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

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17-0143
July 13, 2017

Material amendments to the Notes and Instructions to Schedule 12 of Form 1

The applicable securities regulatory authorities have approved material amendments (**Material Amendments**) to the Notes and Instructions to Schedule 12 of Form 1 - *Margin on Futures Concentrations and Deposits* (the **Schedule**). The Schedule and its Notes and Instructions relate to the concentration margin calculation for futures and deposits.

The Material Amendments were published for comment on June 23, 2016 in IIROC Rules Notice 16-0141 - *Material amendments to the Notes and Instructions to Schedule 12 of Form 1* (**Notice 16-0141**). All relevant background information, including the objectives of the amendments, is set out in Notice 16-0141.

Comment Received

We received five comment letters in response to Notice 16-0141 and all were supportive of the Material Amendments.

Revisions Related to the Implementation of the Non-Material Amendments to Schedule 12 of Form 1 and its Notes and Instructions

On April 28, 2017, the Non-Material Amendments to Schedule 12 of Form 1 and its Notes and Instructions (the **Non-Material Amendments**) were implemented in IIROC Rules Notice 17-0069 - *Non-material amendments to Schedule 12 of Form 1 and its Notes and Instructions*. As a result of this implementation occurring before the implementation of the Material Amendments, the material amendments that were published in Notice 16-0141 required non-material revisions to reflect the implemented Non-Material Amendments. These non-material revisions are black-lined and set out in Appendix C.

Appendices

Appendix A - Material Amendments to the Notes and Instructions to Schedule 12 of Form 1

Appendix B - Black-line comparison of Material Amendments to current Notes and Instructions to Schedule 12 of Form 1

Appendix C - Black-line comparison of Material Amendments to previously published material amendments to the Notes and Instructions to Schedule 12 of Form 1.

Implementation

The Material Amendments will be effective on July 28, 2017.

Appendix A

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

MATERIAL AMENDMENTS TO THE NOTES AND INSTRUCTIONS TO SCHEDULE 12 OF FORM 1

MATERIAL AMENDMENTS

1. The Notes and Instructions to Schedule 12 of Form 1 is amended by repealing and replacing it with the attached.

FORM 1, PART II – SCHEDULE 12
NOTES AND INSTRUCTIONS

1. The purpose of Schedule 12 is to ensure that there is adequate capital available at a Dealer Member to cover concentration risks regarding positions in futures contracts and short futures contract options and counterparty risk related to deposits with correspondent brokers.

2. For the purposes of this schedule the term:

   (i) "**correspondent broker**" means a broker who is registered to engage in soliciting or accepting and handling orders for the purchase or sale of futures contracts or futures contract options on the behalf of the Dealer Member in a country other than Canada;

   (ii) "**futures contracts**" includes commodity futures and financial futures contracts;

   (iii) "**long futures contract positions**" includes futures contracts underlying short put options on futures contracts;

   (iv) "**maintenance margin requirements**" means the requirements prescribed by the futures exchange on which the futures contracts were entered into; and

   (v) "**short futures contract positions**" includes futures contracts underlying short call options on futures contracts.

3. **Line 1 - General margin provision (Notes 3 and 4)**

   Line 1 is used to establish a base level of capital that a Dealer Member is to provide when the maintenance margin requirements (calculated and published by the futures exchange in which the futures contracts and futures contract options are entered) are not calculated on a daily basis. The base level of capital is dependent on the number and type of contracts currently held by the Dealer Member and its clients.

   The general margin provision calculation is on the Dealer Member and client account open positions in futures contracts and futures contract options, except for the specified excluded positions in the related Note below.

   The margin required is 15% of the greater of:

   (i) the maintenance margin requirements of the total long futures contract positions for each type of futures contract carried for all Dealer Member and client accounts; or

   (ii) the maintenance margin requirements of the total short futures contract positions for each type of futures contract carried for all Dealer Member and client accounts.

   Where a futures exchange calculates and publishes maintenance margin requirements on a daily basis, no margin is required under Line 1.

4. **Excluded positions from the calculation of Line 1**

   (i) Positions held in accounts of acceptable institutions, acceptable counterparties and regulated entities.

   (ii) Hedge positions (as opposed to speculative positions) where the underlying interest is held in the client's account at the Dealer Member or that the Dealer Member has a document giving the Dealer Member an irrevocable right to take possession of the underlying interest and deliver it at the location designated by the appropriate clearing corporation.

   All other hedge positions are treated as speculative positions for the purpose of this calculation.

   (iii) Dealer Member or individual client spread positions in futures contracts in the same product (including futures contracts in the same product with different delivery months) entered into on the same futures exchange.

   All other spread positions are treated as speculative positions for the purpose of this calculation.

   (iv) Dealer Member or individual client short option positions on futures contracts which are out-of-the-money by more than two maintenance margin requirements.

   (v) Dealer Member or individual client spread positions in the same futures contract options.

FORM 1, PART II – SCHEDULE 12
NOTES AND INSTRUCTIONS [Continued]

5. **Line 2 - Concentration in individual accounts (Notes 5, 6 and 9)**

   Line 2 requires capital to be provided to cover concentration risk in individual accounts (client or the Dealer Member) when the aggregate of the maintenance margin requirements for each type of futures contract position or underlying interest on futures contract option position held both long and short for individual clients (including groups of clients or related clients) or in the Dealer Member's inventory is greater than 15% of the Dealer Member's net allowable assets. The concentration risk is the excess amount of the aggregate of those maintenance margin requirements over 15% of the Dealer Member's net allowable assets.

   The capital to be provided is dependent on the excess amount calculation below (which allows for specified deductions and excluded positions in the related Notes below) and how quickly the Dealer Member eliminates this concentration risk.

   Spread positions in the same product or different product on the same exchange and an inter-exchange or inter-commodity spread could be included using the maintenance margin as set by the exchange, provided that the spread is acceptable for margin purposes by the applicable exchange.

   The excess amount is:

   (i) the aggregate of the maintenance margin requirements for each type of futures contract position or underlying interest on futures contract option position held both long and short for individual clients (including groups of clients or related clients) or in the Dealer Member's inventory, except for positions mentioned in Note 9; minus

   (ii) 15% of the Dealer Member's net allowable assets.

   Margin is required on the close of the third trading day after the concentration first occurred and is the lesser of:

   (i) the excess amount calculated when the concentration first occurred; and

   (ii) the excess amount, if any, that exists on the close of the third trading day.

6. **Deductions from Part (i) of the excess amount calculation of Line 2**

   (i) Any excess margin in the Dealer Member account or client's account is to be deducted from Part (i) of the excess amount calculation. The excess margin is to be based on the maintenance margin.

7. **Line 3 - Concentration in individual open futures contracts and short options on futures contract positions (Notes 7 to 9)**

   Line 3 requires capital to be provided to cover concentration risk in individual open futures contracts and short options on futures contract positions when the aggregate of two maintenance margin requirements on the greater of the long or the short futures contracts positions for each type of futures contract position or underlying interest of futures contract option position, held in both the Dealer Member's inventory and for all clients, is greater than 40% of the Dealer Member's net allowable assets. The concentration risk is the excess amount of those aggregate of two maintenance margin requirements over 40% of the Dealer Member's net allowable assets.

   The capital to be provided is dependent on the excess amount calculation below (which allows for specified deductions and excluded positions in the related Notes below) and how quickly the Dealer Member eliminates this concentration risk.

   Spread positions in the same product or different product on the same exchange and an inter-exchange or inter-commodity spread could be included using the maintenance margin as set by the exchange, provided that the spread is acceptable for margin purposes by the applicable exchange.

   The excess amount is:

   (i) the aggregate of two maintenance margin requirements on the greater of the long or the short futures contracts positions for each type of futures contract position or underlying interest of futures contract option position, held in both the Dealer Member's inventory and for all clients, except for positions mentioned in Note 9; minus

   (ii) 40% of the Dealer Member's net allowable assets.

   Margin is required on the close of the third trading day after the concentration first occurred and is the lesser of:

FORM 1, PART II – SCHEDULE 12

NOTES AND INSTRUCTIONS [Continued]

(i) the excess amount calculated when the concentration first occurred; and

(ii) the excess amount, if any, that exists on the close of the third trading day.

8. **Deductions from Part (i) of the excess amount calculation of Line 3**

(i) Any excess margin may be deducted from Part (i) of the excess amount calculation, up to two maintenance margin requirements in the Dealer Member account or client's account (on a per client basis). The excess margin is to be based on the maintenance margin.

9. **Excluded positions from Part (i) of the excess amount calculation of Lines 2 and 3**

(i) Positions held in accounts of acceptable institutions, acceptable counterparties and regulated entities.

(ii) Hedge positions (as opposed to speculative positions), where the underlying interest is held in the client's account at the Dealer Member or that the Dealer Member has a document giving the Dealer Member an irrevocable right to take possession of the underlying interest and deliver it at the location designated by the appropriate clearing corporation.

All other hedge positions are treated as speculative positions and are thereby not excluded.

(iii) The following short option positions on futures contracts in a Dealer Member or client account, and provided that the pairings are acceptable for margin purposes by the applicable exchange:

(a) short calls or puts which are out-of-the-money by more than two maintenance margin requirements;

(b) a short call and a short put pairing on the same futures contract with the same exercise price and same expiration month;

(c) a futures contract paired with an in-the-money option;

(d) a short call (put) paired with a long in-the-money call (put);

(e) a short call (put) paired with a long (short) futures contract;

(f) an out-of-the-money short call paired with an out-of-the-money long call, where the strike price of the short call exceeds the strike price of the long call; and

(g) an out-of-the-money short put paired with an out-of-the-money long put.

10. **Line 4 - Margin on deposits with correspondent brokers**

(i) Where a correspondent broker owes assets (including cash, open trade equity and securities) to a Dealer Member exceeding 50% of the Dealer Member's net allowable assets, the excess amount must be provided as a charge in computing the Dealer Member's margin required.

The assets owing to the Dealer Member are the amount of deposits before reducing this amount by the maintenance margin requirements for all open positions.

(ii) Where the net worth of the correspondent broker (as determined from its latest published audited financial statements) is:

(a) greater than $50,000,000, no margin is required under this rule;

(b) less than or equal to $50,000,000, the Dealer Member must provide the amount calculated in Note 10(i).

(iii) Where a Dealer Member who operates its futures contracts and futures contract options business on a fully disclosed basis with a correspondent broker, no exemption from this requirement is permitted.

Appendix B

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

MATERIAL AMENDMENTS TO THE NOTES AND INSTRUCTIONS TO SCHEDULE 12 OF FORM 1

BLACK-LINE COMPARISON OF MATERIAL AMENDMENTS TO CURRENT NOTES AND INSTRUCTIONS TO SCHEDULE 12 OF FORM 1

FORM 1, PART II – SCHEDULE 12
NOTES AND INSTRUCTIONS

1. The purpose of Schedule 12 is to ensure that there is adequate capital available at a Dealer Member to cover concentration risks regarding positions in futures contracts and short futures contract options and counterparty risk related to deposits with correspondent brokers.

2. For the purposes of this schedule the term:

   (i) "**correspondent broker**" means a broker who is registered to engage in soliciting or accepting and handling orders for the purchase or sale of futures contracts or futures contract options on the behalf of the Dealer Member in a country other than Canada;

   (ii) "**futures contracts**" includes commodity futures and financial futures contracts;

   (iii) "**long futures contract positions**" includes futures contracts underlying short put options on futures contracts;

   (iv) "**maintenance margin requirements**" means the requirements prescribed by the futures exchange on which the futures contracts were entered into; and

   (v) "**short futures contract positions**" includes futures contracts underlying short call options on futures contracts.

3. **Line 1 - General margin provision (Notes 3 and 4)**

   Line 1 is used to establish a base level of capital ~~to be provided by a Dealer Member firm, which~~that a Dealer Member is to provide when the maintenance margin requirements (calculated and published by the futures exchange in which the futures contracts and futures contract options are entered) are not calculated on a daily basis. The base level of capital is dependent on the number and type of contracts currently held by the Dealer Member and its clients.

   The general margin provision calculation is on the Dealer Member and client account open positions in futures contracts and futures contract options, except for the specified excluded positions in the related Note below.

   The margin required is 15% of the greater of:

   (i) the maintenance margin requirements of the total long futures contract positions for each type of futures contract carried for all Dealer Member and client accounts; or

   (ii) the maintenance margin requirements of the total short futures contract positions for each type of futures contract carried for all Dealer Member and client accounts.

   Where a futures exchange calculates and publishes maintenance margin requirements on a daily basis, no margin is required under Line 1.

4. **Excluded positions from the calculation of Line 1**

   (i) Positions held in accounts of acceptable institutions, acceptable counterparties and regulated entities.

   (ii) Hedge positions (as opposed to speculative positions) where the underlying interest is held in the client's account at the Dealer Member or that the Dealer Member has a document giving the Dealer Member an irrevocable right to take possession of the underlying interest and deliver it at the location designated by the appropriate clearing corporation.

   All other hedge positions are treated as speculative positions for the purpose of this calculation.

   (iii) Dealer Member or individual client spread positions in futures contracts in the same product (including futures contracts in the same product with different delivery months) entered into on the same futures exchange.

   All other spread positions are treated as speculative positions for the purpose of this calculation.

   (iv) Dealer Member or individual client short option positions on futures contracts which are out-of-the-money by more than two maintenance margin requirements.

   (v) Dealer Member or individual client spread positions in the same futures contract options.

FORM 1, PART II – SCHEDULE 12

NOTES AND INSTRUCTIONS [Continued]

5. **Line 2 - Concentration in individual accounts (Notes 5, 6 and 9)**

Line 2 requires capital to be provided to cover concentration risk in individual accounts (client or the Dealer Member) when the aggregate of the maintenance margin requirements for each type of futures contract position or underlying interest on futures contract option position held both long and short for individual clients (including groups of clients or related clients) or in the Dealer Member's inventory is greater than 15% of the Dealer Member's net allowable assets. The concentration risk is the excess amount of the aggregate of those maintenance margin requirements over 15% of the Dealer Member's net allowable assets.

The capital to be provided is dependent on the excess amount calculation below (which allows for specified deductions and excluded positions in the related Notes below) and how quickly the Dealer Member eliminates this concentration risk.

Spread positions in the same product or different product on the same exchange and an inter-exchange or inter-commodity spread could be included using the maintenance margin as set by the exchange, provided that the spread is acceptable for margin purposes by the applicable exchange.

The excess amount is:

(i) the aggregate of the maintenance margin requirements for each type of futures contract position or underlying interest on futures contract option position held both long and short for individual clients (including groups of clients or related clients) or in the Dealer Member's inventory, except for positions mentioned in Note 9; minus

(ii) 15% of the Dealer Member's net allowable assets.

Margin is required on the close of the third trading day after the concentration first occurred and is the lesser of:

(i) the excess amount calculated when the concentration first occurred; and

(ii) the excess amount, if any, that exists on the close of the third trading day.

6. **Deductions from Part (i) of the excess amount calculation of Line 2**

(i) Any excess margin in the Dealer Member account or client's account is to be deducted from Part (i) of the excess amount calculation. The excess margin is to be based on the maintenance margin.

7. **Line 3 - Concentration in individual open futures contracts and short options on futures contract positions (Notes 7 to 9)**

Line 3 requires capital to be provided to cover concentration risk in individual open futures contracts and short options on futures contract positions when the aggregate of two maintenance margin requirements on the greater of the long or the short futures contracts positions for each type of futures contract position or underlying interest of futures contract option position, held in both the Dealer Member's inventory and for all clients, is greater than 40% of the Dealer Member's net allowable assets. The concentration risk is the excess amount of those aggregate of two maintenance margin requirements over 40% of the Dealer Member's net allowable assets.

The capital to be provided is dependent on the excess amount calculation below (which allows for specified deductions and excluded positions in the related Notes below) and how quickly the Dealer Member eliminates this concentration risk.

Spread positions in the same product or different product on the same exchange and an inter-exchange or inter-commodity spread could be included using the maintenance margin as set by the exchange, provided that the spread is acceptable for margin purposes by the applicable exchange.

The excess amount is:

(i) the aggregate of two maintenance margin requirements on the greater of the long or the short futures contracts positions for each type of futures contract position or underlying interest of futures contract option position, held in both the Dealer Member's inventory and for all clients, except for positions mentioned in Note 9; minus

(ii) 40% of the Dealer Member's net allowable assets.

Margin is required on the close of the third trading day after the concentration first occurred and is the lesser of:

FORM 1, PART II – SCHEDULE 12

NOTES AND INSTRUCTIONS [Continued]

(i) the excess amount calculated when the concentration first occurred; and

(ii) the excess amount, if any, that exists on the close of the third trading day.

8. **Deductions from Part (i) of the excess amount calculation of Line 3**

(i) Any excess margin may be deducted from Part (i) of the excess amount calculation, up to two maintenance margin requirements in the Dealer Member account or client's account (on a per client basis). The excess margin is to be based on the maintenance margin.

9. **Excluded positions from Part (i) of the excess amount calculation of Lines 2 and 3**

(i) Positions held in accounts of acceptable institutions, acceptable counterparties and regulated entities.

(ii) Hedge positions (as opposed to speculative positions), where the underlying interest is held in the client's account at the Dealer Member or that the Dealer Member has a document giving the Dealer Member an irrevocable right to take possession of the underlying interest and deliver it at the location designated by the appropriate clearing corporation.

All other hedge positions are treated as speculative positions and are thereby not excluded.

(iii) The following short option positions on futures contracts in a Dealer Member or client account, and provided that the pairings are acceptable for margin purposes by the applicable exchange:

(a) short calls or puts which are out-of-the-money by more than two maintenance margin requirements;

(b) a short call and a short put pairing on the same futures contract with the same exercise price and same expiration month;

(c) a futures contract paired with an in-the-money option;

(d) a short call (put) paired with a long in-the-money call (put);

(e) a short call (put) paired with a long (short) futures contract;

(f) an out-of-the-money short call paired with an out-of-the-money long call, where the strike price of the short call exceeds the strike price of the long call; and

(g) an out-of-the-money short put paired with an out-of-the-money long put.

10. **Line 4 - Margin on deposits with correspondent brokers**

(i) Where a correspondent broker owes assets (including cash, open trade equity and securities) to a Dealer Member exceeding 50% of the Dealer Member's net allowable assets, the excess amount must be provided as a charge in computing the Dealer Member's margin required.

The assets owing to the Dealer Member are the amount of deposits before reducing this amount by the maintenance margin requirements for all open positions.

(ii) Where the net worth of the correspondent broker (as determined from its latest published audited financial statements) is:

(a) greater than $50,000,000, no margin is required under this rule;

(b) less than or equal to $50,000,000, the Dealer Member must provide the amount calculated in Note 10(i).

(iii) Where a Dealer Member who operates its futures contracts and futures contract options business on a fully disclosed basis with a correspondent broker, no exemption from this requirement is permitted.

Appendix C

Investment Industry Regulatory Organization of Canada

Material Amendments to the Notes and Instructions to Schedule 12 of Form 1

Black-Line Comparison of Material Amendments to Previously Published Material Amendments to the Notes and Instructions to Schedule 12 of Form 1

FORM 1, PART II – SCHEDULE 12
NOTES AND INSTRUCTIONS

1. The purpose of Schedule 12 is to ensure that there is adequate capital available at a Dealer Member to cover concentration risks regarding positions in futures contracts and short futures contract options and counterparty risk related to deposits with correspondent brokers.

2. For the purposes of this schedule the term:

   (i) **"correspondent broker"** means a broker who is registered to engage in soliciting or accepting and handling orders for the purchase or sale of futures contracts or futures contract options on the behalf of the Dealer Member in a country other than Canada;

   (ii) **"futures contracts"** includes commodity futures and financial futures contracts;

   (iii) **"long futures contract positions"** includes futures contracts underlying short put options on futures contracts;

   (iv) **"maintenance margin requirements"** means the requirements prescribed by the futures exchange on which the futures contracts were entered into; and

   (v) **"short futures contract positions"** includes futures contracts underlying short call options on futures contracts.

3. **Line 1 - General margin provision~~.~~ (Notes 3 and 4)**

Line 1 is used to establish a base level of capital that a Dealer Member is to provide when the maintenance margin requirements (calculated and published by the futures exchange in which the futures contracts and futures contract options are entered) are not calculated on a daily basis. The base level of capital is dependent on the number and type of contracts currently held by the Dealer Member and its clients.

The general margin provision calculation is on the Dealer Member and client account open positions in futures contracts and futures contract options, except for the specified excluded positions in the related Note below.

The margin required is 15% of the greater of:

(i) the maintenance margin requirements of the total long futures contract positions for each type of futures contract carried for all Dealer Member and client accounts; or

(ii) the maintenance margin requirements of the total short futures contract positions for each type of futures contract carried for all Dealer Member and client accounts.

Where a futures exchange calculates and publishes maintenance margin requirements on a daily basis, no margin is required under Line 1.

~~The following~~4. **Excluded positions ~~are excluded~~ from ~~this~~the calculation~~:~~ of Line 1**

(~~a)~~ ~~positions~~i) Positions held in accounts of acceptable ~~*institution*~~institutions, acceptable ~~*counterparty*~~counterparties and regulated ~~*entity accounts;*~~entities.

(~~b~~ii) ~~hedge~~Hedge positions (as opposed to speculative positions)~~, provided that~~ where the underlying interest is held in the client's account at the Dealer Member or that the Dealer Member has a document giving the Dealer Member an irrevocable right to take possession of the underlying interest and deliver it at the location designated by the appropriate clearing corporation.

All other hedge positions are treated as speculative positions for the purpose of this calculation~~;~~.

(~~c~~iii) ~~client and Dealer Member spreads in the same futures contract~~Dealer Member or individual client spread positions in futures contracts in the same product (including futures contracts in the same product with different delivery months) entered into on the same futures exchange.

All other spread positions are treated as speculative positions for the purpose of this calculation~~;~~.

(~~d)~~ ~~The following options on futures contracts~~iv) Dealer Member or individual client short option positions~~:(i) short options~~ on futures contracts which are out-of-the-money by more than two maintenance margin requirements~~; and~~.

(~~ii)~~ ~~spreads~~v) Dealer Member or individual client spread positions in the same ~~options on~~ futures ~~contracts~~contract options.

~~**Line 2 - Concentration in individual accounts.**~~ ~~The Dealer Member must provide for the amount by which;~~5.

Line 2 - Concentration in individual accounts (Notes 5, 6 and 9)

~~(a) the aggregate of the maintenance margin requirements of the commodity or financial futures or underlying interest of option on futures contracts held both long and short for any client (including without limitation groups of clients or related clients) or in inventory, except for positions mentioned in Note 1 below, less any excess margin provided~~

~~exceeds~~

Line 2 requires capital to be provided to cover concentration risk in individual accounts (client or the Dealer Member) when the aggregate of the maintenance margin requirements for each type of futures contract position or underlying interest on futures contract option position held both long and short for individual clients (including groups of clients or related clients) or in the Dealer Member’s inventory is greater than 15% of the Dealer Member’s net allowable assets. The concentration risk is the excess amount of the aggregate of those maintenance margin requirements over 15% of the Dealer Member’s net allowable assets.

The capital to be provided is dependent on the excess amount calculation below (which allows for specified deductions and excluded positions in the related Notes below) and how quickly the Dealer Member eliminates this concentration risk.

Spread positions in the same product or different product on the same exchange and an inter-exchange or inter-commodity spread could be included using the maintenance margin as set by the exchange, provided that the spread is acceptable for margin purposes by the applicable exchange.

The excess amount is:

(i) the aggregate of the maintenance margin requirements for each type of futures contract position or underlying interest on futures contract option position held both long and short for individual clients (including groups of clients or related clients) or in the Dealer Member's inventory, except for positions mentioned in Note 9; minus

(~~b~~ii) 15% of the Dealer Member’s net allowable assets.

Margin is required on the close of the third trading day after the concentration first occurred and is the lesser of:

(i) the excess amount calculated when the concentration first occurred; and

(ii) the excess amount, if any, that exists on the close of the third trading day.

6. **Deductions from Part (i) of the excess amount calculation of Line 2**

(i) Any excess margin in the Dealer Member account or client's account is to be deducted from Part (i) of the excess amount calculation. The excess margin ~~must~~is to be based on the maintenance margin. ~~However, spread~~

7. **Line 3 - Concentration in individual open futures contracts and short options on futures contract positions (Notes 7 to 9)**

Line 3 requires capital to be provided to cover concentration risk in individual open futures contracts and short options on futures contract positions when the aggregate of two maintenance margin requirements on the greater of the long or the short futures contracts positions for each type of futures contract position or underlying interest of futures contract option position, held in both the Dealer Member's inventory and for all clients, is greater than 40% of the Dealer Member's net allowable assets. The concentration risk is the excess amount of those aggregate of two maintenance margin requirements over 40% of the Dealer Member's net allowable assets.

The capital to be provided is dependent on the excess amount calculation below (which allows for specified deductions and excluded positions in the related Notes below) and how quickly the Dealer Member eliminates this concentration risk.

Spread positions in the same product or different product on the same exchange and an inter-exchange or inter-commodity spread could be included using the maintenance margin as set by the exchange, provided that the spread is acceptable for margin purposes by ~~a recognized~~the applicable exchange.

The excess amount is:

(i) the aggregate of two maintenance margin requirements on the greater of the long or the short futures contracts positions for each type of futures contract position or underlying interest of futures contract option position, held in both the Dealer Member's inventory and for all clients, except for positions mentioned in Note 9; minus

(ii) 40% of the Dealer Member's net allowable assets.

~~If the excess is not eliminated within three (3)~~Margin is required on the close of the third trading ~~days after it first occurs, the Dealer Member's capital shall be charged~~day after the concentration first occurred and is the lesser of:

(~~a~~i) the excess amount calculated when the concentration first occurred; and

(~~b~~ii) the excess amount, if any, that exists on the close of the third trading day.

~~For the purpose of the concentration calculation, short futures contracts positions include futures contracts underlying the short call options on futures contracts and long futures contracts positions include futures contracts underlying the short put options on futures contracts.~~

~~**Line 3 - Concentration in individual open futures contracts and short options on futures contract positions.** The Dealer Member must provide for the amount by which;~~

~~(a) the aggregate of two maintenance margin requirements on the greater of the long or the short commodity or financial futures contracts position held for clients and in inventory, except for positions mentioned in Note 1 below,~~

~~exceeds~~

~~(b) 40% of the Dealer Member's net allowable assets.~~

~~There may be deducted from this difference, on a per client basis, the excess margin available in all accounts of the client up to two maintenance margin requirements of the client's positions in the futures contracts.~~

~~The excess margin must be based on the maintenance margin. However, spread positions in the same product or different product on the same exchange and an inter-exchange or inter-commodity spread could be included in both the long and short side using the maintenance margin as set by the exchange, provided that the spread is acceptable for margin purposes by a recognized exchange.~~

~~If the excess is not eliminated within three (3) trading days after it first occurs, the Dealer Member's capital shall be charged the lesser of:~~

~~(a) the excess calculated when the concentration first occurred; and~~

~~(b) the excess, if any, that exists on the close of the third trading day.~~

~~For the purpose of the concentration calculation, short futures contracts positions include futures contracts underlying the short call options on futures contracts and long futures contracts positions include futures contracts underlying the short put options on futures contracts.~~

~~**Line 4** - Where assets, including cash, open trade equity and securities, owing to a Dealer Member from a~~

FORM 1, PART II – SCHEDULE 12

NOTES AND INSTRUCTIONS [Continued]

~~Commodity Futures Correspondent Broker exceed 50% of the Dealer Member's net allowable assets, any excess over this amount shall be provided as a charge in computing the Dealer Member's margin required.~~

~~Where the net worth of the Commodity Futures Correspondent Broker, as determined from its latest published audited financial statements, exceeds $50,000,000, no margin is required under this rule.~~

~~Where the net worth of the Commodity Futures Correspondent Broker, as determined from its latest published financial statements, is less than $50,000,000, the Dealer Member may use a confirmed unconditional and irrevocable letter of credit issued by a US bank qualifying as an *acceptable institution* on behalf of the Commodity Futures Correspondent Broker to offset any margin requirement calculated above. The amount of the offset is limited to the amount of the letter of credit.~~

~~No exemption from this requirement is permitted for Dealer Members who operate their commodity futures contracts and commodity option on futures contracts business on a fully disclosed basis with a correspondent broker.~~

~~**Note 1:** For the purpose of the calculation of the concentration margin on individual client accounts (Line 2) and for open futures contracts and short options on futures contracts positions (Line 3), the following positions are excluded:~~

8. **Deductions from Part (i) of the excess amount calculation of Line 3**

   (i) Any excess margin may be deducted from Part (i) of the excess amount calculation, up to two maintenance margin requirements in the Dealer Member account or client's account (on a per client basis). The excess margin is to be based on the maintenance margin.

9. **Excluded positions from Part (i) of the excess amount calculation of Lines 2 and 3**

   ~~1.1 positions~~(i) Positions held in accounts of acceptable ~~*institution*~~institutions, acceptable ~~*counterparty*~~counterparties and regulated ~~*entity* accounts;~~entities.

   ~~1.2 hedge~~(ii) Hedge positions (as opposed to speculative positions) ~~provided that~~, where the underlying interest is held in the client's account at the Dealer Member or that the Dealer Member has a document giving the Dealer Member an irrevocable right to take possession of the underlying interest and deliver it at the location designated by the appropriate clearing corporation.

   All other hedge positions are treated as speculative positions and are thereby not excluded~~;~~.

   ~~1.3 the following short Options on Futures Contracts Positions:~~(iii) The following short option positions on futures contracts in a Dealer Member or client account, and provided that the pairings are acceptable for margin purposes by the applicable exchange:

   (a) short calls or puts which are out-of-the-money by more than two maintenance margin requirements;

   (~~i~~b) ~~either the short call or the short put where a client or Dealer Member account is short a~~a short call and a short ~~a~~ put pairing on the same futures contract with the same exercise price and same expiration month;

   (~~ii~~c) a futures contract paired with an in-the-money option ~~provided that this pairing is acceptable for margin purposes by a recognized exchange~~;

   (~~iii~~d) a short ~~option~~call (put) paired with a long in-the-money ~~option provided that this pairing is acceptable for margin purposes by a recognized exchange~~call (put);

   (~~iv~~e) a short ~~option~~call (put) paired with a long (short) futures contract ~~provided that this pairing is acceptable for margin purposes by a recognized exchange~~;

   (~~v~~f) an out-of-the-money short call ~~option~~ paired with an out-of-the-money long call ~~option~~, where the strike price of the short call exceeds the strike price of the long call~~, provided that this pairing is acceptable for margin purposes by a recognized exchange~~; and

   (~~vi~~g) an out-of-the-money short put ~~option~~ paired with an out-of-the-money long put ~~option provided that this pairing is acceptable for margin purposes by a recognized exchange; and~~.

10. **Line 4 - Margin on deposits with correspondent brokers**

   (~~vii) short option, which is out-of-the-money by more than two maintenance margin requirements.~~i)

FORM 1, PART II – SCHEDULE 12

NOTES AND INSTRUCTIONS [Continued]

Where a correspondent broker owes assets (including cash, open trade equity and securities) to a Dealer Member exceeding 50% of the Dealer Member's net allowable assets, the excess amount must be provided as a charge in computing the Dealer Member's margin required.

The assets owing to the Dealer Member are the amount of deposits before reducing this amount by the maintenance margin requirements for all open positions.

(ii) Where the net worth of the correspondent broker (as determined from its latest published audited financial statements) is:

(a) greater than $50,000,000, no margin is required under this rule;

(b) less than or equal to $50,000,000, the Dealer Member must provide the amount calculated in Note 10(i).

(iii) Where a Dealer Member who operates its futures contracts and futures contract options business on a fully disclosed basis with a correspondent broker, no exemption from this requirement is permitted.