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

IIROC NOTICE

Rules Notice
Request for Comments
Dealer Member Rules

Comments Due By: August 22, 2016

Please distribute internally to:

Credit
Institutional
Internal Audit
Legal and Compliance
Operations
Regulatory Accounting
Senior Management
Trading Desk

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

16-0141
June 23, 2016

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

Executive Summary

On May 18, 2016, the Board of Directors (the Board) of IIROC approved the republication for comment of material amendments to the Notes and Instructions to Schedule 12 of Form 1 - *Margin on Futures Concentrations and Deposits* (the Schedule) (the Material Amendments). The Schedule and its Notes and Instructions relate to the concentration margin calculation for futures and deposits.

The primary objective of the Material Amendments is to reflect the change in the futures markets over the past several years to more timely publication of futures contract margin requirements. As a result of this change, we propose to exclude the 15% margin provision in situations where a futures exchange calculates and publishes maintenance margin rates on a daily basis.

Impacts

With the Material Amendments, Dealer Members will benefit from margin requirements that are more reflective of the reduced risks regarding maintenance margin rates that are calculated and published daily, as opposed to weekly or monthly.

We believe that the Material Amendments from an overall industry perspective, will have no material impact in terms of capital market structure, competition generally, cost of compliance and conformity with other rules. However, from an individual Dealer Member perspective, the Material Amendments may positively impact one or two specific Dealer Members by freeing up a relatively large amount of capital (compared to their current risk-adjusted capital).

This potential positive impact may be less than expected, because futures clearing corporations have changed, or are in the process of changing, the method used to determine client margin requirements in a clearing participant's (e.g. a Dealer Member that is a participant at a clearing corporation) client omnibus account from a net client margin requirement to gross client margin requirement, which overall will result in the clearing participant providing more client margin to the futures clearing corporation.

The Material Amendments do not permit unfair discrimination among customers, issuers, brokers, dealers, members or others, nor impose any burden on competition that is not necessary or appropriate in furtherance of the above purposes. There should be no significant technological implications for Dealer Members as a result of the Material Amendments.

How to Submit Comments

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

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

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

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

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

Rules Notice - Table of Contents

1. Discussion of Material Amendments 4

1.1 Relevant history and reason for republication 4

1.2 Joint Rule Review Protocol requirements for republication 4

2. Analysis 4

2.1 Current Schedule and its Notes and Instructions 4

2.2 Reasons for the Material Amendments 5

2.3 Benefits of the Material Amendments 6

2.4 Details of the Material Amendments 6

2.5 Issues and alternatives considered 6

2.6 Comparison with similar provisions 6

3. Impacts of the Material Amendments 6

4. Policy Development Process 7

4.1 Regulatory purpose 7

4.2 Rule making process 7

5. Appendices 7

1. Discussion of Material Amendments

1.1 Relevant history and reason for republication

The Material Amendments were originally part of a package of material and non-material amendments to the Schedule and its Notes and Instructions (the Original Proposal) published for comment in IIROC Rules Notice 12-0021 on January 20, 2012. In the Original Proposal the material amendments were to Line 1 - general margin provision in the Notes and Instructions to the Schedule.

In the past, maintenance margin rates were published by futures exchanges typically on a weekly or monthly basis. As a result, Line 1 was intended to act as a cushion over and above the published maintenance margin rates to reduce the likelihood that margin rates were insufficient at some point within the next week or month. However, many of the futures exchanges (e.g. NYMEX, CBOT, COMEX, Eurex, and Montréal Exchange) calculate maintenance margin rates *daily* and then either publish them daily or when they need to be changed, which results in more accurate market risk coverage on an ongoing basis. Consequently, under the Original Proposal we proposed to exclude the 15% margin provision for exchanges that calculate and publish maintenance margin rates on a daily basis.

We did not receive any public comments, but received comments from the Canadian Securities Administrators (the CSA). In light of these comments and that we may require significantly more time to address their concerns, we believe it is necessary to divide the Original Proposal into two proposals, the Material Amendments and the non-material amendments, and republish them separately[1]. The purpose of republishing them separately is so that the Material Amendments do not delay the approval and implementation of the non-material amendments.

1.2 Joint Rule Review Protocol requirements for republication

To meet the requirements under the Joint Rule Review Protocol, the republished Material Amendments reflect that the non-material amendments to the Original Proposal have been removed and these changes are black-lined in Appendix B.

2. Analysis

2.1 Current Schedule and its Notes and Instructions

The Schedule currently requires Dealer Members to provide margin on commodity and commodity futures positions, financial futures positions and related deposits with correspondent brokers to cover possible commodity and financial futures concentration risk

[1] IIROC Notice 16-0142– Rules Notice – Request for Comments – Non-material amendments to Schedule 12 of Form 1 and its Notes and Instructions.

and related counterparty risk. The Schedule contains four separate margin calculations on Lines 1 through 4:

(1) a 15% general margin provision[2];

(2) an individual account concentration margin calculation;

(3) an individual commodity and financial futures concentration margin calculation; and

(4) a "deposits with correspondent brokers" margin calculation.

The Notes and Instructions to the Schedule specify how these calculations are to be performed.

The Original Proposal proposed amendments to the Schedule and its Notes and Instructions in order to:

(1) reflect changes in the futures markets over the past several years, including:
- the introduction of futures contracts on other asset classes beyond commodities (e.g. financial futures contracts)
- the fact that futures exchanges publish futures contracts margin requirements on a daily versus the previous weekly
- the fact that there are more valid risk-reduction offset strategies that are recognized by the futures exchanges;

and

(2) make the Schedule requirements easier to understand and complete.

The most significant proposed amendment was to eliminate the 15% general margin provision in situations where maintenance margin rates are calculated and published daily by the relevant futures exchange.

Maintenance margin requirements are now calculated daily and accordingly amended by various futures exchanges on a daily basis, if needed; therefore we consider the 15% general margin provision to be unnecessary to address risk fluctuations for contracts where the maintenance margin requirement is amended by the futures exchange on a daily basis.

2.2 Reasons for the Material Amendments

The Notes and Instructions to the Schedule require updating to reflect changes in the futures markets over the past several years in which more timely calculation and publication of futures contracts margin requirements by the futures exchanges now occur. The Material Amendments would therefore clarify that futures contracts, whose maintenance margin requirements are calculated and published daily by the futures exchange, may be excluded from the general margin calculation.

---

[2] The effect of this current requirement is that an additional 1.50% (15% of 10%) in margin has to be provided in the case of a futures contract position with a 10% maintenance margin requirement, resulting in a total margin requirement of 11.50%.

2.3 Benefits of the Material Amendments

The benefit of the Material Amendments is margin requirements that are more reflective of the reduced risks regarding maintenance margin rates that are calculated and published daily, as opposed to weekly or monthly.

2.4 Details of the Material Amendments

Maintenance margin rates were published by the futures exchanges typically on a weekly or monthly basis. As a result, Line 1 was intended to act as a cushion over and above the published maintenance margin rates to reduce the likelihood that margin rates may be insufficient at some point within the next week or month. However, many of the futures exchanges (e.g. NYMEX, CBOT, COMEX, Eurex, and Montréal Exchange) calculate maintenance margin rates *daily* and then either publish them daily or when they need to be changed, which results in more accurate market risk coverage on an ongoing basis. Consequently, the Material Amendments will exclude the 15% margin provision on futures contract positions traded on futures exchanges that calculate and publish maintenance margin rates on a daily basis. *[Line 1 Notes and Instructions]*

2.5 Issues and alternatives considered

The Material Amendments do not create any onerous new obligations for Dealer Members and have been drafted to reflect changes in the futures markets over the past several years in which more timely calculation and publication of futures contracts margin requirements by futures exchanges now occur. The other alternative we considered was to withdraw the Material Amendments. We rejected this alternative, because the Material Amendments are beneficial to Dealer Members, their clients, the futures exchanges and the Canadian capital markets.

2.6 Comparison with similar provisions

Both the United Kingdom and the United States have concentration rules for commodities futures and options on futures. Since the Material Amendments are technical in nature, a detailed comparison to these rules was considered unnecessary.

3. Impacts of the Material Amendments

With the Material Amendments, Dealer Members will benefit from margin requirements that are more reflective of the reduced risks regarding maintenance margin rates that are calculated and published daily, as opposed to weekly or monthly.

We believe that the Material Amendments from an overall industry perspective, will have no material impact in terms of capital market structure, competition generally, cost of compliance and conformity with other rules. However, from an individual Dealer Member perspective, the

Material Amendments may positively impact one or two specific Dealer Members by freeing up a relatively large amount of capital (compared to their current risk-adjusted capital).

This potential positive impact may be less than expected, because futures clearing corporations have changed, or are in the process of changing, the method used to determine client margin requirements in a clearing participant's (e.g. a Dealer Member that is a participant at a clearing corporation) client omnibus account from a net client margin requirement to gross client margin requirement, which overall will result in the clearing participant providing more client margin to the futures clearing corporation.

The Material Amendments do not permit unfair discrimination among customers, issuers, brokers, dealers, members or others, nor impose any burden on competition that is not necessary or appropriate in furtherance of the above purposes. There should be no significant technological implications for Dealer Members as a result of the Material Amendments.

4. Policy Development Process

4.1 Regulatory purpose

The purposes of the Material Amendments are to:

- *establish and maintain rules that are necessary or appropriate to govern and regulate all aspects of IIROC's functions and responsibilities as a self-regulatory entity*
- *foster cooperation and coordination with entities engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in, securities*
- *foster fair, equitable and ethical business standards and practices.*

In deciding to propose these amendments, IIROC identified that there was a need to update the Notes and instructions to the Schedule.

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

4.2 Rule making process

IIROC staff developed the Material Amendments and consulted with the IIROC policy advisory committees (the FAS Capital Formula Subcommittee and the Financial Administrators Section (FAS)). These policy advisory committees recommended the Material Amendments for approval.

5. 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 Original Proposal

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

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

Line 1 - General margin provision.

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 positions are excluded from this calculation:

(a) positions in *acceptable institution*, *acceptable counterparty* and *regulated entity* accounts;

(b) hedge positions (as opposed to speculative positions), provided that 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) client and Dealer Member spreads in the same futures contract 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 positions:

 (i) short options on futures contracts which are out-of-the-money by more than two maintenance margin requirements; and

 (ii) spreads in the same options on futures contracts.

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

(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

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

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

FORM 1, PART II – SCHEDULE 12

NOTES AND INSTRUCTIONS [Continued]

(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 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:

1.1 positions held in *acceptable institution*, *acceptable counterparty* and *regulated entity* accounts;

1.2 hedge positions (as opposed to speculative positions) provided that 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:

- (i) either the short call or the short put where a client or Dealer Member account is short a call and short a put on the same futures contract with the same exercise price and same expiration month;
- (ii) a futures contract paired with an in-the-money option provided that this pairing is acceptable for margin purposes by a recognized exchange;
- (iii) a short option paired with a long in-the-money option provided that this pairing is acceptable for margin purposes by a recognized exchange;
- (iv) a short option paired with a futures contract provided that this pairing is acceptable for margin purposes by a recognized exchange;
- (v) 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;
- (vi) 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
- (vii) short option, which is out-of-the-money by more than two maintenance margin requirements.

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 Original Proposal

Appendix B

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 commodity and financial futures positions 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**~~The following positions are excluded from ~~**the**~~this calculation ~~**of Line 1**~~:

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

(~~ii~~b) ~~Hedge~~hedge positions (as opposed to speculative positions) ~~where~~, provided that 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~~c) client and 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)~~spreads in the same futures contract 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~~d) The following options on futures contracts positions:

(i) short options on futures contracts which are out-of-the-money by more than two maintenance margin requirements~~.~~; and

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

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

accounts. The Dealer Member must provide for the amount by which;

~~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.~~

~~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~~

(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

(~~ii~~b) 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 calculation.~~ The excess margin ~~is to~~must be based on the maintenance margin. ~~Spread~~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 using the maintenance margin as set by the exchange, provided that the spread is acceptable for margin purposes by ~~the applicable~~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.

~~7.~~ **Line 3 - Concentration in individual open futures contracts and short options on futures contract positions** ~~**(Notes 7 to 9)**~~. The Dealer Member must provide for the amount by which;

~~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.~~

~~The excess amount is:~~

(~~i~~a) the aggregate of two maintenance margin requirements on the greater of the long or the short commodity or financial futures contracts ~~positions for each type of futures contract position or underlying interest of futures contract option position,~~position held for clients and in ~~both the Dealer Member's~~ inventory ~~and for all clients~~, except for positions mentioned in Note ~~9; minus~~1 below,

exceeds

(~~ii~~b) 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:~~

~~(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~~There may be deducted from ~~Part (i) of the excess amount calculation,~~this difference, on a per client basis, the excess margin available in all accounts of the client up to two maintenance margin requirements ~~in the Dealer Member account or client's account (on a per client basis).~~ of the client's positions in the futures contracts.

The excess margin ~~is to~~must be based on the maintenance margin. ~~Spread~~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 ~~the applicable~~a recognized exchange.

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

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 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:

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

~~(ii) Hedge~~1.2 hedge positions (as opposed to speculative positions)~~, where~~ provided that 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:~~1.3 the following short Options on Futures Contracts Positions:

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

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

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

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

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

(~~f~~v) 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~~

(~~g~~vi) 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**~~

~~(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 without 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.~~vii) short option, which is out-of-the-money by more than two maintenance margin requirements.

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 Current Notes and Instructions to Schedule 12 of Form 1

FORM 1, PART II – SCHEDULE 12
NOTES AND INSTRUCTIONS

Line 1 - General margin provision. ~~The margin requirement for futures contracts and options on futures contracts shall be 15% of~~

Line 1 is used to establish a base level of capital that a Dealer Member is to provide when the maintenance margin requirements~~, as required by the Commodity Futures Exchange on which such futures contracts were entered into, for the greater of the total long or total short futures contracts per commodity or financial futures carried for all client and Dealer Member accounts. For the purpose of this general margin provision, 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~~ (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 positions are excluded from this calculation:

(a) positions in *acceptable institution*, *acceptable counterparty* and *regulated entity* accounts;

(b) hedge positions (as opposed to speculative positions), provided that 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) client and Dealer Member spreads in the same futures contract 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 positions:

  (i) short options on futures contracts which are out-of-the-money by more than two maintenance margin requirements; and

  (ii) spreads in the same options on futures contracts.

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

(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

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

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 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.

FORM 1, PART II – SCHEDULE 12

NOTES AND INSTRUCTIONS [Continued]

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 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:

1.1 positions held in *acceptable institution*, *acceptable counterparty* and *regulated entity* accounts;

1.2 hedge positions (as opposed to speculative positions) provided that 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:

- (i) either the short call or the short put where a client or Dealer Member account is short a call and short a put on the same futures contract with the same exercise price and same expiration month;
- (ii) a futures contract paired with an in-the-money option provided that this pairing is acceptable for margin purposes by a recognized exchange;
- (iii) a short option paired with a long in-the-money option provided that this pairing is acceptable for margin purposes by a recognized exchange;
- (iv) a short option paired with a futures contract provided that this pairing is acceptable for margin purposes by a recognized exchange;
- (v) 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;

(vi) 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

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