FINANCIAL STATEMENTS

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

March 31, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Members of the
Investment Industry Regulatory Organization of Canada

We have audited the accompanying financial statements of **Investment Industry Regulatory Organization of Canada** which comprise the statement of financial position as at March 31, 2017 and the statements of operations, changes in fund balances and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY 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.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Investment Industry Regulatory Organization of Canada** as at March 31, 2017 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.

Toronto, Canada
June 28, 2017

Grant Thornton LLP

Chartered Professional Accountants
Licensed Public Accountants

(IN THOUSANDS OF DOLLARS)

STATEMENT OF FINANCIAL POSITION

March 31		2017		2016
ASSETS				
Current				
Cash and cash equivalents	$	**53,385**	$	46,865
Investment (Note 3)		**32,898**		35,127
Receivables (Note 4)		**8,067**		7,135
Prepaids		**1,489**		1,283
Current portion of loans receivable (Note 5)		**16**		11
		95,855		90,421
Restricted cash (Note 7)		**4,000**		4,000
Employee future benefits (Note 8)		**532**		563
Loans receivable (Note 5)		**15**		12
Capital assets (Note 6)		**14,336**		14,981
Deposit		**180**		162
	$	**114,918**	$	110,139
LIABILITIES				
Current				
Payables and accruals	$	**15,190**	$	15,817
Government remittances payable		**239**		111
Current portion of long-term debt (Note 7)		**997**		997
Deferred revenue		**60**		45
Lease inducement		**437**		322
		16,923		17,292
Long-term debt (Note 7)		**–**		997
Lease inducement		**2,980**		2,008
Employee future benefits (Note 8)		**27,853**		27,837
		47,756		48,134
FUND BALANCES				
Unrestricted Fund		**51,424**		45,887
Externally Restricted Fund		**15,738**		16,118
		67,162		62,005
	$	**114,918**	$	110,139

See accompanying notes to the financial statements.
Commitments (Note 10)
Contingencies (Note 11)

On behalf of the Board:

Andrew J. Kriegler, President and CEO

M. Marianne Harris, Chair

(IN THOUSANDS OF DOLLARS)

STATEMENT OF CHANGES IN FUND BALANCES

Year ended March 31		Unrestricted Fund		Externally Restricted Fund		**2017 Total**		2016 Total
Fund balances, beginning of year	$	45,887	$	16,118	**$**	**62,005**	$	51,461
Excess (deficiency) of revenue over expenses		6,680		(380)		**6,300**		6,190
Remeasurements and other items (Note 8)		(1,143)		–		**(1,143)**		4,354
Fund balances, end of year	$	51,424	$	15,738	**$**	**67,162**	$	62,005

See accompanying notes to the financial statements.

(IN THOUSANDS OF DOLLARS)

STATEMENT OF OPERATIONS

Year ended March 31	Unrestricted Fund	Externally Restricted Fund	**2017 Total**	2016 Total
REVENUE				
Dealer regulation				
Membership fees	$ 49,930	$ –	$ **49,930**	$ 48,414
Underwriting levies	11,283	–	**11,283**	9,126
Registration fees	2,501	–	**2,501**	2,650
Entrance fees	230	–	**230**	85
	63,944	–	**63,944**	60,275
Market regulation				
Equity regulation	26,471	–	**26,471**	26,122
Debt regulation	1,205	–	**1,205**	783
Timely disclosure	2,735	–	**2,735**	2,946
Marketplace revenue	95	–	**95**	48
	30,506	–	**30,506**	29,899
Other revenue				
Investigative fines and other fines	–	2,142	**2,142**	2,178
Interest and investment revenue	894	80	**974**	468
Miscellaneous	161	–	**161**	103
	1,055	2,222	**3,277**	2,749
	95,505	2,222	**97,727**	92,923
EXPENSES				
Dealer regulation operating costs (Note 9)	58,618	–	**58,618**	56,872
Market equity regulation operating costs (Note 9)	28,548	–	**28,548**	26,994
Market debt regulation operating costs (Note 9)	1,347	–	**1,347**	673
Debt information processor costs (Note 9)	312	–	**312**	–
Externally restricted fund expenses (Note 9)	–	2,602	**2,602**	2,194
	88,825	2,602	**91,427**	86,733
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	$ 6,680	$ (380)	$ **6,300**	$ 6,190

See accompanying notes to the financial statements.

(IN THOUSANDS OF DOLLARS) | MARCH 31, 2017

STATEMENT OF CASH FLOWS

Year ended March 31		2017		2016
Increase (decrease) in cash and cash equivalents				
Operating activities				
Excess of revenue over expenses	$	**6,300**	$	6,190
Depreciation and amortization		**5,578**		5,172
Rent amortization		**1,087**		(19)
Employee future benefits expense		**4,996**		5,646
		17,961		16,989
Change in non-cash operating working capital				
Receivables		**(932)**		(680)
Prepaids		**(206)**		(325)
Deposit		**(18)**		(23)
Payables and accruals		**(499)**		121
Deferred revenue		**15**		45
		16,321		16,127
Investing activities				
Disposal (purchase) of investments, net		**2,229**		(14,219)
Purchase of capital assets		**(4,933)**		(4,204)
Employee future benefits contributions		**(6,092)**		(2,470)
Increase in loans receivable, net		**(8)**		(10)
		(8,804)		(20,903)
Financing activities				
Repayment on long-term debt		**(997)**		(997)
		(997)		(997)
Increase (decrease) in cash and cash equivalents		**6,520**		(5,773)
Cash and cash equivalents, beginning of the year		**46,865**		52,638
Cash and cash equivalents, end of the year	$	**53,385**	$	46,865
Cash and cash equivalents consist of:				
Cash on hand and balances with bank	$	**6,619**	$	10,707
Cash equivalents		**46,766**		36,158
Cash and cash equivalents, end of year	$	**53,385**	$	46,865

See accompanying notes to the 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, and business 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

Assets, liabilities, revenues and expenses are reported as follows:

a) Dealer regulation and market regulation revenue and expenses, including amortization of Unrestricted Fund capital assets, are reported in the Unrestricted Fund.

   Funding of the deficit in the non-registered IIROC Supplemental Plan for Executives Non-Registered Defined Benefit Pension Plan (IIROC SERP), IIROC Non-Pension Post-Retirement Benefits Plan (IIROC PRB) and Regulation Services (RS) Non-registered Supplemental Income Plan (SIP) (former RS SIP) is reported in the Unrestricted Fund.

b) The collection of fines and settlement monies arising from enforcement actions (investigative 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 are reported in the Externally Restricted Fund. This Fund is to be used for:

   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, or

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

COST RECOVERY

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.

REVENUE RECOGNITION

Unrestricted revenues are recognized as revenue as follows:

Dealer regulation
Annual membership fees are assessed upon Dealer Members for the fiscal year and are recorded 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 – equity
Under the marketplace regulation services agreements, revenue from equity regulation fees governed by the Market Regulation Fee Model are based upon a fixed amount for the fiscal year, allocated to Dealer Members and Marketplace Members. Fees are charged on a cost recovery basis based on budgeted costs associated with equity market regulation. For attribution to each Dealer Member 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. The fees are invoiced on a monthly basis in arrears within the first ten days of any month.

Market regulation – debt
Effective November 1, 2015, the Organization began to charge debt regulation fees. Debt regulation revenues are based on a fixed amount for the fiscal year, allocated to Dealer Members who trade debt securities. Revenue is collected on a cost recovery basis based on the budgeted costs associated with debt market regulation. The monthly costs are allocated to each Dealer Member based on the 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. The fees are invoiced on a monthly basis in arrears within the first ten days of any month.

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

Investigation fines, termination notices and late filing fees due from member firms are recognized as revenue in the Externally Restricted Fund when assessed, and the amounts can be reasonably estimated and when collection is reasonably assured. However, late filing fees and initiation fees from new member firms are recognized as revenue in the Externally Restricted Fund when received. Investigation fines, continuing education fines and late filing fees from registrants of member firms are recognized as revenue in the Externally Restricted Fund when received.

Interest income in each fund is recorded using the effective interest rate method over the period, from date of acquisition to maturity of the investment.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, balances with banks and short-term investments with remaining maturities of three months or less. Interest received, if any, is recorded, using the effective interest rate method.

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.

Government-issued promissory notes and treasury bills, and debt instruments of financial institutions are recorded at amortized cost, representing the original cost of the financial asset plus transaction costs, plus accrued interest, less any impairment if applicable, which constitutes the carrying value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income is recorded, using the effective interest rate method. Gains or losses are recorded on investments when sold, and are calculated on the difference between proceeds less transactions costs and the carrying value.

Mutual funds are recorded at fair value. Transaction costs are expensed. Changes in fair value are recognized in the Statement of Operations. Realized and unrealized gains and losses, interest and dividend income are reported in the Statement of Operations.

FINANCIAL INSTRUMENTS

Initial measurement

The Organization's financial instruments are measured at fair value when issued or acquired. For financial instruments subsequently measured at cost or amortized cost, the carrying amount incorporates the amount of the related financing fees and transaction costs. 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), except for investments quoted in an active market, which are measured at fair value. The Organization uses the effective interest rate method to amortize any premiums, discounts, transaction fees and financing fees in the Statement of Operations. The financial instruments measured at amortized cost are cash and cash equivalents, investments (with the exception of investments quoted in an active market), receivables, loans receivable, restricted cash, payables, government remittances payable and long-term debt.

The Organization's investments (see Note 3) include an investment that is not traded on an active market and, therefore, is accounted for at 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 recorded at cost. Depreciation 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. Depreciation commences when assets are available for use, at 50% of the annual charge in the year of acquisition.

When a capital asset no longer has any long-term service potential to the Organization, the excess of its net carrying amount over any residual value is immediately recognized as an expense in the Statement of Operations. Where useful life is shortened, the net carrying value is amortized over its shorter life. The Organization undertakes an annual review for the potential impairment or shortened useful life of capital assets. Previously recognized write-downs are not reversed.

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 inducements) 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 lease inducements 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. Under the projected benefits method, an equal portion of the total estimated future benefit is attributed to each year of service. 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.

ALLOCATION OF EXPENSES

IIROC engages in dealer regulation, equity market regulation, debt market regulation, and is the debt information processor for certain securities. Effective July 6, 2016, IIROC launched debt information processing for corporate debt securities. Initial costs related to debt information processing were incurred in the current fiscal year.

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

(IN THOUSANDS OF DOLLARS) | MARCH 31, 2017 NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

USE OF ESTIMATES

Management reviews the carrying amounts of items in the financial statements at each balance sheet date to assess the need for revision or any possibility of impairment. Many items in the preparation of these financial statements require management's 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 Statement of Operations as appropriate in the year they become known. Items subject to significant management estimates include allowance for doubtful accounts, date of substantial completion of technology projects to begin amortization, amortization periods for capital assets and valuation of employee future benefits asset/liability.

3. INVESTMENTS

Investments consist of the following:

		2017		2016
Marketable securities, at amortized cost	$	**25,266**	$	29,658
Mutual funds, at fair value		**7,632**		5,469
	$	**32,898**	$	35,127

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 as there is no active market for the investment.

4. RECEIVABLES

		2017		2016
Trade	$	**8,067**	$	7,195
Allowance for doubtful accounts		**–**		(60)
	$	**8,067**	$	7,135

The gross carrying amount of the impaired trade receivables was $Nil (2016 – $60). The amount of impaired loss recorded in the Statement of Operations related to the trade receivables is $Nil (2016 – $60).

5. LOANS RECEIVABLE

Loans receivable are from employees of the Organization and relate to 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 January 30, 2020.

(IN THOUSANDS OF DOLLARS) | MARCH 31, 2017 NOTES TO THE FINANCIAL STATEMENTS

6. CAPITAL ASSETS

	Cost	Accumulated Amortization	**2017 Net Book Value**	2016 Net Book Value
Unrestricted Fund:				
Tangible				
Office furniture and equipment	$ 7,592	$ 6,202	**$ 1,390**	$ 2,068
Leasehold improvements	8,693	4,374	**4,319**	4,519
Computer equipment and software	3,595	3,257	**338**	324
Technology projects hardware	6,750	5,081	**1,669**	2,112
Intangible				
Technology projects software	17,856	12,922	**4,934**	3,513
	44,486	31,836	**12,650**	12,536
Externally Restricted Fund:				
Tangible				
Technology projects hardware	895	741	**154**	349
Leasehold Improvements	673	290	**383**	438
Intangible				
Technology projects software	3,178	2,029	**1,149**	1,658
	4,746	3,060	**1,686**	2,445
	$ 49,232	$ 34,896	**$ 14,336**	$ 14,981

As at March 31, 2017, included in unrestricted fund technology projects software are six technology projects which are in progress with a total cost of $2,395. As such, these assets are not yet being amortized. Amortization will begin when the asset is available for use.

7. LONG-TERM DEBT

	2017	2016
Loan payable – interest at banker's acceptance rate plus 0.58% (1.84%) at March 31, 2017), due March 2018, repayable in monthly instalments of $83 excluding interest	**$ 997**	$ 1,994
Less: current portion	**997**	997
	$ –	$ 997

On July 29, 2011, the Organization entered into a credit agreement with Canadian Imperial Bank of Commerce (CIBC) to finance the Organization's working capital, head office and Calgary office refurbishment requirements. The credit agreement includes the following two facilities:

i) a committed two-year extendable revolving credit facility of $4,000 (the "Revolving Credit Facility"), and

ii) a committed two-year extendable non-revolving term construction credit 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").

The Organization has not borrowed any amounts under the Revolving Credit Facility as at March 31, 2017. The Facility is scheduled to expire on July 29, 2017 and may be extended thereafter.

7. LONG-TERM DEBT (CONTINUED)

Pursuant to the credit agreement, as amended on February 25, 2015, the Organization must comply with certain general covenants, which include maintaining the following minimum balances:

i) $30,000 in aggregate Fund Balances, of which a minimum of $6,000 shall be held in the Unrestricted Fund, and

ii) $4,000 in cash and cash equivalents to be held as collateral by the bank.

The Organization was in compliance with the covenants at March 31, 2017.

Scheduled principal repayments on the non-revolving term construction facility for the next year is $997.

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 provisions, the Organization makes contributions based on the percentage of the participant's plan earnings as well as a match on the employee 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 Plan and the plan was amended to accommodate new IIROC DC accruals. The former IDA also sponsored a SERP which became the IIROC SERP. The legacy RS pension plans, which included the registered plan and the non-registered Supplemental Income Plan (SIP) were closed at December 31, 2010 and its active members began accruing benefits under the IIROC Plan and the IIROC SERP after that date. However, these plans were not terminated as legacy accrued benefits remain. On April 1, 2013 the defined benefit component of the IIROC plan was closed to new members. New hires can only join the defined contribution provision of the plan.

The Organization has the following pension plans:

1. IIROC Pension Plan for Former RS Pension Plan Members Defined Benefit Plan (Former RS RPP) – inactive
2. The Formerly RS-sponsored Non-Registered SIP for former TSX Employees Defined Benefit Plan (Former RS SIP)
3. Retirement Plan for Employees of IIROC (IIROC RPP) – includes defined benefit and defined contribution provisions
4. IIROC Supplemental Plan for Executives Non-Registered Defined Benefit (DB) Pension Plan (IIROC SERP); and
5. IIROC SIP Defined Contribution Plan

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, 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, 2014. An interim actuarial valuation of the IIROC PRB plan was also conducted at April 1, 2016. The next actuarial valuations for all defined benefit arrangements and for the IIROC PRB are scheduled for April 1, 2017 and April 1, 2019 respectively.

(IN THOUSANDS OF DOLLARS) | MARCH 31, 2017 NOTES TO THE FINANCIAL STATEMENTS

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.

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

	March 31, 2017			March 31, 2016		
	Pension Plans (1)	**Pension Plans (2)**	**Other Benefits Plan (3)**	Pension Plans (1)	Pension Plans (2)	Other Benefits Plan (3)
Accrued benefit obligation	**$ (8,205)**	**$ (87,236)**	**$ (6,152)**	$ (7,676)	$ (78,383)	$ (5,921)
Fair value of plan assets	**9,682**	**65,535**	**–**	9,183	56,467	–
Fund status – plans surplus / (deficit)	**1,477**	**(21,701)**	**(6,152)**	1,507	(21,916)	(5,921)
Valuation Allowance (VA)	**(945)**	**–**	**–**	(944)	–	–
Accrued benefit asset (liability) (net of VA)	**$ 532**	**$ (21,701)**	**$ (6,152)**	$ 563	$ (21,916)	$ (5,921)

(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 employee future benefit expense is as follows:

	Year Ended					
	March 31, 2017			March 31, 2016		
	Pension Plans (1)	**Pension Plans (2)**	**Other Benefits Plan (3)**	Pension Plans (1)	Pension Plans (2)	Other Benefits Plan (3)
Employee service cost	**$ –**	**$ 3,649**	**$ 167**	$ –	$ 4,167	$ 333
Interest cost on accrued benefit obligation	**306**	**3,257**	226	292	3,004	294
Interest income on market value of assets	**(366)**	**(2,281)**	–	(352)	(2,130)	–
Interest on Valuation Allowance (VA)	**38**	**–**	–	38	–	–
Accrued benefit asset (liability) (net of VA)	**$ (22)**	**$ 4,625**	**$ 393**	$ (22)	$ 5,041	$ 627

(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)

(IN THOUSANDS OF DOLLARS) | MARCH 31, 2017 NOTES TO THE FINANCIAL STATEMENTS

8. EMPLOYEE FUTURE BENEFITS (CONTINUED)

The remeasurements and other items charged on the Statement of Changes in Fund Balances is a loss of $1,143 (2016 – gain of $4,354) as follows:

	March 31, 2017			March 31, 2016		
	Pension Plans (1)	Pension Plans (2)	Other Benefits Plan (3)	Pension Plans (1)	Pension Plans (2)	Other Benefits Plan (3)
Actuarial losses (gains)	$ 90	$ 1,167	$ (77)	$ 167	$ (1,021)	$ (1,314)
Prior service cost (credit)	–	–	–	–	–	(2,087)
Change in Valuation Allowance (VA)	(37)	–	–	(99)	–	–
Remeasurements and other items	$ 53	$ 1,167	$ (77)	$ 68	$ (1,021)	$ (3,401)

(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)

In addition to the above, there is no outstanding liability for the defined contribution plans as at March 31, 2017 (2016 – $Nil). Current period expense for the IIROC SIP Defined Contribution Plan was $Nil (2016 – $Nil) and for the defined contribution provisions of the IIROC RPP was $1,546 (2016 – $1,332).

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

	2017	2016
Discount rate	3.44% to 3.38%	3.50% to 4.00%
Rate of compensation increase	3.50%	3.50%

For measurement purposes, inflation of medical expenses was assumed to be 6.0% in 2017 declining to 5.0% in annual increments of 0.5%. 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, 2017			March 31, 2016		
	Pension Plans (1)	Pension Plans (2)	Other Benefits Plan (3)	Pension Plans (1)	Pension Plans (2)	Other Benefits Plan (3)
Employer contributions – regular	$ –	$ 2,282	$ 85	$ –	$ 2,390	$ 80
Employer contributions – special	–	3,725	–	–	–	–
Employee contributions	–	1,178	–	–	1,231	–
Benefits paid	$ (88)	$ (2,095)	$ (85)	$ (60)	$ (2,176)	$ (80)

(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)

(IN THOUSANDS OF DOLLARS) | MARCH 31, 2017 NOTES TO THE FINANCIAL STATEMENTS

9. EXPENSES

	Year Ended March 31, 2017		March 31, 2016	
Unrestricted Fund expenses				
Dealer Regulation Operating Costs	$	**42,688**	$	42,020
Compensation		**3,085**		2,933
Technology		**4,640**		4,442
Occupancy		**2,420**		2,324
Amortization		**5,785**		5,153
Other				
	$	**58,618**	$	56,872
Market Equity Regulation Operating Costs				
Compensation	$	**18,164**	$	16,895
Technology		**4,024**		4,032
Occupancy		**1,711**		1,542
Amortization		**2,208**		2,101
Other		**2,441**		2,424
	$	**28,548**	$	26,994
Market Debt Regulation Operating Costs				
Compensation	$	**832**	$	363
Technology		**255**		155
Occupancy		**43**		35
Amortization		**75**		27
Other		**142**		93
	$	**1,347**	$	673
Debt Information Processor				
Technology	$	**72**	$	–
Amortization		**35**		–
Other		**205**		–
	$	**312**	$	–
Total Unrestricted Fund expenses	$	**88,825**	$	84,539
Externally Restricted Fund expenses				
Hearing panel costs	$	**1,399**	$	1,030
Bad debts		–		50
Member education		**283**		252
High Frequency Trading initiative		–		27
Cybersecurity		–		115
Self Regulatory Organizations Consultative Committee (SROCC) and International Forum for Investor Education (IFIE) Conference		**5**		–
Institute of Financial Education and Literacy		**75**		–
Amortization		**840**		720
	$	**2,602**	$	2,194

(IN THOUSANDS OF DOLLARS) | MARCH 31, 2017 NOTES TO THE FINANCIAL STATEMENTS

10. COMMITMENTS

As at March 31, 2017, the basic minimum aggregate annual rental payments, excluding GST/HST and shared operating costs under long term leases, with varying expiry dates to October 31, 2026, 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.

2018	$	3,091
2019		2,787
2020		2,801
2021		2,955
2022		2,967
Thereafter		6,325
	$	20,926

11. 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 a dealer member of IIROC. IIROC has provided a $125,000 (2016 – $125,000) guarantee on bank lines of credit of CIPF. At March 31, 2017, CIPF has not drawn on these lines of credit. Any amount drawn on the guarantee would be assessed to Dealer Member firms. In order to meet potential financial obligations, CIPF has the following resources in place: i) a contingency fund balance of $471,985 on hand as at December 31, 2016 (2015 – $464,376); ii) lines of credit provided by two Canadian chartered banks totaling $125,000 as at December 31, 2016 (2015 – $125,000); and iii) CIPF has arranged insurance in the amount of $160,000 as at December 31, 2016 (2015 – $160,000) in the annual aggregate in respect of losses to be paid by CIPF in excess of $150,000 (2015 – $150,000) in the event of member insolvency, and a second layer of insurance in the amount of $170,000 as at December 31, 2016 (2015 – $90,000) in respect of losses to be paid in excess of $310,000 in the event of member insolvency.

The Organization was subject to two lawsuits for wrongful dismissal, one of which was dismissed in January 2016. A judgment was issued in the second action on April 28, 2016. The plaintiff was awarded damages of $22, plus interest and costs.

Following the accidental loss in the 2013 fiscal year of a portable device that contained personal information relating to clients of a number of Dealer Members, the Organization undertook a number of measures to notify potentially affected Dealer Members 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 argued in February 2017. A decision has not yet been rendered by the court.

The total costs of the incident to date including legal fees for responding to the two motions for authorization are $5,581. Insurance recoveries, net of expenses of $57, were recorded in fiscal 2017 (2016 – net expenses of $62). It is not possible to estimate potential damages or the range of further possible losses, if any, resulting from this incident.

12. FINANCIAL INSTRUMENTS RISKS

CARRYING AMOUNT OF FINANCIAL ASSETS

As at March 31, 2017, the carrying amount of the Organization's financial assets that are measured at amortized cost totals $90,749 (2016 – $87,681) and the carrying amount of financial assets that are measured at fair value totals $7,632 (2016 – $5,469).

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. 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 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, therefore, exposed to liquidity risk with respect to its accounts payable and its long-term debt. The Organization meets its liquidity requirements 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 having facilities available should it be required to meet temporary fluctuations in cash requirements. At March 31, 2017 and 2016, no amounts have been drawn under the revolving credit facility.

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 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 invests in foreign equities. IIROC mitigates its currency risk exposure by monitoring 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, interest bearing investments, and long-term debt. 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 its fixed income investments and guaranteed investment certificates is to ensure the security of principal amounts invested, provide for a high degree of liquidity, and achieve a satisfactory investment return.

12. FINANCIAL INSTRUMENTS RISKS (CONTINUED)

The long-term debt bears interest at a variable rate and the Organization is, therefore, exposed to cash flow risk resulting from interest rate fluctuations. Additionally, the mutual fund investments indirectly expose the Organization to interest rate risk.

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. The Organization is exposed to other price risk on the mutual fund investments since changes in market prices could result in changes in fair value or cash flows of these investments. Risk and volatility of investment returns are mitigated through diversification of investments.