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Investment Industry Regulatory Organization of Canada
Organisme canadien de réglementation du commerce des valeurs mobilières

IIROC NOTICE

Rules Notice
Request for Comments
IIROC Rules

Comments Due By: June 27, 2022

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22-0063
April 28, 2022

Proposed Amendments to the IIROC Rules and to Form 1 regarding the floating index margin rate methodology

Executive Summary

IIROC is proposing amendments to the IIROC Rules and to Form 1 (collectively, the **Proposed Amendments**) regarding the floating index margin rate methodology (the **Methodology**) applicable to qualifying Canadian and U.S. index products. The primary objective of the Proposed Amendments is to reduce procyclicality in IIROC's Methodology.

Procyclical requirements or practices are those that are positively correlated with business or credit cycle fluctuations and that may cause or exacerbate financial instability. Margin rules that stipulate lower margin requirements during periods of low volatility and higher margin requirements during periods of high volatility are procyclical.

The Proposed Amendments:

- set floor margin rates for qualifying Canadian and U.S. index products included on IIROC's list of floating and tracking error margin rates,
- revise the floating index margin rate calculation for individual and offset (tracking error) positions to a "greater of" the floor margin rate and the floating margin rate percentage methodology,
- define "qualifying index" for the purposes of determining floating margin rates, which includes categorizing qualifying index types as either a broad based index or a sector index, and
- codify IIROC's discretionary authority to modify the regulatory margin interval calculation.

Impacts

We anticipate the Proposed Amendments will generally benefit Dealers, clients, and other stakeholders.

The benefits of reducing procyclicality are generally recognized and can be summarized as promoting financial stability and resiliency in periods of high market volatility. We believe these benefits outweigh the opportunity costs associated with reduced leverage during periods of low market volatility.

How to Submit Comments

Comments on the Proposed Amendments should be in writing and delivered by ***June 27, 2022*** (60 days from the publication date of this notice) 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]

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

Commentators should be aware that a copy of their comment letter will be made publicly available on the IIROC website at *www.iiroc.ca*.

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1. Discussion of Proposed Amendments

1.1 IIROC's Methodology

IIROC Rules set out minimum margin rates for various investment products. In most cases, these margin rates are fixed percentages. In the case of qualifying Canadian and U.S. index products, these rates are determined using a prescribed formula, which is the foundation for IIROC's Methodology.

Subsection 5130(9) of the IIROC Rules includes definitions for the terms "floating margin rate" and "regulatory margin interval". The floating margin rate for a qualifying index product is determined according to the regulatory margin interval, which is a prescribed formula detailed in section 5360. The formula:

- requires that the index's historical price volatility and liquidity be considered in determining its "floating margin rate",
- specifies that:
  - the greatest of the historical price volatility measures for the past 20-, 90- and 260-trading days must be used to estimate current price volatility levels,
  - 2-trading days market risk coverage must be achieved when calculating the margin requirement, and
  - the margin requirement must be adequate to cover actual market risk over 99% of the time.

IIROC publishes a monthly list of floating and tracking error margin rates for qualifying Canadian and U.S. index products (**floating margin rate list**), whose index qualifies under the definition of an "index" in subsection 5130(9). We maintain a dedicated web-page for this list, where users can find the list and review relevant information related to the Methodology.

There are currently 12 qualifying Canadian indices (3 broad based and 9 sector) and 11 qualifying U.S. indices (all broad based) on the list. IIROC calculates the regulatory margin interval for eligible index participation units (**IPUs**) and qualifying baskets of index securities that passively track these indices and hold the underlying securities. Eligible IPUs and exchange traded funds (**ETFs**) must achieve correlation to their qualifying index by investing in the underlying securities in substantially the same proportion as those securities are reflected in the index. Appendix E includes currently eligible IPU/ETF symbols for each qualifying index.

We also calculate regulatory margin intervals for the tracking error resulting from recognized offset strategies for:

- index basket and IPU positions,
- index basket and futures contract positions, and

- IPU and futures contract positions.

Section 5360 details the specific requirements for a qualifying basket of index securities. The floating margin rate list web-page includes a section that details characteristics of ineligible IPUs and ETFs that may be based on a qualifying index. Rule 5700 details recognized offset position requirements.[1]

1.2 Non-discretionary nature of current regulatory margin interval calculation

The IIROC rules do not include discretionary margin-setting authority for securities. The Proposed Amendments introduce floor margin rates for individual and offset positions and codify IIROC's discretionary authority to modify the regulatory margin interval calculation in limited circumstances to ensure appropriate margin requirements. We believe these Proposed Amendments are necessary to properly maintain the Methodology through various market cycles and volatility scenarios.

This approach aligns with IIROC's margin-setting framework for futures contracts under section 5790, which follows a "greatest of" calculation methodology, and provides IIROC discretionary authority to set higher or lower margin rates as needed.

1.3 Details of the Proposed Amendments[2]

IIROC's Methodology calculates lower than optimal margin rate requirements during long periods of low market volatility, but results in sharp increases in margin rates during intermittent periods of high market volatility. The Proposed Amendments are required to reduce this procyclicality in IIROC's Methodology.

The blackline text of the Proposed Amendments to the IIROC Rules is set out in Appendix A and a clean copy of the changes is set out in Appendix C. The blackline text of the Proposed Amendments to Form 1 is set out in Appendix B and a clean copy of the changes is set out in Appendix D. We included a list of Canadian and U.S. qualifying indices in Appendix E.

1.3.1 Floor margin rates and "greater of" margin calculation methodology

Table 1 provides an overview of the proposed floor margin rates for qualifying Canadian and U.S. index products. These proposed rates will be set by IIROC at levels that are similar to the U.S. SEC Net Capital haircut rates for comparable index products as shown in section 2.2 below. We also analyzed historical regulatory margin interval data to support the proposed minimum floor margin rates, including the data presented in Figures 1 and 2 in section 2.1 below.

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1 Other recognized offset strategies involving a "commitment to purchase" are detailed in sections 5550-5552.

2 We have also proposed some minor changes, editorial in nature, in the French version of the IIROC Rules to align the texts with the English version.

Table 1 – Proposed floor margin rates for qualifying Canadian and U.S. index products

Proposed minimum requirements	**Basket of index securities**	**Index participation units (IPU) and U.S. exchange-traded fund (ETF) equivalents**	**Tracking error offsets**
IIROC minimum margin rate requirements for qualifying indices	Broad based index: **10%**	Broad based index: **10%**	Broad based index: **2%**
	Sector index: **15%**	Sector index: **15%**	Sector index: **3%**

We propose to amend subsection 5360(1), which sets out the minimum margin requirements for qualifying index products, to a "greater of" the floor margin rate and the floating margin rate percentage methodology. Qualifying baskets of index securities will still require additional margin, referred to as the incremental basket margin rate, where applicable.

1.3.2 Qualifying indices and index types

We codified in new subsection 5360(3) that IIROC calculates a regulatory margin interval for index products on qualifying indices and we included the qualification criteria for a qualifying index. As with current practice, a qualifying index must:

- be a widely quoted market index as determined by IIROC,
- meet the minimum requirements for an index in subsection 5130(9), and
- be included on IIROC's floating margin rate list.

We categorized qualifying indices as either a broad based index or a sector index, which required corresponding changes to the current index definitions in subsection 5130(9) and Form 1. The current definition for an index in subsection 5130(9) describes minimum requirements that are appropriate for a sector index, and Form 1 includes a definition for a broad based index. We updated the Form 1 definition and replicated it in subsection 5130(9) for ease of reference.

As a result, the proposed definitions for both index types appear in subsection 5130(9), with updates to each index type that:

- raise the minimum average market capitalization requirement from $50 million to $100 million, and
- apply the acceptable exchange listing and trading requirement to any applicable equity index and not just a foreign equity index.

Also, to ensure consistency in applying the broad based index definition, we amended subsection 5130(4) regarding the definition of foreign listed equity securities eligible for margin. We replaced "major broadly based index" with "major widely quoted market index" because we have not generally applied the prescriptive broad based index requirements to determine margin eligibility for foreign listed equity securities.

1.3.3 Limited discretion

Proposed clause 5360(4)(ii) codifies IIROC's discretionary authority to modify the regulatory margin interval calculation in limited circumstances.

We do not anticipate exercising this discretion in normal circumstances, including most instances where a calculated regulatory margin interval exceeds a floor margin rate. As noted in section 1.2 above, we believe limited discretion is necessary to properly maintain the Methodology through various market cycles, which include high market volatility scenarios.

The Proposed Amendments codify the discretion IIROC exercised in response to the extraordinary COVID 19 related market volatility in 2020. At that time, we adjusted the Methodology to mitigate margin rate procyclicality. We notified stakeholders when we adjusted the margin rate-setting process, and again when we normalized the process. Proposed clause 5360(4)(ii) requires IIROC to notify Dealer Members if any adjustments to the regulatory margin interval calculation are made.[3]

2. Analysis

2.1 Floating index margin rate procyclicality

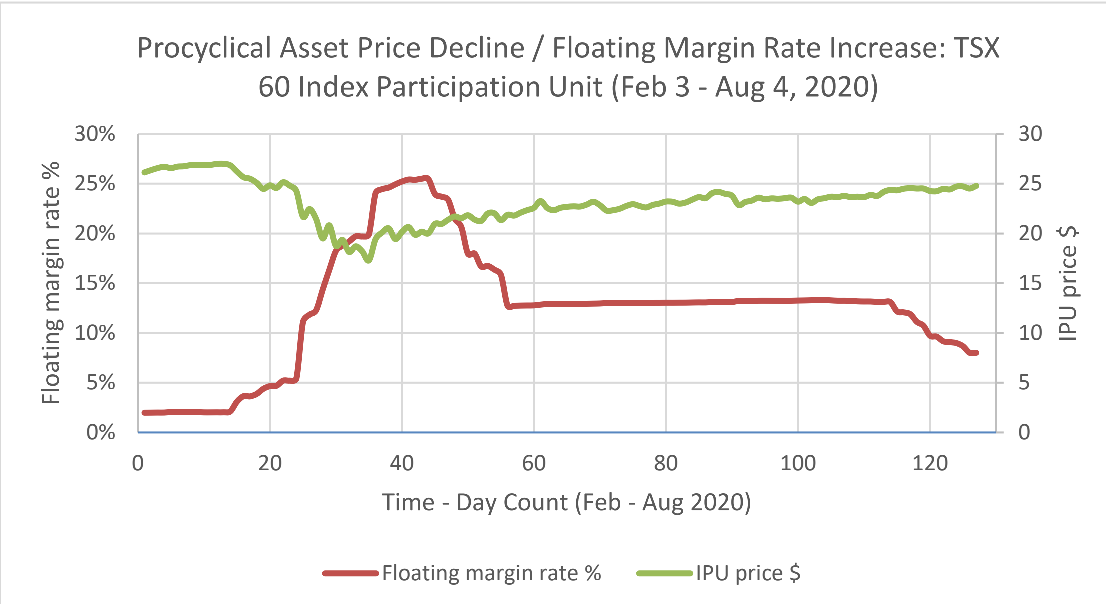
Sharp increases in floating index margin rates typically occur when the underlying asset prices are declining, which is a feature that may amplify the deleveraging impacts of margin rate procyclicality.

In February 2020, the TSX 60 IPU (**XIU**) floating margin rate dropped to a procyclical low of 2%. Figure 1 shows the subsequent market value decline in XIU, and corresponding increase in its floating margin rate, during the COVID 19 outbreak.

Figure 2 provides a longer term view of the TSX 60 basket of securities since 1999, demonstrating intermittent procyclical margin rate volatility. This procyclical margin rate volatility pattern occurs across all qualifying indices.

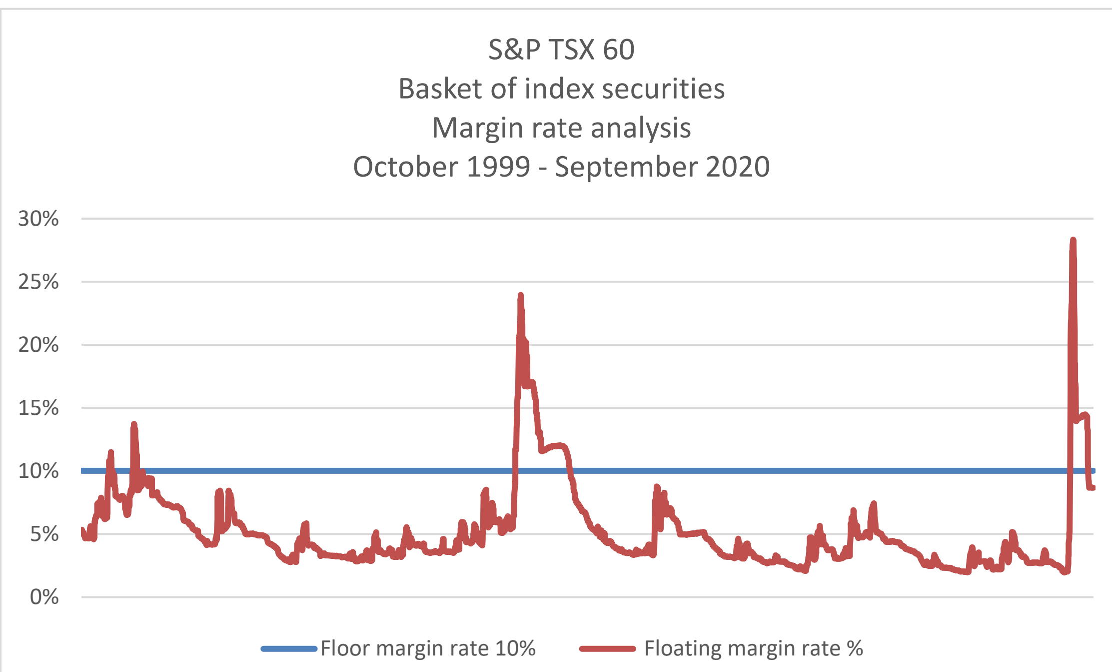
[3] See for example IIROC Notices 20-0080 and 20-0105. IIROC staff temporarily adopted an adjusted method to calculate floating index margin rates and LSERM that replaced the 20 day lookback period with a 45 day lookback period to assess short-term volatility. The adjusted regulatory margin interval method was only used for a short time, coinciding with the market volatility in early 2020. We communicated to stakeholders when we discontinued use of the adjusted method. See for example IIROC Notices 20-0122 and 20-0167.

Figure 1 – TSX 60 Index participation unit (XIU) unit price and floating index margin during COVID outbreak



[Text Description of the figure entitled "TSX 60 Index participation unit (XIU) unit price and floating index margin during COVID outbreak"](#).

Figure 2 - S&P TSX 60 Basket of index securities – margin rate analysis 1999 - 2020



[Text Description of the figure entitled "S&P TSX 60 Basket of index securities – margin rate analysis 1999 – 2020"](#).

2.2 Comparison with similar provisions

Table 2 provides a high-level overview of U.S. index product minimum margin requirements. The proposed minimum floor margin rates will be set by IIROC at levels that closely align with the U.S. SEC Net Capital haircut rates for comparable index products. Notably, the IIROC proposed tracking error floor margin rates are lower than the U.S. offset margin requirements because we are only proposing floor rates and will continue to calculate a regulatory margin interval.

Table 2– U.S. Index product minimum margin requirements

	Basket of index securities	**Exchange traded funds (ETFs)**	**ETF and qualified baskets offset**
SEC Net Capital Haircut Rules	High-capitalization diversified indexes: (+)(-) **10%**[4] Narrow-based indexes, and non-high-capitalization diversified indexes: (+)(-) **15%**[5]	High-capitalization broad-based indexes: **10%** Non-high-capitalization broad-based and narrow-based or sector indexes: **15%**	Index ETF and qualified stock baskets for high-capitalization broad-based and narrow-based or sector indexes including the U.S. NASD Market index: **5**% Index ETF and qualified stock baskets for non-high-capitalization broad-based indexes: **7.5%**
FINRA Rules	Refers to SEC rules for Baskets	Initial margin: **50**% Maintenance margin: **25%**	Refers to SEC rules for Baskets

2.3 Alternatives considered

In developing these proposals, we considered the following three alternatives:

1. the Proposed Amendments,
2. modifying the current regulatory margin interval calculation, and
3. setting fixed margin rates.

4 See SEA Rule 15c3-1a (Appendix A) and OCC Theoretical Intermarket Margining System (TIMS) risk based haircut and customer portfolio margin methodology.

5 Ibid, footnote 4

We selected the Proposed Amendments because we believe it is a more straightforward approach that best addresses procyclical concerns. As part of our analysis for Alternative #2, we analyzed several potential modifications to the current regulatory margin interval calculation and determined that each of these potential modifications introduces complexity without necessarily resulting in a more effective volatility estimator. We also considered setting fixed margin rates (Alternative #3) but determined that it would be challenging to set appropriate fixed margin rates for the full range of market cycles, qualifying index products, and scenarios.

3. 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 and do not impose costs or restrictions on the activities of market participants (including Dealer Members and non-Dealer Members) that are disproportionate to the goals of the regulatory objectives sought to be realized.

The benefits of reducing procyclicality are generally recognized and can be summarized as promoting financial stability and resiliency in periods of high market volatility. We believe these benefits outweigh the costs associated with the Proposed Amendments. Dealer Members and clients will need to apply higher margin rates for qualifying index products during periods of low market volatility, but this impact is offset by the "initial buffer" protection this provides during periods of high market volatility.

3.1 Dealer impacts

We believe any potential impacts should be mitigated because common Dealer Member practices include:

- utilizing client "house" margin rates that are higher than the regulatory minimum floating index margin rates, and
- minimizing inventory margin requirements through hedging, and/or maintaining low net exposures to qualifying index products.

3.2 Other impacts

We believe all stakeholders, including IIROC, will benefit from the greater stability that will result from the use of floor margin rates. We expect the operational burden of updating systems for margin rate changes will be significantly reduced. We publish the floating margin rate list monthly, which requires stakeholders to update their records, and systems every month. These monthly margin rate changes are typically small percentage changes that occur below the proposed floor margin rates during prolonged periods of low market volatility.

4. Implementation

No technological implications are expected as a result of the Proposed Amendments. After we receive approval from our Recognizing Regulators, we intend to implement the Proposed Amendments within 90 days.

Upon implementation we plan to:

- update the floating margin rate list web-page to reflect the Proposed Amendments,
- discontinue regular margin rate-setting for unhedged U.S. index futures contracts,
- discontinue regular monthly floating margin rate list publications, and
- publish updated floating margin rate lists when a floating or tracking error margin rate change occurs above a floor margin rate.

5. Policy Development Process

5.1 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, and
- promote the protection of investors.

5.2 Regulatory Process

IIROC's Board of Directors (**Board**) has determined the Proposed Amendments to be in the public interest and on March 23, 2022 approved them for public comment.

The Proposed Amendments were developed in consultation with the FOAS Capital Formula Subcommittee.

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.

6. Appendices

Appendix A – Blackline copy of Proposed Amendments to IIROC Rules

Appendix B – Blackline copy of Proposed Amendments to Form 1

Appendix C – Clean copy of Proposed Amendments to IIROC Rules

Appendix D – Clean copy of Proposed Amendments to Form 1

Appendix E – List of Canadian and U.S. qualifying indices

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

PROPOSED AMENDMENTS TO THE IIROC RULES AND TO FORM 1 REGARDING THE FLOATING INDEX MARGIN RATE METHODOLOGY

CLEAN COPY OF THE PROPOSED AMENDMENTS TO THE IIROC RULES

Amendment #1 – IIROC Rule subsection 5130(4) is amended to replace the term "major broadly based index" with "major widely quoted market index" as follow:

"foreign listed equity securities eligible for margin"	Securities (other than bonds, debentures, rights and warrants) listed on an *acceptable exchange* outside of Canada and the United States that are constituent securities for the exchange's major widely quoted market *index*, and the *index* is on *IIROC's* list of foreign market indices whose constituent securities are eligible for margin.

Amendment #2 – IIROC Rule subsection 5130(9) is amended by:

- adding and amending the definition "broad based index", currently found in the General notes and definitions of Form 1, and
- amending the following other definitions,

in alphabetical sequence:

"broad based index"	An equity index in which: (i) the basket of *equity securities* underlying the index consists of thirty or more securities, (ii) the single largest basket security position by weighting comprises not more than 20% of the overall *market value* of the basket, (iii) the average market capitalization associated with each security in the basket of *equity securities* underlying the index is at least $100 million, (iv) the basket securities shall be from a broad range of industries and market sectors as determined by *IIROC* to represent index diversification, and (v) the index constituent securities are listed and traded on an *acceptable exchange*.

…

"cumulative relative weight percentage"	An overall relative weight percentage determined by calculating, in accordance with subsection 5360(7), the actual basket weighting for each security in a *qualifying basket of index securities* in relation to its latest published relative weighting in the *index*.

…

"floating margin rate"	The floating margin rate set by *IIROC* in accordance with subsection 5360(5), subject to the minimum floor margin rate in subsection 5360(2).
"incremental basket margin rate"	The incremental basket rate for a *qualifying basket of index securities* calculated in accordance with subsection 5360(8).

…

"index"	Either a *broad based index* or a *sector index*.

…

"qualifying basket of index securities"	A basket of *equity securities* with the characteristics in subsection 5360(6).

…

"regulatory margin interval"	*IIROC's* regulatory margin calculation determined in accordance with subsection 5360(4).
"sector index"	An equity index in which: (i) the basket of *equity securities* underlying the index consists of eight or more securities, (ii) the single largest basket security position by weighting comprises not more than 35% of the overall *market value* of the basket, (iii) the average market capitalization associated with each security in the basket of *equity securities* underlying the index is at least $100 million, and (iv) the index constituent securities are listed and traded on an *acceptable exchange*.

…

"tracking error margin rate"	The last calculated *regulatory margin interval* for the tracking error resulting from a particular offset strategy, subject to the minimum floor margin rate in subsection 5360(2).

Amendment #3 – IIROC Rule subsection 5360(1) is amended by adding references to both the "greater of" and minimum floor margin rates in the margin calculations, as follows:

5360. Index participation units and qualifying baskets of index securities

(1) The minimum *Dealer Member inventory margin* and *client account margin* requirements for *index participation units* and *qualifying baskets of index securities* are as follows:

Minimum margin required	
Category (i) **Index participation units**	**Category (ii)** **Qualifying basket of index securities**
(a) The greater of: (I) the *floating margin rate* percentage (calculated for *index participation unit* based on its *regulatory margin interval*), and (II) the minimum floor margin rate required under subsection 5360(2),	(a) The sum of: (I) the greater of: (A) the *floating margin rate* percentage (calculated for a perfect basket of index securities based on its *regulatory margin interval*), and

Minimum margin required	
Category (i) **Index participation units**	**Category (ii)** **Qualifying basket of index securities**
multiplied by (b) The *market value* of *index participation units*.	(B) the minimum floor margin rate required under subsection 5360(2), and (II) The calculated *incremental basket margin rate* for the *qualifying basket of index securities*, multiplied by (b) The *market value* of *qualifying basket of index securities*.

Amendment #4 – IIROC Rule section 5360 is amended by adding new subsection 5360(2) as follows:

(2) The minimum floor *Dealer Member inventory margin* and *client account margin* rates for the purposes of subsection 5360(1) and offset strategies recognized in Rule 5700 are as follows:

Qualifying index, individual and offset strategies	Category (i) Broad based index as defined in subsection 5130(9)	Category (ii) Sector index as defined in subsection 5130(9)
Floor rate percentage to be used in determining margin rate for unhedged positions in *index participation units* and *qualifying basket of index securities*	10.00%	15.00%
Floor rate percentage to be used in determining *tracking error margin rate* for qualifying offset strategies involving index products	2.00%	3.00%

Amendment #5 – IIROC Rule section 5360 is amended by adding new subsection 5360(3) as follows:

(3) *IIROC* calculates a *regulatory margin interval* for *index* products on qualifying indices. A qualifying *index* for the purposes of subsections 5360(1) and 5360(2) must be a widely quoted market *index,* as determined by IIROC, that:

(i) meets the minimum requirements for an *index* in subsection 5130(9), and

(ii) is included on the list of floating and tracking error margin rates for qualifying Canadian and U.S. index products.

Amendment #6 – IIROC Rule subsection 5360(2) is amended by renumbering to subsection 5360(4) and adding clause 5360(4)(ii) as follows:

(4) *IIROC* calculates a *regulatory margin interval* according to the following formula:

(i)

Maximum standard deviation of percentage changes in daily closing prices over the most recent 20, 90, 260 trading days	x	3 (for a 99% confidence interval)	x	Square root of 2 (for 2 days price risk coverage)

rounded up to the next ¼%.

(ii) In limited circumstances, to ensure appropriate margin requirements, *IIROC* may use discretion in calculating a *regulatory margin interval*. *Dealer Members* will be notified by *IIROC* if any adjustments to the *regulatory margin interval* calculation are made.

Amendment #7 – IIROC Rule subsection 5360(3) is amended by:

- renumbering to subsection 5360(5),
- clarifying language in clause 5360(5)(iii) and
- updating the reference in clause 5360(5)(iv),

as follows:

(5) To calculate the *floating margin rate* for an *index participation unit* or a perfect basket of index securities:

(i) *IIROC* uses the last calculated *regulatory margin interval*, which is effective for the *regular reset period* unless a *violation* occurs,

(ii) in normal circumstances, the *floating margin rate* is reset on the *regular reset date* to the *regulatory margin interval* calculated as at the *regular reset date*,

(iii) if a *violation* occurs, *IIROC* may reset the *floating margin rate* on the date the *violation* occurs to the *regulatory margin interval* determined as at the date of the *violation*, and

(iv) the *regulatory margin interval* determined in clause 5360(5)(iii) will be effective for a minimum of 20 trading days and reset at the close of the 20th trading day to the *regulatory margin interval* determined as at that date if a reset results in a lower margin rate.

Amendment #8 – IIROC Rule subsections 5360(4) through 5360(6) are amended by renumbering sequentially and updating the references in clause 5360(7)(ii), as follows:

(6) A basket of *equity securities* is a *qualifying basket of index securities* if:

(i) all of the securities in the basket are included in the composition of the same *index*,

(ii) the basket comprises a portfolio with a *market value* equal to the *market value* of the *underlying securities* in the *index*,

(iii) the *market value* of each *equity security* comprising the portfolio proportionally equals or exceeds the *market value* of its relative weight in the *index*, based on the latest published relative weights of securities comprising the *index*, and

(iv) the required *cumulative relative weight percentage* of all *equity securities* comprising the portfolio:

(a) equals 100% of the cumulative weighting of the corresponding *index*, if the basket of *equity securities* underlying the *index* is comprised of less than 20 securities,

(b) equals or exceeds 90% of the cumulative weighting of the corresponding *index*, if the basket of *equity securities* underlying the *index* is comprised of 20 or more securities but less than 100 securities, and

(c) equals or exceeds 80% of the cumulative weighting of the corresponding *index*, if the basket of *equity securities* underlying the *index* is comprised of 100 or more securities,

based on the latest published relative weightings of the *equity securities* comprising the *index*.

(v) If the cumulative relative weighting of all *equity securities* in the basket equals or exceeds the required *cumulative relative weight percentage* and is less than 100% of the cumulative weighting of the corresponding *index*, the deficiency in the basket must be filled by other *equity securities* included in the composition of the *index*.

(7) The *cumulative relative weight percentage* is determined:

(i) by calculating for each security in a *qualifying basket of index securities*:

(a) its actual basket weighting, and

(b) its latest published relative weighting in the *index*,

and then,

(ii) by summing the lesser of the two weighting percentages calculated for each security in sub-clauses 5360(7)(i)(a) and 5360(7)(i)(b) for all of the securities in the *qualifying basket of index securities*.

(8) The *incremental basket margin rate* for a *qualifying basket of index securities* is calculated as the sum:

Market value of each underweighted security in basket	x	Margin rate for that security	x	The % by which the security is underweighted (calculated according to the formula: published relative weighting of the security - actual basket weighting of the security)

for each underweighted security in the basket.

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

PROPOSED AMENDMENTS TO THE IIROC RULES AND TO FORM 1 REGARDING THE FLOATING INDEX MARGIN RATE METHODOLOGY

CLEAN COPY OF THE PROPOSED AMENDMENTS TO FORM 1

Amendment #1 – Form 1 (general notes and definitions) is amended by updating the term "broad based index" to mirror the proposed amendments to the term in subsection 5130(9), as follows:

"broad based index"	An equity index in which: (i) the basket of *equity securities* underlying the index consists of thirty or more securities, (ii) the single largest basket security position by weighting comprises not more than 20% of the overall *market value* of the basket, (iii) the average market capitalization associated with each security in the basket of *equity securities* underlying the index is at least $100 million, (iv) the basket securities shall be from a broad range of industries and market sectors as determined by *IIROC* to represent index diversification, and (v) the index constituent securities are listed and traded on an *acceptable exchange*.