

**13.1.2 IDA Amendments to Schedule 9 of Form 1 Relating to the Calculation of a Securities Concentration Charge for Positions in Broad Based Index Securities**

**INVESTMENT DEALERS ASSOCIATION OF CANADA –  
AMENDMENTS TO SCHEDULE 9 OF FORM 1 RELATING TO  
THE CALCULATION OF A SECURITIES CONCENTRATION CHARGE  
FOR POSITIONS IN BROAD BASED INDEX SECURITIES**

**I OVERVIEW**

**A Current Rules**

Schedule 9 of Form 1 requires disclosure of the largest ten issuer security positions that are being relied upon for loan value so that over exposure to an individual issuer and applicability of a concentration charge can be determined. The Notes and Instructions to Schedule 9 of Form 1 codify the definitions and the procedures to be followed.

**B The Issue**

Schedule 9 of Form 1 intends to identify significant issuer risk and capture issuer exposure. In order to focus in significant issuer risk the current Notes and Instructions to Schedule 9 exempt debt securities with margin rate of 10% or less from consideration. Other securities, namely broad based index securities, warrant different treatment in determining whether positions held represent significant issuer risk. This is because the issuer risk associated with these products is lessened as they provide the performance on a diversified basket of securities.

**C Objective**

The objective of the proposed amendments is to allow Member firms the option of treating positions in broad based index products in the same manner as the underlying basket of index securities for security concentration purposes. This will be achieved by including a definition for the term “broad based index” in the General Notes and Definitions to Form 1 and by providing in the Notes and Instructions to Schedule 9 of Form 1 the option of reporting the “amount loaned” exposure for each index constituent security position held in determining whether any concentration charge applies.

**D Effect of Proposed Rules**

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

**II DETAILED ANALYSIS**

**A Present Rules, Relevant History And Proposed Policy**

Schedule 9 of Form 1 requires disclosure of the largest ten issuer security positions that are being relied upon for loan value so that over exposure to an individual issuer and applicability of a concentration charge can be determined. In determining whether an exposure to a particular issuer is a concern, the combined inventory and customer account collateral “amount loaned” exposure is calculated and compared to the Member firm’s risk adjusted capital.

Broad based listed index products (i.e., index participation units) have become popular vehicles for both Member firms and their clients to invest in a broad range of companies without having to invest individually in the companies themselves. A broad based index product (as opposed to an index sector product) also has the advantage of reducing both the issuer and sector risk that may be associated with individual security holdings. As a result, it is believed that broad based index securities warrant different treatment in determining whether they represent significant issuer risk to the Member firm.

The proposed amendments seek to allow Member firms the option of treating positions in broad based index products in the same manner as the underlying basket of index securities for security concentration purposes. This will be achieved by including a definition for the term “broad based index” in the General Notes and Definitions to Form 1 and by providing in the Notes and Instructions to Schedule 9 of Form 1 the option of reporting the “amount loaned” exposure for each index constituent security position held in determining whether any concentration charge applies.

To qualify as a “broad based index” an index must, among other things, be comprised of thirty or more securities with an average market capitalization of at least \$50 million that represent a broad range of industry and market sectors. The requirement that a broad range of industry and market sectors be represented ensures that there is no change in the way sector index products are considered for securities concentration purposes. This is because sector risk in many situations may be as high as individual issuer risk as there is a higher likelihood of individual issuer concentrations occurring within sectors.

For products that qualify as broad based index products, Member firms will be given the option of treating these positions in the same manner as the underlying basket of index securities for security concentration purposes. Therefore, the proposal does not suggest that there is no issuer risk associated with holding broad based index securities, but rather suggests that the risk is no different than if positions were held in the underlying basket of index securities. The specific optional calculation proposed would allow the broad based index product position to be reported as though individual positions in the underlying securities to the index were held. These "constituent" issuer securities position held would be combined with other positions held for the same issuer to determine the overall amount loaned exposure to an individual issuer.

**B Issues and Alternatives Considered**

No alternatives have been considered.

**C Comparison with Similar Provisions**

Both the United Kingdom and the United States have issuer concentration rules. Since the amendment being proposed is a technical amendment designed to address the treatment of broad based index products under the IDA rules a detailed comparison to these rules was considered unnecessary.

**D Systems Impact of Rule**

The proposed amendments seek to ensure that the concentration calculation continues to focus on significant issuer risk exposures. Members firms will generally only take advantage of the optional "amount loaned" calculation for broad based index securities when it is likely that a securities concentration charge will otherwise result. It is therefore not believed that this rule proposal will result in significant costs or systems impacts.

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

**E Best Interests of the Capital Markets**

The Board has determined that the proposed rule is in the public interest and is not detrimental to the best interests of the capital markets.

**F Public Interest Objective**

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

- Facilitate an efficient capital-raising process and fair and open competition in securities transactions by imposing capital and margin requirement in relation to the inherent risks associated with the broad based index positions, and
- Standardize industry practices by spelling out more specific procedures for Members to follow.

The proposal does not permit unfair discrimination among customers, issuers, brokers, dealers, members or others. It does not impose any burden on competition that is not necessary or appropriate in furtherance of the above purposes.

**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**

As indicated in the previous sections, the objective of the proposal is to ensure that the concentration calculation continues to focus on significant issuer risk exposures. It is believed that this proposal is effective in achieving this objective with respect to the treatment of broad based index products.

**C Process**

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

**IV SOURCES**

- Form 1, General Notes and Definitions
- Form 1, Schedule 9

**V REQUIREMENT TO PUBLISH FOR COMMENT**

The IDA is publishing for comment the accompanying proposed amendments. The Association has determined that the proposed amendments are in the public interest. Comments are sought on the proposed amendments. Comments should be made in writing. One copy of each comment letter should be delivered within 30 days of the publication of this notice, addressed to the attention of Anwerd Ramcharan, Specialist, Regulatory Policy, Investment Dealers Association of Canada, Suite 1600, 121 King Street West, Toronto, Ontario, M5H 3T9 and one copy addressed to the attention of the Manager of Market Regulation, Ontario Securities Commission, 20 Queen Street West, 19<sup>th</sup> Floor, Box 55, Toronto, Ontario, M5H 3S8.

Those submitting comment letters should be aware that a copy of their comment letter will be made publicly available on the IDA website ([www.ida.ca](http://www.ida.ca) under the heading "Rule Book & Bulletins" and sub-heading "Regulatory Policy Proposals and Comment Letters Received").

Questions may be referred to:

Anwerd Ramcharan  
Specialist, Regulatory Policy  
Investment Dealers Association of Canada  
416.943.5850  
[aramcharan@ida.ca](mailto:aramcharan@ida.ca)

**INVESTMENT DEALERS ASSOCIATION OF CANADA**

**AMENDMENTS TO SCHEDULE 9 OF FORM 1 RELATING TO THE CALCULATION OF A SECURITIES  
CONCENTRATION CHARGE FOR POSITIONS IN BROAD BASED INDEX SECURITIES**

**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. The General Notes and Definitions to Form 1 are amended by adding the following words after definition (e):
  - “(f) “broad based index” means an equity index whose underlying basket of securities is comprised of:
    1. thirty or more securities;
    2. the single largest security position by weighting comprises no more than 20% of the overall market value of the basket of equity securities;
    3. the average market capitalization for each security position in the basket of equity securities underlying the index is at least \$50 million;
    4. the securities shall be from a broad range of industries and market sectors as determined by the Joint Regulatory Bodies to represent index diversification; and
    5. in the case of foreign equity indices, the index is both listed and traded on an exchange that meets the criteria for being considered a recognized exchange, as set out in the definition of “regulated entities” in the General Notes and Definitions.”
2. The General Notes and Definitions to Form 1 are amended by renumbering definitions (f) through (i) to definitions (g) through (j).
3. The Notes and Instructions to Schedule 9 of Form 1 are amended by adding the following after Note 3:
  - “4. For the purpose of this schedule, an amount loaned exposure to “broad based index” (as defined in the General Notes and Definitions) positions may be treated as an amount loaned exposure to each of the individual securities comprising the index basket. These amount loaned exposures may be reported by breaking down the broad based index position into its constituent security positions and adding these constituent security positions to other amount loaned exposures for the same issuer to arrive at the combined amount loaned exposure.

To calculate the combined amount loaned exposure for each index constituent security position held, sum

    - a. the individual security positions held, and
    - b. the constituent security position held.  
[For example, if ABC security has a 7.3% weighting in a broad based index, the number of securities that represents 7.3% of the value of the broad based index position shall be reported as the constituent security position.]”
4. The Notes and Instructions to Schedule 9 of Form 1 are amended by renumbering Notes 4 through 10 to Notes 5 through 11.

BE IT RESOLVED THAT the Board of Directors adopt, on this 30<sup>th</sup> day of January, 2008, 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

AMENDMENTS TO SCHEDULE 9 OF FORM 1 RELATING TO THE CALCULATION OF A SECURITIES  
CONCENTRATION CHARGE FOR POSITIONS IN BROAD BASED INDEX SECURITIES

BLACK-LINE COMPARISON TO PREVIOUS BOARD RESOLUTION APPROVED BY THE  
IDA BOARD OF DIRECTORS ON JUNE 13, 2004

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. The General Notes and Definitions to Form 1 are amended by adding the following words after definition (e):
  - “(f) “broad based index” means an equity index whose underlying basket of securities is comprised of:
    1. ~~twenty~~thirty or more securities;
    2. the single largest security position by weighting comprises no more than ~~35~~20% of the overall market value of the basket of equity securities;
    3. the average market capitalization for each security position in the basket of equity securities underlying the index is at least \$50 million;
    4. the securities shall be from a broad range of industries and market sectors as determined by the Joint Regulatory Bodies to represent index diversification; and
    5. in the case of foreign equity indices, the index is both listed and traded on an exchange that meets the criteria for being considered a recognized exchange, as set out in the definition of “regulated entities” in the General Notes and Definitions.”
2. The General Notes and Definitions to Form 1 are amended by renumbering definitions (f) through (i) to definitions (g) through (j).
3. The Notes and Instructions to Schedule 9 of Form 1 are amended by adding the following after Note 43:
  - “4. For the purpose of this schedule, an amount loaned exposure to “broad based index” (as defined in the General Notes and Definitions) positions may be treated as an amount loaned exposure to each of the individual securities comprising the index basket. These amount loaned exposures may be reported by breaking down the broad based index position into its constituent security positions and adding these constituent security positions to other amount loaned exposures for the same issuer to arrive at the combined amount loaned exposure.  
  
To calculate the combined amount loaned exposure for each index constituent security position held, sum
    - a. the individual security positions held, and
    - b. the constituent security position held.  
[For example, if ABC security has a 7.3% weighting in a broad based index, the number of securities that represents 7.3% of the value of the broad based index position shall be reported as the constituent security position.]”
4. The Notes and Instructions to Schedule 9 of Form 1 are amended by renumbering Notes 4 through 10 to Notes 5 through 11.

BE IT RESOLVED THAT the Board of Directors adopt, on this 30<sup>th</sup> day of January, 2008, 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. ~~PASSED AND ENACTED BY THE Board of Directors this 13<sup>th</sup> day of June 2004, to be effective on a date to be determined by Association staff.~~