

# IIROC NOTICE

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## **Rules Notice**

### **Request for Comments**

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**14-0066**

**March 13, 2014**

## **Margin requirements for certain cash and security borrowing and lending arrangements - Amendments to Schedules 1, 7 and 7A of Dealer Member Form 1**

### **BACKGROUND AND HISTORY**

#### **General IIROC approach to assessing counterparty credit risks**

The purpose of IIROC's capital and margin rules is to ensure that investment dealers are adequately capitalized to meet their obligations, including obligations to clients, on demand. As a result, the capital and margin rules focus on the major risks an investment dealer faces; namely market risk and counterparty or credit risk.

Historically, exposure to counterparty or credit risk has been minimal in the securities industry because transactions are generally executed on a "value for value"<sup>1</sup> basis. In other words, cash is exchanged for securities or vice versa, and the investment dealer retains as collateral, either cash or

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<sup>1</sup> Transactions performed on a "value for value" basis are those where the market value of the cash or securities received in by the investment dealer is equal to the market value of the cash or securities delivered out by the investment dealer.



securities of equivalent value. Accordingly, the capital requirements focus on market risk and provide for fluctuations in the market value of securities.

### **Specific exemptions to this general “value for value” approach and current requirements that apply to these exceptions**

There are, however, situations in which the use of the “value for value” approach is not practical as follows:

- an investment dealer must be able to leave cash deposits at certain deposit taking institutions on an unsecured basis;
- an investment dealer must be able hold securities at an external custodial location on an unsecured basis; and
- an investment dealer must be able to deliver a modest amount of additional collateral to a counterparty when borrowing either cash or securities from that counterparty, in order to avoid having to post additional collateral during the term of the arrangement, in response to market fluctuations.

To address these situations, IIROC’s rules specify that:

- cash deposits may only be held for Dealer Members by a deposit taking institution that qualifies as an “acceptable institution”<sup>2</sup>
- securities may only be held for Dealer Members at an “acceptable securities location” pursuant to a written agreement that specifies that “...no use or disposition of the securities shall be made without the prior written consent of the Dealer Member and the securities can be delivered to the Dealer Member promptly on demand”; and
- where a cash and securities borrowing and lending arrangement is executed between a Dealer Member and a counterparty, that qualifies as either an “acceptable institution” or as an “acceptable counterparty”, a modest amount of additional collateral may be delivered to the counterparty, without the Dealer Member being subject to a margin requirement.

### **Current margin requirements for cash and securities borrowing and lending arrangements**

#### *Background on cash/securities loan arrangements*

A cash / securities loan is an agreement that is executed between a Dealer Member and another entity (referred to as a “counterparty”). The terms of the loan are governed by a loan agreement,

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<sup>2</sup> The “acceptable institution” category is one of the four categories of counterparties / clients set out in IIROC’s capital and margin rules. Refer to Attachment C for a discussion of the four categories of counterparties.



which requires that the borrower provide the lender with collateral, in the form of cash, government issued securities or a letter of credit issued by a Schedule 1 bank, of a value equal to or greater than the loaned cash/securities. Major lenders of securities include investment funds, insurance companies, pension plans and other large investment portfolios. Securities borrowing is an important means of enabling hedge funds and other investment vehicles that follow a “short sale” strategy, to meet their transaction settlement obligations.

### *Current margin requirements*

The current margin requirements for cash / securities loans allow Dealer Members to enter into such loans on:

- an unsecured basis with “acceptable institution”<sup>3</sup> counterparties;
- a modestly over-collateralized basis<sup>4</sup> with “acceptable counterparty”<sup>5</sup> counterparties;
- a “value for value” basis with “regulated entity”<sup>6</sup> counterparties; and
- a “loan value equivalency”<sup>7</sup> basis with “other”<sup>8</sup> counterparties

The effects of these margin requirements are to limit, in the case of a securities borrowing arrangement, the dollar amount of collateral that may be delivered to the borrower to the lending counterparty. The following table illustrates how the current IIROC rules limit the amount of collateral that may be delivered to the lending counterparty, where the Dealer Member is borrowing securities with a market value of \$10,000,000:

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<sup>3</sup> See Attachment C for a description of “acceptable institutions”.

<sup>4</sup> Transactions that involve a modest amount of over-collateralization are transactions where the market value of the cash or securities provided as loan collateral by investment dealer is slightly in excess of the market value of the cash or securities received in by the investment dealer pursuant to the loan arrangement. Street practice is to require 102% over-collateralization when cash is provided as loan collateral and 105% over-collateralization when securities are provided as loan collateral.

<sup>5</sup> See Attachment C for a description of “acceptable counterparties”.

<sup>6</sup> See Attachment C for a description of “regulated entities”.

<sup>7</sup> Transactions performed on a “loan value equivalency” basis are those where the loan value of the cash or securities (which is market value less margin) received in by the investment dealer is equal to the loan value of the cash or securities delivered out by the investment dealer.

<sup>8</sup> See Attachment C for a description of “other” counterparties.



<b>Counterparty type</b>	<b>Market value of securities borrowed</b>	<b>Market value of collateral that may be delivered to the counterparty without the Dealer Member incurring margin</b>
Acceptable institution	\$10,000,000	Dealer Members may deal with “acceptable institutions” on an unsecured basis - Despite this fact, in the case of security borrowing arrangements current street practices are: <ul style="list-style-type: none"><li>• \$10,200,000 [102%] when cash is provided as collateral; and</li><li>• \$10,500,000 [105%] when securities are provided as collateral.</li></ul>
Acceptable counterparty	\$10,000,000	\$10,200,000 [102%] to \$10,500,000 [105%], depending upon whether cash or securities are provided as collateral
Regulated entity	\$10,000,000	“Value for value” or \$10,000,000 [100%]
Other counterparty	\$10,000,000	“Loan value equivalency”, which translates to: <ul style="list-style-type: none"><li>• greater than \$10,000,000, when a Dealer Member is borrowing higher quality securities from a client in relation to the quality of the securities delivered as collateral</li><li>• less than \$10,000,000, when a Dealer Member is borrowing lower quality securities from a client in relation to the quality of the securities delivered as collateral</li></ul>

### **Concerns with current margin requirements**

There are two concerns with the current margin requirements:

1. The current rules do not set out specific margin requirements for agency cash and security borrowing and lending arrangements; and
2. The current rules do not have the same margin requirements for cash and security borrowing and lending arrangements with “acceptable counterparty” versus “regulated entity” counterparties.

#### *Agency agreements*

Within the last year there has been a significant shift away from Dealer Members entering into cash and security borrowing and lending arrangements directly with the arrangement counterparty. Rather, the recent trend is for Dealer Members to execute an agency arrangement, whereby the Dealer Member enters into cash and security borrowing and lending arrangement with a custodian

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who is acting as agent for the ultimate counterparty to the arrangement. These agency arrangements have the following features:

- A custodian that qualifies as an “acceptable institution” administers an agency lending program on behalf of its clients;
- Pursuant to the agency lending arrangements that are executed:
  - The agent custodian holds the loan collateral the Dealer Member must deliver under the arrangement without right to re-hypothecate;
  - The agent custodian can only make the collateral available to the ultimate loan counterparty in the event a Dealer Member default event occurs;
  - The agency agreement qualifies as an “Eligible Financial Contract” under Canadian legislation relating to bankruptcy, insolvency and creditor’s rights, which means that the contract continues in the event that any party to the contract becomes insolvent.

Given the features of agency arrangements, IIROC staff have concluded that the risk assumed by a Dealer Member when entering into one of these arrangements is no greater than the risk assumed by a Dealer Member when entering directly into an equivalent “principal” arrangement with the same ultimate counterparty. Further, there is an argument to be made that the risk is lower as the Dealer Member:

- will not have its collateral frozen should the ultimate counterparty become insolvent; and
- will be able to quickly access its collateral should the custodian become insolvent, because the agency lending arrangement qualifies as an “Eligible Financial Contract”.

The current notes and instructions to Schedules 1 and 7 of Dealer Member Form 1 do not discuss these specific types of agency arrangements, nor do they recognize that the risk of such arrangements is equivalent to comparable “principal” arrangements. The result is that Dealer Members are required, under the current IIROC margin rules, to provide additional margin for such arrangements in amounts that represent as much as 3% of the market value of the loan.

*Different margin requirements for arrangements involving “acceptable counterparty” versus “regulated entity” counterparties*

As a general rule, IIROC’s rules encourage Dealer Members to transact with other regulated dealers on a “value for value” basis. This general rule currently applies to all cash and security borrowing and lending arrangements between a Dealer Member and:

- another Dealer Member; and
- another dealer that qualifies as a “regulated entity”, such as a FINRA dealer.

It is now common street practice for Dealer Members to be asked to provide collateral with a value in excess of the amount of the loan when entering into cash and security borrowing and lending



arrangements with foreign dealers, despite the fact that these foreign dealers qualify as a “regulated entity” under IIROC’s margin rules.

The current IIROC rules that apply to cash and security borrowing and lending arrangements, where the counterparty is an “acceptable counterparty” allow for delivery of excess collateral representing between 102% and 105% of the amount of the loan without any margin implication. As credit risk exposures to “acceptable counterparties” and “regulated entities” are treated the same way for all other transactions, there is no risk-related reason why a modest amount of excess collateral should not be permitted for cash and security borrowing and lending arrangements where the counterparty is a “regulated entity”, without similar margin relief. Without this relief, however, Dealer Members are required under the current IIROC margin rules to provide margin for such arrangements, where a modest amount of over-collateralization is requested, in amounts that represent as much as 5% of the market value of the loan.

## **DETAILED DESCRIPTION OF PROPOSED AMENDMENTS**

### **Objective of the proposed Amendments**

The objective of the proposed Amendments is to allow a Dealer Member to deliver a modest amount of excess collateral to the arrangement counterparty (or their agent) **without having to provide margin**, when they enter into a cash and security borrowing and lending arrangement with either an “acceptable counterparty” or a “regulated entity” - where such excess collateral or over-collateralization does not exceed:

- 102% of the loan when the collateral provided is cash; and
- 105% of the loan when the collateral provided is securities.

### **Description of the Amendments**

To achieve this objective it is proposed that the Notes and Instructions to Schedules 1 and 7 and Schedule 7A of Dealer Member Form 1 be amended as follows:

- Amend the definition of “excess collateral deficiency” that appears in Note 2 of the Notes and Instructions to Schedules 1 and 7, such that margin only applies when the collateral provided is in excess of:
  - 102% of the loan when the collateral provided is cash; and
  - 105% of the loan when the collateral provided is securities.
- Introduce new note 5(b) to the Notes and Instructions to Schedules 1 and 7 to specify that the margin requirement is the same for certain qualifying agency cash and securities borrowing and lending arrangements as for the equivalent principal arrangement.



- Amend note 6(b) to the Notes and Instructions to Schedules 1 and 7 to set “market value deficiency” as the standard margin requirement for resale and repurchase agreements involving “acceptable counterparties” and “regulated entities” – while the current rules do allow over-collateralization for certain resale and repurchase agreements involving “acceptable counterparties”, IIROC staff recommends that this margin requirement be revised from “excess collateral deficiency” to “market value deficiency” since:
  - overcollateralization is not a common practice for repurchase and resale agreements; and
  - allowing continued overcollateralization for repurchase and resale agreements would run counter to the Bank of Canada’s proposal to introduce “haircuts” for these agreements in the near future.

Revise Schedule 7A to extend the existing overcollateralization concentration test, that currently only applies to overcollateralization exposures to “acceptable counterparties”, to overcollateralization exposures to both “acceptable counterparties” and “regulated entities”.

## **ISSUES AND ALTERNATIVES CONSIDERED**

No other alternatives to the proposed Amendments were considered.

## **COMPARISON WITH SIMILAR PROVISIONS**

### ***Canada***

#### ***Office of the Superintendent of Financial Institutions Canada***

OSFI Guideline B-4 requires that lenders “should at all times hold adequate collateral to protect themselves against the risk associated with securities lending.” When the guideline was issued in September 1996 it stipulated that the level of collateral would be considered adequate if collateral of at least 105% of the market value of the securities lent was obtained. This requirement was changed in April 2007 to “at least 102 per cent” to accommodate situations where a borrower provides cash as collateral.

#### **Canadian Securities Administrators**

Section 2.12 of National Instrument 81-102, requires that mutual funds obtain collateral that represents “at least 102 percent” of the market value of the securities lent when lending securities. This requirement was based on the equivalent OSFI requirement set out in OSFI Guideline B-4.

### **United States**

Rule 15c3-1(c)(2)(iv)(B)/09 of the Securities Exchange Act of 1934 requires that securities loan deficits exceeding 5% (equates to 105% over-collateralization) must be provided for in computing a dealers regulatory net capital. The rule does not distinguish between situations where the dealer

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has provides cash as loan collateral and situations where the dealer provides securities as loan collateral.

### **EFFECTS OF PROPOSED AMENDMENTS ON MARKET STRUCTURE, DEALER MEMBERS, NON-MEMBERS, COMPETITION AND COSTS OF COMPLIANCE**

With the Proposed Amendments, Dealer Members will benefit from enhanced clarity and certainty in the Schedule and the required concentration calculations.

It is believed that the Proposed Amendments will have no 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. It does not impose any burden on competition that is not necessary or appropriate in furtherance of the above purposes.

### **CLASSIFICATION OF RULES AND AMENDMENTS AND FILING IN OTHER JURISDICTIONS**

IIROC has determined that the proposed Amendments are Public Comment Rules and they will therefore be published for comment.

The proposed Amendments will be filed with each of IIROC's Recognizing Regulators, in accordance with s.3 of the Joint Rule Review Protocol contained in the IIROC Recognition Order.

### **REQUEST FOR PUBLIC COMMENT**

Comments are sought on the proposed Amendments. Comments should be made in writing. Two copies of each comment letter should be delivered by June 11, 2014 (90 days from the publication date of this notice).

One copy should be addressed to the attention of:

Richard J. Corner  
Vice President, Member Regulation Policy  
Investment Industry Regulatory Organization of Canada  
Suite 2000, 121 King Street West  
Toronto, Ontario M5H 3T9  
[rcorner@iirc.ca](mailto:rcorner@iirc.ca)

A second copy should be addressed to the attention of:

Manager of Market Regulation  
Ontario Securities Commission  
19<sup>th</sup> Floor, Box 55  
20 Queen Street West  
Toronto, Ontario M5H 3S8  
[marketregulation@osc.gov.on.ca](mailto:marketregulation@osc.gov.on.ca)



Those submitting comment letters should be aware that a copy of their comment letter will be made publicly available on the IIROC website ([www.iiroc.ca](http://www.iiroc.ca) under the heading “IIROC Rulebook - Dealer Member Rules – Proposed Policy”).

### **Attachments**

- [Attachment A](#) - Proposed amendments to Schedules 1, 7 and 7A [and related Notes and Instructions] of Dealer Member Form 1;
- [Attachment B](#) - Proposed amendments to Schedules 1, 7 and 7A [and related Notes and Instructions] of Dealer Member Form 1 – BLACK-LINE VERSION; and
- [Attachment C](#) - Discussion of four types of counterparties defined within IIROC’s capital and margin rules.

**INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA**

**MARGIN REQUIREMENTS FOR CERTAIN CASH AND SECURITY BORROWING AND  
LENDING ARRANGEMENTS - AMENDMENTS TO SCHEDULES 1, 7 AND 7A OF DEALER  
MEMBER FORM 1  
(THE "AMENDMENTS")**

**TEXT OF THE AMENDMENTS**

1. Dealer Member Form 1 is amended by repealing and replacing Schedules 1, 7 and 7A, and the Notes and Instructions thereto, with the following:

## FORM 1, PART II – SCHEDULE 1

DATE: \_\_\_\_\_

\_\_\_\_\_  
(Dealer Member Name)**ANALYSIS OF LOANS RECEIVABLE, SECURITIES BORROWED AND RESALE AGREEMENTS**

	<b>AMOUNT OF LOAN RECEIVABLE OR CASH DELIVERED AS COLLATERAL C\$'000</b> [see note 3]	<b>MARKET VALUE OF SECURITIES DELIVERED AS COLLATERAL C\$'000</b> [see note 4]	<b>MARKET VALUE OF SECURITIES RECEIVED AS COLLATERAL OR BORROWED C\$'000</b> [see note 4]	<b>REQUIRED TO MARGIN C\$'000</b>
<b>LOANS RECEIVABLE:</b>				
1. <i>Acceptable institutions</i>	_____	N/A	_____	Nil
2. <i>Acceptable counterparties</i>	_____	N/A	_____	_____
3. <i>Regulated entities</i>	_____	N/A	_____	_____
4. <i>Others [see note 13]</i>	_____	N/A	_____	_____
<b>SECURITIES BORROWED:</b>				
5. <i>Acceptable institutions</i>	_____	_____	_____	Nil
6. <i>Acceptable counterparties</i>	_____	_____	_____	_____
7. <i>Regulated entities</i>	_____	_____	_____	_____
8. <i>Others [see note 13]</i>	_____	_____	_____	_____
<b>RESALE AGREEMENTS:</b>				
9. <i>Acceptable institutions</i>	_____	N/A	_____	Nil
10. <i>Acceptable counterparties</i>	_____	N/A	_____	_____
11. <i>Regulated entities</i>	_____	N/A	_____	_____
12. <i>Others [see note 13]</i>	_____	N/A	_____	_____
13. <b>TOTAL</b> [Lines 1 through 12]	_____		_____	_____
	A-6			B-9

[See notes and instructions]

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**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, "excess collateral deficiency" is defined as:
  - (a) 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
  - (b) For securities borrowed, any excess of the market value of the actual collateral provided to the transaction counterparty over:
    - (i) 102% of the market value of the securities borrowed, where cash is provided as collateral; or
    - (ii) 105% of the market value of the securities borrowed, where securities are provided as collateral.
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 and securities borrowed arrangements**

**(a) Written agreement requirements**

Any written agreement for a cash loan receivable or a securities borrowing 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 sold or loaned by one party to another, that the securities are endorsed for transfer and free of any trading restrictions.

**(b) Additional written agreement requirements for agency agreements**

Any written agreement for a cash loan receivable or a securities borrowing arrangement between the Dealer Member and an agent acting on the behalf of a counterparty, where:

- the agent qualifies as an *acceptable institution*;
  - the counterparty qualifies as either an *acceptable institution*, an *acceptable counterparty* or a *regulated entity*;
- must include the following additional terms [over and above those set out in Note 5(a)] which stipulate that:

- (i) the loan collateral must be held by the agent without right to re-hypothecate; and
- (ii) the loan collateral will only be made available to the counterparty when a Dealer Member default occurs and, if a default event occurs, any excess of the realization on the loan collateral over the loan repayment obligation will be returned to the Dealer Member.

Where these additional terms are not present or the agreement does not qualify as an "Eligible Financial Contract" in the event of the bankruptcy of any of the parties to the contract, the agency arrangement must be reported and treated in the same manner for margin purposes as the equivalent principal cash loan receivable or a securities borrowing arrangement between a Dealer Member and the same counterparty, where a written agreement has not

**FORM 1, PART II – SCHEDULE 1**  
**NOTES AND INSTRUCTIONS** [Continued]

been entered into or the written agreement entered into does not include all of the required minimum terms [Note 5(c)(i) below].

Where these additional terms are present and the agreement qualifies as an “Eligible Financial Contract” in the event of the bankruptcy of any of the parties to the contract, the agency arrangement may be reported and treated in the same manner for margin purposes as the equivalent principal cash loan receivable or a securities borrowing arrangement between a Dealer Member and the same counterparty [Note 5(c)(ii) below].

**(c) Margin requirements**

The margin requirements for a cash loan receivable or a securities borrowing 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, 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*,
  - (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, the margin required to be provided shall be determined according to the following table:

<b>Transaction counterparty type</b>	<b>Margin required</b>
<i>Acceptable institution</i>	No margin <sup>1</sup>
<i>Acceptable counterparty</i>	Excess collateral deficiency <sup>1</sup>
<i>Regulated entity</i>	Excess collateral deficiency <sup>1</sup>
Other	Margin
<sup>1</sup> Any transaction which has not been confirmed by an <i>acceptable institution</i> , <i>acceptable counterparty</i> or <i>regulated entity</i> within 15 business days of the trade shall be margined.	

**6. Securities resale agreements**

**(a) Written agreement requirements**

Any written agreement for a securities resale agreement 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 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**

The margin requirements for a securities resale 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, the margin required to be provided shall be determined according to the

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**FORM 1, PART II – SCHEDULE 1**  
**NOTES AND INSTRUCTIONS [Continued]**

following table:

Transaction counterparty type	Margin required based on term of transaction	
	30 calendar days or less after regular settlement <sup>1</sup>	Greater than 30 calendar days after regular settlement <sup>1</sup>
<i>Acceptable institution</i>	No margin <sup>2</sup>	
<i>Acceptable counterparty</i>	Market value deficiency <sup>2</sup>	Margin
<i>Regulated entity</i>	Market value deficiency <sup>2</sup>	Margin
Other	Margin	200% of margin (to a maximum of the <i>market value</i> of the underlying securities)
<sup>1</sup> 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 refers to the original term of the resale transaction. <sup>2</sup> Any transaction which has not been confirmed by an <i>acceptable institution</i> , <i>acceptable counterparty</i> or <i>regulated entity</i> 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, the margin required to be provided shall be determined according to the following table:

Transaction counterparty type	Margin required
<i>Acceptable institution</i>	No margin <sup>1</sup>
<i>Acceptable counterparty</i>	Market value deficiency <sup>1</sup>
<i>Regulated entity</i>	Market value deficiency <sup>1</sup>
Other	Margin
<sup>1</sup> Any transaction which has not been confirmed by an <i>acceptable institution</i> , <i>acceptable counterparty</i> or <i>regulated entity</i> within 15 business days of the trade shall be margined.	

7. 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.
8. 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*.
9. **Lines 2, 3, 6 and 7** - In the case of a cash loan receivable or a securities borrowing 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.
10. **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.
11. **Lines 4, 8 and 12** - In the case of a cash loan receivable or a securities borrowing or a resale arrangement / transaction

**FORM 1, PART II – SCHEDULE 1  
NOTES AND INSTRUCTIONS [Continued]**

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.

12. **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.
13. **Lines 4, 8 and 12** - Arrangements other than those discussed in Note 5(b) 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

DATE: \_\_\_\_\_

\_\_\_\_\_  
(Dealer Member Name)**ANALYSIS OF OVERDRAFTS, LOANS, SECURITIES LOANED AND REPURCHASE AGREEMENTS**

	<b>AMOUNT OF LOAN PAYABLE OR CASH RECEIVED AS COLLATERAL C\$'000</b>	<b>MARKET VALUE OF SECURITIES RECEIVED AS COLLATERAL C\$'000</b>	<b>MARKET VALUE OF SECURITIES DELIVERED AS COLLATERAL OR LOANED C\$'000</b>	<b>REQUIRED TO MARGIN C\$'000</b>
	[see note 3]	[see note 4]	[see note 4]	
1. Bank overdrafts	_____	N/A	N/A	Nil
<b>LOANS PAYABLE:</b>				
2. <i>Acceptable institutions</i>	_____	N/A	_____	Nil
3. <i>Acceptable counterparties</i>	_____	N/A	_____	_____
4. <i>Regulated entities</i>	_____	N/A	_____	_____
5. Others	_____	N/A	_____	_____
<b>SECURITIES LOANED:</b>				
6. <i>Acceptable institutions</i>	_____	_____	_____	Nil
7. <i>Acceptable counterparties</i>	_____	_____	_____	_____
8. <i>Regulated entities</i>	_____	_____	_____	_____
9. Others	_____	_____	_____	_____
<b>REPURCHASE AGREEMENTS:</b>				
10. <i>Acceptable institutions</i>	_____	N/A	_____	Nil
11. <i>Acceptable counterparties</i>	_____	N/A	_____	_____
12. <i>Regulated entities</i>	_____	N/A	_____	_____
13. Others	_____	N/A	_____	_____
14. <b>TOTAL</b> [Lines 1 through 13]	=====		=====	=====
	A-51			B-14

[See notes and instructions]

Jan-2014

**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, "excess collateral deficiency" is defined as:
  - (a) 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
  - (b) For securities loaned, 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.
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 and securities loan arrangements**

**(a) Written agreement requirements**

Any written agreement for a cash loan payable or 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 sold or loaned by one party to another, that the securities are endorsed for transfer and free of any trading restrictions.

**(b) Additional written agreement requirements for agency agreements**

Any written agreement for a cash loan payable or a securities loan arrangement between the Dealer Member and an agent acting on the behalf of a counterparty, where:

- the agent qualifies as an *acceptable institution*;
- the counterparty qualifies as either an *acceptable institution*, an *acceptable counterparty* or a *regulated entity*;

must include the following additional terms [over and above those set out in Note 5(a)] which stipulate that:

- (i) the loan collateral must be held by the agent without right to re-hypothecate; and
- (ii) the loan collateral will only be made available to the counterparty when a Dealer Member default occurs and, if a default event occurs, any excess of the realization on the loan collateral over the loan repayment obligation will be returned to the Dealer Member.

Where these additional terms are not present or the agreement does not qualify as an "Eligible Financial Contract" in the event of the bankruptcy of any of the parties to the contract, the agency arrangement must be reported and treated in the same manner for margin purposes as the equivalent principal cash loan payable or a securities loaned arrangement between a Dealer Member and the same counterparty where a written agreement has not been entered into or the written agreement entered into does not include all of the required minimum terms [Note 5(c)(i) below].

**FORM 1, PART II – SCHEDULE 7**  
**NOTES AND INSTRUCTIONS** [Continued]

Where these additional terms are present and the agreement qualifies as an “Eligible Financial Contract” in the event of the bankruptcy of any of the parties to the contract, the agency arrangement may be reported and treated in the same manner for margin purposes as the equivalent principal cash loan payable or a securities loaned arrangement between a Dealer Member and the same counterparty [Note 5(c)(ii) below].

**(c) Margin requirements**

The margin requirements for a cash loan payable or 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, 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*,
  - (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, the margin required to be provided shall be determined according to the following table:

<b>Transaction counterparty type</b>	<b>Margin required</b>
<i>Acceptable institution</i>	No margin <sup>1</sup>
<i>Acceptable counterparty</i>	Excess collateral deficiency <sup>1</sup>
<i>Regulated entity</i>	Excess collateral deficiency <sup>1</sup>
Other	Margin
<sup>1</sup> Any transaction which has not been confirmed by an <i>acceptable institution</i> , <i>acceptable counterparty</i> or <i>regulated entity</i> within 15 business days of the trade shall be margined.	

**6. Securities repurchase agreements**

**(a) Written agreement requirements**

Any written agreement for a securities repurchase agreement 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 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**

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, 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 based on term of transaction	
	30 calendar days or less after regular settlement <sup>1</sup>	Greater than calendar 30 days after regular settlement <sup>1</sup>
<i>Acceptable institution</i>	No margin <sup>2</sup>	
<i>Acceptable counterparty</i>	Market value deficiency <sup>2</sup>	Margin
<i>Regulated entity</i>	Market value deficiency <sup>2</sup>	Margin
Other	Margin	200% of margin (to a maximum of the <i>market value</i> of the underlying securities)
<sup>1</sup> 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 refers to the original term of the repurchase transaction. <sup>2</sup> Any transaction which has not been confirmed by an <i>acceptable institution</i> , <i>acceptable counterparty</i> or <i>regulated entity</i> 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, the margin required to be provided shall be determined according to the following table:

Transaction counterparty type	Margin required
<i>Acceptable institution</i>	No margin <sup>1</sup>
<i>Acceptable counterparty</i>	Market value deficiency <sup>1</sup>
<i>Regulated entity</i>	Market value deficiency <sup>1</sup>
Other	Margin
<sup>1</sup> Any transaction which has not been confirmed by an <i>acceptable institution</i> , <i>acceptable counterparty</i> or <i>regulated entity</i> within 15 business days of the trade shall be margined.	

7. 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.
8. 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*.
9. **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.
10. **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.
11. **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*,

**FORM 1, PART II – SCHEDULE 7**  
**NOTES AND INSTRUCTIONS** [Continued]

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.

12. **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.
13. **Lines 5, 9, and I3** - Arrangements other than those discussed in Note 5(b) 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 7A**

DATE: \_\_\_\_\_

\_\_\_\_\_  
(Dealer Member Name)

**CASH AND SECURITIES BORROWING AND LENDING ARRANGEMENTS CONCENTRATION CHARGE**

**CS'000**

1. Sch. 1, Line 2	Market value deficiency amount relating to loans receivable from <i>acceptable counterparties</i> , net of legal offsets and margin already provided	_____
2. Sch. 1, Line 3	Market value deficiency amount relating to loans receivable from <i>regulated entities</i> , net of legal offsets and margin already provided	_____
3. Sch. 1, Line 6	Market value deficiency amount relating to securities borrowed from <i>acceptable counterparties</i> , net of legal offsets and margin already provided	_____
4. Sch. 1, Line 7	Market value deficiency amount relating to securities borrowed from <i>regulated entities</i> , net of legal offsets and margin already provided	_____
5. Sch. 7, Line 3	Market value deficiency amount relating to loans payable to <i>acceptable counterparties</i> , net of legal offsets and margin already provided	_____
6. Sch. 7, Line 4	Market value deficiency amount relating to loans payable to <i>regulated entities</i> , net of legal offsets and margin already provided	_____
7. Sch. 7, Line 7	Market value deficiency amount relating to securities lent to <i>acceptable counterparties</i> , net of legal offsets and margin already provided	_____
8. Sch. 7, Line 8	Market value deficiency amount relating to securities lent to <i>regulated entities</i> , net of legal offsets and margin already provided	_____
9.	TOTAL MARKET VALUE DEFICIENCY EXPOSURE WITH ACCEPTABLE COUNTERPARTIES AND REGULATED ENTITIES, NET OF LEGAL OFFSETS AND MARGIN ALREADY PROVIDED [Sum of Lines 1 to 6]	=====
10.	CONCENTRATION THRESHOLD – 100% OF NET ALLOWABLE ASSETS	_____
11.	CONCENTRATION CHARGE [Excess of Line 9 over Line 10, otherwise NIL]	=====

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**INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA**

**MARGIN REQUIREMENTS FOR CERTAIN CASH AND SECURITY BORROWING AND  
LENDING ARRANGEMENTS - AMENDMENTS TO SCHEDULES 1, 7 AND 7A OF DEALER  
MEMBER FORM 1  
(THE "AMENDMENTS")**

**BLACK-LINE TEXT OF THE AMENDMENTS**

## FORM 1, PART II – SCHEDULE 1

DATE: \_\_\_\_\_

\_\_\_\_\_  
(Dealer Member Name)**ANALYSIS OF LOANS RECEIVABLE, SECURITIES BORROWED AND RESALE AGREEMENTS**

	<b>AMOUNT OF LOAN RECEIVABLE OR CASH DELIVERED AS COLLATERAL C\$'000</b>	<b>MARKET VALUE OF SECURITIES DELIVERED AS COLLATERAL C\$'000</b>	<b>MARKET VALUE OF SECURITIES RECEIVED AS COLLATERAL OR BORROWED C\$'000</b>	<b>REQUIRED TO MARGIN C\$'000</b>
	[see note 3]	[see note 4]	[see note 4]	
<b>LOANS RECEIVABLE:</b>				
1. <i>Acceptable institutions</i>	_____	N/A	_____	Nil
2. <i>Acceptable counterparties</i>	_____	N/A	_____	_____
3. <i>Regulated entities</i>	_____	N/A	_____	_____
4. Others [see note <del>+2</del> 13]	_____	N/A	_____	_____
<b>SECURITIES BORROWED:</b>				
5. <i>Acceptable institutions</i>	_____	_____	_____	Nil
6. <i>Acceptable counterparties</i>	_____	_____	_____	_____
7. <i>Regulated entities</i>	_____	_____	_____	_____
8. Others [see note <del>+2</del> 13]	_____	_____	_____	_____
<b>RESALE AGREEMENTS:</b>				
9. <i>Acceptable institutions</i>	_____	N/A	_____	Nil
10. <i>Acceptable counterparties</i>	_____	N/A	_____	_____
11. <i>Regulated entities</i>	_____	N/A	_____	_____
12. Others [see note <del>+2</del> 13]	_____	N/A	_____	_____
13. <b>TOTAL</b> [Lines 1 through 12]	_____		_____	_____
	A-6			B-9

[See notes and instructions]

~~Feb-2011~~Jan-2014

**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 ~~transactions and resale (i.e. reverse repo) agreements, including 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, "excess collateral deficiency" is defined as:

(a) For cash loans receivable, any excess of the amount of the loan over the market value of the actual collateral ~~provided to the counterparty less the collateral required to be~~ received ~~by~~ from the transaction counterparty ~~pursuant to regulatory or legislative requirements. A list of current collateralization rates for each category of acceptable counterparties is published on a regular basis:~~

or

(b) For securities borrowed, any excess of the market value of the actual collateral provided to the transaction counterparty over:

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

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

3. Include accrued interest in amount of loan receivable.
4. Market value of securities delivered or received as collateral should include accrued interest.
5. ~~In the case of either~~ **Cash loans receivable and securities borrowed arrangements**

**(a) Written agreement requirements**

Any written agreement for a cash loan ~~and~~ receivable or a securities borrowing ~~or a resale transaction, if a written agreement arrangement~~ between the Dealer Member and ~~the counterparty has been entered into containing the terms described below, the instructions in Notes 7, 8, 9, and 10 are applicable, as the case may be. Each such written agreement shall~~ a counterparty must include terms which provide:

- (i) ~~for~~ For the rights of either party to retain or realize on securities held by it from the other party on default;<sub>z</sub>
- (ii) ~~for~~ For events of default;<sub>z</sub>
- (iii) ~~for~~ 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;<sub>z</sub>
- (iv) ~~either~~ 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;<sub>z</sub> and
- (v) ~~if~~ 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 and free of any trading restrictions. ~~In addition, in the case of a resale transaction such written agreement shall contain 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. Such agreements are not mandatory and if not used are to be margined as provided below.~~

~~In the case of a cash loan and securities borrowing transaction, if no such written agreement has been entered into in respect of the transaction, then~~

**(b) Additional written agreement requirements for agency agreements**

Any written agreement for a cash loan receivable or a securities borrowing arrangement between the Dealer Member and an agent acting on the behalf of a counterparty, where:

- the agent qualifies as an acceptable institution;
- the counterparty qualifies as either an acceptable institution, an acceptable counterparty or a regulated entity;

~~Feb-2011~~ Jan-2014

**FORM 1, PART II – SCHEDULE 1**  
**NOTES AND INSTRUCTIONS** [Continued]

must include the following additional terms [over and above those set out in Note 5(a)] which stipulate that:

- (i) the loan collateral must be held by the agent without right to re-hypothecate; and
- (ii) the loan collateral will only be made available to the counterparty when a Dealer Member default occurs and, if a default event occurs, any excess of the realization on the loan collateral over the loan repayment obligation will be returned to the Dealer Member.

Where these additional terms are not present or the agreement does not qualify as an “Eligible Financial Contract” in the event of the bankruptcy of any of the parties to the contract, the agency arrangement must be reported and treated in the same manner for margin purposes as the equivalent principal cash loan receivable or a securities borrowing arrangement between a Dealer Member and the same counterparty, where a written agreement has not been entered into or the written agreement entered into does not include all of the required minimum terms [Note 5(c)(i) below].

Where these additional terms are present and the agreement qualifies as an “Eligible Financial Contract” in the event of the bankruptcy of any of the parties to the contract, the agency arrangement may be reported and treated in the same manner for margin purposes as the equivalent principal cash loan receivable or a securities borrowing arrangement between a Dealer Member and the same counterparty [Note 5(c)(ii) below].

**(c) Margin requirements**

The margin requirements for a cash loan receivable or a securities borrowing 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, 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*.
  - (B) 100% of the market value ~~must be provided as margin by the Dealer Member on the collateral given to the lender except in the case where the lender is an *acceptable institution* in which case no margin need be provided.~~

~~In the case of a resale transaction, if no such written agreement has been entered into in respect of the transaction, the position shall be margined as follows~~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, the margin required to be provided shall be determined according to the following table:

<b><u>Transaction counterparty type</u></b>	<b><u>Margin required</u></b>
<u><i>Acceptable institution</i></u>	<u>No margin<sup>1</sup></u>
<u><i>Acceptable counterparty</i></u>	<u>Excess collateral deficiency<sup>1</sup></u>
<u><i>Regulated entity</i></u>	<u>Excess collateral deficiency<sup>1</sup></u>
<u>Other</u>	<u>Margin</u>
<sup>1</sup> <u>Any transaction which has not been confirmed by an <i>acceptable institution</i>, <i>acceptable counterparty</i> or <i>regulated entity</i> within 15 business days of the trade shall be margined.</u>	

**6. Securities resale agreements**

**(a) Written agreement requirements**

Any written agreement for a securities resale agreement 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,

**FORM 1, PART II – SCHEDULE 1**  
**NOTES AND INSTRUCTIONS** [Continued]

- (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 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**

The margin requirements for a securities resale 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, the margin required to be provided shall be determined according to the following table:

<b>Counterparty Transaction counterparty type</b>	<b>NO Written Repurchase/Reverse Repurchase Agreement</b>	
	<b>Calendar days after regular settlement (Note-1) Margin required based on term of transaction</b>	
	<b>30 calendar days or less after regular settlement<sup>1</sup></b>	<b>Greater than 30 calendar days after regular settlement<sup>1</sup></b>
<i>Acceptable institution</i>	No margin <del>(Note-2)</del>	
<i>Acceptable counterparty</i>	<del>Excess collateral</del> Market value deficiency <del>(Note-2)</del>	Margin
<i>Regulated entity</i>	Market value deficiency <del>(Note-2)</del>	Margin
<i>Other</i>	Margin	200% of margin (to a maximum of the market value of the underlying securities)
<p><b>Note-1:</b> Regular settlement means the settlement <del>dates</del> 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 refers to the original term of the <del>repurchase/reverse repurchase</del> resale transaction.</p> <p><b>Note-2:</b> Any transaction which has not been confirmed by an <i>acceptable institution, acceptable counterparty</i> or <i>regulated entity</i> within 15 business days of the trade shall be margined.</p>		

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

<b>Transaction counterparty type</b>	<b>Margin required</b>
<i>Acceptable institution</i>	No margin <sup>1</sup>
<i>Acceptable counterparty</i>	Market value deficiency <sup>1</sup>
<i>Regulated entity</i>	Market value deficiency <sup>1</sup>
<i>Other</i>	Margin
<sup>1</sup> — <u>Any transaction which has not been confirmed by an <i>acceptable institution, acceptable counterparty</i> or <i>regulated entity</i> within 15 business days of the trade shall be margined.</u>	

- Z 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.

**FORM 1, PART II – SCHEDULE 1**  
**NOTES AND INSTRUCTIONS [Continued]**

- ~~7. Lines 1, 5 and 9~~ - In a cash loan and securities borrow or resale transaction between a Dealer Member and an *acceptable institution*, no capital need be provided in the case where a deficiency exists between the *market value* of the cash loaned or securities borrowed or resold and the *market value* of the collateral or cash pledged.
8. 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*.
- ~~WHERE AN AGREEMENT HAS BEEN EXECUTED, THEN:~~
- ~~8-9. Lines 2, 3, 6 and 107~~ - In ~~the case of~~ a cash loan ~~and receivable or a~~ securities ~~borrow or resale transaction~~ borrowing 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.
- ~~9-10. Lines 3, 710 and 11~~ - In ~~the case of~~ a cash loan and securities borrow or 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 ~~cash loaned or~~ securities ~~borrowed or~~ resold and the *market value* of the ~~collateral or~~ 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.
- ~~10-11. Lines 4, 8 and 12~~ - In ~~the case of~~ a cash loan ~~and receivable or a~~ securities ~~borrow~~ 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.
- ~~11-12. 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.
- ~~12-13. Lines 4, 8 and 12~~ - ~~Transactions~~ Arrangements other than those discussed in Note 5(b) whereby an *acceptable institution*, *acceptable counterparty*, or *regulated entity* ~~are~~ is only acting as ~~agents~~ an agent (on behalf of an "other" party) should be reported and margined as "Others".

## FORM 1, PART II – SCHEDULE 7

DATE: \_\_\_\_\_

\_\_\_\_\_  
(Dealer Member Name)**ANALYSIS OF OVERDRAFTS, LOANS, SECURITIES LOANED AND REPURCHASE AGREEMENTS**

	<b>AMOUNT OF LOAN PAYABLE OR CASH RECEIVED AS COLLATERAL C\$'000</b> [see note 3]	<b>MARKET VALUE OF SECURITIES RECEIVED AS COLLATERAL C\$'000</b> [see note 4]	<b>MARKET VALUE OF SECURITIES DELIVERED AS COLLATERAL OR LOANED C\$'000</b> [see note 4]	<b>REQUIRED TO MARGIN C\$'000</b>
1. Bank overdrafts	_____	N/A	N/A	Nil
<b>LOANS PAYABLE:</b>				
2. <i>Acceptable institutions</i>	_____	N/A	_____	Nil
3. <i>Acceptable counterparties</i>	_____	N/A	_____	_____
4. <i>Regulated entities</i>	_____	N/A	_____	_____
5. Others	_____	N/A	_____	_____
<b>SECURITIES LOANED:</b>				
6. <i>Acceptable institutions</i>	_____	_____	_____	Nil
7. <i>Acceptable counterparties</i>	_____	_____	_____	_____
8. <i>Regulated entities</i>	_____	_____	_____	_____
9. Others	_____	_____	_____	_____
<b>REPURCHASE AGREEMENTS:</b>				
10. <i>Acceptable institutions</i>	_____	N/A	_____	Nil
11. <i>Acceptable counterparties</i>	_____	N/A	_____	_____
12. <i>Regulated entities</i>	_____	N/A	_____	_____
13. Others	_____	N/A	_____	_____
14. <b>TOTAL</b> [Lines 1 through 13]	=====		=====	=====
	A-51			B-14

[See notes and instructions]

~~Feb-2011~~Jan-2014

**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 ~~securities repurchases, including~~ financing transactions done via 2 trade tickets, including securities repurchases and those with related parties, should also be disclosed on this schedule.

~~2.~~ 2. For the purpose of this schedule, "excess collateral deficiency" is defined as:

(a) For cash loans payable, any excess of the market value of the actual collateral provided delivered to the transaction counterparty less the collateral required to be received by the counterparty pursuant to regulatory or legislative requirements. A list of current collateralization rates for each category of acceptable counterparties is published on a regular basis over 102% the amount of the loan;

or

(b) For securities loaned, 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.

~~3.~~ 3. Include accrued interest in amount of loan payable.

4. Market value of securities received or delivered as collateral should include accrued interest.

5. ~~In the case of either a cash borrow~~ **Cash loans payable and securities loan** ~~or a repurchase transaction, if~~ **arrangements**

**(a) Written agreement requirements**

Any written agreement for a cash loan payable or a securities loan arrangement between the Dealer Member and the counterparty has been entered into containing the terms described below, the instructions in Notes 7, 8, 9 and 10 are applicable, as the case may be. Each such written agreement shall a counterparty must include terms which provide:

- (i) ~~for For~~ the rights of either party to retain or realize on securities held by it from the other party on default;
- (ii) ~~for For~~ events of default;
- (iii) ~~for 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 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 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 and free of any trading restrictions. ~~In addition, in the case of a repurchase transaction such written agreement shall contain an acknowledgement by the parties that either has the right, upon notice, to call for any difference between the collateral and the securities at any time. Such agreements are not mandatory and if not used are to be margined as provided below.~~

~~In the case of a cash borrow and securities loan transaction, if no such written agreement has been entered into in respect of the transaction, then~~

**(b) Additional written agreement requirements for agency agreements**

Any written agreement for a cash loan payable or a securities loan arrangement between the Dealer Member and an agent acting on the behalf of a counterparty, where:

- the agent qualifies as an acceptable institution;
- the counterparty qualifies as either an acceptable institution, an acceptable counterparty or a regulated entity;

must include the following additional terms [over and above those set out in Note 5(a)] which stipulate that:

**FORM 1, PART II – SCHEDULE 7**  
**NOTES AND INSTRUCTIONS** [Continued]

- (i) the loan collateral must be held by the agent without right to re-hypothecate; and
- (ii) the loan collateral will only be made available to the counterparty when a Dealer Member default occurs and, if a default event occurs, any excess of the realization on the loan collateral over the loan repayment obligation will be returned to the Dealer Member.

Where these additional terms are not present or the agreement does not qualify as an “Eligible Financial Contract” in the event of the bankruptcy of any of the parties to the contract, the agency arrangement must be reported and treated in the same manner for margin purposes as the equivalent principal cash loan payable or a securities loaned arrangement between a Dealer Member and the same counterparty where a written agreement has not been entered into or the written agreement entered into does not include all of the required minimum terms [Note 5(c)(i) below].

Where these additional terms are present and the agreement qualifies as an “Eligible Financial Contract” in the event of the bankruptcy of any of the parties to the contract, the agency arrangement may be reported and treated in the same manner for margin purposes as the equivalent principal cash loan payable or a securities loaned arrangement between a Dealer Member and the same counterparty [Note 5(c)(ii) below].

**(c) Margin requirements**

The margin requirements for a cash loan payable or 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, 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*.
- (B) 100% of the market value ~~must be provided as margin by the Dealer Member on the collateral given to the lender except in the case where the lender is an *acceptable institution* in which case no margin need be provided.~~

~~In the case of a repurchase transaction, if no such written agreement has been entered into in respect of the transaction, the position shall be margined as follows~~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, the margin required to be provided shall be determined according to the following table:

<b><u>Transaction counterparty type</u></b>	<b><u>Margin required</u></b>
<u><i>Acceptable institution</i></u>	<u>No margin<sup>1</sup></u>
<u><i>Acceptable counterparty</i></u>	<u>Excess collateral deficiency<sup>1</sup></u>
<u><i>Regulated entity</i></u>	<u>Excess collateral deficiency<sup>1</sup></u>
<u>Other</u>	<u>Margin</u>
<sup>1</sup> <u>Any transaction which has not been confirmed by an <i>acceptable institution</i>, <i>acceptable counterparty</i> or <i>regulated entity</i> within 15 business days of the trade shall be margined.</u>	

**6. Securities repurchase agreements**

**(a) Written agreement requirements**

Any written agreement for a securities repurchase agreement 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,

**FORM 1, PART II – SCHEDULE 7**  
**NOTES AND INSTRUCTIONS** [Continued]

- (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 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**

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

<b>Counterparty</b> <b>Transaction</b> <b>counterparty type</b>	<b>NO Written Repurchase/Reverse Repurchase Agreement</b>	
	<b>Calendar days after regular settlement (Note 1) Margin required based on term of transaction</b>	
	<b>30 calendar days or less after regular settlement<sup>1</sup></b>	<b>Greater than 30 calendar days after regular settlement<sup>1</sup></b>
<i>Acceptable institution</i>	No margin <del>(Note<sup>2</sup>)</del>	
<i>Acceptable counterparty</i>	<del>Excess collateral</del> <u>Market value deficiency (Note<sup>2</sup>)</u>	<u>Margin</u>
<i>Regulated entity</i>	<u>Market value deficiency (Note<sup>2</sup>)</u>	Margin
<i>Other</i>	Margin	200% of margin (to a maximum of the <i>market value</i> of the underlying securities)
<p><b>Note<sup>1</sup>:</b> Regular settlement means the settlement <del>dates</del> <u>date</u> 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 refers to the original term of the repurchase <del>/reverse repurchase</del> <u>transaction</u>.</p> <p><b>Note<sup>2</sup>:</b> Any transaction which has not been confirmed by an <i>acceptable institution, acceptable counterparty</i> or <i>regulated entity</i> within 15 business days of the trade shall be margined.</p>		

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

<b>Transaction counterparty type</b>	<b>Margin required</b>
<u><i>Acceptable institution</i></u>	<u>No margin<sup>1</sup></u>
<u><i>Acceptable counterparty</i></u>	<u>Market value deficiency<sup>1</sup></u>
<u><i>Regulated entity</i></u>	<u>Market value deficiency<sup>1</sup></u>
<u><i>Other</i></u>	<u>Margin</u>
<sup>1</sup> <u>Any transaction which has not been confirmed by an <i>acceptable institution, acceptable counterparty</i> or <i>regulated entity</i> within 15 business days of the trade shall be margined.</u>	

7. 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.

**FORM 1, PART II – SCHEDULE 7**  
**NOTES AND INSTRUCTIONS [Continued]**

- ~~7. Lines 2, 6, and 10~~ – In a cash borrowed and securities loan or repurchase transaction between a Dealer Member and an acceptable institution, no capital need be provided in the case where a deficiency exists between the market value of the cash borrowed or securities loaned or repurchased and the market value of the collateral or cash pledged.
8. 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.
- ~~WHERE AN AGREEMENT HAS BEEN EXECUTED, THEN:~~
- ~~8-9. Lines 3, 7, 4, 7 and 118~~ - In the case of a cash borrowed and loan payable or a securities loan or repurchase transaction 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.
- ~~9-10. Lines 4, 8, 11 and 12~~ - In the case of a cash borrowed and securities loan or 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 cash borrowed or securities loaned or repurchased and the market value of the collateral or cash pledged 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.
- ~~10-11. Lines 5, 9, 9 and 13~~ - In the case of a cash borrowed and 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 borrowed received or securities loaned 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.
- ~~11-12. Lines 2, 3 and 4~~ - In a cash borrowed 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 borrowed 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.
- ~~12-13. Lines 5, 9, and 13~~ - Transactions Arrangements other than those discussed in Note 5(b) whereby an acceptable institution, acceptable counterparty, or regulated entity are is only acting as agents an agent (on behalf of an "other" party) should be reported and margined as "Others".

FORM 1, PART II – SCHEDULE 7A

DATE: \_\_\_\_\_

\_\_\_\_\_  
(Dealer Member Name)

**~~ACCEPTABLE COUNTERPARTIES FINANCING ACTIVITIES~~ CASH AND SECURITIES BORROWING AND  
LENDING ARRANGEMENTS CONCENTRATION CHARGE**

CS'000

1.	Sch. 1, Line 2	Market value deficiency amount relating to loans receivable from <i>acceptable counterparties</i> , net of legal offsets and margin already provided	_____
2.	Sch. 1, Line <del>63</del>	Market value deficiency amount relating to <del>securities borrowed from acceptable counterparties</del> loans receivable from <i>regulated entities</i> , net of legal offsets and margin already provided	_____
3.	Sch. 1, Line <del>106</del>	Market value deficiency amount relating to <del>resale agreements with</del> securities borrowed from <i>acceptable counterparties</i> , net of legal offsets and margin already provided	_____
4.	Sch. <del>7,1</del> Line <del>37</del>	Market value deficiency amount relating to <del>loans payable to acceptable counterparties</del> securities borrowed from <i>regulated entities</i> , net of legal offsets and margin already provided	_____
5.	Sch. 7, Line <del>73</del>	Market value deficiency amount relating to <del>securities lent</del> loans payable to <i>acceptable counterparties</i> , net of legal offsets and margin already provided	_____
6.	Sch. 7, Line <del>114</del>	Market value deficiency amount relating to <del>repurchase agreements with acceptable counterparties</del> loans payable to <i>regulated entities</i> , net of legal offsets and margin already provided	_____
<del>7.</del>	<del>Sch. 7, Line 7</del>	<del>Market value deficiency amount relating to securities lent to acceptable counterparties, net of legal offsets and margin already provided</del>	_____
<del>8.</del>	<del>Sch. 7, Line 8</del>	<del>Market value deficiency amount relating to securities lent to regulated entities, net of legal offsets and margin already provided</del>	_____
<del>7,9</del>		TOTAL MARKET VALUE DEFICIENCY EXPOSURE WITH ACCEPTABLE COUNTERPARTIES AND REGULATED ENTITIES, NET OF LEGAL OFFSETS AND MARGIN ALREADY PROVIDED [Sum of Lines 1 to 6]	_____
<del>8,1</del>		CONCENTRATION THRESHOLD – 100% OF NET ALLOWABLE ASSETS	_____
<del>9,1</del>		FINANCING ACTIVITIES CONCENTRATION CHARGE [Excess of Line <del>79</del> over Line <del>8,10</del> , otherwise NIL]	_____

\_\_\_\_\_ B-21

### **Discussion of four types of counterparties defined within IIROC's capital and margin rules**

In order to more accurately assess the credit risk associated with dealing with individual and corporate clients, the IIROC capital and margin rules categorize each counterparty client with which a Dealer Member may transact as one of the following:

1. Acceptable institutions
2. Acceptable counterparties
3. Regulated entities
4. Other

#### **Acceptable institutions**

Acceptable institutions are considered the lowest credit risk clients. Dealer Members may transact with acceptable institutions on an unsecured basis provided that each transaction is confirmed within a reasonable period of time. The following clients qualify as acceptable institutions:

- Government of Canada, Bank of Canada and provincial governments and any related crown corporations and agencies;
- Foreign federal governments of signatory nations of the Basel Accord on banking and supervision;
- Canadian banks, Quebec savings banks, credit unions, caisses populaires, insurance companies, trust companies and loan companies licensed to do business in Canada or a province thereof with paid up capital and surplus in excess of \$100 million;
- Foreign banks and trust companies subject to a satisfactory regulatory regime with paid up capital and surplus in excess of \$150 million;
- Canadian pension funds which are regulated either by the Office of Superintendent of Financial Institutions or a provincial pension commission, with total net assets in excess of \$200 million; and
- Foreign pension funds subject to a satisfactory regulatory regime with total net assets on the in excess of \$300 million.

#### **Acceptable counterparties**

Acceptable counterparties are considered to be clients of moderate credit risk. Dealer Members must, with some exceptions, transact with acceptable counterparties on a "value for value"<sup>1</sup> basis provided that each transaction is confirmed within a reasonable period of time. An exception is made for cash and security borrowing and lending transactions, as a modest amount of over-

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<sup>1</sup> Transactions performed on a "value for value" basis are those where the market value of the cash or securities received in by the investment dealer is equal to the market value of the cash or securities delivered out by the investment dealer.

collateralization (i.e. 2% to 5%) is permitted in order in order to avoid requiring the dealer to post additional collateral during the term of the arrangement in response to minor market price fluctuations. The following clients qualify as acceptable counterparties:

- Canadian provincial capital cities and all other Canadian cities and municipalities, or their equivalents, with populations of 50,000 and over;
- Foreign federal governments which do not qualify as an “acceptable institution”;
- Canadian banks, Quebec savings banks, credit unions, caisses populaires, insurance companies, trust companies and loan companies licensed to do business in Canada or a province thereof with paid up capital and surplus in excess of \$10 million and less than or equal to \$100 million;
- Foreign banks and trust companies subject to a satisfactory regulatory regime with paid up capital and surplus in excess of \$15 million and less than or equal to \$150 million;
- Foreign insurance companies subject to a satisfactory regulatory regime with paid up capital and surplus in excess of \$15 million;
- Canadian pension funds which are regulated either by the Office of Superintendent of Financial Institutions or a provincial pension commission, with total net assets in excess of \$10 million and less than or equal to \$200 million;
- Foreign pension funds subject to a satisfactory regulatory regime with total net assets on the in excess of \$15 million and less than or equal to \$300 million;
- Mutual funds subject to a satisfactory regulatory regime with total net assets in the fund in excess of \$10 million;
- Corporations other than “regulated entities” with a minimum net worth of \$75 million; and
- Trusts and limited partnerships with minimum total net assets in excess of \$100 million.

### **Regulated entities**

As is the case with acceptable counterparties, regulated entities are considered to be clients of moderate credit risk. Dealer Members must, with some exceptions, transact with regulated entities on a “value for value” basis provided that each transaction is confirmed within a reasonable period of time. To qualify as a regulated entity, the client must be dealer and must be a member of the Canadian Investor Protection Fund or a member of a recognized exchange or association that:

- maintains or is a member of an investor protection regime equivalent to the Canadian Investor Protection Fund;
- requires the segregation by its members of customers’ fully paid for securities;
- that has rules that set out specific methodologies for the segregation of, or reserve for, customer credit balances;
- that has established rules regarding Dealer Member and customer account margining;

- that is subject to the regulatory oversight of a government agency or a self-regulatory organization under a government agency which conducts regular examinations of its members and monitors member's regulatory capital on an ongoing basis; and
- that requires regular regulatory financial reporting by its members.

Examples of dealers that qualify as regulated entities include FINRA members, "full scope BIPR" investment firms regulated by the United Kingdom Financial Conduct Authority, firms with an Australian financial services licence regulated by the Australian Securities Exchange Limited and investment firms regulated by the Tokyo Stock Exchange, Inc.

### **Other**

An "Other" counterparty is a client or dealer that does not qualify under any of the other counterparty categories. "Other" counterparties are considered to be clients of high credit risk. For this reason, no reliance is placed on the credit worthiness of the client/dealer and credit risk exposures may only be incurred with these clients in situations where the client has account security positions with regulatory "loan value"<sup>2</sup>.

<sup>2</sup> The loan value of a security position is its market value less any margin required on the position to cover the risk of future loss.