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

# IIROC NOTICE

**Rules Notice**
**Request for Comment**
Dealer Member Rules

***Comments Due By: May 30, 2016***

*Please distribute internally to:*
Credit
Institutional
Internal Audit
Legal and Compliance
Operations
Regulatory Accounting
Retail
Senior Management
Trading Desk
Training

*Contact:*
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**16-0090**
**April 28, 2016**

# Proposed amendments to Dealer Member Rule 1200 and to Form 1 relating to the client free credit cash usage limit and client free credit segregation requirements

## Executive Summary

On March 30, 2016, the Board of Directors (the Board) of the Investment Industry Regulatory Organization of Canada (IIROC) approved the republication for comment of the proposed amendments to Dealer Member Rules 1200 and to Form 1 relating to the client free credit cash usage limit and client free credit segregation requirements (collectively, the "Proposed Amendments").

The main purpose of the Proposed Amendments is to strengthen the prudential framework for IIROC Dealer Members for ensuring the safeguarding of, and timely client access to, client assets. The Proposed Amendments seek to appropriately restrict a Dealer Member's ability to use client free

credit cash balances in the conduct of its business, by amending the allowable usage ratio to a more appropriate ratio of client free credits to liquid capital (i.e. early warning reserve (EWR)).

## Impacts

The Proposed Amendments will benefit Dealer Member clients by strengthening the prudential framework for IIROC Dealer Members for ensuring the safeguarding of, and timely client access to, client assets, and do not impose any burden or constraint on competition or innovation that is not necessary or appropriate in furtherance of IIROC's regulatory objectives.

## How to Submit Comments

Comments are requested on all aspects of the Proposed Amendments, including any matter which they do not specifically address. Comments on the Proposed Amendments should be in writing and delivered by May 30, 2016 to:

Bruce Grossman
Senior Information Analyst, Member Regulation Policy
Investment Industry Regulatory Organization of Canada
Suite 2000, 121 King Street West
Toronto, Ontario M5H 3T9
email: bgrossman@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
email: 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 Proposed Amendments

## *1.1 Original Proposal*

The Proposed Amendments were originally published for public comment in IIROC Rules Notice 14-0298 on December 18, 2014 as part of a more comprehensive proposal (the "Original Proposal") that included proposed amendments to the securities concentration test. We received three public comment letters and comments from staff of the Canadian Securities Administrators ("CSA Staff"). A copy of IIROC staff's response to the public comments received is included as Appendix E.

## *1.2 Withdrawal of the proposed amendments to the securities concentration test, and review of use of credit ratings in Dealer Member Rules*

In response to the comments received, IIROC has materially changed the Original Proposal by withdrawing the proposed amendments to the securities concentration test that previously accompanied the proposed amendments to the client free credit cash usage limit and client free credit segregation requirements. We believe this is necessary in order to refine and clarify certain calculation methods of the test, including possible refinements to the concentration risk-weighting methodology for debt securities. Consequently, we propose to move forward with the approval process regarding the proposed amendments to the client free credit cash usage limit and client free credit segregation requirements and to put forward revised proposed amendments to the securities concentration test at a later date.

In the course of considering proposed amendments to the securities concentration test, we also intend to review the use of credit ratings, and reference to credit rating agencies, in our Dealer Member Rules. This review will determine whether amendments in this area should be made, either as part of the securities concentration test proposed amendments or as a separate proposal to broaden or otherwise amend the reference to credit rating agencies in the rules.

## *1.3 Other changes to the Proposed Amendments compared to the Original Proposal*

The Proposed Amendments include one material change from the Original Proposal. The Proposed Amendments add the condition that only Canadian bank paper with an *original term to maturity* that is within 1 year will be eligible to meet client free credit segregation obligations. This change is meant to ensure that any Canadian bank paper used for client free credit segregation purposes is not within the scope of the statutory conversion power under the proposed Taxpayer Protection and Bank Recapitalization Regime (TPP) (also referred to as a "bail-in debt regime") outlined by the Department of Finance in 2014. The proposed TPP would apply to "long-term senior debt" that is

tradable and transferable with *an original term to maturity* of over 400 days, which would be subject to conversion into common shares under certain scenarios.[1]

In addition, one non-material change was made to the note for Line 9 in the notes and instructions to Schedule 2 of Form 1, which simply makes the language consistent with the proposed Dealer Member Rule 1200 and Statement D regarding the eligible securities for client free segregation. This non-material change was inadvertently omitted in the Original Proposal.

## 2. Analysis

### *2.1 Background and detailed review*

A review of the current rules regarding the client free credit usage limit and client free credit segregation requirements, and a detailed analysis of the Proposed Amendments, can be found in IIROC Rules Notice 14-0298, and are not repeated in this Notice.

### *2.2 Issues and alternatives considered*

Three alternatives were considered:

(1) proceed "as is" without making any revisions to the Original Proposal;

(2) wait until we develop the necessary revisions to the proposed amendments to the securities concentration test and then republish the entire set of proposed amendments as one proposal; or

(3) proceed with the proposed amendments to the client free credit usage limit and client free credit segregation requirements and return at a later date with the proposed amendments to the securities concentration test as a separate proposal.

The Original Proposal is made up of three parts: two closely-related proposed amendments (client free credit usage limit and client free credit segregation requirements) and interconnected proposed amendments (securities concentration test). These parts can be easily separated and pursued as stand-alone amendments. In addition, we would like to see the proposed amendments to the client free credit usage limit implemented sooner rather than later, because we are currently monitoring and relying on each Dealer Member's voluntarily agreement to adhere to the "12 x EWR" proposed client free credit usage limit in order for us to manage this potential leverage risk. As a result, we have chosen the third alternative, which allows IIROC to proceed with the client free credit usage and segregation requirements proposed amendments without undue delay.

[1] Government of Canada – Department of Finance, "Key Features of the Proposed Taxpayer Protection and Bank Recapitalization Regime", p.6.

### *2.3 Comparison with similar provisions*

Other jurisdictions such as the U.K. and the U.S. have established regulatory regimes in place that address the usage and segregation of client cash. The IIROC rules differ from these jurisdictions in certain areas. Table 1, which was originally provided in IIROC Rules Notice 14-0298, provides an overview of the relevant rules and requirements in the three jurisdictions for the segregation of client cash.

**Table 1 –**
**Investment firm client cash regimes in three jurisdictions**

| Jurisdiction | Segregation of client cash | Terms of use for client cash | Disclosure |
|---|---|---|---|
| 1. U.K. - Financial Conduct Authority (FCA) | Client cash must be held in an account, or accounts, identified separately from any accounts used to hold cash for the firm. Firm holds client cash on a statutory trust basis. (FCA Client Assets Sourcebook – CASS 7) | Firm may not use client cash unless it has received either a title transfer or a professional client "opt-out" of the pure custody client money rules. (CASS 7) | Firm must send an annual statement disclosing to clients details of client money held by the firm for the client, including the extent to which any client money has been the subject of securities financing transactions. (FCA Conduct of Business Sourcebook – COBS 16) |
| 2. U.S. - Securities and Exchange Commission (SEC) | Firms must maintain a "Special Reserve Bank Account for the Exclusive Benefit of Customers". On a weekly basis, the Reserve Formula computation determines the amount of customer cash (or qualified securities such as U.S. treasuries) to be segregated in the Special Reserve Bank Account. A deposit must be made to the extent that customer related payables (credits) exceed customer related receivables (debits). (SEC Rule 15c3-3) | Customer cash (credit balances) may only be used to support other customer transactions, such as margin loans (debit balances). A basic premise of the SEC Reserve Requirement is to prevent firms from using customer cash in the conduct of their principal business operations, other than supporting other customer transactions. This objective is met by segregating the excess of credits over debits as required by the Reserve Formula computation. (SEC Rule 15c3-3) | Firm must send customer account statement at least quarterly. If there are free credit balances in a customer account, a statement must be sent to the customer stating the following:<br>• Free credit balances are not segregated by the member firm;<br>• Free credit balances may be used by the member in the conduct of its business; and<br>• Free credit balances are available to the customer on demand.<br>In practice, client free credit balances are rare in the U.S., because most firms automatically "sweep" these balances into money market funds.<br>(FINRA Rule 2340, and SEC |

| Jurisdiction | Segregation of client cash | Terms of use for client cash | Disclosure |
|---|---|---|---|
| | | | Rule 15c3-2) |
| 3. Canada - IIROC current | Unencumbered client cash, or free credits, in excess of the current free credit limit must be segregated in the form of qualifying government securities with a term of one year or less, or in the form of cash in a trust account with an Acceptable Institution. (IIROC Form 1, Statement D) | Client free credit cash balances that are within the current free credit limit do not require segregation and may be used by firms in the conduct of their business operations. (IIROC Form 1, Statement D) | Firm must inform their clients that not all free credits are required to be held in trust by including the following disclosure on all client account statements: *"Any free credit balances represent funds payable on demand which, although properly recorded in our books, are not segregated and may be used in the conduct of our business".* (IIROC Dealer Member Rule 1200.2) |
| 4. Canada - IIROC proposed | Unencumbered client cash, or free credits, in excess of the ***proposed*** free credit limit must be segregated in the form of qualifying government securities with a term of one year or less, or in the form of cash in a trust account with an Acceptable Institution. (IIROC Form 1, Statement D) | Client free credit cash balances that are within the ***proposed*** free credit limit do not require segregation and may be used by firms in the conduct of their business operations. (IIROC Form 1, Statement D) | Same as current. |

The current IIROC rules and proposed IIROC rule amendments are unique in structuring the terms of use for client free credits on a Dealer Member's liquid capital measure, EWR.

## 3. Impacts of the Proposed Amendments

IIROC does not believe that separating the Original Proposal into two separate proposals and proceeding with the proposed amendments to the client free credit usage limit and segregation requirements as originally detailed will have a negative effect on stakeholders. We alluded to this possibility in IIROC Rules Notice 14-0298, where we specifically asked if the two initiatives should be pursued together. Furthermore, although we believe that changes to the securities concentration test are required to address the potential concentration risk posed by corporate debt and "other" non-commercial debt securities, we believe it is necessary to withdraw the proposed amendments to the securities concentration test at this time in order to refine and clarify certain calculation methods of the test.

The Proposed Amendments will benefit Dealer Member clients by strengthening the prudential framework for IIROC Dealer Members for ensuring the safeguarding of and timely client access to client assets. The Proposed Amendments will not impact Dealer Members because they have been effectively operating at the general 12 x EWR free credit limit since 2011, acknowledging that the use of client free credit balances is a privilege that is only possible because of the existence of the industry-sponsored insurance fund (CIPF). Further, the Proposed Amendments provide Dealer Members greater flexibility and higher overall free credit usage rates than the general 12 x EWR free credit limit, by allowing them to take advantage of the larger free credit usage rate (i.e. 20 x EWR) for margin lending. It is anticipated that the flexibility provided by allowing a larger leverage factor for margin lending purposes will be most applicable to smaller Dealer Members that operate with lower levels of EWR relative to their client free credit balances.

## 4. Implementation

There should not be significant technological implications for Dealer Members as a result of the Proposed Amendments. It is anticipated that the changes to the free credit limit will be effected through changes to the electronic version of Form 1 housed on the Securities Industry Regulatory Financial Filing System (SIRFF), which will limit the compliance expense for any individual Dealer Member.

The Proposed Amendments will be implemented upon approval by the recognizing regulators within a reasonable period.

## 5. Policy Development Process

### *5.1 Regulatory purpose*

The purposes of the Proposed 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, and*
- *promote the protection of investors.*

The Board therefore has determined that the proposed amendments are not contrary to the public interest.

Due to the extent and substantive nature of the proposed amendments, they have been classified as a Public Comment Rule proposal.

### *5.2 Regulatory process*

IIROC staff developed the Proposed Amendments, and IIROC policy advisory committees (the FAS Capital Formula Subcommittee and the Financial Administrators Section) recommended them for

approval. Canadian Investor Protection Fund (CIPF) staff also reviewed and supported the Proposed Amendments.

## 6. Appendices

Appendix A - Proposed amendments to Dealer Member Rules 1200, and to Form 1

Appendix B - Black-line of proposed amendments to Dealer Member Rule 1200 and to Form 1 compared to the Original Proposal

Appendix C - Black-line of proposed amendments to current Dealer Member Rule 1200, and to current Form 1

Appendix D - Black-line of proposed plain language version of Dealer Member Rule 1200

Appendix E - IIROC staffs' response to public comments received on the Original Proposal

**Appendix A**

## INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA
## AMENDMENTS TO DEALER MEMBER RULE 1200 AND TO FORM 1 RELATING TO THE CLIENT FREE CREDIT CASH USAGE LIMIT AND CLIENT FREE CREDIT SEGREGATION REQUIREMENTS

### PROPOSED AMENDMENTS

1. Dealer Member Rule 1200.3 is repealed and replaced by the following:

> "1200.3. No Dealer Member shall use in the conduct of its business clients' free credit balances in excess of the greater of the following amounts:
>
> (a) General free credit limit:
>
> Twelve times the early warning reserve amount of the Dealer Member; or
>
> (b) Margin lending adjusted free credit limit:
>
> Twenty times the early warning reserve amount of the Dealer Member for margin lending purposes plus twelve times the remaining early warning reserve amount for all other purposes, where the remaining early warning reserve amount equals the early warning amount minus 1/20th of the total settlement date client margin debit amount.
>
> Each Dealer Member shall hold an amount at least equal to the amount of clients' free credit balances in excess of the foregoing either:
>
> (c) in cash segregated in trust for clients in a separate account or accounts with an acceptable institution; or
>
> (d) segregated and separate and apart from the Dealer Member's property in Canadian bank paper with an original maturity of one year or less and bonds, debentures, treasury bills and other securities with a maturity of one year or less of or guaranteed by the Government of Canada, a province of Canada, the United Kingdom, the United States of America and any other national foreign government (provided such other foreign government is a member of the Basel Accord and that the securities are currently rated Aaa or AAA by Moody's Investors Service, Inc. or Standard & Poor's Corporation, respectively)."

2. Dealer Member Rule 1200.4 is amended by adding the following words immediately following the words "at least weekly":

> ", but more frequently if required,".

3. Dealer Member Rule 1200.6 is amended by repealing and replacing the text "shall expeditiously take the most appropriate action to rectify the deficiency." with the text "must correct the segregation deficiency within 5 business days following the determination of the deficiency.".

4. Schedule 2, Notes and instructions, Line 9 of Form 1 is repealed and replaced by the following:

> "**Line 9 -** The securities to be included are Canadian bank paper with an original term of 1 year or less and bonds, debentures, treasury bills and other securities with a term of 1 year or less, of or guaranteed by the Government of Canada or a Province of Canada, the United Kingdom, the United States of America and any other national foreign government (provided such other foreign government is a member of the Basel Accord and that the securities are currently rated Aaa or AAA by Moody's Investors Service, Inc. or Standard & Poor's Corporation, respectively ), which are segregated and held separate and apart from the Dealer Member's property.".

5. Statement D of Form 1 is repealed and replaced by the attached.

## FORM 1, PART I – STATEMENT D

_____

(Dealer Member Name)

## STATEMENT OF FREE CREDIT SEGREGATION AMOUNT

at _____

| REFERENCE | | | NOTES | (CURRENT YEAR) C$'000 |
|---|---|---|---|---|
| **A.** | | **AMOUNT REQUIRED TO SEGREGATE BASED ON GENERAL FREE CREDIT LIMIT** | | |
| | | **General client free credit limit** | | |
| 1. | C-13 | Early warning reserve of $_____ multiplied by 12<br>[Report NIL if amount is negative] | | |
| | | **Less client free credit balances:** | | |
| 2. | Sch.4 | Dealer Member's own [see note] | | |
| 3. | | Carried For Type 3 Introducers | | |
| 4. | | **Total client free credit balances** [Section A, Line 2 plus Section A, Line 3] | | |
| 5. | | **AMOUNT REQUIRED TO SEGREGATE BASED ON GENERAL CLIENT FREE CREDIT LIMIT**<br>[Section A, Line 4 minus Section A, Line 1; report NIL if result is negative; see note] | | |
| **B.** | | **AMOUNT REQUIRED TO SEGREGATE BASED ON MARGIN LENDING ADJUSTED CLIENT FREE CREDIT LIMIT** | | |
| | | **Client free credit limit for margin lending purposes** | | |
| 1. | C-13 | Early warning reserve of $_____ multiplied by 20<br>[Report NIL if amount is negative] | | |
| | | **Less client free credit balances used to finance client margin loans:** | | |
| 2. | | Total settlement date client margin debit balances | | |
| 3. | | Total client free credit balances [Include amount from Section A, Line 4 above] | | |
| 4. | | **Subtotal - Client free credit balances used to finance client margin loans**<br>[Lesser of Section B, Line 2 and Section B, Line 3] | | |
| 5. | | **Amount required to segregate relating to margin lending**<br>[Section B, Line 4 minus Section B, Line 1; report NIL if result is negative] | | |
| | | **Free credit limit for all other purposes** | | |
| 6. | C-13 | Early warning reserve<br>[Report NIL if amount is negative] | | |
| 7. | | Total settlement date client margin debit balances divided by 20 | | |
| 8. | | **Portion of early warning reserve available to support all other uses of client free credits**<br>[Section B, Line 6 minus Section B, Line 7; report NIL if result is negative] | | |
| 9. | | **Client free credit limit for all other purposes**<br>[Section B, Line 8 multiplied by 12] | | |
| 10. | | **Client free credits not used to finance margin loans**<br>[Section A, Line 4 minus Section B, Line 4] | | |
| 11. | | **Amount required to segregate relating to all other purposes**<br>[Section B, Line 10 minus Section B, Line 9; report NIL if result is negative] | | |
| 12. | | **AMOUNT REQUIRED TO SEGREGATE BASED ON MARGIN LENDING ADJUSTED CLIENT FREE CREDIT LIMIT** [Section B, Line 5 plus Section B, Line 11] | | |
| **C.** | | **AMOUNT REQUIRED TO SEGREGATE** | | |
| 1. | | Amount required to segregate based on general client free credit limit<br>[Section A, Line 5] | | |
| 2. | | Amount required to segregate based on margin lending adjusted client free credit | | |

## FORM 1, PART I – STATEMENT D

| | | | |
|---|---|---|---|
| | | limit<br>[Section B, Line 12] | |
| 3. | | **AMOUNT REQUIRED TO SEGREGATE BASED ON MARGIN LENDING ADJUSTED CLIENT FREE CREDIT LIMIT**<br>[Lesser of Section C, Line 1 and Section C, Line 2 if Section B completed; otherwise Section C, Line 1] | |
| **D.** | **AMOUNT IN SEGREGATION:** | | |
| 1. | A-3 | Client funds held in trust in an account with an *acceptable institution* [see note] | |
| 2. | Sch.2 | Market value of securities owned and in segregation [see note] | |
| 3. | | **AMOUNT IN SEGREGATION** [Section D, Line 1 plus Section D, Line 2] | |
| 4. | | **NET SEGREGATION EXCESS (DEFICIENCY)** [Section D, Line 3 minus Section C, Line 3, see note] | |

**NOTES:**

**General –** The client free credit limit and segregation requirements must be calculated at least weekly, but more frequently if required, consistent with the monitoring requirements for the early warning tests.

**Section A, Lines 2 and 3 -** Free credit balances in RRSP and other similar accounts should not be included. Refer to Schedule 4 - Notes and Instructions for discussion of trade versus settlement date reporting of free credit balances. For purposes of this statement, a free credit is:

(a) For cash and margin accounts - the credit balance less an amount equal to the aggregate of the *market value* of short positions and regulatory margin on those shorts.

(b) For futures accounts - any credit balance less an amount equal to the aggregate of margin required to carry open futures contracts and/or futures contracts option positions less equity in those contracts plus deficits in those contracts, provided that such aggregate amount may not exceed the dollar amount of the credit balance.

**Section A, Line 5 -** If Nil, no further calculation on this Statement need be done.

**Section B, Line 2 -** Client margin debit balances reported on this line must be determined on a settlement date basis in order to exclude margin debit amounts relating to pending trades that have not yet settled.

**Section D, Line 1 -** The trust must be an obligation binding the Dealer Member (the trustee) to deal with the free credits over which it has control (the trust property), for the benefit of the client (the beneficiary). The trust property must be clearly identified as such even if residing with an *acceptable institution*.

FUNDS HELD IN TRUST FOR RRSP AND OTHER SIMILAR ACCOUNTS ARE NOT TO BE INCLUDED IN THIS CALCULATION.

**Section D, Line 2 -** The securities to be included are Canadian bank paper with an original term of 1 year or less and bonds, debentures, treasury bills and other securities with a term of 1 year or less, of or guaranteed by the Government of Canada or a Province of Canada, the United Kingdom, the United States of America and any other national foreign government (provided such other foreign government is a member of the Basel Accord and that the securities are currently rated Aaa or AAA by Moody's Investors Service, Inc. or Standard & Poor's Corporation, respectively) which are segregated and held separate and apart from the Dealer Member's property.

**Section D, Line 4 -** If negative, then a segregation deficiency exists, and the Dealer Member must correct the segregation deficiency within 5 business days following the determination of the deficiency. The Dealer Member must provide an explanation of how the deficiency was corrected as well as the date of correction.

**Appendix B**

**INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA**
**AMENDMENTS TO DEALER MEMBER RULE 1200 AND TO FORM 1 RELATING TO THE CLIENT FREE CREDIT CASH USAGE LIMIT AND CLIENT FREE CREDIT SEGREGATION REQUIREMENTS**

**BLACK-LINE OF PROPOSED AMENDMENTS COMPARED TO ORIGINAL PROPOSAL**

~~1. Dealer Member Rule 100.20(a)(ii)(B) is repealed and replaced by the following:~~

~~"(B) all long and short positions in debt or other securities, other than non-commercial debt securities with a normal margin requirement of less than 10% and Canadian bank paper maturing within 1 year."~~

~~2. Dealer Member Rule 100.20(b) is amended by adding the following, with the numbering altered thereafter in sequence:~~

~~"(v) In calculating the amount loaned for debt securities subject to the concentration charge calculation, the amount loaned for:~~

~~(A) commercial debt securities with a normal margin rate of 10% or less; and~~

~~(B) non-commercial debt securities with a normal margin rate of 10%;~~

~~may be reduced by applying an adjustment factor of 50% if the debt securities mature within 3 years.~~

~~In order to qualify for the 50% adjustment factor, commercial debt securities must also be ranked senior to any outstanding equity securities from the same issuer in case of insolvency;~~

~~(vi) Security positions that are financed by limited recourse loans that meet the industry standard wording set out in the Limited Recourse Call Loan Agreement may be excluded from the calculation below;"~~

~~3~~1. Dealer Member Rule 1200.3 is repealed and replaced by the following:

"1200.3. No Dealer Member shall use in the conduct of its business clients' free credit balances in excess of the greater of the following amounts:

(a) General free credit limit:

Twelve times the early warning reserve amount of the Dealer Member; or

(b) Margin lending adjusted free credit limit:

Twenty times the early warning reserve amount of the Dealer Member for margin lending purposes plus twelve times the remaining early warning reserve amount for all other purposes, where the remaining

early warning reserve amount equals the early warning amount minus 1/20th of the total settlement date client margin debit amount.

Each Dealer Member shall hold an amount at least equal to the amount of clients' free credit balances in excess of the foregoing either:

(c) in cash segregated in trust for clients in a separate account or accounts with an acceptable institution; or

(d) segregated and separate and apart from the Dealer Member's property in Canadian bank paper with an original maturity of one year or less and bonds, debentures, treasury bills and other securities with a maturity of one year or less of or guaranteed by the Government of Canada, a province of Canada, the United Kingdom, the United States of America and any other national foreign government (provided such other foreign government is a member of the Basel~~le~~ Accord and that the securities are currently rated Aaa or AAA by Moody's Investors Service, Inc. or Standard & Poor's Corporation, respectively)."

~~4~~2. Dealer Member Rule 1200.4 is amended by adding the following words immediately following the words "at least weekly":

", but more frequently if required,".

~~5~~3. Dealer Member Rule 1200.6 is amended by repealing and replacing the text "shall expeditiously take the most appropriate action to rectify the deficiency." with the text "must correct the segregation deficiency within 5 business days following the determination of the deficiency.".

4. Schedule 2, Notes and instructions, Line 9 of Form 1 is repealed and replaced by the following:

"**Line 9 -** The securities to be included are Canadian bank paper with an original term of 1 year or less and bonds, debentures, treasury bills and other securities with a term of 1 year or less, of or guaranteed by the Government of Canada or a Province of Canada, the United Kingdom, the United States of America and any other national foreign government (provided such other foreign government is a member of the Basel Accord and that the securities are currently rated Aaa or AAA by Moody's Investors Service, Inc. or Standard & Poor's Corporation, respectively ), which are segregated and held separate and apart from the Dealer Member's property.".

~~6~~5. Statement D ~~and Schedule 9~~ of Form 1 ~~are~~is repealed and replaced by the attached.

**Appendix B**

## FORM 1, PART I – STATEMENT D

_____

(Dealer Member Name)

## STATEMENT OF FREE CREDIT SEGREGATION AMOUNT

at _____

| REFERENCE | | | NOTES | (CURRENT YEAR) C$'000 |
|---|---|---|---|---|
| **A.** | | **AMOUNT REQUIRED TO SEGREGATE BASED ON GENERAL FREE CREDIT LIMIT** | | |
| | | **General client free credit limit** | | |
| 1. | C-13 | Early warning reserve of $_____ multiplied by 12<br>[Report NIL if amount is negative] | | |
| | | **Less client free credit balances:** | | |
| 2. | Sch.4 | Dealer Member's own [see note] | | |
| 3. | | Carried For Type 3 Introducers | | |
| 4. | | **Total client free credit balances** [Section A, Line 2 plus Section A, Line 3] | | |
| 5. | | **AMOUNT REQUIRED TO SEGREGATE BASED ON GENERAL CLIENT FREE CREDIT LIMIT**<br>[Section A, Line 4 minus Section A, Line 1; report NIL if result is negative; see note] | | |
| **B.** | | **AMOUNT REQUIRED TO SEGREGATE BASED ON MARGIN LENDING ADJUSTED CLIENT FREE CREDIT LIMIT** | | |
| | | **Client free credit limit for margin lending purposes** | | |
| 1. | C-13 | Early warning reserve of $_____ multiplied by 20<br>[Report NIL if amount is negative] | | |
| | | **Less client free credit balances used to finance client margin loans:** | | |
| 2. | | Total settlement date client margin debit balances | | |
| 3. | | Total client free credit balances [Include amount from Section A, Line 4 above] | | |
| 4. | | **Subtotal - Client free credit balances used to finance client margin loans**<br>[Lesser of Section B, Line 2 and Section B, Line 3] | | |
| 5. | | **Amount required to segregate relating to margin lending**<br>[Section B, Line 4 minus Section B, Line 1; report NIL if result is negative] | | |
| | | **Free credit limit for all other purposes** | | |
| 6. | C-13 | Early warning reserve<br>[Report NIL if amount is negative] | | |
| 7. | | Total settlement date client margin debit balances divided by 20 | | |
| 8. | | **Portion of early warning reserve available to support all other uses of client free credits**<br>[Section B, Line 6 minus Section B, Line 7; report NIL if result is negative] | | |
| 9. | | **Client free credit limit for all other purposes**<br>[Section B, Line 8 multiplied by 12] | | |
| 10. | | **Client free credits not used to finance margin loans**<br>[Section A, Line 4 minus Section B, Line 4] | | |
| 11. | | **Amount required to segregate relating to all other purposes**<br>[Section B, Line 10 minus Section B, Line 9; report NIL if result is negative] | | |
| 12. | | **AMOUNT REQUIRED TO SEGREGATE BASED ON MARGIN LENDING ADJUSTED CLIENT FREE CREDIT LIMIT** [Section B, Line 5 plus Section B, Line 11] | | |
| **C.** | | **AMOUNT REQUIRED TO SEGREGATE** | | |

**Appendix B**

## FORM 1, PART I – STATEMENT D

| | | | |
|---|---|---|---|
| 1. | | Amount required to segregate based on general client free credit limit [Section A, Line 5] | |
| 2. | | Amount required to segregate based on margin lending adjusted client free credit limit [Section B, Line 12] | |
| 3. | | **AMOUNT REQUIRED TO SEGREGATE BASED ON MARGIN LENDING ADJUSTED CLIENT FREE CREDIT LIMIT** [Lesser of Section C, Line 1 and Section C, Line 2 if Section B completed; otherwise Section C, Line 1] | |
| **D.** | | **AMOUNT IN SEGREGATION:** | |
| 1. | A-3 | Client funds held in trust in an account with an *acceptable institution* [see note] | |
| 2. | Sch.2 | Market value of securities owned and in segregation [see note] | |
| 3. | | **AMOUNT IN SEGREGATION** [Section D, Line 1 plus Section D, Line 2] | |
| 4. | | **NET SEGREGATION EXCESS (DEFICIENCY)** [Section D, Line 3 minus Section C, Line 3, see note] | |

**NOTES:**

**General –** The client free credit limit and segregation requirements must be calculated at least weekly, but more frequently if required, consistent with the monitoring requirements for the early warning tests.

**Section A, Lines 2 and 3 -** Free credit balances in RRSP and other similar accounts should not be included. Refer to Schedule 4 - Notes and Instructions for discussion of trade versus settlement date reporting of free credit balances. For purposes of this statement, a free credit is:

(a) For cash and margin accounts - the credit balance less an amount equal to the aggregate of the *market value* of short positions and regulatory margin on those shorts.

(b) For futures accounts - any credit balance less an amount equal to the aggregate of margin required to carry open futures contracts and/or futures contracts option positions less equity in those contracts plus deficits in those contracts, provided that such aggregate amount may not exceed the dollar amount of the credit balance.

**Section A, Line 5 -** If Nil, no further calculation on this Statement need be done.

**Section B, Line 2 -** Client margin debit balances reported on this line must be determined on a settlement date basis in order to exclude margin debit amounts relating to pending trades that have not yet settled.

**Section D, Line 1 -** The trust must be an obligation binding the Dealer Member (the trustee) to deal with the free credits over which it has control (the trust property), for the benefit of the client (the beneficiary). The trust property must be clearly identified as such even if residing with an *acceptable institution*.

FUNDS HELD IN TRUST FOR RRSP AND OTHER SIMILAR ACCOUNTS ARE NOT TO BE INCLUDED IN THIS CALCULATION.

**Section D, Line 2 -** The securities to be included are Canadian bank paper with an original term of 1 year or less and bonds, debentures, treasury bills and other securities with a term of 1 year or less, of or guaranteed by the Government of Canada or a Province of Canada, the United Kingdom, the United States of America and any other national foreign government (provided such other foreign government is a member of the ~~Basle~~Basel Accord and that the securities are currently rated Aaa or AAA by Moody's Investors Service, Inc. or Standard & Poor's Corporation, respectively) which are segregated and held separate and apart from the Dealer Member's property.

**Section D, Line 4 -** If negative, then a segregation deficiency exists, and the Dealer Member must correct the segregation deficiency within 5 business days following the determination of the deficiency. The Dealer Member must provide an explanation of how the deficiency was corrected as well as the date of correction.

**Appendix B**

## ~~FORM 1, PART II — SCHEDULE 9~~

~~DATE:~~ _____

_____

~~(Dealer Member Name)~~

### ~~CONCENTRATION OF SECURITIES~~

~~[excluding securities required to be in segregation or safekeeping, non-commercial debt securities with a normal margin rate of less than 10% and Canadian bank paper maturing within 1 year (see note 6)]~~

| ~~Description of Security~~ ~~[note 3]~~ | ~~Client position long/(short) C$'000~~ ~~[note 8]~~ | ~~Dealer Member's own long/(short) C$'000~~ ~~[note 9]~~ | ~~Unit Price~~ | ~~Market value C$'000~~ | ~~Effective margin rate~~ | ~~Loan value of securities C$'000~~ ~~[note 4]~~ | ~~Adjustments in arriving at amount loaned C$'000~~ | ~~"Amount loaned" C$'000~~ ~~[note 10]~~ | ~~Amount cleared within five business days C$'000~~ | ~~Adjusted amount loaned C$'000~~ | ~~Concentration charge C$'000~~ ~~[note 11]~~ |
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~~B-28~~

## ~~FORM 1, PART II – SCHEDULE 9~~
## ~~NOTES AND INSTRUCTIONS~~

### ~~General~~

~~1. The purpose of this schedule is to disclose the largest ten issuer positions and precious metal positions that are being relied upon for loan value whether or not a concentration charge applies. If there are more than ten issuer positions and precious metal positions where a concentration exposure exists, then all such positions must be listed on the schedule.~~

~~2. Non-commercial debt securities with a normal margin rate of less than 10% and Canadian bank paper maturing within 1 year are excluded from this schedule.~~

~~3. For the purpose of this schedule, an issuer position must include all classes of securities for an issuer (i.e. all long and short positions in equity, convertibles, debt or other securities of an issuer other than debt securities cited in note 2), and a precious metal position must include all certificates and bullion of the particular precious metal (gold, platinum or silver) where:~~

- ~~loan value is being extended in a margin account, cash account, delivery against payment account, receipt against payment account; or~~
- ~~an inventory position is being held.~~

~~4. Securities and precious metals that are required to be in segregation or safekeeping should not be included in the issuer position or precious metal position. Securities and precious metals that have been segregated, but are not required to be, can still be relied on by the Dealer Member for loan value, and must be included in the issuer position and precious metal position.~~

~~5. For the purpose of this schedule, an amount loaned exposure to *broad based index* 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.]~~

~~6. For the purpose of this schedule only, stripped coupons and residuals, [if they are held on a book based system, and are in respect of federal and provincial debt instruments], should be margined at the same rate as the underlying security.~~

~~7. For short positions, the loan value is the *market value* of the short position.~~

### ~~Client position~~

~~8. (a) Client positions are to be reported on a settlement date basis for client accounts including positions in margin accounts, regular cash accounts [when any transaction in the account is outstanding after settlement date] and delivery against payment and receipt against payment accounts [when any transaction in the account is outstanding after settlement date]. Within each client account, security positions and precious metal positions that qualify for a margin offset may be eliminated.~~

~~(b) Positions in delivery against payment and receipt against payment accounts with *acceptable institutions*, *acceptable counterparties*, or *regulated entities* resulting from transactions that are outstanding less than ten business days past settlement date are not to be included in the positions reported. If the transaction has~~

## ~~FORM 1, PART II – SCHEDULE 9~~
## ~~NOTES AND INSTRUCTIONS~~

~~been outstanding ten business days or more past settlement and is not confirmed for clearing through an *acceptable clearing corporation* or not confirmed by the *acceptable institution*, *acceptable counterparty* or *regulated entity*, then the position must be included in the position reported.~~

**~~Dealer Member's own position~~**

~~9. (a) Dealer Member's own inventory positions are to be reported on a trade date basis, including new issue positions carried in inventory twenty business days after new issue settlement date. All security positions that qualify for a margin offset may be eliminated.~~

~~(b) The amount reported must include uncovered stock positions in market-maker accounts.~~

**~~Amount Loaned~~**

~~10. The client and Dealer Member's own positions reported are to be determined based on the combined client/Dealer Member's own long or short position that results in the largest amount loaned exposure.~~

~~(a) To calculate the combined amount loaned on the long position exposure, combine:~~

- ~~the loan value of the gross long client position (if any) contained within client margin accounts;~~
- ~~the weighted *market value* (calculated pursuant to the weighted *market value* calculation set out in Schedule 4, Note 9, Cash Accounts Instruction (a)) and/or loan value (calculated pursuant to the loan value calculation set out in Schedule 4, Note 9, Cash Accounts Instruction (b)) of the gross long client position (if any) contained within client cash accounts;~~
- ~~the *market value* (calculated pursuant to the *market value* calculation set out in Schedule 4, Note 9, DAP and RAP Accounts Instruction (a)) and/or loan value (calculated pursuant to the loan value calculation set out in Schedule 4, Note 9, DAP and RAP Accounts Instruction (b)) of the gross long client position (if any) contained within client delivery against payment accounts; and~~
- ~~the loan value (calculated pursuant to the Notes and Instructions to Schedule 2) of the net long Dealer Member's own position (if any).~~

~~(b) To calculate the combined amount loaned on the short position exposure, combine~~

- ~~the *market value* of the gross short client position (if any) contained within client margin, cash and receipt against payment accounts; and~~
- ~~the *market value* of the net short Dealer Member's own position (if any).~~

~~(c) If the loan value of an issuer position or a precious metal position (net of issuer securities or precious metal position required to be in segregation/safekeeping) does not exceed one-half (one-third in the case of an issuer position or precious metal position which qualifies under either note 11(a) or 11(b) below) of the sum of the Dealer Member's Risk Adjusted Capital before securities concentration charge and minimum capital (Stmt. B, Line 7) as most recently calculated, the completion of the column titled "Adjustments in arriving at Amount Loaned" is optional. However, nil should be reflected for the concentration charge.~~

~~(d) In determining the amount loaned on either a long, or short position exposure, the following adjustments may be made:~~

~~(i) Security positions and precious metal positions that qualify for a margin offset may be excluded, as previously discussed in notes 8(a) and 9(a);~~

~~(ii) Security positions and precious metal positions that represent excess margin in the client's account may be excluded. (Note if the starting point of the calculations is securities or precious metal positions not required to be in segregation/safekeeping, this deduction has already been included in the loan value calculation of Column 6.);~~

~~(iii) Security positions that are financed by limited recourse loans that meet the industry standard wording set out in the Limited Recourse Call Loan Agreement may be excluded;~~

## ~~FORM 1, PART II – SCHEDULE 9~~
## ~~NOTES AND INSTRUCTIONS~~

~~(iv) In the case of margin accounts, 25% of the *market value* of long positions in any: (a) non-marginable securities or, (b) securities with a margin rate of 100%, in the account may be deducted from the amount loaned calculation, provided that such securities are carried in readily saleable quantities only;~~

~~(v) In the case of cash accounts, 25% of the *market value* of long positions in any securities whose *market value* weighting is 0.000 (pursuant to Schedule 4, Note 9, Cash Accounts Instruction (a)) in the account may be deducted from the amount loaned calculation, provided that such securities are carried in readily saleable quantities only;~~

~~(vi) The amount loaned for commercial debt securities with a normal margin rate of 10% or less and non-commercial debt securities with a normal margin rate of 10% may be reduced by applying an adjustment factor of 50% if the debt securities mature within 3 years. In order to qualify for the 50% adjustment factor, commercial debt securities must also be ranked senior to any outstanding equity securities from the same issuer in the case of insolvency;~~

~~(vii) The amount loaned values of trades made with financial institutions that are not *acceptable institutions*, *acceptable counterparties* or *regulated entities*, if the trades are outstanding less than 10 business days past settlement date, and the trades were confirmed on or before settlement date with a settlement agent that is an *acceptable institution* may be deducted from the amount loaned calculation; and~~

~~(viii) Any security positions or precious metal positions in the client's (the "Guarantor") account, which are used to reduce the margin required in another account pursuant to the terms of a guarantee agreement, shall be included in calculating the amount loaned on each security for the purposes of the Guarantor's account.~~

~~(c) Amount Loaned is the position exposure (either long or short) with the largest calculated amount loaned.~~

### ~~Concentration Charge~~

~~11. (a) Where the Amount Loaned reported relates to securities issued by~~

~~(i) the Dealer Member, or~~

~~(ii) a company, where the accounts of a Dealer Member are included in the consolidated financial statements and where the assets and revenue of the Dealer Member constitute more than 50% of the consolidated assets and 50% of the consolidated revenue, respectively, of the company, based on the amounts shown in the audited consolidated financial statements of the company and the Dealer Member for the preceding fiscal year and the total Amount Loaned by a Dealer Member on such issuer securities exceeds one-third of the sum of the Dealer Member's Risk Adjusted Capital before securities concentration charge and minimum capital (Stmt. B, Line 7), as most recently calculated, a concentration charge of an amount equal to 150% of the excess of the Amount Loaned over one-third of the sum of the Dealer Member's Risk Adjusted Capital before securities concentration charge and minimum capital (Stmt. B, Line 7) is required unless the excess is cleared within five business days of the date it first occurs. For long positions, the concentration charge as calculated herein shall not exceed the loan value of the issuer security(ies) for which such charge is incurred.~~

~~(b) Where the Amount Loaned reported relates to non-marginable securities of an issuer held in a cash account(s), where loan value has been extended pursuant to the weighted *market value* calculation set out in Schedule 4, Note 9, and the total Amount Loaned by a Dealer Member on such issuer securities exceeds one-third of the sum of the Dealer Member's Risk Adjusted Capital before securities concentration charge and minimum capital (Stmt. B, Line 7), as most recently calculated, a concentration charge of an amount equal to 150% of the excess of the Amount Loaned over one-third of the sum of the Dealer Member's Risk Adjusted Capital before securities concentration charge and minimum capital (Stmt. B, Line 7) is required unless the excess is cleared within five business days of the date it first occurs. For long positions, the~~

## ~~FORM 1, PART II – SCHEDULE 9~~
## ~~NOTES AND INSTRUCTIONS~~

~~concentration charge as calculated herein shall not exceed the loan value of the issuer security(ies) for which such charge is incurred.~~

~~(c) Where the Amount Loaned reported relates to arm's length marginable securities of an issuer (i.e., securities other than those described in note 11(a), or 11(b)) or a precious metal position, and the total Amount Loaned by a Dealer Member on such issuer securities or precious metal position exceeds two-thirds of the sum of the Dealer Member's Risk Adjusted Capital before securities concentration charge and minimum capital (Stmt. B, Line 7), as most recently calculated, a concentration charge of an amount equal to 150% of the excess of the Amount Loaned over two-thirds of the sum of the Dealer Member's Risk Adjusted Capital before securities concentration charge and minimum capital (Stmt. B, Line 7) is required unless the excess is cleared within five business days of the date it first occurs. For long positions, the concentration charge as calculated herein shall not exceed the loan value of the issuer security(ies) or precious metal position for which such charge is incurred.~~

~~(d) Where:~~

~~(i) The Dealer Member has incurred a concentration charge for an issuer position under either note 11(a) or 11(b) or 11(c); or~~

~~(ii) The Amount Loaned by a Dealer Member on any one issuer (other than issuers whose securities may be subject to a concentration charge under either note 11(a) or 11(b) above) or a precious metal position exceeds one-half of the sum of the Dealer Member's Risk Adjusted Capital before securities concentration charge and minimum capital (Stmt. B, Line 7), as most recently calculated; and~~

~~(iii) The Amount Loaned on any other issuer or precious metal position exceeds one-half (one-third in the case of issuers whose securities may be subject to a concentration charge under either note 11(a) or 11(b) above) of the sum of Risk Adjusted Capital before securities concentration charge and minimum capital (Stmt. B, Line 7); then~~

~~(iv) A concentration charge on such other issuer position or precious metal position of an amount equal to 150% of the excess of the Amount Loaned on the other issuer or precious metal position over one-half (one-third in the case of issuers whose securities may be subject to a concentration charge under either note 11(a) or 11(b) above) of the sum of the Dealer Member's Risk Adjusted Capital before securities concentration charge and minimum capital (Stmt. B, Line 7) is required unless the excess is cleared within five business days of the date it first occurs. For long positions, the concentration charge as calculated herein shall not exceed the loan value of the security(ies) or precious metal position for which such charge is incurred.~~

~~(e) For the purpose of calculating the concentration charges as required by notes 11(a), 11(b), 11(c) and 11(d) above, such calculations shall be performed for the largest five issuer positions and precious metal positions by Amount Loaned in which there is a concentration exposure.~~

### ~~Other~~

~~12. (a) Where there is an over exposure in a security or a precious metal position and the concentration charge as referred to above would produce either a capital deficiency or a violation of the Early Warning Rule, the Dealer Member must report the over exposure situation to the Corporation on the date the over exposure first occurs.~~

~~(b) A measure of discretion is left with the Corporation in dealing with the resolution of concentration situations, particularly as regards to time requirements for correcting any over exposure, as well as whether securities or precious metal positions are carried in "readily saleable quantities".~~

**INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA**

**AMENDMENTS TO DEALER MEMBER RULE 1200 AND TO FORM 1 RELATING TO THE CLIENT FREE CREDIT CASH USAGE LIMIT AND CLIENT FREE CREDIT SEGREGATION REQUIREMENTS**

**BLACK-LINE OF PROPOSED AMENDMENTS TO CURRENT DEALER MEMBER RULE 1200 AND TO CURRENT FORM 1**

### Dealer Member Rule 1200.3 – Amendment #1

1200.3. No Dealer Member shall use in the conduct of its business clients' free credit balances in excess of the ~~aggregate~~greater of the following amounts:

(~~a) Eight~~a) General free credit limit:

Twelve times the ~~net allowable assets~~early warning reserve amount of the Dealer Member; ~~plus~~or

(b) Margin lending adjusted free credit limit:

~~(b) Four times the~~Twenty times the early warning reserve amount of the Dealer Member for margin lending purposes plus twelve times the remaining early warning reserve ~~of the Dealer Member~~amount for all other purposes, where the remaining early warning reserve amount equals the early warning amount minus 1/20th of the total settlement date client margin debit amount.

Each Dealer Member shall hold an amount at least equal to the amount of clients' free credit balances in excess of the foregoing either:

(~~a~~c) in cash segregated in trust for clients in a separate account or accounts with an acceptable institution; or

(~~b~~d) segregated and separate and apart ~~as~~from the Dealer Member's property in Canadian bank paper with an original maturity of one year or less and bonds, debentures, treasury bills and other securities with a maturity of ~~less than~~ one year or less of or guaranteed by the Government of Canada, a province of Canada, the United Kingdom, the United States of America and any other national foreign government (provided such other foreign government is a member of the ~~Basle~~Basel Accord and that the securities are currently rated Aaa or AAA by Moody's Investors Service, Inc. or Standard & Poor's Corporation, respectively).

### Dealer Member Rule 1200.4 – Amendment #2

1200.4. Dealer Members shall determine at least weekly, but more frequently if required, the amounts required to be segregated in accordance with Rule 1200.3.

### Dealer Member Rule 1200.6 – Amendment #3

1200.6. In the event that a deficiency exists in amounts of free credit balances required to be segregated by a Dealer Member, the Dealer Member ~~shall expeditiously take the most~~

~~appropriate action to rectify~~must correct the segregation deficiency within 5 business days following the determination of the deficiency.

**Schedule 2, Notes and instructions, Line 9 of Form 1 – Amendment #4**

**Line 9 -** The securities to be included are Canadian bank paper with an original term of 1 year or less and bonds, debentures, treasury bills and other securities with a term of 1 year or less, of or guaranteed by the Government of Canada or a Province of Canada, the United Kingdom, the United States of America and any other national foreign government (provided such other foreign government is a member of the Basel Accord and that the securities are currently rated Aaa or AAA by Moody's Investors Service, Inc. or Standard & Poor's Corporation, respectively)~~party to the Basel Accord)~~, which are segregated and held separate and apart ~~as~~ from the Dealer Member's property.

**Statement D of Form 1 (attached) – Amendment #5**

# FORM 1, PART I – STATEMENT D

_____

(Dealer Member Name)

## STATEMENT OF FREE CREDIT SEGREGATION AMOUNT

at _____

| REFERENCE | | | NOTES | (CURRENT YEAR) C$'000 |
|---|---|---|---|---|
| **A. AMOUNT REQUIRED TO SEGREGATE~~:~~ BASED ON GENERAL FREE CREDIT LIMIT** | | | | ~~C$'000~~ |
| ~~1.~~ | ~~B-6~~ | ~~Net allowable assets of $_____ multiplied by 8~~**General client free credit limit** | | |
| ~~2.~~1 | C-13 | Early warning reserve of $_____ multiplied by ~~4~~12<br>[Report NIL if amount is negative] | | |
| ~~3.~~ | | ~~**FREE CREDIT LIMIT** [Lines 1 plus 2]~~ | | |
| | | **Less client free credit balances:** | | |
| ~~4.~~2 | Sch.4 | Dealer Member's own [see note] | | |
| ~~5.~~3 | | Carried For Type 3 Introducers | | |
| 4. | | **Total client free credit balances** [Section A, Line 2 plus Section A, Line 3] | | |
| 5. | | **AMOUNT REQUIRED TO SEGREGATE BASED ON GENERAL CLIENT FREE CREDIT LIMIT**<br>[Section A, Line 4 minus Section A, Line 1; report NIL if result is negative; see note] | | |
| ~~6.~~**B. AMOUNT REQUIRED TO SEGREGATE** ~~[NIL if Line 3 exceeds Line 4 plus Line 5, see note]~~**BASED ON MARGIN LENDING ADJUSTED CLIENT FREE CREDIT LIMIT** | | | | |
| | | ~~**AMOUNT IN SEGREGATION:**~~**Client free credit limit for margin lending purposes** | | |
| 1. | C-13 | Early warning reserve of $_____ multiplied by 20<br>[Report NIL if amount is negative] | | |
| | | **Less client free credit balances used to finance client margin loans:** | | |
| 2. | | Total settlement date client margin debit balances | | |
| 3. | | Total client free credit balances [Include amount from Section A, Line 4 above] | | |
| 4. | | **Subtotal - Client free credit balances used to finance client margin loans**<br>[Lesser of Section B, Line 2 and Section B, Line 3] | | |
| 5. | | **Amount required to segregate relating to margin lending**<br>[Section B, Line 4 minus Section B, Line 1; report NIL if result is negative] | | |
| | | **Free credit limit for all other purposes** | | |
| 6. | C-13 | Early warning reserve<br>[Report NIL if amount is negative] | | |
| 7. | | Total settlement date client margin debit balances divided by 20 | | |
| 8. | | **Portion of early warning reserve available to support all other uses of client free credits**<br>[Section B, Line 6 minus Section B, Line 7; report NIL if result is negative] | | |
| 9. | | **Client free credit limit for all other purposes**<br>[Section B, Line 8 multiplied by 12] | | |
| 10. | | **Client free credits not used to finance margin loans**<br>[Section A, Line 4 minus Section B, Line 4] | | |
| 11. | | **Amount required to segregate relating to all other purposes** | | |

## FORM 1, PART I – STATEMENT D

| | | | |
|---|---|---|---|
| | | [Section B, Line 10 minus Section B, Line 9; report NIL if result is negative] | |
| 12. | | **AMOUNT REQUIRED TO SEGREGATE BASED ON MARGIN LENDING ADJUSTED CLIENT FREE CREDIT LIMIT** [Section B, Line 5 plus Section B, Line 11] | |
| **C. AMOUNT REQUIRED TO SEGREGATE** | | | |
| 1. | | Amount required to segregate based on general client free credit limit [Section A, Line 5] | |
| 2. | | Amount required to segregate based on margin lending adjusted client free credit limit [Section B, Line 12] | |
| 3. | | **AMOUNT REQUIRED TO SEGREGATE BASED ON MARGIN LENDING ADJUSTED CLIENT FREE CREDIT LIMIT** [Lesser of Section C, Line 1 and Section C, Line 2 if Section B completed; otherwise Section C, Line 1] | |
| **D. AMOUNT IN SEGREGATION:** | | | |
| ~~7.~~1. | A-3 | Client funds held in trust in an account with an *acceptable institution* [see note] | |
| ~~8.~~2. | Sch.2 | Market value of securities owned and in segregation [see note] | |
| ~~9.~~3. | | **~~TOTAL~~AMOUNT IN SEGREGATION** [~~Lines 7~~Section D, Line 1 plus ~~8~~Section D, Line 2] | |
| ~~10.~~ 4. | | **NET SEGREGATION EXCESS (DEFICIENCY)** [Section D, Line ~~6 less~~3 minus Section C, Line ~~9,~~3, see note] | |

**NOTES:**

~~**Line 3** - If negative, then Line 6 equals Line 4 plus Line 5, i.e. Dealer Member is required to segregate 100% of client free credits.~~ **General –** The client free credit limit and segregation requirements must be calculated at least weekly, but more frequently if required, consistent with the monitoring requirements for the early warning tests.

**Section A, Lines ~~4~~2 and ~~5~~3 -** Free credit balances in RRSP and other similar accounts should not be included. Refer to Schedule 4 - Notes and Instructions for discussion of trade versus settlement date reporting of free credit balances. For purposes of this statement, a free credit is:

(a) For cash and margin accounts - the credit balance less an amount equal to the aggregate of the *market value* of short positions and regulatory margin on those shorts.

(b) For futures accounts - any credit balance less an amount equal to the aggregate of margin required to carry open futures contracts and/or futures contracts option positions less equity in those contracts plus deficits in those contracts, provided that such aggregate amount may not exceed the dollar amount of the credit balance.

**Section A, Line ~~6~~5 -** If Nil, no further calculation on this Statement need be done.

**Section B, Line 2 -** Client margin debit balances reported on this line must be determined on a settlement date basis in order to exclude margin debit amounts relating to pending trades that have not yet settled.

**Section D, Line ~~7~~1 -** The trust must be an obligation binding the Dealer Member (the trustee) to deal with the free credits over which it has control (the trust property), for the benefit of the client (the beneficiary). The trust property must be clearly identified as such even if residing with an *acceptable institution*.

FUNDS HELD IN TRUST FOR RRSP AND OTHER SIMILAR ACCOUNTS ARE NOT TO BE INCLUDED IN THIS CALCULATION.

**Section D, Line ~~8~~2 -** The securities to be included are Canadian bank paper with an original term of 1 year or less and bonds, debentures, treasury bills and other securities with a term of 1 year or less, of or guaranteed by the Government of Canada or a Province of Canada, the United Kingdom, the United States of America and any other

national foreign government (provided such other foreign government is a ~~party to the Basel Accord~~member of the Basel Accord and that the securities are currently rated Aaa or AAA by Moody's Investors Service, Inc. or Standard & Poor's Corporation, respectively) which are segregated and held separate and apart ~~as~~ from the Dealer Member's property.

**Section D, Line ~~10~~4 -** If negative, then a segregation deficiency exists, and the Dealer Member must ~~expeditiously take the most appropriate action required to settle~~correct the segregation deficiency within 5 business days following the determination of the deficiency. The Dealer Member must provide an explanation of how the deficiency was corrected as well as the date of correction.

**INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA**

**AMENDMENTS TO DEALER MEMBER RULE 1200 AND TO FORM 1 RELATING TO THE CLIENT FREE CREDIT CASH USAGE LIMIT AND CLIENT FREE CREDIT SEGREGATION REQUIREMENTS**

**BLACK-LINE OF PROPOSED PLAIN LANGUAGE VERSION OF DEALER MEMBER RULE 1200**

1. Black-line of Proposed Plain Language Rule 4300, Part C:

"**Part C – Client free credit balance requirements**

**4380. Introduction**

(1) Part C of Rule 4300 restricts a *Dealer Member's* use of clients' *free credit balances* in its business.

**4381. Definitions**

(1) ~~In~~The following terms have the meanings set out below when used in Part C of Rule 4300:

(i) *"client free credit balance"* or *"free credit balance"* means:

(a) For cash and margin accounts, the credit balance less an amount equal to the aggregate of:

(I) the market value of short positions and

(II) margin required on those short positions.

(b) For futures accounts, the credit balance less an amount equal to the aggregate of:

(I) margin required to carry open *futures contracts* or *futures contract option* positions; less

(II) any equity in those contracts; plus

(III) any deficits in those contracts.

However, the aggregate amount must not exceed the dollar amount of the credit balance.

(ii) *"net allowable assets"* means a Dealer Member's net allowable assets calculated in Statement B of Form 1.

**4382. Dealer Member's use of client free credit balances**

(1) A *Dealer Member* may use its clients' *free credit balances* in its business only in accordance with Part C of Rule 4300.

**4383. Notation on client account statements**

(1) A *Dealer Member* that does not keep its clients' *free credit balances*:

(i) segregated in trust for clients in an account with an *acceptable institution*; and

(ii) separate from other money the *Dealer Member* receives;

must clearly write the following or equivalent on all statements of account it sends to clients:

> "Any *free credit balances* represent funds payable on demand which, although properly recorded in our books, may not be segregated and may be used in the conduct of our business."

### 4384. Calculating usable free credit balances

(1) A *Dealer Member* ~~may~~ must not use in its business an amount of clients' *free credit balances* that totals more than the greater of:

(i) ~~eight~~General free credit limit:

Twelve times the *Dealer Member's* ~~*net allowable assets* plus~~early warning reserve amount; or

(ii) ~~four~~Margin lending adjusted free credit limit:

Twenty times the *Dealer Member's* early warning reserve amount for margin lending purposes plus twelve times the remaining early warning reserve amount for all other purposes, where the remaining early warning reserve amount equals the early warning amount minus 1/20th of the total settlement date client margin debit amount. [LINK to Statement C of Form 1 on calculating EW reserve]

(2) A *Dealer Member* must segregate clients' *free credit balances* in excess of the amount calculated in (1) above either:

(i) in cash held in trust for clients in a separate account with an acceptable institution; or

(ii) in Canadian bank paper with an original maturity of one year or less and bonds, debentures, treasury bills, and other securities with a maturity of ~~less than~~ one year or less of, or guaranteed by, the Government of Canada, a province of Canada, the United Kingdom, the United States, or any other national foreign government that is on the List of ~~Basle~~Basel Accord Countries (provided such other foreign government securities are currently rated Aaa or AAA by Moody's Investors Service, Inc. or Standard & Poor's Corporation, respectively).

### 4385. Weekly calculation

(1) At least weekly, but more frequently if required, a *Dealer Member* must calculate the amounts that must be segregated under ~~Section~~section 4384.

### 4386. Daily compliance review

(1) Every day, a *Dealer Member* must review its compliance

with ~~Section~~section 4384 against the amounts Part C of Rule 4300 requires it to segregate.

(2) A *Dealer Member* must identify and ~~promptly~~ correct any deficiency in amounts of *free credit balances* required to be segregated within five business days following the determination of the deficiency.

**4387. - 4399. - Reserved**

IIROC OCRCVM

April 28, 2016

**Re: IIROC response to public comments on the proposed amendments to Dealer Member Rules 100 and 1200 and to Form 1 relating to the client free credit cash usage limit, client free credit segregation requirements, and securities concentration test**

We are publishing this letter in response to the comment letters received relating to the proposed amendments to Dealer Member Rules 100 and 1200 and to Form 1 relating to the client free credit cash usage limit, client free credit segregation requirements, and securities concentration test (collectively, "the Proposed Amendments").

We received three (3) comment submissions in response to the request for comments. We thank all of the commenters for their submissions.

The comments have been summarized and grouped according to the specific questions asked in IIROC Rules Notice 14-0298 and the related issues raised. The response by IIROC staff follows each particular issue.

**IIROC Rules Notice 14-0298, Question No. 1: Do you agree with the fundamental concept of the rule amendment that the client free credit cash usage limit should be based solely upon a liquid capital measure, and that the best liquid capital measure is early warning reserve (EWR)? Further, do you agree that the proposed change to the client free credit usage limit strikes a proper balance between margin lending usage and other usages?**

1. While we support IIROC's view that the usage of a capital ratio based on a capital liquid measure such as EWR is an appropriate method to limit client free credit cash usage, we believe that restricting the usage of clients' free credit balances provides better protection for investors.

***IIROC staff response***

As detailed in IIROC Notice 14-0298, when we developed these Proposed Amendments we kept in mind several key considerations. Among these considerations is the reality that mandating a full restriction on Dealer use of client free credit cash would severely impair a Dealer's ability to pay competitive interest amounts on free credit cash balances.

A full restriction on any usage of client free credit balances by Dealer Members would certainly be the most conservative approach to follow; however we believe that the Proposed Amendments offer the most balanced and appropriate method to strengthen the safeguarding of client free credit balances that is fair to the interests of all stakeholders.

IIROC OCRCVM

2. We are of the view that using EWR to set the free credit usage limit is overly restrictive as the EWR is based on risk adjusted capital (RAC), which is already a stressed metric for liquid capital. The objective of EWR which has additional stresses built into it is to provide advance warning of a Dealer Member experiencing any financial difficulty to effectively prevent further deterioration. Carrying over these additional stresses for the determination of the free credit cash usage limit, the purpose of which is to limit excess leveraging of client free credits by Dealer Members would be overly restrictive as RAC by design is a fair representation of liquid capital.

***IIROC staff response***

IIROC staff reviewed many alternative approaches to strengthen the prudential framework for ensuring the safeguarding of client free credits, including basing the allowable usage ratio on RAC. In order to meet our objective to strengthen the current allowable usage ratio, we believe it is imperative to use EWR as the base for the calculation because it is the best measure of the short term solvency of a Dealer Member. In contrast, while RAC is a stressed metric for liquid capital, it also includes unsecured assets from acceptable institutions and allowable tax recoveries, both of which are excluded from EWR. The use of EWR is also consistent with Dealer Member Rule 30, *Early Warning System*, which imposes business restrictions on Dealer Members that breach early warning thresholds, including the requirement, at IIROC's discretion, that the Dealer Member segregate up to all of its client free credit balances.

In consultations at the policy advisory committee level, staff acknowledged concerns raised by Dealer Members regarding the variability of EWR, and the potential impact that this might have on a smaller Dealer Member's ability to manage its use of client free credits. These concerns led to the development of the proposed "two-tiered" limit on client free credit cash usage, whereby client free credit cash used to finance margin loans could be given a higher leverage limit of 20 times EWR.

**IIROC Rules Notice 14-0298, Question No. 2: Do the proposed changes to the eligibility criteria for securities that may be invested in for client free credit segregation purposes adequately meet the objective of raising the eligibility standards?**

3. No, we believe that securities invested in for client free credit segregation should be limited to securities that the industry considers as risk free such as securities issued by governments (federal and provincial) or guaranteed by these governments. Canadian bank paper is not considered a risk free product by the market and we are concerned that a bank-owned Dealer Member may invest in its parent bank paper for segregation purposes.

***IIROC staff response***

In order to meet the objective of raising the eligibility standards for securities that may be invested in for client free credit segregation purposes, we looked to the IIROC margin rules, which provide the industry standard measure for the assessment of risk.

The proposed change to the qualification standard for "other" national foreign government debt raises the eligibility standard for client free credit segregation, which also limits the investment options available to Dealer Members. The Proposed Amendments provide an additional investment option to Dealer Members by making Canadian bank paper, with an original term to maturity within 1 year, an eligible investment for client free credit segregation. Moreover, IIROC staff believe that Canadian Bank paper with an original term to maturity within 1 year is considered low risk and suitable for the purposes of client free credit segregation. The IIROC margin rules accord Canadian bank paper the same margin rate treatment as provincial short-term debt, which is an eligible investment.

While the Proposed Amendments would allow a bank-owned Dealer Member to invest in bank paper issued by its parent bank for the purposes of client free credit segregation, IIROC measures exposures that each Dealer Member has to each of its providers of capital through reporting on Schedule 14, *Provider of Capital Concentration Charge*. Schedule 14 reporting includes exposures to all investments in securities issued by the provider of capital and imposes a "provider of capital concentration charge" when defined thresholds are exceeded.

**IIROC Rules Notice 14-0298, Question No. 3: The proposed amendments include changes to the client free credit cash usage monitoring requirements (e.g. minimum weekly calculation of client free credit limit and segregation requirements, and 5 business days for correcting any client free credit segregation deficiencies) that are intended to align these requirements with established IIROC internal control requirements regarding capital adequacy monitoring and the treatment of segregation deficiencies. Do you have any specific issue or concern with the proposed client free credit cash usage monitoring requirements?**

4. While the proposed rule references "estimating" the client free credit cash usage limit weekly, does this require firms to actually obtain/calculate the client free credit amounts weekly and compare this number to the limit based on 12x EWR, or, does this require firms to use the prior month-end client free credit number and compare this amount to the limit based on 12x EWR, which is calculated weekly as part of a firm's weekly capital calculations as required by Rule 2600?

***IIROC staff response***

To clarify, the Proposed Amendments maintain the requirement that Dealer Members must calculate the free credit limit and segregation requirements at least weekly, and simply add that these calculations must be done "more frequently if required". In order to adequately determine client free credit segregation requirements on an "at least weekly" basis, it is necessary to obtain/calculate the client free credit amounts on "at least weekly" basis.

5. For Dealer Members involved in margin lending who operate with lower levels of EWR compared to their client free credits, we are concerned that although IIROC has in place strict and extensive requirements governing margin lending activity, the increase to 20 times the EWR could increase investors' risk as well as industry risk. If this 20x EWR is triggered, we suggest that IIROC [consider] requiring that the free credit cash usage calculation be performed at least twice a week compared to what is currently being suggested and that any deficiency be corrected in three business days instead of five business days.

***IIROC staff response***

We believe that your concerns regarding client free credit monitoring are addressed by the Proposed Amendments and specifically by including a requirement that the client free credit limit and segregation requirements must be determined more frequently than weekly if required. This approach for heightened client free credit monitoring is consistent with the requirements of Dealer Member Rule 2600 (Internal Control Policy Statement 2 – Capital Adequacy), and in our opinion, is a more effective risk control measure than a prescriptive requirement under a specific scenario for a Dealer Member to determine the client free credit amounts to be segregated twice weekly.

Heightened client free credit monitoring as required under the Proposed Amendments, such as where the Dealer Member is operating close to early warning levels or during periods of high market volatility, could require that the client free credit limit and segregation requirements be determined more frequently than twice a week. Heightened client free credit monitoring during periods where the Dealer Member's capital position may be under stress is meant to detect any free credit segregation deficiency as soon as possible. We believe that the Proposed Amendments offer an effective means for early detection of client free credit segregation deficiencies and that five (5) business days to correct a deficiency from the date it is detected is reasonable and consistent with existing IIROC requirements regarding the correction of segregation deficiencies.

**IIROC Rules Notice 14-0298, Question No. 4: Should the proposed amendments to the client free credit segregation requirements be accompanied by the proposed amendments to the securities concentration test? If so, do the proposed amendments**

**adequately address concentration risk for debt securities with a normal margin rate of 10% or less, by focusing on corporate debt securities (excluding Canadian bank paper maturing within 1 year) and higher yield non-commercial debt securities?**

6. Will government-guaranteed (CMHC guaranteed) products, such as mortgage-backed securities or insured mortgages be scoped into Schedule 9, if they have margin rates of less than 10%?

> ***IIROC staff response***
>
> Mortgage-backed securities that are government-guaranteed, such as Canadian Mortgage and Housing Corporation (CMHC) mortgage backed securities, would not be included on Schedule 9, *Concentration of Securities*, unless their normal margin rate is 10% or greater.
>
> Mortgage-backed securities are margined based upon the margin classification of the underlying guarantor, subject to an additional margin of 25% of such specified rate. CMHC mortgage-backed securities are guaranteed by the Canadian government and would be margined based upon Dealer Member Rule 100.2(a)(i), which would result in a normal margin requirement of 5% (i.e. 4% x 1.25) for maturities greater than 7 years.

7. We do not agree with IIROC's Proposed Amendments that client free credit segregation requirements be accompanied by the Proposed Amendments to include corporate debt securities with normal margin requirements of 10% or less in the concentration test for the following reasons:

   i. The main reason for IIROC's Proposed Amendments to the securities concentration test is to create a direct relationship with the client free credit segregation rule as concentration charges will affect a Dealer Member's EWR, which in turn is used to calculate the client free credit segregation requirement.

   ii. We do not share IIROC's concern that the Proposed Amendments are necessary to prevent Dealer Members from attempting to maximize the spread on income yield by investing client free credits in corporate debt securities without any consideration for concentration risk. Not all Dealer Members would rely on such a strategy, and Dealer Members have in place proper market and credit risk management policies and procedures to properly address corporate debt securities concentration risk.

   iii. For Dealer Members that do not have client free credit balances on their books due to the nature of their business (institutional RVP/DVP accounts), the Proposed Amendments to the securities concentration test puts them at a disadvantage as

concentration capital charges on debt securities will negatively affect their EWR and other ratios based on risk adjusted capital and EWR while there will be no positive impact in the client free credit segregation requirements.

iv. The Proposed Amendment applies to all corporate debt securities that are margined at 10% or less, and not simply to the more volatile or riskier corporate debt securities.

***IIROC staff response***

We will respond to each comment in turn.

i. The main reason for the Proposed Amendments to the securities concentration test is to ensure that the test has sufficient scope to properly perform its function, which is to preserve a minimum level of residual capital in a scenario where a Dealer Member takes on a high exposure to a single security (or group of related securities of the same issuer). Accordingly, the Proposed Amendments seek to address the risk concerns raised because the current test does not include any debt securities (commercial or non-commercial) with a normal margin rate of 10% or less.

   Nevertheless, the proposed changes to the securities concentration test and the proposed changes to the client free credit segregation requirements are related, and we believe that the safeguarding of client free credits requires stronger regulatory oversight of potential concentration risks. A direct relationship between the securities concentration test, EWR and client free credit segregation requirements already exists in the current rules. The Proposed Amendments will strengthen this relationship by broadening the scope of the securities concentration test.

ii. As indicated within IIROC Rules Notice 14-0298, the proposed changes to the securities concentration test are also to act as a deterrent to Dealer Members that may seek to maximize, without adequate consideration of concentration risk, the yield of their debt security portfolios in relation to their investment policy for client free credits. This type of investment practice could lead to concentrated holdings of higher risk corporate or non-commercial debt securities. In addition, these proposed changes are intended to act as a deterrent to Dealer Members that may seek to maximize the yield of their own proprietary inventory debt security portfolios, without adequate consideration of concentration risk.

   We are aware that not all Dealer Members follow the same investment strategies or have the same level of risk management sophistication. The proposed changes to the securities concentration test provide a minimum level of concentration risk

management requirements for relatively higher risk debt securities. Given the interdependencies and linkages between capital market participants, even the most prudent, sophisticated Dealer Member may be impacted if a different, seemingly unrelated Dealer Member became insolvent as a result of taking on highly concentrated positions in corporate or non-commercial debt securities.

iii. It is unclear to us how the Proposed Amendments put Dealer Members who do not have client free credit balances on their books at a disadvantage. The Proposed Amendments strengthen the financial regulatory infrastructure for all Dealer Members by addressing the identified gap that exists in the securities concentration test, and by reducing the allowable client free credit cash usage ratio to an appropriate ratio. Dealer Members that have client free credit balances will face stricter requirements leading to a higher percentage of client free credits being segregated and secured by high quality assets, or held in trust, than under the current rules.

iv. The Proposed Amendments include an adjustment factor of 50% of the "amount loaned" that may be applied to "corporate debt securities with a normal margin rate of 10% or less" and "other non-commercial" debt securities with a normal margin rate of 10% that mature within 3 years. However, we have taken your comments into consideration and we have determined that the proposed amendments to the securities concentration test should not accompany the proposed amendments to the client free credit cash usage limit and segregation requirements at this time. We propose to move forward with the approval process regarding the proposed amendments to the client free credit cash usage limit and client free credit segregation requirements, and to put forward revised proposed amendments to the securities concentration test at a later date.

8. As part of its trading portfolio, the number of positions (long and short) a Dealer Member may have in debt securities of a single issuer is much larger than in positions in equities issued by the same issuer. Because regulatory offsets are based on maturity band and credit ratings, long or short positions in corporate debt securities of a same issuer will be more subject to trigger concentration charges due to their higher loan value, their weighting in calculating the aggregate amount loaned and the fact that they do not qualify easily for offset, although for market and credit risk purposes, a Dealer Member may be properly hedged on a Value at Risk (VAR) basis. Therefore, we suggest that the calculation of the amount loaned for corporate debt securities of a same issuer be calculated on the net position regardless of the positions qualified for offset.

***IIROC staff response***

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The calculation of the amount loaned for a Dealer Member's own inventory is done on a net basis, as indicated in current notes 9(a) and (b) of Schedule 9 (proposed notes 10(a) and (b)). However, the net position is calculated separately for each individual position of an issuer, such as is the case for individual classes of equities, and then aggregated. The calculation methodology is detailed in the sample calculation provided in IDA Compliance Interpretation Bulletin C-68. An issuer's corporate debt securities would be included in the calculation according to the same framework with netting allowed within each maturity band. The Proposed Amendments do not make an allowance for netting across maturity bands for debt securities for the purposes of calculating the "amount loaned" on Schedule 9, and further analysis and review would be needed to assess if this type of netting would be prudent. Please see response to comment 7(iv).

9. IIROC proposes an adjustment factor in the calculation of the "amount loaned" to debt securities that mature within 3 years in recognition of their lower risk. We believe that because equities are riskier than debt, and the fact that positions in debt securities are significantly larger than in equity positions and that higher loan value securities are given higher weighting in calculating the aggregate amount loaned, the adjustment factor is too restrictive and should apply to all debt securities subject to concentration charges. An alternative approach would be to subject debt securities to the concentration test only if they are not investment grade or if they trade at a deep discount such as 20% of face value.

***IIROC staff response***

Please see responses to comments 7(iv) and 8.

10. As acknowledged in IIROC Rules Notice 14-0298, a reasonable transition period to adopt the amendments would be appreciated given the system enhancements that will be required to capture the changes in the impacted debt securities.

***IIROC staff response***

As noted in our response to comment 7(iv) we have decided to withdraw the proposed amendments to the securities concentration test at this time. However, we intend to revise and resubmit the proposal at a later date. As such, we recognize that when changes to the securities concentration test are ultimately made, some system enhancements may be required and, as a result, we would provide an appropriate implementation period.