Annual Report 2019/20

Public Interest Regulator

Protecting Investors and Supporting Healthy Canadian Capital Markets

IIROC OCRCVM

Investment Industry Regulatory Organization of Canada

Organisme canadien de réglementation du commerce des valeurs mobilières

Mission

Our mission is to protect investors and support healthy Canadian capital markets.

Vision

IIROC's vision statement describes what we want to achieve over time – it is our definition of long-term success.

We will demonstrate how our self-regulatory model serves the public interest, by:

- inspiring confidence and deterring wrongdoing by having and using robust and appropriate tools
- making the delivery of securities regulation in Canada significantly more efficient
- being known as a trusted, respected and valued partner by our stakeholders
- being a leading-edge securities regulator
- creating a culture that attracts and retains high-quality employees

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IIROC is the national self-regulatory organization which oversees all investment dealers and their trading activity in Canada's debt and equity markets.

KEY FACTS

142 district council **members**

61 **meetings**

118* **dealer firms** participating in district councils

375** **decisions**

237 committee members

227*** dealer firms and marketplaces **represented**

* Dealer firms may participate on multiple District Councils and are counted for each District Council on which they are represented. However, within each District Council a firm is counted only once regardless of whether the firm is represented on the Council by more than one individual.

** Includes decisions made by Registration Sub-Committees and District Councils.

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

IIROC sets high-quality regulatory and investment industry standards, protects investors and strengthens market integrity while supporting healthy Canadian capital markets. IIROC carries out its regulatory responsibilities through setting and enforcing rules regarding the proficiency, business and financial conduct of dealer firms and their registered employees, and through setting and enforcing market integrity rules regarding trading activity on Canadian debt and equity marketplaces.

HOW WE WORK

IIROC's regional roots run deep. IIROC's District Councils and policy consultative committees offer insight and invaluable input. Self-regulation helps to ensure that policies and rules keep pace with evolving markets through consultation with industry participants who are confronted by change on a daily basis. This process helps ensure that rules and policies are balanced and practical.

IIROC's National Advisory Committee serves as a forum for representatives of the District Councils to raise and discuss matters of interest, provide input on policy initiatives and report to the IIROC Board of Directors three times a year.

IIROC's 10 District Councils address registration and membership matters, raise issues of regional interest, and add perspective to national issues, including policy issues. They ensure regional input into the regulatory process – an integral component of self-regulation.

IIROC'S POLICY ADVISORY COMMITTEES

- Financial and Operations Advisory Section
- Conduct, Compliance and Legal Advisory Section
- Proficiency Committee
- Fixed Income Advisory Committee
- Market Rules Advisory Committee

Message from the Chair

At the beginning of this fiscal year, IIROC published a new three-year strategic plan, the second since we adopted as our mission statement "Protecting Investors and Supporting Healthy Canadian Capital Markets."

Among the seven strategies that support the plan are commitments to **Delivering Value for Canadians and the Financial System** and **Supporting Industry Transformation.** When the Board of Directors adopted the new plan, we knew that following through on all of our commitments would be critical to our success as a public interest regulator. We did not foresee the timetable upon which we would be called to deliver.

The economic, social and cultural impacts of the COVID-19 pandemic have been significant. To adapt to the realities of a socially distant, remote-working, contactless world, the pandemic forced a rapid acceleration of the already underway transformation in the way that Canadians consume financial advice and financial products. To respond to the needs of their clients, industry's transformation accelerated as well, and the system needed regulators, including IIROC, to keep up.

While this ongoing transformation will undoubtedly be challenging, it is clear that the result will be an investment industry better able to serve Canadians and a more efficient self-regulatory model, one that is better equipped to protect investors and support healthy Canadian capital markets.

Message from the Chair

It is equally clear that IIROC's strategy is the right one for this time. It has been battle-tested by rapidly changing expectations of investors, by changes in the business models, products and services offered by our members, by unprecedented market volatility and by the operational, regulatory and management demands of the pandemic.

Over the last fiscal year, IIROC completed the final phase of its systems infrastructure upgrade, vendor consolidation and cloud computing transition program, an ambitious but necessary overhaul of our information technology that vastly increased our capabilities and reduced our operating costs.

As a result, IIROC was well prepared to move to a 100% work from home (WFH) environment when that became necessary in mid-March 2020. Not only did employees seamlessly and securely continue their work from home, our systems and people were ready for a massive increase in equity markets activity – activity that peaked in late March at twice the previous recorded highs.

The Board of Directors is proud of the way that IIROC executed the transition to WFH and is pleased that our program of strategic investment in people and technology delivered on our obligations to investors, the industry and to Canadian markets as a whole. We also recognize the challenges of working from home and are grateful to all IIROC staff in all our offices across the country for their continued professionalism and commitment to serving the public interest while dealing with their own personal responsibilities and impacts of the pandemic.

We are equally proud of the way in which IIROC responded quickly to give industry the needed flexibility to serve Canadians in the unprecedented circumstances of the pandemic. Ensuring that investor protection was preserved, we moved quickly to support firms' ability to continue delivering essential financial services across the country.

> **"To adapt to the realities of a socially distant, remote-working, contactless world, the pandemic forced a rapid acceleration of the already underway transformation in the way that Canadians consume financial advice and financial products. To respond to the needs of their clients, industry's transformation accelerated as well, and the system needed regulators, including IIROC, to keep up."**

The lessons learned by the industry and by IIROC in these difficult times not only show us how to get through this period but also offer a roadmap to the future. The innovations, efficiencies and adaptations we uncovered are already illustrating to us the ways in which our regulation must evolve to keep pace with the needs of Canadians.

Message from the Chair

With the publication in June 2020 of our proposal Improving Self-Regulation for Canadians, we have put forward a roadmap for self-regulation as well. Developed through discussion with investors, investment and mutual fund dealers and advisors, professional bodies and industry associations, it offers a practical way forward, one that will benefit investors and industry alike and save hundreds of millions of dollars that would otherwise be spent on duplicative regulation.

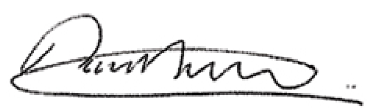
We applaud our partners at the Canadian Securities Administrators for the leadership they have shown by launching their Consultation on the Self-Regulatory Organization Framework and look forward to working with them and our colleagues at the Mutual Fund Dealers Association on delivering real, tangible improvements to the system in the near term.

In addition to evolving the organization and its vision for self-regulation, the IIROC Board is itself evolving as the lives of our Directors take them in different directions. Over the past year, Independent Directors Shenaz Jeraj and Victoria Harnish succeeded Brian Heidecker who completed his term, and Lucie Tedesco who moved back into the practice of law on a full-time basis. Tim Mills joined as an Industry Director succeeding Rita Achrekar who, while no longer a member of the IIROC family, continues to serve the public as a Director of the Canadian Investor Protection Fund.

This September, three longstanding Independent Directors will come to the end of their terms: Catherine Smith, Ed Iacobucci and James Donegan. The Board, management and staff of IIROC thank them and all of our former and departing Directors for their wisdom and judgement these past many years.

We are fortunate to be able to nominate three exceptional new Directors with deep experience in investor, industry and capital markets issues: Malcolm Heins, Jennifer Newman and Laura Tamblyn Watts. It is expected they will be confirmed at our September 2020 annual general meeting.

In conclusion, I would like to thank all members of the Board for their counsel, dedication and support and to again express our collective appreciation to everyone at IIROC for their dedication. In uncertain times, they delivered on their mission as a public interest regulator which protects investors and supports healthy Canadian capital markets.



Paul D. Allison
Chair of the Board

Report from the President and CEO

IIROC has long recognized that as the needs and wants of Canadians continues to evolve and as the financial sector continues to evolve with new products, services and business models in response, so too has the need to evolve ourselves as a self-regulatory organization (SRO).

We have improved IIROC each year, enhancing our ability to protect investors and to support healthy Canadian capital markets. With the support of colleagues and partners – the Canadian Securities Administrators (CSA), their respective provincial and territorial governments, the Bank of Canada and many others – IIROC's role has broadened, enabling us to be more effective in our core mandate and to leverage our knowledge, skills and capabilities in support of a more efficient financial system.

I am proud to report that IIROC's evolution has continued over the past year and to report on the progress we have made together.

Over the past fiscal year, we became more flexible and efficient as an organization, more effective as a public interest regulator and even more responsive to the needs of investors and the way in which industry serves them. Our ability to be flexible and responsive became ever more important as COVID-19's disruptions rocked Canada's economy and Canadian society.

Report from the President and CEO

The pandemic forced significant changes to how we all live and work. IIROC was well prepared for the move to fully remote work as we had just completed a multi-year investment in flexible, cloud-based technology infrastructure and had updated and regularly tested our business continuity plans. Our new capabilities not only supported all of our corporate needs and the regulatory oversight of IIROC's members but also the distribution to work from home locations of all of the surveillance of trading in Canada's debt and equity markets securely and effectively.

To give you one particularly important example, IIROC's Information Technology team built out in each surveillance officer's home the full suite of secure technology that they would have in our Toronto and Vancouver surveillance rooms, complete with video links to all of their colleagues.

Our continuing program of investment in people and technology – including the launch, in 2019, of a new state of the art surveillance system – meant that, even completely working from home, we were able to monitor nearly 1.4 billion equity transaction messages a day in real time. This level of activity was more than double the previous peak volume and almost five times the average pre-crisis volume.

The pandemic is having a dramatic impact on Canadians and, with limitations on traditional in-person contact, on the way they interact with all of their financial services providers, including IIROC's member firms. In many ways, however, the pandemic simply accelerated the acceptance of tools, technologies and other innovations that were already in the process of being adopted.

I would like to commend IIROC member firms for their response to the pandemic. They have been working hard, in many cases under very difficult conditions, to continue to deliver financial advice, products and services to their clients. They have innovated, quickly and practically and have not only maintained the level of service to their clients but, through increased adoption of new tools and technologies, have increased it.

We moved quickly to give firms the flexibility they needed to serve their clients in this environment. IIROC's Board of Directors approved a framework for granting rule exemptions in a range of areas where the implications of the pandemic made it difficult for firms to support their clients and fully comply with IIROC dealer member rules. Subject always to maintaining investor protection, our objective was to acknowledge the practical realities of the operating environment.

Report from the President and CEO

The myriad of challenges faced by investors, industry and regulators alike in these difficult times have brought with them some positive aspects and the impetus to keep moving forward. They have highlighted many new, more efficient and effective ways of doing business and serving Canadians. If we simply turn back the clock after the pandemic is over and go back to the old ways of doing things, we will have missed the opportunity to improve the system and ourselves and will deny Canadians benefits they have already had the opportunity to experience. Equally important, going backwards would condemn us to years more of inefficient, duplicative and overly burdensome practices.

Over the coming months, we will work with all of our stakeholders to propose rule amendments to ensure that the efficiencies and improvements that have been identified are not lost.

Of course, even before COVID-19 demanded such rapid innovation across our markets, IIROC had been working to understand the trends driving the evolution of financial advice and planning how our regulation should evolve to keep pace. Our joint report with Accenture, Enabling the Evolution of Advice in Canada, together with our investor study Access to Advice, conducted with The Strategic Counsel, confirmed that Canadians want access to a broader suite of products and services and equally want the ability to consume investment advice on their own terms.

Ensuring that we understand investor perspectives goes beyond just research. This year, IIROC's Board of Directors amended its skills matrix to formalize the requirement for the Board to benefit from direct experience with consumer and retail investor issues.

"I would like to commend IIROC member firms for their response to the pandemic. They have been working hard, in many cases under very difficult conditions, to continue to deliver financial advice, products and services to their clients."

I am very pleased that the group of Independent Director candidates for IIROC's upcoming annual general meeting more than satisfies those requirements.

We also announced plans to establish an Expert Investor Issues Panel (EIIP). We will seek input on the panel in a notice for comments to be published later in 2020. The EIIP will enable individuals with a wide variety of experience and expertise related to investors to provide input into IIROC's policy-making process, priorities and investor protection initiatives.

Report from the President and CEO

Over the past fiscal year, IIROC secured stronger enforcement powers in New Brunswick and Saskatchewan. They joined seven other provinces and all three territories in giving IIROC the improved ability to protect investors by holding wrongdoers accountable for their actions.

In keeping with the findings of our survey on vulnerable investors, we know suitability is an ongoing issue. We investigated and prosecuted cases where suitability represented the largest volume of such cases, with seniors and vulnerable investors representing one-quarter of cases reviewed and nearly one-third of all prosecutions. We remain committed to protecting all investors, and to ensuring that those who try to take advantage of our most vulnerable are held accountable while giving firms and advisors a "safe harbour" to help them do the right thing for their clients.

We plan to continue our pursuit of improved legal authority – and will also take steps toward advancing our new initiatives to give IIROC a tailored, proportionate disciplinary response and to better support investors who suffer losses.

Finally, I would be remiss if I did not discuss the long-awaited prospect of significant structural evolution in our self-regulatory structure. In June 2020, the CSA published a consultation document examining the SRO framework, which encompasses IIROC and the Mutual Fund Dealers Association of Canada (MFDA), a review that we welcome.

We believe that the time for structural change is now. After the CSA announced in December 2019 that they would conduct such a review, IIROC engaged a wide group of stakeholders including investors, investment and mutual fund dealers and advisors, professional bodies and associations to create a proposal for practical and significant change that would deliver tangible results for all market participants.

The views of this group formed a remarkable consensus. Virtually all agreed that to be successful, any proposal must:

- Be positive for investors, regardless of where they live or how many assets they have;
- Enhance investor protection;
- Have a positive impact on dealers' and registrants' ability to serve Canadians, regardless of size or business model;
- Reduce duplicative regulatory burden;
- Be straightforward, simple and inexpensive to execute, with minimal disruption to Canadians, the industry, or the CSA oversight regime; and,
- Position the SRO model for continued policy streamlining and evolution.

Report from the President and CEO

Our proposal achieves these objectives. It would bring IIROC and the MFDA together as divisions of a consolidated SRO as an important first step. Over the next decade, this step alone would save hundreds of millions of dollars by reducing duplicative red tape and regulatory burden. Importantly, it will also lead directly to improved investor protection and better access to advice for Canadians, especially those in underserved or smaller communities.

The initial reactions have been strongly positive. We look forward to working with the CSA as they work through their process and with all of our stakeholders in this important transformation.

In closing, I would like to express my appreciation to our Board for their guidance as we navigate through these unprecedented times, and for supporting us and those we serve in this ongoing transformation. I would like to thank my colleagues at IIROC, our members and stakeholders.

As a pan-Canadian organization with staff working in various jurisdictions, I want to take a moment to echo Paul's genuine appreciation for our colleagues who have continued to deliver on our public interest mandate with the highest degree of commitment, professionalism and responsiveness. I am proud of everyone's efforts and our collective ability to protect investors and ensure our capital markets operate with integrity.

> **“We believe that the time for structural change is now. After the CSA announced in December 2019 that they would conduct such a review, IIROC engaged a wide group of stakeholders.”**

To say the past few months have been unusual is an understatement. The pandemic put a harsh spotlight on areas we knew we needed to change and made it clear that the time for change is now. The same is certainly true of the launch of the CSA's self-regulatory framework consultation.

Canadians deserve a better result from their SROs. In partnership with our colleagues at the MFDA and the CSA, we are committed to delivering it.

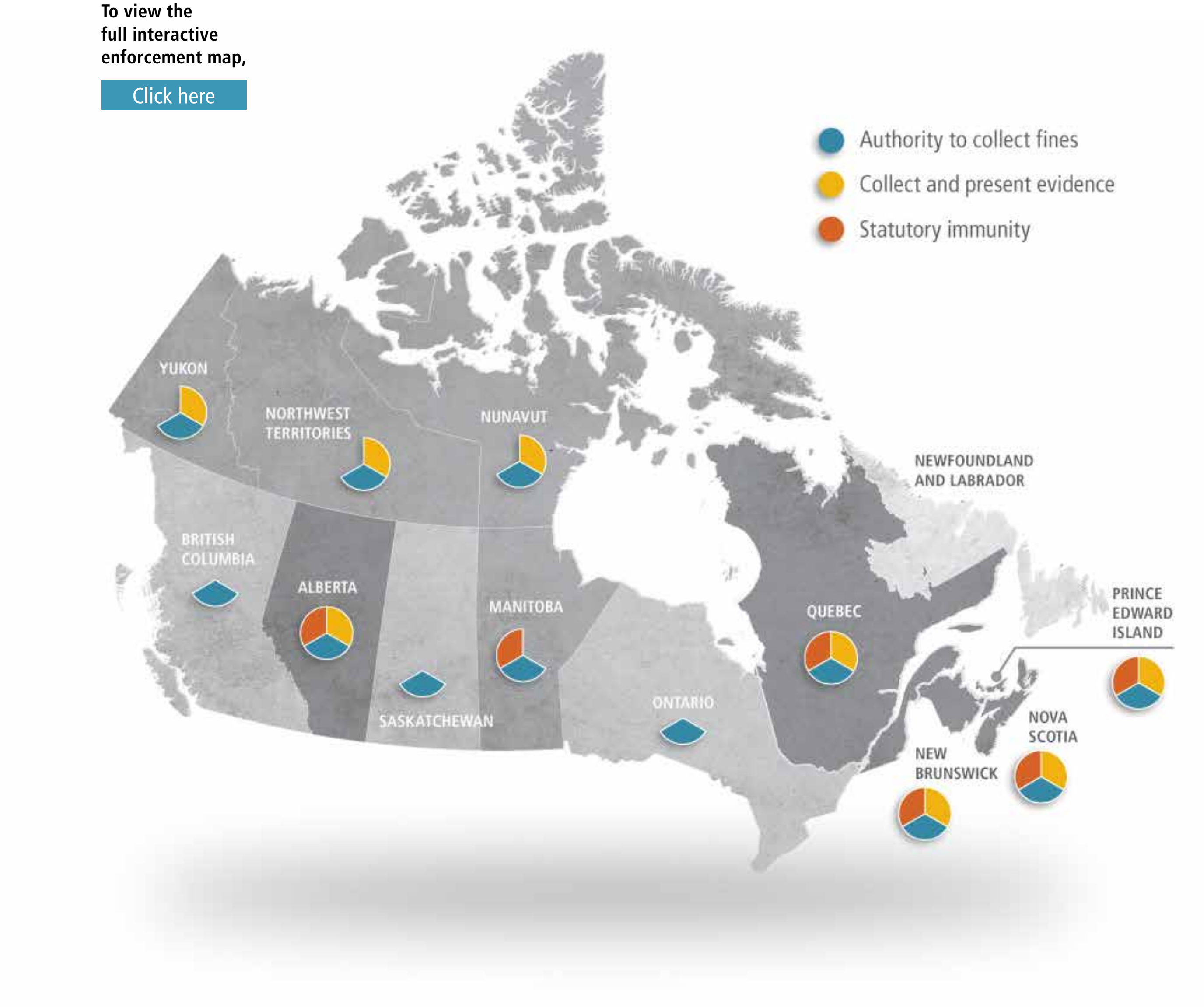
Andrew J. Kriegler
President and CEO

IIROC Enforcement's Current Legal Authority and Protections

IIROC has made significant progress in the following jurisdictions to strengthen investor protection:

To view the full interactive enforcement map,

Click here



Executive Management Team

Andrew J. Kriegler
President and CEO

Lucy Becker
Vice-President, Public Affairs and Member Education Services

Claudyne Bienvenu
Vice-President, Québec and Atlantic Canada

Ian Campbell
Chief Information Officer

Warren Funt
Vice-President, Western Canada

Doug Harris
Vice-President, General Counsel and Corporate Secretary

Victoria Pinnington
Senior Vice-President, Market Regulation

Elsa Renzella
Senior Vice-President, Registration and Enforcement

Irene Winel
Senior Vice-President, Member Regulation and Strategy

Shuaib Shariff
Senior Vice-President, Finance and Administration

Industry Profile: Dealers

(All statistics are as at March 31, 2020)

Investment dealers regulated by the Investment Industry Regulatory Organization of Canada vary in size, ranging from the largest financial institutions in the country to small businesses with 10 or fewer staff registered with IIROC. They represent a variety of business models, including a focus on retail or institutional clients, and an integrated approach with both retail clients and investment banking operations.

INDIVIDUALS AND FIRMS REGULATED BY IIROC

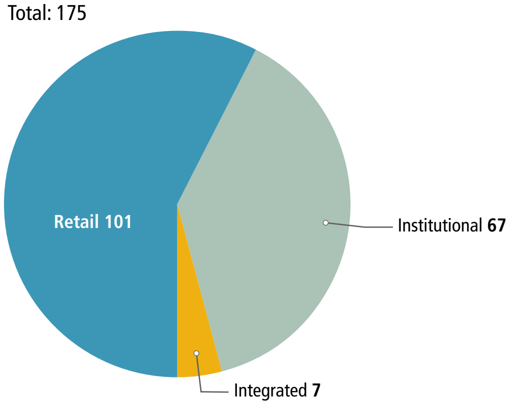
(by location)

Province	Approved Persons	Branch Offices	Head Offices
AB	3,192	949	15
BC	4,749	1,231	10
MB	619	175	3
NB	320	89	1
NF	116	40	0
NS	533	155	0
NT	1	3	0
NU	0	0	0
ON	14,704	3,188	108
PE	68	23	0
QC	5,070	751	29
SK	631	211	0
YT	6	5	0
U.S.	395	NA	8
Other*	47	NA	1
Total:	**30,451**	**6,820**	**175**

* International

Categories of Investment Dealers

Total: 175



As of March 31, 2020, there were 175 members, of which 168 were in good standing, 1 was inactive, 2 were in the resignation process and 4 were suspended.

MEMBER FIRMS

(by revenue)

Revenue	% of Firms
Greater than $1 billion	4%
Greater than $100 million	14%
Greater than $10 million	36%
Greater than $5 million	11%
Less than $5 million	36%

Based on 175 members who reported revenue for the period of April 1, 2019 to March 31, 2020.

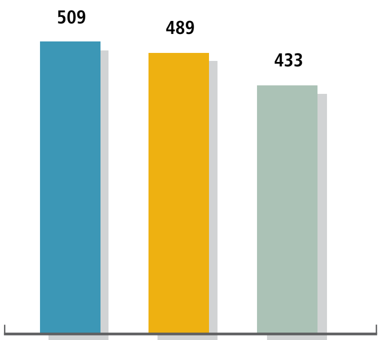
MEMBER FIRMS

(by number of approved persons)

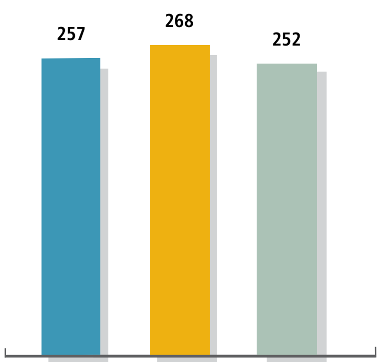
Number of Approved Persons	Number of Firms	% of Firms
Over 1,000	9	5%
501 to 1,000	6	4%
101 to 500	19	12%
11 to 100	70	42%
10 or fewer	62	37%

Industry Profile: Markets

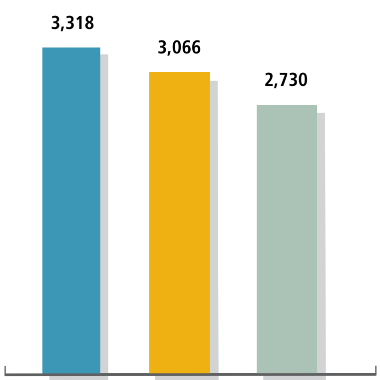
Activity on the equity marketplaces whose trading activity is regulated by IIROC



TRADES
Number of Transactions (Millions)



VOLUME
Total Shares Traded (Billions)



VALUE
of Shares Traded ($ Billions)

2019-2020 | 2018-2019 | 2017-2018

IIROC REGULATES TRADING ACTIVITY ON

6 Stock Exchanges

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

5 **Equity** Alternative Trading Systems

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

* NEO Exchange operates 3 distinct books – NEO-L, NEO-N and NEO-D

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

CANADA'S MULTIPLE EQUITY MARKETPLACES

(Where trading took place in 2019-2020 by share volume)*

Listed	TSX	TSXV	CSE	NEO
TSX	53.44%	0.00%	0.00%	0.00%
TSXV	0.00%	65.74%	0.00%	0.00%
CSE	2.76%	0.99%	68.22%	0.00%
Liquidnet	0.18%	0.02%	0.00%	0.00%
MATCH Now	6.04%	6.48%	8.38%	1.42%
Omega	3.33%	1.80%	3.91%	0.00%
CXC	14.29%	3.39%	2.50%	0.00%
Alpha	5.98%	4.23%	0.00%	0.00%
ICX	0.04%	0.01%	0.00%	0.00%
CX2	3.56%	4.92%	2.26%	0.00%
Lynx	0.05%	0.01%	0.03%	0.00%
NEO-N	5.91%	7.01%	7.89%	29.03%
NEO-L	2.98%	4.66%	4.32%	69.55%
CXD	1.41%	0.73%	2.48%	0.00%
NEO-D	0.03%	0.01%	0.01%	0.01%

* For the year ended March 31, 2020

Priorities Progress Report

2019-2020 marked the first year of IIROC's new three-year Strategic Plan, published in June 2019. Many of our supporting strategic priorities represent multi-year programs.

IIROC's 2019-2020 priorities focused on significant activities and initiatives for completion in support of the Strategic Plan.

As part of our new Strategic Plan, there are seven strategies that underpin our Mission and Vision:

- **Deliver Value for Canadians and the Financial System**
- **Support Industry Transformation**
- **Leverage Data and Analytics**
- **Help Firms with Compliance**
- **Strengthen Enforcement**
- **Drive Efficiency and Operational Effectiveness**
- **Attract, Retain and Enable Skilled People**

- In keeping with IIROC's commitment to transparency and accountability to our stakeholders, we are pleased to present a report on our progress on those activities and initiatives. This work complements our day-to-day regulatory work to protect investors and promote healthy Canadian capital markets. We will continue to measure and report on our progress each year.

- An important development during the year was the announcement in December 2019 by the Canadian Securities Administrators (CSA) that it would undertake a review of the regulatory framework for the Investment Industry Regulatory Organization of Canada (IIROC) and the Mutual Fund Dealers Association of Canada (MFDA). After extensive dialogue with a diverse number of stakeholders including investors, investment and mutual fund dealers and advisors, professional bodies and industry associations, IIROC developed and published its proposal, Improving Self-Regulation for Canadians. You can read more about IIROC's proposal and our accomplishments over the past year in the CEO's message and Key Facts section of this report.

Achieved – completed   In progress – work is ongoing

Deliver Value for Canadians and the Financial System

Work with the CSA to propose rule amendments to help dealers/registrants protect vulnerable investors

IIROC participated in the CSA working group to develop a safe harbour rule to protect vulnerable investors. Proposed rule amendments were published by the CSA on March 5, 2020 for a 90-day comment period.

Begin development of competency profiles for IIROC approval categories of individual registrants

Draft competency profiles for Registered Representative and Investment Representative categories are completed. Following Board approval, IIROC published for comment the draft profiles and related consultation paper in August 2020.

Broaden scope of IIROC's debt transparency program to include both a larger set of corporate bond and government debt information

In May 2018, the CSA proposed that IIROC become the government Debt Information Processor (Debt IP), increasing transparency and improving market integrity without duplicating effort or cost. In June 2020, the CSA announced it was expanding IIROC's role as Information Processor of government debt securities, in addition to its current role as IP for corporate debt securities. Since July 2016, IIROC has been publishing all corporate debt trades executed on the secondary market by IIROC-regulated firms through our public portal.

PROVIDED

a variety of compliance education opportunities, including:

24 **Educational** webcasts

76,426 **Total views** of all existing webcasts

1,334 **Industry** participants

HELD

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

414 TORONTO

119 CALGARY

112 MONTREAL

Achieved – completed   In progress – work is ongoing

Support Industry Transformation

Evolve self-regulatory model to more effectively and efficiently serve Canadians

ADDRESS INDUSTRY FEEDBACK

Establish Industry Transformation Working Group

A cross-functional transformation team comprised of senior IIROC staff was established, and is working to address the industry's feedback as well as other ideas to support access to advice for investors and reduce unnecessary regulatory burden.

Identify rules and guidance that result in unnecessary process and cost, or that limit the appropriate use of technology

IIROC published several guidance notices over the course of the year on topics including e-signatures, the appropriate use of technology in supervision of account opening for order-execution only dealers, the role of guidance, and electronic complaint record retention. In addition, on March 26, 2020, the IIROC Board of Directors delegated to staff the authority to grant certain exemptive relief for members related to issues arising from the COVID-19 pandemic.

Explore new IIROC membership categories

We continue to explore and consider options to provide tailored and proportionate oversight that is appropriate to current and developing models, and to allow for new types of marketplace entrants.

Investor consultation

New investor research was completed regarding investor needs and preferences with respect to their access to advice, as well as barriers investors face. Research results were published in December 2019 and January 2020. With The Strategic Counsel, IIROC surveyed 2,500 Canadians in early 2020 to measure awareness, understanding and perceptions about regulation of the investment industry and benchmark effectiveness of IIROC mandatory membership disclosure amendments, which took effect in January 2017 and July 2018. Aided awareness of investors working with IIROC-regulated firms increased 10 percentage points, from 19% in 2017 to 29% in 2020. Also, in order to enhance how IIROC handles investor complaints, research with past complainants was initiated, and will be completed in the summer of 2020.

Dealer engagement

A significant amount of engagement with dealers was undertaken in the past year, across a range of topics, including client identifiers, derivatives, and crypto-asset trading platforms. We also spoke with the majority of our dealers to solicit their views regarding the CSA's review of self-regulation. Strategic discussions were also conducted via the firm Risk-Trend Report reviews.

Collaborate with regulatory partners to improve the efficiency and effectiveness of regulation in Canada

IIROC continues to actively engage and collaborate with its regulatory partners on a wide variety of issues.

Achieved – completed | In progress – work is ongoing

Support Industry Transformation (Continued)

WORK WITH CSA ON NEXT STEPS RELATED TO CLIENT FOCUSED REFORMS AND EMBEDDED COMMISSIONS

IIROC participated in the finalization of the CSA's client focused reforms (CFR), which were published in October 2019. IIROC is now in the process of adopting its own CFR rule amendments in accordance with the extended CSA implementation timelines. In February 2020, the CSA (excluding the OSC) published rules banning deferred sales charges (DSCs) for implementation by June 2022. The OSC also published proposed rules restricting DSCs.

MODERNIZING IIROC'S DERIVATIVES RULE FRAMEWORK AND REQUIREMENTS

IIROC's proposed requirements for Derivatives Modernization, Phase I were published for public comment in November 2019. Work is continuing on Phase II (margin requirements).

Continue to partner with the CSA on the development of a regulatory framework for crypto trading platforms

The CSA published "Guidance on the Application of Securities Legislation to Entities Facilitating the Trading of Crypto Assets" on January 16, 2020. IIROC continues to work with the CSA on developing and publishing a final regulatory framework for crypto trading platforms.

IIROC OVERSEES

30,451 approved persons

* includes 4 suspended members
1 inactive member and
2 pending resignations

175* members

INTERVENED

52 trades cancelled or varied

1,896 transactions affected

COORDINATED

1,534 trading halts

105 cease trade orders

TRIGGERED

96 single stock circuit breakers

Achieved – completed   In progress – work is ongoing

Leverage Data and Analytics

Further enhance surveillance system to support the continued evolution of market supervision

IIROC completed the implementation of new, leading-edge technology that significantly enhanced our ability to oversee Canada's capital markets and to protect investors from potential market abuses. To further enhance our surveillance capabilities, we began to explore the use of artificial intelligence (AI) to improve the efficiency of our alert management.

Use leading-edge analytic capabilities (AI, machine learning) and data that IIROC collects for regulatory purposes to improve effectiveness and predictive capabilities

IIROC's internal analytics team continues to work closely with internal business units to leverage data tools, including predictive modeling, artificial intelligence and machine learning, to improve efficiency and automate manual processes where appropriate.

Continue to enhance data-sharing platform and capabilities

We continue to support the CSA with the launch of their Market Analytics Platform (MAP). We have implemented processes to securely transfer both equity and debt trade data daily using secure cloud and "big data" capabilities. Once the CSA completes the implementation of their MAP system, full deployment of the daily data transfer will begin.

ASSESSED

$6,812,500

fines (excluding costs and disgorgement) **against** firms and individuals

$5,875,000 firms

$937,500 individuals

COLLECTED

$6,315,022*

fines (excluding costs and disgorgement) **against** firms and individuals

93% of **total fines** assessed

$5,733,758 of **discipline penalties against** firms representing **98%** of **fines** assessed

$581,264 of **discipline penalties against** individuals representing **62%** of **fines** assessed

* Please note the amounts reported reflect those fines assessed for the current year and collected in the current period. Total fines collected in the current year for all years assessed is $6,651,098.

Achieved – completed   In progress – work is ongoing

Help Firms with Compliance

Implement the Plain Language Rulebook (PLR) and training for dealers and staff

PLR implementation deadlines have been extended to align with the CSA's revised implementation schedule for the client focused reforms. Extensive internal and external training regarding the new requirements was completed.

Commence modernization of IIROC's approach to supervision

IIROC compliance teams are actively working together to enhance our risk-based approach, to streamline, standardize and optimize examinations, and to assess where we can reduce burden on dealers, while maintaining investor protection. Due to COVID-19, in-person exams were postponed, with a focus on updating our approach to conduct supervision remotely.

Develop dealer report cards specific to market regulation compliance

Initial focus has been on dealer consultations to ascertain the metrics and comparisons that would be of greatest value. Development continues.

COMPLETED

112 ✓ **enforcement** investigations

37 **disciplinary hearings** (including settlement hearings) (**27** individuals, **10** firms)

ISSUED

14 suspensions

4 permanent **bans**

Achieved – completed   In progress – work is ongoing

Strengthen Enforcement

Continue to pursue and implement powers, protections and tools

In May 2019, Saskatchewan granted IIROC the authority to collect fines through the courts. In December 2019, New Brunswick passed legislation providing IIROC with the full enforcement toolkit: the ability to collect fines through the courts; the authority to collect and present evidence during investigations and at disciplinary hearings; and protection from malicious lawsuits while acting in good faith to carry out its public interest mandate to protect investors.

Approve and finalize the two programs of alternative forms of disciplinary actions

In April 2019, IIROC published a second Request for Comments relating to IIROC's proposed Minor Contravention Program and Early Resolution Offers. We continue to work collaboratively with our CSA partners towards a resolution of issues relating to the proposed programs.

Begin phased implementation of client identifier requirements

Further to the approval of the proposed rule amendments by the applicable securities regulatory authorities in April 2019, the first phase of the implementation (debt) came into effect in October 2019. The work on phases 2 and 3 (equities) is progressing well and will be implemented on July 26, 2021. We continue to work closely with the industry via a special implementation committee. A new area on the IIROC website is now dedicated to the implementation of phase 2 and 3 and provides greater transparency to all stakeholders.

MONITORED

509,073,748 **trades** on **6 stock exchanges**

and **5 equity** alternative trading systems

CONDUCTED

79 on-site **Business Conduct Compliance** firm reviews

80 on-site **Financial and Operations Compliance** firm reviews

39 on-site **Trading Conduct Compliance** firm reviews

2 integrated on-site **Compliance** firm reviews

Achieved – completed   In progress – work is ongoing

Drive Efficiency and Operational Effectiveness

Complete transition to a new digital services platform and continue business application renewal, consolidation and integration

We completed the transition to a new digital platform and managed services provider, significantly enhancing our internal IT infrastructure services and strengthening our information security posture. In addition, a new human capital management system was successfully implemented across the organization. Multiple other enhancements were made during the year to a variety of other systems to increase efficiency and effectiveness.

Attract, Retain and Enable Skilled People

Evolve our HR and workplace strategies

Work is underway on developing our new HR and workplace strategies. HR strategy work will include an evaluation of our organizational culture. We are also evaluating our physical space needs for the future.

RESPONDED TO

1,834 **investor inquiries** and **772** **inquiries** and

613 complaints related to **business conduct** **609** complaints related to **trading**

through IIROC's Complaints and Inquiries department, which includes front-line staff in Calgary, Toronto, Vancouver and Montreal

PUBLISHED

9 Member Policy rule proposals

4 Member Policy rule amendments

2 Market Policy rule proposals

5 Market Policy rule amendments

Governance Report

The Recognition Orders set out by the Canadian Securities Administrators (CSA) provide that IIROC's governance structure and arrangements must ensure fair, meaningful and diverse representation on its Board of Directors and any committees of the Board, including a reasonable proportion of Independent Directors.

IIROC also reviews its governance on an ongoing basis to ensure that there is a proper balance between, and effective representation of, the public interest and the marketplaces, dealers and other entities desiring access to the services provided by IIROC.

Board of Directors

All IIROC Directors are responsible for ensuring that IIROC serves the public interest in protecting investors and market integrity, by articulating and ensuring it meets a clear public interest mandate for its regulatory functions.

Seven of IIROC's 15 Directors are Independent Directors who are not affiliated with an IIROC member. In addition, the Corporate Governance Committee – which is charged with overseeing IIROC's governance – is made up entirely of Independent Directors.

We also pay close attention to ensuring that the Dealer Directors on the IIROC Board represent a wide range of dealers. Of our five Dealer Directors, three are from independent firms, two of which are based in Western Canada.

We believe that the IIROC Board is uniquely positioned to act in the public interest to protect investors and market integrity and support healthy capital markets across Canada.

Andrew J. Kriegler
(Joined November 2014)
President and CEO, IIROC
Toronto, Ontario

Paul D. Allison, Chair
(Joined October 2013)
Industry Director
Chairman and CEO,
Raymond James Ltd.
Toronto, Ontario
Member of Human Resources and Pension Committee

Catherine Smith, Vice-Chair
(Joined September 2012)
Corporate Director (Independent)
Toronto, Ontario
Member of Corporate Governance Committee
Member of Human Resources and Pension Committee

RESIGNED AS INDEPENDENT DIRECTORS

Brian Heidecker
(Joined September 2011)
Corporate Director
Edmonton, Alberta
Member of Corporate Governance Committee
Member of Finance, Audit and Risk Committee

Lucie Tedesco
(Joined September 2018)
Corporate Director
Ottawa, Ontario
Member of Human Resources and Pension Committee
Member of Finance, Audit and Risk Committee

INDUSTRY DIRECTORS

Jean-Paul Bachellerie
(Joined September 2013)
CEO, PI Financial Corp.
Vancouver, British Columbia
Member of Human Resources and Pension Committee

Holly A. Benson
(Joined January 2015)
Vice-President, Finance and CFO, Peters & Co. Limited
Calgary, Alberta
Member of Finance, Audit and Risk Committee

Luc Fortin
(Joined January 2018)
President and CEO, Montréal Exchange and Global Head of Trading, TMX Group
Montréal, Québec
Member of Finance, Audit and Risk Committee

Timothy Mills
(Joined September 2019)
Senior Vice-President, Treasury Market and Liquidity Risk Management, CIBC
Toronto, Ontario
Member of Finance, Audit and Risk Committee

Luc Paiement
(Joined September 2016)
Executive Advisor
National Bank of Canada
Montréal, Québec
Member of Human Resources and Pension Committee

Jos Schmitt
(Joined September 2018)
Co-Founder, Director, President & CEO of the NEO Group of companies
Toronto, Ontario
Member of Human Resources and Pension Committee

As noted on page 24, Paul D. Allison (Chair) is an Industry Director.

INDEPENDENT DIRECTORS

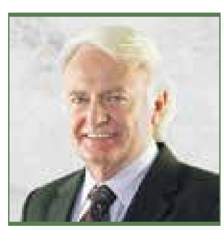
Michèle Colpron
(Joined September 2017)
Corporate Director
Montréal, Québec
Member of Finance, Audit and Risk Committee

James Donegan
(Joined September 2012)
Corporate Director
Toronto, Ontario
Member of Corporate Governance Committee
Member of Finance, Audit and Risk Committee

Victoria Harnish
(Joined January 2020)
Corporate Director
Hubbards, Nova Scotia
Member of Finance, Audit and Risk Committee
Member of Human Resources and Pension Committee

Edward Iacobucci
(Joined September 2012)
Dean
Faculty of Law,
University of Toronto
Toronto, Ontario
Member of Corporate Governance Committee

Shenaz Jeraj
(Joined September 2019)
Chief Information Officer for Capital Region Housing Corporation (Edmonton)
Edmonton, Alberta
Member of Corporate Governance Committee
Member of Finance, Audit and Risk Committee



Gerry O'Mahoney
(Joined September 2013)
Principal and Founder
Tralee Capital Markets Ltd.
Oakville, Ontario
Member of Corporate Governance Committee
Member of Finance, Audit and Risk Committee

As noted on page 24, Catherine Smith (Vice-Chair) is an Independent Director.

2019-2020 Board Meetings

APRIL 1, 2019 TO MARCH 31, 2020 BOARD MEETINGS

A total of 28 meetings were held during the fiscal year ended March 31, 2020.
Below is a breakdown of attendance.

Director	Board of Directors	Special Meeting of the Board of Directors	Finance, Audit and Risk	Corporate Governance	Human Resources and Pension	Regulatory Rules Brief	Total Compensation $
Paul Allison	6/6	1/1			5/5	3/4	
Jean-Paul Bachellerie	6/6	1/1			5/5	4/4	
Holly Benson	6/6	1/1	6/6			4/4	
Michèle Colpron **	4/6	1/1	5/6			3/4	46,429.95
James Donegan **	6/6	1/1	6/6	6/6	5/5	4/4	65,605.63
Luc Fortin	6/6	1/1	6/6			4/4	
Victoria Harnish **	2/2	n/a	2/2		2/2	1/1	16,272.06
Brian Heidecker * **	2/2	n/a	2/2	2/2		2/2	23,652.40
Edward Iacobucci **	6/6	1/1		6/6		3/4	44,280.70
Shenaz Jeraj **	4/4	1/1	4/4	4/4		3/3	36,155.82
Andrew Kriegler	5/6	1/1	6/6	6/6	5/5	4/4	
Gerry O'Mahoney **	6/6	1/1	6/6	6/6		4/4	57,065.00
Timothy Mills	4/4	0/1	4/4			3/3	
Luc Paiement	6/6	1/1			5/5	4/4	
Jos Schmitt	6/6	1/1			5/5	4/4	
Catherine Smith **	6/6	1/1		6/6	5/5	4/4	64,228.57
Lucie Tedesco * **	2/2	N/A	2/2			1/1	11,848.96

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

Director Compensation

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

BOARD

Annual retainer – $15,000 per annum

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

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

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

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

COMMITTEE

Committee Members – $1,500 per annum

Committee Chairs – $4,000 per annum

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

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

In the event that the location of a Board meeting requires an additional travel day and the Director attends in person, a supplementary travel fee of $1,000 is allowed.

Directors are paid half the compensation of the committee member per diem attendance fee when invited by the Chair of a Board Committee to attend the Committee's meeting, of which they are not a member.

Board Committee Mandates

CORPORATE GOVERNANCE COMMITTEE

Recommends candidates eligible to serve on the Board and its committees; reviews IIROC governance principles and practices; identifies and manages potential conflicts of interest; establishes Board self-assessment process; and appoints individuals to the Hearing Committee.

FINANCE, AUDIT AND RISK COMMITTEE

Assists Board in oversight of: accounting and financial reporting processes; qualifications, independence and performance of IIROC's independent auditor; IIROC's internal control systems; and IIROC's risk management processes.

HUMAN RESOURCES AND PENSION COMMITTEE

Ensures IIROC can attract and retain personnel with the appropriate status and experience to achieve its objectives and enhance the professionalism and effectiveness of the organization; assists the Board in its oversight of IIROC's human resources policies and procedures, benefits and pension plans and with related regulatory compliance.

Management Discussion and Analysis

The Management Discussion and Analysis ["MD&A"] on IIROC's operations and financial condition are presented for the fiscal year ended March 31, 2020, compared with the previous year ended March 31, 2019. The MD&A should be read in conjunction with the Financial Statements for the year ended March 31, 2020.

IIROC is a cost-recovery, not-for-profit national organization that recovers its operating expenses from several sources of revenue. The primary source is through fees for dealer regulation, equity market regulation, debt market regulation and Debt Information Processor ["Debt IP"] activities which are collected through the application of their respective fee models. Dealer regulation secondary sources of revenue include underwriting levies, which represent a stipulated percentage share of the value of certain public equity and debt underwritings in Canada, and registration fees based on arrangements with some provincial securities authorities. In addition, within market regulation, we recover our expenses for administering timely disclosure policies from 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 our judgement at the time of publication, are not guarantees of future performance.

MANAGEMENT DISCUSSION AND ANALYSIS (IN THOUSANDS OF DOLLARS)

Summary Financial Information

Unrestricted Fund

	FY 2020 $	FY 2019 $	Variance $	Variance %
REVENUE				
Dealer regulation				
Membership fees	**52,416**	50,544	1,872	4%
Underwriting levies	**8,206**	8,709	(503)	(6%)
Registration fees	**1,844**	2,730	(886)	(32%)
Entrance fees	**155**	130	25	19%
	62,621	62,113	508	1%
Market regulation				
Equity regulation	**25,510**	25,768	(258)	(1%)
Debt regulation	**2,242**	2,266	(24)	(1%)
Timely disclosure	**3,007**	2,929	78	3%
Marketplace revenue	**190**	187	3	2%
	30,949	31,150	(201)	(1%)
Debt Information Processor ["Debt IP"]	**1,634**	461	1,173	254%
Other revenue				
Investment revenue including interest	**1,679**	2,338	(659)	(28%)
Miscellaneous	**108**	136	(28)	(21%)
	1,787	2,474	(687)	(28%)
Total Unrestricted Fund revenue	**96,991**	96,198	793	1%
EXPENSES				
Dealer regulation operating expenses	**68,651**	65,220	3,431	5%
Market equity regulation operating expenses	**29,290**	28,251	1,039	4%
Market debt regulation operating expenses	**2,307**	2,578	(271)	(11%)
Debt IP operating expenses	**1,491**	458	1,033	226%
Total Unrestricted Fund operating expenses	**101,739**	96,507	5,232	5%
(DEFICIENCY) EXCESS OF REVENUE OVER EXPENSES FOR THE YEAR	**(4,748)**	(309)	(4,439)	1,437%

MANAGEMENT DISCUSSION AND ANALYSIS (IN THOUSANDS OF DOLLARS)

Externally Restricted Fund

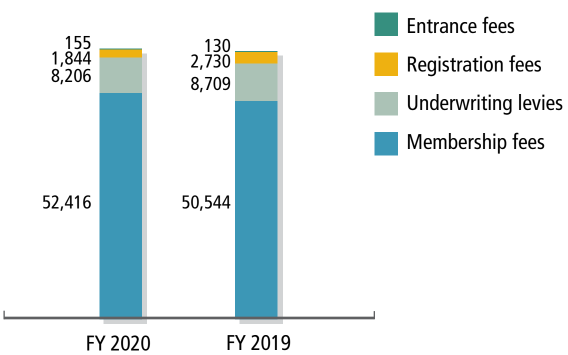
	FY 2020 $	FY 2019 $	Variance $	Variance %
REVENUE				
Entrance fees	**249**	20	229	1,145%
Disciplinary fines and other fines	**7,083**	2,167	4,916	227%
Investment revenue including interest	**273**	221	52	24%
Total Externally Restricted Fund revenue	**7,605**	2,408	5,197	216%
EXTERNALLY RESTRICTED FUND EXPENSES				
Hearing panel expenses	**1,245**	912	333	37%
Amortization, impairment and disposals [excluding surveillance system hardware]	**793**	317	476	150%
Member education	**416**	322	94	29%
Cybersecurity consultants	**237**	–	237	NA
Surveillance system hardware [amortization and interest]	**111**	–	111	NA
Plain language rulebook implementation	**75**	–	75	NA
Client identifier implementation	**19**	–	19	NA
Canadian Foundation for Advancement of Investor Rights ["FAIR"]	**–**	250	(250)	(100%)
Cybersecurity self-assessment survey	**–**	143	(143)	(100%)
Cybersecurity tabletop test	**–**	89	(89)	(100%)
Canadian Foundation for Economic Education ["CFEE"]	**–**	18	(18)	(100%)
Total Externally Restricted Fund expenses	**2,896**	2,051	845	41%
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES FOR THE YEAR	**4,709**	357	4,352	1,219%

REVENUE

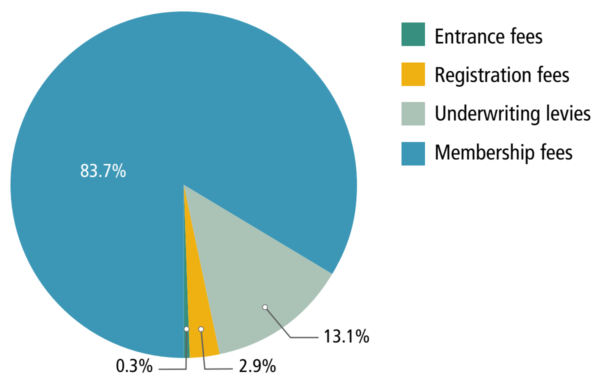
Unrestricted Fund revenue for the period amounted to $96,991, $793 [1%] higher than FY 2019 of $96,198.

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 $81,802 represent approximately 84% of total IIROC revenue [82% in FY 2019].

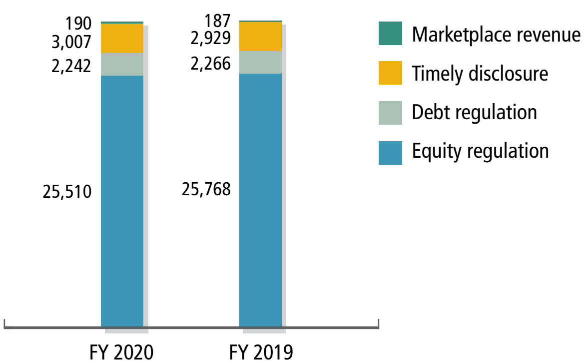
DEALER REGULATION REVENUE ($)



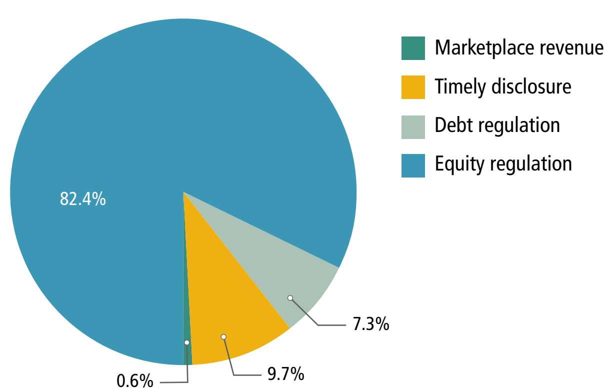
DEALER REGULATION REVENUE (%)



MARKET REGULATION REVENUE ($)

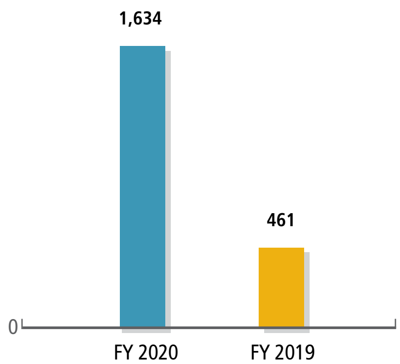


MARKET REGULATION REVENUE (%)



REVENUE (Continued)

DEBT INFORMATION PROCESSOR REVENUE ($)



Dealer regulation membership fees increased by $1,872 or 4% to $52,416 compared with $50,544 in FY 2019. The higher dealer fees include 3% of annual fee increase and prior year restatements and adjustments for certain dealers. Equity market regulation fees decreased by $258 or 1% to $25,510 compared with $25,768 in FY 2019. Debt market regulation fees decreased by $24 or 1% to $2,242 compared with $2,266 in FY 2019. Debt IP fees increased by $1,173 or 254% to $1,634 compared with $461 in FY 2019. The primary reason for the increase in Debt IP fees is due to a change in costing methodology from incremental to full costing.

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

On a year-over-year basis, the combined revenue from secondary sources decreased by $1,283 [9%] from $14,685 to $13,402.

Underwriting levies, a significant secondary source of dealer regulation revenue, decreased by $503 [6%] to $8,206 in FY 2020 from $8,709 in FY 2019 mainly due to a decrease in the volume of issues from provinces. These were partly offset by a higher volume of issues from municipalities and from the equity market. Although corporate debt issues were higher in volume, levies were lower since a significant number of issues in this category did not attract levies.

Revenue from registration fees, the other significant secondary source of revenue, decreased by $886 [32%] to $1,844 in FY 2020 primarily due to an amendment in the arrangement with the Alberta Securities Commission ["ASC"].

REVENUE (Continued)

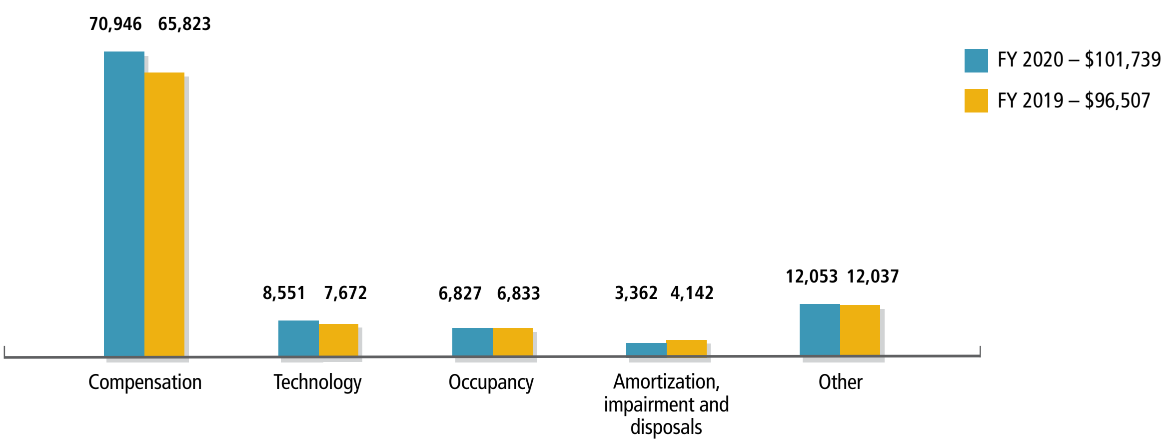
A significant secondary revenue source for market regulation is timely disclosure fees from the TSX, TSXV, CSE and NEO exchanges for administering their timely disclosure policies on a cost-recovery basis. These totaled $3,007 in FY 2020, an increase of $78 or 3% from FY 2019 of $2,929.

Other revenue decreased by $687 to $1,787 [28%] mainly due to lower investment revenue.

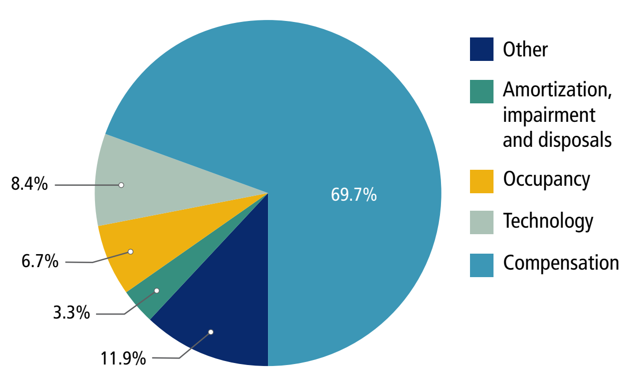
EXPENSES (UNRESTRICTED FUND)

IIROC's total operating expenses were $101,739 in FY 2020, an increase of $5,232 or 5% from $96,507 in FY 2019. IIROC's operating expenses consist of five main categories.

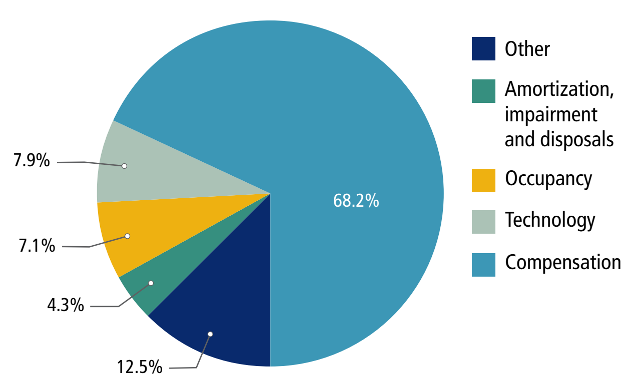
TOTAL OPERATING EXPENSES ($)



TOTAL OPERATING EXPENSES FY 2020 (%)



TOTAL OPERATING EXPENSES FY 2019 (%)



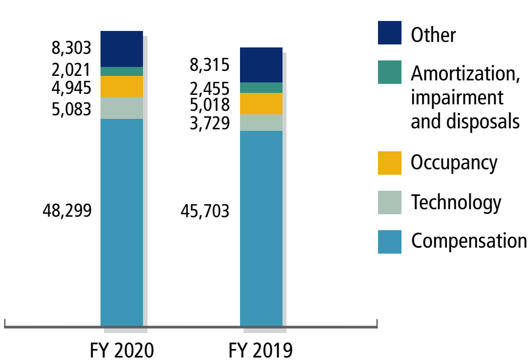
EXPENSES (UNRESTRICTED FUND)

(Continued)

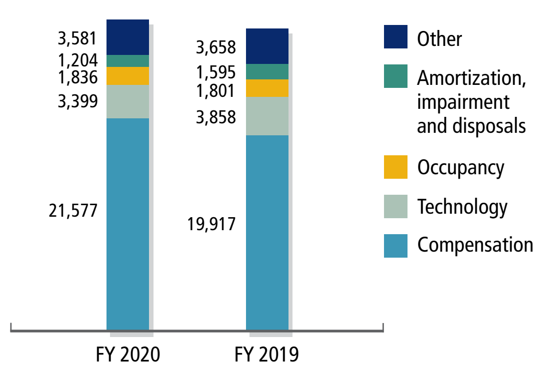
Compensation represents the largest expense category at 69.7% of operating expenses in FY 2020 [68.2% in FY 2019]. Compensation levels increased by $5,123 [8%] to $70,946 due to higher pension costs, merit increases targeted to pay-for-performance, and investments in HR, IT and transformation.

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

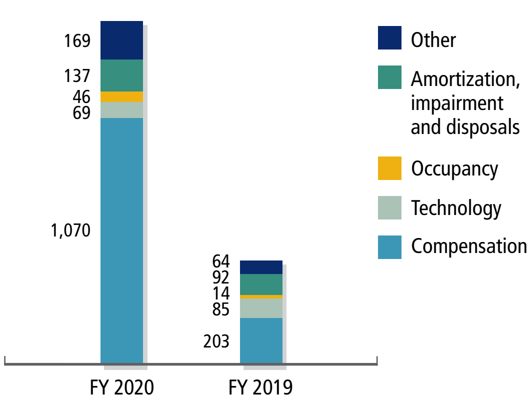
DEALER REGULATION OPERATING EXPENSES ($)



MARKET REGULATION OPERATING EXPENSES ($)



DEBT INFORMATION PROCESSOR OPERATING EXPENSES ($)



EXPENSES (UNRESTRICTED FUND)

(Continued)

Dealer regulation expenses increased by $3,431 [5%] to $68,651, mainly driven by compensation expense. The remaining increase in dealer regulation expenses was primarily due to higher technology and other expenses such as consulting services expenses associated with transitioning of IT infrastructure and information security operations to a new consolidated, secure hybrid-cloud platform. The increase was partially offset by lower amortization expenses due to certain IT systems being impaired in FY 2019.

Market regulation expenses increased by $768 [2%] to $31,597, of which equity market regulation increased by $1,039 and debt market regulation expenses decreased by $271 due to the change in methodology from incremental to full costing in FY 2020 for Debt IP. The compensation expense increase of $1,660 additionally reflects investments in data analytics and market surveillance. The increase in market regulation costs was partially offset by lower technology support costs for market surveillance. In addition, amortization expenses were lower due to the previous market surveillance system being fully amortized in FY 2019, and the new market surveillance system being funded through the Externally Restricted Fund.

Debt IP expenses increased by $1,033 [226%] to $1,491 due to the change in methodology from incremental to full costing in FY 2020.

UNRESTRICTED FUND

There were deficiencies of revenues versus expenses of $4,748 in FY 2020, and $309 in FY 2019. These deficiencies reflect planned non-recurring investments in infrastructure, and in FY 2020 lower than expected underwriting levies and registration fees.

The deficiency of revenues versus expenses for FY 2020 and a net remeasurement gain of $7,938 for the pension plans and the post-retirement benefit plan increased the Unrestricted Fund balance from $54,702 to $57,892. It should be noted that the remeasurement gain on our pension plans was due to the significant widening of corporate credit spreads at year-end.

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 fund balances, and 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 and approved by IIROC's Corporate Governance Committee.

Total revenues for the year amounted to $7,605, compared with $2,408 for FY 2019, an increase of $5,197 [216%]. This is due to a number of more significant fines levied in FY 2020.

Total expenses increased by $845 [41%] to $2,896. The increase was primarily due to higher amortization expenses resulting from the new market surveillance system having been funded through the Externally Restricted Fund. In addition, hearing panel expenses reflected costs for biennial training conferences for Hearing Committee members in FY 2020. These increases were partially offset by funding for the Canadian Foundation for Advancement of Investor Rights, which was only in FY 2019.

EXTERNALLY RESTRICTED FUND

(Continued)

The resulting excess of revenue over expenses for the year was $4,709, compared to an excess of $357 in the previous year.

An IIROC policy is in place to ensure adequate funding is maintained for three years' of hearing panel-related expenses and other eligible requirements. The fund balance of $20,118 is considered adequate for these purposes.

LIQUIDITY AND CAPITAL RESOURCES

At the end of FY 2020, IIROC held total combined fund balances in the Unrestricted and Externally Restricted Fund of $78,010, up $7,899 from the FY 2019 balance of $70,111. The increase in fund balances arose from a net remeasurement gain for the pension plans and post-retirement benefit plan of $7,938, as well as a deficiency of revenues versus expenses of $39.

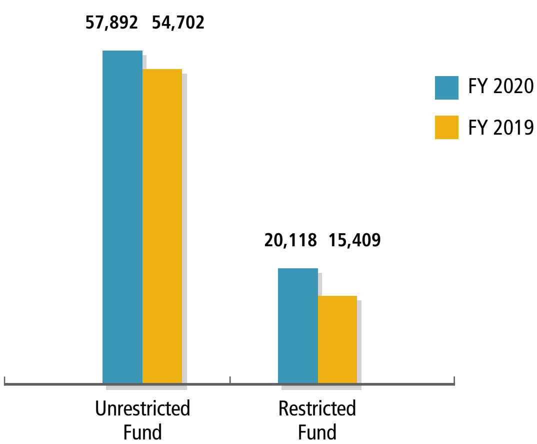
During the year, the Organization increased its capital asset by $1,812 [$5,291 in FY 2019]. These included capital leases [$262], an application for dealer dashboard [$329], and other technology applications [$646].

IIROC has an internal liquidity guideline for the Unrestricted Fund of a minimum of three months' of operating expenses. Based on FY 2021 budgeted operating expenses, the Fund holds more than the minimum required by the guideline.

IIROC holds investments of $57,266 in highly 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.

The Unrestricted Fund balance provides protection against adverse moves in valuations for pension; non-registered Supplemental Plan for Executives ["SERP"], Post-Retirement Benefits ["PRB"], and non-registered Supplemental Income Plan ["SIP"]; liquidity requirements; the Canadian Investor Protection Fund ["CIPF"] loan guarantee; and other contingencies.

FUND BALANCES AT YEAR END ($)



COMMITMENTS

As at March 31, 2020, IIROC has in place basic minimum aggregate annual rental commitments of $16,807 [FY 2019 – $20,094], excluding GST/HST and shared operating expenses under long-term operating leases, with varying expiry dates to February 28, 2029. In addition to minimum lease payments, IIROC is also obligated to pay its share of operating expenses, which fluctuate from year to year. Minimum aggregate executory costs for capital leases are $1,591 [FY 2019 – $1,508].

CAPITAL LEASE

The Organization is entering into a number of arrangements which are an outsourced service model and which embed 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;
- Laptops, desktops, and printers.

CONTINGENCIES

The Organization 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 $513,561 on hand as at December 31, 2019 [2018 – $495,583]; [ii] lines of credit provided by two Canadian chartered banks totaling $125,000 as at December 31, 2019 [2018 – $125,000]; and [iii] insurance in the amount of $160,000 as at December 31, 2019 [2018 – $160,000] in the annual aggregate in respect of losses to be paid by CIPF in excess of $200,000 [2018 – $150,000] in the event of member insolvency, and a second layer of insurance in the amount of $280,000 as at December 31, 2019 [2018 – $230,000] in respect of losses to be paid in excess of $360,000 [2018 – $310,000] in the event of member insolvency. IIROC has provided a $125,000 [2019 – $125,000] guarantee on CIPF bank lines of credit. At March 31, 2020, 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 FY 2013 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.

CONTINGENCIES (Continued)

The motion for authorization of the class action was dismissed in August 2014. The petitioner appealed and the appeal was dismissed on November 6, 2015. A new motion for authorization was filed on November 16, 2015 on behalf of a new petitioner. The new motion was filed by the same counsel as in the original motion for authorization, and is based mainly on the same alleged facts and grounds as the previous motion, but in addition alleges that the petitioner has been the victim of identity theft. The motion for authorization was granted in October 2017. Damages sought are $1 in compensatory and $0.5 in punitive damages per class member plus other damages and legal costs. The Organization is vigorously defending against this action. The case is expected to go to trial in FY 2021.

The total costs of the incident to date, including legal fees for responding to the two motions for authorization, are $5,530, with all costs in FY 2020 directly paid by the insurer [2019 – $61 recovered from insurance]. It is not possible to estimate potential damages or the range of further possible losses, if any, resulting from this incident.

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.

Items subject to significant management estimates include:

a) Accruals – accruals are made for expenditures incurred but invoices not yet processed as of March 31, 2020. To be eligible for an accrual, we must have received the goods and services as of March 31, 2020. 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, 2020 was $nil [FY 2019 – $nil].

c) Eligibility of expenditures for capitalization – eligibility is determined based on accounting rules. We do not capitalize consumables nor individual assets falling below our capitalization threshold in accordance with our 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 term of the respective leases.

f) Minimum lease payments – minimum lease payments are estimated based on valuation of lease contracts.

USE OF ESTIMATES (Continued)

g) 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 the Organization'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.

h) 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 the Finance, Audit and Risk ["FAR"] Committee of the Board, as set out in their respective Charters.

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 the organization 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 Board of Directors. KPMG LLP is IIROC's outsourced Internal Auditor. The Internal Auditor reports to the FAR Committee and provides a minimum of four updates per year. IIROC works closely with its Internal Auditor and the Canadian Securities Administrators ["CSA"] 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

IIROC is currently subject to litigation as disclosed in Note 11 to the Financial Statements and 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 our judgement are without merit. IIROC continually reviews and enhances, as appropriate, its insurance coverage against various risks with a view to having sufficient coverage against potential losses, for existing and emerging risks whenever possible.

Cybersecurity

IIROC continues to monitor and adapt to the evolving cybersecurity landscape, leveraging available threat intelligence services. IIROC ensures that hardware/software are maintained and vendor supported and that security updates are applied in a timely fashion.

RISK (Continued)

Where required, IIROC invests in new technology and leverages third-party service provider capabilities to protect IIROC IT assets, services and data and to prevent unauthorized access to, or leakage of, personal and confidential information.

Revenue risk

About 83% of IIROC's revenue comes from dealer membership fees and equity and debt market regulation fees. Failure of a significant number of firms or a relatively large firm would have a critical impact on IIROC's financial operations. Prudent operating cost management and ongoing monitoring of the financial adequacy of firms helps to mitigate this risk. 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.

The COVID-19 pandemic is expected to have a significant impact on the overall economic conditions as well as a number of our dealers. In addition to exemptive relief we have offered in a number of areas relating to hardships dealers are experiencing, we have provided temporary financial relief in the form of deferred payment of fees for small and medium-sized dealers so they can continue to focus on serving their clients during these uncertain times. The uncertainty with the current economic environment may impose additional revenue risk to IIROC in FY 2021.

Registered pension, SERP and PRB risk

Registered pension risk refers to the risk that the Organization's financial condition on the statement of financial position would be adversely impacted because of the impact on the Organization's two registered plans of possible reductions in the future market value of the plan investments and/or increases in the pension liability if interest rates were to fall below current levels. These risks are mitigated by maintaining sufficient funding levels and by holding a diversified set of investments, which are managed by professional investment managers operating under specified mandates. IIROC also carefully monitors and manages funding levels and makes contributions required by law and, in addition, makes special contributions to maintain desired funding levels. Similar risks and funding considerations apply to the unregistered plans including 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.

Effects of COVID-19 on the financial markets, regulations, and experience are uncertain and evolving. There may be significant effects on plan experience and/or assumptions, both demographic and economic, used for future measurements.

Financial instruments risk

IIROC'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,

RISK (Continued)

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.

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 accounts payable. 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. Adverse or volatile capital market conditions both in the primary market and secondary markets could have an impact on IIROC's ability to collect revenues to cover expenses through underwriting levies, as well as dealer regulation and market regulation membership fees. IIROC minimizes its exposure to market risk through its policy of investing 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.

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.

RISK (Continued)

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

The outbreak of COVID-19 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.

RESILIENCY

IIROC has developed business continuity plans ["BCPs"] as part of a larger resiliency program to ensure critical and core regulatory and support services can continue to function in the event of a disruption. BCPs are updated as changes occur, and IIROC continues to work on strengthening its resiliency program.

In response to COVID-19, IIROC invoked its pandemic BCP at all levels of the Organization. A crisis management team was formed, which orchestrated our full work-from-home program. We continue to monitor developments across the country. IIROC's regulatory functions and capacity have not been adversely affected.

OUTLOOK

The significant transformation underway across the industry continues, driven by the changing needs and expectations of Canadians and the ways in which technological advances allow them to be met. Many of these changes have been accelerated by the COVID-19 pandemic, providing both challenges and opportunities for investors and those who serve them.

Our strategic priorities and supporting budget for FY 2021 reflect the current environment of heightened uncertainty related to the pandemic, as well as IIROC's ongoing commitment to investor protection and market integrity, while operating in an efficient, cost-effective and sustainable manner.

Examples of our priorities for next year include:

- Effectively managing and addressing issues that arise from the COVID-19 pandemic, prioritizing the health and safety of our staff and stakeholders, investor protection and healthy capital markets. This includes leveraging our learnings from the pandemic to deliver greater value to Canadians and the financial system.
- Advancing our various initiatives and commitments related to investor protection, including:
    - continuing our work with the CSA in support of a safe harbour rule and developing additional tools to help dealers protect vulnerable investors;
    - conducting research with complainants to improve the complaint handling process including our communications with complainants;

OUTLOOK (Continued)

  - exploring ways to help support investors who suffer financial loss of their hard-earned savings at the hands of wrongdoers with the possibility of returning disgorgement monies;
  - seeking input related to our plan to establish an Expert Investor Issues Panel; and,
  - continuing to seek additional authority to strengthen our enforcement toolkit to ensure that investors coast-to-coast have a consistent level of investor protection.
- Supporting the industry's transformation through the evolution of our self-regulatory model to more effectively and efficiently serve Canadians. This includes our support for and participation in the CSA's consultation on self-regulation, and publishing our proposal: "Improving Self-Regulation for Canadians."
- Conducting a study of failed trades of listed securities. This study will examine the length of time settlement failures remain outstanding and explore whether systemic issues exist.
- Continuing the implementation of phases two and three of the client identifier requirements.
- Continuing to support the CSA on the development of a regulatory framework for crypto-asset trading platforms.
- Evolving our HR and workplace strategies, including learnings from the pandemic.

These priorities support the seven key strategies that enable us to deliver effectively on our mandate and our Mission and Vision, as outlined in our three-year Strategic Plan published in June 2019:

- Deliver Value for Canadians and the Financial System
- Support Industry Transformation
- Leverage Data and Analytics
- Help Firms with Compliance
- Strengthen Enforcement
- Drive Efficiency and Operational Effectiveness
- Attract, Retain and Enable Skilled People

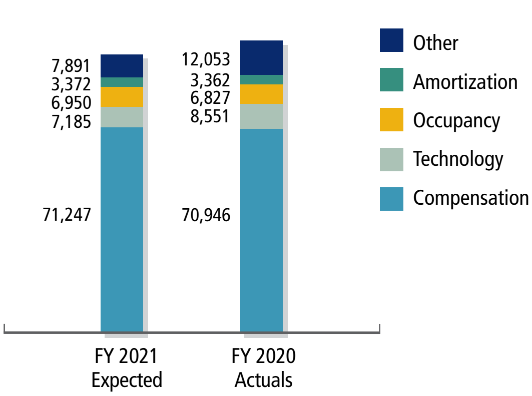
In response to the economic impact from the COVID-19 pandemic, we revised our original projections for FY 2021 with a focus on even tighter expense management and cost containment. We recognize the significant impact that the COVID-19 pandemic is having on Canadians, the economy and the overall investment industry, and we have taken a number of measures to support our capital markets and to provide relief to dealers including temporary financial relief by way of deferral of payments on fees to small and medium-sized dealers. We have also made a strategic decision to hold fees flat this year given the length and unpredictable nature of the pandemic across jurisdictions.

Total operating expenses for the coming year are expected to decrease from $101,739 in FY 2020 to $96,645 in FY 2021, a decrease of $5,094 [5%]. The decrease in expenses is driven by lower other

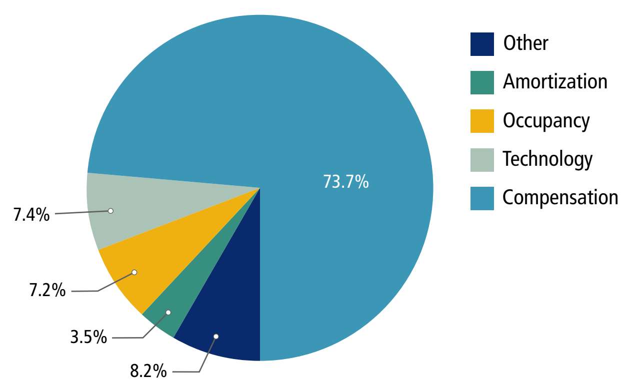
OUTLOOK (Continued)

expenses such as consulting services expense due to completion of non-recurring investments in infrastructure in FY 2020. Technology expenses are also expected to be significantly lower and platform scalable to position us for the future from consolidating and integrating our IT infrastructure into a managed services model. The savings are partially offset by higher compensation expenses due to a full-year impact [vs. partial impact in FY 2020] of investments in HR, IT and transformation.

FY 2021 PLANNED OPERATING EXPENSES ($)



FY 2021 PLANNED OPERATING EXPENSES (%)



For underwriting levies, FY 2020 actuals of $8,206 were lower than the past five-year average of approximately $10,110. Our underwriting levies are currently expected to be lower than FY 2020 actuals. Actual volume of issues are impacted by market conditions, and COVID-19 has imposed further uncertainty on the market, which may cause volume of issues to be significantly reduced in FY 2021.

FY 2021 fees for dealer regulation, market regulation, and Debt IP will be flat from FY 2020.

IIROC's total fees for FY 2020 and the past three years have been consistent at approximately 30 basis points of industry revenue.[1] The four-year compound annual growth rate ["CAGR"] of fees including projections for FY 2021 is 1.2%, which is less than the industry revenue CAGR of approximately 8.9%[2] over the same period. IIROC fee model revenue and

[1] Industry revenues and expenses are based on IIROC-compiled data (IIROC monthly financial report statistics).
[2] Industry revenue for FY 2021 is assumed to be the same as FY 2020 (due to data availability).

OUTLOOK (Continued)

expenses are projected to grow at CAGRs of 1.2% and 2.1% respectively, both of which compare very favorably to prior year growth rates at other Canadian investment industry regulators.

The CSA announced its decision to expand IIROC's role as the Information Processor ["IP"] for government debt securities, in addition to its current role as IP for corporate debt securities. Implementation will be in two phases.

Phase 1 will be effective on August 31, 2020. In addition to the existing post-trade information for corporate debt securities, IIROC will publish the post-trade information for government debt securities by dealers that are currently subject to IIROC's transaction reporting rules and banks that are already reporting their corporate and government debt securities to IIROC. Phase 2 will take effect on May 31, 2021. Banks and any other non-IIROC dealers that do not currently report any corporate or government debt transactions to IIROC will be required to begin reporting to IIROC as of this date.

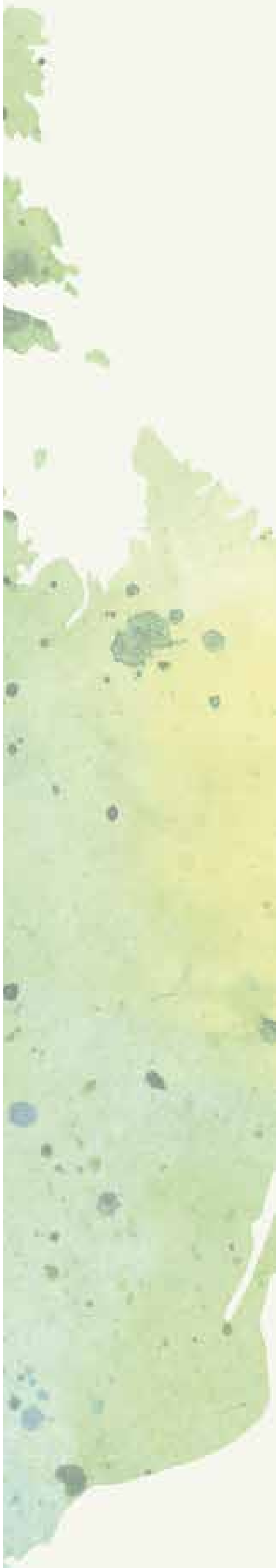
IIROC welcomes the CSA's decision to leverage the information we collect to increase transparency and improve market integrity in a seamless, efficient manner. In doing so, we continue to deliver on our commitment to add value to the overall regulatory system.

An important development was the announcement in December 2019 by the CSA to undertake a review of the regulatory framework for IIROC and the Mutual Fund Dealers Association of Canada ["MFDA"] in 2020.

After extensive dialogue with investors, investment and mutual fund dealers and advisors, professional bodies and industry associations, IIROC developed and published our proposal "Improving Self-Regulation for Canadians" in June 2020.

We are recommending the consolidation of IIROC and the MFDA as a first step. Our proposal would not only enhance investor protection but would save hundreds of millions of dollars of duplicative regulatory costs over the next decade – money that investment firms could direct toward client service, innovation and economic growth. These savings, along with benefits for investors, have been identified as part of an assessment of benefits and costs of bringing together IIROC and the MFDA as divisions of a consolidated self-regulatory organization which was conducted in 2020 by an independent global consulting firm. We believe our proposal could deliver real, tangible benefits to Canadians and to the industry within a year of approval from the CSA.

IIROC applauds the CSA for its leadership and will continue to participate in their consultations as they explore ways to modernize the regulatory system in Canada. By working together and staying current with how the industry and our capital markets are evolving, we can achieve our shared goal: a structure that is more efficient, more effective and ultimately leads to better outcomes for Canadians.



Financial Statements

March 31, 2020

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, 2020, 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, 2020, 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 MATTER

The financial statements of the Organization for the year ended March 31, 2019 were audited by another auditor, who expressed an unmodified opinion on those financial statements on June 25, 2019.

OTHER INFORMATION

Management is responsible for the other information. The other information comprises the information included in Management 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. 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 these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 24, 2020

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

(IN THOUSANDS OF DOLLARS)

Statement of Financial Position

As at March 31	2020 $	2019 $
ASSETS		
Current		
Cash and cash equivalents	47,440	55,285
Investments [note 3]	57,266	43,324
Receivables [note 4]	7,918	7,641
Prepaid expenses	1,637	1,947
Current portion of long-term receivables [note 5]	44	74
Total current assets	114,305	108,271
Employee future benefits [note 8]	407	460
Long-term receivables [note 5]	35	44
Capital assets, net [note 6]	15,042	17,483
Deposit	173	173
	129,962	126,431
LIABILITIES AND FUND BALANCES		
Current		
Payables and accruals	19,660	17,841
Government remittances payable	478	572
Current portion of capital lease obligations [note 7]	397	55
Deferred revenue	75	75
Current portion of lease inducement	741	567
Total current liabilities	21,351	19,110
Capital lease obligations [note 7]	1,437	1,538
Lease inducement	3,419	4,161
Employee future benefits [note 8]	25,745	31,511
Total liabilities	51,952	56,320
Commitments and contingencies [notes 10 and 11]		
FUND BALANCES		
Unrestricted Fund	57,892	54,702
Externally Restricted Fund	20,118	15,409
Total fund balances	78,010	70,111
	129,962	126,431

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 $	2020 Total $	2019 Total $
Fund balances, beginning of year	54,702	15,409	70,111	70,715
Excess (deficiency) of revenue over expenses for the year	(4,748)	4,709	(39)	48
Remeasurements and other items [note 8]	7,938	–	7,938	(652)
Fund balances, end of year	57,892	20,118	78,010	70,111

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 $	2020 Total $	2019 Total $
REVENUE				
Dealer regulation				
Membership fees	52,416	–	52,416	50,544
Underwriting levies	8,206	–	8,206	8,709
Registration fees	1,844	–	1,844	2,730
Entrance fees	155	249	404	150
	62,621	249	62,870	62,133
Market regulation				
Equity regulation	25,510	–	25,510	25,768
Debt regulation	2,242	–	2,242	2,266
Timely disclosure	3,007	–	3,007	2,929
Marketplace revenue	190	–	190	187
	30,949	–	30,949	31,150
Debt Information Processor	1,634	–	1,634	461
Other revenue				
Disciplinary fines and other fines	–	7,083	7,083	2,167
Investment revenue including interest	1,679	273	1,952	2,559
Miscellaneous	108	–	108	136
	1,787	7,356	9,143	4,862
	96,991	7,605	104,596	98,606
EXPENSES [note 9]				
Dealer regulation operating	68,651	–	68,651	65,220
Market equity regulation operating	29,290	–	29,290	28,251
Market debt regulation operating	2,307	–	2,307	2,578
Debt Information Processor operating	1,491	–	1,491	458
Externally restricted fund	–	2,896	2,896	2,051
	101,739	2,896	104,635	98,558
Excess (deficiency) of revenue over expenses for the year	(4,748)	4,709	(39)	48

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

(IN THOUSANDS OF DOLLARS)

Statement of Cash Flows

As at March 31	2020 $	2019 $
Operating activities		
Excess (deficiency) of revenue over expenses for the year	(39)	48
Add (deduct) items not involving cash		
Amortization	4,233	4,059
Rent amortization	(567)	386
Interest accrued on capital lease obligations [note 7]	21	20
Net loss (gain) on disposal of capital assets	(3)	357
Impairment write-down of capital assets [note 6]	19	44
Employee future benefits expense [note 8]	5,652	5,247
	9,316	10,161
Changes in non-cash working capital balances related to operations		
Receivables	(277)	(166)
Prepaid expenses	310	(397)
Payables and accruals	1,725	22
Lease inducements	(1)	918
Employer contributions for employee future benefits [note 8]	(3,427)	(3,522)
Cash provided by operating activities	7,646	7,016
Investing activities		
Disposal (purchase) of investments, net	(13,942)	3,489
Purchase of capital assets	(1,550)	(3,718)
Proceeds from disposal of capital assets	3	–
Change in long-term receivables, net	39	(10)
Cash used in investing activities	(15,450)	(239)
Financing activities		
Repayment of capital lease obligations	(41)	–
Cash used in financing activities	(41)	–
Net increase (decrease) in cash during the year	(7,845)	6,777
Cash and cash equivalents, beginning of year	55,285	48,508
Cash and cash equivalents, end of year	47,440	55,285
Cash and cash equivalents consist of		
Cash on hand and balances with bank	18,056	18,647
Cash equivalents	29,384	36,638
	47,440	55,285
Supplemental cash flow information		
Acquisition of capital assets under capital lease	262	1,573

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 and market regulation revenue and expenses, including amortization of Unrestricted Fund capital assets;

b) Debt Information Processor revenue and expenses; and

c) Funding of the deficit in the IIROC Supplemental Plan for Executives ["IIROC SERP"] – Non-Registered Defined Benefit Pension Plan, IIROC Non-Pension Post-Retirement Benefits Plan ["IIROC PRB"], defined benefit provisions of the Retirement Plan for Employees of IIROC ["IIROC RPP"] and the formerly 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 or regulation of securities markets;

   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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 revenues are recognized as revenue as follows:

DEALER REGULATION

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

MARKET REGULATION

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

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 when installed, which approximates the financing date, and are accounted for at cost. 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 or 20% 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.

Lease inducements

Certain of the Organization's operating leases contain predetermined fixed escalations of minimum rentals during the original lease terms. The Organization recognizes the related rental expense on a straight-line basis over the life of the lease, and records the difference between the amounts charged to operations and amounts paid as deferred rent [included in lease 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (IN THOUSANDS OF DOLLARS) | MARCH 31, 2020

3. INVESTMENTS

Investments, at fair value, consist of the following:

	2020 $	2019 $
Marketable securities	40,348	28,251
Mutual funds		
Bond funds	11,283	9,566
Global equity funds	5,635	5,507
	57,266	43,324

Marketable securities consist of government-issued promissory notes and treasury bills, and debt instruments of financial institutions with yields between 0.67% and 1.89% [2019 – 1.84% and 2.34%].

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.

Financial markets have experienced significant volatility as a result of COVID-19. There may be significant effects on the future fair value of the Organization's investment portfolio.

4. RECEIVABLES

	2020 $	2019 $
Trade	7,918	7,641
Allowance for doubtful accounts	–	–
	7,918	7,641

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 February 28, 2023.

NOTES TO THE FINANCIAL STATEMENTS (IN THOUSANDS OF DOLLARS) | MARCH 31, 2020

6. CAPITAL ASSETS

	Cost $	Accumulated amortization $	2020 Net book value $	2019 Net book value $
Unrestricted Fund				
Tangible				
Office furniture and equipment	9,483	7,670	**1,813**	2,071
Leasehold improvements	10,030	5,741	**4,289**	5,072
Computer equipment and software	3,935	3,751	**184**	157
Technology projects hardware	6,662	6,500	**162**	379
Hardware under capital lease*	767	62	**705**	714
Office equipment under capital lease	209	–	**209**	–
Intangible				
Technology projects software	21,471	16,901	**4,570**	5,175
	52,557	40,625	**11,932**	13,568
Externally Restricted Fund				
Tangible				
Technology projects hardware	1,425	987	**438**	604
Leasehold improvements	673	457	**216**	272
Hardware under capital lease*	859	79	**780**	859
Intangible				
Technology projects software	5,099	3,423	**1,676**	2,180
	8,056	4,946	**3,110**	3,915
	60,613	45,571	**15,042**	17,483

*Hardware under capital lease restated for 2019 as per disclosure below

6. CAPITAL ASSETS (Continued)

HARDWARE UNDER CAPITAL LEASE

In August 2018, the Organization entered into a multi-year contract to transition IT infrastructure services and information security operations to 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. In fiscal 2019, $2,656 was recognized as hardware under capital lease in the Unrestricted Fund using information provided by the vendor and management's best estimates for eligibility of expenditures for capitalization, minimum lease payments, discount rate, and date of substantial completion. The leased capital assets installed and recorded in fiscal 2019 were expected to be available for use by the end of the first quarter of fiscal 2020. Most of these assets were available for use during fiscal 2020, with remaining assets becoming available for use in early fiscal 2021.

Management obtained further information during fiscal 2020 pertaining to the eligibility of expenditures for capitalization and minimum lease payments relating to the capital lease and executory costs. As a result, the value of leased capital assets recognized in fiscal 2019 decreased from $2,656 to $1,573 and capital lease obligations decreased by a corresponding amount. Costs of $859 related to market surveillance hardware were approved for appropriation from the Externally Restricted Fund, with the remaining costs of $714 allocated to the Unrestricted Fund. The 2019 comparative amounts were reclassified to conform to the financial statement presentation in the current year.

OFFICE EQUIPMENT UNDER CAPITAL LEASE

In August 2019, IIROC entered into a service agreement with Xerox 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 printer 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.

CAPITAL ASSETS UNDER DEVELOPMENT

As at March 31, 2020, there are capital assets under development [leasehold improvements and software] of $776 and hardware under capital lease under development of $609. As such, these assets are not yet being amortized. In addition, there are other capital assets of $274 included in office furniture and equipment, leasehold improvements and technology projects that were completed in the last quarter of 2020. Further, office equipment under capital lease of $209 was installed in the last quarter of 2020. 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 $19 on office furniture and equipment [2019 – $44 on computer equipment and software]. The assets were written down to their estimated fair value as management has determined that the assets will be decommissioned before the end of their previously estimated useful lives. The impairment loss was recognized in the statement of operations.

In addition, the Organization disposed of fully amortized assets of $292 [2019 – nil] no longer in use.

NOTES TO THE FINANCIAL STATEMENTS (IN THOUSANDS OF DOLLARS) | MARCH 31, 2020

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 installed in December 2018, a rate of 2.98% was used. For leased assets installed in February 2020, a rate of 1.76% was used. The lease maturity dates will be five years following the first payment date. For office equipment under capital lease, the lease maturity date is February 1, 2025. For hardware under capital lease, the lease maturity date is estimated between December 31, 2024 and May 31, 2025. The capital lease obligation as of year-end of $1,834 includes $21 of accrued interest expense.

As at March 31, 2020, 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 $
2021	403	317	720
2022	405	324	729
2023	405	324	729
2024	405	324	729
2025	344	296	640
Thereafter	2	6	8
	1,964	1,591	3,555
Amount representing interest	(130)		
Total capital lease obligations	**1,834**		
Current portion	397		
Long-term portion	1,437		
Total capital lease obligations	**1,834**		

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 registered pension plan [Former RS RPP] and the non-registered Supplemental Income Plan [Former RS SIP], were closed 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 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 new defined contribution provisions
3. IIROC Pension Plan for Former RS Pension Plan Members [Former RS RPP], Defined Benefit Plan – inactive
4. Former 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 April 1, 2017, 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 April 1, 2020 and April 1, 2022, respectively.

NOTES TO THE FINANCIAL STATEMENTS (IN THOUSANDS OF DOLLARS) | MARCH 31, 2020

8. EMPLOYEE FUTURE BENEFITS (Continued)

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

	2020					
	IIROC RPP $	IIROC SERP $	Former RS SIP $	Non-pension IIROC PRB $	Sub-total liabilities $	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

	2019					
	IIROC RPP $	IIROC SERP $	Former RS SIP $	Non-pension IIROC PRB $	Sub-total liabilities $	Former RS RPP $
Accrued benefit obligation	(90,573)	(12,735)	(495)	(7,143)	(110,946)	(8,819)
Fair value of plan assets	77,982	1,453	–	–	79,435	10,524
Fund status – plan surplus (deficit)	(12,591)	(11,282)	(495)	(7,143)	(31,511)	1,705
Valuation allowance	–	–	–	–	–	(1,245)
Accrued benefit asset (liability), net of valuation allowance	(12,591)	(11,282)	(495)	(7,143)	(31,511)	460

NOTES TO THE FINANCIAL STATEMENTS (IN THOUSANDS OF DOLLARS) | MARCH 31, 2020

8. EMPLOYEE FUTURE BENEFITS (Continued)

The employee future benefit expense is as follows:

	2020					
	IIROC RPP $	IIROC SERP $	Former RS RPP $	Former RS SIP $	Non-pension 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

	2019					
	IIROC RPP $	IIROC SERP $	Former RS RPP $	Former RS SIP $	Non-pension IIROC PRB $	Total $
Current service cost	3,406	540	–	–	177	4,123
Interest cost on accrued benefit obligation	3,040	429	295	16	240	4,020
Interest income on market value of assets	(2,524)	(60)	(354)	–	–	(2,938)
Interest on valuation allowance	–	–	42	–	–	42
Employee future benefit expense (recovery)	3,922	909	(17)	16	417	5,247

NOTES TO THE FINANCIAL STATEMENTS (IN THOUSANDS OF DOLLARS) | MARCH 31, 2020

8. EMPLOYEE FUTURE BENEFITS (Continued)

The remeasurements and other items charged on the statement of changes in fund balances is a gain of $7,938 [2019 – loss of $652] as follows:

	2020					
	IIROC RPP $	IIROC SERP $	Former RS RPP $	Former RS SIP $	Non-pension IIROC PRB $	Total $
Actuarial gains	(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)

	2019					
	IIROC RPP $	IIROC SERP $	Former RS RPP $	Former RS SIP $	Non-pension IIROC PRB $	Total $
Actuarial losses	26	388	19	12	172	617
Change in valuation allowance	–	–	35	–	–	35
Remeasurements and other items	26	388	54	12	172	652

In addition to the above, there is nil outstanding liability for the defined contribution plan as at March 31, 2020 [2019 – nil]. Current year expense for the defined contribution provisions of the IIROC RPP was $2,054 [2019 – $1,849].

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

	2020 %	2019 %
Discount rate – accrued benefit obligation	3.70 to 3.80	3.20 to 3.38
Discount rate – benefits cost	3.20 to 3.38	3.42 to 3.59
Rate of compensation increase	3.00	3.25

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) | MARCH 31, 2020

8. EMPLOYEE FUTURE BENEFITS (Continued)

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

	2020					
	IIROC RPP $	IIROC SERP $	Former RS RPP $	Former RS SIP $	Non-pension 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)

	2019					
	IIROC RPP $	IIROC SERP $	Former RS RPP $	Former RS SIP $	Non-pension IIROC PRB $	Total $
Employer contributions	3,357	–	–	30	135	3,522
Employee contributions	1,077	–	–	–	–	1,077
Benefits paid	(1,495)	(561)	(145)	(30)	(135)	(2,366)

REGISTERED PENSION, SERP AND PRB RISK

Registered pension risk refers to the risk that the Organization's financial condition on the statement of financial position would be adversely impacted because of the impact on the Organization's two registered plans of possible reductions in the future market value of the plan investments and/or increases in the pension liability if interest rates were to fall below current levels. These risks are mitigated by maintaining sufficient funding levels and by holding a diversified set of investments, which are managed by professional investment managers operating under specified mandates. IIROC also carefully monitors and manages funding levels and makes contributions required by law and, in addition, makes special contributions to maintain desired funding levels. Similar risks and funding considerations apply to the unregistered plans including 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.

Effects of COVID-19 on the financial markets, regulations, and experience are uncertain and evolving. There may be significant effects on plan experience and/or assumptions, both demographic and economic, used for future measurements.

NOTES TO THE FINANCIAL STATEMENTS (IN THOUSANDS OF DOLLARS) | MARCH 31, 2020

9. EXPENSES

	2020 $	2019 $
Unrestricted Fund expenses		
Dealer regulation operating expenses		
Compensation	48,299	45,703
Technology	5,083	3,729
Occupancy	4,945	5,018
Amortization, impairment and disposals	2,021	2,455
Other	8,303	8,315
	68,651	65,220
Market equity regulation operating expenses		
Compensation	19,984	18,282
Technology	3,145	3,509
Occupancy	1,726	1,679
Amortization, impairment and disposals	1,097	1,437
Other	3,338	3,344
	29,290	28,251
Market debt regulation operating expenses		
Compensation	1,593	1,635
Technology	254	349
Occupancy	110	122
Amortization, impairment and disposals	107	158
Other	243	314
	2,307	2,578
Debt Information Processor operating expenses		
Compensation	1,070	203
Technology	69	85
Occupancy	46	14
Amortization, impairment and disposals	137	92
Other	169	64
	1,491	458
Total Unrestricted Fund expenses	101,739	96,507
Externally Restricted Fund expenses		
Hearing panel expenses	1,245	912
Amortization, impairment and disposals	793	317
Member education	416	322
Cybersecurity consultants	237	–
Surveillance system hardware [amortization and interest]	111	–
Plain language rulebook implementation	75	–
Client identifier implementation	19	–
Canadian Foundation for the Advancement of Investor Rights [“FAIR”]	–	250
Cybersecurity self-assessment survey	–	143
Cybersecurity tabletop test	–	89
Canadian Foundation for Economic Education [“CFEE”]	–	18
Total Restricted Fund expenses	2,896	2,051

NOTES TO THE FINANCIAL STATEMENTS (IN THOUSANDS OF DOLLARS) | MARCH 31, 2020

10. COMMITMENTS

As at March 31, 2020, 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.

	$
2021	3,442
2022	3,454
2023	3,374
2024	2,931
2025	923
Thereafter	2,683
	16,807

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 $513,561 on hand as at December 31, 2019 [2018 – $495,583]; [ii] lines of credit provided by two Canadian chartered banks totaling $125,000 as at December 31, 2019 [2018 – $125,000]; and [iii] insurance in the amount of $160,000 as at December 31, 2019 [2018 – $160,000] in the annual aggregate in respect of losses to be paid by CIPF in excess of $200,000 [2018 – $150,000] in the event of member insolvency, and a second layer of insurance in the amount of $280,000 as at December 31, 2019 [2018 – $230,000] in respect of losses to be paid in excess of $360,000 [2018 – $310,000] in the event of member insolvency. IIROC has provided a $125,000 [2019 – $125,000] guarantee on CIPF bank lines of credit. At March 31, 2020, 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 is based mainly on the same alleged facts and grounds as the previous motion, but in addition alleges that the petitioner has been the victim of identity theft. The motion for authorization was granted in October 2017. Damages sought are $1 in compensatory and $0.5 in punitive damages per each of the 50,600 class members, plus other damages and legal costs. The Organization is vigorously defending against this action. The case is expected to go to trial in fiscal 2021.

The total costs of the incident to date, including legal fees for responding to the two motions for authorization, are $5,530, with all costs in fiscal 2020 directly paid by the insurer [2019 – $61 recovered from insurance]. It is not possible to estimate potential damages or the range of further possible losses, if any, resulting from this incident.

NOTES TO THE FINANCIAL STATEMENTS (IN THOUSANDS OF DOLLARS) | MARCH 31, 2020

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

CARRYING AMOUNT OF FINANCIAL ASSETS

As at March 31, 2020, the carrying amounts of the Organization's financial assets measured at amortized cost and at fair value are as follows:

	2020			2019		
	Cost or amortized cost $	Fair value $	Total carrying value $	Cost or amortized cost $	Fair value $	Total carrying cost $
Cash and cash equivalents	18,056	29,384	47,440	18,647	36,638	55,285
Investments	–	57,266	57,266	–	43,324	43,324
Accounts receivable	7,918	–	7,918	7,641	–	7,641
Long-term receivables	79	–	79	118	–	118
	26,053	86,650	112,703	26,406	79,962	106,368

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.

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 accounts payable. 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.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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 is comprised of currency risk, interest rate risk and other price risk.

Currency risk

Currency risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate relative to the Canadian dollar due to changes in foreign exchange rates. The functional currency of IIROC is the Canadian dollar. IIROC invests a portion of its investment portfolio in mutual funds 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.

COVID-19

The outbreak of COVID-19 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.

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