

## INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

## REPUBLICATION OF PROPOSED AMENDMENTS TO IIROC RULES RELATING TO THE FUTURES SEGREGATION AND PORTABILITY REGIME

## BLACKLINE COMPARISON OF THE PROPOSED AMENDMENTS TO THE 2021 PROPOSED AMENDMENTS

**Amendment #1** – The new definitions in subsection 1201(2) are amended in the English version to correct a minor grammar error. This amendment does not apply to the French version:

“domestic gross customer margin model”	A framework to comply with a <i>futures segregation and portability customer protection regime</i> where the amount of margin that a <i>Dealer Member</i> must post on behalf of its clients to a clearing corporation in Canada is the sum of the amounts of margin required for each client.
“futures segregation and portability customer protection regime”	A set of rules and procedures that enable a clearing corporation to operate according to the standards outlined in Principle 14 of the Principles for Financial Market Infrastructures published by <a href="#">the</a> Bank for International Settlements and <a href="#">the</a> International Organization of Securities Commissions, <del>in regards to</del> <a href="#">regarding</a> client futures positions and collateral that support these positions.

**Amendment #2** – The new section 3261 is amended to add clause (ii) as follows:

**3261. Futures ~~subject to a futures segregation and portability customer protection regime~~ [porting disclosures](#)**

- (1) Where the client account is subject to a *futures segregation and portability customer protection regime*, a *Dealer Member* must:
- (i) provide the client with ~~information a~~ [porting disclosure document](#) on the benefits, risks and requirements for porting, including the conditions for porting positions to a replacement clearing member, ~~and~~
  - (ii) [obtain the client’s acknowledgement that the client has received and understood the porting disclosure document or similar document described in clause 3261\(1\)\(i\), and](#)
  - (iii) notify the client of the ~~right~~[obligation](#) of the *Dealer Member* to provide the clearing corporation with information and reports related to the client’s positions.

**3262. – 3269. Reserved.**

**Amendment #3** - IIROC Rule section 3814 is amended to add subsection (4) as follows:

**3814. Commodity record**

- (1) A *Dealer Member* must maintain a commodity *record* or ledger, for each commodity as of the trade date, of all long positions or short positions in *futures contracts* carried for the *Dealer Member's* account or for the account of clients.
- (2) The commodity *record* or ledger must contain the name or designation of the account in which each position is carried.
- (3) As part of the *records* required under subsection 3814(1), a *Dealer Member* must maintain a daily *record* that separately identifies the client positions and associated collateral for *futures contracts* and *futures contract options* that are subject to the *domestic gross customer margin model*.
- (4) A *Dealer Member* must maintain a client identification *record*, for accounts subject to the *domestic gross customer margin model*, that includes the client identification information required by the clearing corporation for porting of client accounts.

**Amendment #4** - IIROC Rule sections 5617 through 5624 are amended to revise the restriction on client account offsets. In the French version, those sections are also amended to correct a recurring grammar error:

**5617. Offsets involving government debt securities and Government of Canada notional bond futures contracts with same underlying issuer and same maturity bands**

- (1) Where a *Dealer Member* or a client has the following pairing:

<b>Long (short) position</b>		<b>Short (long) position</b>
(i) <i>Canada debt securities</i>	and	Government of Canada notional bond <i>futures contract</i>

and the positions have the same currency denomination and *market value* and are within the same *maturity band*, the two positions may be offset and the minimum margin required for both positions may be computed with respect to the net long or net short position only.

- (2) For a client account offset as set out in subsection 5617(1), ~~the clearing corporation must recognize the hedge and~~ the *futures contracts* must be excluded from the *domestic gross customer margin model*.

**5618. Other offsets involving government debt securities and Government of Canada notional bond futures contracts**

- (1) Where a *Dealer Member* or a client has one of the following long (short) government *debt security* position and short (long) Government of Canada notional bond *futures contract* position pairings:

<b>Long (short) position</b>		<b>Short (long) position</b>
(i) <i>Canada debt securities in different maturity band</i>	and	Government of Canada notional bond <i>futures contract</i>
(ii) <i>Canada Provincial debt securities in same or different maturity band</i>	and	Government of Canada notional bond <i>futures contract</i>
(iii) highly rated <i>Canada Municipal debt securities in same maturity band</i>	and	Government of Canada notional bond <i>futures contract</i>

and the positions have the same currency denomination and *market value*, the two positions may be offset and the minimum margin required for both positions may be computed as 50% of the greater of the margins normally required on the long (or short) and the short (or long) positions.

Effective September 1, 2022<sup>1</sup>, clause 5618(1)(iii) will be repealed and replaced with the following:

(iii) <i>Canada Municipal debt securities with a high issuer credit rating in same maturity band</i>	and	Government of Canada notional bond <i>futures contract</i>
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- (2) In subsection 5618(1) “highly rated Canada Municipal debt securities” are Canada Municipal *debt securities* currently rated “A” or higher by DBRS, Moody’s or S&P Corporation.

Effective September 1, 2022<sup>2</sup>, subsection 5618(2) will be repealed and replaced with the following:

- (2) In subsection 5618(1) “*Canada Municipal debt securities with a high issuer credit rating*” are *debt securities* issued or guaranteed by a Canadian municipal government with a long-term issuer credit rating of “A” or higher by a *designated rating organization*.
- (3) For a client account offset as set out in subsection 5618(1), ~~the clearing corporation must recognize the hedge and~~ the *futures contracts* must be excluded from the *domestic gross customer margin model*.

## **5622. Offsets involving Canadian chartered bank acceptances and Canadian bankers acceptance futures contracts with same maturity bands**

- (1) Where a *Dealer Member* or a client has the following pairing:

<sup>1</sup> IIROC Rules Notice [21-0028](#) - Amendments to Dealer Member Rules and Form 1 regarding the securities concentration test and designated rating organizations

<sup>2</sup> IIROC Rules Notice [21-0028](#) - Amendments to Dealer Member Rules and Form 1 regarding the securities concentration test and designated rating organizations

<b>Long (short) position</b>	and	<b>Short (long) position</b>
(i) highly rated <i>chartered bank</i> acceptances		<i>Canadian banker acceptance futures contract</i>

and the positions have the same currency denomination and *market value* and are within the same *maturity band*, the two positions may be offset and the minimum margin required for both positions may be computed with respect to the net long or net short position only.

- (2) In subsection 5622(1) “highly rated *chartered bank* acceptances” are bank acceptances currently rated “A” or higher by DBRS, Moody’s or S&P Corporation.

Effective September 1, 2022<sup>3</sup>, subsection 5622(2) will be repealed and replaced with the following:

- (2) In subsection 5622(1) “highly rated *chartered bank* acceptances” are bank acceptances currently rated “A” or higher by a *designated rating organization*.
- (3) For a client account offset as set out in subsection 5622(1), ~~the clearing corporation must recognize the hedge and~~ the *futures contracts* must be excluded from the *domestic gross customer margin model*.

**5624. Offsets involving commercial and corporate debt securities and Government of Canada notional bond futures contracts**

- (1) Where a *Dealer Member* or a client has one of the following long (short) commercial and corporate *debt security* position and short (long) Government of Canada notional bond *futures contract* position pairings:

<b>Long (short) position</b>	and	<b>Short (long) position</b>
(i) highly rated non-convertible commercial and corporate <i>debt securities</i>		Government of Canada notional bond <i>futures contract</i>

and the positions have the same currency denomination and *market value* and are within the same *maturity band*, the two positions may be offset and the minimum margin required for both positions may be computed as the greater of the margins normally required on the long (or short) and the short (or long) positions.

- (2) In subsection 5624(1) “highly rated non-convertible commercial and corporate *debt securities*” are non-convertible commercial and corporate *debt securities* currently rated “A” or higher by DBRS, Moody’s or S&P Corporation.

Effective September 1, 2022<sup>4</sup>, subsection 5624(2) will be repealed and replaced with the following:

<sup>3</sup> IIROC Rules Notice [21-0028](#) - Amendments to Dealer Member Rules and Form 1 regarding the securities concentration test and designated rating organizations

<sup>4</sup> IIROC Rules Notice [21-0028](#) - Amendments to Dealer Member Rules and Form 1 regarding the securities concentration test and designated rating organizations

- (2) In subsection 5624(1) “highly rated non-convertible commercial and corporate *debt securities*” are non-convertible commercial and corporate *debt securities* currently rated “A” or higher by a *designated rating organization*.
- (3) For a client account offset as set out in subsection 5624(1), ~~the clearing corporation must recognize the hedge and~~ the *futures contracts* must be excluded from the *domestic gross customer margin model*.

**Amendment #5** - IIROC Rule sections 5760 through 5765 are amended to revise the restriction on client account offsets as follows:

**EXCHANGE-TRADED OPTIONS - FUTURES AND OPTIONS COMBINATIONS AND CONVERSIONS**

**5760. Long index futures contract - short call option combination**

- (1) Where a *Dealer Member* inventory or client account contains one of the following exchange traded *futures contract* and *exchange-traded option* contract combinations:

<b>Long futures position</b>	and	<b>Short option position</b>
(i) <i>index futures contracts</i>		<i>index call option</i> based on the same <i>index</i>
(ii) <i>index futures contracts</i>		<i>index participation unit call option</i> based on the same <i>index</i>

and *equivalent quantities* of each position in the combination are held and the *options* and *futures contracts* have the same settlement date or can be settled in either of the two nearest contract months, the minimum margin required for the combination is calculated in accordance with subsection 5760(2).

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- (3) For a client account offset as set out in subsection 5760(1), ~~the clearing corporation must recognize the hedge and~~ the *index futures contracts* must be excluded from the *domestic gross customer margin model*.

**5761. Long futures contracts - long put option combination**

- (1) Where a *Dealer Member* inventory or client account contains one of the following exchange traded *futures contract* and *exchange-traded option* contract combinations:

<b>Long futures position</b>			<b>Long option position</b>	
(i)	<i>index futures contracts</i>	and	<i>index put option</i> based on the same <i>index</i>	
(ii)	<i>index futures contracts</i>	and	<i>index participation unit put option</i> based on the same <i>index</i>	

and *equivalent quantities* of each position in the combination are held and the *options* and *futures contracts* have the same settlement date or can be settled in either of the two nearest contract months, the minimum margin required for the combination is calculated in accordance with subsections 5761(2) and 5761(3).

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- (4) For a client account offset as set out in subsection 5761(1), ~~the clearing corporation must recognize the hedge and~~ the *index futures contracts* must be excluded from the *domestic gross customer margin model*.

#### **5762. Short futures contracts - long call option combination**

- (1) Where a *Dealer Member* inventory or client account contains one of the following exchange traded *futures contract* and *exchange-traded option* contract combinations:

<b>Short futures position</b>			<b>Long option position</b>	
(i)	<i>index futures contracts</i>	and	<i>index call option</i> based on the same <i>index</i>	
(ii)	<i>index futures contracts</i>	and	<i>index participation unit call option</i> based on the same <i>index</i>	

and *equivalent quantities* of each position in the combination are held and the *options* and *futures contracts* have the same settlement date or can be settled in either of the two nearest contract months, the minimum margin required for the combination is calculated in accordance with subsections 5762(2) and 5762(3).

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- (4) For a client account offset as set out in subsection 5762(1), ~~the clearing corporation must recognize the hedge and~~ the *index futures contracts* must be excluded from the *domestic gross customer margin model*.

**5763. Short futures contracts - short put option combination**

- (1) Where a *Dealer Member* inventory or client account contains one of the following exchange traded *futures contract* and *exchange-traded option* contract combinations:

<b>Short futures position</b>			<b>Short option position</b>	
(i)	<i>index futures contracts</i>	and	<i>index put option</i>	based on the same <i>index</i>
(ii)	<i>index futures contracts</i>	and	<i>index participation unit put option</i>	based on the same <i>index</i>

and *equivalent quantities* of each position in the combination are held and the *options* and *futures contracts* have the same settlement date or can be settled in either of the two nearest contract months, the minimum margin required for the combination is calculated in accordance with subsection 5763(2).

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- (3) For a client account offset as set out in subsection 5763(1), ~~the clearing corporation must recognize the hedge and~~ the *index futures contracts* must be excluded from the *domestic gross customer margin model*.

**5764. Futures conversion or long triplo combination**

- (1) Where a *Dealer Member* inventory or client account contains one of the following exchange traded *futures contract* and *exchange-traded option* contract combinations:

<b>Long futures position</b>			<b>Long option position</b>		<b>Short option position</b>
(i)	<i>index futures contracts</i>	and	<i>index put option</i> based on the same <i>index</i>	and	<i>index call option</i> based on the same <i>index</i>
(ii)	<i>index futures contracts</i>	and	<i>index participation unit put option</i> based on the same <i>index</i>	and	<i>index participation unit call option</i> based on the same <i>index</i>

and *equivalent quantities* of each position in the combination are held and the *options* contracts have the same expiry date and the *options* and *futures contracts* have the same settlement date or can be settled in either of the two nearest contract months, the minimum margin required for the combination is calculated in accordance with subsection 5764(2).

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- (3) For a client account offset as set out in subsection 5764(1), ~~the clearing corporation must recognize the hedge and~~ the *index futures contracts* must be excluded from the *domestic gross customer margin model*.

**5765. Reconversion or short tripo combination**

- (1) Where a *Dealer Member* inventory or client account contains one of the following exchange traded *futures contract* and *exchange-traded option* contract combinations:

	<b>Short futures position</b>		<b>Long option position</b>		<b>Short option position</b>
(i)	<i>index futures contracts</i>	and	<i>index call option</i> based on the same <i>index</i>	and	<i>index put option</i> based on the same <i>index</i>
(ii)	<i>index futures contracts</i>	and	<i>index participation unit call option</i> based on the same <i>index</i>	and	<i>index participation unit put option</i> based on the same <i>index</i>

and *equivalent quantities* of each position in the combination are held and the *options* contracts have the same expiry date and the *options* and *futures contracts* have the same settlement date or can be settled in either of the two nearest contract months, the minimum margin required for the combination is calculated in accordance with subsection 5765(2).

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- (3) For a client account offset as set out in subsection 5765(1), ~~the clearing corporation must recognize the hedge and~~ the *index futures contracts* must be excluded from the *domestic gross customer margin model*.

**5766. - 5769. Reserved.**

**Amendment #6** - Subsection 5772(4) is amended to revise the restriction on client account offsets as follows:

**5772. Index futures contracts - qualifying baskets of index securities or index participation units**

- (1) Where a *Dealer Member* inventory or client account contains the following combination:

	<b>Long (short) futures position</b>		<b>Short (long) position</b>
(i)	<i>index futures contracts</i>	and	<i>qualifying basket of index securities</i> of the same <i>index</i>
(ii)	<i>index futures contracts</i>	and	<i>index participation units</i> based on the same <i>index</i>



and *equivalent quantities* of each position in the combination are held, the minimum margin is calculated in accordance with subsection 5772(2).

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- (4) For a client account offset as set out in subsection 5772(1), ~~the clearing corporation must recognize the hedge and~~ the *index futures contracts* must be excluded from the *domestic gross customer margin model*.

**Amendment #7** - Subsection 5790(2) is revised for further clarification as follows:

### **FUTURES CONTRACTS AND FUTURES CONTRACT OPTIONS**

#### **5790. Minimum margin requirements**

- (1) Where a *Dealer Member* inventory or client account contains positions and offsets in *futures contracts* or *futures contract options*, the margin required is the greatest of:
- (i) the margin required by the futures exchange on which the contract is entered into,
  - (ii) the margin required by the clearing corporation, and
  - (iii) the margin required by the *Dealer Member's* clearing broker, where applicable.
- (2) Where a client in ~~subsection~~subsections 5790(1) or 5776(2) is an *acceptable institution*, *acceptable counterparty* or *regulated entity*, the *Dealer Member* must include the margin deficiency in the margin on client or brokers and dealers accounts when calculating its *risk adjusted capital*, as of the date the deficiency occurs, where the *Dealer Member*:
- (i) does not promptly call for margin, or
  - (ii) has promptly made a call for margin, but has not received the required margin ~~within one business day~~ by the end of the next trading day after the date the deficiency occurs.

**Amendment #8** - Clauses 5820(1)(vi) and (vii) are amended to replace ambiguous “securities account” term as follows:

#### **5820. General account guarantee requirements**

- (1) Subject to the requirements in sections 5821 and 5822, a *Dealer Member* may permit a client (the guarantor) to *guarantee* the accounts of another client provided:
- (i) the *Dealer Member* informs the guarantor in writing of the initial contingent liability they will be assuming by signing the *guarantee* agreement,

- (ii) the *Dealer Member* discloses to the guarantor in writing that the suitability of transactions in the guaranteed client's accounts will not be reviewed in relation to the guarantor,
  - (iii) the guarantor signs an approved written *guarantee* agreement with the *Dealer Member* that:
    - (a) identifies the guarantor by name,
    - (b) identifies the guarantor accounts that are to be used to provide the *guarantee*,
    - (c) identifies the accounts of the other client that are subject to the *guarantee*,
    - (d) binds the guarantor, its successors, assigns and personal legal representatives, and
    - (e) contains the minimum terms set out in subsection 5825(1),
  - (iv) the guaranteed client consents in writing to the *Dealer Member* providing the guarantor, at least quarterly, with the guaranteed client's account statements,
  - (v) where the guarantor does not object, the guarantor is sent, at least quarterly, the guaranteed client's account statements,
  - (vi) the guarantor's ~~securities~~ accounts that are not subject to a futures segregation and portability customer protection regime are not guaranteeing any accounts that are subject to a *futures segregation and portability customer protection regime*, and
  - (vii) the guarantor's accounts that are subject to a *futures segregation and portability customer protection regime* are not guaranteeing any ~~securities~~ accounts that are not subject to a futures segregation and portability customer protection regime.
- (2) Where the guaranteed client does not consent to providing account statements, the *Dealer Member* must notify the guarantor in writing of the guaranteed client's refusal and that the *guarantee* agreement will not be accepted for margin reduction purposes.