IIROC OCRCVM
Investment Industry Regulatory Organization of Canada
Organisme canadien de réglementation du commerce des valeurs mobilières

IIROC NOTICE

Rules Notice
Request for Comments
Dealer Member Rules

Comments Due By: April 22, 2019

Please distribute internally to:
Credit
Institutional
Internal Audit
Legal and Compliance
Operations
Regulatory Accounting
Senior Management
Trading Desk

Contact:
Answerd Ramcharan
Manager, Financial Information, Member Regulation Policy
416-943-5850
aramcharan@iiroc.ca

19-0027
February 21, 2019

Proposed amendments to Notes and Instructions to Schedules 1 and 7 of Form 1 regarding agency tri-party arrangements

Executive Summary

On January 30, 2019, the Board of Directors (the **Board**) of the Investment Industry Regulatory Organization of Canada (IIROC) approved the publication for comment of proposed amendments to Notes and Instructions to Schedules 1 (Analysis of Loans Receivable, Securities Borrowed and Resale Agreements) and 7 (Analysis of Overdrafts, Loans, Securities Loaned and Repurchase Agreements) of Form 1, regarding the margin requirements for certain agency tri-party repurchase and resale arrangements and certain agency tri-party securities borrow and loan arrangements (collectively, the **Proposed Amendments**). The main purpose of the Proposed Amendments is to allow Dealer Members to be able to treat the agent in these arrangements as

equivalent to principal for margin purposes. The Proposed Amendments will more closely align a Dealer Member's margin requirements for these arrangements to its potential risk of loss to such arrangements.

Impacts

Dealer Members are expected to benefit from having their margin requirements more closely aligned to their potential risk of loss to such arrangements.

We believe that the Proposed Amendments will have no material impact in terms of capital market structure, competition generally, cost of compliance and conformity with other rules. The Proposed Amendments do not permit unfair discrimination among customers, issuers, brokers, dealers, members or others. They do not impose any burden on competition that is not necessary or appropriate in furtherance of the above purposes. There may be minor technological implications for Dealer Members and their service providers as a result of the Proposed Amendments, such as updating their systems with the new margin requirements.

How to Submit Comments

Comments are requested on all aspects of the Proposed Amendments, including any matter which they do not specifically address. Comments on the Proposed Amendments should be in writing and delivered by **April 22, 2019** to:

Answerd Ramcharan
Manager, Financial Information, Member Regulation Policy
Investment Industry Regulatory Organization of Canada
Suite 2000, 121 King Street West
Toronto, Ontario M5H 3T9
email: aramcharan@iiroc.ca

A copy should also be provided to the Recognizing Regulators by forwarding a copy to:

Market Regulation
Ontario Securities Commission
Suite 1903, Box 55
20 Queen Street West
Toronto, Ontario M5H 3S8
e-mail: marketregulation@osc.gov.on.ca

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

Rules Notice - Table of Contents

1. Discussion of Proposed Amendments

1.1 Relevant background

On October 1, 2015, we implemented amendments to Schedules 1, 7 and 7A of Dealer Member Form 1 in Notice 15-0206 to allow Dealer Members to treat certain agency tri-party securities borrow and loan arrangements, for margin purposes, as if it was an equivalent principal arrangement executed between the Dealer Member and the agent. The rationale for allowing this margin treatment is that agency tri-party arrangements where the parties are a Dealer Member, a client counterparty and the counterparty's agent which also acts as the custodian (referred to as the "custodian agent"), have added risk protection features that result in no greater risk of loss to the Dealer Member than if the Dealer Member had entered into a principal arrangement with the counterparty's custodian agent.

Subsequent to the changes made in 2015 and as a result of the evolution of tri-party arrangements, we were asked by Dealer Members to allow the equivalent to principal margin treatment

(i) for agency tri-party securities repurchase and resale arrangements where the counterparty's agent and the custodian are the same entity, and

(ii) for both agency tri-party securities borrow and loan arrangements and agency tri-party securities repurchase and resale arrangements where the counterparty's agent and custodian are different entities.

We have reviewed these additional types of agency tri-party arrangements and believe they have adequate risk protection features (similar to the agency tri-party securities borrow and loan arrangements we considered in 2015) that mitigate a Dealer Member's risk of loss through the use of a custodian agent, or an agent and separate custodian, to allow the equivalent to principal margin treatment for them.

1.2 Current Notes and Instructions to Schedules 1 and 7 of Form 1

Form 1 is a special purpose report that is used by IIROC and the Canadian Investor Protection Fund (CIPF) to monitor the financial solvency of Dealer Members. To monitor financial solvency, IIROC monitors the risk adjusted capital level and early warning test compliance of each Dealer

Member. The current Notes and Instructions to Schedules 1 and 7 of Form 1 set out specific margin requirements for certain agency securities borrow and loan arrangements to allow a Dealer Member to be able to treat the third party custodian agent in the these arrangements as "equivalent to principal".

For a Dealer Member, the main benefit in being able to treat the third party custodian agent as equivalent to principal is the lower margin requirements for these agency arrangements because the third party custodian agent is typically an "acceptable institution" under IIROC's counterparty risk classification, which is IIROC's lowest counterparty risk category. A secondary benefit is that a Dealer Member will not need to "look through" the third party custodian agent to determine the entity that is the ultimate counterparty in order to determine its counterparty risk classification. The risk protection features of these agency arrangements in the situation where a Dealer Member borrows securities under an agency securities borrow arrangement are as follows:

- the third party custodian agent is typically an acceptable institution
- pursuant to the written agreement executed:
    - the loan collateral provided by the Dealer Member is held by the third party custodian agent and if the loan collateral includes securities the third party custodian agent cannot re-hypothecate those securities
    - in the event of the Dealer Member's default, there are provisions for the third party custodian agent to liquidate the loan collateral to satisfy the Dealer Member's obligations and for any excess value to be returned by the third party custodian agent to the Dealer Member
    - the written agreement qualifies as an "Eligible Financial Contract" under Canada's Bankruptcy and Insolvency Act and therefore the loan collateral does not form part of either the third party custodian agent's or the ultimate counterparty's estate in the event of an insolvency of either of them
    - the third party custodian agent must be a "financial intermediary" in relation to the Eligible Financial Contract General Rules under Canada's Bankruptcy and Insolvency Act.

However, the current Notes and Instructions to Schedules 1 and 7 do not set out specific margin requirements for agency securities repurchase and resale arrangements or agency securities borrow and loan arrangements where the agent and the third party custodian are different entities. Therefore, for agency securities repurchase and resale arrangements that have similar risk protection features the Dealer Member's margin requirements has the potential to be significantly higher.

We have reviewed the risk protection features of certain agency securities repurchase and resale arrangements and agency securities borrow and loan arrangements where the agent and the third party custodian are different entities and concluded that the risk assumed by a Dealer Member when it enters into one of these arrangements is no greater than the risk assumed by the Dealer Member when it enters directly into an equivalent "principal" arrangement with the third party custodian agent or the agent where the agent and the custodian are different entities.

The purpose of these agency securities repurchase arrangements is for a Dealer Member to borrow cash, and the two typical agency securities repurchase arrangements are described as follows:

- Where agent is also the third party custodian

  The Dealer Member, as seller (collateral provider), will deliver securities in exchange for cash provided by an agent, as buyer (cash provider), acting in its capacity as agent on behalf of certain principals pursuant to the terms of an industry master agreement (e.g. the Global Master Repurchase Agreement (GMRA)).

  That master agreement will typically provide that the Dealer Member must deliver the purchased securities to the person identified to serve as custodian for the buyer, which in this case is the agent.

- Where agent and third party custodian are different entities

  The Dealer Member, as seller (collateral provider), will deliver securities in exchange for cash provided by an agent, as buyer (cash provider), acting in its capacity as agent on behalf of certain principals pursuant to the terms of an industry master agreement (e.g. the Global Master Repurchase Agreement (GMRA)).

That master agreement will typically provide that the Dealer Member must deliver the purchased securities to the person identified to serve as custodian for the buyer, which in this case is another third party custodian.

Both the Dealer Member and the agent would further agree that the collateral will be delivered to the third party custodian pursuant to the terms of a separate custodial agreement (e.g. a "Collateral Management Agreement", or a "Custodial Management Agreement").

The risk protection features of these agency arrangements in the situation where a Dealer Member borrows cash under an agency securities repurchase arrangement where the agent and third party custodian are different entities are as follows:

- the agent is typically an acceptable institution and a "financial intermediary" in relation to the Eligible Financial Contract General Rules under Canada's Bankruptcy and Insolvency Act
- the custodian is also typically an acceptable institution and a "financial intermediary" in relation to the Eligible Financial Contract General Rules under Canada's Bankruptcy and Insolvency Act
- pursuant to the written agreement and accompanying collateral management agreement executed:
    - the purchased securities provided by the Dealer Member is held by the third party custodian and the third party custodian cannot re-hypothecate those securities
    - in the event of the Dealer Member's default, there are provisions for the third party custodian to provide the purchased securities to the agent to liquidate the purchased securities to satisfy the Dealer Member's obligations and for any excess value to be returned by the agent to the Dealer Member
    - the written agreement and accompanying collateral management agreement qualifies as an "Eligible Financial Contract" under Canada's Bankruptcy and Insolvency Act and therefore purchased securities do not form part of either the agent's, third party's custodian's or the ultimate counterparty's estate in the event of an insolvency of any of them.

1.3 Proposed Amendments

The following is a summary of the Proposed Amendments, which are shown as black-lined changes in **Appendix A**:

(1) For agency securities borrow arrangements in which the agent and third party custodian is the same entity (i.e. the third party custodian agent), we have:

- moved the requirement for the third party custodian agent to meet the definition of financial intermediary to outside of the written agreement in order to make it easier for a Dealer Member to execute written agreements regarding these arrangements with foreign financial intermediaries [*Schedule 1, Note 6(b)*].

(2) For agency securities borrow arrangements in which the agent and third party custodian are different entities, we have:

- added the written agreement and accompanying written collateral management or custodial agreement requirements [*Schedule 1, Note 6(c)*]
- added the requirement for the agent and third party custodian to meet the definition of financial intermediary to be outside of the written agreement in order to make it easier for a Dealer Member to execute written agreements regarding these arrangements with foreign financial intermediaries [*Schedule 1, Note 6(c)*]
- added in the event of default requirements to protect excess collateral [*Schedule 1, Note 6(c)*]
- added the requirements where agent must not be treated as equivalent to principal [*Schedule 1, Note 6(d)*]
- added margin requirements [*Schedule 1, Note 6(e)*].

(3) For agency securities resale arrangements in which the agent and third party custodian is the same entity (i.e. the third party custodian agent), we have:

- added the written agreement requirements [*Schedule 1, Note 7(b)*]
- added the requirement for the third party custodian agent to meet the definition of financial intermediary to be outside of the written agreement

in order to make it easier for a Dealer Member to execute written agreements regarding these arrangements with foreign financial intermediaries [*Schedule 1, Note 7(b)*]

- added requirement that cash proceeds from purchased securities must be held by the third party custodian agent [*Schedule 1, Note 7(b)*]
- added the flexibility on how a Dealer Member may hold and use the purchased securities [*Schedule 1, Note 7(b)*]
- added in the event of default requirements to protect excess collateral [*Schedule 1, Note 7(b)*]
- added the requirements where agent must not be treated as equivalent to principal [*Schedule 1, Note 7(d)*]
- added margin requirements [*Schedule 1, Note 7(e)*].

(4) For agency securities resale arrangements in which the agent and third party custodian are different entities, we have:

- added the written agreement and accompanying written collateral management or custodial agreement requirements [*Schedule 1, Note 7(c)*]
- added the requirement for the agent and third party custodian to meet the definition of financial intermediary to be outside of the written agreement in order to make it easier for a Dealer Member to execute written agreements regarding these arrangements with foreign financial intermediaries [*Schedule 1, Note 7(c)*]
- added requirement that cash proceeds from purchased securities must be held by the agent [*Schedule 1, Note 7(c)*]
- added the flexibility on how a Dealer Member may hold and use the purchased securities [*Schedule 1, Note 7(c)*]
- added in the event of default requirements to protect excess collateral [*Schedule 1, Note 7(c)*]
- added the requirements where agent must not be treated as equivalent to principal [*Schedule 1, Note 7(d)*]
- added margin requirements [*Schedule 1, Note 7(e)*].

(5) For agency securities loan arrangements in which the agent and third party custodian is the same entity (i.e. the third party custodian agent), we have:

- moved the requirement for the third party custodian agent to meet the definition of financial intermediary to outside of the written agreement in order to make it easier for a Dealer Member to execute written agreements regarding these arrangements with foreign financial intermediaries [*Schedule 7, Note 6(b)*]
- added requirement that loaned securities must be held by the third party custodian agent and there must be no right to re-hypothecate the loaned securities [*Schedule 7, Note 6(b)*]
- added flexibility on how the Dealer Member may hold and use the loan collateral [*Schedule 7, Note 6(b)*].

(6) For agency securities loan arrangements in which the agent and third party custodian are different entities, we have:

- added the written agreement and accompanying written collateral management or custodial agreement requirements [*Schedule 7, Note 6(c)*]
- added the requirement for the agent and third party custodian to meet the definition of financial intermediary to be outside of the written agreement in order to make it easier for a Dealer Member to execute written agreements regarding these arrangements with foreign financial intermediaries [*Schedule 7, Note 6(c)*]
- added the requirement that loaned securities must be held by the agent and there must be no right for the agent to re-hypothecate the loaned securities [*Schedule 7, Note 6(c)*]
- added flexibility on how the Dealer Member may hold and use the loan collateral [*Schedule 7, Note 6(c)*]
- added in the event of default requirements to protect excess collateral [*Schedule 7, Note 6(c)*]
- added the requirements where agent must not be treated as equivalent to principal [*Schedule 7, Note 6(d)*]
- added margin requirements [*Schedule 7, Note 6(e)*].

(7) For agency securities repurchase arrangements in which the agent and third party custodian is the same entity (i.e. the third party custodian agent), we have:

- added the written agreement requirements [*Schedule 7, Note 7(b)*]
- added the requirement for the third party custodian agent to meet the definition of financial intermediary to be outside of the written agreement in order to make it easier for a Dealer Member to execute written agreements regarding these arrangements with foreign financial intermediaries [*Schedule 7, Note 7(b)*]
- added the requirement that purchased securities must be held by the third party custodian agent and there must be no right to re-hypothecate those securities [*Schedule 7, Note 7(b)*]
- added in the event of default requirements to protect excess collateral [*Schedule 7, Note 7(b)*].
- added the requirements where agent must not be treated as equivalent to principal [*Schedule 7, Note 7(d)*]
- added margin requirements [*Schedule 7, Note 7(e)*].

(8) For agency securities repurchase arrangements in which the agent and third party custodian are different entities, we have:

- added the written agreement and accompanying written collateral management or custodial agreement requirements [*Schedule 7, Note 7(c)*]
- added the requirement for the agent and third party custodian to meet the definition of financial intermediary to be outside of the written agreement in order to make it easier for a Dealer Member to execute written agreements regarding these arrangements with foreign financial intermediaries [*Schedule 7, Note 7(c)*]
- added the requirement that purchased securities must be held by the third party custodian and there must be no right to re-hypothecate those securities [*Schedule 7, Note 7(c)*]
- added in the event of default requirements to protect excess collateral [*Schedule 7, Note 7(c)*].

- added the requirements where agent must not be treated as equivalent to principal [*Schedule 7, Note 7(d)*]
- added margin requirements [*Schedule 7, Note 7(e)*].

2. Analysis

2.1 Issues and alternatives considered

We considered two alternatives, (1) to propose the Proposed Amendments and (2) to maintain the status quo. We selected the first alternative, to propose the Proposed Amendments, because it will more closely align a Dealer Member's margin requirements for these agency tri-party arrangements to its potential risk of loss to such arrangements.

2.2 Comparison with similar provisions

We did not compare the Proposed Amendments with similar provisions from other jurisdictions because we do not believe it would be relevant given the unique nature of the amendments to Form 1.

3. Impacts of the Proposed Amendments

Dealer Members are expected to benefit from having their margin requirements more closely aligned to their potential risk of loss to such arrangements.

We believe that the Proposed Amendments will have no material impact in terms of capital market structure, competition generally, cost of compliance and conformity with other rules. The Proposed Amendments do not permit unfair discrimination among customers, issuers, brokers, dealers, members or others. They do not impose any burden on competition that is not necessary or appropriate in furtherance of the above purposes. There may be minor technological implications for Dealer Members and their service providers as a result of the Proposed Amendments, such as updating their systems with the new margin requirements.

4. Technological implications and implementation plan

The Proposed Amendments may have minor impact on Dealer Members' systems, their service providers' and other stakeholders' systems, such as updating their systems with the new

margin requirements. After we receive approval from our Recognizing Regulators, we intend to implement the Proposed Amendments within 90 days.

5. Policy development process

5.1 Regulatory purpose

The Proposed Amendments are intended to:

- *establish and maintain rules that are necessary or appropriate to govern and regulate all aspects of IIROC's functions and responsibilities as a self-regulatory entity*
- *foster fair, equitable and ethical business standards and practices; and*
- *promote the protection of investors.*

In deciding to propose the Proposed Amendments, IIROC identified that there was a need to more closely align a Dealer Member's margin requirements to its potential risk of loss to such arrangements.

This need was assessed as being in the public interest and not detrimental to the best interests of the capital markets. As a result, the Board has classified the Proposed Amendments as a Public Comment Rule proposal that is not contrary to the public interest.

5.2 Rule making process

IIROC developed the Proposed Amendments and consulted with the IIROC policy advisory committees (the Financial and Operations Advisory Section (**FOAS**) Capital Formula Subcommittee, the FOAS Executive Committee, and the full FOAS) on them. These advisory committees supported the Proposed Amendments.

6. Appendices

Appendix A - Blackline comparison of the proposed amendments to current Notes and Instructions to Schedules 1 and 7 of Form 1

Appendix B - Clean copy of the proposed amendments to Notes and Instructions to Schedules 1 and 7 of Form 1.

APPENDIX A

PROPOSED AMENDMENTS TO NOTES AND INSTRUCTIONS TO SCHEDULES 1 AND 7 OF FORM 1 REGARDING AGENCY TRI-PARTY ARRANGEMENTS

BLACKLINE COMPARISON OF PROPOSED AMENDMENTS TO CURRENT NOTES AND INSTRUCTIONS TO SCHEDULES 1 AND 7 OF FORM 1

APPENDIX A

FORM 1, PART II – SCHEDULE 1
NOTES AND INSTRUCTIONS

1. This schedule is to be completed for secured loan receivable transactions whereby 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,

   (a) "cash loans receivable" are loan transactions where the purpose of the loan is for the Dealer Member to lend cash and receive securities as collateral from the counterparty;

   (b) "excess collateral deficiency" is defined as:

      (i) For cash loans receivable, any excess of the amount of the loan over the market value of the actual collateral received from the transaction counterparty;

      or

      (ii) For securities borrow arrangements, any excess of the market value of the actual collateral provided to the transaction counterparty over:

         (A) 102% of the market value of the securities borrowed, where cash is provided as collateral; or

         (B) 105% of the market value of the securities borrowed, where securities are provided as collateral.

   and

   (c) "securities borrow arrangements" are loan transactions where the purpose of the loan is for the Dealer Member 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. **Cash loans receivable**

   (a) Written agreement requirements

   Any written agreement for a cash loan receivable between the Dealer Member and a counterparty must include terms which provide:

   (i) For the rights of either party to retain or realize on securities held by it from the other party on default;

   (ii) For events of default;

   (iii) For the treatment of the value of securities held by a non-defaulting party in excess of amounts which may be owed by a defaulting party;

   (iv) Either for set-off or, in the case of secured loans of securities, continuous segregation of collateral and the requirement for the lender to perfect a security interest in collateral giving the highest priority; and

   (v) If set-off rights or security interests are created in securities provided as collateral by one party to another, that the securities are endorsed for transfer, where applicable, and free of any trading restrictions.

   (b) Margin requirements

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

   (i) 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(a), the margin required shall be:

      (A) 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 1

NOTES AND INSTRUCTIONS [Continued]

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

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

Transaction counterparty type	***Margin required***
Acceptable institution	*No margin*[1]
Acceptable counterparty	*Excess collateral deficiency*[1]
Regulated entity	*Excess collateral deficiency*[1]
Other	*Margin*
[1] *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.*	

6. **Securities borrow arrangements**

(a) Written agreement requirements

Any written agreement for a securities ~~borrowing~~borrow arrangement between the Dealer Member and a counterparty must include terms which provide:

(i) For the rights of either party to retain or realize on securities held by it from the other party on default;

(ii) For events of default;

(iii) For the treatment of the value of securities held by a non-defaulting party in excess of amounts which may be owed by a defaulting party;

(iv) Either for set-off or, in the case of secured loans of securities, continuous segregation of collateral and the requirement for the lender to perfect a security interest in collateral giving the highest priority; and

(v) If set-off rights or security interests are created in securities borrowed or securities provided as collateral by one party to another, that the securities are endorsed for transfer, where applicable, and free of any trading restrictions.

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

Any written ~~collateral management or custodial~~ agreement ~~involving~~for a securities ~~borrowing~~borrow arrangement between the Dealer Member and ~~a third party custodian, which is acting as an agent~~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 ~~borrowing~~borrow arrangement between the Dealer Member and the third party custodian agent, if :

- 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

all of the following additional terms [i.e. over and above those set out in Note 6(a)] 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~~; and~~.

~~(iii) the third party custodian agent must meet the definition of "financial intermediary" in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act).~~**(c) Additional written agreement requirements for certain agency securities borrow arrangements where agent may be treated as equivalent to principal in which 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 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:

- 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

all of the following additional terms [i.e. over and above those set out in Note 6(a)] 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.

(d) Agency ~~agreements~~securities borrow arrangements where agent must not be treated as equivalent to principal

~~Where these additional terms [(i),(ii) and (iii) immediately above] are not all present or the arrangement does not involve an agent that is acting as a third party custodian, the~~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 ~~borrowing~~borrow arrangement between the Dealer Member and the underlying principal lender:

(i) where an agent is also the third party custodian and the requirements in (b) are not all met

(ii) where an agent and third party custodian are different entities and the requirements in (c) are not all met.

(~~c~~e) Margin requirements for securities borrow arrangements

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

(i) 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 6(a), the margin required shall be:

(A) Nil, where the counterparty to the transaction is an *acceptable institution* and the transaction has been confirmed with the *acceptable institution*, or

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

(ii) Where a written agreement has been entered into that includes all of the required minimum terms in Note 6(a), for margin purposes:

FORM 1, PART II – SCHEDULE 1

NOTES AND INSTRUCTIONS [Continued]

(A) For principal securities borrow arrangements, the counterparty is the principal in the securities borrow arrangement,

(B) For agency securities borrow arrangements, where ~~a third party custodian~~an agent is involved and all of the ~~additional required minimum terms in~~requirements in the applicable Note 6(b) or (c) are ~~present~~met, the counterparty is the ~~third party custodian~~agent,

(C) For agency securities borrow arrangements, where an agent is involved and all of the ~~additional required minimum terms in Note 6(b) are not present or the arrangement does not involve an agent that is acting as a third party custodian~~requirements in the applicable Note 6(b) or (c) 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**
Acceptable institution	No margin[1]
Acceptable counterparty	Excess collateral deficiency[1]
Regulated entity	Excess collateral deficiency[1]
Other	Margin
[1] 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 resale ~~agreements~~arrangements**

(a) Written agreement requirements

Any written agreement for a securities resale ~~agreement~~arrangement between the Dealer Member and a counterparty must include terms which provide:

(i) For the rights of either party to retain or realize on securities held by it from the other party on default,

(ii) For events of default,

(iii) For the treatment of the value of securities held by a non-defaulting party in excess of amounts which may be owed by a defaulting party,

(iv) Either for set-off or, in the case of secured loans of securities, continuous segregation of collateral and the requirement for the lender to perfect a security interest in collateral giving the highest priority,

(v) If set-off rights or security interests are created in securities sold or loaned by one party to another, that the securities are endorsed for transfer, where applicable, and free of any trading restrictions~~;~~., and

(vi) For an acknowledgement by the parties that either has the right, upon notice, to call for any shortfall in the difference between the collateral and the securities at any time.

(b) ~~Margin requirements~~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:

FORM 1, PART II – SCHEDULE 1

NOTES AND INSTRUCTIONS [Continued]

- 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

all of the following additional terms [i.e. over and above those set out in Note 7(a)] 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:

- 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
- 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.

(c) 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:

- 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

all of the following additional terms [i.e. over and above those set out in Note 7(a)] are stipulated in the written agreements:

(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:

- 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
- 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.

(d) 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:

(i) where an agent is also the third party custodian and the requirements in (b) are not all met

(ii) where an agent and third party custodian are different entities and the requirements in (c) are not all met.

(e) Margin requirements for securities resale arrangements

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

(i) 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 7(a), 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[1]	**Greater than 30 calendar days after regular settlement**[1]
Acceptable institution	No margin[2]	
Acceptable counterparty	Market value deficiency[2]	Margin
Regulated entity	Market value deficiency[2]	Margin
Other	Margin	200% of margin (to a maximum of the *market value* of the underlying securities)

[1] 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.

[2] 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.

(ii) Where a written agreement has been entered into that includes all of the required minimum terms~~,~~ in Note 7(a), for margin purposes:

(A) For principal securities resale arrangements, the counterparty is the principal in the securities resale arrangement,

(B) For agency securities resale arrangements, where an agent is involved and all of the requirements in the applicable Note 7(b) or (c) are met, the counterparty is the agent,

(C) For agency securities resale arrangements, where an agent is involved and all of the requirements in the applicable Note 7(b) or (c) 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
Acceptable institution	No margin[1]
Acceptable counterparty	Market value deficiency[1]

FORM 1, PART II – SCHEDULE 1

NOTES AND INSTRUCTIONS [Continued]

Regulated entity	Market value deficiency[1]
Other	Margin

[1] 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. 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.

9. 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*.

10. **Lines 2, 3, 6 and 7 -** In the case of a cash loan receivable or a securities ~~borrowing~~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.

11. **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.

12. **Lines 4, 8 and 12 -** In the case of a cash loan receivable or a securities borrowing 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 either held by the Dealer Member on a fully segregated basis or held in escrow on its behalf by an Acceptable Depository 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.

13. **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.

14. **Lines 4, 8 and 12 -** Arrangements other than those regarding agency agreements where an agent may be treated as equivalent to principal in ~~Note~~Notes 6(b) and (c) and 7(b) and (c) whereby 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 7
NOTES AND INSTRUCTIONS

1. This schedule is to be completed for loan payable transactions, whereby 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,

   (a) "cash loans payable" are loan transactions where the purpose of the loan is for the Dealer Member to borrow cash and deliver securities as collateral to the counterparty;

   (b) "excess collateral deficiency" is defined as:

      (i) For cash loans payable, any excess of the market value of the actual collateral delivered to the transaction counterparty over 102% the amount of the loan;

      or

      (ii) For securities loan arrangements, any excess of the market value of the securities loaned over the market value of securities or the amount of cash received from the transaction counterparty as collateral.

   and

   (c) "securities loan arrangements" are loan transactions where the purpose of the loan is for the Dealer Member 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. **Cash loans payable**

   (a) Written agreement requirements

   Any written agreement for a cash loan payable between the Dealer Member and a counterparty must include terms which provide:

      (i) For the rights of either party to retain or realize on securities held by it from the other party on default;

      (ii) For events of default;

      (iii) For the treatment of the value of securities held by a non-defaulting party in excess of amounts which may be owed by a defaulting party;

      (iv) Either for set-off or, in the case of secured loans of securities, continuous segregation of collateral and the requirement for the lender to perfect a security interest in collateral giving the highest priority; and

      (v) If set-off rights or security interests are created in securities provided as collateral by one party to another, that the securities are endorsed for transfer, where applicable, and free of any trading restrictions.

   (b) Margin requirements

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

      (i) 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(a), the margin required shall be:

         (A) Nil, where the counterparty to the transaction is an *acceptable institution* and the transaction has been confirmed with the *acceptable institution*, or

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

FORM 1, PART II – SCHEDULE 7

NOTES AND INSTRUCTIONS [Continued]

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

Transaction counterparty type	***Margin required***
Acceptable institution	*No margin*[1]
Acceptable counterparty	*Excess collateral deficiency*[1]
Regulated entity	*Excess collateral deficiency*[1]
Other	*Margin*
[1] *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.*	

6. **Securities loan arrangements**

(a) Written agreement requirements

Any written agreement for a securities loan arrangement between the Dealer Member and a counterparty must include terms which provide:

(i) For the rights of either party to retain or realize on securities held by it from the other party on default;

(ii) For events of default;

(iii) For the treatment of the value of securities held by a non-defaulting party in excess of amounts which may be owed by a defaulting party;

(iv) Either for set-off or, in the case of secured loans of securities, continuous segregation of collateral and the requirement for the lender to perfect a security interest in collateral giving the highest priority; and

(v) If set-off rights or security interests are created in securities loaned or provided as collateral by one party to another, that the securities are endorsed for transfer, where applicable, and free of any trading restrictions.

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

Any written ~~collateral management or custodial~~ agreement ~~involving~~for a securities loan arrangement between the Dealer Member and ~~a third party custodian, which is acting as an agent~~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 :

- 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

all of the following additional terms [i.e. over and above those set out in Note 6(a)] are stipulated in the written ~~agreement~~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,

(~~i~~ii) the loan collateral ~~must~~(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 ~~there must be no right to~~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

(~~ii~~iii) in the event of the underlying principal borrower default, the loan collateral ~~that has been posted with the third party custodian agent~~ will be liquidated by the ~~third party custodian agent~~Dealer Member and proceeds used to purchase the loaned ~~security which will be returned to the Dealer Member~~securities. If the loaned ~~security~~securities cannot be purchased in the market, ~~its~~their equivalent value is ~~returned to~~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 ~~to the underlying principal borrower; and~~.

(c) Additional written agreement requirements for certain agency securities loan arrangements where agent may be treated as equivalent to principal in which 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:

- ~~(iii)~~ the third party custodian and agent ~~must~~ meet the definition of "financial intermediary" in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act)~~.~~, and

all of the following additional terms [i.e. over and above those set out in Note 6(a)] 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:

- 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
- 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.

(d) Agency ~~agreements~~securities loan arrangements where agent must not be treated as equivalent to principal

~~Where these additional terms [(i),(ii) and (iii) immediately above] are not all present or the arrangement does not involve an agent that is acting as a third party custodian, the~~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:

(i) where an agent is also the third party custodian and the requirements in (b) are not all met

(ii) where an agent and third party custodian are different entities and the requirements in (c) are not all met.

(~~c~~e) Margin requirements for securities loan arrangements

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

(i) 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 6(a), the margin required shall be:

(A) Nil, where the counterparty to the transaction is an *acceptable institution* and the transaction has been confirmed with the *acceptable institution*, or

(B) 100% of the market value of the securities loaned to the transaction counterparty.

(ii) Where a written agreement has been entered into that includes all of the required minimum terms in Note 6(a), for margin purposes:

(A) For principal securities loan arrangements, the counterparty is the principal in the securities loan arrangement,

(B) For agency securities loan arrangements, where ~~a third party custodian~~an agent is involved and all of the ~~additional required minimum terms in~~requirements in the applicable Note 6(b) or (c) are ~~present~~met, the counterparty is the ~~third party custodian~~agent,

(C) For agency securities loan arrangements, where an agent is involved and all of the ~~additional required minimum terms in Note 6(b) are not present or the arrangement does not involve an agent that is acting as a third party custodian~~requirements in the applicable Note 6(b) or (c) 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
Acceptable institution	No margin[1]
Acceptable counterparty	Excess collateral deficiency[1]
Regulated entity	Excess collateral deficiency[1]
Other	Margin
[1] 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 repurchase ~~agreements~~arrangements**

(a) Written agreement requirements

Any written agreement for a securities repurchase ~~agreement~~arrangement between the Dealer Member and a counterparty must include terms which provide:

(i) For the rights of either party to retain or realize on securities held by it from the other party on default,

(ii) For events of default,

(iii) For the treatment of the value of securities held by a non-defaulting party in excess of amounts which may be owed by a defaulting party,

(iv) Either for set-off or, in the case of secured loans of securities, continuous segregation of collateral and the requirement for the lender to perfect a security interest in collateral giving the highest priority,

FORM 1, PART II – SCHEDULE 7

NOTES AND INSTRUCTIONS [Continued]

(v) If set-off rights or security interests are created in securities sold or loaned by one party to another, that the securities are endorsed for transfer, where applicable, and free of any trading restrictions~~;~~, and

(vi) For an acknowledgement by the parties that either has the right, upon notice, to call for any shortfall in the difference between the collateral and the securities at any time.

(b) 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:

- 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

all of the following additional terms [i.e. over and above those set out in Note 7(a)] 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.

(c) 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:

- 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

all of the following additional terms [i.e. over and above those set out in Note 7(a)] 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]

(d) 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:

(i) where an agent is also the third party custodian and the requirements in (b) are not all met

(ii) where an agent and third party custodian are different entities and the requirements in (c) are not all met.

(e) Margin requirements for securities repurchase arrangements

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

(i) 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 7(a), 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[1]	**Greater than calendar 30 days after regular settlement**[1]
Acceptable institution	No margin[2]	
Acceptable counterparty	Market value deficiency[2]	Margin
Regulated entity	Market value deficiency[2]	Margin
Other	Margin	200% of margin (to a maximum of the *market value* of the underlying securities)

[1] 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.

[2] 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.

(ii) Where a written agreement has been entered into that includes all of the required minimum terms~~,~~ in Note 7(a), for margin purposes:

(A) For principal securities repurchase arrangements, the counterparty is the principal in the securities repurchase arrangement,

(B) For agency securities repurchase arrangements, where an agent is involved and all of the requirements in the applicable Note 7(b) or (c) are met, the counterparty is the agent,

(C) For agency securities repurchase arrangements, where an agent is involved and all of the requirements in the applicable Note 7(b) or (c) 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
Acceptable institution	No margin[1]
Acceptable counterparty	Market value deficiency[1]
Regulated entity	Market value deficiency[1]

FORM 1, PART II – SCHEDULE 7

NOTES AND INSTRUCTIONS [Continued]

Other	Margin
[1] 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. 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.

9. 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*.

10. **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.

11. **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.

12. **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 either held by the Dealer Member on a fully segregated basis or held in escrow on its behalf by an Acceptable Depository 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.

13. **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.

14. **Lines 5, 9, and l3 -** Arrangements other than those regarding agency agreements where an agent may be treated as equivalent to principal in ~~Note~~Notes 6(b) and (c) and 7(b) and (c) whereby 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".

APPENDIX B

PROPOSED AMENDMENTS TO NOTES AND INSTRUCTIONS TO SCHEDULES 1 AND 7 OF FORM 1 REGARDING AGENCY TRI-PARTY ARRANGEMENTS

CLEAN COPY OF THE PROPOSED AMENDMENTS TO NOTES AND INSTRUCTIONS TO SCHEDULES 1 AND 7 OF FORM 1

FORM 1, PART II – SCHEDULE 1
NOTES AND INSTRUCTIONS

1. This schedule is to be completed for secured loan receivable transactions whereby 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,

   (a) "cash loans receivable" are loan transactions where the purpose of the loan is for the Dealer Member to lend cash and receive securities as collateral from the counterparty;

   (b) "excess collateral deficiency" is defined as:

      (i) For cash loans receivable, any excess of the amount of the loan over the market value of the actual collateral received from the transaction counterparty;

      or

      (ii) For securities borrow arrangements, any excess of the market value of the actual collateral provided to the transaction counterparty over:

         (A) 102% of the market value of the securities borrowed, where cash is provided as collateral; or

         (B) 105% of the market value of the securities borrowed, where securities are provided as collateral.

   and

   (c) "securities borrow arrangements" are loan transactions where the purpose of the loan is for the Dealer Member 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. **Cash loans receivable**

   (a) Written agreement requirements

   Any written agreement for a cash loan receivable between the Dealer Member and a counterparty must include terms which provide:

   (i) For the rights of either party to retain or realize on securities held by it from the other party on default;

   (ii) For events of default;

   (iii) For the treatment of the value of securities held by a non-defaulting party in excess of amounts which may be owed by a defaulting party;

   (iv) Either for set-off or, in the case of secured loans of securities, continuous segregation of collateral and the requirement for the lender to perfect a security interest in collateral giving the highest priority; and

   (v) If set-off rights or security interests are created in securities provided as collateral by one party to another, that the securities are endorsed for transfer, where applicable, and free of any trading restrictions.

   (b) Margin requirements

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

   (i) 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(a), the margin required shall be:

      (A) Nil, where the counterparty to the transaction is an *acceptable institution* and the transaction has been confirmed with the *acceptable institution*, or

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

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

Transaction counterparty type	Margin required
Acceptable institution	No margin[1]
Acceptable counterparty	Excess collateral deficiency[1]
Regulated entity	Excess collateral deficiency[1]
Other	Margin
[1] 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.	

6. **Securities borrow arrangements**

(a) Written agreement requirements

Any written agreement for a securities borrow arrangement between the Dealer Member and a counterparty must include terms which provide:

(i) For the rights of either party to retain or realize on securities held by it from the other party on default;

(ii) For events of default;

(iii) For the treatment of the value of securities held by a non-defaulting party in excess of amounts which may be owed by a defaulting party;

(iv) Either for set-off or, in the case of secured loans of securities, continuous segregation of collateral and the requirement for the lender to perfect a security interest in collateral giving the highest priority; and

(v) If set-off rights or security interests are created in securities borrowed or securities provided as collateral by one party to another, that the securities are endorsed for transfer, where applicable, and free of any trading restrictions.

(b) 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:

- 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

all of the following additional terms [i.e. over and above those set out in Note 6(a)] 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.

FORM 1, PART II – SCHEDULE 1

NOTES AND INSTRUCTIONS [Continued]

(c) Additional written agreement requirements for certain agency securities borrow arrangements where agent may be treated as equivalent to principal in which 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 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:

- 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

all of the following additional terms [i.e. over and above those set out in Note 6(a)] 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.

(d) 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:

(i) where an agent is also the third party custodian and the requirements in (b) are not all met

(ii) where an agent and third party custodian are different entities and the requirements in (c) are not all met.

(e) Margin requirements for securities borrow arrangements

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

(i) 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 6(a), the margin required shall be:

(A) Nil, where the counterparty to the transaction is an *acceptable institution* and the transaction has been confirmed with the *acceptable institution*, or

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

(ii) Where a written agreement has been entered into that includes all of the required minimum terms in Note 6(a), for margin purposes:

(A) For principal securities borrow arrangements, the counterparty is the principal in the securities borrow arrangement,

(B) For agency securities borrow arrangements, where an agent is involved and all of the requirements in the applicable Note 6(b) or (c) are met, the counterparty is the agent,

(C) For agency securities borrow arrangements, where an agent is involved and all of the requirements in the applicable Note 6(b) or (c) are not met, the counterparty is the underlying principal lender,

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

FORM 1, PART II – SCHEDULE 1

NOTES AND INSTRUCTIONS [Continued]

Transaction counterparty type	Margin required
Acceptable institution	No margin[1]
Acceptable counterparty	Excess collateral deficiency[1]
Regulated entity	Excess collateral deficiency[1]
Other	Margin
[1] 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 resale arrangements**

(a) Written agreement requirements

Any written agreement for a securities resale arrangement between the Dealer Member and a counterparty must include terms which provide:

(i) For the rights of either party to retain or realize on securities held by it from the other party on default,

(ii) For events of default,

(iii) For the treatment of the value of securities held by a non-defaulting party in excess of amounts which may be owed by a defaulting party,

(iv) Either for set-off or, in the case of secured loans of securities, continuous segregation of collateral and the requirement for the lender to perfect a security interest in collateral giving the highest priority,

(v) If set-off rights or security interests are created in securities sold or loaned by one party to another, that the securities are endorsed for transfer, where applicable, and free of any trading restrictions, and

(vi) For an acknowledgement by the parties that either has the right, upon notice, to call for any shortfall in the difference between the collateral and the securities at any time.

(b) 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:

- 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

all of the following additional terms [i.e. over and above those set out in Note 7(a)] 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:

- 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
- 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.

(c) 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:

- 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

all of the following additional terms [i.e. over and above those set out in Note 7(a)] are stipulated in the written agreements:

(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:

- 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
- 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.

(d) 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:

(i) where an agent is also the third party custodian and the requirements in (b) are not all met

(ii) where an agent and third party custodian are different entities and the requirements in (c) are not all met.

(e) Margin requirements for securities resale arrangements

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

(i) 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 7(a), the margin required to be provided shall be determined according to the following table:

FORM 1, PART II – SCHEDULE 1

NOTES AND INSTRUCTIONS [Continued]

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

[1] 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.

[2] 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.

(ii) Where a written agreement has been entered into that includes all of the required minimum terms in Note 7(a), for margin purposes:

(A) For principal securities resale arrangements, the counterparty is the principal in the securities resale arrangement,

(B) For agency securities resale arrangements, where an agent is involved and all of the requirements in the applicable Note 7(b) or (c) are met, the counterparty is the agent,

(C) For agency securities resale arrangements, where an agent is involved and all of the requirements in the applicable Note 7(b) or (c) 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
Acceptable institution	No margin[1]
Acceptable counterparty	Market value deficiency[1]
Regulated entity	Market value deficiency[1]
Other	Margin

[1] 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. 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.

9. 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*.

10. **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.

11. **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.

12. **Lines 4, 8 and 12 -** In the case of a cash loan receivable or a securities borrowing 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 either held by the Dealer Member on a fully segregated basis or held in escrow on its behalf by an Acceptable Depository 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.

13. **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.

14. **Lines 4, 8 and 12 -** Arrangements other than those regarding agency agreements where an agent may be treated as equivalent to principal in Notes 6(b) and (c) and 7(b) and (c) whereby 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 7
NOTES AND INSTRUCTIONS

1. This schedule is to be completed for loan payable transactions, whereby 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,

   (a) "cash loans payable" are loan transactions where the purpose of the loan is for the Dealer Member to borrow cash and deliver securities as collateral to the counterparty;

   (b) "excess collateral deficiency" is defined as:

      (i) For cash loans payable, any excess of the market value of the actual collateral delivered to the transaction counterparty over 102% the amount of the loan;

      or

      (ii) For securities loan arrangements, any excess of the market value of the securities loaned over the market value of securities or the amount of cash received from the transaction counterparty as collateral.

   and

   (c) "securities loan arrangements" are loan transactions where the purpose of the loan is for the Dealer Member 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. **Cash loans payable**

   (a) Written agreement requirements

   Any written agreement for a cash loan payable between the Dealer Member and a counterparty must include terms which provide:

      (i) For the rights of either party to retain or realize on securities held by it from the other party on default;

      (ii) For events of default;

      (iii) For the treatment of the value of securities held by a non-defaulting party in excess of amounts which may be owed by a defaulting party;

      (iv) Either for set-off or, in the case of secured loans of securities, continuous segregation of collateral and the requirement for the lender to perfect a security interest in collateral giving the highest priority; and

      (v) If set-off rights or security interests are created in securities provided as collateral by one party to another, that the securities are endorsed for transfer, where applicable, and free of any trading restrictions.

   (b) Margin requirements

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

      (i) 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(a), the margin required shall be:

         (A) Nil, where the counterparty to the transaction is an *acceptable institution* and the transaction has been confirmed with the *acceptable institution*, or

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

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

FORM 1, PART II – SCHEDULE 7

NOTES AND INSTRUCTIONS [Continued]

Transaction counterparty type	Margin required
Acceptable institution	No margin[1]
Acceptable counterparty	Excess collateral deficiency[1]
Regulated entity	Excess collateral deficiency[1]
Other	Margin
[1] 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.	

6. **Securities loan arrangements**

(a) Written agreement requirements

Any written agreement for a securities loan arrangement between the Dealer Member and a counterparty must include terms which provide:

(i) For the rights of either party to retain or realize on securities held by it from the other party on default;

(ii) For events of default;

(iii) For the treatment of the value of securities held by a non-defaulting party in excess of amounts which may be owed by a defaulting party;

(iv) Either for set-off or, in the case of secured loans of securities, continuous segregation of collateral and the requirement for the lender to perfect a security interest in collateral giving the highest priority; and

(v) If set-off rights or security interests are created in securities loaned or provided as collateral by one party to another, that the securities are endorsed for transfer, where applicable, and free of any trading restrictions.

(b) 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:

- 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

all of the following additional terms [i.e. over and above those set out in Note 6(a)] 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.

(c) Additional written agreement requirements for certain agency securities loan arrangements where agent may be treated as equivalent to principal in which 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:

- 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

all of the following additional terms [i.e. over and above those set out in Note 6(a)] 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:

- 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
- 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.

(d) 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:

(i) where an agent is also the third party custodian and the requirements in (b) are not all met

(ii) where an agent and third party custodian are different entities and the requirements in (c) are not all met.

(e) Margin requirements for securities loan arrangements

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

(i) 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 6(a), the margin required shall be:

(A) Nil, where the counterparty to the transaction is an *acceptable institution* and the transaction has been confirmed with the *acceptable institution*, or

(B) 100% of the market value of the securities loaned to the transaction counterparty.

(ii) Where a written agreement has been entered into that includes all of the required minimum terms in Note 6(a), for margin purposes:

FORM 1, PART II – SCHEDULE 7

NOTES AND INSTRUCTIONS [Continued]

(A) For principal securities loan arrangements, the counterparty is the principal in the securities loan arrangement,

(B) For agency securities loan arrangements, where an agent is involved and all of the requirements in the applicable Note 6(b) or (c) are met, the counterparty is the agent,

(C) For agency securities loan arrangements, where an agent is involved and all of the requirements in the applicable Note 6(b) or (c) 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
Acceptable institution	No margin[1]
Acceptable counterparty	Excess collateral deficiency[1]
Regulated entity	Excess collateral deficiency[1]
Other	Margin
[1] 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 repurchase arrangements**

(a) Written agreement requirements

Any written agreement for a securities repurchase arrangement between the Dealer Member and a counterparty must include terms which provide:

(i) For the rights of either party to retain or realize on securities held by it from the other party on default,

(ii) For events of default,

(iii) For the treatment of the value of securities held by a non-defaulting party in excess of amounts which may be owed by a defaulting party,

(iv) Either for set-off or, in the case of secured loans of securities, continuous segregation of collateral and the requirement for the lender to perfect a security interest in collateral giving the highest priority,

(v) If set-off rights or security interests are created in securities sold or loaned by one party to another, that the securities are endorsed for transfer, where applicable, and free of any trading restrictions, and

(vi) For an acknowledgement by the parties that either has the right, upon notice, to call for any shortfall in the difference between the collateral and the securities at any time.

(b) 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:

- 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

all of the following additional terms [i.e. over and above those set out in Note 7(a)] 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

FORM 1, PART II – SCHEDULE 7

NOTES AND INSTRUCTIONS [Continued]

(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.

(c) 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:

- 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

all of the following additional terms [i.e. over and above those set out in Note 7(a)] 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.

(d) 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:

(i) where an agent is also the third party custodian and the requirements in (b) are not all met

(ii) where an agent and third party custodian are different entities and the requirements in (c) are not all met.

(e) Margin requirements for securities repurchase arrangements

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

(i) 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 7(a), the margin required to be provided shall be determined according to the following table:

	Margin required based on term of transaction	
Transaction counterparty type	**30 calendar days or less after regular settlement**[1]	**Greater than calendar 30 days after regular settlement**[1]
Acceptable institution	No margin[2]	
Acceptable counterparty	Market value deficiency[2]	Margin
Regulated entity	Market value deficiency[2]	Margin

Other	Margin	200% of margin (to a maximum of the *market value* of the underlying securities)

[1] 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.

[2] 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.

(ii) Where a written agreement has been entered into that includes all of the required minimum terms in Note 7(a), for margin purposes:

(A) For principal securities repurchase arrangements, the counterparty is the principal in the securities repurchase arrangement,

(B) For agency securities repurchase arrangements, where an agent is involved and all of the requirements in the applicable Note 7(b) or (c) are met, the counterparty is the agent,

(C) For agency securities repurchase arrangements, where an agent is involved and all of the requirements in the applicable Note 7(b) or (c) 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**
Acceptable institution	No margin[1]
Acceptable counterparty	Market value deficiency[1]
Regulated entity	Market value deficiency[1]
Other	Margin

[1] 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. 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.

9. 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*.

10. **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.

11. **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

FORM 1, PART II – SCHEDULE 7

NOTES AND INSTRUCTIONS [Continued]

must be provided out of the Dealer Member's capital.

12. **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 either held by the Dealer Member on a fully segregated basis or held in escrow on its behalf by an Acceptable Depository 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.

13. **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.

14. **Lines 5, 9, and l3 -** Arrangements other than those regarding agency agreements where an agent may be treated as equivalent to principal in Notes 6(b) and (c) and 7(b) and (c) whereby 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".