ANNUAL REPORT 2020-21

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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ABOUT IIROC

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

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

BY THE NUMBERS

147 District Council members	**17*** Member Firms participating in district councils	**40** meetings
227** decisions made	**218** committee members	**211***** dealer firms and marketplaces represented
5 Member Policy rule proposals published	**5** Member Policy rule amendments published	**1** Market Policy rule proposal published

* Dealer Member 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 Dealer Member 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 Committees and District Councils.

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

MESSAGE FROM THE CHAIR

As I write this letter, I didn't anticipate we'd still be recovering from a pandemic of this magnitude over a year later. During the last 18 months, the world witnessed the COVID-19 pandemic profoundly affect individuals and change society as a whole. While the past year wasn't without its challenges, we were united by the fact that we were navigating through this together.

Paul D. Allison

Throughout the global pandemic, IIROC remained focused on its mission to protect investors across the country and support healthy Canadian capital markets. The Board of Directors is proud of the tremendous strides IIROC has made during a period of extreme uncertainty—from quickly pivoting to a remote work environment to managing unprecedented trade volumes.

The market surveillance team successfully conducted surveillance remotely during a time when market volumes were setting records twice what they had ever been before, which demonstrated the organization's operational resilience and adaptability. IIROC also continued to support our members' ability to continue to serve their clients by offering exemptive relief in several areas, including dispensing with the use of wet signatures. While these are just some examples, I continue to be impressed by how the team delivers value for our members and stakeholders in alignment with IIROC's three-year strategic plan and priorities.

IIROC's strategic plan outlines where we're going, how we'll get there, and what it means for our stakeholders. It reflects external trends and realities with new and increased investments required to support the industry's transformation as it strives to better serve Canadians and our vision to be a leading-edge regulator—from supporting industry transformation to strengthening enforcement. In addition to the seven strategies that keep us focused on our future direction, IIROC's commitment to investor protection and healthy capital markets informed our 2021 priorities:

- Effectively manage issues that arise from the COVID-19 pandemic.
- Advance various initiatives and commitments related to investor protection.
- Support industry transformation through the evolution of the self-regulatory model.

MESSAGE FROM THE CHAIR

We made impressive progress on these priorities and continue to leverage our learnings and input from stakeholders to enhance our approach to regulation.

Over the past year, IIROC released several publications outlining how a new single consolidated self-regulator would protect Canadians and better service the investment industry. In June 2020, IIROC submitted its proposal outlining the benefits of consolidating IIROC and the Mutual Fund Dealers Association of Canada (MFDA). We also engaged Deloitte LLP to do an independent assessment of the cost savings. The report estimates that a consolidated self-regulator would result in up to half a billion dollars in savings for dual platform IIROC and MFDA firms and enhance investor protection. Finally, last fall, IIROC issued two independent research studies that highlighted mutual fund advisors and dealers are striving to provide comprehensive financial advice that is in the best interest of Canadian investors, but regulatory burden and silos create unnecessary challenges. We applaud the decision of the Canadian Securities Administrators (CSA) to create a new, single, enhanced self-regulatory organization. The CSA's decision represents meaningful and impactful change that will foster an innovative and competitive industry, deliver value for investors and is fully supported by both the MFDA and IIROC. The Board looks forward to making important progress on this initiative together.

Personally, I would like to acknowledge my fellow Board members who have played a key role in IIROC's governance throughout these uncertain times. With a shift to governing virtually, frequent communication enabled the Board to provide counsel and support management throughout the pandemic. My sincere appreciation for your hard work and dedication in support of IIROC's mandate.

I would also like to extend a warm welcome to three new members who joined IIROC's Board in September 2020: Malcolm Heins, Jennifer Newman and Laura Tamblyn Watts. Both Malcolm and Laura have extensive, direct experience with seniors and/or vulnerable retail investors, consumers, and pension plans. Jennifer has deep knowledge of financial operations, risk and change management in the pension and banking sectors. The appointments of Malcolm, Jennifer and Laura will complement our existing Board and provide valuable insights to the organization.

“The market surveillance team successfully conducted surveillance remotely during a time when market volumes were setting records twice what they had ever been before, which demonstrated the organization's operational resilience and adaptability.”

MESSAGE FROM THE CHAIR

On behalf of the Board, I also want to highlight the outstanding leadership of Andrew Kriegler and the executive management team. The Board and I are very pleased by how the management team pushed forward under extraordinary circumstances without disruption. Under Andrew's leadership, the executive management team have the skills and expertise to continue serving our stakeholders.

Finally, we wouldn't be here today without the incredible team at IIROC. A heartfelt thank you to every IIROC employee for the important work you do every day to protect Canadian investors. You've made us proud. Your unwavering commitment to our purpose, and the dedication you've demonstrated in the face of adversity is what makes IIROC's success possible—now and in the future.

Paul D. Allison
Chair of the Board

Responded to

2,378
business conduct related investor enquiries

1,140
business conduct related complaints

880
trading related investor enquiries

741
trading related complaints

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

BY THE NUMBERS: TRADING

2,235
Coordinated trading halts

115
Coordinated cease trade orders

292
Single Stock Circuit Breakers triggered

Intervened by varying or cancelling trades
74
times affecting
5,577
transactions

630,600,089
Trades monitored on 6 stock exchanges (operating 10 separate venues) and 5 equity Alternative Trading Systems

70
Business Conduct Compliance firm reviews conducted

95
Financial and Operations Compliance firm reviews conducted

1
Integrated compliance firm review conducted

REPORT FROM THE PRESIDENT AND CEO

Crises are hard, but it is only through meeting the challenges head on that the capabilities of a person or of an organization can truly be tested. The pandemic tested all of us: as individuals, as organizations and as a society.

Andrew J. Kriegler

While I must leave the broader question of how well Canada did through the pandemic to be answered by historians, I can say that IIROC came through the challenges of the pandemic with flying colours. We did so because of the strength, dedication and integrity of all our people.

I am proud of my colleagues for everything they have done since the pandemic hit in March 2020. More than that, I'm grateful for not only what has been accomplished over the past year, but especially for how it was accomplished.

We delivered regulation consistently, effectively and flexibly—ensuring that we never lost sight of why the rules are there and what their public policy objective is. We adapted to the reality of remote working and remote regulation, acknowledging the challenges that the investment industry faced. And, we did it recognizing that every one of our colleagues faced their own personal and family challenges and needed us to be flexible with them too.

As with many other organizations though, IIROC's experience during the pandemic went far beyond a series of responses to realities of working in a public health crisis. We learned an enormous amount about how the financial services needs of Canadians have changed, about how the industry has responded to meet those needs and how regulation needs to continue to adapt as a result.

In some cases, such as the virtual delivery of financial advice, the pandemic was an accelerant, speeding up the adoption of trends that had been underway for some time. Others, such as the sustained doubling of market activity levels, driven in large part by a huge increase in direct retail participation, were a surprise.

In responding to each of these changes, our goal was not only to come up with a quick fix but to ensure our learnings endure post-pandemic. For example, we will be proposing rule changes to codify several pandemic-era exemptions which allowed the financial industry to serve Canadians the way they wanted to be served.

Similarly, our market surveillance systems, which coped with an overnight doubling in market activity levels are being strengthened further and made more flexible. Our compliance teams who, for over a year, have been conducting examinations fully remotely, are centralizing their data gathering and analysis activities to become even more efficient.

As we begin to emerge from the pandemic, our plan for an eventual return to office is underway, in accordance with public health guidance. Everything we learned about remote work over the past year will be incorporated in our hybrid working model going forward. For example, our demonstrated ability to work remotely will allow us more flexibility in attracting talent from across Canada and to distribute and manage work more efficiently from coast to coast.

We continue to make great strides to evolve the self-regulatory model to more effectively and efficiently serve Canadians. In December 2019, the Canadian Securities Administrators (CSA) began a review of the regulatory framework for IIROC and the Mutual Fund Dealers Association of Canada (MFDA). On August 3, 2021 the CSA published its position paper regarding the self-regulatory organization (SRO) framework.

IIROC enthusiastically supports the CSA's decision to create a new, single, enhanced pan-Canadian SRO to deliver efficient and effective regulation in the public interest.

The CSA plan builds on an already strong foundation, and will:

- Deliver value for investors, regardless of where they live, how many assets they have or their level of investing sophistication.
- Foster an innovative and competitive industry to ensure there are investment opportunities and value propositions for existing and evolving Canadian investor needs.
- Make it easier for dealers and their advisors to serve Canadians, regardless of region, firm size or business model.
- Reduce duplicative regulatory burden and complexity, particularly for those running separate IIROC and MFDA platforms, as well as those in Quebec.
- Reduce barriers for current single platform dealers looking to expand their business models.

20

new educational webcasts

More than

16,900

industry participants viewed new webcasts

IIROC supports this initiative completely and congratulates the CSA for taking this important step to serve Canadians more efficiently. This is a massive win for Canadians, for the industry that serves them and for everyone at both IIROC and the MFDA. We're excited to work more closely with the CSA and our colleagues at the MFDA for the benefit of investors and all stakeholders.

As I mentioned earlier, the unprecedented retail trading activity and trading of "meme" stocks over the last year caused stress to some financial institutions, generating phone delays and electronic platform lapses. While this has traditionally been considered a service issue, increasingly sophisticated technology has resulted in the growing importance of the online delivery of investment services. In fact, the provision of reliable technology support is now considered a fundamental part of the investment services that are being provided by many members. That said, it has become important to gain a better understanding of how service levels and access to online investments could become an explicit investor protection issue.

As such, we have asked all Order-Execution-Only firms to provide detailed historical information related to their online trading availability, functionality and service. We will review the degree to which service interruptions may have resulted in investor access issues. Based on our findings, we will determine an appropriate response.

Rethinking the way we regulate in order to support innovation—all while ensuring investors are protected—also remains top of mind this fiscal year. On March 29, 2021, the CSA and IIROC published a joint staff Notice providing guidance on how securities law requirements apply to crypto asset trading platforms (CTPs) and how the requirements may be tailored by regulators for the CTP business model. We continue to work with the CSA to ensure that CTPs subject to such requirements are integrated into the Canadian regulatory system.

"Although this past year has been punctuated with uncertainty, IIROC has continued to provide regulation without interruption, and that is largely because of our people—my colleagues at IIROC, our members and stakeholders."

REPORT FROM THE PRESIDENT AND CEO

Early in fiscal year 2022, we published our plan to establish an Expert Investor Issues Panel (EIIP) and we requested comments on panel composition, selection process, term limits and governance. The EIIP will be a critical, additional contributor to efforts already conducted by IIROC to gauge the public's views on regulatory initiatives and other public interest matters. It will enable individuals with a wide variety of experience and expertise related to investors to more formally provide valuable input into IIROC's mandate to protect investors and support healthy capital markets.

Although this past year has been punctuated with uncertainty, IIROC has continued to provide regulation without interruption, and that is largely because of our people—my colleagues at IIROC, our members and stakeholders. I am proud of our collective drive to protect investors and ensure our capital markets operate with integrity every single day.

Since my last letter, we welcomed three new members to IIROC's executive team: Jennifer Armstrong joined as our new General Counsel and Corporate Secretary, and we celebrated the appointments of Richard Korble as Vice-President, Western Canada and Laura McNeil as our Chief Financial Officer.

We also said farewell to friends and colleagues Lucy Becker, Vice-President, Public Affairs and Member Education Services; Warren Funt, Vice-President, Western Canada; and Doug Harris, Vice-President, General Counsel and Corporate Secretary. They were instrumental in helping me manage the organization over the last several years and will be missed.

I want to echo Paul's comments and thank all my colleagues for their unwavering dedication and commitment to excellence. I would like to also express thanks to our Board of Directors. The leadership team and I have valued your support, guidance and counsel during these unprecedented times.

3 Virtual Conferences with

808

attendees November 27

762

attendees December 17

1,055

attendees February 2

REPORT FROM THE PRESIDENT AND CEO

After a very difficult period, it is time for some optimism. Canada is turning the page to a post-pandemic future and that bodes well for our economy and for the financial future of Canadians. As their needs evolve, the industry is adapting rapidly to meet them and our regulation is evolving in parallel.

We are also turning the page to the next chapter in the structure of self-regulation. Led by the CSA, and together with our colleagues at the MFDA, the coming years will see IIROC build on our already strong foundation. Together we will create a new and enhanced self-regulatory organization, one which is even more effective and efficient, and will better protect investors and support healthy Canadian capital markets.

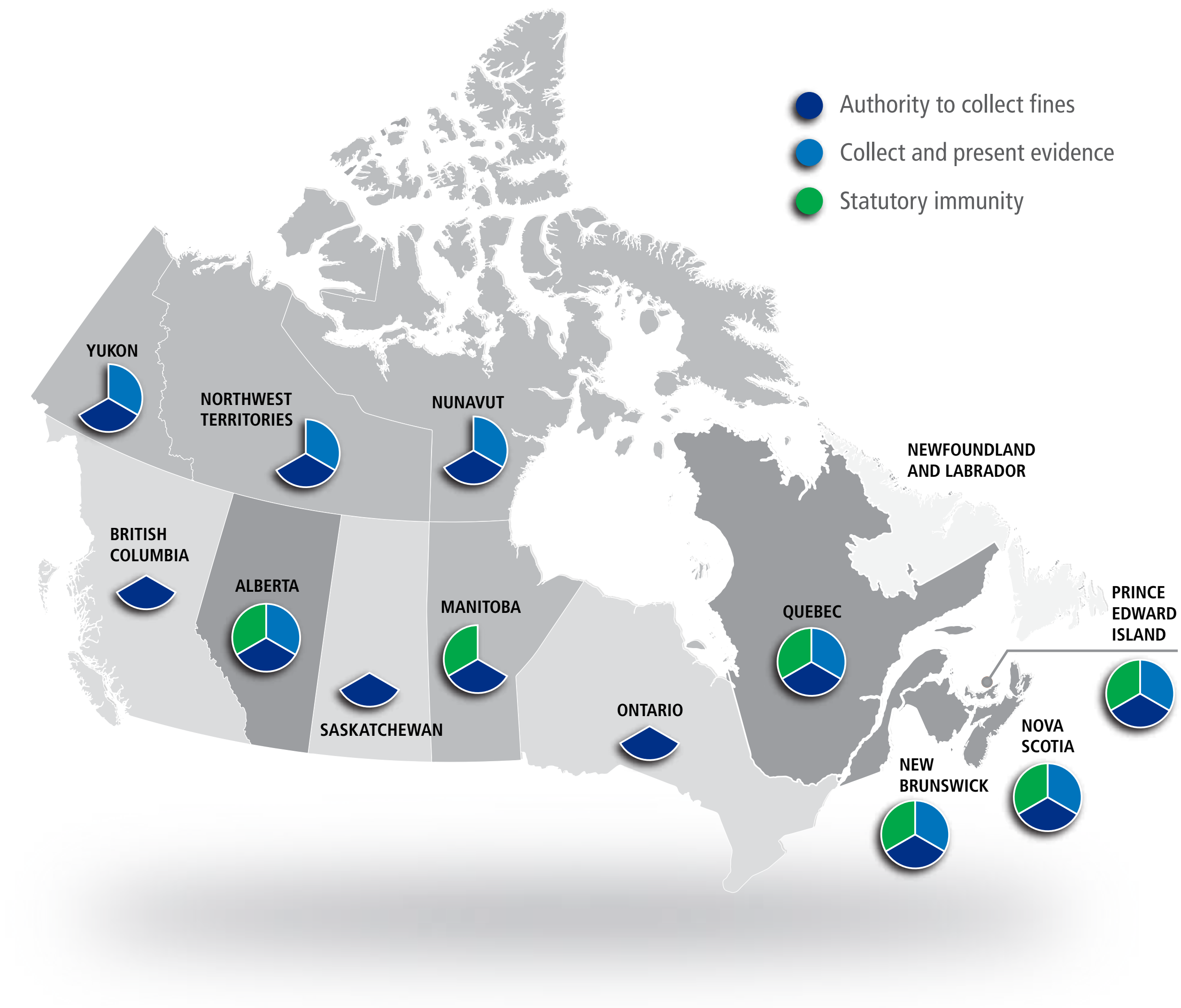
An exciting road lies ahead, and I look forward to traveling it together with all of you.

Andrew J. Kriegler
President and CEO

"After a very difficult period, it is time for some optimism. Canada is turning the page to a post-pandemic future and that bodes well for our economy and for the financial future of Canadians."

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

Jennifer Armstrong
General Counsel and Corporate Secretary (March 2021)

Claudyne Bienvenu
Vice-President, Quebec and Atlantic Canada

Ian Campbell
Chief Information Officer

Richard Korble
Vice-President, Western Canada (April 2021)

Laura McNeil
Chief Financial Officer (April 2021)

Victoria Pinnington
Senior Vice-President, Market Regulation

Elsa Renzella
Senior Vice-President, Enforcement, Registration and Enterprise Risk

Shuaib Shariff
Senior Vice-President, Finance and Administration

Irene Winel
Senior Vice-President, Member Regulation and Strategy

Departed during the year

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

Warren Funt
Vice-President, Western Canada

Doug Harris
Vice-President, General Counsel and Corporate Secretary

INDUSTRY PROFILE: DEALERS

(All statistics are as at March 31, 2021)

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.

INVESTMENT DEALERS' BUSINESS MODELS

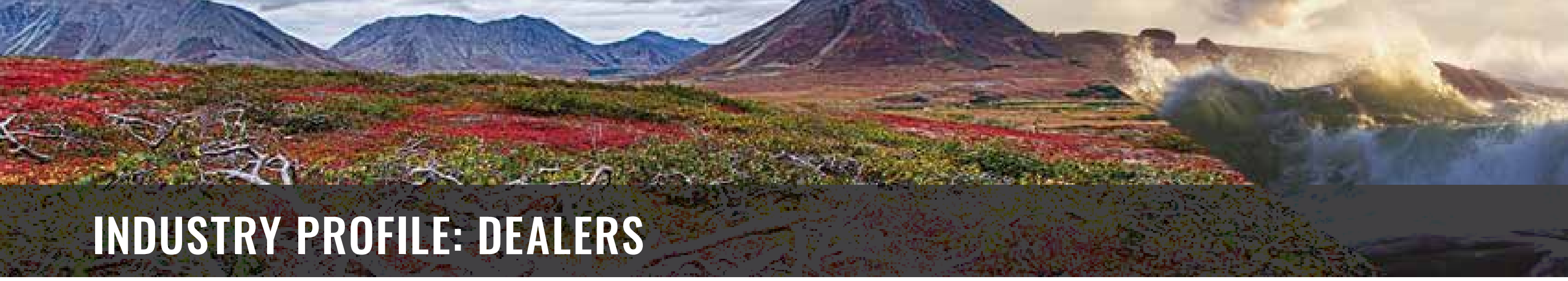
- Focus on retail clients
- Focus on institutional clients
- Integrated approach

INDIVIDUALS AND FIRMS REGULATED BY IIROC

(by location)

Province/ Territories	Approved Persons	Branch Offices	Head Offices
AB	3,232	945	13
BC	4,813	1,194	11
MB	632	174	2
NB	325	90	1
NF	116	39	0
NS	539	153	0
NT	1	3	0
NU	0	0	0
ON	14,986	3,203	109
PE	69	23	0
QC	5,246	792	28
SK	659	209	0
YT	5	0	0
U.S.	392	N/A	9
Other*	46	N/A	1
Total:	**31,061**	**6,825**	**174**

* International



INDUSTRY PROFILE: DEALERS

(All statistics are as at March 31, 2021)

MEMBER FIRMS

(by revenue)

Revenue	% of Firms
Greater than $1 billion	4%
Greater than $100 million	22%
Greater than $10 million	30%
Greater than $5 million	11%
Less than $5 million	33%

Based on 171 Dealer Members that reported revenue for the period of April 1, 2020 to March 31, 2021.

174 Dealer Members

overseen by IIROC, of which:

170 in good standing

1 in the resignation process

3 suspended

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	5	3%
101 to 500	20	12%
11 to 100	74	43%
10 or fewer	63	37%

31,061

Approved Persons overseen by IIROC

INDUSTRY PROFILE: MARKETS

(All statistics are as at March 31, 2021)

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)**

* 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 CXD (CXD)

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)

CANADA'S MULTIPLE EQUITY MARKETPLACES

(Where trading took place in 2020-2021 by share volume)*

Listed	TSX	TSXV	CSE	NEO
TSX	55.73%	0.00%	0.00%	0.00%
TSXV	0.00%	60.79%	0.00%	0.00%
CSE	2.52%	0.52%	73.36%	0.00%
Liquidnet	0.13%	0.01%	0.00%	0.00%
MATCH Now	4.20%	1.91%	2.63%	1.96%
Omega	2.79%	4.55%	3.78%	3.38%
CXC	12.69%	3.26%	1.85%	0.00%
Alpha	6.96%	6.42%	0.00%	0.00%
ICX	0.04%	0.01%	0.00%	0.00%
CX2	3.89%	7.49%	3.15%	0.00%
Lynx	0.05%	0.01%	0.02%	0.07%
NEO-N	5.60%	8.90%	9.92%	18.49%
NEO-L	4.14%	5.87%	4.92%	75.93%
CXD	1.22%	0.27%	0.37%	0.00%
NEO-D	0.04%	0.01%	0.01%	0.16%

* For the year ended March 31, 2021

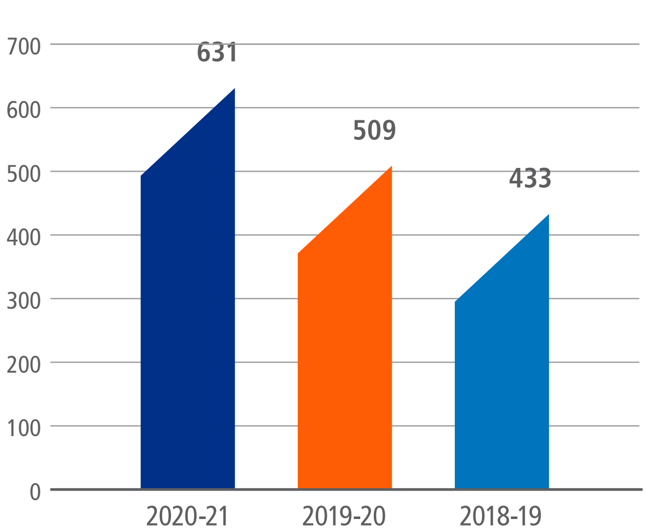
INDUSTRY PROFILE: MARKETS

(All statistics are as at March 31, 2021)

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

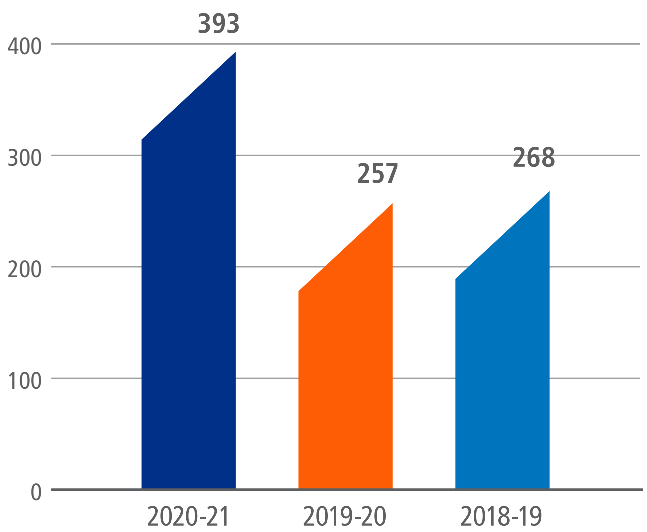
Trades

Number of transactions (millions)



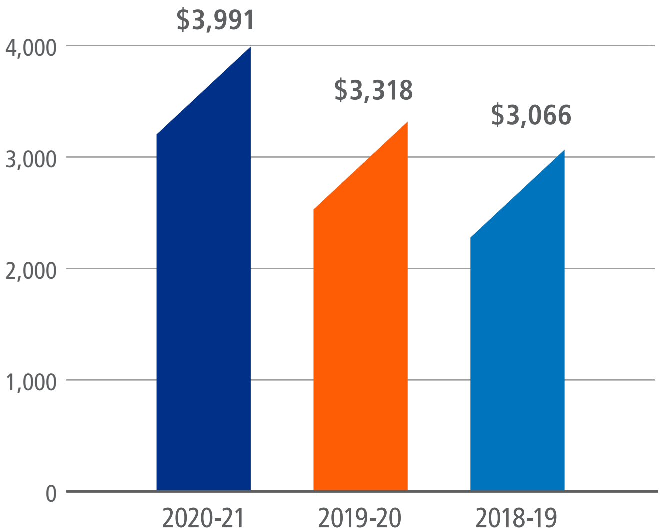
Volume

Total shares traded (billions)



Value

of shares traded ($ billions)



PUBLIC PRIORITY PERFORMANCE

The significant transformation underway across the investment 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.

In light of the current environment of uncertainty related to the pandemic, and in addition to delivering on our core mandate of investor protection and market integrity, we have prioritized our focus on the following:

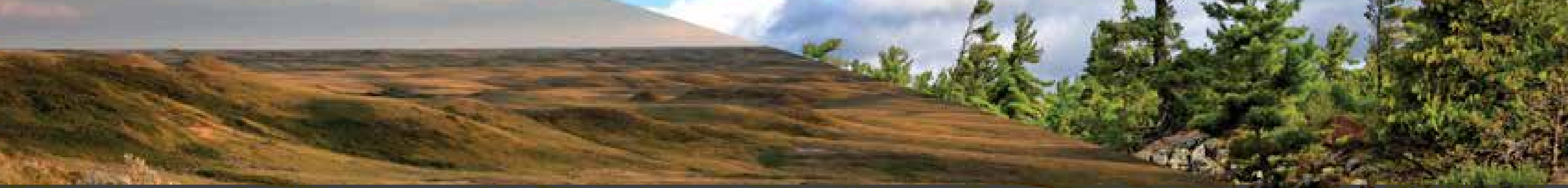
- **Effectively managing issues that arise from the COVID-19 pandemic, and prioritizing the health and safety of our staff and stakeholders, while ensuring investor protection and healthy capital markets**
- **Advancing our various initiatives and commitments related to investor protection**
- **Supporting industry transformation through the evolution of the self-regulatory model to more effectively and efficiently serve Canadians**

PUBLIC PRIORITY PERFORMANCE

MANAGING ISSUES ARISING FROM THE PANDEMIC

Effectively managing issues that arise from the COVID-19 pandemic, and prioritizing the health and safety of our staff and stakeholders, while ensuring investor protection and healthy capital markets

- In March 2020, we successfully accomplished a seamless, secure and effective transition to and enhancement of our work-from-home model, which continues to remain in place.
- Despite record trading volumes and volatility, our real-time market surveillance continued without disruption, supported by enhanced capacity and processing capability.
- We prioritized investor protection and ensured that there was no disruption to our bilingual Complaints & Inquiries service for investors.
- We developed and implemented a new, proactive and agile process, supported by the Board's delegation of authority to staff, to quickly approve exemptions for firms due to pandemic challenges, without compromising investor protection.
- We effectively recruited and onboarded new staff virtually.
- We continue efforts to prioritize the health and safety of staff through regular engagement, outreach, and transparent and timely communications.
- We collaborated with the Canadian Securities Institute to accelerate the introduction and establishment of remote proctored exams in December 2020.
- On May 19, 2020, after a two-month suspension, we resumed all examinations and audit working paper reviews for Financial and Operations Compliance, Business Conduct Compliance and Trading Conduct Compliance on a fully remote basis. We have maintained exam efficiency and quality in the work-from-home environment.



PUBLIC PRIORITY PERFORMANCE

ADVANCING INVESTOR PROTECTION

Advancing our various initiatives and commitments related to investor protection

- We clarified, reorganized and rewrote our rules in plain language to promote greater understanding of and compliance with IIROC rule requirements, and created a new section on our website to enhance transparency for all stakeholders.
- As part of the Client Focused Reforms initiative, we clarified and enhanced the core regulatory obligations of firms and their client-facing staff, including the importance of know-your-client and suitability determination obligations owed to investors. We synchronized timelines with CSA Client Focused Reform amendments and PLR to make it simpler for firms.
- We continued to work with the CSA in support of a safe harbour rule and are developing additional tools to help firms protect vulnerable investors.
- We conducted one-on-one, in-depth interviews with IIROC complainants, to better understand where there may be opportunities to enhance our complaint-handling process. Earlier in FY22, we published the survey results. We are reviewing the findings to determine areas where we can provide better education, clarity and transparency about our processes.
- We have been considering how we can better support investors who suffer losses at the hands of wrongdoers. We are exploring ways to return to investors disgorged funds collected from an advisor or firm disciplined by IIROC. Disgorgement refers to any direct or indirect financial benefit obtained as a result of wrongdoing which may include profits, commissions, fees, compensation or any losses avoided. We anticipate completing our review in FY22, at which time we will publish a proposal for input from stakeholders. Returning wrongdoers' ill-gotten gains to investors would supplement our existing investor protection efforts, as today we do not have the necessary authority to return funds to harmed investors.

PUBLIC PRIORITY PERFORMANCE

ADVANCING INVESTOR PROTECTION

Advancing our various initiatives and commitments related to investor protection

- Early in FY22, we published our plan to establish an Expert Investor Issues Panel (EIIP). In the Notice, we requested comments on panel composition, selection process, term limits and governance. The EIIP will be a critical, additional layer to efforts already conducted by IIROC to gauge the public's views on regulatory initiatives and/or other public interest matters. It will enable individuals with a wide variety of experience and expertise related to investors to formally provide valuable input into IIROC's mandate to protect investors and support healthy capital markets.

- In September 2020, we added three new Directors to our Board who have extensive, direct experience with seniors and/or vulnerable retail investors, consumers and pension plans.

- We substantially increased investor awareness of IIROC's role as a regulator and the protections available, as measured by our investor awareness tracking survey conducted by a national, independent research firm.

- We continued to work with the Financial Services Regulatory Authority of Ontario (FSRA) in support of their title protection initiative, and published our response to their public consultation.

- We continued our engagement with investors and investor advocates to enhance our understanding of investor needs and expectations, and to inform our approach to regulation.

PUBLIC PRIORITY PERFORMANCE

SUPPORTING INDUSTRY TRANSFORMATION

Supporting industry transformation through the evolution of the self-regulatory model to more effectively and efficiently serve Canadians

- In December 2019, the CSA announced that it would undertake a review of the regulatory framework for IIROC and the Mutual Fund Dealers Association of Canada (MFDA). The CSA published their consultation paper in June 2020 for a four month comment period.

- After extensive dialogue and research with investors, investment and mutual fund dealers and advisors, professional bodies and industry associations, we developed and published our proposal "Improving Self-Regulation for Canadians" in June 2020 and our response to the CSA consultation in October 2020.

  An assessment conducted by Deloitte in 2020 estimates that a consolidation of IIROC and the MFDA would save hundreds of millions of dollars of duplicative regulatory costs over the next decade – money that investment firms could direct towards client service, innovation and economic growth.

  IIROC enthusiastically supports the CSA's decision to create a new, single, enhanced pan-Canadian SRO to deliver efficient and effective regulation in the public interest. The CSA plan builds on an already strong foundation, and will:

  - deliver value for investors, regardless of where they live, how many assets they have or their level of investing sophistication.
  - foster an innovative and competitive industry to ensure there are investment opportunities and value propositions for existing and evolving Canadian investor needs.
  - make it easier for dealers and their advisors to serve Canadians, regardless of region, firm size or business model.
  - reduce duplicative regulatory burden and complexity, particularly for those running separate IIROC and MFDA platforms, as well as those in Quebec.
  - reduce barriers for current single platform dealers looking to expand their business models.

PUBLIC PRIORITY PERFORMANCE

SUPPORTING INDUSTRY TRANSFORMATION

Supporting industry transformation through the evolution of the self-regulatory model to more effectively and efficiently serve Canadians

- We participated in the Ontario Capital Markets Modernization Task Force consultation in Sept 2020, providing formal responses from IIROC management, the Independent Directors of IIROC's Board and a legal opinion from Hansell LLP.

- We implemented a program to enhance and modernize the compliance program and operations, harmonize key common functions, and improve effectiveness and efficiency by eliminating duplication, developing a consistent approach, and enabling a better Dealer Member experience. As part of this program, we developed a new risk-based approach for integrated firms leveraging their enterprise compliance program and have also automated the post examination survey.

- We remain committed to helping the industry manage cybersecurity and technology risk. In the last year, we issued cybersecurity notices to firms on pandemic-related attacks, remote access services, cloud services and APIs, protecting clients from fraud, and ransomware attacks. We also released two webcasts on cyber governance and the threat landscape. In March 2021, we published the Fundamentals of Technology Risk Management to guide firms in developing programs to manage technology risk.

PUBLIC PRIORITY PERFORMANCE

OTHER PRIORITIES

Progressing derivatives rule reform, specifically related to margin requirements	• Stage 1 of proposed amendments to modernize Dealer Member Rules for derivatives is in progress, and its finalization will be coordinated with that of NI 93-101 and 93-102. Stage 2 (margin requirements) will follow. • We published proposed amendments to UMIR to accommodate trading in derivatives. The final proposal is expected in first half of FY22.
Conducting a study of failed trades of listed securities	• We are analyzing data received from Canadian Depository for Securities (CDS). We are planning a consultation with stakeholders and the CSA in the summer with preliminary results expected mid-Fall 2021.
Publishing post-trade information for government debt securities, further to the CSA's decision to expand IIROC's role as Information Processor	• We went live, as scheduled, with the first phase of government debt transparency on September 1, 2020. Phase 2, which includes reporting from Schedule I, II and III banks, was published in June 2021.

PUBLIC PRIORITY PERFORMANCE

OTHER PRIORITIES

Continuing the implementation of phases two and three of the client identifier requirements	• Full implementation occurred on July 26, 2021, as scheduled. A soft launch began on April 5, 2021.
Continuing to support the CSA on the development of a regulatory framework for crypto trading platforms	• Final joint CSA/IIROC guidance on compliance with regulatory requirements for crypto-asset trading platforms was published on March 29, 2021. • We continue to work with the CSA on membership applications from various platforms.
Evolving our HR and workplace strategies	• We developed our HR strategy with staged implementation occurring over the next 2 fiscal years. • Work continues on a new post-COVID workplace strategy. • A space planning strategy has been completed which contemplates layout options that will allow for reduced space/lease requirements over time and a greatly improved workplace employee experience including support for greater flexibility. • We launched a new initiative to ensure that we share a workplace that reflects our ongoing commitment to equity, diversity, inclusion and anti-racism.

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.

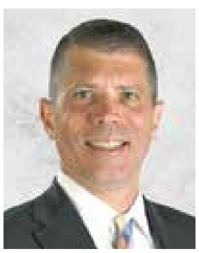
Board of Directors

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.

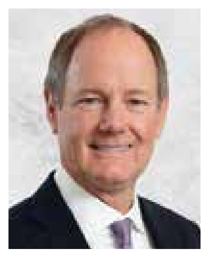
Seven of IIROC's 15 Directors are Independent Directors who are not affiliated with an IIROC member. In addition, the Corporate Governance Committee – which is charged with overseeing IIROC's governance – is made up entirely of Independent Directors.

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.

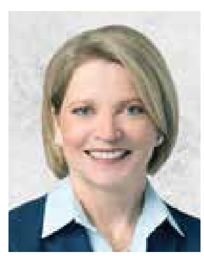
We believe that the IIROC Board is uniquely positioned to act in the public interest to protect investors and market integrity and support healthy capital markets across Canada.



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



Paul D. Allison, Chair
Joined October 2013
Chairman and CEO, Raymond James Ltd.
Toronto, Ontario
Human Resources & Pension Committee



Michèle Colpron, Vice-Chair
Joined September 2017
Corporate Director
Montreal, Quebec
Corporate Governance Committee
Human Resources & Pension Committee

Resigned as Independent Directors

Catherine Smith, Vice-Chair
Joined September 2012
Corporate Director
Toronto, Ontario
Corporate Governance Committee
Human Resources & Pension Committee

James Donegan
Joined September 2012
Corporate Director
Toronto, Ontario
Corporate Governance Committee
Finance, Audit & Risk Committee

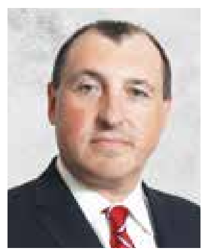
Edward Iaccobucci
Joined September 2012
Dean, Faculty of Law, University of Toronto
Toronto, Ontario
Corporate Governance Committee

Industry Directors

Jean-Paul Bachellerie
Joined September 2013
CEO, PI Financial Corp.
Vancouver, B.C.
Human Resources & Pension Committee

Holly A. Benson
Joined January 2015
Vice-President, Finance and CFO, Peters & Co. Ltd.
Calgary, Alberta
Finance, Audit & Risk Committee

Luc Fortin
Joined January 2018
President and CEO, Montreal Exchange and Global Head of Trading, TMX Group
Montreal, Quebec
Finance, Audit & Risk Committee

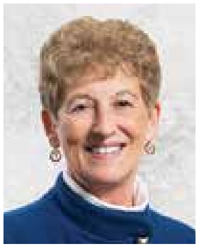


Timothy Mills
Joined September 2019
Senior Vice-President, Treasury Market and Liquidity Risk Management, CIBC
Toronto, Ontario
Finance, Audit & Risk Committee

Luc Paiement
Joined September 2016
Executive Advisor, National Bank of Canada
Montreal, Quebec
Human Resources & Pension Committee

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

Independent Directors

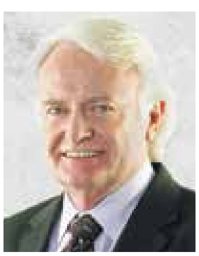


Victoria Harnish
Joined January 2020
Corporate Director
Hubbards, Nova Scotia
Finance, Audit & Risk Committee
Human Resources & Pension Committee

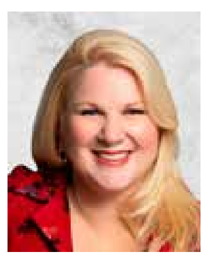
Malcolm Heins
Joined September 2020
Corporate Director
Toronto, Ontario
Corporate Governance Committee
Human Resources & Pension Committee

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

Jennifer Newman
Joined September 2020
Senior Managing Director, Real Estate Operations & Special Projects, Ontario Teachers' Pension Plan
Toronto, Ontario
Corporate Governance Committee
Finance, Audit & Risk Committee



Gerry O'Mahoney
Joined September 2013
Principal and Founder Tralee Capital Markets
Oakville, Ontario
Corporate Governance Committee
Finance, Audit & Risk Committee



Laura Tamblyn Watts
Joined September 2020
President and CEO, CanAge
Toronto, Ontario
Corporate Governance Committee

Board Meetings

April 1, 2020 to March 31, 2021 Board Meetings

A total of 30 meetings were held during the fiscal year ended March 31, 2021.
Below is a breakdown of attendance.

Director	Board of Directors	Finance, Audit & Risk	Corporate Governance	Human Resources and Pension	Regulatory Rules Brief	Total Compensation* $
Paul Allison	6/6		6/6	7/7	6/6	
Jean-Paul Bachellerie	5/6			6/7	6/6	
Holly Benson	6/6	5/5			6/6	
Michèle Colpron*	6/6	2/2	3/3	6/6	6/6	62,969.64
James Donegan*	2/2	1/2	2/2	2/2	2/2	23,283.47
Luc Fortin	6/6	5/5			6/6	
Victoria Harnish*	6/6	5/5		7/7	6/6	55,689.60
Malcolm Heins*	4/4		4/4	5/5	4/4	59,653.14
Ed Iacobucci*	2/2		2/2	1/1	2/2	23,563.59
Shenaz Jeraj*	6/6	5/5	6/6		6/6	54,517.53
Andrew Kriegler	6/6	5/5	6/6	6/6	6/6	
Jennifer Newman*	4/4	3/3	4/4		4/4	43,663.03
Gerry O'Mahoney*	6/6	5/5	6/6		6/6	57,630.00
Tim Mills	6/6	5/5			6/6	
Luc Paiement	6/6			7/7	6/6	
Jos Schmitt	6/6			7/7	6/6	
Catherine Smith*	2/2		2/2	2/2	2/2	27,221.05
Laura Tamblyn Watts*	4/4		4/4		4/4	36,571.55

* Only Independent Directors are compensated by IIROC

Denominator = total number of meetings invited to attend

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 Participation

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 Participation

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

Ad Hoc Meetings

As approved by Corporate Secretary:

Meeting attendance and work preparation of less than two hours in duration – $1,000

Meeting attendance and work preparation of two hours or longer – $1,500

Additional Compensation

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

Independent 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.

Compensation for Independent Directors may also include fees for other substantial consultations, including but not limited to, Director Orientation and Board planning or strategy meetings.

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 skills 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 position are presented for the fiscal year ended March 31, 2021, with comparatives for the previous year ended March 31, 2020. The MD&A should be read in conjunction with the Financial Statements for the year ended March 31, 2021.

IIROC is a cost-recovery, not-for-profit national organization that recovers its operating expenses for each of its key areas of regulation. There are fee models that prescribe the method of cost recovery for each key regulatory area and for the Debt Information Processor ["Debt IP"] activity. The primary source of revenue is through fees for dealer regulation, equity market regulation, debt market regulation and Debt IP activities which are collected through the application of their respective fee models.

Dealer regulation secondary sources of revenue include underwriting levies, which represent a stipulated percentage share of the value of certain public equity and debt underwritings in Canada, and registration fees based on arrangements with provincial securities authorities. In addition, within equity market regulation, IIROC separately recovers expenses for administering timely disclosure services for the TSX, TSXV, CSE and NEO exchanges.

Certain statements in this MD&A are forward-looking and are therefore subject to risks and uncertainties. The financial performance or events forecast in these statements may differ materially from actual financial performance or events. IIROC has based these forward-looking statements on its current views of future events and financial performance. Any assumptions, although reasonable in judgement at the time of publication, are not guarantees or predictions of future performance.

KEY CHANGES IN SENIOR MANAGEMENT

During the year, Jennifer Armstrong joined IIROC and was appointed General Counsel and Corporate Secretary effective March 1, 2021, succeeding Doug Harris, who left the Organization at the end of November, 2020. Elsa Renzella, who is Senior Vice-President, Enforcement, Registration and Enterprise Risk was acting head of that area in the intervening period. Effective April 1, 2021, Richard Korble was appointed Vice-President, Western Canada, succeeding Warren Funt, who retired as of March 31, 2021. Also effective April 1, 2021, Laura McNeil was appointed Chief Financial Officer. Subsequent to March 31, 2021, Lucy Becker, Vice-President, Public Affairs and Member Education Services, left the Organization. Sean Hamilton, Director of Public Affairs and Member Education Services, has assumed her duties, reporting to Jennifer Armstrong.

COVID-19

The arrival of the first wave of the COVID-19 pandemic signaled a potentially challenging year ahead, full of uncertainty for the Canadian economy. In anticipation of potentially significant negative impacts that the pandemic could have had on Canadians, IIROC took a number of measures to provide relief to dealer members so that they could continue to serve Canadians during these challenging times. Such measures included holding fees flat to FY 2020 for all fee models, granting exemptive relief in a number of areas relating to hardships dealer members experienced related to the pandemic, and offering temporary financial relief for small and medium-sized dealer members through deferral of dealer regulation fee payments. IIROC was able to deliver these relief measures while continuing to fulfill its mandate in an efficient manner through rigorous cost control, and prioritization of initiatives to support key regulatory activities. In particular, as employee compensation is the Organization’s most significant expense, Management made the decision to hold salaries flat to the previous fiscal year.

The pandemic impacted many areas which had a direct or indirect impact on many of IIROC's financial measures, including:

- Underwriting levies revenue increased by 54%, driven by a significant increase in provincial debt issuances;
- Registration revenue decreased by 13%, mainly due to the closing of test centres in early FY 2021;
- Certain elements within salaries and benefits costs were impacted by the pandemic: fewer vacation days taken by employees due to travel and other restrictions resulted in higher vacation expenses, lower employee health benefit claims were due to service restrictions;
- There were significant reductions in other expenses such as travel, office costs, conferences and training due to suspension of all business travel and office closures;
- Hearing panel costs and member education projects funded from the Externally Restricted Fund were lower as hearings and training events were held remotely;
- There were additional technology and other costs incurred to support work-from-home arrangements, such as supply costs for peripherals and remote meeting application improvements.

MANAGEMENT DISCUSSION AND ANALYSIS (IN THOUSANDS OF DOLLARS)

SUMMARY FINANCIAL INFORMATION

UNRESTRICTED FUND

	FY 2021 $	FY 2020 $	Variance $	Variance %
REVENUE				
Dealer regulation				
Membership fees	**52,044**	52,416	(372)	(1%)
Underwriting levies	**12,602**	8,206	4,396	54%
Registration fees	**1,604**	1,844	(240)	(13%)
Entrance fees	**185**	155	30	19%
	66,435	62,621	3,814	6%
Market regulation				
Equity regulation	**25,510**	25,510	(0)	(0%)
Debt regulation	**2,242**	2,242	(0)	(0%)
Timely disclosure	**2,935**	3,007	(72)	(2%)
Marketplace revenue	**190**	190	0	0%
	30,877	30,949	(72)	(0%)
Debt Information Processor ["Debt IP"]	**1,633**	1,634	(1)	(0%)
Other revenue				
Investment revenue including interest	**2,606**	1,679	927	55%
Recoveries of enforcement costs	**243**	239	4	2%
Miscellaneous	**121**	108	13	12%
	2,970	2,026	944	47%
Total Unrestricted Fund revenue	**101,915**	97,230	4,685	5%
EXPENSES				
Dealer regulation operating expenses	**65,561**	68,146	(2,585)	(4%)
Market equity regulation operating expenses	**28,837**	29,681	(844)	(3%)
Market debt regulation operating expenses	**2,244**	2,454	(210)	(9%)
Debt IP operating expenses	**1,708**	1,697	11	1%
Total Unrestricted Fund operating expenses	**98,350**	101,978	(3,628)	(4%)
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES FOR THE YEAR	**3,565**	(4,748)	8,313	(175%)

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

MANAGEMENT DISCUSSION AND ANALYSIS (IN THOUSANDS OF DOLLARS)

EXTERNALLY RESTRICTED FUND

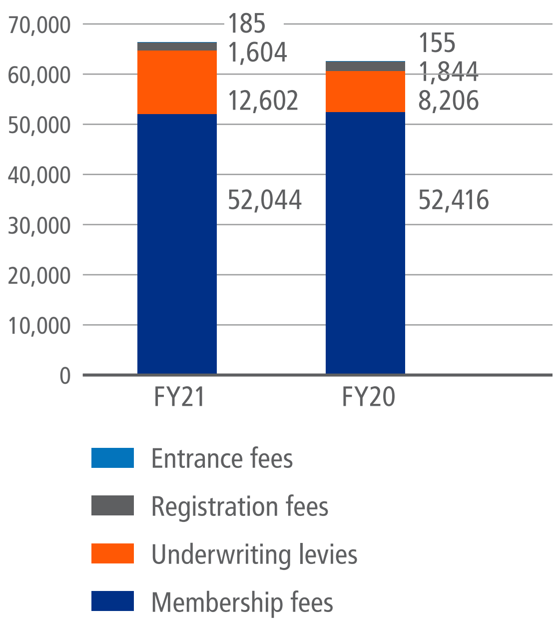
	FY 2021 $	FY 2020 $	Variance $	Variance %
REVENUE				
Entrance fees	**82**	249	(167)	(67%)
Disciplinary fines and other fines	**1,912**	7,083	(5,171)	(73%)
Investment revenue including interest	**105**	273	(168)	(62%)
Total Externally Restricted Fund revenue	**2,099**	7,605	(5,506)	(72%)
EXTERNALLY RESTRICTED FUND EXPENSES				
Hearing panel expenses	**993**	1,245	(252)	(20%)
Amortization, impairment and disposals [excluding surveillance system hardware]	**690**	793	(103)	(13%)
Surveillance system hardware [amortization and interest]	**211**	111	100	90%
Member education	**137**	416	(279)	(67%)
Canadian Foundation for Advancement of Investor Rights ["FAIR"]	**125**	–	125	NA
Osgoode Hall Law School Investor Protection Clinic	**75**	–	75	NA
University of Toronto Law School Investor Protection Clinic	**75**	–	75	NA
Cybersecurity Tabletop Test	**66**	–	66	NA
Complainant Research	**49**	–	49	NA
Website implementation	**31**	–	31	NA
MEDAC [Mouvement d'education et de defense des actionnaires]	**25**	–	25	NA
Plain Language Rulebook Implementation	**14**	75	(61)	(81%)
Cybersecurity consultants	**5**	237	(232)	(98%)
Client Identifier Implementation	**–**	19	(19)	(100%)
Total Externally Restricted Fund expenses	**2,496**	2,896	(400)	(14%)
(DEFICIENCY) EXCESS OF REVENUE OVER EXPENSES FOR THE YEAR	**(397)**	4,709	(5,106)	(108%)

REVENUE (UNRESTRICTED FUND)

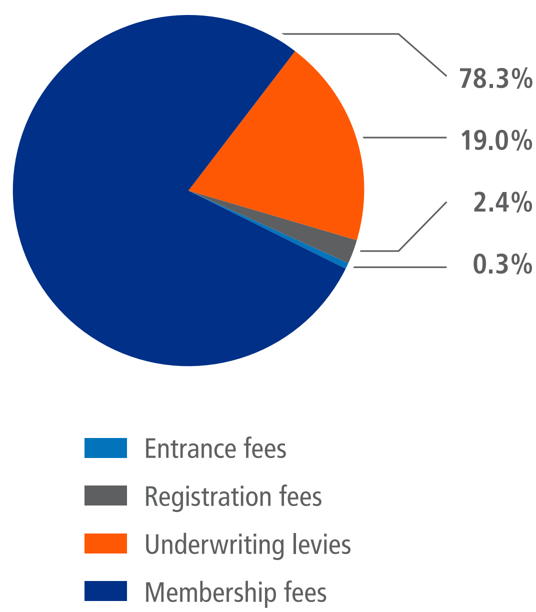
Unrestricted Fund revenue for the period amounted to $101,915, $4,685 [5%] higher than FY 2020 of $97,230.

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 $81,429 represent approximately 80% of total IIROC revenue [84% in

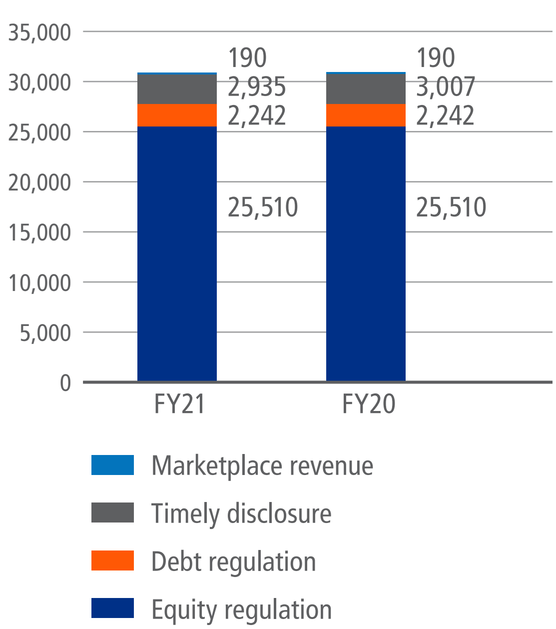
Dealer Regulation Revenue ($)



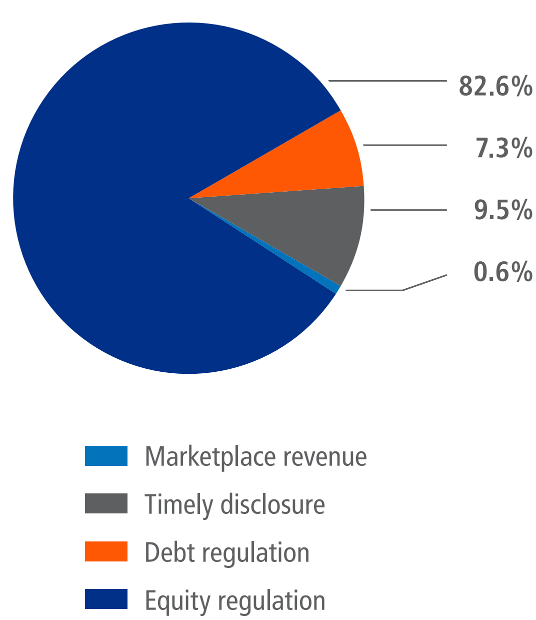
Dealer Regulation Revenue (%)



Market Regulation Revenue ($)



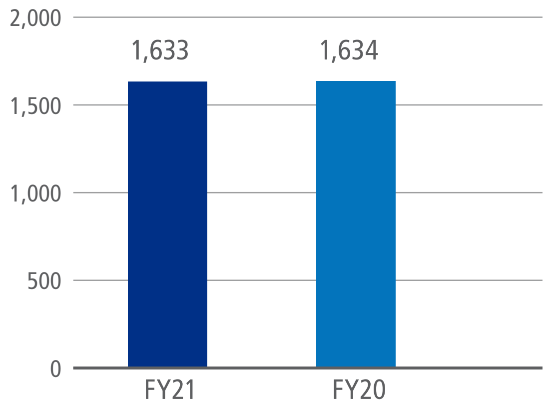
Market Regulation Revenue (%)



REVENUE (UNRESTRICTED FUND)

(CONTINUED)

Debt Information Processor Revenue ($)



FY 2020]. Fees are approved by the Board, based on projected operating expenses, and reduced by any related secondary sources of revenue. Fees are also assessed to take into account the reasonableness of proposed fees in total as well as for each category.

Dealer regulation membership fees decreased by $372 or 1% to $52,044 compared with $52,416 in FY 2020. FY 2021 dealer fees were held flat to FY 2020. Note however that FY 2020 was favourably impacted by prior year corrections reported to IIROC by certain dealers. Equity market regulation fees, debt market regulation fees, and Debt IP fees were flat to FY 2020, at $25,510, $2,242, and $1,633 respectively.

On a year-over-year basis, the combined revenue from secondary sources increased by $4,114 [31%] to $17,516 from $13,402.

Underwriting levies, a significant secondary source of dealer regulation revenue, increased by $4,396 [54%] to $12,602 in FY 2021 from $8,206 in FY 2020 mainly due to a significant increase in the volume of debt issues, particularly from provinces.

Revenue from registration fees, the other significant secondary source of revenue, decreased by $240 [13%] to $1,604 in FY 2021 primarily due to lower registration activity volume particularly in the beginning of FY 2021 as a result of the closing of testing centres stemming from COVID impacts.

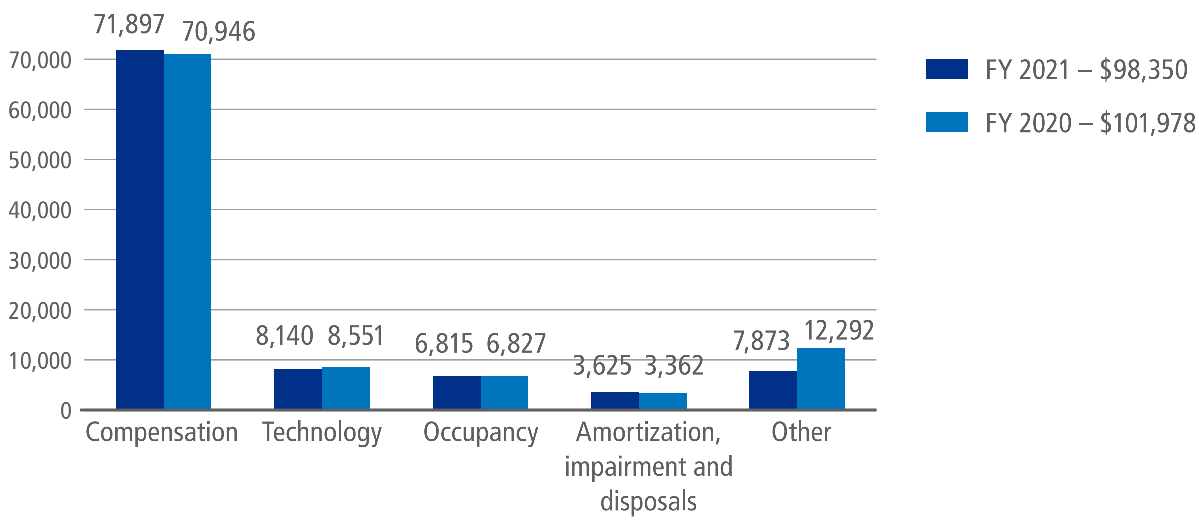
A significant secondary revenue source for market regulation is timely disclosure fees from the TSX, TSXV, CSE and NEO exchanges for administering their timely disclosure policies on a cost-recovery basis. Fees totaled $2,935 in FY 2021, a decrease of $72 or 2% from FY 2020 of $3,007.

Other revenue increased by $944 to $2,970 [47%] mainly due to higher investment revenue, including revenue on non-registered Supplemental Executive Retirement Plan ["SERP"] and Post-Retirement Benefits Plan ["PRB"], which are earmarked investments.

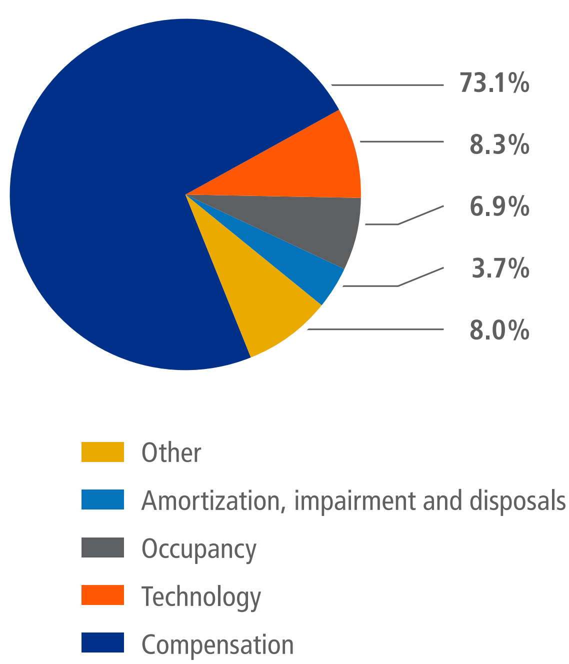
EXPENSES (UNRESTRICTED FUND)

IIROC's total operating expenses were $98,350 in FY 2021, a decrease of $3,628 or 4% from $101,978 in FY 2020. IIROC's operating expenses consist of five main categories.

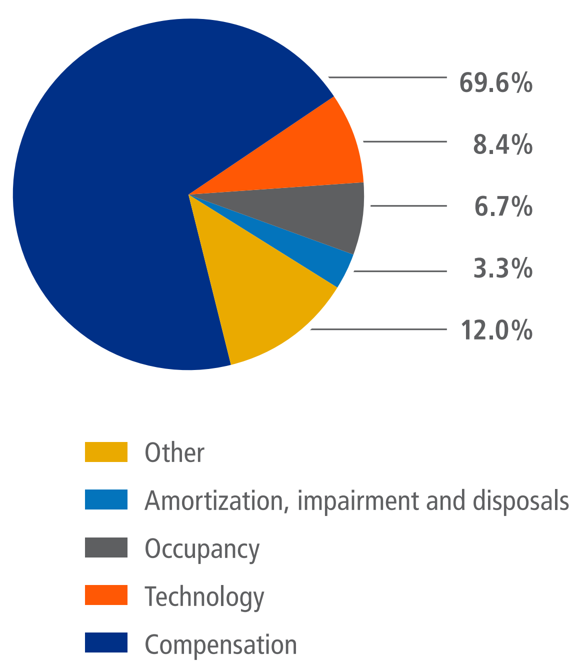
Total Operating Expenses ($)



Total Operating Expenses FY 2021 (%)



Total Operating Expenses FY 2020 (%)



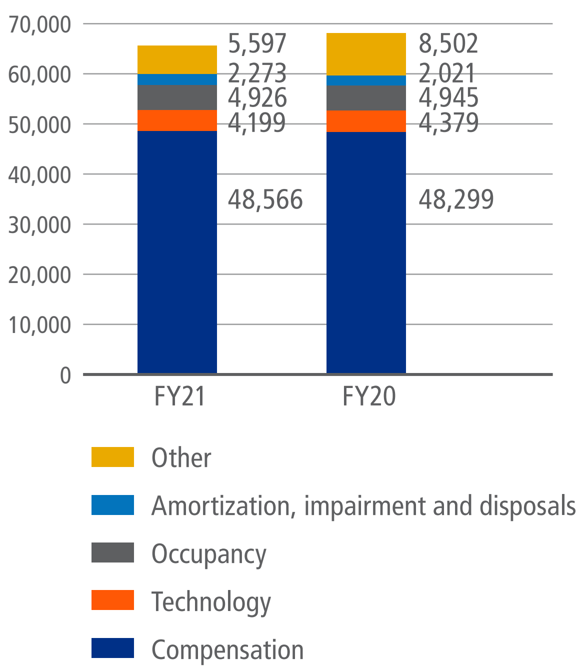
EXPENSES (UNRESTRICTED FUND)

(CONTINUED)

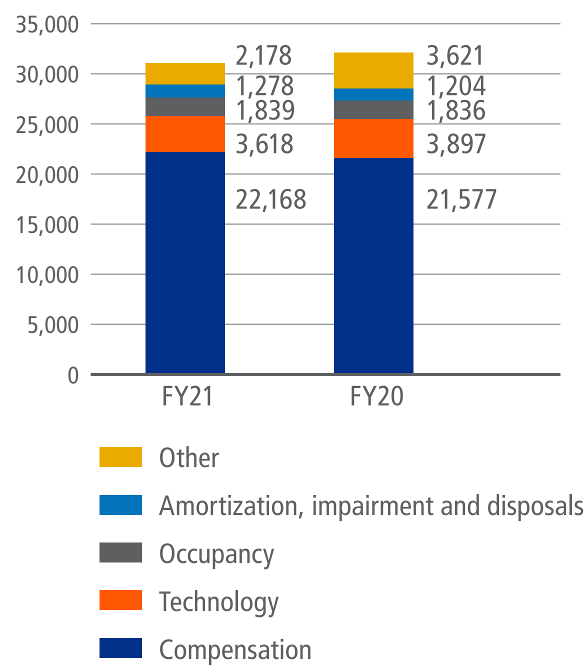
Compensation represents the largest expense category at 73.1% of operating expenses in FY 2021 [69.6% in FY 2020]. The largest decrease in FY 2021 was in other expenses category which decreased by $4,419 [3.6%] mainly driven by lower project costs primarily in consulting services as IIROC completed the transitioning of IT infrastructure and information security operations to a new consolidated service provider, utilizing an integrated and secure hybrid-cloud platform. In addition, travel, office costs, conferences and training costs were lower due to the pandemic related suspension of all business travel and office closures.

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

Dealer Regulation Operating Expenses ($)



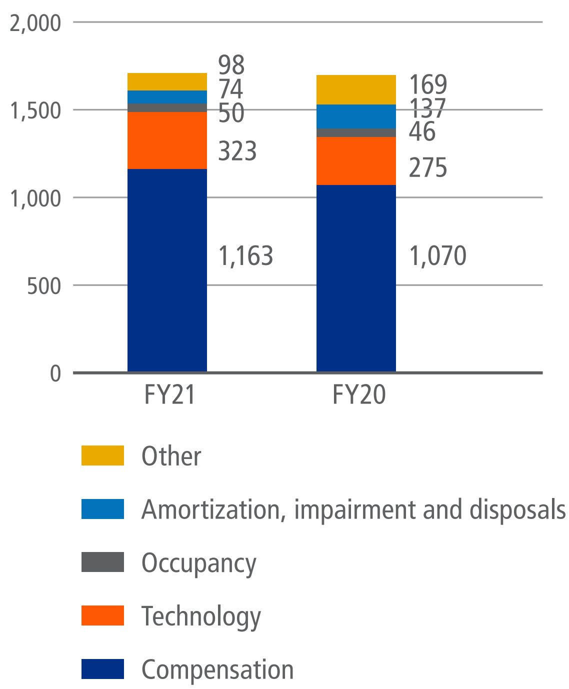
Market Regulation Operating Expenses ($)



EXPENSES (UNRESTRICTED FUND)

(CONTINUED)

Debt Information Processor Operating Expenses ($)



Dealer regulation expenses decreased by $2,585 [4%] to $65,561. Market regulation expenses decreased by $1,054 [3%] to $31,081, of which equity market regulation decreased by $844 and debt market regulation expenses decreased by $210. The decrease in both dealer regulation and market regulation was primarily due to lower technology and other expenses such as consulting services as the Organization completed the transitioning of IT infrastructure and information security operations to a new consolidated service provider, utilizing an integrated and secure hybrid-cloud platform. Other expenses such as travel also decreased significantly from FY 2020 due to suspension of all business travel as a result of the pandemic. The decrease in those costs was partially offset by higher compensation expenses. Higher compensation expenses were due to higher payouts for performance in an exceptional year and higher vacation expense offset by a greater proportion of salaries capitalized for technology projects and lower costs of employee benefits including pension and group insurance.

Debt IP expenses remained flat at $1,708 in FY 2021 ($1,697 in FY 2020).

UNRESTRICTED FUND

There was an excess of revenues over expenses of $3,565 in FY 2021, compared with a deficiency of $4,748 in FY 2020. The deficiency in FY 2020 reflected planned non-recurring investments in infrastructure, and the excess in FY 2021 reflected higher underwriting levies, investment income, and lower expenses as a result of the pandemic.

UNRESTRICTED FUND (CONTINUED)

The excess of revenues over expenses for FY 2021 of $3,565 and a net remeasurement loss of $2,510 for the pension plans and the post-retirement benefit plan increased the Unrestricted Fund balance from $57,892 to $58,947.

In assessing the reasonability of the Unrestricted Fund balance, the Organization notes that the balance provides for liquidity requirements as per internal guidelines, protection against potentially significant adverse moves in the funding position and solvency requirements for pension plans, and non-registered SERP, PRB, and Supplemental Income [“SIP”] plans. In addition, IIROC set aside reasonable amounts for a portion of the Canadian Investor Protection Fund [“CIPF”] loan guarantee and for other contingencies.

EXTERNALLY RESTRICTED FUND

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

The use of monies from the Fund is restricted by IIROC’s Recognition Orders. All expenses, other than hearing panel-related expenses, must both be eligible for such use and approved by IIROC’s Corporate Governance Committee [“CGC”]. According to the Recognition Orders, this fund is to be used for any of the following:

i) Expenditures for the development of systems or other non-recurring capital expenditures to address emerging regulatory issues arising from changing market conditions, and which are directly related to investor protection and capital markets integrity;

ii) Education of market participants and the public about or research into investing, financial matters, or the operation of regulation of securities markets;

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.

On April 1, 2021, the CSA amended the Recognition Order criteria, including the addition of a new category being for such other purposes as may be approved by the CSA.

Total revenues for the year amounted to $2,099, compared with $7,605 for FY 2020, a decrease of $5,506 [72%]. This is due to a number of more significant fines levied by Hearing Panels in FY 2020.

Total expenses decreased by $400 [14%] to $2,496. The decrease was primarily due to lower hearing panel expenses as hearings were being held remotely in FY 2021; similarly, member education expenses were also lower as training events and conferences were held remotely. These decreases were partially offset by funding for the Canadian Foundation for Advancement of Investor Rights, Osgoode Hall Law School Investor Protection Clinic, University of Toronto Law School Investor Protection Clinic, and other projects approved by the CGC.

The resulting deficiency of revenues versus expenses for the year was $397, compared to an excess of $4,709 in the previous year.

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

EXTERNALLY RESTRICTED FUND

(CONTINUED)

At the end of FY 2021, Externally Restricted Fund balance was $19,721. Committed funds were $5,706. Remaining uncommitted funds after accounting for three years' worth of hearing panel expenses, amount to approximately $8,000. These remaining amounts have been earmarked for both external and internal purposes.

LIQUIDITY AND CAPITAL RESOURCES

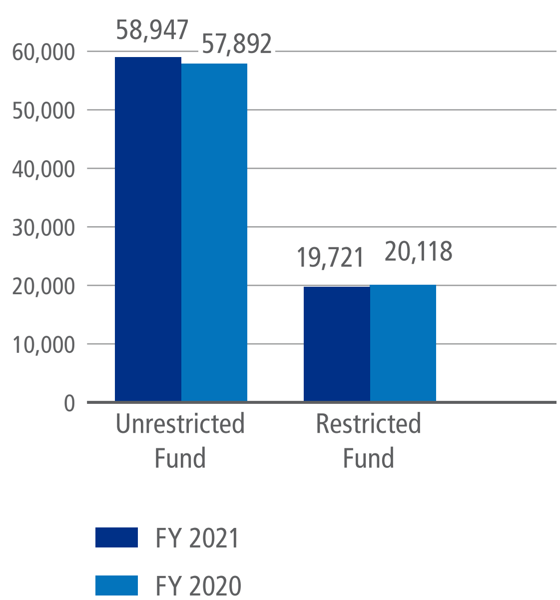
At the end of FY 2021, IIROC held total combined fund balances in the Unrestricted and Externally Restricted Fund of $78,668, up $658 from the FY 2020 balance of $78,010. The increase in fund balances arose from an excess of revenues over expenses of $3,168 [excess of $3,565 in Unrestricted Fund, partially offset by deficit of $397 in Externally Restricted Fund], and the net remeasurement loss for the pension plans and post-retirement benefit plan of $2,510.

During the year, the Organization increased its capital assets by $4,166 [$1,812 in FY 2020]. The increase arose primarily from net capital leases addition [$957], IIROC website [$855], system enhancements to enable implementation of the client identifier requirements [$737], and other assets (mostly technology applications) [$1,617].

IIROC has an internal liquidity guideline for the Unrestricted Fund of a minimum of three months' of operating expenses. Based on FY 2022 expected operating expenses of $101,026, the Fund holds more than the minimum required by the guideline of $25,256.

IIROC holds investments of $67,028 in high quality liquid short-term marketable securities such as government-issued treasury bills, debt instruments of financial institutions with remaining maturities of greater than three months, and mutual funds.

Fund Balances at Year End ($)



COMMITMENTS

As at March 31, 2021, IIROC has in place basic minimum aggregate annual rental commitments of $13,365 [FY 2020 – $16,807], excluding GST/HST and shared operating expenses under long-term operating leases, with varying expiry dates to February 28, 2029. These rental commitments also require IIROC to pay its share of operating expenses, which fluctuate from year to year. In addition, there are minimum aggregate executory costs for capital leases of $1,215 [FY 2020 – $1,591] pertaining to costs related to the operation of the leased capital assets.

CAPITAL LEASES

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

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

CONTINGENCIES

IIROC has an agreement with CIPF, which protects clients who suffer financial loss due to the insolvency of an IIROC-registered dealer. In order to meet potential financial obligations, CIPF has the following resources in place: [i] a contingency fund balance of $544,008 on hand as at December 31, 2020 [2019 – $513,561]; [ii] lines of credit provided by two Canadian chartered banks totaling $125,000 as at December 31, 2020 [2019 – $125,000]; and [iii] insurance in the amount of $160,000 as at December 31, 2020 [2019 – $160,000] in the annual aggregate in respect of losses to be paid by CIPF in excess of $200,000 [2019 – $200,000] in the event of member insolvency, and a second layer of insurance in the amount of $280,000 as at December 31, 2020 [2019 – $280,000] in respect of losses to be paid in excess of $360,000 [2019 – $360,000] in the event of member insolvency. IIROC has provided a $125,000 [2020 – $125,000] guarantee on CIPF bank lines of credit. At March 31, 2021, CIPF has not drawn on these lines of credit. Any amount drawn on the IIROC guarantee would be eligible to be assessed to dealer firms.

Following the accidental loss in FY 2013 of a portable device that contained personal information relating to clients of a number of dealers, IIROC undertook a number of measures to notify potentially affected dealers and potentially affected clients, and to provide potentially affected clients with ongoing support services. On April 30, 2013, the Organization was served with a motion for authorization to institute a class action and to obtain the status of representative in the Superior Court of Quebec. The petitioner's class action motion on behalf of persons in Canada whose personal information was lost by the Organization sought $1, plus interest, on behalf of each class member, in relation to damages for stress, inconvenience and measures rendered necessary as a result of the loss of personal information by the Organization.

The motion for authorization of the class action was dismissed in August 2014. The petitioner appealed and the appeal was dismissed on November 6, 2015. A new motion for authorization was filed on November 16, 2015 on behalf of a new petitioner. The new motion was filed by the same counsel as in the original motion for authorization, and was based mainly on the same alleged facts and grounds as the previous motion, but in addition alleged that the petitioner had been the victim of identity theft. The motion for authorization was granted in October 2017. Damages sought were $1 in compensatory and $0.5 in punitive damages per class member plus other damages and legal costs. The case proceeded to trial in December 2020. In March 2021, the Superior Court of Quebec dismissed the class action against IIROC in its entirety and awarded

CONTINGENCIES (CONTINUED)

IIROC costs against the petitioner. In April 2021, the petitioner appealed the judgment to the Quebec Court of Appeal. IIROC is vigorously defending against this action.

The total costs of the incident incurred by IIROC to date, including legal fees for responding to the two motions for authorization, are $5,532 of which $2 was incurred in fiscal 2021 (2020 – $nil as directly paid by the insurer). It is not possible to estimate potential damages if any, resulting from this incident.

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, 2021. To be eligible for an accrual, IIROC must have received the goods or services as of March 31, 2021. 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, 2021 was $6 [FY 2020 – $nil].

c) Eligibility of expenditures for capitalization – eligibility is determined based on accounting rules. IIROC does not capitalize consumables nor individual assets falling below their capitalization threshold in accordance with their capitalization guideline.

d) Date of substantial completion of technology projects to begin amortization – this is the date at the commencement of the fiscal quarter following when an asset is considered substantially complete and available for use.

e) Useful lives of capital assets – amortization of office furniture and equipment is generally over five years; computer equipment, software and technology projects hardware are over three to five years. Leasehold improvements are amortized over the shorter of their useful life and the term of the respective leases.

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

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 is further overseen by 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 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

In fiscal 2021, IIROC was successful in its defense to the litigation disclosed in Note 11 to the Financial Statements, which is under appeal. From time to time, IIROC may face claims by employees, the public and other third parties arising from the ordinary course and conduct of its business.

IIROC mitigates the risk of such claims by implementing appropriate controls and policy and procedural safeguards, and by defending against any and all claims which in its judgement are without merit. IIROC continually reviews and enhances, as appropriate, its insurance coverage against various risks with a view to having sufficient coverage against potential losses, for existing and emerging risks whenever possible.

Cybersecurity

IIROC works closely with Service Providers to monitor threats/vulnerabilities, maintain processes, and expeditiously apply security updates. IIROC oversees and builds upon cybersecurity measures to further protect the IT environment and data in response to the evolving threat landscape. Industry information security practices are leveraged and adjustments made to align with IIROC's risk profile.

Revenue Risk

About 80% of IIROC's revenue comes from dealer membership fees, equity and debt market regulation fees and Debt IP fees. Failure of a significant number of firms or a relatively large firm would have a critical impact on IIROC's financial operations. Prudent operating cost management and ongoing monitoring of the financial adequacy of firms helps to mitigate this risk. Additional risk arises from possible reductions in market activity that could adversely affect underwriting levies and from possible adverse changes in provincial registration-related revenues.

Registered Pension, SERP And PRB Risk

Registered pension risk refers to the risk that the Organization's financial position could be adversely impacted because of the impact on the Organization's two registered plans of possible reductions in the

RISK (CONTINUED)

future market value of the plan investments and/or increases in the pension liability if interest rates were to fall below current levels. These risks are mitigated by maintaining sufficient funding levels and by holding a diversified set of investments, which are managed by professional investment managers operating under specified mandates and tolerances. IIROC also carefully monitors and manages funding levels and makes contributions required by law and, in addition, makes special contributions to maintain desired funding levels. Similar risks and funding considerations apply to the unregistered plans including assets earmarked for SERP and PRB, although funding levels for these plans are not dictated by law. IIROC monitors and manages funding levels for all unregistered plans for which it makes predetermined and special contributions to achieve desired funding levels.

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, with the most significant amounts exposed to highly rated bank-owned dealers. Marketable securities also expose the Organization to credit risk, which IIROC limits by investing in high-quality short-term 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

IIROC's liquidity risk represents the risk that the Organization could encounter difficulty in meeting obligations associated with its financial liabilities. IIROC 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. IIROC minimizes its exposure to market risk through its policy of investing a portion of its investments in Government of Canada treasury bills, bankers' acceptances and promissory notes. Market risk is comprised of currency risk, interest rate risk and other price risk. In addition, adverse or volatile capital market conditions both in the primary market and secondary markets could have an impact on IIROC's ability to collect underwriting levies.

Currency Risk

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

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

RISK (CONTINUED)

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 COVID-19 pandemic caused significant economic disruption and slow down, including greater volatility in the financial markets although these adverse impacts seem to be abating. IIROC may still be subject to greater operational, credit, liquidity, and market risk.

RESILIENCY

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

Throughout the COVID-19 pandemic, IIROC has deployed a Crisis Management Team to lead and oversee all aspects of its response including the provision and maintenance of full remote working. As the pandemic is expected to subside over the summer months and into the fall, plans are being put in place to ensure a properly timed and controlled return to physical offices. IIROC expects to implement a significantly higher degree of remote working than existed before the pandemic.

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.

IIROC's strategic priorities and supporting budget for FY 2022 reflect its ongoing commitment to investor protection and market integrity, while operating in an efficient, cost-effective and sustainable manner.

Examples of priorities for next year include:

- Advancing various initiatives and commitments related to investor protection, including:
  - moving forward with the plan to establish an Expert Investor Issues Panel, which began earlier this year by publishing a Request for Comments on panel composition, selection process, term limits and governance;
  - exploring ways to return to investors disgorged funds collected from an advisor or firm disciplined by IIROC;
  - improving the experience of complainants based on survey feedback;

OUTLOOK (CONTINUED)

- examining the point at which service levels and access to trading at Order-Execution-Only dealers become an explicit investor protection issue;
- continuing to work with the CSA in support of a safe harbour rule and developing additional tools to help dealers protect vulnerable investors; and
- continuing to seek additional authority to strengthen the enforcement toolkit to ensure that investors in every Canadian province and territory have a consistent level of investor protection regardless of where they live.

- Supporting the industry's transformation to more effectively and efficiently serve Canadians by:
  - continuing to work with the CSA in ensuring that crypto asset trading platforms subject to regulation are fully integrated in the Canadian regulatory system;
  - modernizing IIROC's rules and approach to regulation;
  - leveraging data and analytics to provide opportunities to create efficiencies internally and support policy development, including completing a "Failed Trade Study" of settlement processes in Canadian equities to benchmark and assess the current short selling regime; and
  - helping firms build operational resilience through the effective management of cybersecurity and technology risks.
- leveraging learnings to manage implications related to the pandemic
- supporting the CSA in their review of the self-regulatory framework and preparing for potential next steps
- adopting Client Focused Reform rule amendments in accordance with the extended CSA timelines
- progressing derivatives rule reform to introduce greater consistency between derivatives and securities rule requirements
- completing the implementation of the client identifier requirements
- developing competency profiles for Directors, Executives, Ultimate Designated Persons, Chief Compliance Officers and Chief Financial Officers
- continuing to evolve HR, workplace and remote working strategies, incorporating Equity, Diversity, Inclusion and Anti-Racism initiatives, and learnings from the pandemic.

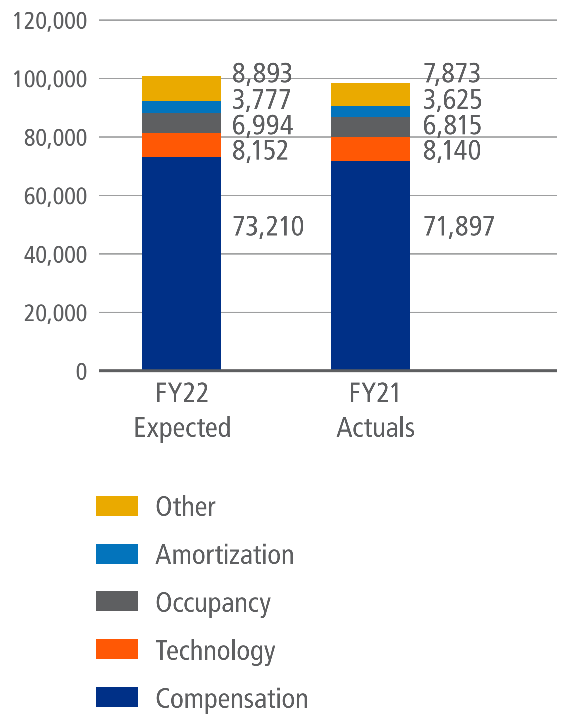
These priorities support the seven key strategies that enable IIROC to deliver effectively on its mandate and Mission and Vision, as outlined in the three-year Strategic Plan published in June 2019:

- 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

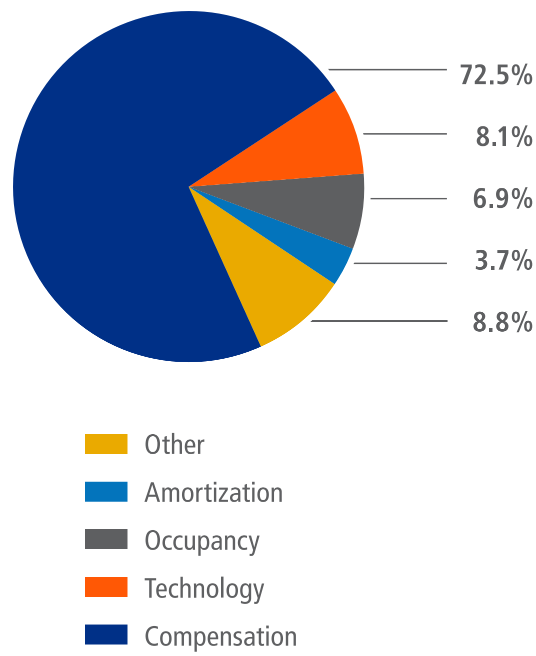
Total operating expenses for the coming year are expected to increase to $101,026 in FY 2022 from $98,350 in FY 2021, an increase of $2,676 [2.7%]. The increase in expenses reflects salary increases for merit in FY 2022, which were held flat in FY 2021, and the partial reversal in FY 2022 of expense savings in FY 2021 due to COVID-19 closures and impacts.

OUTLOOK (CONTINUED)

FY 2022 Planned Operating Expenses ($)



FY 2022 Planned Operating Expenses (%)



For underwriting levies, FY 2021 actuals of $12,602 were higher than the past five-year average of approximately $9,558. Actual volume of issues are impacted by market conditions, and COVID-19, despite having caused significant uncertainty in the market, has resulted in higher volume of issues, especially debt based, in FY 2021 and IIROC expects that trend to continue into FY 2022. FY 2022 underwriting levies are currently estimated to be $10,800.

The overall fees for continuing activities will increase by 3.66% in FY 2022. This follows a year in which IIROC held fees flat and took a number of other measures to support the industry given the uncertain impact of the pandemic. The FY 2022 fee increase reflects IIROC's continued work on strategic initiatives and general cost increases necessary to maintain its ability to effectively discharge its regulatory mandate in a rapidly evolving environment. Specifically, Dealer Regulation fees will increase by 3.50%, Equity Market Regulation fees will increase by 4.34%, Debt Market Regulation fees will increase by 2.50% and Debt IP fees will remain flat. There are no fee increases for non-continuing activities, i.e., new activities, for FY 2022.

OUTLOOK (CONTINUED)

The four-year compound annual growth rate ["CAGR"] of total fees is 1.9%, which is substantially less than industry revenue CAGR of approximately 7.4%, and industry profitability CAGR of approximately 13.9%[1] over the same period. IIROC's total fees as a percentage of industry revenue have been falling steadily from 0.34% in FY 2018 to 0.27% in FY 2022, despite decreases in interest rates that have negatively impacted industry gross revenue. Fees as a percentage of industry profitability also continue to trend significantly lower, and are now at roughly 2/3rds of FY 2018 level.

In FY 2020, 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 is taking place in two phases. Phase 1, effective August 31, 2020, has involved publishing 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, which was effective on May 31, 2021, requires banks and any other non-IIROC dealers that do not currently report any corporate or government debt transactions to IIROC to begin reporting to IIROC as of this date.

[1] Industry revenue and profitability are based on IIROC-compiled data (IIROC monthly financial report statistics). Industry revenue and profitability for FY 2022 are assumed to be the same as FY 2021 (due to data availability).

FINANCIAL STATEMENTS

March 31, 2021

INDEPENDENT AUDITOR'S REPORT

To the Members of the Investment Industry Regulatory Organization of Canada

OPINION

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

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

BASIS FOR OPINION

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

OTHER INFORMATION

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control.

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

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

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

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

Toronto, Canada
June 23, 2021

Ernst + Young LLP

Chartered Professional Accountants
Licensed Public Accountants

(IN THOUSANDS OF DOLLARS)

STATEMENT OF FINANCIAL POSITION

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

Certain comparative figures have been reclassified to conform to the financial statement presentation for the current year.
The accompanying notes to the financial statements are an integral part of these financial statements.

On behalf of the Board:

Andrew J. Kriegler, President and CEO

Paul D. Allison, Chair

(IN THOUSANDS OF DOLLARS)

STATEMENT OF CHANGES IN FUND BALANCES

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

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

(IN THOUSANDS OF DOLLARS)

STATEMENT OF OPERATIONS

Year ended March 31	Unrestricted Fund $	Externally Restricted Fund $	2021 Total $	2020 Total $
REVENUE				
Dealer regulation				
Membership fees	52,044	–	**52,044**	52,416
Underwriting levies	12,602	–	**12,602**	8,206
Registration fees	1,604	–	**1,604**	1,844
Entrance fees	185	82	**267**	404
	66,435	82	**66,517**	62,870
Market regulation				
Equity regulation	25,510	–	**25,510**	25,510
Debt regulation	2,242	–	**2,242**	2,242
Timely disclosure	2,935	–	**2,935**	3,007
Marketplace revenue	190	–	**190**	190
	30,877	–	**30,877**	30,949
Debt Information Processor	1,633	–	**1,633**	1,634
Other revenue				
Disciplinary fines and other fines	–	1,912	**1,912**	7,083
Investment revenue including interest	2,606	105	**2,711**	1,952
Recoveries of enforcement costs	243	–	**243**	239
Miscellaneous	121	–	**121**	108
	2,970	2,017	**4,987**	9,382
	101,915	2,099	**104,014**	104,835
EXPENSES [note 9]				
Dealer regulation operating	65,561	–	**65,561**	68,146
Market equity regulation operating	28,837	–	**28,837**	29,681
Market debt regulation operating	2,244	–	**2,244**	2,454
Debt Information Processor operating	1,708	–	**1,708**	1,697
Externally Restricted Fund	–	2,496	**2,496**	2,896
	98,350	2,496	**100,846**	104,874
Excess (deficiency) of revenue over expenses for the year	3,565	(397)	**3,168**	(39)

Certain comparative figures have been reclassified to conform to the financial statement presentation for the current year.
The accompanying notes to the financial statements are an integral part of these financial statements.

(IN THOUSANDS OF DOLLARS)

STATEMENT OF CASH FLOWS

Year ended March 31	2021 $	2020 $
Operating activities		
Excess (deficiency) of revenue over expenses for the year	**3,168**	(39)
Add (deduct) items not involving cash		
Amortization	**4,505**	4,233
Rent amortization	**(741)**	(567)
Interest accrued on capital lease obligations [note 7]	**–**	21
Net loss (gain) on disposal of capital assets	**16**	(3)
Impairment write-down of capital assets [note 6]	**221**	19
Employee future benefits expense [note 8]	**4,859**	5,652
	12,028	9,316
Changes in non-cash working capital balances related to operations		
Receivables	**(60)**	(277)
Prepaid expenses	**126**	310
Deposit	**(2)**	–
Payables and accruals, and government remittances	**3,169**	1,725
Deferred rent and lease inducements	**–**	(1)
Employer contributions for employee future benefits [note 8]	**(2,969)**	(3,427)
Cash provided by operating activities	**12,292**	7,646
Investing activities		
Disposal (purchase) of investments, net	**(9,762)**	(13,942)
Purchase of capital assets	**(3,443)**	(1,550)
Proceeds (loss) from disposal of capital assets	**(16)**	3
Change in long-term receivables, net	**38**	39
Cash used in investing activities	**(13,183)**	(15,450)
Financing activities		
Repayment of capital lease obligations	**(479)**	(41)
Cash used in financing activities	**(479)**	(41)
Net decrease in cash during the year	**(1,370)**	(7,845)
Cash and cash equivalents, beginning of year	**47,440**	55,285
Cash and cash equivalents, end of year	**46,070**	47,440
Cash and cash equivalents consist of		
Cash on hand and balances with bank	**22,274**	18,056
Cash equivalents	**23,796**	29,384
	46,070	47,440
Supplemental cash flow information		
Acquisition of capital assets under capital lease	**935**	262

Certain comparative figures have been reclassified to conform to the financial statement presentation for the current year.
The accompanying notes to the financial statements are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. ORGANIZATION

The Investment Industry Regulatory Organization of Canada ["IIROC" or the "Organization"] was incorporated on March 17, 2008 as a Corporation without share capital under provisions of Part II under the Canada Corporations Act. The Organization transitioned to the new Canada *Not-for-profit Corporations Act* in fiscal 2015. As a not-for-profit organization, IIROC is exempt from income taxes under Section 149(1)(l) of the *Income Tax Act* (Canada).

IIROC is the national self-regulatory organization that oversees all investment dealers and trading activity on debt and equity marketplaces in Canada.

The Organization's mandate is to set and enforce high-quality regulatory and investment industry standards, protect investors and strengthen market integrity while maintaining fair, efficient and competitive capital markets.

IIROC carries out its regulatory responsibility through setting and enforcing rules regarding the proficiency, business conduct, and financial conduct of dealer firms and their registered employees, and market integrity rules regarding trading activity on Canadian debt and equity markets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

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

Fund accounting

The Unrestricted Fund includes:

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

b) Recoveries of enforcement costs ordered by IIROC hearing panels as part of enforcement actions; and,

c) Funding of the deficit in the IIROC Supplemental Plan for Executives ["IIROC SERP"] – Non-Registered Defined Benefit Pension Plan, IIROC Non-Pension Post-Retirement Benefits Plan ["IIROC PRB"], defined benefit provisions of the Retirement Plan for Employees of IIROC ["IIROC RPP"] and the formerly Regulation Services ["RS"] sponsored Supplemental Income Plan for former TSX Employees ["Former RS SIP"] – Non Registered Defined Benefit Plan.

The Externally Restricted Fund includes:

d) The collection of fines and settlement monies arising from enforcement actions [disciplinary fines] and other revenue and the use of these funds in accordance with the terms and conditions of respective provincial securities commissions' and authorities' Recognition Orders. This Fund is to be used for any of the following:

   i) Expenditures for the development of systems or other non-recurring capital expenditures to address emerging regulatory issues arising from changing market conditions, and which are directly related to investor protection and capital markets integrity;

   ii) Education of market participants and the public about or research into investing, financial matters, or the operation of regulation of securities markets;

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Revenue recognition

IIROC operates on a cost recovery basis generally through published fee models, which set out the basis of the cost recovery for each of IIROC's activities.

Unrestricted revenue is recognized as revenue as follows:

DEALER REGULATION

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

MARKET REGULATION

Under the marketplace regulation services agreements, revenue from equity regulation fees are governed by the Market Regulation Fee Model. Fees are assessed for the fiscal year as approved by the Board. These fees are then allocated to dealers and marketplace members. Revenue is initially recognized monthly based on the prior year cost recovery rate and then upon Board approval, adjusted to current cost recovery rates over the remainder of the year. For attribution to each dealer on each marketplace, technology costs are assessed on the number of messages sent, while non-technology costs are assessed on the number of trades executed.

Debt regulation fees are assessed for the fiscal year as approved by the Board. These fees are allocated to dealers who trade debt securities. Revenue is initially recognized monthly based on the prior year cost recovery rate and then upon Board approval, adjusted to current cost recovery rates over the remainder of the year. Fees are allocated to each dealer based on its prorated share of the number of primary, secondary and repurchase agreement ["repos"] transactions, with a monthly fee reduction for repos on costs recovered from the Bank of Canada.

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

DEBT INFORMATION PROCESSOR

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

OTHER REVENUE

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents

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

Investments

Investments consist mainly of highly liquid marketable securities such as government-issued promissory notes and treasury bills, and debt instruments of financial institutions with remaining maturities of greater than three months, mutual funds and an equity investment.

Financial instruments

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

INITIAL MEASUREMENT

The Organization initially measures its financial instruments at fair value. For financial instruments subsequently measured at cost or amortized cost, the initial fair value incorporates the amount of the related financing fees and transaction costs that are directly attributable to its origination, acquisition, issuance or assumption. Transaction costs and financing fees relating to financial instruments that are measured subsequently at fair value are recognized in operations immediately when issued or acquired.

SUBSEQUENT MEASUREMENT

At each reporting date, the Organization measures its financial assets and liabilities at cost or amortized cost [less impairment in the case of financial assets] or at fair value. Fair value treatment is applied to all cash equivalents and investments, both equity and debt, which the Organization has elected to measure at fair value. The financial instruments measured at cost or amortized cost are cash, receivables, loans receivable, and payables and accruals. The Organization uses the effective interest rate method to amortize any premiums, discounts, transaction fees and financing fees in the statement of operations for those items measured at cost or amortized cost.

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

Capital assets

Capital assets are initially measured at cost and subsequently measured at cost less accumulated amortization. Amortization of office furniture and equipment is computed by the straight-line method at 20% per annum, and computer equipment, software and technology projects at 33 1/3% per annum except for certain technology projects, which are amortized at 20% per annum to better reflect the useful life of these assets. Leasehold improvements are amortized over the term of the respective leases. Amortization commences the quarter after the assets are available for use.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

ASSETS AND OBLIGATIONS UNDER CAPITAL LEASE

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

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

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

Deferred rent and lease inducements

Certain of the Organization's operating leases contain predetermined fixed escalations of minimum property rentals during the original lease terms. The Organization recognizes the related rental expense on a straight-line basis over the life of the lease, and records the difference between the amounts charged to operations and amounts paid as deferred rent [included in lease inducement] in the early years of the lease, when cash payments are generally lower than straight-line rent expense. Deferred rent is reduced in the later years of the lease when payments begin to exceed the straight-line expense. The Organization also receives certain lease incentives in conjunction with entering into operating leases. These lease incentives are recorded as a lease inducement at the beginning of the lease term and recognized as a reduction of rent expense over the lease term.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee future benefits

The Organization accrues its obligation under employee defined benefit plans and related costs as follows:

- The defined benefit obligation is measured based on an actuarial valuation for accounting purposes at the statement of financial position date. The defined benefit obligation is determined using the projected benefit method prorated on services, which incorporates management's best estimate for each actuarial assumption. Actuarial assumptions are used in the calculation of the benefit obligation and the assumptions relate to administrative expenses and taxes, termination rates, disability claim rates, rates of employee turnover, retirement age, mortality, dependency status, per capita claims cost by age and by type of benefit, health care cost trend rates, discount rates to reflect the time value of money, and future salary and benefits level.

- Plan assets are measured at fair value at the statement of financial position date. The Organization recognizes a valuation allowance for any excess of plan surpluses over the expected future benefit.

- The cost of the defined benefit plans relating to current service cost and financing cost [net interest on the defined benefit liability] is recorded on the statement of operations.

- Remeasurements and other items are recorded directly on the statement of changes in fund balances. These relate to:

  a) The difference between the actual return on plan assets and the return calculated using the discount rate used to determine the defined benefit obligation;

  b) Actuarial gains and losses;

  c) The effect of any valuation allowance;

  d) Past service costs; and,

  e) Gains and losses arising from settlements and curtailments.

The Organization also offers a defined contribution pension plan to employees. An expense is recorded in the period when the Organization is obligated to make contributions for services rendered by the employee. Any unpaid contributions are included on the statement of financial position under payables and accruals.

Allocation of expenses

IIROC engages in dealer regulation, equity market regulation, debt market regulation, and is the Debt Information Processor for certain securities.

To facilitate proper fee allocations, direct costs are separately captured for dealer regulation, market equity and debt regulation activities, and Debt Information Processor activities with indirect costs being allocated to each of these using a cost allocation model based on either direct business unit cost or headcount as appropriate.

NOTES TO THE FINANCIAL STATEMENTS (IN THOUSANDS OF DOLLARS)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of estimates

Management reviews the carrying amounts of items in the financial statements at each fiscal year-end date to assess the need for revision or any possibility of impairment. Many items in the preparation of these financial statements require the use of management's judgment in arriving at a best estimate. Management determines these estimates based on assumptions that reflect the most probable set of economic conditions and planned courses of action. These estimates are reviewed periodically and adjustments are made to the statement of operations as appropriate in the year they become known. Items subject to significant management estimates include accruals, allowance for doubtful accounts, eligibility of expenditures for capitalization, date of substantial completion of technology projects to begin amortization, useful lives of capital assets, minimum lease payments, lease discount rate, and valuation of employee future benefits asset/liability.

3. INVESTMENTS

Investments, at fair value, consist of the following:

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

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

The Organization owns a 10% interest in the common shares of FundSERV Inc. ["FundSERV"], an organization created as a depository and clearing house for the investment fund industry, which is recorded at its original cost of nil.

4. RECEIVABLES

Receivables consist of the following:

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

5. LONG-TERM RECEIVABLES

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

Employee loans receivable are loans provided to employees of the Organization for the purchase of home computers. Repayment terms and maturity dates were negotiated with employees at the time of making the loans. The loans are unsecured, non-interest bearing and are due on or before November 14, 2023.

NOTES TO THE FINANCIAL STATEMENTS (IN THOUSANDS OF DOLLARS)

6. CAPITAL ASSETS

Capital assets consist of the following:

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

6. CAPITAL ASSETS (CONTINUED)

Hardware under capital lease

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

Office equipment under capital lease

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

Computer equipment under capital lease

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

Capital assets under development

As at March 31, 2021, there are capital assets under development for leasehold improvements and software of $2,007 and computer equipment under capital lease under development of $222. As such, these assets are not yet being amortized. In addition, there are other capital assets of $106 included in office furniture and equipment and technology projects, and $57 of computer equipment under capital lease that were available for use in the last quarter of 2021. No amortization was recorded on these assets as amortization begins in the quarter after assets are available for use.

During the year, the Organization recognized an impairment loss in the amount of $221 on technology project software and hardware under capital lease [2020 – $19 on office furniture and equipment]. The assets were written down to their estimated fair value. The impairment loss was recognized in the statement of operations.

NOTES TO THE FINANCIAL STATEMENTS (IN THOUSANDS OF DOLLARS)

7. CAPITAL LEASE OBLIGATIONS

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

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

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

8. EMPLOYEE FUTURE BENEFITS

The Organization provides retirement and post-employment benefits for its employees and has both defined benefit and defined contribution pension plans. The defined benefit plans provide benefits that are based on a combination of years of service and a percentage of the participant's plan earnings. Under the defined contribution plan provisions, the Organization makes contributions based on a percentage of the participant's plan earnings as well as a match based on an employee's contributions. The matching percentage depends on the employee's age and years of service.

Prior to amalgamation, the Investment Dealers Association ["IDA"] and Market Regulation Services ["RS"] sponsored various defined benefit and defined contribution pension plans. At amalgamation, the IDA defined benefit plan became the defined benefit component of the IIROC RPP and the plan was amended to accommodate new IIROC defined contribution accruals. The former IDA also sponsored a Supplemental Executive Retirement Plan ["SERP"], which became the IIROC SERP. The legacy RS pension plans, which included the IIROC Pension Plan for Former RS Pension Plan Members ["Former RS RPP"], and the non-registered Supplemental Income Plan [Former RS SIP], were closed as at December 31, 2010 and their active members began accruing benefits under the IIROC RPP and the IIROC SERP after that date. However, these legacy plans were not terminated as legacy accrued benefits remain.

On April 1, 2013, the defined benefit component of the IIROC RPP was closed to new members. New hires can only join the defined contribution provision of the IIROC RPP. Effective January 1, 2020 the defined benefit provision of the IIROC SERP was closed to new members. Employees who become eligible for SERP on or subsequent to January 1, 2020 will participate in the new defined contribution provision of the IIROC SERP.

The Organization has the following pension plans:

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

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

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

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

IIROC also has a Non-Pension Post-Retirement Benefits Plan ["IIROC PRB"]. The benefits provided under the plan to retired employees are medical care, dental care, a health care spending account, and catastrophic coverage to eligible retirees. Effective September 1, 2015, IIROC eliminated non-pension post-retirement benefits for new hires and members who would not otherwise be eligible for benefits by September 1, 2020.

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

NOTES TO THE FINANCIAL STATEMENTS (IN THOUSANDS OF DOLLARS)

8. EMPLOYEE FUTURE BENEFITS (CONTINUED)

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (IN THOUSANDS OF DOLLARS)

8. EMPLOYEE FUTURE BENEFITS (CONTINUED)

The employee future benefit expense is as follows:

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

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

NOTES TO THE FINANCIAL STATEMENTS (IN THOUSANDS OF DOLLARS)

8. EMPLOYEE FUTURE BENEFITS (CONTINUED)

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (IN THOUSANDS OF DOLLARS)

8. EMPLOYEE FUTURE BENEFITS (CONTINUED)

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

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

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

REGISTERED PENSION, SERP AND PRB RISK

Registered pension risk refers to the risk that the Organization's financial condition on the statement of financial position would be adversely impacted because of the impact on the Organization's two registered plans of possible reductions in the future market value of the plan investments and/or increases in the pension liability if interest rates were to fall below current levels. These risks are mitigated by maintaining sufficient funding levels and by holding a diversified set of investments, which are managed by professional investment managers operating under specified mandates and tolerances. IIROC also carefully monitors and manages funding levels and makes contributions required by law and, in addition, makes special contributions to maintain desired funding levels. Similar risks and funding considerations apply to the unregistered plans including assets earmarked for SERP and PRB, although funding levels for these plans are not dictated by law. IIROC monitors and manages funding levels for all unregistered plans for which it makes predetermined and special contributions to achieve desired funding levels.

NOTES TO THE FINANCIAL STATEMENTS (IN THOUSANDS OF DOLLARS)

9. EXPENSES

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

NOTES TO THE FINANCIAL STATEMENTS (IN THOUSANDS OF DOLLARS)

9. EXPENSES (CONTINUED)

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

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

NOTES TO THE FINANCIAL STATEMENTS (IN THOUSANDS OF DOLLARS)

10. COMMITMENTS

As at March 31, 2021, the basic minimum aggregate annual rental payments, excluding GST/HST and shared operating costs under long-term leases, with varying expiry dates to February 28, 2029, for the Organization's premises are as shown below. In addition to the minimum lease payments noted below, the Organization is also obligated to pay its share of operating costs, which fluctuate from year to year.

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

11. CONTINGENCIES

The Organization has an agreement with Canadian Investor Protection Fund ["CIPF"], which protects clients who suffer financial loss due to the insolvency of an IIROC-registered dealer. In order to meet potential financial obligations, CIPF has the following resources in place: [i] a contingency fund balance of $544,008 on hand as at December 31, 2020; [ii] lines of credit provided by two Canadian chartered banks totalling $125,000 as at December 31, 2020; and [iii] insurance in the amount of $160,000 as at December 31, 2020 in the annual aggregate in respect of losses to be paid by CIPF in excess of $200,000 in the event of member insolvency, and a second layer of insurance in the amount of $280,000 as at December 31, 2020 in respect of losses to be paid in excess of $360,000 in the event of member insolvency. IIROC has provided a $125,000 guarantee on CIPF bank lines of credit. As at March 31, 2021, CIPF has not drawn on these lines of credit. Any amount drawn on the IIROC guarantee would be assessed to dealer firms.

Following the accidental loss in the 2013 fiscal year of a portable device that contained personal information relating to clients of a number of dealers, the Organization undertook a number of measures to notify potentially affected dealers and potentially affected clients, and to provide potentially affected clients with ongoing support services. On April 30, 2013, the Organization was served with a motion for authorization to institute a class action and to obtain the status of representative in the Superior Court of Quebec. The petitioner's class action motion on behalf of persons in Canada whose personal information was lost by the Organization sought $1, plus interest, on behalf of each class member, in relation to damages for stress, inconvenience and measures rendered necessary as a result of the loss of personal information by the Organization.

The motion for authorization of the class action was dismissed in August 2014. The petitioner appealed and the appeal was dismissed on November 6, 2015. A new motion for authorization was filed on November 16, 2015 on behalf of a new petitioner. The new motion was filed by the same counsel as in the original motion for authorization and was based mainly on the same alleged facts and grounds as the previous motion, but in addition alleged that the petitioner had been the victim of identity theft. The motion for authorization was granted in October 2017. Damages sought were $1 in compensatory and $0.5 in punitive damages per each of the 50,600 class members, plus other damages and legal costs. The case proceeded to

NOTES TO THE FINANCIAL STATEMENTS (IN THOUSANDS OF DOLLARS)

11. CONTINGENCIES (CONTINUED)

trial in December 2020. In March 2021, the Superior Court of Quebec dismissed the class action against IIROC in its entirety and awarded IIROC costs against the petitioner. In April 2021, the petitioner appealed the judgment to the Quebec Court of Appeal. The Organization is vigorously defending against this action.

The total costs of the incident incurred by IIROC to date, including legal fees for responding to the two motions for authorization, are $5,532 of which $2 was incurred in fiscal 2021 [2020 – nil] as directly paid by the insurer. It is not possible to estimate potential damages, if any, resulting from this incident.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Carrying amount of financial assets

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

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

The Organization's main financial instrument risk exposure is detailed as follows:

Credit risk

The Organization has determined that the primary financial assets with credit risk exposure are accounts receivable since failure of any of these parties to fulfill their obligations could result in financial losses for the Organization. The risk is mitigated by the distribution of receivables over the entire membership, with the most significant amounts exposed to highly rated bank-owned dealers. Marketable securities also expose the Organization to credit risk, which the Organization limits by investing in high-quality securities. Mutual fund investments also indirectly expose the Organization to credit risk. The risk is mitigated by the diversified holdings in mutual funds. The entity is also exposed to concentration risk in that all of its cash is held with financial institutions and the balances held are in excess of Canadian Deposit Insurance Corporation ["CDIC"] limits.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Liquidity risk

The Organization's liquidity risk represents the risk that the Organization could encounter difficulty in meeting obligations associated with its financial liabilities. The Organization is exposed to liquidity risk with respect to its payables and accruals. The Organization mitigates its liquidity risk by preparing and monitoring forecasts of cash flows from operations, anticipating investing and financing activities and holding assets that can be readily converted into cash, and maintaining a minimum of three months of budgeted operating expense as required by IIROC's internal liquidity guideline.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises of currency risk, interest rate risk and other price risk.

CURRENCY RISK

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

INTEREST RATE RISK

Interest rate risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate due to changes in market interest rates. Fixed rate financial instruments are subject to fair value risk and floating rate financial instruments are subject to cash flow risk.

The Organization is exposed to interest rate risk with respect to cash and cash equivalents and interest-bearing investments. Fluctuations in market rates of interest on cash and cash equivalents, short-term investments and guaranteed investment certificates do not have a significant impact on IIROC's results of operations. The objective of IIROC with respect to interest-bearing investments is to ensure the security of principal amounts invested, provide for a high degree of liquidity, and achieve a satisfactory investment return.

OTHER PRICE RISK

Other price risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate because of changes in market prices [other than those arising from currency risk or interest rate risk], whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all similar instruments traded in the market. IIROC is exposed to other price risk because of its investment in mutual funds.

13. COVID-19

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

BY THE NUMBERS: ENFORCEMENT

112

Completed enforcement investigations

28

Completed disciplinary hearings (including settlement hearings) (20 individuals, 8 firms)

$1,876,500

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

$1,110,000

Enforcement fines, excluding disgorgement and cost recovery, assessed against firms

$766,500

Enforcement fines, excluding disgorgement and cost recovery, assessed against individuals

100%

of firm fines assessed was collected*

27%

of individual fines assessed was collected*

14

Suspensions issued

1

Permanent Ban issued

* Please note the amount collected includes the enforcement fines, excluding disgorgement and cost recovered of the total fines assessed in the period April, 2020 to March 31, 2021. It does not include the amounts collected in the period of April 2020 to March 2021 for fines assessed in previous years.

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