

**Canadian Investment Regulatory Organization**

**Proposed rule amendments relating to fully paid securities lending and financing arrangements**

**Proposed Amendments to IDPC Form 1 (blackline)**

**Form 1, Part I – Statement D**  
**Notes and instructions**

- (1) The client free credit limit and *segregation* requirements must be calculated at least weekly, but more frequently if required, consistent with the monitoring requirements for the early warning tests.
- (2) **Section A, Lines 2 and 3** - *Free credit balances* in RRSP and other similar accounts should not be included. Refer to the notes and instructions to Schedule 4 for discussion of trade versus settlement date reporting of *free credit balances*. Where the Dealer Member has borrowed the client's fully paid or excess margin securities and cash collateral is provided to the client by the Dealer Member, the cash collateral should not be included in free credit balances.

For purposes of this statement, a free credit is:

- (i) ~~(a)~~ For cash and margin accounts - the credit balance less an amount equal to the aggregate of the *market value* of short positions and regulatory margin on those shorts.
- (ii) ~~(b)~~ For futures accounts - any credit balance less an amount equal to the aggregate of margin required to carry open *futures contracts* and/or *futures contracts option* positions less equity in those contracts plus deficits in those contracts, provided that such aggregate amount may not exceed the dollar amount of the credit balance.

- (3) **Section A, Line 5** - If nil, no further calculation on this Statement need be done.
- (4) **Section B, Line 2** - Client margin debit balances reported on this line must be determined on a settlement date basis in order to exclude margin debit amounts relating to pending trades that have not yet settled.
- (5) **Section D, Line 1** - The cash must be segregated in trust for clients in a separate account or accounts with an *acceptable institution* and this trust property must be clearly identified as such at the *acceptable institution*.

This calculation should exclude funds held in trust for RRSP and other similar accounts.

- (6) **Section D, Line 2** - The following securities are eligible for client free credit *segregation* purposes, provided they are segregated and held separate and apart from the *Dealer Member's* property:

Securities eligible for client free credit segregation purposes			
Category		Minimum designated rating organization current credit rating	Qualification(s)
1.	Bonds, debentures, treasury bills and other securities with a term of 1 year or less, issued or guaranteed by the following:  (i) national governments of Canada, United Kingdom, and United States, or  (ii) Canadian provincial governments	Not applicable (N/A)	Not applicable (N/A)
2.	Bonds, debentures, treasury bills and other securities with a term of 1 year or less, issued or guaranteed by any other national foreign government not identified in category 1	AAA	Foreign government of a <i>Basel Accord country</i>
3.	Canadian bank paper with an original maturity of 1 year or less	R-1(low), F1, P-1, A-1(low)	No <i>designated rating organization</i> has a lower current credit rating  Must be issued by a Canadian <i>chartered bank</i>  Securities issued by a <i>provider of capital</i> , as defined in the notes

**Form 1, Part I – Statement D**  
**Notes and instructions (Continued)**

			and instructions to Schedule 14 are not eligible
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- (7) **Section D, Line 4** - If negative, then a *segregation* deficiency exists, and the *Dealer Member* must correct the *segregation* deficiency within 5 *business days* following the determination of the deficiency. The *Dealer Member* must provide an explanation of how the deficiency was corrected and the date of correction.

## Form 1, Part II – Schedule 1

### Notes and instructions

- (1) This schedule is to be completed for secured loan receivable transactions where the stated purpose of the transaction is to lend excess cash. All security borrowing and financing transactions done via 2 trade tickets, including resale transactions and those with related parties, should also be disclosed on this schedule.
- (2) For the purpose of this schedule, the following terms have the meanings set out below:

"cash loan receivable"	A loan transaction where the purpose of the loan is for the <i>Dealer Member</i> to lend cash and receive securities as collateral from the counterparty.
"excess collateral deficiency"	(i) For a <i>cash loan receivable</i> , any excess of the amount of the loan over the <i>market value</i> of the actual collateral received from the transaction counterparty, or (ii) For a <i>securities borrow arrangement</i> , any excess of the <i>market value</i> of the actual collateral provided to the transaction counterparty over: (a) 102% of the <i>market value</i> of the securities borrowed, where cash is provided as collateral, or (b) 105% of the <i>market value</i> of the securities borrowed, where securities are provided as collateral.
"securities borrow arrangement"	A loan transaction where the purpose of the loan is for the <i>Dealer Member</i> to borrow securities and deliver cash or securities as collateral to the counterparty.

- (3) Include accrued interest in amount of loan receivable.
- (4) *Market value* of securities delivered or received as collateral should include accrued interest.

(5) **Written agreement requirements**

Any written agreement for a *cash loan receivable*, *securities borrow arrangement* or securities resale arrangement must:

- (i) set out the rights of each party to retain and realize on ~~securities~~the assets delivered to it by the other party under the agreement if the other party defaults. These rights are in addition to other remedies in the agreement or available at law,
- (ii) set out events of default,
- (iii) provide for treatment of the ~~securities or~~loaned or transferred asset value or the collateral value<sub>2</sub> held by the non-defaulting party that is over the amount owed by the defaulting party<sub>2</sub>.

(iv) set out the right of either party to call, at any time by giving notice to the other party, for any shortfall in the required collateral, and

~~(iv)~~ either:

- (a) give the parties the right to set off their mutual debts, or
- (b) enable the parties to effect a secured loan and provide that the lender must continuously segregate agreement collateral securities.

If the parties agree to a secured loan as provided in ~~(iv)~~(b) above, and there is more than one method for the lender to perfect its security interest in the collateral, the lender must choose the method to achieve the highest priority in a default situation.

Whether the parties rely on set off or agree to a secured loan as provided in ~~(iv)~~(b) above, the written agreement must provide for the securities borrowed in the case of a securities loan arrangement, or the securities purchased under in the case of a resale arrangement, to be free and clear of any trading restrictions under *applicable laws*, and signed for transfer.

(6) **Cash loan receivable**

(i) **Margin requirements**

The margin requirements for a *cash loan receivable* are as follows:

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**Notes and instructions (Continued)**

- (a) Where a written agreement has not been entered into or the written agreement entered into does not include all of the required minimum terms in note 5, the margin required shall be:
- (I) nil, where the counterparty to the transaction is an *acceptable institution* and the transaction has been confirmed with the *acceptable institution*, or
  - (II) 100% of the *market value* of the actual collateral provided to the transaction counterparty.
- (b) Where a written agreement has been entered into that includes all of the required minimum terms in note 5, the margin required to be provided shall be determined according to the following table:

Transaction counterparty type	Margin required
<i>Acceptable institution</i>	No margin <sup>1</sup>
<i>Acceptable counterparty</i>	<i>Excess collateral deficiency</i> <sup>1</sup>
<i>Regulated entity</i>	<i>Excess collateral deficiency</i> <sup>1</sup>
Other	Margin

<sup>1</sup> Any transaction which has not been confirmed by an *acceptable institution*, *acceptable counterparty* or *regulated entity* within 15 *business days* of the trade shall be margined.

**(7) Securities borrow arrangements**

**(i) Additional written agreement requirements for certain agency securities borrow arrangements where agent may be treated as equivalent to principal in which agent is also the third party custodian**

Any written agreement for a *securities borrow arrangement* between the *Dealer Member* and an agent (on behalf of an underlying principal lender of securities) and who is also the custodian, may be reported and treated in the same manner for margin purposes as the equivalent principal *securities borrow arrangement* between the *Dealer Member* and the third party custodian agent, if:

- (a) the third party custodian agent meets the definition of “financial intermediary” in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act), and
- (b) all of the following additional terms (i.e. over and above those set out in note 5) are stipulated in the written agreement:
  - (I) the loan collateral must be held by the third party custodian agent and if the loan collateral is made up of securities there must be no right to re-hypothecate those securities, and
  - (II) in the event of the *Dealer Member* (i.e. the underlying principal borrower of securities) default, the loan collateral that has been posted with the third party custodian agent will be liquidated by the third party custodian agent and proceeds used to purchase the borrowed security which will be returned to the underlying principal lender. If the borrowed security cannot be purchased in the market, its equivalent value is returned to the underlying principal lender. Any excess value on the realization on the loan collateral will be returned by the third party custodian agent to the *Dealer Member*.

**(ii) Additional written agreement requirements for certain agency securities borrow arrangements where agent and third party custodian are different entities**

Any written agreement for a *securities borrow arrangement* between the *Dealer Member* and an agent (on behalf of an underlying principal lender of securities), which is accompanied by a written collateral management or custodial

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**Notes and instructions (Continued)**

agreement between the *Dealer Member* and a third party custodian, may be reported and treated in the same manner for margin purposes as the equivalent principal *securities borrow arrangement* between the *Dealer Member* and the agent, if:

- (a) the third party custodian and agent meet the definition of “financial intermediary” in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act), and
- (b) all of the following additional terms (i.e. over and above those set out in note 5) are stipulated in the written agreements:
  - (I) the loan collateral must be held by the third party custodian and if the loan collateral is made up of securities there must be no right for the agent to re-hypothecate those securities, and
  - (II) in the event of the *Dealer Member* (i.e. the underlying principal borrower of securities) default, control over the loan collateral that has been posted with the third party custodian will be given by the third party custodian to the agent and the loan collateral will be liquidated and the resulting proceeds used to purchase the borrowed security which will be returned to the underlying principal lender. If the borrowed security cannot be purchased in the market, its equivalent value is returned to the underlying principal lender. Any excess value on the realization on the loan collateral will be returned by the agent to the *Dealer Member*.

**(iii) Agency securities borrow arrangements where agent must not be treated as equivalent to principal**

The *Dealer Member* must look through the agent in the agency *securities borrow arrangement* to the underlying principal lender and the agency *securities borrow arrangement* must be reported and treated in the same manner for margin purposes as the equivalent principal *securities borrow arrangement* between the *Dealer Member* and the underlying principal lender:

- (a) where an agent is also the third party custodian and the requirements in note 7(i) are not all met, or
- (b) where an agent and third party custodian are different entities and the requirements in note 7(ii) are not all met.

**(iv) Margin requirements for securities borrow arrangements**

The margin requirements for a *securities borrow arrangement* are as follows:

- (a) Where a written agreement has not been entered into or the written agreement entered into does not include all of the required minimum terms in note 5, the margin required shall be:
  - (I) nil, where the counterparty to the transaction is an *acceptable institution* and the transaction has been confirmed with the *acceptable institution*, or
  - (II) 100% of the *market value* of the actual collateral provided to the transaction counterparty.
- (b) Where a written agreement has been entered into that includes all of the required minimum terms in note 5, for margin purposes:
  - (I) for principal *securities borrow arrangements*, the counterparty is the principal in the *securities borrow arrangement*,
  - (II) for agency *securities borrow arrangements*, where an agent is involved and all of the requirements in the applicable note 7(i) or (ii) are met, the counterparty is the agent,
  - (III) for agency *securities borrow arrangements*, where an agent is involved and all of the requirements in the applicable note 7(i) or (ii) are not met, the counterparty is the underlying principal lender,

the margin required to be provided shall be determined according to the following table:

Transaction counterparty type	Margin required
<i>Acceptable institution</i>	No margin <sup>1</sup>
<i>Acceptable counterparty</i>	<i>Excess collateral deficiency</i> <sup>1</sup>
<i>Regulated entity</i>	<i>Excess collateral deficiency</i> <sup>1</sup>
Other	Margin

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**Notes and instructions (Continued)**

<sup>1</sup> Any transaction which has not been confirmed by an *acceptable institution, acceptable counterparty or regulated entity* within 15 *business days* of the trade shall be margined.

(c) Where the *Dealer Member* borrows fully paid or excess margin securities from a client pursuant to Part B.2 of 4600, the margin required is equal to the excess of the collateral required under subsection 4624(3) over the *market value of the actual collateral segregated for the client in compliance with subsection 4624(5)*.

**(8) Securities resale arrangements**

~~**(i) Written agreement requirements**~~

~~If a *Dealer Member* has a written agreement for a securities resale arrangement, in addition to the terms in note 5, the agreement must include the parties acknowledgement that either party has the right on notice, to call for any shortfall in the difference between the collateral and securities at any time.~~

**(ii) Additional written agreement requirements for certain agency securities resale arrangements where agent may be treated as equivalent to principal in which agent is also the third party custodian**

Any written agreement for a securities resale arrangement between the *Dealer Member* and an agent (on behalf of an underlying principal seller) and who is also the custodian, may be reported and treated in the same manner for margin purposes as the equivalent principal securities resale arrangement between the *Dealer Member* and the third party custodian agent, if:

- (a) the third party custodian agent meets the definition of “financial intermediary” in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act), and
- (b) all of the following additional terms (i.e. over and above those set out in ~~notes~~[note 5](#) and ~~8(i)~~) are stipulated in the written agreement:
  - (I) the cash proceeds from the purchased securities must be held by the third party custodian agent,
  - (II) the purchased securities (and any additional cash and securities provided for margin maintenance) must either be held by:
    - (A) the *Dealer Member* separately from the third party custodian agent and the *Dealer Member* may re-hypothecate the purchased securities provided it has the right, or
    - (B) the third party custodian agent in the account of the *Dealer Member* and the *Dealer Member* may re-hypothecate the purchased securities provided it has the right and the purchased securities continue to be held by the third party custodian agent in the account or accounts of the new counterparty or counterparties, and
  - (III) in the event of the underlying principal seller default, the purchased securities (and any additional cash and securities provided for margin maintenance) will be liquidated by the *Dealer Member* and proceeds used to satisfy the seller’s obligations to the *Dealer Member*. Any excess value on the realization on the purchased securities (and any additional cash and securities provided for margin maintenance) will be returned by the *Dealer Member* to the third party custodian agent.

**(iii) Additional written agreement requirements for certain agency securities resale arrangements where agent may be treated as equivalent to principal in which agent and third party custodian are the different entities**

Any written agreement for a securities resale arrangement between a *Dealer Member* and an agent (on behalf of an underlying principal seller), which is accompanied by a written collateral management or custodial agreement between the *Dealer Member* and a third party custodian, may be reported and treated in the same manner for margin purposes as the equivalent principal securities resale arrangement between the *Dealer Member* and the agent, if:

- (a) the third party custodian and agent meet the definition of “financial intermediary” in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act), and
- (b) all of the following additional terms (i.e. over and above those set out in ~~notes~~[note 5](#) and ~~8(i)~~) are stipulated in the written agreements:

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- (I) the cash proceeds from the purchased securities must be held by the agent,
- (II) the purchased securities (and any additional cash and securities provided for margin maintenance) must either be held by:
  - (A) the *Dealer Member* separately from the third party custodian and the *Dealer Member* may re-hypothecate the purchased securities provided it has the right, or
  - (B) the third party custodian in the account of the *Dealer Member* and the *Dealer Member* may re-hypothecate the purchased securities provided it has the right and the purchased securities continue to be held by the third party custodian in the account or accounts of the new counterparty or counterparties, and
- (III) in the event of the underlying principal seller default, control over the purchased securities (and any additional cash and securities provided for margin maintenance) that has been posted with the third party custodian will be given by the third party custodian to the *Dealer Member* and the purchased securities will be liquidated by the *Dealer Member* and the resulting proceeds used to satisfy the seller’s obligations to the *Dealer Member*. Any excess value on the realization on the purchased securities (and any additional cash and securities provided for margin maintenance) will be returned by the *Dealer Member* to the agent.

**(iviii) Agency securities resale arrangements where agent must not be treated as equivalent to principal**

The *Dealer Member* must look through the agent in the agency securities resale arrangement to the underlying principal seller and the agency securities resale arrangement must be reported and treated in the same manner for margin purposes as the equivalent principal securities resale arrangement between the *Dealer Member* and the underlying principal seller:

- (a) where an agent is also the third party custodian and the requirements in note 8(ivii) are not all met, or
- (b) where an agent and third party custodian are different entities and the requirements in note 8(iviii) are not all met.

**(vii) Margin requirements for securities resale arrangements**

The margin requirements for a securities resale arrangement are as follows:

- (a) Where a written agreement has not been entered into or the written agreement entered into does not include all of the required minimum terms in [notesnote 5 and 8\(i\)](#), the margin required to be provided shall be determined according to the following table:

Transaction counterparty type	Margin required based on term of transaction	
	30 calendar days or less after regular settlement <sup>1</sup>	Greater than 30 calendar days after regular settlement <sup>1</sup>
<i>Acceptable institution</i>	No margin <sup>2</sup>	
<i>Acceptable counterparty</i>	<i>Market value</i> deficiency <sup>2</sup>	Margin
<i>Regulated entity</i>	<i>Market value</i> deficiency <sup>2</sup>	Margin
Other	Margin	200% of margin (to a maximum of the <i>market value</i> of the underlying securities)

<sup>1</sup> Regular settlement means the settlement date or delivery date generally accepted according to industry practice for the relevant security in the market in which the transaction occurs. Margin is calculated from the date of regular settlement. Calendar days refer to the original term of the resale transaction.

<sup>2</sup> Any transaction which has not been confirmed by an *acceptable institution*, *acceptable counterparty* or *regulated entity* within 15 *business days* of the trade shall be margined.

- (b) Where a written agreement has been entered into that includes all of the required minimum terms in [notesnote 5 and 8\(i\)](#), for margin purposes:



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**Notes and instructions (Continued)**

- (I) for principal securities resale arrangements, the counterparty is the principal in the securities resale arrangement,
- (II) for agency securities resale arrangements, where an agent is involved and all of the requirements in the applicable note 8(iii) or (iii) are met, the counterparty is the agent,
- (III) for agency securities resale arrangements, where an agent is involved and all of the requirements in the applicable note 8(iii) or (iii) are not met, the counterparty is the underlying principal seller,

the margin required to be provided shall be determined according to the following table:

Transaction counterparty type	Margin required
<i>Acceptable institution</i>	No margin <sup>1</sup>
<i>Acceptable counterparty</i>	<i>Market value</i> deficiency <sup>1</sup>
<i>Regulated entity</i>	<i>Market value</i> deficiency <sup>1</sup>
Other	Margin

<sup>1</sup> Any transaction which has not been confirmed by an *acceptable institution*, *acceptable counterparty* or *regulated entity* within 15 *business days* of the trade shall be margined.

- (9) For any given counterparty a deficiency in one type of loan may be offset by an excess in another type of loan provided that there are written agreements for each type of loan which provide for the right of offset between each type of loan. In such case, the balances may also be offset for margin calculation purposes.
- (10) In order for a pension fund to be treated as an *acceptable institution* for purposes of this Schedule, it must not only meet the *acceptable institution* criteria outlined in general notes and definitions, but the *Dealer Member* must also have received representation that the pension fund is legally able to enter into the obligations of the transaction. If such representation has not been received, the pension fund which otherwise meets the *acceptable institution* criteria must be treated as an *acceptable counterparty*.
- (11) **Lines 2, 3, 6 and 7** - In the case of a *cash loan receivable* or a *securities borrow arrangement* between a *Dealer Member* and either an *acceptable counterparty* or a *regulated entity*, where an *excess collateral deficiency* exists, action must be taken to correct the deficiency. If no action is taken the amount of *excess collateral deficiency* must be immediately provided out of the *Dealer Member's* capital. In any case, where the deficiency exists for more than one *business day*, it must be provided out of the *Dealer Member's* capital.
- (12) **Lines 10 and 11** - In the case of a resale transaction between a *Dealer Member* and either an *acceptable counterparty* or a *regulated entity*, where a deficiency exists between the *market value* of the securities resold and the *market value* of the cash pledged, action must be taken to correct the deficiency. If no action is taken the amount of *market value* deficiency must be immediately provided out of the *Dealer Member's* capital. In any case, where the deficiency exists for more than one *business day*, it must be provided out of the *Dealer Member's* capital.
- (13) **Lines 4, 8 and 12** - In the case of a *cash loan receivable* or a securities borrowing (excluding borrowing arrangements for client fully paid and excess margin securities) or a resale arrangement/transaction between a *Dealer Member* and a party other than an *acceptable institution*, *acceptable counterparty*, or *regulated entity*, where a deficiency exists between the loan value of the cash loaned or securities borrowed or resold and the loan value of the collateral or cash pledged, action must be taken to correct the deficiency. If no action is taken the amount of loan value deficiency must be immediately provided out of the *Dealer Member's* capital. The margin required may be reduced by any margin already provided on the collateral (e.g. in inventory). Where the collateral is cash or securities with a margin rate of 5% or less and the collateral is either held by the *Dealer Member* on a fully segregated basis or held in escrow on its behalf by a securities depository or clearing agency qualifying as an *acceptable securities location* or a bank or trust company qualifying as either an *acceptable institution* or *acceptable counterparty*, only the amount of *market value* deficiency need be provided out of the *Dealer Member's* capital. In any case, where the deficiency exists for more than one *business day*, it must be provided out of the *Dealer Member's* capital.
- (14) **Line 8** - In the case of securities borrowing arrangements for client fully paid and excess margin securities where a deficiency exists as calculated under Note 7(iv)(c), action must be taken to correct the deficiency. If no action is taken, the amount of deficiency must be immediately provided out of the Dealer Member's capital. In any case, where the deficiency exists for more

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**Notes and instructions (Continued)**

than one business day, it must be provided out of the Dealer Member's capital.

(15) **Lines 5, 6 and 7** - In a securities borrowed transaction between a *Dealer Member* and an *acceptable institution, acceptable counterparty, or regulated entity*, where a letter of credit issued by a Schedule 1 Bank is used as collateral for the securities borrowed, there shall be no charge to the *Dealer Member's* capital for any excess of the value of the letter of credit pledged as collateral over the *market value* of the securities borrowed.

~~(15)~~16 **Lines 4, 8 and 12** - Arrangements other than those regarding agency agreements where an agent may be treated as equivalent to principal in notes 7(i) and (ii) and 8~~(ii)~~ and ~~(iii)~~ where an *acceptable institution, acceptable counterparty, or regulated entity* is only acting as an agent (on behalf of an "other" party) should be reported and margined as "Others".

**Form 1, Part II – Schedule 4**  
**Notes and instructions**

(1) A *Dealer Member* must obtain from and maintain for each of its clients, minimum margin in the amount and manner prescribed by the *Corporation*.

(2) **Lines 1 to 4** - Balances ~~including extended settlement date transactions should be~~ reported on these lines. ~~However, the~~ should include:

(i) extended settlement date transactions, and

(ii) cash collateral provided to the client by the *Dealer Member*, where the *Dealer Member* has borrowed client fully paid or excess margin securities.

The margin related to ~~such~~ extended settlements should be calculated as described in note 12 and reported on Line 5.

(3) **Line 1** - No mark to market or margin is required on accounts with *acceptable institutions* in the case of either *regular* or *extended settlement date* transactions except

(i) any transaction which has not been confirmed by an *acceptable institution* within 15 *business days* of the trade date,

(ii) futures positions, which are margined as prescribed in subsections 5790 (1) and (2).

This line is to include all trading balances with *acceptable institutions* except *free credit balances* and futures accounts. *Free credit balances* should be included on Line 6. Futures accounts should be included on Line 4.

(4) **Line 2** - In the case of a *regular settlement date* transaction in the account of an *acceptable counterparty*, other than futures positions, which are margined as prescribed in subsections 5790 (1) and (2), the amount of margin to be provided, commencing on *regular settlement date*, shall be the equity deficiency calculated by determining the difference between (i) the net *market value* of all settlement date security positions in the customer's account(s) and (ii) the net money balance on a settlement date basis in the same account(s).

Any transaction, which has not been confirmed by an *acceptable counterparty* within 15 *business days* of the trade date, shall be margined.

This line is to include all trading balances with *acceptable counterparties* except *free credit balances* and futures accounts. *Free credit balances* should be included on Line 6. Futures accounts should be included on Line 4.

(5) **Line 3(a)** - "**margin accounts**" means accounts which operate according to the following rules:

(i) Settlement of each transaction in a margin account of a customer shall be made on or before the settlement date by payment of the amount required to complete the transaction or by delivery of the required securities, as the case may be.

(ii) Payment by a customer in respect of any margin account transaction may be by:

(a) cash or other immediately available funds,

(b) applying the loan value of securities to be deposited,

(c) applying the excess loan value in the account or in a guarantor's account.

(iii) Each margin account of a customer, which has become undermargined, shall within 20 *business days* of the account becoming undermargined be restricted only to trades, which reduce the margin deficiency in the account. Such restriction shall apply until the account is fully margined.

(iv) Advancing funds or delivering securities from the account of a customer shall not be permitted as long as the account is undermargined or if such advance or delivery would cause the account to become undermargined.

(v) Where the *Dealer Member* borrows excess margin securities from the client's margin account, the collateral provided to the client cannot be used to reduce any margin required in the account.

(6) **Line 3(a)** - In the case of a *regular settlement date* transaction in the margin account of a *person* other than a *regulated entity*, *acceptable counterparty* or *acceptable institution*, the amount of margin to be provided, commencing on *regular settlement date*, shall be the margin deficiency at not less than prescribed rates, if any, that exists.

Trade date margining: For *Dealer Members* determining margin deficiencies for clients on a trade date basis, (i) any amount of margin required to be provided under this subsection shall be determined using money balances and security positions as of trade date, and (ii) the amount referred to in the previous paragraph shall be determined and provided commencing on trade date.

**Form 1, Part II – Schedule 4**  
**Notes and instructions (Continued)**

(7) **Line 3(b) - "cash accounts"** means accounts which operate according to the following rules:

(i) Cash accounts

Settlement of each transaction in a cash account (other than DAP or RAP transactions referred to below) of a customer should be made by payment or delivery on the settlement date. In the event the account does not settle as required, capital will be provided as prescribed in note 8.

(ii) Delivery against payment (DAP)

Settlement of a purchase transaction in an account for which the customer has made arrangements with the *Dealer Member* on or before settlement date for delivery by the *Dealer Member* against payment in full by the customer shall be settled on the later of (a) settlement date or (b) the date on which the *Dealer Member* gives notice to the customer that the securities purchased are available for delivery.

(iii) Receipt against payment (RAP)

Settlement of a sale transaction in an account for which the customer has made arrangements with the *Dealer Member* on or before settlement date for receipt of securities by the *Dealer Member* against payment to the customer shall be settled on the settlement date.

(iv) Payment

Payment by a customer in respect of any cash account transaction may be by:

- (a) cash or other immediately available funds;
- (b) the application of the proceeds of the sale of the same or other securities held long in any cash account of the customer with the *Dealer Member* provided that the equity (trade date brokers include unsettled transactions) in such account exceeds the amount of the transaction;
- (c) the transfer of funds from a margin account of the customer with the *Dealer Member* provided adequate margin is maintained in such account immediately before and after the transfer.

(v) Isolated transactions

A customer shall be permitted in an isolated instance to:

- (a) settle, when the equity (excluding all unsettled transactions) in such account does not exceed the amount of the transaction, a regular or DAP cash account transaction by the sale of the same security in any cash account of the customer with the *Dealer Member*;
- (b) transfer a transaction in a cash account to a margin account prior to payment in full; or
- (c) transfer a transaction in a DAP account to a margin account within 10 *business days* after settlement date.

(vi) Account restrictions

(a) Cash accounts

When any portion of the money balance for a cash account of a customer is outstanding 20 *business days* or more after settlement date the customer shall be restricted from entering into any other transactions (other than liquidating transactions) in any account of the customer with the *Dealer Member*, unless and until (I) payment of any such money balance outstanding for 20 *business days* or more shall have been made, (II) all open and unsettled transactions in any cash account of the customer with the *Dealer Member* have been transferred in accordance with note 7(vii), or (III) the customer has executed a liquidating transaction in the account with the effect that no portion of the money balance in the account is outstanding 20 *business days* or more after settlement date.

(b) DAP accounts

When any portion of the money balance for a DAP account transaction of a customer is outstanding 5 *business days* or more (or, in the case of transactions of customers situated other than in continental North America, 15 *business days*) from the date on which the transaction is required to be settled in accordance with note 7(ii) the customer shall be restricted from entering into any other transaction (other than liquidating transactions) in any other account of the customer with the *Dealer Member*, unless and until (I) such transaction has been settled in full, or (II) all open and unsettled transactions in any cash account of the customer with the *Dealer Member* have been transferred in accordance with note 7(vii).

**Form 1, Part II – Schedule 4**  
**Notes and instructions (Continued)**

(vii) Transfer to margin account

The account restrictions in note 7(vi)(a) and (b) shall not apply to the accounts of a customer who (a) do not have a margin account with the *Dealer Member*, and (b) on or after the accounts becoming so restricted, transfers all open and unsettled transactions in any cash account of the customer with the *Dealer Member* to one or more newly established margin accounts of the customer with the *Dealer Member*, provided such margin accounts have been properly established by the completion of all necessary documentation and action and adequate margin is maintained in such account(s) immediately after such transfer.

(viii) Acceptable institutions and other

Note 7(vi) does not apply to the accounts of *acceptable institutions, acceptable counterparties, non-Dealer Member brokers, or regulated entities*.

(8) **Line 3(b)** - Margin must be provided as follows:

(i) Cash accounts

(a) When any portion of the money balance in a cash account of a *person* other than a *regulated entity, acceptable counterparty or acceptable institution* is overdue for a period of less than 6 *business days* past *regular settlement date*, in the case of regular settlement transactions, the amount of margin to be provided, commencing on *regular settlement date*, shall be the equity deficiency, if any, calculated by determining the difference between (a) the net weighted *market value* of all settlement date security positions in the customer's cash account(s) and (b) the net money balance on a settlement date basis in the same account(s).

For the purposes of calculating weighted *market value*, the following weightings will apply:

(I) Securities that currently have a margin rate of 60% or less, are weighted at 1.000

(II) Listed securities with a margin rate greater than 60% are weighted as 0.333

(III) Nasdaq National Market<sup>®</sup> and Nasdaq SmallCap Market<sup>SM</sup> securities with a margin rate of more than 60% are weighted as 0.333

(IV) All other unlisted securities with a margin rate of more than 60% are weighted as 0.000.

(b) Commencing on 6 *business days* or more past *regular settlement date*, the amount of margin to be provided shall be the margin deficiency, if any, that would exist if all of the customer's cash accounts were margin accounts;

(c) The amounts provided in (a) or (b) above may be reduced by the amount of excess margin in the customer's margin accounts and any equity surplus in the customer's DAP and RAP accounts, if any.

(d) Where the Dealer Member borrows fully paid securities from the client's cash account, the collateral provided to the client cannot be used to reduce any margin required on the account.

(ii) DAP and RAP accounts

(a) When any portion of the money balance in a DAP account or RAP account of a *person* other than a *regulated entity, acceptable counterparty or acceptable institution* is overdue for a period of less than 10 *business days* past *regular settlement date*, in the case of regular settlement transactions, the amount of margin to be provided, commencing on *regular settlement date*, shall be the equity deficiency, if any, of (a) the net *market value* of all settlement date security positions in the customer's DAP, or RAP account(s) and (b) the net money balance on a settlement date basis in the same account(s).

(b) For each transaction in a DAP or RAP account which is unsettled, or any money portion in respect of such transaction is outstanding, in either case for a period of 10 *business days* or more past *regular settlement date*, the amount of margin to be provided shall be the margin deficiency calculated in respect of each such transaction as if such transaction was in a margin account.

(c) For a customer whose accounts are restricted, the amount to be provided shall be the margin deficiency, if any, that would exist if all of the customer's DAP and RAP accounts were margin accounts;

(d) The amount to be provided in (a), (b) or (c) above may also be reduced by the amount of excess margin in the customer's margin accounts and any equity surplus in the customer's cash accounts, if any.

(iii) Confirmations and commitment letters

**Form 1, Part II – Schedule 4**  
**Notes and instructions (Continued)**

The margin requirements outlined in the previous paragraphs of note 8 do not apply if a customer has provided the *Dealer Member* on or before settlement date with an irrevocable and unconditional confirmation from an *acceptable clearing corporation* or letter of commitment from an *acceptable institution* to the effect that such corporation or institution will accept delivery from the *Dealer Member* and pay for the securities to be delivered, and in such event settlement shall be considered provided for by the customer.

(iv) Trade date margining

For *Dealer Members* determining margin deficiencies for clients on a trade date basis, the amount of margin required between trade date and settlement date shall be the equity deficiency, if any, calculated by determining the difference between (a) the net *market value* of all trade date security positions in the customer's cash, DAP or RAP account(s) and (b) the trade date net money balance in the same account(s). Commencing on *regular settlement date*, the amount of margin to be provided shall be the margin requirement outlined in the previous paragraphs of note 8.

- (9) Any transactions in open cash accounts at the report date which, subsequent to that date, become in violation of the cash account requirements and have resulted in either a material loss or a material deficit - equity position, must either be fully margined or the total amount to margin such items must be reported as a footnote to Form 1.
- (10) **Line 3(c)** - The amount required to fully margin should be the aggregate of unsecured debits plus the margin required on any short security positions in such accounts or in accounts with no money balance. Any account that is partly secured should be included on Line 3(a) - Margin Accounts.
- (11) **Line 4** – This line is to include balances for client accounts containing positions and offsets in *futures contracts* or *futures contract options*. These accounts should be margined in accordance with subsection 5790(1). Where a margin deficiency exists in a futures account of an *acceptable counterparty* or an *acceptable institution*, the margin deficiency should be reported on this line in accordance with subsection 5790(2).

Excess margin in a client account subject to a *futures segregation and portability customer protection regime* may not be used to reduce margin requirements in the client's account that is not subject to *futures segregation and portability customer protection regime* and vice versa.

*Free credit balances* should be included on Line 5.

- (12) **Line 5** - Report only the margin related to extended settlements in cash, DAP, RAP or margin accounts on this line. In the case of an extended settlement transaction between a *Dealer Member* and either an *acceptable counterparty* or any other counterparty (other than an *acceptable institution* (see note 3) or *regulated entity* (see Schedule 5)), the position shall be margined as follows, commencing on *regular settlement date*:

Calendar days after regular settlement <sup>1</sup>		
Counterparty	30 days or less	Greater than 30 days
<i>Acceptable counterparty</i>	Market value deficiency <sup>2</sup>	Margin
Other	Margin	200% of margin (to a maximum of the <i>market value</i> of the underlying securities)

<sup>1</sup> Calendar days refers to the original term of the extended settlement transaction.

<sup>2</sup> Any transaction which has not been confirmed by an *acceptable counterparty* within 15 *business days* of the trade shall be margined.

- (13) **Line 6** - *Free credit balances* in all accounts except RRSP and other similar accounts should be included. *Dealer Members* margining on a trade date basis will generally calculate *free credit balances* on a trade date basis and should report this trade date figure on Line 6. However, for those *Dealer Members* margining on a settlement date basis, their *free credit balances* will generally be calculated on a settlement date basis and this settlement date figure should be reported on Line 6. Note that a consistent basis of calculating *free credit balances* must be used from month to month.
- (14) **Line 6(a)** - For those *Dealer Members* reporting *free credit balances* on a settlement date basis on Line 6, report the *free credit balances* arising as a result of pending trades on this line.
- (15) **Line 8** - Deduct the allowance for bad debts recorded in the accounts in order that the totals in Line 9 are shown "net".
- (16) **Line 10(b)** - Include margin reductions from offsets against IA reserves only to the extent there is a written agreement between

**Form 1, Part II – Schedule 4**  
**Notes and instructions (Continued)**

the *Dealer Member* and the IA permitting the *Dealer Member* to recover the unsecured balances of the IA's client accounts from the IA reserve account. Include margin reductions arising from *guarantees* relating to customers' accounts by Partners, *Directors*, and *Officers* of the *Dealer Member* (PDO Guarantees). Include margin reductions arising from offsets against non-specific allowances of the *Dealer Member*.

**Form 1, Part II – Schedule 7**  
**Notes and instructions**

- (1) This schedule is to be completed for loan payable transactions, where the stated purpose of the transaction is to borrow cash. All security lending transactions and financing transactions done via 2 trade tickets, including securities repurchases and those with related parties, should also be disclosed on this schedule.
- (2) For the purpose of this schedule, the following terms have the meanings set out below:

"cash loan payable"	A loan transaction where the purpose of the loan is for the <i>Dealer Member</i> to borrow cash and deliver securities as collateral to the counterparty.
"excess collateral deficiency"	(i) For a <i>cash loan payable</i> , any excess of the <i>market value</i> of the actual collateral delivered to the transaction counterparty over 102% the amount of the loan, or  (ii) For a <i>securities loan arrangement</i> , any excess of the <i>market value</i> of the securities loaned over the <i>market value</i> of securities or the amount of cash received from the transaction counterparty as collateral.
"securities loan arrangement"	A loan transaction where the purpose of the loan is for the <i>Dealer Member</i> to lend securities and receive cash or securities as collateral from the counterparty.

- (3) Include accrued interest in amount of loan payable.
- (4) *Market value* of securities received or delivered as collateral should include accrued interest.

**(5) Written agreement requirements**

Any written agreement for a *cash loan payable*, *securities loan arrangement* or securities repurchase arrangement must:

- (i) set out the rights of each party to retain and realize on ~~securities~~the assets delivered to it by the other party under the agreement if the other party defaults. These rights are in addition to other remedies in the agreement or available at law,
- (ii) set out events of default,
- (iii) provide for treatment of the ~~securities~~loaned or transferred asset value or collateral value held by the non-defaulting party that is over the amount owed by the defaulting party.

(iv) set out the right of either party to call, at any time by giving notice to the other party, for any shortfall in the difference between the collateral and the securities, and

(iv) either:

- (a) give the parties the right to set off their mutual debts, or
- (b) enable the parties to effect a secured loan and provide that the lender must continuously segregate agreement collateral securities.

If the parties agree to a secured loan as provided in (iv)(b) above, and there is more than one method for the lender to perfect its security interest in the collateral, the lender must choose the method to achieve the highest priority in a default situation.

Whether the parties rely on set off or agree to a secured loan as provided in (iv)(b) above, the written agreement must provide for the securities loaned in the case of a securities loan arrangement, or the securities sold ~~under~~in the case of a repurchase arrangement, to be free and clear of any trading restrictions under *applicable laws*, and signed for transfer.

**(6) Cash loan payable**

**(i) Margin requirements**

The margin requirements for a *cash loan payable* are as follows:

- (a) Where a written agreement has not been entered into or the written agreement entered into does not include all of the required minimum terms in note 5, the margin required shall be:
- (i) Nil, where the counterparty to the transaction is an *acceptable institution* and the transaction has been confirmed with the *acceptable institution*, or



**Form 1, Part II – Schedule 7**  
**Notes and instructions (Continued)**

(II) 100% of the *market value* of the actual collateral provided to the transaction counterparty.

- (b) Where a written agreement has been entered into that includes all of the required minimum terms in note 5, the margin required to be provided shall be determined according to the following table:

Transaction counterparty type	Margin required
<i>Acceptable institution</i>	No margin <sup>1</sup>
<i>Acceptable counterparty</i>	<i>Excess collateral deficiency</i> <sup>1</sup>
<i>Regulated entity</i>	<i>Excess collateral deficiency</i> <sup>1</sup>
Other	Margin

<sup>1</sup> Any transaction which has not been confirmed by an *acceptable institution, acceptable counterparty* or *regulated entity* within 15 *business days* of the trade shall be margined.

**(7) Securities loan arrangements**

**(i) Additional written agreement requirements for certain agency securities loan arrangements where agent may be treated as equivalent to principal in which agent is also the third party custodian**

Any written agreement for a *securities loan arrangement* between the *Dealer Member* and an agent (on behalf of an underlying principal borrower of securities) and who is also the custodian, may be reported and treated in the same manner for margin purposes as the equivalent principal *securities loan arrangement* between the *Dealer Member* and the third party custodian agent, if:

- (a) the third party custodian agent meets the definition of “financial intermediary” in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act), and
- (b) all of the following additional terms (i.e. over and above those set out in note 5) are stipulated in the written agreements:
- (I) the loaned securities must be held by the third party custodian agent and there must be no right to re-hypothecate the loaned securities,
- (II) the loan collateral (and any additional cash and securities provided for margin maintenance) must either be held by:
- the *Dealer Member* separately from the third party custodian agent and if the loan collateral is made up of securities the *Dealer Member* may re-hypothecate those securities provided it has the right, or
  - the third party custodian agent in the account of the *Dealer Member* and if the loan collateral is made up of securities the *Dealer Member* may re-hypothecate those securities provided it has the right and those securities continue to be held by the third party custodian agent in the account or accounts of the new counterparty or counterparties, and
- (III) in the event of the underlying principal borrower default, the loan collateral will be liquidated by the *Dealer Member* and proceeds used to purchase the loaned securities. If the loaned securities cannot be purchased in the market, their equivalent value is retained by the *Dealer Member*. Any excess value on the realization on the loan collateral will be returned by *Dealer Member* to the third party custodian agent.

**(ii) Additional written agreement requirements for certain agency securities loan arrangements where agent and third party custodian are different entities**

Any written agreement for a *securities loan arrangement* between the *Dealer Member* and an agent (on behalf of an underlying principal borrower of securities), which is accompanied by a written collateral management or custodial agreement between the *Dealer Member* and a third party custodian, may be reported and treated in the same manner for margin purposes as the equivalent principal *securities loan arrangement* between the *Dealer Member* and the agent, if:

- (a) the third party custodian and agent meet the definition of “financial intermediary” in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act), and

**Form 1, Part II – Schedule 7**  
**Notes and instructions (Continued)**

- (b) all of the following additional terms (i.e. over and above those set out in note 5) are stipulated in the written agreements:
- (I) the loaned securities must be held by the agent and there must be no right for the agent to re-hypothecate the loaned securities,
  - (II) the loan collateral (and any additional cash and securities provided for margin maintenance) must either be held by:
    - (A) the *Dealer Member* separately from the third party custodian and if the loan collateral is made up of securities the *Dealer Member* may re-hypothecate those securities provided it has the right, or
    - (B) the third party custodian in the account of the *Dealer Member* and if the loan collateral is made up of securities the *Dealer Member* may re-hypothecate those securities provided it has the right and those securities continue to be held by the third party custodian in the account or accounts of the new counterparty or counterparties, and
  - (III) in the event of the underlying principal borrower default, control over the loan collateral that has been posted with the third party custodian will be given by the third party custodian to the *Dealer Member* and the loan collateral will be liquidated by the *Dealer Member* and the resulting proceeds used to purchase the loaned securities by the *Dealer Member*. If the loaned securities cannot be purchased in the market, their equivalent value is retained by the *Dealer Member*. Any excess value on the realization on the loan collateral will be returned by the *Dealer Member* to the agent.

**(iii) Agency securities loan arrangements where agent must not be treated as equivalent to principal**

The *Dealer Member* must look through the agent in the agency *securities loan arrangement* to the underlying principal borrower and the agency arrangement must be reported and treated in the same manner for margin purposes as the equivalent principal securities lending arrangement between the *Dealer Member* and the underlying principal borrower:

- (a) where an agent is also the third party custodian and the requirements in 7(i) are not all met, or
- (b) where an agent and third party custodian are different entities and the requirements in 7(ii) are not all met.

**(iv) Margin requirements for securities loan arrangements**

The margin requirements for a *securities loan arrangement* are as follows:

- (a) Where a written agreement has not been entered into or the written agreement entered into does not include all of the required minimum terms in note 5, the margin required shall be:
  - (I) nil, where the counterparty to the transaction is an *acceptable institution* and the transaction has been confirmed with the *acceptable institution*, or
  - (II) 100% of the *market value* of the securities loaned to the transaction counterparty.
- (b) Where a written agreement has been entered into that includes all of the required minimum terms in note 5, for margin purposes:
  - (I) for principal *securities loan arrangements*, the counterparty is the principal in the *securities loan arrangement*,
  - (II) for agency *securities loan arrangements*, where an agent is involved and all of the requirements in the applicable note 7(i) or (ii) are met, the counterparty is the agent,
  - (II) for agency *securities loan arrangements*, where an agent is involved and all of the requirements in the applicable note 7(i) or (ii) are not met, the counterparty is the underlying principal borrower,

the margin required to be provided shall be determined according to the following table:

Transaction counterparty type	Margin required
<i>Acceptable institution</i>	No margin <sup>1</sup>
<i>Acceptable counterparty</i>	<i>Excess collateral deficiency</i> <sup>1</sup>
<i>Regulated entity</i>	<i>Excess collateral deficiency</i> <sup>1</sup>
Other	Margin

**Form 1, Part II – Schedule 7**  
**Notes and instructions (Continued)**

- <sup>1</sup> Any transaction which has not been confirmed by an *acceptable institution, acceptable counterparty or regulated entity* within 15 *business days* of the trade shall be margined.

**(8) Securities repurchase arrangements**

~~(i) Written agreement requirements~~

~~If a *Dealer Member* has a written agreement for a securities repurchase arrangement, in addition to the terms in note 5, the agreement must include the parties acknowledgement that either party has the right on notice, to call for any shortfall in the difference between the collateral and securities at any time.~~

~~(ii) (i) Additional written agreement requirements for certain agency securities repurchase arrangements where agent may be treated as equivalent to principal in which agent is also the third party custodian~~

Any written agreement for a securities repurchase arrangement between the *Dealer Member* and an agent (on behalf of an underlying principal buyer) and who is also the custodian, may be reported and treated in the same manner for margin purposes as the equivalent principal securities repurchase arrangement between the *Dealer Member* and the third party custodian agent, if:

- (a) the third party custodian agent meets the definition of “financial intermediary” in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act), and
- (b) all of the following additional terms (i.e. over and above those set out in ~~notes~~[note 5 and 8\(i\)](#)) are stipulated in the written agreement:
  - (I) the purchased securities (and any additional cash and securities provided for margin maintenance) must be held by the third party custodian agent and there must be no right to re-hypothecate those securities, and
  - (II) in the event of the *Dealer Member* (i.e. the underlying principal seller) default, the purchased securities (and any additional cash and securities provided for margin maintenance) that has been posted with the third party custodian agent will be liquidated by the third party custodian agent and proceeds used to satisfy the *Dealer Member’s* obligations. Any excess value on the realization on the purchased securities (and any additional cash and securities provided for margin maintenance) will be returned by the third party custodian agent to the *Dealer Member*.

~~(iii) (ii) Additional written agreement requirements for certain agency repurchase agreements where agent may be treated as equivalent to principal in which an agent and third party custodian are different entities~~

Any written agreement for a securities repurchase arrangement between a *Dealer Member* and an agent (on behalf of an underlying principal buyer), which is accompanied by a written collateral management or custodial agreement between the *Dealer Member* and a third party custodian, may be reported and treated in the same manner for margin purposes as the equivalent principal securities repurchase arrangement between the *Dealer Member* and the agent, if:

- (a) the third party custodian and agent meet the definition of “financial intermediary” in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act), and
- (b) all of the following additional terms (i.e. over and above those set out in ~~notes~~[note 5 and 8\(i\)](#)) are stipulated in the written agreements:
  - (I) the purchased securities (and any additional cash and securities provided for margin maintenance) must be held by the third party custodian and there must be no right for the agent to re-hypothecate those securities, and
  - (II) in the event of the *Dealer Member* (i.e. the underlying principal seller) default, control over the purchased securities (and any additional cash and securities provided for margin maintenance) that has been posted with the third party custodian will be given by the third party custodian to the agent and the purchased securities will be liquidated and the resulting proceeds used to satisfy the *Dealer Member’s* obligations. Any excess value on the realization on the purchased securities (and any additional cash and securities provided for margin maintenance) will be returned by the agent to the *Dealer Member*.

**Form 1, Part II – Schedule 7**  
**Notes and instructions (Continued)**

**~~(iv)~~ (iii) Agency securities repurchase arrangement where agent must not be treated as equivalent to principal**

The *Dealer Member* must look through the agent in the agency securities repurchase arrangement to the underlying principal buyer and the agency arrangement must be reported and treated in the same manner for margin purposes as the equivalent principal securities repurchase arrangement between the *Dealer Member* and the underlying principal buyer:

- (a) where an agent is also the third party custodian and the requirements in [note 8\(iii\)](#) are not all met, or
- (b) where an agent and third party custodian are different entities and the requirements in ~~(iii)~~[note 8\(ii\)](#) are not all met.

**~~(iv)~~ (iv) Margin requirements for securities repurchase arrangements**

The margin requirements for a securities repurchase arrangement are as follows:

- (a) Where a written agreement has not been entered into or the written agreement entered into does not include all of the required minimum terms in ~~notes~~[note 5 and 8\(i\)](#), the margin required to be provided shall be determined according to the following table:

Transaction counterparty type	Margin required based on term of transaction	
	30 calendar days or less after regular settlement <sup>1</sup>	Greater than calendar 30 days after regular settlement <sup>1</sup>
<i>Acceptable institution</i>	No margin <sup>2</sup>	
<i>Acceptable counterparty</i>	<i>Market value</i> deficiency <sup>2</sup>	Margin
<i>Regulated entity</i>	<i>Market value</i> deficiency <sup>2</sup>	Margin
Other	Margin	200% of margin (to a maximum of the <i>market value</i> of the underlying securities)

<sup>1</sup> Regular settlement means the settlement date or delivery date generally accepted according to industry practice for the relevant security in the market in which the transaction occurs. Margin is calculated from the date of regular settlement. Calendar days refer to the original term of the repurchase transaction.

<sup>2</sup> Any transaction which has not been confirmed by an *acceptable institution*, *acceptable counterparty* or *regulated entity* within 15 *business days* of the trade shall be margined.

- (b) Where a written agreement has been entered into that includes all of the required minimum terms in ~~notes~~[note 5 and 8\(i\)](#), for margin purposes:
  - (I) for principal securities repurchase arrangements, the counterparty is the principal in the securities repurchase arrangement,
  - (II) for agency securities repurchase arrangements, where an agent is involved and all of the requirements in the applicable [note 8\(iii\)](#) or ~~(iii)~~[\(iii\)](#) are met, the counterparty is the agent,
  - (III) for agency securities repurchase arrangements, where an agent is involved and all of the requirements in the applicable [note 8\(iii\)](#) or ~~(iii)~~[\(iii\)](#) are not met, the counterparty is the underlying principal buyer,

the margin required to be provided shall be determined according to the following table:

Transaction counterparty type	Margin required
<i>Acceptable institution</i>	No margin <sup>1</sup>
<i>Acceptable counterparty</i>	<i>Market value</i> deficiency <sup>1</sup>
<i>Regulated entity</i>	<i>Market value</i> deficiency <sup>1</sup>
Other	Margin

<sup>1</sup> Any transaction which has not been confirmed by an *acceptable institution*, *acceptable counterparty* or *regulated entity* within 15 *business days* of the trade shall be margined.

- (9) For any given counterparty a deficiency in one type of loan may be offset by an excess in another type of loan provided that there are written agreements for each type of loan which provide for the right of offset between each type of loan. In such case,

**Form 1, Part II – Schedule 7**  
**Notes and instructions (Continued)**

the balances may also be offset for margin calculation purposes.

- (10) In order for a pension fund to be treated as an *acceptable institution* for purposes of this Schedule, it must not only meet the *acceptable institution* criteria outlined in general notes and definitions of Form 1, but the *Dealer Member* must also have received representation that the pension fund is legally able to enter into the obligations of the transaction. If such representation has not been received, the pension fund which otherwise meets the *acceptable institution* criteria must be treated as an *acceptable counterparty*.
- (11) **Lines 3, 4, 7 and 8** - In the case of a *cash loan payable* or a *securities loan arrangement* between a *Dealer Member* and either an *acceptable counterparty* or a *regulated entity*, where an *excess collateral deficiency* exists, action must be taken to correct the deficiency. If no action is taken, the amount of *excess collateral deficiency* must be immediately provided out of the *Dealer Member's* capital. In any case, where the deficiency exists for more than one *business day* it must be provided out of the *Dealer Member's* capital.
- (12) **Lines 11 and 12** - In the case of a repurchase transaction between a *Dealer Member* and either an *acceptable counterparty* or a *regulated entity*, where a deficiency exists between the *market value* of the securities repurchased and the *market value* of the cash received, action must be taken to correct the deficiency. If no action is taken, the amount of *market value* deficiency must be immediately provided out of the *Dealer Member's* capital. In any case, where the deficiency exists for more than one *business day*, it must be provided out of the *Dealer Member's* capital.
- (13) **Lines 5, 9 and 13** - In the case of a *cash loan payable* or a securities loan or a repurchase arrangement / transaction between a *Dealer Member* and a party other than an *acceptable institution*, *acceptable counterparty* or *regulated entity*, where a deficiency exists between the loan value of the cash received or securities lent or repurchased and the loan value of the collateral or cash pledged, action must be taken to correct the deficiency. If no action is taken, the amount of loan value deficiency must be immediately provided out of the *Dealer Member's* capital. The margin required may be reduced by any margin already provided on the collateral (e.g. in inventory). Where [the collateral is cash or securities with a margin rate of 5% or less and](#) the collateral is either held by the *Dealer Member* on a fully segregated basis or held in escrow on its behalf by a securities depository or clearing agency qualifying as an *acceptable securities location* or a bank or trust company qualifying as either an *acceptable institution* or *acceptable counterparty*, only the amount of *market value* deficiency need be provided out of the *Dealer Member's* capital. In any case, where the deficiency exists for more than one *business day*, it must be provided out of the *Dealer Member's* capital.
- (14) **Lines 2, 3 and 4** - In a *cash loan payable* transaction between a *Dealer Member* and an *acceptable institution*, *acceptable counterparty*, or *regulated entity*, where a letter of credit issued by a Schedule 1 Bank is used as collateral for the cash loan, there shall be no charge to the *Dealer Member's* capital for any excess of the value of the letter of credit pledged as collateral over the cash borrowed.
- (15) **Lines 5, 9, and 13** - Arrangements other than those regarding agency agreements where an agent may be treated as equivalent to principal in notes 7(i) and (ii) and 8(~~iii~~) and (~~iii~~) where an *acceptable institution*, *acceptable counterparty*, or *regulated entity* is only acting as an agent (on behalf of an "other" party) should be reported and margined as "Others".

## Form 1, Part II – Schedule 10

### Notes and instructions

- (1) *Dealer Members* must have and maintain insurance against the types of loss and with at least the minimum amount of coverage as prescribed in the *Corporation requirements* and the rules of the Investor Protection Fund.
- (2) Schedule 10 must be completed at the audit date and monthly as part of the monthly financial report.
- (3) The following term(s) has the meaning set out when used in this schedule:

“Other acceptable property”	London Bullion Market Association good delivery bars of gold and silver bullion that are acceptable for margin purposes as defined in section 5430.
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- (4) Net equity for each client is the total value of cash, securities, and *other acceptable property* owed to the client by the *Dealer Member* less the value of cash, securities, and *other acceptable property* owed by the client to the *Dealer Member*. In determining net equity, accounts of a client such as cash, margin, short sale, *options, futures contracts*, foreign currency and Quebec Stock Savings Plans are combined and treated as one account. Accounts such as RRSP, RRRIF, RESP, joint accounts are not combined with other accounts and are treated as separate accounts.

Net equity is determined on a client by client basis on either a settlement date basis or trade date basis. Schedule 10 Part A, Line 1(a) is the aggregate net equity for each client. Negative client net equity, (i.e. total deficiency in net equity owed to the *Dealer Member* by the client) is not included in the aggregate.

For Schedule 10, ~~*guarantee/guarantor agreements*~~ the following should not be considered in the calculation of net equity:

- (i) *guarantee/guarantor agreements, and*
- (ii) *collateral provided to the client by the Dealer Member, where the Dealer Member has borrowed the client’s fully paid or excess margin securities.*

The client net equity calculation should include all retail and *institutional client* accounts, as well as accounts of broker dealers, repos, loan post, broker syndicates, *affiliates* and other similar accounts.

- (5) A *Dealer Member* must have and maintain insurance against losses, using a Financial Institution Bond with a discovery rider attached or discovery provisions incorporated in the Financial Institution Bond. A *Dealer Member* must maintain minimum insurance coverage with a double aggregate limit or a provision for full reinstatement.  
  
For Financial Institution Bonds containing an “aggregate limit” coverage, the actual coverage maintained should be reduced by the amount of reported loss claims, if any, during the policy period.
- (6) The Certificate of Ultimate Designated Person (UDP) and Chief Financial Officer (CFO) document in Form 1 contains a question pertaining to the adequacy of insurance coverage. The Auditors’ Report requires the auditor to state that the question has been fairly answered. Refer to subsection 4461(1) if the *Dealer Member* has insufficient insurance coverage.
- (7) A Financial Institution Bond maintained pursuant to the rules may contain a clause or rider stating that all claims made under the bond are subject to a deductible, provided that the *Dealer Member’s* margin requirement is increased by the amount of the deductible.
- (8) Unless specifically exempted within the *Corporation requirements*, every *Dealer Member* must have mail insurance that covers 100% of losses from any outgoing shipments of negotiable or non-negotiable securities by registered mail.
- (9) The aggregate value of securities in transit in the custody of any *employee* or any *person* acting as a messenger shall not at any time exceed the coverage per the Financial Institution Bond (Schedule 10, Line 2).
- (10) List all Financial Institution Bond and registered mail underwriters, policies, coverage and premiums indicating their expiry dates. State type of aggregate limits, if applicable, or note that provision for full reinstatement exists.
- (11) List all losses reported to the insurers or their authorized representatives including those losses that are less than the amount of the deductible. Do not include lost document bond claims. Indicate in the “Amount of loss” column if the amount of the loss is estimated or unknown as at the reporting date.

Losses should continue to be reported on Part D of Schedule 10 until resolved. In the reporting period where a claim has been settled or a decision has been made not to pursue a claim, the loss should be listed along with the amount of the settlement, if any.

At the annual audit date, list all unsettled claims, whether or not the claims were initiated in the period under audit. In addition, list all losses and claims identified in the current or previous periods that have been settled during the period under audit.