

## Chapter 13

# SROs, Marketplaces and Clearing Agencies

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### 13.1.1 OSC Staff Notice of Commission Approval – Amendments to IIROC Form 1

#### OSC STAFF NOTICE OF COMMISSION APPROVAL

#### INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

#### PROPOSED AMENDMENTS TO IIROC FORM 1 TO ADOPT IFRS FOR REGULATORY FINANCIAL REPORTING PURPOSES

The Ontario Securities Commission has approved the IIROC proposed amendments to its Form 1 with the current definition of market value. In addition, the British Columbia Securities Commission did not object to, and the Alberta Securities Commission, the Autorité des marchés financiers, the New Brunswick Securities Commission, the Nova Scotia Securities Commission, the Financial Services Regulation Division of the Department of Government Services for Newfoundland and Labrador and the Saskatchewan Financial Services Commission have approved the above-noted amendments to Form 1 with the current definition of market value.

#### Summary of Material Rule

The amendments are intended to align financial reporting required under Form 1 with International Financial Reporting Standards. Please see Appendix A for a clean copy of Form 1.

#### Summary of Public Comments

The IIROC's proposed amendments and its explanatory notice were published for a 60 day comment period on August 27, 2010. IIROC received four comment letters on the proposed amendments. IIROC summarized the comments it received and provided a response which are summarized in Appendix B.

#### Revisions to the Proposed Rule

We attach at Appendix C a copy of the blacklined version of Form 1 showing the changes to the version published in August 2010. Revisions were generally related to adding clarifications and more specific information to Form 1 regarding changes in accounting treatments and regulatory financial reporting formats as a result of the changeover to IFRS.

## APPENDIX A

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## FORM 1 – GENERAL NOTES AND DEFINITIONS

## GENERAL NOTES:

1. 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 pre-IFRS changeover Joint Regulatory Financial Questionnaire and Report must be used by Dealer Members who have elected to defer the adoption of IFRS and have received written approval of the deferral from the Corporation.

2. 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. A Dealer Member may choose to report client and broker trading balances in accordance with IFRS.
Preferred shares	Preferred shares issued by the Dealer Member and approved by the Corporation are classified as shareholders' capital.
Presentation	<p>Statements A and E contain terms and classifications (such as allowable and non-allowable assets) that are not defined under IFRS. For Statement E, the profit (loss) for the year on discontinued operations is presented on a pre-tax basis (as opposed to after-tax).</p> <p>In addition, specific balances may be classified or presented on Statements A, E and F in a manner that differs from IFRS requirements. The General Notes and Definitions, and the applicable Notes and Instructions to the Statements of Form 1, should be followed in those instances where departures from IFRS presentation exist.</p> <p>Statements B, C, and D are supplementary financial information, which are not statements contemplated under IFRS.</p> <p>As a one-time transitional relief for the first Form 1 prepared under the basis of IFRS with prescribed departures and prescribed accounting treatments, the Corporation does not require comparative financial data. As such, the preparation of the opening balance sheet is as at the conversion date (the first day of the first fiscal year under IFRS). A Dealer Member will file the opening balance sheet as Statement G and as stipulated by the Corporation, which is prior to the filing of the first monthly financial report (MFR) prepared under IFRS with prescribed departures and prescribed accounting treatments.</p>
Separate financial statements on a non-consolidated basis	<p>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.</p> <p>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.</p>
Statement of cash flow	A statement of cash flow is not required as part of Form 1.
Valuation	The "market value of securities" definition remains unchanged from the pre-IFRS changeover Joint Regulatory Financial Questionnaire and Report.

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

	Prescribed accounting treatment
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.  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.

4. These statements and schedules are prepared in accordance with the Dealer Member rules.
5. 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.
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.
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, which is based on *IFRS except for prescribed departures and prescribed accounting treatments* stipulated in the general notes and definitions of Form 1.
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 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:

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*.
- (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. 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. 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. for commodity futures contracts, the settlement price on the relevant date or last trading day prior to the relevant date.
4. 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. for money market 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 4. and commitment price is to be determined in the same manner using the yield stated in the repurchase commitment.
6. for money market repurchases with borrower call features, the market price is the borrower call price.

(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 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)

We have examined the attached statements and schedules and certify that, to the best of 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.

We certify that the following information is true and correct to the best of 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)

[See notes and instructions]

**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 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), except for prescribed departures and prescribed accounting treatments as stipulated in the general notes and definitions of Form 1, 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 and prescribed accounting treatments, where alternatives exist as stipulated in the general notes and instructions of Form 1.
2. Based on our knowledge and having exercised reasonable diligence, 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 appropriate IFRS 1 optional exemptions and mandatory exceptions for a Dealer Member, including the prescribed departures and prescribed accounting treatments as set out in the general notes and instructions of Form 1.
4. Based on our knowledge and having exercised reasonable diligence, 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. Based on our knowledge and having exercised reasonable diligence, 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 – INDEPENDENT AUDITOR’S REPORT FOR STATEMENTS A, E AND F**

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

We have audited the accompanying Statements of \_\_\_\_\_, which comprise the  
(Dealer Member)  
statement of financial position (Statement A) as at \_\_\_\_\_ and the statement of  
(date)  
income and comprehensive Income (Statement E) and statement of changes in capital and retained earnings (Statement F)  
for the year then ended \_\_\_\_\_ and a summary of significant accounting policies  
(date)  
and other explanatory information. These Statements have been prepared by management based on the financial reporting provisions of the Notes and Instructions to Form 1 prescribed by the Investment Industry Regulatory Organization of Canada.

**Management’s responsibility for the Statements**

Management is responsible for the preparation and fair presentation of these Statements in accordance with the financial reporting provisions of the Notes and Instructions to Form 1 prescribed by the Investment Industry Regulatory Organization of Canada and for such internal control as management determines is necessary to enable the preparation of Statements that are free from material misstatement, whether due to fraud or error.

**Auditor’s responsibility**

Our responsibility is to express an opinion on these 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 from 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 Statements present fairly, in all material respects, the financial position of \_\_\_\_\_  
(Dealer Member)  
as at \_\_\_\_\_ and the results of its operations for the year then ended in accordance with the  
(date)  
financial reporting provisions of the Notes and Instructions to Form 1 prescribed by the Investment Industry Regulatory Organization of Canada.

**Going Concern**

**[Note: SIRFF to allow for auditor to include emphasis of matter paragraph for Going concern – this is an option for auditors but not part of the standard report]**

Without modifying our opinion, we draw attention to Note \_\_\_\_\_ in the Statements which indicates that  
(note)  
\_\_\_\_\_ incurred a net loss of \_\_\_\_\_  
(Dealer Member) (\$ amount)  
during the year ended \_\_\_\_\_ and, as of that date, \_\_\_\_\_  
(date) (Dealer Member’s)

current liabilities exceeded its total assets by \_\_\_\_\_ . These conditions, along with other matters as set forth in Note \_\_\_\_\_ , indicate the existence of a material uncertainty that may cast significant doubt about \_\_\_\_\_ ability to continue as a going concern.  
(note)  
(Dealer Member's)

**Basis of Accounting and Restriction on Use**

Without modifying our opinion, we draw attention to Note \_\_\_\_\_ to the Statements which describes the basis of accounting. The Statements are prepared to assist \_\_\_\_\_ to meet the requirements of the \_\_\_\_\_  
(note)  
(Dealer Member)  
Investment Industry Regulatory Organization of Canada. As a result, the Statements may not be suitable for another purpose. Our report is intended solely for \_\_\_\_\_ , the Investment Industry Regulatory Organization of Canada and the Canadian Investor Protection Fund and should not be used by parties other than \_\_\_\_\_ , the Investment Industry Regulatory Organization of Canada and the Canadian Investor Protection Fund.  
(Dealer Member)

**[Note: SIRFF to allow for auditor to include other potential Emphasis of Matter and Other Matter paragraphs should one be required under the CASs or determined appropriate by the auditor to be included in the auditor's report. Such wording would be agreed upon with the Corporation prior to the filing of Form 1.]**

**Unaudited Information**

We have not audited the information in Schedules 13 and 15 of Part II of Form 1 and accordingly do not express an opinion on these schedules.

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

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

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

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

*[See notes and instructions]*

**FORM 1 – INDEPENDENT AUDITOR’S REPORT FOR STATEMENTS B, C AND D**

**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)

as at \_\_\_\_\_ :  
(date)

Statement B – Statement of Net Allowable Assets and Risk Adjusted Capital

Statement C – Statement of Early Warning Excess and Early Warning Reserve

Statement D – Statement of Free Credit Segregation Amount

These Statements have been prepared by management based on the financial reporting provisions of the Notes and Instructions to Form 1 prescribed by the Investment Industry Regulatory Organization of Canada.

**Management’s Responsibility for the Statements**

Management is responsible for the preparation of the Statements of Form 1 in accordance with the financial reporting provisions of the Notes and Instructions to Form 1 prescribed by the Investment Industry Regulatory Organization of Canada, and for such internal control as management determines is necessary to enable the preparation of Statements that are free from material misstatement, whether due to fraud or error.

**Auditor’s responsibility**

Our responsibility is to express an opinion on the 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 from 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 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 of our audit opinion.

**Opinion**

In our opinion, the financial information in Statements B, C and D of Form 1 as at \_\_\_\_\_ (year end) is prepared, in all material respects, in accordance with the financial reporting provisions of the Notes and Instructions to Form 1 prescribed by the Investment Industry Regulatory Organization of Canada.

**Basis of Accounting and Restriction on Use**

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

accounting. The Statements are prepared to assist \_\_\_\_\_ to meet the requirements of the  
(Dealer Member)

Investment Industry Regulatory Organization of Canada. As a result, the Statements may not be suitable for another purpose. Our report is intended solely for \_\_\_\_\_, the Investment Industry Regulatory  
(Dealer Member)

Organization of Canada and the Canadian Investor Protection Fund and should not be used by parties other than \_\_\_\_\_, the Investment Industry Regulatory Organization of Canada and the  
(Dealer Member)

Canadian Investor Protection Fund.

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

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

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

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

*[See notes and instructions]*

**FORM 1 – INDEPENDENT AUDITOR’S REPORTS**

**NOTES AND INSTRUCTIONS**

A measure of uniformity in the form of the auditor's reports 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 reports should take the form of the auditor's reports shown above.

Alternate forms of Auditor's Reports are available online from within the web-based Securities Industry Regulatory Financial Filings system (SIRFF).

Any limitations in the scope of the audit must be discussed in advance with the Corporation. Discretionary scope limitations will not be accepted. Any other potential emphasis of matter and other matter paragraphs in the auditor's reports must be discussed in advance with the Corporation.

One copy of the auditor's reports 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		NOTE S	(CURRENT YEAR) C\$'000	(PREVIU S YEAR) C\$'000
LIQUID ASSETS:				
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.	TOTAL LIQUID ASSETS		-----	-----
OTHER ALLOWABLE ASSETS (RECEIVABLES FROM ACCEPTABLE INSTITUTIONS):				
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.	TOTAL OTHER ALLOWABLE ASSETS		-----	-----
NON ALLOWABLE ASSETS:				
19.	Other deposits with <i>acceptable clearing corporations</i> [cash or <i>market value</i> of securities lodged]	-----	-----	-----
20.	Deposits and other balances with non- <i>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	-----	-----	-----

**SROs, Marketplaces and Clearing Agencies**

27.	Advances to subsidiaries and affiliates	-----	-----	-----
28.	Other assets [provide details]	-----	-----	-----
29.	TOTAL NON-ALLOWABLE ASSETS		-----	-----
30.	Finance lease assets		-----	-----
31.	TOTAL ASSETS		=====	=====

CURRENT LIABILITIES:

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.		TOTAL CURRENT LIABILITIES		-----	-----

NON-CURRENT LIABILITIES:

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.		TOTAL NON-CURRENT LIABILITIES		-----	-----
69.		TOTAL LIABILITIES [Line 61 plus Line 68]		-----	-----

CAPITAL AND RESERVES:

70.	Stmt. F	Issued capital	-----	-----	-----
71.	Stmt. F	Reserves	-----	-----	-----
72.	Stmt. F	Retained earnings or undivided profits	-----	-----	-----
73.		TOTAL CAPITAL		-----	-----
74.		TOTAL LIABILITIES AND CAPITAL		=====	=====

[See notes and instructions]

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 the recoverable portion of capital tax, Part VI tax, property taxes and any federal or provincial sales 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.

**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 – in accordance with statute or regulation. It includes an amount appropriated from retained earnings – in accordance with statute or regulation. 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 YEAR) C\$'000	(PREVIOUS YEAR) 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]	=====	=====

[See notes and instructions]

FORM 1, PART I – STATEMENT B SUPPLEMENTAL

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

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

Statement B – Line 22: Details of Unresolved Differences

	Reconciled as at Report Date (Yes/No)	Number of items	Debit/ Short value (Potential Losses)	Number of items	Credit/ Long value (Potential Gains)	Required to margin
(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

[See notes and instructions]

**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 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:

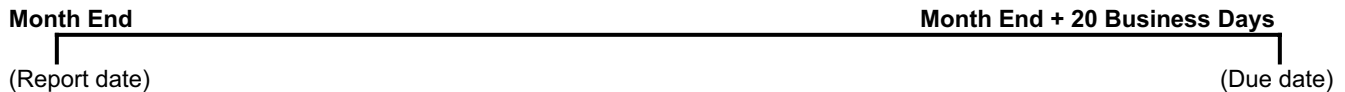
<b>Type of Unresolved Difference</b>	<b>Amount Required to Margin</b>
Money balance – credit (potential gains)	None
Money balance – debit (potential losses)	Money balance
Unresolved Long with Money on the Dealer Member's Book	[(Money Balance on the trade minus <i>market value</i> of the security)* plus 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.

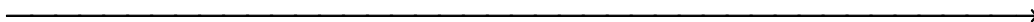
Where mutual fund positions are not reconciled on a monthly basis, margin shall be provided equal to a percentage of the *market value* of such mutual funds held on behalf of clients. Where no transactions in the mutual fund, other than redemptions and transfers, have occurred for at least six months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

**Unresolved Differences in Accounts:**

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

REFERENCE	NOTES	(CURRENT YEAR) C\$'000
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. A-67	Less: Subordinated loans	-----
7. A-65	Less: Finance leases – leasehold inducements	-----
8.	Adjusted non-current liabilities for Early Warning purposes	-----
9. Sch. 6A	Tax recoveries – income accruals	-----
10	<b>EARLY WARNING EXCESS</b>	_____
.		
	<b>DEDUCT: CAPITAL CUSHION -</b>	
11 B-24	Total margin required \$ _____ multiplied by 5%	-----
.		
12	<b>EARLY WARNING RESERVE [Line 10 less Line 11]</b>	=====
.		

[See notes and instructions]

**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 11 above), then the Dealer Member is designated as being in Early Warning category **Level 1**, or
- (b) 2% of total margin required (Line 11 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 (other than subordinated loans and non-current portion of finance lease liabilities – leasehold inducements) are added back to RAC as they are not current obligations of the Dealer Member and can be used as financing.

**Line 9** – This add-back ensures that the Dealer Member is not penalized at the Early Warning level for accruing income.

**Line 10** – 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 12** – 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 \_\_\_\_\_

REFERENCE	NOTES	(CURRENT YEAR) C\$'000
<b>AMOUNT REQUIRED TO SEGREGATE:</b>		
1. B-6	Net allowable assets of \$ _____ multiplied by 8	-----
2. C-12	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]	-----

[See notes and instructions]

**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 YEAR / MONTH) C\$'000	(PREVIOUS YEAR / MONTH) 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.	TOTAL REVENUE	-----	-----
<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.	Pre-tax profit (loss) for the year from discontinued operations	-----	-----
30.	Operating expenses	-----	-----
31.	<b>Profit [loss] for Early Warning test</b>	=====	=====

REFERENCE	NOTES	(CURRENT YEAR / MONTH)	(PREVIOUS YEAR / MONTH)
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), including taxes on profit (loss) from discontinued operations	-----	-----
38.	PROFIT [LOSS] FOR PERIOD	-----	-----
		F-11	
<b>Other comprehensive income</b>			
39.	Gain (loss) arising on revaluation of properties	-----	-----
		F-5a	
40.	Actuarial gain (loss) on defined benefit pension plans	-----	-----
		F-5b	
41	Other comprehensive income for the year, net of tax [Lines 39 plus 40]	-----	-----
		For MFR reporting E-41 is the net change to A-71 Reserves	
42.	<b>Total comprehensive income for the year</b> [Lines 38 plus 41]	-----	-----
Note: The following lines must also be completed when filing the MFR:			
43.	Payment of dividends or partners drawings	-----	-----
44.	Other [provide details]	-----	-----
45.	NET CHANGE TO RETAINED EARNINGS [Lines 38, 43 and 44]	-----	-----

[See notes and instructions]

**FORM 1, PART I – STATEMENT E**

**NOTES AND INSTRUCTIONS**

**Comprehensive income**

Comprehensive income represents all changes in equity during a period resulting from transactions and other events, other than changes resulting from transactions with owners in their capacity as owners. Comprehensive income includes 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*.

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. The profit (loss) on discontinued operations for the year is on a pre-tax basis. The tax component is to be included as part of the income tax expense (recovery) on Line 37.
- 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.

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 and the tax component relating to the profit (loss) on discontinued operations for the year.

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

A-70

B. CHANGES IN RESERVES

	NOTES	GENERAL	PROPERTIES REVALUATION	EMPLOYEE BENEFITS	EMPLOYEE DEFINED BENEFIT PENSION	TOTAL RESERVES
		[a] C\$'000	[b] C\$'000	[c] C\$'000	[d] C\$'000	[e] = [a] + [b] + [c] + [d] 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-40	
(c) Recognition of share-based payments						

E-30

(d) Transfer from/to retained earnings	-----				
	F-12	-----			
(e) Other [provide details]	-----				
6. Ending balance	=====				
					A-71

**C. CHANGES IN RETAINED EARNINGS**

	NOTES	RETAINED EARNINGS (CURRENT YEAR) C\$'000	RETAINED EARNINGS (PREVIOUS YEAR) 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	

[See notes and instructions]

**FORM 1, PART 1 – 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**

General reserve is an amount set aside for future use, expense, loss or claim – in accordance with statute or regulation. It includes an amount appropriated from retained earnings – in accordance with statute or regulation. Appropriation directly from the income statement is not permitted for general reserves.

**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 Line #	IFRS Line #	REFERENCE	NOTES	CGAAP (date) C\$'000	IFRS ADJUSTMENTS C\$'000	IFRS (date) 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	-----	-----	-----	-----

CGAAP Line #	IFRS Line #	REFERENCE	NOTES	CGAAP (date)	IFRS ADJUSTMENTS	IFRS (date)
		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 <i>non-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	-----	-----	-----	-----
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 – at <i>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	-----	-----	-----	-----

CGAAP Line #	IFRS Line #	REFERENCE	NOTES	CGAAP (date)	IFRS ADJUSTMENTS	IFRS (date)
		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			=====	=====

[See notes and instructions]



FORM 1, PART I – STATEMENT G

NOTES TO THE RECONCILIATION

Note #	Adjustment explanation

**FORM 1, PART I – STATEMENT G**

**NOTES AND INSTRUCTIONS**

**Instructions**

**One-time transitional reporting requirement**

The opening IFRS Statement A provides a starting point for regulatory 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
- 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 \_\_\_\_\_

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.

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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.

**SROs, Marketplaces and Clearing Agencies**

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- 9. We obtained the lists of hypothecated securities at \_\_\_\_\_ <period end date> \_\_\_\_\_ and compared a sample of \_\_\_\_\_ securities 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.
- 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**

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

[See notes and instructions]

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	
		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.

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 REQUIRED C\$'000
	LONG C\$'000	SHORT 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</i> or <i>regulated entities</i> or as a comfort deposit with a carrying broker	-----
12. Margin reduction from offsets against Trader reserves and PDO guarantees	-----

[See notes and instructions]

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

**OVERALL CONCENTRATION:**

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

B-11

**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 REQUIRED TO FULLY MARGIN C\$'000
	DEBIT C\$'000	CREDIT 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 and PDO guarantees			=====

[See notes and instructions]



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.

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.

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 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.		
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 4A

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

\_\_\_\_\_  
(Firm Name)

**LIST OF TEN LARGEST VALUE DATE TRADING BALANCES  
WITH ACCEPTABLE INSTITUTIONS AND ACCEPTABLE COUNTERPARTIES**

[excluding balances less than 20% of Risk Adjusted Capital or \$250,000, whichever is the smaller]

On approved *acceptable institutions/acceptable  
counterparty list*

Name of Institution	Yes/No	<i>Acceptable institution</i>	<i>Acceptable counterparty</i>	Debits C\$'000	Credits C\$'000	Margin C\$'000
-----	-----	-----	-----	-----	-----	-----
-----	-----	-----	-----	-----	-----	-----
-----	-----	-----	-----	-----	-----	-----
-----	-----	-----	-----	-----	-----	-----
-----	-----	-----	-----	-----	-----	-----
-----	-----	-----	-----	-----	-----	-----
-----	-----	-----	-----	-----	-----	-----
-----	-----	-----	-----	-----	-----	-----
-----	-----	-----	-----	-----	-----	-----
TOTALS				=====	=====	=====

**NOTES:**

1. This schedule is to report only ten balances with an indication whether each balance is with an *acceptable institution* or an *acceptable counterparty*.
2. For balances with *acceptable institutions* and *acceptable counterparties* not on the approved lists, as published by the Corporation, please provide their latest audited financial statements.

FORM 1, PART II – SCHEDULE 5

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

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

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

CATEGORY	BALANCES		AMOUNT REQUIRED TO FULLY MARGIN C\$'000
	DEBIT C\$'000	CREDIT 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 acceptable <i>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 during current year	.....	
4.	Subtotal [add or subtract Line 3 from Line 1]	.....	
5.	Income tax expense (recovery)	.....	
		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]	.....	
			A-13, if asset
			A-56, if liability

FORM 1, PART II – SCHEDULE 6A

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

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

**TAX RECOVERIES**

**C\$'000**

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

- 1. Sch. 6, Income tax expense (recovery) [must be greater than 0, else N/A]  
Line 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]  
Line 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-9**

*[See notes and instructions]*

**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**

	AMOUNT OF LOAN PAYABLE OR CASH RECEIVED AS COLLATERAL C\$'000 [see note 3]	MARKET VALUE OF SECURITIES RECEIVED AS COLLATERAL C\$'000 [see note 4]	MARKET VALUE OF SECURITIES DELIVERED AS COLLATERAL OR LOANED C\$'000 [see note 4]	REQUIRED TO MARGIN C\$'000
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.

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**

			<b>C\$'000</b>
1.	Sch. 1, Line 2	Market value deficiency amount relating to loans receivable from <i>acceptable counterparties</i> , net of legal offsets and margin already provided	-----
2.	Sch. 1, Line 6	Market value deficiency amount relating to securities borrowed from <i>acceptable counterparties</i> , net of legal offsets and margin already provided	-----
3.	Sch. 1, Line 10	Market value deficiency amount relating to resale agreements with <i>acceptable counterparties</i> , net of legal offsets and margin already provided	-----
4.	Sch. 7, Line 3	Market value deficiency amount relating to loans payable to <i>acceptable counterparties</i> , net of legal offsets and margin already provided	-----
5.	Sch. 7, Line 7	Market value deficiency amount relating to securities lent to <i>acceptable counterparties</i> , net of legal offsets and margin already provided	-----
6.	Sch. 7, Line 11	Market value deficiency amount relating to repurchase agreements with <i>acceptable counterparties</i> , 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]		=====
			B-21





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.

**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.

### 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.
- (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) Carrying brokers' 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 9]
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**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
.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....

[See notes and instructions]

**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**

<b>SUMMARY</b>		<b>C\$'000</b>
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 ≥ \$5,000 (For each foreign currency, a schedule 11A must be completed)	Required Margin
	Subtotal	
	All other foreign exchange margin requirement	
	TOTAL	

*[See notes and instructions]*

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: \_\_\_\_\_

	AMOUNT C\$'000	WEIGHTED VALUE C\$'000	MARGIN REQUIRED C\$'000
<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

[See notes and instructions]

## 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:

	<b>Currency Group</b>			
	<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)

	<b>C\$'000</b>
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	.....
	<hr/> <hr/> B-18

*[See notes and instructions]*

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 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 12) 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 6 months ending with current month [note 2] C\$'000	Profit or loss for 6 months ending with preceding month [note 2] C\$'000
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**

*[See notes and instructions]*

**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 10) 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**

Months

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

*[See notes and instructions]*

**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.

FORM 1, PART II – SCHEDULE 14

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

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

**PROVIDER OF CAPITAL CONCENTRATION CHARGE**

**C\$'000**

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

- 1. Cash on deposit with *provider of capital* .....
- 2. Cash, held in trust with *provider of capital*, due to free credit ratio calculation .....
- 3. Loans receivable – undersecured loans receivable from *provider of capital* relative to normal commercial terms .....
- 4. Loans receivable – secured loans receivable from *provider of capital* that are secured by investments in securities issued by the *provider of capital* .....
- 5. Securities borrowed – securities borrowing agreements with the *provider of capital* that are undersecured relative to normal commercial terms .....
- 6. Securities borrowed – secured securities borrowing agreements with the *provider of capital* that are secured by investments in securities issued by the *provider of capital* .....
- 7. Resale agreements – agreements with the *provider of capital* that are undersecured relative to normal commercial terms .....
- 8. Commissions and fees receivable from the *provider of capital* .....
- 9. Interest and dividends receivable from the *provider of capital* .....
- 10. Other receivables from the *provider of capital* .....
- 11. Loans payable – loans payable to the *provider of capital* that are overcollateralized relative to normal commercial terms .....
- 12. Securities lent – agreements with the *provider of capital* that are overcollateralized relative to normal commercial terms .....
- 13. Repurchase agreements – agreements with the *provider of capital* that are overcollateralized relative to normal commercial terms .....

**LESS:**

- 14. Bank overdrafts with the *provider of capital* .....
- 15. TOTAL CASH DEPOSITS AND UNDERSECURED LOANS WITH PROVIDER OF CAPITAL .....

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

- 1. Investments in securities issued by the *provider of capital* (net of margin provided) .....

**LESS:**

- 2. Loans payable to *provider of capital* that are linked to the assets above and are limited recourse .....
- 3. Securities issued by the *provider of capital* sold short provided they are used as part of a valid offset with the investments reported in Section B, Line 1 above .....
- 4. TOTAL INVESTMENTS IN SECURITIES ISSUED BY THE PROVIDER OF CAPITAL .....

C\$'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, Line 1 *Regulatory financial statement capital provided by the provider of capital*

2. Sec. A, Line 15 Cash deposits and undersecured loans with *provider of capital*

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, Line 1 *Regulatory financial statement capital provided by the provider of capital*

2. Sec. A, Line 15 Cash deposits and undersecured loans with *provider of capital*

3. Sec. B, Line 4 Investments in securities issued by the *provider of capital*

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, Line 5 Capital charge incurred under Exposure Test #1

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-19

[See notes and instructions]

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.

**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)**

**C\$'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.

## APPENDIX B

## SUMMARY OF THE COMMENTS RECEIVED AND IIROC'S RESPONSES

#	Commenter		Comment	IIROC response	IIROC action
1.	Citigroup Global Markets Canada Inc.	Dealer Member	<p>Statement G requires that we roll forward our equity position from the December 31, 2010 audited annual Form 1 as filed under CGAAP to opening retained earnings using IFRS for our January 2011 Form 1 (MFR). The issue is that January 2011 MFR will use December 2010 MFR closing equity as its opening balance which often would be different from the audited annual 2010 Form 1 because there are often income statement adjustments made between the December MFR and annual Form 1 as there is more time available to file the latter. Such adjustments are made to true up the balances that were not known at the time of filing of December 2010 MFR.</p> <p>If we take the retained earnings reported in the December 2010 MFR and simply add IFRS adjustments, the numbers will not reconcile to the new, IFRS compliant Form 1 set of numbers. We would suggest making appropriate changes to allow users to include above noted adjustments as well to ensure that the CGAAP retained earnings tie out to audited Statement A as at December 2010 prior to making any IFRS related adjustments.</p> <p>We would ask that you please advise in the revised set of instructions how we should be addressing this issue.</p>	<p>As this is a SIRFF IT implementation issue, any instruction should not be part of the amended Form 1. Instead, any instruction will be part of the SIRFF filing instructions.</p> <p>At the IFRS conversion date, a Dealer Member will move from the current (CGAAP-based) SIRFF platform to the new (IFRS-based) SIRFF platform. There is no need to reflect the year-end audit adjustments to the first MFR under IFRS. This is because the opening IFRS retained earnings would have incorporated all adjustments – both the IFRS adjustments and the year-end audit CGAAP adjustments.</p>	To communicate to the Dealer Member and panel auditor

#	Commenter		Comment	IIROC response	IIROC action
2.	National Bank Financial (NBF)	Dealer Member	<p>IIROC had proposed several amendments which have been classified as minor because they do not impact on the calculation of RAC and early warning tests. Given the nature of these amendments we propose that the following <u>amendments become in effect as of immediately</u>:</p> <ul style="list-style-type: none"> <li>• List of unresponsive brokers to year-end audit confirmation requires: the Dealer Members are already required to reconcile broker account statement balances on a monthly basis and capital penalties arise if there are unreconciled differences.</li> <li>• List of unresponsive guarantors to year-end audit confirmation request: the Dealer Members are already required to obtain a confirmation from guarantors and capital penalties arise if there is an unconfirmed balance.</li> <li>• Lists of other acceptable foreign securities locations: 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</li> <li>• 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.</li> </ul>	No. Any early implementation will require a separate rule change proposal to the current CGAAP-based Form 1.	No further action required
			We have noticed a typo with regards to Form 1- Part I – Statement F line 6 “closing balance” it is referenced to A-73 “total reserves”, when in fact should be referenced to A-71.	Noted	To correct  <b>Status: Done</b>
3.	Casgrain & Company Limited	Dealer Member	Under IFRS (IAS 39), we may use the trade-date or settlement date accounting method for reporting purposes. Therefore, Note 6 under GENERAL NOTES in Form 1	No. AG 53 of IAS 39 paragraph 38 specifically refers to <i>regular way purchase or sale of a financial asset</i> .	No further action required

#	Commenter	Comment	IIROC response	IIROC action
		<p>“General Notes and Definitions” which requires the selection of trade date reporting should be reclassified in Note 3 (Prescribed Accounting Treatment).</p>		
		<p>The word “are only required at the audit date” in Note 8 under GENERAL NOTES in Form 1 “General Notes and Definitions” should be removed as the audit date is the only date where Form 1 filing is mandatory.</p>	<p>No. Other than the fiscal year-end date, Form 1 can be filed in certain situations, such as an amalgamation or resignation.</p>	<p>No further action required</p>
		<p>The definition of market value of securities as defined under paragraph (g) DEFINITIONS in Form 1 “General Notes and Definitions” refers to “In a fully transparent market place”. It is not clear what is meant by transparent marketplace. Does it mean an active market as defined under IFRS? If such, the terminology should then be modified for “In an active market”.</p>	<p>The “market value of securities” definition remains unchanged from the pre-IFRS changeover Joint Regulatory Financial Questionnaire and Report (i.e. the CGAAP-based Form 1)</p>	<p>No further action required</p>
		<p>In FORM 1 “CERTIFICATE OF UDP AND CFO” and FORM 1 “SEPARATE CERTIFICATE OF UDP AND CFO ON STATEMENT G OF PART I OPENING IFRS STATEMENT OF FINANCIAL POSITION AND RECONCILIATION OF EQUITY”, it is our understanding that these certificates require mandatory signatures by at least two designated persons. Therefore, the reference to “my” in both certifications should be removed.</p>	<p>Noted</p>	<p>To edit text  <b>Status: Done</b></p>
		<p>In FORM 1, Part I – Statement A “Notes and Instructions”, the reference to the use of accrual basis accounting is superfluous, as it is understood that the accrual basis of accounting is mandated under CGAAP or IFRS.</p>	<p>This apparent redundancy was intended to ensure that all Dealer Members understand that accrual basis is applicable for regulatory accounting and reporting.</p>	<p>No further action required</p>
		<p>In addition, QST (Quebec sales tax) should also be added to Line 14. We would also suggest that rather than identifying GST, HST, and QST separately, we may use the terminology “any Federal or Provincial recoverable sales taxes” which would cover any government changes with</p>	<p>Noted</p>	<p>To amend  <b>Status: Done</b></p>

#	Commenter		Comment	IIROC response	IIROC action
			regards to adoption of sales taxes policies.		
	Casgrain & Company Limited (cont'd)		<p>FORM 1, Part I – Statement E “Notes and Instructions”, in which line, interest revenues on long debt inventory positions and interest expenses (cost of carrying short inventory) related to short debt inventory positions should be reported. In addition, instructions for line 18 with regards to “a specific liability” should be clarified: the reference to a “specific liability” should it be “Asset trading activity”?</p> <p>Clarification provided on Nov 30, 2010: As per the notes and instructions of statement E of je JRFQR, interest revenues on long debt inventory position and the cost of carrying short inventory positions are included in 10( Principal revenue-bonds), as well as the financing cost and revenues to finance the long and short inventory position ( repo and reverse repo interest). Under IFRS, it is not clear if we can still offset these sources of interest. The intentions of the accounting authorities are also ambiguous regarding this matter. My intention is to through financial statements of Financial institutions prepared under IFRS GAAP to see if I could find any additional information's regarding the reporting of those sources of interests.</p>	<p>IAS1.32 states: <i>An entity shall not offset assets and liabilities or income and expenses, unless required or permitted by an IFRS.</i></p> <p>Additional reference: IFRIC meeting dated September 2006 on the topic – <i>Presentation of “net finance costs” on the face of the income statement (Agenda Paper 8(ii))</i></p>	No further action required
4.	Broker Auditor Committee	External advisory group	<p><i>General Comments</i> One point that is not clear in the Notice is how IIROC intends to treat any further departures from IFRS in the future. Standards will continue to develop and there may be a need for further departures over time. You may want to consider the process for communicating this. For example, where IIROC intends to maintain a centralized list for all identified departures for members to reference.</p>	When a need arises to prescribe additional regulatory accounting departures from IFRS or to prescribe additional regulatory accounting treatment, IIROC will go through the rule amendment process.	No further action required
			<p><i>Other IFRS Departures</i> General Note #2 of Form 1</p>	Noted	To add text for greater clarity

#	Commenter	Comment	IIROC response	IIROC action
		<p>states that “the Corporation allows the netting of receivables and payables to the same counterparty”. It is unclear whether this is a policy choice you are permitting member to make or you expect that members should report on a net basis. You may wish to clarify this position.</p>		<p><b>Status: Done</b></p>
		<p><i>Reserves</i>                      The Instructions for Statement A, Line 71 states that a “Reserve is an amount set aside for future use, expense, loss or claim. It includes an amount appropriated from retained earnings.” We recommend that this definition be amended by adding “in accordance with statute or regulation” after both those sentences. As written, the definition could be confused with certain items which meet the IAS37 criteria for provisions or misconstrued as permitting an entity to “set aside” amounts which are not in accordance with IFRS.</p>	<p>Noted</p>	<p>To add recommended text   <b>Status: Done</b></p>
		<p>Statement F, Note and Instruction B, states: “General Reserve: A dealer member may want to transfer from retained earnings. The creation of a general reserved gives the dealer member an added measure of protection”.</p> <p>If the intent is to be compliant with IFRS with regard to reserves, then we recommend that the wording of both of the above be clarified. For example, appropriation directly from the income statement is not permitted for general reserves. If there is no legal or regulatory distinction between Retained Earnings and a General Reserve, that fact should be disclosed. The existence or absence of any restrictions on the distribution of a General Reserve should be disclosed.</p>	<p>Noted</p>	<p>To rephrase for greater clarity   <b>Status: Done</b></p>
		<p><i>Reserve – Employee Benefits</i>                       The Notice, Statement F Part B and the notes and instructions to that part all state that</p>		

#	Commenter	Comment	IIROC response	IIROC action
		<p>“Reserve – Employee Benefits” comprises 2 elements:</p> <ol style="list-style-type: none"> <li>1. Defined benefit pension plan and</li> <li>2. Stock option and stock award.</li> </ol> <p>We recommend that these be shown separately to comply with IAS1.79(b), or that this be included in the list of prescribed departures from IFRS.</p> <p>Also, it should be noted that IFRS2 requires that stock based compensation be recognized as an asset, rather than an expense, if it so qualifies. The wording of Statement F, Note B does not explicitly acknowledge this, though we note that this is unlikely to be an issue for members.</p>	<p>Noted</p> <p>Noted. The purpose of the instructions to Statement F is to provide a general definition of the new terms.</p>	<p>To amend accordingly</p> <p><b>Status: Done</b></p> <p>No further action required</p>
		<p><i>Opening Balance sheet and conversion to IFRS</i></p> <p>The instructions to Form 1 to identify that the conversion date for a December 31, 2011 year end is to be January 1, 2011 and therefore the opening balance sheet is to be prepared as at January 1, 2011. This is inconsistent with the guidance in IFRS 1 which would indicate an opening balance sheet should be prepared as at January 1, 2010 and that the 2010 comparative information should be presented under IFRS in its 2011 statements. Therefore this should be discussed as an IFRS departure.</p>	<p>Noted</p>	<p>To add as a prescribed departure</p> <p><b>Status: Done</b></p>
		<p>It should be noted that members also prepare standalone financial statements for general purposes. As these statements are for general use, they will be prepared under IFRS with no permitted departures. As a result, members will be required to use a conversion date of January 1, 2010 for the opening balance sheet in those standalone statements. This will likely involve additional work for member to prepare</p>	<p>IIROC is cognizant of the requirements for full IFRS compliance for purposes of the general purpose financial statements and of the one-time application of IFRS1.</p> <p>Form 1, the regulatory financial report, is a special purpose report, IIROC requires the Dealer Member to provide the opening balance sheet for the first annual Form 1 under IFRS.</p>	<p>To amend text</p> <p><b>Status: Done</b></p>



#	Commenter	Comment	IIROC response	IIROC action
		<p>two separate opening balance sheets, one for the Form 1 filing and one for the standalone general purpose statements. There will be significant issues to the extent that IFRS1 exemptions and elections, which are basically only permitted on a “one-time” basis, would have to be as at January 1, 2010 for the IFRS compliant standalone financial statements. Therefore they cannot be determined or measured at January 1, 2011. The instructions state that “the opening IFRS statement A provides a starting point for accounting under IFRS”. This cannot work for an entity which already had a January 1, 2010 starting point. We recommend that the instructions and form be amended to address this situation.</p>	<p>For certainty, the first sentence of the instruction to Statement G will be amended as follows: <i>The opening IFRS statement of financial position, Statement A of Form 1, provides a starting point for regulatory accounting under IFRS.</i></p>	

## APPENDIX C

## FORM 1 – TABLE OF CONTENTS

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 (Dealer Member Name)
 

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 (Date)
 

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*Updated*

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**SROs, Marketplaces and Clearing Agencies**

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14	Provider of capital concentration charge	Jan <del>Feb</del> -2011
15	Supplementary information	Jan <del>Feb</del> -2011

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

## FORM 1 – GENERAL NOTES AND DEFINITIONS

## GENERAL NOTES:

1. 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 pre-IFRS changeover Joint Regulatory Financial Questionnaire and Report must be used by Dealer Members who have elected to defer the adoption of IFRS and have received written approval of the deferral from the Corporation.

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

	Prescribed IFRS departure
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. <u>A Dealer Member may choose to report client and broker trading balances in accordance with IFRS.</u>
Preferred shares	Preferred shares issued by the Dealer Member and approved by the Corporation are classified as shareholders' capital.
Presentation	<p>Statements A and E contain terms and classifications (such as allowable and non-allowable assets) that are not defined under IFRS. <u>For Statement E, the profit (loss) for the year on discontinued operations is presented on a pre-tax basis (as opposed to after-tax).</u></p> <p><u>In addition, specific balances may be classified or presented on Statements A, E and F in a manner that differs from IFRS requirements. The General Notes and Definitions, and the applicable Notes and Instructions to the Statements of Form 1, should be followed in those instances where departures from IFRS presentation exist.</u></p> <p>Statements B, C, D and FD are supplementary financial information, which are not statements contemplated under IFRS.</p> <p><u>As a one-time transitional relief for the first Form 1 prepared under the basis of IFRS with prescribed departures and prescribed accounting treatments, the Corporation does not require comparative financial data. As such, the preparation of the opening balance sheet is as at the conversion date (the first day of the first fiscal year under IFRS). A Dealer Member will file the opening balance sheet as Statement G and as stipulated by the Corporation, which is prior to the filing of the first monthly financial report (MFR) prepared under IFRS with prescribed departures and prescribed accounting treatments.</u></p>
Separate financial statements on a non-consolidated basis	<p>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.</p> <p>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.</p>
Statement of cash flow	A statement of cash flow is not required as part of Form 1.
Valuation	The "market value of securities" 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 remains unchanged from the pre-IFRS changeover Joint Regulatory Financial Questionnaire and Report.

3. 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.  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.

4. These statements and schedules ~~should be read~~ are prepared ~~in conjunction~~ in accordance with the Dealer Member rules.
5. 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.
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.
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-1, which is based on IFRS except for prescribed departures and prescribed accounting treatments stipulated in the general notes and definitions of Form 1.~~
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 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:

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*.
- (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. Where not readily marketable, no market value shall be assigned.
  - (ii) ~~2.~~ 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.
  - (iii) ~~3.~~ for commodity futures contracts, the settlement price on the relevant date or last trading day prior to the relevant date.
  - (iv) ~~4.~~ 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.
  - (v) ~~5.~~ for money market open repurchases (no borrower call feature), the ~~price~~prices are to be determined as of the reporting date or the date the commitment first becomes open, whichever is the later. ~~The value~~Market price is to be determined as in (iv) ~~4.~~ and commitment price is to be determined in the same manner using the yield stated in the repurchase commitment.
  - (vi) ~~6.~~ 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.~~
- (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 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)

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.

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)

[See notes and instructions]

**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 1 –  
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), except for prescribed departures and prescribed accounting treatments as stipulated in the Reporting Standards (IFRS) general notes and definitions of Form 1, 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 and prescribed accounting treatments, where alternatives exist as stipulated in the general notes and instructions of Form 1.
2. We Based on our knowledge and having exercised reasonable diligence, 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, appropriate IFRS 1 optional exemptions and mandatory exceptions for a Dealer Member, including the prescribed regulatory departures and prescribed accounting requirements/treatments as set out in the general notes and instructions of Form 1.
4. We Based on our knowledge and having exercised reasonable diligence, 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 Based on our knowledge and having exercised reasonable diligence, 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)

[See notes and instructions]

**FORM 1 – SEPARATE CERTIFICATE OF UDP AND CFO ON STATEMENT G OF PART I – INDEPENDENT AUDITOR'S  
REPORT FOR STATEMENTS A, E AND F  
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 IROC 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 IROC.

**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. **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 \_\_\_\_\_ (date) and for the year then ended. The Statements have been prepared for purposes of complying with the rules of the Investment Industry Regulatory Organization of Canada. We have audited the accompanying Statements of \_\_\_\_\_ (Dealer Member) statement of financial position (Statement A) as at \_\_\_\_\_ (date) and the statement of income and comprehensive Income (Statement E) and statement of changes in capital and retained earnings (Statement F) for the year then ended \_\_\_\_\_ (date) and a summary of significant accounting policies and other explanatory information. These Statements have been prepared by management based on the financial reporting provisions of the Notes and Instructions to Form 1 prescribed by the Investment Industry Regulatory Organization of Canada.

**Management’s responsibility for the Statements**

Management is responsible for the preparation and fair presentation of ~~the~~these Statements of Form 1 in accordance with its financial reporting obligations on the basis as described in Note \_\_\_\_\_. This responsibility includes designing, implementing and maintaining internal control relevant to in accordance with the financial reporting provisions of the Notes and Instructions to Form 1 prescribed by the Investment Industry Regulatory Organization of Canada and for such internal control as management determines is necessary to enable the preparation and fair presentation of financial statements of 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.

**Auditor’s responsibility**

Our responsibility is to express an opinion on the accompanying ~~statements~~these 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 from 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 performance for the period then ended in accordance with the basis as described in 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 \_\_\_\_\_ and the "Dealer Member" financial performance for the period then ended in accordance with the basis as described in Note \_\_\_\_\_:

In our opinion, the Statements present fairly, in all material respects, the financial position of \_\_\_\_\_ (Dealer Member) as at \_\_\_\_\_ and the results of its operations for the year then ended in accordance with the financial reporting provisions of the Notes and Instructions to Form 1 prescribed by the Investment Industry Regulatory Organization of Canada.

**Going Concern**

**[Note: SIRFF to allow for auditor to include emphasis of matter paragraph for Going concern – this is an option for auditors but not part of the standard report]**

Without modifying our opinion, we draw attention to Note \_\_\_\_\_ in accordance with the Statements which indicates that \_\_\_\_\_ (note) incurred a net loss of \_\_\_\_\_ (Dealer Member) (\$ amount) during the year ended \_\_\_\_\_ (date) and, as of that date, \_\_\_\_\_ (Dealer Member's) current liabilities exceeded its total assets by \_\_\_\_\_ (\$ amount). These conditions, along with other matters as set forth in Note \_\_\_\_\_ (note), indicate the existence of a material uncertainty that may cast significant doubt about \_\_\_\_\_ (Dealer Member's) ability to continue as a going concern.

applicable rules of the Investment Industry Regulatory Organization of Canada.

**Basis of Accounting and Restriction on Use**

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.]**

Without modifying our opinion, we draw attention to Note \_\_\_\_\_ to the Statements which describes the basis of accounting. The Statements are prepared to assist \_\_\_\_\_ (note) \_\_\_\_\_ (Dealer Member) to meet the requirements of the Investment Industry Regulatory Organization of Canada. As a result, the Statements may not be suitable for another purpose. Our report is intended solely for \_\_\_\_\_ (Dealer Member), the Investment Industry Regulatory Organization of Canada and the Canadian Investor Protection Fund and should not be used by parties other than \_\_\_\_\_ (Dealer Member), the Investment Industry Regulatory Organization of Canada and the Canadian Investor Protection Fund.



[~~Note to draft: SIRFF to allow for auditor to provide wording on~~include other potential Emphasis of Matter and Other Matter paragraphs should one be required under the CASs or determined appropriate by the auditor to be included in the auditors'auditor's report. Such wording would be agreed upon with the Corporation prior to the filing of Form 1.]

**Basis of Accounting**

**Unaudited Information**

We have not audited the information in Schedules 13 and 15 of Part II of Form 1 and accordingly do not express an opinion on these schedules.

\_\_\_\_\_

(Audit Firm)

\_\_\_\_\_

(signature)

\_\_\_\_\_

(date)

\_\_\_\_\_

(address)

*[See notes and instructions]*

**FORM 1 – INDEPENDENT AUDITOR’S REPORT FOR STATEMENTS B, C AND D**

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

We have audited the accompanying Statements of Form 1 (the “Statements”) of \_\_\_\_\_  
as at \_\_\_\_\_: \_\_\_\_\_  
(date) (Dealer Member)

Statement B – Statement of Net Allowable Assets and Risk Adjusted Capital

Statement C – Statement of Early Warning Excess and Early Warning Reserve

Statement D – Statement of Free Credit Segregation Amount

Without modifying our opinion, we draw attention to Note \_\_\_\_\_ to the Statements which describes the basis of  
(note)  
accounting. These Statements are prepared to meet the requirements of have been prepared by management based on the  
financial reporting provisions of the Notes and Instructions to Form 1 prescribed by the Investment Industry Regulatory  
Organization of Canada. As a result, the Statements may not be suitable for another purpose.

**Management’s Responsibility for the Statements**

Management is responsible for the preparation of the Statements of Form 1 in accordance with the financial reporting provisions  
of the Notes and Instructions to Form 1 prescribed by the Investment Industry Regulatory Organization of Canada, and for such  
internal control as management determines is necessary to enable the preparation of Statements that are free from material  
misstatement, whether due to fraud or error.

**Auditor’s responsibility**

Our responsibility is to express an opinion on the 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 from 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 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 of our audit opinion.

**Opinion**

In our opinion, the financial information in Statements B, C and D of Form 1 as at \_\_\_\_\_ (year end) \_\_\_\_\_ is prepared, in all material  
respects, in accordance with the financial reporting provisions of the Notes and Instructions to Form 1 prescribed by the  
Investment Industry Regulatory Organization of Canada.

**Basis of Accounting and Restriction on Use**

Without modifying our opinion, we draw attention to Note \_\_\_\_\_ to the Statements which describes the basis of  
(note)  
accounting. The Statements are prepared to assist \_\_\_\_\_ to meet the requirements of the  
(Dealer Member)  
Investment Industry Regulatory Organization of Canada. As a result, the Statements may not be suitable for another  
purpose. Our report is intended solely for \_\_\_\_\_, the Investment Industry Regulatory  
(Dealer Member)  
Organization of Canada and the Canadian Investor Protection Fund and should not be used by parties other than  
, the Investment Industry Regulatory Organization of Canada and the  
(Dealer Member)  
Canadian Investor Protection Fund.



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

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



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

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

*[See notes and instructions]*

**FORM 1 – AUDITORS' REPORT**~~INDEPENDENT AUDITOR'S REPORTS~~  
**NOTES AND INSTRUCTIONS**

A measure of uniformity in the form of the ~~auditors' report~~auditor's reports 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~~reports should take the form of the ~~auditors' report~~auditor's reports shown above.

Alternate forms of ~~Auditors~~Auditor's 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 other potential emphasis of matter and other matter paragraphs in the auditor's ~~report~~reports must be discussed in advance with the Corporation.

One copy of the auditor's reports 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 YEAR) C\$'000	(PREVIOUS YEAR) 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 non- <i>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	-----	-----

**SROs, Marketplaces and Clearing Agencies**

26.	Investments in subsidiaries and affiliates	-----	-----	-----
27.	Advances to subsidiaries and affiliates	-----	-----	-----
28.	Other assets [provide details]	-----	-----	-----
29.	TOTAL NON-ALLOWABLE ASSETS		-----	-----
30.	Finance lease assets	-----	-----	-----
31.	TOTAL ASSETS		=====	=====

CURRENT LIABILITIES:

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.		TOTAL CURRENT LIABILITIES		-----	-----

NON-CURRENT LIABILITIES:

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.		TOTAL NON-CURRENT LIABILITIES		-----	-----
69.		TOTAL LIABILITIES [Line 61 plus Line 68]		-----	-----

CAPITAL AND RESERVES:

70.	Stmt. F	Issued capital	-----	-----	-----
71.	Stmt. F	Reserves	-----	-----	-----
72.	Stmt. F	Retained earnings or undivided profits	-----	-----	-----
73.		TOTAL CAPITAL		-----	-----
74.		TOTAL LIABILITIES AND CAPITAL		=====	=====

[See notes and instructions]

FORM 1, PART 1 – 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, the recoverable portion of capital tax, Part VI tax, sales and property taxes and any federal or provincial sales 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.

**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 – in accordance with statute or regulation. It includes an amount appropriated from retained earnings – in accordance with statute or regulation. 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 YEAR) C\$'000	(PREVIOUS YEAR) 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]	=====	=====

[See notes and instructions]

FORM 1, PART I – STATEMENT B SUPPLEMENTAL

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

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

Statement B – Line 22: Details of Unresolved Differences

	Reconciled as at Report Date (Yes/No)	Number of items	Debit/ Short value (Potential Losses)	Number of items	Credit/ Long value (Potential Gains)	Required to margin
(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

[See notes and instructions]

**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 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:

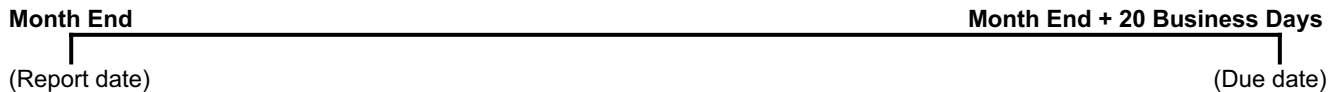
<b>Type of Unresolved Difference</b>	<b>Amount Required to Margin</b>
Money balance – credit (potential gains)	None
Money balance – debit (potential losses)	Money balance
Unresolved Long with Money on the Dealer Member's Book	[(Money Balance on the trade minus <i>market value</i> of the security)* plus 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.

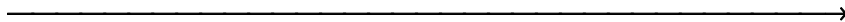
Where mutual fund positions are not reconciled on a monthly basis, margin shall be provided equal to a percentage of the *market value* of such mutual funds held on behalf of clients. Where no transactions in the mutual fund, other than redemptions and transfers, have occurred for at least six months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

**Unresolved Differences in Accounts:**

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

REFERENCE		NOTE S	(CURRENT YEAR) C\$'000
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	-----	-----
<u>6.</u>	<u>A-67</u>		
	<u>Less: Subordinated loans</u>	-----	-----
<u>7.</u>	<u>A-65</u>		
	<u>Less: Finance leases – leasehold inducements</u>	-----	-----
<u>8.</u>			
	<u>Adjusted non-current liabilities for Early Warning purposes</u>	-----	-----
<u>6-9.</u>	Sch. 6A		
	Tax recoveries – income accruals	-----	-----
<u>7-10</u>			
	<b>EARLY WARNING EXCESS</b>		
±			
	<b>DEDUCT: CAPITAL CUSHION -</b>		
<u>8-11</u>	B-24		
	Total margin required \$_____ multiplied by 5%	-----	-----
±			
<u>9-12</u>			
	<b>EARLY WARNING RESERVE [Line <u>7-10</u> less Line <u>8-11</u>]</b>	-----	-----
±			

[See notes and instructions]

**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 811 above), then the Dealer Member is designated as being in Early Warning category **Level 1**, or
- (b) 2% of total margin required (Line 811 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 (other than subordinated loans and non-current portion of finance lease liabilities – leasehold inducements) are added back to RAC as they are not current obligations of the Dealer Member and can be used as financing.

**Line 69** – This add-back ensures that the Dealer Member is not penalized at the Early Warning level for accruing income.

**Line 710** – 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 912** – 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 \_\_\_\_\_

REFERENCE	NOTES	(CURRENT YEAR) C\$'000
<b>AMOUNT REQUIRED TO SEGREGATE:</b>		
1. B-6	Net allowable assets of \$_____ multiplied by 8	-----
2. C-912	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 Introducers	-----
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 YEAR / MONTH) C\$'000	(PREVIOUS YEAR / MONTH) 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.	TOTAL REVENUE	-----	-----
<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 <del>Pre-tax profit</del> (loss) for the year from discontinued operations	-----	-----
30.	Operating expenses	-----	-----
31.	<b>Profit [loss] for Early Warning test</b>	=====	=====

**SROs, Marketplaces and Clearing Agencies**

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- Income tax expense (recovery), <u>including taxes on</u> 6( <u>profit (loss) from discontinued operations</u> 5)		-----	-----
38.	PROFIT [LOSS] FOR PERIOD		-----	-----
			F-11	
<b>Other comprehensive income</b>				
39.	Gain (loss) arising on revaluation of properties	-----	-----	-----
			F-5a	
40.	Actuarial gain (loss) on defined benefit pension plans	-----	-----	-----
			F-5b	
41.	Other comprehensive income for the year, net of tax [Lines 39 plus 40]		-----	-----
			For MFR reporting E-41 is the net change to A- 71 Reserves	
42.	<b>Total comprehensive income for the year</b> [Lines 38 plus 41]		-----	-----
Note: The following lines must also be completed when filing the MFR:				
43.	Payment of dividends or partners drawings	-----	-----	-----
44.	Other [provide details]	-----	-----	-----
45.	NET CHANGE TO RETAINED EARNINGS [Lines 38, 43 and 44]	-----	-----	-----

[See notes and instructions]

**FORM 1, PART I – STATEMENT E**

**NOTES AND INSTRUCTIONS**

**Comprehensive income**

Comprehensive income represents all changes in equity during a period, including resulting from transactions and other events, other than changes resulting from transactions with owners in their capacity as owners. Comprehensive income includes 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*.
- 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. The profit (loss) on discontinued operations for the year is on a pre-tax basis. The tax component is to be included as part of the income tax expense (recovery) on Line 37.
- 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.

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 and the tax component relating to the profit (loss) on discontinued operations for the year.

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

A-70

B. CHANGES IN RESERVES

	NOTES	GENERAL	PROPERTIES REVALUATION	EMPLOYEE BENEFITS	EMPLOYEE DEFINED BENEFIT PENSION	TOTAL RESERVES
		[a] C\$'000	[b] C\$'000	[c] C\$'000	[d] C\$'000	[de] = [a] + [b] + [c] + [d] 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-40	E-40	-----
(c) Recognition of share-based payments	-----	-----	-----	E-30	-----	-----

(d) Transfer from/to retained earnings	-----	-----	-----	-----	
		F-12			
(e) Other [provide details]	-----	-----	-----	-----	
6. Ending balance	-----	=====	=====	=====	A-7371

**C. CHANGES IN RETAINED EARNINGS**

	NOTES	RETAINED EARNINGS (CURRENT YEAR) C\$'000	RETAINED EARNINGS (PREVIOUS YEAR) 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	

[See notes and instructions]



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.~~

General reserve is an amount set aside for future use, expense, loss or claim – in accordance with statute or regulation. It includes an amount appropriated from retained earnings – in accordance with statute or regulation. Appropriation directly from the income statement is not permitted for general reserves.

**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.<sup>±</sup> 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 Line #	IFRS Line #	REFERENCE	NOTES	CGAAP (date) C\$'000	IFRS ADJUSTMENTS C\$'000	IFRS (date) 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	-----	-----	-----	-----

**SROs, Marketplaces and Clearing Agencies**

24.	25.	Property, plant and equipment	-----	-----	-----
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 – at <i>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	-----	-----	-----

[See notes and instructions]

**FORM 1, PART I – STATEMENT G**

**NOTES TO THE RECONCILIATION**

Note #	Adjustment explanation

FORM 1, PART I – STATEMENT G

NOTES AND INSTRUCTIONS

**Instructions**

**One-time transitional reporting requirement**

The opening IFRS ~~statement of financial position, Statement A of Form 1,~~ provides a starting point for regulatory 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~~**

**Management certification**

~~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 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 IROC 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 IROC.

**Notes to the reconciliation**

There will be two types of IFRS adjustments:

1. \_\_\_\_\_ 1. \_\_\_\_\_ Presentation differences with no impact on total equity and
2. \_\_\_\_\_ 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 \_\_\_\_\_

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>4</sup> to the Segregation Report to determine if there were securities used to secure call loans which should have been in segregation.

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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.



**SROs, Marketplaces and Clearing Agencies**

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- 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.
- 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.

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(auditing firm)

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(date)

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(signature)

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(place of issue)

FORM 1, PART II – SCHEDULE 1

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

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

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

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

[See notes and instructions]

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	
		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 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.

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 REQUIRED
	LONG C\$'000	SHORT C\$'000	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 *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

[See notes and instructions]

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

**OVERALL CONCENTRATION:**

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

B-11

**NOTES:**

- This schedule need only be completed for underwriting commitments requiring concentration margin.
- INDIVIDUAL COMMITMENT CONCENTRATION:  
Where the normal margin required on any one commitment is reduced due to either:
  - the use of a new issue letter; or
  - 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.
- 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 REQUIRED TO FULLY MARGIN C\$'000
	DEBIT C\$'000	CREDIT 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. **SUPPLEMENTARY DISCLOSURE:**

(a) NAME OF RRSP TRUSTEE(S)

1.	
2.	
3.	

(b) Total margin reductions from offsets against IA reserves, and PDO guarantees or general allowances

[See notes and instructions]

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.

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.

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 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.		
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 C\$'000	CREDIT C\$'000	REQUIRED TO FULLY MARGIN 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

[See notes and instructions]

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] <u>during current year</u>	-----	
4.	Subtotal [add or subtract Line 3 from Line 1]	-----	
5.	Income tax expense (recovery)	-----	
		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]	-----	
			A-13, if asset
			A-56, if liability

FORM 1, PART II –SCHEDULE 6A

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

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

**TAX RECOVERIES**

**C\$'000**

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

1.	Sch. 6	Income tax expense (recovery) [must be greater than 0, else N/A] A-6, Line 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-6, Line 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-69

[See notes and instructions]

**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**

	AMOUNT OF LOAN PAYABLE OR CASH RECEIVED AS COLLATERAL C\$'000 [see note 3]	MARKET VALUE OF SECURITIES RECEIVED AS COLLATERAL C\$'000 [see note 4]	MARKET VALUE OF SECURITIES DELIVERED AS COLLATERAL OR LOANED C\$'000 [see note 4]	REQUIRED TO MARGIN C\$'000
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

[See notes and instructions]



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.

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**

**C\$'000**

1.	Sch. 1, Line 2	Market value deficiency amount relating to loans receivable from <i>acceptable counterparties</i> , net of legal offsets and margin already provided	-----
2.	Sch. 1, Line 6	Market value deficiency amount relating to securities borrowed from <i>acceptable counterparties</i> , net of legal offsets and margin already provided	-----
3.	Sch. 1, Line 10	Market value deficiency amount relating to resale agreements with <i>acceptable counterparties</i> , net of legal offsets and margin already provided	-----
4.	Sch. 7, Line 3	Market value deficiency amount relating to loans payable to <i>acceptable counterparties</i> , net of legal offsets and margin already provided	-----
5.	Sch. 7, Line 7	Market value deficiency amount relating to securities lent to <i>acceptable counterparties</i> , net of legal offsets and margin already provided	-----
6.	Sch. 7, Line 11	Market value deficiency amount relating to repurchase agreements with <i>acceptable counterparties</i> , 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.

**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.

### 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.
- (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/Carrying brokers' 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]
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**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
-----	-----	-----	-----	-----	-----	-----	-----
-----	-----	-----	-----	-----	-----	-----	-----
-----	-----	-----	-----	-----	-----	-----	-----
-----	-----	-----	-----	-----	-----	-----	-----
-----	-----	-----	-----	-----	-----	-----	-----
-----	-----	-----	-----	-----	-----	-----	-----
-----	-----	-----	-----	-----	-----	-----	-----
-----	-----	-----	-----	-----	-----	-----	-----

[See notes and instructions]

**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

C\$'000

A. Total foreign exchange margin requirement

\_\_\_\_\_  
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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

	Margin Group	Required Margin
-----	-----	-----
-----	-----	-----
-----	-----	-----
-----	-----	-----
-----	-----	-----

Subtotal

All other foreign exchange margin requirement

TOTAL

-----  
-----  
=====

[See notes and instructions]

FORM 1, PART 2 – 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: \_\_\_\_\_

	AMOUNT C\$'000	WEIGHTED VALUE C\$'000	MARGIN REQUIRED C\$'000
<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

[See notes and instructions]

## 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:

	<b>Currency Group</b>			
	<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)

	<b>C\$'000</b>
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	.....
	<hr/> <hr/> B-18

*[See notes and instructions]*



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 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 912) 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 6 months ending with current month [note 2] <b>C\$'000</b>	Profit or loss for 6 months ending with preceding month [note 2] <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**

[See notes and instructions]

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 710) 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]

Months

-----  
-----  
-----  
-----  
-----  
-----  
-----

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?
- 2. Triggered Liquidity or Capital Tests on Schedule 13?
- 3. Triggered Profitability Tests on Schedule 13?
- 4. Are Lines 2 and 3 both YES?

-----  
YES/NO

-----  
YES/NO

-----  
YES/NO

-----  
YES/NO

[See notes and instructions]

**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.

FORM 1, PART II – SCHEDULE 14

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

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

**PROVIDER OF CAPITAL CONCENTRATION CHARGE**

**C\$'000**

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

- 1. Cash on deposit with *provider of capital* .....
- 2. Cash, held in trust with *provider of capital*, due to free credit ratio calculation .....
- 3. Loans receivable – undersecured loans receivable from *provider of capital* relative to normal commercial terms .....
- 4. Loans receivable – secured loans receivable from *provider of capital* that are secured by investments in securities issued by the *provider of capital* .....
- 5. Securities borrowed – securities borrowing agreements with the *provider of capital* that are undersecured relative to normal commercial terms .....
- 6. Securities borrowed – secured securities borrowing agreements with the *provider of capital* that are secured by investments in securities issued by the *provider of capital* .....
- 7. Resale agreements – agreements with the *provider of capital* that are undersecured relative to normal commercial terms .....
- 8. Commissions and fees receivable from the *provider of capital* .....
- 9. Interest and dividends receivable from the *provider of capital* .....
- 10. Other receivables from the *provider of capital* .....
- 11. Loans payable – loans payable to the *provider of capital* that are overcollateralized relative to normal commercial terms .....
- 12. Securities lent – agreements with the *provider of capital* that are overcollateralized relative to normal commercial terms .....
- 13. Repurchase agreements – agreements with the *provider of capital* that are overcollateralized relative to normal commercial terms .....

**LESS:**

- 14. Bank overdrafts with the *provider of capital* .....
- 15. TOTAL CASH DEPOSITS AND UNDERSECURED LOANS WITH PROVIDER OF CAPITAL .....

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

- 1. Investments in securities issued by the *provider of capital* (net of margin provided) .....

**LESS:**

- 2. Loans payable to *provider of capital* that are linked to the assets above and are limited recourse .....
- 3. Securities issued by the *provider of capital* sold short provided they are used as part of a valid offset with the investments reported in Section B, Line 1 above .....
- 4. TOTAL INVESTMENTS IN SECURITIES ISSUED BY THE PROVIDER OF CAPITAL .....

C\$'000

<b>C. CALCULATION OF FINANCIAL STATEMENT CAPITAL PROVIDED BY THE PROVIDER OF CAPITAL</b>		
1.	<i>Regulatory financial statement capital provided by the provider of capital (including pro-rata share of reserves and retained earnings)</i>	_____
<b>D. NET ALLOWABLE ASSETS</b>		
1.	Net Allowable Assets	_____
<b>E. EXPOSURE TEST #1 – DOLLAR CAP ON CASH DEPOSITS AND UNDERSECURED LOANS</b>		
1.	Sec. C, <i>Regulatory financial statement capital provided by the provider of capital</i> Line 1	_____
2.	Sec. A, Cash deposits and undersecured loans with <i>provider of capital</i> Line 15	-----
3.	<i>Regulatory financial statement capital</i> 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]	=====
<b>F. EXPOSURE TEST #2 – OVERALL CAP ON CASH DEPOSITS AND UNDERSECURED LOANS AND INVESTMENTS</b>		
1.	Sec. C, <i>Regulatory financial statement capital provided by the provider of capital</i> Line 1	-----
2.	Sec. A, Cash deposits and undersecured loans with <i>provider of capital</i> Line 15	-----
3.	Sec. B, Investments in securities issued by the <i>provider of capital</i> Line 4	-----
4.	Total cash deposits and undersecured loans and investments [Section F, Line 2 plus Section F, Line 3]	-----
5.	<i>Regulatory financial statement capital</i> redeposited or lent back on an undersecured basis or invested in securities issued by the <i>provider of capital</i> [Minimum of Section F, Line 1 and Section F, Line 4]	=====
<b>LESS:</b>		
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 <i>provider of capital</i> [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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[See notes and instructions]



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.

**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)

C\$'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.