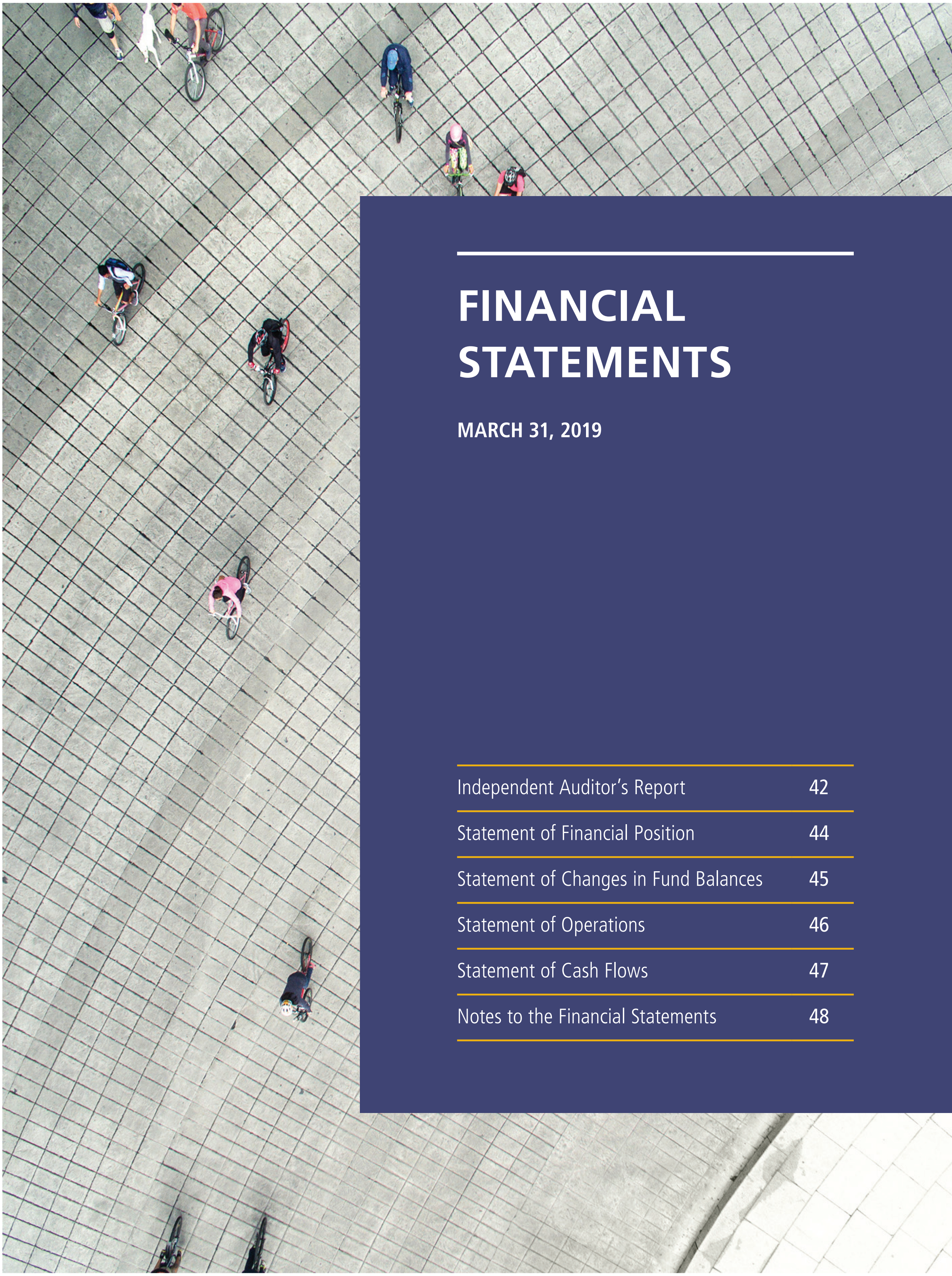


FINANCIAL STATEMENTS

MARCH 31, 2019

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, 2019, and the statements of operations, changes in fund balances, and 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 Investment Industry Regulatory Organization of Canada as at March 31, 2019, and the results of its 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 Discussion and Analysis in the Organization's Annual Report, but does not include the financial statements and our auditor's report thereon.

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

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

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

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

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

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 25, 2019

Grant Thornton LLP

Chartered Professional Accountants
Licensed Public Accountants

(IN THOUSANDS OF DOLLARS)

STATEMENT OF FINANCIAL POSITION

March 31	2019	2018
ASSETS		
Current		
Cash and cash equivalents	$ 55,285	$ 48,508
Investments (Note 4)	43,324	46,813
Receivables (Note 5)	7,898	7,475
Prepaids	1,690	1,550
Current portion of long-term receivable (Note 6)	74	51
	108,271	104,397
Employee future benefits (Note 9)	460	497
Long-term receivables (Note 6)	44	57
Capital assets (Note 7)	18,566	16,652
Deposit	173	173
	$ 127,514	$ 121,776
LIABILITIES		
Current		
Payables and accruals	$ 17,841	$ 17,976
Government remittances payable	572	415
Current portion of capital lease obligations (Note 8)	450	–
Deferred revenue	75	75
Lease inducement	567	397
	19,505	18,863
Long-term capital lease obligations (Note 8)	2,226	–
Lease inducement	4,161	3,027
Employee future benefits (Note 9)	31,511	29,171
	57,403	51,061
FUND BALANCES		
Unrestricted Fund	54,702	55,663
Externally Restricted Fund	15,409	15,052
	70,111	70,715
	$ 127,514	$ 121,776

Certain comparative figures have been reclassified to conform to the financial statement presentation for the current year.
Commitments (Note 11); Contingencies (Note 12); and, Subsequent event (Note 15).
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	2019 Total	2018 Total
Fund balances, beginning of year	$ 55,663	$ 15,052	$ 70,715	$ 67,162
(Deficiency) excess of revenue over expenses	(309)	357	48	2,153
Remeasurements and other items (Note 9)	(652)	–	(652)	1,400
Fund balances, end of year	$ 54,702	$ 15,409	$ 70,111	$ 70,715

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	2019 Total	2018 Total
REVENUE				
Dealer regulation				
Membership fees	$ 50,544	$ –	$ 50,544	$ 50,013
Underwriting levies	8,709	–	8,709	10,465
Registration fees	2,730	–	2,730	2,612
Entrance fees	130	20	150	119
	62,113	20	62,133	63,209
Market regulation				
Equity regulation	25,768	–	25,768	25,768
Debt regulation	2,266	–	2,266	1,970
Timely disclosure	2,929	–	2,929	2,925
Marketplace revenue	187	–	187	195
	31,150	–	31,150	30,858
Debt Information Processor	461	–	461	461
Other revenue				
Disciplinary fines and other fines	–	2,167	2,167	1,512
Investment revenue including interest	2,338	221	2,559	1,722
Miscellaneous	136	–	136	150
	2,474	2,388	4,862	3,384
	96,198	2,408	98,606	97,912
EXPENSES				
Dealer regulation operating expenses (Note 10)	65,220	–	65,220	63,156
Market equity regulation operating expenses (Note 10)	28,251	–	28,251	27,701
Market debt regulation operating expenses (Note 10)	2,578	–	2,578	1,956
Debt Information Processor operating expenses (Note 10)	458	–	458	570
Externally restricted fund expenses (Note 10)	–	2,051	2,051	2,376
	96,507	2,051	98,558	95,759
(DEFICIENCY) EXCESS OF REVENUE OVER EXPENSES	$ (309)	$ 357	$ 48	$ 2,153

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

(IN THOUSANDS OF DOLLARS)

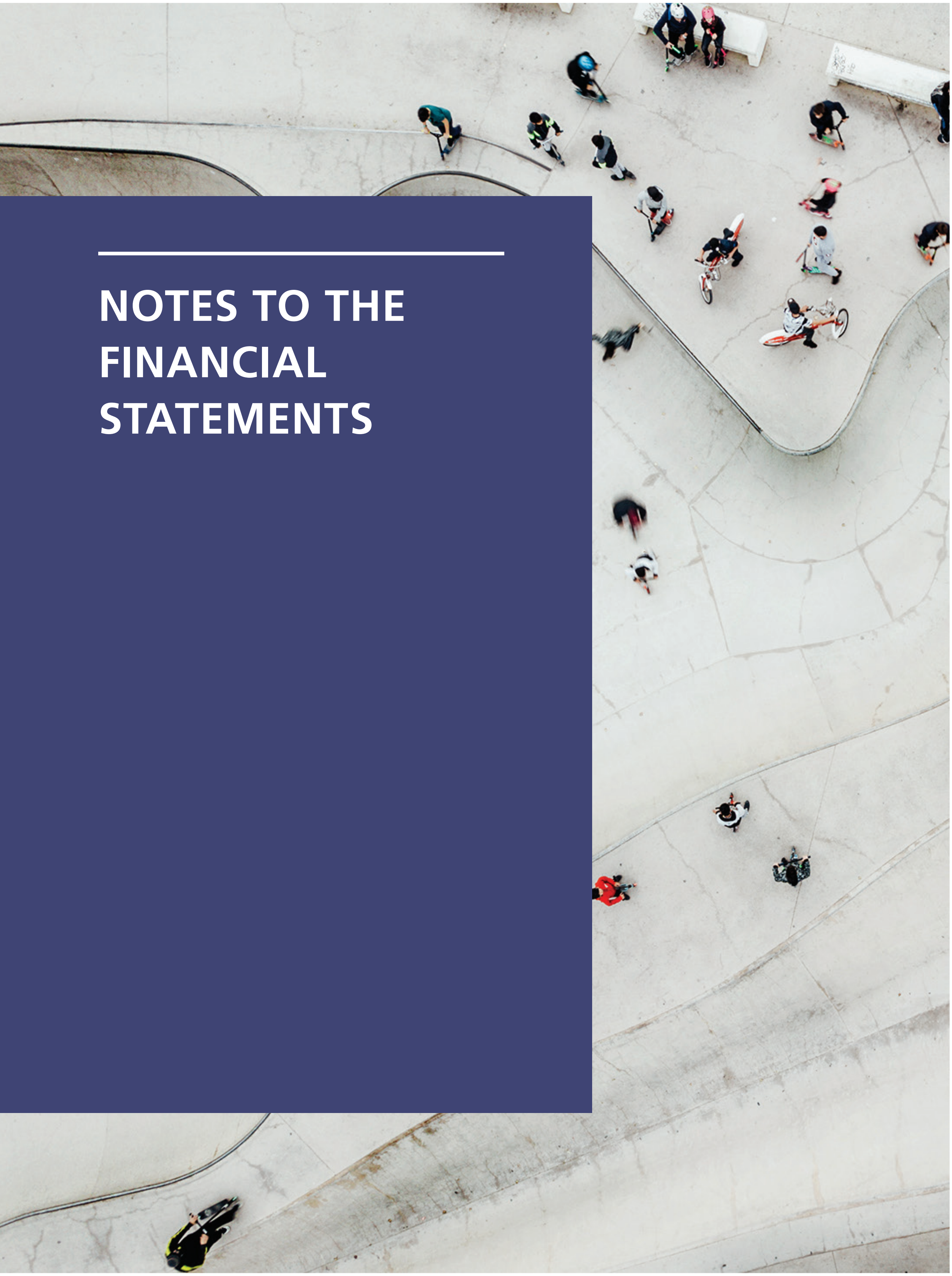
STATEMENT OF CASH FLOWS

Year ended March 31	2019	2018
Increase (decrease) in cash and cash equivalents		
Operating activities		
Excess of revenue over expenses	$ 48	$ 2,153
Add (deduct) non-cash items		
Amortization	4,059	4,679
Rent amortization	386	(354)
Interest accrued on capital lease obligations	20	–
Net loss from disposal of capital assets	357	229
Impairment write-down of capital assets (Note 7)	44	448
Employee future benefits expense (Note 9)	5,247	5,195
	10,161	12,350
Change in non-cash operating working capital		
Receivables	(423)	482
Prepaids	(140)	(61)
Deposit	–	7
Payables and accruals	22	2,962
Lease inducements	918	361
Deferred revenue	–	15
	10,538	16,116
Investing activities		
Disposal (purchase) of investments, net	3,489	(13,915)
Purchase of capital assets	(3,718)	(7,685)
Proceeds from disposal of capital assets	–	13
Employer contributions for employee future benefits (Note 9)	(3,522)	(2,442)
Change in long-term receivables, net	(10)	33
	(3,761)	(23,996)
Financing activities		
Repayment on long-term debt (Note 13)	–	(997)
Release of Restricted Fund cash (Note 13)	–	4,000
	–	3,003
Increase (decrease) in cash and cash equivalents	6,777	(4,877)
Cash and cash equivalents, beginning of the year	48,508	53,385
Cash and cash equivalents, end of the year	$ 55,285	$ 48,508
Cash and cash equivalents consist of:		
Cash on hand and balances with bank	$ 18,647	$ 15,453
Cash equivalents	36,638	33,055
Cash and cash equivalents, end of year	$ 55,285	$ 48,508

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

Supplemental cash flow information: Acquisition of capital assets under capital lease	$ 2,656	$ –

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 ("CNCA") 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 which oversees all investment dealers and trading activity on debt and equity marketplaces in Canada.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

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

Fund accounting

The Unrestricted Fund includes:

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

b) Debt Information Processor revenue and expenses; and

c) Funding of the deficit in the IIROC Supplemental Plan for Executives (IIROC SERP) – Non-Registered Defined Benefit Pension Plan, IIROC Non-Pension Post-Retirement Benefits Plan (IIROC PRB), Defined Benefit provisions of the Retirement Plan for Employees of IIROC (IIROC RPP) and the formerly Regulation Services (RS) sponsored Supplemental Income Plan for former TSX Employee (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;

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

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

Unrestricted revenues are recognized as revenue as follows:

DEALER REGULATION

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

MARKET REGULATION

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

Effective November 1, 2015, the Organization began to charge debt regulation fees. 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. The Organization began charging for these services on April 1, 2017.

OTHER REVENUE

Disciplinary fines 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. Late filing fees and initiation fees from new member firms are recognized as revenue in the Externally Restricted Fund when received. Disciplinary fines, continuing education fines and late filing fees from registrants of member firms are recognized as revenue in the Externally Restricted Fund when received.

Cash and cash equivalents

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

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. 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.

The Organization's investments (see Note 4) include an equity investment that is not traded on an active market and is carried at a zero cost base.

Capital assets

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

When a capital asset no longer has any remaining service potential to the Organization, the net carrying amount is immediately written off and recognized as an expense in the Statement of Operations. A partial impairment loss is recognized when a capital asset still has remaining service potential but where the net carrying amount of a capital asset exceeds the asset's

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

fair value or replacement value (Note 3). 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 when installed, and are accounted for at cost, which corresponds to the present value of the estimated minimum lease payments at the inception of the lease. 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. Leased technology hardware has an estimated useful life of five years or 20% per annum.

An obligation under a capital lease is similar to a loan. Lease payments are allocated to a reduction of the obligation, interest expense and any related executor 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.

Lease inducements

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

Employee future benefits

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

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

- Plan assets are measured at fair value at the Statement of Financial Position date. The Organization recognizes a valuation allowance for any excess of plan surpluses over the expected future benefit.
- The cost of the defined benefit plans relating to current service cost and financing cost (net interest on the defined benefit liability) is recorded on the Statement of Operations.
- Remeasurements and other items are recorded directly on the Statement of Changes in Fund Balances. These relate to:

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

    b) actuarial gains and losses;

    c) the effect of any valuation allowance;

    d) past service costs; and,

    e) gains and losses arising from settlements and curtailments.

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

Allocation of expenses

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

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

Use of estimates

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

NOTES TO THE FINANCIAL STATEMENTS (IN THOUSANDS OF DOLLARS) | MARCH 31, 2019

3. CHANGE IN ACCOUNTING POLICIES

In fiscal 2018, the Organization chose to early adopt the recommendations of the CPA Canada Handbook – Accounting – Part III – Accounting Standards for Not-for-Profit Organizations in *Section 4433 Tangible Capital Assets held by Not-for-Profit Organizations* and *Section 4434 Intangible Assets Held by Not-for-Profit Organizations.* These new standards replaced *Section 4431 Tangible Capital Assets held by Not-for-Profit Organizations* and *Section 4432 Intangible Assets Held by Not-for-Profit Organizations.*

As a result of the new standards, an impairment loss is immediately recognized when the carrying amount of a capital asset exceeds the fair value or replacement value of the asset. Previously, an impairment loss was only recognized when a capital asset no longer had any long-term service potential to the Organization.

The Organization applied the new standards on a prospective basis, effective for all transactions and other events and conditions occurring after April 1, 2017. Under the transitional provisions of the new standards, the Organization was permitted to recognize an adjustment to opening fund balances as at April 1, 2017 to reflect partial impairments of capital assets existing at that date. The Organization elected not to apply this transitional provision. As a result, it recognized a partial impairment expense in fiscal 2019 of $44 (2018 – $448).

4. INVESTMENTS

Investments consist of the following:

	2019	2018
Marketable securities, at fair value	$ 28,251	$ 34,458
Mutual funds, at fair value	15,073	12,355
	$ 43,324	$ 46,813

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 at $Nil.

5. RECEIVABLES

	2019	2018
Trade	$ 7,898	$ 7,475
Allowance for doubtful accounts	–	–
	$ 7,898	$ 7,475

6. 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 April 30, 2022.

NOTES TO THE FINANCIAL STATEMENTS (IN THOUSANDS OF DOLLARS) | MARCH 31, 2019

7. CAPITAL ASSETS

	Cost	Accumulated Amortization	2019 Net Book Value	2018 Net Book Value
Unrestricted Fund:				
Tangible				
Office furniture and equipment	$ 9,394	$ 7,323	$ 2,071	$ 1,687
Leasehold improvements	9,978	4,906	5,072	5,779
Computer equipment and software	3,788	3,631	157	269
Technology projects hardware	6,648	6,269	379	829
Leased technology hardware	2,656	–	2,656	–
Intangible				
Technology projects software	20,583	15,408	5,175	5,863
	53,047	37,537	15,510	14,427
Externally Restricted Fund:				
Tangible				
Technology projects hardware	1,459	855	604	641
Leasehold improvements	673	401	272	327
Intangible				
Technology projects software	4,997	2,817	2,180	1,257
	7,129	4,073	3,056	2,225
	$ 60,176	$ 41,610	$ 18,566	$ 16,652

LEASED TECHNOLOGY HARDWARE

In August 2018, the Organization entered into a multi-year contract to transition IT infrastructure services and information security operations to a new, secure, hybrid-cloud platform. Certain arrangements relating to the use of dedicated physical hardware were assessed to be leases of a capital nature. The leased capital assets were installed during the fiscal year, but will not be fully connected and available for use until completion of the transition period in fiscal 2020, at which point the lease payments and amortization will begin.

CAPITAL ASSETS IN PROGRESS

As at March 31, 2019, there are five projects (leasehold improvement and software) which are in progress with a total cost of $1,310, plus leased technology hardware capital assets in progress of $2,656. As such, these assets are not yet being amortized. In addition, there are nine other projects with a total cost of $3,707 in office furniture and equipment, leasehold improvements, and technology projects that were completed in the last quarter of 2019. 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 $44 on computer equipment and software (2018 – $448 on computer equipment, software, office furniture and equipment). The assets were written down to their estimated fair value as management has determined that the assets will be decommissioned before the end of their previously estimated useful lives. The impairment loss was recognized in the Statement of Operations.

NOTES TO THE FINANCIAL STATEMENTS (IN THOUSANDS OF DOLLARS) | MARCH 31, 2019

8. CAPITAL LEASE OBLIGATIONS

Concurrent to the recognition of capital lease assets (Note 7), an equivalent capital lease obligation was recorded at the present value of estimated lease payments using the Organization's estimated rate for incremental borrowing of 2.98% as the lease discount rate. The lease maturity dates will be five years after completion of the transition period and assignment notices, estimated to be June 30, 2024. The capital lease obligation as of year end of $2,676 includes $20 of accrued interest expense.

As of March 31, 2019, the estimated future minimum lease payments for obligations under capital lease in each of the next five years are:

2020	$	442
2021		586
2022		582
2023		577
2024		573
Thereafter		143

9. 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 SERP which became the IIROC SERP. The legacy RS pension plans, which included the registered plan (Former RS RPP) and the non-registered Supplemental Income Plan (Former RS SIP) were closed at December 31, 2010 and its 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.

The Organization has the following pension plans:

1. IIROC Pension Plan for Former RS Pension Plan Members (Former RS RPP), Defined Benefit Plan – inactive

2. Former RS-sponsored SIP for former TSX Employees (Former RS SIP), Non-Registered Defined Benefit Plan – inactive

3. Retirement Plan for Employees of IIROC (IIROC RPP) – includes Defined Benefit and Defined Contribution provisions

4. IIROC Supplemental Plan for Executives (IIROC SERP), Non-Registered Defined Benefit (DB) Pension Plan

NOTES TO THE FINANCIAL STATEMENTS (IN THOUSANDS OF DOLLARS) | MARCH 31, 2019

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.

The most recent actuarial valuation of the pension benefit plans for funding purposes was as of April 1, 2017. An interim actuarial valuation of the IIROC PRB plan was also conducted at April 1, 2016. The next actuarial valuations for the IIROC PRB and for all defined benefit pension arrangements will be prepared with an effective date of April 1, 2019 and April 1, 2020, respectively.

IIROC closed the defined benefit provisions of the IIROC RPP to new hires beginning April 1, 2013. Effective September 1, 2015, IIROC eliminated non-pension post-retirement benefits for new hires and members who are not eligible for benefits by September 1, 2020.

On April 3, 2018, IIROC changed the fund custodian for a portion of the defined benefit plans assets. As a result, assets totaling $8,969 for the Former RS RPP and $61,534 for the IIROC RPP were transferred to the new custodian.

The asset (liability) on the Statement of Financial Position is as follows:

	March 31, 2019			March 31, 2018		
	Pension Plans(1)	Pension Plans(2)	Other Benefits Plan(3)	Pension Plans(1)	Pension Plans(2)	Other Benefits Plan(3)
Accrued benefit obligation	$ (8,819)	$ (103,803)	$ (7,143)	$ (8,356)	$ (93,168)	$ (6,689)
Fair value of plan assets	10,524	79,435		10,021	70,686	–
Fund status – plans surplus/(deficit)	1,705	(24,368)	(7,143)	1,665	(22,482)	(6,689)
Valuation Allowance (VA)	(1,245)			(1,168)	–	–
Accrued benefit asset (liability) (net of VA)	$ 460	$ (24,368)	$ (7,143)	$ 497	$ (22,482)	$ (6,689)

(1) Plans (Former RS RPP) with Accrued Benefit Asset
(2) Plans (Former RS SIP, DB provisions of IIROC RPP, IIROC SERP) with Accrued Benefit Obligation
(3) Non-Pension Post-Retirement Benefits Plan (IIROC PRB)

NOTES TO THE FINANCIAL STATEMENTS (IN THOUSANDS OF DOLLARS) | MARCH 31, 2019

9. EMPLOYEE FUTURE BENEFITS (CONTINUED)

The employee future benefit expense is as follows:

	Year Ended					
	March 31, 2019			March 31, 2018		
	Pension Plans(1)	Pension Plans(2)	Other Benefits Plan(3)	Pension Plans(1)	Pension Plans(2)	Other Benefits Plan(3)
Current service cost	$ –	$ 3,946	$ 177	$ –	$ 3,873	$ 167
Interest cost on accrued benefit obligation	295	3,485	240	309	3,484	236
Interest income on market value of assets	(354)	(2,584)	–	(365)	(2,545)	–
Interest on Valuation Allowance (VA)	42	–	–	36	–	–
Employee future benefit expense	$ (17)	$ 4,847	$ 417	$ (20)	$ 4,812	$ 403

(1) Plans (Former RS RPP) with Accrued Benefit Asset
(2) Plans (Former RS SIP, DB provisions of IIROC RPP, IIROC SERP) with Accrued Benefit Obligation
(3) Non-Pension Post-Retirement Benefits Plan (IIROC PRB)

The remeasurements and other items charged on the Statement of Changes in Fund Balances is a loss of $652 (2018 – gain of $1,400) as follows:

	March 31, 2019			March 31, 2018		
	Pension Plans(1)	Pension Plans(2)	Other Benefits Plan(3)	Pension Plans(1)	Pension Plans(2)	Other Benefits Plan(3)
Actuarial losses (gains)	$ 19	$ 426	$ 172	$ (132)	$ (1,683)	$ 228
Change in Valuation Allowance (VA)	35	–	–	187	–	–
Remeasurements and other items	$ 54	$ 426	$ 172	$ 55	$ (1,683)	$ 228

(1) Plans (Former RS RPP) with Accrued Benefit Asset
(2) Plans (Former RS SIP, DB provisions of IIROC RPP, IIROC SERP) with Accrued Benefit Obligation
(3) Non-Pension Post-Retirement Benefits Plan (IIROC PRB)

NOTES TO THE FINANCIAL STATEMENTS (IN THOUSANDS OF DOLLARS) | MARCH 31, 2019

In addition to the above, there is $Nil outstanding liability for the defined contribution plan as at March 31, 2019 (2018 – $Nil). Current period expense for the defined contribution provisions of the IIROC RPP was $1,849 (2018 – $1,698).

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

	2019	2018
Discount rate	3.20% to 3.38%	3.42% to 3.59%
Rate of compensation increase	3.25%	3.25%

For measurement purposes, inflation of medical expenses was assumed to be 5.0% in 2019. Inflation of dental costs was assumed to remain constant at 4.5%.

The following is a summary of contributions and benefits paid:

	Year Ended					
	March 31, 2019			March 31, 2018		
	Pension Plans(1)	Pension Plans(2)	Other Benefits Plan(3)	Pension Plans(1)	Pension Plans(2)	Other Benefits Plan(3)
Employer contributions – regular	$ –	$ 3,387	$ 135	$ –	$ 2,348	$ 94
Employee contributions	–	1,077	–	–	1,118	–
Benefits paid	(145)	(2,086)	(135)	(140)	(1,887)	(94)

(1) Plans (Former RS RPP) with Accrued Benefit Asset
(2) Plans (Former RS SIP, DB provisions of IIROC RPP, IIROC SERP) with Accrued Benefit Obligation
(3) Non-Pension Post-Retirement Benefits Plan (IIROC PRB)

Registered pension, SERP, and PRB risk

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

NOTES TO THE FINANCIAL STATEMENTS (IN THOUSANDS OF DOLLARS) | MARCH 31, 2019

10. EXPENSES

	Year Ended	
	March 31, 2019	March 31, 2018
Unrestricted Fund Expenses		
Dealer Regulation Operating Expenses		
Compensation	$ 45,703	$ 45,605
Technology	3,729	3,040
Occupancy	5,018	4,964
Amortization, impairment and disposals	2,455	2,589
Other	8,315	6,958
	65,220	63,156
Market Equity Regulation Operating Expenses		
Compensation	18,282	18,071
Technology	3,509	3,286
Occupancy	1,679	1,656
Amortization, impairment and disposals	1,437	1,874
Other	3,344	2,814
	28,251	27,701
Market Debt Regulation Operating Expenses		
Compensation	1,635	1,305
Technology	349	226
Occupancy	122	117
Amortization, impairment and disposals	158	109
Other	314	199
	2,578	1,956
Debt Information Processor Operating Expenses		
Compensation	203	138
Technology	85	18
Occupancy	14	10
Amortization, impairment and disposals	92	88
Other	64	316
	458	570
Total Unrestricted Fund Expenses	$ 96,507	$ 93,383
Externally Restricted Fund Expenses		
Hearing panel expenses	$ 912	$ 1,036
Prosper Canada research project	–	242
Member education	340	296
Canadian Foundation for the Advancement of Investor Rights (FAIR)	250	–
Cybersecurity tabletop test	89	29
Cybersecurity self-assessment survey	143	–
Institute of Financial Education and Literacy	–	75
Amortization, impairment and disposals	317	698
Total Restricted Fund Expenses	$ 2,051	$ 2,376

NOTES TO THE FINANCIAL STATEMENTS (IN THOUSANDS OF DOLLARS) | MARCH 31, 2019

11. COMMITMENTS

As at March 31, 2019, 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.

2020	$ 3,287
2021	3,442
2022	3,453
2023	3,375
2024	2,931
Thereafter	3,606
	$ 20,094

12. CONTINGENCIES

The Organization is the sponsor of the Canadian Investor Protection Fund (CIPF), which was established to protect clients who have suffered financial loss due to the insolvency of an IIROC-registered dealer. IIROC has provided a $125,000 (2018 – $125,000) guarantee on bank lines of credit of CIPF. At March 31, 2019, CIPF has not drawn on these lines of credit. Any amount drawn on the guarantee would be assessed to dealer firms. In order to meet potential financial obligations, CIPF has the following resources in place:

i) a contingency fund balance of $495,583 on hand as at December 31, 2018 (2017 – $483,927);

ii) lines of credit provided by two Canadian chartered banks totaling $125,000 as at December 31, 2018 (2017 – $125,000); and

iii) insurance in the amount of $160,000 as at December 31, 2018 (2017 – $160,000) in the annual aggregate in respect of losses to be paid by CIPF in excess of $150,000 (2017 – $150,000) in the event of member insolvency, and a second layer of insurance in the amount of $230,000 as at December 31, 2018 (2017 – $230,000) in respect of losses to be paid in excess of $310,000 (2017 – $310,000) in the event of member insolvency.

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

The motion for authorization of the class action was dismissed in August 2014. The petitioner appealed and the appeal was dismissed on November 6, 2015. A new motion for authorization was filed on November 16, 2015 on behalf of a new petitioner. The new motion was filed by the same counsel as in the original motion for authorization, and is based mainly on the same alleged facts and grounds as the previous motion, but in addition alleges that the petitioner has been the victim of identity theft. The motion for authorization was granted in October 2017. The Organization is defending against this action.

NOTES TO THE FINANCIAL STATEMENTS (IN THOUSANDS OF DOLLARS) | MARCH 31, 2019

12. CONTINGENCIES (CONTINUED)

The total costs of the incident to date, including legal fees for responding to the two motions for authorization are $5,530 of which $61 was recovered from insurance in fiscal 2019 (2018 – $10 expense). It is not possible to estimate potential damages or the range of further possible losses, if any, resulting from this incident.

13. CREDIT FACILITY

On July 29, 2011, the Organization entered into a credit agreement with the Canadian Imperial Bank of Commerce (CIBC) to finance the Organization's working capital, Toronto head office and Calgary office refurbishment requirements. The credit agreement included a committed two-year extendable non-revolving term construction credit facility (the "Term Facility"), extended to July 2017, of $6,000 repayable in monthly instalments beginning June, 2012 with interest at the banker's acceptance rate plus 0.85% (the "Term Facility").

In July 2017, IIROC paid off the outstanding balance on the Term Facility in full. The $4,000 in cash and cash equivalents held as collateral security in support of the loan was discharged by CIBC at that time.

14. FINANCIAL INSTRUMENTS RISKS

Carrying amount of financial assets

As at March 31, 2019, the carrying amount of the Organization's financial assets measured at amortized cost and at fair value are as follows:

	Year Ended					
	March 31, 2019			March 31, 2018		
	Cost or Amortized Cost	Fair Value	Total Carrying Value	Cost or Amortized Cost	Fair Value	Total Carrying Cost
Cash and cash equivalents	$ 18,647	$ 36,638	$ 55,285	$ 15,453	$ 33,055	$ 48,508
Investments	–	43,324	43,324	–	46,813	46,813
Accounts receivable	7,898	–	7,898	7,475	–	7,475
Long-term receivables	118	–	118	108	–	108
	$ 26,663	$ 79,962	$ 106,625	$ 23,036	$ 79,868	$ 102,904

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

Credit risk

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

Liquidity risk

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

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of currency risk, interest rate risk or 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 which 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.

14. FINANCIAL INSTRUMENTS RISKS (CONTINUED)

Other price risk

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

15. SUBSEQUENT EVENT

Dealer member prior year revenue re-assessments

Subsequent to year end, IIROC approved a re-assessment of membership fees to member firms for fiscal years 2015 through 2019, inclusive. This arose as a result of IIROC identifying and confirming that some member firms had not been reporting certain revenue information on the basis required by the Organization's membership fee billing model. This incorrect reporting resulted in certain firms underpaying their fees. The re-assessment corrects this and will result in amounts both collectible from and owing to member firms, with no net impact expected to either revenues or to IIROC's reported financial position. The reporting issues at the relevant member firms have already been remediated and as such, IIROC does not expect this matter to have any effect on the future operations of the Organization.