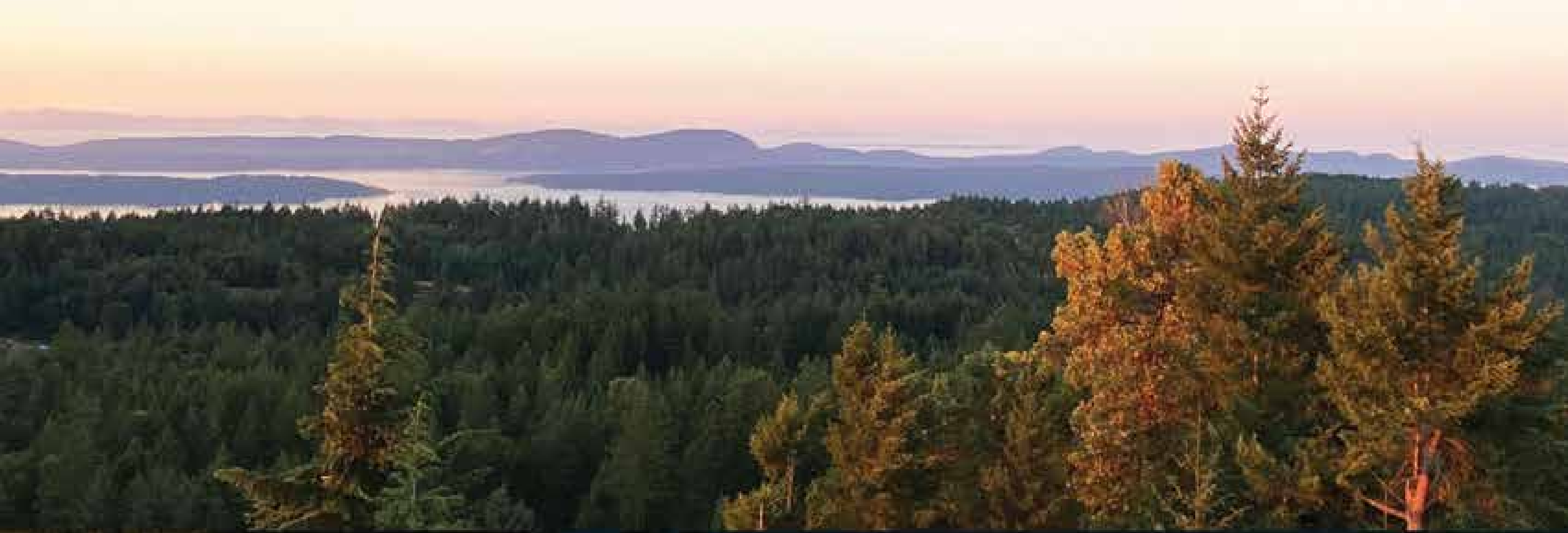

FINANCIAL STATEMENTS

March 31, 2021

INDEPENDENT AUDITOR'S REPORT

To the Members of the Investment Industry Regulatory Organization of Canada

OPINION

We have audited the financial statements of the Investment Industry Regulatory Organization of Canada [the "Organization"], which comprise the statement of financial position as at March 31, 2021, and the statement of changes in fund balances, statement of operations, and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at March 31, 2021, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

BASIS FOR OPINION

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Organization in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OTHER INFORMATION

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis in the Organization's Annual Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Organization's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Organization or to cease operations, or has no realistic alternative but to do so.

INDEPENDENT AUDITOR'S REPORT

Those charged with governance are responsible for overseeing the Organization's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Organization to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Toronto, Canada
June 23, 2021

Ernst + Young LLP

Chartered Professional Accountants
Licensed Public Accountants

(IN THOUSANDS OF DOLLARS)

STATEMENT OF FINANCIAL POSITION

As at March 31	2021 $	2020 $
ASSETS		
Current		
Cash and cash equivalents	**46,070**	47,440
Investments [note 3]	**67,028**	57,266
Receivables [note 4]	**7,978**	7,918
Prepaid expenses	**1,511**	1,637
Current portion of long-term receivables [note 5]	**23**	44
Total current assets	**122,610**	114,305
Employee future benefits [note 8]	**371**	407
Long-term receivables [note 5]	**18**	35
Capital assets, net [note 6]	**14,689**	15,042
Deposit	**175**	173
	137,863	129,962
LIABILITIES AND FUND BALANCES		
Current		
Payables and accruals	**22,833**	19,660
Government remittances payable	**474**	478
Current portion of capital lease obligations [note 7]	**631**	397
Deferred revenue	**75**	75
Current portion of deferred rent and lease inducements	**753**	741
Total current liabilities	**24,766**	21,351
Capital lease obligations [note 7]	**1,682**	1,437
Deferred rent and lease inducements	**2,666**	3,419
Employee future benefits [note 8]	**30,081**	25,745
Total liabilities	**59,195**	51,952
Commitments and contingencies [notes 10 and 11]		
FUND BALANCES		
Unrestricted Fund	**58,947**	57,892
Externally Restricted Fund	**19,721**	20,118
Total fund balances	**78,668**	78,010
	137,863	129,962

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

Paul D. Allison, Chair

(IN THOUSANDS OF DOLLARS)

STATEMENT OF CHANGES IN FUND BALANCES

Year ended March 31	**Unrestricted Fund $**	**Externally Restricted Fund $**	**2021 Total $**	2020 Total $
Fund balances, beginning of year	57,892	20,118	**78,010**	70,111
Excess (deficiency) of revenue over expenses for the year	3,565	(397)	**3,168**	(39)
Remeasurements and other items [note 8]	(2,510)	–	**(2,510)**	7,938
Fund balances, end of year	58,947	19,721	**78,668**	78,010

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 $	2021 Total $	2020 Total $
REVENUE				
Dealer regulation				
Membership fees	52,044	–	**52,044**	52,416
Underwriting levies	12,602	–	**12,602**	8,206
Registration fees	1,604	–	**1,604**	1,844
Entrance fees	185	82	**267**	404
	66,435	82	**66,517**	62,870
Market regulation				
Equity regulation	25,510	–	**25,510**	25,510
Debt regulation	2,242	–	**2,242**	2,242
Timely disclosure	2,935	–	**2,935**	3,007
Marketplace revenue	190	–	**190**	190
	30,877	–	**30,877**	30,949
Debt Information Processor	1,633	–	**1,633**	1,634
Other revenue				
Disciplinary fines and other fines	–	1,912	**1,912**	7,083
Investment revenue including interest	2,606	105	**2,711**	1,952
Recoveries of enforcement costs	243	–	**243**	239
Miscellaneous	121	–	**121**	108
	2,970	2,017	**4,987**	9,382
	101,915	2,099	**104,014**	104,835
EXPENSES [note 9]				
Dealer regulation operating	65,561	–	**65,561**	68,146
Market equity regulation operating	28,837	–	**28,837**	29,681
Market debt regulation operating	2,244	–	**2,244**	2,454
Debt Information Processor operating	1,708	–	**1,708**	1,697
Externally Restricted Fund	–	2,496	**2,496**	2,896
	98,350	2,496	**100,846**	104,874
Excess (deficiency) of revenue over expenses for the year	3,565	(397)	**3,168**	(39)

Certain comparative figures have been reclassified to conform to the financial statement presentation for the current year.
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	2021 $	2020 $
Operating activities		
Excess (deficiency) of revenue over expenses for the year	**3,168**	(39)
Add (deduct) items not involving cash		
Amortization	**4,505**	4,233
Rent amortization	**(741)**	(567)
Interest accrued on capital lease obligations [note 7]	**–**	21
Net loss (gain) on disposal of capital assets	**16**	(3)
Impairment write-down of capital assets [note 6]	**221**	19
Employee future benefits expense [note 8]	**4,859**	5,652
	12,028	9,316
Changes in non-cash working capital balances related to operations		
Receivables	**(60)**	(277)
Prepaid expenses	**126**	310
Deposit	**(2)**	–
Payables and accruals, and government remittances	**3,169**	1,725
Deferred rent and lease inducements	**–**	(1)
Employer contributions for employee future benefits [note 8]	**(2,969)**	(3,427)
Cash provided by operating activities	**12,292**	7,646
Investing activities		
Disposal (purchase) of investments, net	**(9,762)**	(13,942)
Purchase of capital assets	**(3,443)**	(1,550)
Proceeds (loss) from disposal of capital assets	**(16)**	3
Change in long-term receivables, net	**38**	39
Cash used in investing activities	**(13,183)**	(15,450)
Financing activities		
Repayment of capital lease obligations	**(479)**	(41)
Cash used in financing activities	**(479)**	(41)
Net decrease in cash during the year	**(1,370)**	(7,845)
Cash and cash equivalents, beginning of year	**47,440**	55,285
Cash and cash equivalents, end of year	**46,070**	47,440
Cash and cash equivalents consist of		
Cash on hand and balances with bank	**22,274**	18,056
Cash equivalents	**23,796**	29,384
	46,070	47,440
Supplemental cash flow information		
Acquisition of capital assets under capital lease	**935**	262

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

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* 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 that 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 markets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The Organization has prepared these financial statements in accordance with Canadian accounting standards for not-for-profit organizations using the restricted fund method of accounting.

Fund accounting

The Unrestricted Fund includes:

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

b) Recoveries of enforcement costs ordered by IIROC hearing panels as part of enforcement actions; 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 Regulation Services ["RS"] sponsored Supplemental Income Plan for former TSX Employees ["Former RS SIP"] – Non Registered Defined Benefit Plan.

The Externally Restricted Fund includes:

d) 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 any of the following:

   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;

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

iii) Donations to non-profit, tax-exempt organizations for investor protection and education; and,

iv) Costs associated with the administration of IIROC's hearing panels.

Revenue recognition

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.

Unrestricted revenue is recognized as revenue as follows:

DEALER REGULATION

Annual membership fees are assessed upon dealers for the fiscal year as approved by the Board of Directors and are recognized as revenue on a straight-line basis over the fiscal year. Underwriting levies are recognized when the underwriting transaction closes and the assessment basis is available with collection reasonably assured. Registration fees and entrance fees are recorded as revenue when billed and collection is reasonably assured.

MARKET REGULATION

Under the marketplace regulation services agreements, revenue from equity regulation fees are governed by the Market Regulation Fee Model. Fees are assessed for the fiscal year as approved by the Board. These fees are then allocated to dealers and marketplace members. Revenue is initially recognized monthly based on the prior year cost recovery rate and then upon Board approval, adjusted to current cost recovery rates over the remainder of the year. 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.

Debt regulation fees are assessed for the fiscal year as approved by the Board. These fees are allocated to dealers who trade debt securities. Revenue is initially recognized monthly based on the prior year cost recovery rate and then upon Board approval, adjusted to current cost recovery rates over the remainder of the year. Fees are allocated to each dealer based on its 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.

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

DEBT INFORMATION PROCESSOR

Debt Information Processor fees are initially recognized monthly based on the prior year cost recovery rate, and then upon Board approval, adjusted to current cost recovery rates over the remainder of the year.

OTHER REVENUE

Recoveries of enforcement costs from member firms are recognized as revenue when assessed and amounts become receivable. Recoveries of enforcement costs from registrants of member firms are recognized as revenue when received.

Disciplinary fines, continuing education and other fines due from member firms are recognized as revenue in the Externally Restricted Fund when they are assessed, amounts can be reasonably estimated, and collection is reasonably assured. Any other fines, including disciplinary fines from registrants of member firms and late filing of notice of termination of registrants by member firms, are recognized as revenue in the Externally Restricted Fund when received.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks and highly liquid marketable securities such as government-issued promissory notes and treasury bills, and debt instruments of financial institutions with remaining maturities of three months or less.

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.

Financial instruments

The Organization considers any contract creating a financial asset, liability or equity instrument as a financial instrument. A financial asset or liability is recognized when the Organization initially becomes party to contractual provisions of the instrument.

INITIAL MEASUREMENT

The Organization initially measures its financial instruments at fair value. For financial instruments subsequently measured at cost or amortized cost, the initial fair value incorporates the amount of the related financing fees and transaction costs that are directly attributable to its origination, acquisition, issuance or assumption. 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] or at fair value. Fair value treatment is applied to all cash equivalents and investments, both equity and debt, which the Organization has elected to measure at fair value. The financial instruments measured at cost or amortized cost are cash, receivables, loans receivable, and payables and accruals. The Organization uses the effective interest rate method to amortize any premiums, discounts, transaction fees and financing fees in the statement of operations for those items measured at cost or amortized cost.

For financial assets measured at cost or amortized cost, the Organization regularly assesses whether there are any indicators of impairment. If there is an indication of impairment, and the Organization determines that there is a significant adverse change in the expected timing or amount of future cash flows from the financial asset, it immediately recognizes an impairment loss in the statement of operations. Any reversals of previously recognized impairment losses are recognized in operations in the year the reversal occurs.

Capital assets

Capital assets are initially measured at cost and subsequently measured at cost less accumulated amortization. Amortization 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. Amortization commences the quarter after the assets are available for use.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

When a capital asset no longer has any remaining service potential to the Organization, the net carrying amount is immediately written off and recognized as an expense in the statement of operations. A partial impairment loss is recognized when a capital asset still has remaining service life but where the net carrying amount of a capital asset exceeds the asset's fair value or replacement value. Impairment losses are 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 capital assets should be written off entirely, and also to identify partial impairment. Previously recognized write-downs are not reversed.

ASSETS AND OBLIGATIONS UNDER CAPITAL LEASE

Leased capital assets are recognized at cost at the beginning of the lease term. For hardware and office equipment under capital lease, the beginning of the lease term is upon installation, which approximates the financing date. Cost corresponds to the present value of the estimated minimum lease payments, excluding executory costs, at the beginning of the lease term.

Amortization is based on the lesser of estimated useful life of the asset or term of the lease, and begins in the quarter after the asset is available for use. Both hardware and office equipment under capital lease have estimated useful lives of five years, amortized at 20% per annum. End-user computer equipment under capital lease has an estimated useful life of four years, amortized at 25% per annum.

An obligation under a capital lease is similar to a loan. Lease payments are allocated to a reduction of the obligation, interest expense and any related executory costs. The interest expense is calculated using the discount rate used in computing the present value of the estimated minimum lease payments applied to the remaining balance of the obligation. The discount rate used is equal to the Organization's rate for incremental borrowing at inception of the lease.

Deferred rent and lease inducements

Certain of the Organization's operating leases contain predetermined fixed escalations of minimum property 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 inducement] in the early years of the lease, when cash payments are generally lower than straight-line rent expense. Deferred rent is reduced in the later years of the lease when payments begin to exceed the straight-line expense. The Organization also receives certain lease incentives in conjunction with entering into operating leases. These lease incentives are recorded as a lease inducement at the beginning of the lease term and recognized as a reduction of rent expense over the lease term.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, which incorporates management's best estimate for each actuarial assumption. 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (IN THOUSANDS OF DOLLARS)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 judgment 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, useful lives of capital assets, minimum lease payments, lease discount rate, and valuation of employee future benefits asset/liability.

3. INVESTMENTS

Investments, at fair value, consist of the following:

	2021 **$**	2020 $
Marketable securities	**46,570**	40,348
Mutual funds		
Bond funds	**14,734**	11,283
Global equity funds	**5,724**	5,635
	67,028	57,266

Marketable securities consist of government-issued promissory notes and treasury bills, and debt instruments of financial institutions with yields between 0.13% and 1.90% [2020 – 0.67% and 1.89%].

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 of nil.

4. RECEIVABLES

Receivables consist of the following:

	2021 **$**	2020 $
Trade	**7,984**	7,918
Allowance for doubtful accounts	**(6)**	–
	7,978	7,918

5. LONG-TERM RECEIVABLES

Long-term receivables consist of the long-term portions of employee loans receivable, accounts receivable related to agreed-upon payment plans on enforcement fines, and pension-related receivables.

Employee loans receivable are loans provided to employees of the Organization for 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 November 14, 2023.

NOTES TO THE FINANCIAL STATEMENTS (IN THOUSANDS OF DOLLARS)

6. CAPITAL ASSETS

Capital assets consist of the following:

	Cost $	Accumulated amortization $	**2021 Net book value $**	2020 Net book value $
Unrestricted Fund				
Tangible				
Leasehold improvements	10,106	6,589	**3,517**	4,289
Office furniture and equipment	9,491	8,251	**1,240**	1,813
Computer equipment and software	3,935	3,841	**94**	184
Technology projects hardware	6,662	6,624	**38**	162
Assets under capital lease				
Computer equipment	649	30	**619**	–
Hardware	807	198	**609**	705
Office equipment	209	42	**167**	209
Intangible				
Technology projects software	23,508	18,669	**4,839**	4,570
	55,367	44,244	**11,123**	11,932
Externally Restricted Fund				
Tangible				
Technology projects hardware	1,425	1,107	**318**	438
Leasehold improvements	673	512	**161**	216
Hardware under capital lease	1,104	267	**837**	780
Intangible				
Technology projects software	6,188	3,938	**2,250**	1,676
	9,390	5,824	**3,566**	3,110
	64,757	50,068	**14,689**	15,042

6. CAPITAL ASSETS (CONTINUED)

Hardware under capital lease

In August 2018, the Organization entered into a five-year contract with an IT service provider for infrastructure services and information security operations within a new, secure, hybrid-cloud platform. Certain arrangements relating to the use of dedicated physical hardware were assessed to be leases of a capital nature. The leased capital assets recorded use management's best estimates for eligibility of expenditures for capitalization, minimum lease payments, discount rate, and date of substantial completion. All hardware under capital lease recorded in fiscal 2021 was available for use in that year.

Office equipment under capital lease

In August 2019, IIROC entered into a service agreement with a vendor under a cost per impression model. Under this agreement, IIROC has committed to a monthly minimum volume on each copier that includes the cost of the copier plus executory costs for supplies, maintenance and support. The arrangements relating to the use of the copiers were assessed to be leases of a capital nature, with the minimum lease payments, excluding executory costs, used to determine the present value. The copiers were installed and available for use in February 2020.

Computer equipment under capital lease

In fiscal 2021, IIROC began leasing end-user computer equipment, with the intent to replace one quarter of end-user computer equipment assets each fiscal year moving forward. These leases were assessed to be capital in nature. Computer equipment under capital lease is recorded as an asset at the beginning of the lease term, with present value calculations based on minimum lease payments excluding executory costs, and the discount rate established at inception of the lease. Computer equipment ordered, shipped and held for preparation at a third party location for IIROC are recognized as leased capital assets under development using management's best estimates for minimum lease payments, discount rate, and lease commencement date.

Capital assets under development

As at March 31, 2021, there are capital assets under development for leasehold improvements and software of $2,007 and computer equipment under capital lease under development of $222. As such, these assets are not yet being amortized. In addition, there are other capital assets of $106 included in office furniture and equipment and technology projects, and $57 of computer equipment under capital lease that were available for use in the last quarter of 2021. 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 $221 on technology project software and hardware under capital lease [2020 – $19 on office furniture and equipment]. The assets were written down to their estimated fair value. The impairment loss was recognized in the statement of operations.

NOTES TO THE FINANCIAL STATEMENTS (IN THOUSANDS OF DOLLARS)

7. CAPITAL LEASE OBLIGATIONS

Concurrent with the recognition of assets under capital leases [note 6], equivalent capital lease obligations were recorded at the present value of estimated lease payments, excluding executory costs, using the Organization's estimated rate for incremental borrowing as the lease discount rate. For leased assets recognized in December 2018, a rate of 2.98% was used. For leased assets recognized in February 2020, a rate of 1.76% was used. For leased assets recognized in fiscal 2021 rates of between 0.73% and 1.72% were used. For hardware under capital lease, the lease maturity date is December 31, 2024. For office equipment under capital lease, the lease maturity date is February 1, 2025. For end-user computer equipment under capital lease, the lease maturity dates will be four years following the first payment date. End-user computer equipment lease maturity dates are estimated between March 31, 2024 and April 30, 2025. The capital lease obligation as at year-end of $2,313 [2020 – $1,834] includes nil [2020 – $21] of accrued interest expense.

As at March 31, 2021, the estimated future minimum lease payments for obligations under capital leases in each of the next five years and thereafter are as follows:

	Capital $	Executory $	Total $
2022	638	323	961
2023	642	323	965
2024	642	323	965
2025	482	246	728
2026	4	–	4
	2,408	1,215	3,623
Amount representing interest	(95)		
Total capital lease obligations	2,313		
Current portion	631		
Long-term portion	1,682		
Total capital lease obligations	2,313		

8. EMPLOYEE FUTURE BENEFITS

The Organization provides retirement and post-employment benefits for its employees and has both defined benefit and defined contribution pension plans. The defined benefit plans provide benefits that are based on a combination of years of service and a percentage of the participant's plan earnings. Under the defined contribution 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 RPP and the plan was amended to accommodate new IIROC defined contribution accruals. The former IDA also sponsored a Supplemental Executive Retirement Plan ["SERP"], which became the IIROC SERP. The legacy RS pension plans, which included the IIROC Pension Plan for Former RS Pension Plan Members ["Former RS RPP"], and the non-registered Supplemental Income Plan [Former RS SIP], were closed as at December 31, 2010 and their 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 RPP was closed to new members. New hires can only join the defined contribution provision of the IIROC RPP. Effective January 1, 2020 the defined benefit provision of the IIROC SERP was closed to new members. Employees who become eligible for SERP on or subsequent to January 1, 2020 will participate in the new defined contribution provision of the IIROC SERP.

The Organization has the following pension plans:

1. Retirement Plan for Employees of IIROC [IIROC RPP] – includes defined benefit and defined contribution provisions

2. IIROC Supplemental Plan for Executives [IIROC SERP], Non-Registered Defined Benefit Pension Plan – inactive, and defined contribution provisions

3. IIROC Pension Plan for Former RS Pension Plan Members [Former RS RPP], Defined Benefit Plan – inactive

4. RS-sponsored SIP for former TSX Employees [Former RS SIP], Non-Registered Defined Benefit Plan – inactive

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. Effective September 1, 2015, IIROC eliminated non-pension post-retirement benefits for new hires and members who would not otherwise be eligible for benefits by September 1, 2020.

The most recent actuarial valuation of the pension benefit plans for funding purposes was as of January 1, 2020, and of the IIROC PRB plan was April 1, 2019. The next actuarial valuations for all defined benefit pension arrangements and for the IIROC PRB will be prepared with an effective date of no later than January 1, 2023 and April 1, 2022, respectively.

NOTES TO THE FINANCIAL STATEMENTS (IN THOUSANDS OF DOLLARS)

8. EMPLOYEE FUTURE BENEFITS (CONTINUED)

The asset (liability) on the statement of financial position is as follows:

	2021					
	IIROC RPP $	**IIROC SERP $**	**Former RS SIP $**	**IIROC PRB $**	**Subtotal $**	**Former RS RPP $**
Accrued benefit obligation	**(101,639)**	**(13,741)**	**(548)**	**(6,468)**	**(122,396)**	**(9,016)**
Fair value of plan assets	**91,899**	**416**	**–**	**–**	**92,315**	**11,044**
Fund status – plan surplus (deficit)	**(9,740)**	**(13,325)**	**(548)**	**(6,468)**	**(30,081)**	**2,028**
Valuation allowance	**–**	**–**	**–**	**–**	**–**	**(1,657)**
Accrued benefit asset (liability), net of valuation allowance	**(9,740)**	**(13,325)**	**(548)**	**(6,468)**	**(30,081)**	**371**

	2020					
	IIROC RPP $	IIROC SERP $	Former RS SIP $	IIROC PRB $	Subtotal $	Former RS RPP $
Accrued benefit obligation	(87,766)	(12,327)	(444)	(5,957)	(106,494)	(8,250)
Fair value of plan assets	79,843	906	–	–	80,749	10,769
Fund status – plan surplus (deficit)	(7,923)	(11,421)	(444)	(5,957)	(25,745)	2,519
Valuation allowance	–	–	–	–	–	(2,112)
Accrued benefit asset (liability), net of valuation allowance	(7,923)	(11,421)	(444)	(5,957)	(25,745)	407

NOTES TO THE FINANCIAL STATEMENTS (IN THOUSANDS OF DOLLARS)

8. EMPLOYEE FUTURE BENEFITS (CONTINUED)

The employee future benefit expense is as follows:

2021	IIROC RPP $	IIROC SERP $	Former RS RPP $	Former RS SIP $	IIROC PRB $	Total $
Current service cost	**3,225**	**564**	**–**	**–**	**13**	**3,802**
Interest cost on accrued benefit obligation	**3,474**	**476**	**309**	**16**	**220**	**4,495**
Interest income on market value of assets	**(3,089)**	**(24)**	**(405)**	**–**	**–**	**(3,518)**
Interest on valuation allowance	**–**	**–**	**80**	**–**	**–**	**80**
Employee future benefit expense (recovery)	**3,610**	**1,016**	**(16)**	**16**	**233**	**4,859**

2020	IIROC RPP $	IIROC SERP $	Former RS RPP $	Former RS SIP $	IIROC PRB $	Total $
Current service cost	3,735	583	–	–	185	4,503
Interest cost on accrued benefit obligation	3,205	430	293	15	241	4,184
Interest income on market value of assets	(2,688)	(39)	(350)	–	–	(3,077)
Interest on valuation allowance	–	–	42	–	–	42
Employee future benefit expense (recovery)	4,252	974	(15)	15	426	5,652

NOTES TO THE FINANCIAL STATEMENTS (IN THOUSANDS OF DOLLARS)

8. EMPLOYEE FUTURE BENEFITS (CONTINUED)

The remeasurements and other items charged on the statement of changes in fund balances is a loss of $2,510 [2020 – gain of $7,938] as follows:

	2021					
	IIROC RPP $	**IIROC SERP $**	**Former RS RPP $**	**Former RS SIP $**	**IIROC PRB $**	**Total $**
Actuarial losses	**915**	**943**	**587**	**113**	**487**	**3,045**
Change in valuation allowance	**–**	**–**	**(535)**	**–**	**–**	**(535)**
Remeasurements and other items	**915**	**943**	**52**	**113**	**487**	**2,510**

	2020					
	IIROC RPP $	IIROC SERP $	Former RS RPP $	Former RS SIP $	IIROC PRB $	Total $
Actuarial losses	(5,652)	(835)	(757)	(37)	(1,482)	(8,763)
Change in valuation allowance	–	–	825	–	–	825
Remeasurements and other items	(5,652)	(835)	68	(37)	(1,482)	(7,938)

In addition to the above, there is no outstanding liability for the defined contribution plan as at March 31, 2021 [2020 – nil]. Current year expense for the defined contribution provisions of the IIROC RPP was $2,156 [2020 – $2,054].

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

	2021 $	2020 $
Discount rate – accrued benefit obligation	**2.91% to 3.33%**	3.70% to 3.80%
Discount rate – benefits cost	**3.70% to 3.80%**	3.20% to 3.38%
Rate of compensation increase	**3.00%**	3.00%

For measurement purposes in 2020, inflation of medical expenses and dental costs were assumed to remain unchanged at 5.0% and 4.5%, respectively.

NOTES TO THE FINANCIAL STATEMENTS (IN THOUSANDS OF DOLLARS)

8. EMPLOYEE FUTURE BENEFITS (CONTINUED)

The following is a summary of contributions and benefits paid for defined benefits and PRB plans:

	2021					
	IIROC RPP $	**IIROC SERP $**	**Former RS RPP $**	**Former RS SIP $**	**IIROC PRB $**	**Total $**
Employer contributions	**2,708**	**55**	**–**	**25**	**181**	**2,969**
Employee contributions	**983**	**–**	**–**	**–**	**–**	**983**
Benefits paid	**(2,433)**	**(561)**	**(185)**	**(25)**	**(181)**	**(3,385)**

	2020					
	IIROC RPP $	IIROC SERP $	Former RS RPP $	Former RS SIP $	IIROC PRB $	Total $
Employer contributions	3,268	–	–	29	130	3,427
Employee contributions	1,045	–	–	–	–	1,045
Benefits paid	(1,628)	(561)	(170)	(29)	(130)	(2,518)

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 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 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.

NOTES TO THE FINANCIAL STATEMENTS (IN THOUSANDS OF DOLLARS)

9. EXPENSES

Expenses consist of the following:	2021 $	2020 $
Unrestricted Fund expenses		
Dealer regulation operating expenses		
Compensation	**48,566**	48,299
Technology	**4,199**	4,379
Occupancy	**4,926**	4,945
Amortization, impairment and disposals	**2,273**	2,021
Other	**5,597**	8,502
	65,561	68,146
Market equity regulation operating expenses		
Compensation	**20,604**	19,984
Technology	**3,266**	3,496
Occupancy	**1,734**	1,726
Amortization, impairment and disposals	**1,192**	1,097
Other	**2,041**	3,378
	28,837	29,681
Market debt regulation operating expenses		
Compensation	**1,564**	1,593
Technology	**352**	401
Occupancy	**105**	110
Amortization, impairment and disposals	**86**	107
Other	**137**	243
	2,244	2,454
Debt Information Processor operating expenses		
Compensation	**1,163**	1,070
Technology	**323**	275
Occupancy	**50**	46
Amortization, impairment and disposals	**74**	137
Other	**98**	169
	1,708	1,697
Total Unrestricted Fund expenses	**98,350**	101,978

NOTES TO THE FINANCIAL STATEMENTS (IN THOUSANDS OF DOLLARS)

9. EXPENSES (CONTINUED)

Expenses consist of the following:	2021 $	2020 $
Externally Restricted Fund expenses		
Hearing panel expenses	**993**	1,245
Amortization, impairment and disposals [excluding surveillance system hardware]	**690**	793
Surveillance system hardware [amortization and interest]	**211**	111
Member education	**137**	416
Canadian Foundation for the Advancement of Investor Rights [FAIR]	**125**	–
Osgoode Hall Law School Investor Protection Clinic	**75**	–
University of Toronto Law School Investor Protection Clinic	**75**	–
Cybersecurity tabletop test	**66**	–
Complainant research	**49**	–
Website implementation	**31**	–
MEDAC [Mouvement d'education et de defense des actionnaires]	**25**	–
Plain language rulebook implementation	**14**	75
Cybersecurity consultants	**5**	237
Client identifier implementation	**–**	19
Total Externally Restricted Fund expenses	**2,496**	2,896

Certain comparative figures have been reclassified to conform to the financial statement presentation or allocation methodology for the current year.

NOTES TO THE FINANCIAL STATEMENTS (IN THOUSANDS OF DOLLARS)

10. COMMITMENTS

As at March 31, 2021, 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.

	$
2022	3,454
2023	3,374
2024	2,931
2025	923
2026	923
Thereafter	1,760
	13,365

11. CONTINGENCIES

The Organization has an agreement with Canadian Investor Protection Fund ["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 $544,008 on hand as at December 31, 2020; [ii] lines of credit provided by two Canadian chartered banks totalling $125,000 as at December 31, 2020; and [iii] insurance in the amount of $160,000 as at December 31, 2020 in the annual aggregate in respect of losses to be paid by CIPF in excess of $200,000 in the event of member insolvency, and a second layer of insurance in the amount of $280,000 as at December 31, 2020 in respect of losses to be paid in excess of $360,000 in the event of member insolvency. IIROC has provided a $125,000 guarantee on CIPF bank lines of credit. As at March 31, 2021, CIPF has not drawn on these lines of credit. Any amount drawn on the IIROC guarantee would be assessed to dealer firms.

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 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 each of the 50,600 class members, plus other damages and legal costs. The case proceeded to

NOTES TO THE FINANCIAL STATEMENTS (IN THOUSANDS OF DOLLARS)

11. CONTINGENCIES (CONTINUED)

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 Organization is vigorously defending against this action.

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 $2 was incurred in fiscal 2021 [2020 – nil] as directly paid by the insurer. It is not possible to estimate potential damages, if any, resulting from this incident.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Carrying amount of financial assets

As at March 31, 2021, the carrying amounts of the Organization's financial assets measured at amortized cost and at fair value are as follows:

	2021			2020		
	Cost or amortized cost $	Fair value $	Total carrying value $	Cost or amortized cost $	Fair value $	Total carrying cost $
Cash and cash equivalents	**22,274**	**23,796**	**46,070**	18,056	29,384	47,440
Investments	**–**	**67,028**	**67,028**	–	57,266	57,266
Receivables	**7,978**	**–**	**7,978**	7,918	–	7,918
Long-term receivables	**41**	**–**	**41**	79	–	79
	30,293	**90,824**	**121,117**	26,053	86,650	112,703

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 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.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Liquidity risk

The Organization's liquidity risk represents the risk that the Organization could encounter difficulty in meeting obligations associated with its financial liabilities. The Organization is exposed to liquidity risk with respect to its payables and accruals. The Organization 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. Market risk comprises 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 that invest 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.

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.

13. COVID-19

The COVID-19 pandemic has caused significant economic disruption and slow down, including greater volatility in the financial markets. The Organization may be subject to greater operational, credit, liquidity and market risk.