13.1.2 IDA Proposed New Methodology for Margining Equity Securities - Regulation 100 and Form 1

INVESTMENT DEALERS ASSOCIATION OF CANADA

PROPOSED NEW METHODOLOGY FOR MARGINING EQUITY SECURITIES
REGULATION 100 AND FORM 1

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 Regulation 100.2(a)(v) is repealed and replaced as follows:

"(v) Commercial and corporate bonds, debentures and notes (not in default) and non-negotiable and non-transferable trust company and mortgage loan company obligations registered in the Member's name maturing:

within 1 year	3% of market value (*)
over 1 year to 3 years	6% of market value (*)
over 3 years to 7 years	7% of market value (*)
over 7 years to 11 years	10% or market value (*)
over 11 years	10% of market value (*)

(1) If convertible and selling over par, the margin required shall be the lesser of:

(a) the sum of:

(i) the above rates multiplied by par value; and

(ii) the excess of market value over par value;

and

(b) the maximum margin requirement for a convertible security calculated pursuant to Regulation 100.21.

(2) If convertible and selling at or below par, the margin required shall be the above rates multiplied by market value.

(3) If selling at 50% of par value or less and if rated "B" or lower by either Canadian Bond Rating Service or Dominion Bond Rating Service, the margin requirement shall be 50% of market value.

(4) In the case of U.S. pay securities if selling at 50% of par value or less and if rated "B" or lower by either Moody's or Standard & Poor's, the margin requirement shall be 50% of market value.

(5) If convertible and a residual debt instrument (zero coupon), the margin requirement shall be the lesser of:

(a) the greater of:

(i) the margin requirement for a convertible debt instrument calculated pursuant to this Regulation 100.2(a)(v); and

(ii) the margin requirement for a residual debt instrument (zero coupon) instrument calculated pursuant to Regulation 100.2(a)(xi);

and

(b) the maximum margin requirement for a convertible security calculated pursuant to Regulation 100.21.

(6) Where such commercial and corporate bonds, debentures and notes are obligations of companies whose notes are acceptable notes as defined in Regulation 100.2(a)(vi) then the margin requirements in such Regulation shall apply.”

2. Regulation 100.2(a)(xi) is amended by:

(a) Replacing the word “For” with the word “for” at the beginning of subparagraphs (A) and (B);

(b) Replacing the word “The” with the word “the” at the beginning of the last paragraph in the section; and

(c) Removing the reference to paragraph (6) of Regulation 100.2(a)(v).

3. Regulation 100.2(f) is repealed and replaced as follows:

“(f) **Stocks**

(i) **Listed on ~~an~~a recognized exchange in Canada or the United States**

For positions in securities listed (other than bonds and debentures but including rights and warrants other than Canadian bank warrants) on any recognized stock exchange in Canada or the United States:

Long positions - margin required

The published long position basic margin rate for the security as approved by a recognized self-regulatory organization, multiplied by the market value of the security position.

Positions in securities listed on markets or market tiers with initial or ongoing financial listing requirements that do not include adequate minimum pre-tax profit, net tangible asset and working capital requirements, as determined by the Association from time to time, may not be carried on margin.

Short positions - credit required

The greater of:

(A) 100% plus the published short position basic margin rate percentage for the security as approved by a recognized self-regulatory organization, multiplied by the market value of the security position

and

(B) Where the security is trading at less than $2.00 per share, the calculated minimum price based requirement as follows:

Securities selling at $1.50 to $1.99 - $3.00 per share

Securities selling at $0.25 to $1.49 - 200% of market value

Securities selling at less than $0.25 - market value plus $0.25 per share

For the purposes of Regulation 100, the term “basic margin rate” means a customized security specific margin rate calculated based on the measured price and liquidity risk for the security. Similar to the calculation of the “floating margin rate” for index products, measured price risk is based on the maximum standard deviation of percentage changes in daily closing prices over the most recent 20, 90 and 260 trading days. Measured liquidity risk is based on the security’s public float value and average daily volume levels. The risk assessments are combined into an overall market risk assessment and, based on that assessment, one of the following margin rates is assigned:

- 15% (only Member firm account positions are eligible);
- 20% (only customer account positions, where a related option or future is listed on an exchange, and Member firm account positions are eligible);

- 25%, 30%, 40%, 60%, 75% and 100%
- 150% (where necessary for short security positions)

(ii) **Index constituent securities listed on certain other exchanges**

For positions in securities (other than bonds and debentures but including warrants and rights), 50% of market value provided:

(A) the exchange on which the security is listed is included on the list of exchanges and associations that qualify as "recognized exchanges and associations" for the purposes of determining "regulated entities"; and

(B) the security is a constituent security on the exchange's major broadly based index.

(iii) **Warrants issued by a Canadian chartered bank**

For positions in warrants issued by a Canadian chartered bank which entitle the holder to purchase securities issued by the Government of Canada or any province (other than firm positions to which Regulation 100.12(~~e~~d) applies) the margin shall be the greater of:

(A) the margin otherwise required by this Regulation according to the published basic margin rate for the warrant; or

(B) 100% of the margin required in respect of the security to which the holder of the warrant is entitled upon exercise of the warrant; provided that in the case of a long position the amount of margin need not exceed the market value of the warrant.

(iv) **Unlisted securities eligible for margin**[18]

Subject to the existence of an ascertainable market among brokers or dealers, for positions in the following unlisted securities:

(A) Securities of insurance companies licensed to do business in Canada;

(B) Securities of Canadian banks;

(C) Securities of Canadian trust companies;

(D) Securities of mutual funds qualified by prospectus for sale in any province of Canada, with the exception of money market mutual funds (as defined in National Instrument 81-102) which may be margined using a rate of 5%;

(E) Other senior securities of listed companies;

(F) Securities which qualify as legal for investment by Canadian life insurance companies, without recourse to the basket clause;

(G) Unlisted securities in respect of which application has been made to list on a recognized stock exchange in Canada and approval has been given subject to the filing of documents and production of evidence of satisfactory distribution may be carried on margin for a period not exceeding 90 days from the date of such approval;

~~(H) All securities listed on The Nasdaq Stock Market℠ (Nasdaq National Market® and The Nasdaq SmallCap Market℠).~~

the margin or credit required shall be determined based on the published basic margin rate for the most junior listed security of the same issuer company as approved by a recognized self-regulatory organization, multiplied by the market value of the security position. Where a published rate is unavailable, the following requirements will apply:

[18] Wording has been revised to incorporate a rule change awaiting CSA approval that seeks to separately detail the margin requirements for mutual funds in new IDA Regulation 100.2(l)

Long positions - margin required

Securities selling at $2.00 or more - 50% of market value

Securities selling at $1.75 to $1.99 - 60% of market value

Securities selling at $1.50 to $1.74 - 80% of market value

Securities selling under $1.50 may not be carried on margin.

Short positions - credit required

Securities selling at $2.00 or more - 150% of market value

Securities selling at $1.50 to $1.99 - $3.00 per share

Securities selling at $0.25 to $1.49 - 200% of market value

Securities selling at less than $0.25 - market value plus $0.25 per share

(v) **Other unlisted stocks**

For positions in all other unlisted stocks not mentioned above:

Long positions - margin required

100% of market value

Short positions - credit required

Securities selling at $0.50 or more - 200% of market value

Securities selling at less than $0.50 - market value plus $0.50 per share

(vi) **Index participation units and qualifying baskets of index securities**

(A) For index participation units:

(I) In the case of a long position, the floating margin rate percentage (calculated for the index participation unit based on its regulatory margin interval) multiplied by the market value of the index participation units;

(II) In the case of a short position, 100% plus the floating margin rate percentage (calculated for the index participation unit based on its regulatory margin interval) multiplied by the market value of the index participation units;

(B) For a qualifying basket of index securities:

(I) In the case of a long position, the floating margin rate percentage (calculated for a perfect basket of index securities based on its regulatory margin interval), plus the calculated incremental basket margin rate for the qualifying basket of index securities, multiplied by the market value of the qualifying basket of index securities;

(II) In the case of a short position, 100% plus the floating margin rate percentage (calculated for a perfect basket of index securities based on its regulatory margin interval), plus the calculated incremental basket margin rate for the qualifying basket of index securities, multiplied by the market value of the qualifying basket of index securities;

For the purposes of this subparagraph, the definitions in Regulation 100.9(c)(x), Regulation 100.9(c)(xii), Regulation 100.9(c)(xx) and Regulation 100.9(c)(xxiv) apply."

4. Proposed Regulation 100.2(l) is repealed.

5. Regulation 100.5 is amended by:

   (a) Repealing subparagraph 100.5(a)(vii); and

   (b) Throughout the remainder of the regulation, replacing the words “normal new issue margin” with the words “normal margin”.

6. Regulation 100.12 is amended by:

   (a) Repealing subparagraph 100.12(a);

   (b) Renumbering subparagraph 100.12(b) to 100.12(a);

   (c) Replacing subparagraph 100.12(c) with renumbered 100.12(b) as follows:

   “(b) **Floating rate preferred shares**

   (i) 50% of the margin rate that applies to the related junior security of the issuer multiplied by the market value of the floating rate preferred shares;

   (ii) If the floating rate preferred shares are selling over par and are convertible into other securities of the issuer, the margin required shall be the lesser of:

   (A) the sum of:

   (I) the effective rate determined in Regulation 100.12(b)(i) multiplied by par value; and

   (II) the excess of market value over par value;

   and

   (B) the maximum margin requirement for a convertible security calculated pursuant to Regulation 100.21.

   (iii) 50%, if the issuer of the shares is in default of the payment of any dividend on the shares, in which case the foregoing clauses shall not apply.

   For the purposes of this Regulation 100.12(b), the term "floating rate preferred share" means a special or preferred share described in paragraphs (i)~~,~~ or (~~ii) and (iii~~iv) of Regulation 100.2(f), by the terms of which the rate of dividend fluctuates at least quarterly in tandem with a prescribed short term interest rate.”

   (d) Renumbering subparagraphs 100.12(d) and 100.12(e) to 100.12(c) and 100.12(d) respectively;

   (e) Repealing subparagraphs 100.12(f) and 100.12(g) ; and

   (f) Renumbering subparagraph 100.12(h) to 100.12(e), replacing the title “Government of Canada debt covered by futures” with the title “Debt and equity security offsets with futures and forwards” and replacing within the subparagraph the word “TSE” with the words “Toronto Stock Exchange”.

7. Line 7 of Schedule 2 of Form 1 and the accompanying notes to Line 7 are repealed and the remaining lines and notes and renumbered accordingly.

PASSED AND ENACTED BY THE Board of Directors this 26th day of October 2005, to be effective on a date to be determined by Association staff.