13.1.3 Request for Comments - Amendments to IDA Regulation 100.12 and Schedule 2 of Form 1 Regarding Margin Requirements for Securities Held In a Registered Trader's Account

Investment Dealers Association of Canada –
Regulation 100.12 And Form 1, Schedule 2 –
Margin Requirements For Securities Held
In A Registered Trader's Account

I OVERVIEW

A Current Rules

Current Regulation 100.12(f) and Schedule 2 of Form 1 set out the margin reductions available for security positions held in a registered trader's account and the minimum margin requirements for registered traders, respectively.

B The Issue

In recent years, both the Toronto Stock Exchange and the Bourse de Montréal have introduced market-making reforms whereby responsibilities have been assigned to participating organizations rather than individual registered traders, specialists and market makers. As market-making risk has been transferred from individuals to Member firms, Regulation 100.12(f) and certain requirements in Schedule 2 of Form 1 are no longer necessary.

C Objectives

The main objective of this proposal is to repeal Regulation 100.12(f) and amend Schedule 2 of Form 1 to reflect the transfer of market-making responsibilities from individuals to Member firms by the Toronto Stock Exchange and the Bourse de Montréal.

D Effect of Proposed Rules

The proposal seeks to:

- Eliminate the 25% reduced margin granted to registered traders for certain security positions for which they have on post trading privileges [Current Regulation 100.12(f)]; and

- Eliminate the minimum margin requirement for Toronto Stock Exchange registered traders ($50,000 per trader) and for Bourse de Montréal registered specialists ($50,000 per specialist) [Current Form 1, Schedule 2, Line 7].

The net effect of these proposals, if implemented alone, would be an overall increase in margin requirements for security positions held by an active trader/specialist. The equity margin project proposals, which are pending final approval, are likely to reduce the margin requirements for security positions held in all account, including trader/specialist accounts, since margin rates will be based on the actual market risk of each individual listed security rather than traded price per share. To mitigate any increase in margin requirements, which will ultimately be decreased when the equity margin project proposals are implemented, it is intended that these market-making proposals and the equity margin project proposals will be implemented on the same date. As a result, the impact of these proposed amendments is not expected to be significant in terms of impact on market structure, competition, and costs of compliance and other rules.

II DETAILED ANALYSIS

A Present Rules, Relevant History and Proposed Policy

The current rules were developed at a time when stock exchanges assigned market-making responsibilities to individual registered traders and specialists. The rules required each Member firm to provide a minimum capital amount for the market-making risk assumed by it for each individual registered trader and specialist. The rules also granted each Member firm margin relief for certain security positions held in registered trader and specialist accounts for which they had on post trading privileges.

In recent years, both the Toronto Stock Exchange and the Bourse de Montréal have introduced market-making reforms whereby responsibilities have been assigned to participating organizations rather than individual registered traders, specialists and market makers. As market-making risk has been transferred from individuals to Member firms individual market-making requirements are no longer necessary.

The proposal seeks to:

- Eliminate the 25% reduced margin granted to registered traders for certain security positions for which they have on post trading privileges [Current Regulation 100.12(f)]; and

- Eliminate the minimum margin requirement for Toronto Stock Exchange registered traders ($50,000 per trader) and for Bourse de Montréal registered specialists ($50,000 per specialist) [Current Form 1, Schedule 2, Line 7].

The net effect of these proposals is that security positions held in individual registered trader and specialist accounts will be margined in the same manner as security positions held in all other Member firm accounts.

B Issues and Alternatives Considered

No other alternatives were considered.

C Comparison with Similar Provisions

A comparison with similar regulations in the United Kingdom and the United States was not considered necessary.

D Systems Impact of Rule

It is believed that the proposed amendments, set out in Attachment #1, will have no impact in terms of capital market structure, member versus non-member level playing field, competition generally, costs of compliance and conformity with other rules.

The Bourse de Montréal is also in the process of passing this amendment. Implementation of this amendment will therefore take place once both the IDA and the Bourse de Montréal have received approval to do so from their respective recognizing regulators.

E Best Interests of the Capital Markets

The Board has determined that the rule is not detrimental to the best interests of the capital markets.

F Public Interest Objective

According to subparagraph 14(c) of the IDA's Order of Recognition as a self regulatory organization, the IDA shall, where requested, provide in respect of a proposed rule change "a concise statement of its nature, purposes (having regard to paragraph 13 above) and effects, including possible effects on market structure and competition". Statements have been made elsewhere as to the nature and effects of this proposal. The purposes of the proposal are to:

- Facilitate an efficient capital-raising process and to facilitate transparent, efficient and fair secondary market trading and the availability to members and investors of information with respect to offers and quotations for and transactions in securities, and efficient clearance and settlement procedures; and

- Standardize industry practices where necessary or desirable for investor protection.

The proposal does 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.

The proposal is believed to be public interest as it is intended to simplify the capital requirements that apply to the security positions held in Member firm accounts and will not impact the public.

III COMMENTARY

A Filing in Other Jurisdictions

These proposed amendments will be filed for approval in Alberta, British Columbia, Ontario and Quebec and will be filed for information in Manitoba, Nova Scotia and Saskatchewan.

B Effectiveness

As indicated in the previous sections, the objective of the proposal is to simplify the capital requirements that apply to the security positions held in Member firm accounts to reflect the market-making reforms of the Toronto Stock Exchange and the Bourse de Montréal. It is believed that the proposal will be effective for this purpose.

C Process

These proposed amendments have been developed and recommended for approval by the FAS Capital Formula Subcommittee and have been recommended for approval by the FAS Executive Committee and the Financial Administrators Section.

IV SOURCES

References:

- Regulation 100.12,
- Form 1, Schedule 2 Form 1 and Notes and Instructions.

V OSC REQUIREMENT TO PUBLISH FOR COMMENT

The IDA is required to publish for comment the accompanying amendments.

The Association has determined that the entry into force of the proposed amendments would be in the public interest. Comments are sought on the proposed. Comments should be made in writing. One copy of each comment letter should be delivered within 30 days of the publication of this notice, addressed to the attention of Jane Tan, Investment Dealers Association of Canada, Suite 1600, 121 King Street West, Toronto, Ontario, M5H 3T9 and one copy addressed to the attention of the Manager of Market Regulation, Ontario Securities Commission, 20 Queen Street West, 19th Floor, Box 55, Toronto, Ontario, M5H 3S8.

Questions may be referred to:

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INVESTMENT DEALERS ASSOCIATION OF CANADA
Regulation 100.12 And Form 1, Schedule 2 - Margin Requirements For Securities Held In A Registered Trader's Account
Board Resolution

THE BOARD OF DIRECTORS of the Investment Dealers Association of Canada hereby makes the following amendments to the By-laws, Regulations, Forms and Policies of the Association:

1. Regulation paragraph 100.12(f) is repealed and regulation paragraphs 100.12(g) and (h) are renumbered 100.12(f) and (g);

2. Line 7 of Schedule 2 of Form 1 is repealed, lines 8 through 12 of Schedule 2 of Form 1 are renumbered 7 through 11 and the references that appear underneath Lines 7, 8 and 52 of Statement A of Form 1, Line 7 of Statement B of Form 1 and Line 7 of Statement D are amended accordingly; and

3. The Notes and Instructions to Schedule 2 of Form 1 are amended by repealing the instructions for Line 7 and renaming the instructions for Lines 9 and 12 as instructions for Lines 8 and 11.

PASSED AND ENACTED BY THE Board of Directors this 13th day of April 2005, to be effective on a date to be determined by Association staff.

INVESTMENT DEALERS ASSOCIATION OF CANADA
Regulation 100.12 And Form 1, Schedule 2 - Margin Requirements For Securities Held In A Registered Trader's Account
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Regulation 100.12(f)

~~(f) Securities Held in Registered Trader's Account~~

~~25% of the market value if such securities:~~

~~(i) Are not securities eligible for reduced margin for which the registered trader has responsibility or has "on-post" trading privileges;~~

~~(ii) Have traded for a value of not less than $2.00 per share for the previous calendar quarter.~~

~~The reduced margin rate is applicable only to a maximum total in all registered trader accounts of a Member of:~~

~~(i) $100,000 of market value per security if 90,000 shares or more of the security were traded in the previous calendar quarter on a stock exchange recognized by the Association for margin purposes and the National Association of Securities Dealers Automated Quotations System; and~~

~~(ii) $50,000 of market value per security if less than 90,000 shares of the security were traded in the previous calendar quarter on a stock exchange recognized by the Association for margin purposes and the National Association of Securities Dealers Automated Quotations System.~~

~~Margin for the excess position of market value on amounts over $100,000 and $50,000, respectively, shall be provided at the rate of 50% of market value for such securities. The total reduction in margin which is permitted by this Regulation 100.12(f) shall not exceed 50% of the Member's net allowable assets.~~

DATE: ____________________________ SCHEDULE 2

PART II
JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT

____
(Firm Name)

ANALYSIS OF SECURITIES OWNED AND SOLD SHORT AT MARKET VALUE

Category		**Market Value – Long**	**Market Value – Short**	**Margin required**
1.	Money market	$	$	$
	Accrued interest			NIL
	TOTAL MONEY MARKET			
2.	Bonds			
	Accrued interest			NIL
	TOTAL BONDS			
3.	Equities			
	Accrued interest on convertible debentures			NIL
	TOTAL EQUITIES			
4.	Options			
5.	Futures	NIL	NIL	
6.	Other			
	Accrued interest			NIL
	TOTAL OTHER			
~~7.~~	~~Registered traders, specialists and market makers *[See instructions]*~~	~~NIL~~	~~NIL~~	
~~8~~7.	TOTAL		$ A-52	$ B-7
~~9~~8.	**LESS:** Securities, including accrued interest, segregated for client free credit ratio calculation *[see instructions]*			

SCHEDULE 2
NOTES AND INSTRUCTIONS

1. All securities are to be valued at market (see General Notes and Definitions) as of the reporting date. The margin rates to be used are those outlined in the bylaws, rules and regulations of the Joint Regulatory Bodies and the Canadian Investor Protection Fund.

2. Schedule 2 summarizes **all** securities owned and sold short by the categories indicated. Details that must be included for each category are total long market value, total short market value and total margin required as indicated.

3. Where the firm utilizes the computerized options margining program of a recognized Exchange operating in Canada, the margin requirement produced by such program may be used provided the positions in the firm's records agree with the positions in the Exchange computer. No details of such positions are to be reported if the programs are employed. Details of any adjustments made to the margin calculated by an Exchange computer-margining program must be provided. For the purposes of this paragraph, recognized Exchange means The Montreal Exchange.

4. The Examiners and/or Auditors of the Joint Regulatory Bodies may request additional details of securities owned or sold short as they, in their discretion, believe necessary.

5. Where there are margin offsets between categories, the residual should be shown in the category with the larger initial margin required before offsets.

Line 1 - Money market shall include Canadian & US Treasury Bills, Bankers Acceptances, Bank paper (Domestic & Foreign), Municipal and Commercial Paper or other similar instruments.

Supplementary instructions for reporting money market commitments:

"Market Price" for money market commitments [fixed-term repurchases, calls, etc.] shall be calculated as follows:

(a) Fixed date repurchases [no borrower call feature] - the market price is the price determined by applying the current yield for the security to the term of maturity from the repurchase date. This will permit calculation of any profit or loss based on the market conditions at the reporting date. Exposure due to future changes in market conditions is covered by the margin rate.

(b) Open repurchases [no borrower call feature] - prices are to be determined as of the reporting date or the date the commitment first becomes open, whichever is the later. Market price is to be determined as in (a) and commitment price is to be determined in the same manner using the yield stated in the repurchase commitment.

(c) Repurchase with borrower call features - the market price is the borrower call price. No margin is required where the total consideration for which the holder can put the security back to the dealer is less than the total consideration for which the dealer may put the security back to the issuer. However, where a holder consideration exceeds dealer consideration [the dealer has a loss], the margin required is the lesser of:

    (1) the prescribed rate appropriate to the term of the security, and

    (2) the spread between holder consideration and dealer consideration [the loss] based on the call features subject to a minimum of ¼ of 1% margin.

~~**Line 7** – (i) The minimum margin requirement for each TSE registered trader is $50,000.~~

~~(ii) The minimum margin requirement for each ME registered specialist is the lesser of $50,000 or an amount sufficient to assume a position of twenty board lots of each security in which such specialist is registered, subject to a maximum of $25,000 per issuer.~~

~~(iii) The market maker minimum margin requirement is for the TSE $50,000 for each specialist appointed and for the ME$10,000 for each security and/or class of options appointed (not to exceed $25,000 for each market maker in each preceding case). No minimum margin is required where the market maker does not have any appointment.~~

~~The above-noted minimum margin for each registered trader, specialist, or market maker may be applied as an offset to reduce any margin on positions held long or short in the registered trading account of such registered trader, specialist or market maker. It cannot be used to offset margin required for any other registered trader, specialist or market maker or for any other security positions of the member.~~

~~The market values related to positions in registered traders, specialists and market maker accounts should be included in the appropriate categories in the preceding lines of the Schedule. Related margin in excess of the minimum margin reported on this line should also be included in the preceding lines.~~

Line ~~9~~8 - The securities to be included are bonds, debentures, treasury bills and other securities with a term of 1 year or less, or guaranteed by the Government of Canada or a Province of Canada, the United Kingdom, the United States of America and any other national foreign government (provided such other foreign government is a party to the Basle Accord), which are segregated and held separate and apart as the Member firm's property.

Line ~~12~~11 - Include margin reductions from offsets against IA reserves only to the extent there is a written agreement between the firm and the trader permitting the firm to recover realized or unrealized losses from the IA reserve account. Include margin reductions arising from guarantees relating to inventory accounts by Partners, Directors, and Officers of the firm (PDO Guarantees). Include margin reductions arising from offsets against non-specific allowances of the firm.