of which include protecting investors or the education of securities market participants and members of the public about, or research into, investing, financial matters or the operation or regulation of securities markets.

IIROC management will review and rank the third party proposals submitted in response to the RFP based on:

- satisfaction of requirements for proposals (outlined below);
- fit with IIROC's strategic goals;
- anticipated positive impact on IIROC's stakeholders;
- potential for association with proponent to enhance IIROC's ability to fulfill its mandate; and
- priority given to funding third party proposals which can demonstrate a proven track record.

IIROC management will also consider diversification of projects within the permitted uses across IIROC's mandate. For example, management will consider diversification among projects relating to:

- debt / equity markets;
- retail / institutional investor issues;
- dealer / market regulation; and
- domestic / international.

IIROC should also encourage third party proposals to incorporate diversification along the following lines (i.e., proposals incorporating these elements will be ranked higher):

- geographic – data or project participants from more than one region of Canada; and
- funding organizations – co-funding from other sources (e.g., CSA investor education funds), particularly for major projects.

IIROC management will be responsible for shepherding the proposal through the approval process, and for liaising with the provider and providing updates to the CGC and Board following funding.

## **Requirements for Third Party Proposals**

Each third party proposal must incorporate:

- timelines and deliverables;
- a budget;
- background and biographical information on the persons involved in the proposed activity;
- details re the proposed governance structure and financial accountability mechanisms; and
- an “environmental scan” identifying similar existing initiatives (including the manner in which the proposal is complementary with existing initiatives) or demonstrating the existence of a gap.

Each third party proposal must permit IIROC to publicly disseminate the project deliverables, subject to confidentiality issues and/or restrictions on publication of data.

## **Review of Third Party Proposals by CGC**

At the conclusion of each RFP cycle, IIROC management will review and rank the third party proposals. IIROC management will develop and use a standard memorandum template for third party proposals submitted to CGC. The memorandum should include disclosure of any actual or potential conflicts (e.g., relationship between IIROC Board member or staff member and proponent).

IIROC management will also prepare an annual status report to CGC and the Board reviewing ongoing and completed projects.

## **Reserve for Expected Hearing Costs**

This Policy requires that a balance be maintained in the restricted fund at all times to meet expected hearing costs for a three-year period. This three-year reserve is intended to smooth annual variations in hearing costs relative to Restricted Fund income, while providing time to increase the amount of the reserve should average annual hearing costs increase significantly in the future, in order to ensure in all cases that IIROC does not have to use operating funds to meet hearing costs.

The President & CEO may, in his or her discretion after consulting with the CGC, establish an additional discretionary reserve amount for hearing costs.

IIROC management will, in connection with the annual status report, assess whether or not the current amount retained in the restricted fund to meet three years of

anticipated hearing costs should be revised based on actual and anticipated hearing costs, and provide a recommendation to the CGC.

### **Investment of Fund**

Restricted funds will be invested pursuant to IIROC’s investment policy.

### **Disclosure of Funded Projects**

Funded third party projects should be disclosed in the IIROC Annual Report (e.g., in the Notes to the Annual Financial Statements), and reports and other deliverables posted on the IIROC website, where appropriate.

### **Summary of Steps**

<b>What</b>	<b>Who</b>	<b>When</b>
1. Issue RFP for third party projects identifying desired topics within permitted uses as management considers appropriate; review and rank RFP responses and make recommendations to CGC	Management	From time to time
2. Approve internal and external funding proposals	CGC	From time to time
3. Prepare status reports on ongoing and completed projects	Management for CGC / Board	Annually
4. Disclose funded third party projects in Annual Report	Management	Annually
5. Review amount of reserve for hearing costs	Management	Annually