MANAGEMENT DISCUSSION AND ANALYSIS

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

The Management Discussion and Analysis (MD&A) on IIROC's operations and financial condition are presented for the fiscal year ended March 31, 2017, compared with the previous year ended March 31, 2016. The MD&A should be read in conjunction with the Financial Statements for the year ended March 31, 2017.

IIROC is a cost-recovery, not-for-profit national organization that recovers its operating costs from several sources. The primary source is through member fees for dealer regulation, equity market regulation and debt market regulation activities which are collected through the application of their respective fee models. Dealer regulation secondary sources of revenue include underwriting levies, which represent a fractional percentage share of the value of most public equity and debt underwritings in Canada and registration fees based on fee-sharing agreements with provincial securities commissions and authorities. Another significant revenue source for market regulation is timely disclosure fees from the TSX, TSXV, CSE and Aequitas 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, in our judgment, although reasonable at the time of publication, are not guarantees of future performance.

(IN THOUSANDS OF DOLLARS) MANAGEMENT DISCUSSION AND ANALYSIS

SUMMARY FINANCIAL INFORMATION

UNRESTRICTED FUND

	FY 2017 $	FY 2016 $	Variance $	Variance %
REVENUE				
Dealer Regulation				
Membership fees	**49,930**	48,414	1,516	3%
Underwriting levies	**11,283**	9,126	2,157	24%
Registration fees	**2,501**	2,650	(149)	(6%)
Entrance fees	**230**	85	145	171%
	63,944	60,275	3,669	6%
Market Regulation				
Equity regulation	**26,471**	26,122	349	1%
Debt regulation	**1,205**	783	422	54%
Timely disclosure	**2,735**	2,946	(211)	(7%)
Marketplace revenue	**95**	48	47	98%
	30,506	29,899	607	2%
Other revenue				
Interest and investment revenue	**894**	378	516	136%
Miscellaneous revenue	**161**	103	58	56%
	1,055	481	574	119%
Total Unrestricted Fund revenue	**95,505**	90,655	4,850	5%
UNRESTRICTED FUND EXPENSES				
Dealer regulation operating costs	**58,618**	56,872	1,746	3%
Market equity regulation operating costs	**28,548**	26,994	1,554	6%
Market debt regulation operating costs	**1,347**	673	674	100%
Debt information processor costs	**312**	–	312	*
	88,825	84,539	4,286	5%
EXCESS OF REVENUE OVER EXPENSES	**6,680**	6,116	564	9%

* Variance is greater than +/-100%

(IN THOUSANDS OF DOLLARS)

EXTERNALLY RESTRICTED FUND

	FY 2017 $	FY 2016 $	Variance $	Variance %
OTHER REVENUE				
Investigative fines and other fines	**2,142**	2,178	(36)	(2%)
Interest and investment revenue	**80**	90	(10)	(11%)
Total Externally Restricted Fund revenue	**2,222**	2,268	(46)	(2%)
EXTERNALLY RESTRICTED FUND EXPENSES				
Hearing panel costs	**1,399**	1,030	369	36%
Bad debts	–	50	(50)	*
Member education	**283**	252	31	12%
High Frequency Trading initiative	–	27	(27)	*
Cybersecurity	–	115	(115)	*
Self Regulatory Organizations Consultation Committee and International Forum for Investor Education Conference	**5**	–	5	*
Institute of Financial Education and Literacy	**75**	–	75	*
Amortization	**840**	720	120	17%
	2,602	2,194	408	19%
EXCESS (DEFICIT) OF REVENUE OVER EXPENSES	**(380)**	74	(454)	(21%)

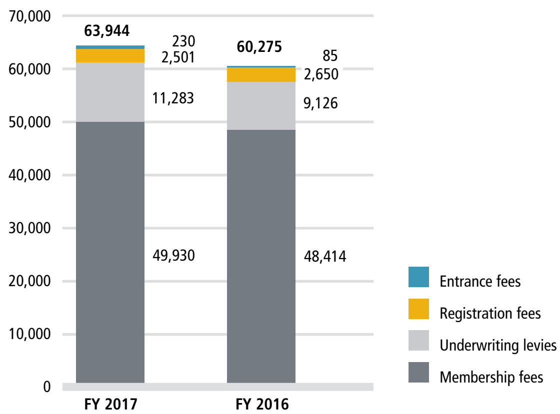
*Variance is greater than +/-100%

REVENUE

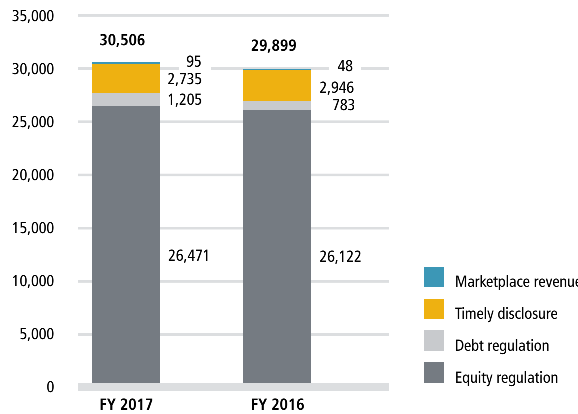
Unrestricted Fund revenues for the period amounted to $95,505, up $4,850 (5%) from $90,655 in FY 2016.

Membership fees for dealer regulation, equity market regulation, and debt market regulation are the primary sources of revenue. The dealer membership fees and the equity and debt market regulation fees represent approximately 81% (83% in FY 2016) of total IIROC revenue and are collected through their respective fee models.

DEALER REGULATION REVENUE ($)



MARKET REGULATION REVENUE ($)

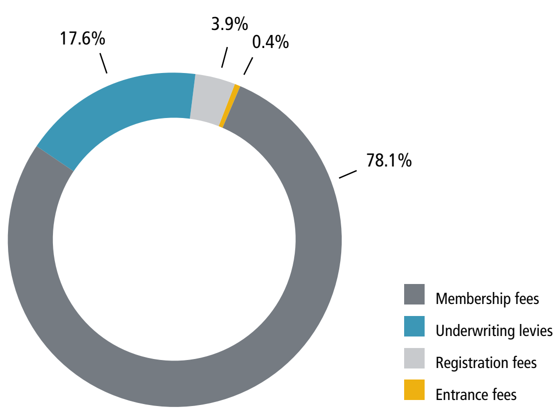


Dealer regulation membership fees increased by $1,516 or 3% at $49,930 compared with $48,414 in FY 2016.

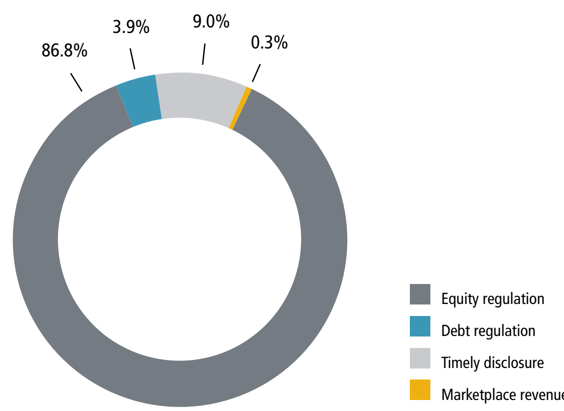
Equity market regulation fees of $26,471 increased by $349 or 1% compared with $26,122 in FY 2016. Debt market regulation fees increased by $422 or 54% to $1,205 for the full fiscal year compared with $783 for five months in FY 2016.

Fees are based on approved operating cost budgets, which are then reduced by secondary sources of revenue and may be adjusted, if applicable, after taking into account the sufficiency of our fund balances. Furthermore, capital and operating expenditures approved for the Restricted Fund are not recovered through membership fees but are instead absorbed by the Restricted Fund.

DEALER REGULATION REVENUE FY 2017



MARKET REGULATION REVENUE FY 2017



On a year-over-year basis, the combined revenue from secondary sources increased by $1,989 (13%) from $14,855 to $16,844.

Underwriting levies, a main secondary source of dealer regulation revenue, increased by $2,157 (24%) to $11,283 from $9,126 in FY 2016 due to several large deals in both equity and debt markets. Revenue from registration fees, the other major secondary source of revenue, decreased by $149 (6%) to $2,501 in FY 2017. The reduction in registration fees was due to the British Columbia Securities Commission's (BCSC) decision to cease sharing registration fees with IIROC, partially offset by increased activity from other registration fee sharing arrangements.

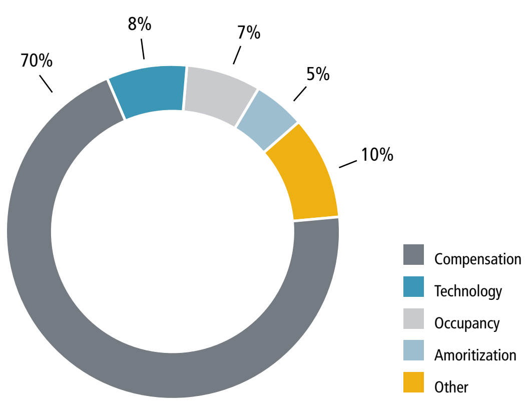
The main secondary revenue source for market regulation is timely disclosure fees from the TSX, TSXV, CSE and Aequitas for administering their timely disclosure policies. These totaled $2,735 in FY 2017, a decrease of $211 (7%) from FY 2016.

Other revenue increased by $574 to $1,055 (119%) mainly due to higher investment revenue.

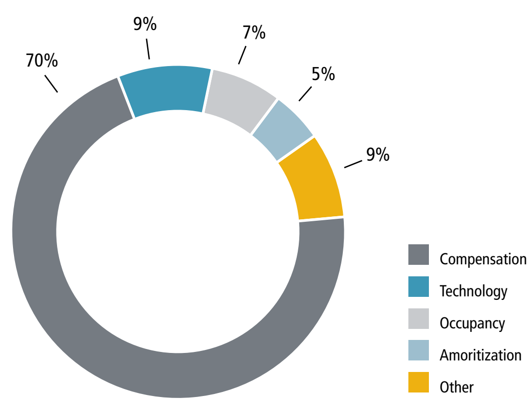
COSTS

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

TOTAL OPERATING COSTS FY 2017



TOTAL OPERATING COSTS FY 2016

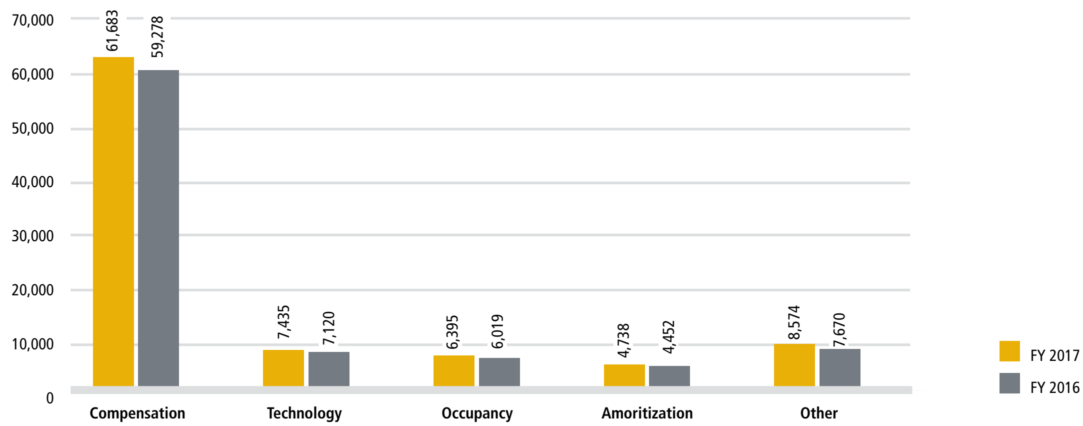


The categories of compensation, technology, occupancy and amortization made up approximately 90% (91% in FY 2016) of IIROC's operating costs. The proportion of other costs increased to 10% from 9% (FY 2016) mainly due to higher consulting costs to support key initiatives in both dealer and market regulation.

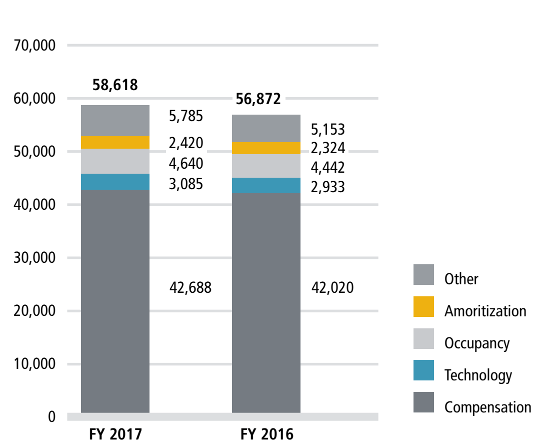
To facilitate proper fee allocations, direct costs are separately captured for dealer regulation and market equity and debt regulation activities as well as Debt Information Processor activities with indirect costs being allocated using a cost allocation model based on either direct business unit cost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

IIROC's total operating costs were $88,825 in FY 2017, an increase of $4,286 or 5% from $84,539 in FY 2016.

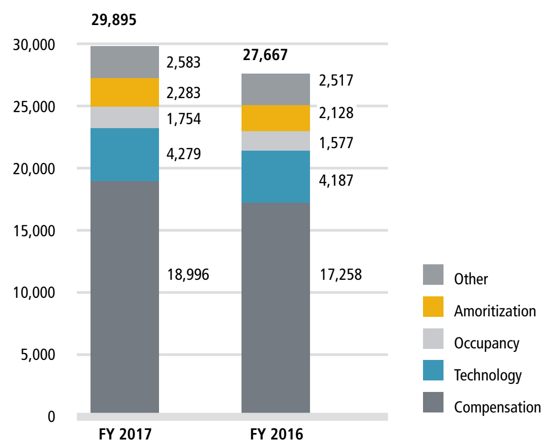
TOTAL OPERATING COSTS ($)



DEALER REGULATION OPERATING COSTS ($)



MARKET REGULATION OPERATING COSTS ($)



Dealer regulation costs increased by $1,746 (3%) to $58,618, while market regulation costs were $29,895, an increase of $2,228 (8%), of which equity market regulation increased by $1,554 and debt market regulation costs increased by $674. Debt market regulation costs were $673 for five months in FY 2016.

The increase in dealer regulation costs was primarily due to:

- Higher compensation costs from lower vacancy rates and establishing a new Strategic Initiative function partially offset by lower direct staff and lower severance costs. Additionally, there were merit-based increases reflecting our pay for performance culture
- consulting costs (included in other costs) to support strategic initiatives such as conducting a cybersecurity self-assessment survey for dealer members and following up with firms to help dealer members strengthen their cybersecurity preparedness

The increase was partially offset by lower translation costs.

The increase in market regulation costs was primarily due to:

- Higher compensation costs from activities associated with maintenance of the Surveillance Technology Enhancement Platform (STEP), Compliance and Analytics. Additionally, there were merit-based increases reflecting our pay for performance culture.

Further, debt regulation costs reflect a full year versus a partial year in FY 2016

- consulting and legal costs (other costs) such as to support the Market Surveillance RFP project

These costs were partially offset by a reduction in administrative costs.

Effective July 6, 2016, IIROC became the information processor for corporate debt securities (Debt IP). Debt IP costs, incurred for the first time in FY 2017 (there were no costs in FY 2016) were $312. There were no related revenues earned in the current fiscal year.

UNRESTRICTED FUND

There was an excess of revenues compared to expenses in FY 2017 of $6,680. This compares with an excess of revenues over expenses in FY 2016 of $6,116, and represents a year-over-year increase of $564. The excess was mainly due to higher than planned revenues from underwriting levies ($2,983) as a result of several large deals in both equity and debt markets; lower than planned technology costs due to lower data hosting costs, deferred project start dates, and lower helpdesk and network services costs; and lower than planned compensation and benefits mainly due to pension estimate variance.

The excess of revenues over expenses for FY 2017 offset by a re-measurement loss of $1,143 for the pension plans and post-retirement benefit plan, increased the Unrestricted Fund balance to $51,424, compared with an opening balance of $45,887.

EXTERNALLY RESTRICTED FUND

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

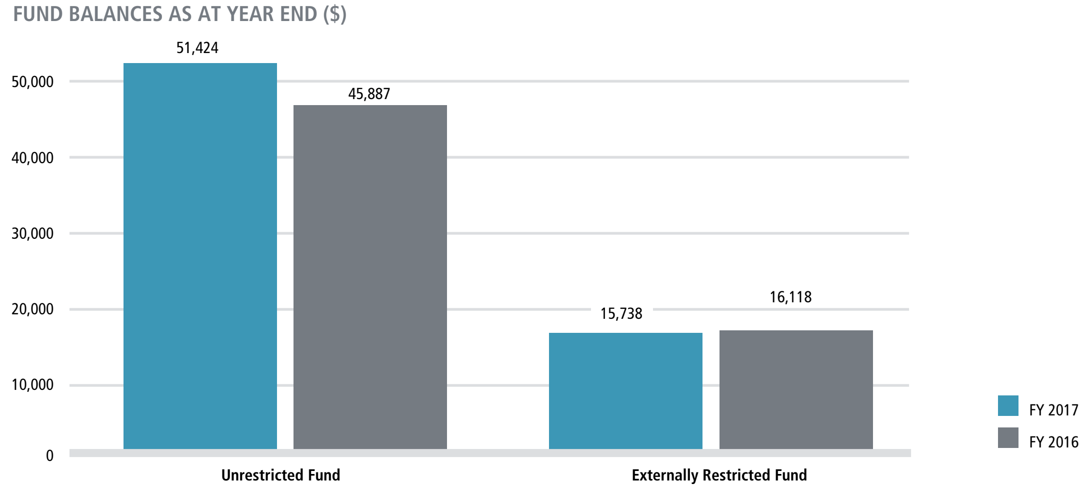
The use of monies from the Fund is restricted by IIROC's Recognition Orders. All expenses, other than hearing panel-related costs, must be approved by IIROC's Corporate Governance Committee.

Total revenues for the year amounted to $2,222, compared with $2,268 for FY 2016, a decrease of $46 (2%).

Total expenses increased from $2,194 to $2,602, an increase of $408 (19%). The increase was primarily due to increases in hearing panel costs, higher amortization costs with the debt surveillance project and support to the Institute of Financial Education and Literacy for a financial literacy program for Canadian investors. These increases were partially offset by reduced requirements for cybersecurity funding from the Externally Restricted Fund.

The resulting deficit for the year was $380, compared to an excess of $74 in the previous year.

FUND BALANCES AS AT YEAR END ($)



The capital project investment through the fund was $82 on development of a debt surveillance system, and this concluded the first phase of implementation of debt trade reporting requirements for dealer members. The Fund balance decreased from $16,118 to $15,738 by the end of the year.

An IIROC policy is in place to ensure adequate funding is maintained for hearing panel-related costs.

LIQUIDITY AND CAPITAL RESOURCES

At the end of FY 2017, IIROC held total fund balances of $67,162, up $5,157 from the FY 2016 balance of $62,005, in the combined balances in the Unrestricted Fund and Externally Restricted Fund. The increase in fund balances arose from an excess of revenues over expenses of $6,300 offset by a re-measurement loss for the pension plans and post-retirement benefit plan of $1,143 for FY 2017.

During the year, IIROC invested $4,933 in assets ($4,204 in FY 2016). Investments, which were primarily in technology ($2,519), included: a new Enterprise Resource Planning (ERP) solution and Corporate Performance Management (CPM) solution ($1,325), and Server/Network/Desktop Refresh ($745). Investments in furniture, equipment, leasehold improvements, and premises accessibility ($1,007) and market supervision ($872) also contributed to the total.

On July 29, 2011, IIROC entered into a two-year extendable credit agreement of $6,000 with Canadian Imperial Bank of Commerce (CIBC) to finance IIROC's working capital, and head office and Calgary office refurbishment requirements. On July 25, 2015, IIROC extended the Term Facility for a period of two years. As at March 31, 2017 the loan payable on this facility is $997.

IIROC also entered into a two-year extendable revolving credit facility of $4,000 with CIBC. IIROC has not borrowed any amounts under this facility as at March 31, 2017. The facility is scheduled to expire on July 29, 2017 and may be extended thereafter.

Pursuant to the credit agreement, $4,000 in cash or cash equivalents is held as collateral by the bank.

IIROC has an internal liquidity guideline in the Unrestricted Fund of three months of operating costs. The Fund holds more than the $23,318 required by the guideline, based on FY 2018 budgeted operating costs.

IIROC holds investments of $32,898 in highly liquid marketable securities such as government-issued treasury bills, and debt instruments of financial institutions with remaining maturities of greater than three months, mutual funds and an equity investment.

Planned uses for the excess of revenues over expenses include registered pension plan deficit funding, unregistered Supplemental Plan for Executives (SERP) and Post-Retirement Benefits (PRB) deficit funding, and future capital expenditures.

COMMITMENTS

As at March 31, 2017, IIROC has in place basic minimum aggregate annual rental commitments of $20,926 (FY 2016 – $23,359), excluding GST/HST and shared operating costs under long-term leases, with varying expiry dates to October 31, 2026. In addition to minimum lease payments, IIROC is also obligated to pay its share of operating costs, which fluctuate from year to year.

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 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.

IIROC also provides pension and retirement benefits to employees as described in Note 8 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 $27,321.

IIROC 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.

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 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 Dealer Members' financial viability. The allowance for doubtful accounts as at March 31, 2017 was $Nil (FY 2016 – $60 or 0.10%).

b) Date amortization begins – This is the date when an asset is considered substantially complete and available for use.

c) Amortization periods for capital assets – IIROC begins amortization of an asset based on a half-year amortization in the first year. 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 within a prescribed range for the purpose of the benefit asset/liability calculation which is carried out by the actuaries.

RISK

IIROC utilizes the three lines of defence framework for risk management. Management and business operations are the first line; Enterprise Risk Management (ERM) is the second line; and Internal Audit is the third line.

The Finance, Audit & Risk (FAR) Committee exercises overall governance over ERM as set out in its Committee Charter. A Risk Committee (RC) has also been established which is comprised of IIROC's Executive Management Team (EMT) that governs ERM as set forth in the RC Charter.

The ERM self-assessment process entails a top-down/bottom-up self-assessment of IIROC's risks, which is conducted annually within a defined framework. The assessment is performed by the RC and business units, with support from the Head of ERM. The results of the assessments are consolidated, reviewed, and presented in the form of a risk management report to the RC, the FAR Committee and the Board. Throughout the year, the Head of ERM provides a formal update on risk management activities at 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 has worked closely with its Internal Auditor and the CSA in developing a risk-based Internal Audit plan. The Internal Audit work consisted of four audits in four different areas of IIROC. The audits independently verified the adequacy and operating effectiveness of IIROC's internal controls. No high severity findings were identified.

LITIGATION RISK

IIROC is currently subject to litigation as disclosed in Note 11 to the Financial Statements and from time to time, IIROC may face claims by employees, the public, member organizations and other third parties arising from the ordinary course and conduct of its business.

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

CYBERSECURITY

IIROC is maintaining its investment in cybersecurity measures to prevent unauthorized access to personal and confidential information, in response to an evolving threat landscape.

REVENUE RISK

About 81% 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.

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 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, 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. 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 costs through underwriting levies, as well as dealer regulation and market regulation membership fees. This also affects investment assets used for employee future benefits. IIROC minimizes its exposure to market risk through its policy of investing in Government of Canada treasury bills, bankers' acceptances and promissory notes and through a governance process on the organization's investment strategy for IIROC and pension fund assets including SERP and PRB.

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. 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.

BUSINESS CONTINUITY

IIROC has a Business Continuity Plan (BCP) to ensure critical regulatory services can continue if an external disruption occurs. BCPs have been updated and IIROC is working on strengthening the resiliency program.

OUTLOOK

Next year's budget reflects the need to maintain the ability to effectively discharge IIROC's regulatory mandate in an environment that continues to be challenging. The budget includes the financial resources required for IIROC to accomplish its priorities and advance initiatives reflected in the Three-Year Strategic Plan which is now in its second year. These are listed in the IIROC Strategic Plan 2017-2019 (Administrative Notice 16-0109) published on May 26, 2016, and IIROC 2018 Priorities (Administrative Notice 17-0117) published on June 1, 2017.

More than half of the initiatives defined in the three-year plan have been completed in FY 2017. These initiatives include: implementation of the debt trade reporting requirements for all Dealer Members; enhancing Business Conduct Compliance (BCC) examination test procedures in the areas of "Know Your Client" (KYC), suitability and social media; and conducting a dealer self-assessment survey to determine the level of dealer and industry cybersecurity preparedness.

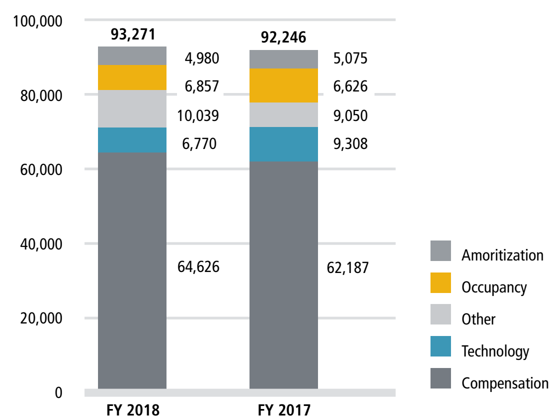
In addition, extensive work has been done on a number of initiatives in subsequent stages of delivery. These include completion of the new Enterprise Resource Planning (ERP) solution and implementation of significant aspects of the Corporate Performance Management (CPM) solution. As the corporate debt IP, IIROC implemented the first phase of a public transparency service. The Debt IP service is a new activity where processes will likely evolve; IIROC will review the Debt IP Fee Model in due course and adjust it, if required.

FY 2018 priorities, published in June 2017, maintain IIROC's commitment to enhancing its regulatory effectiveness while operating in an efficient and cost-effective manner by leveraging technology and allocating resources based on strategic priorities and risk assessments. These priorities include:

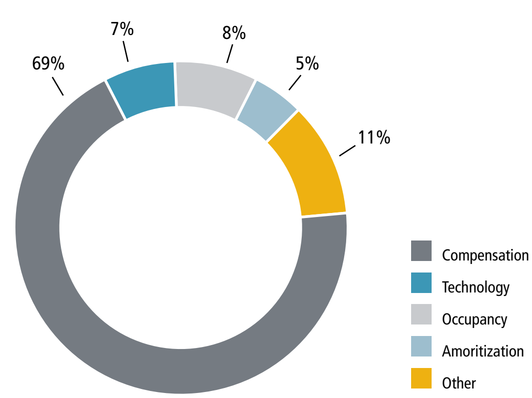
- continuing to pursue expanded legal authority to collect fines
- initiating implementation of a new surveillance system to support the continued evolution of market supervision
- identifying and working to reduce regulatory arbitrage in Canada
- enhancing data-sharing platform and capabilities
- beginning the rebuild of IIROC's website
- continuing to optimize investments in information technology
- finalizing the Plain Language Rule Book and introducing Dealer training
- exploring an Expanded Debt Information Processor Service

Total Operating Expenses for the coming year are budgeted to increase by $1,025 to $93,271 compared to last year's budget of $92,246. The increase in costs is driven by compensation and benefits costs due to base salary increases, and increased headcount in areas such as debt market surveillance and information technology. The increase in costs is partially offset by decreases in technology costs due to lower data hosting costs, and redesign of data center infrastructure to reduce complexity and ongoing costs.

BUDGETED OPERATING COSTS ($)



FY 2018 BUDGETED OPERATING COSTS



Our underwriting levies are expected to be lower than FY 2017 actuals for both debt and equity issuances. FY 2017 actuals of $11,283 were the highest over the past five years (FY 2013 to FY 2017); the average over this period is approximately $10,120. Registration fees are expected to be higher by $500 due to increased activity in Quebec and New Brunswick and a fee increase by Alberta.

FY 2018 fees will remain flat for Dealer Regulation activities when compared to FY 2017 Fees. While total Market Regulation fees are projected to be flat, Debt Market Regulation operations will for the first time assume their proportionate allocation of corporate overheads. As a result, some $500 in Equity Market allocated costs and other overheads will be shifted to Debt Market. Debt Market staff complement has increased by two to support regulation of non-Government Securities Distributors and other activities as requested by the CSA. Equity Market Regulation fees will reduce by $700 (2.6%) and Debt Market Regulation fees will increase by $700 (55.1%) in consequence. Debt IP Fees will be $461 in FY 2018.

IIROC's total fees for FY 2018 and the past three years have been consistent at approximately 40 bps of industry revenue[1]. The four-year compound annual growth rate (CAGR) of fees including projections for FY 2018 is 2.4%, which is less than the industry revenue CAGR of approximately 5%[2] over the same period. IIROC revenue (which for this purpose[3], includes regulatory fees and levies but excludes fines and penalties) and costs are projected to grow at CAGRs of 2.2% and 1.9% 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 accumulated excess of revenue over expenses at this time to fund IIROC's registered pension plan deficit, unregistered SERP and PRB deficits, and for funding of capital assets.

1 Industry revenues and expenses are based on IIROC compiled data (IIROC monthly financial report statistics).
2 Industry Revenue for FY 2018 is assumed to be the same as FY 2017 (due to data availability).
3 Unrestricted Fund revenues only.