MANAGEMENT DISCUSSION AND ANALYSIS

The Management Discussion and Analysis (MD&A) on IIROC's operations and financial condition are presented for the fiscal year ended March 31, 2019, compared with the previous year ended March 31, 2018. The MD&A should be read in conjunction with the Financial Statements for the year ended March 31, 2019.

IIROC is a cost-recovery, not-for-profit national organization that recovers its operating expenses from several sources. The primary source is through fees for dealer regulation, equity market regulation, debt market regulation and Debt Information Processor (Debt IP) activities which are collected through the application of their respective fee models. Dealer regulation secondary sources of revenue include underwriting levies, which represent a stipulated percentage share of the value of most public equity and debt underwritings in Canada, and registration fees based on fee-sharing agreements with some* provincial securities commissions and authorities. Another significant revenue source for market regulation is timely disclosure fees from the TSX, TSXV, CSE and Aequitas exchanges for administering their timely disclosure policies.

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

KEY CHANGES IN SENIOR MANAGEMENT

During the year, Wendy Rudd, previously in the role of Senior Vice-President, Member Regulation and Strategic Initiatives, left the Organization. Irene Winel has since been appointed as Senior Vice-President of Member Regulation and Strategy effective April 29, 2019.

* The following provinces share registration fees with IIROC:
- Alberta
- New Brunswick
- Ontario
- Saskatchewan

(IN THOUSANDS OF DOLLARS)

SUMMARY FINANCIAL INFORMATION

UNRESTRICTED FUND

	FY 2019 $	FY 2018 $	Variance $	Variance %
REVENUE				
Dealer regulation				
Membership fees	50,544	50,013	531	1%
Underwriting levies	8,709	10,465	(1,756)	(17%)
Registration fees	2,730	2,612	118	5%
Entrance fees	130	85	45	53%
	62,113	63,175	(1,062)	(2%)
Market regulation				
Equity regulation	25,768	25,768	0	0%
Debt regulation	2,266	1,970	296	15%
Timely disclosure	2,929	2,925	4	0%
Marketplace revenue*	187	195	(8)	(4%)
	31,150	30,858	292	1%
Debt Information Processor (Debt IP)	461	461	0	0%
Other revenue				
Investment revenue including interest	2,338	1,578	760	48%
Miscellaneous	136	150	(14)	(9%)
	2,474	1,728	746	43%
Total Unrestricted Fund revenue	96,198	96,222	(24)	(0%)
EXPENSES				
Dealer regulation operating expenses	65,220	63,156	2,064	3%
Market equity regulation operating expenses	28,251	27,701	550	2%
Market debt regulation operating expenses	2,578	1,956	622	32%
Debt IP operating expenses	458	570	(112)	(20%)
Total Unrestricted Fund operating expenses	96,507	93,383	3,124	3%
(DEFICIENCY) EXCESS OF REVENUE OVER EXPENSES	(309)	2,839	(3,148)	(111%)

* Marketplace revenue includes fees from the Bank of Canada for data and reports and administration fees from exchanges.

MANAGEMENT DISCUSSION AND ANALYSIS (IN THOUSANDS OF DOLLARS)

EXTERNALLY RESTRICTED FUND

	FY 2019 $	FY 2018 $	Variance $	Variance %
OTHER REVENUE				
Entrance fees	20	34	(14)	(41%)
Disciplinary fines and other fines	2,167	1,512	655	43%
Investment revenue including interest	221	144	77	53%
Total Externally Restricted Fund revenue	2,408	1,690	718	42%
EXTERNALLY RESTRICTED FUND EXPENSES				
Hearing panel expenses	912	1,036	(124)	(12%)
Prosper Canada research project		242	(242)	(100%)
Member education	340	296	44	15%
Canadian Foundation for Advancement of Investor Rights (FAIR)	250	–	250	100%
Cybersecurity tabletop test	89	29	60	207%
Cybersecurity self-assessment survey	143	–	143	100%
Institute of Financial Education and Literacy		75	(75)	(100%)
Amortization, impairment and disposals	317	698	(381)	(55%)
Total Externally Restricted Fund expenses	2,051	2,376	(325)	(14%)
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	357	(686)	1,043	152%

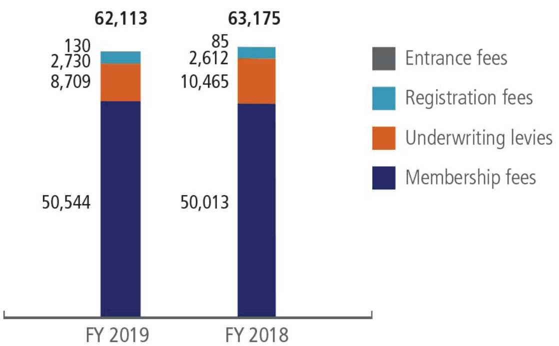
REVENUE

Unrestricted Fund revenues for the period amounted to $96,198, in line with FY 2018 of $96,222.

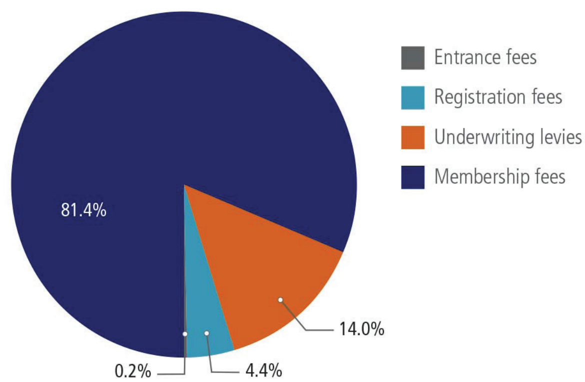
Fees for dealer regulation, equity market regulation, debt market regulation, and Debt IP are the primary fee model based sources of revenue. Fees collected from these four fee models at an aggregate of $79,039 represent approximately 82% of total IIROC revenue (81% in FY 2018).

Dealer regulation membership fees increased by $531 or 1% at $50,544 compared with $50,013 in FY 2018. Equity market regulation fees remained at $25,768 in FY 2019 compared with FY 2018. Debt

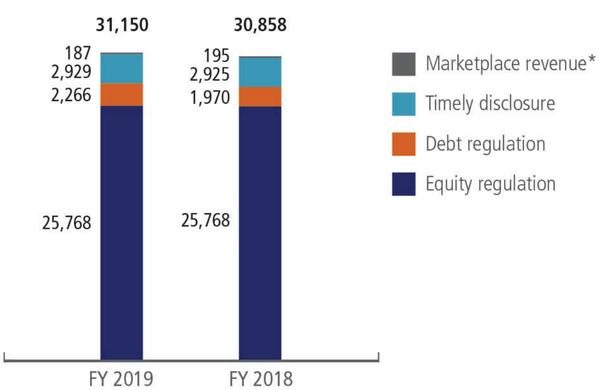
DEALER REGULATION REVENUE ($)



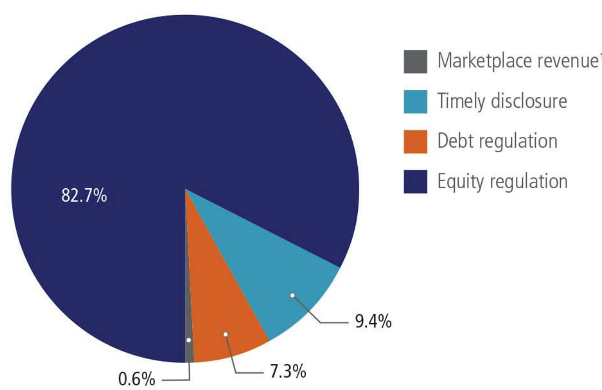
FY 2019 DEALER REGULATION REVENUE (%)



MARKET REGULATION REVENUE ($)



FY 2019 MARKET REGULATION REVENUE (%)



* Marketplace revenue includes fees from the Bank of Canada for data and reports and administration fees from exchanges.

market regulation fees increased by $296 or 15% to $2,266 compared with $1,970 in FY 2018. Debt IP fees remained at $461 in FY 2019 compared with FY 2018.

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

On a year-over-year basis, the combined revenue from secondary sources decreased by $1,597 (10%) from $16,282 to $14,685.

Underwriting levies, a significant secondary source of dealer regulation revenue, decreased by $1,756 (17%) to $8,709 from $10,465 in FY 2018 due to a decrease in volume of issues in both equity and debt markets. Revenue from registration fees, the other significant secondary source of revenue, increased by $118 (5%) to $2,730 in FY 2019.

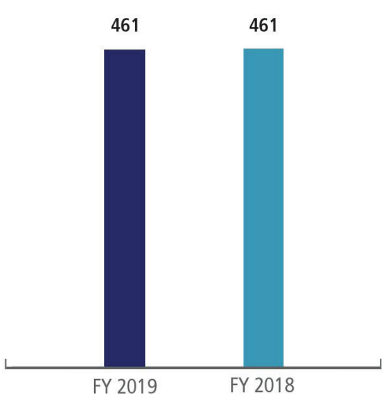
A significant secondary revenue source for market regulation is timely disclosure fees, operated on a cost-recovery basis, from the TSX, TSXV, CSE and Aequitas exchanges for administering their timely disclosure policies. These totaled $2,929 in FY 2019 in line with FY 2018 of $2,925.

Other revenue increased by $746 to $2,474 (43%) mainly due to higher investment revenue.

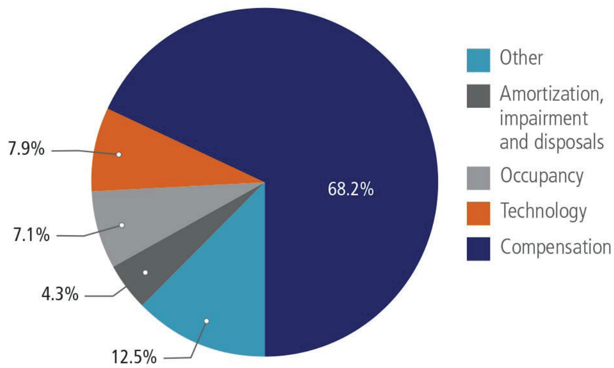
EXPENSES (UNRESTRICTED FUND)

IIROC is a cost-recovery, national not-for-profit organization. IIROC's operating expenses consist of five main categories.

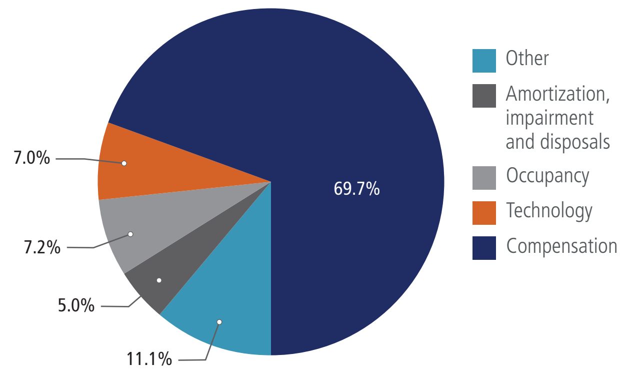
DEBT INFORMATION PROCESSOR REVENUE ($)



FY 2019 TOTAL OPERATING EXPENSES (%)



FY 2018 TOTAL OPERATING EXPENSES (%)

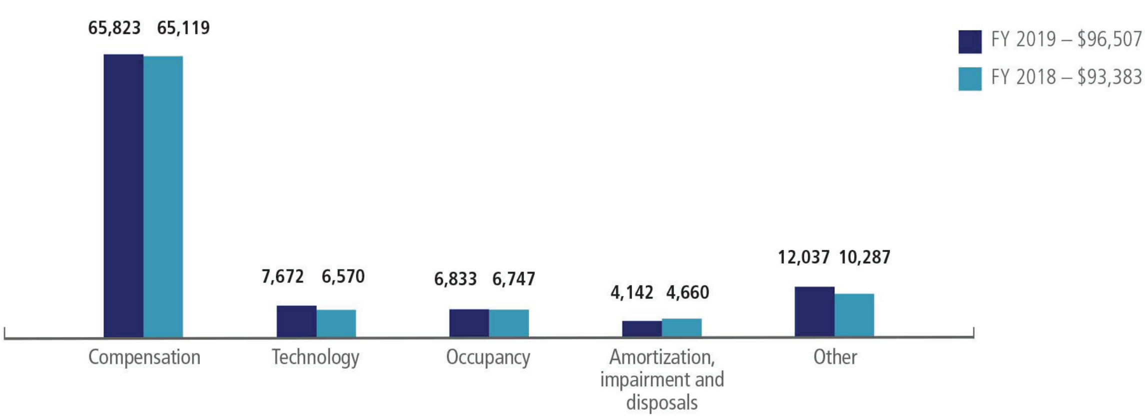


The categories of compensation, technology, occupancy, and amortization, impairment and disposals made up 87.5% (89% in FY 2018) of IIROC's operating expenses. The proportion of other expenses increased to 12.5% from 11% (FY 2018) mainly due to higher consulting expenses to support key initiatives in both dealer and market regulation.

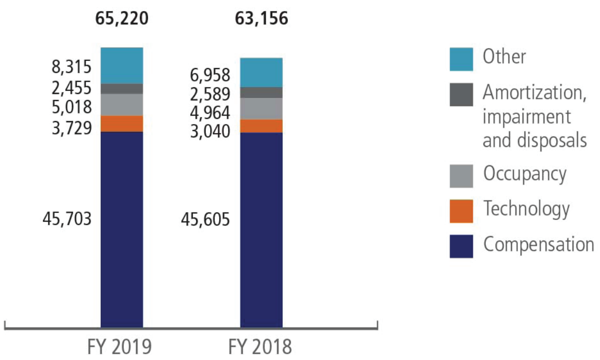
To facilitate proper fee allocations, direct business unit expenses are separately captured for each of the four fee models with indirect expenses being allocated using a cost allocation model based on either direct business unit expenses or headcount as appropriate.

IIROC's total operating expenses were $96,507 in FY 2019, an increase of $3,124 or 3% from $93,383 in FY 2018.

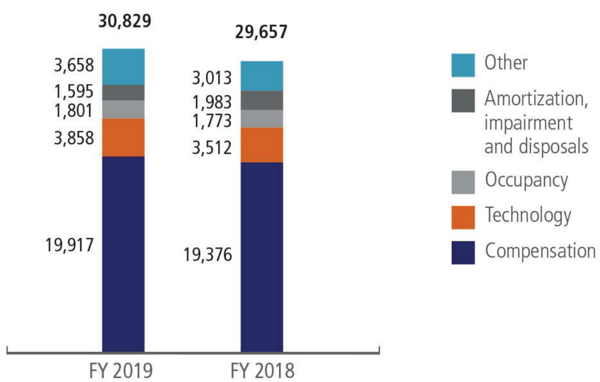
TOTAL OPERATING EXPENSES ($)



DEALER REGULATION OPERATING EXPENSES ($)



MARKET REGULATION OPERATING EXPENSES ($)

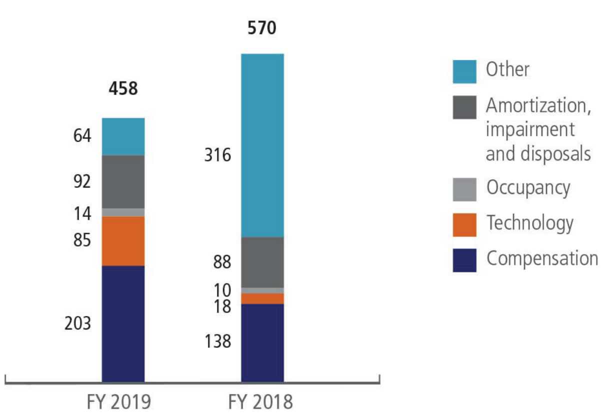


Dealer regulation expenses increased by $2,064 (3%) to $65,220, while market regulation expenses were $30,829, an increase of $1,172 (4%), of which equity market regulation increased by $550 and debt market regulation expenses increased by $622. The Debt IP expenses decreased by $112 (20%) to $458.

The increase in dealer regulation expenses was primarily due to:

- Higher allocation of technology expenses mainly related to software licensing for implemented strategic initiatives. There were also higher allocations of both technology and consulting services expenses associated with transitioning of IT infrastructure and information security operations to a new consolidated, secure hybrid-cloud platform. In addition, increased corporate IT infrastructure support resulted in a higher allocation of consulting services expenses.
- Higher allocation of communication-related expenses associated with implementing a new video conferencing solution, as well as renegotiated contracts for news release and mobile communication services.

DEBT INFORMATION PROCESSOR OPERATING EXPENSES ($)



The increase was partially offset by lower amortization expenses in FY 2019 due to assets impaired in FY 2018 as a result of transitioning our IT infrastructure and information security operations to a new platform. In addition, investments in IT infrastructure were primarily operating versus capital expenditures.

The increase in market regulation costs was primarily due to:

- Higher compensation expenses from vacant FY 2018 roles filled for the full year FY 2019 to support market debt and equity surveillance systems. Additionally, there were compensation increases reflecting our pay-for-performance culture.
- Higher allocation of technology expenses mainly related to software licensing for implemented strategic initiatives. There were also higher allocations of both technology and consulting services expenses associated with transitioning of IT infrastructure and information security operations to a new consolidated, secure hybrid-cloud platform.

The increase was partially offset by lower amortization expenses due to the previous market surveillance system being amortized for the full FY 2018, but only for the first six months in FY 2019. The previous system was fully amortized on September 30, 2018.

The decrease in Debt IP expenses was primarily due to:

- Lower consulting services costs mainly resulting from market research completed in FY 2018, with lower expenditures incurred in FY 2019 before the start of the next phase of the Debt IP project.

The decrease was partially offset by higher internal IT resource costs to support our Debt IP activities.

UNRESTRICTED FUND

There was a deficiency of revenues versus expenses in FY 2019 of $309. This compares with an excess of revenues over expenses in FY 2018 of $2,839.

The deficiency of revenues over expenses for FY 2019 and what is primarily a net remeasurement loss of $652 for the pension plans and the post-retirement benefit plan decreased the Unrestricted Fund balance from $55,663 to $54,702.

EXTERNALLY RESTRICTED FUND

Revenues for the Externally Restricted Fund come from the collection of fines, penalties and disgorgement of profits as determined by IIROC Hearing Panels, interest earned on fund balances, and entrance fees.

The use of monies from the Fund is restricted by IIROC's Recognition Orders. All expenses, other than hearing panel-related expenses, must both be eligible and approved by IIROC's Corporate Governance Committee.

Total revenues for the year amounted to $2,408, compared with $1,690 for FY 2018, an increase of $718 (42%).

Total expenses decreased from $2,376 to $2,051, a decrease of $325 (14%). The decrease was primarily due to completion of a Prosper Canada research project, lower hearing panel expenses, and lower amortization expenses with the Equity Data Warehouse system being fully amortized in FY 2018. These decreases were partially offset by funding for the Canadian Foundation for Advancement of Investor Rights and higher costs for member education initiatives.

The resulting excess of revenue over expenses for the year was $357, compared to a deficit of $686 in the previous year.

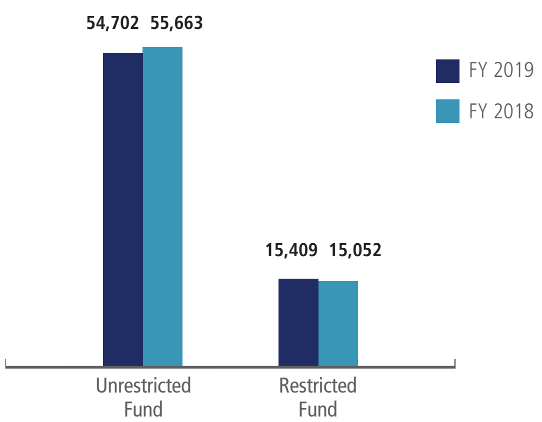
The Fund balance increased from $15,052 to $15,409 by the end of the year. An IIROC policy is in place to ensure adequate funding is maintained for hearing panel-related expenses.

In FY 2018, an amount of $1,237 for the new market surveillance system project was appropriated from the Externally Restricted fund. All remaining funds required came from the Unrestricted Fund.

LIQUIDITY AND CAPITAL RESOURCES

At the end of FY 2019, IIROC held total combined fund balances in the Unrestricted and Externally Restricted Fund of $70,111, down $604 from the FY 2018 balance of $70,715. The decrease in fund balances arose from what is primarily a net remeasurement loss for the pension plans and post-retirement benefit plan of $652, partially offset by an excess of revenues over expenses of $48.

FUND BALANCES AT YEAR END ($)



During the year, the Organization increased its capital asset by $6,374 ($7,685 in FY 2018). These included capital leases associated with technology infrastructure comprising server, network and security hardware ($2,656), and hardware for a new market surveillance system ($1,181). Other technology infrastructure ($800), information security ($414), and a reporting application for District Council submissions ($412) also contributed to the total.

IIROC has an internal liquidity guideline for the Unrestricted Fund of a minimum of three months' of operating expenses. Based on FY 2020 budgeted operating expenses, the Fund holds more than the minimum required by the guideline.

IIROC holds investments of $43,324 in highly liquid short-term marketable securities such as government-issued treasury bills, debt instruments of financial institutions with remaining maturities of greater than three months, and mutual funds.

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

COMMITMENTS

As at March 31, 2019, IIROC has in place basic minimum aggregate annual rental commitments of $20,094 (FY 2018 – $22,921), excluding GST/HST and shared operating expenses under long-term operating leases, with varying expiry dates to February 28, 2029. In addition to minimum lease payments, IIROC is also obligated to pay its share of operating expenses, which fluctuate from year to year.

CAPITAL LEASE

In August 2018, IIROC entered into a multi-year contract for a managed information technology platform including hardware and infrastructure support services. The contract term includes a transition period plus five years, taking into account both renewal options and early termination options, and the likelihood of exercising those options. Certain arrangements relating to the use of dedicated physical hardware were assessed to be leases of a capital nature. The leased capital assets were deployed and 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. As of March 31, 2019, the total estimated payment obligations for leased capital assets are $2,903 for the duration of the lease term, which is about five and a half years.

CONTINGENCIES

IIROC 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.

IIROC also provides pension and post-retirement benefits to employees as described in Note 9 of the Financial Statements. The Organization funds these obligations on a regular basis through the use of trusts and by setting aside further funds, as approved by the Board, in an externally managed investment program. The net employee future benefits liability of all plans is $31,051.

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, 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, IIROC 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.

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.

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:

a) Allowances for doubtful accounts – estimates are determined based on the dealers' financial viability. The allowance for doubtful accounts as at March 31, 2019 was $NIL (FY 2018 – $NIL).

b) Date amortization begins – this is the date at the commencement of the fiscal quarter following when an asset is considered substantially complete and available for use.

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

d) 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.

e) 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.

f) Lease payment estimates – IIROC management leverages vendor-estimated monthly lease payments in determining the capital lease asset and obligation to record at the time that leased assets are deployed and installed. Final monthly lease payments are determined upon completion of transition period activities.

RISK

IIROC utilizes a three line of defense approach for risk management: business units and support functions are the first line; the Enterprise Risk Management (ERM) department is the second line; and Internal Audit is the third line. Oversight of risk management is provided by IIROC's Risk Committee (RC), comprising senior executives of IIROC, and the Finance, Audit and Risk (FAR) Committee of the Board, as set out in their respective Charters.

IIROC has established a Risk Management Policy that sets out the framework for the identification and management of risks. IIROC's risk management framework includes an annual self-assessment that combines a top-down and bottom-up evaluation of risks facing organizational units (both business units and support functions) as well as the organization as a whole, including both current and emerging risks. The results of the self-assessments are reviewed and discussed with the RC, the FAR Committee, and the Board. Throughout the year, the Vice-President, Enterprise Risk and Project Management, provides a formal update on risks and risk management activities at RC and FAR Committee meetings.

The Internal Audit function is governed by an Internal Audit Charter, approved by IIROC's Board of Directors. KPMG LLP is IIROC's outsourced Internal Auditor. The Internal Auditor reports to the FAR Committee and provides a minimum of four updates per year. IIROC works closely with its Internal Auditor and the 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. The FY 2019 Internal Audit work covered four areas; no high severity findings were identified.

Litigation risk

IIROC is currently subject to litigation as disclosed in Note 12 to the Financial Statements and from time to time, IIROC may face claims by employees, the public and other third parties arising from the ordinary course and conduct of its business.

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

Cybersecurity

IIROC continues to monitor and respond to the evolving cybersecurity landscape leveraging available threat intelligence services. Where appropriate, IIROC applies hardware/software security updates in a timely fashion, makes the required technology investments and leverages third-party service provider capabilities to prevent unauthorized access to, or leakage of, personal and confidential information.

Revenue risk

About 82% of IIROC's revenue comes from dealer membership fees and equity and debt market regulation fees. Failure of a significant number of firms or a relatively large firm would have a critical impact on IIROC's financial operations. Prudent operating cost management and ongoing monitoring of the financial adequacy of firms helps to mitigate this risk. Additional risk arises from possible reductions in market activity that could adversely affect underwriting levies and from possible adverse changes in provincial registration-related revenues.

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 affected 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 unrestricted fund balances 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.

Financial instruments risks

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

Credit risk

IIROC 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

IIROC'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. Adverse or volatile capital market conditions both in the primary market and secondary markets could have an impact on IIROC's ability to collect revenues to cover expenses through underwriting levies, as well as dealer regulation and market regulation membership fees. IIROC minimizes its exposure to market risk through its policy of investing a portion of its investments in Government of Canada treasury bills, bankers' acceptances and promissory notes. Market risk is comprised of currency risk, interest rate risk and other price risk.

Currency risk

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

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.

RESILIENCY

IIROC has developed crisis management plans and business continuity plans (BCPs) as part of a larger resiliency program to ensure critical regulatory and support services can continue in the event of a disruption. BCPs are updated as changes are made, and IIROC continues to work on strengthening its resiliency program.

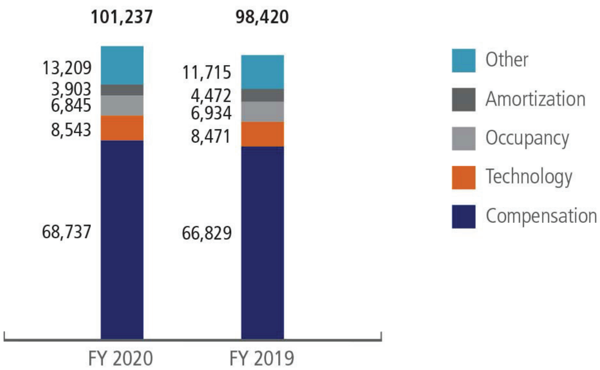
OUTLOOK

IIROC published an updated, three-year Strategic Plan in June 2019, with seven key strategies to support the delivery of our mandate and our Mission and Vision:

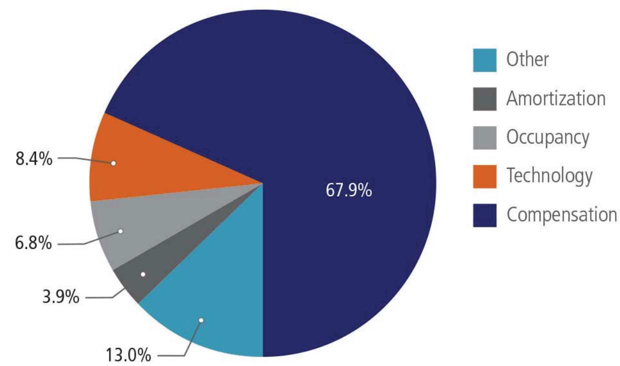
- Deliver value for Canadians and the financial system
- Support industry transformation
- Leverage data and analytics
- Help firms with compliance
- Strengthen enforcement
- Drive efficiency and operational effectiveness
- Attract, retain and enable skilled people

There is a significant transformation underway across our industry, driven by the changing needs and expectations of Canadians and the ways in which technological advances allow them to be met. Much of our focus over the next three years will involve responding and adapting to new industry and market realities, as well as ensuring organizational readiness for future change as we deliver on our public mandate.

BUDGETED OPERATING EXPENSES ($)



FY 2020 BUDGETED OPERATING EXPENSES (%)



Our FY 2020 budget and strategic priorities reflect IIROC's commitment to investor protection and enhancing its regulatory effectiveness while operating in an efficient, cost-effective and sustainable manner. Examples of our priorities for next year include:

- evolving our self-regulatory model to more effectively and efficiently serve Canadians
- working with the CSA to propose a safe-harbour rule and developing additional tools to help dealers protect vulnerable investors
- using leading-edge analytic capabilities (artificial intelligence, machine learning) and data that IIROC collects for regulatory purposes to improve effectiveness and predictive capabilities
- continuing to partner with the CSA on the development of a regulatory framework for crypto trading platforms
- beginning the multi-phased implementation of client identifier requirements
- continuing to pursue and implement expanded enforcement authorities
- implementing the Plain Language Rulebook and training for dealers and staff
- evolving our HR and workplace strategies to ensure we can continue to attract, develop and retain the talent we need to be a leading-edge regulator
- completing the transition to a new digital services platform and continued business application renewal, consolidation and integration.

Total operating expenses for the coming year are budgeted to increase by $2,817 to $101,237 compared to last year's budget of $98,420. The increase in expenses is driven by compensation and benefits expenses due to base salary increases, and increased headcount in areas such as Finance and Market Surveillance. Other increases in expenses, mainly in the area of consulting services, are for new project initiatives and include one-time expenses to complete an information technology platform transition to a managed services model. The increase in expenses is partially offset by lower amortization expenses mainly due to impaired assets as a result of the change in IT infrastructure, and our current market surveillance system being fully amortized in FY 2019, as well as lower translation expenses.

For underwriting levies, FY 2019 actuals of $8,709 were lower than the past five-year average of approximately $10,200. Our underwriting levies are currently expected to be slightly higher than FY 2019 actuals for both debt and equity issuances. However, actual volume of issues are impacted by market conditions.

Registration fees are expected to be lower by $230 due to lower projected activities. IIROC is reviewing the allocation basis of our fees with commissions to ensure our principles of transparency and fairness are consistently applied.

FY 2020 fees for dealer regulation activities will increase by $1,515 (3%) when compared to FY 2019 fees. Equity Market Regulation fees in FY 2020 are projected to decrease by $258 (1%), and fees for Debt Market Regulation will decrease by $24 (1%). Debt IP fees are projected to increase by $1,173 (254%) in FY 2020. The primary reason for the increase in Debt IP fees is due to a change in costing methodology from incremental to full costing.

Subsequent to year end, IIROC approved a re-assessment of membership fees to member firms for fiscal year 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.

IIROC's total fees for FY 2020 and the past three years have been consistent at approximately 30 basis points of industry revenue.[1] The four-year compound annual growth rate (CAGR) of fees including projections for FY 2020 is 2.0%, which is less than the industry revenue CAGR of approximately 12.4%[2] over the same period. IIROC revenue (which, for this purpose[3], includes regulatory fees and levies but excludes fines, penalties and interest) and expenses are projected to grow at CAGRs of 1.7% and 4.6% respectively, both of which compare very favorably to prior year growth rates at other Canadian investment industry regulators.

Management believes it is prudent to retain the Unrestricted Fund balance to provide protection against adverse moves in valuations for pension; non-registered Supplemental Plan for Executives (SERP), Post-Retirement Benefits (PRB), and non-registered Supplemental Income Plan (SIP); liquidity requirements; the Canadian Investor Protection Fund (CIPF) loan guarantee; and other contingencies.

1 Industry revenues and expenses are based on IIROC-compiled data (IIROC monthly financial report statistics).
2 Industry revenue for FY 2020 is assumed to be the same as FY 2019 (due to data availability).
3 Unrestricted Fund revenues only.