

IIROC NOTICE

Rules Notice

Notice of Approval/Implementation

Dealer Member Rules [IIROC Rules]

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Amendments to Dealer Member Rules and Form 1 regarding the securities concentration test and designated rating organizations

Executive Summary

The applicable securities regulatory authorities have approved amendments to the IIROC Dealer Member Rules (DMRs), [the IIROC Rules]¹ and Form 1, regarding the securities concentration test and designated rating organizations (collectively, the **Amendments**), which were originally published for comment in [Notice 18-0153](#) and republished for comment in [Notice 19-0154](#).

The main purpose of the Amendments is to bring debt securities with a normal margin rate of 10% or less (**debt securities margined at <=10%**) into the existing securities concentration test. The Amendments also update the use of credit ratings, and references to credit rating agencies, in the DMRs, the IIROC Rules and Form 1.

¹ To assist readers, we reference applicable IIROC Rules provisions (see [Notice 19-0144](#) – IIROC Dealer Member Plain Language Rule Book Implementation). Since the IIROC Rules are not yet effective, we have shared these references in grey. The shading will be removed when the IIROC Rules are effective.



1. Discussion of Amendments

1.1 *Relevant background*

Schedule 9 of Form 1 (concentration of securities) addresses securities concentration risk by measuring and assessing a Dealer Member's aggregate capital exposure to any single security, group of related securities of the same issuer, or precious metals position. The aggregate capital exposure is referred to as the "amount loaned" on Schedule 9 and may be composed of an issuer position(s) or precious metals position carried by the Dealer Member in inventory, client margin accounts, or overdue cash or delivery against payment and receipt against payment accounts.

Schedule 9 sets out defined regulatory capital thresholds for the purpose of measuring securities concentration. A capital charge applies when the amount loaned exceeds a defined threshold. The purpose of a capital charge is to ensure there is sufficient Dealer Member capital to cover the increased risk associated with an exposure to a concentrated position. A potential concentration risk gap exists within current Schedule 9 because it does not consider debt securities margined at $\leq 10\%$.

DMR and IIROC Rule references to credit rating agencies require updating to reflect the Canadian Securities Administrators' recognition of designated rating organizations (**DRO**).

1.2 *Amendments*

The Amendments bring debt securities margined at $\leq 10\%$ into the existing securities concentration test. The Amendments also repeal the various references to specific credit rating agencies in the DMRs and replace them with the defined term for DRO. Notably, the Amendments set a minimum DRO rating requirement for Canadian bank paper to qualify as an eligible investment for the purposes of client free credit segregation.

The Amendments retain the same fundamental framework proposed in [Notice 18-0153](#), which outlined a new structure of Schedule 9, creating separate, but related, tests for debt securities margined at $\leq 10\%$ and current Schedule 9 positions. The Amendments divide Schedule 9 into the following three sections:

- Schedule 9 - Summary Sheet
- Schedule 9A - General Security Test (current Schedule 9)
- Schedule 9B - Debt Security Test.

Schedule 9B exposures are determined according to a DRO risk-weighting methodology. This methodology allows the amount loaned exposure for debt securities margined at $\leq 10\%$ to be



reduced by risk-weighting adjustment factors that are set according to current DRO ratings. Higher rated debt securities are eligible for greater risk-weighting reductions in calculating concentration exposures.

Schedule 9A and Schedule 9B exposures are initially calculated and reported separately in their respective sections. The highest amount loaned exposures from Schedules 9A and 9B will feed into the Schedule 9 Summary Sheet to aggregate top exposures and calculate potential capital charges.

The Amendments are shown as blacklined changes in **Appendix A** (to the DMRs and DMR Form 1) and **Appendix B** (to the IROC Rules, which are effective December 31, 2021). **Appendix C** provides an itemized clean copy of the Amendments to the IROC Rules. **Appendix D** provides a clean copy of the Amendments to Schedule 9 of DMR Form 1.

2. Comments received

[Notice 19-0154](#) included a summary of the public comments received in response to [Notice 18-0153](#). This feedback led to the revisions detailed in the 2019 republication, which were primarily intended to reduce:

- conservatism in the Schedule 9B DRO risk-weighting methodology
- operational complexity and projected costs for implementation and compliance.

We received one comment letter from the Investment Industry Association of Canada (IIAC) in response to the 2019 republication, which is included in summary form in **Appendix E**. The IIAC letter outlines Dealer Member challenges in aggregating debt issue data and coordinating with service providers to meet the new requirements. The comment letter requests an extended implementation timeframe of 18 months after approval from the applicable securities regulatory authorities.

3. Non-material changes

We made one non-material change to the Amendments. We made changes to the DRO definition to reflect the fact that DRO designation under securities laws may include other relevant terms and conditions than what may be indicated in National Instrument 25-101. The revised definition also clarifies treatment of corresponding rating categories for DROs and replacement rating categories.

The revised DRO definition is shown blacklined against the previous definition in **Appendix F**

4. Implementation

The Amendments will be effective September 1, 2022.



5. Appendices

- Appendix A - Black-line copy of the Amendments to the DMRs and DMR Form 1
- Appendix B - Black-line copy of the Amendments to the IIROC Rules
- Appendix C - Clean copy of the Amendments to the IIROC Rules
- Appendix D - Clean copy of the Amendments to Schedule 9 of DMR Form 1
- Appendix E - IIROC response to comments received on proposed amendments published in IIROC Rules Notice 19-0154
- Appendix F - Black-line comparison of non-material revision to proposed amendments published in IIROC Rules Notice 19-0154