

Chapter 13

SROs, Marketplaces and Clearing Agencies

13.1 SROs

13.1.1 Investment Industry Regulatory Organization of Canada – Amendments to IFRS version of Form 1 – Notice of Commission Approval

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA (IIROC)

AMENDMENTS TO IIROC IFRS VERSION OF FORM 1

NOTICE OF COMMISSION APPROVAL

The Ontario Securities Commission approved the amendments to IIROC's IFRS version of Form 1 intended to make three clarification changes. 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, the Ontario Securities Commission, and the Saskatchewan Financial Services Commission have approved the above-noted amendments.

Two of the proposed amendments are corrections that were omitted from the initial implementation of IFRS Form 1 that took place during 2010. The remaining proposed change is to correct an unintended title change to one line on Schedule 11A when this Schedule was amended to adopt IFRS. The amendments are effective for reporting periods ending on or after July 31, 2013.

The proposed amendments were published for comment on February 7, 2013, at (2013) 36 OSCB 1601 for a 90 day comment period. No comments were received.

A copy of the IIROC Notice is attached.

Amendments to IFRS version of Form 1

On November 28, 2012, the Board of Directors (the Board) of the Investment Industry Regulatory Organization of Canada (IIROC) approved the proposed amendments to the International Financial Reporting Standards (IFRS) version of Form 1 to make minor clarification changes throughout Form 1. The amendments were reclassified as “Public Comment Rules” at the request of the securities commissions and published for comment. No public comments were received. The amendments are effective for reporting periods ending on or after July 31, 2013.

Summary of the nature and purpose of the amendments

The amendments make clarification changes to the IFRS version of Form 1 and were reclassified as “Public Comment Rules”. The following are the amendments to the IFRS version of Form 1:

- (a) *General Notes and Definitions*
- (i) *Adding the valuation of subordinated loan as a prescribed IFRS departure in the General Notes and Definitions to Form 1: The purpose of the change is to clarify that IIROC requires subordinated loans to be reported at face value, which is a departure from IFRS. Under IFRS, any liability is subject to revaluation, which would mean a Dealer Member must discount the value of the subordinated loan and the change in the value of the subordinated loan must be reflected on the income statement. Under certain circumstances, the discount could be material. The change would add this prescribed IFRS departure to Note 2 of the General Notes and Definitions to Form 1.*
- (b) *Statement C (Statement of early warning excess and early warning reserve), the Notes and Instructions to Statement C, Statement D (Statement of free credit segregation amount), and Schedules 6A (Tax recoveries), 13 (Early warning tests - Level 1) and 13A (Early warning tests - Level 2)*
- (i) *Adding the line item “Finance leases and lease related liabilities” as a deduction to the line item “Non-current liabilities” in Statement C, accommodating them in the Notes and Instructions to Line 5 in the Notes and Instructions to Statement C, and renumbering the line items on Statement C and the Notes and Instructions to Statement C, accordingly: The purpose of the changes is to make the impact of “non-current portion of finance leases and lease-related liabilities” neutral to the early warning excess (EWE) and early warning reserve (EWR) calculations. When the IFRS version of Form 1 was first implemented, finance lease assets (previously called capitalized leases) were moved from “Non-Allowable Assets” to a separate asset category to make their impact neutral to risk adjusted capital (RAC). However, the non-current portion of finance leases and lease-related liabilities were not considered and as a result, they unintentionally increased the EWE and EWR amounts calculated for Dealer Members.*
- (ii) *Renumbering the line references on Statement D and Schedules 6A, 13 and 13A that were affected by the addition of the line item “Finance leases and lease related liabilities” in (b)(i) immediately above.*
- (c) *Schedule 11A (Details of unhedged foreign currencies calculation for individual currencies with margin required greater than or equal to \$5,000)*
- (i) *Renaming Line 13 on Schedule 11A: The purpose of the change is to correct an unintended title change to Line 13 when the Schedule was amended to adopt IFRS. Line 13’s title “Net weighted value” will be changed back to “Greater of long or (short) weighted values”.*

Attachments

The following supporting documents for the amendments to the IFRS version of Form 1 are attached:

Attachment A – Board resolution approving the implementation of the proposed amendments to IFRS version of Form 1

Attachment B – Proposed amendments to IFRS version of Form 1

Attachment C – Black-line copy of the amendments to IFRS version of Form 1

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

AMENDMENTS TO IFRS VERSION OF IIROC FORM 1

BOARD RESOLUTION

BE IT RESOLVED ON THIS 28TH DAY OF NOVEMBER, 2012 THAT:

1. The English and French versions of the proposed amendments to the IFRS version of IIROC Form 1, in the form presented to the Board of Directors (the "Board"):
 - (a) be approved for implementation as a "Housekeeping Rule" for the purposes of the Joint Rule Review Protocol for IIROC;
 - (b) be determined to be in the public interest;
 - (c) the President be authorized to approve such non-material changes to the proposed amendments as may be necessary in securing the approval of the Recognizing Regulators under the Joint Rule Review Protocol for IIROC, such approval to constitute final approval by the Board of the proposed amendments; and
 - (d) in the event a Recognizing Regulator provides a notice of disagreement with the classification of the proposed amendments as a "Housekeeping Rule":
 - (i) be approved for publication for public comment for 30 days;
 - (ii) be brought back to the Board for approval in final form if there are material changes to the proposed amendments resulting from the comments of the public or the Recognizing Regulators; and
 - (iii) the President be authorized to approve such non-material changes to the proposed amendments resulting from the public comments or as may be necessary in securing the approval of the Recognizing Regulators under the Joint Rule Review Protocol for IIROC, such approval to constitute final approval by the Board of the proposed amendments.

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

AMENDMENTS TO IFRS VERSION OF IROC FORM 1

PROPOSED AMENDMENTS

1. The IFRS version of Form 1 is amended by making the following changes to the General Notes and Definitions:
 - (a) Adding the words "Subordinated loan" as a separate subsection within Note 2 (Prescribed IFRS departure); and
 - (b) Adding the sentence "For regulatory reporting purposes, a subordinated loan must be reported at face value. Discounting of the subordinated loan amount is not permitted." Within the "Subordinated loan" subsection of Note 2 (Prescribed IFRS departure).
2. The IFRS version of Form 1 is amended by making the following change to Statement C (Statement of Early Warning Excess and Early Warning Reserve):
 - (a) Adding as Line 8 the line item "Less: Finance leases and lease-related liabilities" and renumbering the existing Lines and references to those Lines accordingly.
3. The IFRS version of Form 1 is amended by making the following changes to the Notes and Instructions to Statement C (Statement of Early Warning Excess and Early Warning Reserve):
 - (a) Renumbering the Lines and references to those Lines in accordance with the changes to Statement C as noted in 2(a) above;
 - (b) Replacing the word "and" with the punctuation mark "," immediately after the words "other than subordinated loans in the note to Line 5"; and
 - (c) Adding the words ", and non-current portion of finance leases and lease-related liabilities" after the words "non-current portion of lease liabilities - leasehold inducements" in the note to Line 5.
4. The IFRS version of Form 1 is amended by making the following change to Statement D (Statement of Free Credit Segregation Amount):
 - (a) Renumbering the Line reference "C12" to "C13" on Line 2 in accordance with the change to Statement C as noted in 2(a) above.
5. The IFRS version of Form 1 is amended by making the following change to Schedule 6A (Tax Recoveries):
 - (a) Renumbering the Line reference "C9" to "C10" on Line 6 of "B. Tax Recovery for Early Warning Calculation:" in accordance with the change to Statement C as noted in 2(a) above.
6. The IFRS version of Form 1 is amended by making the following change to Schedule 11A (Details of Unhedged Foreign Currencies Calculation for Individual Currencies with Margin Required Greater than or equal to \$5,000):
 - (a) Renaming Line 13 "Net weighted value" to "Greater of long or (short) weighted values".
7. The IFRS version of Form 1 is amended by making the following change to Schedule 13 (Early Warning Tests - Level 1):
 - (a) Renumbering the Line reference "Stmt. C, Line 12" to "Stmt. C, Line 13" under "A. Liquidity Test" in accordance with the change to Statement C as noted in 2(a) above.
8. The IFRS version of Form 1 is amended by making the following change to Schedule 13A (Early Warning Tests - Level 2):
 - (a) Renumbering the Line reference "Stmt. C, Line 10" to "Stmt. C, Line 11" under "A. Liquidity Test" in accordance with the change to Statement C as noted in 2(a) above.

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

AMENDMENTS TO IFRS VERSION OF IROC FORM 1

BLACK-LINE COPY OF THE AMENDMENTS

1. The amendments to make clarifying changes to the IFRS version of Form 1.

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(Date)

Updated

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SROs, Marketplaces and Clearing Agencies

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|-----|--|------------------------------------|
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Note 1: The "Separate Certificate of UDP and CFO on Statement G of Part I" is not part of an audited Form 1 submission and the name of this certificate will not appear in the "Table of Contents" on the electronic or hardcopy version of an audited Form 1 submission.

Note 2: "Statement G, Opening IFRS statement of financial position and reconciliation of equity", is not part of an audited Form 1 submission and the name of this statement will not appear in the Table of Contents on the electronic or hardcopy version of an audited Form 1 submission.

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

Note 4: "Schedule 15, Supplementary information", is not part of an audited Form 1 submission and the name of this schedule will not appear in the "Table of Contents" on the electronic or hardcopy version of an audited Form 1 submission.

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. A Dealer Member may choose to report client and broker trading balances in accordance with IFRS. |
| One-time transitional relief | <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.</p> <p>In addition, the Corporation does not require the opening IFRS balance sheet as part of the first Form 1 prepared under the basis of IFRS with prescribed departures and prescribed accounting treatments.</p> <p>And as such, the Dealer Member is not required to provide the reconciliation between previous Canadian GAAP and IFRS.</p> <p>The Corporation requires that 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> |
| 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. Statements B, C, and D are supplementary financial information, which are not statements contemplated under IFRS.</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. |

| | |
|-------------------|---|
| Subordinated loan | <u>For regulatory reporting purposes, a subordinated loan must be reported at face value. Discounting of the subordinated loan amount is not permitted.</u> |
| 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, 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 | | _____ |
| RISK ADJUSTED CAPITAL | | |
| LIQUIDITY ITEMS - | | |
| DEDUCT: | | |
| 2. A-18 | | ----- |
| 3. Sch.6A | | ----- |
| 4. | | ----- |
| ADD: | | |
| 5. A-68 | | ----- |
| 6. A-67 | | ----- |
| 7. A-65 | | ----- |
| <u>8.</u> <u>A-64</u> | | ----- |
| <u>8-9.</u> | | ----- |
| <u>9-10.</u> Sch.6A | | ----- |
| <u>10-1</u> | | ----- |
| <u>1.</u> | | ----- |
| EARLY WARNING EXCESS | | |
| DEDUCT: CAPITAL CUSHION - | | |
| <u>11-1</u> B-24 | | ----- |
| <u>2.</u> | | ----- |
| <u>12-1</u> | | ----- |
| <u>3.</u> | | ===== |

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 1112 above), then the Dealer Member is designated as being in Early Warning category **Level 1**, or
- (b) 2% of total margin required (Line 1112 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 lease liabilities - leasehold inducements, and non-current portion of finance leases and lease-related liabilities) are added back to RAC as they are not current obligations of the Dealer Member and can be used as financing.

Line 910 - This add-back ensures that the Dealer Member is not penalized at the Early Warning level for accruing income.

Line 1011 - 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 1213 - 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 a

FORM 1, PART I – STATEMENT D

(Dealer Member Name)

STATEMENT OF FREE CREDIT SEGREGATION AMOUNT

at _____

| REFERENCE | NOTE S | (CURRENT YEAR) |
|-------------------------------|---|----------------|
| AMOUNT REQUIRED TO SEGREGATE: | | C\$'000 |
| 1. B-6 | Net allowable assets of \$_____ multiplied by 8 | ----- |
| 2. C-1213 | Early warning reserve of \$_____ multiplied by 4 | ----- |
| 3. | FREE CREDIT LIMIT [Lines 1 plus 2] | _____ |
| | Less client free credit balances: | |
| 4. Sch.4 | Dealer Member's own [see note] | ----- |
| 5. | Carried For Type 3 Introdurers | ----- |
| 6. | AMOUNT REQUIRED TO SEGREGATE [NIL if Line 3 exceeds Line 4 plus Line 5, see note] | _____ |
| | AMOUNT IN SEGREGATION: | |
| 7. A-3 | Client funds held in trust in an account with an <i>acceptable institution</i> [see note] | ----- |
| 8. Sch.2 | <i>Market value</i> of securities owned and in segregation [see note] | ----- |
| 9. | TOTAL IN SEGREGATION [Lines 7 plus 8] | _____ |
| 10. | NET SEGREGATION EXCESS (DEFICIENCY) [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 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-910

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 | WEIGHTED VALUE | MARGIN REQUIRED |
|--------|-------------------|--------------------|
|--------|-------------------|--------------------|

BALANCE SHEET ITEMS AND FORWARD/FUTURE COMMITMENTS <= TWO YEARS TO MATURITY

| | | | |
|---|-------|-------|-------|
| 1. Total monetary assets | _____ | _____ | _____ |
| 2. Total long forward / futures contract positions | _____ | _____ | _____ |
| 3. Total monetary liabilities | _____ | _____ | _____ |
| 4. Total (short) forward / futures contract positions | _____ | _____ | _____ |
| 5. Net long (short) foreign exchange positions | _____ | _____ | _____ |
| 6. Net weighted value | _____ | _____ | _____ |
| 7. Net weighted value multiplied by term risk for Group ___ of ___% | _____ | _____ | _____ |

BALANCE SHEET ITEMS AND FORWARD/FUTURE COMMITMENTS > TWO YEARS TO MATURITY

| | | | |
|--|-------|-------|-------|
| 8. Total monetary assets | _____ | _____ | _____ |
| 9. Total long forward / futures contract positions | _____ | _____ | _____ |
| 10. Total monetary liabilities | _____ | _____ | _____ |
| 11. Total (short) forward / futures contract positions | _____ | _____ | _____ |
| 12. Net long (short) foreign exchange positions | _____ | _____ | _____ |
| 13. <u>Net Greater of long or (short) weighted value values</u> | _____ | _____ | _____ |
| 14. Net weighted value multiplied by term risk for Group ___ of ___% | _____ | _____ | _____ |

FOREIGN EXCHANGE MARGIN REQUIREMENTS

| | | | |
|---|-------|-------|-------|
| 15. Net long (short) foreign exchange positions | _____ | _____ | _____ |
| 16. Net foreign exchange position multiplied by spot risk for Group ___ of ___% | _____ | _____ | _____ |
| 17. Total term risk and spot risk margin requirement | _____ | _____ | _____ |
| 18. Spot rate at reporting date | _____ | _____ | _____ |
| 19. Margin requirement converted to Canadian dollars | _____ | _____ | _____ |

FOREIGN EXCHANGE CONCENTRATION CHARGE

| | | | |
|---|-------|-------|-------|
| 20. Total foreign exchange margin (Line 19) in excess of 25% of net allowable assets less minimum capital [not applicable to Group 1] | _____ | _____ | _____ |
| TOTAL FOREIGN EXCHANGE MARGIN FOR (Currency): | _____ | _____ | _____ |

Sch. 11

FORM 1, PART II – SCHEDULE 13

DATE: _____

(Dealer Member Name)

EARLY WARNING TESTS – LEVEL 1

C\$'000

A. LIQUIDITY TEST

Is Early Warning Reserve (Stmt. C, Line 1213) 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. 3 rd month | | | |
| 4. 4 th month | | | |
| 5. 5 th month | | | |
| 6. 6 th month | | | |
| 7. 7 th month | | | |
| 8. TOTAL [note 3] | | ===== | ===== |
| 9. AVERAGE multiplied by -1 | | ===== | ===== |
| 10A. RAC [at Form 1 date] | | ===== | ===== |

SROs, Marketplaces and Clearing Agencies

10B. RAC [at preceding month end] _____

11A. Line 10A divided by Line 9 _____

11B. Line 10B divided by Line 9 _____

Are both of the following conditions true:

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

.....
YES/NO

D. PROFITABILITY TEST #2

1. Loss for current month [notes 2 and 4] multiplied by -6 _____

2. RAC [at Form 1 date] _____

Is Line 2 less than Line 1?

.....
YES/NO

FORM 1, PART II – SCHEDULE 13A

DATE: _____

(Dealer Member Name)

EARLY WARNING TESTS - LEVEL 2

C\$'000

A. LIQUIDITY TEST

Is Early Warning Excess (Stmt. C, Line 4011) 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 #2

1. Loss for current month [notes 2 and 4] multiplied by -3

2. RAC [at Form 1 date]

Is Line 2 less than Line 1?

YES/NO

E. PROFITABILITY TEST #3

Profit or loss for
3 months
ending with
current month

[note 2]
C\$'000

1. Current month

2. Preceding month

3. 3rd month

4. TOTAL [note 5]

=====

5. RAC [at Form 1 date]

=====

Is loss on Line 4 greater than Line 5?

YES/NO

F. FREQUENCY PENALTY

Has Dealer Member:

1. Triggered Early Warning at least 3 times in the past 6 months or is RAC less than 0?

YES/NO

2. Triggered Liquidity or Capital Tests on Schedule 13?

YES/NO

3. Triggered Profitability Tests on Schedule 13?

YES/NO

4. Are Lines 2 and 3 both YES?

YES/NO