

**FORM 31-103F1 CALCULATION OF EXCESS WORKING CAPITAL**

Firm Name \_\_\_\_\_

Capital Calculation

(as at \_\_\_\_\_ with comparative figures as at \_\_\_\_\_)

|    | <b>Component</b>   | <b>Current period</b> | <b>Prior period</b> |
|----|--|-----------------------|---------------------|
| 1. | Current assets   |                       |                     |
| 2. | Less current assets not readily convertible into cash<br>(e.g., prepaid expenses)  |                       |                     |
| 3. | Adjusted current assets<br><br>Line 1 minus line 2 =   |                       |                     |
| 4. | Current liabilities  |                       |                     |
| 5. | Add 100% of non-current related party debt unless the firm and the lender have executed a subordination agreement in the form set out in Appendix B of National Instrument 31-103 <i>Registration Requirements, Exemptions and Ongoing Registrant Obligations</i> and the firm has delivered a copy of the agreement to the regulator or, in Québec, the securities regulatory authority. See section 12.2 of National Instrument 31-103 <i>Registration Requirements, Exemptions and Ongoing Registrant Obligations</i> . |                       |                     |
| 6. | Adjusted current liabilities<br><br>Line 4 plus line 5 =   |                       |                     |
| 7. | Adjusted working capital<br><br>Line 3 minus line 6 =  |                       |                     |

|     |  |  |  |
|-----|--|--|--|
| 8.  | Less minimum capital   |  |  |
| 9.  | Less market risk   |  |  |
| 10. | Less any deductible under the bonding or insurance policy required under Part 12 of National Instrument 31-103 <i>Registration Requirements, Exemptions and Ongoing Registrant Obligations</i> |  |  |
| 11. | Less Guarantees  |  |  |
| 12. | Less unresolved differences  |  |  |
| 13. | <b>Excess working capital</b>  |  |  |

**Notes:**

Form 31-103F1 *Calculation of Excess Working Capital* must be prepared using the accounting principles that you use to prepare your financial statements in accordance with National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards*. Section 12.1 of Companion Policy 31-103CP *Registration Requirements, Exemptions and Ongoing Registrant Obligations* provides further guidance in respect of these accounting principles.

**Line 5. Related-party debt** – Refer to the CICA Handbook for the definition of “related party” for publicly accountable enterprises. The firm is required to deliver a copy of the executed subordination agreement to the regulator or, in Québec, the securities regulatory authority on the earlier of a) 10 days after the date the agreement is executed or b) the date an amount subordinated by the agreement is excluded from its calculation of excess working capital on Form 31-103F1 *Calculation of Excess Working Capital*. **The firm must notify the regulator or, in Québec, the securities regulatory authority, 10 days before it repays the loan (in whole or in part), or terminates the subordination agreement.** See section 12.2 of National Instrument 31-103 *Registration Requirements Exemptions and Ongoing Registrant Obligations*.

**Line 8. Minimum Capital** – The amount on this line must be not less than (a) \$25,000 for an adviser and (b) \$50,000 for a dealer. For an investment fund manager, the amount must be not less than \$100,000 unless subsection 12.1(4) of National Instrument 31-103 *Registration Requirements Exemptions and Ongoing Registrant Obligations* applies.

**Line 9. Market Risk** – The amount on this line must be calculated according to the instructions set out in Schedule 1 to Form 31-103F1 *Calculation of Excess Working Capital*. A schedule supporting the calculation of any amounts included in Line 9 as market risk should be provided to the regulator or, in Québec, the securities regulatory authority in conjunction with the submission of Form 31-103F1 *Calculation of Excess Working Capital*.

**Line 11. Guarantees** – If the registered firm is guaranteeing the liability of another party, the total amount of the guarantee must be included in the capital calculation. If the amount of a guarantee is included in the firm’s statement of financial position as a current liability and is reflected in line 4, do not include the amount of the guarantee on line 11.

**Line 12. Unresolved differences** – Any unresolved differences that could result in a loss from either firm or client assets must be included in the capital calculation. The examples below provide guidance as to how to calculate unresolved differences:

- (i) If there is an unresolved difference relating to client securities, the amount to be reported on Line 12 will be equal to the fair value of the client securities that are short, plus the applicable margin rate for those securities.

- (ii) If there is an unresolved difference relating to the registrant's investments, the amount to be reported on Line 12 will be equal to the fair value of the investments (securities) that are short.
- (iii) If there is an unresolved difference relating to cash, the amount to be reported on Line 12 will be equal to the amount of the shortfall in cash.

Please refer to section 12.1 of Companion Policy 31-103CP *Registration Requirements, Exemptions and Ongoing Registrant Obligations* for further guidance on how to prepare and file Form 31-103F1 *Calculation of Excess Working Capital*.

**Management Certification**

**Registered Firm Name:** \_\_\_\_\_

We have examined the attached capital calculation and certify that the firm is in compliance with the capital requirements as at \_\_\_\_\_.

**Name and Title**

**Signature**

**Date**

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## Schedule 1 of Form 31-103F1 Calculation of Excess Working Capital

### (calculating line 9 [market risk])

For purposes of completing this form:

- (1) "Fair value" means the value of a security determined in accordance with Canadian GAAP applicable to publicly accountable enterprises.
- (2) For each security whose value is included in line 1, Current Assets, multiply the fair value of the security by the margin rate for that security set out below. Add up the resulting amounts for all of the securities you hold. The total is the "market risk" to be entered on line 9.

#### (a) Bonds, Debentures, Treasury Bills and Notes

- (i) Bonds, debentures, treasury bills and other securities of or guaranteed by the Government of Canada, of the United Kingdom, of the United States of America and of any other national foreign government (provided such foreign government securities are currently rated Aaa or AAA by Moody's Canada Inc. or its DRO affiliate, or Standard & Poor's Rating Services (Canada) or its DRO affiliate, respectively), maturing (or called for redemption):

|                           |  |
|---------------------------|--|
| within 1 year:            | 1% of fair value multiplied by the fraction determined by dividing the number of days to maturity by 365 |
| over 1 year to 3 years:   | 1 % of fair value  |
| over 3 years to 7 years:  | 2% of fair value   |
| over 7 years to 11 years: | 4% of fair value   |
| over 11 years:            | 4% of fair value   |

- (ii) Bonds, debentures, treasury bills and other securities of or guaranteed by any jurisdiction of Canada and obligations of the International Bank for Reconstruction and Development, maturing (or called for redemption):

|                           |  |
|---------------------------|--|
| within 1 year:            | 2% of fair value multiplied by the fraction determined by dividing the number of days to maturity by 365 |
| over 1 year to 3 years:   | 3 % of fair value  |
| over 3 years to 7 years:  | 4% of fair value   |
| over 7 years to 11 years: | 5% of fair value   |
| over 11 years:            | 5% of fair value   |

- (iii) Bonds, debentures or notes (not in default) of or guaranteed by any municipal corporation in Canada or the United Kingdom maturing:

|                           |  |
|---------------------------|--|
| within 1 year:            | 3% of fair value multiplied by the fraction determined by dividing the number of days to maturity by 365 |
| over 1 year to 3 years:   | 5 % of fair value  |
| over 3 years to 7 years:  | 5% of fair value   |
| over 7 years to 11 years: | 5% of fair value   |
| over 11 years:            | 5% of fair value   |

- (iv) Other non-commercial bonds and debentures, (not in default): 10% of fair value

- (v) Commercial and corporate bonds, debentures and notes (not in default) and non-negotiable and non-transferable trust company and mortgage loan company obligations registered in the registered firm's name maturing:

|                           |                   |
|---------------------------|-------------------|
| within 1 year:            | 3% of fair value  |
| over 1 year to 3 years:   | 6 % of fair value |
| over 3 years to 7 years:  | 7% of fair value  |
| over 7 years to 11 years: | 10% of fair value |
| over 11 years:            | 10% of fair value |

#### (b) Bank Paper

Deposit certificates, promissory notes or debentures issued by a Canadian chartered bank (and of Canadian chartered bank acceptances) maturing:

within 1 year: 2% of fair value multiplied by the fraction determined by dividing the number of days to maturity by 365  
over 1 year: apply rates for commercial and corporate bonds, debentures and notes

**(c) Acceptable foreign bank paper**

Deposit certificates, promissory notes or debentures issued by a foreign bank, readily negotiable and transferable and maturing:

within 1 year: 2% of fair value multiplied by the fraction determined by dividing the number of days to maturity by 365  
over 1 year: apply rates for commercial and corporate bonds, debentures and notes

“Acceptable Foreign Bank Paper” consists of deposit certificates or promissory notes issued by a bank other than a Canadian chartered bank with a net worth (i.e., capital plus reserves) of not less than \$200,000,000.

**(d) Mutual Funds**

Securities of mutual funds qualified by prospectus for sale in any jurisdiction of Canada:

- (i) 5% of the net asset value per security as determined in accordance with National Instrument 81-106 *Investment Fund Continuous Disclosure*, where the fund is a money market mutual fund as defined in National Instrument 81-102 *Investment Funds*; or
- (ii) the margin rate determined on the same basis as for listed stocks multiplied by the net asset value per security of the fund as determined in accordance with National Instrument 81-106 *Investment Fund Continuous Disclosure*.

Securities of mutual funds qualified by prospectus for sale in the United States of America: 5% of the net asset value per security if the fund is registered as an investment company under the *Investment Companies Act of 1940*, as amended from time to time, and complies with Rule 2a-7 thereof.

**(e) Stocks**

In this paragraph, “securities” includes rights and warrants and does not include bonds and debentures.

- (i) On securities including investment fund securities, rights and warrants, listed on any exchange in Canada or the United States of America:

Long Positions – Margin Required

Securities selling at \$2.00 or more – 50% of fair value

Securities selling at \$1.75 to \$1.99 – 60% of fair value

Securities selling at \$1.50 to \$1.74 – 80% of fair value

Securities selling under \$1.50 – 100% of fair value

Short Positions – Credit Required

Securities selling at \$2.00 or more – 150% of fair value

Securities selling at \$1.50 to \$1.99 – \$3.00 per share

Securities selling at \$0.25 to \$1.49 – 200% of fair value

Securities selling at less than \$0.25 – fair value plus \$0.25 per share

- (ii) For positions in securities that are constituent securities on a major broadly-based index of one of the following exchanges, 50% of the fair value:
  - (a) Australian Stock Exchange Limited
  - (b) Bolsa de Madrid
  - (c) Borsa Italiana
  - (d) Copenhagen Stock Exchange
  - (e) Euronext Amsterdam
  - (f) Euronext Brussels
  - (g) Euronext Paris S.A.
  - (h) Frankfurt Stock Exchange
  - (i) London Stock Exchange
  - (j) New Zealand Exchange Limited
  - (k) Stockholm Stock Exchange
  - (l) SIX Swiss Exchange
  - (m) The Stock Exchange of Hong Kong Limited
  - (n) Tokyo Stock Exchange

**(f) Mortgages**

- (i) For a firm registered in any jurisdiction of Canada except Ontario:
  - (a) Insured mortgages (not in default): 6% of fair value
  - (b) Mortgages which are not insured (not in default): 12% of fair value.
- (ii) For a firm registered in Ontario:
  - (a) Mortgages insured under the *National Housing Act (Canada)* (not in default): 6% of fair value
  - (b) Conventional first mortgages (not in default): 12% of fair value.

If you are registered in Ontario regardless of whether you are also registered in another jurisdiction of Canada, you will need to apply the margin rates set forth in (ii) above.

- (g) For all other securities – 100% of fair value.**