

Chapter 13

SRO Notices and Disciplinary Proceedings

13.1.1 Notice of Commission Approval – IDA Proposed Housekeeping Amendments to Regulations 100.2(d) and 100.13

INVESTMENT DEALERS ASSOCIATION OF CANADA

PROPOSED HOUSEKEEPING AMENDMENTS TO REGULATIONS 100.2(d) AND 100.13

NOTICE OF COMMISSION APPROVAL

I OVERVIEW

A Current Rules

Regulation 100.2(d) sets out the margin requirements for foreign exchange positions. Regulation 100.13 sets out the margin requirements for security positions subject to a cash redemption call or offer.

B The Issue(s)

Both Regulations 100.2(d) and 100.13 require minor housekeeping amendments.

C Objective(s)

The objective of these proposed amendments is to remove references to specific exchanges and individual titles and to clarify the wording. These proposed housekeeping amendments, once approved, will require no system changes by Members and can be implemented immediately.

D Effect of Proposed Rules

It is believed that the proposed amendments will have no impact in terms of capital market structure, competition, costs of compliance and conformity with other rules and the proposed amendments are housekeeping in nature.

II DETAILED ANALYSIS

A Present Rules, Relevant History and Proposed Policy

Regulation 100.2(d) sets out the margin requirements for foreign exchange positions. Section 100.2(d)(i)(H) refers to only the Chicago Mercantile Exchange, the Philadelphia Board of Trade and the Toronto Futures Exchange as “recognized exchanges” for the purposes of the rule. There are several other exchanges on which foreign exchange are traded which should be considered as “recognized exchanges”. Sections 100.2(d)(v)(B) through (D) refer to the “Vice President, Financial Compliance” rather than the Association. This should be changed to refer to the Association particularly since the monitoring of foreign currency volatility is now being performed by the Regulatory Policy Department.

Regulation 100.13 sets out the margin requirements for security positions subject to a cash redemption call or offer. In general margin requirements are nil when a binding cash redemption call or offer has been affected. The current wording needs to be clarified.

It is therefore proposed that:

- The references in Regulation 100.2(d)(i)(H) to specific exchanges (some of which no longer exist) be replaced with a general reference to the exchanges that are included on the List of Exchanges and Associations that is used in determining “regulated entities”;
- The words “Vice President, Financial Compliance” in Regulations 100.2(d)(v)(B) through (D) be replaced with the words “the Association” to reflect the fact that foreign exchange margin rates are set by the Association generally and not by any one individual; and

- Regulation 100.13 be amended to adopt a more practical approach to extending margin relief for the securities subject to redemption call or offer. The proposed regulation will no longer require specific Association approval before reduced margin is permitted. Rather, Member firms will assume the responsibility of ensuring that the redemption call or offer is legally binding. Plain language writing will also reduced the length of this section.

Refer to Attachment #1 for the amendment Board Resolution and Attachment #2 for a black line copy of the amendments.

B Issues and Alternatives Considered

No alternatives were considered given the housekeeping nature of the proposed amendments.

C Comparison with Similar Provisions

The comparison with similar regulations in the United Kingdom and the United States was not considered necessary due to the housekeeping nature of the proposals.

D Systems Impact of Rule

It is believed that the proposed amendments will have no impact in terms of capital market structure, competition generally, cost of compliance and conformity with other rules. The Bourse de Montreal is also in the process of passing this amendment. Implementation of these amendments will therefore take place once both the Association and the Bourse de Montreal have received approval to do so from the respective recognizing regulators.

E Best Interests of the Capital Markets

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

F Public Interest Objective

The amendment is believed to be housekeeping in nature as it is intended to clarify existing requirements and will not impact the public.

III COMMENTARY

A Filing in Other Jurisdictions

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

B Effectiveness

An assessment of the effectiveness of the proposed rules in addressing the issues discussed has been discussed in the other sections mentioned above.

C Process

These proposed amendments were developed and recommended for approval by the FAS Capital Formula Subcommittee and recommended for approval by the Financial Administrators Section.

IV SOURCES

References:

- IDA Regulations 100.2(d) and 100.13

V OSC REQUIREMENT TO PUBLISH FOR COMMENT

The Association has determined that the entry into force of the proposed amendments is housekeeping in nature. As a result, a determination has been made that these proposed rule amendments need not be published for comment.

Questions may be referred to:

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INVESTMENT DEALERS ASSOCIATION OF CANADA
PROPOSED HOUSEKEEPING AMENDMENTS TO REGULATIONS 100.2 AND 100.13
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(d)(i)(H) is amended by replacing the text:

“the Chicago Mercantile Exchange, the Philadelphia Board of Trade and the Toronto Futures Exchange are deemed to be recognized exchanges”

with the following text:

“the futures exchanges on which currency futures contracts are traded and that are listed on the most recently published list of recognized exchanges and associations, used for the purposes of determining “regulated entities”, are deemed to be recognized exchanges.”
2. Regulations 100.2(d)(v)(B), (C) and (D) are amended by replacing the words “Vice President, Financial Compliance” with the words “the Association”.
3. Regulation 100.13 is amended by replacing the last two paragraphs with the following text:

“provided that such securities are not carried for an amount in excess of the price offered, and all legal requirements have been met and all regulatory, competition bureau and court approvals to proceed with the redemption call or offer have been received and verified.

In the event that a cash offer is made for a fraction of the issued and outstanding class of securities, the reduced margin requirements above shall only apply to the same fraction of the position held in a particular account for that class of securities.”

BE IT RESOLVED THAT the Board of Directors adopts, on this 27th day of September 2006, the English and French versions of these amendments. The Board of Directors also authorizes the Association Staff to make the minor changes that shall be required from time to time by the securities administrators with jurisdiction. These amendments shall take effect on the date determined by the Association Staff.

INVESTMENT DEALERS ASSOCIATION OF CANADA
PROPOSED HOUSEKEEPING AMENDMENTS TO REGULATIONS 100.2 AND 100.13

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Regulation 100.2(d)(i)(H) - Amendment #1

- (H) For the purpose of this Regulation 100.2(d) ~~the Chicago Mercantile Exchange, the Philadelphia Board of Trade and the Toronto Futures Exchange are deemed to be recognized exchanges~~ the futures exchanges on which currency futures contracts are traded and that are listed on the most recently published list of recognized exchanges and associations, used for the purposes of determining "regulated entities", are deemed to be recognized exchanges.

Regulations 100.2(d)(v)(B), 100.2(d)(v)(C), and 100.2(d)(v)(D) - Amendment #2

- (B) *Monitoring Adherence to Currency Group Criteria*

The ~~Vice President, Financial Compliance Association~~ shall be responsible for monitoring the adherence of each Group 1, 2 or 3 currency to the quantitative and qualitative criteria of the currency group described in paragraph (A).

- (a) *Currency Volatility*

The volatility of each Group 1, 2 or 3 currency shall be monitored as follows. The Canadian dollar equivalent closing price on each of the four trading days succeeding the "base day" shall be compared to the base day closing price. The first of four succeeding trading days on which the percentage change in price (negative or positive) between the closing price on the succeeding day and the closing price on the base day is greater than the unhedged margin rate prescribed for the particular currency in paragraph 100.2(d)(i)(A) shall be designated an "offside base day". If an offside base day has been designated, the offside base day shall be designated the base day for the purpose of making further base day closing price comparisons as aforesaid. If the number of offside base days during any 60 trading day period is greater than 3, the currency shall be deemed to have exceeded the volatility threshold of the currency group.

- (b) *Qualitative Criteria*

On at least an annual basis, the ~~Vice President, Financial Compliance Association~~ shall assess the adherence of each currency in a group to the qualitative criteria of the particular currency group to determine whether the currency continues to satisfy the qualitative criteria of the currency group.

- (C) *Foreign Exchange Margin Surcharge*

If the volatility of a Group 1, 2 or 3 currency exceeds the volatility threshold defined in paragraph (B)(a) then the margin rate shall be increased by increments of 10% until the application of the increased margin rate would result in no more than two offside days during the preceding 60 trading days. The increased margin rate shall apply for a minimum of 30 trading days and shall be automatically decreased to the margin rate otherwise applicable when after such 30 trading day period the volatility of the currency is less than the volatility threshold defined in paragraph (B)(a).

The ~~Vice President, Financial Compliance Association~~ shall be responsible for determining the required increase or decrease in foreign exchange margin rates under this paragraph (C).

- (D) *Currency Group Downgrades And Upgrades*

Where

- (a) The ~~Vice President, Financial Compliance Association~~ determines that a particular currency no longer satisfies the criteria of the particular currency group as defined in paragraph 100.2(d)(v)(A), or;
- (b) A Member has provided to the ~~Vice President, Financial Compliance Association~~ information demonstrating that a currency satisfies the criteria specified in paragraph 100.2(d)(v)(A) for a currency group other than the currency group for which the currency is then designated, and the ~~Vice President, Financial Compliance Association~~ has verified such information to his or her satisfaction,

the Vice President, Financial Compliance Association shall recommend to the Financial Administrators Section that the currency be moved to the currency group with the lower or higher margin rate, as the case may be. If the Financial Administrators Section approves the recommendation, the Vice President, Financial Compliance Association shall notify Members of the change in the designated currency group of the particular currency.

Regulation 100.13 - Amendment #3

Securities Subject to Redemption Call or Offer

100.13. Notwithstanding Regulation 100.2, no margin is required in respect of:

- (i) Securities which have been called for cash redemption pursuant to the terms and conditions attaching thereto, or
- (ii) Securities for which a legal and binding cash offer to purchase has been made and in respect of which any conditions have been met,

~~Provided that the Vice President, Financial Compliance has confirmed that no margin is required in respect of such securities, and further provided that such securities are not carried for an amount in excess of the price offered. In the event that a cash offer described in sub paragraph (ii) is made for less than all of the issued and outstanding securities of the class, the margin required shall be the portion of margin otherwise required that the number of securities of the class for which the offer is not made is of all of the issued and outstanding securities of the class.~~

~~For the purposes of computing margin on securities which are the subject of a legal and binding offer to purchase for consideration comprising in whole or in part of the securities or property of the offeror, and for which any conditions in respect of the offer have been met:~~

- ~~(a) — The number of securities held by the offeree may be treated as the number of securities or amount of other property for the offeror which would, upon acceptance of the offer, be obtained for the number of securities held by the offeree; and~~
- ~~(b) — If the offer is made for less than all of the issued and outstanding securities of the class, the number of securities held by the offeree that may be treated as the number of securities or amount of property obtained by the offeree in accordance with (a) shall be the proportion of such number of securities held by the offeree that is the proportion of the securities for which the offer is made.~~

~~provided that such securities are not carried for an amount in excess of the price offered, and all legal requirements have been met and all regulatory, competition bureau and court approvals to proceed with the redemption call or offer have been received and verified.~~

~~In the event that a cash offer is made for a fraction of the issued and outstanding class of securities, the reduced margin requirements above shall only apply to the same fraction of the position held in a particular account for that class of securities.~~