

IIROC NOTICE

Administrative Notice Request for Comments

Please distribute internally to:
Senior Management
Finance

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Proposed Amendments to the Minimum Dealer Regulation Fee Component of the Dealer Member Fee Model

Executive Summary

IIROC collects most of its revenue under four fee models: the Dealer Member Fee Model, the Equity Market Regulation Fee Model, the Debt Market Regulation Fee Model and the Debt Information Processor Fee Model.

Under the existing Dealer Member Fee Model, an IIROC Dealer Member pays an annual fee for each fiscal year.

Based on experience in administering the existing annual fee and, after considering a number of alternatives, we are proposing to amend and simplify the Minimum Fee Component of the annual fee by:

- introducing a single \$22,500 Minimum Fee category to replace the current \$15,000 and \$27,500 Minimum Fee categories
- eliminating the Total Allocated Cost element of the Minimum Dealer Regulation Fee Component.

IIROC presented its proposal to the Financial and Operations Advisory Section Executive Committee and to the Investment Industry Association of Canada Small Dealers Committee.

Background

IIROC collects most of its revenue under four fee models: the Dealer Member Fee Model, the Equity Market Regulation Fee Model, the Debt Market Regulation Fee Model and the Debt Information Processor Fee Model. The main elements of these fee models were developed after consultation with the industry and were published for comment prior to approval by IIROC's recognizing regulators.

Under the Dealer Member Fee Model, an IIROC Dealer Member pays, among other fees, Annual Fees for each Fiscal Year. For ease of reference, Appendix 1 contains an extract from IIROC's Fee Model Guidelines, setting out the relevant sections regarding the calculation of the Annual Fee. IIROC's Fee Model Guidelines can be viewed in their entirety at [IIROC Notice 17-0072](#).

Annual Fees are determined with reference to four components:

- the Revenue Component
- the Approved Person Fees Component
- the Minimum Dealer Regulation Fee Component
- the Risk Component.

The current proposal would amend only the Minimum Dealer Regulation Fee Component of the Annual Fee.

Currently, IIROC uses a Dealer Member's Total Allocated Costs (as defined in the Fee Model Guidelines) to determine the Dealer Member's Minimum Dealer Regulation Fee Component ("Minimum Fee"). The calculation results in two possible Minimum Fee categories. If the Total Allocated Costs are equal to or less than \$20,000, the Minimum Fee is \$15,000. If the Total Allocated Costs are greater than \$20,000, the Minimum Fee is \$27,500.

We believe that this method is unnecessarily complex.

Guiding Principles

IIROC uses the following guiding principles as an objective frame of reference to evaluate potential fee model changes:

- **Fairness** – A Dealer Member's share of fees should be based on its usage or consumption of IIROC's regulatory services.
- **Transparency** – Dealer Members should understand how their fees reflect the application of the guiding principles.

- **Consistency** – Fees and principles that determine such fees should be consistently applied and understood by all Dealer Members.
- **Industry Competitiveness** – In the public interest and to the greatest extent possible, fees should not inhibit new entrants to or prevent smaller Dealer Members from remaining in the industry. The setting of fees should be designed to not favor one Dealer Member over another.
- **Cost Recovery of Regulatory Services Provided** – IIROC will operate on a cost recovery basis.

Disadvantages of the Current Minimum Fee

IIROC has identified the following disadvantages of the current calculation:

- **Volatility:** Changes in allocated costs can move a Dealer Member between the \$15,000 and \$27,500 Minimum Fee categories. For example, if a dealer’s current Minimum Fee is \$15,000, and the dealer was the subject of a review by one of IIROC’s Compliance departments, this would increase its allocated costs and would move it into the \$27,500 Minimum Fee category. Subsequently, if the dealer were no longer the subject of such a review and assuming no other increase in allocated costs, the Dealer Member would then fall back into the \$15,000 Minimum Fee category. This type of movement will repeat itself depending on the circumstances of each individual Dealer Member and the IIROC resources expended on it in a given year.
- **Lack of Predictability:** Due to the movement of Dealer Members between Minimum Fee categories, a Dealer Member may not be able to accurately predict which Minimum Fee they will pay. This in turn may make budgeting more challenging for Dealer Members.
- **Element of Unfairness:** A small change in allocated costs could mean the difference between paying \$15,000 or \$27,500. An allocated cost above or below \$20,000 will determine the Minimum Fee category. If the allocated costs are close to \$20,000 then a small movement in these costs could mean the difference in the category.

Proposed Change

In order to address these disadvantages, we propose to:

- introduce a single \$22,500 Minimum Fee category to replace the current \$15,000 and \$27,500 Minimum Fee categories
- eliminate the Total Allocated Cost element of the Minimum Fee.

Analysis

To determine which Dealer Members would be impacted by the proposed change, IIROC analyzed the 4-year average minimum fee paid by Dealer Members active over those 4 years. We found that most minimum-fee-paying Dealer Members have a 4-year average fee payment greater than \$22,500 and will benefit from a drop in their fees.

In FY 2017, there were 69 Dealer Members in both Minimum Fee categories combined, of which 61 (38% of active Dealer Members) were active over the past 4 years:

- Of these 61 Dealer Members, 52 had a 4-year average fee greater than \$22,500 and 9 had an average below \$22,500.
- Of these 9 Dealer Members, 7 had a 4-year average of \$21,000 - \$22,500 and so will only be slightly affected by the proposed change. Of these 7 Dealer Members, only 1 is among the bottom 20 Dealer Members sorted by revenue. The remaining 2 Dealer Members had a 4-year average below \$21,000, 1 of which is not found in the bottom 20 Dealer Members sorted by revenue and therefore will not be significantly impacted by the change.

Of the Dealer Members in the \$15,000 Minimum Fee category in FY 2017, only 2 could be found in the bottom 20 Dealer Members sorted by revenue. The remaining 18 Dealer Members are not in the lowest Minimum Fee category, and are currently paying \$27,500.

Essentially, in FY 2017, under the current calculation method, the majority of lowest-revenue Dealer Members are in the higher Minimum Fee category. This is important for two reasons. First, it indicates that under the current model, the lowest-revenue Dealer Members may end up paying the higher Minimum Fee if their allocated costs increase in a particular year due to IIROC activity with that Dealer Member. Second, a single, new \$22,500 Minimum Fee category will not necessarily increase the fee burden on the lowest-revenue Dealer Members.

The impacts of the proposed change in FY 2017 would have seen a majority of Minimum Fee payers benefit from a reduction of fees and result in an overall increase of \$200,000 or 0.4% of fees paid by non-Minimum-Fee payers.

Conclusions

In determining the Minimum Fee level, we sought to minimize the impact on Dealer Members, particularly any significant impact of a fee increase. Most Minimum Fee payers will benefit from a reduction in fees.

The reduction in volatility resulting from the proposed change strongly suggests that IIROC should move to a single Minimum Fee category.

Alternatives Considered

In looking to simplify the Minimum Fee, we considered two alternative approaches.

- **Removal of Total Allocated Costs:** We considered simplifying the calculation by eliminating the Total Allocated Costs component, while keeping the two Minimum Fee categories at \$15,000 and \$27,500. In this alternative, the Minimum Fee would be purely driven by the sum of the Revenue Component and Approved Person Fee Component.

Although this alternative simplifies the calculation, retaining two Minimum Fee categories is overly complex.

- **Elimination of Minimum Fee categories:** We considered removing the concept of a “Minimum Fee” altogether.

Adopting this alternative would have caused a significant decrease in Annual Fees paid by certain Dealer Members and would have shifted the financial burden to other Dealer Members. This alternative would go counter to IIROC’s guiding principles of fairness, which requires Dealer Members to pay their share of regulatory resources consumed.

Effective Date

IIROC anticipates that the proposed changes to the Minimum Fee would become effective April 1, 2018.

Industry Consultation

IIROC presented its proposal to the Financial and Operations Advisory Section Executive Committee and to the Investment Industry Association of Canada Small Dealers Committee.

Request for Comments

The amendments were approved for publication for comment in November 2017 by both the IIROC Finance Audit and Risk Committee and IIROC Board of Directors.

IIROC seeks written comments on the proposed amendments. Comment letters should be delivered by February 5, 2018 (45 days from the publication date of this notice) addressed to the attention of:

Shuaib Shariff
Senior Vice President, Finance and Administration
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Toronto, ON, M5H 3T9
comments@iiloc.ca

Commenters should be aware that a copy of their comment letter will be made publicly available on the IIROC website at www.iiloc.ca

Appendix 1 – Extract from IIROC’s Fee Model Guidelines

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- “
3. The Annual Fee for each Dealer Member shall be determined with reference to the following components:
 - (a) Revenue Component;
 - (b) Approved Person Fees Component;
 - (c) Minimum Dealer Regulation Fee Component; and
 - (d) Risk Component.

The Annual Fee shall be the sum of the Revenue Component calculated in accordance with Section 4 and the Approved Person Fees Component calculated in accordance with Section 5, unless such sum is less than the applicable Minimum Dealer Regulation Fee Component set out in Section 6, in which case the Annual Fee shall be the applicable Minimum Dealer Regulation Fee. The Annual Fee of each Dealer Member is adjusted by the Risk Component prescribed in accordance with Section 7.

The amount of the Annual Fee calculated in accordance with the foregoing paragraph shall be reduced pursuant to Section 8 if the applicant is approved for membership by the Board at any time after April 1 in any Fiscal Year.

4. **Revenue Component.** The Revenue Component of the Annual Fee shall be an amount equal to the product of the Total Revenue of the Dealer Member for the previous calendar year as reported to IIROC and the Revenue Rate prescribed by the Board in its discretion for the applicable Revenue Component Tier set out in Appendix A. Revenue Rates will be reviewed and adjusted annually by the Board in its discretion.
5. **Approved Person Fees Component.** The Approved Person Fees Component of the Annual Fee shall be an amount equal to the product of the number of Approved Persons of the Dealer Member as at the last day of the previous Fiscal Year and \$250.
6. **Minimum Dealer Regulation Fee Component.** If the sum of the Revenue Component and the Approved Person Fees Component of a Dealer Member is less than \$27,500, the Minimum Dealer Regulation Fee is payable by that Dealer Member as follows:
 - (a) if the Total Allocated Costs of the Dealer Member are equal to or less than \$20,000, the Minimum Dealer Regulation Fee is \$15,000; and
 - (b) if the Total Allocated Costs of the Dealer Member are greater than \$20,000, the Minimum Dealer Regulation Fee is \$27,500.”

...

INTERPRETATION

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““Total Allocated Costs” means the operating cost of IIROC’s regulatory services allocated to a Dealer Member for a particular Fiscal Year on a prorated basis.”

Appendix 2 – Proposed Amendments to Guidelines – Black-lined (see changes on pages 2 and 17)



APPENDIX 2
IIROC FEE MODEL GUIDELINES
TABLE OF CONTENTS

DEALER MEMBER FEE MODEL	1
Entrance Fee	1
Annual Fee	1
4. Revenue Component	2
5. Approved Person Fees Component.....	2
6. Minimum Dealer Regulation Fee Component.....	2
7. Risk Component.....	2
8. Annual Fee for New Members	3
Payment of Annual Fee.....	3
9. Quarterly Payments.....	3
10. Payment of Annual Fee on Acquisition of Dealer Member.....	3
Underwriting Levies	4
11. Interpretation	4
12. Levy.....	6
13. Responsible Dealers	7
14. Discretion of the Board.....	7
General.....	8
15. Assessment	8
16. Late Payment of Annual Fees	8
17. Extraordinary Costs and Expenses.....	9
18. Additional Fees Payable by Dealer Members.....	9
EQUITY MARKET REGULATION FEE MODEL.....	9
Entrance and Set-Up Fees.....	9
19. Dealer Member Application Fees	9
20. Regulation Services Agreement Fee.....	9
21. Information Technology Fee	10
22. Marketplace-Specific Costs	10
Monthly Equity Market Regulation Fees	10
23. Message Processing Fee	11
24. Trade Fee	11
25. Minimum Equity Market Regulation Fee	11
26. Administration Fee	12
Payment of Monthly Equity Market Regulation Fees.....	12
27. Monthly Invoices	12

DEBT MARKET REGULATION FEE MODEL	13
Monthly Debt Market Regulation Fees	13
28. Non-Repo Debt Transaction Fee	13
29. Repo Debt Transaction Fee	13
Payment of Monthly Debt Market Regulation Fees	13
30. Monthly Invoices	13
Late Filing Fee	14
31. Late Filing Fee	14
DEBT INFORMATION PROCESSOR FEE MODEL	14
Monthly Debt Information Processor Fees	14
32. Debt Transaction Fee	14
Payment of Monthly Debt Information Processor Fees	14
33. Monthly Invoices	14
GENERAL PROVISIONS	14
34. Interest	14
35. Change in Fees	15
36. Applicable Taxes	15
INTERPRETATION	15
APPENDIX A – REVENUE COMPONENT TIERS	20
APPENDIX B – ADDITIONAL FEES PAYABLE BY DEALER MEMBERS	21

DEALER MEMBER FEE MODEL

Applicants to become a member of IIROC are required to pay an Entrance Fee as part of the application process. On becoming Dealer Members, applicants pay Annual Fees for each Fiscal Year. This Dealer Member Fee Model sets out certain details of IIROC's administration of fees payable where such details are not provided with the By-laws, Rules or elsewhere (including the provisions identified in Appendix B).

Entrance Fee

1. The Entrance Fee charged to each new Dealer Member shall be \$25,000, payable as follows:
 - (a) a non-refundable amount of \$10,000 payable on acceptance of an application for membership as a Dealer Member for review by IIROC; and
 - (b) \$15,000 payable on approval of the application for membership as a Dealer Member by the Board.

In accordance with section 3.5(3) of the By-laws, if the application for membership as a Dealer Member is not approved by the Board within six months from the date the application was accepted for review by IIROC for any reason that cannot reasonably be attributed to IIROC or its staff, the amount paid under Subsection 1(a) above is forfeited to IIROC.

2. Each application for membership as a Dealer Member that is approved by the Board shall be accompanied by a payment to the Restricted Fund equal to 0.5% of the applicant's expected initial capital calculated according to IIROC Form 1, payable together with the payment in Subsection 1(b).

Annual Fee

When establishing the Annual Fees payable by Dealer Members for a particular year, IIROC determines what its net annual costs attributable to Dealer Member regulation are expected to be for that year. Such net annual costs are equal to IIROC's budgeted costs for that year less projected underwriting levies, proceeds from registration fee sharing arrangements with various securities regulatory authorities, interest and other income. The Annual Fee payable by a Dealer Member will be based on its pro-rata share of such costs as determined in accordance with the provisions set out below.

3. The Annual Fee for each Dealer Member shall be determined with reference to the following components:
 - (a) Revenue Component;

- (b) Approved Person Fees Component;
- (c) Minimum Dealer Regulation Fee Component; and
- (d) Risk Component.

The Annual Fee shall be the sum of the Revenue Component calculated in accordance with Section 4 and the Approved Person Fees Component calculated in accordance with Section 5, unless such sum is less than the applicable Minimum Dealer Regulation Fee Component set out in Section 6, in which case the Annual Fee shall be the applicable Minimum Dealer Regulation Fee. The Annual Fee of each Dealer Member is adjusted by the Risk Component prescribed in accordance with Section 7.

The amount of the Annual Fee calculated in accordance with the foregoing paragraph shall be reduced pursuant to Section 8 if the applicant is approved for membership by the Board at any time after April 1 in any Fiscal Year.

4. **Revenue Component.** The Revenue Component of the Annual Fee shall be an amount equal to the product of the Total Revenue of the Dealer Member for the previous calendar year as reported to IIROC and the Revenue Rate prescribed by the Board in its discretion for the applicable Revenue Component Tier set out in Appendix A. Revenue Rates will be reviewed and adjusted annually by the Board in its discretion.
5. **Approved Person Fees Component.** The Approved Person Fees Component of the Annual Fee shall be an amount equal to the product of the number of Approved Persons of the Dealer Member as at the last day of the previous Fiscal Year and \$250.
6. **Minimum Dealer Regulation Fee Component.** If the sum of the Revenue Component and the Approved Person Fees Component of a Dealer Member is less than ~~\$22,500~~\$27,500, the Minimum Dealer Regulation Fee ~~is~~ payable by that Dealer Member ~~is \$22,500, as follows:~~
 - ~~(a) if the Total Allocated Costs of the Dealer Member are equal to or less than \$20,000, the Minimum Dealer Regulation Fee is \$15,000; and~~
 - ~~(b) if the Total Allocated Costs of the Dealer Member are greater than \$20,000, the Minimum Dealer Regulation Fee is \$27,500.~~
7. **Risk Component.** A Dealer Member is assessed annually to determine its risk profile by each of FINOPS and BCC.
 - (a) If a Dealer Member is assigned a “high risk” profile by one or both of FINOPS and BCC, the Dealer Member is required to pay the applicable risk premium prescribed by each department that assigned the Dealer Member a “high risk” profile.

- (b) A credit equal to the risk premiums paid will be applied towards the Annual Fee payable by those Dealer Members that are not required to pay a risk premium.
 - (c) For greater certainty, in no event shall the credit in Subsection 7(b) above reduce the fees payable by a Dealer Member to less than the applicable Minimum Dealer Regulation Fee.
8. **Annual Fee for New Members.** If an applicant for membership is approved by the Board at any time:
- (a) between April 1 and September 29, both inclusive, the Annual Fee for the balance of the Fiscal Year shall be \$15,000;
 - (b) between September 30 and December 31, both inclusive, the Annual Fee for the balance of the Fiscal Year shall be \$7,500; or
 - (c) between January 1 and March 31, both inclusive, the Annual Fee for the balance of the Fiscal Year shall be \$3,750.

Payment of Annual Fee

9. **Quarterly Payments.** The Annual Fee shall be payable in quarterly instalments by the Dealer Member in each year. Notice of the amount of the first and second quarterly payments shall be mailed to each Dealer Member on or about the first business day of July. The first quarterly payment shall be made by each Dealer Member immediately upon receipt and the second quarterly payment shall be paid by each Dealer Member not later than the first business day of August. Notice of the amount of the third and fourth quarterly payments shall be mailed to each Dealer Member on or about the first business day of September and December, respectively. The third quarterly payment shall be paid in advance by each Dealer Member not later than the first business day of October and the final quarterly payment shall be paid in advance by each Dealer Member not later than the first business day of January.
10. **Payment of Annual Fee on Acquisition of Dealer Member.** Notwithstanding the foregoing, in the event that:
- (a) an applicant for membership has acquired the whole or a substantial part of the business and assets of a Dealer Member or Members in good standing whose Annual Fee for the then current Fiscal Year has been paid in full and who is or are resigning from membership concurrently with the admission of the applicant to membership; and
 - (b) at least a majority in number of the partners of the applicant, in the case of a partnership, or at least a majority in number of the directors and at least a majority in number of the officers of the applicant, in the case of a corporation,

are partners, or directors and officers, as the case may be, of the resigning Dealer Member or Members;

then the applicant, if the applicable District Council so approves, shall be exempted from payment of the Entrance Fee and from payment of the Annual Fee for the then current Fiscal Year. In no event including the foregoing circumstances shall there be a credit or refund of Annual Fees paid to date where one Dealer Member acquires all or any part of the shares, business or assets of another Dealer Member.

Underwriting Levies

11. ***Interpretation.*** In Sections 11, 12 and 13 the following terms have the following meanings:

- (a) **“Canadian Public Offering”** means a Distribution of securities of a corporation, partnership or a trust if a prospectus or similar offering document is required to be filed with any securities regulatory authority in Canada, other than a:
 - (i) Private Placement; or
 - (ii) Distribution of Government of Canada securities, Provincial Securities, Municipal Securities or Not-for-Profit securities;
- (b) **“Distribution”** means a distribution of securities in Canada by way of Canadian Public Offering or Private Placement, or a distribution of Government of Canada Securities, Provincial Securities, Municipal Securities or Not-for-Profit Securities, whether underwritten on a firm (including bought deals) or best efforts basis by the Dealer Member, as principal or agent, and as a member of the underwriting or selling groups; provided no such distribution shall be a Distribution for the purposes of this definition if the securities are:
 - (i) Money market obligations with a term to maturity of one year or less, or greater than one year solely by reason of the term to maturity otherwise ending on a day that is not a business day;
 - (ii) Government of Canada, Provincial and Municipal Securities which are distributed by way of auction by or on behalf of the Government of Canada or a provincial or municipal government;
 - (iii) Rights to acquire securities issued to holders of previously distributed securities;
 - (iv) Securities, other than securities described in subsections 11 (c) to 11 (g), inclusive, in respect of which the Total Revenue to the underwriters for the offering of such securities is equal to 1% or less of the aggregate principal amount of the offering in the case of debt securities, or the

- maximum aggregate price at which the securities are offered in the case of any other securities;
- (v) Debt securities in respect of which the aggregate principal amount is less than \$1,000,000;
 - (vi) Any securities (other than debt securities) in respect of which the maximum aggregate offering price is less than \$1,000,000; or
 - (vii) securities distributed in a block trade conducted on a Marketplace if no prospectus or similar offering document is filed with a securities regulatory authority in respect of the block trade;
- (c) **“Government of Canada Securities”** means securities of, or guaranteed by, the Government of Canada;
 - (d) **“Municipal Securities”** means securities of, or guaranteed by, any municipal corporation in Canada;
 - (e) **“Not-for-Profit Securities”** means securities of any school or school board, hospital or other not-for-profit organization;
 - (f) **“Private Placement”** means a Distribution of securities of a corporation, partnership or trust if a prospectus or similar offering document is not required to be filed with any securities regulatory authority in Canada, provided that a Distribution of Government of Canada securities, Provincial Securities, Municipal Securities or Not-for-Profit Securities shall not be a private placement for the purposes of this definition;
 - (g) **“Provincial Securities”** means securities of, or guaranteed by, any province or territory of Canada;
 - (h) **“Levy Cap”** means, for any Distribution, an amount equal to 2.5% of the Total Revenue to a Dealer Member for its participation in that Distribution;
 - (i) **“Responsible Dealer”** means the Dealer Member, if any, which is responsible on behalf of more than one Dealer Member for the bookkeeping and accounting in a Distribution;
 - (j) **“Security”** means any property that is a “security” for the purposes of any securities legislation in Canada, and shall include, without limitation, warrants, debt-like derivatives, structured notes and asset-backed instruments, provided that the Board may from time to time determine whether any particular property is to be included or excluded from such definition, which determination shall be final and conclusive; and

- (k) **“Total Revenue”** means, in respect of an offering, the aggregate of:
 - (i) any commission paid to the Dealer Member; and
 - (ii) any fee paid to the Dealer Member.

12. **Levy.** Each Dealer Member shall pay to IIROC a levy as follows with respect to its proportionate participation in any Distribution:

- (a) For a Canadian Public Offering, in the case of debt securities, 1/100th of 1% of the aggregate principal amount of the offering or, in any other case 1/100th of 1% of the maximum aggregate price at which the securities are offered;
- (b) For a Private Placement, in the case of debt securities, 1/200th of 1% of the aggregate principal amount of the offering or, in any other case, 1/200th of 1% of the maximum aggregate price at which the securities are offered;
- (c) For a Distribution of Government of Canada securities, 1/300th of 1% of the aggregate principal amount of the offering;
- (d) For a Distribution of Provincial Securities, in the case of debt securities, 1/200th of 1% of the aggregate principal amount of the offering or, in any other case, 1/200th of 1% of the maximum aggregate price at which the securities are offered;
- (e) For a Distribution of Municipal Securities, in the case of debt securities, 1/300th of 1% of the aggregate principal amount of the offering or, in any other case, 1/300th of 1% of the maximum aggregate price at which the securities are offered; and
- (f) For a Distribution of Not-for-Profit Securities, in the case of debt securities, 1/200th of 1% of the aggregate principal amount of the offering or, in any other case, 1/200th of 1% of the maximum aggregate price at which the securities are offered,

provided that the amount of the levy payable by a Dealer Member for a Distribution shall not exceed an amount equal to the Levy Cap for that Dealer Member for that Distribution.

Each levy shall be calculated in Canadian dollars or in the Canadian dollar equivalent of the currency of the Distribution as of the date on which the first closing of the transaction occurs. If the levy for an offering may be calculated according to more than one of paragraphs (a) to (f) above, the levy shall be calculated according to the paragraph which provides the highest levy.

All Distributions are deemed to take place entirely in Canada unless the Dealer Member provides evidence, acceptable to IIROC in its sole discretion, of the number of securities offered outside Canada, in which case the levy will be calculated on the securities distributed in Canada.

13. **Responsible Dealers.** Each Dealer Member or, if there is a Responsible Dealer in respect of a Distribution involving more than one Dealer Member, the Responsible Dealer shall:
- (a) Complete a new levy form for submission with payment;
 - (b) Provide details of the Total Revenue for each Dealer Member, supported by third-party sources such as the Underwriting/Agency Agreement, Financial Post or SEDAR; if such details are not provided, the Levy Cap will not apply;
 - (c) Calculate the amount of the levy to be paid by each Dealer Member in respect of the Distribution;
 - (d) Pay and, in the case of a Responsible Dealer, collect from the other Dealer Members and remit to IIROC the amount of the levy within sixty (60) days of the date on which the first closing of the transaction occurs; and
 - (e) Deliver to IIROC on or before the time of payment of the levy pursuant to paragraph (d) copies of any and all forms, notices and calculations relating to the size or amount of the Distribution as are required to be filed with any securities regulatory authority or stock exchange in Canada in respect of the Distribution.

If there are two or more Responsible Dealers who have substantially equal obligations in respect of a Distribution, they shall each be responsible on a proportional basis for the collection and remission of the applicable levy; provided that if one of such Responsible Dealers is not a Dealer Member, the Responsible Dealer(s) which are Dealer Members shall collect and remit the levy on behalf of all Dealer Members.

If there is no Responsible Dealer in respect of a Distribution, or if the Responsible Dealer is not a Dealer Member, each Dealer Member shall complete a new levy form and remit its proportion of the levy.

14. **Discretion of the Board.** The Board may in its discretion impose the levy on an amount which is less than, in the case of debt securities, the aggregate principal amount of the offering and, in any other case, the maximum aggregate price at which the securities are offered and make any other variations in connection with the imposition of the levy as it deems necessary or desirable.

General

15. **Assessment.** Notwithstanding Sections 3 to 7, inclusive, the Board shall have power to make an assessment in any Fiscal Year upon each Dealer Member not to exceed 50% of the Annual Fee payable in such year by such Dealer Member. Each Dealer Member shall pay the amount so assessed upon it within thirty (30) days after receiving written notification thereof from the Secretary.
16. **Late Payment of Annual Fees.**
- (a) If the Annual Fee payable by a Dealer Member has not been paid:
 - (i) in the case of the first quarterly payment, by the tenth business day of July;
 - (ii) in the case of the second quarterly payment, by the first business day of September;
 - (iii) in the case of the third quarterly payment, by the first business day of November; or
 - (iv) in the case of the fourth quarterly payment, by the first business day of February in any year, or
 - (b) if the amount assessed upon any Dealer Member pursuant to Section 15 or Section 17 has not been paid within thirty (30) days after the Dealer Member has received written notification thereof from the Secretary,

the Secretary shall, by registered mail, request the Dealer Member to pay the same and draw the Dealer Member's attention to the provisions of this Section 16. If the entire amount owing by the Dealer Member has not been paid within thirty (30) days from the date the Secretary has mailed the request, the Secretary shall notify the Board to this effect and the Board may, in its discretion, terminate the membership of the Dealer Member in default. If the Board decides to terminate the membership of a Dealer Member pursuant to the provisions of this Section 16, the Secretary will be requested to notify the Dealer Member, by registered mail, of the decision of the Board. A former Dealer Member whose membership has been terminated pursuant to the provisions of this Section 16 shall cease to be entitled to exercise any of the rights and privileges of membership but shall remain liable to IROC for all amounts due to IROC from the former Dealer Member.

17. ***Extraordinary Costs and Expenses.*** The extraordinary costs and expenses of IIROC incurred in connection with, but not limited to, items such as (i) the review and/or approval of a novel or unusual application for membership as a Dealer Member, (ii) the review and/or approval of any reorganization, take over or other substantial change in the business, structure or affairs of a Dealer Member, (iii) travel and accommodation outside Canada for staff to conduct compliance exams for a Dealer Member, or (iv) costs associated with compliance site visits conducted by staff for applicants as Dealer Members, may be assessed to the Dealer Member at the discretion of the Board.
18. ***Additional Fees Payable by Dealer Members.*** The foregoing Dealer Member Fee Model is not an exhaustive list of the fees payable by Dealer Members. Additional fees that are payable by Dealer Members in certain circumstances are contained in the Dealer Member Rules and in the By-laws. Appendix B contains a summary of where these additional fees may be found and the nature of such fees. The summary is intended to be a guide only and is not a full reproduction of the applicable Dealer Member Rules and/or By-laws. Reference should be made to the full text of the Dealer Member Rules and the By-laws.

EQUITY MARKET REGULATION FEE MODEL

The Equity Market Regulation Fee Model is applicable to Marketplaces that trade equity securities. Applicants for acceptance as Marketplace Members that are alternative trading systems are required to pay Entrance Fees for their Dealer Member application in addition to the Regulation Services Agreement Fee and an Information Technology Fee, which must be paid by all applicants for acceptance as Marketplace Members. On becoming Marketplace Members, Marketplace-Specific Costs may be payable in certain circumstances. Monthly Equity Market Regulation Fees consisting of Message Processing Fees and Trade Fees (subject to a Minimum Market Regulation Fee) are allocated to Marketplaces and are payable by Dealer Members participating in those Marketplaces. Administration Fees are allocated to Marketplace Members and Dealer Members.

Entrance and Set-Up Fees

19. ***Dealer Member Application Fees.*** For alternative trading systems, the process for acceptance as a Marketplace Member is concurrent with that to become a Dealer Member. The Entrance Fee described in Section 1 is payable by such applicants at the time an application is made.
20. ***Regulation Services Agreement Fee.***
 - (a) The minimum fee for the drafting and negotiation of a Regulation Services Agreement between IIROC and an applicant as a Marketplace Member is \$25,000 and is payable at the time of application.

- (b) If time cost spent by IIROC staff on the drafting and negotiation of the Regulation Services Agreement is greater than \$25,000, the difference will be invoiced by IIROC and is payable by the Marketplace Member prior to the Marketplace commencing operations as a Marketplace Member.
- (c) IIROC may, in its discretion, charge the fees indicated in paragraphs (a) and (b) above in connection with the drafting and negotiation of a revised or amended Regulation Services Agreement in circumstances where there has been a material change in the activities of a Marketplace Member.

21. **Information Technology Fee.** The Information Technology Fee charged to each applicant as a Marketplace Member is \$66,500 payable as follows:

- (a) a non-refundable deposit of \$10,000 payable at the time of application for membership as a Marketplace Member; and
- (b) the balance of \$56,500 payable when the applicant is authorized to proceed with the testing and development of Surveillance Technology Enhancement Platform (STEP) functionality for the marketplace.

If time cost spent by IIROC staff on the connectivity and testing process for the marketplace is greater than \$66,500, the difference will be invoiced by IIROC and is payable by the Marketplace Member upon launch of the marketplace.

All costs of information technology development, including any third party costs, for a new marketplace are borne by the Marketplace Member.

22. **Marketplace-Specific Costs.** Each Marketplace Member will pay to IIROC (i) incremental costs incurred by IIROC to perform additional work to monitor a Marketplace as a result of unique marketplace features, and (ii) incremental costs incurred by IIROC as a result of a Marketplace's failure to meet an IIROC regulatory feed standard, testing window or project deadline, including, without limitation, modifications to IIROC's systems, additional staffing or remedial work. Marketplace-Specific Costs will be determined with respect to each Marketplace Member on a monthly basis and shall be invoiced in accordance with Subsection 27(b).

Monthly Equity Market Regulation Fees

When determining the Monthly Equity Market Regulation Fees allocated to a Marketplace Member for a particular month, IIROC first determines its total market regulation costs and then deducts the timely disclosure fees, interest and other income received by IIROC. The net costs are then allocated to each Marketplace Member on a pro-rata basis and are paid by that Marketplace's participating organizations, members or subscribers, as the case may be, that are Dealer Members as identified by the Marketplace. The allocation is based on the number of

messages sent and trades executed by each Dealer Member on each Marketplace, all in accordance with the provisions set out below.

23. *Message Processing Fee.*

- (a) Each Marketplace shall be allocated a fee based on the Marketplace's share of the total number of messages processed by IIROC's surveillance system during a particular month. The Message Processing Fee is determined with reference to the total information technology costs of the surveillance system.
- (b) The Message Processing Fee shall be paid by Dealer Members based on each Dealer Member's pro-rata share of the messages sent through each Marketplace. The total Message Processing Fee and the applicable unit cost per message shall be disclosed in the monthly invoice delivered to Dealer Members in accordance with Subsection 27(a).

24. *Trade Fee.*

- (a) Each Marketplace shall be allocated a fee based on a particular Marketplace's share of the total number of trades completed during a particular month. The Trade Fee is determined with reference to the net market regulation costs after deduction of the information technology costs of the surveillance system.
- (b) The Trade Fee shall be paid by Dealer Members based on each Dealer Member's pro-rata share of the trades made through each Marketplace. The total Trade Fee shall be specified in the monthly invoice delivered to Dealer Members in accordance with Subsection 27(a).
- (c) The number of trades executed by a Qualified Market Maker acting in furtherance of its marketplace trading obligations on the listing exchange shall be discounted by 70% for the purposes of calculating the Trade Fee for such Marketplace. The number of trades on the other side of any trade involving a market maker in its stock of responsibility will be included in the calculation of the overall total number of trades. For clarity, the discount will not be applied to trades for securities that are not listed on the listing exchange that has entered into the trading obligations agreement with the Qualified Market Maker.

25. *Minimum Equity Market Regulation Fee.*

- (a) If the aggregate of the Message Processing Fee and the Trade Fee allocated to a Marketplace Member is less than \$4,800 in a particular month, such Marketplace Member shall be allocated the Minimum Equity Market Regulation

Fee of \$4,800, consisting of \$1,200 allocated to messages and \$3,600 allocated to trades.

- (b) If applicable, the Minimum Equity Market Regulation Fee shall be paid by Dealer Members based on each Dealer Member's pro-rata share of the messages sent and the trades made through a Marketplace subject to the Minimum Equity Market Regulation Fee. The portion of the Minimum Equity Market Regulation Fee, if any, payable by a Dealer Member shall be specified in the monthly invoice delivered to the Dealer Member in accordance with Subsection 27(a). If a Marketplace Member chooses to pay the difference between the Minimum Equity Market Regulation Fee and the aggregate of the Message Processing Fee and the Trade Fee allocated to the Marketplace Member then Dealer Members shall only be responsible for paying the latter.
- (c) If there are no messages processed or trades completed during a particular month, the Marketplace Member shall be required to pay the Minimum Equity Market Regulation Fee directly.

26. ***Administration Fee.***

- (a) A fee of \$400 shall be charged to each Dealer Member and invoiced in accordance with Subsection 27(a)) each month for the provision of detailed billing information or other information related to market regulation fees requested by the Dealer Member.
- (b) An Administration Fee of \$500 shall be charged to each Marketplace Member and invoiced in accordance with Subsection 27(b) each month for the administration of the invoicing of the fees described in this Equity Market Regulation Fee Model to Dealer Members on behalf of the Marketplace Member.

Payment of Monthly Equity Market Regulation Fees

27. ***Monthly Invoices.***

- (a) Dealer Members: Dealer Members shall be invoiced on a monthly basis in arrears within the first ten (10) days of any month for the aggregate of the Message Processing Fee and the Trade Fee, or the Minimum Equity Market Regulation Fee, as applicable, and the Administration Fee charged to Dealer Members. Such invoices are due and payable immediately upon receipt.
- (b) Marketplace Members: Marketplace Members shall be invoiced on a monthly basis in arrears within the first ten (10) days of any month for the aggregate of any Marketplace-Specific costs incurred during a particular month as contemplated in Section 22, the Administration Fee charged to Marketplace

Members and any amount invoiced to a Marketplace Member under Subsection 25(b).

- (c) For the initial months of the fiscal year, Dealer Members will be charged based on IIROC's previous year's budget. Once the budget and fees are finalized for the year, monthly invoices will be adjusted prospectively to reflect the budget of the remaining months of the year.

DEBT MARKET REGULATION FEE MODEL

Monthly Debt Market Regulation Fees

When determining the Monthly Debt Market Regulation Fees allocated to a Dealer Member for a particular month, IIROC first determines its total debt market regulation costs. These costs are then allocated to each Dealer Member on a pro-rata basis and are paid by those Dealer Members as identified based on the number of Non-Repo Debt Transactions and Repo Debt Transactions submitted by each Dealer Member, all in accordance with the provisions set out below.

28. *Non-Repo Debt Transaction Fee.*

- (a) Each Dealer Member shall be allocated a fee, based on their pro-rata share of the total number of Non-Repo Debt Transactions received and processed by IIROC's debt surveillance system during a particular month. The total Non-Repo Debt Transaction Fee and the applicable unit cost per transaction shall be disclosed in the monthly invoice delivered to Dealer Members in accordance with Section 30.

29. *Repo Debt Transaction Fee.*

- (a) Each Dealer Member shall be allocated a fee, based on their pro-rata share of the total number of Repo Debt Transactions received and processed by IIROC's debt surveillance system during a particular month. The total Repo Debt Transaction Fee and the applicable unit cost per transaction shall be disclosed in the monthly invoice delivered to Dealer Members in accordance with Section 30.
- (b) The Repo Debt Transaction Fee will be reduced by cost recoveries received from the Bank of Canada.

Payment of Monthly Debt Market Regulation Fees

- 30. ***Monthly Invoices.*** Dealer Members shall be invoiced on a monthly basis in arrears within the first ten (10) days of any month for the aggregate of the Non-Repo Debt

Transaction Fee and the Repo Debt Transaction Fee, as applicable. Such invoices are due and payable immediately upon receipt.

Late Filing Fee

31. **Late Filing Fee.** Dealer Members may be charged a late filing fee, which will be based on the additional effort required by IIROC to input the late data, make corrections and perform appropriate surveillance.

DEBT INFORMATION PROCESSOR FEE MODEL

Monthly Debt Information Processor Fees

When determining the Monthly Debt Information Processor Fees allocated to a Dealer Member for a particular month, IIROC first determines its total debt information processor costs. These costs are then allocated to each Dealer Member on a pro-rata basis and are paid by those Dealer Members as identified based on the number of Debt Transactions submitted by each Dealer Member, all in accordance with the provisions set out below.

32. **Debt Transaction Fee.** Each Dealer Member shall be allocated a fee, based on their pro-rata share of the total number of Debt Transactions received and processed by IIROC's debt information processor system during a particular month. The total Debt Transaction Fee and the applicable unit cost per transaction shall be disclosed in the monthly invoice delivered to Dealer Members in accordance with Section 33.

Payment of Monthly Debt Information Processor Fees

33. **Monthly Invoices.** Dealer Members shall be invoiced on a monthly basis in arrears within the first ten (10) days of any month for the Debt Information Processor Fees. Such invoices are due and payable immediately upon receipt.

GENERAL PROVISIONS

The provisions set out below are of general application to these Fee Model Guidelines.

34. **Interest.** Any amount due and owing to IIROC pursuant to these Fee Model Guidelines by a Dealer Member shall bear interest at a rate per annum, for any month, of one percent above the Canadian Chartered Bank prime lending rate at the end of each preceding month (calculated daily on the basis of a 365 day year, and payable and compounded monthly) from the date the amount is first due until paid, with interest on arrears calculated and payable in the same manner.

35. **Change in Fees.** Any fees specified in these Fee Model Guidelines may be changed on not less than sixty (60) days' notice from IIROC.
36. **Applicable Taxes.** Any fees specified in these Fee Model Guidelines shall require the payment of any taxes applicable to such fees in addition to the specified amounts.

INTERPRETATION

The capitalized terms used in these Fee Model Guidelines have the meanings given to such terms in the Dealer Member Rules and By-laws, unless otherwise defined in these Fee Model Guidelines. The following terms have the following meanings:

"Administration Fee" means the administration fees payable by Dealer Members and Marketplace Members in accordance with Section 26.

"Annual Fee" means the annual fee payable by Dealer Members determined with reference to the components set out in Section 3 and calculated in accordance with the provisions of these Fee Model Guidelines.

"Approved Person" means an individual in respect of a Dealer Member who is required to be approved by IIROC in one or more of its approval or registration categories in accordance with the Rules.

"Approved Person Fees Component" means the levy payable by each Dealer Member determined in accordance with Section 5.

"BCC" means the Business Conduct Compliance department of IIROC.

"Debt Transactions" means, for the purpose of the Monthly Debt Information Processor Fees, the aggregate of Repo Debt Transactions and Non-Repo Debt Transactions submitted by a Dealer Member.

"Entrance Fee" means the initial fee payable by an applicant for membership in IIROC as a Dealer Member as specified in Section 1.

"FINOPS" means the Financial and Operations Compliance department of IIROC.

"Fiscal Year" means the fiscal year of IIROC ending on the last day of March in each year.

"Information Technology Fee" means the fee payable by an applicant as a Marketplace Member in accordance with Section 21.

"Marketplace-Specific Costs" means the incremental costs payable by a Marketplace Member in accordance with Section 22.

“Message Processing Fee” means the fee allocated to a Marketplace each month determined in accordance with Section 23.

“Minimum Dealer Regulation Fee Component” means the minimum fee payable by a Dealer Member in each Fiscal Year determined in accordance with Section 6.

“Minimum Equity Market Regulation Fee” means the minimum fee allocated to a Marketplace Member in each month determined in accordance with Section 25.

“Monthly Debt Information Processor Fees” means the monthly fees allocated to Dealer Members in accordance with Section 32.

“Monthly Debt Market Regulation Fees” means the monthly fees allocated to Dealer Members in accordance with Sections 28 to 29, inclusive.

“Monthly Equity Market Regulation Fees” means the monthly fees allocated to Marketplace Members in accordance with Sections 23 to 26, inclusive.

“Non-Repo Debt Transaction Fee” means the fee allocated to a Dealer Member each month determined in accordance with Section 28.

“Non-Repo Debt Transactions” means transactions in a Debt Security that are subject to reporting requirements under Dealer Member Rule 2800C, except Repo Debt Transactions, in relation to that portion of the monthly fees allocated to Dealer Members in accordance with Section 28.

“Qualified Market Maker” means a person or company that has an obligation with a listing exchange to:

- Maintain a two-sided market for a particular security listed on the listing exchange on a continuous or reasonably continuous basis, and
- Report suspicious order and/or trade activity to IIROC.

Provided the listing exchange has adequate policies and procedures to reasonably ensure continued satisfactory performance of these requirements.

“Regulation Services Agreement Fee” means the fee payable by a Marketplace Member for the negotiation of a Regulation Services Agreement in accordance with Section 20.

“Repo Debt Transaction Fee” means the fee allocated to a Dealer Member each month determined in accordance with Section 29.

“Repo Debt Transactions” means transactions that involve the simultaneous sale and future repurchase, or simultaneous purchase and future sale (“Reverse Repo”), of any Debt Securities, including transactions arranged as buy/sell-backs and sell/buy-backs, as prescribed in Dealer

Member Rule 2800C, in relation to that portion monthly fees allocated to Dealer Members in accordance with Section 29.

“Restricted Fund” means fine and settlement monies received by IIROC.

“Revenue Component” means the portion of the Annual Fee determined in accordance with Section 4.

“Revenue Component Tier” means the tiers of revenue set out in Appendix A used to calculate the Revenue Component.

“Revenue Rate” means the rate prescribed annually by the Board for a particular Revenue Component Tier set out in Appendix A.

“Risk Component” means the adjustment made to the Annual Fee determined in accordance with Section 7.

~~**“Total Allocated Costs”** means the operating cost of IIROC’s regulatory services allocated to a Dealer Member for a particular Fiscal Year on a prorated basis.~~

“Total Revenue” means the amount reported as “Total Revenue” in IIROC Monthly Financial Report Form 1, Statement E, as adjusted for IIROC approved items that are not in the normal course of business.

“Trade Fee” means the fee allocated to a Marketplace each month determined in accordance with Section 24.

**APPENDIX A
REVENUE COMPONENT TIERS**

Tier	Revenues for the Previous Calendar Year
Tier 1.....	Under \$500,000
Tier 2.....	\$500,000 to under \$1 million
Tier 3.....	\$1 million to under \$3 million
Tier 4.....	\$3 million to under \$5 million
Tier 5.....	\$5 million to under \$10 million
Tier 6.....	\$10 million to under \$25 million
Tier 7.....	\$25 million to under \$50 million
Tier 8.....	\$50 million to under \$100 million
Tier 9.....	\$100 million to under \$200 million
Tier 10	\$200 million to under \$500 million
Tier 11	\$500 million to under \$1 billion
Tier 12	\$1 billion and over

The rate prescribed to each tier will be specified on the invoice sent to the Dealer Member.



APPENDIX B: ADDITIONAL FEES PAYABLE BY DEALER MEMBERS

PART 1 – DEALER MEMBER RULES AND BY-LAWS

The following summary is intended to be a guide only and is not a full reproduction of the applicable Dealer Member Rules and By-Laws. Reference should be made to the full text of the Dealer Member Rules and the By-laws.

Dealer Member Rules

Rule 5.17	Fee payable for approval or exemption required by Rule 5.
Rule 7.9	Fees payable for the failure of the Dealer Member to file within ten business days after the end month a report in writing with respect to the conditions imposed on approval or continued approval of a Director or Executive pursuant to Rule 20.
Rule 8.3A	Responsibility for fees on amalgamation of two or more Dealer Members.
Rule 8.7	Payment of Annual Fees by resigning, suspended, terminated or surrendering Dealer Member.
Rule 16.1	Responsibility for fees and expenses related to an audit or examination by accounting firm.
Rule 16.7	Fee that may be imposed by District Council if financial condition or conduct of the business of any Dealer Member has required excessive attention from IIROC.
Rule 16.10	Fees payable for the failure to file any report, form, financial statement or other information required under Rule 16 within the times prescribed by Rule 16, the Board, IIROC or the terms of such report, form, financial statement or other information, as applicable.
Rule 18.18	Fees payable for the failure to file a report with respect to the conditions imposed under Rule 20.
Rule 40.2(1)(a)	Payment of NRD enrolment fee.
Rule 40.3	Fees payable on the application for approval of an individual in any capacity required under any Rule of IIROC or an application for

	reinstatement of approval, including fees for the use of the NRD.
Rule 40.4	Fees payable on the application for approval of any Approved Person in a different or additional capacity requiring approval under any Rule of IIROC or to surrender an existing approval, including fees for the use of the NRD.
Rule 40.6	Fees payable on application for an exemption of an Approved Person or applicant for approval from a proficiency requirement pursuant to IIROC's Rule 2900 that is submitted with an application for approval made through the NRD.
Rule 40.7	Fees payable for the failure of the Dealer member to file a notification required upon the termination of employment of or principal/agent relationship with any individual approved in any capacity under any Rule of IIROC through the NRD.
Rule 40.9	Annual user fee payable to the NRD Administrator as prescribed from time to time by the Board for each person approved in any capacity under any Rule of IIROC.
Rule 600.1	Suspended Dealer Member continues to be liable for the payment of Annual Fees and of any assessment.
Rule 2900, Part I, Section A, Paragraph 2A	Fee payable for failure to provide to IIROC proof of successful completion of the Chief Financial Officers Qualifying Examination within 10 days of the dates specified for successful completion.
Rule 2900, Part I, Section A, Paragraph 2B	Fee payable for failure to provide to IIROC proof of successful completion of the Chief Compliance Officers Qualifying Examination within 10 days of the dates specified for successful completion.

Rule 2900, Part I, Section B	The Board may prescribe a fee to be paid for any application for exemption from the proficiency requirements.
Rule 2900, Part II, Section C	The Board may prescribe a fee to be paid for any application for exemption from the requirement to rewrite or write any required course or examination, in whole or in part.
Rule 2900, Part III, Section M, Paragraph 1	Penalties imposed for the failure of a Participant to complete the course requirements within a three-year cycle.
Rule 3100, Part I, Section B, Paragraph 3	IIROC has the power to impose a prescribed administrative fee for failure to comply with any of the reporting requirements set out in the Rule. IIROC may also impose any other penalties pursuant to Rule 20.

By-Laws

Section 3.5(1)	In the case of Dealer Members, an application for membership shall be accompanied by such fees as IIROC and the applicable District Council may require.
Section 3.5(3)	An application for membership shall be accompanied by a non-refundable application review deposit in an amount to be determined by the Board, to be credited towards the annual fee paid by the Member in the event that the application is approved by the Board.
Section 3.5(12)(b)	If and when the application has been approved by the Board, and upon payment of the balance of the entrance and annual fees, the applicant shall become and be a Dealer Member.
Section 3.7	If two or more Members propose to amalgamate and continue as one Member, the continuing Member must comply with the payment of Member fees, if applicable.
Section 3.8	A Dealer Member resigning from IIROC shall make full payment of its annual fee, if applicable, for the financial year in which its resignation becomes effective.

PART 2 – FEES RELATED TO REGISTRATION MATTERS

The following summary is intended to be a guide only and is not a full reproduction of the applicable registration-related fees collected by IIROC pursuant to delegation orders from the noted securities regulatory authorities. Reference should be made to the applicable instruments of the Canadian Securities Administrators (CSA).

Fee Type	Collection Details	Authority
Initial firm registration fees	IIROC collects a portion of the CSA fee in Alberta, New Brunswick and Saskatchewan	Delegation Orders / Revenue Sharing Agreements
Opening of a business location	IIROC collects a portion of the CSA fee in New Brunswick and Saskatchewan	Delegation Orders / Revenue Sharing Agreements
Annual fees pertaining to firms, individuals and business locations	IIROC collects a portion of the CSA fee in Alberta, New Brunswick and Saskatchewan	Delegation Orders / Revenue Sharing Agreements
Initial, reactivation, additional jurisdiction, additional sponsoring firm submissions	IIROC collects a portion of the CSA fee in Alberta, Ontario, New Brunswick and Saskatchewan IIROC charges a fee in Manitoba, Newfoundland and Labrador, Northwest Territories, Nova Scotia, Nunavut, Prince Edward Island, Quebec and Yukon	Delegation Orders / Revenue Sharing Agreements Rule 40.3(2)
Reinstatements	IIROC collects a portion of the CSA fee in New Brunswick and Saskatchewan IIROC charges a fee in Manitoba, Newfoundland and Labrador, Northwest Territories, Nova Scotia, Nunavut, Prince Edward Island, Quebec and Yukon	Delegation Orders / Revenue Sharing Agreements Rule 40.3(2)

Fee Type	Collection Details	Authority
Change or surrender of individual categories	<p>IIROC collects a portion of the CSA fee in Alberta, New Brunswick, Ontario and Saskatchewan</p> <p>IIROC charges a fee in Manitoba, Newfoundland and Labrador, Nova Scotia, Northwest Territories, Nunavut, Prince Edward Island, Quebec and Yukon</p>	<p>Delegation Orders / Revenue Sharing Agreements</p> <p>Rule 40.4(2)</p>
Notice of Termination	IIROC charges a fee in Quebec	Recognition Order / Assumed fee from the Bourse
File copies	IIROC charges a fee for providing an individual with a copy of their registration file	Administrative practice.