

IIROC NOTICE

Rules Notice
Notice of Approval / Implementation
Dealer Member Rules [IIROC Rules]

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21-0129
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Amendments to swap counterparty margin requirements

Executive Summary

The applicable securities regulatory authorities have approved the amendments to Dealer Member Rule subsections 100.2(j) and 100.2(k), and corresponding amendments to IIROC Rule section 5442¹ that would allow a grace period in applying the swap counterparty margin requirements (the **Amendments**). The Amendments were published for comment in IIROC Rules Notice 20-0154 - *Proposed Amendments to swap counterparty margin requirements*.

The main purpose of the Amendments is to address undue burden on the Dealer Member's capital by making our rules pertaining to margin grace period allowances more consistent and aligning with industry practice.

¹ See IIROC Rules Notices [19-0144](#) and [20-0079](#) for more information on the IIROC Rules.



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1. Discussion of the Amendments

1.1 Exemptive relief granted

On March 26, 2020, the IIROC Board of Directors approved the offering of exemptive relief in a number of areas relating to hardships Dealer Members were experiencing in complying with DMRs with respect to the effects of the COVID-19 pandemic. The Board also approved the delegation of limited discretion to certain IIROC senior staff to assess and decide upon each firm exemption application relating to these hardship areas.

Pursuant to this delegated authority, IIROC staff granted exemptive relief to two Dealer Members from the requirements in DMR subsection 100.2(k), *Total Performance Swaps*, by granting those firms a one business day grace period to arrange for the collection of additional collateral to cover any market value deficiency amount with the counterparty before a charge to capital must be provided. If the additional collateral is not received within one business day, the market value deficiency must be included in the counterparty margin.

1.2 Summary of the Amendments

Currently, there are inconsistencies in the Dealer Member Rules concerning the time given to correct a market value deficiency. Generally, when a Dealer Member determines its risk adjusted capital, the margin reductions are based on the margin requirements at a specific point in time. However, there are other IIROC requirements (e.g. Schedules 1, 7, and 9 of Form 1) which allow for a grace period for Dealer Members to take action to correct a deficiency or margin requirement before a capital charge must be provided. The Amendments seek to harmonize the relevant Dealer Member Rules by permitting the one business day relief granted for financing arrangements to apply to swap arrangements as well.

The one business day relief is required as such margin deficiencies are not fully known until markets have closed, and therefore it is very difficult to make a collateral call at day's end. Where there are events triggering market volatility, the deficiency could still be significant despite any intra-day collateral collection.

Blackline and clean copies of the Amendments to the Dealer Member Rules and IIROC Rules are provided in Attachments A, C, D, and E, respectively.

2. Comments received

We received no public comments.



3. Non-material changes

We revised the amendments to Dealer Member Rule subsections 100.2(j) and 100.2(k) by adding back the sentence regarding the counterparty to the interest rate swap/total performance swap agreement shall be considered the Dealer Member's customer. This revision is shown blacklined to the Dealer Member Rule proposed amendments in IIROC Notice 20-0154 in Attachment B.

4. Implementation

The Amendments are effective on September 1st, 2021, unless otherwise indicated in Attachments C and E.

5. Attachments

[Attachment A](#) - Blackline comparison of the Amendments to Dealer Member Rule subsections 100.2(j) and 100.2(k) as published in IIROC Notice 20-0154

[Attachment B](#) - Blackline comparison of non-material revisions to proposed Dealer Member Rules published in IIROC Notice 20-0154

[Attachment C](#) - Blackline comparison of the Amendments to IIROC Rule section 5442 (Effective December 31, 2021)

[Attachment D](#) - Clean copy of Dealer Member Rule subsections 100.2(j) and 100.2(k)

[Attachment E](#) - Clean copy of IIROC Rule section 5442 (Effective December 31, 2021)