

# IIROC NOTICE

**Rules Notice**  
**Request for Comments**  
Dealer Member Rules

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**10-0230**  
**August 27, 2010**

## **Amendments to Form 1 to adopt IFRS for regulatory reporting purposes**

### **Summary of the nature and purpose of the proposed amendments**

On August 11, 2010, the Board of Directors (“the Board”) of the Investment Industry Regulatory Organization of Canada (“IIROC”) approved the publication for comment of the proposed amendments to Form 1 regarding the change in accounting standards from Canadian Generally Accepted Accounting Principles (CGAAP) to International Financial Reporting Standards (IFRS).

IIROC’s main objective with these proposals is to harmonize the standards used for regulatory financial reporting as much as is feasible with IFRS. In order to determine which changes in standards are feasible, IIROC staff considered:

- the investor protection issues, if any, associated with adopting a particular IFRS standard;
- the Dealer Member and Dealer Member service provider costs associated with adopting a particular IFRS standard;
- the value of using one standard for both statutory and regulatory reporting purposes; and
- the incremental regulatory value provided by adopting a particular IFRS standard.

Since Form 1 is a special purpose report used by IIROC and CIPF to assess and monitor Dealer



Member financial solvency, IIROC staff was also mindful of the potential impact of the adoption of IFRS on Dealer Members' capital and early warning calculations.

## **Issues and specific proposed amendments**

### ***Current Form 1***

Form 1 is a special purpose report that is used by IIROC and CIPF to monitor the financial solvency of Dealer Members. To monitor financial solvency, IIROC monitors the Risk Adjusted Capital (RAC) level and Early Warning Test (EW) compliance of each Dealer Member. The RAC level is calculated on Statement B of Form 1 and EW compliance is on Schedules 13 and 13A of Form 1. Existing Form 1 is to be prepared in accordance with Canadian Generally Accepted Accounting Principles (CGAAP), except as modified by IIROC rules.

### ***Proposed amendments to Form 1***

The proposed amendments are a combination of significant and minor changes. Most of the significant changes occur in Part I of Form 1, which contains the Dealer Member financial statements including the statement of financial position, the statement of income, and the statement of changes in capital and retained earnings. Minor changes have been proposed throughout Form 1.

### **Significant amendments**

The following significant amendments are proposed:

- ***Prescribed departures from IFRS:*** The following are the six departures from IFRS that IIROC proposes to mandate:
  1. reporting of client and broker trading balances on a net basis;
  2. treating preferred shares as regulatory capital;
  3. presenting certain terms, classifications and financial statements that are not contemplated under IFRS but which are necessary for regulatory reporting purposes;
  4. presenting the financial statements on a non-consolidated basis;
  5. excluding the statement of cash flow from Form 1; and
  6. using a different valuation approach for investment product positions held in Dealer Member inventory and client accounts.

Each of these departures, with the exception of the valuation approach used for investment product positions, will result in no change to the current approach used by IIROC Dealer Members in preparing Form 1.

### ***Proposed Form 1 valuation approach***

In the case of the valuation approach used for investment product positions, IIROC staff is proposing to amend the existing Form 1 "market value" definition to adopt the mandated IFRS valuation approaches (Items 1 through 4 of the proposed revised "market value" definition).

It should be noted, however, that in order to address situations where a current "fair value"



cannot otherwise be reliably determined through the use of the mandated IFRS valuation approaches, IIROC has proposed a fifth valuation approach (Item 5 in the proposed revised “market value” definition). This fifth valuation approach would permit a Dealer Member to assign no value to an investment product position “Where value cannot be reliably measured under Items 1 through 4 above (including where cost does not represent the best estimate of value)...” and would represent a departure from IFRS.

IIROC staff has proposed this fifth valuation approach as part of the proposed Form 1 amendments for the following practical, investor protection and Dealer Member solvency reasons:

- **Practical:** Daily valuation of Dealer Member inventory and client account positions is now an investment dealer industry standard<sup>1</sup>. As a result, where a number of investment product positions do not trade or are inactively traded, such that a current price quote is unavailable, we believe the daily use of other valuation techniques such as modeling and marking to estimated value would be impractical.
- **Investor protection:** IIROC staff believes that the use of multiple IFRS valuation approaches of varying degrees of reliability raises investor protection concerns given that the use of multiple approaches may lead to investor confusion as to the realizable value of their holdings. As a result, in instances where the values determined are considered to be less reliable and/or there is a wide range of possible values, Dealer Members should have the option of assigning no value to a client account position rather than being required to provide the client with an unreliable and/or imprecise value.
- **Solvency:** The IFRS valuation methods were specifically designed for the preparation of statutory financial statements; they were not designed for the preparation of special purpose regulatory financial statements that assess near-term investment dealer solvency. As a result, in instances where the values determined are considered to be less reliable and / or there is a wide range of possible values, Dealer Members should have the option of assigning no value to a Dealer Member inventory position rather than being required to assign an unreliable and/or imprecise value to that position.

#### ***Proposed valuation approach for CSA registrants***

The CSA (as part of its proposed one year amendments to NI 31-103) is proposing to adopt the mandated IFRS valuation approaches and to use the IFRS term “fair value”, but it will also allow the assignment of no value to a security position in limited circumstances. Precisely what these limited circumstances would be is unclear at this time but it is clear under the CSA proposal that the expectation is that a registrant would need to attempt to value positions by each of the possible IFRS valuation approaches, and in turn conclude that a value could not be determined, before the assignment of no value could be considered.

The CSA has also proposed that for client statements, the “fair value” approach be used on a

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<sup>1</sup> Investment dealers are required to “mark-to market” Dealer Member inventory positions on a daily basis and most investment dealers provide daily account investment valuations to clients over the internet.



quarterly basis. Further, for illiquid securities, the proposal allows that the value determined at each quarter-end can be used as an indication of value throughout the subsequent quarter or until a current market quote becomes available, whichever occurs sooner.

### **Questions for commenters**

In order to assess the impact of the IIROC proposals relating to valuation, we have developed a number of questions for commenter response. The responses to these questions will also assist us in finalizing the valuation requirements set out in the General Notes and Definitions to Form 1.

#### **FOR INVESTMENT DEALERS**

- 1. The adoption of the IFRS valuation approach or a similar approach<sup>2</sup> involves the use of various alternative valuation approaches when a current market quote is unavailable. What are the approximate percentage(s)<sup>3</sup> of your current Dealer Member inventory and client account holdings, where stale pricing is a concern or for which no value has been assigned and which would therefore be directly impacted by these proposals?**
- 2. Do you have the in-house expertise to apply the alternative valuation approaches mandated by IFRS when a current market quote is unavailable? Do you intend to rely on a third party pricing provider to provide this expertise and are they equipped to provide it?**

#### **FOR ALL COMMENTERS**

- 3. The adoption of the IFRS valuation approach involves the use of alternative valuation approaches. Some approaches provide a much more reliable estimate of the potential realization value of account positions than others<sup>4</sup>. Where different approaches with different reliability levels are used, should the valuation approach used for each account position be disclosed?**
- 4. The IIROC proposals address situations where the value of an investment product is extremely difficult to determine. Should an investment dealer always report to the client its best estimate as to a investment product's value or should they be allowed to report "value not determinable" when they've concluded that the estimated value of the product is unreliable and/or the estimated value has been selected from a wide range of values?**

<sup>2</sup> IIROC's proposed approach would be described as a "similar approach" because of the proposed departure from IFRS (Item 5) relating to the valuation of hard to value securities.

<sup>3</sup> Please provide percentages determined for both number of investment products affected and dollar value of investment products affected. The number-based percentage will give us an indication of the impact of the proposed change in valuation approach on Dealer Member valuation procedures, the dollar value-based percentage will give us an indication of the impact of the proposed change in valuation approach on the positions held in Dealer Member inventory and client accounts.

<sup>4</sup> Valuing a position based on a currently available market quote is a more reliable estimate of the potential realization value of an account position than if the value is determined using a mark-to-estimate approach.



*[General Notes and Definitions, Note 1 - IFRS departures and Definition (g) - “market value”]*

- **Extraordinary items:** It is also proposed that the line item “Extraordinary items” be removed from Statement E, “*Statement of Income and Comprehensive Income*”. This proposal flows from the fact that under IFRS there is no concept of extraordinary items. As a result, any amounts that were previously considered to be “extraordinary” will now be included in the calculation of “Profit [loss] for Early Warning test” and will therefore, affect the outcome of the Early Warning profitability tests set out in Schedules 13 and 13A. However, if an Early Warning profitability test is triggered due to an extraordinary item reclassification, IIROC has the ability to exercise discretion to waive any early warning restrictions, in accordance with Dealer Member Rule 30.8, if warranted.

*[Statement E]*

- **Taxes on partnership profits:** It is also proposed that the requirement for Dealer Members to report taxes at 33 1/3% on partnership profits as a notional income tax expense be repealed. Currently, IIROC requires Dealer Members that are structured as partnerships to recognize a notional income tax expense equal to 33 1/3% of undistributed partnership income. Dealer Members reverse the income tax accrued over the year once the partnership income is allocated to the partners. The purpose of this proposed amendment is to recognize that the Dealer Member itself is not accountable to pay income taxes related to the partnership income. Rather, it is the individual partners who must pay income taxes at the personal level.

*[Statement E]*

### **Minor amendments**

The following amendments, which have been classified as minor because they do not impact on the calculation of RAC and early warning tests, are proposed:

- **Prescribed accounting treatment:** These proposed amendments list IIROC’s three prescribed accounting treatments in relation to: prohibiting the use of hedge accounting; categorizing all inventory positions as held-for-trading financial instruments; and valuing a subsidiary at cost. The prescribed treatment for categorizing inventory positions was previously mandated by the IDA through the issuance of IDA Member Regulation Notice MR0431. The other two prescribed treatments reflect current industry practice.

*[General Notes and Definitions, Note 3 and Statement A, Line 26 and related notes and instructions]*

- **List of unresponsive brokers to year-end audit confirmation request:** This proposed amendment removes the requirement for Dealer Members to enclose a list of brokers that have not responded to a year-end audit confirmation request. This requirement was removed because there is no additional regulatory value to receiving it, given that Dealer Members are already required to reconcile broker account statement balances on a monthly basis and capital penalties arise if there are unreconciled differences.

*[General Notes and Definitions, Note 11]*

- **List of unresponsive guarantors to year-end audit confirmation request:** This proposed amendment removes the requirement for Dealer Members to enclose a list of guarantors that



have not responded to a year-end audit confirmation request. This requirement was removed because there is no additional regulatory value to receiving it, given that capital penalties arise if a guarantee agreement, which is subject to year-end audit confirmation, is unconfirmed. Furthermore, the auditors test the validity of guarantee agreements throughout the year.

*[General Notes and Definitions, Note 12]*

- **Lists of other acceptable foreign securities locations:** This proposed amendment removes the requirement for Dealer Members to enclose certain information regarding securities held at other acceptable foreign securities locations. This requirement was removed because there is no additional regulatory value to receiving it, given that Dealer Members are required to reconcile their custody holdings on a monthly basis with all custodial locations and to provide 100% margin for any unresolved differences.

*[General Notes and Definitions, Note 13]*

- **Signatories to the management certificate filed with Form 1:** These proposed amendments update who may sign the management certificates that accompany Form 1, thereby incorporating post “Registration Reform” terminology. The revised signatory requirements specify that the Ultimate Designated Person (UDP) and the Chief Financial Officer (CFO) must sign each certificate, along with one additional Executive where the CFO is not an Executive or where the UDP and the CFO are the same person. In substance, the revised requirements mandate that at least two Dealer Member Executives must sign the management certificates that are filed with Form 1.

*[“UDP and CFO Certificate” and “Separate UDP and CFO Certificate on Statement G of Part I”]*

- **Receivable from carrying broker or mutual fund:** This proposed amendment requires a Dealer Member that is an introducing broker to report unsecured balances from its carrying broker, such as commissions and deposits on a gross basis instead of on a net basis. The purpose of the amendment is to ensure compliance with IFRS, which requires balances to be reported on a gross basis unless the IFRS criteria to report on a net basis are met.

*[Statement A, Line 11 and related notes and instructions]*

- **Recoverable and overpaid taxes:** This proposed amendment adds Harmonized Sales Tax (HST) receivables, in recognition of the introduction of this tax in some provinces.

*[Statement A, Line 14 and related notes and instructions]*

- **Advances to subsidiaries and affiliates:** This proposed amendment requires a Dealer Member to report non-trading inter-company receivables on a gross basis instead of a net basis. Its purpose is to comply with IFRS, which requires balances to be reported on a gross basis unless the IFRS criteria to report on a net basis are met.

*[Statement A, Line 27 and related notes and instructions]*

- **Other assets:** This proposed amendment requires a Dealer Member to report non-trading receivables that are not from acceptable institutions on a gross rather than net basis. Its purpose is to comply with IFRS, which requires balances to be reported on a gross basis, unless the IFRS criteria to report on a net basis are met.

*[Statement A, Line 28 and related notes and instructions]*



- **Capitalized leases:** These proposed amendments: (a) move the line item “capitalized leases” from within the “Non Allowable Assets” category of assets to a separate category on its own; and (b) rename “capitalized leases” as “finance lease assets”, in order to adopt IFRS terminology. The amendments are necessary because under IFRS, it is likely that more leases, which would have been formerly classified as operating leases, will be classified as finance leases. Without the above amendments, these finance lease assets would be classified as non-allowable assets and the Dealer Member’s RAC would be negatively affected. These proposed amendments are justified given that in the event of a Dealer Member’s insolvency, the corresponding liability owing to general creditors for capitalized leases ranks behind client claims. There is therefore no need for Dealer Members to provide regulatory capital for finance lease assets.

*[Statement A, Line 30]*

- **Provisions:** These proposed amendments add the line items “Provisions” under the “Current Liabilities” category and the “Non-current Liabilities” category. Their purpose is to meet the IFRS requirement to separately disclose specific amounts relating to legal and constructive obligations. A constructive obligation under IFRS is an obligation that derives from an entity's actions where: (a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept particular responsibilities; and (b) as a result, the entity has created a valid expectation in those parties that they can reasonably rely on it to discharge those responsibilities. Currently provisions would be included in the line items “Other current liabilities” and “Other long-term liabilities” under the “Current Liabilities” category and “Long Tem Liabilities” category, respectively.

*[Statement A, Lines 55 and 62]*

- **Deferred income taxes - current portion:** This proposed amendment removes the line item “Deferred income taxes - current portion” from within the “Current Liabilities” category, because under IFRS, when an entity presents current and non-current liabilities as separate classifications within its statement of financial position, as is the case with Form 1, the entity is prohibited from classifying any portion of its deferred income taxes as a current liability. Rather, under IFRS, all deferred tax liability amounts must be reported as “Deferred tax liabilities” within the “Non-current liabilities” category of the statement of financial position.

*[Statement A, Line 63]*

- **Non-current portion of capitalized leases qualifying as capital:** These proposed amendments rename the line item “Non-current portion of capitalized leases qualifying as capital” with the name “Finance lease - leasehold inducements” within the former “Financial Statement Capital” category and move this line item to within the “Non-current Liabilities” category. The purpose of the rename is to adopt IFRS terminology. The purpose of the reclassification is to comply with IFRS balance sheet presentation. Since this line item will be added back on Statement B, Line 2 in determining “Regulatory Financial Statement Capital”, the amendments do not impact on the calculation of RAC and early warning tests.

*[Statement A, Line 65 and Statement B, Line 2]*



- **Subordinated loans:** These proposed amendments combine the line items “Subordinated loans - approved non-industry investors” and “Subordinated loans - industry investors” within the former “Financial Statement Capital” category, rename the resulting line item as “Subordinated loans” and move the line item to under the “Non-current Liabilities” category. The purpose of combining line items is that IIROC no longer needs to make a distinction between a subordinated loan from a non-industry investor and from an industry investor, because all subordinated loans must be processed and approved by IIROC. The purpose of the reclassification from a financial capital item to a liability item is to comply with IFRS statement of financial position presentation. Since this line item will be added back on Statement B, Line 3 in determining “Regulatory Financial Statement Capital”, the amendments do not impact on the calculation of RAC and early warning tests.

*[Statement A, Line 67 and Statement B, Line 3]*

- **Reserves and the various reserve accounts:** The proposed amendment adds the line item “Reserves” under the “Capital and reserves” category. The purpose of separately presenting this line item is to comply with IFRS balance sheet presentation. “Reserves” are amounts set aside for future use, expense, loss or claim. They include amounts appropriated from retained earnings and accumulated other comprehensive income.

*[Statement A, Line 71]*

A section has also been added as part of Statement F to detail the three types of reserve accounts “General”, “Properties revaluation” and “Employee benefits”. A “General” reserve is the amount a Dealer Member may transfer from retained earnings as an added measure of protection against unforeseen losses. A “Properties revaluation” reserve is used when a Dealer Member adopts the revaluation model to value PPE and intangibles. An “Employee benefits” reserve is made up of two components, defined benefit pension plan and stock option or share award. Regarding the defined benefit pension plan component, the employee benefits reserve is the accumulated actuarial gains and losses that are recognized in other comprehensive income (OCI) when a Dealer Member has a defined benefit pension plan and has adopted a policy of recognizing in full actuarial gains and losses in OCI. Regarding the stock option or share reward component, the employee benefits reserve is the corresponding increase in this reserve account when a Dealer Member recognizes the fair value of the stock option or shares award granted to its employees as an expense.

*[Statement F, Part B]*

- **Finance leases - leasehold inducements:** The proposed amendment adds the criterion upon which the non-current portion of a finance lease liability for leasehold inducements can be reported as an adjustment to RAC. The criterion is that the leasehold inducement presents no additional liability to the Dealer Member (i.e. the Dealer Member does not “owe” the unamortized portion of the lease inducement back to the landlord, thereby qualifying the landlord as a creditor of the Dealer Member).

*[Statement B, Line 2 and related notes and instructions]*



- **Contingent liabilities:** The proposed amendment requires a Dealer Member to retain the details of the margin calculations for contingencies for IIROC review instead of providing it as an attachment with Statement B.  
*[Statement B, Line 15 and related notes and instructions]*
- **Netting for margin calculation:** These proposed amendments allow a Dealer Member to net allowable assets and liabilities, as well as security positions, for regulatory margin purposes only, but prohibit their netting for presentation purposes.  
*[Statement B, notes and instructions]*
- **Other options:** These proposed amendments allow for the separate reporting of listed and over-the counter derivatives commission revenue by separating the line item “Other options” into two line items, “Other listed options” and “OTC derivatives”, within the “Commission Revenue” category of the statement of income and comprehensive income. This is strictly a presentation change.  
*[Statement E, Lines 5 and 8 and related notes and instructions]*
- **OTC derivatives:** The proposed amendment allows for the separate reporting of listed and over-the counter derivatives principal revenue by adding the item “OTC derivatives” within the “Principal Revenue” category of the statement of income and comprehensive income. The purpose of broadening the revenue line items is to separately present over-the-counter derivatives such as forwards and swaps. This is strictly a presentation change.  
*[Statement E, Line 14 and related notes and instructions]*
- **Net interest:** The proposed amendment renames “Net interest” with the name “Interest”, within the “Other Revenue” category of the statement of income and comprehensive income and permits only interest revenue to be reported on this line. The purpose of the proposed amendment is to comply with IFRS, which requires balances, in this case interest balances, to be reported on a gross basis unless the IFRS criteria to report on a net basis are met. A related “Financing cost” interest expense account is also being set up as a separate amendment (see discussion below).  
*[Statement E, Line 18 and related notes and instructions]*
- **Commissions and fees paid to third parties:** The proposed amendment adds the line item “Commissions and fees paid to third parties”, under the “Expenses” category. The purpose of the proposed amendment is to comply with IFRS, which requires balances to be reported on a gross basis unless the IFRS criteria to report on a net basis are met.  
*[Statement E, Line 23 and related notes and instructions]*
- **Financing cost:** The proposed amendment adds the line item “Financing cost”, within the “Expenses” category of the statement of income and comprehensive income and permits only interest expenses (other than those relating to subordinated debt) to be reported on this line. The purpose of the proposed amendment is to comply with IFRS, which requires balances, in this case interest balances, to be reported on a gross basis unless the IFRS criteria to report on a net basis are met. This new interest expense account is the contra account to the “Interest” revenue account discussed above.  
*[Statement E, Line 26 and related notes and instructions]*



- **Corporate finance cost:** The proposed amendment adds the line item “Corporate finance cost”, under the category “Expenses”. The purpose of the proposed amendment is to comply with IFRS, which requires balances to be reported on a gross basis unless the IFRS criteria to report on a net basis are met. This new corporate finance expense account is related to the existing corporate finance revenue accounts set out on Lines 15 through 17 of Statement E. *[Statement E, Line 27 and related notes and instructions]*
- **Profit (loss) for the year from discontinued operations:** The proposed amendment adds the line item “Profit (loss) for the year from discontinued operations” as IFRS requires separate disclosure of any such amounts. *[Statement E, Line 29 and related notes and instructions]*
- **Operating expenses:** These proposed amendments require Dealer Members to report as operating expenses all transaction costs associated with the buying and selling of inventory positions. Their purpose is to comply with IFRS, which require these costs to be expensed and not capitalized. *[Statement E, Line 30 and related notes and instructions]*
- **Income – Asset revaluation:** The proposed amendment adds the line item “Income – Asset revaluation”, under the category “Expenses”. The purpose of the proposed amendment is to accommodate the IFRS revaluation model in which changes to the fair value of a Dealer Member’s plant, property & equipment and intangible assets may result in recognizing income (i.e. from a write-up of these non-allowable assets) after considering accumulated depreciation (or amortization) and an OCI surplus. Although IIROC does not expect Dealer Members to choose the revaluation model, the proposed amendment has been made in order to give Dealer Members that option. The proposed amendment will not affect the early warning calculations, because the line item is not included in the line item “Profit (loss) for Early Warning test”. *[Statement E, Line 32 and related notes and instructions]*
- **Expense – Asset revaluation:** The proposed amendment adds the line item “Expense – Asset revaluation” under the category “Expenses”. The purpose of the proposed amendment is to accommodate the IFRS revaluation model in which changes to the fair value of a Dealer Member’s plant, property & equipment and intangible assets may result in recognizing expense (i.e. from a write-down of these non-allowable assets) after considering accumulated depreciation (or amortization) and an OCI surplus. Although IIROC does not expect Dealer Members to choose the revaluation model, the proposed amendment have been made in order to give Dealer Members that option. The proposed amendment will not affect the early warning calculations, because the line item is not included in the line item “Profit (loss) for Early Warning test”. *[Statement E, Line 33 and related notes and instructions]*
- **Other comprehensive income:** These proposed amendments add the category “Other comprehensive income” (OCI) to comply with IFRS presentation of profit or loss for the period. Under this category, these proposed amendments add two components of OCI that are acceptable to IIROC, line items “Gain (loss) arising on revaluation of properties” and “Actuarial gain (loss) on defined benefit pension plans”. Furthermore, these proposed amendments add



the line item “Other comprehensive income for the year, net of tax”, which is the sum of the two previously mentioned OCI components. Because of IIROC’s prescribed departures from IFRS, which disallow Dealer Members from: consolidating subsidiaries, applying hedge accounting and categorizing inventory positions as available-for-sale, their corresponding components of OCI will be excluded from the OCI category.

*[Statement E, Lines 39 and 40 and related notes and instructions]*

- **Total comprehensive income for the year:** The proposed amendment adds the line item “Total comprehensive income for the year”, which is the sum of the profit or loss for the period and other comprehensive income for the year, net of tax. The purpose of the proposed amendment is to present OCI in accordance with one of the IFRS presentation formats. In this case OCI is being presented along-side the income for the period as part of one statement.  
*[Statement E, Line 41 and related notes and instructions]*
- **Share premium and share capital:** These proposed amendments add new columns to separately disclose the share premium and share capital portions of Dealer Member issued capital.  
*[Statement F, Part A]*
- **Retroactive adjustment of prior year’s retained earnings:** These proposed amendments require a Dealer Member to retroactively adjust its prior year’s retained earnings if it makes a change in accounting policy in the current year. Furthermore, these proposed amendments require that the beginning balance of the current year be the ending balance of the prior year. While any adjustment reported on this line will impact on the calculation of RAC and early warning amounts, the requirement itself is unchanged from current CGAAP.  
*[Statement F, Part C]*
- **Statement of Changes in Subordinated Loans:** This proposed amendment repeals the Statement of Changes in Subordinated Loans in its entirety. This statement is no longer needed as IIROC obtains all necessary details of the subordinated loans outstanding at each Dealer Member at the time IIROC approves changes to such loans.  
*[Current Statement G]*
- **Opening IFRS Statement of Financial Position and Reconciliation of Equity:** This proposed amendment introduces a new one-time statement, to be completed at the time of Dealer Member IFRS adoption, which requires Dealer Members to reconcile their closing statement of financial position prepared using CGAAP to their opening statement of financial position prepared using IFRS. This one-time transitional filing and management certification will establish the basis for the opening retained earnings for subsequent monthly financial report filings. Adjustments to opening retained earnings to reflect the adoption of IFRS will be listed and explained.  
*[Proposed Statement G]*
- **Analysis of Deferred Income Taxes:** This proposed amendment removes Part B, “Analysis of deferred income taxes”, from Schedule 6, because it does not have any regulatory value to IIROC.  
*[Schedule 6]*



- **Other corollary amendments:** Other corollary amendments have been made throughout Form 1 to, among other things:
  - update terminology used within the form to adopt IFRS terms;
  - update terminology used within the form to reflect changes in securities legislation (i.e., Registration Reform);
  - removal of redundant line items (i.e., “syndicate and joint trading accounts” and “stock exchange seats”);
  - inclusion of additional line items to adopt IFRS requirements for separate disclosure (i.e., “deferred tax assets” and “intangible assets”);
  - update cross referencing within the form; and
  - remove references to other self regulatory organizations no longer involved in investment dealer regulation.

The full text of the proposed amendments to Form 1 is attached.

### **Rule-making process**

The following is the process IIROC staff followed in developing these proposed amendments:

- IIROC staff assessed the adoption of IFRS for regulatory reporting by its Dealer Members.
- IIROC staff analyzed and reviewed the changes in accounting standards, conducted an impact assessment survey by Dealer Members, which led to a decision by the IIROC Board to adopt IFRS for purposes of regulatory reporting, and allowing for accounting departures where justified. IIROC staff published for a 60-day comment period the survey results and staff recommendations and incorporated the comments received from Dealer Members as part of the proposed amendments to Form 1.
- IIROC staff worked closely with the CSA IFRS working group on matters, such as permitting IFRS accounting departures as prescribed by IIROC for the filing of Form 1 – a special purpose regulatory financial report.
- IIROC staff worked closely with the Panel Auditors on matters, such as revisions to the audit opinion for special purpose financial statements required by a regulatory authority as permitted by IFRS.
- IIROC staff engaged and consulted Dealer Members and Panel Auditors in a focus group to assist in assessing the industry survey results and in providing guidance and feedback on proposed amendments to Form 1.
- IIROC staff presented the proposed amendments to the FAS Capital Formula Subcommittee, the FAS Executive Committee and the FAS and their feedback were taken into consideration in the development of the proposed Rules.

The proposed Rules were approved for publication by the IIROC Board of Directors on August 11, 2010.



The proposed amendments to Form 1 are set out in Attachment A. A black-line of proposed Form 1 is set out in Attachment B.

### **Issues and alternatives considered**

An alternative to converging as much as possible to IFRS was to adopt IFRS and allow more prescribed departures as is currently with Form 1 under CGAAP. This alternative was not recommended, because IIROC staff believe the prescribed departures from IFRS should be limited to only situations where the effort and cost to converge outweigh the regulatory value or benefit of complying with IFRS. In addition, the alternative was not recommended, because IIROC staff's objective was to minimize the reconciliation effort for those Dealer Members that want or need to prepare audited statutory financial statements that are IFRS compliant.

### **Proposed rule classification**

Statements have been made elsewhere as to the nature and effects of the proposed Rules. The purposes of the proposed Rules are to:

- Ensure compliance with securities laws;
- Prevent fraudulent and manipulative acts and practices;
- Promote just and equitable principles of trade and emphasize the duty to act fairly, honestly and in good faith;
- Foster cooperation and coordination with entities engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities;
- Foster fair, equitable and ethical business standards and practices; and
- Promote the protection of investors.

IIROC staff proposes that rules regarding Form 1 should be rewritten to adopt IFRS except for where there are prescribed departures mandated by IIROC. The Board has determined that the proposed amendments are not contrary to the public interest.

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

### **Effects of proposed amendments on market structure, Dealer Members, non-members, competition and costs of compliance**

With the adoption of the proposed amendments to Form 1, Dealer Members and Panel Auditors will benefit from the close convergence of Form 1 reporting standards to IFRS, because it will minimize the reconciliation effort by any Dealer Member that wants to, or needs to prepare IFRS compliant statutory financial statements.

The proposed amendments will not have significant effects on Dealer Members, other than the increases that are expected in audit and consultant fees, or on non-Dealer Members, market structure or competition. It is not expected that there will be any other increases in the costs of compliance.



The proposed amendments do not impose any burden or constraint on competition or innovation that is not necessary or appropriate in the furtherance of IIROC's regulatory objectives. The proposed amendments do not impose costs or restrictions on the activities of market participants that are disproportionate to the goals of the regulatory objectives sought to be realized.

### **Technological implications and implementation plan**

As a result of the proposed amendments, there should not be significant technological implications for Dealer Members except in the cases already discussed above relating to the grossing up of balances and the valuation of securities that trade in an inactive market or where no secondary market exists. For most Dealer Members the implementation will begin on January 1, 2011. However for Dealer Members that are Type 1 or 2 introducing brokers whose financial reporting year begin on January 1 to April 1 of 2011 and who do not meet the definition of a publicly accountable enterprise (PAE), they will be allowed to defer the implementation for one year. From the IIROC IFRS 2009 survey results of Dealer Members, IIROC recognized that approximately one-quarter of Dealer Members do not meet the definition of PAE and would not be required to adopt IFRS by the Canadian Accounting Standards Board (AcSB) and therefore, IIROC will allow this group to defer the implementation. A Dealer Member meeting the previously stated criteria must notify IIROC of this election at the start of their 2011 fiscal year in order to make use of the implementation deferral.

### **Request for public comment**

Comments are sought on the proposed amendments. Comments should be made in writing. Two copies of each comment letter should be delivered within 60 days of the publication of this notice. One copy should be addressed to the attention of:

Answerd Ramcharan  
Specialist, Member Regulation Policy  
Investment Industry Regulatory Organization of Canada  
(416) 943-5850  
[aramcharan@iiroc.ca](mailto:aramcharan@iiroc.ca)

A second copy should be addressed to the attention of:

Manager of Market Regulation  
Ontario Securities Commission  
20 Queen Street West  
19th Floor, Box 55  
Toronto, Ontario  
M5H 3S8  
[marketregulation@osc.gov.on.ca](mailto:marketregulation@osc.gov.on.ca)

Those submitting comment letters should be aware that a copy of their comment letter will be made publicly available on the IIROC website ([www.iiroc.ca](http://www.iiroc.ca) under the heading "IIROC Rulebook - Dealer Member Rules – Proposed Policy").

Questions may be referred to:

Answerd Ramcharan



Specialist, Member Regulation Policy  
Investment Industry Regulatory Organization of Canada  
(416) 943-5850  
[aramcharan@iiroc.ca](mailto:aramcharan@iiroc.ca)

Mindy Kwok,  
Information Analyst, Member Regulation Policy  
Investment Industry Regulatory Organization of Canada  
(416) 943-6979  
[mkwok@iiroc.ca](mailto:mkwok@iiroc.ca)

**Attachments**

[Attachment A - Proposed amendments to Form 1](#)

[Attachment B - Black-line copy of proposed Form 1](#)

**INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA  
AMENDMENTS TO FORM 1 TO ADOPT IFRS FOR REGULATORY REPORTING PURPOSES  
PROPOSED AMENDMENTS**

1. Form 1 is amended by repealing and replacing it with the attached.

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(Dealer Member Name)

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(Date)

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15 Supplementary information

Jan-2011

\* Note: Schedules 2C, 2D, 3, 3A, 4B, 8 and 12A have been eliminated.

## FORM 1 - GENERAL NOTES AND DEFINITIONS

### GENERAL NOTES:

- Each Dealer Member must comply with the requirements in Form 1 as approved and amended from time to time by the board of directors of the Investment Industry Regulatory Organization of Canada (the Corporation).

Form 1 is a special purpose report that includes financial statements and schedules, and is to be prepared in accordance with International Financial Reporting Standards (IFRS), except as prescribed by the Corporation.

Each Dealer Member must complete and file all of these statements and schedules.

- The following are Form 1 IFRS departures as prescribed by the Corporation:

|   | <b>Prescribed IFRS departure</b>  |
|---|---|
| Client and broker trading balances                        | For client and broker trading balances, the Corporation allows the netting of receivables from and payables to the same counterparty.   |
| Preferred shares  | Preferred shares issued by the Dealer Member and approved by the Corporation are classified as shareholders' capital.   |
| Presentation  | Statements A and E contain terms and classifications (such as allowable and non-allowable assets) that are not defined under IFRS.<br>Statements B, C, D and F are supplementary financial information, which are not statements contemplated under IFRS.   |
| Separate financial statements on a non-consolidated basis | Consolidation of subsidiaries is not permitted for regulatory reporting purposes, except for related companies that meet the definition of a "related company" in Dealer Member Rule 1 and the Corporation has approved the consolidation.<br>Because Statement E only reflects the operational results of the Dealer Member, a Dealer Member must not include the income (loss) of an investment accounted for by the equity method.                     |
| Statement of cash flow                                    | A statement of cash flow is not required as part of Form 1.   |
| Valuation   | The "market value" definition has been retained. While the "market value" definition is similar in most respect to the IFRS "fair value" valuation approach there are differences that will result in the valuation of illiquid securities, whereby a value must be assigned under the IFRS "fair value" approach and a determination that the "value is not determinable" would be acceptable under the Corporation's "market value" valuation approach. |

- The following are Form 1 prescribed accounting treatments based on available IFRS alternatives:

|   | <b>Prescribed accounting treatment</b>   |
|---|--|
| Hedge accounting                                    | Hedge accounting is not permitted for regulatory reporting purposes. All security and derivative positions of a Dealer Member must be marked-to-market at the reporting date. Gains or losses of the hedge positions must not be deferred to a future point in time.   |
| Securities owned and sold short as held-for-trading | A Dealer Member must categorize all inventory positions as held-for-trading financial instruments. These security positions must be marked-to-market.<br>Because the Corporation does not permit the use of the available for sale and held-to-maturity categories, a Dealer Member must not include other comprehensive income (OCI) and will not have a corresponding reserve account relating to marking-to-market available for sale security positions. |
| Valuation of a subsidiary                           | A Dealer Member must value subsidiaries at cost.   |

- These statements and schedules should be read in conjunction with the Dealer Member rules.
- For purposes of these statements and schedules, the accounts of related companies that meet the definition of a "related company" in Dealer Member Rule 1 may be consolidated.
- For the purposes of the statements and schedules, the capital calculations must be on a trade date reporting basis unless

## FORM 1 - GENERAL NOTES AND DEFINITIONS [Continued]

specified otherwise in the Notes and Instructions to Form 1.

7. Dealer Members may determine margin deficiencies for clients, brokers and dealers on either a settlement date basis or trade date basis. Dealer Members may also determine margin deficiencies for *acceptable institutions, acceptable counterparties*, regulated entities and investment counselors' accounts as a block on either a settlement date basis or trade date basis and the remaining clients, brokers and dealer accounts on the other basis. In each case, Dealer Members must do so for all such accounts and consistently from period to period.
8. Comparative figures on all statements are only required at the audit date. As a transition exemption for the changeover to International Financial Reporting Standards (IFRS) from Canadian Generally Accepted Accounting Principles (CGAAP), Dealer Members are not required to file comparative information for the preceding financial year as part of the first audited Form 1 under IFRS.
9. All statements and schedules must be expressed in Canadian dollars and must be rounded to the nearest thousand.
10. Supporting details should be provided – as required - showing breakdown of any significant amounts that have not been clearly described on the statements and schedules.
11. **Mandatory security counts.** All securities except those held in segregation or safekeeping shall be counted once a month, or monthly on a cyclical basis. Those held in segregation and safekeeping must be counted once in the year in addition to the count as at the year-end audit date.

### DEFINITIONS:

- (a) **“acceptable clearing corporation”** means any clearing agency operating a central system for clearing of securities or derivatives transactions that is subject to legislation and oversight by a central or regional government authority in the country of operation. The legislation or oversight regime must provide for or recognize the clearing agency's powers of compliance and enforcement over its members or participants. The Corporation will maintain and regularly update a list of acceptable clearing corporations.
- (b) **“acceptable counterparties”** means those entities with whom a Dealer Member may deal on a value for value basis, with mark to market imposed on outstanding transactions. The entities are as follows:
  1. Canadian banks, Quebec savings banks, trust companies and loan companies licensed to do business in Canada or a province thereof. Each of the aforementioned entities must have paid up capital and surplus on the last audited balance sheet (plus such other forms of capital recognized as such in their regulatory regime as well as in this capital formula, e.g. subordinated debt) in excess of \$10 million and less than or equal to \$100 million to qualify, provided acceptable financial information with respect to such entities is available for inspection.
  2. Credit and central credit unions and regional caisses populaires with paid up capital and surplus or net worth (excluding appraisal credits but including general reserves) on the last audited balance sheet in excess of \$10 million and less than or equal to \$100 million, provided acceptable financial information with respect to such entities is available for inspection.
  3. Insurance companies licensed to do business in Canada or a province thereof with paid up capital and surplus or net worth on the last audited balance sheet in excess of \$10 million and less than or equal to \$100 million, provided acceptable financial information with respect to such companies is available for inspection.
  4. Canadian provincial capital cities and all other Canadian cities and municipalities, or their equivalents, with populations of 50,000 and over.
  5. Mutual funds subject to a satisfactory regulatory regime with total net assets in the fund in excess of \$10 million.
  6. Corporations (other than regulated entities) with a minimum net worth of \$75 million on the last audited balance sheet, provided acceptable financial information with respect to such corporation is available for inspection.
  7. Trusts and limited partnerships with minimum total net assets on the last audited balance sheet in excess of \$100 million, provided acceptable financial information with respect to such trust or limited partnership is available for inspection.
  8. Canadian pension funds which are regulated either by the Office of Superintendent of Financial Institutions or a provincial pension commission, with total net assets on the last audited balance sheet in excess of \$10 million, provided that in determining net assets the liability of the fund for future pension payments shall not be deducted.
  9. Foreign banks and trust companies subject to a satisfactory regulatory regime with paid up capital and surplus on

## FORM 1 - GENERAL NOTES AND DEFINITIONS [Continued]

the last audited balance sheet in excess of \$15 million and less than or equal to \$150 million, provided acceptable financial information with respect to such entities is available for inspection.

10. Foreign insurance companies subject to a satisfactory regulatory regime with paid up capital and surplus or net worth on the last audited balance sheet in excess of \$15 million, provided acceptable financial information with respect to such companies is available for inspection.
11. Foreign pension funds subject to a satisfactory regulatory regime with total net assets on the last audited balance sheet in excess of \$15 million, provided that in determining net assets the liability of the fund for future pension payments shall not be deducted.
12. Federal governments of foreign countries which do not qualify as a *Basel Accord country*.

For the purposes of this definition, a satisfactory regulatory regime will be one within *Basel Accord countries*.

Subsidiaries (excluding regulated entities) whose business falls in the category of any of the above enterprises and whose parent or affiliate qualifies as an acceptable counterparty may also be considered as an acceptable counterparty if the parent or affiliate provides a written unconditional irrevocable guarantee, subject to approval by the Corporation.

(c) **“acceptable institutions”** means those entities with which a Dealer Member is permitted to deal on an unsecured basis without capital penalty. The entities are as follows:

1. Government of Canada, the Bank of Canada and provincial governments.
2. All crown corporations, instrumentalities and agencies of the Canadian federal or provincial governments which are government guaranteed as evidenced by a written unconditional irrevocable guarantee or have a call on the consolidated revenue fund of the federal or provincial governments.
3. Canadian banks, Quebec savings banks, trust companies and loan companies licensed to do business in Canada or a province thereof. Each of the aforementioned entities must have paid up capital and surplus on the last audited balance sheet (plus such other forms of capital recognized as such in their regulatory regime as well as in this capital formula, e.g. subordinated debt) in excess of \$100 million, provided acceptable financial information with respect to such entities is available for inspection.
4. Credit and central credit unions and regional caisses populaires with paid up capital and surplus (excluding appraisal credits but including general reserves) on the last audited balance sheet in excess of \$100 million, provided acceptable financial information with respect to such entities is available for inspection.
5. Federal governments of *Basel Accord countries*.
6. Foreign banks and trust companies subject to a satisfactory regulatory regime with paid up capital and surplus on the last audited balance sheet in excess of \$150 million, provided acceptable financial information with respect to such entities is available for inspection.
7. Insurance companies licensed to do business in Canada or a province thereof with paid up capital and surplus or net worth on the last audited balance sheet in excess of \$100 million, provided acceptable financial information with respect to such companies is available for inspection.
8. Canadian pension funds which are regulated either by the Office of Superintendent of Financial Institutions or a provincial pension commission, and with total net assets on the last audited balance sheet in excess of \$200 million, provided that in determining net assets the liability of the fund for future pension payments shall not be deducted.
9. Foreign pension funds subject to a satisfactory regulatory regime with total net assets on the last audited balance sheet in excess of \$300 million, provided that in determining net assets the liability of the fund for future pension payments shall not be deducted.

For the purposes of this definition, a satisfactory regulatory regime will be one within *Basel Accord countries*.

Subsidiaries (other than regulated entities) whose business falls in the category of any of the above enterprises and whose parent or affiliate qualifies as an acceptable institution may also be considered as an acceptable institution if the parent or affiliate provides a written unconditional irrevocable guarantee, subject to approval by the Corporation.

(d) **“acceptable securities locations”** means those entities considered suitable to hold securities on behalf of a Dealer Member, for both inventory and client positions, without capital penalty, given that the locations meet the requirements outlined in the segregation rules of the Corporation including, but not limited to, the requirement for a written custody agreement outlining the terms upon which such securities are deposited and including provisions that no use or disposition of the securities shall be made without the prior written consent of the Dealer Member and the securities can be delivered to the Dealer Member promptly on demand. The entities are as follows:

## FORM 1 - GENERAL NOTES AND DEFINITIONS [Continued]

### 1. Depositories and Clearing Agencies

Any securities depository or clearing agency operating a central system for handling securities or equivalent book-based entries or for clearing of securities or derivatives transactions that is subject to legislation and oversight by a central or regional government authority in the country of operation. The legislation or oversight regime must provide for or recognize the securities depository's or clearing agency's powers of compliance and enforcement over its members or participants. The Corporation will maintain and regularly update a list of those depositories and clearing agencies that comply with these criteria.

### 2. *Acceptable institutions* and subsidiaries of *acceptable institutions* that satisfy the following criteria:

(a) *Acceptable institutions* which in their normal course of business offer custodial security services; or

(b) Subsidiaries of *acceptable institutions* provided that each such subsidiary, together with the *acceptable institution*, has entered into a custodial agreement with the Dealer Member containing a legally enforceable indemnity by the *acceptable institution* in favour of the Dealer Member covering all losses, claims, damages, costs and liabilities in respect of securities and other property held for the Dealer Member and its clients at the subsidiary's location.

### 3. *Acceptable counterparties* - with respect to security positions maintained as a book entry of securities issued by the *acceptable counterparty* and for which the *acceptable counterparty* is unconditionally responsible.

### 4. Banks and trust companies otherwise classified as *acceptable counterparties* - with respect to securities for which they act as transfer agent and for which custody services are not being provided (in such case, a written custody agreement is not required).

### 5. Mutual Funds or their Agents - with respect to security positions maintained as a book entry of securities issued by the mutual fund and for which the mutual fund is unconditionally responsible.

### 6. *Regulated entities*.

### 7. Foreign institutions and securities dealers that satisfy the following criteria:

(a) the paid-up capital and surplus according to its most recent audited balance sheet is in excess of Canadian \$150 million as evidenced by the audited financial statements of such entity;

(b) in respect of which a foreign custodian certificate has been completed and signed in the prescribed form by the Dealer Member's board of directors or authorized committee thereof;

provided that:

(c) a formal application in respect of each such foreign location is made by the Dealer Member to the Corporation in the form of a letter enclosing the financial statements and certificate described above; and

(d) the Dealer Member reviews each such foreign location annually and files a foreign custodian certificate with the Corporation annually.

### 8. For London Bullion Market Association (LBMA) gold and silver good delivery bars, means those entities considered suitable to hold these bars on behalf of a Dealer Member, for both inventory and client positions, without capital penalty. These entities must:

- be a market making member, ordinary member or associate member of the LBMA;
- be on the Corporation's list of entities considered suitable to hold LBMA gold and silver good delivery bars; and
- have executed a written precious metals storage agreement with the Dealer Member, outlining the terms upon which such LBMA good delivery bars are deposited. The terms must include provisions that no use or disposition of these bars shall be made without the written prior consent of the Dealer Member, and these bars can be delivered to the Dealer Member promptly on demand. The precious metals storage agreement must provide equivalent rights and protection to the Dealer Member as the standard securities custodial agreement.

and such other locations which have been approved as acceptable securities locations by the Corporation.

- (e) **"Basel Accord countries"** means those countries that are members of the Basel Accord and those countries that have adopted the banking and supervisory rules set out in the Basel Accord. [The Basel Accord, which includes the regulating authorities of major industrial countries acting under the auspices of the Bank for International Settlements (B.I.S.), has developed definitions and guidelines that have become accepted standards for capital adequacy.] A list of current Basel Accord countries is included in the most recent list of foreign *acceptable institutions* and foreign *acceptable counterparties*.

## FORM 1 - GENERAL NOTES AND DEFINITIONS [Continued]

- (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 Corporation 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.
- (g) **“market value of securities”** means:
1. In a fully transparent marketplace, the published price quotation for the security using:
    - (i) for listed securities, the last bid price of a long security and, correspondingly, the last ask price of a short security, as shown on the exchange quotation sheets as of the close of business on the relevant date or last trading date prior to the relevant date, as the case may be, subject to an appropriate adjustment where an unusually large or unusually small quantity of securities is being valued. If not available, the last sale price of a board lot may be used.
    - (ii) for unlisted and debt securities, and precious metals bullion, a value determined as reasonable from published market reports or inter-dealer quotation sheets on the relevant date or last trading day prior to the relevant date, or based on a reasonable yield rate.
    - (iii) for commodity futures contracts, the settlement price on the relevant date or last trading day prior to the relevant date.
    - (iv) for money market fixed date repurchases (no borrower call feature), the price determined by applying the current yield for the security to the term of maturity from the repurchase date. This will permit calculation of any profit or loss based on the market conditions at the reporting date.
    - (v) for money market open repurchases (no borrower call feature), the price determined as of the reporting date or the date the commitment first becomes open, whichever is the later. The value is to be determined as in (iv) and commitment price is to be determined in the same manner using the yield stated in the repurchase commitment.
    - (vi) for money market repurchases with borrower call features, the borrower call price.
  2. Where a marketplace does not exist or is inactive, the value is determined by using a valuation technique that includes inputs other than published price quotations that are observable for the security, either directly or indirectly.
  3. Where a marketplace does not exist or is inactive and there are no observable market data-related inputs for the security, the value determined by using unobservable inputs and assumptions.
  4. Where insufficient recent information is available and/or there is a wide range of possible value measurements and cost represents the best estimate of market value within that range, cost.
  5. Where value cannot be reliably measured under Items 1 through 4 above (including where cost does not represent the best estimate of value), no value shall be assigned.
- (h) **“regulated entities”** means those entities with whom a Dealer Member may deal on a value for value basis, with mark to market imposed on outstanding transactions. The entities are participating institutions in the Canadian Investor Protection Fund or members of recognized exchanges and associations. For the purposes of this definition recognized exchanges and associations mean those entities that meet the following criteria:
1. the exchange or association maintains or is a member of an investor protection regime equivalent to the Canadian Investor Protection Fund;
  2. the exchange or association requires the segregation by its members of customers’ fully paid for securities;
  3. the exchange or association rules set out specific methodologies for the segregation of, or reserve for, customer credit balances;

## FORM 1 - GENERAL NOTES AND DEFINITIONS [Continued]

4. the exchange or association has established rules regarding Dealer Member and customer account margining;
5. the exchange or association is subject to the regulatory oversight of a government agency or a self-regulatory organization under a government agency which conducts regular examinations of its members and monitors member's regulatory capital on an ongoing basis; and
6. the exchange or association requires regular regulatory financial reporting by its members.

A list of current recognized exchanges and associations is included in the most recent list of foreign *acceptable institutions* and foreign *acceptable counterparties*.

- (i) **“settlement date - extended”** means a transaction (other than a mutual fund security redemption) in respect of which the arranged settlement date is a date after regular settlement date.
- (j) **“settlement date - regular”** means the settlement date generally accepted according to industry practice for the relevant security in the market in which the transaction occurs, including foreign jurisdictions. For margin purposes, if such settlement date exceeds 15 business days past trade date, settlement date will be deemed to be 15 business days past trade date. In the case of new issue trades, regular settlement date means the contracted settlement date as specified for that issue.

**FORM 1 - CERTIFICATE OF UDP AND CFO**

\_\_\_\_\_  
(Dealer Member Name)

I/We have examined the attached statements and schedules and certify that, to the best of my/our knowledge, they present fairly the financial position and capital of the Dealer Member at \_\_\_\_\_ and the results of operations for the period then ended, and are in agreement with the books of the Dealer Member.

I/We certify that the following information is true and correct to the best of my/our knowledge for the period from the last audit to the date of the attached statements which have been prepared in accordance with the current requirements of the Corporation:

**ANSWER**

- 1. Does the Dealer Member have adequate internal controls in accordance with the rules? \_\_\_\_\_
- 2. Does the Dealer Member maintain adequate books and records in accordance with the rules? \_\_\_\_\_
- 3. Does the Dealer Member monitor on a regular basis its adherence to early warning requirements in accordance with the rules? \_\_\_\_\_
- 4. Does the Dealer Member carry insurance of the type and in the amount required by the rules? \_\_\_\_\_
- 5. Does the Dealer Member determine on a regular basis its free credit segregation amount and act promptly to segregate assets as appropriate in accordance with the rules? \_\_\_\_\_
- 6. Does the Dealer Member promptly segregate clients' securities in accordance with the rules? \_\_\_\_\_
- 7. Does the Dealer Member follow the minimum required policies and procedures relating to security counts? \_\_\_\_\_
- 8. Have all "concentrations of securities" been identified on Schedule 9? \_\_\_\_\_

Do the attached statements fully disclose all assets and liabilities including the following:

- 9. Participation in any underwriting or other agreement subject to future demands? \_\_\_\_\_
- 10. Outstanding puts, calls or other options? \_\_\_\_\_
- 11. All future purchase and sales commitments? \_\_\_\_\_
- 12. Writs issued against the Dealer Member or partners or any other litigation pending? \_\_\_\_\_
- 13. Income tax arrears? \_\_\_\_\_
- 14. Other contingent liabilities, guarantees, accommodation endorsements or commitments affecting the financial position of the Dealer Member? \_\_\_\_\_

\_\_\_\_\_  
(Ultimate Designated Person)

\_\_\_\_\_  
(date)

\_\_\_\_\_  
(Chief Financial Officer)

\_\_\_\_\_  
(date)

\_\_\_\_\_  
(other Executive, if applicable)

\_\_\_\_\_  
(date)

**FORM 1 - CERTIFICATE OF UDP AND CFO  
NOTES AND INSTRUCTIONS**

1. Details must be given for any “no” answers.
2. To be signed by:
  - (a) Ultimate Designated Person (UDP);
  - (b) Chief financial officer (CFO); and
  - (c) at least one other executive if the CFO is not an executive or if the UDP and CFO are one.
3. A copy of the certificate with original signatures must be provided to both the Corporation and CIPF.

**FORM 1 – SEPARATE CERTIFICATE OF UDP AND CFO ON STATEMENT G OF PART I –  
OPENING IFRS STATEMENT OF FINANCIAL POSITION AND RECONCILIATION OF EQUITY**

\_\_\_\_\_  
(Dealer Member Name)

We have examined the attached Statement G and certify that, to the best of my/our knowledge, it has been prepared in accordance with its accompanying notes and instructions and represents the opening IFRS financial position and reconciliation of equity between Canadian Generally Accepted Accounting Principles (CGAAP) and International Financial Reporting Standards (IFRS) of \_\_\_\_\_ at \_\_\_\_\_.

\_\_\_\_\_  
(Dealer Member)

\_\_\_\_\_  
(IFRS conversion date)

We acknowledge that as management we are responsible for the preparation and fair presentation of the opening IFRS financial position in accordance with our regulatory financial reporting obligations. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements. On this basis, certify the following statements are true and complete:

1. We updated the written accounting policies and procedures to reflect the adoption of IFRS, except for prescribed regulatory accounting departures as stipulated in the general notes and instructions of Form 1.
2. We performed an analysis and financial statement impact assessment of the changeover from CGAAP to IFRS to determine whether we have identified all accounting and reporting changes appropriate for our business and material adverse capital implications.
3. We selected and adopted the accounting policy options to comply with IFRS 1, including the prescribed regulatory accounting requirements as set out in the general notes and instructions of Form 1.
4. We identified and disclosed all of the IFRS adjustments that impact retained earnings. For material adjustments, we provided an explanation of the effect and implications of the transition to IFRS, including any accompanying material impact on risk adjusted capital (RAC), by way of a note disclosure.
5. We identified and disclosed all of the IFRS adjustments that are presentation differences with no impact on total equity. For material presentation adjustments to non-allowable assets, we considered any accompanying adverse capital implication. For material presentation adjustments, we provided an explanation by way of a note disclosure.

\_\_\_\_\_  
(Ultimate Designated Person)

\_\_\_\_\_  
(date)

\_\_\_\_\_  
(Chief Financial Officer)

\_\_\_\_\_  
(date)

\_\_\_\_\_  
(other Executive, if applicable)

\_\_\_\_\_  
(date)

# FORM 1 – SEPARATE CERTIFICATE OF UDP AND CFO ON STATEMENT G OF PART I – OPENING IFRS STATEMENT OF FINANCIAL POSITION AND RECONCILIATION OF EQUITY NOTES AND INSTRUCTIONS

## Instructions

### One-time transitional reporting requirement

The opening IFRS Statement A provides a starting point for accounting under IFRS.

For regulatory reporting, a Dealer Member prepares the opening IFRS Statement of financial position (also known as either the opening IFRS Statement A or the opening balance sheet) as at the conversion date. *Example:* For Dealer Members with a December 2010 year end, the conversion date is January 1, 2011. Therefore, the opening IFRS Statement A is as at January 1, 2011.

Together with the opening IFRS Statement A, Dealer Members are to provide a reconciliation of the equity between previous CGAAP and IFRS. *Example:* For Dealer Members with a December 2010 year-end, the previous CGAAP Statement A is as at December 31, 2010 and as filed on SIRFF as part of the audited Form 1.

### Date of the opening IFRS Statement A

For regulatory reporting, the opening IFRS Statement A is dated as at the conversion date. For example, a Dealer Member with a December 2010 year-end will file an opening Statement A as at January 1, 2011.

### Due date to file the opening IFRS Statement A

A Dealer Member will file an opening Statement A **on or before** filing its first MFR for the first fiscal year under IFRS. To accommodate this filing requirement, Dealer Members will be provided 10 weeks following their fiscal year-end to file the opening IFRS Statement A and the first MFR under IFRS. The filing requirement for the fiscal year-end audited Form 1 under CGAAP remains at 7 weeks.

*Example:* For Dealer Members with a December 2010 year-end, the opening IFRS Statement A and reconciliation of equity must be filed **on or before** the filing of the January 2011 MFR. The audited Form 1 as at December 31, 2010 will be filed within the normal period of 7 weeks. The opening IFRS balance sheet as at January 1, 2011 *and* the January 2011 MFR under IFRS will be filed **on or before** March 15, 2011, which is approximately 10 weeks after the December 2010 year-end.

### Management certification

Senior management of the Dealer Member will certify that they have planned and executed the changeover from CGAAP to IFRS in accordance with IFRS 1 and the prescribed regulatory accounting departures and treatments as described in the general notes and definitions of Form 1. The purpose of the management certification is to provide IIROC a basis for its reliance on the completeness and reasonability of adjustments in determining the opening retained earnings under IFRS and for subsequent MFR filings under IFRS.

The ultimate designated person (UDP) and the chief financial officer (CFO) must sign. If the CFO is not an executive or if the UDP and CFO are one, one other executive must sign.

The Dealer Member must submit a certificate with original signatures to IIROC.

### Notes to the reconciliation

There will be two types of IFRS adjustments:

1. Presentation differences with no impact on total equity and
2. Adjustments that will impact retained earnings.

Adjustments made to restate the opening Statement A from previous CGAAP to IFRS are generally made to retained earnings (or if appropriate, another category of equity).

For material adjustments, Dealer Members will provide an explanation of the effect and implications of the transition to IFRS, including any accompanying material impact on risk adjusted capital (RAC). The explanations will be in the form of note disclosures.

A *material adjustment* means an adjustment – either individually or in the aggregate - that result in equal to or greater than 10% change (increase or decrease):

- in the retained earnings as filed on SIRFF with the audited Form 1 prepared under CGAAP and/or

**FORM 1 – SEPARATE CERTIFICATE OF UDP AND CFO ON STATEMENT G OF PART I –  
OPENING IFRS STATEMENT OF FINANCIAL POSITION AND RECONCILIATION OF EQUITY  
NOTES AND INSTRUCTIONS**

- in the risk adjusted capital (RAC) as filed on SIRFF with the audited Form 1 prepared under CGAAP.

**Mapping of the line items on Statement A**

Statement A has been reformatted to accommodate the required IFRS changes, including new terminology and the addition (as well as the deletion) of line items. To assist Dealer Members in completing the opening IFRS Statement A, a mapping of the line items under the old CGAAP format to the new IFRS format is provided.

## FORM 1 – AUDITORS’ REPORT

### To: Investment Industry Regulatory Organization of Canada and Canadian Investor Protection Fund

We have audited the accompanying Statements of Form 1 (the “Statements”) of \_\_\_\_\_  
(Dealer Member)  
(the “Dealer Member”) as at \_\_\_\_\_ and for the year then ended. The Statements have been  
(date)  
prepared for purposes of complying with the rules of the Investment Industry Regulatory Organization of Canada.

#### Management’s responsibility for the Statements

Management is responsible for the preparation and fair presentation of the Statements of Form 1 in accordance with its financial reporting obligations on the basis as described in Note \_\_\_\_\_. This responsibility includes designing,  
(note)

implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### Auditors’ responsibility

Our responsibility is to express an opinion on the accompanying statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Dealer Member’s preparation and fair presentation of the Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Dealer Member’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, the accompanying Statements A, E and F of Form 1 present fairly, in all material respects, the financial position of the “Dealer Member” as at \_\_\_\_\_ and the “Dealer Member” financial  
(date)  
performance for the period then ended in accordance with the basis as described in Note \_\_\_\_\_.  
(note)

Statements B, C and D of Form 1 present fairly, in all material respects the risk adjusted capital, early warning excess, early warning reserve and client free credit segregation amounts as at \_\_\_\_\_ in accordance with the  
(date)  
applicable rules of the Investment Industry Regulatory Organization of Canada.

Our audit was conducted for the purpose of forming an opinion on the accompanying statements taken as a whole. The accompanying supplemental information presented in Schedules 1 to 14 is presented for purposes of additional analysis and is not a required part of the Statements of Form 1, but is supplementary information required by the rules of the Investment Industry Regulatory Organization of Canada. Such information has been subjected to the auditing procedures applied in the audit of the Statements of Form 1 and, in our opinion, is fairly stated in all material respects in relation to the Statements taken as a whole.

#### Emphasis of matter

**[Note to draft: Going concern matter to be described, if any. Broker auditor committee to provide wording.]**

**FORM 1 – AUDITORS’ REPORT**

**[Note to draft: SIRFF to allow for auditor to provide wording on other potential Emphasis of Matter should one be required to be included in the auditors’ report. Such wording would be agreed upon with the Corporation prior to the filing of Form 1.]**

**Basis of Accounting**

Without modifying our opinion, we draw attention to Note \_\_\_\_\_ to the Statements which describes the basis of  
(note)  
accounting. The Statements are prepared to meet the requirements of the Investment Industry Regulatory Organization of Canada. As a result, the Statements may not be suitable for another purpose.

\_\_\_\_\_  
(Audit Firm)

\_\_\_\_\_  
(date)

\_\_\_\_\_  
(address)

**FORM 1 – AUDITORS’ REPORT**  
**NOTES AND INSTRUCTIONS**

A measure of uniformity in the form of the auditors' report is desirable in order to facilitate identification of circumstances where the underlying conditions are different. Therefore, when auditors are able to express an unqualified opinion, their report should take the form of the auditors' report shown above.

Alternate forms of Auditors’ Reports are available either online from within the web-based Securities Industry Regulatory Financial Filings system (SIRFF) or from the Corporation.

Any limitations in the scope of the audit must be discussed in advance with the Corporation. Discretionary scope limitations will not be accepted. Any emphasis of matter in the auditor’s report must be discussed in advance with the Corporation.

One copy with original signatures must be provided to the Corporation and another copy with original signatures must be provided to CIPF.

**FORM 1, PART I – STATEMENT A**

(Dealer Member Name)

**STATEMENT OF FINANCIAL POSITION**

at \_\_\_\_\_

| REFERENCE   | NOTES   | (CURRENT<br>YEAR)<br>C\$'000 | (PREVIOUS<br>YEAR)<br>C\$'000 |
|---|---|------------------------------|-------------------------------|
| <b>LIQUID ASSETS:</b>   |   |                              |                               |
| 1.  | Cash on deposit with <i>acceptable institutions</i>   | -----                        | -----                         |
| 2.  | Funds deposited in trust for RRSP and other similar accounts  | -----                        | -----                         |
| 3. Stmt. D  | Cash, held in trust with <i>acceptable institutions</i> , due to free credit ratio calculation                                  | -----                        | -----                         |
| 4.  | Variable base deposits and margin deposits with <i>acceptable clearing corporations</i> [cash balances only]                    | -----                        | -----                         |
| 5.  | Margin deposits with regulated entities [cash balances only]  | -----                        | -----                         |
| 6. Sch.1  | Loans receivable, securities borrowed and resold  | -----                        | -----                         |
| 7. Sch.2  | Securities owned - at <i>market value</i>   | -----                        | -----                         |
| 8. Sch.2  | Securities owned and segregated due to free credit ratio calculation  | -----                        | -----                         |
| 9. Sch.4  | Client accounts   | -----                        | -----                         |
| 10. Sch.5   | Brokers and dealers trading balances  | -----                        | -----                         |
| 11.   | Receivable from carrying broker or mutual fund  | -----                        | -----                         |
| 12.   | <b>TOTAL LIQUID ASSETS</b>  | =====                        | =====                         |
| <b>OTHER ALLOWABLE ASSETS (RECEIVABLES FROM ACCEPTABLE INSTITUTIONS):</b> |   |                              |                               |
| 13. Sch.6   | Current income tax assets   | -----                        | -----                         |
| 14.   | Recoverable and overpaid taxes  | -----                        | -----                         |
| 15.   | Commissions and fees receivable   | -----                        | -----                         |
| 16.   | Interest and dividends receivable   | -----                        | -----                         |
| 17.   | Other receivables [provide details]   | -----                        | -----                         |
| 18.   | <b>TOTAL OTHER ALLOWABLE ASSETS</b>   | =====                        | =====                         |
| <b>NON ALLOWABLE ASSETS:</b>  |   |                              |                               |
| 19.   | Other deposits with <i>acceptable clearing corporations</i> [cash or <i>market value</i> of securities lodged]                  | -----                        | -----                         |
| 20.   | Deposits and other balances with <i>non-acceptable clearing corporations</i> [cash or <i>market value</i> of securities lodged] | -----                        | -----                         |
| 21.   | Commissions and fees receivable   | -----                        | -----                         |
| 22.   | Interest and dividends receivable   | -----                        | -----                         |
| 23.   | Deferred tax assets   | -----                        | -----                         |
| 24.   | Intangible assets   | -----                        | -----                         |
| 25.   | Property, plant and equipment   | -----                        | -----                         |
| 26.   | Investments in subsidiaries and affiliates  | -----                        | -----                         |
| 27.   | Advances to subsidiaries and affiliates   | -----                        | -----                         |
| 28.   | Other assets [provide details]  | -----                        | -----                         |
| 29.   | <b>TOTAL NON-ALLOWABLE ASSETS</b>   | =====                        | =====                         |
| 30.   | Finance lease assets  | -----                        | -----                         |
| 31.   | <b>TOTAL ASSETS</b>   | =====                        | =====                         |

[See notes and instructions]

Jan-2011

**FORM 1, PART I – STATEMENT A** [Continued]

| <b>REFERENCE</b>                | <b>NOTES</b>   | <b>(CURRENT<br/>YEAR)<br/>C\$'000</b> | <b>(PREVIOUS<br/>YEAR)<br/>C\$'000</b> |
|---------------------------------|--|---------------------------------------|--|
| <b>CURRENT LIABILITIES:</b>     |  |                                       |  |
| 51. Sch.7                       | Overdrafts, loans, securities loaned and repurchases | -----                                 | -----                                  |
| 52. Sch.2                       | Securities sold short - at <i>market value</i>       | -----                                 | -----                                  |
| 53. Sch.4                       | Client accounts                                      | -----                                 | -----                                  |
| 54. Sch.5                       | Brokers and dealers                                  | -----                                 | -----                                  |
| 55.                             | Provisions   | -----                                 | -----                                  |
| 56. Sch.6                       | Current income tax liabilities                       | -----                                 | -----                                  |
| 57.                             | Bonuses payable                                      | -----                                 | -----                                  |
| 58.                             | Accounts payable and accrued expenses                | -----                                 | -----                                  |
| 59.                             | Finance leases and lease-related liabilities         | -----                                 | -----                                  |
| 60.                             | Other current liabilities [provide details]          | -----                                 | -----                                  |
| 61.                             | <b>TOTAL CURRENT LIABILITIES</b>                     | -----                                 | -----                                  |
| <b>NON-CURRENT LIABILITIES:</b> |  |                                       |  |
| 62.                             | Provisions   | -----                                 | -----                                  |
| 63.                             | Deferred tax liabilities                             | -----                                 | -----                                  |
| 64.                             | Finance leases and lease-related liabilities         | -----                                 | -----                                  |
| 65.                             | Finance leases – leasehold inducements               | -----                                 | -----                                  |
| 66.                             | Other non-current liabilities [provide details]      | -----                                 | -----                                  |
| 67.                             | Subordinated loans                                   | -----                                 | -----                                  |
| 68.                             | <b>TOTAL NON-CURRENT LIABILITIES</b>                 | -----                                 | -----                                  |
| 69.                             | <b>TOTAL LIABILITIES [Line 61 plus Line 68]</b>      | -----                                 | -----                                  |
| <b>CAPITAL AND RESERVES:</b>    |  |                                       |  |
| 70. Stmt. F                     | Issued capital                                       | -----                                 | -----                                  |
| 71. Stmt. F                     | Reserves   | -----                                 | -----                                  |
| 72. Stmt. F                     | Retained earnings or undivided profits               | -----                                 | -----                                  |
| 73.                             | <b>TOTAL CAPITAL</b>                                 | -----                                 | -----                                  |
| 74.                             | <b>TOTAL LIABILITIES AND CAPITAL</b>                 | =====                                 | =====                                  |

## **FORM 1, PART I – STATEMENT A NOTES AND INSTRUCTIONS**

### **Accrual basis of accounting**

Dealer Members are required to use the accrual basis of accounting.

**Line 2** - The trustee for RRSP or other similar accounts must qualify as an *acceptable institution*. Such accounts must be insured by the Canada Deposit Insurance Corporation (CDIC) or Autorité des marchés financiers (AMF) to the full extent insurance is available. If not, then the Dealer Member must report 100% of the balance held in trust as non-allowable assets on Line 28 (Non-allowable assets – other assets).

RRSP and other similar balances held at such trustee, but for which CDIC or the AMF insurance is not available, such as foreign currency accounts, can be classified as allowable assets.

The name of the RRSP trustee used by the Dealer Member must also be provided on Schedule 4.

**Line 4** - For definition of “*acceptable clearing corporations*”, see General Notes and Definitions.

Securities on deposit (and related margin) should be included in balances reported on Inventory Schedule 2 and disclosed separately on the supplementary information Line 11 of Schedule 2.

**Line 5** - For definition of “*regulated entities*”, see General Notes and Definitions.

Securities on deposit (and related margin) should be included in balances reported on Inventory Schedule 2 and disclosed separately on the supplementary information Line 11 of Schedule 2.

**Line 11** - For an introducing broker (pursuant to an approved introducing/carrying broker agreement), unsecured balances receivable from its carrying broker, such as gross commissions and deposits in the form of cash, should be reported on this line.

Unsecured balances should only be included to the extent they are not being used by the carrying broker to reduce client margin requirements.

Securities on deposit (and related margin) should be included in balances reported on Inventory Schedule 2 and disclosed separately on the supplementary information Line 11 of Schedule 2.

In the case of the salesperson’s portion of gross commissions and fees receivable, as recorded on Line 21 (Commissions and fees receivable), to the extent that there is written documentation that the broker does not have a liability to pay the salesperson’s commission until it is received, the salesperson’s portion of the gross commission receivable is an allowable asset.

**Line 13** - Include only overpayment of prior years’ income taxes or current year installments. Taxes recoverable due to current year losses may be included to the extent that they can be carried back and applied against taxes previously paid.

**Line 14** - Include GST and HST receivables, capital tax, Part VI tax, sales and property taxes.

Include only to extent receivable from *acceptable institutions* (for definition, see General Notes and Definitions).

**Line 18** - Allowable assets are those assets which due to their nature, location or source are either readily convertible into cash or from such creditworthy entities as to be allowed for capital purposes.

Include only to extent receivable from *acceptable institutions* (for definition see General Notes and Definitions).

**Line 19** - Report the cash and *market value* of securities lodged with *acceptable clearing corporations* that represent fixed base deposits.

**Line 20** - To the extent receivable from other than *acceptable clearing corporations*, include all deposits whether margin deposits or variable and fixed base deposits.

**Line 21** - To the extent receivable from parties other than *acceptable institutions*.

**Line 22** - To the extent receivable from parties other than *acceptable institutions*.

**Line 24** - Start-up and organizational costs cannot be capitalized. Examples of intangible assets include goodwill and client lists.

**Line 26** - Investments in subsidiaries and affiliates must be valued at cost.

**Line 27** - A Dealer Member must report non-trading inter-company receivables on a gross basis unless the criteria for netting are met.

**FORM 1, PART I – STATEMENT A**  
**NOTES AND INSTRUCTIONS** [Continued]

**Line 28** - Including but not limited to such items as:

- prepaid expenses
- cash surrender value of life insurance
- advances to employees (gross)
- other receivables from other than *acceptable institutions*
- cash on deposit with non *acceptable institutions*

**Line 29** - Non-allowable assets mean those assets that do not qualify as allowable assets.

**Line 30** - Assets arising from a finance lease (also known as a capitalized lease).

**Line 55** - Recognize a liability to cover specific expenditures relating to legal and constructive obligations.

A Dealer Member cannot hold provisions as a general reserve to be applied against some other unrelated expenditure.

**Line 57** - Include discretionary bonuses payable and bonuses payable to shareholders in accordance with share ownership.

**Line 59** - Include current portion of deferred lease inducements.

**Line 60** - Include unclaimed dividends and interest.

**Line 65** - In those cases where it can be demonstrated that the leasehold inducement presents no additional liability to the Dealer Member (i.e. if the Dealer Member does not “owe” the unamortized portion of the inducement back to the landlord, thereby qualifying the landlord as a creditor of the Dealer Member), the non-current portion can be reported as an adjustment to risk adjusted capital (RAC) on Statement B.

**Line 67** - Subordinated loans mean approved loans, pursuant to an agreement in writing in a form satisfactory to the Corporation, obtained from a chartered bank or any other lending institution, industry investor approved as such by the Corporation, or non-industry investor subject to the Corporation’s approval, the payment of which is deferred in favor of other creditors and is subject to regulatory approval.

A Dealer Member must not pay a debt owed to any of its creditors contrary to any subordination or other agreement to which it and the Corporation are parties.

**Line 71** - Reserve is an amount set aside for future use, expense, loss or claim. It includes an amount appropriated from retained earnings. It also includes accumulated other comprehensive income (OCI).

**Line 72** - Retained earnings represent the accumulated balance of income less losses arising from the operation of the business, after taking into account dividends and other direct charges or credits.

**FORM 1, PART I – STATEMENT B**

\_\_\_\_\_  
(Dealer Member Name)

**STATEMENT OF NET ALLOWABLE ASSETS AND RISK ADJUSTED CAPITAL**

at \_\_\_\_\_

| REFERENCE                        | NOTES   | (CURRENT<br>YEAR)<br>C\$'000 | (PREVIOUS<br>YEAR)<br>C\$'000 |
|----------------------------------|---|------------------------------|-------------------------------|
| 1. A-73                          | Total Capital   | -----                        | -----                         |
| 2. A-65                          | <b>Add:</b> Finance leases – leasehold inducements                                  | -----                        | -----                         |
| 3. A-67                          | <b>Add:</b> Subordinated loans  | -----                        | -----                         |
| 4.                               | REGULATORY FINANCIAL STATEMENT CAPITAL  | -----                        | -----                         |
| 5. A-29                          | <b>Deduct:</b> Total Non allowable assets   | -----                        | -----                         |
| 6.                               | NET ALLOWABLE ASSETS  | -----                        | -----                         |
| 7.                               | <b>Deduct:</b> Minimum capital  | -----                        | -----                         |
| 8.                               | SUBTOTAL  | -----                        | -----                         |
| <b>Deduct - Margin required:</b> |   |                              |                               |
| 9. Sch.1                         | Loans receivable, securities borrowed and resold                                    | -----                        | -----                         |
| 10. Sch.2                        | Securities owned and sold short   | -----                        | -----                         |
| 11. Sch.2A                       | Underwriting concentration  | -----                        | -----                         |
| 12. Sch.4                        | Client accounts   | -----                        | -----                         |
| 13. Sch.5                        | Brokers and dealers   | -----                        | -----                         |
| 14. Sch.7                        | Loans and repurchases   | -----                        | -----                         |
| 15.                              | Contingent liabilities [provide details]  | -----                        | -----                         |
| 16. Sch.10                       | Financial institution bond deductible [greatest under any clause]                   | -----                        | -----                         |
| 17. Sch.11                       | Unhedged foreign currencies   | -----                        | -----                         |
| 18. Sch.12                       | Futures contracts   | -----                        | -----                         |
| 19. Sch.14                       | Provider of capital concentration charge  | -----                        | -----                         |
| 20.                              | Securities held at non-acceptable securities locations                              | -----                        | -----                         |
| 21. Sch.7A                       | Acceptable counterparties financing activities concentration charge                 | -----                        | -----                         |
| 22.                              | Unresolved differences [provide details]  | -----                        | -----                         |
| 23.                              | Other [provide details]   | -----                        | -----                         |
| 24.                              | TOTAL MARGIN REQUIRED [Lines 9 to 23]   | -----                        | -----                         |
| 25.                              | SUBTOTAL [Line 8 less Line 24]  | -----                        | -----                         |
| 26. Sch.6A                       | <b>Add:</b> Applicable tax recoveries   | -----                        | -----                         |
| 27.                              | Risk Adjusted Capital before securities concentration charge [Line 25 plus Line 26] | -----                        | -----                         |
| 28. Sch.9                        | <b>Deduct:</b> Securities concentration charge of _____                             | -----                        | -----                         |
| Sch.6A                           | less tax recoveries of _____  | -----                        | -----                         |
| 29.                              | RISK ADJUSTED CAPITAL [Line 27 less Line 28]  | =====                        | =====                         |

**FORM 1, PART I – STATEMENT B SUPPLEMENTAL**

DATE: \_\_\_\_\_

---

(Dealer Member Name)

**Statement B – Line 22: Details of Unresolved Differences**

|                                    | <b>Reconciled as at<br/>Report Date<br/>(Yes/No)</b> | <b>Number of items</b> | <b>Debit/Short<br/>value (Potential<br/>Losses)</b> | <b>Number of items</b> | <b>Credit/Long<br/>value (Potential<br/>Gains)</b> | <b>Required to<br/>margin</b> |
|------------------------------------|--|------------------------|---|------------------------|--|-------------------------------|
| (a) Clearing                       | -----  | -----                  | -----   | -----                  | -----  | -----                         |
| (b) Brokers and dealers            | -----  | -----                  | -----   | -----                  | -----  | -----                         |
| (c) Bank accounts                  | -----  | -----                  | -----   | -----                  | -----  | -----                         |
| (d) Intercompany accounts          | -----  | -----                  | -----   | -----                  | -----  | -----                         |
| (e) Mutual Funds                   | -----  | -----                  | -----   | -----                  | -----  | -----                         |
| (f) Security Counts                | -----  | -----                  | -----   | -----                  | -----  | -----                         |
| (g) Other unreconciled differences | -----  | -----                  | -----   | -----                  | -----  | -----                         |
| <b>TOTAL</b>                       |  |                        |   |                        |  | -----                         |

---

Statement B,  
Line 22

**FORM 1, PART I – STATEMENT B**  
**NOTES AND INSTRUCTIONS**

**Capital adequacy**

A DEALER MEMBER MUST HAVE AND MAINTAIN AT ALL TIMES RISK ADJUSTED CAPITAL IN AN AMOUNT NOT LESS THAN ZERO.

**Netting for margin calculation**

When applying Corporation margin rules, a Dealer Member can net allowable assets and liabilities as well as security positions. Except where there is a prescribed IFRS departure, netting is for regulatory margin purposes only (and not for presentation purposes).

**Line 2 – Non- current liability - finance leases – lease hold inducements**

In those cases where it can be demonstrated that the leasehold inducement presents no additional liability to the Dealer Member (i.e. the Dealer Member does not “owe” the unamortized portion of the inducement back to the landlord, thereby qualifying the landlord as a creditor of the Dealer Member), the non-current portion of the finance lease liability for leasehold inducements can be reported as an adjustment to risk adjusted capital.

**Line 7 – Minimum Capital**

“Minimum capital” is \$250,000 except for a Type 1 introducing broker. For a Type 1 introducing broker, the minimum capital is \$75,000.

**Line 15 – Contingent liabilities**

No Dealer Member may give, directly or indirectly, by means of a loan, guarantee, the provision of security or of a covenant or otherwise, any financial assistance to an individual and/or corporation unless the amount of the loan, guarantee, provision of security or of the covenant or any other assistance is limited to a fixed or determinable amount and the amount is provided for in computing Risk Adjusted Capital.

The margin required shall be the amount of the loan, guarantee, etc. less the loan value of any accessible collateral, calculated in accordance with Corporation rules.

A guarantee of payment is not acceptable collateral to reduce margin required.

The Dealer Member should maintain and retain the details of the margin calculations for contingencies, such as guarantees or returned cheques, for Corporation review.

**Line 20 – Securities held at non-acceptable securities locations**

Capital Requirements

In general, the capital requirements for securities held in custody at another entity are as follows:

- (i) Where the entity qualifies as an acceptable securities location, there shall be no capital requirement, provided there are no unresolved differences between the amounts reported on the books of the entity acting as custodian and the amounts reported on the books of the Dealer Member. The capital requirements for unresolved differences are discussed separately in the notes and instructions for the completion of Statement B, Line 22 below.
- (ii) Where the entity does not qualify as an acceptable securities location, the entity shall be considered a non-acceptable securities location and the Dealer Member shall be required to deduct 100% of the *market value* of the securities held in custody with the entity in the calculation of its Risk Adjusted Capital.

However, there is one exception to the above general requirements. Where the entity would otherwise qualify as an acceptable securities location except for the fact that the Dealer Member has not entered into a written custodial agreement with the entity, as required by Corporation rules, the capital requirement shall be determined as follows:

- (a) Where setoff risk with the entity is present, the Dealer Member shall be required to deduct the lesser of:

- (I) 100% of the setoff risk exposure to the entity; and
  - (II) 100% of the *market value* of the securities held in custody with the entity;
- in the calculation of its Risk Adjusted Capital;

and;

- (b) The Dealer Member shall be required to deduct 10% of the *market value* of the securities held in custody with the entity in the calculation of its Early Warning Reserve.

The sum of the requirements calculated in paragraphs (a) and (b) above shall be no greater than 100% of the *market value* of

**FORM 1, PART I – STATEMENT B**  
**NOTES AND INSTRUCTIONS** [Continued]

the securities held in custody with the entity. Where the sum amounts initially calculated in paragraphs (a) and (b) above are greater than 100%, the capital required under paragraph (b) and the amount reported as a deduction in the calculation of the Early Warning Reserve shall be reduced accordingly.

For the purposes of determining the capital requirement detailed in paragraph (a) above, the term “setoff risk” shall mean the risk exposure that results from the situation where the Dealer Member has other transactions, balances or positions with the entity, where the resultant obligations of the Dealer Member might be setoff against the value of the securities held in custody with the entity.

Client Waiver

Where the laws and circumstances prevailing in a foreign jurisdiction may restrict the transfer of securities from the jurisdiction and the Dealer Member is unable to arrange for the holding of client securities in the jurisdiction at an acceptable securities location, the Dealer Member may hold such securities at a location in that jurisdiction if (a) the Dealer Member has entered into a written custodial agreement with the location as required hereunder and (b) the client has consented to the arrangement, acknowledged the risks and waived any claims it may have against the Dealer Member, in a form approved by the Corporation. Such a consent and waiver must be obtained on a transaction by transaction basis.

**Line 22 – Unresolved Differences**

Items are considered unresolved unless:

- (i) a written acknowledgement from the counterparty of a valid claim has been received
- (ii) a journal entry to resolve the difference has been processed as of the Due Date of Form 1.

This does not include journal entries writing off the difference to profit or loss in the period subsequent to the date of Form 1.

Provision should be made for the *market value* and margin requirements at the Form 1 date on out-of-balance short securities and other adverse unresolved differences (such as, with banks, trust companies, brokers, clearing corporations) still unresolved as at a date one month subsequent to the Form 1 date or other applicable Due Date of Form 1.

The margin rate to be used is the one that is appropriate for inventory positions. For instance, if the calculation is for securities eligible for reduced margin, the margin rate is 25%, rather than 30%.

A separate schedule, in a form approved by the Corporation, must be prepared detailing all unresolved differences as at the report date.

The following guidelines should be followed when calculating the required to margin amount on unresolved items:

| <b>Type of Unresolved Difference</b>   | <b>Amount Required to Margin</b>   |
|--|--|
| Money balance - credit (potential gains)   | None   |
| Money balance - debit (potential losses)   | Money balance  |
| Unresolved Long with Money on the Dealer Member's Book   | [(Money Balance on the trade minus <i>market value</i> of the security)* plus the applicable inventory margin] |
| Unresolved Long without Money on the Dealer Member's Books   | None   |
| Unresolved Short with Money on the Dealer Member's Books   | [(Market value of the security minus money balance on the trade)* plus the applicable inventory margin]        |
| Unresolved Long/Short on the Other Broker's Books  | None   |
| Short Security Break (e.g. Mutual Funds, Stock Dividends) or Unresolved Short without Money on the Dealer Member's Books | [Market value of the security plus the applicable inventory margin]  |

\* also referred to as the Mark-to-Market Adjustment.

Where mutual fund positions are not reconciled on a monthly basis, margin shall be provided equal to a percentage of the *market value* of such mutual funds held on behalf of clients. Where no transactions in the mutual fund, other than redemptions and transfers, have occurred for at least six months and no loan value has been associated with the mutual fund, the percentage shall be 10%. In all other cases, the percentage shall be 100%.

**FORM 1, PART I – STATEMENT B**  
**NOTES AND INSTRUCTIONS** [Continued]

**Unresolved Differences in Accounts:**

Report all differences determined on or before the report date that have not been resolved as of the due date.

**Month End**

**Month End + 20 Business Days**



(Report date)

(Due date)

**Include** differences determined on or before the report date that have not been resolved as of the due date.



**Do not include** differences as of the report date that have been resolved on or before the due date.



For each account listed, set out the number of unresolved differences and the money value of both the debit and credit differences. The Debit/Short value column includes money differences and *market value* of security differences, which represent a potential loss. The Credit/Long value column includes money differences and *market value* of security differences, which represent a potential gain. In determining the potential gain or loss, the money balance and the security position *market value* of the same transaction should be netted. Debit/short and credit/long balances of different transactions cannot be netted.

All reconciliation must be properly documented and made available for review by Corporation examination staff and Dealer Member's Auditor.

**Unresolved differences in Security Counts:**

Report all security count differences determined on or before the report date that have not been resolved as of due date. The amount required to margin is the *market value* of short security differences plus the applicable inventory margin.

**Line 23 – Other**

This item should include all margin requirements not mentioned above as outlined in Corporation rules.

**FORM 1, PART I – STATEMENT C**

DATE: \_\_\_\_\_

\_\_\_\_\_  
(Dealer Member Name)

**STATEMENT OF EARLY WARNING EXCESS AND EARLY WARNING RESERVE**

at \_\_\_\_\_

| <b>REFERENCE</b>  | <b>NOTES</b> | <b>(CURRENT<br/>YEAR)<br/>C\$'000</b> |
|---|--------------|---------------------------------------|
| 1. B-29 <b>RISK ADJUSTED CAPITAL</b>                      |              | _____                                 |
| <b>LIQUIDITY ITEMS -</b>                                  |              |                                       |
| <b>DEDUCT:</b>  |              |                                       |
| 2. A-18 Other allowable assets                            | -----        | -----                                 |
| 3. Sch.6A Tax recoveries                                  | -----        | -----                                 |
| 4. Securities held at non-acceptable securities locations | -----        | -----                                 |
| <b>ADD:</b>   |              |                                       |
| 5. A-68 Non-current liabilities                           | -----        | -----                                 |
| 6. Sch.6A Tax recoveries - income accruals                | -----        | -----                                 |
| 7. <b>EARLY WARNING EXCESS</b>                            |              | _____                                 |
| <b>DEDUCT: CAPITAL CUSHION -</b>                          |              |                                       |
| 8. B-24 Total margin required \$_____ multiplied by 5%    | -----        | _____                                 |
| 9. <b>EARLY WARNING RESERVE</b> [Line 7 less Line 8]      |              | =====                                 |

**FORM 1, PART I – STATEMENT C**  
**NOTES AND INSTRUCTIONS**

The Early Warning system is designed to provide advance warning of a Dealer Member encountering financial difficulties. It will anticipate capital shortages and/or liquidity problems and encourage Dealer Members to build a capital cushion.

**Line 1** - If Risk Adjusted Capital of the Dealer Member is less than:

- (a) 5% of total margin required (Line 8 above), then the Dealer Member is designated as being in Early Warning category **Level 1**, or
- (b) 2% of total margin required (Line 8 above), then the Dealer Member is designated as being in Early Warning category **Level 2**,

and the applicable sanctions outlined in the Corporation rules will apply.

**Lines 2 and 3** - These items are deducted from RAC because they are illiquid or the receipt is either out of the Dealer Member's control or contingent.

**Line 4** – Pursuant to the Notes and Instructions for the completion of Statement B, Line 20, where the entity would otherwise qualify as an acceptable securities location except for the fact that the Dealer Member has not entered into a written custodial agreement with the entity, as required by Corporation rules, the Dealer Member will be required to deduct an amount up to 10% of the *market value* of the securities held in custody with the entity, in the calculation of its Early Warning Reserve. Please refer to the detailed calculation formula set out to the Notes and Instructions for the completion of Statement B, Line 20 to determine the capital requirement to be reported on Statement C, Line 4.

**Line 5** – Non-current liabilities are added back to RAC as they are not current obligations of the Dealer Member and can be used as financing.

**Line 6** - This add-back ensures that the Dealer Member is not penalized at the Early Warning level for accruing income.

**Line 7** - If Early Warning Excess is negative, the Dealer Member is designated as being in Early Warning category Level 2 and the sanctions outlined in the Corporation rules will apply.

**Line 9** - If the Early Warning Reserve is negative, the Dealer Member is designated as being in Early Warning category Level 1 and the sanctions outlined in the Corporation rules will apply.

**FORM 1, PART I – STATEMENT D**

\_\_\_\_\_  
(Dealer Member Name)

**STATEMENT OF FREE CREDIT SEGREGATION AMOUNT**

at \_\_\_\_\_

| <b>REFERENCE</b>   | <b>NOTES</b> | <b>(CURRENT YEAR)<br/>C\$'000</b> |
|--|--------------|-----------------------------------|
| <b>AMOUNT REQUIRED TO SEGREGATE:</b>   |              |                                   |
| 1. B-6 Net allowable assets of \$_____ multiplied by 8   | -----        | -----                             |
| 2. C-9 Early warning reserve of \$_____ multiplied by 4  | -----        | -----                             |
| 3. <b>FREE CREDIT LIMIT</b> [Lines 1 plus 2]   |              | -----                             |
| <b>Less client free credit balances:</b>   |              |                                   |
| 4. Sch.4 Dealer Member's own [see note]  | -----        | -----                             |
| 5. Carried For Type 3 Introdurers  | -----        | -----                             |
| 6. <b>AMOUNT REQUIRED TO SEGREGATE</b> [NIL if Line 3 exceeds Line 4 plus Line 5, see note]      |              | -----                             |
| <b>AMOUNT IN SEGREGATION:</b>  |              |                                   |
| 7. A-3 Client funds held in trust in an account with an <i>acceptable institution</i> [see note] | -----        | -----                             |
| 8. Sch.2 Market value of securities owned and in segregation [see note]                          | -----        | -----                             |
| 9. <b>TOTAL IN SEGREGATION</b> [Lines 7 plus 8]  |              | -----                             |
| 10. <b>NET SEGREGATION EXCESS (DEFICIENCY)</b> [Line 6 less Line 9, 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.

**Lines 4 and 5** - 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.

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

**Line 7** - 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.

**Line 8** - The securities to be included are 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) which are segregated and held separate and apart as the Dealer Member's property.

**Line 10** - If negative, then a segregation deficiency exists, and the Dealer Member must expeditiously take the most appropriate action required to settle the segregation deficiency. The Dealer Member must provide an explanation of how the deficiency was corrected as well as the date of correction.

# FORM 1, PART I – STATEMENT E

(Dealer Member Name)

## STATEMENT OF INCOME AND COMPREHENSIVE INCOME

for the period ended \_\_\_\_\_

| REFERENCE                        | NOTES   | (CURRENT<br>YEAR /<br>MONTH)<br>C\$'000 | (PREVIOUS<br>YEAR /<br>MONTH)<br>C\$'000 |
|----------------------------------|---|---|--|
| <b>COMMISSION REVENUE</b>        |   |   |  |
| 1.                               | Listed Canadian securities                                | -----                                   | -----                                    |
| 2.                               | Other securities  | -----                                   | -----                                    |
| 3.                               | Mutual funds  | -----                                   | -----                                    |
| 4.                               | Listed Canadian options                                   | -----                                   | -----                                    |
| 5.                               | Other listed options                                      | -----                                   | -----                                    |
| 6.                               | Listed Canadian futures                                   | -----                                   | -----                                    |
| 7.                               | Other futures   | -----                                   | -----                                    |
| 8.                               | OTC derivatives   | -----                                   | -----                                    |
| <b>PRINCIPAL REVENUE</b>         |   |   |  |
| 9.                               | Listed Canadian options and related underlying securities | -----                                   | -----                                    |
| 10.                              | Other Equities and options                                | -----                                   | -----                                    |
| 11.                              | Debt  | -----                                   | -----                                    |
| 12.                              | Money market  | -----                                   | -----                                    |
| 13.                              | Futures   | -----                                   | -----                                    |
| 14.                              | OTC derivatives   | -----                                   | -----                                    |
| <b>CORPORATE FINANCE REVENUE</b> |   |   |  |
| 15.                              | New issues – equity                                       | -----                                   | -----                                    |
| 16.                              | New issues – debt   | -----                                   | -----                                    |
| 17.                              | Corporate advisory fees                                   | -----                                   | -----                                    |
| <b>OTHER REVENUE</b>             |   |   |  |
| 18.                              | Interest  | -----                                   | -----                                    |
| 19.                              | Fees  | -----                                   | -----                                    |
| 20.                              | Other [provide details]                                   | -----                                   | -----                                    |
| 21.                              | <b>TOTAL REVENUE</b>                                      | -----                                   | -----                                    |
| <b>EXPENSES</b>                  |   |   |  |
| 22.                              | Variable compensation                                     | -----                                   | -----                                    |
| 23.                              | Commissions and fees paid to third parties                | -----                                   | -----                                    |
| 24.                              | Bad debt expense  | -----                                   | -----                                    |
| 25.                              | Interest expense on subordinated debt                     | -----                                   | -----                                    |
| 26.                              | Financing cost  | -----                                   | -----                                    |
| 27.                              | Corporate finance cost                                    | -----                                   | -----                                    |
| 28.                              | Unusual items [provide details]                           | -----                                   | -----                                    |
| 29.                              | Profit (loss) for the year from discontinued operations   | -----                                   | -----                                    |
| 30.                              | Operating expenses  | -----                                   | -----                                    |
| 31.                              | <b>Profit [loss] for Early Warning test</b>               | -----                                   | -----                                    |

[See notes and instructions]

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**FORM 1, PART I – STATEMENT E**

|            |  |       |       |       |
|------------|--|-------|-------|-------|
| 32.        | Income – Asset revaluation                     | ----- | ----- | ----- |
| 33.        | Expense – Asset revaluation                    | ----- | ----- | ----- |
| 34.        | Interest expense on internal subordinated debt | ----- | ----- | ----- |
| 35.        | Bonuses  | ----- | ----- | ----- |
| 36.        | <b>Net income/(loss) before income tax</b>     | ----- | ----- | ----- |
| 37. S-6(5) | Income tax expense (recovery)                  | ----- | ----- | ----- |
| 38.        | <b>PROFIT [LOSS] FOR PERIOD</b>                | ----- | ----- | ----- |

F-11

**Other comprehensive income**

|     |  |       |       |       |
|-----|--|-------|-------|-------|
| 39. | Gain (loss) arising on revaluation of properties       | ----- | ----- | ----- |
| 40. | Actuarial gain (loss) on defined benefit pension plans | ----- | ----- | ----- |

F-5a

F-5b

|     |  |       |       |       |
|-----|--|-------|-------|-------|
| 41  | Other comprehensive income for the year, net of tax [Lines 39 plus 40] | ----- | ----- | ----- |
| 42. | <b>Total comprehensive income for the year</b> [Lines 38 plus 41]      | ----- | ----- | ----- |

For MFR reporting E-41 is the net change to A-71 Reserves

Note: The following lines must also be completed when filing the MFR:

|     |  |       |       |       |
|-----|--|-------|-------|-------|
| 43. | Payment of dividends or partners drawings                    | ----- | ----- | ----- |
| 44. | Other [provide details]                                      | ----- | ----- | ----- |
| 45. | <b>NET CHANGE TO RETAINED EARNINGS</b> [Lines 38, 43 and 44] | ----- | ----- | ----- |

**FORM 1, PART I – STATEMENT E**  
**NOTES AND INSTRUCTIONS**

**Comprehensive income**

Comprehensive income represents all changes in equity during a period, including profit and loss for the period and other comprehensive income (OCI). OCI captures certain gains and losses outside of net income. For regulatory financial reporting, two acceptable sources of other comprehensive income (OCI) are:

- the use of the revaluation model for plant, property and equipment (PPE) and intangible assets, and
- the actuarial gain (loss) on defined benefit pension plans.

**Lines**

1. Include all gross commissions earned on listed Canadian securities.  
Commissions earned on soft dollar deals with respect to the revenue source should also be included in the appropriate Lines 1 to 8.  
Commission paid to registered representatives must be reported on Line 22 (Expenses: variable compensation). Payouts to other brokers must be reported on Line 23 (Expenses: commissions and fees paid to third parties).
2. Include gross commissions earned on OTC transactions [equity or debt, foreign or Canadian], rights and offers, and other foreign securities.  
Commission paid to registered representatives must be reported on Line 22 (Expenses: variable compensation). Payouts to other brokers must be reported on Line 23 (Expenses: commissions and fees paid to third parties).
3. Include all gross commissions and trailer fees earned on mutual fund transactions.  
Commissions paid to registered representatives must be reported on Line 22 (Expenses: variable compensation). Payouts to the mutual funds must be reported on Line 23 (Expenses: commissions and fees paid to third parties).
4. Include all gross commissions earned on listed option contracts cleared through the Canadian Derivatives Clearing Corporation (CDCC).  
Commission paid to registered representatives must be reported on Line 22 (Expenses: variable compensation).
5. Include gross commissions on foreign listed option transactions.  
Commission paid to registered representatives must be reported on Line 22 (Expenses: variable compensation). Payouts to other brokers must be reported on Line 23 (Expenses: commissions and fees paid to third parties).
6. Include all gross commissions earned on listed futures contracts cleared through the CDCC.  
Commissions paid to registered representatives must be reported on Line 22 (Expenses: variable compensation).
7. Include all gross commissions earned on foreign listed futures contracts.  
Commission paid to registered representatives must be reported on Line 22 (Expenses: variable compensation).
8. Include gross commissions earned on OTC options, forwards, contracts-for-difference, FX spot, and swaps.  
Commission paid to registered representatives must be reported on Line 22 (Expenses: variable compensation).
9. Include all principal revenue [trading profits/losses, including dividends] from listed options cleared through CDCC and related underlying security transactions in market makers' and Dealer Member's inventory accounts.  
Include adjustment of inventories to *market value*.  
The financing cost must be reported separately on Line 26 (Expenses: financing cost).
10. Include all principal revenue [trading profits/losses, including dividends] from all other options and equities except those indicated on Line 9 (Principal revenue: listed Canadian options and related underlying securities).  
Include adjustment of inventories to *market value*.  
The financing cost must be reported separately on Line 26 (Expenses: financing cost).
11. Include revenue [trading profits/losses] on all debt instruments, other than money market instruments.  
Include adjustment of inventories to *market value*.  
The financing cost must be reported separately on Line 26 (Expenses: financing cost).
12. Include revenue on all money market activities. Money market commissions should also be shown here.  
Include any adjustment of inventories to *market value*.

**FORM 1, PART I – STATEMENT E**  
**NOTES AND INSTRUCTIONS** [Continued]

The cost of carry must be reported separately on Line 26 (Expenses: financing cost).

13. Include all principal revenue [trading profits/losses] on futures contracts.
14. Include revenues from OTC derivatives, such as forward contracts and swaps.  
Include adjustment of inventories to *market value*.
15. Include revenue relating to equity new issue business - underwriting and/or management fees, banking group profits, private placement fees, trading profits on new issue inventories [trading on an "if, as and when basis"], selling group spreads and/or commissions, and convertible debts.  
Syndicate expenses must be reported separately on Line 27 (Expenses: corporate finance cost).
16. Include revenue relating to debt new issue business - Corporate and government issues, and Canada Savings Bond (CSB) commissions.  
Amounts paid to CSB sub-agent fees and for syndicate expenses must be reported separately on Line 27 (Expenses: corporate finance cost).
17. Include revenue relating to corporate advisory fees, such as corporate restructuring, privatization, M&A fees.  
The related expenses must be reported separately on Line 27 (Expenses: corporate finance cost).
18. Include all interest revenue, which is not otherwise related to a specific liability trading activity [i.e. other than debt, money market, and derivatives].  
All interest revenue from carrying retail and institutional client account balances should be reported on this line. For example, interest revenue earned from client debit balances.  
The related interest cost for carrying retail and institutional client accounts should be reported separately on Line 26 (Expenses: financing cost).
19. Include proxy fees, portfolio service fees, segregation and safekeeping fees, RRSP fees, and any charges to clients that are not related to commission or interest.
20. Include foreign exchange profits/losses and all other revenue not reported above.
22. Include commissions, bonuses and other variable compensation of a contractual nature.  
Examples would encompass commission payouts to registered representatives (RRs) and payments to institutional and professional trading personnel.  
All contractual bonuses should be accrued monthly.  
Discretionary bonuses should be reported separately on Line 35 (Expenses: bonuses).
23. Include payouts to other brokers and mutual funds.
25. Include all interest on external subordinated debt, as well as non-discretionary contractual interest on internal subordinated debt.
26. Include the financing cost for all inventory trading (related to Lines 9, 10, 11 and 12) and the cost of carrying client balances (related to Line 18).
27. Include syndicate expenses and any related corporate finance expenses, as well as CSB fees.
28. Unusual items result from transactions or events that are not expected to occur frequently over several years, or do not typify normal business activities.  
Discontinued operations, such as a branch closure, should be reported separately on Line 29 (Expenses: profit (loss) for the year from discontinued operations).
29. A discontinued operation is a business component that has either been disposed or is classified as held for sale and represents (or is part of a plan to dispose) a separate significant line of business or geographical area of operations. For example, branch closure.
30. Include all operating expenses (including those related to soft dollar deals).  
Over-certification cost relating to debt instruments should be reported on this line.  
Transaction cost for inventory trading (specifically for inventory that are categorized as held-for-trading) should be included on this line.

**FORM 1, PART I – STATEMENT E**  
**NOTES AND INSTRUCTIONS** [Continued]

The expense related to share-based payments (such as stock option or share reward) to employees and non-employees should be included on this line.

31. This is the profit (loss) number used for the Early Warning profitability tests.
32. When a Dealer Member uses the revaluation model for its PPE and intangible assets, changes to the fair value may result in recognizing income after considering accumulated depreciation (or amortization) and OCI surplus.
33. When a Dealer Member uses the revaluation model for its PPE and intangible assets, changes to the fair value may result in recognizing expense after considering accumulated depreciation (or amortization) and OCI surplus.
34. Include interest expense on subordinated debt with related parties for which the interest charges can be waived if required.
35. This category should include discretionary bonuses and all bonuses to shareholders in accordance with share ownership. These bonuses are in contrast to those reported on Line 22 (Expenses: variable compensation).
37. Include only income taxes.  
Realty and capital taxes should be included on Line 30 (Expenses: operating expenses).
39. When a Dealer Member uses the revaluation model to re-measure its PPE and intangible assets, changes to fair value may result in a change to shareholders' equity after considering accumulated depreciation (amortization) and income or expense from asset revaluation.
40. When a Dealer Member has a defined benefit pension plan and initially adopts a policy of recognizing actuarial gains and losses in full in OCI, the subsequent adjustments must be recognized in OCI.
43. **To be used for MFR filing only.**
44. **To be used for MFR filing only:** Include direct charges or credits to retained earnings.  
Any adjustment required to reconcile the MFR's retained earnings to the audited Form 1 retained earnings must be posted to the individual Statement E line items on the first MFR that is filed after the adjustment is known.

**FORM 1, PART I – STATEMENT F**

(Dealer Member Name)

**STATEMENT OF CHANGES IN CAPITAL AND RETAINED EARNINGS (CORPORATIONS) OR  
UNDIVIDED PROFITS (PARTNERSHIPS)**

for the year ended \_\_\_\_\_

**A. CHANGES IN ISSUED CAPITAL**

|    | NOTES  | SHARE CAPITAL<br>OR<br>PARTNERSHIP CAPITAL<br>[a]<br>C\$'000 | SHARE PREMIUM<br>[b]<br>C\$'000 | ISSUED CAPITAL<br>[c] = [a] + [b]<br>C\$'000 |
|----|--|--|---------------------------------|--|
| 1. | Beginning balance  | -----  | -----                           | -----  |
| 2. | Increases (decreases) during the period<br>[provide details] |  |                                 |  |
|    | (a)  | -----  | -----                           | -----  |
|    | (b)  | -----  | -----                           | -----  |
|    | (c)  | -----  | -----                           | -----  |
| 3. | Ending balance   | =====  | =====                           | =====  |

A-70

**B. CHANGES IN RESERVES**

|    | NOTES  | GENERAL<br>[a]<br>C\$'000 | PROPERTIES REVALUATION<br>[b]<br>C\$'000 | EMPLOYEE BENEFITS<br>[c]<br>C\$'000 | TOTAL RESERVES<br>[d] = [a] + [b] + [c]<br>C\$'000 |
|----|--|---------------------------|--|-------------------------------------|--|
| 4. | Beginning balance  | -----                     | -----                                    | -----                               | -----  |
| 5. | Changes during the period  |                           |  |                                     |  |
|    | (a) Other comprehensive income for the year – properties revaluation                                 | -----                     | -----                                    | -----                               | -----  |
|    |  |                           | E-39                                     |                                     |  |
|    | (b) Other comprehensive income for the year – actuarial gain (loss) on defined benefit pension plans | -----                     | -----                                    | -----                               | -----  |
|    |  |                           |  | E-70                                |  |
|    | (c) Recognition of share-based payments  | -----                     | -----                                    | -----                               | -----  |

[See notes and instructions]

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**FORM 1, PART I – STATEMENT F**

|  |      |  |      |      |
|--|------|--|------|------|
|  |      |  | E-30 |      |
| (d) Transfer from/to retained earnings |      |  |      |      |
|  | F-12 |  |      |      |
| (e) Other [provide details]            |      |  |      |      |
| 6. Ending balance                      |      |  |      | A-73 |

**C. CHANGES IN RETAINED EARNINGS**

|  | NOTES | RETAINED EARNINGS (CURRENT YEAR)<br>C\$'000 | RETAINED EARNINGS (PREVIOUS YEAR)<br>C\$'000 |
|--|-------|---|--|
| 7. Beginning balance   |       |   |  |
| 8. Effect of change in accounting policy [provide details]                 |       |   |  |
| (a)  |       | N/A   |  |
| (b)  |       | N/A   |  |
| 9. As restated   |       | N/A   |  |
| 10. Payment of dividends or partners drawings                              |       |   |  |
| 11. Profit or loss for the year  |       |   |  |
|  |       | E-38  |  |
| 12. Other direct charges or credits to retained earnings [provide details] |       |   |  |
| (a)  |       |   |  |
| (b)  |       |   |  |
| (c)  |       |   |  |
| 13. Ending balance   |       |   |  |
|  |       |   | A-72   |

**FORM 1, PART I – STATEMENT F  
NOTES AND INSTRUCTIONS**

**A. Changes in Issued Capital**

**Change in share or partnership capital**

Depending on the circumstances, a Dealer Member must either formally notify or obtain prior approval from the Corporation for any change in any class of common and preferred share or partnership capital.

**Share premium**

When the Dealer Member sells its shares (initial issuance or from treasury), share premium is the excess amount received by the Dealer Member over the par value (or nominal value) of its shares. Share premium cannot be used to pay out dividends.

**B. Changes in Reserves**

**General reserve**

A Dealer Member may want to transfer from retained earnings. The creation of a general reserve gives the Dealer Member an added measure of protection.

**Reserve - Employee benefits**

When a Dealer Member has a defined benefit pension plan and initially adopts a policy of recognizing actuarial gains and losses in full in other comprehensive income (OCI), all subsequent adjustments must be recognized as other comprehensive income and will be accumulated in a reserve account.

When a Dealer Member has stock option or share award granted to its employees by issuing new shares, the Dealer Member recognizes the fair value of the option or new shares granted as an expense with a corresponding increase in a reserve account.

**Reserve - properties revaluation**

When using the revaluation model for certain non-allowable assets (PPE and intangibles), a Dealer Member will account the initial increase in value as other comprehensive income (OCI) and will accumulate the increase (and subsequent changes) in a revaluation reserve account.

**C. Changes in Retained Earnings**

**Change in accounting policy and retroactive adjustment of prior year's retained earnings**

A change in accounting policy in the current year requires retroactive adjustment of the prior year's retained earnings.

\*The beginning balance of the current year must be the ending balance of the prior year.

**FORM 1, PART I – STATEMENT G**

(Dealer Member Name)

**OPENING IFRS STATEMENT OF FINANCIAL POSITION AND RECONCILIATION OF EQUITY**

at \_\_\_\_\_

| CGAAP<br>Line #  | IFRS<br>Line # | REFERENCE  | NOTES | CGAAP<br>(date)<br>C\$'000 | IFRS<br>ADJUSTMENTS<br>C\$'000 | IFRS<br>(date)<br>C\$'000 |
|--|----------------|--|-------|----------------------------|--------------------------------|---------------------------|
| LIQUID ASSETS:   |                |  |       |                            |                                |                           |
| 1.   | 1.             | Cash on deposit with <i>acceptable institutions</i>  | ----- |                            |                                |                           |
| 2.   | 2.             | Funds deposited in trust for RRSP and other similar accounts   | ----- |                            |                                |                           |
| 3.   | 3.             | Cash, held in trust with <i>acceptable institutions</i> , due to free credit ratio calculation                                   | ----- |                            |                                |                           |
| 4.   | 4.             | Variable base deposits and margin deposits with <i>acceptable clearing corporations</i> [cash balances only]                     | ----- |                            |                                |                           |
| 5.   | 5.             | Margin deposits with regulated entities [cash balances only]   | ----- |                            |                                |                           |
| 6.   | 6.             | Loans receivable, securities borrowed and resold   | ----- |                            |                                |                           |
| 7.   | 7.             | Securities owned - at <i>market value</i>  | ----- |                            |                                |                           |
| 8.   | 8.             | Securities owned and segregated due to free credit ratio calculation   | ----- |                            |                                |                           |
| 10.  | 9.             | Client accounts  | ----- |                            |                                |                           |
| 11.  | 10.            | Brokers and dealers trading balances   | ----- |                            |                                |                           |
| 12.  | 11.            | Receivable from carrying broker or mutual fund   | ----- |                            |                                |                           |
| 13.  | 12.            | TOTAL LIQUID ASSETS  | ----- |                            |                                |                           |
| OTHER ALLOWABLE ASSETS (RECEIVABLES FROM ACCEPTABLE INSTITUTIONS): |                |  |       |                            |                                |                           |
| 14.  | 13.            | Current income tax assets  | ----- |                            |                                |                           |
| 15.  | 14.            | Recoverable and overpaid taxes   | ----- |                            |                                |                           |
| 16.  | 15.            | Commissions and fees receivable  | ----- |                            |                                |                           |
| 17.  | 16.            | Interest and dividends receivable  | ----- |                            |                                |                           |
| 18.  | 17.            | Other receivables [provide details]  | ----- |                            |                                |                           |
| 19.  | 18.            | TOTAL OTHER ALLOWABLE ASSETS   | ----- |                            |                                |                           |
| NON ALLOWABLE ASSETS:  |                |  |       |                            |                                |                           |
| 20.  | 19.            | Other deposits with <i>acceptable clearing corporations</i> [cash or <i>market value</i> of securities lodged]                   | ----- |                            |                                |                           |
| 21.  | 20.            | Deposits and other balances with non- <i>acceptable clearing corporations</i> [cash or <i>market value</i> of securities lodged] | ----- |                            |                                |                           |
| 22.  | 21.            | Commissions and fees receivable  | ----- |                            |                                |                           |
| 23.  | 22.            | Interest and dividends receivable  | ----- |                            |                                |                           |
|  | 23.            | Deferred tax assets  | ----- |                            |                                |                           |
|  | 24.            | Intangible assets  | ----- |                            |                                |                           |
| 24.  | 25.            | Property, plant and equipment  | ----- |                            |                                |                           |

[See notes and instructions]

Jan-2011

**FORM 1, PART I – STATEMENT G**

| <b>CGAAP</b><br>Line # | <b>IFRS</b><br>Line # | <b>REFERENCE</b>                                     | <b>NOTES</b> | <b>CGAAP</b><br>(date) | <b>IFRS</b><br><b>ADJUSTMENTS</b> | <b>IFRS</b><br>(date) |
|------------------------|-----------------------|--|--------------|------------------------|-----------------------------------|-----------------------|
|                        |                       | NON ALLOWABLE ASSETS [Continued]:                    |              |                        |                                   |                       |
| 27.                    | 26.                   | Investments in subsidiaries and affiliates           | -----        | -----                  | -----                             | -----                 |
|                        | 27.                   | Advances to subsidiaries and affiliates              | -----        | -----                  | -----                             | -----                 |
| 28.                    | 28.                   | Other assets [provide details]                       | -----        | -----                  | -----                             | -----                 |
| 29.                    | 29.                   | TOTAL NON-ALLOWABLE ASSETS                           |              | -----                  | -----                             | -----                 |
| 26.                    | 30.                   | Finance lease asset                                  | -----        | -----                  | -----                             | -----                 |
| 30.                    | 31.                   | TOTAL ASSETS   |              | =====                  | =====                             | =====                 |
|                        |                       | CURRENT LIABILITIES:                                 |              |                        |                                   |                       |
| 51.                    | 51.                   | Overdrafts, loans, securities loaned and repurchases | -----        | -----                  | -----                             | -----                 |
| 52.                    | 52.                   | Securities sold short - <i>at market value</i>       | -----        | -----                  | -----                             | -----                 |
| 54.                    | 53.                   | Client accounts                                      | -----        | -----                  | -----                             | -----                 |
| 55.                    | 54.                   | Brokers and dealers                                  | -----        | -----                  | -----                             | -----                 |
|                        | 55.                   | Provisions   | -----        | -----                  | -----                             | -----                 |
| 56.                    | 56.                   | Current income tax liabilities                       | -----        | -----                  | -----                             | -----                 |
| 58.                    | 57.                   | Bonuses payable                                      | -----        | -----                  | -----                             | -----                 |
| 59.                    | 58.                   | Accounts payable and accrued expenses                | -----        | -----                  | -----                             | -----                 |
| 60.                    | 59.                   | Finance leases and lease-related liabilities         | -----        | -----                  | -----                             | -----                 |
| 61.                    | 60.                   | Other current liabilities [provide details]          | -----        | -----                  | -----                             | -----                 |
| 62.                    | 61.                   | TOTAL CURRENT LIABILITIES                            |              |                        | -----                             | -----                 |
|                        |                       | NON-CURRENT LIABILITIES:                             |              |                        |                                   |                       |
|                        | 62.                   | Provisions   | -----        | -----                  | -----                             | -----                 |
| 63.                    | 63.                   | Deferred tax liabilities                             | -----        | -----                  | -----                             | -----                 |
| 64.                    | 64.                   | Finance leases and lease-related liabilities         | -----        | -----                  | -----                             | -----                 |
| 68.                    | 65.                   | Finance leases – leasehold inducements               | -----        | -----                  | -----                             | -----                 |
| 65.                    | 66.                   | Other non-current liabilities [provide details]      | -----        | -----                  | -----                             | -----                 |
| 69., 70.               | 67.                   | Subordinated loans                                   | -----        | -----                  | -----                             | -----                 |
| 66.                    | 68.                   | TOTAL NON-CURRENT LIABILITIES                        |              |                        | -----                             | -----                 |
| 67.                    | 69.                   | TOTAL LIABILITIES                                    |              |                        | =====                             | =====                 |
|                        |                       | CAPITAL AND RESERVES:                                |              |                        |                                   |                       |
| 71.                    | 70.                   | Issued capital                                       | -----        | -----                  | -----                             | -----                 |
|                        | 71.                   | Reserves   | -----        | -----                  | -----                             | -----                 |
| 72.                    | 72.                   | Retained earnings or undivided profits               | -----        | -----                  | -----                             | -----                 |
| 73.                    | 73.                   | TOTAL CAPITAL  |              |                        | -----                             | -----                 |
| 74.                    | 74.                   | TOTAL LIABILITIES AND CAPITAL                        |              |                        | =====                             | =====                 |

**FORM 1, PART I – STATEMENT G  
NOTES TO THE RECONCILIATION**

| <b>Note #</b> | <b>Adjustment explanation</b> |
|---------------|-------------------------------|
|               |                               |
|               |                               |
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|               |                               |

## **FORM 1, PART I – STATEMENT G NOTES AND INSTRUCTIONS**

### **One-time transitional reporting requirement**

The opening IFRS statement of financial position, Statement A of Form 1, provides a starting point for accounting under IFRS. For regulatory reporting, a Dealer Member prepares the opening IFRS Statement of financial position (also known as either the opening IFRS Statement A or the opening balance sheet) as at the conversion date. Example: For Dealer Members with a December 2010 year end, the conversion date is January 1, 2011. Therefore, the opening IFRS Statement A is as at January 1, 2011.

Together with the opening IFRS Statement A, Dealer Members are to provide a reconciliation of the equity between previous CGAAP and IFRS. Example: For Dealer Members with a December 2010 year-end, the previous CGAAP Statement A is as at December 31, 2010 and as filed on SIRFF as part of the audited Form 1.

### **Date of the opening IFRS Statement A**

For regulatory reporting, the opening IFRS Statement A is dated as at the conversion date. For example, a Dealer Member with a December 2010 year-end will file an opening Statement A as at January 1, 2011.

### **Due date to file the opening IFRS Statement A**

A Dealer Member will file an opening Statement A **on or before** filing its first MFR for the first fiscal year under IFRS. To accommodate this filing requirement, Dealer Members will be provided 10 weeks following their fiscal year-end to file the opening IFRS Statement A and the first MFR under IFRS. The filing requirement for the fiscal year-end audited Form 1 under CGAAP remains at 7 weeks.

Example: For Dealer Members with a December 2010 year-end, the opening IFRS Statement A and reconciliation of equity must be filed **on or before** the filing of the January 2011 MFR. The audited Form 1 as at December 31, 2010 will be filed within the normal period of 7 weeks. The opening IFRS balance sheet as at January 1, 2011 and the January 2011 MFR under IFRS will be filed **on or before** March 15, 2011, which is approximately 10 weeks after the December 2010 year-end.

### **Special procedures to be performed by the panel auditor**

The panel auditor of the Dealer Member will perform special compliance procedures on the opening IFRS Statement A and the reconciliation of equity between CGAAP and IFRS. The purpose of the special compliance procedures is to provide the Corporation appropriate assurance for its reliance on the reasonability of adjustments in determining the opening retained earnings under IFRS and for subsequent MFR filings under IFRS.

### **Notes to the reconciliation**

There will be two types of IFRS adjustments:

1. Presentation differences with no impact on total equity and
2. Adjustments that will impact retained earnings.

Adjustments made to restate the opening Statement A from previous CGAAP to IFRS are generally made to retained earnings (or if appropriate, another category of equity).

For material adjustments, Dealer Members will provide an explanation of the effect and implications of the transition to IFRS, including any accompanying material impact on risk adjusted capital (RAC). The explanations will be in the form of note disclosures.

A material adjustment means an adjustment – either individually or in the aggregate - that result in equal to or greater than 10% change (increase or decrease):

- in the retained earnings as filed on SIRFF with the audited Form 1 prepared under CGAAP and/or
- in the risk adjusted capital (RAC) as filed on SIRFF with the audited Form 1 prepared under CGAAP.

### **Mapping of the line items on Statement A**

Statement A has been reformatted to accommodate the required IFRS changes, including new terminology and the addition (as well as the deletion) of line items. To assist Dealer Members in completing the opening IFRS Statement A, a mapping of the line items under the old CGAAP format to the new IFRS format is provided.

**FORM 1, PART I – NOTES**

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(Dealer Member Name)

**NOTES TO THE FORM 1 FINANCIAL STATEMENTS**

at \_\_\_\_\_

## FORM 1, PART II

### REPORT ON COMPLIANCE FOR INSURANCE, SEGREGATION OF SECURITIES, AND GUARANTEE/GUARANTOR RELATIONSHIPS RELIED UPON TO REDUCE MARGIN REQUIREMENTS DURING THE YEAR

To: The Investment Industry Regulatory Organization of Canada (the Corporation) and the Canadian Investor Protection Fund (CIPF).

We have performed the following procedures in connection with the regulatory requirements for \_\_\_\_\_ <Dealer Member> \_\_\_\_\_ to maintain minimum insurance, segregate client securities, and maintain guarantee relationships as outlined in the Rules of the Corporation. Compliance with the Corporation Rules with respect to maintaining minimum insurance, the segregation of client securities, and maintaining guarantee relationships is the responsibility of the management of the Dealer Member. Our responsibility is to perform the procedures requested by you.

1. We have read the Dealer Member's written internal control policies and procedures with respect to maintaining insurance coverage and segregation of client securities to determine whether such policies and procedures meet the minimum required under Corporation Rules in regards to establishing and maintaining adequate internal controls.
2. a) We obtained representation from appropriate senior management of the Dealer Member that the Dealer Member's internal control policies and procedures with respect to insurance and segregation of client securities meet the minimum required under Corporation Rules in regards to establishing and maintaining adequate internal controls and that they have been implemented.  
b) We obtained written representation from appropriate senior management of the Dealer Member that the Dealer Member's guarantor agreements comply with the minimum requirements of IIROC Dealer Member Rule 100.15(h).
3. We read the Financial Institution Bond Form #14 (the "FIB") insurance policy(s) to determine whether the FIB policy(s) includes the minimum required clauses and coverage limits as prescribed in the Rules of the Corporation.
4. We requested and obtained confirmation from the Dealer Member's Insurance Broker(s) as at \_\_\_\_\_ <period end date> \_\_\_\_\_ as to the FIB coverage maintained with the Insurance Underwriter(s) including:
  - a) clauses
  - b) aggregate and single loss limits
  - c) deductible amounts
  - d) name of insurer and insured
  - e) claims made on the policy since last audit
  - f) details of losses/claims outstanding
5. We selected account statements for 10 clients. For each, we calculated the Client Net Equity amount. We traced the Client Net Equity amount to the Total Client Net Equity Report as at the audit date produced by the Dealer Member to check that the compilation of Client Net Equity is in accordance with the Notes and Instructions to Schedule 10 of Form 1. We agreed Total Client Net Equity from the report to Schedule 10.
6. We obtained a listing of all segregation locations used by the Dealer Member and determined that each location met the definition of "acceptable securities locations" as defined in the General Notes and Definitions to Form 1.
7. We selected a sample of 10 client account statements. For each we re-calculated the segregation requirements and compared the result to the Dealer Member's Segregation Report.
8. We selected \_\_\_\_\_ positions<sup>1</sup> reported as being undersegregated at various dates throughout the year and determined the date on which the undersegregation was corrected. We obtained explanations from the Dealer Member and reviewed them for reasonableness. Undersegregated positions not corrected in accordance with Corporation Rules are reported below.
9. We obtained the lists of hypothecated securities at \_\_\_\_\_ <period end date> \_\_\_\_\_ and compared a sample of \_\_\_\_\_ securities<sup>1</sup> to the Segregation Report to determine if there were securities used to secure call loans which should have been in segregation.
10. We selected 10 securities positions from the Stock Record and Position Report ("SRP") to identify a customer holding a position. We compared the securities positions to the customers' statements to check whether the stock message properly reported whether the positions were held in segregation. We also selected a sample of segregated securities from customer accounts and traced those back to the SRP and to the Segregation Report.

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<sup>1</sup> The sample selected must consist of the greater of: (i) 10 securities or, (ii) the total sample items selected by the auditor to support the audit opinion provided on the Statements of Form 1.

**FORM 1, PART II**

- 11. We obtained a list of guarantee relationships used by the Dealer Member to reduce the margin required during the year for monthly financial reporting purposes. We performed no procedures to verify the accuracy or completeness of this list.
- 12. We selected a sample of 10 guarantee relationships used to reduce margin required during the year and performed the following procedures:
  - a) Obtained written confirmation from the guarantor of the account(s) guaranteed; and that the guarantee was in place during the year ended \_\_\_\_<year end>\_\_\_\_.
  - b) Compared the wording of the guarantee agreements to the minimum requirements of IIROC Dealer Member Rule 100.15(h).

As a result of applying the above procedures, there were no exceptions except as follows:

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These procedures do not constitute an audit and therefore we express no opinion on the adequacy of the Dealer Member’s insurance coverage, segregation of client securities, maintenance of guarantee relationships, or internal control policies and procedures. This report is for use solely by the Corporation and CIPF to assist in their assessment of the Dealer Member's compliance with the requirements regarding maintaining minimum insurance, segregating client securities, and maintaining guarantee relationships as outlined in the Rules of the Corporation and not for any other purpose.

\_\_\_\_\_  
(auditing firm)

\_\_\_\_\_  
(date)

\_\_\_\_\_  
(signature)

\_\_\_\_\_  
(place of issue)

**FORM 1, PART II – SCHEDULE 1**

DATE: \_\_\_\_\_

\_\_\_\_\_  
(Dealer Member Name)

**ANALYSIS OF LOANS RECEIVABLE, SECURITIES BORROWED AND RESALE AGREEMENTS**

|                                       | <b>AMOUNT OF<br/>LOAN<br/>RECEIVABLE<br/>OR CASH<br/>DELIVERED AS<br/>COLLATERAL<br/><br/>C\$'000<br/>[see note 3]</b> | <b>MARKET VALUE<br/>OF SECURITIES<br/>DELIVERED AS<br/>COLLATERAL<br/><br/>C\$'000<br/>[see note 4]</b> | <b>MARKET VALUE<br/>OF SECURITIES<br/>RECEIVED AS<br/>COLLATERAL<br/>OR BORROWED<br/><br/>C\$'000<br/>[see note 4]</b> | <b>REQUIRED TO<br/>MARGIN<br/><br/>C\$'000</b> |
|---------------------------------------|--|---|--|--|
| <b>LOANS RECEIVABLE:</b>              |  |   |  |  |
| 1. <i>Acceptable institutions</i>     | -----  | N/A   | -----  | Nil  |
| 2. <i>Acceptable counterparties</i>   | -----  | N/A   | -----  | -----  |
| 3. <i>Regulated entities</i>          | -----  | N/A   | -----  | -----  |
| 4. <i>Others [see note 12]</i>        | -----  | N/A   | -----  | -----  |
| <b>SECURITIES BORROWED:</b>           |  |   |  |  |
| 5. <i>Acceptable institutions</i>     | -----  |   | -----  | Nil  |
| 6. <i>Acceptable counterparties</i>   | -----  |   | -----  | -----  |
| 7. <i>Regulated entities</i>          | -----  |   | -----  | -----  |
| 8. <i>Others [see note 12]</i>        | -----  |   | -----  | -----  |
| <b>RESALE AGREEMENTS:</b>             |  |   |  |  |
| 9. <i>Acceptable institutions</i>     | -----  | N/A   | -----  | Nil  |
| 10. <i>Acceptable counterparties</i>  | -----  | N/A   | -----  | -----  |
| 11. <i>Regulated entities</i>         | -----  | N/A   | -----  | -----  |
| 12. <i>Others [see note 12]</i>       | -----  | N/A   | -----  | -----  |
| 13. <b>TOTAL</b> [Lines 1 through 12] | =====  |   | =====  | =====  |
|                                       | A-6  |   |  | B-9  |

**FORM 1, PART II – SCHEDULE 1  
NOTES AND INSTRUCTIONS**

1. This schedule is to be completed for secured loan receivable transactions whereby the stated purpose of the transaction is to lend excess cash. All security borrowing transactions and resale (i.e. reverse repo) agreements, including financing transactions done via 2 trade tickets and those with related parties, should also be disclosed on this schedule.
2. For the purpose of this schedule, "excess collateral deficiency" is defined as the actual collateral provided to the counterparty less the collateral required to be received by the counterparty pursuant to regulatory or legislative requirements. A list of current collateralization rates for each category of *acceptable counterparties* is published on a regular basis.
3. Include accrued interest in amount of loan receivable.
4. Market value of securities delivered or received as collateral should include accrued interest.
5. In the case of either a cash loan and securities borrowing or a resale transaction, if a written agreement between the Dealer Member and the counterparty has been entered into containing the terms described below, the instructions in Notes 7, 8, 9, and 10 are applicable, as the case may be. Each such written agreement shall include terms which provide (i) for the rights of either party to retain or realize on securities held by it from the other party on default, (ii) for events of default, (iii) for the treatment of the value of securities held by a non-defaulting party in excess of amounts which may be owed by a defaulting party, (iv) either for set-off or, in the case of secured loans of securities, continuous segregation of collateral and the requirement for the lender to perfect a security interest in collateral giving the highest priority, and (v) if set-off rights or security interests are created in securities sold or loaned by one party to another, that the securities are endorsed for transfer and free of any trading restrictions. In addition, in the case of a resale transaction such written agreement shall contain an acknowledgement by the parties that either has the right, upon notice, to call for any shortfall in the difference between the collateral and the securities at any time. Such agreements are not mandatory and if not used are to be margined as provided below.

In the case of a cash loan and securities borrowing transaction, if no such written agreement has been entered into in respect of the transaction, then 100% of the *market value* must be provided as margin by the Dealer Member on the collateral given to the lender except in the case where the lender is an *acceptable institution* in which case no margin need be provided.

In the case of a resale transaction, if no such written agreement has been entered into in respect of the transaction, the position shall be margined as follows:

| Counterparty                   | Written Repurchase/Reverse Repurchase Agreement | NO Written Repurchase/Reverse Repurchase Agreement<br>Calendar days after regular settlement (Note 1) |   |
|--------------------------------|---|---|---|
|                                |   | 30 days or less   | Greater than 30 days  |
| <i>Acceptable institution</i>  | No margin                                       | No margin (Note 2)  |   |
| <i>Acceptable counterparty</i> | Excess collateral deficiency                    | Excess collateral deficiency (Note 2)   |   |
| <i>Regulated entity</i>        | Market deficiency                               | Market deficiency (Note 2)  | Margin  |
| Other                          | Margin  | Margin  | 200% of margin (to a maximum of the <i>market value</i> of the underlying securities) |

Note 1: Regular settlement means the settlement dates or delivery date generally accepted according to industry practice for the relevant security in the market in which the transaction occurs. Margin is calculated from the date of regular settlement. Calendar days refers to the original term of the repurchase/reverse repurchase.

Note 2: Any transaction which has not been confirmed by an *acceptable institution*, *acceptable counterparty* or *regulated entity* within 15 business days of the trade shall be margined.

6. For any given counterparty a deficiency in one type of loan may be offset by an excess in another type of loan provided that there are written agreements for each type of loan which provide for the right of offset between each type of loan. In such case, the balances may also be offset for margin calculation purposes.
7. **Lines 1, 5 and 9** - In a cash loan and securities borrow or resale transaction between a Dealer Member and an *acceptable institution*, no capital need be provided in the case where a deficiency exists between the *market value* of the cash loaned or securities borrowed or resold and the *market value* of the collateral or cash pledged.

**FORM 1, PART II – SCHEDULE 1**  
**NOTES AND INSTRUCTIONS** [Continued]

In order for a pension fund to be treated as an *acceptable institution* for purposes of this Schedule, it must not only meet the *acceptable institution* criteria outlined in General Notes and Definitions, but the Dealer Member must also have received representation that the pension fund is legally able to enter into the obligations of the transaction. If such representation has not been received, the pension fund which otherwise meets the *acceptable institution* criteria must be treated as an *acceptable counterparty*.

WHERE AN AGREEMENT HAS BEEN EXECUTED, THEN:

8. **Lines 2, 6 and 10** - In a cash loan and securities borrow or resale transaction between a Dealer Member and an *acceptable counterparty*, where an *excess collateral deficiency* exists, action must be taken to correct the deficiency. If no action is taken the amount of *excess collateral deficiency* must be immediately provided out of the Dealer Member's capital. In any case, where the deficiency exists for more than one business day, it must be provided out of the Dealer Member's capital.
9. **Lines 3, 7 and 11** - In a cash loan and securities borrow or resale transaction between a Dealer Member and a *regulated entity*, where a deficiency exists between the *market value* of the cash loaned or securities borrowed or resold and the *market value* of the collateral or cash pledged, action must be taken to correct the deficiency. If no action is taken the amount of *market value* deficiency must be immediately provided out of the Dealer Member's capital. In any case, where the deficiency exists for more than one business day, it must be provided out of the Dealer Member's capital.
10. **Lines 4, 8 and 12** - In a cash loan and securities borrow or resale transaction between a Dealer Member and a party other than an *acceptable institution*, *acceptable counterparty* or *regulated entity*, where a deficiency exists between the loan value of the cash loaned or securities borrowed or resold and the loan value of the collateral or cash pledged, action must be taken to correct the deficiency. If no action is taken the amount of loan value deficiency must be immediately provided out of the Dealer Member's capital. The margin required may be reduced by any margin already provided on the collateral (e.g. in inventory). Where the collateral is either held by the Dealer Member on a fully segregated basis or held in escrow on its behalf by an Acceptable Depository or a bank or trust company qualifying as either an *acceptable institution* or *acceptable counterparty*, only the amount of *market value* deficiency need be provided out of the Dealer Member's capital. In any case, where the deficiency exists for more than one business day, it must be provided out of the Dealer Member's capital.
11. **Lines 5, 6 and 7** - In a securities borrowed transaction between a Dealer Member and an *acceptable institution*, *acceptable counterparty*, or *regulated entity*, where a letter of credit issued by a Schedule 1 Bank is used as collateral for the securities borrowed, there shall be no charge to the Dealer Member's capital for any excess of the value of the letter of credit pledged as collateral over the *market value* of the securities borrowed.
12. **Lines 4, 8 and 12** - Transactions whereby an *acceptable institution*, *acceptable counterparty*, or *regulated entity* are only acting as agents (on behalf of an "other" party) should be reported and margined as "Others".

**FORM 1, PART II – SCHEDULE 2**

DATE: \_\_\_\_\_

\_\_\_\_\_  
(Dealer Member Name)

**ANALYSIS OF SECURITIES OWNED AND SOLD SHORT AT MARKET VALUE**

| CATEGORY  | MARKET VALUE    |                  | MARGIN<br>REQUIRED<br>C\$'000 |
|---|-----------------|------------------|-------------------------------|
|   | LONG<br>C\$'000 | SHORT<br>C\$'000 |                               |
| 1. Money market   | -----           | -----            |                               |
| Accrued interest  | -----           | -----            | NIL                           |
| TOTAL MONEY MARKET  | -----           | -----            |                               |
| 2. Debt   | -----           | -----            |                               |
| Accrued interest  | -----           | -----            | NIL                           |
| TOTAL DEBT  | -----           | -----            |                               |
| 3. Equities   | -----           | -----            |                               |
| Accrued interest on convertible debentures  | -----           | -----            | NIL                           |
| TOTAL EQUITIES  | -----           | -----            |                               |
| 4. Options  | -----           | -----            |                               |
| 5. Futures  | NIL             | NIL              | -----                         |
| 6. OTC derivatives  | -----           | -----            |                               |
| 7. Registered traders, specialists and market makers  | NIL             | NIL              | -----                         |
| 8. TOTAL  | -----           | =====            | -----                         |
|   |                 | A-52             | B-10                          |
| 9. <b>LESS:</b> Securities, including accrued interest, segregated for client free credit ratio calculation | -----           |                  |                               |
|   | A-8 and D-8     |                  |                               |
| 10. Adjusted TOTAL  | -----           | =====            | -----                         |
|   | A-7             |                  |                               |

**SUPPLEMENTARY INFORMATION**

|  |       |
|--|-------|
| 11. Market value of securities included above but held on deposit as variable base deposits or margin deposits with <i>acceptable clearing corporations or regulated entities</i> or as a comfort deposit with a carrying broker | ----- |
| 12. Margin reduction from offsets against Trader reserves and PDO guarantees   | ===== |

**FORM 1, PART II – SCHEDULE 2**  
**NOTES AND INSTRUCTIONS**

**Valuation and margin rates**

All securities are to be valued at market (see General Notes and Definitions) as of the reporting date. The margin rates to be used are those outlined in the Corporation rules.

**All securities owned and sold short**

Schedule 2 summarizes **all** securities owned and sold short by the categories indicated. Details that must be included for each category are total long *market value*, total short *market value* and total margin required as indicated.

**Margining of option positions**

Where the Dealer Member utilizes the computerized options margining program of a recognized Exchange operating in Canada, the margin requirement produced by such program may be used provided the positions in the Dealer Member's records agree with the positions in the Exchange computer. No details of such positions are to be reported if the programs are employed. Details of any adjustments made to the margin calculated by an Exchange computer-margining program must be provided. For the purposes of this paragraph, recognized Exchange means The Montreal Exchange.

**Request for detailed information**

The Examiners and/or Auditors of the Corporation may request additional details of securities owned or sold short as they, in their discretion, believe necessary.

**Margin offsets**

Where there are margin offsets between categories, the residual should be shown in the category with the larger initial margin required before offsets.

**Line 1** - Money market is to include Canadian & US Treasury Bills, Bankers Acceptances, Bank paper (Domestic & Foreign), Municipal and Commercial Paper or other similar instruments.

**Supplementary instructions for reporting money market commitments:**

**"Market Price"** for money market commitments [fixed-term repurchases, calls, etc.] shall be calculated as follows:

- (i) Fixed date repurchases [no borrower call feature] - the market price is the price determined by applying the current yield for the security to the term of maturity from the repurchase date. This will permit calculation of any profit or loss based on the market conditions at the reporting date. Exposure due to future changes in market conditions is covered by the margin rate.
- (ii) Open repurchases [no borrower call feature] - prices are to be determined as of the reporting date or the date the commitment first becomes open, whichever is the later. Market price is to be determined as in (i) and commitment price is to be determined in the same manner using the yield stated in the repurchase commitment.
- (iii) Repurchase with borrower call features - the market price is the borrower call price. No margin is required where the total consideration for which the holder can put the security back to the dealer is less than the total consideration for which the dealer may put the security back to the issuer. However, where a holder consideration exceeds dealer consideration [the dealer has a loss], the margin required is the lesser of:
  - (a) the prescribed rate appropriate to the term of the security, and
  - (b) the spread between holder consideration and dealer consideration [the loss] based on the call features subject to a minimum of 1/4 of 1% margin.

**Line 7** - Registered traders, specialists and market makers margin requirements are:

- (i) The minimum margin requirement for each TSX registered trader is \$50,000.
- (ii) The minimum margin requirement for each MX registered specialist is the lesser of \$50,000 or an amount sufficient to assume a position of twenty board lots of each security in which such specialist is registered, subject to a maximum of \$25,000 per issuer.
- (iii) The market maker minimum margin requirement is for the TSX \$50,000 for each specialist appointed and for the MX \$10,000 for each security and/or class of options appointed (not to exceed \$25,000 for each market maker in each preceding case). No minimum margin is required where the market maker does not have an appointment.

The above-noted minimum margin for each registered trader, specialist, or market maker may be applied as an offset to reduce any margin on positions held long or short in the registered trading account of such registered trader, specialist or

**FORM 1, PART II – SCHEDULE 2**  
**NOTES AND INSTRUCTIONS** [Continued]

market maker. It cannot be used to offset margin required for any other registered trader, specialist or market maker or for any other security positions of the Dealer Member.

The *market values* related to positions in registered traders, specialists and market maker accounts should be included in the appropriate categories in the preceding lines of the Schedule. Related margin in excess of the minimum margin reported on this line should also be included in the preceding lines.

**Line 9** - The securities to be included are bonds, debentures, treasury bills and other securities with a term of 1 year or less, 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), which are segregated and held separate and apart as the Dealer Member's property.

**Line 12** - Include margin reductions from offsets against IA reserves only to the extent there is a written agreement between the Dealer Member and the trader permitting the Dealer Member to recover realized or unrealized losses from the IA reserve account. Include margin reductions arising from guarantees relating to inventory accounts by Partners, Directors, and Officers of the Dealer Member (PDO Guarantees).

**FORM 1, PART II – SCHEDULE 2A**

DATE: \_\_\_\_\_

\_\_\_\_\_  
(Dealer Member Name)

**MARGIN FOR CONCENTRATION IN UNDERWRITING COMMITMENTS**

**INDIVIDUAL CONCENTRATION:**

| Description<br>[see note 3] | Market Value<br>C\$'000 | Normal<br>Margin<br>C\$'000 | 40% of Net<br>Allowable<br>Assets<br>C\$'000 | Excess<br>C\$'000 | Margin already<br>provided<br>C\$'000<br>[see note 2] | Concentration<br>Margin<br>C\$'000 |
|-----------------------------|-------------------------|-----------------------------|--|-------------------|---|------------------------------------|
| -----                       | -----                   | -----                       | -----  | -----             | -----   | -----                              |
| -----                       | -----                   | -----                       | -----  | -----             | -----   | -----                              |
| -----                       | -----                   | -----                       | -----  | -----             | -----   | -----                              |
| 1. SUBTOTAL                 |                         |                             |  |                   |   | _____                              |

**OVERALL CONCENTRATION:**

| Description<br>[see note 5]              | Market Value<br>C\$'000 | Normal<br>Margin<br>C\$'000 | 100% of Net<br>Allowable<br>Assets<br>C\$'000 | Excess<br>C\$'000 | Margin already<br>provided<br>C\$'000<br>[see note 4] | Concentration<br>Margin<br>C\$'000 |
|--|-------------------------|-----------------------------|---|-------------------|---|------------------------------------|
| -----                                    | -----                   | -----                       | -----   | -----             | -----   | -----                              |
| -----                                    | -----                   | -----                       | -----   | -----             | -----   | -----                              |
| -----                                    | -----                   | -----                       | -----   | -----             | -----   | -----                              |
| 2. SUBTOTAL                              |                         |                             |   |                   |   | _____                              |
| 3. CONCENTRATION MARGIN [Lines 1 plus 2] |                         |                             |   |                   |   | _____                              |

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**NOTES:**

1. This schedule need only be completed for underwriting commitments requiring concentration margin.
2. **INDIVIDUAL COMMITMENT CONCENTRATION:**  
Where the normal margin required on any one commitment is reduced due to either:
  - (a) the use of a new issue letter; or
  - (b) qualifying expressions of interest received from exempt list customers that have been verbally confirmed but not yet contracted [the margin reduction is only permitted once the final allocation has been made to the exempt purchasers and the entire allotment to exempt purchasers has been verbally confirmed]
 and the normal margin on the commitment exceeds 40% of the Dealer Member's net allowable assets, such excess shall be provided as margin. The amount to be added may be reduced by the amount of margin already provided on the individual underwriting position to which such excess relates.
3. Report details by individual commitments.
4. **OVERALL COMMITMENT CONCENTRATION:**  
Where the normal margin required on some or all commitments is reduced due to either:
  - (a) the use of a new issue letter; or
  - (b) qualifying expressions of interest received from exempt list customers that have been verbally confirmed but not yet contracted [the margin reduction is only permitted once the final allocation has been made to the exempt purchasers and the entire allotment to exempt purchasers has been verbally confirmed]
 and the aggregate normal margin on these commitments exceeds 100% of the Dealer Member's net allowable assets, such excess shall be provided as margin. The amount to be added may be reduced by the amount of margin already provided on such commitments and by the amount, if any, already provided for individual concentration.
5. It is not necessary to report details of individual commitments. Report the aggregate totals.



**FORM 1, PART II – SCHEDULE 4**

DATE: \_\_\_\_\_

\_\_\_\_\_  
(Dealer Member Name)

**ANALYSIS OF CLIENTS' TRADING ACCOUNTS LONG AND SHORT**

| CATEGORY  | BALANCES         |                   | AMOUNT<br>REQUIRED TO<br>FULLY MARGIN<br>C\$'000 |
|---|------------------|-------------------|--|
|   | DEBIT<br>C\$'000 | CREDIT<br>C\$'000 |  |
| 1. <i>Acceptable institutions</i>   | -----            | -----             | -----  |
| 2. <i>Acceptable counterparties</i>   | -----            | -----             | -----  |
| 3. Other clients:   |                  |                   |  |
| (a) Margin accounts   | -----            | -----             | -----  |
| (b) Cash accounts   | -----            | -----             | -----  |
| (c) Futures accounts  | -----            | -----             | -----  |
| (d) Unsecured debits and shorts   | -----            | N/A               | -----  |
| 4. Margin on extended settlements   | N/A              | N/A               | -----  |
| 5. Free credits   | N/A              | -----             | N/A  |
|   |                  | D-4               |  |
| 5. (a) Free credits, pending trades [if applicable]   | N/A              |                   | N/A  |
| 6. RRSP and other similar accounts  | -----            | -----             | -----  |
| 7. <b>Less</b> - allowance for bad debts  | -----            | -----             | -----  |
| 8. TOTAL  | -----            | -----             | -----  |
|   | A-9              | A-53              | B-12   |
| 9. <b>SUPPLEMENTARY DISCLOSURE:</b>   |                  |                   |  |
| (a) NAME OF RRSP TRUSTEE(S)   |                  |                   |  |
| 1. _____  |                  |                   |  |
| 2. _____  |                  |                   |  |
| 3. _____  |                  |                   |  |
| (b) Total margin reductions from offsets against IA reserves,<br>PDO guarantees or general allowances |                  |                   | =====  |

**FORM 1, PART II – SCHEDULE 4**  
**NOTES AND INSTRUCTIONS**

1. EACH DEALER MEMBER SHALL OBTAIN FROM CLIENTS, PARTNERS, SHAREHOLDERS, AND CLIENTS CARRIED FOR AN INTRODUCING BROKER, SUCH MINIMUM MARGIN IN SUCH AMOUNT AND IN ACCORDANCE WITH SUCH REQUIREMENTS AS PRESCRIBED BY THE CORPORATION.
2. "**extended settlement date**" transaction shall mean a transaction (other than a mutual fund security redemption) in respect of which the arranged settlement date is a date after regular settlement date.  
"**regular settlement date**" means the settlement date generally accepted according to industry practice for the relevant security in the market in which the transaction occurs, including foreign jurisdictions. For margin purposes, if such settlement date exceeds 15 business days past trade date, settlement date will be deemed to be 15 business days past trade date. In the case of new issue trades, regular settlement date means the contracted settlement date as specified for that issue.
3. **Lines 1 to 3** - Balances including extended settlement date transactions should be reported on these lines. However, the margin related to such extended settlements should be calculated as described in Note 13 and reported on Line 4.
4. **Line 1** - No mark to market or margin is required on accounts with *acceptable institutions* in the case of either regular or extended settlement date transactions EXCEPT any transaction which has not been confirmed by an *acceptable institution* within 15 business days of the trade date shall be margined.  
This line is to include all trading balances with *acceptable institutions* except free credit balances, which should be included on Line 5.
5. **Line 2** - In the case of a regular settlement date transaction in the account of an *acceptable counterparty* the amount of margin to be provided, commencing on regular settlement date, shall be the equity deficiency calculated by determining the difference between (a) the net *market value* of all settlement date security positions in the customer's account(s) and (b) the net money balance on a settlement date basis in the same account(s).  
Any transaction, which has not been confirmed by an *acceptable counterparty* within 15 business days of the trade date, shall be margined.  
This line is to include all trading balances with *acceptable counterparties* except free credit balances, which should be included on Line 5.
6. **Line 3(a) - "margin accounts"** means accounts which operate according to the following rules:
  1. Settlement of each transaction in a margin account of a customer shall be made on or before the settlement date by payment of the amount required to complete the transaction or by delivery of the required securities, as the case may be.
  2. Payment by a customer in respect of any margin account transaction may be by:
    - a) cash or other immediately available funds;
    - b) applying the loan value of securities to be deposited;
    - c) applying the excess loan value in the account or in a guarantor's account.
  3. Each margin account of a customer, which has become undermargined, shall within 20 business days of the account becoming undermargined be restricted only to trades, which reduce the margin deficiency in the account. Such restriction shall apply until the account is fully margined.
  4. Advancing funds or delivering securities from the account of a customer shall not be permitted as long as the account is undermargined or if such advance or delivery would cause the account to become undermargined.
7. **Line 3(a)** - In the case of a regular settlement date transaction in the margin account of a person other than a *regulated entity, acceptable counterparty* or *acceptable institution*, the amount of margin to be provided, commencing on regular settlement date, shall be the margin deficiency at not less than prescribed rates, if any, that exists.

TRADE DATE MARGINING

For Dealer Members determining margin deficiencies for clients on a trade date basis, (a) any amount of margin required to be provided under this subsection shall be determined using money balances and security positions as of trade date, and (b) the amount referred to in the previous paragraph shall be determined and provided commencing on trade date.

**FORM 1, PART II – SCHEDULE 4**  
**NOTES AND INSTRUCTIONS** [Continued]

8. **Line 3(b) - "cash accounts"** means accounts which operate according to the following rules:

1. CASH ACCOUNTS

Settlement of each transaction in a cash account (other than DAP or RAP transactions referred to below) of a customer should be made by payment or delivery on the settlement date. In the event the account does not settle as required, capital will be provided as prescribed in Note 9.

2. DELIVERY AGAINST PAYMENT (DAP)

Settlement of a purchase transaction in an account for which the customer has made arrangements with the Dealer Member on or before settlement date for delivery by the Dealer Member against payment in full by the customer shall be settled on the later of (i) settlement date or (ii) the date on which the Dealer Member gives notice to the customer that the securities purchased are available for delivery.

3. RECEIPT AGAINST PAYMENT (RAP)

Settlement of a sale transaction in an account for which the customer has made arrangements with the Dealer Member on or before settlement date for receipt of securities by the Dealer Member against payment to the customer shall be settled on the settlement date.

4. PAYMENT

Payment by a customer in respect of any cash account transaction may be by:

- a) cash or other immediately available funds;
- b) the application of the proceeds of the sale of the same or other securities held long in any cash account of the customer with the Dealer Member provided that the equity (trade date brokers include unsettled transactions) in such account exceeds the amount of the transaction;
- c) the transfer of funds from a margin account of the customer with the Dealer Member provided adequate margin is maintained in such account immediately before and after the transfer.

5. ISOLATED TRANSACTIONS

A customer shall be permitted in an isolated instance to:

- a) settle, when the equity (excluding all unsettled transactions) in such account does not exceed the amount of the transaction, a regular or DAP cash account transaction by the sale of the same security in any cash account of the customer with the Dealer Member;
- b) transfer a transaction in a cash account to a margin account prior to payment in full; or
- c) transfer a transaction in a DAP account to a margin account within 10 business days after settlement date.

6. ACCOUNT RESTRICTIONS

a) Cash accounts

When any portion of the money balance for a cash account of a customer is outstanding 20 business days or more after settlement date the customer shall be restricted from entering into any other transactions (other than liquidating transactions) in any account of the customer with the Dealer Member, unless and until (i) payment of any such money balance outstanding for 20 business days or more shall have been made, (ii) all open and unsettled transactions in any cash account of the customer with the Dealer Member have been transferred in accordance with subsection 7, or (iii) the customer has executed a liquidating transaction in the account with the effect that no portion of the money balance in the account is outstanding 20 business days or more after settlement date.

b) DAP accounts

When any portion of the money balance for a DAP account transaction of a customer is outstanding 5 business days or more (or, in the case of transactions of customers situated other than in continental North America, 15 business days) from the date on which the transaction is required to be settled in accordance with subsection 2. the customer shall be restricted from entering into any other transaction (other than liquidating transactions) in any other account of the customer with the Dealer Member, unless and until (i) such transaction has been settled in full or (ii) all open and unsettled transactions in any cash account of the customer with the Dealer Member have been transferred in accordance with subsection 7.

**FORM 1, PART II – SCHEDULE 4**  
**NOTES AND INSTRUCTIONS** [Continued]

7. TRANSFER TO MARGIN ACCOUNT

The account restrictions in subsection 6 (a) and (b) shall not apply to the accounts of a customer who (i) do not have a margin account with the Dealer Member, and (ii) on or after the accounts becoming so restricted, transfers all open and unsettled transactions in any cash account of the customer with the Dealer Member to one or more newly established margin accounts of the customer with the Dealer Member, provided such margin accounts have been properly established by the completion of all necessary documentation and action and adequate margin is maintained in such account(s) immediately after such transfer.

8. ACCEPTABLE INSTITUTIONS AND OTHERS

Subsection 6 does not apply to the accounts of *acceptable institutions, acceptable counterparties, non-Dealer Member brokers, or regulated entities*.

9. **Line 3(b)** - Margin must be provided as follows:

CASH ACCOUNTS

- a) When any portion of the money balance in a cash account of a person other than a *regulated entity, acceptable counterparty or acceptable institution* is overdue for a period of less than 6 business days past regular settlement date, in the case of regular settlement transactions, the amount of margin to be provided, commencing on regular settlement date, shall be the equity deficiency, if any, calculated by determining the difference between (a) the net weighted *market value* of all settlement date security positions in the customer's cash account(s) and (b) the net money balance on a settlement date basis in the same account(s).

For the purposes of calculating weighted *market value*, the following weightings will apply:

- Securities that currently have a margin rate of 60% or less, are weighted at 1.000
- Listed securities with a margin rate greater than 60% are weighted as 0.333
- Nasdaq National Market® and Nasdaq SmallCap Market<sup>SM</sup> securities with a margin rate of more than 60% are weighted as 0.333
- All other unlisted securities with a margin rate of more than 60% are weighted as 0.000

- b) Commencing on 6 business days or more past regular settlement date, the amount of margin to be provided shall be the margin deficiency, if any, that would exist if all of the customer's cash accounts were margin accounts;
- c) The amounts provided in (a) or (b) above may be reduced by the amount of excess margin in the customer's margin accounts and any equity surplus in the customer's DAP and RAP accounts, if any.

DAP AND RAP ACCOUNTS

- a) When any portion of the money balance in a DAP account or RAP account of a person other than a *regulated entity, acceptable counterparty or acceptable institution* is overdue for a period of less than 10 business days past regular settlement date, in the case of regular settlement transactions, the amount of margin to be provided, commencing on regular settlement date, shall be the equity deficiency, if any, of (a) the net *market value* of all settlement date security positions in the customer's DAP, or RAP account(s) and (b) the net money balance on a settlement date basis in the same account(s).
- b) For each transaction in a DAP or RAP account which is unsettled, or any money portion in respect of such transaction is outstanding, in either case for a period of 10 business days or more past regular settlement date, the amount of margin to be provided shall be the margin deficiency calculated in respect of each such transaction as if such transaction was in a margin account.
- c) For a customer whose accounts are restricted, the amount to be provided shall be the margin deficiency, if any, that would exist if all of the customer's DAP and RAP accounts were margin accounts;
- d) The amount to be provided in (a), (b) or (c) above may also be reduced by the amount of excess margin in the customer's margin accounts and any equity surplus in the customer's cash accounts, if any.

CONFIRMATIONS AND COMMITMENT LETTERS

The margin requirements outlined in the previous paragraphs of Note 9 do not apply if a customer has provided the Dealer Member on or before settlement date with an irrevocable and unconditional confirmation from an *acceptable clearing corporation* or letter of commitment from an *acceptable institution* to the effect that such corporation or institution will accept delivery from the Dealer Member and pay for the securities to be delivered, and in such event

**FORM 1, PART II – SCHEDULE 4**  
**NOTES AND INSTRUCTIONS [Continued]**

settlement shall be considered provided for by the customer.

**TRADE DATE MARGINING**

For Dealer Members determining margin deficiencies for clients on a trade date basis, the amount of margin required between trade date and settlement date shall be the equity deficiency, if any, calculated by determining the difference between (a) the net *market value* of all trade date security positions in the customer's cash, DAP or RAP account(s) and (b) the trade date net money balance in the same account(s). Commencing on regular settlement date, the amount of margin to be provided shall be the margin requirement outlined in the previous paragraphs of Note 9.

10. Any transactions in open cash accounts at the report date which, subsequent to that date, become in violation of the cash account requirements and have resulted in either a material loss or a material deficit - equity position, must either be fully margined or the total amount to margin such items must be reported as a footnote to Form 1.
11. **Line 3(c)** - Client accounts shall be marked to market and margined daily using as a minimum the margin requirements of the Clearing House of the Futures Exchange on which the futures contract is traded or at the rate required by the Dealer Member's clearing broker, whichever is the greater.
12. **Line 3(d)** - The amount required to fully margin should be the aggregate of unsecured debits plus the margin required on any short security positions in such accounts or in accounts with no money balance. Any account that is partly secured should be included on Line 3(a) - Margin Accounts.
13. **Line 4** - Report only the margin related to extended settlements in cash, DAP, RAP or margin accounts on this line. In the case of an extended settlement transaction between a Dealer Member and either an *acceptable counterparty* or any other counterparty (other than an *acceptable institution* (see Note 4) or *regulated entity* (see Schedule 5)), the position shall be margined as follows, commencing on regular settlement date:

| <b>CALENDAR DAYS AFTER REGULAR SETTLEMENT (Note 1)</b>   |                            |   |
|--|----------------------------|---|
| <b>Counterparty</b>  | <b>30 days or less</b>     | <b>Greater than 30 days</b>   |
| <i>Acceptable counterparty</i>   | Market deficiency (Note 2) | Margin  |
| Other  | Margin                     | 200% of margin (to a maximum of the <i>market value</i> of the underlying securities) |
| Note 1: Calendar days refers to the original term of the extended settlement transaction.<br>Note 2: Any transaction which has not been confirmed by an <i>acceptable counterparty</i> within 15 business days of the trade shall be margined. |                            |   |

14. **Line 5** - Free credit balances in all accounts except RRSP and other similar accounts should be included. Dealer Members margining on a trade date basis will generally calculate free credit balances on a trade date basis and should report this trade date figure on Line 5. However, for those Dealer Members margining on a settlement date basis, their free credit balances will generally be calculated on a settlement date basis and this settlement date figure should be reported on Line 5. Note that a consistent basis of calculating free credit balances must be used from month to month.  
 For cash and margin accounts, a free credit is: "the credit balance less an amount equal to the aggregate of the *market value* of short positions and regulatory margin on those shorts".  
 For futures accounts, a free credit is: "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."
15. **Line 5(a)** - For those Dealer Members reporting free credit balances on a settlement date basis on Line 5, report the free credit balances arising as a result of pending trades on this line.
16. **Line 7** - Deduct the allowance for bad debts recorded in the accounts in order that the totals in Line 8 are shown "net".
17. **Line 9(b)** - Include margin reductions from offsets against IA reserves only to the extent there is a written agreement between the Dealer Member and the IA permitting the Dealer Member to recover the unsecured balances of the IA's client accounts from the IA reserve account. Include margin reductions arising from guarantees relating to customers' accounts by Partners, Directors, and Officers of the Dealer Member (PDO Guarantees). Include margin reductions arising from offsets against non-specific allowances of the Dealer Member.



**FORM 1, PART II – SCHEDULE 5**

DATE: \_\_\_\_\_

\_\_\_\_\_  
(Dealer Member Name)

**ANALYSIS OF BROKERS' AND DEALERS' TRADING BALANCES**

| CATEGORY  | BALANCES         |                   | AMOUNT                                 |
|---|------------------|-------------------|--|
|   | DEBIT<br>C\$'000 | CREDIT<br>C\$'000 | REQUIRED TO<br>FULLY MARGIN<br>C\$'000 |
| 1. <i>Acceptable clearing corporations</i> trading balances [see notes]   | -----            | -----             | -----                                  |
| 2. <i>Regulated entities</i> [see notes]  | -----            | -----             | -----                                  |
| 3. (a) Dealer Member's own affiliated/related partnerships or corporations duly approved and audited under the capital requirements of the Corporation      | -----            | -----             | -----                                  |
| (b) Dealer Member's own affiliated/related partnerships or corporations - not approved [see note 6 - give details]  | -----            | -----             | -----                                  |
| 4. (a) Other brokers and dealers not qualifying as <i>regulated entities</i> but qualifying as <i>acceptable counterparties</i> [see note 7 - give details] | -----            | -----             | -----                                  |
| (b) Other brokers and dealers not qualifying as <i>regulated entities</i> or <i>acceptable counterparties</i> [see note 8 - give details]                   | -----            | -----             | -----                                  |
| 5. Mutual Funds or their agents [see note 9]  | -----            | -----             | -----                                  |
| 6. TOTAL  | -----            | -----             | -----                                  |
|   | A-10             | A-54              | B-13                                   |

**FORM 1, PART II – SCHEDULE 5**  
**NOTES AND INSTRUCTIONS**

1. This schedule is only to include ordinary security trading transactions. All security borrowing or lending transactions should be disclosed on Schedules 1 or 7.
2. **Lines 1, 2, 3 and 4 where applicable** - Balances may be reported on a “net” basis (broker by broker) or on a “gross” basis. Balances with a broker or dealer must not be netted against those with its affiliated company.
3. **Line 1** - For definition, see General Notes and Definitions.  
Margin on such balances should be provided as follows:
  - (i) Trades settling through a Net Settlement system should be treated as if the other party to the trade was an *acceptable institution*. For example, CNS balances with CDS, and CNS balances with National Securities Clearing Corporation.
  - (ii) All transactions done through CDS outside of the CNS system should be treated as if with a single counterparty to be classified as an *acceptable counterparty* (even if some or all of the other parties qualify as an *acceptable institution*).
  - (iii) Other trades settling on a transaction by transaction basis should be treated as if they were to be settled directly with the other party to the trade. For example, balances arising from trades settled through National Securities Clearing Corporation’s Netted Balance Order or Trade-for-Trade Services, and balances arising from trades settled through Euroclear and Cedel.
4. **Line 2** - This line is not to include non-arms’ length transactions which are to be reported on Line 3. For definition of “*regulated entities*”, see General Notes and Definitions. Margin on balances with *regulated entities* must be provided as follows:
  - (i) In the case of a regular settlement date transaction in the account of a *regulated entity* the amount of margin to be provided, commencing on regular settlement date, shall be the equity deficiency of (a) the net *market value* of all settlement date security positions in the broker's accounts, and (b) the net money balance on a settlement date basis in the same accounts. In the case of an extended settlement date transaction between a Member and a *regulated entity*, commencing on regular settlement date the position shall be marked to market if the original term of the extended settlement transaction is 30 days or less, otherwise the position should be margined at applicable rates.
  - (ii) Any transaction which has not been confirmed by a *regulated entity* within 15 business days of the trade date shall be margined.
5. **Line 3(a)** - Margin must be provided as outlined for *regulated entities* in note 4 above.
6. **Line 3(b)** - If the affiliated/related company qualifies as a *regulated entity*, then margin must be provided as outlined for *regulated entities* in note 4 above.  
If the affiliated/related company qualifies as an *acceptable counterparty*, then margin must be provided in the manner outlined in Schedule 4 Notes and Instructions for *acceptable counterparties*.  
If neither of the above, then margin must be provided in the manner outlined in Schedule 4 Notes and Instructions for regular clients’ accounts.
7. **Line 4(a)** - All balances must be margined in the same way as accounts of *acceptable counterparties* (see Schedule 4 Notes and Instructions). Balances, or portions thereof, arising from trading transactions such as futures, options and short sale deposits should also be reported on this line. This line should also include balances with approved inter-dealer bond brokers.  
Approved inter-dealer bond brokers are those inter-dealer bond dealers that are approved by the Corporation and the Bourse de Montréal Inc. The list of approved inter-dealer bond brokers will be published from time to time through the issuance of a regulatory notice.
8. **Line 4(b)** - All balances must be margined in the same way as regular clients’ accounts (see Schedule 4 Notes and Instructions). Balances, or portions thereof, arising from trading transactions such as futures, options and short sale deposits should also be reported on this line. This line should also include balances with inter-dealer bond brokers which are not on the list of approved inter-dealer bond brokers.
9. **Line 5** - This line is to include balances arising from mutual fund redemptions or purchase transactions. All balances must be margined in the same way as accounts of *acceptable counterparties*, or as regular client accounts.

**FORM 1, PART II – SCHEDULE 6**

DATE: \_\_\_\_\_

\_\_\_\_\_  
(Dealer Member Name)

**CURRENT INCOME TAXES**

**C\$'000**

**INCOME TAX LIABILITY (ASSET)**

|        |  |   |
|--------|--|---|
| 1.     | Balance payable (recoverable) at last year-end   | -----   |
| 2. (a) | Payments (made) or received relating to above balance  | -----   |
| (b)    | Adjustments, including reassessments, relating to prior periods [give details if significant]            | -----   |
| 3.     | Total adjustment to prior years' payable (recoverable) taxes prior periods [give details if significant] | -----   |
| 4.     | Subtotal [add or subtract Line 3 from Line 1]  | -----   |
| 5.     | Income tax expense (recovery)  | -----<br>E-37                                 |
| 6.     | less: Current installments   | -----   |
| 7.     | Other adjustments [give details if significant]  | -----   |
| 8.     | Total adjustment for current year's taxes  | -----   |
| 9.     | TOTAL LIABILITY (ASSET) [add or subtract Line 8 from Line 4]   | -----<br>A-13, if asset<br>A-56, if liability |

**FORM 1, PART II – SCHEDULE 6A**

DATE: \_\_\_\_\_

\_\_\_\_\_  
(Dealer Member Name)

**TAX RECOVERIES**

**CS'000**

**A. TAX RECOVERY FOR RISK ADJUSTED CAPITAL**

|            |   |       |
|------------|---|-------|
| 1. Sch. 6  | Income tax expense (recovery) [must be greater than 0, else N/A]  |       |
|            | A-5   | ..... |
| 2. A-21    | Commission and/or fees receivable (non allowable assets) of \$_____ multiplied by an effective corporate tax rate of _____%         | ..... |
| 3.         | TAX RECOVERY - ASSETS [100% of lesser of Lines 1 and 2]   | _____ |
| 4.         | Balance of current income tax expense available for margin and securities concentration charge tax recovery [Line 1 minus Line 3]   | ..... |
| 5.         | Recoverable taxes from preceding three years of \$_____ net of current year tax recovery (if applicable) of \$_____                 | ..... |
| 6.         | Total available for margin tax recovery [Line 4 plus Line 5]  | _____ |
| 7. B-24    | Total margin required of \$_____ multiplied by an effective corporate tax rate of _____%  | ..... |
| 8.         | TAX RECOVERY - MARGIN [75% of lesser of Lines 6 and 7]  | _____ |
| 9.         | TOTAL TAX RECOVERY BEFORE TAX RECOVERY ON SECURITIES CONCENTRATION CHARGE [Line 3 plus Line 8]                                      | ===== |
|            |   | B-26  |
| 10.        | Balance of taxes available for securities concentration charge tax recovery [Line 6 minus Line 8, must be greater than 0, else N/A] | ..... |
| 11. Sch. 9 | Total securities concentration charge of \$_____ multiplied by an effective corporate tax rate of _____%                            | _____ |
| 12.        | TAX RECOVERY - SECURITIES CONCENTRATION CHARGE [75% of lesser of Lines 10 and 11]   | ===== |
|            |   | B-28  |
| 13.        | TOTAL TAX RECOVERY RAC [Line 3 plus Line 8 plus Line 12]  | ===== |
|            |   | C-3   |

**B. TAX RECOVERY FOR EARLY WARNING CALCULATION:**

|           |  |       |
|-----------|--|-------|
| 1. Sch. 6 | Income tax expense (recovery) [must be greater than 0, else N/A] |       |
|           | A-5  | ..... |
| 2. A-15   | Commission and/or fees receivable (allowable assets)             | ..... |
| 3. A-21   | Commission and/or fees receivable (non allowable assets)         | ..... |
| 4.        | SUBTOTAL [Line 2 plus Line 3]                                    | _____ |
| 5.        | Line 4 multiplied by an effective corporate tax rate of _____%   | _____ |
| 6.        | TAX RECOVERY - INCOME ACCRUALS [100% of lesser of Lines 1 and 5] | ===== |
|           |  | C-6   |

## **FORM 1, PART II – SCHEDULE 6A**

### **NOTES AND INSTRUCTIONS**

**SECTION A - ASSETS:** The purpose of this calculation is to tax effect identifiable revenue related receivables which have been classified as non allowable assets for capital purposes. In other words, the calculation gives recognition to the fact that in recording the receivable the Dealer Member generated revenue against which a tax provision has been set up.

**SECTION A - MARGIN:** The purpose of this calculation is to reduce the provision for contingent market losses on client and inventory positions (i.e. margin) by the appropriate allowance for taxes recoverable in the event of realization of such a market loss.

**Line A1** - If the Dealer Member has no income tax expense due to being in a net tax recovery position, then no tax recovery on assets is allowed for RAC purposes.

**Line A3** - If the Dealer Member has no income tax expense, then insert N/A on this line.

**Line A5** - The balance reported as the recoverable taxes from preceding three years should be the total taxes paid in the three preceding years, hence available for recovery. If the Dealer Member has reported a balance on Line A1 above, then no balance should be reported as the current year tax recovery on this line.

**Line B1** - If the Dealer Member has no income tax expense due to being in a net tax recovery position, then no tax recovery on income accruals is allowed for Early Warning purposes.

**FORM 1, PART II – SCHEDULE 7**

DATE: \_\_\_\_\_

\_\_\_\_\_  
(Dealer Member Name)

**ANALYSIS OF OVERDRAFTS, LOANS, SECURITIES LOANED AND REPURCHASE AGREEMENTS**

|                                       | <b>AMOUNT OF<br/>LOAN PAYABLE<br/>OR CASH<br/>RECEIVED AS<br/>COLLATERAL<br/>C\$'000<br/>[see note 3]</b> | <b>MARKET VALUE<br/>OF SECURITIES<br/>RECEIVED AS<br/>COLLATERAL<br/>C\$'000<br/>[see note 4]</b> | <b>MARKET VALUE<br/>OF SECURITIES<br/>DELIVERED AS<br/>COLLATERAL<br/>OR LOANED<br/>C\$'000<br/>[see note 4]</b> | <b>REQUIRED TO<br/>MARGIN<br/>C\$'000</b> |
|---------------------------------------|---|---|--|---|
| 1. Bank overdrafts                    | -----   | N/A   | N/A  | Nil                                       |
| <b>LOANS PAYABLE:</b>                 |   |   |  |   |
| 2. <i>Acceptable institutions</i>     | -----   | N/A   | -----  | Nil                                       |
| 3. <i>Acceptable counterparties</i>   | -----   | N/A   | -----  | -----                                     |
| 4. <i>Regulated entities</i>          | -----   | N/A   | -----  | -----                                     |
| 5. Others                             | -----   | N/A   | -----  | -----                                     |
| <b>SECURITIES LOANED:</b>             |   |   |  |   |
| 6. <i>Acceptable institutions</i>     | -----   | -----   | -----  | Nil                                       |
| 7. <i>Acceptable counterparties</i>   | -----   | -----   | -----  | -----                                     |
| 8. <i>Regulated entities</i>          | -----   | -----   | -----  | -----                                     |
| 9. Others                             | -----   | -----   | -----  | -----                                     |
| <b>REPURCHASE AGREEMENTS:</b>         |   |   |  |   |
| 10. <i>Acceptable institutions</i>    | -----   | N/A   | -----  | Nil                                       |
| 11. <i>Acceptable counterparties</i>  | -----   | N/A   | -----  | -----                                     |
| 12. <i>Regulated entities</i>         | -----   | N/A   | -----  | -----                                     |
| 13. Others                            | -----   | N/A   | -----  | -----                                     |
| 14. <b>TOTAL</b> [Lines 1 through 13] | =====   |   | =====  | =====                                     |
|                                       | A-51  |   |  | B-14                                      |

**FORM 1, PART II – SCHEDULE 7**  
**NOTES AND INSTRUCTIONS**

1. This schedule is to be completed for loan payable transactions whereby the stated purpose of the transaction is to borrow cash. All security lending transactions and securities repurchases, including financing transactions done via 2 trade tickets and those with related parties, should also be disclosed on this schedule.
2. For the purpose of this schedule, "excess collateral deficiency" is defined as the actual collateral provided to the counterparty less the collateral required to be received by the counterparty pursuant to regulatory or legislative requirements. A list of current collateralization rates for each category of *acceptable counterparties* is published on a regular basis.
3. Include accrued interest in amount of loan payable.
4. Market value of securities received or delivered as collateral should include accrued interest.
5. In the case of either a cash borrow and securities loan or a repurchase transaction, if a written agreement between the Dealer Member and the counterparty has been entered into containing the terms described below, the instructions in Notes 7, 8, 9 and 10 are applicable, as the case may be. Each such written agreement shall include terms which provide (i) for the rights of either party to retain or realize on securities held by it from the other party on default, (ii) for events of default, (iii) for the treatment of the value of securities held by a non-defaulting party in excess of amounts which may be owed by a defaulting party, (iv) either for set-off or, in the case of secured loans of securities, continuous segregation of collateral and the requirement for the lender to perfect a security interest in collateral giving the highest priority, and (v) if set-off rights or security interests are created in securities sold or loaned by one party to another, that the securities are endorsed for transfer and free of any trading restrictions. In addition, in the case of a repurchase transaction such written agreement shall contain an acknowledgement by the parties that either has the right, upon notice, to call for any difference between the collateral and the securities at any time. Such agreements are not mandatory and if not used are to be margined as provided below.

In the case of a cash borrow and securities loan transaction, if no such written agreement has been entered into in respect of the transaction, then 100% of the *market value* must be provided as margin by the Dealer Member on the collateral given to the lender except in the case where the lender is an *acceptable institution* in which case no margin need be provided.

In the case of a repurchase transaction, if no such written agreement has been entered into in respect of the transaction, the position shall be margined as follows:

| Counterparty  | Written Repurchase/Reverse Repurchase Agreement | NO Written Repurchase/Reverse Repurchase Agreement |   |
|---|---|--|---|
|   |   | Calendar days after regular settlement (Note 1)    |   |
|   |   | 30 days or less                                    | Greater than 30 days  |
| <i>Acceptable institution</i>   | No margin                                       | No margin (Note 2)                                 |   |
| <i>Acceptable counterparty</i>  | Excess collateral deficiency                    | Excess collateral deficiency (Note 2)              |   |
| <i>Regulated entity</i>   | Market deficiency                               | Market deficiency (Note 2)                         | Margin  |
| Other   | Margin  | Margin   | 200% of margin (to a maximum of the <i>market value</i> of the underlying securities) |
| <p>Note 1: Regular settlement means the settlement dates or delivery date generally accepted according to industry practice for the relevant security in the market in which the transaction occurs. Margin is calculated from the date of regular settlement. Calendar days refers to the original term of the repurchase/reverse repurchase.</p> <p>Note 2: Any transaction which has not been confirmed by an <i>acceptable institution</i>, <i>acceptable counterparty</i> or <i>regulated entity</i> within 15 business days of the trade shall be margined.</p> |   |  |   |

6. For any given counterparty a deficiency in one type of loan may be offset by an excess in another type of loan provided that there are written agreements for each type of loan which provide for the right of offset between each type of loan. In such case, the balances may also be offset for margin calculation purposes.
7. **Lines 2, 6, and 10** - In a cash borrowed and securities loan or repurchase transaction between a Dealer Member and an *acceptable institution*, no capital need be provided in the case where a deficiency exists between the *market value* of the cash borrowed or securities loaned or repurchased and the *market value* of the collateral or cash pledged.

**FORM 1, PART II – SCHEDULE 7**  
**NOTES AND INSTRUCTIONS** [Continued]

In order for a pension fund to be treated as an *acceptable institution* for purposes of this Schedule, it must not only meet the *acceptable institution* criteria outlined in General Notes and Definitions, but the Dealer Member must also have received representation that the pension fund is legally able to enter into the obligations of the transaction. If such representation has not been received, the pension fund which otherwise meets the *acceptable institution* criteria must be treated as an *acceptable counterparty*.

WHERE AN AGREEMENT HAS BEEN EXECUTED, THEN:

8. **Lines 3, 7, and 11** - In a cash borrowed and securities loan or repurchase transaction between a Dealer Member and an *acceptable counterparty*, where an *excess collateral deficiency* exists, action must be taken to correct the deficiency. If no action is taken, the amount of *excess collateral deficiency* must be immediately provided out of the Dealer Member's capital. In any case, where the deficiency exists for more than one business day it must be provided out of the Dealer Member's capital.
9. **Lines 4, 8, and 12** - In a cash borrowed and securities loan or repurchase transaction between a Dealer Member and a *regulated entity*, where a deficiency exists between the *market value* of the cash borrowed or securities loaned or repurchased and the *market value* of the collateral or cash pledged, action must be taken to correct the deficiency. If no action is taken, the amount of *market value* deficiency must be immediately provided out of the Dealer Member's capital. In any case, where the deficiency exists for more than one business day it must be provided out of the Dealer Member's capital.
10. **Lines 5, 9, and 13** - In a cash borrowed and securities loan or repurchase transaction between a Dealer Member and a party other than an *acceptable institution*, *acceptable counterparty* or *regulated entity*, where a deficiency exists between the loan value of the cash borrowed or securities loaned or repurchased and the loan value of the collateral or cash pledged, action must be taken to correct the deficiency. If no action is taken, the amount of loan value deficiency must be immediately provided out of the Dealer Member's capital. The margin required may be reduced by any margin already provided on the collateral (e.g. in inventory). Where the collateral is either held by the Dealer Member on a fully segregated basis or held in escrow on its behalf by an Acceptable Depository or a bank or trust company qualifying as either an *acceptable institution* or *acceptable counterparty*, only the amount of *market value* deficiency need be provided out of the Dealer Member's capital. In any case, where the deficiency exists for more than one business day, it must be provided out of the Dealer Member's capital.
11. **Lines 2, 3 and 4** - In a cash borrowed transaction between a Dealer Member and an *acceptable institution*, *acceptable counterparty*, or *regulated entity*, where a letter of credit issued by a Schedule 1 Bank is used as collateral for the cash borrowed, there shall be no charge to the Dealer Member's capital for any excess of the value of the letter of credit pledged as collateral over the cash borrowed.
12. **Lines 5, 9, and 13** - Transactions whereby an *acceptable institution*, *acceptable counterparty*, or *regulated entity* are only acting as agents (on behalf of an "other" party) should be reported and margined as "Others".

**FORM 1, PART II – SCHEDULE 7A**

DATE: \_\_\_\_\_

\_\_\_\_\_  
(Dealer Member Name)

**ACCEPTABLE COUNTERPARTIES FINANCING ACTIVITIES CONCENTRATION CHARGE**

**CS'000**

- 1. Sch. 1, Market value deficiency amount relating to loans receivable from *acceptable counterparties*, net  
Line 2 of legal offsets and margin already provided .....  
.....
- 2. Sch. 1, Market value deficiency amount relating to securities borrowed from *acceptable counterparties*,  
Line 6 net of legal offsets and margin already provided .....  
.....
- 3. Sch. 1, Market value deficiency amount relating to resale agreements with *acceptable counterparties*,  
Line 10 net of legal offsets and margin already provided .....  
.....
- 4. Sch. 7, Market value deficiency amount relating to loans payable to *acceptable counterparties*, net of  
Line 3 legal offsets and margin already provided .....  
.....
- 5. Sch. 7, Market value deficiency amount relating to securities lent to *acceptable counterparties*, net of  
Line 7 legal offsets and margin already provided .....  
.....
- 6. Sch. 7, Market value deficiency amount relating to repurchase agreements with *acceptable*  
Line 11 *counterparties*, net of legal offsets and margin already provided .....  
.....
- 7. TOTAL MARKET VALUE DEFICIENCY EXPOSURE WITH ACCEPTABLE COUNTERPARTIES, NET OF LEGAL  
OFFSETS AND MARGIN ALREADY PROVIDED [Sum of Lines 1 to 6] .....  
.....  
.....
- 8. CONCENTRATION THRESHOLD – 100% OF NET ALLOWABLE ASSETS .....  
.....
- 9. FINANCING ACTIVITIES CONCENTRATION CHARGE [Excess of Line 7 over Line 8, otherwise NIL] .....  
.....  
.....

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**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. 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 with a normal margin requirement of 10% or less), 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.
3. 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.
4. 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.]
5. 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.
6. For short positions, the loan value is the *market value* of the short position.

**Client position**

7. (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 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**

8. (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.

**FORM 1, PART II – SCHEDULE 9**  
**NOTES AND INSTRUCTIONS [Continued]**

**Amount Loaned**

9. 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 10(a) or 10(b) below) of the sum of the Dealer Member's Risk Adjusted Capital before securities concentration charge and minimum capital (Stmnt. 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 7(a) and 8(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) 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;
  - (iv) 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;
  - (v) 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
  - (vi) 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.
- (e) Amount Loaned is the position exposure (either long or short) with the largest calculated amount loaned.

**FORM 1, PART II – SCHEDULE 9**  
**NOTES AND INSTRUCTIONS** [Continued]

**Concentration Charge**

10. (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 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 10(a), or 10(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 10(a) or 10(b) or 10(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 10(a) or 10(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 10(a) or 10(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 10(a) or 10(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.

**FORM 1, PART II – SCHEDULE 9**  
**NOTES AND INSTRUCTIONS** [Continued]

- (e) For the purpose of calculating the concentration charges as required by notes 10(a), 10(b), 10(c) and 10(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**

- 11. (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”.

**FORM 1, PART II – SCHEDULE 10**

DATE: \_\_\_\_\_

\_\_\_\_\_  
(Dealer Member Name)

**INSURANCE**

**A. FINANCIAL INSTITUTION BOND (FIB) CLAUSES (A) TO (E)**

**C\$'000**

- |                                     |       |       |                |
|-------------------------------------|-------|-------|----------------|
| 1. Coverage required for FIB        | _____ |       |                |
| (a) Client Net Equity:              | _____ |       |                |
| i) Dealer Member's own              | _____ |       |                |
| ii) Carriers' introducing brokers   | _____ |       |                |
| Total                               | _____ | x 1%* | _____ [Note 3] |
| (b) Total Liquid Assets (A-12)      | _____ |       |                |
| Total Other Allowable Assets (A-18) | _____ |       |                |
| Total                               | _____ | x 1%* | _____          |

The actual coverage required for each clause is the Greater of (a) and (b), with a Minimum Requirement of \$500,000 (\$200,000 for a Type 1 Introducing Broker), and a Maximum Requirement of \$25,000,000.

\*based on one half of one percent for Types 1 and 2 Introducing Brokers

- |   |       |                 |
|---|-------|-----------------|
| 2. Coverage maintained per FIB          | _____ | [Notes 4 and 8] |
| 3. Excess / (Deficiency) in coverage    | _____ | [Note 5]        |
| 4. Amount deductible under FIB (if any) | _____ | [Note 6]        |

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**B. REGISTERED MAIL INSURANCE**

- |                             |       |          |
|-----------------------------|-------|----------|
| 1. Coverage per mail policy | _____ | [Note 7] |
|-----------------------------|-------|----------|

**C. FIB AND REGISTERED MAIL POLICY INFORMATION** [Note 9]

| Insurance company | Name of the insured | FIB/ registered mail | Expiry date | Coverage | Type of aggregate limit | Provision for full reinstatement | Premium |
|-------------------|---------------------|----------------------|-------------|----------|-------------------------|----------------------------------|---------|
|                   |                     |                      |             |          |                         |                                  |         |
|                   |                     |                      |             |          |                         |                                  |         |
|                   |                     |                      |             |          |                         |                                  |         |
|                   |                     |                      |             |          |                         |                                  |         |
|                   |                     |                      |             |          |                         |                                  |         |

**D. LOSSES AND CLAIMS** [Note 10]

| Date of loss | Date of discovery | Amount of loss | Deductible applying to loss | Description | Claim made? | Settlement | Date settled |
|--------------|-------------------|----------------|-----------------------------|-------------|-------------|------------|--------------|
|              |                   |                |                             |             |             |            |              |
|              |                   |                |                             |             |             |            |              |
|              |                   |                |                             |             |             |            |              |
|              |                   |                |                             |             |             |            |              |
|              |                   |                |                             |             |             |            |              |

**FORM 1, PART II – SCHEDULE 10**  
**NOTES AND INSTRUCTIONS**

1. Dealer Members must maintain minimum insurance in type and amounts as outlined in the rules of the Corporation and the Canadian Investor Protection Fund.
2. Schedule 10 must be completed at the audit date and monthly as part of the Monthly Financial Report.
3. Net equity for each client is the total value of cash, securities, and other acceptable property owed to the client by the Dealer Member less the value of cash, securities, and other acceptable property owed by the client to the Dealer Member. In determining net equity, accounts of a client such as cash, margin, short sale, options, futures, foreign currency and Quebec Stock Savings Plans are combined and treated as one account. Accounts such as RRSP, RRIF, RESP, Joint accounts are not combined with other accounts and are treated as separate accounts. Other acceptable property means London Bullion Market Association good delivery bars of gold and silver bullion that are acceptable for margin purposes as defined in Dealer Member Rule 100.2(i)(ii).

Net equity is determined on a client by client basis on either a settlement date basis or trade date basis. Schedule 10 Part A, Line 1(a) is the aggregate net equity for each client. Negative client net equity, (i.e. total deficiency in net equity owed to the Dealer Member by the client) is not included in the aggregate.

For Schedule 10, guarantee/guarantor agreements should not be considered in the calculation of net equity.

The Client Net Equity calculation should include all retail and institutional client accounts, as well as accounts of broker dealers, repos, loan post, broker syndicates, affiliates and other similar accounts.
4. The amounts of insurance required to be maintained by a Dealer Member shall as a minimum be by way of a Financial Institution Bond with a double aggregate limit or a provision for full reinstatement.

For Financial Institution Bond policies containing an “aggregate limit” coverage, the actual coverage maintained should be reduced by the amount of reported loss claims, if any, during the policy period.
5. The Certificate of UDP and CFO in Form 1 contains a question pertaining to the adequacy of insurance coverage. The Auditors’ Report requires the auditor to state that the question has been fairly answered. The rules also state: “Should there be insufficient coverage, a Dealer Member shall be deemed to be complying with Rule 17.5 and this Rule 400 provided that any such deficiency does not exceed 10 percent of the insurance requirement and that evidence is furnished within two months of the dates of completion of the monthly financial report and the annual audit that the deficiency has been corrected. If the deficiency is 10% or more of the insurance requirement, action must be taken by the Dealer Member to correct the deficiency within 10 days of its determination and the Dealer Member shall immediately notify the Corporation.”
6. A Financial Institution Bond maintained pursuant to the rules may contain a clause or rider stating that all claims made under the bond are subject to a deductible, provided that the Dealer Member’s margin requirement is increased by the amount of the deductible.
7. Unless specifically exempted within the rules of the Corporation, every Dealer Member shall effect and keep in force mail insurance against loss arising by reason of any outgoing shipments of money or securities, negotiable or non-negotiable, by first-class mail, registered mail, registered air mail, express or air express, such insurance to provide at least 100% cover.
8. The aggregate value of securities in transit in the custody of any employee or any person acting as a messenger shall not at any time exceed the coverage per the Financial Institution Bond (Statement 10, Line 2).
9. List all Financial Institution Bond and Registered Mail underwriters, policies, coverage and premiums indicating their expiry dates. State type of aggregate limits, if applicable, or note that provision for full reinstatement exists.
10. List all losses reported to the insurers or their authorized representatives including those losses that are less than the amount of the deductible. Do not include lost document bond claims. Indicate in the “Amount of Loss” column if the amount of the loss is estimated or unknown as at the reporting date.

Losses should continue to be reported on Schedule 10 Part D until resolved. In the reporting period where a claim has been settled or a decision has been made not to pursue a claim, the loss should be listed along with the amount of the settlement, if any.

At the annual audit date, list all unsettled claims, whether or not the claims were initiated in the period under audit. In addition, list all losses and claims identified in the current or previous periods that have been settled during the period under audit.

**FORM 1, PART II – SCHEDULE 11**

DATE: \_\_\_\_\_

\_\_\_\_\_  
(Dealer Member Name)

**UNHEDGED FOREIGN CURRENCIES CALCULATION**

**SUMMARY**

**CS'000**

A. Total foreign exchange margin requirement

\_\_\_\_\_ B-17

B. Details for individual currencies with margin requirement greater than or equal to \$5,000:

Foreign Currency with margin requirement  $\geq$  \$5,000

(For each foreign currency, a schedule 11A must be completed)

Margin Group

Required  
Margin

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**FORM 1, PART II – SCHEDULE 11A**

DATE: \_\_\_\_\_

\_\_\_\_\_  
(Dealer Member Name)

**DETAILS OF UNHEDGED FOREIGN CURRENCIES CALCULATION FOR INDIVIDUAL CURRENCIES WITH MARGIN REQUIRED GREATER THAN OR EQUAL TO \$5,000**

**Foreign Currency:** \_\_\_\_\_  
**Margin Group:** \_\_\_\_\_

|   | <b>AMOUNT</b>  | <b>WEIGHTED</b> | <b>MARGIN</b>   |
|---|----------------|-----------------|-----------------|
|   | <b>C\$'000</b> | <b>VALUE</b>    | <b>REQUIRED</b> |
|   |                | <b>C\$'000</b>  | <b>C\$'000</b>  |
| <b>BALANCE SHEET ITEMS AND FORWARD/FUTURE COMMITMENTS &lt;= TWO YEARS TO MATURITY</b>   |                |                 |                 |
| 1. Total monetary assets  | -----          | -----           | -----           |
| 2. Total long forward / futures contract positions  | -----          | -----           | -----           |
| 3. Total monetary liabilities   | -----          | -----           | -----           |
| 4. Total (short) forward / futures contract positions   | -----          | -----           | -----           |
| 5. Net long (short) foreign exchange positions  | =====          | -----           | -----           |
| 6. Net weighted value   |                | =====           | -----           |
| 7. Net weighted value multiplied by term risk for Group ___ of ___%   |                |                 | =====           |
| <b>BALANCE SHEET ITEMS AND FORWARD/FUTURE COMMITMENTS &gt; TWO YEARS TO MATURITY</b>  |                |                 |                 |
| 8. Total monetary assets  | -----          | -----           | -----           |
| 9. Total long forward / futures contract positions  | -----          | -----           | -----           |
| 10. Total monetary liabilities  | -----          | -----           | -----           |
| 11. Total (short) forward / futures contract positions  | -----          | -----           | -----           |
| 12. Net long (short) foreign exchange positions   | =====          | -----           | -----           |
| 13. Net weighted value  |                | =====           | -----           |
| 14. Net weighted value multiplied by term risk for Group ___ of ___%  |                |                 | =====           |
| <b>FOREIGN EXCHANGE MARGIN REQUIREMENTS</b>   |                |                 |                 |
| 15. Net long (short) foreign exchange positions   | =====          |                 | -----           |
| 16. Net foreign exchange position multiplied by spot risk for Group ___ of ___%   |                |                 | -----           |
| 17. Total term risk and spot risk margin requirement  |                |                 | =====           |
| 18. Spot rate at reporting date   |                |                 | -----           |
| 19. Margin requirement converted to Canadian dollars  |                |                 | =====           |
| <b>FOREIGN EXCHANGE CONCENTRATION CHARGE</b>  |                |                 |                 |
| 20. Total foreign exchange margin (Line 19) in excess of 25% of net allowable assets less minimum capital [not applicable to Group 1] |                |                 | -----           |
| TOTAL FOREIGN EXCHANGE MARGIN FOR (Currency):   |                |                 | =====           |

Sch. 11

**FORM 1, PART II – SCHEDULES 11 AND 11A  
NOTES AND INSTRUCTIONS**

1. The purpose of this Schedule is to measure the balance sheet exposure a Dealer Member has to foreign currency risk. Schedule 11A must be completed for each foreign currency that has margin requirement greater than or equal to \$5,000.
2. The following is a summary of the quantitative and qualitative criteria for Currency Groups 1-4. Dealer Members should refer to the most recently published listing by SROs of currency groupings.
  - **Currency Group 1** consists of the US dollar.
  - **Currency Group 2** consists of all countries whose currencies have a historical volatility of less than 3% relative to the Canadian dollar, are quoted on a daily basis by a Canadian Schedule 1 chartered bank, and are either a member of the European Monetary System and a participant of the Exchange Rate Mechanism or there is a listed future for the currency on a recognized futures exchange such as the Chicago Mercantile Exchange (CME) or Philadelphia Board of Trade (PBOT).
  - **Currency Group 3** consists of all countries whose currencies have a historical volatility of less than 10% relative to the Canadian dollar, are quoted on a daily basis by a Canadian Schedule 1 chartered bank and are a full member of the International Monetary Fund (IMF).
  - **Currency Group 4** consists of all countries, which do not satisfy the quantitative and qualitative criteria for Currency Groups 1-3.
3. Reference should be made to the applicable rules and interpretation notices of the Corporation for definitions and calculations.
4. Monetary assets and liabilities are money or claims to money, the values of which, whether denominated in foreign or domestic currency are fixed by contract or otherwise.
5. All monetary assets and liabilities as well as the Dealer Member's own foreign currency future and forward commitments are to be reported on a trade date basis.
6. Monetary liabilities and the Dealer Member's own foreign currency future and forward commitments should be disclosed by maturity dates i.e. less than or equal to two (2) years and greater than two (2) years.
7. Weighted value is calculated for foreign exchange positions with terms to maturity of greater than three (3) days. The weighted value is derived by taking the term to maturity of the foreign exchange position divided by 365 (weighting factor) and multiplying it by the unhedged foreign exchange amount.
8. The total margin requirement is the sum of the spot risk margin and the term risk margin requirements. The spot risk margin rates apply to all unhedged foreign exchange positions regardless of term to maturity. The term risk margin rates apply to all unhedged foreign exchange positions with a term to maturity of greater than three (3) days. The following summarizes the margin rates by Currency Group:

**Currency Group**

|                                     | <b>1</b>                | <b>2</b>                | <b>3</b>                 | <b>4</b>                  |
|-------------------------------------|-------------------------|-------------------------|--------------------------|---------------------------|
| Spot Risk Margin Rate (Note 1)      | 1.0%                    | 3.0%                    | 10%                      | 25%                       |
| Term Risk Margin Rate (Note 2)      | 1.0% to a maximum of 4% | 3.0% to a maximum of 7% | 5.0% to a maximum of 10% | 12.5% to a maximum of 25% |
| Total Maximum Margin Rates (Note 1) | 5%                      | 10%                     | 20%                      | 50%                       |

**Note 1:** Spot risk margin rates may be subject to the Foreign Exchange Margin Surcharge

**Note 2:** If the weighting factor described in 7 above exceeds the maximum term risk margin rate in the above table, the weighting factor should be adjusted to the maximum.

9. Dealer Members may elect to exclude non-allowable monetary assets from the total monetary assets reported on Schedule 11A for purposes of the foreign exchange margin calculation. The reason underlying this proviso is that a Dealer Member should not have to provide foreign exchange margin on a non-allowable asset which is already fully provided for in the determination of the capital position of the Dealer Member unless it serves as an economic hedge against a monetary liability.
10. For Dealer Members offsetting an inventory futures contract/forward contract position in which there is a futures contract for the currency listed on a recognized exchange, an alternative margin calculation may be used (refer to rules and interpretation notices of the Corporation). Any contract positions for which the margin is calculated under the alternative method must be reported as part of the inventory margin calculations on Schedule 2 and should be excluded from Schedule 11A.
11. Line 20 - The Foreign Exchange Concentration Charge applies only to currencies in Groups 2 to 4.

**FORM 1, PART II – SCHEDULE 12**

DATE: \_\_\_\_\_

\_\_\_\_\_  
(Dealer Member Name)

**MARGIN ON FUTURES CONCENTRATIONS AND DEPOSITS**

(refer to instructions)

**C\$'000**

|    |  |       |
|----|--|-------|
| 1. | Margin on total positions                                      | ..... |
| 2. | Margin regarding concentration in individual accounts          | ..... |
| 3. | Margin regarding concentration in individual futures contracts | ..... |
| 4. | Margin on futures contract deposits - correspondent brokers    | ..... |
| 5. | TOTAL  | ===== |

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**FORM 1, PART II – SCHEDULE 12**  
**NOTES AND INSTRUCTIONS**

**Line 1 - General margin provision.** The margin requirement for futures contracts and options on futures contracts shall be 15% of the maintenance margin requirements, as required by the Commodity Futures Exchange on which such futures contracts were entered into, for the greater of the total long or total short futures contracts per commodity or financial futures carried for all client and Dealer Member accounts. For the purpose of this general margin provision, short futures contracts positions include futures contracts underlying the short call options on futures contracts and long futures contracts positions include futures contracts underlying the short put options on futures contracts.

The following positions are excluded from this calculation:

- (a) positions in *acceptable institution, acceptable counterparty* and *regulated entity* accounts;
- (b) hedge positions (as opposed to speculative positions), provided that the underlying interest is held in the client's account at the Dealer Member or that the Dealer Member has a document giving the Dealer Member an irrevocable right to take possession of the underlying interest and deliver it at the location designated by the appropriate clearing corporation. All other hedge positions are treated as speculative positions for the purpose of this calculation;
- (c) client and Dealer Member spreads in the same futures contract entered into on the same futures exchange. All other spread positions are treated as speculative positions for the purpose of this calculation;
- (d) The following options on futures contracts positions:
  - (i) short options on futures contracts which are out-of-the-money by more than two maintenance margin requirements; and
  - (ii) spreads in the same options on futures contracts.

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

- (a) the aggregate of the maintenance margin requirements of the commodity or financial futures or underlying interest of option on futures contracts held both long and short for any client (including without limitation groups of clients or related clients) or in inventory, except for positions mentioned in Note 1 below, less any excess margin provided exceeds
- (b) 15% of the Dealer Member's net allowable assets.

The excess margin must be based on the maintenance margin. However, spread positions in the same product or different product on the same exchange and an inter-exchange or inter-commodity spread could be included using the maintenance margin as set by the exchange, provided that the spread is acceptable for margin purposes by a recognized exchange.

If the excess is not eliminated within three (3) trading days after it first occurs, the Dealer Member's capital shall be charged the lesser of:

- (a) the excess calculated when the concentration first occurred; and
- (b) the excess, if any, that exists on the close of the third trading day.

For the purpose of the concentration calculation, short futures contracts positions include futures contracts underlying the short call options on futures contracts and long futures contracts positions include futures contracts underlying the short put options on futures contracts.

**Line 3 - Concentration in individual open futures contracts and short options on futures contract positions.**

The Dealer Member must provide for the amount by which;

- (a) the aggregate of two maintenance margin requirements on the greater of the long or the short commodity or financial futures contracts position held for clients and in inventory, except for positions mentioned in Note 1 below, exceeds
- (b) 40% of the Dealer Member's net allowable assets.

There may be deducted from this difference, on a per client basis, the excess margin available in all accounts of the client up to two maintenance margin requirements of the client's positions in the futures contracts.

The excess margin must be based on the maintenance margin. However, spread positions in the same product or different product on the same exchange and an inter-exchange or inter-commodity spread could be included in both the long and short side using the maintenance margin as set by the exchange, provided that the spread is acceptable for margin purposes by a recognized exchange.

If the excess is not eliminated within three (3) trading days after it first occurs, the Dealer Member's capital shall be charged

**FORM 1, PART II – SCHEDULE 12**  
**NOTES AND INSTRUCTIONS [Continued]**

the lesser of:

- (a) the excess calculated when the concentration first occurred; and
- (b) the excess, if any, that exists on the close of the third trading day.

For the purpose of the concentration calculation, short futures contracts positions include futures contracts underlying the short call options on futures contracts and long futures contracts positions include futures contracts underlying the short put options on futures contracts.

**Line 4** - Where assets, including cash, open trade equity and securities, owing to a Dealer Member from a Commodity Futures Correspondent Broker exceed 50% of the Dealer Member's net allowable assets, any excess over this amount shall be provided as a charge in computing the Dealer Member's margin required.

Where the net worth of the Commodity Futures Correspondent Broker, as determined from its latest published audited financial statements, exceeds \$50,000,000, no margin is required under this rule.

Where the net worth of the Commodity Futures Correspondent Broker, as determined from its latest published financial statements, is less than \$50,000,000, the Dealer Member may use a confirmed unconditional and irrevocable letter of credit issued by a US bank qualifying as an *acceptable institution* on behalf of the Commodity Futures Correspondent Broker to offset any margin requirement calculated above. The amount of the offset is limited to the amount of the letter of credit.

No exemption from this requirement is permitted for Dealer Members who operate their commodity futures contracts and commodity option on futures contracts business on a fully disclosed basis with a correspondent broker.

**Note 1:** For the purpose of the calculation of the concentration margin on individual client accounts (Line 2) and for open futures contracts and short options on futures contracts positions (Line 3), the following positions are excluded:

- 1.1 positions held in *acceptable institution*, *acceptable counterparty* and *regulated entity* accounts;
- 1.2 hedge positions (as opposed to speculative positions) provided that the underlying interest is held in the client's account at the Dealer Member or that the Dealer Member has a document giving the Dealer Member an irrevocable right to take possession of the underlying interest and deliver it at the location designated by the appropriate clearing corporation. All other hedge positions are treated as speculative positions and are thereby not excluded;
- 1.3 the following short Options on Futures Contracts Positions:
  - (i) either the short call or the short put where a client or Dealer Member account is short a call and short a put on the same futures contract with the same exercise price and same expiration month;
  - (ii) a futures contract paired with an in-the-money option provided that this pairing is acceptable for margin purposes by a recognized exchange;
  - (iii) a short option paired with a long in-the-money option provided that this pairing is acceptable for margin purposes by a recognized exchange;
  - (iv) a short option paired with a futures contract provided that this pairing is acceptable for margin purposes by a recognized exchange;
  - (v) an out-of-the-money short call option paired with an out-of-the-money long call option, where the strike price of the short call exceeds the strike price of the long call, provided that this pairing is acceptable for margin purposes by a recognized exchange;
  - (vi) an out-of-the-money short put option paired with an out-of-the-money long put option provided that this pairing is acceptable for margin purposes by a recognized exchange; and
  - (vii) short option, which is out-of-the-money by more than two maintenance margin requirements.

**FORM 1, PART II – SCHEDULE 13**

DATE: \_\_\_\_\_

\_\_\_\_\_  
(Dealer Member Name)

**EARLY WARNING TESTS - LEVEL 1**

**C\$'000**

**A. LIQUIDITY TEST**

**Is Early Warning Reserve (Stmt. C, Line 9) less than 0?**

-----  
**YES/NO**

**B. CAPITAL TEST**

- 1. Risk Adjusted Capital (RAC) [Stmt. B, Line 29] \_\_\_\_\_
- 2. Total Margin Required [Stmt. B, Line 24] multiplied by 5% \_\_\_\_\_

**Is Line 1 less than Line 2?**

-----  
**YES/NO**

**C. PROFITABILITY TEST #1**

|                                   | Months | Profit or loss for<br>6 months<br>ending with<br>current month<br>[note 2]<br><b>C\$'000</b> | Profit or loss for<br>6 months<br>ending with<br>preceding<br>month<br>[note 2]<br><b>C\$'000</b> |
|-----------------------------------|--------|--|---|
| 1. Current month                  | -----  | -----  | -----   |
| 2. Preceding month                | -----  | -----  | -----   |
| 3. 3rd month                      | -----  | -----  | -----   |
| 4. 4th month                      | -----  | -----  | -----   |
| 5. 5th month                      | -----  | -----  | -----   |
| 6. 6th month                      | -----  | -----  | -----   |
| 7. 7th month                      | -----  | -----  | -----   |
| 8. TOTAL [note 3]                 |        | =====  | =====   |
| 9. AVERAGE multiplied by -1       |        | =====  | =====   |
| 10A. RAC [at Form 1 date]         |        | =====  |   |
| 10B. RAC [at preceding month end] |        |  | =====   |
| 11A. Line 10A divided by Line 9   |        | =====  |   |
| 11B. Line 10B divided by Line 9   |        |  | =====   |

**Are both of the following conditions true:**

- 1. Line 11A is greater than or equal to 3 but less than 6, and**
- 2. Line 11B less than 6?**

-----  
**YES/NO**

**D. PROFITABILITY TEST #2**

- 1. Loss for current month [notes 2 and 4] multiplied by -6 \_\_\_\_\_
- 2. RAC [at Form 1 date] \_\_\_\_\_

**Is Line 2 less than Line 1?**

-----  
**YES/NO**

**FORM 1, PART II – SCHEDULE 13A**

DATE: \_\_\_\_\_

\_\_\_\_\_  
(Dealer Member Name)

**EARLY WARNING TESTS - LEVEL 2**

**C\$'000**

**A. LIQUIDITY TEST**

**Is Early Warning Excess (Stmt. C, Line 7) less than 0?**

-----  
**YES/NO**

**B. CAPITAL TEST**

- 1. Risk Adjusted Capital (RAC) [Stmt. B, Line 29] \_\_\_\_\_
- 2. Total Margin Required [Stmt. B, Line 24] multiplied by 2% \_\_\_\_\_

**Is Line 1 less than Line 2?**

-----  
**YES/NO**

**C. PROFITABILITY TEST #1**

**Is Schedule 13, Line 11A less than 3 AND  
Schedule 13, Line 11B less than 6?**

-----  
**YES/NO**

**D. PROFITABILITY TEST #1**

- 1. Loss for current month [notes 2 and 4] multiplied by -3 \_\_\_\_\_
- 2. RAC [at Form 1 date] \_\_\_\_\_

**Is Line 2 less than Line 1?**

-----  
**YES/NO**

**E. PROFITABILITY TEST #3**

Profit or loss for  
3 months  
ending with  
current month  
[note 2]  
**C\$'000**

- |                         |       |       |
|-------------------------|-------|-------|
| 1. Current month        | ----- | ----- |
| 2. Preceding month      | ----- | ----- |
| 3. 3rd month            | ----- | ----- |
| 4. TOTAL [note 5]       | ===== | ===== |
| 5. RAC [at Form 1 date] | ===== | ===== |

**Is loss on Line 4 greater than Line 5?**

-----  
**YES/NO**

**F. FREQUENCY PENALTY**

**Has Dealer Member:**

- 1. **Triggered Early Warning at least 3 times in the past 6 months or is RAC less than 0?** -----  
**YES/NO**
- 2. **Triggered Liquidity or Capital Tests on Schedule 13?** -----  
**YES/NO**
- 3. **Triggered Profitability Tests on Schedule 13?** -----  
**YES/NO**
- 4. **Are Lines 2 and 3 both YES?** -----

-----  
**YES/NO**

**FORM 1, PART II – SCHEDULES 13 AND 13A**  
**NOTES AND INSTRUCTIONS**

1. The objective of the various Early Warning Tests is to measure characteristics likely to identify a Dealer Member heading into financial trouble and to impose restrictions and sanctions to reduce further financial deterioration and prevent a subsequent capital deficiency. “Yes” answers indicate Early Warning has been triggered.  
  
If the Dealer Member is currently capital deficient (i.e. risk adjusted capital is negative), only Part F of Schedule 13A need be completed. Schedule 13 and the remainder of Schedule 13A need not be completed.
2. The profit or loss figures to be used are before asset revaluation income and expense, interest on internal subordinated debt, bonuses, and income taxes [Statement E, Line 31 – Profit (loss) for Early Warning test]. Note that the “current month” figure must also reflect any audit adjustments made subsequent to the filing of the Monthly Financial Report (MFR). These adjustments must be reported on Schedule 13M.
3. If either or both of the calculated totals is a profit, no further calculation under this section C need be done.
4. If the balance is a profit, no further calculation under this section D need be done.
5. If the total is a profit, no further calculation under this section E need be done.

DATE: \_\_\_\_\_

\_\_\_\_\_  
(Dealer Member Name)

**PROVIDER OF CAPITAL CONCENTRATION CHARGE**

**CS'000**

**A. CALCULATION OF CASH AND UNDERSECURED LOANS WITH PROVIDER OF CAPITAL**

|              |  |              |
|--------------|--|--------------|
| 1.           | Cash on deposit with <i>provider of capital</i>  | .....        |
| 2.           | Cash, held in trust with <i>provider of capital</i> , due to free credit ratio calculation   | .....        |
| 3.           | Loans receivable - undersecured loans receivable from <i>provider of capital</i> relative to normal commercial terms   | .....        |
| 4.           | Loans receivable - secured loans receivable from <i>provider of capital</i> that are secured by investments in securities issued by the <i>provider of capital</i>                       | .....        |
| 5.           | Securities borrowed - securities borrowing agreements with the <i>provider of capital</i> that are undersecured relative to normal commercial terms                                      | .....        |
| 6.           | Securities borrowed - secured securities borrowing agreements with the <i>provider of capital</i> that are secured by investments in securities issued by the <i>provider of capital</i> | .....        |
| 7.           | Resale agreements - agreements with the <i>provider of capital</i> that are undersecured relative to normal commercial terms   | .....        |
| 8.           | Commissions and fees receivable from the <i>provider of capital</i>  | .....        |
| 9.           | Interest and dividends receivable from the <i>provider of capital</i>  | .....        |
| 10.          | Other receivables from the <i>provider of capital</i>  | .....        |
| 11.          | Loans payable - loans payable to the <i>provider of capital</i> that are overcollateralized relative to normal commercial terms  | .....        |
| 12.          | Securities lent - agreements with the <i>provider of capital</i> that are overcollateralized relative to normal commercial terms   | .....        |
| 13.          | Repurchase agreements - agreements with the <i>provider of capital</i> that are overcollateralized relative to normal commercial terms   | .....        |
| <b>LESS:</b> |  | .....        |
| 14.          | Bank overdrafts with the <i>provider of capital</i>  | .....        |
| 15.          | <b>TOTAL CASH DEPOSITS AND UNDERSECURED LOANS WITH PROVIDER OF CAPITAL</b>   | <u>.....</u> |

**B. CALCULATION OF INVESTMENTS IN SECURITIES ISSUED BY THE PROVIDER OF CAPITAL**

|              |  |              |
|--------------|--|--------------|
| 1.           | Investments in securities issued by the <i>provider of capital</i> (net of margin provided)  | .....        |
| <b>LESS:</b> |  | .....        |
| 2.           | Loans payable to <i>provider of capital</i> that are linked to the assets above and are limited recourse   | .....        |
| 3.           | Securities issued by the <i>provider of capital</i> sold short provided they are used as part of a valid offset with the investments reported in Section B, Line 1 above | .....        |
| 4.           | <b>TOTAL INVESTMENTS IN SECURITIES ISSUED BY THE PROVIDER OF CAPITAL</b>   | <u>.....</u> |

DATE: \_\_\_\_\_

\_\_\_\_\_  
(Dealer Member Name)

**PROVIDER OF CAPITAL CONCENTRATION CHARGE**

**CS'000**

**C. CALCULATION OF FINANCIAL STATEMENT CAPITAL PROVIDED BY THE PROVIDER OF CAPITAL**

1. *Regulatory financial statement capital provided by the provider of capital (including pro-rata share of reserves and retained earnings)* \_\_\_\_\_

**D. NET ALLOWABLE ASSETS**

1. Net Allowable Assets \_\_\_\_\_

**E. EXPOSURE TEST #1 - DOLLAR CAP ON CASH DEPOSITS AND UNDERSECURED LOANS**

1. Sec. C, *Regulatory financial statement capital provided by the provider of capital*  
Line 1 \_\_\_\_\_
2. Sec. A, Cash deposits and undersecured loans with *provider of capital*  
Line 15 \_\_\_\_\_
3. *Regulatory financial statement capital redeposited or lent back on an undersecured basis*  
[Minimum of Section E, Line 1 and Section E, Line 2] \_\_\_\_\_
4. Exposure threshold \_\_\_\_\_ \$50,000
5. Capital requirement [Excess of Section E, Line 3 over Section E, Line 4] \_\_\_\_\_

**F. EXPOSURE TEST #2 - OVERALL CAP ON CASH DEPOSITS AND UNDERSECURED LOANS AND INVESTMENTS**

1. Sec. C, *Regulatory financial statement capital provided by the provider of capital*  
Line 1 \_\_\_\_\_
2. Sec. A, Cash deposits and undersecured loans with *provider of capital*  
Line 15 \_\_\_\_\_
3. Sec. B, Investments in securities issued by the *provider of capital*  
Line 4 \_\_\_\_\_
4. Total cash deposits and undersecured loans and investments  
[Section F, Line 2 plus Section F, Line 3] \_\_\_\_\_
5. *Regulatory financial statement capital redeposited or lent back on an undersecured basis or invested in securities issued by the provider of capital*  
[Minimum of Section F, Line 1 and Section F, Line 4] \_\_\_\_\_

**LESS:**

6. Sec. E, Capital charge incurred under Exposure Test #1  
Line 5 \_\_\_\_\_
7. Net financial statement capital redeposited or lent back on an undersecured basis or invested in securities issued by the *provider of capital*  
[Section F, Line 5 minus Section F, Line 6] \_\_\_\_\_
8. Exposure threshold being the greater of:  
(a) Ten million dollars \_\_\_\_\_ \$10,000  
(b) 20% of Net Allowable Assets [20% of Section D, Line 1] \_\_\_\_\_
9. Capital requirement [Excess of Section F, Line 7 over Section F, Line 8] \_\_\_\_\_
10. TOTAL PROVIDER OF CAPITAL CONCENTRATION CHARGE  
[Section E, Line 5 plus Section F, Line 9] \_\_\_\_\_

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**FORM 1, PART II – SCHEDULE 14**  
**NOTES AND INSTRUCTIONS**

1. The purpose of this schedule is to measure the exposure a Dealer Member has to each of its providers of capital (as defined below). As such is the case, a separate copy of this schedule should be completed for each *provider of capital* where the capital provided is in excess of \$10 million.
2. For the purposes of this schedule:
  - (a) A “provider of capital” is an individual or entity and its affiliates that provides capital to a Dealer Member
  - (b) “Regulatory financial statement capital” is comprised of:
    - Total Capital (Statement A, Line 73); plus
    - Finance leases – leasehold inducements (Statement A, Line 65); plus
    - Subordinated loans (Statement A, Line 67).
  - (c) “Regulatory financial statement capital provided by the provider of capital” is the portion of the *regulatory financial statement capital* that has been provided to the Dealer Member by the *provider of capital*

**CALCULATION OF CASH AND UNDERSECURED LOANS WITH PROVIDER OF CAPITAL**

**Section A, Line 3** – The undersecured amount to be reported on this line refers to any deficiency between the *market value* of the collateral received for the loan and the amount of the loan receivable that is greater than the percentage [the percentage is determined by dividing the deficiency by the *market value* of the collateral received] deficiency required under normal commercial terms.

**Section A, Line 4** – The amount to be reported on this line refers to the entire loan receivable balance if the only collateral received for the loan is securities issued by the *provider of capital*.

**Section A, Line 5** – The undersecured amount to be reported on this line refers to any deficiency between the *market value* of the collateral received for the loan and the amount of the loan receivable or the *market value* of the securities delivered as collateral that is greater than the percentage [the percentage is determined by dividing the deficiency by the *market value* of the collateral received] deficiency required under normal commercial terms.

**Section A, Line 6** – The amount to be reported on this line refers to the entire loan receivable balance or the *market value* of the securities delivered as collateral if the only collateral received for the loan is securities issued by the *provider of capital*.

**Section A, Line 7** – The undersecured amount to be reported on this line refers to any deficiency between the *market value* of the security received pursuant to the resale agreement and the amount of the loan receivable that is greater than the percentage [the percentage is determined by dividing the deficiency by the *market value* of the security received] deficiency required under normal commercial terms. If the security received is a security issued by the *provider of capital* the collateral is assumed to have no value for the purposes of the above calculation.

**Section A, Lines 8, 9 and 10** – The amount to be reported on these lines refers to the amount of the loan receivable less any collateral provided other than securities issued by the *provider of capital*.

**Section A, Line 11** – The overcollateralized amount to be reported on this line refers to any deficiency between the *market value* of the collateral delivered for the loan and the amount of the loan payable that is greater than the percentage [the percentage is determined by dividing the deficiency by the amount of the loan payable] deficiency required under normal commercial terms.

**Section A, Line 12** – The overcollateralized amount to be reported on this line refers to any deficiency between the *market value* of the collateral delivered pursuant to the securities lending agreement and the amount of the loan payable or the *market value* of the securities received as collateral that is greater than the percentage [the percentage is determined by dividing the deficiency by the amount of the loan payable] deficiency required under normal commercial terms.

**Section A, Line 13** – The overcollateralized amount to be reported on this line refers to any deficiency between the *market value* of the collateral delivered pursuant to the repurchase agreement and the amount of the loan payable that is greater than the percentage [the percentage is determined by dividing the deficiency by the amount of the loan payable] deficiency required under normal commercial terms.

**CALCULATION OF INVESTMENTS IN SECURITIES ISSUED BY THE PROVIDER OF CAPITAL**

**Section B, Line 1** – Include all investments in securities issued by the *provider of capital*.

**Section B, Line 2** – Include only those loans where the agreement executed includes the industry standard wording set out in the Limited Recourse Call Loan Agreement.

**FORM 1, PART II – SCHEDULE 14**  
**NOTES AND INSTRUCTIONS** [Continued]

**Section B, Line 3** – Include only those security positions that are otherwise eligible for offset pursuant to the Corporation's capital requirements.

**CALCULATION OF FINANCIAL STATEMENT CAPITAL PROVIDED BY THE PROVIDER OF CAPITAL**

**Section C, Line 1** – Include the face amount of subordinated debt provided by the *provider of capital*, plus the book amount of equity capital provided by the *provider of capital* plus a pro-rata share of reserves and retained earnings.

**FORM 1, PART II – SCHEDULE 15**

DATE: \_\_\_\_\_

\_\_\_\_\_  
(Dealer Member Name)

**SUPPLEMENTARY INFORMATION**  
**(Figures not subject to audit)**

**CS'000**

**A. SEGREGATION:**

1. Aggregate *market value* of securities required to be recalled from call loans .....  
.....

**B. NUMBER OF EMPLOYEES:**

1. Number of employees - registered .....  
.....

2. Number of employees - other .....  
.....

**C. NUMBER OF TRADES EXECUTED DURING THE MONTH:**

1. Bonds .....  
.....

2. Money Market .....  
.....

3. Equities – Listed Canadian .....  
.....

4. Equities – Foreign .....  
.....

5. Options .....  
.....

6. Futures Contracts .....  
.....

7. Mutual Funds .....  
.....

8. New Issues .....  
.....

9. Other .....  
.....

TOTAL .....  
=====

**NOTE:**

1. Trade tickets, not fills, for all markets should be counted.

**INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA  
AMENDMENTS TO FORM 1 ADOPT IFRS FOR REGULATORY REPORTING PURPOSES  
BLACK-LINE COPY**

# JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT FORM 1 - TABLE OF CONTENTS

(Firm/Dealer Member Name)

(Date)

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\* Note: Schedules 2C, 2D, 3, 3A, 4B, 8 and 12A have been eliminated.

# **JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT FORM 1 - GENERAL NOTES AND DEFINITIONS**

## **GENERAL NOTES:**

1. Each Dealer Member shall ~~must~~ comply ~~in all respects~~ with the requirements ~~outlined in this prescribed Joint Regulatory Financial Questionnaire and Report in Form 1~~ as approved and amended from time to time by the ~~Board~~ board of ~~Directors~~ directors of the ~~Joint Investment Industry Regulatory Bodies and Canadian Investor Protection Fund~~ Organization of Canada (the Corporation).

~~These Form 1 is a special purpose report that includes financial statements and schedules, and is to be prepared in accordance with generally accepted accounting principles International Financial Reporting Standards (IFRS), except as modified prescribed by the requirements of the appropriate regulatory body Corporation.~~

~~These statements and schedules are to be completed by members of the Joint Regulatory Bodies as follows:~~

- ~~• The Canadian Venture Exchange~~
- ~~• The Montreal Exchange~~
- ~~• The Toronto Stock Exchange~~
- ~~• Investment Dealers Association of Canada Firms may have multiple memberships in the above bodies. When this is the case and the requirements of such bodies are not consistent in a specific area, the firm must adhere to the most stringent requirement. The “appropriate Joint Regulatory Body” refers to the institution that maintains the primary audit jurisdiction for the firm and its affiliates under Canadian Investor Protection Fund rules. Each Dealer Member must complete and file all of these statements and schedules.~~

2. The following are Form 1 IFRS departures as prescribed by the Corporation:

|  | <b><u>Prescribed IFRS departure</u></b>  |
|--|--|
| <u>Client and broker trading balances</u>                        | <u>For client and broker trading balances, the Corporation allows the netting of receivables from and payables to the same counterparty.</u>   |
| <u>Preferred shares</u>  | <u>Preferred shares issued by the Dealer Member and approved by the Corporation are classified as shareholders’ capital.</u>   |
| <u>Presentation</u>  | <u>Statements A and E contain terms and classifications (such as allowable and non-allowable assets) that are not defined under IFRS. Statements B, C, D and F are supplementary financial information, which are not statements contemplated under IFRS.</u>  |
| <u>Separate financial statements on a non-consolidated basis</u> | <u>Consolidation of subsidiaries is not permitted for regulatory reporting purposes, except for related companies that meet the definition of a “related company” in Dealer Member Rule 1 and the Corporation has approved the consolidation. Because Statement E only reflects the operational results of the Dealer Member, a Dealer Member must not include the income (loss) of an investment accounted for by the equity method.</u>                        |
| <u>Statement of cash flow</u>                                    | <u>A statement of cash flow is not required as part of Form 1.</u>   |
| <u>Valuation</u>   | <u>The “market value” definition has been retained. While the “market value” definition is similar in most respect to the IFRS “fair value” valuation approach there are differences that will result in the valuation of illiquid securities, whereby a value must be assigned under the IFRS “fair value” approach and a determination that the “value is not determinable” would be acceptable under the Corporation’s “market value” valuation approach.</u> |

3. The following are Form 1 prescribed accounting treatments based on available IFRS alternatives:

|                         | <b><u>Prescribed accounting treatment</u></b>   |
|-------------------------|---|
| <u>Hedge accounting</u> | <u>Hedge accounting is not permitted for regulatory reporting purposes. All security and derivative positions of a Dealer Member must be marked-to-market at the reporting date. Gains or losses of the hedge positions must not be deferred to a future point in time.</u> |

**JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT FORM 1 - GENERAL NOTES AND DEFINITIONS** [~~Cont'd~~Continued]

|  |  |
|--|--|
| <u>Securities owned and sold short as held-for-trading</u> | <u>A Dealer Member must categorize all inventory positions as held-for-trading financial instruments. These security positions must be marked-to-market.</u><br><u>Because the Corporation does not permit the use of the available for sale and held-to-maturity categories, a Dealer Member must not include other comprehensive income (OCI) and will not have a corresponding reserve account relating to marking-to-market available for sale security positions.</u> |
| <u>Valuation of a subsidiary</u>                           | <u>A Dealer Member must value subsidiaries at cost.</u>  |

- ~~4.~~ These statements and schedules should be read in conjunction with the bylaws, rules and regulations of the Joint Regulatory Bodies and Canadian Investor Protection Fund including, but not limited to, Margin Rates, Early Warning System, Segregation, Free Credit Segregation, Insurance, Concentration of Securities and Audit Requirements Dealer Member rules.
- ~~3-~~ 5. For purposes of these statements and schedules, the accounts of related companies as defined by the appropriate Joint Regulatory Body may be consolidated as provided by the bylaws, rules and regulations of the Joint Regulatory Bodies. If consolidation is appropriate, the names of the companies consolidated must be provided that meet the definition of a "related company" in Dealer Member Rule 1 may be consolidated.
- ~~4.~~ FOR THE PURPOSES OF THESE CAPITAL CALCULATIONS REPORTING ON A TRADE DATE BASIS MUST BE USED UNLESS SPECIFIED OTHERWISE IN THE INSTRUCTIONS. THIS MEANS INCLUDING IN THE FOLLOWING PRESCRIBED STATEMENTS AND SCHEDULES, ALL ASSETS AND LIABILITIES RESULTING FROM SALES AND PURCHASES OF SECURITIES ON OR BEFORE THE REPORTING DATE, EVEN THOUGH THEY MAY BE FOR NORMAL SETTLEMENT AFTER THE REPORTING DATE.
6. For the purposes of the statements and schedules, the capital calculations must be on a trade date reporting basis unless specified otherwise in the Notes and Instructions to Form 1.
- ~~5.~~ 7. Dealer Members may determine margin deficiencies for clients, brokers and dealers on either a settlement date basis or trade date basis. Firms Dealer Members may also determine margin deficiencies for *acceptable institutions, acceptable counterparties*, regulated entities and investment counselors' accounts as a block on either a settlement date basis or trade date basis and the remaining clients, brokers and dealer accounts on the other basis. In each case, firms Dealer Members must do so for all such accounts and consistently from period to period.
- ~~6.~~ All statements and schedules must be filed. If a schedule is not applicable, a "NIL" return must be filed.
- ~~7-~~ 8. Comparative figures on all statements are only required at the audit date. As a transition exemption for the changeover to International Financial Reporting Standards (IFRS) from Canadian Generally Accepted Accounting Principles (CGAAP), Dealer Members are not required to file comparative information for the preceding financial year as part of the first audited Form 1 under IFRS.
- ~~8-~~ 9. All statements and schedules must be expressed in Canadian dollars and must be rounded to the nearest thousand.
- ~~9.~~ Schedules 10. Supporting details should be ~~attached~~ provided – as required - showing ~~details~~ breakdown of any significant amounts that have not been clearly described on the ~~attached~~ statements and schedules.
- ~~10-~~ 11. **Mandatory security counts.** All securities except those held in segregation or ~~safe-keeping~~ safekeeping shall be counted once a month, or monthly on a cyclical basis. Those held in segregation and safekeeping must be counted once in the year in addition to the count as at the year-end audit date.
- ~~11.~~ At the year-end, enclose a list of all brokers and dealers for which a confirmation has not been obtained after two requests. Such list should include the dollar balances in such accounts, as reflected in the firm's records.
- ~~12.~~ At the year-end, enclose a list of guarantees that have been disallowed for margin purposes as a result of the lack of confirmation based on a positive request. Such list should disclose the names of the guarantor and guaranteed account involved, as well as the amount of margin relief that was disallowed. A copy should be provided to the Member firm.
- ~~13.~~ At the year-end, enclose a list of Other Acceptable Foreign Securities Locations, the market value of the securities held at each of these locations and whether a written custodial agreement is in place. In addition, include a list of those Other

**~~JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT FORM 1 - GENERAL NOTES AND DEFINITIONS~~ [Cont'd/Continued]**

~~Acceptable Foreign Securities Locations for which a positive confirmation has not been received at the time of filing and the amount of margin provided on these positions.~~

**DEFINITIONS:**

- (a) **“acceptable clearing corporations”** ~~means those entities considered suitable to provide a Member with securities or derivatives transactions clearing and settlement services. These entities are as follows:~~ Any **“corporation”** means any clearing agency operating a central system for clearing of securities or derivatives transactions that is subject to legislation and oversight by a central or regional government authority in the country of operation. The legislation or oversight regime must provide for or recognize the clearing agency’s powers of compliance and enforcement over its members or participants. The ~~Joint Regulatory Bodies~~ **Corporation** will maintain and regularly update a list of ~~those~~ acceptable clearing corporations.
- (b) **“acceptable counterparties”** means those entities with whom a **Dealer** Member may deal on a value for value basis, with mark to market imposed on outstanding transactions. The entities are as follows:
1. Canadian banks, Quebec savings banks, trust companies and loan companies licensed to do business in Canada or a province thereof. Each of the aforementioned entities must have paid up capital and surplus on the last audited balance sheet (plus such other forms of capital recognized as such in their regulatory regime as well as in this capital formula, e.g. subordinated debt) in excess of \$10 million and less than or equal to \$100 million to qualify, provided acceptable financial information with respect to such entities is available for inspection.
  2. Credit and central credit unions and regional caisses populaires with paid up capital and surplus or net worth (excluding appraisal credits but including general reserves) on the last audited balance sheet in excess of \$10 million and less than or equal to \$100 million, provided acceptable financial information with respect to such entities is available for inspection.
  3. Insurance companies licensed to do business in Canada or a province thereof with paid up capital and surplus or net worth on the last audited balance sheet in excess of \$10 million and less than or equal to \$100 million, provided acceptable financial information with respect to such companies is available for inspection.
  4. Canadian provincial capital cities and all other Canadian cities and municipalities, or their equivalents, with populations of 50,000 and over.
  5. Mutual funds subject to a satisfactory regulatory regime with total net assets in the fund in excess of \$10 million.
  6. Corporations (other than regulated entities) with a minimum net worth of \$75 million on the last audited balance sheet, provided acceptable financial information with respect to such corporation is available for inspection.
  7. Trusts and limited partnerships with minimum total net assets on the last audited balance sheet in excess of \$100 million, provided acceptable financial information with respect to such trust or limited partnership is available for inspection.
  8. Canadian pension funds which are regulated either by the Office of Superintendent of Financial Institutions or a provincial pension commission, with total net assets on the last audited balance sheet in excess of \$10 million, provided that in determining net assets the liability of the fund for future pension payments shall not be deducted.
  9. Foreign banks and trust companies subject to a satisfactory regulatory regime with paid up capital and surplus on the last audited balance sheet in excess of \$15 million and less than or equal to \$150 million, provided acceptable financial information with respect to such entities is available for inspection.
  10. Foreign insurance companies subject to a satisfactory regulatory regime with paid up capital and surplus or net worth on the last audited balance sheet in excess of \$15 million, provided acceptable financial information with respect to such companies is available for inspection.
  11. Foreign pension funds subject to a satisfactory regulatory regime with total net assets on the last audited balance sheet in excess of \$15 million, provided that in determining net assets the liability of the fund for future pension payments shall not be deducted.
  12. Federal governments of foreign countries which do not qualify as a **Basle** **Basel** Accord country.

For the purposes of this definition, a satisfactory regulatory regime will be one within **Basle** **Basel** Accord countries.

Subsidiaries (excluding regulated entities) whose business falls in the category of any of the above enterprises and whose parent or affiliate qualifies as an acceptable counterparty may also be considered as an acceptable counterparty if the

**~~JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT FORM 1 - GENERAL NOTES AND DEFINITIONS~~ [Cont'd/Continued]**

parent or affiliate provides a written unconditional irrevocable guarantee, subject to approval by the ~~appropriate Joint Regulatory Body~~ Corporation.

- (c) **“acceptable institutions”** means those entities with which a Dealer Member is permitted to deal on an unsecured basis without capital penalty. The entities are as follows:
1. Government of Canada, the Bank of Canada and provincial governments.
  2. All crown corporations, instrumentalities and agencies of the Canadian federal or provincial governments which are government guaranteed as evidenced by a written unconditional irrevocable guarantee or have a call on the consolidated revenue fund of the federal or provincial governments.
  3. Canadian banks, Quebec savings banks, trust companies and loan companies licensed to do business in Canada or a province thereof. Each of the aforementioned entities must have paid up capital and surplus on the last audited balance sheet (plus such other forms of capital recognized as such in their regulatory regime as well as in this capital formula, e.g. subordinated debt) in excess of \$100 million, provided acceptable financial information with respect to such entities is available for inspection.
  4. Credit and central credit unions and regional caisses populaires with paid up capital and surplus (excluding appraisal credits but including general reserves) on the last audited balance sheet in excess of \$100 million, provided acceptable financial information with respect to such entities is available for inspection.
  5. Federal governments of ~~Basle~~ Basel Accord ~~Countries~~ countries.
  6. Foreign banks and trust companies subject to a satisfactory regulatory regime with paid up capital and surplus on the last audited balance sheet in excess of \$150 million, provided acceptable financial information with respect to such entities is available for inspection.
  7. Insurance companies licensed to do business in Canada or a province thereof with paid up capital and surplus or net worth on the last audited balance sheet in excess of \$100 million, provided acceptable financial information with respect to such companies is available for inspection.
  8. Canadian pension funds which are regulated either by the Office of Superintendent of Financial Institutions or a provincial pension commission, and with total net assets on the last audited balance sheet in excess of \$200 million, provided that in determining net assets the liability of the fund for future pension payments shall not be deducted.
  9. Foreign pension funds subject to a satisfactory regulatory regime with total net assets on the last audited balance sheet in excess of \$300 million, provided that in determining net assets the liability of the fund for future pension payments shall not be deducted.

For the purposes of this definition, a satisfactory regulatory regime will be one within ~~Basle~~ Basel Accord ~~countries~~.

Subsidiaries (other than regulated entities) whose business falls in the category of any of the above enterprises and whose parent or affiliate qualifies as an acceptable institution may also be considered as an acceptable institution if the parent or affiliate provides a written unconditional irrevocable guarantee, subject to approval by the ~~appropriate Joint Regulatory Body~~ Corporation.

- (d) **“acceptable securities locations”** means those entities considered suitable to hold securities on behalf of a Dealer Member, for both inventory and client positions, without capital penalty, given that the locations meet the requirements outlined in the segregation ~~bylaws, rules or regulations~~ of the ~~Joint Regulatory Bodies~~ Corporation including, but not limited to, the requirement for a written custody agreement outlining the terms upon which such securities are deposited and including provisions that no use or disposition of the securities shall be made without the prior written consent of the Dealer Member and the securities can be delivered to the Dealer Member promptly on demand.

~~For London Bullion Market Association (LBMA) gold and silver good delivery bars, means those entities considered suitable to hold these bars on behalf of a Member, for both inventory and client positions, without capital penalty. These entities must:~~

- ~~• be a market-making member, ordinary member or associate member of the LBMA;~~
- ~~• be on the SROs list of entities considered suitable to hold LBMA gold and silver good delivery bars; and~~
- ~~• have executed a written precious metals storage agreement with the Member, outlining the terms upon which such LBMA good delivery bars are deposited. The terms must include provisions that no use or disposition of these bars shall be made without the written prior consent of the Member, and these bars can be delivered to the Member~~

## **JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT FORM 1 - GENERAL NOTES AND DEFINITIONS** [~~Cont'd~~Continued]

~~promptly on demand. The precious metals storage agreement must provide equivalent rights and protection to the Member as the standard securities custodial agreement.~~The entities are as follows:

1. **Depositories and Clearing Agencies**  
Any securities depository or clearing agency operating a central system for handling securities or equivalent book-based entries or for clearing of securities or derivatives transactions that is subject to legislation and oversight by a central or regional government authority in the country of operation. The legislation or oversight regime must provide for or recognize the securities depository's or clearing agency's powers of compliance and enforcement over its members or participants. The ~~Joint Regulatory Bodies~~Corporation will maintain and regularly update a list of those depositories and clearing agencies that comply with these criteria.
  2. Acceptable institutions and subsidiaries of acceptable institutions that satisfy the following criteria:
    - (a) ~~Acceptable Institutions~~institutions which in their normal course of business offer custodial security services; or
    - (b) Subsidiaries of ~~Acceptable Institutions~~acceptable institutions provided that each such subsidiary, together with the ~~Acceptable Institution~~acceptable institution, has entered into a custodial agreement with the ~~member Dealer~~Member containing a legally enforceable indemnity by the ~~Acceptable Institution~~acceptable institution in favour of the Dealer Member covering all losses, claims, damages, costs and liabilities in respect of securities and other property held for the Dealer Member and its clients at the subsidiary's location.
  3. ~~Acceptable Counterparties~~counterparties - with respect to security positions maintained as a book entry of securities issued by the ~~Acceptable Counterparty~~acceptable counterparty and for which the ~~Acceptable Counterparty~~acceptable counterparty is unconditionally responsible.
  4. Banks and ~~Trust Companies~~trust companies otherwise classified as ~~Acceptable Counterparties~~acceptable counterparties - with respect to securities for which they act as transfer agent and for which custody services are not being provided (in such case, a written custody agreement is not required).
  5. Mutual Funds or their Agents - with respect to security positions maintained as a book entry of securities issued by the mutual fund and for which the mutual fund is unconditionally responsible.
  6. *Regulated entities.*
  7. Foreign institutions and securities dealers that satisfy the following criteria:
    - (a) the paid-up capital and surplus according to its most recent audited balance sheet is in excess of ~~Cdn-~~Canadian \$150 million as evidenced by the audited financial statements of such entity;
    - (b) in respect of which a foreign custodian certificate has been completed and signed in the prescribed form by the Dealer Member's board of directors or authorized committee thereof;provided that:
    - (c) a formal application in respect of each such foreign location is made by the Dealer Member to the ~~relevant joint regulatory authority~~Corporation in the form of a letter enclosing the financial statements and certificate described above; and
    - (d) the Dealer Member reviews each such foreign location annually and files a foreign custodian certificate with the ~~appropriate joint regulatory authority~~Corporation annually.
  8. For London Bullion Market Association (LBMA) gold and silver good delivery bars, means those entities considered suitable to hold these bars on behalf of a Dealer Member, for both inventory and client positions, without capital penalty. These entities must:
    - be a market making member, ordinary member or associate member of the LBMA;
    - be on the Corporation's list of entities considered suitable to hold LBMA gold and silver good delivery bars; and
    - have executed a written precious metals storage agreement with the Dealer Member, outlining the terms upon which such LBMA good delivery bars are deposited. The terms must include provisions that no use or disposition of these bars shall be made without the written prior consent of the Dealer Member, and these bars can be delivered to the Dealer Member promptly on demand. The precious metals storage agreement must provide equivalent rights and protection to the Dealer Member as the standard securities custodial agreement.
- and such other locations which have been approved as acceptable securities locations by the ~~Joint Regulatory Body~~having prime jurisdiction over the Member Corporation.

**JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT FORM 1 - GENERAL NOTES AND DEFINITIONS [Cont'd/Continued]**

- (e) **“BasleBasel Accord Countriescountries”** means those countries that are members of the ~~BasleBasel~~ Accord and those countries that have adopted the banking and supervisory rules set out in the ~~BasleBasel~~ Accord. [The ~~BasleBasel~~ Accord, which includes the regulating authorities of major industrial countries acting under the auspices of the Bank for International Settlements (B.I.S.), has developed definitions and guidelines that have become accepted standards for capital adequacy.] A list of current ~~BasleBasel~~ Accord countries is included in the most recent list of ~~Foreign-Acceptable Institutions and Foreign-Acceptable Counterparties~~foreign acceptable institutions and foreign acceptable counterparties.
- (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~~Corporation 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.
- (g) **“market value of securities”** means:
1. In a fully transparent marketplace, the published price quotation for the security using:
    - (i) for listed securities, the last bid price of a long security and, correspondingly, the last ask price of a short security, as shown on the exchange quotation sheets as of the close of business on the relevant date or last trading date prior to the relevant date, as the case may be, subject to an appropriate adjustment where an unusually large or unusually small quantity of securities is being valued. If not available, the last sale price of a board lot may be used. ~~Where not readily marketable, no market value shall be assigned.~~
    - 2-(ii) for unlisted and debt securities, and precious metals bullion, a value determined as reasonable from published market reports or inter-dealer quotation sheets on the relevant date or last trading day prior to the relevant date, or based on a reasonable yield rate. ~~Where not readily marketable, no market value shall be assigned.~~
    - 3-(iii) for commodity futures contracts, the settlement price on the relevant date or last trading day prior to the relevant date.
    - 4-(iv) for money market fixed date repurchases (no borrower call feature), the ~~market price is the~~ price determined by applying the current yield for the security to the term of maturity from the repurchase date. This will permit calculation of any profit or loss based on the market conditions at the reporting date. ~~Exposure due to future changes in market conditions is covered by the margin rate.~~
    - 5-(v) for money market open repurchases (no borrower call feature), ~~prices are to be~~the price determined as of the reporting date or the date the commitment first becomes open, whichever is the later. ~~Market price~~The value is to be determined as in 4-(iv) and commitment price is to be determined in the same manner using the yield stated in the repurchase commitment.
    - 6-(vi) for money market repurchases with borrower call features, the ~~market price is the~~ borrower call price.
  2. Where a marketplace does not exist or is inactive, the value is determined by using a valuation technique that includes inputs other than published price quotations that are observable for the security, either directly or indirectly.
  3. Where a marketplace does not exist or is inactive and there are no observable market data-related inputs for the security, the value determined by using unobservable inputs and assumptions.
  4. Where insufficient recent information is available and/or there is a wide range of possible value measurements and cost represents the best estimate of market value within that range, cost.
  5. Where value cannot be reliably measured under Items 1 through 4 above (including where cost does not represent the best estimate of value), no value shall be assigned.

**~~JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT~~ FORM 1 - GENERAL NOTES AND DEFINITIONS [~~Cont'd~~Continued]**

(h) **“regulated entities”** means those entities with whom a Dealer Member may deal on a value for value basis, with mark to market imposed on outstanding transactions. The entities are participating institutions in the Canadian Investor Protection Fund or members of recognized exchanges and associations. For the purposes of this definition recognized exchanges and associations mean those entities that meet the following criteria:

1. the exchange or association maintains or is a member of an investor protection regime equivalent to the Canadian Investor Protection Fund;
2. the exchange or association requires the segregation by its members of customers’ fully paid for securities;
3. the exchange or association rules set out specific methodologies for the segregation of, or reserve for, customer credit balances;
4. the exchange or association has established rules regarding ~~member firm~~Dealer Member and customer account margining;
5. the exchange or association is subject to the regulatory oversight of a government agency or a self-regulatory organization under a government agency which conducts regular examinations of its members and monitors member’s regulatory capital on an ongoing basis; and
6. the exchange or association requires regular regulatory financial reporting by its members.

A list of current recognized exchanges and associations is included in the most recent list of ~~Foreign Acceptable Institutions and Foreign Acceptable Counterparties~~foreign acceptable institutions and foreign acceptable counterparties.

- (i) **“settlement date - extended”** ~~shall mean~~means a transaction (other than a mutual fund security redemption) in respect of which the arranged settlement date is a date after regular settlement date.
- (j) **“settlement date - regular”** means the settlement date generally accepted according to industry practice for the relevant security in the market in which the transaction occurs, including foreign jurisdictions. For margin purposes, if such settlement date exceeds 15 business days past trade date, settlement date will be deemed to be 15 business days past trade date. In the case of new issue trades, regular settlement date means the contracted settlement date as specified for that issue.

**FORM 1 - CERTIFICATE OF UDP AND CFO**

\_\_\_\_\_  
\_\_\_\_\_  
(Dealer Member Name)

I/We have examined the attached statements and schedules and certify that, to the best of my/our knowledge, they present fairly the financial position and capital of the Dealer Member at \_\_\_\_\_ and the results of operations for the period then ended, and are in agreement with the books of the Dealer Member.

I/We certify that the following information is true and correct to the best of my/our knowledge for the period from the last audit to the date of the attached statements which have been prepared in accordance with the current requirements of the Corporation:

|  | <b>ANSWER</b> |
|--|---------------|
| 1. <u>Does the Dealer Member have adequate internal controls in accordance with the rules?</u>   | _____         |
| 2. <u>Does the Dealer Member maintain adequate books and records in accordance with the rules?</u>   | _____         |
| 3. <u>Does the Dealer Member monitor on a regular basis its adherence to early warning requirements in accordance with the rules?</u>  | _____         |
| 4. <u>Does the Dealer Member carry insurance of the type and in the amount required by the rules?</u>  | _____         |
| 5. <u>Does the Dealer Member determine on a regular basis its free credit segregation amount and act promptly to segregate assets as appropriate in accordance with the rules?</u> | _____         |
| 6. <u>Does the Dealer Member promptly segregate clients' securities in accordance with the rules?</u>  | _____         |
| 7. <u>Does the Dealer Member follow the minimum required policies and procedures relating to security counts?</u>  | _____         |
| 8. <u>Have all "concentrations of securities" been identified on Schedule 9?</u>   | _____         |
| <u>Do the attached statements fully disclose all assets and liabilities including the following:</u>   |               |
| 9. <u>Participation in any underwriting or other agreement subject to future demands?</u>  | _____         |
| 10. <u>Outstanding puts, calls or other options?</u>   | _____         |
| 11. <u>All future purchase and sales commitments?</u>  | _____         |
| 12. <u>Writs issued against the Dealer Member or partners or any other litigation pending?</u>   | _____         |
| 13. <u>Income tax arrears?</u>   | _____         |
| 14. <u>Other contingent liabilities, guarantees, accommodation endorsements or commitments affecting the financial position of the Dealer Member?</u>                              | _____         |

|   |                 |
|---|-----------------|
| _____<br>(Ultimate Designated Person)     | _____<br>(date) |
| _____<br>(Chief Financial Officer)        | _____<br>(date) |
| _____<br>(other Executive, if applicable) | _____<br>(date) |

**FORM 1 - CERTIFICATE OF UDP AND CFO**  
**NOTES AND INSTRUCTIONS**

1. Details must be given for any “no” answers.
2. To be signed by:
  - (a) Ultimate Designated Person (UDP);
  - (b) Chief financial officer (CFO); and
  - (c) at least one other executive if the CFO is not an executive or if the UDP and CFO are one.
3. A copy of the certificate with original signatures must be provided to both the Corporation and CIPF.

**FORM 1 – SEPARATE CERTIFICATE OF UDP AND CFO ON STATEMENT G OF PART I –  
OPENING IFRS STATEMENT OF FINANCIAL POSITION AND RECONCILIATION OF EQUITY**

\_\_\_\_\_  
(Dealer Member Name)

We have examined the attached Statement G and certify that, to the best of my/our knowledge, it has been prepared in accordance with its accompanying notes and instructions and represents the opening IFRS financial position and reconciliation of equity between Canadian Generally Accepted Accounting Principles (CGAAP) and International Financial Reporting Standards (IFRS) of \_\_\_\_\_ at \_\_\_\_\_.

\_\_\_\_\_  
(Dealer Member)

\_\_\_\_\_  
(IFRS conversion date)

We acknowledge that as management we are responsible for the preparation and fair presentation of the opening IFRS financial position in accordance with our regulatory financial reporting obligations. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements. On this basis, certify the following statements are true and complete:

1. \_\_\_\_\_ We updated the written accounting policies and procedures to reflect the adoption of IFRS, except for prescribed regulatory accounting departures as stipulated in the general notes and instructions of Form 1.
2. \_\_\_\_\_ We performed an analysis and financial statement impact assessment of the changeover from CGAAP to IFRS to determine whether we have identified all accounting and reporting changes appropriate for our business and material adverse capital implications.
3. \_\_\_\_\_ We selected and adopted the accounting policy options to comply with IFRS 1, including the prescribed regulatory accounting requirements as set out in the general notes and instructions of Form 1.
4. \_\_\_\_\_ We identified and disclosed all of the IFRS adjustments that impact retained earnings. For material adjustments, we provided an explanation of the effect and implications of the transition to IFRS, including any accompanying material impact on risk adjusted capital (RAC), by way of a note disclosure.
5. \_\_\_\_\_ We identified and disclosed all of the IFRS adjustments that are presentation differences with no impact on total equity. For material presentation adjustments to non-allowable assets, we considered any accompanying adverse capital implication. For material presentation adjustments, we provided an explanation by way of a note disclosure.

\_\_\_\_\_  
(Ultimate Designated Person)

\_\_\_\_\_  
(date)

\_\_\_\_\_  
(Chief Financial Officer)

\_\_\_\_\_  
(date)

\_\_\_\_\_  
(other Executive, if applicable)

\_\_\_\_\_  
(date)

**FORM 1 – SEPARATE CERTIFICATE OF UDP AND CFO ON STATEMENT G OF PART I –  
OPENING IFRS STATEMENT OF FINANCIAL POSITION AND RECONCILIATION OF EQUITY  
NOTES AND INSTRUCTIONS**

**Instructions**

**One-time transitional reporting requirement**

The opening IFRS Statement A provides a starting point for accounting under IFRS.

For regulatory reporting, a Dealer Member prepares the opening IFRS Statement of financial position (also known as either the opening IFRS Statement A or the opening balance sheet) as at the conversion date. Example: For Dealer Members with a December 2010 year end, the conversion date is January 1, 2011. Therefore, the opening IFRS Statement A is as at January 1, 2011.

Together with the opening IFRS Statement A, Dealer Members are to provide a reconciliation of the equity between previous CGAAP and IFRS. Example: For Dealer Members with a December 2010 year-end, the previous CGAAP Statement A is as at December 31, 2010 and as filed on SIRFF as part of the audited Form 1.

**Date of the opening IFRS Statement A**

For regulatory reporting, the opening IFRS Statement A is dated as at the conversion date. For example, a Dealer Member with a December 2010 year-end will file an opening Statement A as at January 1, 2011.

**Due date to file the opening IFRS Statement A**

A Dealer Member will file an opening Statement A **on or before** filing its first MFR for the first fiscal year under IFRS. To accommodate this filing requirement, Dealer Members will be provided 10 weeks following their fiscal year-end to file the opening IFRS Statement A and the first MFR under IFRS. The filing requirement for the fiscal year-end audited Form 1 under CGAAP remains at 7 weeks.

Example: For Dealer Members with a December 2010 year-end, the opening IFRS Statement A and reconciliation of equity must be filed **on or before** the filing of the January 2011 MFR. The audited Form 1 as at December 31, 2010 will be filed within the normal period of 7 weeks. The opening IFRS balance sheet as at January 1, 2011 and the January 2011 MFR under IFRS will be filed **on or before** March 15, 2011, which is approximately 10 weeks after the December 2010 year-end.

**Management certification**

Senior management of the Dealer Member will certify that they have planned and executed the changeover from CGAAP to IFRS in accordance with IFRS 1 and the prescribed regulatory accounting departures and treatments as described in the general notes and definitions of Form 1. The purpose of the management certification is to provide IIROC a basis for its reliance on the completeness and reasonability of adjustments in determining the opening retained earnings under IFRS and for subsequent MFR filings under IFRS.

The ultimate designated person (UDP) and the chief financial officer (CFO) must sign. If the CFO is not an executive or if the UDP and CFO are one, one other executive must sign.

The Dealer Member must submit a certificate with original signatures to IIROC.

**Notes to the reconciliation**

There will be two types of IFRS adjustments:

1. Presentation differences with no impact on total equity and
2. Adjustments that will impact retained earnings.

Adjustments made to restate the opening Statement A from previous CGAAP to IFRS are generally made to retained earnings (or if appropriate, another category of equity).

For material adjustments, Dealer Members will provide an explanation of the effect and implications of the transition to IFRS, including any accompanying material impact on risk adjusted capital (RAC). The explanations will be in the form of note disclosures.

A material adjustment means an adjustment – either individually or in the aggregate - that result in equal to or greater than 10% change (increase or decrease):

- in the retained earnings as filed on SIRFF with the audited Form 1 prepared under CGAAP and/or

**FORM 1 – SEPARATE CERTIFICATE OF UDP AND CFO ON STATEMENT G OF PART I –  
OPENING IFRS STATEMENT OF FINANCIAL POSITION AND RECONCILIATION OF EQUITY  
NOTES AND INSTRUCTIONS**

- in the risk adjusted capital (RAC) as filed on SIRFF with the audited Form 1 prepared under CGAAP.

**Mapping of the line items on Statement A**

Statement A has been reformatted to accommodate the required IFRS changes, including new terminology and the addition (as well as the deletion) of line items. To assist Dealer Members in completing the opening IFRS Statement A, a mapping of the line items under the old CGAAP format to the new IFRS format is provided.

**JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT**  
**PART I—AUDITORS' REPORT FORM 1 – AUDITORS' REPORT**

TO: The \_\_\_\_\_ and the Canadian Investor Protection Fund.  
*(applicable regulatory body)*

We have audited the following Part I financial statements of \_\_\_\_\_  
*(firm)*

Statement A- Statements of assets and of liabilities and shareholder/partner capital as at \_\_\_\_\_ and \_\_\_\_\_  
*(date)* *(date)*

Statement B- Statements of assets and of liabilities and shareholder/partner capital as at \_\_\_\_\_ and \_\_\_\_\_  
*(date)* *(date)*

Statement C- Statement of early warning excess and early warning reserve as at \_\_\_\_\_  
*(date)*

Statement D- Statement of free credit segregation amount as at \_\_\_\_\_  
*(date)*

Statement E- Summary statements of income for the years ended \_\_\_\_\_ and \_\_\_\_\_  
*(date)* *(date)*

Statement F- Statement of changes in capital and retained earnings (corporations) or undivided profits (partnerships) for the year ended \_\_\_\_\_; and  
*(date)*

Statement G- Statement of changes in subordinated loans for the year ended \_\_\_\_\_  
*(date)*

These financial statements have been prepared for the purpose of complying with the regulations, bylaws and policies of

**To: Investment Industry Regulatory Organization of Canada and Canadian Investor Protection Fund**

We have audited the accompanying Statements of Form 1 (the "Statements") of \_\_\_\_\_  
*(Dealer Member)*  
(the "Dealer Member") as at \_\_\_\_\_ and for the year then ended. The Statements have been  
*(date)*  
prepared for purposes of complying with the rules of the Investment Industry Regulatory Organization of Canada.

**Management's responsibility for the Statements**

Management is responsible for the preparation and fair presentation of the Statements of Form 1 in accordance with its financial reporting obligations on the basis as described in Note \_\_\_\_\_ . This responsibility includes designing,  
*(note)*

implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditors' responsibility**

the \_\_\_\_\_ . These financial statements are the responsibility of the  
*(applicable regulatory body)*

~~Company's management.~~

Our responsibility is to express an opinion on ~~these financial~~ the accompanying statements based on our ~~audits~~ audit. We conducted our ~~audits~~ audit in accordance with Canadian generally accepted auditing standards. Those standards require that

**JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT**  
**PART I—AUDITORS' REPORT FORM 1 – AUDITORS' REPORT**

we ~~comply with ethical requirements and~~ plan and perform ~~an~~the audit to obtain reasonable assurance ~~about~~ whether the ~~financial statements~~Statements are free of material misstatement.

An audit ~~includes examining, on a test basis, involves performing procedures to obtain audit~~ evidence ~~supporting~~about the amounts and disclosures in the ~~financial statements. An audit also includes assessing the accounting principles used and significant~~Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Dealer Member's preparation and fair presentation of the Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Dealer Member's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall ~~financial statement presentation.~~presentation of the Statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion,

(a) ~~The statements of assets and of liabilities and shareholders/partner capital and the summary statements of income present fairly, in all material respects, the financial position of the Company as at \_\_\_\_\_ (date) and \_\_\_\_\_ (date) and the results of its operations for the years then ended in accordance with the basis of accounting disclosed in Note 2 to the financial statements.~~

(b) ~~The statements of net allowable assets and risk adjusted capital as at \_\_\_\_\_ (date) and \_\_\_\_\_ (date) and the statements of early warning excess and early warning reserve, free credit segregation amount, changes in capital and retained earnings (corporations) or undivided profits (partnerships), and changes in subordinated loans, either as at or for the year ended \_\_\_\_\_ (date) are presented the accompanying Statements A, E and F of Form 1 present fairly, in all material respects, in accordance with the financial~~

~~position of the "Dealer Member" as at \_\_\_\_\_ (date) and the "Dealer Member" financial performance for the period then ended in accordance with the basis as described in Note \_\_\_\_\_ (note) Statements B, C and D of Form 1 present fairly, in all material respects the risk adjusted capital, early warning excess, early warning reserve and client free credit segregation amounts as at \_\_\_\_\_ (date) in accordance with the applicable instructions of the rules of the Investment Industry Regulatory Organization of Canada.~~

\_\_\_\_\_  
(applicable regulatory body)

~~These financial statements, which have not been, and were not intended to be, prepared in accordance with Canadian generally accepted accounting principles, are solely for the information and use of the Company, the~~  
Our audit was conducted for the purpose of forming an opinion on the accompanying statements taken as a whole. The accompanying supplemental information presented in Schedules 1 to 14 is presented for purposes of additional analysis and is not a required part of the Statements of Form 1, but is supplementary information required by the rules of the Investment Industry Regulatory Organization of Canada. Such information has been subjected to the auditing procedures applied in the audit of the Statements of Form 1 and, in our opinion, is fairly stated in all material respects in relation to the Statements taken as a whole.

**JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT**  
**PART I—AUDITORS' REPORT FORM 1 – AUDITORS' REPORT**

**Emphasis of matter**

**[Note to draft: Going concern matter to be described, if any. Broker auditor committee to provide wording.]**

**[Note to draft: SIRFF to allow for auditor to provide wording on other potential Emphasis of Matter should one be required to be included in the auditors' report. Such wording would be agreed upon with the Corporation prior to the filing of Form 1.]**

**Basis of Accounting**

\_\_\_\_\_ and the Canadian Investor Protection Fund to comply with  
*(applicable regulatory body)*  
the rules of the \_\_\_\_\_ . The financial statements are not intended  
*(applicable regulatory body)*

Without modifying our opinion, we draw attention to Note \_\_\_\_\_ to the Statements which describes the basis of  
*(note)*

~~to be and should not be used by anyone other than the specified users or for any other~~ accounting. The Statements are prepared to meet the requirements of the Investment Industry Regulatory Organization of Canada. As a result, the Statements may not be suitable for another purpose.

\_\_\_\_\_  
*(auditing firm name)* \_\_\_\_\_  
*(date)*  
\_\_\_\_\_  
*(signature)* \_\_\_\_\_  
*(place of issue)*

\_\_\_\_\_  
*(Audit Firm)*  
\_\_\_\_\_  
*(date)*  
\_\_\_\_\_  
*(address)*

**PART I FORM 1 – AUDITORS' REPORT  
NOTES AND INSTRUCTIONS**

A measure of uniformity in the form of the auditors' report is desirable in order to facilitate identification of circumstances where the underlying conditions are different. Therefore, when auditors are able to express an unqualified opinion, their report should take the form of the auditors' report shown above.

Alternate forms of Auditors' Reports are available either online from within the web-based Securities Industry Regulatory Financial Filings system (SIRFF) or from the ~~Joint Regulatory Body with primary audit jurisdiction~~ [Corporation](#).

Any limitations in the scope of the audit must be discussed in advance with the ~~appropriate regulatory authority~~ [Corporation](#). Discretionary scope limitations will not be accepted. [Any emphasis of matter in the auditor's report must be discussed in advance with the Corporation.](#)

**Copies**

[One copy](#) with original signatures must be provided to the ~~Joint Regulatory Body with primary audit jurisdiction~~ [Corporation](#) and another [copy with original signatures must be provided to CIPE.](#)

~~STATEMENT A~~ **FORM 1, PART I – STATEMENT A**  
**PART I**  
**JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT**

(Firm/Dealer/Member Name)

**STATEMENT OF ~~ASSETS~~ FINANCIAL POSITION**

(at \_\_\_\_\_ with comparative figures as \_\_\_\_\_ )  
 \_\_\_\_\_ at \_\_\_\_\_ )

| REFERENCE   | <u>NOTES</u>   | <u>(CURRENT YEAR)</u><br><u>C\$'000</u> | <u>(PREVIOUS YEAR)</u><br><u>C\$'000</u> |
|---|--|---|--|
| <b>LIQUID ASSETS:</b>   |  |   |  |
| 1.  | Cash on deposit with <del>Acceptable Institutions</del> <u>acceptable institutions</u>   | -----                                   | -----                                    |
| 2.  | Funds deposited in trust for RRSP and other similar accounts   | -----                                   | -----                                    |
| 3. Stmt. D  | Cash, held in trust with <del>Acceptable Institutions</del> <u>acceptable institutions</u> , due to free credit ratio calculation                          | -----                                   | -----                                    |
| 4.  | Variable base deposits and margin deposits with <del>Acceptable Clearing Corporations</del> <u>acceptable clearing corporations</u> [cash balances only]   | -----                                   | -----                                    |
| 5.  | Margin deposits with <del>Regulated Entities</del> <u>regulated entities</u> [cash balances only]  | -----                                   | -----                                    |
| 6. Sch.1  | Loans receivable, securities borrowed and resold   | -----                                   | -----                                    |
| 7. Sch.2  | Securities owned - at <i>market value</i>  | -----                                   | -----                                    |
| 8. Sch.2  | Securities owned and segregated due to free credit ratio calculation   | -----                                   | -----                                    |
| <del>9.</del>   | <del>Syndicate and joint trading accounts</del>  | -----                                   | -----                                    |
| <del>10.</del> <u>9.</u>  | Sch.4 Client accounts  | -----                                   | -----                                    |
| <del>11.</del> <u>10.</u>   | Sch.5 Brokers and dealers trading balances   | -----                                   | -----                                    |
| <del>12.</del> <u>11.</u>   | Receivable from carrying broker or mutual fund   | -----                                   | -----                                    |
| <del>13.</del> <u>12.</u>   | <b>TOTAL LIQUID ASSETS</b>   | -----                                   | -----                                    |
| <b>OTHER ALLOWABLE ASSETS (RECEIVABLES FROM ACCEPTABLE INSTITUTIONS):</b> |  |   |  |
| <del>14.</del> <u>13.</u>   | Sch.6 <del>Recoverable and overpaid</del> <u>Current</u> income <del>taxes</del> <u>tax assets</u>   | -----                                   | -----                                    |
| <del>15.</del> <u>14.</u>   | Recoverable and overpaid taxes   | -----                                   | -----                                    |
| <del>16.</del> <u>15.</u>   | Commissions and fees receivable  | -----                                   | -----                                    |
| <del>17.</del> <u>16.</u>   | Interest and dividends receivable  | -----                                   | -----                                    |
| <del>18.</del> <u>17.</u>   | Other receivables [ <del>attach</del> <u>provide</u> details]  | -----                                   | -----                                    |
| <del>19.</del> <u>18.</u>   | <b>TOTAL OTHER ALLOWABLE ASSETS</b>  | -----                                   | -----                                    |
| <b>NON ALLOWABLE ASSETS:</b>  |  |   |  |
| <del>20.</del> <u>19.</u>   | Other deposits with <del>Acceptable Clearing Corporations</del> <u>acceptable clearing corporations</u> [cash or <i>market value</i> of securities lodged] | -----                                   | -----                                    |
| <del>21.</del>  | Deposits and other balances with non- <i>acceptable clearing</i>   | -----                                   | -----                                    |

**JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT**

|                |  |       |       |
|----------------|--|-------|-------|
| <u>20.</u>     | <i>corporations</i> [cash or <i>market value</i> of securities lodged]       | ----- | ----- |
| <del>22.</del> | Commissions and fees receivable  | ----- | ----- |
| <u>21.</u>     |  | ----- | ----- |
| <del>23.</del> | Interest and dividends receivable  | ----- | ----- |
| <u>23.</u>     |  | ----- | ----- |
| <del>24.</del> | <del>Fixed</del> <u>Deferred tax</u> assets <del>—at depreciated value</del> | ----- | ----- |
| <u>23.</u>     |  | ----- | ----- |
| <del>25.</del> | <del>Stock-exchange seats</del> <u>Intangible assets</u>                     | ----- | ----- |
| <u>24.</u>     |  | ----- | ----- |
| <del>26.</del> | <del>Capitalized leases</del> <u>Property, plant and equipment</u>           | ----- | ----- |
| <u>25.</u>     |  | ----- | ----- |
| <del>27.</del> | Investments in subsidiaries and affiliates                                   | ----- | ----- |
| <u>26.</u>     |  | ----- | ----- |
| <u>27.</u>     | <u>Advances to subsidiaries and affiliates</u>                               | ----- | ----- |
| 28.            | Other assets [ <del>attach</del> <u>provide</u> details]                     | ----- | ----- |
| 29.            | TOTAL NON-ALLOWABLE ASSETS   | ----- | ----- |
| 30.            | <del>TOTAL ASSETS</del> <u>Finance lease assets</u>                          | ----- | ----- |
| <u>31.</u>     | <u>TOTAL ASSETS</u>  | ----- | ----- |

**PART I****JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT**

(Firm Name)

**STATEMENT OF LIABILITIES AND SHAREHOLDER/PARTNER CAPITAL**

(at \_\_\_\_\_ with comparative figures as at \_\_\_\_\_ )

| <b>REFERENCE</b>  | <b>NOTES</b>  | <b>(CURRENT YEAR)</b><br><b>CS'000</b> | <b>(PREVIOUS YEAR)</b><br><b>CS'000</b> |
|---|---|--|---|
| <b>CURRENT LIABILITIES:</b>                                       |   |  |   |
| 51. Sch.7   | Overdrafts, loans, securities loaned and repurchases  | -----                                  | -----                                   |
| 52. Sch.2   | Securities sold short - at market value   | -----                                  | -----                                   |
| <del>53.</del>  | <del>Syndicate and joint trading accounts</del>   | -----                                  | -----                                   |
| <del>54.</del>  | Sch.4 Client accounts   | -----                                  | -----                                   |
| <del>53.</del>  |   | -----                                  | -----                                   |
| <del>55.</del>  | Sch.5 Brokers and dealers   | -----                                  | -----                                   |
| <del>54.</del>  |   | -----                                  | -----                                   |
| <del>55.</del>  | <u>Provisions</u>   | -----                                  | -----                                   |
| 56. Sch.6   | <del>Income</del> <u>Current income</u> tax liabilities   | -----                                  | -----                                   |
| <del>57.</del>  | <del>Sch.6 Deferred income taxes – current portion</del>  | -----                                  | -----                                   |
| <del>58.</del>  | Bonuses payable   | -----                                  | -----                                   |
| <del>57.</del>  |   | -----                                  | -----                                   |
| <del>59.</del>  | Accounts payable and accrued expenses   | -----                                  | -----                                   |
| <del>58.</del>  |   | -----                                  | -----                                   |
| <del>60.</del>  | <del>Capitalized</del> <u>Finance</u> leases and lease-related liabilities – <del>current</del>       | -----                                  | -----                                   |
| <del>59.</del>  | <del>portion</del>  | -----                                  | -----                                   |
| <del>61.</del>  | Other current liabilities [ <del>attach</del> <u>provide</u> details]                                 | -----                                  | -----                                   |
| <del>60.</del>  |   | -----                                  | -----                                   |
| <del>62.</del>  | <b>TOTAL CURRENT LIABILITIES</b>  | -----                                  | -----                                   |
| <del>61.</del>  |   | -----                                  | -----                                   |
| <b><del>LONG-TERM</del><u>NON-CURRENT</u> LIABILITIES:</b>        |   |  |   |
| <del>63.</del>  | Sch.6 <del>Non-current portion of deferred income taxes</del> <u>Provisions</u>                       | -----                                  | -----                                   |
| <del>62.</del>  |   | -----                                  | -----                                   |
| <del>63.</del>  | <u>Deferred tax liabilities</u>   | -----                                  | -----                                   |
| 64.   | <del>Non-current portion of capitalized</del> <u>Finance</u> leases and lease-related liabilities     | -----                                  | -----                                   |
| <del>65.</del>  | <u>Finance leases – leasehold inducements</u>   | -----                                  | -----                                   |
| <del>65.</del>  | Other non-current liabilities [ <del>attach</del> <u>provide</u> details]                             | -----                                  | -----                                   |
| <del>66.</del>  |   | -----                                  | -----                                   |
| <del>67.</del>  | <u>Subordinated loans</u>   | -----                                  | -----                                   |
| <del>66.</del>  | <b>TOTAL <del>LONG-TERM</del><u>NON-CURRENT</u> LIABILITIES</b>                                       | -----                                  | -----                                   |
| <del>68.</del>  |   | -----                                  | -----                                   |
| <del>67.</del>  | <b>TOTAL LIABILITIES</b> [ <del>line 62</del> <u>Line 61</u> plus <del>line 66</del> <u>Line 68</u> ] | -----                                  | -----                                   |
| <del>69.</del>  |   | -----                                  | -----                                   |
| <b><del>FINANCIAL STATEMENT</del><u>CAPITAL AND RESERVES:</u></b> |   |  |   |
| <del>68.</del>  | <del>Non-current portion of capitalized leases qualifying as capital</del><br><del>{see note}</del>   | -----                                  | -----                                   |
| <del>69.</del>  | <del>G-6 Subordinated loans – approved non-industry investors</del>                                   | -----                                  | -----                                   |
| 70. <del>G-</del>   | <del>Subordinated loans – industry investors</del> <u>Issued capital</u>                              | -----                                  | -----                                   |
| <del>6 Stmt.</del>  |   | -----                                  | -----                                   |

[See notes and instructions]

Mar-2006Jan-2011

**JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT**

|     |  |       |       |
|-----|--|-------|-------|
|     |  | ----- | ----- |
|     |  | ----- | ----- |
| 71. | <sup>E</sup><br><u>Stmt. F-</u> <del>Capital</del> <u>Reserves</u><br><del>A-3</del> | ----- | ----- |
| 72. | <u>Stmt. F-</u> Retained earnings or undivided profits<br><del>E-3</del>             | ----- | ----- |
| 73. | TOTAL <del>FINANCIAL STATEMENT</del> CAPITAL   | ----- | ----- |
|     |  | _____ | _____ |
| 74. | TOTAL LIABILITIES AND CAPITAL  | ----- | ----- |
|     |  | _____ | _____ |

**PART I**  
**JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT**

(Firm Name)

**NOTES TO THE FINANCIAL STATEMENTS**  
**{to be provided at both audit date and interim date}**

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~~Notes to the financial statements—Any notes which may be necessary for the fair presentation of the financial statements in accordance with generally accepted accounting principles and which are not contained in the supporting schedules must be attached as page 3 to Statement A, including without limitation:~~

- ~~• Significant accounting policies;~~
- ~~• Subsequent events (which are not otherwise disclosed) to the date of filing, which have a material effect on the firm's financial position and risk-adjusted capital;~~
- ~~• Obligations under letters of credit;~~
- ~~• Outstanding legal claims which are likely to result in a material adverse effect on the firm's financial position and risk-adjusted capital;~~
- ~~• Related party transactions, detailing by type of transaction the amount and parties involved, for all such transactions;~~
- ~~• Description of authorized and issued share capital and subordinated loans;~~
- ~~• Lease commitments; and~~
- ~~• Any other significant commitments or contingencies not otherwise disclosed.~~

**FORM 1, PART I – STATEMENT A**  
**NOTES AND INSTRUCTIONS**

~~[comparative figures to be completed at audit date only]~~

**Accrual basis of accounting**

Dealer Members are required to use the accrual basis of accounting.

**Line 2** - The trustee(s) for RRSP or other similar accounts must qualify as an ~~Acceptable Institution and such~~ acceptable institution. Such accounts must be insured by the Canada Deposit Insurance Corporation (CDIC) or Autorité des marchés financiers (AMF) to the full extent insurance is available. If not, then the Dealer Member must report 100% of the balance held in trust as non-allowable assets on ~~line 28.~~ Line 28 (Non-allowable assets – other assets).

RRSP and other similar balances held at such trustee(s), but for which CDIC or the AMF insurance is not available, such as foreign currency accounts, can be classified as allowable assets.

The name(s) of the RRSP trustee(s) used by the Dealer Member must also be provided on Schedule 4.

**Line 4** - For definition of ~~Acceptable Clearing Corporations~~ “acceptable clearing corporations”, see General Notes and Definitions.

Securities on deposit (and related margin) should be included in balances reported on Inventory Schedule 2 and disclosed separately on the supplementary information Line 11 of Schedule 2.

**Line 5** - For definition of ~~Regulated Entities~~ “regulated entities”, see General Notes and Definitions.

~~Lines 4 and 5~~ - Securities on deposit (and related margin) should be included in balances reported on Inventory Schedule 2 and disclosed separately on ~~line~~ the supplementary information Line 11 of Schedule 2. ~~This also includes securities on deposit with carrying brokers.~~

**Line ~~12~~ 11** - ~~In the case of~~ For an introducing ~~brokers~~ broker (pursuant to an approved introducing/carrying broker agreement), unsecured balances receivable from ~~their~~ its carrying ~~brokers~~ broker, such as ~~net~~ gross commissions and deposits in the form of cash, should be reported on this line.

Unsecured balances should only be included to the extent they are not being used by the carrying broker to reduce client margin requirements.

Securities on deposit (and related margin) should be included in balances reported on Inventory Schedule 2 and disclosed separately on ~~line~~ the supplementary information Line 11 of Schedule 2.

In the case of the salesperson's portion of gross commissions and fees receivable, as recorded on ~~line 22,~~ Line 21 (Commissions and fees receivable), to the extent that there is written documentation that the broker does not have a liability to pay the ~~salespersons'~~ salesperson's commission until it is received, the ~~salespersons'~~ salesperson's portion of the gross commission receivable is an allowable asset.

~~Lines 14 through 18~~ - ~~Include only to extent receivable from Acceptable Institutions (for definition see General Notes and Definitions):~~

**Line ~~14~~ 13** - Include only overpayment of prior years' income taxes or current year installments. Taxes recoverable due to current year losses may be included to the extent that they can be carried back and applied against taxes previously paid.

~~This line should not include deferred tax debits arising from losses carried forward.~~

**Line ~~15~~ 14** - Include GST and HST receivables, capital tax, Part VI tax, sales and property taxes.

Include only to extent receivable from acceptable institutions (for definition, see General Notes and Definitions).

**Line ~~19~~ 18** - Allowable assets are those assets which due to their nature, location or source are either readily convertible into cash or from such creditworthy entities as to be allowed for capital purposes.

Include only to extent receivable from acceptable institutions (for definition see General Notes and Definitions).

**Line ~~20~~ Line 19** - Report the cash ~~or~~ and market value of securities lodged with ~~Acceptable Clearing Corporations~~ which acceptable clearing corporations that represent fixed base deposits.

**Line ~~21~~ Line 20** - To the extent receivable from other than ~~Acceptable Clearing Corporations~~ acceptable clearing corporations, include all deposits whether margin deposits or variable and fixed base deposits.

**Line 21** - To the extent receivable from parties other than acceptable institutions.

**FORM 1, PART I – STATEMENT A**  
**NOTES AND INSTRUCTIONS** [Continued]

~~Lines~~ **Line 22 and 23** – To the extent receivable from parties other than ~~Acceptable Institutions~~ acceptable institutions.

**Line 24** – Start-up and organizational costs cannot be capitalized. Examples of intangible assets include goodwill and client lists.

**Line 26** – Investments in subsidiaries and affiliates must be valued at cost.

**Line 27** – A Dealer Member must report non-trading inter-company receivables on a gross basis unless the criteria for netting are met.

**Line 28** – Including but not limited to such items as:

- prepaid expenses
- ~~deferred charges~~ other receivables from other than acceptable institutions
- ~~deferred income tax debits~~
- ~~advances to employees~~
- cash surrender value of life insurance
- ~~other receivables from other than Acceptable Institutions~~ cash on deposit with non acceptable institutions
- ~~intangibles~~ advances to employees (gross)
- ~~cash on deposit with non-Acceptable Institutions~~

**Line 29** – Non allowable assets ~~means~~ mean those assets ~~which~~ that do not qualify as allowable assets.

**Line 5830** – Assets arising from a finance lease (also known as a capitalized lease).

**Line 55** – Recognize a liability to cover specific expenditures relating to legal and constructive obligations.

A Dealer Member cannot hold provisions as a general reserve to be applied against some other unrelated expenditure.

**Line 57** – Include discretionary bonuses payable and bonuses payable to shareholders in accordance with share ownership.

**Line 6059** – Include current portion of deferred lease inducements.

**Line 6160** – Include unclaimed dividends and interest.

**Line 6865** – In those cases where it can be demonstrated that the leasehold inducement presents no additional liability to the Dealer Member-firm (i.e. if the Dealer Member-firm does not “owe” the unamortized portion of the inducement back to the landlord, thereby qualifying the landlord as a creditor of the Dealer Member-firm), the non-current portion can be reported as an adjustment to risk adjusted capital (RAC) on ~~this line~~ Statement B.

**Line 67** – Subordinated loans mean approved loans, pursuant to an agreement in writing in a form satisfactory to the Corporation, obtained from a chartered bank or any other lending institution, industry investor approved as such by the Corporation, or non-industry investor subject to the Corporation’s approval, the payment of which is deferred in favor of other creditors and is subject to regulatory approval.

A Dealer Member must not pay a debt owed to any of its creditors contrary to any subordination or other agreement to which it and the Corporation are parties.

~~Line 71 – Include contributed surplus, if applicable.~~

**Line 71** – Reserve is an amount set aside for future use, expense, loss or claim. It includes an amount appropriated from retained earnings. It also includes accumulated other comprehensive income (OCI).

**Line 72** – Retained earnings represent the accumulated balance of income less losses arising from the operation of the business, after taking into account dividends and other direct charges or credits.

**STATEMENT B FORM 1, PART I – STATEMENT B**  
**PART I**  
**JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT**

(Firm/Dealer/Member Name)

**STATEMENT OF NET ALLOWABLE ASSETS AND RISK ADJUSTED CAPITAL**

(as at \_\_\_\_\_ with comparative figures as at \_\_\_\_\_ )

| REFERENCE   | NOTES   | (CURRENT YEAR)<br>C\$'000 | (PREVIOUS YEAR)<br>C\$'000 |
|---|---|---------------------------|----------------------------|
| 1. A-73   | Total <del>financial statement capital</del> Capital  |                           |                            |
| 2. A-65   | <b>Add:</b> Finance leases – leasehold inducements  |                           |                            |
| 3. A-67   | <b>Add:</b> Subordinated loans  |                           |                            |
| 4.  | <b>REGULATORY FINANCIAL STATEMENT CAPITAL</b>   |                           |                            |
| <del>25.</del> A-29   | <b>Deduct:</b> Total Non allowable assets   |                           |                            |
| <del>3-6</del>  | NET ALLOWABLE ASSETS  |                           |                            |
| ±   |   |                           |                            |
| <del>4-7</del>  | <b>Deduct:</b> Minimum capital  |                           |                            |
| ±   |   |                           |                            |
| <del>5-8</del>  | SUBTOTAL  |                           |                            |
| ±   |   |                           |                            |
| <b>Deduct - <del>amounts</del> Margin required to fully margin:</b> |   |                           |                            |
| <del>6-9</del> Sch.1  | Loans receivable, securities borrowed and resold  |                           |                            |
| ±   |   |                           |                            |
| <del>7-1</del> Sch.2  | Securities owned and sold short   |                           |                            |
| 0.  |   |                           |                            |
| <del>8-1</del> Sch.2A   | Underwriting concentration  |                           |                            |
| 1.  |   |                           |                            |
| <del>9.</del>   | <del>Syndicate and joint trading accounts [attach details]</del>  |                           |                            |
| <del>10-</del> Sch.4  | <del>Clients' Client</del> accounts   |                           |                            |
| 12.   |   |                           |                            |
| <del>11-</del> Sch.5  | Brokers and dealers   |                           |                            |
| 13.   |   |                           |                            |
| <del>12-</del> Sch.7  | Loans and repurchases   |                           |                            |
| 14.   |   |                           |                            |
| <del>13-</del>  | Contingent liabilities [ <del>attach</del> provide details]   |                           |                            |
| 15.   |   |                           |                            |
| <del>14-</del> Sch.10   | Financial institution bond deductible [greatest under any clause]   |                           |                            |
| 16.   |   |                           |                            |
| <del>15-</del> Sch.11   | Unhedged foreign currencies   |                           |                            |
| 17.   |   |                           |                            |
| <del>16-</del> Sch.12   | Futures contracts   |                           |                            |
| 18.   |   |                           |                            |
| <del>17-</del> Sch.14   | Provider of capital concentration charge  |                           |                            |
| 19.   |   |                           |                            |
| <del>18-</del>  | Securities held at non-acceptable securities locations [ <del>see note</del> ]  |                           |                            |
| 20.   |   |                           |                            |
| <del>19-</del> Sch.7A   | Acceptable <del>Counterparties Financing Activities Concentration Charge</del> counterparties financing activities concentration charge |                           |                            |
| 21.   |   |                           |                            |
| <del>20-</del>  | Unresolved differences [ <del>attach</del> provide details]   |                           |                            |

[See notes and instructions]

~~Aug-2002~~ Jan-2011

**STATEMENT B FORM 1, PART I – STATEMENT B**

**PART I**

**~~JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT~~**

|                |  |  |  |
|----------------|--|--|--|
| <u>22.</u>     |  |  |  |
| <del>21.</del> | Other [ <del>attach</del> <u>provide</u> details]  |  |  |
| <u>23.</u>     |  |  |  |
| <del>22.</del> | TOTAL MARGIN REQUIRED [ <del>lines 8</del> <u>Lines 9</u> to <del>21</del> <u>23</u> ]             |  |  |
| <u>24.</u>     |  |  |  |
| <del>23.</del> | SUBTOTAL [ <del>line 5</del> <u>Line 8</u> less <del>line 22</del> <u>Line 24</u> ]                |  |  |
| <u>25.</u>     |  |  |  |
| <del>24.</del> | Sch.6A <b>Add:</b> Applicable tax recoveries   |  |  |
| <u>26.</u>     |  |  |  |
| <del>25.</del> | Risk Adjusted Capital before securities concentration charge                                       |  |  |
| <u>27.</u>     | [ <del>line 23</del> <u>Line 25</u> plus <del>line 24</del> <u>Line 26</u> ]                       |  |  |
| <del>26.</del> | Sch.9 <b>Deduct:</b> Securities concentration charge of _____                                      |  |  |
| <u>28.</u>     |  |  |  |
|                | Sch.6A less tax recoveries of _____  |  |  |
| <del>27.</del> | RISK ADJUSTED CAPITAL [ <del>line 25</del> <u>Line 27</u> less <del>line 26</del> <u>Line 28</u> ] |  |  |
| <u>29.</u>     |  |  |  |

DATE: \_\_\_\_\_

**STATEMENT B FORM 1, PART I – STATEMENT B SUPPLEMENTAL**

**SUPPLEMENTAL**

**PART I  
JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT**

DATE: \_\_\_\_\_

(Firm/Dealer/Member Name)

**Statement B – Line 2022: Details of Unresolved Differences**

|                                    | <b>Reconciled as at<br/>Report Date<br/>(Yes/No)</b> | <b>Number of items</b> | <b>Debit/Short<br/>value (Potential<br/>Losses)</b> | <b>Number of items</b> | <b>Credit/Long<br/>value (Potential<br/>Gains)</b> | <b>Required to<br/>margin</b> |
|------------------------------------|--|------------------------|---|------------------------|--|-------------------------------|
| (a) Clearing                       | -----  | -----                  | -----   | -----                  | -----  | -----                         |
| (b) Brokers and dealers            | -----  | -----                  | -----   | -----                  | -----  | -----                         |
| (c) Bank accounts                  | -----  | -----                  | -----   | -----                  | -----  | -----                         |
| (d) Intercompany accounts          | -----  | -----                  | -----   | -----                  | -----  | -----                         |
| (e) Mutual Funds                   | -----  | -----                  | -----   | -----                  | -----  | -----                         |
| (f) Security Counts                | -----  | -----                  | -----   | -----                  | -----  | -----                         |
| (g) Other unreconciled differences | -----  | -----                  | -----   | -----                  | -----  | -----                         |
| <b>TOTAL</b>                       |  |                        |   |                        |  |                               |

Statement B,  
Line 2022

## **FORM 1, PART I – STATEMENT B NOTES AND INSTRUCTIONS**

### **EACH Capital adequacy**

A DEALER MEMBER ~~SHALL~~MUST HAVE AND MAINTAIN AT ALL TIMES RISK ADJUSTED CAPITAL IN AN AMOUNT NOT LESS THAN ZERO.

### **Netting for margin calculation**

When applying Corporation margin rules, a Dealer Member can net allowable assets and liabilities as well as security positions. Except where there is a prescribed IFRS departure, netting is for regulatory margin purposes only (and not for presentation purposes).

### **Line 42 – Non- current liability - finance leases – lease hold inducements**

In those cases where it can be demonstrated that the leasehold inducement presents no additional liability to the Dealer Member (i.e. the Dealer Member does not “owe” the unamortized portion of the inducement back to the landlord, thereby qualifying the landlord as a creditor of the Dealer Member), the non-current portion of the finance lease liability for leasehold inducements can be reported as an adjustment to risk adjusted capital.

### **Line 7 – Minimum Capital**

“Minimum capital” is \$250,000 ~~(\$75,000 for Type 1 introducing brokers)~~, except for a Type 1 introducing broker. For a Type 1 introducing broker, the minimum capital is \$75,000.

### **Line 9 – Syndicate and joint trading accounts**

~~This line should include margin requirement for syndicate accounts where the firm is the lead underwriter and joint trading accounts. If the firm has “drawn down” a portion of the new issue positions from the syndicate account to its inventory accounts, those portions should be disclosed as firm’s inventory and be included in Schedules 2 and possibly 2B. If the firm is not the lead underwriter but a Banking Group member, margin requirement should be reported on Schedule 2.~~

~~If the other syndicate member is a Regulated Entity, a related company of the Member firm, or an Acceptable Institution, then no margin need be provided by the firm. In the case of an Acceptable Counterparty the amount of margin to be provided, commencing on regular settlement date (i.e. the contracted settlement date as specified for that issue), shall be the equity deficiency of (a) the net market value of all settlement date security positions in the entity’s accounts and (b) the net money balance on a settlement date basis in the same accounts. For all other parties the amount of margin to be provided by the firm, commencing on regular settlement date, shall be the margin deficiency, if any, that exists in the account.~~

### **Line 1315 – Contingent liabilities**

No ~~firm~~Dealer Member may give, directly or indirectly, by means of a loan, guarantee, the provision of security or of a covenant or otherwise, any financial assistance to an individual and/or corporation unless the amount of the loan, guarantee, provision of security or of the covenant or any other assistance is limited to a fixed or determinable amount and the amount is provided for in computing Risk Adjusted Capital.

The margin required shall be the amount of the loan, guarantee, etc. less the loan value of any accessible collateral, calculated in accordance with ~~the rules and regulations of the Joint Regulatory Bodies.~~ Corporation rules.

A guarantee of payment is not acceptable collateral to reduce margin required.

~~Details~~The Dealer Member should maintain and retain the details of the margin calculations for contingencies, such as guarantees or returned cheques ~~should be provided as an attachment to this Statement,~~ for Corporation review.

### **Line 1820 – Securities held at non-acceptable securities locations**

#### Capital Requirements

In general, the capital requirements for securities held in custody at another entity are as follows:

~~(i)~~ (i) Where the entity qualifies as an acceptable securities location, there shall be no capital requirement, provided there are no unresolved differences between the amounts reported on the books of the entity acting as custodian and the amounts reported on the books of the Dealer Member ~~firm~~. The capital requirements for unresolved differences are discussed separately in the notes and instructions for the completion of Statement B, Line ~~2022~~ below.

~~(ii)~~ (ii) Where the entity does not qualify as an acceptable securities location, the entity shall be considered a non-acceptable securities location and the Dealer Member ~~firm~~ shall be required to deduct 100% of the *market value* of the securities held in custody with the entity in the calculation of its Risk Adjusted Capital.

However, there is one exception to the above general requirements. Where the entity would otherwise qualify as an

**FORM 1, PART I – STATEMENT B**  
**NOTES AND INSTRUCTIONS** [~~Cont'd~~Continued]

acceptable securities location except for the fact that the Dealer Member ~~firm~~ has not entered into a written custodial agreement with the entity, as required by ~~the by-laws, rules and regulations of the Joint Regulatory Authorities~~Corporation rules, the capital requirement shall be determined as follows:

~~(a)~~ (a) Where setoff risk with the entity is present, the Dealer Member ~~firm~~ shall be required to deduct the lesser of:

~~(i)~~ (i) 100% of the setoff risk exposure to the entity; and

~~(ii)~~ (ii) 100% of the *market value* of the securities held in custody with the entity;

in the calculation of its Risk Adjusted ~~capital~~Capital;

and;

~~(b)~~ (b) The Dealer Member ~~firm~~ shall be required to deduct 10% of the *market value* of the securities held in custody with the entity in the calculation of its Early Warning Reserve.

The sum of the requirements calculated in paragraphs (a) and (b) above shall be no greater than 100% of the *market value* of the securities held in custody with the entity. Where the sum amounts initially calculated in paragraphs (a) and (b) above are greater than 100%, the capital required under paragraph (b) and the amount reported as a deduction in the calculation of the Early Warning Reserve shall be reduced accordingly.

For the purposes of determining the capital requirement detailed in paragraph (a) above, the term “setoff risk”; shall mean the risk exposure that results from the situation where the Dealer Member ~~firm~~ has other transactions, balances or positions with the entity, where the resultant obligations of the Dealer Member ~~firm~~ might be setoff ~~again~~against the value of the securities held in custody with the entity.

Client Waiver

Where the laws and circumstances prevailing in a foreign jurisdiction may restrict the transfer of securities from the jurisdiction and the Dealer Member is unable to arrange for the holding of client securities in the jurisdiction at an acceptable securities location, the Dealer Member may hold such securities at a location in that jurisdiction if (a) the Dealer Member has entered into a written custodial agreement with the location as required hereunder and (b) the client has consented to the arrangement, acknowledged the risks and waived any claims it may have against the Dealer Member, in a form approved by the ~~Joint Regulatory Authority-~~Corporation. Such a consent and waiver must be obtained on a transaction by transaction basis.

**Line 2022 – Unresolved Differences**

Items are considered unresolved unless:

(i) a written acknowledgement from the counterparty of a valid claim has been received

(ii) a journal entry to resolve the difference has been processed as of the Due Date of ~~the questionnaire-~~Form 1.

This does not include journal entries writing off the difference to profit or loss in the period subsequent to the date of ~~the questionnaire-~~Form 1.

Provision should be made for the *market value* and margin requirements at the ~~questionnaire-~~Form 1 date on out ~~of~~ balance short securities and other adverse unresolved differences (~~e.g. such as~~, with banks, trust companies, brokers, clearing corporations); still unresolved as at a date one month subsequent to the ~~questionnaire-~~Form 1 date or other applicable Due Date of ~~the questionnaire-~~Form 1.

The margin rate to be used is the one that is appropriate for inventory positions. For instance, if the calculation is for securities eligible for reduced margin, the margin rate is 25%, rather than 30%.

A separate schedule, in a form approved by the ~~Joint Regulatory Authority-~~Corporation, must be prepared detailing all unresolved differences as at the report date.

The following guidelines should be followed when calculating the required to margin amount on unresolved items:

| <b>Type of Unresolved Difference</b>                   | <b>Amount Required to Margin</b>   |
|--|--|
| Money balance - credit (potential gains)               | None   |
| Money balance - debit (potential losses)               | Money balance  |
| Unresolved Long with Money on the Dealer Member's Book | [(Money Balance on the trade minus <i>market value</i> of the security)* plus the applicable inventory margin] |
| Unresolved Long without Money on the Dealer Member's   | None   |

**FORM 1, PART I – STATEMENT B**  
**NOTES AND INSTRUCTIONS** [~~Cont'd~~Continued]

|  |   |
|--|---|
| Books  |   |
| Unresolved Short with Money on the Dealer Member's Books   | [(Market value of the security minus money balance on the trade)* plus the applicable inventory margin] |
| Unresolved Long/Short on the Other Broker's Books  | None  |
| Short Security Break (e.g. Mutual Funds, Stock Dividends) or Unresolved Short without Money on the Dealer Member's Books | [Market value of the security plus the applicable inventory margin]                                     |

\* also referred to as the Mark to Market Adjustment.

Where mutual fund positions are not reconciled on a monthly basis, margin shall be provided equal to a percentage of the *market value* of such mutual funds held on behalf of clients. Where no transactions in the mutual fund, other than redemptions and transfers, have occurred for at least six months and no loan value has been associated with the mutual fund, the percentage shall be 10%. In all other cases, the percentage shall be 100%.

**Unresolved Differences in Accounts:**

Report all differences determined on or before the report date that have not been resolved as of the due date.

**Month End**

**Month End + 20 Business Days**



(Report date)

(Due date)

**Include** differences determined on or before the report date that have not been resolved as of the due date.



**Do not include** differences as of the report date that have been resolved on or before the due date.



For each account listed, set out the number of unresolved differences and the money value of both the debit and credit differences. The Debit/Short value column includes money differences and *market value* of security differences, which represent a potential loss. The Credit/Long value column includes money differences and *market value* of security differences, which represent a potential gain. In determining the potential gain or loss, the money balance and the security position *market value* of the same transaction should be netted. Debit/short and credit/long balances of different transactions cannot be netted.

All reconciliation must be properly documented and made available for review by ~~the Vice-President, Financial Compliance~~Corporation examination staff and Dealer Member's Auditor.

**Unresolved differences in Security Counts:**

Report all security count differences determined on or before the report date that have not been resolved as of due date. The amount required to margin is the *market value* of short security differences plus the applicable inventory margin.

**Line ~~21~~23 – Other**

This item should include all margin requirements not mentioned above as outlined in ~~the bylaws, rules and regulations of the Joint Regulatory Bodies and the Canadian Investor Protection Fund~~Corporation rules.

DATE: \_\_\_\_\_

**FORM 1, PART I – STATEMENT C**

**PART I**

**JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT**

DATE: \_\_\_\_\_

(Firm/Dealer/Member Name)

**STATEMENT OF EARLY WARNING EXCESS AND EARLY WARNING RESERVE**

at \_\_\_\_\_

| REFERENCE  | NOTES | (CURRENT YEAR)<br>C\$'000 |
|--|-------|---------------------------|
| <b>1. B-2729 RISK ADJUSTED CAPITAL</b>                               |       |                           |
| <b>LIQUIDITY ITEMS -</b>   |       |                           |
| <b>2- DEDUCT:</b>  |       |                           |
| <u>2.</u> A-1918 (a) Other allowable assets                          | ----- | -----                     |
| <u>3.</u> Sch.6A (b) Tax recoveries                                  | ----- | -----                     |
| <u>4.</u> (c) Securities held at non-acceptable securities locations | ----- | -----                     |
| <b>ADD:</b>  |       |                           |
| <u>5.</u> A-6668 (d) Long-term Non-current liabilities               | ----- | -----                     |
| <u>6.</u> Sch.6A (e) Tax recoveries - income accruals                | ----- | -----                     |
| <b>3-7 EARLY WARNING EXCESS</b>                                      |       |                           |
| ±  |       |                           |
| <b>4- DEDUCT: CAPITAL CUSHION -</b>                                  |       |                           |
| <u>8.</u> B-2224 Total margin required \$ _____ multiplied by 5%     | ----- | -----                     |
| <b>5-9 EARLY WARNING RESERVE [line 3 Line 7 less line 4 Line 8]</b>  |       |                           |
| ±  |       |                           |

**FORM 1, PART I – STATEMENT C**  
**NOTES AND INSTRUCTIONS**

The Early Warning system is designed to provide advance warning of a Dealer Member firm encountering financial difficulties. It will anticipate capital shortages and/or liquidity problems and encourage firms Dealer Members to build a capital cushion.

**Line 1** - If Risk Adjusted Capital of the firm Dealer Member is less than:

- (a) 5% of total margin required (~~line 4~~Line 8 above), then the firm Dealer Member is designated as being in Early Warning category **Level 1**, or
- (b) 2% of total margin required (~~line 4~~Line 8 above), then the firm Dealer Member is designated as being in Early Warning category **Level 2**,

and the applicable sanctions outlined in the ~~bylaws, rules and regulations of the Joint Regulatory Bodies and the Canadian Investor Protection Fund~~Corporation rules will apply.

**Lines 2(a) and (b)3** - These items are deducted from RAC because they are illiquid or the receipt is either out of the firm Dealer Member's control or contingent.

**Line 2(c)4** – Pursuant to the Notes and Instructions for the completion of Statement B, Line ~~18,20~~, where the entity would otherwise qualify as an acceptable securities location except for the fact that the Dealer Member firm has not entered into a written custodial agreement with the entity, as required by ~~the by-laws, rules and regulations of the Joint Regulatory Authorities~~Corporation rules, the Dealer Member firm will be required to deduct an amount up to 10% of the *market value* of the securities held in custody with the entity, in the calculation of its Early Warning Reserve. Please refer to the detailed calculation formula set out to the Notes and Instructions for the completion of Statement B, Line ~~18,20~~ to determine the capital requirement to be reported on Statement C, Line ~~2(c)-4~~.

**Line 2(d)5** – ~~Long term~~Non-current liabilities are added back to RAC as they are not current obligations of the firm Dealer Member and can be used as financing.

**Line 2(e)6** - This add back ensures that the firm Dealer Member is not penalized at the Early Warning level for accruing income. ~~The net result is that the firm is in the same position as if the revenue were treated on a cash basis.~~

**Line 37** - If Early Warning Excess is negative, the firm Dealer Member is designated as being in Early Warning category Level 2 and the sanctions outlined in the ~~applicable bylaws, rules and regulations of the Joint Regulatory Bodies and the Canadian Investor Protection Fund~~Corporation rules will apply.

**Line 59** - If the Early Warning Reserve is negative, the firm Dealer Member is designated as being in Early Warning category Level 1 and the sanctions outlined in the ~~applicable bylaws, rules and regulations of the Joint Regulatory Bodies and the Canadian Investor Protection Fund~~Corporation rules will apply.

DATE: \_\_\_\_\_

**FORM 1, PART I – STATEMENT D**  
**PART I**  
**JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT**

(Firm/Dealer Member Name)

**STATEMENT OF FREE CREDIT SEGREGATION AMOUNT**

at \_\_\_\_\_

| REFERENCE   | NOTES | (CURRENT YEAR)<br>C\$'000 |
|---|-------|---------------------------|
| <b>AMOUNT REQUIRED TO SEGREGATE:</b>  |       |                           |
| 1. B-36 Net allowable assets of \$_____ multiplied by 8   | ----- | -----                     |
| 2. C-59 Early warning reserve of \$_____ multiplied by 4  | ----- | -----                     |
| 3. <b>FREE CREDIT LIMIT</b> [ <del>lines</del> Lines 1 plus 2]  | ----- | -----                     |
| 4. Sch.4 <b>Less client free credit balances:</b> <del>(a) Firm's own [see note]</del>  | ----- | -----                     |
| 4. Sch.4 <b>Dealer Member's own [see note]</b>  | ----- | -----                     |
| 5. <del>(b)</del> Carried For Type 3 Introdurers  | ----- | -----                     |
| 5-6 <b>AMOUNT REQUIRED TO SEGREGATE</b> [NIL if <del>line</del> Line 3 exceeds <del>line</del> Line 4a plus <del>line</del> 4b; Line 5, see note] | ----- | -----                     |
| <b>AMOUNT IN SEGREGATION:</b>   |       |                           |
| 6-7 A-3 Client funds held in trust in an account with an <del>Acceptable Institution</del> <u>acceptable institution</u> [see note]               | ----- | -----                     |
| 7-8 Sch.2 Market value of securities owned and in segregation [see note]  | ----- | -----                     |
| 8-9 <b>TOTAL IN SEGREGATION</b> [ <del>lines</del> 6 Lines 7 plus 78]   | ----- | -----                     |
| 9-1 <b>NET SEGREGATION EXCESS (DEFICIENCY)</b> [ <del>lines</del> 5 plus <del>line</del> 8; Line 6 less Line 9, see note]                         | ----- | -----                     |
| 0.  | ----- | -----                     |

**NOTES:**

**Line 3** - If negative, then ~~line~~ 5 Line 6 equals ~~line~~ 4; Line 4 plus Line 5, i.e. Dealer Member ~~firm~~ is required to segregate 100% of client free credits.

**Line Lines 4 and 5** - 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 ~~commodity~~ 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.

**Line 56** - If Nil, no further calculation on this Statement need be done.

**Line 67** - The trust must be an obligation binding the Dealer Member ~~firm~~ (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~~ acceptable institution.

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

**Line 78** - The securities to be included are 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 Basle Basel Accord) which are segregated and held separate and apart as the Dealer Member ~~firm~~'s property.

DATE: \_\_\_\_\_

**FORM 1, PART I – STATEMENT D**

**PART I**

**JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT**

**Line 910** - If negative, then a segregation deficiency exists, and the Dealer Member ~~firm shall~~must expeditiously take the most appropriate action required to settle the segregation deficiency. The Dealer Member ~~firm should attach~~must provide an explanation of how the deficiency was corrected as well as the date of correction.

DATE: \_\_\_\_\_

**FORM 1, PART I – STATEMENT E**  
**PART I**  
**JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT**

(Firm Name) (Dealer Member Name)

**SUMMARY STATEMENT OF INCOME FOR THE PERIOD ENDED STATEMENT OF INCOME AND COMPREHENSIVE INCOME**

for the period ended \_\_\_\_\_

*[with comparative figures for the year / month ended]*

|                                  |   |                  |              |  |  | <u>(CURRENT YEAR / MONTH)</u> | <u>(PREVIOUS YEAR / MONTH)</u> |          |          |
|----------------------------------|---|------------------|--------------|--|--|-------------------------------|--------------------------------|----------|----------|
|                                  |   | <u>REFERENCE</u> | <u>NOTES</u> |  |  | <b>CURRENT YEAR / MONTH</b>   | <b>PREVIOUS YEAR / MONTH</b>   | <b>+</b> | <b>+</b> |
|                                  |   |                  |              |  |  | <b>MONTHS '000</b>            | <b>MONTHS '000</b>             |          |          |
| <b>COMMISSION REVENUE</b>        |   |                  |              |  |  |                               |                                |          |          |
| 1.                               | Listed Canadian securities                                |                  |              |  |  |                               |                                |          |          |
| 2.                               | Other securities  |                  |              |  |  |                               |                                |          |          |
| 3.                               | Mutual funds  |                  |              |  |  |                               |                                |          |          |
| 4.                               | Listed Canadian options                                   |                  |              |  |  |                               |                                |          |          |
| 5.                               | Other <u>listed</u> options                               |                  |              |  |  |                               |                                |          |          |
| 6.                               | Listed Canadian futures                                   |                  |              |  |  |                               |                                |          |          |
| 7.                               | Other futures   |                  |              |  |  |                               |                                |          |          |
| <u>8.</u>                        | <u>OTC derivatives</u>                                    |                  |              |  |  |                               |                                |          |          |
| <b>PRINCIPAL REVENUE</b>         |   |                  |              |  |  |                               |                                |          |          |
| <u>8-9</u>                       | Listed Canadian options and related underlying securities |                  |              |  |  |                               |                                |          |          |
| <u>±</u>                         |   |                  |              |  |  |                               |                                |          |          |
| <u>9-1</u>                       | Other Equities and options                                |                  |              |  |  |                               |                                |          |          |
| <u>0.</u>                        |   |                  |              |  |  |                               |                                |          |          |
| <u>10-</u>                       | <u>Bonds</u>  |                  |              |  |  |                               |                                |          |          |
| 11.                              | <u>Futures</u> <u>Debt</u>                                |                  |              |  |  |                               |                                |          |          |
| 12.                              | Money market  |                  |              |  |  |                               |                                |          |          |
| <u>13.</u>                       | <u>Futures</u>  |                  |              |  |  |                               |                                |          |          |
| <u>14.</u>                       | <u>OTC derivatives</u>                                    |                  |              |  |  |                               |                                |          |          |
| <b>CORPORATE FINANCE REVENUE</b> |   |                  |              |  |  |                               |                                |          |          |
| <u>13-</u>                       | <u>(a)</u> New issues – equity                            |                  |              |  |  |                               |                                |          |          |
| <u>15.</u>                       |   |                  |              |  |  |                               |                                |          |          |
| <u>13-</u>                       | <u>(b)</u> New issues – debt                              |                  |              |  |  |                               |                                |          |          |
| <u>16.</u>                       |   |                  |              |  |  |                               |                                |          |          |
| <u>13-</u>                       | <u>(c)</u> Corporate advisory fees                        |                  |              |  |  |                               |                                |          |          |
| <u>17.</u>                       |   |                  |              |  |  |                               |                                |          |          |
| <b>OTHER REVENUE</b>             |   |                  |              |  |  |                               |                                |          |          |
| <u>14-</u>                       | <u>Net interest</u> <u>Interest</u>                       |                  |              |  |  |                               |                                |          |          |
| <u>18.</u>                       |   |                  |              |  |  |                               |                                |          |          |
| <u>15-</u>                       | Fees  |                  |              |  |  |                               |                                |          |          |
| <u>19.</u>                       |   |                  |              |  |  |                               |                                |          |          |
| <u>16-</u>                       | Other <u>[provide details]</u>                            |                  |              |  |  |                               |                                |          |          |
| <u>20.</u>                       |   |                  |              |  |  |                               |                                |          |          |
| <u>17-</u>                       | TOTAL REVENUE   |                  |              |  |  |                               |                                |          |          |
| <u>21.</u>                       |   |                  |              |  |  |                               |                                |          |          |

[See notes and instructions]

Jun-2002Jan-2011

DATE: \_\_\_\_\_

**FORM 1, PART I – STATEMENT E**

**PART I**

**JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT**

**EXPENSES**

|     |  |  |  |
|-----|--|--|--|
| 18. | Variable compensation  |  |  |
| 22. |  |  |  |
| 23. | <u>Commissions and fees paid to third parties</u>  |  |  |
| 19. | Bad debt expense <del>(recoveries)</del>   |  |  |
| 24. |  |  |  |
| 20. | Interest expense on subordinated debt  |  |  |
| 25. |  |  |  |
| 26. | <u>Financing cost</u>  |  |  |
| 27. | <u>Corporate finance cost</u>  |  |  |
| 21. | Unusual items [ <del>attach</del> provide details]                                       |  |  |
| 28. |  |  |  |
| 29. | <u>Profit (loss) for the year from discontinued operations</u>                           |  |  |
| 22. | Operating expenses <del>other than lines 24, 25, 26 &amp; 27</del>                       |  |  |
| 30. |  |  |  |
| 31. | <b><u>Profit [loss] for Early Warning test</u></b>                                       |  |  |
| 32. | <u>Income – Asset revaluation</u>  |  |  |
| 23. | <del>Profit [loss] before lines 24, 25, 26 &amp; 27</del> <u>Expense – Asset</u>         |  |  |
| 33. | <u>revaluation</u>   |  |  |
| 24. | Interest <u>expense</u> on internal subordinated debt                                    |  |  |
| 34. |  |  |  |
| 25. | Bonuses  |  |  |
| 35. |  |  |  |
| 26. | Sch. <del>Provision for (recovery of) income taxes</del> <b><u>Net income/(loss)</u></b> |  |  |
| 36. | 6(5) <b><u>before income tax</u></b>   |  |  |
| 37. | S-6(5) (a) <del>current</del> <u>Income tax expense (recovery)</u>                       |  |  |
|     | (b) <del>deferred</del>  |  |  |
| 27. | <del>Extraordinary items [attach details]</del>  |  |  |
| 28. | PROFIT [LOSS] FOR PERIOD   |  |  |
| 38. |  |  |  |

F-C-2(a)11

**NOTE: COMPLETE LINES 29 TO 31 ALSO IF FILING A MONTHLY REPORT**  
**Other comprehensive income**

|     |   |  |  |
|-----|---|--|--|
| 39. | <u>Gain (loss) arising on revaluation of properties</u>                       |  |  |
|     |   |  | <u>F-5a</u>  |
| 40. | <u>Actuarial gain (loss) on defined benefit pension plans</u>                 |  |  |
|     |   |  | <u>F-5b</u>  |
| 41. | <u>Other comprehensive income for the year, net of tax [Lines 39 plus 40]</u> |  |  |
|     |   |  | <u>For MFR reporting E-41 is the net change to A-71 Reserves</u> |
| 42. | <b><u>Total comprehensive income for the year</u></b> [Lines 38 plus 41]      |  |  |

Note: The following lines must also be completed when filing the MFR:

DATE: \_\_\_\_\_

**FORM 1, PART I – STATEMENT E**

**PART I**

**JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT**

|                              |  |       |       |       |
|------------------------------|--|-------|-------|-------|
| <del>29-</del><br><u>43.</u> | Payment of dividends or partners drawings  |       |       |       |
| <del>30-</del><br><u>44.</u> | Other [ <del>attach</del> <u>provide</u> details]  | ----- | ----- | ----- |
| <del>31-</del><br><u>45.</u> | NET CHANGE TO RETAINED EARNINGS [ <del>lines 28 to 30</del> <u>Lines 38,</u><br><u>43 and 44</u> ] | ----- | ----- | ----- |

## **FORM 1, PART I – STATEMENT E** **NOTES AND INSTRUCTIONS**

A comparative statement of income prepared in accordance with generally accepted accounting principles and containing at least the information shown in the pre-printed Statement E may be substituted. It should be affixed to the statement provided. **Comprehensive income**

**It is recognized that the components of the revenue and expense classification on this statement may vary between firms. However, it is important that each firm be consistent between periods except where approved by the appropriate authority.** Fair presentation may require the separate disclosure of additional large and/or unusual items by way of a note to this statement:

Comprehensive income represents all changes in equity during a period, including profit and loss for the period and other comprehensive income (OCI). OCI captures certain gains and losses outside of net income. For regulatory financial reporting, two acceptable sources of other comprehensive income (OCI) are:

- the use of the revaluation model for plant, property and equipment (PPE) and intangible assets, and
- the actuarial gain (loss) on defined benefit pension plans.

### **Lines**

- ~~1-7. All **Commission Revenue** should be reported net of payouts to other brokers. Commission paid to registered representatives should be shown on line 18. Commissions earned on soft dollar deals should also be included on lines 1 to 7.~~
1. ~~Includes~~Include all gross commissions earned on listed Canadian securities [~~TSE, ME, CDNX, Winnipeg~~]~~less amounts paid out to any brokers. Options commission should go on lines 4 or 5.~~  
Commissions earned on soft dollar deals with respect to the revenue source should also be included in the appropriate Lines 1 to 8.  
Commission paid to registered representatives must be reported on Line 22 (Expenses: variable compensation). Payouts to other brokers must be reported on Line 23 (Expenses: commissions and fees paid to third parties).
  2. ~~Includes~~Include gross commissions earned on OTC transactions [equity or debt, foreign or Canadian], rights and offers, and other foreign securities,~~less amounts.~~  
Commission paid out to any brokers. Report Money Market commissions on line 12. to registered representatives must be reported on Line 22 (Expenses: variable compensation). Payouts to other brokers must be reported on Line 23 (Expenses: commissions and fees paid to third parties).
  3. ~~Includes~~Include all gross commissions and trailer fees earned on mutual fund transactions,~~net of any payouts to the mutual funds.~~  
Commissions paid to registered representatives must be reported on Line 22 (Expenses: variable compensation). Payouts to the mutual funds must be reported on Line 23 (Expenses: commissions and fees paid to third parties).
  4. ~~Includes~~Include all gross commissions earned on listed option contracts cleared through the Canadian Derivatives Clearing Corporation ("~~CDCC~~"CDCC).  
Commission paid to registered representatives must be reported on Line 22 (Expenses: variable compensation).
  5. ~~Includes~~Include gross commissions on ~~Canadian OTC, and~~ foreign listed option transactions~~less amounts paid out to any brokers.~~  
Commission paid to registered representatives must be reported on Line 22 (Expenses: variable compensation). Payouts to other brokers must be reported on Line 23 (Expenses: commissions and fees paid to third parties).
  6. ~~Includes~~Include all gross commissions earned on listed futures contracts cleared through the CDCC.  
Commissions paid to registered representatives must be reported on Line 22 (Expenses: variable compensation).
  7. ~~Includes~~Include all gross commissions earned on foreign listed futures contracts~~as well as all over-the-counter futures contracts.~~  
Commission paid to registered representatives must be reported on Line 22 (Expenses: variable compensation).
  8. ~~Includes all principal revenue [trading profits/losses including dividends and interest] from listed options cleared through CDCC and related underlying security transactions in market makers' and firms' inventory accounts. An interest carry~~

**FORM 1, PART I – STATEMENT E**  
**NOTES AND INSTRUCTIONS [~~Cont'd~~Continued]**

~~factor is to be included. Include adjustment of inventories to market value.~~

8. Include gross commissions earned on OTC options, forwards, contracts-for-difference, FX spot, and swaps.  
Commission paid to registered representatives must be reported on Line 22 (Expenses: variable compensation).
9. ~~Includes~~Include all principal revenue [trading profits/losses, including dividends ~~and interest~~] from listed options cleared through CDCC and related underlying security transactions in market makers' and Dealer Member's inventory accounts.  
Include adjustment of inventories to market value.  
The financing cost must be reported separately on Line 26 (Expenses: financing cost).
10. Include all principal revenue [trading profits/losses, including dividends] from all other options and equities except those indicated on ~~line 8. An interest carry factor is to be included.~~ Line 9 (Principal revenue: listed Canadian options and related underlying securities).  
Include adjustment of inventories to *market value*.
- ~~10. Includes revenue [trading profits/losses] on all bonds, e.g. all Canada's, Provincial's, Municipal's, Corporate's, Euro-Bond's, US, UK and other foreign debt instruments, **net of interest carry** [coupon revenue less financing cost]. The cost of carry rate should be an actual cost of funds, which can be calculated as a weighted average. The cost of carrying short inventory should be the actual coupon, offset as appropriate by interest savings less applicable bond borrow fees when short inventory is borrowed. Revenues from financial futures used to hedge bond positions should also be shown here. Include any adjustment of inventories to market value. Over-certification costs should be included on line 22.~~
11. Includes all principal revenue [trading profits/losses] on futures contracts excluding those relating to bond trading [line 10] and money market trading [line 12].  
The financing cost must be reported separately on Line 26 (Expenses: financing cost).
11. Include revenue [trading profits/losses] on all debt instruments, other than money market instruments.  
Include adjustment of inventories to market value.  
The financing cost must be reported separately on Line 26 (Expenses: financing cost).
12. ~~Includes~~Include revenue on all money market activities ~~net of interest carry~~ in the area of Canadian and US Treasury Bills, Bankers Acceptance, Bank Paper [domestic and foreign], Municipal and Commercial paper. The cost of carry rate should be an actual cost of funds money market rate, which can be calculated as a weighted average. Discount notes should be amortized on a yield to maturity method. Interest revenues and expenses on repurchase and resale agreements should be accrued on a monthly basis. Money market commissions should also be shown here.  
Include any adjustment of inventories to *market value*. ~~Money Market commissions should also be shown here. As well, revenues from futures contracts used to hedge money market positions should be included~~  
The cost of carry must be reported separately on Line 26 (Expenses: financing cost).
13. Include all principal revenue [trading profits/losses] on futures contracts.
14. Include revenues from OTC derivatives, such as forward contracts and swaps.  
Include adjustment of inventories to market value.
- ~~13 (a). Includes~~15. Include revenue relating to equity new issue business - Underwritingunderwriting and/or management fees, Bankingbanking group profits, Private Placementprivate placement fees, trading profits on new issue inventories [trading on an "if, as and when basis"], selling group spreads and/or commissions, and convertible debts; and  
Syndicate expenses ~~[unless treated as a prepaid asset]~~ must be reported separately on Line 27 (Expenses: corporate finance cost).
- ~~13 (b). Includes~~16. Include revenue relating to debt new issue business - Corporate and government issues, and CSBCanada Savings Bond (CSB) commissions ~~[net of~~  
Amounts paid to CSB sub-agent fees] and for syndicate expenses must be reported separately on Line 27 (Expenses: corporate finance cost).
- ~~13 (c). Includes~~17. Include revenue relating to corporate advisory fees, such as corporate restructuring, privatization, M&A fees.

**FORM 1, PART I – STATEMENT E**  
**NOTES AND INSTRUCTIONS [~~Cont'd~~Continued]**

The related expenses must be reported separately on Line 27 (Expenses: corporate finance cost).

~~14. Includes 18. Include~~ all interest revenue, which is not otherwise related to a specific liability trading activity [i.e. other than ~~bond debt~~, money market, ~~futures and options~~]. derivatives.

All interest revenue ~~and the~~ from carrying retail and institutional client account balances should be reported on this line. For example, interest revenue earned from client debit balances.

The related interest cost ~~off~~ for carrying account balances for retail and institutional client accounts should be reported ~~on a net basis on this line~~ separately on Line 26 (Expenses: financing cost).

~~15. Includes Proxy 19. Include proxy~~ fees, ~~Portfolio portfolio~~ service fees, ~~Segregation segregation~~ and ~~/or Safekeeping safekeeping~~ fees, RRSF fees, and any charges to clients that are not related to commission or interest.

~~16. Includes 20. Include~~ foreign exchange profits/losses and all other revenue not reported above.

~~18. This category should include 22. Include~~ commissions, bonuses and other variable compensation of a contractual nature.

Examples would encompass commission payouts to ~~RR's~~ registered representatives (RRs) and payments to institutional and professional trading personnel. ~~Discretionary bonuses should be included on line 25.~~

All contractual bonuses should be accrued monthly ~~and included on line 18.~~

Discretionary bonuses should be reported separately on Line 35 (Expenses: bonuses).

23. Include payouts to other brokers and mutual funds.

~~20. Includes 25. Include~~ all interest on external subordinated debt, as well as non-discretionary contractual interest on internal subordinated debt.

~~21. Unusual items are items that have some but not all of the characteristics of extraordinary items [line 27]. An example of an unusual item may include costs associated with a branch closure.~~

26. Include the financing cost for all inventory trading (related to Lines 9, 10, 11 and 12) and the cost of carrying client balances (related to Line 18).

27. Include syndicate expenses and any related corporate finance expenses, as well as CSB fees.

28. Unusual items result from transactions or events that are not expected to occur frequently over several years, or do not typify normal business activities.

Discontinued operations, such as a branch closure, should be reported separately on Line 29 (Expenses: profit (loss) for the year from discontinued operations).

29. A discontinued operation is a business component that has either been disposed or is classified as held for sale and represents (or is part of a plan to dispose) a separate significant line of business or geographical area of operations. For example, branch closure.

~~22. Includes 30. Include~~ all operating expenses (including those related to soft dollar deals) ~~except those mentioned elsewhere: Syndicate expenses [line 13(a)], variable compensation [line 18], and discretionary bonuses [line 25].~~

Over-certification cost relating to debt instruments should be reported on this line.

Transaction cost for inventory trading (specifically for inventory that are categorized as held-for-trading) should be included on this line.

The expense related to share-based payments (such as stock option or share reward) to employees and non-employees should be included on this line.

31. This is the profit (loss) number used for the Early Warning profitability tests.

32. When a Dealer Member uses the revaluation model for its PPE and intangible assets, changes to the fair value may result in recognizing income after considering accumulated depreciation (or amortization) and OCI surplus.

33. When a Dealer Member uses the revaluation model for its PPE and intangible assets, changes to the fair value may result in recognizing expense after considering accumulated depreciation (or amortization) and OCI surplus.

~~24. Includes 34. Include~~ interest expense on subordinated debt with related parties ~~and other industry investors~~ for which the interest charges can be waived if required.

**FORM 1, PART I – STATEMENT E**  
**NOTES AND INSTRUCTIONS [~~Cont'd~~Continued]**

~~25.~~35. This category should include discretionary bonuses and all bonuses to shareholders in accordance with share ownership. ~~However, please read the instructions for line 18 before completing.~~ These bonuses are in contrast to those reported on Line 22 (Expenses: variable compensation).

~~26.~~ Includes ONLY~~37.~~ Include only income taxes.

Realty and capital taxes should be included ~~in line 22. Taxes at 33-1/3% on partnership profits should be disclosed on this line. The current provision should be net of loss carryforwards, the details of which should be disclosed on Schedule 6, on Line 30 (Expenses: operating expenses).~~

~~27.~~ Extraordinary items have the following characteristics:

~~(a) they are not expected to occur frequently over several years;~~

~~(b) they do not typify normal business activities; and~~

~~(c) they do not depend primarily on decisions or determinations by management.~~

~~They should be reported net of tax. An example of an extraordinary item would include the destruction of a company's uninsured art collection by fire.~~

39. When a Dealer Member uses the revaluation model to re-measure its PPE and intangible assets, changes to fair value may result in a change to shareholders' equity after considering accumulated depreciation (amortization) and income or expense from asset revaluation.

40. When a Dealer Member has a defined benefit pension plan and initially adopts a policy of recognizing actuarial gains and losses in full in OCI, the subsequent adjustments must be recognized in OCI.

43. To be used for MFR filing only.

~~30.~~ Includes only~~44.~~ **To be used for MFR filing only:** Include direct charges or credits to retained earnings ~~that are capital transactions (e.g. premium on share redemptions), income of a subsidiary accounted for by the equity method and prior period adjustments.~~

Any adjustment~~(s)~~ required to reconcile the MFR's retained earnings to the ~~JRFQ&R's should~~ audited Form 1 retained earnings must be posted to the individual Statement E line items on the first MFR that is filed after the adjustment~~(s)~~ is known.

DATE: \_\_\_\_\_

STATEMENT F

**PART I**  
**JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT**

(Firm Name)

**STATEMENT OF CHANGES IN CAPITAL AND RETAINED EARNINGS (CORPORATIONS) OR  
UNDIVIDED PROFITS (PARTNERSHIPS) FOR THE YEAR ENDED**

| REFERENCE  | CURRENT<br>YEAR |
|--|-----------------|
| <b>A: CHANGES IN CAPITAL</b>   |                 |
| 1. Balance at last year-end  |                 |
| 2. Increases (decreases) during period <i>[provide details]</i>                |                 |
| (a)  |                 |
| (b)  |                 |
| (c)  |                 |
| 3. Present capital   | A-71            |
| <b>B: ANALYSIS OF PRESENT CAPITAL <i>[see note 1]</i></b>                      |                 |
| 1. (a)   |                 |
| (b)  |                 |
| (c)  |                 |
| To agree with line 3 above   |                 |
| <b>C: RETAINED EARNINGS [CORPORATIONS] OR UNDIVIDED PROFITS [PARTNERSHIPS]</b> |                 |
| 1. Retained earnings or undivided profits, at last year-end                    |                 |
| 2. Increases (decreases) during period <i>[see note 2]</i>                     |                 |
| E-28 (a) Net income (loss) for the period                                      |                 |
| (b) Dividends paid or partners drawings  |                 |
| (c) Other <i>[provide details]</i>   |                 |
|  |                 |
|  |                 |
|  |                 |
|  |                 |
|  |                 |
|  |                 |
| 3. Present retained earnings or undivided profits                              | A-72            |

**NOTES:**

1. ~~**Part B**~~—Disclosure should be made of authorized and issued share capital in accordance with generally accepted accounting principles.
2. ~~**Line C-2**~~—Direct charges or credits to retained earnings are to be restricted to capital transactions (e.g. dividends, premium on share redemptions, etc.) and prior period adjustments. All income items of an extraordinary or unusual nature (e.g. profits or losses on sale of fixed assets or stock exchange seats, etc.) are to be included in Statement E in arriving at net income or loss for the period. The latter amount is to be transferred in total to retained earnings [Stmt. F-line C-2(a)].

**FORM 1, PART I – STATEMENT F**

(Dealer Member Name)

**STATEMENT OF CHANGES IN CAPITAL AND RETAINED EARNINGS (CORPORATIONS) OR  
UNDIVIDED PROFITS (PARTNERSHIPS)**

for the year ended \_\_\_\_\_

**A. CHANGES IN ISSUED CAPITAL**

|   | <u>NOTES</u> | <u>SHARE<br/>CAPITAL<br/>OR<br/>PARTNERSHIP<br/>CAPITAL<br/>[a]<br/>C\$'000</u> | <u>SHARE<br/>PREMIUM<br/>[b]<br/>C\$'000</u> | <u>ISSUED<br/>CAPITAL<br/>[c] = [a] + [b]<br/>C\$'000</u> |
|---|--------------|---|--|---|
| 1. <u>Beginning balance</u>   | -----        | -----   | -----  | -----   |
| 2. <u>Increases (decreases) during the period</u><br><u>[provide details]</u> |              |   |  |   |
| (a) _____   | -----        | -----   | -----  | -----   |
| (b) _____   | -----        | -----   | -----  | -----   |
| (c) _____   | -----        | -----   | -----  | -----   |
| 3. <u>Ending balance</u>  |              | -----   | -----  | -----   |

A-70

**B. CHANGES IN RESERVES**

|   | <u>NOTES</u> | <u>GENERAL<br/>[a]<br/>C\$'000</u> | <u>PROPERTIES<br/>REVALUATION<br/>[b]<br/>C\$'000</u> | <u>EMPLOYEE<br/>BENEFITS<br/>[c]<br/>C\$'000</u> | <u>TOTAL<br/>RESERVES<br/>[d] = [a] + [b]<br/>+ [c]<br/>C\$'000</u> |
|---|--------------|------------------------------------|---|--|---|
| 4. <u>Beginning balance</u>   | -----        | -----                              | -----   | -----  | -----   |
| 5. <u>Changes during the period</u>   |              |                                    |   |  |   |
| (a) <u>Other</u><br><u>comprehensive</u><br><u>income for the</u><br><u>year – properties</u><br><u>revaluation</u>   | -----        | -----                              | E-39  | -----  | -----   |
| (b) <u>Other</u><br><u>comprehensive</u><br><u>income for the</u><br><u>year – actuarial</u><br><u>gain (loss) on</u><br><u>defined benefit</u><br><u>pension plans</u> | -----        | -----                              | -----   | E-40   | -----   |
| (c) <u>Recognition of</u><br><u>share-based</u><br><u>payments</u>  | -----        | -----                              | -----   | -----  | -----   |

**FORM 1, PART I – STATEMENT F**

|   |             |             |             |
|---|-------------|-------------|-------------|
|   |             | <u>E-30</u> |             |
| (d) <u>Transfer from/to retained earnings</u> |             |             |             |
|   | <u>F-12</u> |             |             |
| (e) <u>Other [provide details]</u>            |             |             |             |
| <u>6. Ending balance</u>                      |             |             | <u>A-73</u> |

**C. CHANGES IN RETAINED EARNINGS**

|   | <u>NOTES</u> | <u>RETAINED EARNINGS (CURRENT YEAR) C\$'000</u> | <u>RETAINED EARNINGS (PREVIOUS YEAR) C\$'000</u> |
|---|--------------|---|--|
| <u>7. Beginning balance</u>   |              |   |  |
| <u>8. Effect of change in accounting policy [provide details]</u>                 |              |   |  |
| <u>(a)</u>  |              | <u>N/A</u>                                      |  |
| <u>(b)</u>  |              | <u>N/A</u>                                      |  |
| <u>9. As restated</u>   |              | <u>N/A</u>                                      |  |
| <u>10. Payment of dividends or partners drawings</u>                              |              |   |  |
| <u>11. Profit or loss for the year</u>  |              |   |  |
|   |              | <u>E-38</u>                                     |  |
| <u>12. Other direct charges or credits to retained earnings [provide details]</u> |              |   |  |
| <u>(a)</u>  |              |   |  |
| <u>(b)</u>  |              |   |  |
| <u>(c)</u>  |              |   |  |
| <u>13. Ending balance</u>   |              |   |  |
|   |              |   | <u>A-72</u>                                      |

**FORM 1, PART I – STATEMENT F**  
**NOTES AND INSTRUCTIONS**

**A. Changes in Issued Capital**

**Change in share or partnership capital**

Depending on the circumstances, a Dealer Member must either formally notify or obtain prior approval from the Corporation for any change in any class of common and preferred share or partnership capital.

**Share premium**

When the Dealer Member sells its shares (initial issuance or from treasury), share premium is the excess amount received by the Dealer Member over the par value (or nominal value) of its shares. Share premium cannot be used to pay out dividends.

**B. Changes in Reserves**

**General reserve**

A Dealer Member may want to transfer from retained earnings. The creation of a general reserve gives the Dealer Member an added measure of protection.

**Reserve - Employee benefits**

When a Dealer Member has a defined benefit pension plan and initially adopts a policy of recognizing actuarial gains and losses in full in other comprehensive income (OCI), all subsequent adjustments must be recognized as other comprehensive income and will be accumulated in a reserve account.

When a Dealer Member has stock option or share award granted to its employees by issuing new shares, the Dealer Member recognizes the fair value of the option or new shares granted as an expense with a corresponding increase in a reserve account.

**Reserve - properties revaluation**

When using the revaluation model for certain non-allowable assets (PPE and intangibles), a Dealer Member will account the initial increase in value as other comprehensive income (OCI) and will accumulate the increase (and subsequent changes) in a revaluation reserve account.

**C. Changes in Retained Earnings**

**Change in accounting policy and retroactive adjustment of prior year's retained earnings**

A change in accounting policy in the current year requires retroactive adjustment of the prior year's retained earnings.

\*The beginning balance of the current year must be the ending balance of the prior year.

DATE: \_\_\_\_\_

**PART I**  
**JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT**

\_\_\_\_\_  
(Firm Name)

**STATEMENT OF CHANGES IN SUBORDINATED LOANS  
FOR THE YEAR ENDED \_\_\_\_\_**

|   | <b>INDUSTRY INVESTORS</b> | <b>APPROVED NON-INDUSTRY INVESTORS</b> |
|---|---------------------------|--|
| 1. Balance at last year-end   |                           |  |
| 2. Increases during period<br><i>[give name of lender and date of increase]</i> |                           |  |
| (a)   |                           |  |
| (b)   |                           |  |
| (c)   |                           |  |
| (d)   |                           |  |
| (e)   |                           |  |
| (f)   |                           |  |
| 3. Subtotal   |                           |  |
| 4. Decreases during period<br><i>[give name of lender and date of increase]</i> |                           |  |
| (a)   |                           |  |
| (b)   |                           |  |
| (c)   |                           |  |
| (d)   |                           |  |
| (e)   |                           |  |
| (f)   |                           |  |
| 5. Subtotal   |                           |  |
| 6. Present subordinated loans   |                           |  |
|   | A-70                      | A-69                                   |

**NOTES:**

1. ~~At the annual audit date only~~, provide an attachment to Statement G showing the amount and the name of the lender for each subordinated loan outstanding. Subordinated debentures issued under a trust debenture should be disclosed in total only.
2. ~~“subordinated loans” means approved loans, pursuant to an agreement in writing in a form satisfactory to the appropriate Joint Regulatory Body, obtained from a chartered bank or any other lending institution, industry investor approved as such by the appropriate Joint Regulatory Body, or non-industry investor subject to the applicable approvals of the appropriate Joint Regulatory Body, the payment of which is deferred in favour of other creditors and is subject to regulatory approval.~~
3. ~~“industry investor”~~ For definition, refer to the regulations of the appropriate Joint Regulatory Body.

**FORM 1, PART I – STATEMENT G**

[Redacted]

(Dealer Member Name)

**OPENING IFRS STATEMENT OF FINANCIAL POSITION AND RECONCILIATION OF EQUITY**

at [Redacted]

| <u>CGAAP</u><br>Line # | <u>IFRS</u><br>Line # | <u>REFERENCE</u>   | <u>NOTES</u> | <u>CGAAP</u><br>(date)<br><u>CS'000</u> | <u>IFRS</u><br><u>ADJUSTMENTS</u><br><u>CS'000</u> | <u>IFRS</u><br>(date)<br><u>CS'000</u> |
|------------------------|-----------------------|--|--------------|---|--|--|
|                        |                       | <u>LIQUID ASSETS:</u>  |              |   |  |  |
| <u>1.</u>              | <u>1.</u>             | <u>Cash on deposit with <i>acceptable institutions</i></u>   | -----        |   |  |  |
| <u>2.</u>              | <u>2.</u>             | <u>Funds deposited in trust for RRSP and other similar accounts</u>  | -----        |   |  |  |
| <u>3.</u>              | <u>3.</u>             | <u>Cash, held in trust with <i>acceptable institutions</i>, due to free credit ratio calculation</u>                                   | -----        |   |  |  |
| <u>4.</u>              | <u>4.</u>             | <u>Variable base deposits and margin deposits with <i>acceptable clearing corporations</i> [cash balances only]</u>                    | -----        |   |  |  |
| <u>5.</u>              | <u>5.</u>             | <u>Margin deposits with regulated entities [cash balances only]</u>  | -----        |   |  |  |
| <u>6.</u>              | <u>6.</u>             | <u>Loans receivable, securities borrowed and resold</u>  | -----        |   |  |  |
| <u>7.</u>              | <u>7.</u>             | <u>Securities owned - at <i>market value</i></u>   | -----        |   |  |  |
| <u>8.</u>              | <u>8.</u>             | <u>Securities owned and segregated due to free credit ratio calculation</u>  | -----        |   |  |  |
| <u>10.</u>             | <u>9.</u>             | <u>Client accounts</u>   | -----        |   |  |  |
| <u>11.</u>             | <u>10.</u>            | <u>Brokers and dealers trading balances</u>  | -----        |   |  |  |
| <u>12.</u>             | <u>11.</u>            | <u>Receivable from carrying broker or mutual fund</u>  | -----        |   |  |  |
| <u>13.</u>             | <u>12.</u>            | <u>TOTAL LIQUID ASSETS</u>   | -----        |   |  |  |
|                        |                       | <u>OTHER ALLOWABLE ASSETS (RECEIVABLES FROM ACCEPTABLE INSTITUTIONS):</u>  |              |   |  |  |
| <u>14.</u>             | <u>13.</u>            | <u>Current income tax assets</u>   | -----        |   |  |  |
| <u>15.</u>             | <u>14.</u>            | <u>Recoverable and overpaid taxes</u>  | -----        |   |  |  |
| <u>16.</u>             | <u>15.</u>            | <u>Commissions and fees receivable</u>   | -----        |   |  |  |
| <u>17.</u>             | <u>16.</u>            | <u>Interest and dividends receivable</u>   | -----        |   |  |  |
| <u>18.</u>             | <u>17.</u>            | <u>Other receivables [provide details]</u>   | -----        |   |  |  |
| <u>19.</u>             | <u>18.</u>            | <u>TOTAL OTHER ALLOWABLE ASSETS</u>  | -----        |   |  |  |
|                        |                       | <u>NON ALLOWABLE ASSETS:</u>   |              |   |  |  |
| <u>20.</u>             | <u>19.</u>            | <u>Other deposits with <i>acceptable clearing corporations</i> [cash or <i>market value</i> of securities lodged]</u>                  | -----        |   |  |  |
| <u>21.</u>             | <u>20.</u>            | <u>Deposits and other balances with non-<i>acceptable clearing corporations</i> [cash or <i>market value</i> of securities lodged]</u> | -----        |   |  |  |
| <u>22.</u>             | <u>21.</u>            | <u>Commissions and fees receivable</u>   | -----        |   |  |  |
| <u>23.</u>             | <u>22.</u>            | <u>Interest and dividends receivable</u>   | -----        |   |  |  |
|                        | <u>23.</u>            | <u>Deferred tax assets</u>   | -----        |   |  |  |
|                        | <u>24.</u>            | <u>Intangible assets</u>   | -----        |   |  |  |
| <u>24.</u>             | <u>25.</u>            | <u>Property, plant and equipment</u>   | -----        |   |  |  |

**FORM 1, PART I – STATEMENT G**

| <u>CGAAP</u><br>Line # | <u>IFRS</u><br>Line # | <u>REFERENCE</u>  | <u>NOTES</u> | <u>CGAAP</u><br>(date) | <u>IFRS</u><br>ADJUSTMENTS | <u>IFRS</u><br>(date) |
|------------------------|-----------------------|---|--------------|------------------------|----------------------------|-----------------------|
|                        |                       | <u>NON ALLOWABLE ASSETS [Continued]:</u>                    |              |                        |                            |                       |
| <u>27.</u>             | <u>26.</u>            | <u>Investments in subsidiaries and affiliates</u>           | -----        |                        |                            |                       |
|                        | <u>27.</u>            | <u>Advances to subsidiaries and affiliates</u>              | -----        |                        |                            |                       |
| <u>28.</u>             | <u>28.</u>            | <u>Other assets [provide details]</u>                       | -----        |                        |                            |                       |
| <u>29.</u>             | <u>29.</u>            | <u>TOTAL NON-ALLOWABLE ASSETS</u>                           |              |                        |                            |                       |
| <u>26.</u>             | <u>30.</u>            | <u>Finance lease asset</u>                                  | -----        |                        |                            |                       |
| <u>30.</u>             | <u>31.</u>            | <u>TOTAL ASSETS</u>   |              |                        |                            |                       |
|                        |                       | <u>CURRENT LIABILITIES:</u>                                 |              |                        |                            |                       |
| <u>51.</u>             | <u>51.</u>            | <u>Overdrafts, loans, securities loaned and repurchases</u> | -----        |                        |                            |                       |
| <u>52.</u>             | <u>52.</u>            | <u>Securities sold short - at market value</u>              | -----        |                        |                            |                       |
| <u>54.</u>             | <u>53.</u>            | <u>Client accounts</u>                                      | -----        |                        |                            |                       |
| <u>55.</u>             | <u>54.</u>            | <u>Brokers and dealers</u>                                  | -----        |                        |                            |                       |
|                        | <u>55.</u>            | <u>Provisions</u>   | -----        |                        |                            |                       |
| <u>56.</u>             | <u>56.</u>            | <u>Current income tax liabilities</u>                       | -----        |                        |                            |                       |
| <u>58.</u>             | <u>57.</u>            | <u>Bonuses payable</u>                                      | -----        |                        |                            |                       |
| <u>59.</u>             | <u>58.</u>            | <u>Accounts payable and accrued expenses</u>                | -----        |                        |                            |                       |
| <u>60.</u>             | <u>59.</u>            | <u>Finance leases and lease-related liabilities</u>         | -----        |                        |                            |                       |
| <u>61.</u>             | <u>60.</u>            | <u>Other current liabilities [provide details]</u>          | -----        |                        |                            |                       |
| <u>62.</u>             | <u>61.</u>            | <u>TOTAL CURRENT LIABILITIES</u>                            |              |                        |                            |                       |
|                        |                       | <u>NON-CURRENT LIABILITIES:</u>                             |              |                        |                            |                       |
|                        | <u>62.</u>            | <u>Provisions</u>   | -----        |                        |                            |                       |
| <u>63.</u>             | <u>63.</u>            | <u>Deferred tax liabilities</u>                             | -----        |                        |                            |                       |
| <u>64.</u>             | <u>64.</u>            | <u>Finance leases and lease-related liabilities</u>         | -----        |                        |                            |                       |
| <u>68.</u>             | <u>65.</u>            | <u>Finance leases – leasehold inducements</u>               | -----        |                        |                            |                       |
| <u>65.</u>             | <u>66.</u>            | <u>Other non-current liabilities [provide details]</u>      | -----        |                        |                            |                       |
| <u>69., 70.</u>        | <u>67.</u>            | <u>Subordinated loans</u>                                   | -----        |                        |                            |                       |
| <u>66.</u>             | <u>68.</u>            | <u>TOTAL NON-CURRENT LIABILITIES</u>                        |              |                        |                            |                       |
| <u>67.</u>             | <u>69.</u>            | <u>TOTAL LIABILITIES</u>                                    |              |                        |                            |                       |
|                        |                       | <u>CAPITAL AND RESERVES:</u>                                |              |                        |                            |                       |
| <u>71.</u>             | <u>70.</u>            | <u>Issued capital</u>                                       | -----        |                        |                            |                       |
|                        | <u>71.</u>            | <u>Reserves</u>   | -----        |                        |                            |                       |
| <u>72.</u>             | <u>72.</u>            | <u>Retained earnings or undivided profits</u>               | -----        |                        |                            |                       |
| <u>73.</u>             | <u>73.</u>            | <u>TOTAL CAPITAL</u>  |              |                        |                            |                       |
| <u>74.</u>             | <u>74.</u>            | <u>TOTAL LIABILITIES AND CAPITAL</u>                        |              |                        |                            |                       |



## **FORM 1, PART I – STATEMENT G** **NOTES AND INSTRUCTIONS**

### **One-time transitional reporting requirement**

The opening IFRS statement of financial position, Statement A of Form 1, provides a starting point for accounting under IFRS. For regulatory reporting, a Dealer Member prepares the opening IFRS Statement of financial position (also known as either the opening IFRS Statement A or the opening balance sheet) as at the conversion date. Example: For Dealer Members with a December 2010 year end, the conversion date is January 1, 2011. Therefore, the opening IFRS Statement A is as at January 1, 2011.

Together with the opening IFRS Statement A, Dealer Members are to provide a reconciliation of the equity between previous CGAAP and IFRS. Example: For Dealer Members with a December 2010 year-end, the previous CGAAP Statement A is as at December 31, 2010 and as filed on SIRFF as part of the audited Form 1.

### **Date of the opening IFRS Statement A**

For regulatory reporting, the opening IFRS Statement A is dated as at the conversion date. For example, a Dealer Member with a December 2010 year-end will file an opening Statement A as at January 1, 2011.

### **Due date to file the opening IFRS Statement A**

A Dealer Member will file an opening Statement A **on or before** filing its first MFR for the first fiscal year under IFRS. To accommodate this filing requirement, Dealer Members will be provided 10 weeks following their fiscal year-end to file the opening IFRS Statement A and the first MFR under IFRS. The filing requirement for the fiscal year-end audited Form 1 under CGAAP remains at 7 weeks.

Example: For Dealer Members with a December 2010 year-end, the opening IFRS Statement A and reconciliation of equity must be filed **on or before** the filing of the January 2011 MFR. The audited Form 1 as at December 31, 2010 will be filed within the normal period of 7 weeks. The opening IFRS balance sheet as at January 1, 2011 and the January 2011 MFR under IFRS will be filed **on or before** March 15, 2011, which is approximately 10 weeks after the December 2010 year-end.

### **Special procedures to be performed by the panel auditor**

The panel auditor of the Dealer Member will perform special compliance procedures on the opening IFRS Statement A and the reconciliation of equity between CGAAP and IFRS. The purpose of the special compliance procedures is to provide the Corporation appropriate assurance for its reliance on the reasonability of adjustments in determining the opening retained earnings under IFRS and for subsequent MFR filings under IFRS.

### **Notes to the reconciliation**

There will be two types of IFRS adjustments:

1. Presentation differences with no impact on total equity and
2. Adjustments that will impact retained earnings.

Adjustments made to restate the opening Statement A from previous CGAAP to IFRS are generally made to retained earnings (or if appropriate, another category of equity).

For material adjustments, Dealer Members will provide an explanation of the effect and implications of the transition to IFRS, including any accompanying material impact on risk adjusted capital (RAC). The explanations will be in the form of note disclosures.

A material adjustment means an adjustment – either individually or in the aggregate - that result in equal to or greater than 10% change (increase or decrease):

- in the retained earnings as filed on SIRFF with the audited Form 1 prepared under CGAAP and/or
- in the risk adjusted capital (RAC) as filed on SIRFF with the audited Form 1 prepared under CGAAP.

### **Mapping of the line items on Statement A**

Statement A has been reformatted to accommodate the required IFRS changes, including new terminology and the addition (as well as the deletion) of line items. To assist Dealer Members in completing the opening IFRS Statement A, a mapping of the line items under the old CGAAP format to the new IFRS format is provided.

**FORM 1, PART I – NOTES**

(Dealer Member Name)

**NOTES TO THE FORM 1 FINANCIAL STATEMENTS**

at

**JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT  
CERTIFICATE OF PARTNERS OR DIRECTORS**

\_\_\_\_\_  
(Firm Name)

I/We have examined the attached statements and schedules and certify that, to the best of my/our knowledge, they present fairly the financial position and capital of the firm at \_\_\_\_\_ and the results of operations for the period then ended, and are in agreement with the books of the firm.

I/We certify that the following information is true and correct to the best of my/our knowledge for the period from the last audit to the date of the attached statements which have been prepared in accordance with the current requirements of the applicable Joint Regulatory Body and Canadian Investor Protection Fund:

|   | <b>ANSWERS</b>                                     |
|---|--|
| 1. Does the Dealer Member have adequate internal controls in accordance with the rules?<br>(a) All future purchase and sales commitments?<br>(b) Outstanding puts, calls or other options?<br>(c) Participation in any underwriting or other agreement subject to future demands?<br>(d) Writs issued against the firm or partners or corporation or any other litigation pending?<br>(e) Income tax arrears of partners or corporation?<br>(f) Other contingent liabilities, guarantees, accommodation endorsements or commitments affecting the financial position of the firm? | _____<br>_____<br>_____<br>_____<br>_____<br>_____ |
| 2. Are all Exchange seats which are operated by the firm owned outright and clear of encumbrance by the firm?   | _____  |
| 3. Does the firm promptly segregate clients' securities in accordance with the rules and regulations prescribed by the appropriate Joint Regulatory Body?   | _____  |
| 4. Does the firm determine on a regular basis its free credit segregation amount and act promptly to segregate assets as appropriate in accordance with the rules and regulations prescribed by the appropriate Joint Regulatory Body?  | _____  |
| 5. Does the firm carry insurance of the type and in the amount required by the rules and regulations of the appropriate Joint Regulatory Body?  | _____  |
| 6. Have all "concentrations of securities", as described in the rules, regulations and policies of the appropriate Joint Regulatory Body, been identified on Schedule 9?  | _____  |
| 7. Has the "most stringent rule" requirement [as described in the general instructions] been adhered to in the preparation of these statements and schedules?   | _____  |
| 8. Does the firm monitor on a regular basis its adherence to early warning requirements in accordance with the rules and regulations prescribed by the appropriate Joint Regulatory Body?   | _____  |
| 9. Does the firm have adequate internal controls in accordance with the rules and regulations prescribed by the appropriate Joint Regulatory Body?  | _____  |
| 10. Does the firm maintain adequate books and records in accordance with the rules and regulations prescribed by the appropriate Joint Regulatory Body?   | _____  |
| 11. Does the firm follow the minimum required firm policies and procedures relating to security counts as prescribed by the appropriate Joint Regulatory Body?  | _____  |

\_\_\_\_\_  
\_\_\_\_\_  
*{date}*

| <b>Name and Title - Please type</b> | <b>Signature</b> |
|-------------------------------------|------------------|
| _____                               | _____            |
| _____                               | _____            |
| _____                               | _____            |

1. Details must be given for any "no" answers.

2. To be signed by:

- (a) chief executive officer/partner
- (b) chief financial officer

**~~JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT  
CERTIFICATE OF PARTNERS OR DIRECTORS~~**

~~(c) member seatholder [if applicable]~~

~~(d) chief accountant~~

~~(e) at least two directors/partners if not included in (a) to (d) above.~~

~~3. Copies with original signatures must be provided to the Joint Regulatory Body with prime audit jurisdiction.~~

**JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT**  
**PART II – AUDITORS’ REPORT**

TO: \_\_\_\_\_ and the Canadian Investor Protection Fund.  
*(applicable regulatory body)*

We have audited Part I of the Joint Regulatory Financial Questionnaire and Report (Part I – JRFQR) of

\_\_\_\_\_ as at \_\_\_\_\_  
*(firm)* *(date)*  
and for the year then ended, and reported thereon as of \_\_\_\_\_ :  
*(date)*

The additional information set out in Part II of the Joint Regulatory Financial Questionnaire and Report – Schedules 1 to 14 (Part II – JRFQR) have been subjected to the procedures applied in the audit of Part I – JRFQR and in our opinion, presents fairly the information contained therein, in all material respects, in relation to Part I – JRFQR taken as a whole.

No procedures have been carried out in addition to those necessary to form an opinion on Part I – JRFQR.

The additional information set out in Part II – JRFQR, which has not been, and was not intended to be, prepared in accordance with Canadian generally accepted accounting principles, is solely for the information and use of the Member, the Investment Dealers Association and the Canadian Investor Protection Fund to comply with the regulations, bylaws and policies of the Investment Dealers Association. The additional information set out in Part II – JRFQR is not intended to be and should not be used by anyone other than these specified users or for any other purpose.

\_\_\_\_\_  
*(auditing firm name)*

\_\_\_\_\_  
*(date)*

\_\_\_\_\_  
*(signature)*

\_\_\_\_\_  
*(place of issue)*

**NOTES:**

A measure of uniformity in the form of the auditors' report is desirable in order to facilitate identification of circumstances where the underlying conditions are different. Therefore, when auditors are able to express an unqualified opinion, their report should take the above form.

Any limitations in the scope of the audit must be discussed in advance with the appropriate regulatory authority. Discretionary scope limitations will not be accepted.

Copies with original signatures must be provided to the Joint Regulatory Body with primary audit jurisdiction.

**FORM 1, PART II**  
**REPORT ON COMPLIANCE FOR INSURANCE**

TO: \_\_\_\_\_ and the Canadian Investor Protection Fund.  
*(appropriate regulatory body)*

**REPORT ON COMPLIANCE FOR INSURANCE, SEGREGATION OF SECURITIES, AND GUARANTEE/GUARANTOR RELATIONSHIPS RELIED UPON TO REDUCE MARGIN REQUIREMENTS DURING THE YEAR**

To: The Investment Industry Regulatory Organization of Canada (the Corporation) and the Canadian Investor Protection Fund (CIPF).

We have performed the following procedures in connection with the regulatory requirements for

\_\_\_\_\_ ~~to maintain minimum insurance as outlined in the Bylaws, Rules, Regulations and Policies of the~~  
*(Member firm)* \_\_\_\_\_ ~~and the Canadian Investor Protection Fund.~~  
*(appropriate regulatory body)*  
Compliance with the \_\_\_\_\_ ~~Bylaws, Rules, Regulations and Policies with respect~~  
*(appropriate regulatory body)*

to insurance <Dealer Member> to maintain minimum insurance, segregate client securities, and maintain guarantee relationships as outlined in the Rules of the Corporation. Compliance with the Corporation Rules with respect to maintaining minimum insurance, the segregation of client securities, and maintaining guarantee relationships is the responsibility of the management of the Dealer Member firm. Our responsibility is to perform the procedures requested by you.

1. We have read the Dealer Member firm's written internal control policies and procedures with respect to maintaining insurance coverage and segregation of client securities to determine whether such policies and procedures meet the minimum required, ~~as prescribed by the Policies of the appropriate regulatory body under Corporation Rules~~ in regards to establishing and maintaining adequate internal controls.
2. a) We obtained representation from appropriate senior management of the Dealer Member firm that the Dealer Member firm's internal control policies and procedures with respect to insurance and segregation of client securities meet the minimum required, as prescribed by the Policies of the appropriate regulatory body under Corporation Rules in regards to establishing and maintaining adequate internal controls and that they have been implemented.  
b) We obtained written representation from appropriate senior management of the Dealer Member that the Dealer Member's guarantor agreements comply with the minimum requirements of IIROC Dealer Member Rule 100.15(h).
3. We read the Financial Institution Bond Form #14 (the "FIB") insurance policy(s) to determine whether the FIB policy(s) includes the minimum required clauses and coverage limits as prescribed in the ~~Bylaws, Rules, Regulations and Policies~~ Rules of the Corporation.

of \_\_\_\_\_  
*(appropriate regulatory body)*

~~4. We requested and obtained confirmation from the Member firm's Insurance Broker(s) as at \_\_\_\_\_~~  
*(period end date)*

4. We requested and obtained confirmation from the Dealer Member's Insurance Broker(s) as at \_\_\_\_\_ <period end date> as to the FIB coverage maintained with the Insurance Underwriter(s) including:

- |   |  |
|---|--|
| <del>(a) clauses</del>                          | <del>(d) name of insurer and insured</del>                     |
| <del>(b) aggregate and single loss limits</del> | <del>(e) claims made on the policy since last audit date</del> |
| <del>(c) deductible amounts</del>               | <del>(f) details of losses/claims outstanding</del>            |

- |  |  |
|--|--|
| <u>a) clauses</u>                          | <u>d) name of insurer and insured</u>                |
| <u>b) aggregate and single loss limits</u> | <u>e) claims made on the policy since last audit</u> |
| <u>c) deductible amounts</u>               | <u>f) details of losses/claims outstanding</u>       |

5. We selected account statements for ~~ten~~ 10 clients. For each, we calculated the Client Net Equity amount. We traced the Client Net Equity amount to the Total Client Net Equity Report as at the audit date produced by the Dealer Member firm to check that the compilation of Client Net Equity is in accordance with the Notes and Instructions to Schedule 10 of ~~the Joint Regulatory Financial Questionnaire and Report. Form 1.~~ We agreed Total Client Net Equity from the report to Schedule 10.

~~As a result of applying the above procedures, we found the following exceptions: (list of exceptions)~~

**FORM 1, PART II**  
**REPORT ON COMPLIANCE FOR INSURANCE**

These procedures do not constitute an audit and therefore we express no opinion on the adequacy of the Member firm's insurance coverage or its internal control policies and procedures.

This letter is for use solely by the \_\_\_\_\_ and the Canadian Investor Protection  
*(appropriate regulatory body)*

Fund to assist in their assessment of the Member firm's compliance with the requirement to maintain minimum insurance as outlined in the Bylaws, Rules, Regulations and Policies of the \_\_\_\_\_ and not  
*(appropriate regulatory body)*

for any other purpose.

\_\_\_\_\_  
*(auditing firm name)*

\_\_\_\_\_  
*(date)*

\_\_\_\_\_  
*(signature)*

\_\_\_\_\_  
*(place of issue)*

**REPORT ON COMPLIANCE FOR SEGREGATION OF SECURITIES**

TO: \_\_\_\_\_ and the Canadian Investor Protection Fund.  
*(appropriate regulatory body)*

We have performed the following procedures in connection with the regulatory requirement for \_\_\_\_\_ to segregate client securities as outlined in the Bylaws, Rules,  
*(Member firm)*

Regulations and Policies of the \_\_\_\_\_ . Compliance with the  
*(appropriate regulatory body)*

\_\_\_\_\_  
*(appropriate regulatory body)* Bylaws, Rules, Regulations and Policies with respect to the segregation of

client securities is the responsibility of the management of the Member firm. Our responsibility is to perform the procedures requested by you.

1. We have read the Member firm's written internal control policies and procedures with respect to segregation of client securities to determine whether such policies and procedures meet the minimum required under the policies of the appropriate regulatory body in regards to establishing and maintaining adequate internal controls.
2. We obtained representation from appropriate senior management of the Member firm that the Member firm's internal control policies and procedures with respect to segregation of client securities meet the minimum required under the policies of the appropriate regulatory body in regards to establishing and maintaining adequate internal controls.
- 3-6. We obtained a listing of all segregation locations used by the Dealer Member firm and determined that each location met the definition of "~~Acceptable Securities Locations~~ acceptable securities locations" as defined in the General Notes and Definitions to ~~the Joint Regulatory Financial Questionnaire and Report (JRFQ&R)~~ Form 1.
- 4-7. We selected a sample of ~~ten~~ 10 client account statements. For each we re-calculated the segregation requirements and compared the result to the Dealer Member firm's Segregation Report.
- 5-8. We selected \_\_\_\_\_ positions<sup>1</sup> reported as being undersegregated at various dates throughout the year and determined the date on which the undersegregation was corrected. We obtained explanations from the Dealer Member firm and reviewed them for reasonableness. Undersegregated positions not corrected in accordance with ~~the Corporation Rules~~

<sup>1</sup> The sample selected must consist of the greater of: (i) ten securities or, (ii) the total sample items selected by the auditor to support the audit opinion provided on ~~Part II the Statements~~ of the JRFQ&R in reference to question #3 of the Certificate of Partners and Directors. Form 1.

**FORM 1, PART II**  
**REPORT ON COMPLIANCE FOR INSURANCE**

are reported below.

~~Bylaws, Rules, Regulations and Policies are reported below:~~

~~\_\_\_\_\_~~  
~~(appropriate regulatory body)~~

~~6.9.~~ We obtained the lists of hypothecated securities at \_\_\_\_\_ 19\_\_\_\_ <period end date> and compared a sample

~~\_\_\_\_\_ (period end date)~~ of \_\_\_\_\_ securities<sup>1</sup> to the Segregation Report to determine if there were securities used to secure call loans which should have been in segregation.

~~7.10.~~ We selected ~~ten~~10 securities positions from the Stock Record and Position Report ("SRP") to identify a customer holding a position. We compared the securities positions to the customers' statements to check whether the stock message properly reported whether the positions were held in segregation. We also selected a sample of segregated securities from customer accounts and traced those back to the SRP and to the Segregation Report.

~~As a result of applying the above procedures, we found the following exceptions: (list of exceptions)~~

~~These procedures do not constitute an audit of segregation of client securities and therefore we express no opinion on the adequacy of the Member firm's internal control policies or procedures over segregation of client securities.~~

~~11. We obtained a list of guarantee relationships used by the Dealer Member to reduce the margin required during the year for monthly financial reporting purposes. We performed no procedures to verify the accuracy or completeness of this list.~~

~~12. We selected a sample of 10 guarantee relationships used to reduce margin required during the year and performed the following procedures:~~

~~a) Obtained written confirmation from the guarantor of the account(s) guaranteed; and that the guarantee was in place during the year ended <year end>.~~

~~b) Compared the wording of the guarantee agreements to the minimum requirements of IIROC Dealer Member Rule 100.15(h).~~

~~As a result of applying the above procedures, there were no exceptions except as follows:~~

~~This letter is for use solely by the~~

~~and the Canadian Investor Protection~~

~~(appropriate  
regulatory  
body)~~

~~Fund~~ ~~These procedures do not constitute an audit and therefore we express no opinion on the adequacy of the Dealer Member's insurance coverage, segregation of client securities, maintenance of guarantee relationships, or internal control policies and procedures. This report is for use solely by the Corporation and CIPF to assist in their assessment of the Member firm's Dealer Member's compliance with the requirements regarding segregation of client securities as outlined in the Bylaws, Rules, Regulations and Policies of the~~

~~\_\_\_\_\_~~  
~~(appropriate regulatory body)~~

~~maintaining minimum insurance, segregating client securities, and maintaining guarantee relationships as outlined in the Rules of the Corporation and not for any other purpose.~~

\_\_\_\_\_  
(auditing firm ~~name~~)

\_\_\_\_\_  
(date)

**FORM 1, PART II**  
**REPORT ON COMPLIANCE FOR INSURANCE**

---

(signature)

(place of issue)

**PART II**

**JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT**

DATE: \_\_\_\_\_

(~~Firm~~ Dealer Member Name)

**ANALYSIS OF LOANS RECEIVABLE, SECURITIES BORROWED AND RESALE AGREEMENTS**

|  | AMOUNT OF<br>LOAN<br>RECEIVABLE<br>OR CASH<br>DELIVERED AS<br>COLLATERAL | MARKET VALUE<br>OF SECURITIES<br>DELIVERED AS<br>COLLATERAL | MARKET VALUE<br>OF SECURITIES<br>RECEIVED AS<br>COLLATERAL<br>OR BORROWED | REQUIRED TO<br>MARGIN |
|--|--|---|---|-----------------------|
|  | <u>C\$'000</u>   | <u>C\$'000</u>  | <u>C\$'000</u>  | <u>C\$'000</u>        |
|  | [see note 3]   | [see note 4]  | [see note 4]  |                       |
| <b>LOANS RECEIVABLE:</b>                                       |  |   |   |                       |
| 1. Acceptable <del>Institutions</del> <u>institutions</u>      | -----  | N/A   | -----   | Nil                   |
| 2. Acceptable <del>Counterparties</del> <u>counterparties</u>  | -----  | N/A   | -----   | -----                 |
| 3. Regulated <del>Entities</del> <u>entities</u>               | -----  | N/A   | -----   | -----                 |
| 4. Others [see note 12]  | -----  | N/A   | -----   | -----                 |
| <b>SECURITIES BORROWED:</b>                                    |  |   |   |                       |
| 5. Acceptable <del>Institutions</del> <u>institutions</u>      | -----  | -----   | -----   | Nil                   |
| 6. Acceptable <del>Counterparties</del> <u>counterparties</u>  | -----  | -----   | -----   | -----                 |
| 7. Regulated <del>Entities</del> <u>entities</u>               | -----  | -----   | -----   | -----                 |
| 8. Others [see note 12]  | -----  | -----   | -----   | -----                 |
| <b>RESALE AGREEMENTS:</b>                                      |  |   |   |                       |
| 9. Acceptable <del>Institutions</del> <u>institutions</u>      | -----  | N/A   | -----   | Nil                   |
| 10. Acceptable <del>Counterparties</del> <u>counterparties</u> | -----  | N/A   | -----   | -----                 |
| 11. Regulated <del>Entities</del> <u>entities</u>              | -----  | N/A   | -----   | -----                 |
| 12. Others [see note 12]                                       | -----  | N/A   | -----   | -----                 |
| 13. <b>TOTAL</b> [Lines 1 through 12]                          | -----  | -----   | -----   | -----                 |
|  | A-6  |   |   | B-69                  |

**FORM 1, PART II – SCHEDULE 1**  
**NOTES AND INSTRUCTIONS**

1. This schedule is to be completed for secured loan receivable transactions whereby the stated purpose of the transaction is to lend excess cash. All security borrowing transactions and resale (i.e. reverse repo) agreements, including financing transactions done via 2 trade tickets and those with related parties, should also be disclosed on this schedule.
2. For the purpose of this schedule, "excess collateral deficiency" is defined as the actual collateral provided to the counterparty less the collateral required to be received by the counterparty pursuant to regulatory or legislative requirements. A list of current collateralization rates for each category of ~~Acceptable Counterparties~~[acceptable counterparties](#) is published on a regular basis.
3. Include accrued interest in amount of loan receivable.
4. Market value of securities delivered or received as collateral should include accrued interest.
5. In the case of either a cash loan and securities borrowing or a resale transaction, if a written agreement between the ~~firm~~[Dealer Member](#) and the counterparty has been entered into containing the terms described below, the instructions in Notes 7, 8, 9, and 10 are applicable, as the case may be. Each such written agreement shall include terms which provide (i) for the rights of either party to retain or realize on securities held by it from the other party on default, (ii) for events of default, (iii) for the treatment of the value of securities held by a non-defaulting party in excess of amounts which may be owed by a defaulting party, (iv) either for set-off or, in the case of secured loans of securities, continuous segregation of collateral and the requirement for the lender to perfect a security interest in collateral giving the highest priority, and (v) if set-off rights or security interests are created in securities sold or loaned by one party to another, that the securities are endorsed for transfer and free of any trading restrictions. In addition, in the case of a resale transaction such written agreement shall contain an acknowledgement by the parties that either has the right, upon notice, to call for any shortfall in the difference between the collateral and the securities at any time. Such agreements are not mandatory and if not used are to be margined as provided below.

In the case of a cash loan and securities borrowing transaction, if no such written agreement has been entered into in respect of the transaction, then 100% of the *market value* must be provided as margin by the ~~firm~~[Dealer Member](#) on the collateral given to the lender except in the case where the lender is an ~~Acceptable Institution~~[acceptable institution](#) in which case no margin need be provided.

In the case of a resale transaction, if no such written agreement has been entered into in respect of the transaction, the position shall be margined as follows:

| Counterparty  | Written Repurchase/Reverse Repurchase Agreement | NO Written Repurchase/Reverse Repurchase Agreement<br>Calendar days after regular settlement (Note 1) |   |
|---|---|---|---|
|   |   | 30 days or less   | Greater than 30 days  |
| <del>Acceptable Institution</del> <a href="#">institution</a>   | No margin                                       | No margin (Note 2)  |   |
| <del>Acceptable Counterparty</del> <a href="#">counterparty</a> | Excess collateral deficiency                    | Excess collateral deficiency (Note 2)   |   |
| <del>Regulated Entity</del> <a href="#">entity</a>              | Market deficiency                               | Market deficiency (Note 2)  | Margin  |
| Other   | Margin  | Margin  | 200% of margin (to a maximum of the <i>market value</i> of the underlying securities) |

Note 1: Regular settlement means the settlement dates or delivery date generally accepted according to industry practice for the relevant security in the market in which the transaction occurs. Margin is calculated from the date of regular settlement. Calendar days refers to the original term of the repurchase/reverse repurchase.

Note 2: Any transaction which has not been confirmed by an ~~Acceptable Institution, Acceptable Counterparty or Regulated Entity~~[acceptable institution, acceptable counterparty or regulated entity](#) within 15 business days of the trade shall be margined.

6. For any given counterparty a deficiency in one type of loan may be offset by an excess in another type of loan provided that there are written agreements for each type of loan which provide for the right of offset between each type of loan. In such case, the balances may also be offset [for margin calculation purposes](#).
7. **Lines 1, 5 and 9** - In a cash loan and securities borrow or resale transaction between a ~~firm~~[Dealer Member](#) and an

**FORM 1, PART II – SCHEDULE 1**  
**NOTES AND INSTRUCTIONS [Continued]**

~~Acceptable Institution~~acceptable institution, no capital need be provided in the case where a deficiency exists between the *market value* of the cash loaned or securities borrowed or resold and the *market value* of the collateral or cash pledged.

In order for a pension fund to be treated as an ~~Acceptable Institution~~acceptable institution for purposes of this Schedule, it must not only meet the ~~Acceptable Institution~~acceptable institution criteria outlined in General Notes and Definitions, but the Dealer Member must also have received representation that the pension fund is legally able to enter into the obligations of the transaction. If such representation has not been received, the pension fund which otherwise meets the ~~Acceptable Institution~~acceptable institution criteria must be treated as an ~~Acceptable Counterparty~~acceptable counterparty.

WHERE AN AGREEMENT HAS BEEN EXECUTED, THEN:

8. **Lines 2, 6 and 10** - In a cash loan and securities borrow or resale transaction between a ~~firm~~Dealer Member and an ~~Acceptable Counterparty~~acceptable counterparty, where an *excess collateral deficiency* exists, action must be taken to correct the deficiency. If no action is taken the amount of *excess collateral deficiency* must be immediately provided out of the ~~firm~~Dealer Member's capital. In any case, where the deficiency exists for more than one business day, it must be provided out of the ~~firm~~Dealer Member's capital.
9. **Lines 3, 7 and 11** - In a cash loan and securities borrow or resale transaction between a ~~firm~~Dealer Member and a ~~Regulated Entity~~regulated entity, where a deficiency exists between the *market value* of the cash loaned or securities borrowed or resold and the *market value* of the collateral or cash pledged, action must be taken to correct the deficiency. If no action is taken the amount of *market value* deficiency must be immediately provided out of the ~~firm~~Dealer Member's capital. In any case, where the deficiency exists for more than one business day, it must be provided out of the ~~firm~~Dealer Member's capital.
10. **Lines 4, 8 and 12** - In a cash loan and securities borrow or resale transaction between a ~~firm~~Dealer Member and a party other than an ~~Acceptable Institution, Acceptable Counterparty or Regulated Entity~~acceptable institution, acceptable counterparty or regulated entity, where a deficiency exists between the loan value of the cash loaned or securities borrowed or resold and the loan value of the collateral or cash pledged, action must be taken to correct the deficiency. If no action is taken the amount of loan value deficiency must be immediately provided out of the ~~firm~~Dealer Member's capital. The margin required may be reduced by any margin already provided on the collateral (e.g. in inventory). Where the collateral is either held by the Dealer Member on a fully segregated basis or held in escrow on its behalf by an Acceptable Depository or a bank or trust company qualifying as either an ~~Acceptable Institution or Acceptable Counterparty~~acceptable institution or acceptable counterparty, only the amount of *market value* deficiency need be provided out of the ~~firm~~Dealer Member's capital. In any case, where the deficiency exists for more than one business day, it must be provided out of the ~~firm~~Dealer Member's capital.
11. **Lines 5, 6 and 7** - In a securities borrowed transaction between a ~~firm and an Acceptable Institution, Acceptable Counterparty, or Regulated Entity~~Dealer Member and an acceptable institution, acceptable counterparty, or regulated entity, where a letter of credit issued by a Schedule 1 Bank is used as collateral for the securities borrowed, there shall be no charge to the Dealer Member's capital for any excess of the value of the letter of credit pledged as collateral over the *market value* of the securities borrowed.
12. **Lines 4, 8 and 12** - Transactions whereby an ~~Acceptable Institution, Acceptable Counterparty, or Regulated Entity~~acceptable institution, acceptable counterparty, or regulated entity are only acting as agents (on behalf of an "other" party) should be reported and margined as "Others".

**PART II**

**JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT**

DATE: \_\_\_\_\_

(Firm/Dealer/Member Name)

**ANALYSIS OF SECURITIES OWNED AND SOLD SHORT AT MARKET VALUE**

| CATEGORY   | MARKET VALUE            |        | MARGIN   |
|--|-------------------------|--------|----------|
|  | LONG                    | SHORT  | REQUIRED |
|  | CS'000                  | CS'000 | CS'000   |
| 1. Money market  | -----                   | -----  |          |
| Accrued interest   | -----                   | -----  | NIL      |
| TOTAL MONEY MARKET   | -----                   | -----  |          |
| 2. <del>Bonds</del> Debt   | -----                   | -----  |          |
| Accrued interest   | -----                   | -----  | NIL      |
| TOTAL <del>BONDS</del> DEBT  | -----                   | -----  |          |
| 3. Equities  | -----                   | -----  |          |
| Accrued interest on convertible debentures   | -----                   | -----  | NIL      |
| TOTAL EQUITIES   | -----                   | -----  |          |
| 4. Options   | -----                   | -----  |          |
| 5. Futures   | NIL                     | NIL    |          |
| 6. <del>Other</del> OTC derivatives  | -----                   | -----  |          |
| Accrued interest   | -----                   | -----  | NIL      |
| TOTAL OTHER  | -----                   | -----  |          |
| 7. Registered traders, specialists and market makers <del>see</del><br><del>instructions</del>   | NIL                     | NIL    |          |
| 8. TOTAL   | -----                   | -----  |          |
|  |                         | A-52   | B-710    |
| 9. <b>LESS:</b> Securities, including accrued interest, segregated for<br>client free credit ratio calculation <del>see instructions</del> | -----                   | -----  |          |
|  | A-8 <del>and</del> D-78 |        |          |
| 10. <del>NET</del> Adjusted TOTAL  | -----                   | -----  |          |
|  | A-7                     |        |          |

**SUPPLEMENTARY INFORMATION**

11. Market value of securities included above but held on deposit ~~with Acceptable-Clearing Corporations or Regulated Entities~~ as variable base deposits or margin deposits with acceptable clearing corporations or regulated entities or as a comfort deposit with a carrying broker
12. Margin reduction from offsets against Trader reserves, and PDO guarantees ~~or General allowances~~

## **FORM 1, PART II – SCHEDULE 2**

### **NOTES AND INSTRUCTIONS**

#### **1- Valuation and margin rates**

All securities are to be valued at market (see General Notes and Definitions) as of the reporting date. The margin rates to be used are those outlined in the ~~bylaws, rules and regulations of the Joint Regulatory Bodies and the Canadian Investor Protection Fund~~ Corporation rules.

#### **All securities owned and sold short**

~~2-~~ Schedule 2 summarizes **all** securities owned and sold short by the categories indicated. Details that must be included for each category are total long *market value*, total short *market value* and total margin required as indicated.

#### **Margining of option positions**

~~3-~~ Where the ~~firm~~ Dealer Member utilizes the computerized options margining program of a recognized Exchange operating in Canada, the margin requirement produced by such program may be used provided the positions in the ~~firm~~ Dealer Member's records agree with the positions in the Exchange computer. No details of such positions are to be reported if the programs are employed. Details of any adjustments made to the margin calculated by an Exchange computer-margining program must be provided. For the purposes of this paragraph, recognized Exchange means The Montreal Exchange.

#### **Request for detailed information**

~~4-~~ The Examiners and/or Auditors of the ~~Joint Regulatory Bodies~~ Corporation may request additional details of securities owned or sold short as they, in their discretion, believe necessary.

#### **Margin offsets**

~~5-~~ Where there are margin offsets between categories, the residual should be shown in the category with the larger initial margin required before offsets.

**Line 1** - Money market ~~shall~~ is to include Canadian & US Treasury Bills, Bankers Acceptances, Bank paper (Domestic & Foreign), Municipal and Commercial Paper or other similar instruments.

#### **Supplementary instructions for reporting money market commitments:**

"**Market Price**" for money market commitments [fixed-term repurchases, calls, etc.] shall be calculated as follows:

- (~~a~~) Fixed date repurchases [no borrower call feature] - the market price is the price determined by applying the current yield for the security to the term of maturity from the repurchase date. This will permit calculation of any profit or loss based on the market conditions at the reporting date. Exposure due to future changes in market conditions is covered by the margin rate.
- (~~b~~) Open repurchases [no borrower call feature] - prices are to be determined as of the reporting date or the date the commitment first becomes open, whichever is the later. Market price is to be determined as in (~~a~~) and commitment price is to be determined in the same manner using the yield stated in the repurchase commitment.
- (~~c~~) Repurchase with borrower call features - the market price is the borrower call price. No margin is required where the total consideration for which the holder can put the security back to the dealer is less than the total consideration for which the dealer may put the security back to the issuer. However, where a holder consideration exceeds dealer consideration [the dealer has a loss], the margin required is the lesser of:
  - (~~1~~) a) the prescribed rate appropriate to the term of the security, and
  - (~~2~~) b) the spread between holder consideration and dealer consideration [the loss] based on the call features subject to a minimum of 1/4 of 1% margin.

#### **Line 7** - Registered traders, specialists and market makers margin requirements are:

- (i) The minimum margin requirement for each ~~TSX~~ FSE registered trader is \$50,000.
- (ii) The minimum margin requirement for each ~~MEMX~~ MEMX registered specialist is the lesser of \$50,000 or an amount sufficient to assume a position of twenty board lots of each security in which such specialist is registered, subject to a maximum of \$25,000 per issuer.
- (iii) The market maker minimum margin requirement is for the ~~TSX~~ FSE \$50,000 for each specialist appointed and for the ~~MEMX~~ MEMX \$10,000 for each security and/or class of options appointed (not to exceed \$25,000 for each market maker in each preceding case). No minimum margin is required where the market maker does not have an appointment.

The above-noted minimum margin for each registered trader, specialist, or market maker may be applied as an offset to reduce any margin on positions held long or short in the registered trading account of such registered trader, specialist or

**FORM 1, PART II – SCHEDULE 2**  
**NOTES AND INSTRUCTIONS** [~~Cont'd~~Continued]

market maker. It cannot be used to offset margin required for any other registered trader, specialist or market maker or for any other security positions of the ~~member~~Dealer Member.

The *market values* related to positions in registered traders, specialists and market maker accounts should be included in the appropriate categories in the preceding lines of the Schedule. Related margin in excess of the minimum margin reported on this line should also be included in the preceding lines.

**Line 9** - The securities to be included are bonds, debentures, treasury bills and other securities with a term of 1 year or less, 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 BasleBasel Accord), which are segregated and held separate and apart as the Dealer Member ~~firm~~'s property.

**Line 12** - Include margin reductions from offsets against IA reserves only to the extent there is a written agreement between the ~~firm~~Dealer Member and the trader permitting the ~~firm~~Dealer Member to recover realized or unrealized losses from the IA reserve account. Include margin reductions arising from guarantees relating to inventory accounts by Partners, Directors, and Officers of the ~~firm~~Dealer Member (PDO Guarantees). ~~Include margin reductions arising from offsets against non-specific allowances of the firm.~~

**PART II**

**JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT**

DATE: \_\_\_\_\_

(~~Firm~~ Dealer Member Name)

**MARGIN FOR CONCENTRATION IN UNDERWRITING COMMITMENTS**

**INDIVIDUAL CONCENTRATION:**

| Description<br>(see note 3) | Market Value<br>C\$'000 | Normal<br>Margin<br>C\$'000 | 40% of Net<br>Allowable<br>Assets<br>C\$'000 | Excess<br>C\$'000 | Margin already<br>provided<br>C\$'000<br>(see note 2) | Concentration<br>Margin<br>C\$'000 |
|-----------------------------|-------------------------|-----------------------------|--|-------------------|---|------------------------------------|
| -----                       | -----                   | -----                       | -----  | -----             | -----   | -----                              |
| -----                       | -----                   | -----                       | -----  | -----             | -----   | -----                              |
| -----                       | -----                   | -----                       | -----  | -----             | -----   | -----                              |
| 1. SUBTOTAL                 |                         |                             |  |                   |   | -----                              |

**OVERALL CONCENTRATION:**

| Description<br>(see note 5)              | Market Value<br>C\$'000 | Normal<br>Margin<br>C\$'000 | 100% of Net<br>Allowable<br>Assets<br>C\$'000 | Excess<br>C\$'000 | Margin already<br>provided<br>C\$'000<br>(see note 4) | Concentration<br>Margin<br>C\$'000 |
|--|-------------------------|-----------------------------|---|-------------------|---|------------------------------------|
| -----                                    | -----                   | -----                       | -----   | -----             | -----   | -----                              |
| -----                                    | -----                   | -----                       | -----   | -----             | -----   | -----                              |
| -----                                    | -----                   | -----                       | -----   | -----             | -----   | -----                              |
| 2. SUBTOTAL                              |                         |                             |   |                   |   | -----                              |
| 3. CONCENTRATION MARGIN (Lines 1 plus 2) |                         |                             |   |                   |   | -----                              |

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**NOTES:**

1. This schedule need only be completed for underwriting commitments requiring concentration margin.
2. **INDIVIDUAL COMMITMENT CONCENTRATION:**  
Where the normal margin required on any one commitment is reduced due to either:
  - (a) the use of a new issue letter; or
  - (b) qualifying expressions of interest received from exempt list customers that have been verbally confirmed but not yet contracted [the margin reduction is only permitted once the final allocation has been made to the exempt purchasers and the entire allotment to exempt purchasers has been verbally confirmed]
 and the normal margin on the commitment exceeds 40% of the member firm Dealer Member's net allowable assets, such excess shall be provided as margin. The amount to be added may be reduced by the amount of margin already provided on the individual underwriting position to which such excess relates.
3. Report details by individual commitments.
4. **OVERALL COMMITMENT CONCENTRATION:**  
Where the normal margin required on some or all commitments is reduced due to either:
  - (a) the use of a new issue letter; or
  - (b) qualifying expressions of interest received from exempt list customers that have been verbally confirmed but not yet contracted [the margin reduction is only permitted once the final allocation has been made to the exempt purchasers and the entire allotment to exempt purchasers has been verbally confirmed]

DATE: \_\_\_\_\_ ~~SCHEDULE 2A~~ FORM 1, PART II – SCHEDULE 2A

**PART II**

**~~JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT~~**

and the aggregate normal margin on these commitments exceeds 100% of the ~~member firm~~ Dealer Member's net allowable assets, such excess shall be provided as margin. The amount to be added may be reduced by the amount of margin already provided on such commitments and by the amount, if any, already provided for individual concentration.

5. It is not necessary to report details of individual commitments. Report the aggregate totals.



**PART II**

**JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT**

DATE: \_\_\_\_\_

(Firm/Dealer/Member Name)

**ANALYSIS OF CLIENTS' TRADING ACCOUNTS LONG AND SHORT**

| CATEGORY   | BALANCES                |                          | AMOUNT<br>REQUIRED TO<br>FULLY MARGIN |
|--|-------------------------|--------------------------|---------------------------------------|
|  | DEBIT<br><u>C\$'000</u> | CREDIT<br><u>C\$'000</u> | <u>C\$'000</u>                        |
| 1. <del>Acceptable Institutions</del> <u>institutions</u>  | -----                   | -----                    | -----                                 |
| 2. <del>Acceptable Counterparties</del> <u>counterparties</u>                                      | -----                   | -----                    | -----                                 |
| 3. Other clients:  |                         |                          |                                       |
| (a) Margin accounts  | -----                   | -----                    | -----                                 |
| (b) Cash accounts  | -----                   | -----                    | -----                                 |
| (c) <del>Commodity</del> <u>Futures</u> accounts   | -----                   | -----                    | -----                                 |
| (d) Unsecured debits and shorts  | -----                   | N/A                      | -----                                 |
| 4. Margin on extended settlements  | N/A                     | N/A                      | -----                                 |
| 5. Free credits  | N/A                     | -----                    | N/A                                   |
|  |                         | D-4                      |                                       |
| 5. (a) Free credits, pending trades [if applicable]  | N/A                     |                          | N/A                                   |
| 6. RRSP and other similar accounts   | -----                   | -----                    | -----                                 |
| 7. <b>Less</b> - allowance for bad debts <del>or accounts provided for but included above</del>    | -----                   | -----                    | -----                                 |
| 8. TOTAL   | <u>A-109</u>            | <u>A-5453</u>            | <u>B-1012</u>                         |
| 9. <b>SUPPLEMENTARY DISCLOSURE:</b>  |                         |                          |                                       |
| (a) NAME OF RRSP TRUSTEE(S)  |                         |                          |                                       |
| 1.   |                         |                          |                                       |
| 2.   |                         |                          |                                       |
| 3.   |                         |                          |                                       |
| (b) Total margin reductions from offsets against IA reserves, PDO guarantees or general allowances |                         |                          | -----                                 |

**FORM 1, PART II – SCHEDULE 4**  
**NOTES AND INSTRUCTIONS**

1. EACH ~~FIRM DEALER MEMBER~~ SHALL OBTAIN FROM CLIENTS, PARTNERS, SHAREHOLDERS, AND CLIENTS CARRIED FOR AN INTRODUCING BROKER, SUCH MINIMUM MARGIN IN SUCH AMOUNT AND IN ACCORDANCE WITH SUCH REQUIREMENTS AS PRESCRIBED BY THE ~~JOINT REGULATORY BODIES CORPORATION~~.
2. "**extended settlement date**" transaction shall mean a transaction (other than a mutual fund security redemption) in respect of which the arranged settlement date is a date after regular settlement date.  
"**regular settlement date**" means the settlement date generally accepted according to industry practice for the relevant security in the market in which the transaction occurs, including foreign jurisdictions. For margin purposes, if such settlement date exceeds 15 business days past trade date, settlement date will be deemed to be 15 business days past trade date. In the case of new issue trades, regular settlement date means the contracted settlement date as specified for that issue.
3. **Lines 1 to 3** - Balances including extended settlement date transactions should be reported on these lines. However, the margin related to such extended settlements should be calculated as described in Note 13 and reported on ~~line~~Line 4.
4. **Line 1** - No mark to market or margin is required on accounts with ~~Acceptable Institutions~~acceptable institutions in the case of either regular or extended settlement date transactions EXCEPT any transaction which has not been confirmed by an ~~Acceptable Institution~~acceptable institution within 15 business days of the trade date shall be margined. This line is to include all trading balances with ~~Acceptable Institutions~~acceptable institutions except free credit balances, which should be included on ~~line~~Line 5.
5. **Line 2** - In the case of a regular settlement date transaction in the account of an ~~Acceptable Counterparty~~acceptable counterparty the amount of margin to be provided, commencing on regular settlement date, shall be the equity deficiency calculated by determining the difference between (a) the net *market value* of all settlement date security positions in the customer's account(s) and (b) the net money balance on a settlement date basis in the same account(s). Any transaction, which has not been confirmed by an ~~Acceptable Counterparty~~acceptable counterparty within 15 business days of the trade date, shall be margined. This line is to include all trading balances with ~~Acceptable Counterparties~~acceptable counterparties except free credit balances, which should be included on ~~line~~Line 5.
6. **Line 3(a) - "margin accounts"** means accounts which operate according to the following rules:
  1. Settlement of each transaction in a margin account of a customer shall be made on or before the settlement date by payment of the amount required to complete the transaction or by delivery of the required securities, as the case may be.
  2. Payment by a customer in respect of any margin account transaction may be by:
    - a) cash or other immediately available funds;
    - b) applying the loan value of securities to be deposited;
    - c) applying the excess loan value in the account or in a guarantor's account.
  3. Each margin account of a customer, which has become undermargined, shall within 20 business days of the account becoming undermargined be restricted only to trades, which reduce the margin deficiency in the account. Such restriction shall apply until the account is fully margined.
  4. Advancing funds or delivering securities from the account of a customer shall not be permitted as long as the account is undermargined or if such advance or delivery would cause the account to become undermargined.
7. **Line 3(a)** - In the case of a regular settlement date transaction in the margin account of a person other than a ~~Regulated Entity, Acceptable Counterparty or Acceptable Institution~~regulated entity, acceptable counterparty or acceptable institution, the amount of margin to be provided, commencing on regular settlement date, shall be the margin deficiency at not less than prescribed rates, if any, that exists.

TRADE DATE MARGINING

For Dealer Members determining margin deficiencies for clients on a trade date basis, (a) any amount of margin required to be provided under this subsection shall be determined using money balances and security positions as of trade date, and (b) the amount referred to in the previous paragraph shall be determined and provided commencing on trade date.

**FORM 1, PART II – SCHEDULE 4**  
**NOTES AND INSTRUCTIONS** [~~Cont'd~~Continued]

8. **Line 3(b) - "cash accounts"** means accounts which operate according to the following rules:

1. CASH ACCOUNTS

Settlement of each transaction in a cash account (other than DAP or RAP transactions referred to below) of a customer should be made by payment or delivery on the settlement date. In the event the account does not settle as required, capital will be provided as prescribed in Note 9.

2. DELIVERY AGAINST PAYMENT (DAP)

Settlement of a purchase transaction in an account for which the customer has made arrangements with the Dealer Member on or before settlement date for delivery by the Dealer Member against payment in full by the customer shall be settled on the later of (i) settlement date or (ii) the date on which the Dealer Member gives notice to the customer that the securities purchased are available for delivery.

3. RECEIPT AGAINST PAYMENT (RAP)

Settlement of a sale transaction in an account for which the customer has made arrangements with the Dealer Member on or before settlement date for receipt of securities by the Dealer Member against payment to the customer shall be settled on the settlement date.

4. PAYMENT

Payment by a customer in respect of any cash account transaction may be by:

- a) cash or other immediately available funds;
- b) the application of the proceeds of the sale of the same or other securities held long in any cash account of the customer with the Dealer Member provided that the equity (trade date brokers include unsettled transactions) in such account exceeds the amount of the transaction;
- c) the transfer of funds from a margin account of the customer with the Dealer Member provided adequate margin is maintained in such account immediately before and after the transfer.

5. ISOLATED TRANSACTIONS

A customer shall be permitted in an isolated instance to:

- a) settle, when the equity (excluding all unsettled transactions) in such account does not exceed the amount of the transaction, a regular or DAP cash account transaction by the sale of the same security in any cash account of the customer with the Dealer Member;
- b) transfer a transaction in a cash account to a margin account prior to payment in full; or
- c) transfer a transaction in a DAP account to a margin account within 10 business days after settlement date.

6. ACCOUNT RESTRICTIONS

a) Cash accounts

When any portion of the money balance for a cash account of a customer is outstanding 20 business days or more after settlement date the customer shall be restricted from entering into any other transactions (other than liquidating transactions) in any account of the customer with the Dealer Member, unless and until (i) payment of any such money balance outstanding for 20 business days or more shall have been made, (ii) all open and unsettled transactions in any cash account of the customer with the Dealer Member have been transferred in accordance with subsection 7, or (iii) the customer has executed a liquidating transaction in the account with the effect that no portion of the money balance in the account is outstanding 20 business days or more after settlement date.

b) DAP accounts

When any portion of the money balance for a DAP account transaction of a customer is outstanding 5 business days or more (or, in the case of transactions of customers situated other than in continental North America, 15 business days) from the date on which the transaction is required to be settled in accordance with subsection 2. the customer shall be restricted from entering into any other transaction (other than liquidating transactions) in any other account of the customer with the Dealer Member, unless and until (i) such transaction has been settled in full or (ii) all open and unsettled transactions in any cash account of the customer with the Dealer Member have been transferred in accordance with subsection 7.

**FORM 1, PART II – SCHEDULE 4**  
**NOTES AND INSTRUCTIONS** [~~Cont'd~~Continued]

7. TRANSFER TO MARGIN ACCOUNT

The account restrictions in subsection 6 (a) and (b) shall not apply to the accounts of a customer who (i) do not have a margin account with the Dealer Member, and (ii) on or after the accounts becoming so restricted, transfers all open and unsettled transactions in any cash account of the customer with the Dealer Member to one or more newly established margin accounts of the customer with the Dealer Member, provided such margin accounts have been properly established by the completion of all necessary documentation and action and adequate margin is maintained in such account(s) immediately after such transfer.

8. ACCEPTABLE INSTITUTIONS AND OTHERS

Subsection 6 does not apply to the accounts of ~~Acceptable Institutions, Acceptable Counterparties~~acceptable institutions, acceptable counterparties, non-Dealer Member brokers, or ~~Regulated Entities~~regulated entities.

9. **Line 3(b)** - Margin must be provided as follows:

CASH ACCOUNTS

- a) When any portion of the money balance in a cash account of a person other than a ~~Regulated Entity, Acceptable Counterparty or Acceptable Institution~~regulated entity, acceptable counterparty or acceptable institution is overdue for a period of less than 6 business days past regular settlement date, in the case of regular settlement transactions, the amount of margin to be provided, commencing on regular settlement date, shall be the equity deficiency, if any, calculated by determining the difference between (a) the net weighted *market value* of all settlement date security positions in the customer's cash account(s) and (b) the net money balance on a settlement date basis in the same account(s).

For the purposes of calculating weighted *market value*, the following weightings will apply:

- Securities that currently have a margin rate of 60% or less, are weighted at 1.000
- Listed securities with a margin rate greater than 60% are weighted as 0.333
- Nasdaq National Market® and Nasdaq SmallCap Market<sup>SM</sup> securities with a margin rate of more than 60% are weighted as 0.333
- All other unlisted securities with a margin rate of more than 60% are weighted as 0.000

- b) Commencing on 6 business days or more past regular settlement date, the amount of margin to be provided shall be the margin deficiency, if any, that would exist if all of the customer's cash accounts were margin accounts;
- c) The amounts provided in (a) or (b) above may be reduced by the amount of excess margin in the customer's margin accounts and any equity surplus in the customer's DAP and RAP accounts, if any.

DAP AND RAP ACCOUNTS

- a) When any portion of the money balance in a DAP account or RAP account of a person other than a ~~Regulated Entity, Acceptable Counterparty or Acceptable Institution~~regulated entity, acceptable counterparty or acceptable institution is overdue for a period of less than 10 business days past regular settlement date, in the case of regular settlement transactions, the amount of margin to be provided, commencing on regular settlement date, shall be the equity deficiency, if any, of (a) the net *market value* of all settlement date security positions in the customer's DAP, or RAP account(s) and (b) the net money balance on a settlement date basis in the same account(s).
- b) For each transaction in a DAP or RAP account which is unsettled, or any money portion in respect of such transaction is outstanding, in either case for a period of 10 business days or more past regular settlement date, the amount of margin to be provided shall be the margin deficiency calculated in respect of each such transaction as if such transaction was in a margin account.
- c) For a customer whose accounts are restricted, the amount to be provided shall be the margin deficiency, if any, that would exist if all of the customer's DAP and RAP accounts were margin accounts;
- d) The amount to be provided in (a), (b) or (c) above may also be reduced by the amount of excess margin in the customer's margin accounts and any equity surplus in the customer's cash accounts, if any.

CONFIRMATIONS AND COMMITMENT LETTERS

The margin requirements outlined in the previous paragraphs of Note 9 do not apply if a customer has provided the Dealer Member on or before settlement date with an irrevocable and unconditional confirmation from an ~~Acceptable Clearing Corporation~~acceptable clearing corporation or letter of commitment from an ~~Acceptable Institution~~acceptable

**FORM 1, PART II – SCHEDULE 4**  
**NOTES AND INSTRUCTIONS** [~~Cont'd~~[Continued](#)]

[institution](#) to the effect that such corporation or institution will accept delivery from the [Dealer](#) Member and pay for the securities to be delivered, and in such event settlement shall be considered provided for by the customer.

TRADE DATE MARGINING

For [Dealer](#) Members determining margin deficiencies for clients on a trade date basis, the amount of margin required between trade date and settlement date shall be the equity deficiency, if any, calculated by determining the difference between (a) the net *market value* of all trade date security positions in the customer's cash, DAP or RAP account(s) and (b) the trade date net money balance in the same account(s). Commencing on regular settlement date, the amount of margin to be provided shall be the margin requirement outlined in the previous paragraphs of Note 9.

10. Any transactions in open cash accounts at the report date which, subsequent to that date, become in violation of the cash account requirements and have resulted in either a material loss or a material deficit - equity position, must either be fully margined or the total amount to margin such items must be reported as a footnote to ~~the questionnaire~~[Form 1](#).
11. **Line 3(c)** - Client accounts shall be marked to market and margined daily using as a minimum the margin requirements of the Clearing House of the [CommodityFutures](#) Exchange on which the [commodityfutures contract](#) is traded or at the rate required by the ~~firm~~[Dealer Member](#)'s clearing broker, whichever is the greater.
12. **Line 3(d)** - The amount required to fully margin should be the aggregate of unsecured debits plus the margin required on any short security positions in such accounts or in accounts with no money balance. Any account that is partly secured should be included on Line 3(a) - Margin Accounts.
13. **Line 4** - Report only the margin related to extended settlements in cash, DAP, RAP or margin accounts on this line. In the case of an extended settlement transaction between a [Dealer](#) Member and either an [Acceptable Counterparty](#)~~acceptable counterparty~~ or any other counterparty (other than an [Acceptable Institution](#)~~acceptable institution~~ (see Note 4) or [Regulated Entity](#)~~regulated entity~~ (see Schedule 5)), the position shall be margined as follows, commencing on regular settlement date:

| <b>CALENDAR DAYS AFTER REGULAR SETTLEMENT (Note 1)</b>  |                            |   |
|---|----------------------------|---|
| <b>Counterparty</b>   | <b>30 days or less</b>     | <b>Greater than 30 days</b>   |
| <a href="#">Acceptable Counterparty</a> <del>counterparty</del>   | Market deficiency (Note 2) | Margin  |
| Other   | Margin                     | 200% of margin (to a maximum of the <i>market value</i> of the underlying securities) |
| Note 1: Calendar days refers to the original term of the extended settlement transaction.   |                            |   |
| Note 2: Any transaction which has not been confirmed by an <a href="#">Acceptable Counterparty</a> <del>acceptable counterparty</del> within 15 business days of the trade shall be margined. |                            |   |

14. **Line 5** - Free credit balances in all accounts except RRSP and other similar accounts should be included. [Dealer](#) Members margining on a trade date basis will generally calculate free credit balances on a trade date basis and should report this trade date figure on ~~line~~[Line](#) 5. However, for those [Dealer](#) Members margining on a settlement date basis, their free credit balances will generally be calculated on a settlement date basis and this settlement date figure should be reported on ~~line~~[Line](#) 5. Note that a consistent basis of calculating free credit balances must be used from month to month.  
 For cash and margin accounts, a free credit is: "the credit balance less an amount equal to the aggregate of the *market value* of short positions and regulatory margin on those shorts".  
 For [commodityfutures](#) accounts, a free credit is: "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."
15. **Line 5(a)** - For those [Dealer](#) Members reporting free credit balances on a settlement date basis on ~~line~~[Line](#) 5, report the free credit balances arising as a result of pending trades on this line.
16. **Line 7** - Deduct the allowance for bad debts recorded in the accounts in order that the totals in ~~line~~[Line](#) 8 are shown "net".
17. **Line 9(b)** - Include margin reductions from offsets against IA reserves only to the extent there is a written agreement

**FORM 1, PART II – SCHEDULE 4**  
**NOTES AND INSTRUCTIONS** [~~Cont'd~~Continued]

between the ~~firm~~Dealer Member and the IA permitting the ~~firm~~Dealer Member to recover the unsecured balances of the IA's client accounts from the IA reserve account. Include margin reductions arising from guarantees relating to customers' accounts by Partners, Directors, and Officers of the ~~firm~~Dealer Member (PDO Guarantees). Include margin reductions arising from offsets against non-specific allowances of the ~~firm~~Dealer Member.



**PART II**

**JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT**

DATE: \_\_\_\_\_

(Firm Dealer Member Name)

**ANALYSIS OF BROKERS' AND DEALERS' TRADING BALANCES**

| CATEGORY   | BALANCES                   |                            | AMOUNT                     |
|--|----------------------------|----------------------------|----------------------------|
|  | DEBIT                      | CREDIT                     | REQUIRED TO                |
|  | <u>C\$'000</u>             | <u>C\$'000</u>             | <u>FULLY MARGIN</u>        |
|  | <u>C\$'000</u>             | <u>C\$'000</u>             | <u>C\$'000</u>             |
| 1. <del>Acceptable Clearing Corporations</del> <u>clearing corporations</u> trading balances [see notes]   | -----                      | -----                      | -----                      |
| 2. <del>Regulated Entities</del> <u>entities</u> [see notes]   | -----                      | -----                      | -----                      |
| 3. (a) <u>Firm Dealer Member</u> 's own affiliated/related partnerships or corporations duly approved and audited under the capital requirements of the <del>Joint Regulatory Bodies</del> <u>Corporation</u>                  | -----                      | -----                      | -----                      |
| (b) <u>Firm Dealer Member</u> 's own affiliated/related partnerships or corporations - not approved [see note 6 - give details]  | -----                      | -----                      | -----                      |
| 4. (a) Other brokers and dealers not qualifying as <del>Regulated Entities</del> <u>regulated entities</u> but qualifying as <del>Acceptable Counterparties</del> <u>acceptable counterparties</u> [see note 7 - give details] | -----                      | -----                      | -----                      |
| (b) Other brokers and dealers not qualifying as <del>Regulated Entities or Acceptable Counterparties</del> <u>regulated entities or acceptable counterparties</u> [see note 8 - give details]                                  | -----                      | -----                      | -----                      |
| 5. Mutual Funds or their agents [see note 9]   | -----                      | -----                      | -----                      |
| 6. TOTAL   | =====                      | =====                      | =====                      |
|  | A- <del>11</del> <u>10</u> | A- <del>55</del> <u>54</u> | B- <del>11</del> <u>13</u> |

**FORM 1, PART II – SCHEDULE 5**  
**NOTES AND INSTRUCTIONS**

1. This schedule is only to include ordinary security trading transactions. All security borrowing or lending transactions should be disclosed on Schedules 1 or 7.
2. **Lines 1, 2, 3 and 4 where applicable** - Balances may be reported on a “net” basis (broker by broker) or on a “gross” basis. Balances with a broker or dealer must not be netted against those with its affiliated company.
3. **Line 1** - For definition, see General Notes and Definitions.  
Margin on such balances should be provided as follows:
  - (i) Trades settling through a Net Settlement system should be treated as if the other party to the trade was an ~~Acceptable Institution~~ acceptable institution. For example, CNS balances with CDS, and CNS balances with National Securities Clearing Corporation.
  - (ii) All transactions done through CDS outside of the CNS system should be treated as if with a single counterparty to be classified as an ~~Acceptable Counterparty~~ acceptable counterparty (even if some or all of the other parties qualify as an ~~Acceptable Institution~~ acceptable institution).
  - (iii) Other trades settling on a transaction by transaction basis should be treated as if they were to be settled directly with the other party to the trade. For example, balances arising from trades settled through National Securities Clearing Corporation’s Netted Balance Order or Trade-for-Trade Services, and balances arising from trades settled through Euroclear and Cedel.
4. **Line 2** - This line is not to include non-arms’ length transactions which are to be reported on ~~line~~ Line 3. For definition of ~~Regulated Entities~~ “regulated entities”, see General Notes and Definitions. Margin on balances with ~~Regulated Entities~~ regulated entities must be provided as follows:
  - (i) In the case of a regular settlement date transaction in the account of a ~~Regulated Entity~~ regulated entity the amount of margin to be provided, commencing on regular settlement date, shall be the equity deficiency of (a) the net *market value* of all settlement date security positions in the broker’s accounts, and (b) the net money balance on a settlement date basis in the same accounts. In the case of an extended settlement date transaction between a Member and a ~~Regulated Entity~~ regulated entity, commencing on regular settlement date the position shall be marked to market if the original term of the extended settlement transaction is 30 days or less, otherwise the position should be margined at applicable rates.
  - (ii) Any transaction which has not been confirmed by a ~~Regulated Entity~~ regulated entity within 15 business days of the trade date shall be margined.
5. **Line 3(a)** - Margin must be provided as outlined for ~~Regulated Entities~~ regulated entities in note 4 above.
6. **Line 3(b)** - If the affiliated/related company qualifies as a ~~Regulated Entity~~ regulated entity, then margin must be provided as outlined for ~~Regulated Entities~~ regulated entities in note 4 above.  
If the affiliated/related company qualifies as an ~~Acceptable Counterparty~~ acceptable counterparty, then margin must be provided in the manner outlined in Schedule 4 Notes and Instructions for ~~Acceptable Counterparties~~ acceptable counterparties.  
If neither of the above, then margin must be provided in the manner outlined in Schedule 4 Notes and Instructions for regular clients’ accounts.
7. **Line 4(a)** - All balances must be margined in the same way as accounts of ~~Acceptable Counterparties~~ acceptable counterparties (see Schedule 4 Notes and Instructions). Balances, or portions thereof, arising from trading transactions such as futures, options and short sale deposits should also be reported on this line. This line should also include balances with approved inter-dealer bond brokers.  
Approved inter-dealer bond brokers are those inter-dealer bond dealers that are approved by ~~IRRO~~ the Corporation and the Bourse de Montréal Inc. The list of approved inter-dealer bond brokers will be published from time to time through the issuance of a regulatory notice.
8. **Line 4(b)** - All balances must be margined in the same way as regular clients’ accounts (see Schedule 4 Notes and Instructions). Balances, or portions thereof, arising from trading transactions such as futures, options and short sale deposits should also be reported on this line. This line should also include balances with inter-dealer bond brokers which are not on the list of approved inter-dealer bond brokers.
9. **Line 5** - This line is to include balances arising from mutual fund redemptions or purchase transactions. All balances

**FORM 1, PART II – SCHEDULE 5**  
**NOTES AND INSTRUCTIONS**

must be margined in the same way as accounts of ~~Acceptable Counterparties~~ acceptable counterparties, or as regular client accounts.

**PART II**

**JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT**

DATE: \_\_\_\_\_

(Firm/Dealer/Member Name)

**CURRENT INCOME TAXES**

**CS'000**

**A: INCOME TAX PAYABLE (RECOVERABLE LIABILITY (ASSET))**

|    |  |           |  |
|----|--|-----------|--|
| 1. | Balance payable (recoverable) at last year-end   | -----     |  |
| 2. | (a) Payments (made) or received relating to above balance  | -----     |  |
|    | (b) Adjustments, including reassessments, relating to prior periods [give details if significant]                            | -----     |  |
| 3. | Total adjustment to prior years' payable (recoverable) taxes during current year prior periods [give details if significant] | -----     |  |
| 4. | Subtotal [add or subtract <u>line</u> 3 from <u>line</u> 1]  | -----     |  |
| 5. | Provision for income tax expense (recovery of) taxes, including taxes on extraordinary items — current                       | -----     |  |
|    |  | E-26(a)37 |  |
| 6. | less: Current installments   | -----     |  |
| 7. | Other adjustments [give details if significant]  | -----     |  |
| 8. | Total adjustment for current year's taxes  | -----     |  |
| 9. | TOTAL PAYABLE (RECOVERABLE LIABILITY (ASSET)) [add or subtract <u>line</u> 8 from <u>line</u> 4]                             | -----     |  |
|    |  |           | A-14, 13, if recoverable asset<br>A-56, if payable liability |

**B: ANALYSIS OF DEFERRED INCOME TAXES**

|                         | Debit        | Credit re<br>Current assets<br>and liabilities | Credit re Non-<br>current assets<br>and liabilities |
|-------------------------|--------------|--|---|
| 1: Unrealized — Trading | -----        | -----  | -----   |
| — Commission            | -----        | -----  | -----   |
| — Underwriting          | -----        | -----  | -----   |
| 2: CCA/Depreciation     | -----        | -----  | -----   |
| 3: Other [give details] | -----        | -----  | -----   |
| 4: TOTAL                | -----        | -----  | -----   |
|                         | A-28 details | A-57   | A-63  |

**PART II**

**JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT**

DATE: \_\_\_\_\_

(Firm/Dealer Member Name)

**TAX RECOVERIES**

**C\$'000**

**A. TAX RECOVERY FOR RISK ADJUSTED CAPITAL: TAX RECOVERY FOR RISK ADJUSTED CAPITAL**

1. Sch. 6 ~~Current year~~ Income tax ~~provision~~ expense (recovery) [must be greater than 0, A-5 else N/A] .....  
.....
2. A- Commission and/or fees receivable (non allowable assets) of \$ \_\_\_\_\_  
~~2221~~ multiplied by an effective corporate tax rate of \_\_\_\_\_% .....  
.....
3. TAX RECOVERY - ASSETS [100% of lesser of ~~lines~~ Lines 1 and 2] .....  
.....
4. Balance of current ~~provision~~ income tax expense available for margin and securities concentration charge tax recovery [~~line~~ Line 1 minus ~~line~~ Line 3] .....  
.....
5. Recoverable taxes from preceding three years of \$ \_\_\_\_\_ net of current year tax recovery (if applicable) of \$ \_\_\_\_\_ .....  
.....
6. Total available for margin tax recovery [~~line~~ Line 4 plus ~~line~~ Line 5] .....  
.....
7. B- Total margin required of \$ \_\_\_\_\_ multiplied by an effective corporate tax rate  
~~2224~~ of \_\_\_\_\_% .....  
.....
8. TAX RECOVERY - MARGIN [75% of lesser of ~~lines~~ Lines 6 and 7] .....  
.....
9. TOTAL TAX RECOVERY BEFORE TAX RECOVERY ON SECURITIES CONCENTRATION CHARGE [~~line~~ Line 3 plus ~~line~~ Line 8] .....  
.....  
**B-2426**
10. Balance of taxes available for securities concentration charge tax recovery [~~line~~ Line 6 minus ~~line~~ Line 8, must be greater than 0, else N/A] .....  
.....
11. Sch. 9 Total securities concentration charge of \$ \_\_\_\_\_ multiplied by an effective corporate tax rate of \_\_\_\_\_% .....  
.....
12. TAX RECOVERY - SECURITIES CONCENTRATION CHARGE [75% of lesser of ~~lines~~ Lines 10 and 11] .....  
.....  
**B-2628**
13. TOTAL TAX RECOVERY RAC [~~line~~ Line 3 plus ~~line~~ Line 8 plus ~~line~~ Line 12] .....  
.....  
**C-2(b)3**

**B. TAX RECOVERY FOR EARLY WARNING CALCULATION:**

1. Sch. 6 ~~Current year~~ Income tax ~~provision~~ expense (recovery) [must be greater than 0, A-5 else N/A] .....  
.....
2. A- Commission and/or fees receivable (allowable assets) .....  
~~1615~~ .....  
.....
3. A- Commission and/or fees receivable (non allowable assets) .....  
~~2221~~ .....  
.....
4. SUBTOTAL [~~line~~ Line 2 plus ~~line~~ Line 3] .....  
.....
5. Line 4 multiplied by an effective corporate tax rate of \_\_\_\_\_% .....  
.....
6. TAX RECOVERY - INCOME ACCRUALS [100% of lesser of ~~lines~~ Lines 1 and 5] .....  
.....  
**C-2(d)6**

**FORM 1, PART II – SCHEDULE 6A**  
**NOTES AND INSTRUCTIONS**

**SECTION A - ASSETS:** The purpose of this calculation is to tax effect identifiable revenue related receivables which have been classified as non allowable assets for capital purposes. In other words, the calculation gives recognition to the fact that in recording the receivable the ~~firm~~Dealer Member generated revenue against which a tax provision has been set up.

**SECTION A - MARGIN:** The purpose of this calculation is to reduce the provision for contingent market losses on client and inventory positions (i.e. margin) by the appropriate allowance for taxes recoverable in the event of realization of such a market loss.

**Line A1** - If ~~firm~~the Dealer Member has no ~~current income~~ tax ~~provision~~expense due to being in a net tax recovery position, then no tax recovery on assets is allowed for RAC purposes.

**Line A3** - If ~~firm~~the Dealer Member has no ~~current income~~ tax ~~provision~~expense, then insert N/A on this line.

**Line A5** - The balance reported as the recoverable taxes from preceding three years should be the total taxes paid in the three preceding years, hence available for recovery. If ~~firm~~the Dealer Member has reported a balance on ~~line~~Line A1 above, then no balance should be reported as the current year tax recovery on this line.

**Line B1** - If ~~firm~~the Dealer Member has no ~~current income~~ tax ~~provision~~expense due to being in a net tax recovery position, then no tax recovery on income accruals is allowed for Early Warning purposes.

**PART II**

**JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT**

DATE: \_\_\_\_\_

(Firm/Dealer/Member Name)

**ANALYSIS OF OVERDRAFTS, LOANS, SECURITIES LOANED AND REPURCHASE AGREEMENTS**

|  | AMOUNT OF<br>LOAN PAYABLE<br>OR CASH<br>RECEIVED AS<br>COLLATERAL | MARKET VALUE<br>OF SECURITIES<br>RECEIVED AS<br>COLLATERAL | MARKET VALUE<br>OF SECURITIES<br>DELIVERED AS<br>COLLATERAL<br>OR LOANED | REQUIRED TO<br>MARGIN |
|--|---|--|--|-----------------------|
|  | <u>C\$'000</u>  | <u>C\$'000</u>   | <u>C\$'000</u>   | <u>C\$'000</u>        |
|  | [see note 3]  | [see note 4]   | [see note 4]   |                       |
| 1. Bank overdrafts   | -----   | N/A  | N/A  | Nil                   |
| <b>LOANS PAYABLE:</b>  |   |  |  |                       |
| 2. Acceptable <del>Institutions</del> <u>institutions</u>      | -----   | N/A  | -----  | Nil                   |
| 3. Acceptable <del>Counterparties</del> <u>counterparties</u>  | -----   | N/A  | -----  | -----                 |
| 4. Regulated <del>Entities</del> <u>entities</u>               | -----   | N/A  | -----  | -----                 |
| 5. Others  | -----   | N/A  | -----  | -----                 |
| <b>SECURITIES LOANED:</b>                                      |   |  |  |                       |
| 6. Acceptable <del>Institutions</del> <u>institutions</u>      | -----   | -----  | -----  | Nil                   |
| 7. Acceptable <del>Counterparties</del> <u>counterparties</u>  | -----   | -----  | -----  | -----                 |
| 8. Regulated <del>Entities</del> <u>entities</u>               | -----   | -----  | -----  | -----                 |
| 9. Others  | -----   | -----  | -----  | -----                 |
| <b>REPURCHASE AGREEMENTS:</b>                                  |   |  |  |                       |
| 10. Acceptable <del>Institutions</del> <u>institutions</u>     | -----   | N/A  | -----  | Nil                   |
| 11. Acceptable <del>Counterparties</del> <u>counterparties</u> | -----   | N/A  | -----  | -----                 |
| 12. Regulated <del>Entities</del> <u>entities</u>              | -----   | N/A  | -----  | -----                 |
| 13. Others   | -----   | N/A  | -----  | -----                 |
| 14. <b>TOTAL</b> [Lines 1 through 13]                          | -----   | -----  | -----  | -----                 |
|  | A-51  |  |  | B- <del>12</del> 14   |

**FORM 1, PART II – SCHEDULE 7**  
**NOTES AND INSTRUCTIONS**

1. This schedule is to be completed for loan payable transactions whereby the stated purpose of the transaction is to borrow cash. All security lending transactions and securities repurchases, including financing transactions done via 2 trade tickets and those with related parties, should also be disclosed on this schedule.
2. ~~2.~~—For the purpose of this schedule, "excess collateral deficiency" is defined as the actual collateral provided to the counterparty less the collateral required to be received by the counterparty pursuant to regulatory or legislative requirements. A list of current collateralization rates for each category of ~~Acceptable Counterparties~~[acceptable counterparties](#) is published on a regular basis.
3. ~~3.~~—Include accrued interest in amount of loan payable.
4. Market value of securities received or delivered as collateral should include accrued interest.
5. In the case of either a cash borrow and securities loan or a repurchase transaction, if a written agreement between the ~~firm~~[Dealer Member](#) and the counterparty has been entered into containing the terms described below, the instructions in Notes 7, 8, 9 and 10 are applicable, as the case may be. Each such written agreement shall include terms which provide (i) for the rights of either party to retain or realize on securities held by it from the other party on default, (ii) for events of default, (iii) for the treatment of the value of securities held by a non-defaulting party in excess of amounts which may be owed by a defaulting party, (iv) either for set-off or, in the case of secured loans of securities, continuous segregation of collateral and the requirement for the lender to perfect a security interest in collateral giving the highest priority, and (v) if set-off rights or security interests are created in securities sold or loaned by one party to another, that the securities are endorsed for transfer and free of any trading restrictions. In addition, in the case of a repurchase transaction such written agreement shall contain an acknowledgement by the parties that either has the right, upon notice, to call for any difference between the collateral and the securities at any time. Such agreements are not mandatory and if not used are to be margined as provided below.

In the case of a cash borrow and securities loan transaction, if no such written agreement has been entered into in respect of the transaction, then 100% of the *market value* must be provided as margin by the ~~firm~~[Dealer Member](#) on the collateral given to the lender except in the case where the lender is an ~~Acceptable Institution~~[acceptable institution](#) in which case no margin need be provided.

In the case of a repurchase transaction, if no such written agreement has been entered into in respect of the transaction, the position shall be margined as follows:

| Counterparty  | Written Repurchase/Reverse Repurchase Agreement | NO Written Repurchase/Reverse Repurchase Agreement |   |
|---|---|--|---|
|   |   | Calendar days after regular settlement (Note 1)    |   |
|   |   | 30 days or less                                    | Greater than 30 days  |
| <del>Acceptable Institution</del> <a href="#">institution</a>   | No margin                                       | No margin (Note 2)                                 |   |
| <del>Acceptable Counterparty</del> <a href="#">counterparty</a> | Excess collateral deficiency                    | Excess collateral deficiency (Note 2)              |   |
| <del>Regulated Entity</del> <a href="#">entity</a>              | Market deficiency                               | Market deficiency (Note 2)                         | Margin  |
| Other   | Margin  | Margin   | 200% of margin (to a maximum of the <i>market value</i> of the underlying securities) |

Note 1: Regular settlement means the settlement dates or delivery date generally accepted according to industry practice for the relevant security in the market in which the transaction occurs. Margin is calculated from the date of regular settlement. Calendar days refers to the original term of the repurchase/reverse repurchase.

Note 2: Any transaction which has not been confirmed by an ~~Acceptable Institution, Acceptable Counterparty or Regulated Entity~~[acceptable institution, acceptable counterparty or regulated entity](#) within 15 business days of the trade shall be margined.

6. For any given counterparty a deficiency in one type of loan may be offset by an excess in another type of loan provided that there are written agreements for each type of loan which provide for the right of offset between each type of loan. In such case, the balances may also be offset [for margin calculation purposes](#).
7. **Lines 2, 6, and 10** - In a cash borrowed and securities loan or repurchase transaction between a ~~firm~~[Dealer Member](#)

**FORM 1, PART II – SCHEDULE 7**  
**NOTES AND INSTRUCTIONS [Continued]**

and an ~~Acceptable Institution~~ acceptable institution, no capital need be provided in the case where a deficiency exists between the *market value* of the cash borrowed or securities loaned or repurchased and the *market value* of the collateral or cash pledged.

In order for a pension fund to be treated as an ~~Acceptable Institution~~ acceptable institution for purposes of this Schedule, it must not only meet the ~~Acceptable Institution~~ acceptable institution criteria outlined in General Notes and Definitions, but the Dealer Member must also have received representation that the pension fund is legally able to enter into the obligations of the transaction. If such representation has not been received, the pension fund which otherwise meets the ~~Acceptable Institution~~ acceptable institution criteria must be treated as an ~~Acceptable Counterparty~~ acceptable counterparty.

WHERE AN AGREEMENT HAS BEEN EXECUTED, THEN:

8. **Lines 3, 7, and 11** - In a cash borrowed and securities loan or repurchase transaction between a ~~firm~~ Dealer Member and an ~~Acceptable Counterparty~~ acceptable counterparty, where an *excess collateral deficiency* exists, action must be taken to correct the deficiency. If no action is taken, the amount of *excess collateral deficiency* must be immediately provided out of the ~~firm~~ Dealer Member's capital. In any case, where the deficiency exists for more than one business day it must be provided out of the ~~firm~~ Dealer Member's capital.
9. **Lines 4, 8, and 12** - In a cash borrowed and securities loan or repurchase transaction between a ~~firm~~ Dealer Member and a ~~Regulated Entity~~ regulated entity, where a deficiency exists between the *market value* of the cash borrowed or securities loaned or repurchased and the *market value* of the collateral or cash pledged, action must be taken to correct the deficiency. If no action is taken, the amount of *market value* deficiency must be immediately provided out of the ~~firm~~ Dealer Member's capital. In any case, where the deficiency exists for more than one business day it must be provided out of the ~~firm~~ Dealer Member's capital.
10. **Lines 5, 9, and 13** - In a cash borrowed and securities loan or repurchase transaction between a ~~firm~~ Dealer Member and a party other than an ~~Acceptable Institution, Acceptable Counterparty or Regulated Entity~~ acceptable institution, acceptable counterparty or regulated entity, where a deficiency exists between the loan value of the cash borrowed or securities loaned or repurchased and the loan value of the collateral or cash pledged, action must be taken to correct the deficiency. If no action is taken, the amount of loan value deficiency must be immediately provided out of the ~~firm~~ Dealer Member's capital. The margin required may be reduced by any margin already provided on the collateral (e.g. in inventory). Where the collateral is either held by the Dealer Member on a fully segregated basis or held in escrow on its behalf by an Acceptable Depository or a bank or trust company qualifying as either an ~~Acceptable Institution or Acceptable Counterparty~~ acceptable institution or acceptable counterparty, only the amount of *market value* deficiency need be provided out of the ~~firm~~ Dealer Member's capital. In any case, where the deficiency exists for more than one business day, it must be provided out of the ~~firm~~ Dealer Member's capital.
11. **Lines 2, 3 and 4** - In a cash borrowed transaction between a ~~firm and an Acceptable Institution, Acceptable Counterparty, or Regulated Entity~~ Dealer Member and an acceptable institution, acceptable counterparty, or regulated entity, where a letter of credit issued by a Schedule 1 Bank is used as collateral for the cash borrowed, there shall be no charge to the Dealer Member ~~firm~~'s capital for any excess of the value of the letter of credit pledged as collateral over the cash borrowed.
12. **Lines 5, 9, and 13** - Transactions whereby an ~~Acceptable Institution, Acceptable Counterparty, or Regulated Entity~~ acceptable institution, acceptable counterparty, or regulated entity are only acting as agents (on behalf of an "other" party) should be reported and margined as "Others".

**PART II**

**JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT**

DATE: \_\_\_\_\_

(~~Firm~~ Dealer Member Name)

**ACCEPTABLE COUNTERPARTIES FINANCING ACTIVITIES CONCENTRATION CHARGE**

C\$'000

|           |   |                    |
|-----------|---|--------------------|
| 1.        | <u>Sch. 1, Line 2</u> "Market value deficiency" amount relating to loans receivable from "acceptable counterparties" <del>reported on Schedule 1, line 2,</del> net of legal offsets and margin already provided        | -----              |
| 2.        | <u>Sch. 1, Line 6</u> "Market value deficiency" amount relating to securities borrowed from "acceptable counterparties" <del>reported on Schedule 1, line 6,</del> net of legal offsets and margin already provided     | -----              |
| 3.        | <u>Sch. 1, Line 10</u> "Market value deficiency" amount relating to resale agreements with "acceptable counterparties" <del>reported on Schedule 1, line 10,</del> net of legal offsets and margin already provided     | -----              |
| 4.        | <u>Sch. 7, Line 3</u> "Market value deficiency" amount relating to loans payable to "acceptable counterparties" <del>reported on Schedule 7, line 3,</del> net of legal offsets and margin already provided             | -----              |
| 5.        | <u>Sch. 7, Line 7</u> "Market value deficiency" amount relating to securities lent to "acceptable counterparties" <del>reported on Schedule 7, line 7,</del> net of legal offsets and margin already provided           | -----              |
| 6.        | <u>Sch. 7, Line 11</u> "Market value deficiency" amount relating to repurchase agreements with "acceptable counterparties" <del>reported on Schedule 7, line 11,</del> net of legal offsets and margin already provided | -----              |
| <b>7.</b> | <b>TOTAL "MARKET VALUE DEFICIENCY" EXPOSURE WITH "ACCEPTABLE COUNTERPARTIES", NET OF LEGAL OFFSETS AND MARGIN ALREADY PROVIDED</b> <del>(Sum of lines 1 to 6)</del> <u>[Sum of Lines 1 to 6]</u>                        | -----              |
| 8.        | CONCENTRATION THRESHOLD – 100% OF NET ALLOWABLE ASSETS  | -----              |
| 9.        | FINANCING ACTIVITIES CONCENTRATION CHARGE [Excess of <del>line</del> Line 7 over <del>line</del> Line 8, otherwise NIL]   | -----              |
|           |   | B- <del>1921</del> |



**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. 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 with a normal margin requirement of 10% or less), 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.
3. 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.
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.]
5. 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.
6. For short positions, the loan value is the *market value* of the short position.

**Client position**

7. (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~~ 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 been outstanding ten business days or more past settlement and is not confirmed for clearing through an ~~Acceptable Clearing Corporation~~ acceptable clearing corporation or not confirmed by the ~~Acceptable Institution, Acceptable Counterparty or Regulated Entity~~ acceptable institution, acceptable counterparty or regulated entity, then the position must be included in the position reported.

**Firm Dealer Member's own position**

8. (a) Firm 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.

**FORM 1, PART II – SCHEDULE 9**  
**NOTES AND INSTRUCTIONS [Continued]**

**Amount Loaned**

9. The client and ~~firm~~Dealer Member's own positions reported are to be determined based on the combined client/~~firm~~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 ~~firm~~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 ~~firm~~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 10(a) or 10(b) below) of the sum of the Dealer Member's Risk Adjusted Capital before securities concentration charge and minimum capital (Stmt. B, ~~line 4~~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 7(a) and 8(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) 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;
  - (iv) 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;
  - (v) The amount loaned values of trades made with financial institutions that are not ~~Acceptable Institutions, Acceptable Counterparties or Regulated Entities~~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~~acceptable institution may be deducted from the amount loaned calculation; and
  - (vi) 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.
- (e) Amount Loaned is the position exposure (either long or short) with the largest calculated amount loaned.

**FORM 1, PART II – SCHEDULE 9**  
**NOTES AND INSTRUCTIONS [Continued]**

**Concentration Charge**

10. (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 ~~ember~~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 4~~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 4~~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 4~~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 4~~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.
- (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 10(a), or 10(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 4~~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 4~~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 10(a) or 10(b) or 10(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 10(a) or 10(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 4~~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 10(a) or 10(b) above) of the sum of Risk Adjusted Capital before securities concentration charge and minimum capital (Stmt. B, ~~line 4~~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 10(a) or 10(b) above) of the sum of the Dealer Member's Risk Adjusted Capital before securities concentration charge and minimum capital (Stmt. B, ~~line 4~~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.

**FORM 1, PART II – SCHEDULE 9**  
**NOTES AND INSTRUCTIONS** [Continued]

- (e) For the purpose of calculating the concentration charges as required by notes 10(a), 10(b), 10(c) and 10(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**

11. (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 ~~appropriate Joint Regulatory Body~~ Corporation on the date the over exposure first occurs.
- (b) A measure of discretion is left with the ~~Joint Regulatory Bodies~~ 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”.

**PART II**

**JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT**

DATE: \_\_\_\_\_

(Firm/Dealer Member Name)

**INSURANCE**

**A. FINANCIAL INSTITUTION BOND (FIB) CLAUSES (A) TO (E)**

CS'000

|   |       |       |                |
|---|-------|-------|----------------|
| 1. Coverage required for FIB                        | ----- |       |                |
| (a) Client Net Equity:                              | ----- |       |                |
| i) Firm/Dealer Member's Own                         | ----- |       |                |
| ii) Carriers-Introducing Firms' introducing brokers | ----- |       |                |
| Total   | _____ | x 1%* | ----- [Note 3] |
| (b) Total Liquid Assets (A-1312)                    | ----- |       |                |
| Total Other Allowable Assets (A-1918)               | ----- |       |                |
| Total   | _____ | x 1%* | -----          |

The actual coverage required for each clause is the Greater of (a) and (b), with a Minimum Requirement of \$500,000 (\$200,000 for a Type 1 Introducing Broker), and a Maximum Requirement of \$25,000,000.

\*based on one half of one percent for Types 1 and 2 Introducing Brokers

|   |        |                 |
|---|--------|-----------------|
| 2. Coverage maintained per FIB          | -----  | [Notes 4 and 8] |
| 3. Excess / (Deficiency) in coverage    | =====  | [Note 5]        |
| 4. Amount deductible under FIB (if any) | =====  | [Note 6]        |
|   | B-1416 |                 |

**B. REGISTERED MAIL INSURANCE**

|                             |       |          |
|-----------------------------|-------|----------|
| 1. Coverage per mail policy | ===== | [Note 7] |
|-----------------------------|-------|----------|

**C. FIB AND REGISTERED MAIL POLICY INFORMATION** [Note 9]

| Insurance company | Name of the insured | FIB/ registered mail | Expiry date | Coverage | Type of aggregate limit | Provision for full reinstatement | Premium |
|-------------------|---------------------|----------------------|-------------|----------|-------------------------|----------------------------------|---------|
| -----             | -----               | -----                | -----       | -----    | -----                   | -----                            | -----   |
| -----             | -----               | -----                | -----       | -----    | -----                   | -----                            | -----   |
| -----             | -----               | -----                | -----       | -----    | -----                   | -----                            | -----   |
| -----             | -----               | -----                | -----       | -----    | -----                   | -----                            | -----   |
| -----             | -----               | -----                | -----       | -----    | -----                   | -----                            | -----   |
| -----             | -----               | -----                | -----       | -----    | -----                   | -----                            | -----   |
| -----             | -----               | -----                | -----       | -----    | -----                   | -----                            | -----   |

**D. LOSSES AND CLAIMS** [Note 10]

| Date of loss | Date of discovery | Amount of loss | Deductible applying to loss | Description | Claim made? | Settlement | Date settled |
|--------------|-------------------|----------------|-----------------------------|-------------|-------------|------------|--------------|
| -----        | -----             | -----          | -----                       | -----       | -----       | -----      | -----        |
| -----        | -----             | -----          | -----                       | -----       | -----       | -----      | -----        |
| -----        | -----             | -----          | -----                       | -----       | -----       | -----      | -----        |
| -----        | -----             | -----          | -----                       | -----       | -----       | -----      | -----        |
| -----        | -----             | -----          | -----                       | -----       | -----       | -----      | -----        |

DATE: \_\_\_\_\_ ~~SCHEDULE 10~~ FORM 1, PART II – SCHEDULE 10

**PART II**

**JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT**

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**FORM 1, PART II – SCHEDULE 10**  
**NOTES AND INSTRUCTIONS**

1. ~~Member firms~~Dealer Members must maintain minimum insurance in type and amounts as outlined in the ~~bylaws, rules and regulations~~ of the ~~Joint Regulatory Bodies~~Corporation and ~~the~~ Canadian Investor Protection Fund.
2. Schedule 10 must be completed at the audit date and monthly as part of the Monthly Financial Report.
3. Net equity for each client is the total value of cash, securities, and other acceptable property owed to the client by the Dealer Member less the value of cash, securities, and other acceptable property owed by the client to the Dealer Member. In determining net equity, accounts of a client such as cash, margin, short sale, options, futures, foreign currency and Quebec Stock Savings Plans are combined and treated as one account. Accounts such as RRSP, RRIF, RESP, Joint accounts are not combined with other accounts and are treated as separate accounts. Other acceptable property means London Bullion Market Association good delivery bars of gold and silver bullion that are acceptable for margin purposes as defined in Dealer Member Rule 100.2(i)(ii).  
Net equity is determined on a client by client basis on either a settlement date basis or trade date basis. Schedule 10 Part A ~~line, Line~~ 1(a) is the aggregate net equity for each client. Negative client net equity, (i.e. total deficiency in net equity owed to the Dealer Member by the client) is not included in the aggregate.  
For Schedule 10, guarantee/guarantor agreements should not be considered in the calculation of net equity.  
The Client Net Equity calculation should include all retail and institutional client accounts, as well as accounts of broker dealers, repos, loan post, broker syndicates, affiliates and other similar accounts.
4. The amounts of insurance required to be maintained by a Dealer Member shall as a minimum be by way of a Financial Institution Bond with a double aggregate limit or a provision for full reinstatement.  
For Financial Institution Bond policies containing an “aggregate limit” coverage, the actual coverage maintained should be reduced by the amount of reported loss claims, if any, during the policy period.
5. The Certificate of ~~Partners or Directors~~UDP and CFO in ~~the JRFQR Form 1~~ contains a question pertaining to the adequacy of insurance coverage. The Auditors’ Report requires the auditor to state that the question has been fairly answered. The rules ~~and regulations~~ also state: “Should there be insufficient coverage, ~~firms~~ a Dealer Member shall be deemed to be complying with ~~these Regulations Rule 17.5 and this Rule 400~~ provided that any such deficiency does not exceed 10% percent of the insurance requirement and that evidence is furnished within two months of the dates of completion of the monthly financial report ~~or and the~~ annual audit that the deficiency has been corrected. If the deficiency is 10% or more of the insurance requirement, action must be taken by the Dealer Member to correct the deficiency within 10 days of its determination and the Dealer Member shall immediately notify the ~~appropriate Joint Regulatory Body~~Corporation.”
6. A Financial Institution Bond maintained pursuant to the rules ~~and regulations~~ may contain a clause or rider stating that all claims made under the bond are subject to a deductible, provided that the ~~firm~~Dealer Member’s margin requirement is increased by the amount of the deductible.
7. Unless specifically exempted ~~as provide for in~~within the ~~regulations rules~~ of the ~~Self Regulatory Organization~~Corporation, every ~~Firm~~Dealer Member shall effect and keep in force ~~Mail Insurance~~mail insurance against loss arising by reason of any outgoing shipments of money or securities, negotiable or non-negotiable, by first-class mail, registered mail, registered air mail, express or air express, such insurance to provide at least 100% cover.
8. The aggregate value of securities in transit in the custody of any employee or any person acting as a messenger shall not at any time exceed the coverage per the Financial Institution Bond (Statement ~~10 line~~10, Line 2).
9. List all Financial Institution Bond and Registered Mail underwriters, policies, coverage and premiums indicating their expiry dates. State type of aggregate limits, if applicable, or note that provision for full reinstatement exists.
10. List all losses reported to the insurers or their authorized representatives including those losses that are less than the amount of the deductible. Do not include lost document bond claims. Indicate in the “Amount of Loss” column if the amount of the loss is estimated or unknown as at the reporting date.  
Losses should continue to be reported on Schedule 10 Part D until resolved. In the reporting period where a claim has been settled or a decision has been made not to pursue a claim, the loss should be listed along with the amount of the settlement, if any.  
At the annual audit date, list all unsettled claims, whether or not the claims were initiated in the period under audit. In addition, list all losses and claims identified in the current or previous periods that have been settled during the period under audit.

**PART II**

**JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT**

DATE: \_\_\_\_\_

(~~Firm~~ Dealer Member Name)

**UNHEDGED FOREIGN CURRENCIES CALCULATION**

**SUMMARY**

**C\$'000**

A. Total foreign exchange margin requirement

B-1517

B. Details for individual currencies with margin requirement greater than or equal to \$5,000:

Foreign Currency with margin requirement ≥ \$5,000

(For each foreign currency, a schedule 11A must be completed)

Margin Group

Required  
Margin

|       |       |       |
|-------|-------|-------|
| ----- | ----- | ----- |
| ----- | ----- | ----- |
| ----- | ----- | ----- |
| ----- | ----- | ----- |
| ----- | ----- | ----- |

Subtotal

All other foreign exchange margin requirement

TOTAL

**PART II**

**JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT**

DATE: \_\_\_\_\_

(Firm/Dealer/Member Name)

**DETAILS OF UNHEDGED FOREIGN CURRENCIES CALCULATION FOR INDIVIDUAL CURRENCIES WITH MARGIN REQUIRED GREATER THAN OR EQUAL TO \$5,000**

Foreign Currency: \_\_\_\_\_

Margin Group: \_\_\_\_\_

|  | AMOUNT  | WEIGHTED VALUE | MARGIN REQUIRED |
|--|---------|----------------|-----------------|
|  | C\$'000 | C\$'000        | C\$'000         |

**BALANCE SHEET ITEMS AND FORWARD/FUTURE COMMITMENTS <= TWO YEARS TO MATURITY**

|   |       |       |       |
|---|-------|-------|-------|
| 1. Total monetary assets  | _____ | _____ | _____ |
| 2. Total long forward / futures contract positions                  | _____ | _____ | _____ |
| 3. Total monetary liabilities                                       | _____ | _____ | _____ |
| 4. Total (short) forward / futures contract positions               | _____ | _____ | _____ |
| 5. Net long (short) foreign exchange positions                      | _____ | _____ | _____ |
| 6. Net weighted value   | _____ | _____ | _____ |
| 7. Net weighted value multiplied by term risk for Group ___ of ___% | _____ | _____ | _____ |

**BALANCE SHEET ITEMS AND FORWARD/FUTURE COMMITMENTS > TWO YEARS TO MATURITY**

|  |       |       |       |
|--|-------|-------|-------|
| 8. Total monetary assets   | _____ | _____ | _____ |
| 9. Total long forward / futures contract positions                   | _____ | _____ | _____ |
| 10. Total monetary liabilities                                       | _____ | _____ | _____ |
| 11. Total (short) forward / futures contract positions               | _____ | _____ | _____ |
| 12. Net long (short) foreign exchange positions                      | _____ | _____ | _____ |
| 13. Net weighted value   | _____ | _____ | _____ |
| 14. Net weighted value multiplied by term risk for Group ___ of ___% | _____ | _____ | _____ |

**FOREIGN EXCHANGE MARGIN REQUIREMENTS FOREIGN EXCHANGE MARGIN REQUIREMENTS**

|   |       |       |       |
|---|-------|-------|-------|
| 15. Net long (short) foreign exchange positions                                 | _____ | _____ | _____ |
| 16. Net foreign exchange position multiplied by spot risk for Group ___ of ___% | _____ | _____ | _____ |
| 17. Total term risk and spot risk margin requirement                            | _____ | _____ | _____ |
| 18. Spot rate at reporting date   | _____ | _____ | _____ |
| 19. Margin requirement converted to Canadian dollars                            | _____ | _____ | _____ |

**FOREIGN EXCHANGE CONCENTRATION CHARGE FOREIGN EXCHANGE CONCENTRATION CHARGE**

|   |       |       |       |
|---|-------|-------|-------|
| 20. Total foreign exchange margin (line 19) in excess of 25% of net allowable assets less minimum capital [not applicable to Group 1] | _____ | _____ | _____ |
| TOTAL FOREIGN EXCHANGE MARGIN FOR (Currency):   | _____ | _____ | _____ |

Sch. 11

**FORM 1, PART II – SCHEDULES 11 AND 11A**  
**NOTES AND INSTRUCTIONS**

1. The purpose of this Schedule is to measure the balance sheet exposure a Dealer Member-firm has to foreign currency risk. Schedule 11A must be completed for each foreign currency that has margin requirement greater than or equal to \$5,000.
2. The following is a summary of the quantitative and qualitative criteria for Currency Groups 1-4. Firms Dealer Members should refer to the most recently published listing by SROs of currency groupings.
  - **Currency Group 1** consists of the US dollar.
  - **Currency Group 2** consists of all countries whose currencies have a historical volatility of less than 3% relative to the Canadian dollar, are quoted on a daily basis by a Canadian Schedule 1 chartered bank, and are either a member of the European Monetary System and a participant of the Exchange Rate Mechanism or there is a listed future for the currency on a recognized futures exchange such as the Chicago Mercantile Exchange (CME) or Philadelphia Board of Trade (PBOT).
  - **Currency Group 3** consists of all countries whose currencies have a historical volatility of less than 10% relative to the Canadian dollar, are quoted on a daily basis by a Canadian Schedule 1 chartered bank and are a full member of the International Monetary Fund (IMF).
  - **Currency Group 4** consists of all countries, which do not satisfy the quantitative and qualitative criteria for Currency Groups 1-3.
3. Reference should be made to the applicable ~~bylaws, rules, regulations~~ and interpretation notices of the ~~Joint Regulatory Bodies Corporation~~ for definitions and calculations.
4. Monetary assets and liabilities are money or claims to money, the values of which, whether denominated in foreign or domestic currency are fixed by contract or otherwise.
5. All monetary assets and liabilities as well as the firm Dealer Member's own foreign currency future and forward commitments are to be reported on a trade date basis.
6. Monetary liabilities and the firm Dealer Member's own foreign currency future and forward commitments should be disclosed by maturity dates i.e. less than or equal to two (2) years and greater than two (2) years.
7. Weighted value is calculated for foreign exchange positions with terms to maturity of greater than three (3) days. The weighted value is derived by taking the term to maturity of the foreign exchange position divided by 365 (weighting factor) and multiplying it by the unhedged foreign exchange amount.
8. The total margin requirement is the sum of the spot risk margin and the term risk margin requirements. The spot risk margin rates apply to all unhedged foreign exchange positions regardless of term to maturity. The term risk margin rates apply to all unhedged foreign exchange positions with a term to maturity of greater than three (3) days. The following summarizes the margin rates by Currency Group:

**Currency Group**

|                                     | <b>1</b>                | <b>2</b>                | <b>3</b>                 | <b>4</b>                  |
|-------------------------------------|-------------------------|-------------------------|--------------------------|---------------------------|
| Spot Risk Margin Rate (Note 1)      | 1.0%                    | 3.0%                    | 10%                      | 25%                       |
| Term Risk Margin Rate (Note 2)      | 1.0% to a maximum of 4% | 3.0% to a maximum of 7% | 5.0% to a maximum of 10% | 12.5% to a maximum of 25% |
| Total Maximum Margin Rates (Note 1) | 5%                      | 10%                     | 20%                      | 50%                       |

**Note 1:** Spot risk margin rates may be subject to the Foreign Exchange Margin Surcharge

**Note 2:** If the weighting factor described in 7 above exceeds the maximum term risk margin rate in the above table, the weighting factor should be adjusted to the maximum.

9. Firms Dealer Members may elect to exclude non-allowable monetary assets from the total monetary assets reported on Schedule 11A for purposes of the foreign exchange margin calculation. The reason underlying this proviso is that a firm Dealer Member should not have to provide foreign exchange margin on a non-allowable asset which is already fully provided for in the determination of the capital position of the firm Dealer Member unless it serves as an economic hedge against a monetary liability.
10. For firms Dealer Members offsetting an inventory futures contract/forward contract position in which there is a futures contract for the currency listed on a recognized exchange, an alternative margin calculation may be used (refer to ~~bylaws, rules, regulations~~ and interpretation notices of the ~~Joint Regulatory Bodies Corporation~~). Any contract positions for which the margin is calculated under the alternative method must be reported as part of the inventory margin calculations on Schedule 2 and should be excluded from Schedule 11A.
11. Line 20 - The Foreign Exchange Concentration Charge applies only to currencies in Groups 2 to 4.

**PART II**

**JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT**

DATE: \_\_\_\_\_

\_\_\_\_\_  
(~~Firm~~ Dealer Member Name)

**MARGIN ON ~~COMMODITY~~ FUTURES CONCENTRATIONS AND DEPOSITS**

(refer to instructions)

**CS'000**

- |    |   |       |
|----|---|-------|
| 1. | Margin on <del>Total</del> <u>total</u> <del>Positions</del> <u>positions</u>   | ..... |
| 2. | Margin regarding <del>Concentration in Individual</del> <u>concentration in individual</u> <del>Accounts</del> <u>accounts</u>                                    | ..... |
| 3. | Margin regarding <del>Concentration</del> <u>concentration</u> in <del>Individual Commodity</del> <u>individual futures</u> <del>contracts</del> <u>contracts</u> | ..... |
| 4. | Margin on <del>Commodity Deposits - Correspondent</del> <u>futures contract deposits - correspondent</u> <del>Brokers</del> <u>brokers</u>                        | ..... |
| 5. | TOTAL   | ..... |

\_\_\_\_\_  
B-1618

**FORM 1, PART II – SCHEDULE 12**  
**NOTES AND INSTRUCTIONS**

**Line 1 - General margin provision.** The margin requirement for futures contracts and options on futures contracts shall be 15% of the maintenance margin requirements, as required by the Commodity Futures Exchange on which such futures contracts were entered into, for the greater of the total long or total short futures contracts per commodity or financial futures carried for all client and Dealer Member accounts. For the purpose of this general margin provision, short futures contracts positions include futures contracts underlying the short call options on futures contracts and long futures contracts positions include futures contracts underlying the short put options on futures contracts.

The following positions are excluded from this calculation:

- (a) positions in ~~Acceptable Institution, Acceptable Counterparty and Regulated Entity~~ acceptable institution, acceptable counterparty and regulated entity accounts;
- (b) hedge positions (as opposed to speculative positions), provided that the underlying interest is held in the client's account at the Dealer Member or that the Dealer Member has a document giving the Dealer Member an irrevocable right to take possession of the underlying interest and deliver it at the location designated by the appropriate clearing corporation. All other hedge positions are treated as speculative positions for the purpose of this calculation;
- (c) client and Dealer Member spreads in the same futures contract entered into on the same futures exchange. All other spread positions are treated as speculative positions for the purpose of this calculation;
- (d) The following options on futures contracts positions:
  - (i) short options on futures contracts which are out-of-the-money by more than two maintenance margin requirements; and
  - (ii) spreads in the same options on futures contracts.

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

- (a) the aggregate of the maintenance margin requirements of the commodity or financial futures or underlying interest of option on futures contracts held both long and short for any client (including without limitation groups of clients or related clients) or in inventory, except for positions mentioned in Note 1 below, less any excess margin provided exceeds
- (b) 15% of the Dealer Member's net allowable assets.

The excess margin must be based on the maintenance margin. However, spread positions in the same product or different product on the same exchange and an inter-exchange or inter-commodity spread could be included using the maintenance margin as set by the exchange, provided that the spread is acceptable for margin purposes by a recognized exchange.

If the excess is not eliminated within three (3) trading days after it first occurs, the Dealer Member's capital shall be charged the lesser of:

- (a) the excess calculated when the concentration first occurred; and
- (b) the excess, if any, that exists on the close of the third trading day.

For the purpose of the concentration calculation, short futures contracts positions include futures contracts underlying the short call options on futures contracts and long futures contracts positions include futures contracts underlying the short put options on futures contracts.

**Line 3 - Concentration in individual open futures contracts and short options on futures contract positions.**

The Dealer Member must provide for the amount by which;

- (a) the aggregate of two maintenance margin requirements on the greater of the long or the short commodity or financial futures contracts position held for clients and in inventory, except for positions mentioned in Note 1 below, exceeds
- (b) 40% of the Dealer Member's net allowable assets.

There may be deducted from this difference, on a per client basis, the excess margin available in all accounts of the client up to two maintenance margin requirements of the client's positions in the futures contracts.

The excess margin must be based on the maintenance margin. However, spread positions in the same product or different product on the same exchange and an inter-exchange or inter-commodity spread could be included in both the long and short side using the maintenance margin as set by the exchange, provided that the spread is acceptable for margin purposes by a recognized exchange.

If the excess is not eliminated within three (3) trading days after it first occurs, the Dealer Member's capital shall be charged

**FORM 1, PART II – SCHEDULE 12**  
**NOTES AND INSTRUCTIONS** [~~Cont'd~~Continued]

the lesser of:

- (a) the excess calculated when the concentration first occurred; and
- (b) the excess, if any, that exists on the close of the third trading day.

For the purpose of the concentration calculation, short futures contracts positions include futures contracts underlying the short call options on futures contracts and long futures contracts positions include futures contracts underlying the short put options on futures contracts.

**Line 4** - Where assets, including cash, open trade equity and securities, owing to a Dealer Member from a Commodity Futures Correspondent Broker exceed 50% of the Dealer Member's net allowable assets, any excess over this amount shall be provided as a charge in computing the Dealer Member's margin required.

Where the net worth of the Commodity Futures Correspondent Broker, as determined from its latest published audited financial statements, exceeds \$50,000,000, no margin is required under this rule.

Where the net worth of the Commodity Futures Correspondent Broker, as determined from its latest published financial statements, is less than \$50,000,000, the Dealer Member may use a confirmed unconditional and irrevocable letter of credit issued by a US bank qualifying as an ~~Acceptable Institution~~acceptable institution on behalf of the Commodity Futures Correspondent Broker to offset any margin requirement calculated above. The amount of the offset is limited to the amount of the letter of credit.

No exemption from this requirement is permitted for Dealer Members who operate their commodity futures contracts and commodity option on futures contracts business on a fully disclosed basis with a correspondent broker.

**Note 1:** For the purpose of the calculation of the concentration margin on individual client accounts (Line 2) and for open futures contracts and short options on futures contracts positions (Line 3), the following positions are excluded:

- 1.1 positions held in ~~Acceptable Institution, Acceptable Counterparty and Regulated Entity~~acceptable institution, acceptable counterparty and regulated entity accounts;
- 1.2 hedge positions (as opposed to speculative positions) provided that the underlying interest is held in the client's account at the Dealer Member or that the Dealer Member has a document giving the Dealer Member an irrevocable right to take possession of the underlying interest and deliver it at the location designated by the appropriate clearing corporation. All other hedge positions are treated as speculative positions and are thereby not excluded;
- 1.3 the following short Options on Futures Contracts Positions:
  - (i) either the short call or the short put where a client or Dealer Member account is short a call and short a put on the same futures contract with the same exercise price and same expiration month;
  - (ii) a futures contract paired with an in-the-money option provided that this pairing is acceptable for margin purposes by a recognized exchange;
  - (iii) a short option paired with a long in-the-money option provided that this pairing is acceptable for margin purposes by a recognized exchange;
  - (iv) a short option paired with a futures contract provided that this pairing is acceptable for margin purposes by a recognized exchange;
  - (v) an out-of-the-money short call option paired with an out-of-the-money long call option, where the strike price of the short call exceeds the strike price of the long call, provided that this pairing is acceptable for margin purposes by a recognized exchange;
  - (vi) an out-of-the-money short put option paired with an out-of-the-money long put option provided that this pairing is acceptable for margin purposes by a recognized exchange; and
  - (vii) short option, which is out-of-the-money by more than two maintenance margin requirements.

**PART II**

**JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT**

DATE: \_\_\_\_\_

(Firm/Dealer/Member Name)

**EARLY WARNING TESTS - LEVEL 1**

**A. LIQUIDITY TEST**  
**Is Early Warning Reserve (Stmt. C, line 9) less than 0?**

CS'000      **Early Warning Level 1**

-----  
**YES/NO**

**B. CAPITAL TEST**

1. Risk Adjusted Capital (RAC) [Stmt. B, line 27 Line 29] \_\_\_\_\_

2. Total Margin Required [Stmt. B, line 22 Line 24] multiplied by 5% \_\_\_\_\_

**Is line 1 less than line 2?**

-----  
**YES/NO**

**C. PROFITABILITY TEST #1**

|   | Months | Profit or loss for 6 months ending with current month [note 2] | Profit or loss for 6 months ending with preceding month [note 2] |
|---|--------|--|--|
|   |        | <u>CS'000</u>  | <u>CS'000</u>  |
| 1. Current month                                      | -----  | -----  | -----  |
| 2. Preceding month                                    | -----  | -----  | -----  |
| 3. 3rd month  | -----  | -----  | -----  |
| 4. 4th month  | -----  | -----  | -----  |
| 5. 5th month  | -----  | -----  | -----  |
| 6. 6th month  | -----  | -----  | -----  |
| 7. 7th month  | -----  | -----  | -----  |
| 8. TOTAL [note 3]                                     |        | =====  | =====  |
| 9. AVERAGE multiplied by -1                           |        | =====  | =====  |
| 10A. RAC [at <u>questionnaire</u> <u>Form 1</u> date] |        | =====  | =====  |
| 10B. RAC [at preceding month end]                     |        |  | =====  |
| 11A. Line 10A divided by <u>line</u> 9                |        | =====  | =====  |
| 11B. Line 10B divided by <u>line</u> 9                |        |  | =====  |

**Are both of the following conditions true:**

**1. Line 11A is greater than or equal to 3 but less than 6, and**

**2. Line 11B less than 6?**

-----  
**YES/NO**

**D. PROFITABILITY TEST #2**

1. Loss for current month [notes 2 and 4] multiplied by -6 \_\_\_\_\_

2. RAC [at questionnaire Form 1 date] \_\_\_\_\_

DATE: \_\_\_\_\_ ~~SCHEDULE 13~~ FORM 1, PART II – SCHEDULE 13

**PART II**

**JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT**

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Is line 2 less than line 1?

-----  
YES/NO

**PART II**

**JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT**

DATE: \_\_\_\_\_

(Firm/Dealer/Member Name)

**EARLY WARNING TESTS - LEVEL 2**

CS'000

**Early  
Warning  
Level 2**

**A. LIQUIDITY TEST**

Is Early Warning Excess (Stmt. C, line 7) **<less than 0?**

-----  
YES/NO

**B. CAPITAL TEST**

1. Risk Adjusted Capital (RAC) [Stmt. B, line 27 Line 29]

2. Total Margin Required [Stmt. B, line 22 Line 24] multiplied by 2%

Is line 1 less than line 2?

-----  
YES/NO

**C. PROFITABILITY TEST #1**

Is Schedule 13, Line 11A less than 3 AND  
Schedule 13, Line 11B less than 6?

-----  
YES/NO

**D. PROFITABILITY TEST #2**

1. Loss for current month [notes 2 and 4] multiplied by -3

2. RAC [at questionnaire Form 1 date]

Is line 2 less than line 1?

-----  
YES/NO

**E. PROFITABILITY TEST #3**

Profit or loss for  
3 months  
ending with  
current month  
[note 2]

CS'000

1. Current month

2. Preceding month

3. 3rd month

4. TOTAL [note 5]

5. RAC [at questionnaire Form 1 date]

Is loss on line 4 greater than line 5?

-----  
YES/NO

**F. FREQUENCY PENALTY**

Has Dealer Member:

1. Triggered Early Warning at least 3 times in the past 6 months or is RAC less than 0?

-----  
YES/NO

2. Triggered Liquidity or Capital Tests on Schedule 13?

[See notes and instructions]

DATE: \_\_\_\_\_ ~~SCHEDULE 13A~~ FORM 1, PART II – SCHEDULE 13A

**PART II**

**~~JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT~~**

3. **Triggered Profitability Tests on Schedule 13?**

-----  
YES/NO

4. **Are ~~lines~~ Lines 2 and 3 both YES?**

-----  
YES/NO

-----  
**YES/NO**

**FORM 1, PART II – SCHEDULES 13 AND 13A**  
**NOTES AND INSTRUCTIONS**

1. The objective of the various Early Warning Tests is to measure characteristics likely to identify a Dealer Member heading into financial trouble and to impose restrictions and sanctions to reduce further financial deterioration and prevent a subsequent capital deficiency. “Yes” answers indicate Early Warning has been triggered.  
If the Dealer Member is currently capital deficient (i.e. risk adjusted capital is negative), only Part F of Schedule 13A need be completed. Schedule 13 and the remainder of Schedule 13A need not be completed.
2. The profit or loss figures to be used are before asset revaluation income and expense, interest on internal subordinated debt, bonuses, and income taxes [Statement E, ~~line~~[Line](#) 31 – Profit (loss) for Early Warning test]. Note that the “current month” figure must also reflect any audit adjustments made subsequent to the filing of the Monthly Financial Report (MFR). These adjustments must be reported on Schedule 13M.
3. If either or both of the calculated totals is a profit, no further calculation under this section C need be done.
4. If the balance is a profit, no further calculation under this section D need be done.
5. If the total is a profit, no further calculation under this section E need be done.

DATE: \_\_\_\_\_

(Firm/Dealer Member Name)

**PROVIDER OF CAPITAL CONCENTRATION CHARGE**

**Amount**  
**(CS'000's)**

**A. CALCULATION OF CASH AND UNDERSECURED LOANS WITH PROVIDER OF CAPITAL**

|              |  |              |
|--------------|--|--------------|
| 1.           | Cash on deposit with <i>provider of capital</i>  | .....        |
| 2.           | Cash, held in trust with <i>provider of capital</i> , due to free credit ratio calculation   | .....        |
| 3.           | Loans receivable - undersecured loans receivable from <i>provider of capital</i> relative to normal commercial terms   | .....        |
| 4.           | Loans receivable - secured loans receivable from <i>provider of capital</i> that are secured by investments in securities issued by the <i>provider of capital</i>                       | .....        |
| 5.           | Securities borrowed - securities borrowing agreements with the <i>provider of capital</i> that are undersecured relative to normal commercial terms                                      | .....        |
| 6.           | Securities borrowed - secured securities borrowing agreements with the <i>provider of capital</i> that are secured by investments in securities issued by the <i>provider of capital</i> | .....        |
| 7.           | Resale agreements - agreements with the <i>provider of capital</i> that are undersecured relative to normal commercial terms   | .....        |
| 8.           | Commissions and fees receivable from the <i>provider of capital</i>  | .....        |
| 9.           | Interest and dividends receivable from the <i>provider of capital</i>  | .....        |
| 10.          | Other receivables from the <i>provider of capital</i>  | .....        |
| 11.          | Loans payable - loans payable to the <i>provider of capital</i> that are overcollateralized relative to normal commercial terms  | .....        |
| 12.          | Securities lent - agreements with the <i>provider of capital</i> that are overcollateralized relative to normal commercial terms   | .....        |
| 13.          | Repurchase agreements - agreements with the <i>provider of capital</i> that are overcollateralized relative to normal commercial terms   | .....        |
| <b>LESS:</b> |  | .....        |
| 14.          | Bank overdrafts with the <i>provider of capital</i>  | .....        |
| 15.          | <b>TOTAL CASH DEPOSITS AND UNDERSECURED LOANS WITH PROVIDER OF CAPITAL</b>   | <u>.....</u> |

**B. CALCULATION OF INVESTMENTS IN SECURITIES ISSUED BY THE PROVIDER OF CAPITAL**

|              |  |              |
|--------------|--|--------------|
| 1.           | Investments in securities issued by the <i>provider of capital</i> (net of margin provided)  | .....        |
| <b>LESS:</b> |  | .....        |
| 2.           | Loans payable to <i>provider of capital</i> that are linked to the assets above and are limited recourse   | .....        |
| 3.           | Securities issued by the <i>provider of capital</i> sold short provided they are used as part of a valid offset with the investments reported in Section B, Line 1 above | .....        |
| 4.           | <b>TOTAL INVESTMENTS IN SECURITIES ISSUED BY THE PROVIDER OF CAPITAL</b>   | <u>.....</u> |

DATE: \_\_\_\_\_

(Firm/Dealer Member Name)

**PROVIDER OF CAPITAL CONCENTRATION CHARGE**

**Amount**  
**(CS'000's)**

**C. CALCULATION OF FINANCIAL STATEMENT CAPITAL PROVIDED BY THE PROVIDER OF CAPITAL**

1. ~~Financial~~Regulatory financial statement capital provided by the provider of capital (including pro-rata share of ~~contributed surplus~~reserves and retained earnings) \_\_\_\_\_

**D. NET ALLOWABLE ASSETS**

1. Net Allowable Assets \_\_\_\_\_

**E. EXPOSURE TEST #1 - DOLLAR CAP ON CASH DEPOSITS AND UNDERSECURED LOANS**

1. Sec. C, ~~Financial~~Regulatory financial statement capital provided by the provider of capital  
lineLin  
e 1 \_\_\_\_\_

2. Sec. A, Cash deposits and undersecured loans with provider of capital  
lineLin  
e 15 \_\_\_\_\_

3. ~~Financial~~Regulatory financial statement capital redeposited or lent back on an undersecured basis  
 [Minimum of Section E, Line 1 and Section E, Line 2] \_\_\_\_\_

4. Exposure threshold \$50,000 \_\_\_\_\_

5. Capital requirement [Excess of Section E, Line 3 over Section E, Line 4] \_\_\_\_\_

**F. EXPOSURE TEST #2 - OVERALL CAP ON CASH DEPOSITS AND UNDERSECURED LOANS AND INVESTMENTS**

1. Sec. C, ~~Financial~~Regulatory financial statement capital provided by the provider of capital  
lineLin  
e 1 \_\_\_\_\_

2. Sec. A, Cash deposits and undersecured loans with provider of capital  
lineLin  
e 15 \_\_\_\_\_

3. Sec. B, Investments in securities issued by the provider of capital  
lineLin  
e 4 \_\_\_\_\_

4. Total cash deposits and undersecured loans and investments  
 [Section F, Line 2 plus Section F, Line 3] \_\_\_\_\_

5. ~~Financial~~Regulatory financial statement capital redeposited or lent back on an undersecured basis or invested in securities issued by the provider of capital  
 [Minimum of Section F, Line 1 and Section F, Line 4] \_\_\_\_\_

**LESS:**

6. Sec. E, Capital charge incurred under Exposure Test #1  
lineLin  
e 5 \_\_\_\_\_

7. Net financial statement capital redeposited or lent back on an undersecured basis or invested in securities issued by the provider of capital  
 [Section F, Line 5 minus Section F, Line 6] \_\_\_\_\_

8. Exposure threshold being the greater of:  
 (a) Ten million dollars \$10,000 \_\_\_\_\_

- (b) 20% of Net Allowable Assets [20% of Section D, Line 1] \_\_\_\_\_
- 9. Capital requirement [Excess of Section F, Line 7 over Section F, Line 8] \_\_\_\_\_
- 10. TOTAL PROVIDER OF CAPITAL CONCENTRATION CHARGE \_\_\_\_\_  
[Section E, Line 5 plus Section F, Line 9] \_\_\_\_\_

B-1719

**FORM 1, PART II – SCHEDULE 14**  
**NOTES AND INSTRUCTIONS**

1. The purpose of this schedule is to measure the exposure a Dealer Member ~~firm~~ has to each of its providers of capital (as defined below). As such is the case, a separate copy of this schedule should be completed for each *provider of capital* where the capital provided is in excess of \$10 million.

2. For the purposes of this schedule:

~~“capital provided” is:~~

- ~~• The face amount of subordinated debt provided by the provider of capital, plus~~
- ~~• The book amount of equity capital provided by the provider of capital plus a pro-rata share of contributed surplus and retained earnings~~

(a) A “provider of capital” is: ~~An an~~ individual or entity and its affiliates that provides capital ~~[as defined above in “capital provided”]~~ to a Dealer Member ~~firm~~

(b) “Regulatory financial statement capital” is comprised of:

- Total Capital (Statement A, Line 73); plus
- Finance leases – leasehold inducements (Statement A, Line 65); plus
- Subordinated loans (Statement A, Line 67).

(c) “Regulatory financial statement capital provided by the provider of capital” is the portion of the regulatory financial statement capital that has been provided to the Dealer Member by the provider of capital

**CALCULATION OF CASH AND UNDERSECURED LOANS WITH PROVIDER OF CAPITAL**

**Section A, Line 3** – The undersecured amount to be reported on this line refers to any deficiency between the *market value* of the collateral received for the loan and the amount of the loan receivable that is greater than the percentage [the percentage is determined by dividing the deficiency by the *market value* of the collateral received] deficiency required under normal commercial terms.

**Section A, Line 4** – The amount to be reported on this line refers to the entire loan receivable balance if the only collateral received for the loan is securities issued by the *provider of capital* ~~or its affiliates~~.

**Section A, Line 5** – The undersecured amount to be reported on this line refers to any deficiency between the *market value* of the collateral received for the loan and the amount of the loan receivable or the *market value* of the securities delivered as collateral that is greater than the percentage [the percentage is determined by dividing the deficiency by the *market value* of the collateral received] deficiency required under normal commercial terms.

**Section A, Line 6** – The amount to be reported on this line refers to the entire loan receivable balance or the *market value* of the securities delivered as collateral if the only collateral received for the loan is securities issued by the *provider of capital* ~~or its affiliates~~.

**Section A, Line 7** – The undersecured amount to be reported on this line refers to any deficiency between the *market value* of the security received pursuant to the resale agreement and the amount of the loan receivable that is greater than the percentage [the percentage is determined by dividing the deficiency by the *market value* of the security received] deficiency required under normal commercial terms. If the security received is a security issued by the *provider of capital* ~~or its affiliates~~ the collateral is assumed to have no value for the purposes of the above calculation.

**Section A, Lines 8, 9 and 10** – The amount to be reported on these lines refers to the amount of the loan receivable less any collateral provided other than securities issued by the *provider of capital* ~~or its affiliates~~.

**Section A, Line 11** – The overcollateralized amount to be reported on this line refers to any deficiency between the *market value* of the collateral delivered for the loan and the amount of the loan payable that is greater than the percentage [the percentage is determined by dividing the deficiency by the amount of the loan payable] deficiency required under normal commercial terms.

**Section A, Line 12** – The overcollateralized amount to be reported on this line refers to any deficiency between the *market value* of the collateral delivered pursuant to the securities lending agreement and the amount of the loan payable or the *market value* of the securities received as collateral that is greater than the percentage [the percentage is determined by dividing the deficiency by the amount of the loan payable] deficiency required under normal commercial terms.

**Section A, Line 13** – The overcollateralized amount to be reported on this line refers to any deficiency between the *market value* of the collateral delivered pursuant to the repurchase agreement and the amount of the loan payable that is greater

**FORM 1, PART II – SCHEDULE 14**  
**NOTES AND INSTRUCTIONS [Continued]**

than the percentage [the percentage is determined by dividing the deficiency by the amount of the loan payable] deficiency required under normal commercial terms.

**CALCULATION OF INVESTMENTS IN SECURITIES ISSUED BY THE PROVIDER OF CAPITAL**

**Section B, Line 1** – Include all investments in securities issued by the *provider of capital* ~~or its affiliates~~.

**Section B, Line 2** – Include only those loans where the agreement executed includes the industry standard wording set out in the Limited Recourse Call Loan Agreement.

**Section B, Line 3** – Include only those security positions that are otherwise eligible for offset pursuant to ~~SR~~[the Corporation's](#) capital requirements.

**CALCULATION OF FINANCIAL STATEMENT CAPITAL PROVIDED BY THE PROVIDER OF CAPITAL**

**Section C, Line 1** – Include the face amount of subordinated debt provided by the *provider of capital*, plus the book amount of equity capital provided by the *provider of capital* plus a pro-rata share of ~~contributed surplus~~[reserves](#) and retained earnings.

**PART II**

**JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT**

DATE: \_\_\_\_\_

(~~Firm~~ Dealer Member Name)

**SUPPLEMENTARY INFORMATION**  
(**Figures not subject to audit**)

CS'000

**A. SEGREGATION:**

1. Aggregate *market value* of securities required to be recalled from call loans

**B. NUMBER OF EMPLOYEES:**

1. Number of employees - registered

2. Number of employees - other

**C. NUMBER OF TRADES EXECUTED DURING THE MONTH:**

1. Bonds

2. Money Market

3. Equities – Listed ~~Ed~~ Canadian

4. Equities – Foreign

5. Options

6. Futures Contracts

7. Mutual Funds

8. New Issues

9. Other

TOTAL

**NOTE:**

1. Trade tickets, not fills, for all markets should be counted.