

# IIROC NOTICE

## Rules Notice Request for Comments

IIROC Rules

**Comments Due By: May 24, 2022**

*Please distribute internally to:*

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Member Regulation Policy

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**22-0060**

**April 21, 2022**

## Republication of proposed amendments to the IIROC Rules relating to the futures segregation and portability customer protection regime

### Executive Summary

IIROC is republishing for comment revisions to the previously proposed amendments to the IIROC Rules (**Proposed Amendments**) relating to the futures segregation and portability customer protection regime. The Proposed Amendments are required to align our requirements with expected rule changes at the Canadian Derivatives Clearing Corporation (**CDCC**), intended to meet international standards for the protection of clients in the event of a default of a clearing participant. CDCC is proposing a new customer protection segregation and portability (**Seg and Port**) regime to comply with the international standards.

CDCC's proposed Seg and Port regime is based on the use of a gross customer margin (**GCM**) model, and empowers CDCC to more rapidly port (transfer) the clients' futures contract positions and related collateral from a clearing member that is in default to a different clearing member. The customer protection model introduced by the Seg and Port regime is separate from the IIROC-CIPF customer



protection model, and therefore requires corresponding operational and reporting separation to address the two models.

In July 2021, IIROC published [Notice 21-0113](#) with proposed amendments (**2021 proposed amendments**) to the IIROC Rules and Form 1 to reduce funding drain and restrict linkages between a Dealer Member's (**Dealer**) futures business and its other business lines (e.g. securities business). The Proposed Amendments supplement and clarify the 2021 proposed amendments by adding additional requirements to increase the likelihood for porting of client positions in a Dealer default scenario.

We developed the Proposed Amendments to address:

- the porting model proposed under CDCC's Seg and Port regime, and
- comments received by the public in response to the 2021 proposed amendments.

The Proposed Amendments:

- require client acknowledgement of the porting disclosure document,
- require that Dealers maintain a client identification record for client accounts subject to the GCM model, and
- include non-material changes to the 2021 proposed amendments.

The Proposed Amendments for republication do not include any additional revisions to Form 1, beyond those already included in the 2021 proposed amendments.

### **Impacts**

We anticipate the Proposed Amendments will benefit Dealers, clients and other stakeholders as they would:

- enhance segregation and portability protections offered by CDCC, while maintaining investor protection within the IIROC-CIPF regime, and
- align margin requirements with futures exchange and clearing corporation requirements for consistency among client types.

### **How to Submit Comments**

Comments on the Proposed Amendments should be in writing and delivered by **May 24, 2022** to:

Member Regulation Policy  
Investment Industry Regulatory Organization of Canada  
Suite 2000  
121 King Street West  
Toronto, Ontario M5H 3T9  
e-mail: [memberpolicymailbox@iiroc.ca](mailto:memberpolicymailbox@iiroc.ca)



Also, provide a copy to the Recognizing Regulators by forwarding a copy to:

Market Regulation  
Ontario Securities Commission  
Suite 1903, Box 55  
20 Queen Street West  
Toronto, Ontario M5H 3S8  
e-mail: [marketregulation@osc.gov.on.ca](mailto:marketregulation@osc.gov.on.ca)

**Commentators should be aware that a copy of their comment letter will be made publicly available on the IIROC website at [www.iroc.ca](http://www.iroc.ca).**



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## 1. Background

### 1.1 Principle 14: segregation and portability

Principle 14 of the Principles for Financial Market Infrastructures (**PFMIs**) published by the Bank for International Settlements (**BIS**) and the International Organization of Securities Commissions (**IOSCO**) requires a futures market central clearing counterparty (**CCP**) to establish “rules and procedures to enable the segregation and portability of positions of a participant’s customers and the collateral provided to the CCP with respect to those positions.” National Instrument 24-102 – *Clearing Agency Requirement (NI 24-102)* sets the objective to implement Principle 14 for domestic CCPs and apply the “alternative approach” to the cash-market clearing corporations within the IIROC-CIPF regime. Futures market clearing corporations are not eligible under the PFMIs to achieve compliance with the standards through an “alternate approach”, unlike CCPs that serve cash markets.

### 1.2 Previous proposals

#### 1.2.1 2017 Amendments to accommodate ICE Clear Canada’s model

In March 2017, we published segregation and portability regime-related amendments (the **2017 amendments**) for public comment. We based the 2017 amendments on ICE Clear Canada’s (**ICCA**) GCM segregation and portability model, with the understanding that CDCC would implement a similar GCM model in the near future. The 2017 amendments were withdrawn in December 2019 as ICCA moved its operations to the US and CDCC had extended its timeline for development of its Seg and Port regime.

#### 1.2.2 2021 Amendments to accommodate CDCC’s model

In July 2021<sup>1</sup>, we published proposed rule amendments regarding the Seg and Port regime based on CDCC’s proposed Seg and Port regime.

The objectives of the 2021 proposed amendments were to reduce potential funding drain and restrict linkages between a Dealer Member’s futures business and its other business lines. The 2021 proposed amendments:

- require disclosure to clients on the risks, benefits, conditions and requirements of porting futures positions to a replacement Dealer Member,
- require daily records to identify and distinguish GCM futures positions and related collateral from other positions and accounts,
- set higher margin requirements for institutional client futures positions and allow use of SPAN margining to harmonize IIROC futures client margin requirements with the new CDCC GCM model,

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<sup>1</sup> [Notice 21-0113](#)



- apply stricter criteria to continue allowing hedges to qualify for reduced margin for client cross-product hedges between securities positions and futures positions, and
- eliminate the possibility of client guarantees and use of client excess margin between futures accounts and non-futures accounts.

### **1.3 Comments received**

We received one public comment letter in response to the 2021 proposed amendments published in Notice 21-0113. We provide a summary of these comments and our response in Attachment D.

### **1.4 CDCC's Seg and Port Regime**

CDCC has proposed a new Seg and Port regime<sup>2</sup>, including a GCM model, to maintain compliance with global standards and keep pace with existing PFMI-compliant markets. Under the GCM model, there is an increased likelihood that CDCC will be able to quickly port a defaulting clearing member's client positions and related collateral to another clearing member, without CIPF playing its current intermediary role in the porting process.

### **1.5 CDCC's Porting Process**

Porting is the process of transferring client positions and related collateral from a clearing participant that is in default to a different clearing participant. There are two main porting models that have been implemented by CCPs to meet the PFMIs. One model relies on the client to identify a replacement clearing participant and provide positive consent for the porting of their positions. The other model relies on the CCP to identify a replacement clearing participant and client positions are ported in bulk with implied or negative client consent.

CDCC has proposed to implement a model that relies on clients to identify a replacement clearing participant and provide consent for porting. Under this approach, the likelihood that a CCP can rapidly port client positions is dependent on (but is not limited to) certain conditions being met within a short timeframe such as:

- the identification of clients and their positions,
- clients' consent, and
- confirmation of the clients' replacement Dealer.

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<sup>2</sup> CDCC Notice to Members 102-21 – Request for comments – Amendments to the Rules, Operations Manual, Risk Manual and Default Manual of CDCC to introduce the Gross Client Margin Model and CDCC Notice to Members 164-21 – Second request for comments – Amendments to the Rules, Operations Manual, Risk Manual and Default Manual of CDCC on the Gross Client Margin Model Initiative



To meet these conditions, clients may need to set up an arrangement with a replacement Dealer prior to a default. If clients are unaware of the porting requirements and the action they must take to meet the porting conditions, it is unlikely the conditions can be met within the required timeframe.

At the time of default, the CCP will require client information to be provided by the defaulting participant dealer. If the Dealer is not maintaining a record of the client information required by the CCP, it is unlikely the defaulting Dealer can provide the information upon default within the required timeframe.

## **2. Republication for comment – Proposed Amendments**

### **2.1 Details of the Proposed Amendments**

The objectives of the Proposed Amendments for republication are to increase the likelihood of porting and provide clarification on the 2021 proposed amendments. We left the 2021 proposed amendments largely intact, except for the non-material clarification revisions. We added additional requirements in the Proposed Amendments to supplement the 2021 proposed amendments.

The Proposed Amendments:

- require client acknowledgement of the porting disclosure document,
- require that Dealers maintain a client identification record for client accounts subject to the GCM model, and
- include non-material changes to the 2021 proposed amendments.

The blackline text of the Proposed Amendments to the 2021 proposed amendments of the IIROC Rules is set out in Attachment A. The blackline text of the Proposed Amendments to the current IIROC Rules is set out in Attachment B and a clean copy of the changes is set out in Attachment C.

The Proposed Amendments for republication did not result in any additional revisions to Form 1, beyond those already included in the 2021 proposed amendments. The blackline text and clean copy of the proposed amendments to Form 1 is set out in Appendix B and Appendix D of [Notice 21-0113](#).

We plan to publish guidance to clarify our requirements for the porting disclosure document, books and records and margin requirements. A copy of the draft guidance note is included in Attachment F.

### **2.2 Disclosure and client acknowledgement**

The 2021 proposed amendments added a new section (i.e. section 3261 of the IIROC Rules) that requires Dealers to provide clients with appropriate disclosures associated with porting requirements and notifications regarding the Dealer's reporting of positions to CCPs.

The disclosure on its own may not be sufficient to ensure clients are aware and understand the importance of having a pre-arrangement with a replacement clearing member and other requirements for porting. The Proposed Amendments would require Dealers to obtain a client acknowledgement



that the client has received and understood the porting disclosure document. The purpose of the client acknowledgement is to increase the likelihood that clients will take the appropriate action to meet the porting requirements, if they want their futures positions ported under the Seg and Port regime.

### **2.3 Client identification record**

In the 2021 proposed amendments we expanded the ledger requirement in section 3814 to include a daily record of client futures positions and collateral that are subject to the GCM model. The Proposed Amendments include an additional requirement in section 3814 for a client identification record. The main purpose of the client identification record is to assist the CCP with identifying clients during the porting process. In the event of a Dealer insolvency, CCP rules may require the client identification record to confirm the identity of clients who are requesting porting of their positions. Porting is more likely if the client identification record is maintained in the books and records, prior to an insolvency.

### **2.4 Non-material changes to the 2021 proposed amendments**

In the English version, we corrected a grammar error in the definitions proposed in Rule 1200. This change does not apply to the French version. In the French version, we corrected a recurring grammar error in Rule 5600 that was not in the English version. In both versions, we amended language in sections of series 5000 to provide clarity on:

- margin requirements for certain institutional clients,
- restrictions on cross-product hedges, and
- restrictions on guarantees.

#### **2.4.1 Margin requirements for certain institutional clients**

In the 2021 proposed amendments we recommended a longer grace period for Dealers to collect margin from certain institutional accounts (acceptable institutions, acceptable counterparties and regulated entities) in comparison to retail clients. In response to public comments we revised subsection 5790(2) to provide more clarity that the capital requirement is meant to apply when a margin call is not collected within one trading day of the date of the deficiency.

#### **2.4.2 Restriction on cross-product hedges**

In the 2021 proposed amendments we amended certain sections within Rules 5600 and 5700 to prohibit margin relief for cross-product hedges in a client account unless the hedge is recognized by the clearing corporation and the futures position is not part of the GCM model. The requirement for the clearing corporation to recognize the hedge may cause confusion since the clearing corporation usually does not clear or hold the non-futures products within the cross product hedge. The intention was the clearing corporation would “recognize the hedge” by clearing the futures positions for hedging strategies through a non-GCM client individual account and identifying these positions as open hedge positions.





In the Proposed Amendments we removed the requirement for the hedge to be recognized by the clearing corporation. We believe the remaining requirement, that the futures position be excluded from the GCM model, is sufficient to ensure the hedge is not split between the two protection regimes in the event of default.

### **2.4.3 Restriction on guarantees**

The intention of the 2021 proposed amendments to section 5820 was to prohibit guarantees between futures accounts subject to a Seg and Port regime and other accounts, such as securities accounts, that are not subject to a Seg and Port regime. We revised the language in section 5820 for consistency with the language used in Schedule 4 Form 1 for the restriction on client excess margin.

## **2.5 Alternatives Considered**

We considered two alternatives, (1) to propose the Proposed Amendments and (2) to maintain the 2021 proposed amendments. We selected the first alternative because the Proposed Amendments would increase the likelihood of porting of the client's futures contract positions. Also, further changes to the IIROC Rules are necessary to increase the clients' awareness of their responsibilities in the porting process and ensure the Dealer Member maintains the client records required by the CCP to initiate porting.

## **3. Comparison with similar provisions**

IIROC's proposed porting disclosure requirement is similar to the disclosure requirement in other jurisdictions. The regulators in other jurisdictions, where a CCP has a Seg and Port regime that relies on clients identifying a replacement Dealer, require the clearing members to provide clients with disclosures on the client protection model and the implications in the event of a clearing member default.

In Australia,<sup>3</sup> clearing members are required to provide clients with a copy of the client protection model client fact sheet. In the European Union,<sup>4</sup> the clearing member and CCP are required to publicly disclose the levels of protection and a description of the legal implications under the insolvency law. Clients in the European Union are given a choice between different segregation and portability models and must confirm their choice in writing.

## **4. Impacts of the Proposed Amendments**

The Proposed Amendments do not impose any burden or constraint on competition or innovation that is not necessary or appropriate in furtherance of IIROC's regulatory objectives. Also these amendments do not impose costs or restrictions on the activities of market participants (including Dealers and non-Dealers) that are disproportionate to the goals of the regulatory objectives sought to be realized.

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<sup>3</sup> ASX Operating Rules Part 10 -112.1(g)

<sup>4</sup> Article 39 (5) and 39(7) of EMIR Regulation 648/2012



Clients investing in Canadian futures will benefit from the enhanced segregation and portability protections offered by CDCC as the Proposed Amendments address separations between the two customer protection regimes and increase the likelihood that CDCC's requirements for porting are met by clients and Dealers. Dealer Members will need to allocate resources to update their books and records, disclosure documents and supporting systems, to meet the new requirements for futures accounts.

The Proposed Amendments are not expected to have significant incremental costs to Dealers or clients beyond the costs associated with CDCC's proposed Seg and Port regime. Additional details on the impacts of the Proposed Amendments including the 2021 proposed amendments are provided in Attachment E.

## **5. Implementation**

Dealers may need to update their books and records and system interfaces with CDCC. We anticipate the Dealers' technical and operational changes will be developed and tested in conjunction with the system development required to meet CDCC's new requirements. The implementation period of the Proposed Amendments will be coordinated with CDCC's timeline for testing and implementation of the GCM model, and will be notified to the public via an implementation notice.

## **6. Policy Development Process**

### **6.1 Regulatory Purpose**

The Proposed Amendments would:

- establish and maintain rules that are necessary or appropriate to govern and regulate all aspects of IIROC's functions and responsibilities as a self-regulatory entity,
- foster cooperation and coordination with entities engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in futures, and
- promote the protection of investors.

### **6.2 Regulatory Process**

The Board of Directors of IIROC ("Board") has determined the Proposed Amendments to be in the public interest and on March 23<sup>rd</sup>, 2022 approved them for public comment.

In 2020, we created a consultation committee (**Seg and Port Consultation Group**) which included industry stakeholders such as CIPF and representatives from 12 Dealer Members involved in the Canadian futures market. The 2021 proposed amendments were developed in consultation with this Seg and Port Consultation Group. In December 2021, CDCC and IIROC created a joint consultation group (**GCM Working Group**). The GCM Working Group includes representatives from each of the CDCC futures clearing participant dealers (20 Dealer Members). The Proposed Amendments were



presented and discussed with the GCM Working Group. The GCM Working Group did not raise any issues with the Proposed Amendments.

After considering the comments on the Proposed Amendments received in response to this Request for Comments together with any comments of the Recognizing Regulators, IIROC may recommend that revisions be made to the applicable Proposed Amendments. If the revisions and comments received are not of a material nature, the Board has authorized the President to approve the revisions on behalf of IIROC and the proposed amendments as revised will be subject to approval by the Recognizing Regulators. If the revisions or comments are material, the proposed amendments including any revisions will be submitted to the Board for approval for republication or implementation as applicable.

## **7. Attachments**

[Attachment A](#) – Blackline copy of Proposed Amendments to the 2021 proposed amendments

[Attachment B](#) – Blackline copy of Proposed Amendments to the current IIROC Rules

[Attachment C](#) – Clean copy of Proposed Amendments to IIROC Rules

[Attachment D](#) – IIROC staffs' response to public comments on the 2021 proposed amendments

[Attachment E](#) – Economic impact assessment

[Attachment F](#) – Draft Guidance Note on the futures and segregation customer protection regime

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

REPUBLICATION OF PROPOSED AMENDMENTS TO IIROC RULES RELATING TO THE FUTURES SEGREGATION AND PORTABILITY REGIME

CLEAN COPY OF PROPOSED AMENDMENTS TO IIROC RULES

**Amendment #1** - IIROC Rule subsection 1201(2) is amended by adding the following definitions in alphabetical sequence:

“domestic gross customer margin model”	A framework to comply with a <i>futures segregation and portability customer protection regime</i> where the amount of margin that a <i>Dealer Member</i> must post on behalf of its clients to a clearing corporation in Canada is the sum of the amounts of margin required for each client.
“futures segregation and portability customer protection regime”	A set of rules and procedures that enable a clearing corporation to operate according to the standards outlined in Principle 14 of the Principles for Financial Market Infrastructures published by the Bank for International Settlements and the International Organization of Securities Commissions, regarding client futures positions and collateral that support these positions.

**Amendment #2** - IIROC Rule 3200 is amended by adding new section 3261 as follows:

**3261. Futures porting disclosures**

- (1) Where the client account is subject to a *futures segregation and portability customer protection regime*, a *Dealer Member* must:
  - (i) provide the client with a porting disclosure document on the benefits, risks and requirements for porting, including the conditions for porting positions to a replacement clearing member,
  - (ii) obtain the client’s acknowledgement that the client has received and understood the porting disclosure document or similar document described in clause 3261(1)(i), and
  - (iii) notify the client of the obligation of the *Dealer Member* to provide the clearing corporation with information and reports related to the client’s positions.

**3262. – 3269. Reserved.**

**Amendment #3** - IIROC Rule section 3814 is amended to add subsection 3814(3) as follows:

**3814. Commodity record**

- (1) A *Dealer Member* must maintain a commodity *record* or ledger, for each commodity as of the trade date, of all long positions or short positions in *futures contracts* carried for the *Dealer Member's* account or for the account of clients.

- (2) The commodity *record* or ledger must contain the name or designation of the account in which each position is carried.
- (3) As part of the *records* required under subsection 3814(1), a *Dealer Member* must maintain a daily *record* that separately identifies the client positions and associated collateral for *futures contracts* and *futures contract options* that are subject to the *domestic gross customer margin model*.
- (4) A *Dealer Member* must maintain a client identification *record*, for accounts subject to the *domestic gross customer margin model*, that includes the client identification information required by the clearing corporation for porting of client accounts.

**Amendment #4** - IIROC Rule sections 5130 is amended to replace the term “clearing corporation” with “recognized option clearing corporation” as follows:

**5130. Definitions**

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- (9) For positions in and offsets involving *derivative* products, the term:

“recognized option clearing corporation”	The Canadian Derivatives Clearing Corporation, the Options Clearing Corporation or any other corporation or organization recognized by the <i>Board</i> .
“escrow receipt”	A document issued by a financial institution approved by a <i>recognized option clearing corporation</i> certifying that a security is held and will be delivered by that financial institution when a specified <i>option</i> is exercised.

**Amendment #5** - IIROC Rule sections 5617 through 5624 are amended to add an additional subsection to restrict client account offsets. In the French version, those sections are also amended to correct a recurring grammar error:

**5617. Offsets involving government debt securities and Government of Canada notional bond futures contracts with same underlying issuer and same maturity bands**

- (1) Where a *Dealer Member* or a client has the following pairing:

<b>Long (short) position</b>	and	<b>Short (long) position</b>
(i) <i>Canada debt securities</i>		Government of Canada notional bond <i>futures contract</i>

and the positions have the same currency denomination and *market value* and are within the same *maturity band*, the two positions may be offset and the minimum margin required for both positions may be computed with respect to the net long or net short position only.

- (2) For a client account offset as set out in subsection 5617(1), the *futures contracts* must be excluded from the *domestic gross customer margin model*.

**5618. Other offsets involving government debt securities and Government of Canada notional bond futures contracts**

- (1) Where a *Dealer Member* or a client has one of the following long (short) government *debt security* position and short (long) Government of Canada notional bond *futures contract* position pairings:

	<b>Long (short) position</b>	and	<b>Short (long) position</b>
(i)	<i>Canada debt securities</i> in different <i>maturity band</i>		Government of Canada notional bond <i>futures contract</i>
(ii)	<i>Canada Provincial debt securities</i> in same or different <i>maturity band</i>		Government of Canada notional bond <i>futures contract</i>
(iii)	highly rated <i>Canada Municipal debt securities</i> in same <i>maturity band</i>		Government of Canada notional bond <i>futures contract</i>

and the positions have the same currency denomination and *market value*, the two positions may be offset and the minimum margin required for both positions may be computed as 50% of the greater of the margins normally required on the long (or short) and the short (or long) positions.

**As described in IIROC Notice 21-0028, effective September 1, 2022, subsection 5618(1) will be repealed and replaced with the following:**

Where a *Dealer Member* or a client has one of the following long (short) government *debt security* position and short (long) Government of Canada notional bond *futures contract* position pairings:

	<b>Long (short) position</b>	and	<b>Short (long) position</b>
(i)	<i>Canada debt securities</i> in different <i>maturity band</i>		Government of Canada notional bond <i>futures contract</i>
(ii)	<i>Canada Provincial debt securities</i> in same or different <i>maturity band</i>		Government of Canada notional bond <i>futures contract</i>
(iii)	<i>Canada Municipal debt securities</i> with a high issuer credit rating in same <i>maturity band</i>		Government of Canada notional bond <i>futures contract</i>

and the positions have the same currency denomination and *market value*, the two positions may be offset and the minimum margin required for both positions may be computed as 50% of the greater of the margins normally required on the long (or short) and the short (or long) positions.

- (2) In subsection 5618(1) “highly rated Canada Municipal debt securities” are Canada Municipal *debt securities* currently rated “A” or higher by DBRS, Moody’s or S&P Corporation.

**As described in IIROC Notice 21-0028, effective September 1, 2022, subsection 5618(2) will be repealed and replaced with the following:**

In subsection 5618(1) “Canada Municipal debt securities with a high issuer credit rating” are *debt securities* issued or guaranteed by a Canadian municipal government with a long-term issuer credit rating of “A” or higher by a *designated rating organization*.

- (3) For a client account offset as set out in subsection 5618(1), the *futures contracts* must be excluded from the *domestic gross customer margin model*.

**5622. Offsets involving Canadian chartered bank acceptances and Canadian bankers acceptance futures contracts with same maturity bands**

- (1) Where a *Dealer Member* or a client has the following pairing:

<b>Long (short) position</b>	and	<b>Short (long) position</b>
(i) highly rated <i>chartered bank</i> acceptances		<i>Canadian banker acceptance futures contract</i>

and the positions have the same currency denomination and *market value* and are within the same *maturity band*, the two positions may be offset and the minimum margin required for both positions may be computed with respect to the net long or net short position only.

- (2) In subsection 5622(1) “highly rated *chartered bank* acceptances” are bank acceptances currently rated “A” or higher by DBRS, Moody’s or S&P Corporation.

**As described in IROC Notice 21-0028, effective September 1, 2022, subsection 5622(2) will be repealed and replaced with the following:**

In subsection 5622(1) “highly rated *chartered bank* acceptances” are bank acceptances currently rated “A” or higher by a *designated rating organization*.

- (3) For a client account offset as set out in subsection 5622(1), the *futures contracts* must be excluded from the *domestic gross customer margin model*.

**5624. Offsets involving commercial and corporate debt securities and Government of Canada notional bond futures contracts**

- (1) Where a *Dealer Member* or a client has one of the following long (short) commercial and corporate *debt security* position and short (long) Government of Canada notional bond *futures contract* position pairings:

<b>Long (short) position</b>	and	<b>Short (long) position</b>
(i) highly rated non-convertible commercial and corporate <i>debt securities</i>		Government of Canada notional bond <i>futures contract</i>

and the positions have the same currency denomination and *market value* and are within the same *maturity band*, the two positions may be offset and the minimum

margin required for both positions may be computed as the greater of the margins normally required on the long (or short) and the short (or long) positions.

- (2) In subsection 5624(1) “highly rated non-convertible commercial and corporate *debt securities*” are non-convertible commercial and corporate *debt securities* currently rated “A” or higher by DBRS, Moody’s or S&P Corporation.

**As described in IROC Notice 21-0028, effective September 1, 2022, subsection 5624(2) will be repealed and replaced with the following:**

In subsection 5624(1) “highly rated non-convertible commercial and corporate *debt securities*” are non-convertible commercial and corporate *debt securities* currently rated “A” or higher by a *designated rating organization*.

- (3) For a client account offset as set out in subsection 5624(1), the *futures contracts* must be excluded from the *domestic gross customer margin model*.

**Amendment #6** - IROC Rule section 5671 is amended to remove reference to client accounts as follows:

#### **OFFSETS ONLY AVAILABLE FOR DEALER MEMBER INVENTORY POSITIONS**

##### **DEBT SECURITIES**

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- .
- .

#### **5671. Offsets involving Canadian government debt or Canadian listed equity securities and futures and forward contracts**

- (1) Where a *Dealer Member* has a position in bonds, debentures or treasury bills issued or guaranteed by the Government of Canada or in *equity securities* listed on the Toronto Stock Exchange and the account has an offsetting futures or forward contract position on the same security, the positions may be offset and the minimum margin required for the positions may be computed with respect to the net long or net short position only.

**Amendment #7** - IROC Rule sections 5714 and 5725 are amended to replace the term “clearing corporation” with “recognized option clearing corporation” as follows:

#### **5714. Treatment of option positions issued by different recognized option clearing corporations**

- (1) If a *Dealer Member* account or a client account holds *options* issued by different *recognized option clearing corporations*, with the same *underlying interest*, they may be treated as being equivalent when calculating margin for the account.

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## 5725. Hedged option positions

- (1) No margin is required for the following *exchange-traded option* and collateral position combinations held in *equivalent quantities* in a *Dealer Member* inventory or client account:

	<b>Exchange-traded option position</b>		<b>Acceptable collateral</b>
(i)	Short <i>call option</i> with an equity, <i>index</i> , <i>index participation unit</i> , debt or currency <i>underlying interest</i>	and	<i>escrow receipt</i> evidencing the deposit of the <i>underlying security</i>
(ii)	Short <i>put option</i> with an equity, <i>index</i> , <i>index participation unit</i> , debt or currency <i>underlying interest</i>	and	<i>escrow receipt</i> evidencing the deposit of government securities
(iii)	Short <i>put option</i> with an equity, <i>index</i> , <i>index participation unit</i> , debt or currency <i>underlying interest</i>	and	letter of <i>guarantee</i>

provided the conditions in subsections 5725(2) and 5725(3) are met.

- (2) For an *escrow receipt* to be acceptable collateral in subsection 5725(1):
- (i) the issuer of the *escrow receipt* must be a financial institution approved by the *recognized option clearing corporation*,
- and
- (ii) all *recognized option clearing corporation* agreements must be signed and delivered to the *recognized option clearing corporation* and available for inspection by *IIROC* on request,
- and
- (iii) in the case of an *escrow receipt* evidencing the deposit of government securities, the securities must:
    - (a) be acceptable forms of *recognized option clearing corporation* margin,
    - (b) mature within one year of their deposit, and
    - (c) have a *market value* of greater than 110% of the *aggregate exercise value* of the short *put option*.
- (3) For a letter of *guarantee* to be acceptable collateral in subsection 5725(1):
- (i) the issuer must be:
    - (a) a financial institution approved by the *recognized option clearing corporation* to issue *escrow receipts*,
- and
- (b) a *chartered bank*, a Québec savings bank or a trust company licensed to do business in Canada, with a minimum paid-up capital and surplus of \$5,000,000,
- and

- (ii) the letter must certify that the bank or trust company:
  - (a) holds on deposit for the client's account cash equal to the full *aggregate exercise value* of the *put option* and that amount will be paid to the *recognized option clearing corporation* against delivery of the *underlying interest* hedged by the *put option*,
  - or
  - (b) unconditionally and irrevocably guarantees to pay the *recognized option clearing corporation* the full amount of the *aggregate exercise value* of the *put option* against delivery of the *underlying interest* hedged by the *put option*,
- and
- (iii) the *Dealer Member* must deliver it to the *recognized option clearing corporation* and the *recognized option clearing corporation* must accept it as margin.

**Amendment #8** - IIROC Rule sections 5760 through 5765 are amended to add an additional subsection to restrict client account offsets as follows:

**EXCHANGE-TRADED OPTIONS - FUTURES AND OPTIONS COMBINATIONS AND CONVERSIONS**

**5760. Long index futures contract - short call option combination**

- (1) Where a *Dealer Member* inventory or client account contains one of the following exchange traded *futures contract* and *exchange-traded option* contract combinations:

<b>Long futures position</b>		and	<b>Short option position</b>	
(i)	<i>index futures contracts</i>		<i>index call option</i>	based on the same <i>index</i>
(ii)	<i>index futures contracts</i>		<i>index participation unit call option</i>	based on the same <i>index</i>

and *equivalent quantities* of each position in the combination are held and the *options* and *futures contracts* have the same settlement date or can be settled in either of the two nearest contract months, the minimum margin required for the combination is calculated in accordance with subsection 5760(2).

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- (3) For a client account offset as set out in subsection 5760(1) the *index futures contracts* must be excluded from the *domestic gross customer margin model*.

**5761. Long futures contracts - long put option combination**

- (1) Where a *Dealer Member* inventory or client account contains one of the following exchange traded *futures contract* and *exchange-traded option* contract combinations:

<b>Long futures position</b>			<b>Long option position</b>	
(i)	<i>index futures contracts</i>	and	<i>index put option</i> based on the same <i>index</i>	
(ii)	<i>index futures contracts</i>	and	<i>index participation unit put option</i> based on the same <i>index</i>	

and *equivalent quantities* of each position in the combination are held and the *options* and *futures contracts* have the same settlement date or can be settled in either of the two nearest contract months, the minimum margin required for the combination is calculated in accordance with subsections 5761(2) and 5761(3).

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- (4) For a client account offset as set out in subsection 5761(1) the *index futures contracts* must be excluded from the *domestic gross customer margin model*.

**5762. Short futures contracts - long call option combination**

- (1) Where a *Dealer Member* inventory or client account contains one of the following exchange traded *futures contract* and *exchange-traded option* contract combinations:

<b>Short futures position</b>			<b>Long option position</b>	
(i)	<i>index futures contracts</i>	and	<i>index call option</i> based on the same <i>index</i>	
(ii)	<i>index futures contracts</i>	and	<i>index participation unit call option</i> based on the same <i>index</i>	

and *equivalent quantities* of each position in the combination are held and the *options* and *futures contracts* have the same settlement date or can be settled in either of the two nearest contract months, the minimum margin required for the combination is calculated in accordance with subsections 5762(2) and 5762(3).

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- (4) For a client account offset as set out in subsection 5762(1), the *index futures contracts* must be excluded from the *domestic gross customer margin model*.

**5763. Short futures contracts - short put option combination**

- (1) Where a *Dealer Member* inventory or client account contains one of the following exchange traded *futures contract* and *exchange-traded option* contract combinations:

<b>Short futures position</b>			<b>Short option position</b>	
(i)	<i>index futures contracts</i>	and	<i>index put option</i> based on the same <i>index</i>	
(ii)	<i>index futures contracts</i>	and	<i>index participation unit put option</i> based on the same <i>index</i>	

and *equivalent quantities* of each position in the combination are held and the *options* and *futures contracts* have the same settlement date or can be settled in either of the two nearest contract months, the minimum margin required for the combination is calculated in accordance with subsection 5763(2).

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- (3) For a client account offset as set out in subsection 5763(1), the *index futures contracts* must be excluded from the *domestic gross customer margin model*.

**5764. Futures conversion or long tripo combination**

- (1) Where a *Dealer Member* inventory or client account contains one of the following exchange traded *futures contract* and *exchange-traded option* contract combinations:

<b>Long futures position</b>			<b>Long option position</b>		<b>Short option position</b>
(i)	<i>index futures contracts</i>	and	<i>index put option</i> based on the same <i>index</i>	and	<i>index call option</i> based on the same <i>index</i>
(ii)	<i>index futures contracts</i>	and	<i>index participation unit put option</i> based on the same <i>index</i>	and	<i>index participation unit call option</i> based on the same <i>index</i>

and *equivalent quantities* of each position in the combination are held and the *options* contracts have the same expiry date and the *options* and *futures contracts* have the same settlement date or can be settled in either of the two nearest contract months, the minimum margin required for the combination is calculated in accordance with subsection 5764(2).

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- (3) For a client account offset as set out in subsection 5764(1), the *index futures contracts* must be excluded from the *domestic gross customer margin model*.

**5765. Reconversion or short tripo combination**

- (1) Where a *Dealer Member* inventory or client account contains one of the following exchange traded *futures contract* and *exchange-traded option* contract combinations:

	<b>Short futures position</b>		<b>Long option position</b>		<b>Short option position</b>
(i)	<i>index futures contracts</i>	and	<i>index call option based on the same index</i>	and	<i>index put option based on the same index</i>
(ii)	<i>index futures contracts</i>	and	<i>index participation unit call option based on the same index</i>	and	<i>index participation unit put option based on the same index</i>

and *equivalent quantities* of each position in the combination are held and the *options* contracts have the same expiry date and the *options* and *futures contracts* have the same settlement date or can be settled in either of the two nearest contract months, the minimum margin required for the combination is calculated in accordance with subsection 5765(2).

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- (3) For a client account offset as set out in subsection 5765(1), the *index futures contracts* must be excluded from the *domestic gross customer margin model*.

**5766. - 5769. Reserved.**

**Amendment #9** - IIROC Rule section 5772 is amended to add subsection 5772(4) to restrict client account offsets as follows:

**5772. Index futures contracts - qualifying baskets of index securities or index participation units**

- (1) Where a *Dealer Member* inventory or client account contains the following combination:

	<b>Long (short) futures position</b>		<b>Short (long) position</b>
(i)	<i>index futures contracts</i>	and	<i>qualifying basket of index securities of the same index</i>
(ii)	<i>index futures contracts</i>	and	<i>index participation units based on the same index</i>

and *equivalent quantities* of each position in the combination are held, the minimum margin is calculated in accordance with subsection 5772(2).

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- (4) For a client account offset as set out in subsection 5772(1), the *index futures contracts* must be excluded from the *domestic gross customer margin model*.

**Amendment #10** - IIROC Rule section 5776 is amended to insert subsection 5776(2) for the use of SPAN in client accounts as follows:

**5776. Optional use of the Standard Portfolio Analysis methodology**

- (1) For a *Dealer Member* inventory account constituted exclusively of positions in *derivatives* listed at the Bourse de Montréal, the margin required may be the one calculated by the Standard Portfolio Analysis methodology using the margin interval calculated and the assumptions used by the Canadian Derivatives Clearing Corporation.
- (2) For client accounts subject to the *domestic gross customer margin model* constituted exclusively of positions in *derivatives* listed at the Bourse de Montréal, the margin required may be the one calculated by the Standard Portfolio Analysis methodology using the margin interval calculated and the assumptions used by the Canadian Derivatives Clearing Corporation.
- (3) If the *Dealer Member* selects the Standard Portfolio Analysis methodology, the margin requirements calculated under this methodology will supersede the requirements stipulated in these Rules.
- (4) *IIROC* may restrict the application of this section 5776, if it considers continued use of the Standard Portfolio Analysis methodology to be inappropriate for *Dealer Member* or client margin requirements.

**Amendment #11** - IIROC Rule subsection 5782(2) is amended to replace the term “acceptable clearing corporation” with “recognized option clearing corporation” for consistency with sections 5714 and 5725:

**5782. Hedged option positions**

- (1) No margin is required for the following *over-the-counter option* and collateral position combinations held in *equivalent quantities* in a *Dealer Member* inventory or client account:

	<b>Over-the-counter option position</b>	<b>Acceptable collateral</b>
(i)	Short <i>call option</i> with an equity, <i>index</i> , and <i>index participation unit</i> , debt or currency <i>underlying interest</i>	<i>escrow receipt</i> evidencing the deposit of the <i>underlying security</i>
(ii)	Short <i>call option</i> with an equity, <i>index</i> , and <i>index participation unit</i> , debt or currency <i>underlying interest</i>	<i>escrow receipt</i> evidencing the deposit of government securities

provided the conditions in subsection 5782(2) are met.

- (2) For an *escrow receipt* to be acceptable collateral in subsection 5782(1) the issuer of the *escrow receipt* must be a financial institution approved by a *recognized option clearing corporation*.

**Amendment #12** - IIROC Rule section 5790 is amended to insert subsection 5790(2) and clauses 5790(3)(i) and (ii) as follows:

## FUTURES CONTRACTS AND FUTURES CONTRACT OPTIONS

### 5790. Minimum margin requirements

- (1) Where a *Dealer Member* inventory or client account contains positions and offsets in *futures contracts* or *futures contract options*, the margin required is the greatest of:
  - (i) the margin required by the futures exchange on which the contract is entered into,
  - (ii) the margin required by the clearing corporation, and
  - (iii) the margin required by the *Dealer Member's* clearing broker, where applicable.
- (2) Where a client in subsections 5790(1) or 5776(2) is an *acceptable institution, acceptable counterparty* or *regulated entity*, the *Dealer Member* must include the margin deficiency in the margin on client or brokers and dealers accounts when calculating its *risk adjusted capital*, as of the date the deficiency occurs, where the *Dealer Member*:
  - (i) does not promptly call for margin, or
  - (ii) has promptly made a call for margin, but has not received the required margin by the end of the next trading day after the date the deficiency occurs.
- (3) Where a *Dealer Member* or a client, owns a commodity and also has a short position in a *futures contract* in the same commodity, the two positions may be offset and the required margin shall be computed with respect to the net long or net short position where:
  - (i) ownership of the commodity is evidenced by warehouse receipts or comparable documentation, and
  - (ii) the *futures contract* position is not subject to the *domestic gross customer margin model*.
- (4) Where a futures exchange or its clearing corporation prescribes margin requirements based on initial and maintenance rates, the margin required at the time the contract is entered shall be based on the prescribed initial rate. When subsequent adverse price movements in the value of the contracts reduce the margin on deposit to an amount below the maintenance level, a further amount to restore the margin on deposit to the initial rate amount shall be required. The *Dealer Member* may, in addition, require such further margin or deposit against liability as it may consider necessary as a result of fluctuations in market prices from time to time.
- (5) Where client trades are executed through an omnibus account, the *Dealer Member* shall require margin from each of its clients as though the trades were executed in separate fully disclosed accounts.
- (6) Where spread margins are permitted in a client account, the *Dealer Member* shall note this in the margin records for this account.
- (7) Where a *Dealer Member's* inventory account holds inter-commodity spreads in Government of Canada bond *futures contracts* and U.S. treasury bond *futures contracts* traded on a futures exchange in Canada and the United States and *equivalent quantities* of each position in the spread are held, the margin required is the greater of the margin

required on either the long side or the short side only. For this purpose, the foregoing spreads shall be on the basis of \$1.00 Canadian for each \$1.00 U.S. of the contract size of the relevant *futures contracts*. With respect to the United States side of the above inter-commodity spreads, such positions must be maintained on a contract market as designated pursuant to the United States Commodity Exchange Act.

- (8) *IIROC* may prescribe, in its discretion, higher or lower margin requirements for any account or *person* that holds positions in *futures contracts* or *futures contract options*.

**5791. - 5799. Reserved.**

**Amendment #13** - *IIROC* Rule section 5820 is amended to add clauses 5820(1)(vi) and (vii) as follows:

**5820. General account guarantee requirements**

- (1) Subject to the requirements in sections 5821 and 5822, a *Dealer Member* may permit a client (the guarantor) to *guarantee* the accounts of another client provided:
- (i) the *Dealer Member* informs the guarantor in writing of the initial contingent liability they will be assuming by signing the *guarantee* agreement,
  - (ii) the *Dealer Member* discloses to the guarantor in writing that the suitability of transactions in the guaranteed client's accounts will not be reviewed in relation to the guarantor,
  - (iii) the guarantor signs an approved written *guarantee* agreement with the *Dealer Member* that:
    - (a) identifies the guarantor by name,
    - (b) identifies the guarantor accounts that are to be used to provide the *guarantee*,
    - (c) identifies the accounts of the other client that are subject to the *guarantee*,
    - (d) binds the guarantor, its successors, assigns and personal legal representatives, and
    - (e) contains the minimum terms set out in subsection 5825(1),
  - (iv) the guaranteed client consents in writing to the *Dealer Member* providing the guarantor, at least quarterly, with the guaranteed client's account statements,
  - (v) where the guarantor does not object, the guarantor is sent, at least quarterly, the guaranteed client's account statements,
  - (vi) the guarantor's accounts that are not subject to a *futures segregation and portability customer protection regime* are not guaranteeing any accounts that are subject to a *futures segregation and portability customer protection regime*, and
  - (vii) the guarantor's accounts that are subject to a *futures segregation and portability customer protection regime* are not guaranteeing any accounts that are not subject to a *futures segregation and portability customer protection regime*.



- (2) Where the guaranteed client does not consent to providing account statements, the *Dealer Member* must notify the guarantor in writing of the guaranteed client's refusal and that the *guarantee* agreement will not be accepted for margin reduction purposes.

**Comments Received in Response to Rules Notice 21-0113 – Rules Notice – Request for Comments – IIROC Rules – Proposed Amendments to the IIROC Rules and Form 1 relating to the futures segregation and portability customer protection regime**

On July 8, 2021, we issued Notice 21-0113 requesting comments on the Proposed Amendments to the IIROC Rules and Form 1 relating to the futures segregation and portability customer protection regime. IIROC received one comment letter from the following commenter:

Investment Industry Association of Canada

A copy of this comment letter is publicly available on IIROC’s website ([www.iiroc.ca](http://www.iiroc.ca)). The comments we received and our responses to them are summarized in the table below.

Summary of Comment	IIROC Response
<b>Disclosure to Clients</b>	
<p>1. The comment letter notes that porting in a short time frame will present challenges for replacement Dealers due to their regulatory obligations. The letter suggests CDCC and IIROC draft the disclosure language to be communicated to clients.</p>	<p>We believe drafting standard disclosure language may not be adequate given that Dealers may have other clearing arrangements for futures contracts, in addition to CDCC. The disclosure is intended to provide clients with information on the portability of all their futures contract positions. Different clearing arrangements have different portability requirements and risks. The Dealer will need to customize the disclosures based on the porting arrangements available for their clients under the Dealer’s clearing arrangements with the clearing brokers and clearing corporations.</p> <p>IIROC plans to publish guidance that includes the information that we expect to be incorporated in the porting disclosure document. We also expect CDCC to provide documentation to Dealers on the clearing process (such as: default management process, treatment of collateral, porting requirements and timelines, etc.) which can be incorporated into the disclosure document. A copy of the draft guidance is included in Attachment F.</p> <p>We anticipate that clients will make pre-arrangements with a replacement dealer where the replacement dealer would complete the Know-Your-Client requirements prior to an insolvency of the client’s clearing dealer. This would reduce the burden on replacement dealers to complete regulatory obligations at the time of a clearing member default. The client would be made aware of the pre-arrangement requirements through the disclosure documents provided to them.</p>
<b>Margin Requirements</b>	

Summary of Comment	IIROC Response
<p>2. The comment letter requests clarification on how the proposed margin requirements for institutional clients may “represent an increase in their current minimum regulatory margin requirements”.</p>	<p>The amendments to section 5790 and the notes to Schedule 4 and 5 will require minimum margin requirements for futures contract positions for all clients (including acceptable institutions (<b>AI</b>), acceptable counterparties (<b>AC</b>) and regulated entities (<b>RE</b>)) to be based on the greater of the margin required by the clearing corporation, futures exchange or Dealer’s clearing broker.</p> <p>These minimum margin requirements are an increase from the current requirements for AI, AC and RE clients. The current requirements in the notes and instructions to Schedule 4 and 5 allow, in certain circumstances, no margin for acceptable institutions and an equity deficiency margin for acceptable counterparties and regulated entities.</p> <p>Our understanding is most Dealers require institutional clients to deposit initial and maintenance margins in accordance with the futures exchanges’ rules. For clients classified as AI, AC or RE, we do not anticipate the amendments will have a significant impact if the Dealer is already applying more stringent margin requirements than the current regulatory requirements.</p>
Grace Period	
<p>3. The comment letter requests clarification on the “grace period” for Dealers to collect margin from certain institutional clients including:</p> <ul style="list-style-type: none"> <li>• whether the grace period extends to T+2</li> <li>• how the grace period aligns with the CDCC margin calls</li> <li>• whether it extends to amounts owing to CDCC</li> <li>• whether the grace period applies to unallocated trades</li> </ul>	<p>We have revised the language in the proposed amendment to provide clarity on the application of the “grace period” in subsection 5790(2).</p> <p>The following examples illustrate how the grace period is applied:</p> <p><b>Example 1:</b>  <b>Client A is an acceptable institution, acceptable counterparty or regulated entity</b>  Trade date – October 31</p> <ul style="list-style-type: none"> <li>• Margin deficiency for Client A is \$1,000</li> </ul> <p>Trade date +1 – November 1</p> <ul style="list-style-type: none"> <li>• Dealer makes margin call for \$1,000 and receives \$1,000 from Client A</li> </ul> <p>Result:  No client margin for Client A is included in the risk adjusted capital as of October 31, since the sufficient margin collateral to cover the \$1,000 margin deficiency as of October 31 was collected by the end of the next trading day (on November 1).</p> <p><b>Example 2:</b>  <b>Client B is an acceptable institution, acceptable counterparty or regulated entity</b>  Trade date – October 31</p> <ul style="list-style-type: none"> <li>• Margin deficiency for Client B is \$2,000</li> </ul> <p>Trade date +1 – November 1</p>

Summary of Comment	IIROC Response
	<ul style="list-style-type: none"> <li>• Dealer makes margin call but does not receive \$2,000 from Client B</li> </ul> <p>Result: No margin collateral was collected to cover the \$2,000 margin deficiency as of October 31 by the end of the next trading day. The Dealer must include the \$2,000 margin deficiency amount for Client B in its risk adjusted capital calculation as of October 31.</p> <p>The grace period does not extend to T+2. If the Dealer has not collected the margin call from the client on T+1, the client margin required must be deducted from the Dealer’s risk adjusted capital.</p> <p>The grace period generally aligns with CDCC’s margin settlement time period for the gross customer margin (GCM). GCM margin requirements are calculated at the end of the day by CDCC for each client. The following morning, CDCC collects the required clearing margin from the Dealer while the Dealer contacts their clients to make margin calls and collect client margin.</p> <p>The grace period does not apply to balances owing to CDCC. Balances with an acceptable clearing corporation are reported and margined in accordance with the notes and instructions to Schedule 5 for Line 1.</p> <p>The grace period applies to client account margin which is calculated based on the trades and positions allocated to the client account. The grace period does not apply to unallocated trades where the rightful owner of the trade has not been identified. Unallocated trades should be treated as unresolved differences until the trade is allocated to the rightful owner.</p>
<b>GCM and funding drain</b>	
4. The comment letter requests clarification on which IIROC Rules permit acceptable institutions, acceptable counterparties and regulated entities to have a lower margin requirement.	The notes and instructions to the current Schedule 4 and Schedule 5 of Form 1 allow a lower margin treatment for acceptable institutions, acceptable counterparties and regulated entities as compared to other clients that are not within these categories. For example, no margin is required for accounts with acceptable institutions, under certain circumstances, as described in the notes and instructions to Line 1 of Schedule 4. For acceptable counterparties and regulated entities, the margin requirement is the equity deficiency as described in the notes and instructions to Line 2 of Schedule 4 and Line 2 of Schedule 5.

# INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

## PROPOSED AMENDMENTS TO IIROC RULES AND FORM 1 RELATING TO THE FUTURES SEGREGATION AND PORTABILITY REGIME

### ECONOMIC IMPACT ASSESSMENT

#### 1. Issue

IIROC's proposed amendments to the IIROC Rules and Form 1 (collectively, the **Proposed Amendments**) relating to the futures segregation and portability customer protection regime are required to align our requirements with expected rule changes at the Canadian Derivatives Clearing Corporation (**CDCC**). CDCC is proposing a new customer protection segregation and portability (**Seg and Port**) regime to comply with international standards.

CDCC's proposed Seg and Port regime is based on the use of a gross customer margin (**GCM**) model and empowers CDCC to more rapidly port (transfer) client positions and related collateral from a clearing member that is in default to a different clearing member.

#### 2. Objective of Proposed Amendments

The customer protection model created by the Seg and Port regime is separate from the IIROC-CIPF customer protection model, and therefore requires corresponding operational and reporting separation to address the two models. CDCC's ability to port client positions is dependent on the client meeting certain prerequisites and client information being provided to CDCC within a short time frame of a clearing member default.

The objectives/benefits in developing the Proposed Amendments are to:

- increase client awareness of porting requirements,
- ensure records of GCM positions, collateral and client information are maintained for use by the bankruptcy trustee, CIPF and CDCC in the event of default,
- reduce the potential funding drain resulting from the GCM model, and
- reduce the integration between futures accounts and non-futures accounts.

#### 3. Proposed Amendments

Our major proposed rule amendments relate to:

- Disclosure to clients
- Books and records
- Margin requirements
- Standard Portfolio Analysis methodology (SPAN)
- Cross-product hedges

- Guarantees and excess client margin

#### 4. Dealers impacted by the Seg and Port Regime

IIROC has approximately 174 Dealer Members (**Dealers**) but the majority (87%) of these Dealers are not impacted by the Proposed Amendment because they do not offer futures trading. Only 13% of IIROC Dealers offer futures trading to clients, however 2% are not members of CDCC and their futures trading business is mainly US futures contracts. Dealers that are CDCC members impacted by the new Seg and Port Regime represent 11% of the total IIROC Dealers. The percentages are summarized below:

<b>Dealers</b>	<b>Percentage of IIROC Dealers</b>
CDCC Members	11%
Non-CDCC Members	2%
Dealers with client futures trading	13%
Other Dealers (no client futures trading)	87%
	100%

The majority (84%) of Dealers that are also members of CDCC offer mainly institutional futures trading in Canadian futures. The dealers that are members of CDCC and offering client futures trading are split by type of clients as follows:

<b>Client Type</b>	<b>Percentage of Dealers/CDCC clearing members with client futures trading</b>	<b>Percentage of IIROC Dealers</b>
Institutional	84%	9%
Retail	16%	2%
Dealers/CDCC clearing members with client futures trading	100%	11%
Other Dealers/non-CDCC clearing members		89%
		100%

Many Dealers facilitate trading of Canadian futures for their foreign affiliates and do not offer futures trading to any third-party clients, or their futures trading business is limited to a few institutional clients. These Dealers represent 74% of CDCC members and 8% of IIROC Dealers. The Dealers that are members of CDCC and offering client futures trading are split based on the number clients as follows:

Level of Clients	Percentage of Dealers/CDCC clearing members with client futures trading	Percentage of IIROC Dealers
Low number of clients <sup>5</sup>	74%	8%
Mod/high number of clients	26%	3%
Dealers/ CDCC clearing members with client futures trading	100%	11%
Other Dealers/non-CDCC clearing members		89%
		100%

## 5. Basis for economic impact assessment

The costs have been assessed based on general consultation with Dealers and categorized according to the following table:

Assessment category	Cost amount
Low	Less than 1% of Dealer's risk adjusted capital
Moderate	Between 1% to 10% of Dealer's risk adjusted capital
High	Greater than 10% of Dealer's risk adjusted capital

The benefits of a rule amendment have been assessed based on how well the amendment achieves the objective of the Proposed Amendments. The assessment levels are categorized according to the following table:

Assessment category	Benefit assessment
Low	Objective partially achieved
Moderate	Majority of objective achieved
High	Objective achieved

## 6. Economic impact assessment

The Proposed Amendments are not expected to have any significant incremental costs to Dealers or clients beyond the costs associated with CDCC's proposed Seg and Port regime. However, the benefits of the Proposed Amendments will be moderate to high as they will address separations between the two customer protection regimes and increase the likelihood that CDCC's prerequisites for porting are met by clients and Dealers.

CDCC's analysis on the impact of the GCM model shows the base initial margin would increase by \$3.3 billion. On average, the increase in base initial margin for impacted clearing members is 35%. The maximum increase is 102% and the minimum increase is 0.3%.<sup>6</sup> Based on IIROC's analysis, the Dealers impacted the most by the additional CDCC margin will be those with a moderate to high number of clients. These Dealers represent only 3% of IIROC Dealers and 26% of the CDCC clearing members. The increase in CDCC margin under the GCM model does not

<sup>5</sup> Low number of clients means the Dealer has less than 20 clients.

<sup>6</sup> CDCC Notice to Members 102-21 page 18

significantly impact clients as the client margin requirements determined by the Dealer are already calculated on a client-by-client basis.



For each major proposed rule amendment, we've included a table with an assessment of the impacts on clients and IIROC Dealer Members and the associated benefits. The alternative proposal considerations are also assessed.

### 6.1 Disclosure to clients

<i>Proposal:</i>	<i>Dealer Impact/Cost:</i>	<i>Client Impact:</i>	<i>Benefits:</i>
Require porting disclosure and client acknowledgement that client received and understood the porting disclosure document (section 3261)	<p>Impacted Dealers are CDCC Members with client futures trading (11% of IIROC Dealers).</p> <p><b>Impact:</b> Impacted Dealers will need to make revisions to client disclosures, policies and procedures and client acknowledgements.</p> <p><b>Cost:</b> Low to Moderate</p> <p>Costs will vary depending on the number of futures clients of the impacted Dealers. The additional compliance costs associated with obtaining acknowledgement from client are expected to be low for most impacted Dealers since 74% have a low number of clients.</p>	<p>Impacted clients are clients trading Canadian futures through a CDCC clearing member</p> <p><b>Impact:</b> Provides clients with more clarity on how they may be able to protect their futures positions and the action they need to take if they want to reduce likelihood of liquidation.</p>	<p><b>Moderate:</b> Disclosure combined with acknowledgement requires clients to read the documentation which:</p> <ul style="list-style-type: none"> <li>• increases their awareness of porting requirements, and</li> <li>• increases the likelihood they will take action to meet the porting requirements.</li> </ul>

#### Alternative considered:

IIROC considered an alternative rule amendment that would require client disclosure only, without client acknowledgement. This option would have no additional costs as the Dealer is already incurring the disclosure costs to comply with CDCC rules, however the benefit would be low since clients may not read or understand the disclosure document.

### 6.2 Books and records

<i>Proposal:</i>	<i>Dealer Impact/Cost:</i>	<i>Client Impact:</i>	<i>Benefits:</i>
<ul style="list-style-type: none"> <li>• require daily records of GCM futures positions</li> </ul>	<p>Impacted Dealers are CDCC Members with client futures trading (11% of IIROC Dealers).</p>	<p>Impacted clients are any clients at a Dealer that has futures trading</p>	<p><b>High:</b> Facilitates objective of ensuring records required for porting of clients are maintained which:</p>

<p>and related collateral, (subsection 3814(3))</p> <ul style="list-style-type: none"> <li>require a client identification record (subsection 3814(4))</li> </ul>	<p><b>Impact:</b> Impacted Dealers may incur some system development costs.</p> <p><b>Cost:</b> Low to Moderate</p> <p>Costs will vary depending on the type of system used by the impacted Dealers and the number of futures clients of the impacted Dealers.</p> <p>The costs are expected to be low for most Impacted Dealers since 74% have a low number of clients and many impacted Dealers use system service providers from the US Market which have similar reporting functions. The initial costs to create these records are expected to be embedded in the Dealers' system costs to meet CDCC's GCM model requirements.</p>	<p><b>Impact:</b> Facilitates investor protection for clients covered by CIPF and clients covered by Seg and Port regime.</p>	<ul style="list-style-type: none"> <li>Increases likelihood of information availability to stakeholders on default</li> <li>Increases likelihood of porting for clients and resolution of potential client claims in the event of Dealer default,</li> <li>Increases ability to reconcile positions and collateral between CDCC and the Dealer</li> <li>Reduces delays and errors in reporting GCM positions</li> <li>Identifies potential collateral deficiencies</li> </ul>
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**Alternative considered:**

IIROC considered proposing no rule amendments for books and records related to the GCM model. This option would have no additional costs beyond the costs to comply with CDCC rules, however the benefit would be low as it is less likely the Dealer would have the appropriate information readily available on default. Extracting the specific GCM information from the records at the time of default could create difficulties identifying the appropriate investor protection regime and decrease likelihood of porting.

**6.3 Margin requirements**

<i>Proposal:</i>	<i>Impact/Cost:</i>	<i>Client Impact:</i>	<i>Benefits:</i>
<ul style="list-style-type: none"> <li>Apply same margin rate requirements to all futures clients (retail and institutional)</li> <li>Allow one day grace before RAC implication on institutional margin deficiencies (AI/AC/RE)</li> </ul>	<p>Impacted Dealers are Dealers offering client futures trading for any futures contracts (e.g. foreign or Canadian) (13% of IIROC Dealers). More significantly impacts Dealers with mainly Institutional clients (9% of IIROC Dealers).</p> <p><b>Impact:</b> Impacted Dealers may need to update credit policies and procedures</p>	<p>Impacted clients are clients trading futures contracts.</p> <p><b>Impact:</b> Codifies existing practice providing clarity to clients. No significant margin implications for clients.</p>	<p><b>Moderate:</b> Facilitates objective of reducing potential funding drain by:</p> <ul style="list-style-type: none"> <li>harmonizing margin requirements for AI, AC and RE futures positions with futures industry practice and CDCC settlement, and</li> </ul>

	<p>and process for calculating regulatory capital.</p> <p><b>Cost:</b> Low Cost and impact on risk adjusted capital is low since the impacted Dealers' current practice for making margin calls<sup>7</sup> and collecting margin from AI, AC and RE clients aligns with the proposed rule amendment for determining the capital implication of margin deficiencies.</p>		<ul style="list-style-type: none"> <li>• providing consistency and clarity for margin and capital requirements of AI, AC and RE futures positions.</li> </ul>
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**Alternative considered:**

IIROC considered proposing rule amendments to apply the same margin rate requirements to all futures clients with no grace period allowance for AI, AC and RE clients. This option would further reduce funding drain on the Dealer as it would eliminate most of the intra-day funding gaps, but this option would require all clients to meet margin requirements at the time of entering their trade. The cost and impact on the industry was considered too high. Most Dealers indicated that without a grace period, they would not be able to sustain a viable futures business because institutional clients represent the majority of the clients trading futures in Canada. If institutional clients were required to deposit margin before executing futures trades, these clients may no longer trade futures in Canada. Institutional clients may also move their non-Canadian futures business to futures dealers in other jurisdictions because other jurisdictions allow grace periods for collection of futures margin calls consistent with industry practices.

**6.4 Standard Portfolio Analysis methodology (SPAN)**

<i>Proposal:</i>	<i>Dealer Impact/Cost:</i>	<i>Client Impact:</i>	<i>Benefits:</i>
Allow optional use of SPAN margining for client positions in the GCM model	<p>Impacts Dealers are CDCC Members with client futures trading (11% of IIROC Dealers) who choose to pursue the SPAN option.</p> <p><b>Impact:</b> The SPAN margin will allow the impacted Dealers to align client margin requirements with the GCM model requirements, reducing the need to</p>	<p>Impacted clients are clients trading Canadian futures through a CDCC clearing member</p> <p><b>Impact:</b> Under the SPAN methodology, clients may receive margin relief for offsets among futures contracts and futures contract options within the GCM model.</p>	<p><b>High:</b> Facilitates consistent futures client margin requirements between IIROC, CDCC and the Montreal Exchange. Facilitates easier reconciliation of GCM margin and collateral requirements.</p>

<sup>7</sup> The Dealer determines margin calls for AI, AC, RE based on the initial/maintenance margin rates as required by the futures exchange or clearing corporation.

	<p>develop systems for different margining methodologies.</p> <p><b>Cost: Low</b></p> <p>The costs are expected to be low for most impacted Dealers since 74% have a low number of clients and the system costs to add SPAN margining are expected to be embedded in the Dealers' system costs to meet CDCC's GCM model requirements.</p>		
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**Alternative considered:**

No alternative amendments were considered as this rule amendment was necessary to provide consistency between the Montreal Exchange, CDCC and IIROC margin requirements for clients within the GCM model.

**6.5 Cross-product hedges**

<i>Proposal:</i>	<i>Impact/Cost:</i>	<i>Client Impact:</i>	<i>Benefits:</i>
<p>Margin reduction not available for cross-product hedges if the futures position is part of the GCM model</p>	<p>Impacted Dealers are CDCC Members with client futures trading (11% of IIROC Dealers).</p> <p><b>Impact:</b> Impacted Dealers may need to update systems to ensure cross-product hedged futures positions are not included in the GCM model.</p> <p><b>Cost:</b> Low to moderate</p> <p>The costs are expected to be low for most Impacted Dealers since 74% have a low number of clients and cross-product hedging strategies are mainly used by sophisticated institutional clients.</p>	<p>Impacted clients are clients with cross-product hedges</p> <p><b>Impact:</b> Impacted clients continue to have ability to reduce margin through cross-product hedging and to keep the positions within one investor protection regime.</p>	<p><b>High:</b> Facilitates objective of reducing the integration between futures accounts and non-futures accounts and reducing the likelihood that ported accounts are insufficiently collateralized, while allowing reduced hedge margining.</p>

**Alternative considered:**

No alternative amendments were considered as this rule amendment was necessary to ensure the futures contract portion of the hedge is not ported beyond the control of an insolvent Dealer’s trustee.

**6.6 Guarantees and excess client margin**

<i>Proposal:</i>	<i>Impact/Cost:</i>	<i>Client Impact:</i>	<i>Benefits:</i>
<ul style="list-style-type: none"> <li>Prohibit guarantees between futures accounts subject to the Seg and Port regime and other accounts</li> <li>Prohibit use of client excess margin between client account subject to the Seg and Port regime and other accounts.</li> </ul>	<p>Impacted Dealers are those offering client futures trading (13% of IIROC Dealers) and non-futures client trading.</p> <p><b>Impact:</b> Dealers may need to update credit policies and procedures and guarantee agreements. Dealers with systems that integrate futures and non-futures products within accounts may incur system costs to separate the client excess margin.</p> <p><b>Cost:</b> Low to Moderate</p> <p>Costs will vary depending on the type of system used by the impacted Dealers and the number of futures clients of the impacted Dealers.</p> <p>The costs are expected to be low for most impacted Dealers as many impacted Dealers already use separate systems for their futures accounts vs their non-futures accounts.</p>	<p>Impacted clients are any clients at a Dealer that offers futures trading and non-futures trading to clients.</p> <p><b>Impact:</b> Facilitates investor protection for clients covered by CIPF and clients covered by Seg and Port regime. Clients need to transfer collateral between futures and non-futures accounts instead of relying on excess margin or guarantees to cover margin deficiencies.</p>	<p><b>High:</b> Facilitates objective of reducing the integration between futures accounts and non-futures accounts which:</p> <ul style="list-style-type: none"> <li>Reduces likelihood that ported futures positions are insufficiently collateralized</li> <li>Reduces risk that collateral for non-futures positions is ported beyond control of insolvency trustee</li> </ul>

**Alternative considered:**

No alternative amendments were considered as this rule amendment was necessary to reduce potential funding drain and ensure the futures contract positions that are subject to porting are sufficiently collateralized.