

## SERIES 3000 | BUSINESS CONDUCT AND CLIENT ACCOUNTS RULES

### RULE 3100 | DEALING WITH CLIENTS

#### 3101. Introduction

[...]

- (2) Rule 3100 is divided into the following parts:

Part C – Best execution of client orders

[sections 3119 through 3129]

Part D – Client identifiers

[section 3140]

[...]

### PART C – BEST EXECUTION OF CLIENT ORDERS AND TRANSACTIONS

#### 3119. Definitions

- (1) The following terms have the meaning set out below when used in sections 3119 through 3129:

“best execution” <u>(meilleure exécution)</u>	Obtaining the most advantageous execution terms reasonably available under the circumstances.
“foreign exchange-traded security” <u>(titre coté à l'étranger)</u>	A security, other than a <i>listed security</i> , that is listed on a <i>foreign organized regulated market</i> .
“foreign organized regulated market” <u>(marché organisé réglementé étranger)</u>	The same meaning as set out in the Universal Market Integrity Rules, section 1.1.
“last sale price” <u>(dernier cours vendeur)</u>	The same meaning as set out in the Universal Market Integrity Rules, section 1.1.
“Opening Order” <u>(ordre au premier cours)</u>	The same meaning as set out in the Universal Market Integrity Rules, section 1.1.
“over-the-counter securities security” <u>(titre négocié hors cote)</u>	<del>Debt securities, contracts for difference and</del> <u>A security, other than:</u> <u>(i) a listed security,</u> <u>(ii) a foreign exchange <del>contracts, but does not include: -traded</del> security.</u> <del>(i) listed securities,</del> <del>(ii) —</del>

	<p><del>(iii) a security that is undergoing a primary market transactions in securities</del> transaction, and</p> <p><del>(iii) —over-the-counter derivatives with non-standardized contract terms that are customized to the needs of a particular client and for which there is no secondary market.</del> <u>(iv) a derivative.</u></p>
<p>“Trading Rules” <u>(règles de négociation)</u></p>	<p>The same meaning as set out in the Universal Market Integrity Rules, section 1.1.</p>

### 3120. Best execution obligation

- (1) A Dealer Member’s policies and procedures must specifically address achieving *best execution* for client orders and transactions.

### 3121. Best execution factors for listed security and listed derivative orders

- (1) The policies and procedures for achieving *best execution of client orders in listed securities, foreign-exchange traded securities and listed derivatives* must address the following broad factors ~~when executing all client orders~~:
- (i) the price of the *security or derivative*,
  - (ii) the speed of execution of the client order,
  - (iii) the certainty of execution of the client order, and
  - (iv) the overall cost of the transaction, when costs are passed on to clients.
- (2) In addition to the broad factors listed in subsection 3121(1), the policies and procedures for *best execution* of client orders for *listed securities* and *foreign-exchange traded securities* must address the following specific factors:
- (i) the considerations taken into account when determining appropriate routing strategies for client orders,
  - (ii) the considerations for fair pricing of *Opening Orders* when determining where to enter an *Opening Order*,
  - (iii) the considerations when not all ~~Marketplaces~~ marketplaces are open and available for trading,
  - (iv) how order and trade information from all appropriate ~~Marketplaces~~ marketplaces, including unprotected ~~Marketplaces~~ marketplaces and *foreign organized regulated markets*, is taken into account,
  - (v) the factors related to executing client orders on unprotected ~~Marketplaces~~ marketplaces, and
  - (vi) the factors related to sending client orders to a foreign intermediary for execution.
- (3) The policies and procedures for *best execution* must address the factors used to achieve *best execution* when manually handling a client order for trades on a ~~Marketplace~~ marketplace, including the following “prevailing market conditions”:
- (i) the direction of the market for the *security or derivative*,
  - (ii) the depth of the posted market,
  - (iii) the *last sale price* and the prices and volumes of previous trades,

- (iv) the size of the spread, and
- (v) the liquidity of the *security* or derivative.

(4) In addition to the broad factors listed in subsection 3121(1), the policies and procedures for best execution of client orders for listed derivatives must consider whether the individual order is part of a multiple orders trading strategy and, if so, the broad factors in subsection 3121(1) must be addressed as they relate to execution of the overall strategy.

**3122. Best execution factors for over-the-counter security and over-the-counter derivative transactions**

- (1) The policies and procedures for achieving best execution of client transactions in over-the-counter securities and over-the-counter derivatives must be designed to ensure fair pricing.
- (2) Subject to subsection 3122(3), to ensure fair pricing when acting as principal, a Dealer Member must not:
  - (i) purchase over-the-counter securities for its own account from a client, or
  - (ii) sell over-the-counter securities from its own account to a client, or
  - (iii) transact in over-the-counter derivatives with a client.
- (3) Subsection 3122(2) does not apply when a transaction is executed at an aggregate price (including any mark-up or mark-down) that is fair and reasonable, taking into consideration all relevant factors, including the following:
  - (i) in the case of a transaction in over-the-counter securities, the fair market value of the securities and of any securities exchanged or traded in connection with the transaction at the time of the transaction,
  - (ii) in the case of transactions in over-the-counter derivatives:
    - (a) the fair market value or settlement price of the equivalent listed derivative, and
    - (b) the fair market value of the derivatives underlying interest and of any related derivatives involved in the same trading strategy, at the time of the transaction,
  - (iii) the expense involved in effecting the transaction or transactions,
  - (iv) the fact that the Dealer Member is entitled to a profit, and
  - (v) the total dollar amount or dollar amount at risk of the transaction or transactions.
- (4) To ensure fair pricing when acting as agent, a Dealer Member must not purchase over-the-counter securities, sell over-the-counter securities, or transact in over-the-counter derivatives on behalf of a client for a commission or service charge in excess of a fair and reasonable amount, taking into consideration all relevant factors, including the following:
  - (i) the availability of the securities or derivatives involved in the transaction,
  - (ii) the expense involved in effecting the transaction or transactions,
  - (iii) the value of the services rendered by the Dealer Member, and
  - (iv) the amount of any other compensation received or to be received by the Dealer Member in connection with the transaction.

**3123. Best execution process**

- (1) The policies and procedures for *best execution* must specifically address the process for achieving *best execution* that includes the following:
- (i) for the execution of all client orders and transactions:
    - (a) requiring the *Dealer Member* to consider the instructions of the client, subject to its obligations under *Corporation requirements* and *securities laws*, and
    - (b) describing any material conflicts of interest that may arise when sending client orders for handling or execution or when arranging for a client transaction and how these conflicts are to be managed,
- and,
- (ii) for the execution of client orders for *listed securities* and *foreign exchange-traded securities* that trade on a ~~Marketplace~~marketplace:
    - (a) describing the *Dealer Member's* order handling and routing practices for achieving *best execution*,
    - (b) taking into account order and trade information from all appropriate ~~Marketplaces~~marketplaces,
    - (c) the rationale for accessing or not accessing particular ~~Marketplaces~~marketplaces, and
    - (d) the circumstances under which a *Dealer Member* will move an order entered on one ~~Marketplace~~marketplace to another ~~Marketplace~~marketplace.

**31233124. Non-executing Dealer Member best execution policies and procedures**

- (1) A *Dealer Member* that engages another *Dealer Member* to provide execution services on its behalf may include in its policies and procedures for *best execution* a link to the executing *Dealer Member's* *best execution* disclosure to comply with its obligations under clause ~~3122(1)~~3123(1)(ii) and sections 3126 and 3129, provided that the non-executing *Dealer Member's* policies and procedures for *best execution* specifically address the following:
- (i) the non-executing *Dealer Member* must conduct an initial review of the best execution disclosure of the executing *Dealer Member* and a review when material changes are made to the disclosure, to provide reasonable assurance that the executing *Dealer Member's* policies and procedures for *best execution* are complete and appropriate for its clients,
  - (ii) the non-executing *Dealer Member* must obtain an annual attestation from the executing *Dealer Member* that it has complied with and tested its policies and procedures on *best execution* in accordance with sections 3119 through 3129, and
  - (iii) the non-executing *Dealer Member* must follow-up with the executing *Dealer Member* if it identifies trade execution results that are inconsistent with the executing *Dealer Member's* *best execution* disclosure and document the results of its inquiry.

**31243125. Sending orders in bulk to foreign intermediaries**

- (1) A *Dealer Member's* policies and procedures for *best execution* must not include the practice of sending client orders in *listed securities* in bulk to a foreign intermediary for

execution outside of Canada, without considering other liquidity sources, including liquidity sources within Canada.

**3125. ~~Fair pricing of over-the-counter securities~~**

~~(1) — A Dealer Member must not:~~

- ~~(i) — purchase over-the-counter securities for its own account from a client or sell over-the-counter securities from its own account to a client except at an aggregate price (including any mark-up or mark-down) that is fair and reasonable, taking into consideration all relevant factors, including the following:~~
  - ~~(a) — the fair market value of the securities at the time of the transaction and of any securities exchanged or traded in connection with the transaction,~~
  - ~~(b) — the expense involved in effecting the transaction,~~
  - ~~(c) — the fact that the Dealer Member is entitled to a profit, and~~
  - ~~(d) — the total dollar amount of the transaction, and~~
- ~~(ii) — purchase or sell over-the-counter securities as agent for a client for a commission or service charge in excess of a fair and reasonable amount, taking into consideration all relevant factors, including the following:~~
  - ~~(a) — the availability of the securities involved in the transaction,~~
  - ~~(b) — the expense of executing or filling the client order,~~
  - ~~(c) — the value of the services rendered by the Dealer Member, and~~
  - ~~(d) — the amount of any other compensation received or to be received by the Dealer Member in connection with the transaction.~~

**3126. Review of best execution policies and procedures**

- (1) A Dealer Member must review its *best execution* policies and procedures at least annually, and whenever there is a material change to the trading environment or market structure that may impact a Dealer Member's ability to achieve *best execution* for its clients. The Dealer Member must consider whether more frequent reviews of its policies and procedures on *best execution* are necessary based on the size and scope its business.
- (2) A Dealer Member must outline a process to review its policies and procedures on *best execution*, including a description of its governance structure, that specifies the following:
  - (i) who will conduct the review,
  - (ii) what information sources will be used,
  - (iii) the review procedures that will be employed,
  - (iv) a description of any specific events that will trigger a review in addition to annual reviews,
  - (v) how the Dealer Member evaluates whether its policies and procedures for *best execution* are effective in achieving *best execution*, and
  - (vi) who will receive reports of the results.

- (3) A *Dealer Member* must retain records of its reviews of its policies and procedures on *best execution*, including any material decisions made and any changes to them, in accordance with the record retention requirements in section 3803.
- (4) A *Dealer Member* must promptly correct any deficiencies identified in the course of its review of its policies and procedures on *best execution*.

**3127. Training**

- (1) A *Dealer Member* must have reasonable assurance its employees involved in the execution of client orders and transactions know and understand how to apply the *Dealer Member's* policies and procedures for best execution that they must follow.

**3128. Compliance with the Order Protection Rule**

- (1) Despite any instruction or consent of the client, best execution of a client order for a listed security is subject to compliance with the Order Protection Rule under Part 6 of the Trading Rules by:
  - (i) the *Marketplace* on which the order is entered, or
  - (ii) the *Dealer Member*, if the *Dealer Member* has marked the order as a directed-action order in accordance with Universal Market Integrity Rule 6.2.

**3129. Disclosure of best execution policies**

- (1) A *Dealer Member* must disclose to its clients in writing the following:
  - (i) a description of the *Dealer Member's* obligation under section 3120,
  - (ii) a description of the factors the *Dealer Member* considers for the purpose of achieving best execution, of:
    - (a) client orders for listed securities,
    - (b) client orders for foreign-exchange traded securities,
    - (c) client orders for listed derivatives,
    - (d) client transactions in over-the-counter securities, and
    - (e) client transactions in over-the-counter derivatives.
  - (iii) a description of the *Dealer Member's* order handling and routing practices intended to achieve *best execution* of client orders for listed securities, that include the following:
    - (a) the identity of any *Marketplace* to which the *Dealer Member* might route the client orders for handling or execution,
    - (b) the identity of each type of intermediary (domestic or foreign) to which the *Dealer Member* might route the client orders for handling or execution,
    - (c) the circumstances in which the *Dealer Member* might route client orders to a *Marketplace* or intermediary identified in sub-clause 3129(1)(iii)(a) or (b) above,
    - (d) the circumstances, if any, under which the *Dealer Member* will move a client order entered on one *Marketplace* to another *Marketplace*,

- (e) the nature of any ownership by the *Dealer Member* or affiliated entity of the *Dealer Member* in, or arrangement with, any *Marketplace* or intermediary identified in sub-clause 3129(1)(iii)(a) or (b) above,
  - (f) if any client orders may be routed to an intermediary identified in sub-clause 3129(1)(iii)(b) above, pursuant to an arrangement with that intermediary, and
  - (g) a statement that client orders will be subject to the order handling and routing practices of the intermediary identified in sub-clause 3129 (1)(iii)(b) above,
- (iv) a statement that the *Dealer Member* has reviewed the client order handling and routing practices of the intermediary identified pursuant to sub-clause 3129(1)(iii)(b) and is satisfied that it provides reasonable assurance of achieving *best execution* of client orders,
- (v) a statement as to:
- (a) whether fees are paid by the *Dealer Member* or payments or other compensation is received by the *Dealer Member* for a client order routed, or a trade resulting from a client order routed, to a ~~Marketplace~~marketplace or intermediary identified pursuant to sub-~~clause~~clauses 3129(1)(iii)(a) or 3129(1)(iii)(b) above,
  - (b) the circumstances under which the costs associated with the fees paid by the *Dealer Member* or the compensation received by the *Dealer Member* will be passed on to the client, and
  - (c) whether routing decisions are made based on fees paid by the *Dealer Member* or payments received by the *Dealer Member*,
- and,
- (vi) if providing market data as a service to clients, a description of any market data that is missing, including an explanation of the risks of trading with incomplete trading data.
- (2) A *Dealer Member* must provide separate disclosure for each class or type of client and each class or type of order or transaction if the factors and order handling and routing practices used for such clients, orders and transactions materially differ.
- (3) A *Dealer Member* must identify in the disclosure:
- (i) the class or type of client to which the disclosure applies,
  - (ii) the class or type of *securities* or derivatives order or transaction to which the disclosure applies, and
  - (iii) the date of the most recent changes to the disclosure.
- (4) A *Dealer Member* must make the disclosure:
- (i) publicly available on the *Dealer Member's* website and clearly identify to clients where on the website the disclosure can be found, or
  - (ii) if the *Dealer Member* does not have a website, provide the disclosure in writing to the client upon account opening.
- (5) A *Dealer Member* must:

- (i) review the disclosure on a frequency that is reasonable in the circumstances, and at a minimum on an annual basis, and
  - (ii) promptly update the disclosure to reflect the *Dealer Member's* current practices.
- (6) If a *Dealer Member* makes any change to the disclosure, the *Dealer Member* must:
- (i) for the website disclosure, identify and maintain the change on its website for a period of six months after the change has been made, or
  - (ii) if the *Dealer Member* does not have a website, deliver the change to the client in writing no later than the 90th day after the change has been made.

**3130. – 3139. Reserved.**

#### **PART D: CLIENT IDENTIFIERS**

##### **3140. Identifying clients of a Non-Executing Dealer Member**

- (1) Where a non-executing *Dealer Member* is not acting for an *order execution only account* and sends an order in a *listed security* to an executing *Dealer Member* for execution on a *Marketplace* for which the *Corporation* is the regulation services provider, the non-executing *Dealer Member* must include:
- (i) an identifier for the client for or on behalf of whom the order is entered, in the form of:
    - (a) a *Legal Entity Identifier* for an order for an account supervised under Part D of Rule 3900,
    - (b) an account number for all other client orders not included under sub-clause 3140(1)(i)(a);
  - (ii) the *Legal Entity Identifier* of the non-executing *Dealer Member* that is not a *Participant*.
- (2) Where a non-executing *Dealer Member* is not acting for an *order execution only account* and groups together orders from more than one client or account type for execution on a *Marketplace* for which the *Corporation* is the regulation services provider:
- (i) sub-clause 3140(1)(i) does not apply, and
  - (ii) the non-executing *Dealer Member* must provide to the executing *Dealer Member* that the order is part of:
    - (a) a *bundled order*,
    - or
    - (b) a *multiple client order*.
- (3) The non-executing *Dealer Member* that is not acting for an *order execution only account* and is not a *Participant* must ensure that the registration status of its *Legal Entity Identifier* has not lapsed.

**3141. – 3199. Reserved.**

[...]



RULE 3500 | SALES PRACTICES

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[...]

**3503. Client priority**

- (1) A *Dealer Member* must give priority to client orders or transactions over all other orders or transactions for the same security, derivative or precious metals bullion at the same price.
- (2) The *Dealer Member* must not give priority to orders or transactions for an account in which the *Dealer Member* or an *employee* or *Approved Person* of the *Dealer Member* has a direct or indirect interest, other than an interest in the commission charged.
- (3) Where investment decisions are made centrally and applied across a number of *managed accounts*, subsections 3503(1) and 3503(2) do not apply to the *managed accounts* of partners, *Directors*, *officers*, *employees* or *Approved Persons* of a *Dealer Member* who participate in a *managed account* program on the same basis as client accounts.

[...]

**SERIES 5000 | DEALER MEMBER MARGIN RULES****RULE 5100 | MARGIN REQUIREMENTS - APPLICATION AND DEFINITIONS**

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**5101. Introduction**

- (1) Rule 5100:
  - (i) describes the purposes and general application of *Dealer Member inventory margin* and *client account margin* (as defined in section 5130) requirements [sections 5110 through 5117],
  - (ii) sets out the process for determining the appropriate margin rate to use when a rate is not specified within the rules [section 5120], and
  - (iii) sets out the definitions used within Rules 5200 through 5900 [section 5130].
- (2) For Mutual Fund Dealer Members:
  - (i) client account margin lending is not permitted, and
  - (ii) its own security investments reported on Mutual Fund Dealer Form 1, Schedule 1 are classified as inventory positions.

**5102. - 5109. Reserved.****5110. Margin requirements - purposes**

- (1) The purposes of margin requirements are to:
  - (i) ensure that the maximum leverage levels extended to clients through the execution of a transaction or a trading strategy are appropriate,and
  - (ii) set base line market and credit risk requirements that a *Dealer Member* must adhere to when engaging in proprietary trading, investing or client account margin lending.
- (2) Sections 5111 through 5117 describe how the margin requirements apply, generally, as well as specifically to both *Dealer Member* inventory and client account positions.

**5111. Margin requirements - general application**

- (1) A *Dealer Member* must:
  - (i) obtain from and maintain for each of its clients, and
  - (ii) maintain for its own inventory accounts,minimum margin in the amount and manner prescribed by the *Corporation*.
- (2) A *Dealer Member* must calculate *client account margin*, and if such margin is not provided by the client, the *Dealer Member* must provide margin against the shortfall, and include the amount as *client account margin* when calculating its *risk adjusted capital*.
- (3) A *Dealer Member* must calculate and provide *Dealer Member inventory margin* for its own positions and indicate the amount as margin on securities owned and sold short when calculating its *risk adjusted capital*.

- (4) In Rules 5200 through 5900, unless stated otherwise, margin rates are expressed as a percentage of the *market value* of the security or *derivative* position for which margin is being calculated.
- (5) Notwithstanding the client account margin lending requirements set out within Rules 5100 through 5900, a Mutual Fund Dealer Member must not permit the purchase of securities by a client on margin. A Mutual Fund Dealer Member may advance funds to a client in connection with the redemption of mutual fund securities where:
- (i) the Mutual Fund Dealer Member has received prior confirmation of the redemption order from the issuer of the securities;
  - (ii) the redemption proceeds to be received (excluding any fees or commissions) are equal to or greater than the amount of funds or credit to be provided;
  - (iii) the client has authorized payment to and retention by the Mutual Fund Dealer Member of redemption proceeds;
  - (iv) the Mutual Fund Dealer Member maintains a copy of the confirmation of the redemption order and the client's authorization; and
  - (v) the Mutual Fund Dealer Member maintains a minimum capital amount of \$50,000 or higher.

#### **5112. Application of margin requirements - Dealer Member inventory positions**

- (1) Section 5112 describes the calculations for determining margin requirements for long and short positions in *Dealer Member* inventory. It applies to Rules 5200 through 5900.
- (2) **Dealer Member long inventory margin**  
 A *Dealer Member* must provide margin for its long inventory positions in the amount calculated according to the formula:
- (i) applicable margin rate x *market value* of security, or
  - (ii) by any alternative method specified in the *Corporation requirements*.
- (3) **Dealer Member short inventory margin**  
 A *Dealer Member* must provide margin for its short inventory positions in the amount calculated according to the formula:
- (i) applicable margin rate x *market value* of security (expressed as absolute value), or
  - (ii) by any alternative method specified in the *Corporation requirements*.

#### **5113. Application of margin requirements - client account positions**

- (1) Section 5113 describes the calculations for determining margin requirements for long and short positions in client accounts. It applies to Rules 5200 through 5900.
- (2) **Client accounts - loan value of long positions**  
 The *loan value* of a long position is generally calculated according to the formula:
- (i) [100% - applicable margin rate %] x positive *market value* of the security, or
  - (ii) by any alternative method specified in the *Corporation requirements*.
- (3) **Client accounts - loan value of short positions**  
 The *loan value* of a short client position is generally calculated according to the formula:

- (i) [100% + applicable margin rate %] x negative *market value* of security, or
  - (ii) by any alternative method specified in the *Corporation requirements*.
- (4) **Net loan value and status of a client account**
- (i) The positive and negative *loan values* in a client margin account must be totalled.
  - (ii) If the total *loan value* in a client account results in a net positive *loan value*, the client may have a debit cash balance no larger than the positive *loan value* amount for the account to be in good standing.
  - (iii) If the total *loan value* in a client account results in a net negative *loan value*, the cash balance in the margin account must be a credit equal to or larger than the net negative *loan value* for the account to be in good standing.
  - (iv) If a client does not bring its account into good standing by depositing the required amount of margin into its account, subsection 5111(2) applies.

**5114. Client securities that are collateral for a margin debt**

- (1) If a client is in debt to a *Dealer Member*, all securities the *Dealer Member* holds for the client, up to an amount that reasonably covers the margin debt, are collateral for payment of the debt.
- (2) The securities ~~a~~ an *Investment Dealer Member* holds under subsection 5114(1) are collateral security subject to ~~Form 1~~ *Investment Dealer Form 1*, Schedule 4 and to any agreement between the *Investment Dealer Member* and the client.

**5115. Dealer Member's rights in securities of indebted clients**

- (1) A *Dealer Member* has the right to:
  - (i) raise money on,
  - (ii) carry in its general loans, and
  - (iii) pledge and repledge,
 the client securities it holds as collateral under section 5114.

**5116. Dealer Member may buy or sell client securities**

- (1) If a *Dealer Member* considers it necessary for its credit risk protection, it may:
  - (i) buy securities held short for an indebted client, or
  - (ii) sell securities it holds for an indebted client.

**5117. Dealer Member's right to recover from indebted client**

- (1) A *Dealer Member* may recover the amount of the debt from an indebted client with or without realizing on any of the client's securities.

**5118. - 5119. Reserved.****5120. Margin requirements - when a rate is not specified**

- (1) Where a security position is held in either the *Dealer Member's* inventory or in a client account for which a margin rate or requirement is not specified within the *Corporation requirements*, the *Dealer Member* must obtain a margin rule interpretation from *Corporation* staff specifying the margin rate or requirement to be used.

5121. - ~~5229~~5129. Reserved.

### 5130. Definitions

- (1) In Rules 5100 through 5900, unless stated otherwise, any term used that is not defined here or in the Rule where it is used, but is defined or used in ~~Form 1~~Investment Dealer Form 1 or Mutual Fund Dealer Form 1, has the meaning defined or used in ~~Form 1~~Investment Dealer Form 1 or Mutual Fund Dealer Form 1.
- (2) For all positions subject to margin, the term:

<p>“client account margin” <u>(marge associée au compte du client)</u></p>	<p>(i) A minimum percentage of a security’s or <i>derivative</i> contract’s <i>market value</i>, or (ii) a calculated dollar amount that a client must deposit with <del>an</del> <u>Investment Dealer Member</u> when borrowing from the <u>Investment Dealer Member</u> to buy securities or to sell securities short or to enter into the <i>derivative</i> contract.</p>
<p>“Dealer Member inventory margin” <u>(marge associée au portefeuille du courtier membre)</u></p>	<p>(i) A minimum percentage of a security’s or <i>derivative</i> instrument’s <i>market value</i>, or (ii) a calculated dollar amount that a <i>Dealer Member</i> must provide when calculating its <i>risk adjusted capital</i>.</p>
<p>“equivalent number” or “equivalent quantity” or “equivalent quantities” <u>(nombre équivalent, quantité équivalente ou quantités équivalentes)</u></p>	<p>(i) A position with the same underlying number of shares, units of the same issuer, (ii) <i>futures contracts</i> based on the same underlying number of shares, units of the same issuer, or (iii) a position with the same currency denomination and <i>market value</i>, as the offset or combination position with which it is paired.</p>
<p>“loan value” <u>(valeur de prêt)</u></p>	<p>The complement of the <i>client account margin</i> and is the maximum <del>an</del> <u>Investment Dealer Member</u> may loan to a client for a particular security or <i>derivative</i> position.</p>
<p>“normal margin” or “normal margin required” <u>(marge normale ou marge normale obligatoire)</u></p>	<p>Margin otherwise required in Rules 5200 through 5900.</p>

<p>“underlying interest” or “underlying security” or “underlying basket of securities” <u>(sous-jacent ou titre sous-jacent ou panier de titres sous-jacent)</u></p>	<p>In the case of:</p> <ul style="list-style-type: none"> <li>(i) a <i>convertible security</i>, the security to be received upon invoking the conversion or exchange feature,</li> <li>(ii) an <i>exercisable security</i>, the security to be received upon invoking the exercise feature,</li> <li>(iii) an <i>index participation unit</i>, the basket of securities to be received upon invoking the conversion or exchange feature,</li> <li>(iv) an <i>installment receipt</i>, the security that has been purchased on an installment basis by the holder of the <i>installment receipt</i>,</li> <li>(v) residual debt securities and strip debt securities, the <i>debt security</i> used to create the residual debt securities and strip debt securities,</li> <li>(vi) <i>currency options</i>, the currency referenced by the <i>option</i>,</li> <li>(vii) equity, <i>index participation unit</i> and <i>debt options</i>, the security referenced by the <i>option</i>,</li> <li>(viii) <i>index options</i>, the <i>index</i> referenced by the <i>option</i>, <del>and</del></li> <li>(ix) a <i>total performance swap</i>, the security or basket of securities on which the swap is based, <u>and</u></li> <li><u>(x) a structured product, the security or basket of securities on which the performance of the structured product is based.</u></li> </ul>
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(3) For positions in and offsets involving *debt securities* and related instruments, the term:

<p>“acceptable commercial, corporate and finance company notes” <u>(billets admissibles commerciaux, de sociétés et de sociétés de financement)</u></p>	<p>Notes issued by a company that meet the requirements in subsection 5220(2).</p>
<p>“call protection period” <u>(période de protection contre remboursement par anticipation)</u></p>	<p>The period of time during which the issuer cannot redeem a <i>callable debt security</i>.</p>
<p>“callable debt security” <u>(titre de créance remboursable par anticipation)</u></p>	<p>A <i>debt security</i> which can be redeemed by the issuer at a fixed price at any time other than during the <i>call protection period</i>.</p>

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<p>“Canada debt securities” <a href="#"><u>(titres de créance du Canada)</u></a></p>	<p>Bonds, debentures, treasury bills, notes and certain other non-commercial <i>debt securities</i> not in default that are issued or guaranteed by the government of Canada.</p>
<p>“Canada Municipal debt securities” <a href="#"><u>(titres de créance d’une municipalité canadienne)</u></a></p>	<p>Bonds, debentures, treasury bills, notes and certain other non-commercial <i>debt securities</i> not in default that are issued or guaranteed by a Canadian municipal government.</p>
<p>“Canada Provincial debt securities” <a href="#"><u>(titres de créance d’une province canadienne)</u></a></p>	<p>Bonds, debentures, treasury bills, notes and certain other non-commercial <i>debt securities</i> not in default that are issued or guaranteed by a Canadian provincial government.</p>
<p>“Canada Provincial residuals” <a href="#"><u>(titre résiduel d’une province canadienne)</u></a></p>	<p>A residual portion from a <i>debt security</i> issued or guaranteed by a Canadian province.</p>
<p>“Canada Provincial strips” <a href="#"><u>(coupon détaché d’une province canadienne)</u></a></p>	<p>A strip coupon from a <i>debt security</i> issued or guaranteed by a Canadian province.</p>
<p>“Canada residuals” <a href="#"><u>(titre résiduel du Canada)</u></a></p>	<p>A residual portion from a <i>debt security</i> issued or guaranteed by the Government of Canada.</p>
<p>“Canada strips” <a href="#"><u>(coupon détaché du Canada)</u></a></p>	<p>A strip coupon from a <i>debt security</i> issued or guaranteed by the Government of Canada.</p>
<p>“Canadian banker acceptance futures contract” <a href="#"><u>(contrat à terme sur acceptations bancaires canadiennes)</u></a></p>	<p>A three month Canadian bankers acceptance <i>futures contract</i> that trades on the Bourse de Montreal under the “BAX” trading symbol.</p>
<p>“extendible debt security” <a href="#"><u>(titre de créance prorogeable)</u></a></p>	<p>A <i>debt security</i> which allows a <i>Dealer Member</i> holder, during a fixed time period, to:</p> <ul style="list-style-type: none"> <li>(i) extend the security’s maturity date to the extension maturity date, and</li> </ul>

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	(ii) <del>in</del> change the principal amount of the security by a fixed percentage (the <i>extension factor</i> ) of the original principal amount.
“extension election period” <u>(période de choix de prorogation)</u>	The period of time during which a <i>Dealer Member</i> holder may elect to: (i) extend the maturity date, and (ii) <del>in</del> change the principal amount, of an <i>extendible debt security</i> .
“extension factor” <u>(coefficient de prorogation)</u>	The fixed percentage used to change the original principal amount of an <i>extendible debt security</i> , if any.
“floating rate debt obligation” <u>(titre de créance à taux variable)</u>	A <i>debt security</i> of either a government issuer that otherwise meets the requirements under subsection 5210(1) or a corporate issuer that otherwise meets the requirements under subsection 5220(1), with terms that provide for interest rate adjustments at least quarterly with reference to an interest rate set for a term of 90 days or less.
“low current credit rating” <u>(note courante basse)</u>	A current credit rating of “B” or lower by a <i>designated rating organization</i> .
“maturity band” <u>(catégorie d’échéance)</u>	The range of years within which the <i>debt security</i> subject to margin matures.
“retractable debt security” <u>(titre de créance encaissable par anticipation)</u>	A <i>debt security</i> which allows the <i>Dealer Member</i> holder, during a fixed time period, to: (i) retract the security’s maturity date to the retraction maturity date, and (ii) change the principal amount of the security by a fixed percentage (the <i>retraction factor</i> ) of the original principal amount.
“retraction election period” <u>(période de choix d’encaissement par anticipation)</u>	The period of time during which a holder may elect to: (i) retract the maturity date, and (ii) change the principal amount of a <i>retractable debt security</i> .
“retraction factor” <u>(coefficient d’encaissement par anticipation)</u>	The fixed percentage used to change the original principal amount of a <i>retractable debt security</i> , if any.
“United States debt securities” <u>(titres de créance des États-Unis)</u>	Bonds, debentures, treasury bills, notes and certain other non-commercial <i>debt securities</i> not in default that are issued or guaranteed by the government of the United States.

- (4) For positions in and offsets involving equity and equity index securities and rights and warrants, the term:

<p>“basic margin requirement”</p> <p><a href="#"><i>(marge obligatoire de base)</i></a></p>	<p>A customized security specific margin rate for a security that is based on the security’s traded price per share.</p>
<p>“Canada and United States listed equity securities eligible for margin”</p> <p><a href="#"><i>(titres de capitaux propres cotés du Canada et des États Unis admissibles à la marge)</i></a></p>	<p>Securities (other than bonds, debentures, rights and warrants) listed on any <i>acceptable exchange</i> or market tier in Canada or the United States with adequate minimum pre-tax profit, net tangible asset and working capital requirements, as determined by the <i>Corporation</i>.</p>
<p>“Canada and United States unlisted equity securities eligible for margin”</p> <p><a href="#"><i>(titres de capitaux propres non cotés du Canada et des États Unis admissibles à la marge)</i></a></p>	<p>Unlisted:</p> <ul style="list-style-type: none"> <li>(i) <i>equity securities</i> of insurance companies licensed to do business in Canada,</li> <li>(ii) <i>equity securities</i> of Canadian banks,</li> <li>(iii) <i>equity securities</i> of Canadian trust companies,</li> <li>(iv) senior <i>equity securities</i> of other Canadian and United States listed companies,</li> <li>(v) <i>equity securities</i> which qualify as legal for investment by Canadian life insurance companies, without recourse to the basket clause, and</li> <li>(vi) <i>equity securities</i> which have received conditional approval to list on an <i>acceptable exchange</i> in Canada within the last 90 days.</li> </ul>
<p>“control block”</p> <p><a href="#"><i>(bloc de contrôle)</i></a></p>	<p>A <i>person’s</i> or combination of <i>persons’</i> holdings of an issuer’s securities in sufficient number to materially affect control of that issuer. If a <i>person</i> or combination of <i>persons</i> holds over 20% of the outstanding voting securities of an issuer that <i>person</i> or combination of <i>persons</i> must, absent evidence to the contrary, be considered to materially affect control of that issuer.</p>
<p>“floating rate preferred share”</p> <p><a href="#"><i>(action privilégiée à taux variable)</i></a></p>	<p>A special or preferred share with terms that provide for dividend rates that fluctuate at least quarterly in tandem with a prescribed short term interest rate.</p>
<p>“foreign listed equity securities eligible for margin”</p> <p><a href="#"><i>(titres de capitaux propres cotés)</i></a></p>	<p>Securities (other than bonds, debentures, rights and warrants) listed on an <i>acceptable exchange</i> outside of Canada and the United States that are constituent securities for the exchange’s major widely quoted market <i>index</i>, and the <i>index</i> is on the <i>Corporation’s</i> list of foreign market indices whose constituent securities are eligible for margin.</p>

<u>étrangers admissibles à la marge)</u>	
“future payments” <u>(paiements ultérieurs)</u>	The unpaid payments of the purchase price for an <i>underlying security</i> of an <i>installment receipt</i> .
“government guaranteed equity securities” <u>(titres de capitaux propres garantis par un gouvernement)</u>	<i>Equity securities</i> where the payment of all dividends, redemption amounts, or other return of capital to holder is unconditionally guaranteed by Government of Canada or by a provincial government.
“installment receipt” <u>(reçu de versement)</u>	A security issued by or for an issuer or selling security holder that: (i) evidences partial payment for an <i>underlying security</i> of an installment receipt, and (ii) requires one or more subsequent payments by installment, to entitle the holder of the installment receipt to delivery of the <i>underlying security</i> of an installment receipt.

- (5) For positions in underwriting *commitments* and positions traded on a when issued basis, the term:

“appropriate documentation” <u>“documentation pertinente”</u>	With respect to the portion of the <i>commitment</i> where expressions of interest have been received from <i>exempt purchasers</i> means, at a minimum: (i) that the lead underwriter has a record of the final affirmed <i>exempt purchaser</i> allocation indicating for each expression of interest: (a) the name of the <i>exempt purchaser</i> , (b) the name of the employee of the <i>exempt purchaser</i> accepting the amount allocated, and (c) the name of the representative of the lead underwriter responsible for affirming the amount allocated to the <i>exempt purchaser</i> , time stamped to indicate date and time of affirmation and, (ii) that the lead underwriter has notified in writing all the banking group participants when the entire allotment to <i>exempt purchasers</i> has been affirmed pursuant to clause (i) above so that all banking group participants may take advantage of the reduction in the margin requirement.  Under no circumstances may the lead underwriter reduce its own margin requirement on a <i>commitment</i> due to such expressions of interest from
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	<i>exempt purchasers</i> without providing notification to the rest of the banking group.
"commitment" <a href="#"><u>(engagement)</u></a>	Pursuant to an underwriting agreement or banking group agreement to purchase a new issue of securities or a secondary issue of securities means, where all other non-pricing agreement terms have been agreed to, where two of the following three pricing terms have been agreed to:  (i) issue price, (ii) number of shares, or (iii) commitment amount (issue price x number of shares).
"disaster out clause" <a href="#"><u>(clause de force majeure)</u></a>	A provision in an underwriting agreement substantially in the following form:  "The obligations of the Underwriter (or any of them) to purchase (the Securities) under this agreement may be terminated by the Underwriter (or any of them) at its option by written notice to that effect to the Company at any time prior to the Closing if there should develop, occur or come into effect or existence any event, action, state, condition or major financial occurrence of national or international consequence or any law or regulation which in the opinion of the Underwriter seriously adversely affects, or involves, or will seriously adversely affect, or involve, the financial markets or the business, operations or affairs of the Company and its subsidiaries taken as a whole."
"exempt purchaser" <a href="#"><u>(acquéreur dispense)</u></a>	An accredited investor that qualifies as an <i>institutional client</i> .
"market out clause" <a href="#"><u>(clause de sauvegarde)</u></a>	A provision in an underwriting agreement which permits an underwriter to terminate its obligation to purchase in the event of unsalability due to market conditions, substantially in the following form:  "If, after the date hereof and prior to the Time of Closing, the state of financial markets in Canada or elsewhere where it is planned to market the Securities is such that, in the reasonable opinion of the Underwriters (or any of them), the Securities cannot be marketed profitably, any Underwriter shall be entitled, at its option, to terminate its obligations under this agreement by notice to that effect given to the Company at or prior to the Time of Closing."
"new issue letter" <a href="#"><u>(lettre de garantie d'émission)</u></a>	An underwriting loan facility in a form satisfactory to the <i>Corporation</i> .

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<p>“normal new issue margin” <a href="#"><u>(marge normale à l'émission)</u></a></p>	<p>(i) Where, in the case of an <i>equity security</i>, the <i>market value</i> is \$2.00 per share or more and the <i>equity security</i> qualifies for inclusion on the <del>List</del> of <del>Securities Eligible for Reduced Margin</del><a href="#"><u>securities eligible for reduced margin</u></a>, 60% of <i>normal margin</i> for the period from the date of commitment to the <i>business day</i> prior to settlement date and 100% of <i>normal margin</i> from settlement date on,</p> <p>(ii) where, in the case of an <i>equity security</i>, the <i>market value</i> of the security is \$2.00 per share or more and the security does not qualify for inclusion on the <del>List</del> of <del>Securities Eligible for Reduced Margin</del><a href="#"><u>securities eligible for reduced margin</u></a>, 80% of <i>normal margin</i> for the period from the date of commitment to the <i>business day</i> prior to settlement date and 100% of <i>normal margin</i> from settlement date on, or</p> <p>(iii) in all other instances, 100% of <i>normal margin</i>.</p>
<p>“trading on a when issued basis” <a href="#"><u>(négociation avant l'émission)</u></a></p>	<p>Purchases or sales of a security to be issued under:</p> <p>(i) a prospectus offering if a receipt for a (final) prospectus for the security has been issued but the offering has not closed and settled,</p> <p>(ii) a proposed plan of arrangement, an amalgamation, or a take-over bid, prior to the date the security is issued under the amalgamation, arrangement or take-over bid, or</p> <p>(iii) any other transaction that is subject to the satisfaction of certain conditions, provided that the trading of the security on a when issued basis would not contravene <i>securities laws</i>.</p>

- (6) For positions in and offsets involving *capital shares*, *convertible securities* and *exercisable securities*, the term:

<p>“capital share” <a href="#"><u>(action donnant droit aux plus-values)</u></a></p>	<p>A share issued by a <i>split share company</i> that represents all or most of the capital appreciation part of an underlying common share.</p>
<p>“capital share conversion loss” <a href="#"><u>(perte à la conversion d'actions donnant droit aux plus-values)</u></a></p>	<p>Any excess of the <i>market value</i> of a <i>capital share</i> position over its <i>retraction value</i>.</p>
<p>“combined conversion loss” <a href="#"><u>(perte à la conversion combinée)</u></a></p>	<p>Any excess of the combined <i>market value</i> of positions in <i>capital shares</i> and <i>split share preferred shares</i> over their combined <i>retraction value</i>.</p>
<p>“conversion loss” <a href="#"><u>(perte à la conversion)</u></a></p>	<p>Any excess <i>market value</i> of a <i>convertible security</i> position over the <i>market value</i> of the <i>equivalent number</i> of <i>underlying securities</i>.</p>

<p>“convertible security” <u>(titre convertible)</u></p>	<p>A convertible security, exchangeable security or any other security that entitles the holder to acquire another security, the <i>underlying security</i>, upon exercising a conversion or exchange feature.</p>
<p>“currently convertible” <u>(alors convertible)</u></p>	<p>A security that is:</p> <ul style="list-style-type: none"> <li>(i) convertible within 20 <i>business days</i> into another security, the <i>underlying security</i>, or</li> <li>(ii) convertible after the expiry of a specific period into another security, the <i>underlying security</i>, and the <i>Dealer Member</i> or client has entered into a term securities borrowing agreement, which includes the minimum agreement terms specified in subsection 5840(3), enabling a borrow of the <i>underlying security</i> for the entire period from the current date until the expiry of the specific period until conversion.</li> </ul>
<p>“currently exercisable” <u>(alors exerçable)</u></p>	<p>A security that is exercisable into the <i>underlying security</i>:</p> <ul style="list-style-type: none"> <li>(i) exercisable within 20 <i>business days</i> into another security, the <i>underlying security</i>, or</li> <li>(ii) exercisable after the expiry of a specific period into another security, the <i>underlying security</i>, and the <i>Dealer Member</i> or client has entered into a term securities borrowing agreement, which includes the minimum agreement terms specified in subsection 5840(3), enabling a borrow of the <i>underlying security</i> for the entire period from the current date until the expiry of the specific period until exercise.</li> </ul>
<p>“exercisable security” <u>(titre exerçable)</u></p>	<p>A warrant, right, <i>installment receipt</i>, or any other security entitling the holder to acquire the <i>underlying security</i> after making an exercise or subscription payment.</p>
<p>“exercise loss” <u>(perte à l'exercice)</u></p>	<p>Any excess of the sum of the <i>market value</i> of an <i>exercisable security</i> position and its exercise or subscription payment requirement over the <i>market value</i> of the <i>equivalent number</i> of <i>underlying securities</i>.</p>
<p>“Newco securities” <u>(titres de la nouvelle société)</u></p>	<p>Securities of a successor issuer or issuers resulting from an amalgamation, acquisition, spin-off or any other securities related reorganization transaction.</p>
<p>“Oldco securities” <u>(titres de l'ancienne société)</u></p>	<p>Securities of a predecessor issuer or issuers resulting from an amalgamation, acquisition, spin-off or any other securities related reorganization transaction.</p>
<p>“retraction value” <u>(valeur de rachat au gré du porteur)</u></p>	<p>A value assigned to <i>capital shares</i> or a combination of <i>capital shares</i> and <i>split share preferred shares</i>, and is calculated as follows:</p> <ul style="list-style-type: none"> <li>(i) for <i>capital shares</i>: <ul style="list-style-type: none"> <li>(a) where the <i>capital shares</i> can be tendered to the <i>split share company</i> for retraction directly for the underlying common shares, at the option of the holder, the excess of the <i>market value</i> of the underlying common shares received over the retraction cash</li> </ul> </li> </ul>

	<p>payment to be made when retraction of the <i>capital shares</i> takes place,</p> <p>(b) where the <i>capital shares</i> cannot be tendered to the <i>split share company</i> for retraction directly for the underlying common shares at the option of the holder, the retraction cash payment to be received when retraction of the <i>capital shares</i> takes place,</p> <p>(ii) for <i>capital shares</i> and <i>split share preferred shares</i> in combination:</p> <p>(a) where the <i>capital shares</i> and <i>split share preferred shares</i> can be tendered to the <i>split share company</i> for retraction directly for the underlying common shares, at the option of the holder, the <i>market value</i> of the underlying common shares received,</p> <p>(b) where the <i>capital shares</i> and <i>split share preferred shares</i> cannot be tendered to the <i>split share company</i> for retraction directly for the underlying common shares at the option of the holder, the retraction cash payment to be received when retraction of the capital and <i>split share preferred shares</i> takes place.</p>
<p>“split share company”</p> <p><a href="#"><u>(société à capital scindé)</u></a></p>	<p>A corporation formed for the sole purpose of acquiring underlying common shares and issuing its own:</p> <p>(i) <i>capital shares</i> based on all or most of the capital appreciation portion, and</p> <p>(ii) <i>split share preferred shares</i> based on all or most of the dividend income portion,</p> <p>of those underlying common shares.</p>
<p>“split share preferred share”</p> <p><a href="#"><u>(action privilégiée de société à capital scindé)</u></a></p>	<p>A share issued by a <i>split share company</i> that represents all or most of the dividend part of the underlying common share, and includes equity dividend shares of <i>split share companies</i>.</p>

(7) For positions in and offsets involving swaps, the term:

<p>“fixed interest rate”</p> <p><a href="#"><u>(taux d’intérêt fixe)</u></a></p>	<p>An interest rate that is not reset at least every 90 days.</p>
<p>“floating interest rate”</p> <p><a href="#"><u>(taux d’intérêt variable)</u></a></p>	<p>An interest rate that is not a <i>fixed interest rate</i>.</p>
<p>“interest rate swap”</p> <p><a href="#"><u>(swap de taux d’intérêt)</u></a></p>	<p>An agreement under which a <i>Dealer Member</i> is required to pay a fixed (floating) rate and entitled to receive a floating (fixed) rate amount calculated with reference to a notional amount.</p>

<p>“realization clause” <u>(clause de réalisation)</u></p>	<p>An optional clause within a <i>total performance swap</i> agreement which allows the <i>Dealer Member</i> to close out the swap agreement at the realization price (either the buy-in or sell-out price) of the security position involved in the offset.</p>
<p>“total performance swap” <u>(swap sur rendement total)</u></p>	<p>An agreement under which a <i>Dealer Member</i> is required to pay and entitled to receive amounts calculated:</p> <ul style="list-style-type: none"> <li>(i) based on the performance of a specified <i>underlying security</i> or <i>underlying basket of securities</i>, and</li> <li>(ii) with reference to a notional amount.</li> </ul>

(8) For structured product positions, the term:

<p>“structured product” <u>(produit structuré)</u></p>	<p><u>A financial instrument where the return is linked to the performance of a specified underlying security or underlying basket of securities. Structured products include:</u></p> <ul style="list-style-type: none"> <li><u>(i) principal at risk notes, and</u></li> <li><u>(ii) principal protected notes.</u></li> </ul>
<p>“principal at risk note” <u>(billet dont le capital est à risque)</u></p>	<p><u>A financial instrument where the return is linked to the performance of a specified underlying security or underlying basket of securities and the investor carries a risk of losing part or all of the initial amount invested.</u></p>
<p>“principal protected note” <u>(billet à capital protégé)</u></p>	<p><u>A financial instrument where the return is linked to the performance of a specified underlying security or underlying basket of securities and at maturity the investor receives as a minimum, the initial amount invested.</u></p>

(89) For positions in and offsets involving foreign exchange exposures, the term:

<p>“foreign exchange position” <u>(position sur devises)</u></p>	<p>A <i>monetary asset or liability</i> including a:</p> <ul style="list-style-type: none"> <li>(i) currency spot position,</li> <li>(ii) futures and forward contract,</li> <li>(iii) swap, and</li> <li>(iv) any other transaction resulting in exposure to foreign exchange rate risk,</li> </ul> <p>that is denominated in a foreign currency.</p>
<p>“monetary asset or liability”, “monetary asset”, “monetary liability” <u>(actif ou passif monétaire, actif)</u></p>	<p>A <i>Dealer Member’s asset or liability</i>:</p> <ul style="list-style-type: none"> <li>(i) in money and claims to money,</li> <li>(ii) denominated in foreign or domestic currency, and</li> <li>(iii) that is fixed by contract or otherwise.</li> </ul>

<u>monétaire, passif monétaire)</u>	
“net long (short) foreign exchange position” <u>(position acheteur (vendeur) nette sur devises)</u>	The net of <i>monetary assets</i> and liabilities <del>as</del> calculated on Form 1, Schedule <del>11</del> <u>as total monetary assets plus total long forward/future contract positions less total monetary liabilities less total short forward/future contract positions.</u>
“spot exchange rate” <u>(taux de change au comptant)</u>	The rate quoted by a recognized quote vendor for contracts with a <i>term</i> to maturity of one day.
“term to maturity” <u>(durée jusqu’à l’échéance)</u>	For a <i>monetary asset or liability</i> means the amount of time from the present to the time when the claim to the <i>monetary asset</i> or the obligation to satisfy the <i>monetary liability</i> expires.

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

“aggregate current value” <u>(valeur courante globale)</u>	For <i>index options</i> :  $\text{index level} \times \$1.00 \times \text{unit of trading}$
“aggregate exercise value” <u>(valeur d’exercice globale)</u>	For <i>options</i> :  $\text{option exercise price} \times \text{unit of trading}$
“at-the-money” <u>(au cours)</u>	(i) For equity, <i>index participation unit</i> , debt and currency <i>options</i> , that the market price, and  (ii) for <i>index options</i> , that the current value of the <i>underlying interest</i> is equal to the <i>exercise price</i> for a <i>call option</i> or a <i>put option</i> .
“broad based index” <u>(indice general)</u>	An equity index in which:  (i) the basket of <i>equity securities</i> 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 <i>market value</i> of the basket,  (iii) the average market capitalization associated with each security in the basket of <i>equity securities</i> underlying the index is at least \$100 million,

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	<p>(iv) the basket securities shall be from a broad range of industries and market sectors as determined by the <i>Corporation</i> to represent index diversification, and</p> <p>(v) the index constituent securities are listed and traded on an <i>acceptable exchange</i>.</p>
<p>“call option” <u>(option d’achat)</u></p>	<p>(i) An <i>exchange-traded option</i> that:</p> <p>(a) for equity, <i>index participation unit</i>, debt and currency options, gives a holder the right to buy and the writer the obligation to sell the <i>underlying interest</i> at a stated <i>exercise price</i> on or before the <i>option</i> expiration date, and</p> <p>(b) for <i>index options</i>, gives the holder the right to receive and the writer the obligation to pay, if the current value of the <i>index</i> rises above the <i>exercise price</i>, the difference between the aggregate <i>exercise price</i> and the <i>aggregate current value</i> of the <i>underlying interest</i> on or before the <i>option</i> expiration date,</p> <p>(ii) an <i>over-the-counter option</i> that either:</p> <p>(a) gives a holder the right to buy and the writer the obligation to sell the <i>underlying interest</i> at a stated <i>exercise price</i> on or before the option expiration date, or</p> <p>(b) gives the holder the right to receive and the writer the obligation to pay, if the current value of the <i>underlying interest</i> rises above the <i>exercise price</i>, the difference between the aggregate <i>exercise price</i> and the current value of the <i>underlying interest</i> on or before the option expiration date.</p>
<p>“cumulative relative weight percentage” <u>(coefficient de pondération relatif cumulatif)</u></p>	<p>An overall relative weight percentage determined by calculating, in accordance with subsection 5360(7), the actual basket weighting for each security in a <i>qualifying basket of index securities</i> in relation to its latest published relative weighting in the <i>index</i>.</p>
<p>“escrow receipt” <u>(récépissé d’entiercement)</u></p>	<p>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.</p>
<p>“exchange-traded option” <u>(option négociable en bourse)</u></p>	<p>A call option or put option issued by the Canadian Derivatives Clearing Corporation, the Options Clearing Corporation or any other corporation or organization recognized by the <i>Board</i>.</p>
<p>“exercise price” <u>(prix d’exercice)</u></p>	<p>(i) For equity, <i>index participation unit</i>, debt and currency options, the specified price per unit at which the <i>underlying interest</i> may be bought under a <i>call option</i>, or sold under a <i>put option</i>, and</p>

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	(ii) for <i>index options</i> , the specified price per unit that may be received by the holder and paid by the writer under a <i>call option</i> or a <i>put option</i> , on exercise of the <i>option</i> .
“floating margin rate” <a href="#"><u>(taux de marge variable)</u></a>	The floating margin rate set by the <i>Corporation</i> in accordance with subsection 5360(5), subject to the minimum floor margin rate in subsection 5360(2).
“incremental basket margin rate” <a href="#"><u>(taux de marge supplémentaire pour le panier)</u></a>	The incremental basket rate for a <i>qualifying basket of index securities</i> calculated in accordance with subsection 5360(8).
“index” <a href="#"><u>(indice)</u></a>	Either a <i>broad based index</i> or a <i>sector index</i> .
“index futures contract” <a href="#"><u>(contrat à terme sur indice)</u></a>	An exchange-traded <i>futures contract</i> with an <i>underlying interest</i> that is an <i>index</i> .
“index option” <a href="#"><u>(option sur indice)</u></a>	An exchange-traded <i>option</i> with an <i>underlying interest</i> that is an <i>index</i> .
“index participation unit” <a href="#"><u>(part indicielle)</u></a>	An interest in a trust or other entity that has assets consisting of equities or other securities underlying an <i>index</i> .
“index participation unit option” <a href="#"><u>(option sur parts indicielles)</u></a>	An option with an <i>underlying interest</i> that is an <i>index participation unit</i> .
“in-the-money” <a href="#"><u>(dans le cours)</u></a>	(i) For equity, <i>index participation unit</i> , debt and currency <i>options</i> , that the market price, and  (ii) for <i>index options</i> , that the current value, of the <i>underlying interest</i> is above the <i>exercise price</i> for a <i>call option</i> , and below the <i>exercise price</i> for a <i>put option</i> .
“out-of-the-money” <a href="#"><u>(hors du cours)</u></a>	(i) For equity, <i>index participation unit</i> , debt and currency <i>options</i> , that the market price, and  (ii) for <i>index options</i> , that the current value of the <i>underlying interest</i> is below the <i>exercise price</i> of a <i>call option</i> , and above the <i>exercise price</i> of a <i>put option</i> .
“over-the-counter option” <a href="#"><u>(option de gré à gré)</u></a>	A <i>call option</i> or a <i>put option</i> other than an exchange-traded <i>option</i> .

<p>“premium” <u>(prime)</u></p>	<p>The aggregate price, excluding commissions and other fees, that the option buyer pays and the option writer receives for the rights under the option contract.</p>
<p>“put option” <u>(option de vente)</u></p>	<p>(i) An <i>exchange-traded option</i> that:</p> <ul style="list-style-type: none"> <li>(a) for equity, <i>index participation unit</i>, debt and currency options, gives the holder the right to sell and the writer the obligation to buy the <i>underlying interest</i> at a stated <i>exercise price</i> on or before the <i>option</i> expiration date, and</li> <li>(b) for <i>index options</i>, gives the holder the right to receive and the writer the obligation to pay, if the current value of the <i>index</i> falls below the <i>exercise price</i>, the difference between the aggregate <i>exercise price</i> and the <i>aggregate current value</i> of the <i>underlying interest</i> on or before the option expiration date,</li> </ul> <p>(ii) an <i>over-the-counter option</i> that either:</p> <ul style="list-style-type: none"> <li>(a) gives the holder the right to sell and the writer the obligation to buy the <i>underlying interest</i> at a stated <i>exercise price</i> on or before the option expiration date, or</li> <li>(b) gives the holder the right to receive and the writer the obligation to pay, if the current value of the <i>index</i> falls below the <i>exercise price</i>, the difference between the aggregate <i>exercise price</i> and the <i>aggregate current value</i> of the <i>underlying interest</i> on or before the option expiration date.</li> </ul>
<p>“qualifying basket of index securities” <u>(panier admissible de titres de l’indice)</u></p>	<p>A basket of <i>equity securities</i> with the characteristics in subsection 5360(6).</p>
<p>“recognized option clearing corporation” <u>(chambre de compensation d’options reconnue)</u></p>	<p>The Canadian Derivatives Clearing Corporation, the Options Clearing Corporation or any other corporation or organization recognized by the Board.</p>
<p>“regular reset date” <u>(date de rajustement normale)</u></p>	<p>The date after the last reset date if the maximum number of trading days in the <i>regular reset period</i> has passed.</p>
<p>“regular reset period” <u>(période de rajustement normale)</u></p>	<p>The normal period between margin rate resets. This period is determined by the Corporation and is not longer than 60 trading days.</p>
<p>“regulatory margin interval” <u>(intervalle de marge prescrite)</u></p>	<p>The Corporation’s regulatory margin calculation determined in accordance with subsection 5360(4).</p>

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<p>“sector index” <u>(<a href="#">indice sectorial</a>)</u></p>	<p>An equity index in which:</p> <ul style="list-style-type: none"> <li>(i) the basket of <i>equity securities</i> underlying the index consists of eight or more securities,</li> <li>(ii) the single largest basket security position by weighting comprises not more than 35% of the overall <i>market value</i> of the basket,</li> <li>(iii) the average market capitalization associated with each security in the basket of <i>equity securities</i> underlying the index is at least \$100 million, and</li> <li>(iv) the index constituent securities are listed and traded on an <i>acceptable exchange</i>.</li> </ul>										
<p>“time value” <u>(<a href="#">valeur temps</a>)</u></p>	<p>An excess of the <i>market value</i> of an option over the <i>in-the-money</i> value of the option.</p>										
<p>“tracking error margin rate” <u>(<a href="#">taux de marge pour erreurs de suivi</a>)</u></p>	<p>The last calculated <i>regulatory margin interval</i> for the tracking error resulting from a particular offset strategy, subject to the minimum floor margin rate in subsection 5360(2).</p>										
<p>“unit of trading” <u>(<a href="#">unité de négociation</a>)</u></p>	<p>The number of units of the <i>underlying interest</i> that have been designated by an exchange as the minimum number or value to be the subject for a single option in a series of options. If there is no such designation, for a series of options the following rules apply:</p> <table style="margin-left: 40px; border: none;"> <thead> <tr> <th style="text-align: left;">Underlying interest</th> <th style="text-align: left;">Unit of trading</th> </tr> </thead> <tbody> <tr> <td>(i) equity</td> <td>100 shares</td> </tr> <tr> <td>(ii) <i>index participation unit</i></td> <td>100 units</td> </tr> <tr> <td>(iii) debt</td> <td>250 units</td> </tr> <tr> <td>(iv) <i>index</i></td> <td>100 units</td> </tr> </tbody> </table>	Underlying interest	Unit of trading	(i) equity	100 shares	(ii) <i>index participation unit</i>	100 units	(iii) debt	250 units	(iv) <i>index</i>	100 units
Underlying interest	Unit of trading										
(i) equity	100 shares										
(ii) <i>index participation unit</i>	100 units										
(iii) debt	250 units										
(iv) <i>index</i>	100 units										
<p>“violation” <u>(<a href="#">irrégularité</a>)</u></p>	<p>Occurs if the maximum one or two day percentage change in the daily closing prices is greater than the margin rate.</p>										

5131. - 5199. Reserved.

## RULE 5200 | MARGIN REQUIREMENTS FOR DEBT SECURITIES AND MORTGAGES

### 5201. Introduction

- (1) Rule 5200 sets out specific *Dealer Member inventory margin* and *client account margin* requirements for:
  - (i) government *debt securities* not in default [sections 5210 through 5214],
  - (ii) commercial and corporate *debt securities* not in default [sections 5220 through 5226], and
  - (iii) *debt securities* in default [section 5230].
- (2) Rule 5200 also describes the circumstances under which the debt margin surcharge applies, and details the calculation thereof [sections 5240 and 5241].
- (3) Rule 5200 also sets out specific *Dealer Member inventory margin* and *client account margin* requirements for mortgages [section 5250].
- (4) The margin requirements for *debt securities* subject to redemption call or offer are set out in Rule 5400.
- (5) The *Dealer Member inventory margin* requirements for *debt security* underwriting commitments are set out in Rule 5500.

5202. - 5209. Reserved.

### GOVERNMENT DEBT SECURITIES

#### 5210. Government issued or guaranteed bonds, debentures, treasury bills, notes and certain other non-commercial securities not in default

- (1) The minimum *Dealer Member inventory margin* and *client account margin* requirements for Government issued or guaranteed bonds, debentures, treasury bills, notes and certain other non-commercial securities not in default are as follows:

Term to maturity or redemption	Minimum margin required as a percentage of market value		
	Category (i) Governments of Canada, United Kingdom, United States and national governments of countries with a high current credit rating	Category (ii) Canadian provincial government, and obligations of the International Bank for Reconstruction and Development	Category (iii) Canadian and United Kingdom municipal corporations
Less than 1 year	1.00%	2.00%	3.00%
	x	x	x
	number of <u>days to maturity</u>	number of <u>days to maturity</u>	number of <u>days to maturity</u>
	365	365	365

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Term to maturity or redemption	Minimum margin required as a percentage of market value		
	Category (i) Governments of Canada, United Kingdom, United States and national governments of countries with a high current credit rating	Category (ii) Canadian provincial government, and obligations of the International Bank for Reconstruction and Development	Category (iii) Canadian and United Kingdom municipal corporations
Greater than or equal to 1 year and less than 3 years	1.00%	3.00%	5.00%
Greater than or equal to 3 years and less than 7 years	2.00%	4.00%	
Greater than or equal to 7 years and less than 11 years	4.00%	5.00%	
Greater than or equal to 11 years			

- (2) In subsection 5210(1) category (i), a country with a “high current credit rating” is a country that is currently rated AAA by a *designated rating organization*.
- (3) In subsection 5210(1) category (ii), British Columbia government guaranteed parity bonds, the margin requirement for a long position must be at least 0.25% of the par value of the bonds.
- (4) If a security in subsection 5210(1) is redeemable and the security is called for redemption, the term to maturity is the term to the redemption date.

**5211. Government residual debt and stripped coupons not in default**

- (1) The minimum *Dealer Member inventory margin* and *client account margin* requirements for the Government residual debt and stripped coupons not in default are as follows:

Term to maturity or redemption	Minimum margin required as a percentage of market value		
	Category (i) Governments of Canada, United Kingdom, United States and national governments of countries with a high current credit rating	Category (ii) Canadian provincial government, and obligations of the International Bank for Reconstruction and Development	Category (iii) Canadian and United Kingdom municipal corporations
Less than 1 year	1.50%	3.00%	4.50%
	x	x	x

Term to maturity or redemption	Minimum margin required as a percentage of market value		
	Category (i) Governments of Canada, United Kingdom, United States and national governments of countries with a high current credit rating	Category (ii) Canadian provincial government, and obligations of the International Bank for Reconstruction and Development	Category (iii) Canadian and United Kingdom municipal corporations
	number of <u>days to maturity</u> 365	number of <u>days to maturity</u> 365	number of <u>days to maturity</u> 365
Greater than or equal to 1 year and less than 3 years	1.50%	4.50%	7.50%
Greater than or equal to 3 years and less than 7 years	3.00%	6.00%	
Greater than or equal to 7 years and less than 11 years	6.00%	7.50%	
Greater than or equal to 11 years and less than 20 years			
Greater than or equal to 20 years	12.00%	15.00%	15.00%

- (2) In subsection 5211(1) category (i), a country with a “high current credit rating” is a country that is currently rated AAA by a *designated rating organization*.
- (3) In subsection 5211(1), the maturity date of a coupon or other evidence of interest is the interest payment date.

**5212. Government floating rate debt obligations**

- (1) The minimum margin required for government *floating rate debt obligations* held in *Dealer Member* inventory and client accounts is the sum of:
  - (i) 50% of the margin otherwise applicable to the par value of the *debt security*, and
  - (ii) 100% of the margin otherwise applicable to any excess of the *market value* over the par value of the *debt security*.

**5213. Government mortgage-backed securities**

- (1) The minimum *Dealer Member inventory margin* and *client account margin* requirements for government mortgage-backed securities are as follows:

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Security type	Minimum margin requirement expressed as a percentage of market value
Security backed by mortgages and guaranteed as to timely payment of principal and interest by an issuer or its agent	Where the guarantor qualifies: (i) under subsection 5210(1) as a government debt issuer, 1.25 times the applicable rate set out in subsection 5210(1), or (ii) under subsection 5214(1) as another non-commercial debt issuer, 1.25 times the applicable rate set out in subsection 5214(1).

**5214. Other non-commercial issuers not qualifying under sections 5210 through 5212**

- (1) The minimum *Dealer Member inventory margin* and *client account margin* requirements for securities of all other non-commercial issuers not qualifying under sections 5210 through 5212 are as follows:

Term to maturity or redemption	Minimum margin required as a percentage of market value	
	Category (i) All other non-commercial issuers' bonds and debentures not qualifying under sections 5210 through 5212	Category (ii) All other non-commercial issuers' residual debt and stripped coupons not qualifying under sections 5210 through 5212
Less than 1 year	10.00%	15.00%
Greater than or equal to 1 year and less than 3 years		
Greater than or equal to 3 years and less than 7 years		
Greater than or equal to 7 years and less than 11 years		
Greater than or equal to 11 years and less than 20 years		
Greater than or equal to 20 years		30.00%

- (2) If a security in subsection 5214(1) is redeemable and the security is called for redemption, the term to maturity is the term to the redemption date.
- (3) In subsection 5214(1), the maturity date of a coupon or other evidence of interest is the interest payment date.

5215. - 5219. Reserved.

### CORPORATE DEBT SECURITIES

#### 5220. Commercial and corporate bonds, debentures, notes and other securities not in default

- (1) The minimum *Dealer Member inventory margin* and *client margin* requirements for commercial and corporate bonds, debentures, notes and other securities not in default are as follows:

Term to maturity	Minimum margin required as a percentage of market value	
	Category (i) Commercial and corporate bonds, debentures and notes and non-negotiable and non-transferable trust and mortgage loan company obligations registered in the Dealer Member's name; and acceptable commercial, corporate and finance company notes and readily negotiable and transferable trust and mortgage loan company obligations.	Category (ii) Canadian and foreign category (i) issues and obligations with a market value of 50% or less of par value and with a low current credit rating
Within 1 year	3.00% x <u>number of days to maturity</u> 365	50.00%
Over 1 to 3 years	6.00%	
Over 3 to 7 years	7.00%	
Over 7 to 11 years	10.00%	
Over 11 years		

- (2) In subsection 5220(1) category (i), *acceptable commercial, corporate and finance company notes* means notes issued by a company that comply with the following requirements:
- (i) In the case of a note of a Canadian incorporated issuer:
    - (a) the issuer must have a net worth of at least \$10,000,000,
    - (b) the note must be guaranteed by another company with a net worth of at least \$10,000,000, or
    - (c) the issuer must have a binding agreement with another company with net worth of at least \$25,000,000 to pay the issuer or a noteholders' trustee any note indebtedness outstanding.
  - (ii) In the case of a note of a foreign incorporated issuer:
    - (a) the issuer must have a net worth of at least \$25,000,000, or
    - (b) the note must be guaranteed by a foreign incorporated company with a net worth of at least \$25,000,000.

**5221. Convertible commercial and corporate bonds, debentures, notes and other securities not in default**

- (1) The minimum *Dealer Member inventory margin* and *client account margin* requirements for convertible commercial and corporate bonds, debentures, and notes not in default, and non-negotiable and non-transferable trust company and mortgage loan company obligations registered in the *Dealer Member's* name are as follows:

Term to maturity	Minimum margin required expressed as a percentage of market value or as a dollar amount		
	Category (i) Margin required when market value is above par value	Category (ii) Margin required when market value is at or below par value	Category (iii) Margin required when market value is 50% or less of par value and issuer has a low current credit rating
<b>Basic margin requirement</b>			
Within 1 year	$3.00\% \times \frac{\text{number of days to maturity}}{365}$ multiplied by par value plus any excess of convertible debt <i>market value</i> over convertible debt par value.	$3.00\% \times \frac{\text{number of days to maturity}}{365}$ multiplied by par value	50.00% of <i>market value</i>
Over 1 to 3 years	6.00% of par value plus any excess of convertible debt <i>market value</i> over convertible debt par value.	6.00% of <i>market value</i>	
Over 3 to 7 years	7.00% of par value plus any excess of convertible debt <i>market value</i> over convertible debt par value.	7.00% of <i>market value</i>	
Over 7 to 11 years	10.00% of par value	10.00% of <i>market value</i>	

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Term to maturity	Minimum margin required expressed as a percentage of market value or as a dollar amount		
	Category (i) Margin required when market value is above par value	Category (ii) Margin required when market value is at or below par value	Category (iii) Margin required when market value is 50% or less of par value and issuer has a low current credit rating
Over 11 years	plus any excess of convertible debt market value over convertible debt par value.		
<b>Alternative margin requirement</b>			
As an alternative to the margin requirements set out above, the margin requirement may be calculated for categories (i) through (iii) as the sum of the margin required for the <i>underlying security</i> plus any excess of the convertible debt market value over the <i>underlying security market value</i> .			

**5222. Bank paper not in default**

- (1) The minimum Dealer Member inventory margin and client margin requirements for bank paper not in default are as follows:

Term to maturity	Minimum margin required as a percentage of market value		
	Category (i) Bank acceptances, deposit certificates, promissory notes and debentures issued by a Canadian chartered bank	Category (ii) Bank acceptances, deposit certificates, promissory notes issued by a foreign bank with a net worth (capital + reserves) of not less than \$200 million	Category (iii) Canadian and foreign category (i) and (ii) issues and obligations with a market value of 50% or less of par value and with a low current credit rating
Within 1 year	$2.00\% \times \frac{\text{number of days to maturity}}{365}$		50.00%
Over 1 to 3 years	6.00%		
Over 3 to 7 years	7.00%		
Over 7 to 11 years	10.00%		
Over 11 years			

**5223. Commercial residual debt and stripped coupons not in default**

- (1) The minimum *Dealer Member inventory margin* and *client account margin* requirements for commercial residual debt and stripped coupons not in default are as follows:

Term to maturity	Minimum margin required expressed as a percentage of market value	
	Category (i) Commercial residual debt and stripped coupons	Category (ii) Commercial residual debt and stripped coupons where the underlying security has a market value of 50% or less of par value and has a low current credit rating
Within 1 year	4.50% x <u>number of days to maturity</u> 365	50.00%
Over 1 to 3 years	9.00%	
Over 3 to 7 years	10.50%	
Over 7 to 11 years	15.00%	
Over 11 to 20 years		
Over 20 years	30.00%	

- (2) In subsection 5223(1), the maturity date of a coupon or other evidence of interest is the interest payment date.

**5224. Convertible commercial residual debt not in default**

- (1) The minimum *Dealer Member inventory margin* and *client account margin* requirements for convertible commercial residual debt not in default are as follows:

Term to maturity	Minimum margin required expressed as a percentage of market value or as a dollar amount	
	Category (i) Margin required for commercial convertible residual debt	Category (ii) Margin required for commercial convertible residual debt where the underlying security has a market value of 50% or less of par value and has a low current credit rating
<b>Basic margin requirement</b>		
Within 1 year	The greater of: (a) margin calculated for <i>underlying security</i> under subsection 5221(1), and	50.00%
Over 1 to 3 years		
Over 3 to 7 years		
Over 7 to 11 years		
Over 11 to 20 years		

Over 20 years	(b) margin calculated for residual debt instrument under subsection 5223(1).	
<b>Alternative margin requirement</b>		
As an alternative to the margin requirements set out above, the margin requirement may be calculated for categories (i) and (ii) as the sum of the margin required for the <i>underlying security</i> plus any excess of the convertible debt <i>market value</i> over the <i>underlying security market value</i> .		

**5225. Commercial and corporate floating rate debt obligations not in default**

- (1) The minimum margin required for commercial and corporate *floating rate debt obligations* not in default held in *Dealer Member* inventory and client accounts is the sum of:
- (i) 50% of the margin otherwise applicable to the par value of the *debt security*, and
  - (ii) 100% of the margin otherwise applicable to any excess of the *market value* over the par value of the *debt security*.

**5226. Commercial and corporate income bonds not in default**

- (1) The minimum *Dealer Member inventory margin* and *client margin* requirements for income bonds not in default are as follows:

Minimum margin required expressed as a percentage of market value	
Category (i) Income bonds currently and for the past two years paying interest at the full stated rate	Category (ii) All other income bonds
10.00%	50.00%

- (2) To qualify under subsection 5226(1), the trust indenture must specify:
- (i) an interest rate, and
  - (ii) that interest must be paid if earned.

**5227. Commercial and corporate mortgage-backed securities**

- (1) The minimum *Dealer Member inventory margin* and *client account margin* requirements for mortgage-backed securities are as follows:

Security type	Minimum margin required expressed as a percentage of market value
Security backed by mortgages and guaranteed as to timely payment of principal and interest by an issuer or its agent	Where the guarantor qualifies: (i) under subsection 5220(1) as commercial and corporate debt issuer, 1.25 times the applicable rate set out in subsection 5220(1), or (ii) under subsection 5222(1) as a bank paper issuer, 1.25 times the applicable rate set out in subsection 5222(1).

5228. - 5229. Reserved.

#### DEBT SECURITIES IN DEFAULT

##### 5230. Debt securities in default

- (1) The minimum margin required for debt in default is 50% of *market value*.

5231. - 5239. Reserved.

#### DEBT MARGIN SURCHARGE

##### 5240. Circumstances under which debt margin surcharge is imposed

- (1) Higher margin requirements for *debt securities*, by way of a margin surcharge, may be established by the *Corporation* in response to market conditions.
- (2) The *Corporation* monitors the price volatility of *debt securities* that *Dealer Members* trade, determines when a margin surcharge is required, and when it is no longer required.
- (3) The margin surcharge required under this section 5240 is:
  - (i) 50% of the margin required in sections 5210 through 5226, and
  - (ii) required for at least 30 days.
- (4) A *Dealer Member* will be notified by the *Corporation* of the imposition or revocation of a margin surcharge promptly following the *Corporation* determining that the margin surcharge is, or is no longer, required. The notice is effective, and a *Dealer Member* must be in compliance with it, not less than five days after it is given.

##### 5241. Determining debt margin surcharge

- (1) The *Corporation* determines the debt margin surcharge according to the calculations in section 5241.
- (2) The *Corporation* monitors government of Canada - issued *debt securities* maturing in each of the three periods:
  - (i) over 1 year to 3 years,
  - (ii) over 3 years to 7 years, and
  - (iii) over 7 years,for price volatility in the primary markets in which a *Dealer Member* trades them. Each maturity is considered a separate class of *debt securities*.
- (3) The *Corporation* measures price volatility as follows:
  - (i) start with the closing price on a trading day for a security in monitored markets (the base day),
  - (ii) compare the closing price of a security on each of the four trading days after the base day to the closing price in clause 5241(3)(i),
  - (iii) the first day (if any) of the four days in clause 5241(3)(ii) on which the percentage change in price (negative or positive) between the closing price on that day and the closing price in clause (i) is greater than the margin rate required in Rule 5200, is an "offside base day",

- (iv) if an offside base day has occurred, it becomes the base day for making further comparisons under clauses 5241(3)(i) and 5241(3)(ii),
  - (v) if an offside base day does not occur in the four trading days following the base day, then the trading day after the base day becomes the new base day, and the calculations under clauses 5241(3)(ii) through 5241(3)(iv) are made with reference to that new base day,
  - (vi) for any 90 day period, the *Corporation* must determine  $p\%$  as follows:
 
$$\frac{\text{\# of offside base days} \times 100}{\text{total \# trading days in the period}} = p\%$$
  - (vii) If  $p\%$  is greater than 5% for any two of the three classes of *debt securities* monitored, a margin surcharge will be required.
- (4) After a margin surcharge has been required for at least 30 days under subsection 5240(3), the *Corporation* will look at the number of offside base days. If the number of offside base days is not more than 5% of the total number of trading days in the immediately preceding 90 day period, the margin surcharge will no longer be required.

5242. - 5249. Reserved.

**MORTGAGES**

**5250. Mortgages**

- (1) The minimum *Dealer Member inventory margin* requirements for mortgages are as follows:

Mortgage type	Minimum margin requirement expressed as a percentage of market value
National Housing Act insured mortgage	6%
Conventional first mortgage	12% or the rate set by the <i>chartered banks</i> , whichever is greater

- (2) Client account positions in mortgages may not be carried on margin.

5251. - 5299. Reserved.

## RULE 5300 | MARGIN REQUIREMENTS FOR EQUITY SECURITIES AND INDEX PRODUCTS

### 5301. Introduction

- (1) Rule 5300 sets out specific *Dealer Member inventory margin* and *client account margin* requirements for:
  - (i) *equity securities* [sections 5310 through 5315],
  - (ii) *installment receipts* [section 5320],
  - (iii) convertible and exchangeable equities [section 5330],
  - (iv) *control blocks* [sections 5340],
  - (v) rights and warrants [section 5350],
  - (vi) index products [section 5360], and
  - (vii) securities held in a *Trader's* account [section 5370].
- (2) The margin requirements for *equity securities* subject to redemption call or offer are set out in Rule 5400.
- (3) The *Dealer Member inventory margin* requirements for *equity security* underwriting commitments are set out in Rule 5500.
- (4) The margin requirements for when issued trading are set out in Rule 5500.

5302. - 5309. Reserved.

### EQUITY SECURITIES

#### 5310. Determining the basic margin requirement

- (1) Where a security is eligible to be margined using the *basic margin requirement* approach, the minimum *Dealer Member inventory margin* and *client account margin* rates (or dollar amounts per share) are as follows:

Market value per share	Minimum margin required as a percentage of market value or as a dollar amount per share
<b>Long positions:</b>	
Market value of \$2.00 or more per share and qualifying for inclusion on the <a href="#">Listlist of Securities Eligible for Reduced Margin</a> securities eligible for <a href="#">reduced margin</a> published by the Corporation	25% for <i>Dealer Member</i> positions; 30% for client account positions
All other positions with a market value of \$2.00 or more per share	50%
Market value of \$1.75 per share to \$1.99 per share	60%
Market value of \$1.50 per share to \$1.74 per share	80%
Market value of below \$1.50 per share	100%

Market value per share	Minimum margin required as a percentage of market value or as a dollar amount per share
<b>Short positions:</b>	
Market value of \$2.00 or more per share and qualifying for inclusion on the <a href="#">List of Securities Eligible for Reduced Margin</a> securities eligible for <a href="#">reduced margin</a> published by the Corporation	25% for Dealer Member positions; 30% for client account positions
All other positions with a market value of \$2.00 or more per share	50%
Market value of \$1.75 per share to \$1.99 per share	60%
Market value of \$1.50 per share to \$1.74 per share	80%
Market value of \$0.25 per share to \$1.49 per share	100%
Market value of below \$0.25 per share	\$0.25 per share

**5311. Canada and United States equity securities eligible for margin**

- (1) The minimum Dealer Member inventory margin and client account margin rates (or dollar amounts per share) for Canada and United States listed equity securities eligible for margin are the basic margin requirements in section 5310.
- (2) The minimum Dealer Member inventory margin and client account margin rates (or dollar amounts per share) for Canada and United States unlisted equity securities eligible for margin are the basic margin requirements in section 5310.

**5312. Foreign listed equity securities eligible for margin**

- (1) The minimum Dealer Member inventory margin and client account margin rate for foreign listed equity securities eligible for margin is 50%.

**5313. Government guaranteed equity securities**

- (1) The minimum Dealer Member inventory margin and client account margin rate for government guaranteed equity securities is 25%.

**5314. Floating rate preferred shares**

- (1) The minimum Dealer Member inventory margin and client account margin requirements for floating rate preferred shares are as follows:

Default status and conversion features	Minimum margin required
<b>Not in default of any dividend payment</b>	
Floating rate preferred shares of issuer	50% of margin rate for related common share of issuer × market value of preferred shares

DEALER AND CONSOLIDATED RULES

Default status and conversion features	Minimum margin required
<b>Not in default of any dividend payment</b>	
<i>Floating rate preferred shares with a market value at or below par value and convertible into other securities of issuer</i>	50% of margin rate for related common share of issuer x <i>market value of preferred shares</i>
<i>Floating rate preferred shares with a market value above par value and convertible into other securities of issuer</i>	The lesser of: (i) (a) 50% of margin rate for related common share of issuer x preferred share par value, + (b) preferred share <i>market value</i> - preferred share par value, and (ii) (a) the margin required under Rule 5200, 5300 or 5400 for the <i>underlying security</i> , + (b) the <i>market value</i> of the preferred shares - the <i>market value</i> of the <i>underlying security</i>
<b>In default of one or more dividend payments</b>	
All <i>floating rate preferred shares</i> in default whether convertible or not	50% of margin rate for related common share of issuer x <i>market value of preferred shares</i>

**5315. Other equity securities**

- (1) The minimum *Dealer Member inventory margin* and *client account margin* rates (or dollar amounts per share) for *equity securities* not eligible for margin under subsections 5311(1), 5312(1), 5313(1) or 5314(1) are as follows:

Market value per share	Minimum margin required as a percentage of market value or as a dollar amount per share
	Category (i) Equity securities not eligible for margin under subsections 5311(1), 5312(1), 5313(1) or 5314(1)
<b>Long positions:</b>	
All <i>market value</i> per share levels	100%
<b>Short positions:</b>	
<i>Market value</i> of \$0.50 per share and above	100%
<i>Market value</i> of below \$0.50 per share	\$0.50 per share

5316. - 5319. Reserved.

## INSTALLMENT RECEIPTS

### 5320. Installment receipts

- (1) A Dealer Member must calculate Dealer Member inventory margin and client account margin for installment receipt long positions according to the following:

Account where position is held	Minimum margin required
Held in Dealer Member inventory account	100% of margin required for underlying security plus any excess of the future installment payments over the market value of the underlying security
Held in client account	The lesser of 100% of margin required for underlying security and the market value of the installment receipt

- (2) A Dealer Member may purchase and hold an installment receipt for its own account as beneficial owner.
- (3) A Dealer Member may hold an installment receipt for a client registered in the Dealer Member's or its nominee name.
- (4) A Dealer Member must not purchase or hold an installment receipt that requires it or its nominee to make payment under the installment receipt.
- (5) Subsection 5320(4) does not apply:
- (i) to a Dealer Member's payments for its own account as beneficial owner of the installment receipt, or
  - (ii) if the agreement creating and issuing the installment receipts releases the Dealer Member or its nominee from the requirement to make the payments in subsection 5320(4) either by:
    - (a) transferring the installment receipt to another person if an installment is not paid in full when due, or
    - (b) another mechanism approved by the Corporation.
  - (iii) The transfer in sub-clause 5320(5)(ii)(a) must be able to occur at any time before:
    - (a) the close of business (Toronto time) on the second business day after default in payment of an installment, and
    - (b) the issuer's or selling security holder's rights arising from non-payment of the installment can be enforced.
- (6) If an installment on an installment receipt held for a client in subsection 5320(4) has not been paid in full when due, the Dealer Member must promptly take steps necessary to be released from any requirements to pay the installment or any future payments. The Dealer Member must take steps within the time permitted by the agreement creating and issuing the installment receipts. If appropriate or necessary, the Dealer Member must transfer the installment receipt to another person.

5321. - 5329. Reserved.

### CONVERTIBLE AND EXCHANGEABLE EQUITIES

#### 5330. Convertible and exchangeable equities

- (1) The minimum *Dealer Member inventory margin* and *client account margin* requirements calculated for convertible and exchangeable *equity securities* may be limited to an overall maximum margin requirement calculated as follows:

Minimum margin required
<b>Category (i)</b> <b>Equity security currently convertible into or exchangeable for another security</b>
The sum of : (a) the margin required under Rule 5300 for the <i>underlying security</i> , plus (b) any excess of the <i>market value</i> of the convertible or exchangeable <i>equity security</i> over the <i>market value</i> of the <i>underlying security</i> .

5331. - 5339. Reserved.

### CONTROL BLOCKS

#### 5340. Control blocks

- (1) The minimum *Dealer Member inventory margin* and *client account margin* rates for *control blocks* are 100% unless the position is part of an underwriting *commitment* that is subject to the requirements of Rule 5500.

5341. - 5349. Reserved.

### RIGHTS AND WARRANTS

#### 5350. Canada and United States rights and warrants eligible for margin

- (1) The minimum *Dealer Member inventory margin* and *client account margin* rates (or dollar amounts per share) for unlisted warrants issued by a *chartered bank* and Canada and United States ~~listed~~-rights and warrants listed on an acceptable exchange are as follows:

Minimum margin required	
<b>Category (i)</b> <b>Unlisted warrants issued by a Canadian chartered bank entitling the holder to buy securities issued by the Government of Canada or a Canadian province</b>	<b>Category (ii)</b> <b>Canada and United States <del>listed</del>-rights and warrants <u>listed on an acceptable exchange</u></b>
The lesser of: (a) 100% of the <i>market value</i> of the warrant, and (b) the margin required for warrant's <i>underlying security</i> .	

5351. - 5359. Reserved.

INDEX PRODUCTS

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
<p>(a) The greater of:</p> <p>(I) the <i>floating margin rate</i> percentage (calculated for <i>index participation unit</i> based on its <i>regulatory margin interval</i>), and</p> <p>(II) the minimum floor margin rate required under subsection 5360(2),</p> <p>multiplied by</p> <p>(b) The <i>market value</i> of <i>index participation units</i>.</p>	<p>(a) The sum of:</p> <p>(I) the greater of:</p> <p>(A) the <i>floating margin rate</i> percentage (calculated for a perfect basket of index securities based on its <i>regulatory margin interval</i>), and</p> <p>(B) the minimum floor margin rate required under subsection 5360(2),</p> <p>and</p> <p>(II) The calculated <i>incremental basket margin rate</i> for the <i>qualifying basket of index securities</i>,</p> <p>multiplied by</p> <p>(b) The <i>market value</i> of <i>qualifying basket of index securities</i>.</p>

- (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(910)	Category (ii) Sector index as defined in subsection 5130(910)
Floor rate percentage to be used in determining margin rate for unhedged positions in <i>index participation units</i> and <i>qualifying basket of index securities</i>	10.00%	15.00%
Floor rate percentage to be used in determining <i>tracking error margin rate</i>	2.00%	3.00%

for qualifying offset strategies involving index products		
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- (3) The *Corporation* 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 the *Corporation*, that:
- (i) meets the minimum requirements for an *index* in subsection 5130(910), and
  - (ii) is included on the list of floating and tracking error margin rates for qualifying Canadian and U.S. index products.
- (4) The *Corporation* 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)
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rounded up to the next ¼%.
  - (ii) In limited circumstances, to ensure appropriate margin requirements, the *Corporation* may use discretion in calculating a *regulatory margin interval*. *Dealer Members* will be notified by the *Corporation* if any adjustments to the *regulatory margin interval* calculation are made.
- (5) To calculate the *floating margin rate* for an *index participation unit* or a perfect basket of index securities:
- (i) the *Corporation* 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, the *Corporation* 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.
- (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)
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for each underweighted security in the basket.

**5361. - 5369. Reserved.**

**5370. Securities held in a Trader’s account**

- (1) The minimum *Dealer Member inventory margin* for a security position held in a *Trader’s* account is 25% of the *market value* of such security provided:
  - (i) the *Trader* has responsibility or has “on post” trading privileges for the security,
  - (ii) the security is eligible for margin pursuant to section 5311,
  - (iii) the security does not qualify for a 25% margin rate pursuant to section 5311, and

- (iv) the security has traded at a value of at or above \$2.00 per share for the previous calendar quarter.
- (2) The reduced margin available under subsection 5370(1) may be applied to a maximum total security *market value* in all *Trader's* accounts of:
  - (i) \$100,000, if 90,000 shares or more of the security were traded in the previous calendar quarter, and
  - (ii) \$50,000, if less than 90,000 shares of the security were traded in the previous calendar quarter.

The minimum *Dealer Member inventory margin* on security position amounts over \$100,000 and \$50,000, respectively, shall be the minimum margin otherwise required pursuant to section 5311.

- (3) The reduced margin available for all security positions under subsection 5370(1) shall not exceed 50% of the *Dealer Member's* net allowable assets.

**5371. - 5399. Reserved.**

## RULE 5400 | MARGIN REQUIREMENTS FOR OTHER INVESTMENT PRODUCTS

### 5401. Introduction

- (1) Rule 5400 sets out specific *Dealer Member inventory margin* and *client account margin* requirements for investment products not covered in Rules 5200 or 5300. The order of subjects in Rule 5400 is:
- (i) securities subject to redemption call or offer [section 5410],
  - (ii) units [section 5420],
  - (iii) precious metal certificates and bullion [section 5430],
  - (iv) swap contracts [sections 5440 through 5442],
  - (v) mutual fund positions [section 5450],
  - (vi) [structured products \[section 5455 through 5456\]](#), and
  - (vii) foreign exchange positions [sections 5460 through 5469].

5402. - 5409. Reserved.

### SECURITIES SUBJECT TO REDEMPTION CALL OR OFFER

#### 5410. Securities subject to redemption call or offer

- (1) The minimum *Dealer Member inventory margin* and *client account margin* requirements for securities subject to redemption call or offer are as follows:

Conditions	Minimum margin required	
	Category (i) Securities called for cash redemption according to their terms and conditions	Category (ii) Securities subject to a binding cash offer, for which all conditions have been met
Cash offer for all the issued and outstanding class of securities	No margin required provided the <i>market value</i> of the position is no greater than the amount of the cash offer	
Cash offer for a fraction of the issued and outstanding class of securities	For fraction subject to cash offer, no margin required provided the <i>market value</i> of the fractional position is no greater than the amount of the cash offer.  For remainder of the position, <i>normal margin</i> (as determined elsewhere in Rules 5200 through 5900) would apply.	

5411. - 5419. Reserved.

### UNITS

#### 5420. Units

- (1) The minimum *Dealer Member inventory margin* and *client account margin* requirement for units is the sum of the margin required for each of the unit components.

5421. - 5429. Reserved.

## PRECIOUS METAL CERTIFICATES AND BULLION

## 5430. Precious metal certificates and bullion

- (1) The minimum *Dealer Member inventory margin* and *client account margin* requirements for precious metal certificates and bullion are as follows:

Precious metal investment type	Minimum margin required expressed as a percentage of market value
Negotiable certificates issued by <i>chartered banks</i> and trust companies authorized to do business in Canada, evidencing an interest in one of gold, platinum or silver	20%
Gold or silver bullion purchased by a <i>Dealer Member</i> for inventory or on behalf of a client, from the Royal Canadian Mint or a <i>chartered bank</i> that is a market making member or a full member of the London Bullion Market Association	20%

- (2) The *Dealer Member* must have a written representation from bullion vendor stating that the bullion are London Bullion Market Association good delivery bars for the bullion to be margin eligible under subsection 5430(1).

5431. - 5439. Reserved.

## INTEREST RATE AND TOTAL PERFORMANCE SWAPS

## 5440. Interest rate swaps

- (1) For *interest rate swaps* where payments are calculated with reference to a notional amount, the *Dealer Member* obligation to pay and entitlement to receive shall each be margined as separate components as follows:
- (i) where a component is a payment calculated according to a *fixed interest rate*, the margin required is the margin rate percentage specified in subsection 5210(1) category (i) for a security with the same term to maturity as the outstanding term of the swap, multiplied by 125% and in turn multiplied by the notional amount of the swap, and
  - (ii) where a component is a payment calculated according to a *floating interest rate*, the margin required is the margin rate percentage specified in subsection 5210(1) category (i) for a security with the same term to maturity as the remaining term to the swap reset date, multiplied by the notional amount of the swap.

## 5441. Total performance swaps

- (1) For *total performance swaps*, where payments are calculated with reference to a notional amount, the *Dealer Member* obligation to pay and entitlement to receive shall each be margined as separate components as follows:
- (i) where a component is a payment calculated based on the performance of a stipulated *underlying security* or *underlying basket of securities*, with reference to a notional amount, the margin requirement is the *normal margin required* for the

*underlying security or underlying basket of securities* relating to this component, based on the *market value* of the *underlying security or underlying basket of securities*, and

- (ii) where a component is a payment calculated according to a *floating interest rate*, the margin required is the margin rate percentage specified in subsection 5210(1) category (i) for a security with the same term to maturity as the remaining term to the swap reset date, multiplied by the notional amount of the swap.

#### **5442. Swap counterparty margin requirements**

- (1) The counterparty to the swap agreement is considered the *Dealer Member's* client and the minimum margin the *Dealer Member* shall obtain from the swap client is as follows:
  - (i) where the swap client is an *acceptable institution*, no margin, or
  - (ii) where the swap client is an *acceptable counterparty or regulated entity*, any *market value* deficiency calculated relating to the swap agreement, or
  - (iii) where the ~~counterparty~~ swap client is ~~an other~~ a counterparty to which neither clause 5442(1)(i) nor 5442(1)(ii) applies, any *loan value* deficiency calculated relating to the swap agreement determined by using the same approach as set out in sections 5440 and 5441 for *Dealer Member* swap positions.
- (2) No margin is required in sub-clause 5442(1)(ii) provided:
  - (i) the *Dealer Member* takes action to correct the *market value* deficiency, and
  - (ii) the *market value* deficiency exists for less than one *business day*.

**5443. - 5449. Reserved.**

### **MUTUAL FUNDS**

#### **5450. Margin requirements for mutual fund positions**

- (1) The minimum *Dealer Member inventory margin* and *client account margin* rates (or dollar amounts per share) for securities of mutual funds qualified by prospectus for sale in any province of Canada are:
  - (i) for money market mutual funds (as defined in National Instrument 81-102), 5% of the *market value* of the fund, and
  - (ii) for all other mutual funds, the margin rate determined in subsection 5310(1) (using the per unit *market value* of the mutual fund) multiplied by the *market value* of the fund.

**5451. - 5454. Reserved.**

### **STRUCTURED PRODUCTS**

#### **5455. Margin requirements for structured products**

- (1) A structured product is eligible to be margined provided:
  - (i) the issuer of the structured product is a Canadian financial institution as defined in securities laws, which qualifies as an acceptable institution,

- (ii) at the time of issuance, the structured product's underlying security or underlying basket of securities are eligible for a margin rate of 50% or less under Rule 5200, 5300 or 5400, and
- (iii) the issuer of the structured product or its affiliate is actively providing a secondary market.

(2) Where a structured product is eligible to be margined pursuant to 5455(1), the minimum Dealer Member inventory margin and client account margin requirements are as follows:

<u>Type of structured product</u>	<u>Minimum margin required</u>
<u>principal protected note</u>	<u>30% of the market value of the principal protected note position</u>
<u>principal at risk note</u>	<u>50% of the market value of the principal at risk note position</u>

**5456. Alternative calculation approach for structured products**

- (1) For structured products with protection of all or a portion of the investment principal, where the performance component can be separated from the debt instrument component, the minimum Dealer Member inventory margin and client account margin requirements may be calculated as the sum of the separate components as follows:
  - (i) For the performance component linked to an underlying interest, 100% of the market value of the performance component; and
  - (ii) For the debt instrument component, the margin rate percentage specified in subsection 5223(1), multiplied by the market value of the debt instrument component,

provided the conditions in section 5455(1) are met.

**5457. - 5459. Reserved.**

**FOREIGN EXCHANGE POSITIONS**

**5460. General margin requirements for foreign exchange positions**

- (1) The minimum Dealer Member inventory margin and client account margin requirements for a particular foreign exchange position are the aggregate of the spot risk margin requirement and term risk margin requirement, calculated using one of the following groups of spot risk margin rates and term risk margin rates for the relevant foreign currency:

<b>Spot risk and term risk margin required as a percentage of market value of the foreign exchange position</b>				
<b>Currency Group</b>				
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
Spot risk margin rate	greater of: (i) 1.00% and	greater of: (i) 3.00% and	greater of: (i) 10.00% and	25.00%

Spot risk and term risk margin required as a percentage of market value of the foreign exchange position				
Currency Group				
	1	2	3	4
	(ii) spot risk surcharge rate	(ii) spot risk surcharge rate	(ii) spot risk surcharge rate	
Term risk margin rate	lesser of: (i) 1.00% x <i>foreign exchange position term to maturity</i> , and (ii) 4.00%	lesser of: (i) 3.00% x <i>foreign exchange position term to maturity</i> , and (ii) 7.00%	lesser of: (i) 5.00% x <i>foreign exchange position term to maturity</i> , and (ii) 10.00%	lesser of: (i) 12.50% x <i>foreign exchange position term to maturity</i> , and (ii) 25.00%

- (2) The foreign exchange currency group that a particular country currency qualifies for is determined based on the currency group criteria set out in subsection 5461(1).
- (3) The spot risk margin surcharge rate that may be in effect from time to time for a particular country currency is determined using the approach set out in subsection 5462(2).
- (4) *Dealer Members* are permitted at their option to margin certain inventory positions in accordance with section 5467 instead of the other applicable provisions within sections 5461 through 5466.
- (5) References to conversion to Canadian dollars at the *spot exchange rate* are to the rate quoted by a recognized quote vendor for contracts with a *term to maturity* of one day.
- (6) *Monetary assets and liabilities* are assets and liabilities, respectively, of a *Dealer Member* in respect of money and claims to money whether denominated in foreign or domestic currency, which are fixed by contract or otherwise.
- (7) Inventory long or short currency *futures contracts* listed on a futures exchange which are included in the unhedged foreign exchange calculations hereunder are not required to be margined pursuant to section 5790.
- (8) *Dealer Members* are permitted at their option to exclude non-allowable *monetary assets* from *monetary assets* for the purpose of calculating the margin requirement within sections 5461 through 5467.
- (9) The *foreign exchange position term to maturity* is the term to maturity of a particular *foreign exchange position* expressed in years.

#### 5461. Foreign exchange currency group criteria and monitoring

- (1) **Criteria** - The qualitative and quantitative criteria for initial qualification within each currency group are as follows:
  - (i) A Group 1 currency must:
    - (a) have a spot price volatility level of less than or equal to 1.00%, and

- (b) be a primary intervention currency of the Canadian dollar.
- (ii) A Group 2 currency must:
  - (a) have a spot price volatility level of less than or equal to 3.00%,
  - (b) have a daily quoted spot rate by a Schedule 1 *chartered bank*, and
  - (c) have either:
    - (I) a daily quoted spot rate by either:
      - (A) a member of the Economic and Monetary Union, or
      - (B) a participant in the Exchange Rate Mechanism II,
    - or
    - (II) a listed currency *futures contract* on a futures exchange.
- (iii) A Group 3 currency must:
  - (a) have a spot price volatility level of less than or equal to 10.00%,
  - (b) have a daily quoted spot rate by a Schedule 1 *chartered bank*, and
  - (c) be of a member country of the International Monetary Fund with Article VIII status, and no capital payment restrictions as they relate to security transactions.
- (iv) A Group 4 currency has no initial or ongoing qualification criteria.

**(2) Monitoring currency adherence to group qualitative criteria -**

On at least an annual basis, the *Corporation* shall assess the adherence of each currency in a group to the qualitative criteria of the particular currency group to determine whether the currency continues to satisfy the qualitative criteria of the currency group.

**(3) Currency group upgrades and downgrades –** Where the *Corporation* determines that a particular currency:

- (i) should be upgraded, because it now satisfies the criteria set out in subsection 5461(1) for a currency group other than its current currency group, or
- (ii) should be downgraded, because it no longer satisfies its current currency group criteria as set out in subsection 5461(1),

The *Corporation* shall recommend for approval its proposed upgrade or downgrade to the *Corporation's* Financial and Operations Advisory Section. Upon the *Corporation's* Financial and Operations Advisory Section approval, the *Corporation* shall notify *Dealer Members* of the upgrade or downgrade.

**5462. Spot risk margin rate**

- (1) **Minimum rates** - The minimum spot risk margin rates for each Currency Group are as follows:

Minimum spot risk margin required as a percentage of market value of the foreign exchange position			
Currency Group			
1	2	3	4

Minimum spot risk margin rate	1.00%	3.00%	10.00%	25.00%
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- (2) **Spot price volatility levels** - To monitor the volatility of each Group 1, 2 or 3 currency, the Canadian dollar equivalent closing price on each of the four trading days succeeding the "base day" is compared to the base day closing price. The first of four succeeding trading days on which the percentage change in price (negative or positive) between the closing price on the succeeding day and the closing price on the base day is greater than the spot risk margin rate prescribed for the particular currency in subsection 5460(1) is designated an "offside base day". If an offside base day has been designated, the offside base day is designated the base day for the purpose of making further base day closing price comparisons.

If the number of offside base days during any 60 trading day period is greater than three, the currency is deemed to have exceeded the volatility threshold of the currency group.

If the volatility of a Group 1, 2 or 3 currency exceeds the volatility threshold, the individual currency spot risk margin rate is increased by increments of 10% until the application of the increased margin rate would result in no more than two offside days during the preceding 60 trading days. The increased margin rate shall apply for a minimum of 30 trading days and is automatically decreased to the margin rate otherwise applicable when after such 30 trading day period the volatility of the currency is less than the volatility threshold.

The *Corporation* is responsible for determining the required increase or decrease in foreign exchange spot risk margin rates under this subsection 5462(2).

#### 5463. Spot risk margin requirement

- (1) The spot risk margin requirement applies to all *monetary assets and liabilities*, regardless of *term to maturity*, and must be calculated as:
- $$\text{net long (short) foreign exchange position} \quad \times \quad \text{spot risk margin rate}$$
- (2) The spot risk margin requirement must be converted to Canadian dollars at the current *spot exchange rate*.

#### 5464. Term risk margin requirement

- (1) The term risk margin requirement applies to all *monetary assets or liabilities* with a *term to maturity* of over two *business days* and must be calculated for each individual asset and liability as:
- $$\text{foreign exchange position} \quad \times \quad \text{term risk margin rate for the position}$$
- (2) The term risk margin requirement must be converted to Canadian dollars at the current *spot exchange rate*.

#### 5465. Maximum security margin requirement

- (1) The sum of:
- (i) the spot risk margin requirement,
  - (ii) the term risk margin requirement, and

(iii) the security margin requirement as determined elsewhere in these Rules, must not exceed 100% of the *market value* of the security.

**5466. Foreign exchange position offsets for Dealer Members**

- (1) A Dealer Member must calculate *Dealer Member inventory margin* and *client margin* for *foreign exchange positions* according to the currency groups and rates in subsection 5460(1).
- (2) If a Dealer Member has a *monetary asset* and *monetary liability* in the same currency, the term risk margin requirement may be netted according to the following table:

Dealer Member position	Term risk margin requirement
(i) <i>Monetary asset</i> and <i>monetary liability</i> , both with a <i>term to maturity</i> of 2 years or less	Term risk margin requirement for both positions may be netted
(ii) <i>Monetary asset</i> and <i>monetary liability</i> , both with a <i>term to maturity</i> of over 2 years	Term risk margin requirement for both positions is the greater of term risk margin requirement for the <i>monetary asset</i> and the <i>monetary liability</i> .
(iii) <i>Monetary asset</i> ( <i>monetary liability</i> ) with a <i>term to maturity</i> of 2 years or less and <i>monetary liability</i> ( <i>monetary asset</i> ) with a <i>term to maturity</i> of over 2 years where difference in the terms to maturity is 180 days or less.	Term risk margin requirement for both positions may be netted

- (3) If a Dealer Member has a *monetary asset* and a *monetary liability* in the same currency group and one of the positions has a *term to maturity* of 2 years or less and the other has a *term to maturity* of more than 2 years, the term risk margin requirement for the two positions need not be greater than the following:

Currency Group			
1	2	3	4
<i>Market value</i> of positions offset			
x	x	x	x
5.00%	10.00%	20.00%	50.00%

**5467. Alternative calculation approach for Dealer Member foreign exchange positions**

- (1) As an alternative to the foreign exchange margin requirement determined under sections 5463 through 5466 for futures and forward contract inventory positions denominated in a currency which has a currency *futures contract* which trades on a futures exchange, the foreign exchange margin requirement may be calculated as follows.
  - (i) **Futures contracts** - *Foreign exchange positions* consisting of *futures contracts* may be margined at the margin rates prescribed by the futures exchange on which the *futures contracts* are listed.

- (ii) **Forward contracts offsets** - Forward contract positions which are not denominated in Canadian dollars may be margined as follows:
  - (a) the margin requirement is the greater of the requirement determined under sections 5463 through 5466 on each of the two positions,
  - (b) two forward contracts held by a *Dealer Member* which have one currency common to both contracts, are for the same value date, and the amount of the common currency positions are equal and offsetting, may be treated as a single contract for the purposes of ~~sub=~~clause 5467(1)(ii)(~~b~~).
- (iii) **Futures and forward contract offsets** - Futures and forward contract positions which are not denominated in Canadian dollars may be margined as follows:
  - (a) (I) the margin requirement is the greater of the requirement determined under sections 5463 through 5466 on each of the two positions,
  - (II) margin rates applicable to unhedged positions under paragraph 5467(1)(iii)(a)(I) are the rates established by sections 5461 through 5466 and not the rates prescribed by the futures exchange on which the *futures contracts* are listed,
  - (b) two forward contracts held by a *Dealer Member* which have one currency common to both contracts, are for the same value date, and the amount of the common currency positions are equal and offsetting, may be treated as a single contract for the purposes of ~~sub=~~clause 5467(1)(iii)(~~b~~).

#### 5468. Client account margin requirements

- (1) The minimum *client account margin* requirements for *foreign exchange positions* are the aggregate of the spot risk margin requirement and term risk margin requirement calculated for each position provided that:
  - (i) Where the positions are held in an account of:
    - (a) an *acceptable institution*, no margin is required, or
    - (b) an *acceptable counterparty* or a *regulated entity*, margin is calculated on a mark-to-market basis.
  - (ii) The margin required in respect of *foreign exchange positions* (excluding cash balances) held in the accounts of clients ~~who are classified as other counterparties, as defined in Form 1 to which clause 5468(1)(i) does not apply~~, which are denominated in a currency other than the currency of the account, is the aggregate of the security margin requirement and the foreign exchange margin requirement, provided that where the margin rate applicable to the security is greater than the spot risk margin rate, the foreign exchange margin requirement is nil. The sum of the security margin requirement and the foreign exchange margin requirement shall not exceed 100%.
  - (iii) Listed *futures contracts* are margined in the same manner as prescribed in section 5790.

#### 5469. Foreign exchange concentration charge

- (1) In respect of any Group 2, Group 3 or Group 4 currency, a concentration charge as calculated in subsection 5469(2) may apply.

## DEALER AND CONSOLIDATED RULES

- (2) The concentration charge that applies for any Group 2, Group 3 or Group 4 currency, is any excess of the aggregate of the foreign exchange margin provided under sections 5461 through 5468 on a *Dealer Member's monetary assets and monetary liabilities* and the foreign exchange margin on client accounts over 25% of the: ~~firm'~~
- (i) *Investment Dealer Member's* net allowable assets net of minimum capital (as determined for the purposes of ~~Form 1~~*Investment Dealer Form 1*) , or
  - (ii) *Mutual Fund Dealer Member's adjusted allowable working capital net of minimum capital (as determined for the purposes of Mutual Fund Dealer Form 1)*,
- as determined on a currency by currency basis.

**5470. – 5499. Reserved.**

**RULE 5500 | MARGIN REQUIREMENTS FOR UNDERWRITING COMMITMENTS AND WHEN ISSUED TRADING**

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**5501. Introduction**

- (1) Rule 5500 covers *Dealer Member inventory margin* requirements for underwriting *commitments* and offsets involving underwriting *commitments* and *Dealer Member inventory margin* and *client account margin* requirements for when issued trading positions. The order of subjects in Rule 5500 is:
  - (i) underwriting *commitment* amount [section 5510]
  - (ii) margin requirements for underwriting *commitments*:
    - (a) where a *new issue letter* has not been obtained [section 5520],
    - (b) where a *new issue letter* has been obtained [section 5521],
    - (c) where expressions of interest from *exempt purchasers* have been received [section 5522],
    - (d) alternative approach to margining private placements of restricted *equity securities* [section 5523],
    - (e) standby commitment to purchase securities under a rights offering [section 5524],
  - (iii) underwriting related agreements [section 5530],
  - (iv) individual and overall underwriting concentration charges [sections 5540 and 5541],
  - (v) specific offset strategies involving *commitments* to purchase [sections 5550 through 5552],and
  - (vi) margin requirements for when issued trading positions [sections 5560 through 5562].

**5502. - 5509. Reserved.**

**UNDERWRITING COMMITMENT AMOUNT****5510. Underwriting commitment amount**

- (1) In determining the amount of a *Dealer Member's* underwriting *commitment* for the purposes of sections 5520 through 5524, sections 5530 and 5531 and sections 5540 and 5541, receivables from *Dealer Members* of the banking or selling groups in respect of firm obligations to take down a portion of a new issue of securities (that is not after market trading) may be deducted from the liability of the *Dealer Member* to the issuer.

**5511. - 5519. Reserved.**

**MARGIN REQUIREMENTS FOR UNDERWRITING COMMITMENTS****5520. Margin requirements for underwriting commitments where a new issue letter has not been obtained**

- (1) The minimum *Dealer Member inventory margin* requirement for a *commitment* in respect of a new issue of securities or a secondary issue of securities where a *new issue letter* has not been obtained is calculated in accordance with subsections 5520(2) through 5520(5).

- (2) **No out clauses in effect** - Where the *commitment* is not subject to a *market out clause* or a *disaster out clause* (by the exclusion of these clauses from the related underwriting agreement), the margin required is:
- (i) from the *commitment* date to 20 *business days* after settlement date, *normal new issue margin*,
  - (ii) thereafter, *normal margin*.
- (3) **Disaster out clause in effect** - Where the *commitment* is subject to a *disaster out clause* (by the inclusion of this clause in the related underwriting agreement), the margin required is:
- (i) from the *commitment* date to the settlement date of the offering or the expiry date of the *disaster out clause*, whichever is earlier, 50% of *normal new issue margin*, and
  - (ii) thereafter, the same as in subsection 5520(2).
- (4) **Market out clause in effect** - Where the *commitment* is subject to a *market out clause* (by the inclusion of this clause in the related underwriting agreement), the margin required is:
- (i) from the *commitment* date to the settlement date of the offering or the expiry date of the *market out clause*, whichever is earlier, 10% of *normal new issue margin* is required, and
  - (ii) thereafter, the same as in subsection 5520(2).
- (5) **Disaster out clause and market out clause in effect** - Where the *commitment* is subject to a *disaster out clause* and a *market out clause* (by the inclusion of these clauses in the related underwriting agreement), the margin required is:
- (i) from the *commitment* date to the settlement date of the offering or the expiry date of the *market out clause*, whichever is earlier, 10% of *normal new issue margin* is required, and
  - (ii) thereafter:
    - (a) where the *disaster out clause* is still in effect, the same as in subsection 5520(3), or
    - (b) where the *disaster out clause* is also no longer effect, the same as in subsection 5520(2).

**5521. Margin requirements for underwriting commitments where a new issue letter has been obtained**

- (1) The minimum *Dealer Member inventory margin* requirement for a *commitment* in respect of a new issue of securities or a secondary issue of securities where a *new issue letter* has been obtained is calculated in accordance with subsections 5521(2) through 5521(6).
- (2) **No out clauses in effect** - Where the *commitment* is not subject to a *market out clause* or a *disaster out clause* (by the exclusion of these clauses from the related underwriting agreement), the margin required is:
- (i) from the effective date of the *new issue letter* to the *business day* prior to the settlement date of the offering:
    - (a) where the *new issue letter* has not expired, 10% of *normal new issue margin*, and
    - (b) where the *new issue letter* has expired, *normal new issue margin*,

- (ii) from settlement date of the offering:
  - (a) where the *new issue letter* has been drawn:
    - (I) from settlement date to five *business days* after settlement date or when the *new issue letter* expires, whichever is earlier, 10% of *normal new issue margin*,
    - (II) for the next succeeding five *business days* or when the *new issue letter* expires, whichever is earlier, 25% of *normal new issue margin*,
    - (III) for the next succeeding five *business days* or when the *new issue letter* expires, whichever is earlier, 50% of *normal new issue margin*,
    - (IV) for the next succeeding five *business days* or when the *new issue letter* expires, whichever is earlier, 75% of *normal new issue margin*, and
    - (V) thereafter, *normal margin*, and
  - (b) where the *new issue letter* has not been drawn:
    - (I) from settlement date to 20 *business days* after settlement date or when the *new issue letter* expires, whichever is earlier, 100% of *normal new issue margin*, and
    - (II) thereafter, *normal margin*.
- (3) **Disaster out clause in effect** - Where the *commitment* is subject to a *disaster out clause* (by the inclusion of this clause in the related underwriting agreement), the margin required is:
  - (i) from the effective date of the *new issue letter* to the *business day* prior to the settlement date of the offering:
    - (a) where the *new issue letter* has not expired, 10% of *normal new issue margin*,
    - (b) where the *disaster out clause* has not expired, 50% of *normal new issue margin*, and
    - (c) where the *new issue letter* and the *disaster out clause* have expired, *normal new issue margin*,
  - (ii) from settlement date of the offering, the same as in clause 5521(2)(ii).
- (4) **Market out clause in effect** - Where the *commitment* is subject to a *market out clause* (by the inclusion of this clause in the related underwriting agreement), the margin required is:
  - (i) from the effective date of the *new issue letter* to the *business day* prior to the settlement date of the offering:
    - (a) where the *new issue letter* and the *market out clause* have not expired, 5% of *normal new issue margin*,
    - (b) where the *new issue letter* has expired and the *market out clause* has not expired, 10% of *normal new issue margin*,
    - (c) where the *new issue letter* has not expired and the *market out clause* has expired, 10% of *normal new issue margin*, and
    - (d) where both the *new issue letter* and the *market out clause* have expired, *normal new issue margin*,
  - (ii) from settlement date of the offering, the same as in clause 5521(2)(ii).

- (5) **Disaster out clause and market out clause in effect** - Where the *commitment* is subject to a *disaster out clause* and a *market out clause* (by the inclusion of these clauses in the related underwriting agreement), the margin required is:
- (i) from the effective date of the *new issue letter* to the *business day* prior to the settlement date of the offering:
    - (a) where the *new issue letter* and the *market out clause* have not expired, 5% of *normal new issue margin*,
    - (b) where the *new issue letter* has expired and the *market out clause* has not expired, 10% of *normal new issue margin*,
    - (c) where the *new issue letter* has not expired and the *market out clause* has expired, 10% of *normal new issue margin*,
    - (d) where both the *new issue letter* and the *market out clause* have expired and the *disaster out clause* has not expired, 50% of *normal new issue margin*, and
    - (e) where the *new issue letter*, the *market out clause* and the *disaster out clause* have all expired, *normal new issue margin*,
  - (ii) from settlement date of the offering, the same as in clause 5521(2)(ii).
- (6) If the margin rates prescribed in subsections 5521(2) through 5521(5) in respect of *commitments* for which a *new issue letter* is available are less than the margin rates required by the issuer of such letter, the higher rates required by the issuer shall be applied.

**5522. Margin requirements for underwriting commitments where expressions of interest from exempt purchasers have been affirmed**

- (1) Where a *Dealer Member* has a *commitment* in respect of a new issue of securities or a secondary issue of securities and the *Dealer Member* has determined through obtaining *appropriate documentation*:
- (i) that the allocation between retail and *exempt purchasers* has been finalized,
  - (ii) that expressions of interest received from the entire allotment to *exempt purchasers* have been verbally affirmed but not yet ticketed,
  - (iii) that there is unlikely to be a significant renege rate on the expressions of interest received from *exempt purchasers*, and
  - (iv) that the *Dealer Member* is not significantly leveraging its underwriting activities through the use of the margin requirement reduction provided on that portion of the *commitment* where expressions of interest have been received from *exempt purchasers*,
- the minimum *Dealer Member inventory margin* requirement for the portion of the *commitment* allocated to *exempt purchasers* is calculated in accordance with subsections 5522(2) through 5522(6).
- (2) **New issue letter has not been obtained and no out clauses in effect** - Where the *commitment* is not subject to a *market out clause* or a *disaster out clause* (by the exclusion of these clauses from the related underwriting agreement) and a *new issue letter* has not been obtained or has expired, the margin required from the date that the

expressions of interest received from the entire allotment to *exempt purchasers* have been verbally affirmed but not yet ticketed until the date the sales are contracted is:

- (i) where the current *market value* of the *commitment* is at or above 90% of new issue value (90% x issue price x number of shares), 20% of *normal new issue margin*,
  - (ii) where the current *market value* of the *commitment* is at or above 80% but below 90% of new issue value (80% x issue price x number of shares), 40% of *normal new issue margin*, and
  - (iii) otherwise, *normal new issue margin*.
- (3) **New issue letter has not been obtained and disaster out clause in effect** - Where the *commitment* is subject to a *disaster out clause* (by reference in the *commitment* to such clause being included in the underwriting agreement) and the *disaster out clause* has not expired and a *new issue letter* has not been obtained or has expired, the margin required is the lesser of:
- (i) the margin required in subsection 5522(2), and
  - (ii) the margin required in subsection 5520(3).
- (4) **New issue letter has not been obtained and market out clause in effect** - Where the *commitment* is subject to a *market out clause* (by the inclusion of this clause in the related underwriting agreement) and the *market out clause* has not expired and a *new issue letter* has not been obtained or has expired, the margin required is the same as in subsection 5520(4).
- (5) **New issue letter has not been obtained and disaster out clause and market out clause in effect** - Where the *commitment* is subject to a *disaster out clause* and a *market out clause* (by the inclusion of these clauses in the related underwriting agreement) and the *market out clause* has not expired and a *new issue letter* has not been obtained or has expired, the margin required is the same as in subsection 5520(5).
- (6) **New issue letter has been obtained** - Where a *new issue letter* has been obtained and the *new issue letter* has not expired, the margin required is the same as in section 5521.

**5523. Alternative approach to margining of private placements of restricted equity securities during the distribution period**

- (1) For a private placement of an *equity security* subject to a four-month trading restriction (pursuant to National Instrument 45-102 or a similar provincial *securities laws* exemption), an alternative approach to margining is permitted. The alternative approach is set out in subsection 5523(2).
- (2) The margin rate to be used for the private placement during the distribution period shall be the greater of:
  - (i) the margin rate that would be otherwise applicable to the security if the restriction were not present, subject to the margin rate reductions available in sections 5520 through 5522, and
  - (ii) (a) where it is five *business days* or less subsequent to the *commitment* date, 25%,  
(b) where it is greater than five *business days* subsequent to the *commitment* date, 50%, and

(c) where it is on or after the offering settlement date, 100%.

**5524. Margin requirements for a standby commitment to purchase securities under a rights offering**

- (1) The minimum *Dealer Member inventory margin* requirement for a standby commitment to purchase securities under a rights offering is calculated in accordance with subsection 5524(2).
- (2) The margin required is:
  - (i) where the *market value* of the *underlying security* is greater than 125% of the subscription amount, nil,
  - (ii) where the *market value* of the *underlying security* is greater than 110% but less than or equal to 125% of the subscription amount, 10% of the *normal margin* rate multiplied by the subscription amount,
  - (iii) where the *market value* of the *underlying security* is greater than 105% but less than or equal to 110% of the subscription amount, 30% of the *normal margin* rate multiplied by the subscription amount,
  - (iv) where the *market value* of the *underlying security* is greater than 100% but less than or equal to 105% of the subscription amount, 50% of the *normal margin* rate multiplied by the subscription amount, and
  - (v) where the *market value* of the *underlying security* is less than or equal to 100% of the subscription amount, the *normal margin* rate multiplied by the *market value* of the *underlying security*.

**5525. - 5529. Reserved.**

**UNDERWRITING RELATED AGREEMENTS**

**5530. New issue letter**

- (1) To obtain the reduced margin requirements in section 5521 for an underwriting *commitment*, a *Dealer Member* must be party to a *new issue letter*.
- (2) In subsection 5130(5), a *new issue letter* is defined as an underwriting loan facility in a form satisfactory to the *Corporation*. For the letter to be satisfactory, it must contain the following minimum terms and conditions:
  - (i) the letter issuer must provide an irrevocable commitment to advance funds based only on the strength of the new issue and the *Dealer Member*,
  - (ii) the letter issuer must advance funds to the *Dealer Member* for any part of the *commitment* not sold, for an amount based on a stated *loan value* rate, at a stated interest rate, and for a stated period of time,
  - (iii) the letter issuer must not, if the *Dealer Member* is unable to repay the loan at the termination date resulting in a loss or potential loss to the letter issuer, have or seek any right of set-off against:
    - (a) collateral held by the letter issuer for any other obligations of the *Dealer Member* or its clients,
    - (b) cash on deposit with the letter issuer for any purpose, or

- (c) securities or other assets held in a custodial capacity by the letter issuer for the *Dealer Member's* own account or for the *Dealer Member's* clients, to recover the loss or potential loss.
- (3) If the *new issue letter* issuer is not an *acceptable institution*, the funds that can be drawn under the *new issue letter* must either be fully collateralized by high-grade securities or held in escrow with an *acceptable institution*.

**5531. - 5539. Reserved.**

#### INDIVIDUAL AND OVERALL UNDERWRITING CONCENTRATION CHARGES

##### 5540. Individual underwriting concentration charge

- (1) Where:
  - (i) the margin required on any one *commitment* is reduced due to either:
    - (a) obtaining a *new issue letter* in accordance with section 5521, or
    - (b) qualifying expressions of interest received from *exempt purchasers* that have been verbally affirmed but not yet contracted in accordance with section 5522,
 and
  - (ii) the margin requirement reduction in respect of such *commitment* (determined by comparing the margin requirement calculated in section 5521 or section 5522 with the margin requirement otherwise applicable and calculated in section 5520), exceeds 40% of such *Dealer Member's* net allowable assets,
 such excess shall be added to *total margin required* pursuant to Form 1. The amount to be deducted may be reduced by the amount of margin provided for as required by section 5521 or section 5522 on the individual underwriting position to which such excess relates.

##### 5541. Overall underwriting concentration charge

- (1) Where:
  - (i) the margin required on some or all *commitments* is reduced due to either:
    - (a) obtaining a *new issue letter* in accordance with section 5521, or
    - (b) qualifying expressions of interest received from *exempt purchasers* that have been verbally affirmed but not yet contracted in accordance with section 5522,
 and
  - (ii) the aggregate margin requirement reductions in respect of such *commitments* (determined by comparing the margin requirements calculated in section 5521 and section 5522 with the margin requirements otherwise applicable and calculated in section 5520), exceeds 100% of such *Dealer Member's* net allowable assets,
 such excess shall be added to *total margin required* pursuant to Form 1. The amount to be deducted may be reduced by the amount of margin provided for as required by section 5521 and section 5522 above on individual underwriting positions and by the amount required to be deducted from *risk adjusted capital* pursuant to section 5540.

5542. - 5549. Reserved.

#### SPECIFIC OFFSET STRATEGIES INVOLVING COMMITMENTS TO PURCHASE

##### 5550. Long qualifying basket of index securities - Short index participation units - Commitment to purchase index participation units

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

	<b>Long position</b>		<b>Short position</b>		<b>Commitment</b>
(i)	<i>qualifying basket of index securities</i>	and	<i>index participation units based on the same index</i>	and	<i>commitment to purchase index participation units pursuant to an underwriting agreement</i>

and *equivalent quantities* of each position in the combination are held, the minimum margin required for the combination is calculated in accordance with subsection 5550(2).

(2) No margin is required provided the long *qualifying basket of index securities*:

- (i) is of size sufficient to comprise a basket of securities or multiple thereof required to obtain the participation units,
- and
- (ii) does not exceed the *Dealer Member's commitment* to purchase the participation units.

##### 5551. Long qualifying basket of index securities - Short index participation unit call options - Commitment to purchase index participation units

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

	<b>Long position</b>		<b>Short option position</b>		<b>Commitment</b>
(i)	<i>qualifying basket of index securities</i>	and	<i>index participation unit call option based on the same index</i>	and	<i>commitment to purchase index participation units pursuant to an underwriting agreement</i>

and *equivalent quantities* of each position in the combination are held and the underwriting period expires after the expiry date of the short *call options*, the minimum margin required for the combination is calculated in accordance with subsection 5551(2).

(2) Subject to additional margin requirements set out in subsection 5551(3), the minimum margin required is the *normal margin required* on the long qualifying basket less the

*market value* of the short *call options*, but in no event shall the margin required be less than zero.

- (3) Where the *qualifying basket of index securities* is imperfect, additional margin is required to be provided in the amount of the calculated *incremental basket margin rate* for the basket multiplied by the *market value* of the basket.

**5552. Long qualifying basket of index securities - Long index participation unit put options - Commitment to purchase index participation units**

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

	<b>Long position</b>		<b>Long option position</b>		<b>Commitment</b>
(i)	<i>qualifying basket of index securities</i>	and	<i>index participation unit put option based on the same index</i>	and	<i>commitment to purchase index participation units pursuant to an underwriting agreement</i>

and *equivalent quantities* of each position in the combination are held and the underwriting period expires after the expiry date of the long *put options*, the minimum margin required for the combination is calculated in accordance with subsection 5552(2).

- (2) Subject to additional margin requirements set out in subsection 5552(3), the minimum margin required is:
- (i) 100% of the *market value* of the long *put options*,  
plus
- (ii) the lesser of:
- (a) the *normal margin required* on the long *qualifying basket of index securities*,  
or
- (b) the *market value* of the *qualifying basket of index securities* less the *aggregate exercise value* of the *put options*.
- A negative value calculated under sub-clause 5552(2)(ii)(b) may reduce the margin required on the *put options*, but in no event shall the margin required be less than zero.
- (3) Where the *qualifying basket of index securities* is imperfect, additional margin is required to be provided in the amount of the calculated *incremental basket margin rate* for the basket multiplied by the *market value* of the basket.

**5553. - 5559. Reserved.**

**MARGIN REQUIREMENTS FOR WHEN ISSUED TRADING POSITIONS**

**5560. Margin for short positions**

- (1) Subject to subsections 5560(2) and 5560(3), the minimum *Dealer Member inventory margin* and *client account margin* required for short positions resulting from short sales of

a security traded on a when issued basis is the *normal margin required* for a short position in the security.

- (2) *Dealer Member inventory margin* shall be posted on the trade date of the short sale.
- (3) *Client account margin* shall be posted on the ~~second~~first settlement day after the trade date of the short sale.

**5561. Margin for hedged positions**

- (1) Subject to subsections 5561(3) and 5561(4), the minimum *Dealer Member inventory margin* and *client account margin* required for hedged positions resulting from purchases of securities *trading on a when issued basis* that are subsequently sold on a when issued basis is the *normal margin required* for a long position in the security.
- (2) Subject to subsections 5561(3) and 5561(4), the minimum *Dealer Member inventory margin* and *client account margin* required for hedged positions resulting from purchases of securities *trading on a when issued basis* that are subsequently sold for settlement into the regular market is the *normal margin required* for a short position in the security.
- (3) *Dealer Member inventory margin* shall be posted on the trade date of the purchase.
- (4) *Client account margin* shall be posted on the ~~second~~first settlement day after the trade date of the sale.

**5562. Margin for long positions**

- (1) Subject to subsections 5562(2) and 5562(3), the minimum *Dealer Member inventory margin* and *client account margin* required for long positions resulting from purchases of securities *trading on a when issued basis* that have not been sold subsequently on a when issued basis is the *normal margin required* for a long position in the security.
- (2) *Dealer Member inventory margin* shall be posted on the trade date of the purchase.
- (3) *Client account margin* shall be posted on the later of the ~~second~~first settlement day after the trade date of the purchase ~~and~~or the date of the issuance or distribution of the security.

**5563. - 5599. Reserved.**

**RULE 5600 | MARGIN REQUIREMENTS FOR OFFSET STRATEGIES INVOLVING DEBT AND EQUITY SECURITIES AND RELATED INSTRUMENTS**

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**5601. Introduction**

- (1) Rule 5600 addresses the margin treatment of security positions that comprise reduced-risk offset strategies. The margin requirements for these strategies are generally less than if the positions are margined separately. Reduced margin in some cases is available for both *Dealer Member* inventory and client account offset strategies and in other cases is available for only *Dealer Member* inventory offset strategies.
- (2) The order of subjects in Rule 5600 is:
  - (i) *Dealer Member* inventory and client account offset strategies involving:
    - (a) *debt securities*:
      - (I) government *debt securities* [sections 5610 through 5618],
      - (II) commercial and corporate *debt securities* [sections 5620 through 5624], and
      - (III) government *debt securities* and commercial and corporate *debt securities* [sections 5630 through 5631],
    - (b) convertible and *exercisable securities*:
      - (I) *convertible securities* [sections 5640 through 5644],
      - (II) *capital shares* [sections 5650 to 5655], and
      - (III) warrants, rights, *installment receipts* and other *exercisable securities* [sections 5660 through 5663],
  - and
  - (ii) offsets only available for *Dealer Member* inventory positions:
    - (a) *debt securities* [sections 5670 through 5671], and
    - (b) swap positions [section 5680 through ~~5682~~[5683](#)].

**5602. - 5609. Reserved.**

**DEALER MEMBER INVENTORY AND CLIENT ACCOUNT OFFSET STRATEGIES****OFFSETS INVOLVING GOVERNMENT DEBT SECURITIES AND RELATED INSTRUMENTS****5610. Summary reference tables**

- (1) The following reference table summarizes the reduced margin offset strategies available among government *debt securities*:

DEALER AND CONSOLIDATED RULES

	Short Canada debt securities	Short United States debt securities	Short Canada Provincial debt securities	Short Canada Municipal debt securities
Long Canada debt securities	same maturity band - 5611 and 5612	same maturity band - 5614(3)(i)	same maturity band - 5614(1)(i)	same maturity band - 5614(1)(ii) and 5614(3)(iii)
	different maturity bands - 5613(1)(i)	different maturity bands - no offset available	different maturity bands - 5613(1)(ii)	different maturity bands - no offset available
Long United States debt securities	same maturity band - 5614(3)(i)	same maturity band - 5611 and 5612	same maturity band - 5614(3)(ii)	same maturity band - 5614(3)(iv)
	different maturity bands - no offset available	different maturity bands - no offset available	different maturity bands - no offset available	different maturity bands - no offset available
Long Canada Provincial debt securities	same maturity band - 5614(1)(i)	same maturity band - 5614(3)(ii)	same maturity band - 5611 and 5612	same maturity band - 5614(1)(iii) and 5614(3)(v)
	different maturity bands - 5613(1)(ii)	different maturity bands - no offset available	different maturity bands - 5613(1)(iii)	different maturity bands - no offset available
Long Canada Municipal debt securities	same maturity band - 5614(1)(ii) and 5614(3)(iii)	same maturity band - 5614(3)(iv)	same maturity band - 5614(1)(iii) and 5614(3)(v)	- offset available for long and short positions in same security
	different maturity bands - no offset available	different maturity bands - no offset available	different maturity bands - no offset available	different maturity bands - no offset available

- (2) The following reference table summarizes the reduced margin offset strategies available between Canadian government *debt securities* and strip and residual debt instruments:

DEALER AND CONSOLIDATED RULES

	Short Canada debt securities	Short Canada Provincial debt securities	Short Canada strips or Canada residuals	Short Provincial strips or Provincial residuals
Long Canada debt securities	Refer to table in subsection 5610(1)		same issuer and maturity band - 5615(1)(i) and 5615(1)(ii)	same maturity band - 5615(2)(i) and 5615(2)(ii)
			different issuers or maturity bands - no offset available	different maturity bands - no offset available
Long Canada Provincial debt securities			same maturity band - 5615(2)(iii) and 5615(2)(iv)	same maturity band - 5615(1)(v) and 5615(1)(vi)
			different maturity bands - no offset available	different maturity bands - no offset available
Long Canada strips or Canada residuals	same maturity band - 5615(1)(i) and 5615(1)(ii)	same maturity band - 5615(2)(iii) and 5615(2)(iv)	same maturity band - 5615(3)(i) through 5615(3)(iii)	same maturity band - 5615(4)(i) through 5615(4)(iv)
	different maturity bands - no offset available	different maturity bands - no offset available	different maturity bands - no offset available	different maturity bands - no offset available
Long Provincial strips or Provincial residuals	same maturity band - 5615(2)(i) and 5615(2)(ii)	same maturity band - 5615(1)(v) and 5615(1)(vi)	same maturity band - 5615(4)(i) through 5615(4)(iv)	same maturity band - 5615(3)(iv) through 5615(3)(vi)
	different maturity bands - no offset available	different maturity bands - no offset available	different maturity bands - no offset available	different maturity bands - no offset available

- (3) The following reference table summarizes the reduced margin offset strategies available between foreign federal government *debt securities* and foreign federal government strip and residual debt instruments:

	Short foreign federal government debt securities	Short foreign federal government strips or foreign federal government residuals
Long foreign federal government debt securities	Refer to table in <u>subsection 5610(1)</u>	same issuer and <i>maturity band</i> - 5615(1)(iii) and 5615(1)(iv)
		different issuers or <i>maturity bands</i> - no offset available
Short foreign federal government strips or foreign federal government residuals	same issuer and <i>maturity band</i> - 5615(1)(iii) and 5615(1)(iv)	same issuer and <i>maturity band</i> - offset available for long and short positions in same security
	different issuer or <i>maturity bands</i> - no offset available	different issuer or <i>maturity bands</i> - no offset available

- (4) The following reference table summarizes the reduced margin offset strategies available between Canadian government *debt securities* and Canadian government guaranteed mortgage-backed securities:

	Short Canada debt securities	Short Canada mortgage-backed securities
Long Canada debt securities	Refer to table in subsection 5610(1)	same <i>maturity band</i> - 5616(1)(i)
		different <i>maturity bands</i> - no offset available
Long Canada mortgage-backed securities	same <i>maturity band</i> - 5616(1)(i)	same <i>maturity band</i> - offset available for long and short positions in same security
	different <i>maturity bands</i> - no offset available	different <i>maturity bands</i> - no offset available

- (5) The following reference table summarizes the reduced margin offset strategies available between government *debt securities* and government debt *futures contracts*:

	Short Canada debt securities	Short Canada Provincial debt securities	Short Canada Municipal debt securities	Short Canada bond futures
Long Canada debt securities	Refer to table in subsection 5610(1)			same <i>maturity band</i> - 5617(1)(i)

DEALER AND CONSOLIDATED RULES

	Short Canada debt securities	Short Canada Provincial debt securities	Short Canada Municipal debt securities	Short Canada bond futures
				different maturity bands - 5618(1)(i)
Long Canada Provincial debt securities				same maturity band - 5618(1)(ii)
				different maturity bands - 5618(1)(ii)
Long Canada Municipal debt securities				same maturity band - 5618(1)(iii)
Long Canada bond futures	same maturity band - 5617(1)(i)	same maturity band - 5618(1)(ii)	same maturity band - 5618(1)(iii)	same maturity band - <ul style="list-style-type: none"> <li>• same contract - margin computed on the net long or net short contract position</li> <li>• different contracts - refer to requirements on exchange on which the contract trades</li> </ul>
	different maturity bands - 5618(1)(i)	different maturity bands - 5618(1)(ii)	different maturity bands - no offset available	different maturity bands - refer to requirements on exchange

	Short Canada debt securities	Short Canada Provincial debt securities	Short Canada Municipal debt securities	Short Canada bond futures
				on which the contract trades

**5611. Government debt securities of same issuer and both maturing within one year**

(1) Where a *Dealer Member* or a client:

- (i) has a long position in *Canada debt securities, United States debt securities, Canada Provincial debt securities* or any other *debt security* described in category (i) or category (ii) of subsection 5210(1), maturing within one year, and
- (ii) has a short position in *debt securities*:
  - (a) issued or guaranteed by the same issuer (provided that for these purposes each of the provinces of Canada shall be regarded as the same issuer as any other province of Canada),
  - (b) in the same currency as the securities referred to in clause 5611(1)(i),
  - (c) maturing within one year, and
  - (d) with a *market value* equal to the securities referred to in clause 5611(1)(i),

the two positions may be offset and the minimum margin required for both positions may be computed as the excess of the *normal margin required* on the long (or short) position over the *normal margin required* on the short (or long) position.

**5612. Government debt securities of same issuer with same maturity band and both maturing in greater than or equal to one year**

(1) Where a *Dealer Member* or a client:

- (i) has a long position in *Canada debt securities, United States debt securities, Canada Provincial debt securities* or any other *debt security* described in category (i) or category (ii) of subsection 5210(1), maturing in greater than or equal to one year, and
- (ii) has a short position in *debt securities*:
  - (a) issued or guaranteed by the same issuer (provided that for these purposes each of the provinces of Canada shall be regarded as the same issuer as any other province of Canada),
  - (b) and in the same currency as the securities referred to in clause 5612(1)(i),
  - (c) maturing within the same *maturity band* as the securities referred to in clause 5612(1)(i), and
  - (d) with a *market value* equal to the securities referred to in clause 5612(1)(i),

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.

**5613. Government debt securities with different maturity bands**

(1) Where a *Dealer Member* or a client has one of the following long government *debt security* position and short government *debt security* position pairings:

<b>Long (short) position</b>		<b>Short (long) position</b>
(i) <i>Canada debt securities</i>	and	<i>Canada debt securities</i>
(ii) <i>Canada debt securities</i>	and	<i>Canada Provincial debt securities</i>
(iii) <i>Canada Provincial debt securities</i>	and	<i>Canada Provincial debt securities</i>

and the positions have the same currency denomination and *market value* but are within different *maturity bands*, 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.

**5614. Government debt securities of different issuers with same maturity band**

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

<b>Long (short) position</b>		<b>Short (long) position</b>
(i) <i>Canada debt securities</i>	and	<i>Canada Provincial debt securities</i>
(ii) <i>Canada debt securities</i>	and	highly rated <i>Canada Municipal debt securities</i> with a high issuer credit rating
(iii) <i>Canada Provincial debt securities</i>	and	highly rated <i>Canada Municipal debt securities</i> with a high issuer credit rating

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 50% of the greater of the margins normally required on the long (or short) and the short (or long) positions.

- (2) In subsection 5614(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) Where a *Dealer Member* or a client has one of the following long government *debt security* position and short government *debt security* position pairings:

<b>Long (short) position</b>		<b>Short (long) position</b>
(i) <i>Canada debt securities</i>	and	<i>United States debt securities</i>
(ii) <i>United States debt securities</i>	and	<i>Canada Provincial debt securities</i>
(iii) <i>Canada debt securities</i>	and	<i>Canada Municipal debt securities</i>
(iv) <i>United States debt securities</i>	and	<i>Canada Municipal debt securities</i>
(v) <i>Canada Provincial debt securities</i>	and	<i>Canada Municipal debt securities</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.

**5615. Offsets involving government debt securities and strip coupons or residuals**

- (1) Where a *Dealer Member* or a client has one of the following long (short) government debt security position and short (long) government strip coupon or residual position pairings:

<b>Long (short) position</b>		<b>Short (long) position</b>
(i) <i>Canada debt securities</i>	and	<i>Canada strips</i>
(ii) <i>Canada debt securities</i>	and	<i>Canada residuals</i>
(iii) Federal government <i>debt securities</i> eligible for margin pursuant to category (i) of subsection 5210 (1)	and	Same federal government strips
(iv) Federal government <i>debt securities</i> eligible for margin pursuant to category (i) of subsection 5210 (1)	and	Same federal government residuals
(v) <i>Canada Provincial debt securities</i>	and	<i>Canada Provincial strips</i>
(vi) <i>Canada Provincial debt securities</i>	and	<i>Canada Provincial residuals</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 excess of the *normal margin required* on the strip coupon or residual position over the *normal margin required* on the *debt security* position.

- (2) Where a *Dealer Member* or a client has one of the following long (short) government debt security position and short (long) government strip coupon or government residual position pairings:

<b>Long (short) position</b>		<b>Short (long) position</b>
(i) <i>Canada debt securities</i>	and	<i>Canada Provincial strips</i>
(ii) <i>Canada debt securities</i>	and	<i>Canada Provincial residuals</i>
(iii) <i>Canada Provincial debt securities</i>	and	<i>Canada strips</i>
(iv) <i>Canada Provincial debt securities</i>	and	<i>Canada residuals</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 50% of the total *normal margin required* for both positions.

- (3) Where a *Dealer Member* or a client has one of the following government strip coupon or government residual position pairings:

<b>Long (short) position</b>	<b>Short (long) position</b>
------------------------------	------------------------------

- |       |                                    |     |                                    |
|-------|------------------------------------|-----|------------------------------------|
| (i)   | <i>Canada strips</i>               | and | <i>Canada strips</i>               |
| (ii)  | <i>Canada residuals</i>            | and | <i>Canada residuals</i>            |
| (iii) | <i>Canada strips</i>               | and | <i>Canada residuals</i>            |
| (iv)  | <i>Canada Provincial strips</i>    | and | <i>Canada Provincial strips</i>    |
| (v)   | <i>Canada Provincial residuals</i> | and | <i>Canada Provincial residuals</i> |
| (vi)  | <i>Canada Provincial strips</i>    | and | <i>Canada Provincial residuals</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 excess of the *normal margin required* on the long (or short) position over the *normal margin required* on the short (or long) position.

- (4) Where a *Dealer Member* or a client has one of the following government strip coupon or government residual position pairings:

- |       | <b>Long (short) position</b> |     | <b>Short (long) position</b>       |
|-------|------------------------------|-----|------------------------------------|
| (i)   | <i>Canada strips</i>         | and | <i>Canada Provincial strips</i>    |
| (ii)  | <i>Canada strips</i>         | and | <i>Canada Provincial residuals</i> |
| (iii) | <i>Canada residuals</i>      | and | <i>Canada Provincial strips</i>    |
| (iv)  | <i>Canada residuals</i>      | and | <i>Canada Provincial residuals</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 50% of the total *normal margin required* for both positions.

**5616. Offsets involving government debt securities and government guaranteed mortgage-backed securities**

- (1) Subject to subsection 5616(2), where a *Dealer Member* or a client has the following pairing:

- |     | <b>Long (short) position</b>  |     | <b>Short (long) position</b>                 |
|-----|-------------------------------|-----|--|
| (i) | <i>Canada debt securities</i> | and | Canada guaranteed mortgage-backed securities |

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 excess of the *normal margin required* on the mortgage-backed security position over the *normal margin required* on the *debt security* position.

- (2) Where:
- (i) the *market value* of the mortgage-backed securities position equals or exceeds the remaining principal amount of such position, and

- (ii) the mortgages underlying the mortgage-backed securities position are subject to being repaid with or without penalty in full at the option of the mortgagee prior to maturity,

the two positions may be offset and the minimum margin required for both positions may be computed as the greater of the *normal margin required* on the mortgage-backed security position and the *normal margin required* on the *debt security* position.

**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) <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) “*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*.

5619. Reserved.

**OFFSETS INVOLVING COMMERCIAL AND CORPORATE DEBT SECURITIES AND RELATED INSTRUMENTS**

**5620. Summary reference tables**

(1) The following reference table summarizes the reduced margin offset strategies available among commercial and corporate *debt securities*:

	Short commercial and corporate debt securities	Short Canadian chartered bank acceptances	Short Canadian bankers acceptance futures contracts
<b>Long commercial and corporate debt securities</b>	same <i>maturity band</i> - offset available for securities of same issuer - 5621(1)(i)	same <i>maturity band</i> - no offset available	same <i>maturity band</i> - no offset available
	different <i>maturity bands</i> - no offset available	different <i>maturity bands</i> - no offset available	different <i>maturity bands</i> - no offset available
<b>Long Canadian chartered bank acceptances</b>	same <i>maturity band</i> - no offset available	same <i>maturity band</i> - offset available for same security only	same <i>maturity band</i> - 5622(1)(i)
	different <i>maturity bands</i> - no offset available	different <i>maturity bands</i> - no offset available	different <i>maturity bands</i> - no offset available
<b>Long Canadian bankers acceptance futures contracts</b>	same <i>maturity band</i> - no offset available	same <i>maturity band</i> - 5622(1)(i)	same <i>maturity band</i> - <ul style="list-style-type: none"> <li>• same contract - margin computed on the net long or net short contract position</li> <li>• different contracts - refer to requirements on exchange on which the contract trades</li> </ul>
	different <i>maturity bands</i> - no offset available	different <i>maturity bands</i> - no offset available	different <i>maturity bands</i> - refer to requirements on exchange on which the contract trades

(2) The following reference table summarizes the reduced margin offset strategies available between commercial and corporate *debt securities* and strip and residual debt instruments:

	Short commercial and corporate debt	Short commercial and corporate debt strips or residuals
Long commercial and corporate debt	Refer to table in subsection 5620(1)	same <i>maturity band</i> - offset available where strip or residual is of the same issuer - 5623(1)(i)
		different <i>maturity bands</i> - no offset available
Long commercial and corporate debt strips or residuals	same <i>maturity band</i> - offset available where strip or residual is of the same issuer - 5623(1)(i)	same <i>maturity band</i> - offset available for long and short positions in same strip or same residual
	different <i>maturity bands</i> - no offset available	different <i>maturity bands</i> - no offset available

- (3) The following reference table summarizes the reduced margin offset strategies available between commercial and corporate *debt securities* and government debt *futures contracts*:

	Short commercial and corporate debt	Short Canada bond futures
Long commercial and corporate debt	Refer to table in subsection 5620(1)	same <i>maturity band</i> - 5624(1)(i)
		different <i>maturity bands</i> - no offset available
Long Canada bond futures	same <i>maturity band</i> - 5624(1)(i) different <i>maturity bands</i> - no offset available	Refer to table in subsection 5610(5)

**5621. Commercial and corporate debt securities of same issuer with same maturity band**

- (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 non-convertible commercial and corporate <i>debt securities</i>		highly rated non-convertible commercial and corporate <i>debt securities</i> of the same issuer

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 5621(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*.

**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 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*.

**5623. Offsets involving commercial and corporate debt securities and strip coupons or residuals**

- (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 non-convertible commercial and corporate <i>debt securities</i>		strips or residuals whose underlier is highly rated non-convertible commercial and corporate <i>debt securities</i> of the same issuer

and the positions have the same currency denomination and *market value* and are within the same *maturity band*, 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, subject to a maximum margin rate requirement of 20%.

- (2) In subsection 5623(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*.

**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:

**Long (short) position**

**Short (long) position**

- (i) highly rated non-convertible commercial and corporate *debt securities* and Government of Canada notional bond *futures contract*

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 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*.

5625. - 5629. Reserved.

**OFFSETS INVOLVING GOVERNMENT AND COMMERCIAL AND CORPORATE DEBT SECURITIES AND RELATED INSTRUMENTS**

**5630. Summary reference table**

- (1) The following reference table summarizes the reduced margin offset strategies available between government *debt securities* and commercial and corporate *debt securities*:

	Short Canada debt securities	Short United States treasury debt securities	Short Canada Provincial debt securities	Short commercial and corporate debt securities
Long Canada debt securities	Refer to table in subsection 5610(1)			same <i>maturity band</i> -5631(1)(i)
				different <i>maturity bands</i> - no offset available
Long United States treasury debt securities	Refer to table in subsection 5610(1)			same <i>maturity band</i> -5631(1)(ii)
				different <i>maturity bands</i> - no offset available

	Short Canada debt securities	Short United States treasury debt securities	Short Canada Provincial debt securities	Short commercial and corporate debt securities
Long <i>Canada</i> <i>Canada</i> Provincial debt securities				same <i>maturity band</i> - 5631(1)(iii)
				different <i>maturity bands</i> - no offset available
Long commercial and corporate debt securities	same <i>maturity band</i> - 5631(1)(i)	same <i>maturity band</i> - 5631(1)(ii)	same <i>maturity band</i> - 5631(1)(iii)	Refer to table in subsection 5620(1)
	different <i>maturity bands</i> - no offset available	different <i>maturity bands</i> - no offset available	different <i>maturity bands</i> - no offset available	

**5631. Government and commercial corporate debt securities with same maturity band**

(1) Where a *Dealer Member* or a client has one of the following long (short) government and short (long) commercial and corporate *debt security* position pairings:

<b>Long (short) position</b>	and	<b>Short (long) position</b>
(i) <i>Canada debt securities</i>		highly rated non-convertible commercial and corporate <i>debt securities</i>
(ii) <i>United States treasury debt securities</i>		highly rated non-convertible commercial and corporate <i>debt securities</i>
(iii) <i>Canada Provincial debt securities</i>		highly rated non-convertible commercial and corporate <i>debt securities</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 5631(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*.

**5632. - 5639. Reserved.**

## OFFSETS INVOLVING CONVERTIBLE SECURITIES

## 5640. Summary reference table

- (1) The following reference table summarizes the basic reduced margin offset strategies available for *convertible securities*:

	Short convertible security	Short underlying security
Long convertible security	<i>currently convertible</i> - offset available for long and short positions in the same security	<i>currently convertible</i> - offset available where: <ul style="list-style-type: none"> <li>• convertible into the <i>underlying security</i> - 5641(1)(i)</li> <li>• convertible into the cash equivalent of the unit value of the <i>underlying security</i> - 5641(1)(i) and 5641(1)(ii)</li> </ul>
	<i>not currently convertible</i> - offset available for long and short positions in same security	<i>not currently convertible</i> - 5642(1)
Long underlying security	offset available - 5643(1)	offset available for long and short positions in the same security

- (2) Other reduced margin offset strategies available for *convertible securities*:
- (i) offset relating to a pending amalgamation, acquisition, spin-off or other securities related reorganization transaction - 5644

## 5641. Offset where convertible security is held long and is currently convertible

- (1) Where a *Dealer Member* or a client holds a long position in a *convertible security* which is *currently convertible* and a short position in the *underlying security* and *equivalent quantities* of both positions are held, the two positions may be offset and the minimum margin required for both positions may be computed as the sum of:
- (i) the *conversion loss*, if any,  
and
- (ii) if the *convertible security* cannot be converted directly into the *underlying security* at the holder's option, 20% of the *normal margin required* on the *underlying security*.

## 5642. Offset where convertible security is held long and is not currently convertible

- (1) Where a *Dealer Member* or a client holds a long position in a *convertible security* which is *not currently convertible* and a short position in the *underlying security* and *equivalent quantities* of both positions are held, the two positions may be offset and the minimum margin required for both positions may be computed as the sum of:

- (i) the *conversion loss*, if any,
- and
- (ii) 40% of the *normal margin required* on the *underlying security*.

**5643. Offset where convertible security is held short**

- (1) Where a *Dealer Member* or a client holds a long position in the *underlying security* and a short position in a *convertible security* and *equivalent quantities* of both positions are held, the two positions may be offset and the minimum margin required for both positions may be computed as the sum of:
  - (i) the *conversion loss*, if any,
  - and
  - (ii) 40% of the *normal margin required* on the *underlying security*.

**5644. Offset relating to a pending amalgamation, acquisition, spin-off or other securities related reorganization transaction**

- (1) Where a *Dealer Member* or a client holds a long position in *Oldco securities* and short position in *Newco securities* and *equivalent quantities* of both positions are held and the pending reorganization that resulted in the creation of the *Newco securities* has received approval to proceed, the two positions may be offset and the minimum margin required for both positions may be computed as the excess of the combined *market value* of the *Oldco securities* over the combined *market value* of the *Newco securities*, if any.
- (2) For the purposes of subsection 5644(1), “approval to proceed” means that:
  - (i) all legal requirements to proceed with the reorganization have been met,
  - (ii) all regulatory, competition bureau and court approvals to proceed with the reorganization have been received, and
  - (iii) the *Oldco securities* will be cancelled and replaced by an *equivalent number* of *Newco securities* within 20 *business days*.

**5645. - 5649. Reserved.**

**OFFSETS INVOLVING CAPITAL SHARES**

**5650. Summary reference tables**

- (1) The following reference table summarizes the basic reduced margin offset strategies available for *capital shares*:

	Short capital share, with a conversion feature	Short capital share and short split share preferred share, both with a conversion feature	Short underlying security
Long capital share, with a conversion feature	offset available for long and short positions in same <i>capital share</i>	offset available for long and short positions in same <i>capital share</i> . <i>Normal</i>	<i>capital share</i> can be converted into <i>underlying security</i> - 5651(1)(i)

	Short capital share, with a conversion feature	Short capital share and short split share preferred share, both with a conversion feature	Short underlying security
		<i>margin</i> to be provided on short <i>split share preferred share</i> position	<i>capital share</i> can be converted into cash equivalent of unit value of <i>underlying security</i> - 5651(1)(i) and 5651(1)(ii)
Long capital share and long split share preferred share, both with a conversion feature	offset available for long and short positions in same <i>capital share</i> . <i>Normal margin</i> to be provided on long <i>split share preferred share</i> position	offset available for long and short positions in same <i>capital share</i> and same <i>split share preferred share</i>	<i>capital share</i> and <i>split share preferred share</i> can be converted into <i>underlying security</i> - 5652(1)(i)
			<i>capital share</i> and <i>split share preferred share</i> can be converted into cash equivalent of unit value of <i>underlying security</i> - 5652(1)(i) and 5651(2)(ii)
Long underlying security	offset available - 5653(1)	offset available - 5654(1)	offset available for long and short positions in same <i>underlying security</i>

(2) Other reduced margin offset strategies available for *capital shares*:

- (i) offset involving long capital share and short *call option* contract positions - 5655

**5651. Offset involving long capital share and short underlying common share positions**

(1) Where a *Dealer Member* or a client holds a long *capital share* position and a short underlying common share position and *equivalent quantities* of both positions are held, the two positions may be offset and the minimum margin required for both positions may be computed as the sum of:

- (i) lesser of:
  - (a) the sum of:
    - (I) the *capital share conversion loss*, if any, and
    - (II) the *normal margin required* on the *equivalent quantity* of *split share preferred shares*,
  - and
  - (b) the *normal margin required* on the underlying common shares,

and

- (ii) if the *capital shares* cannot be delivered to the *split share company* for retraction directly into the *underlying security* at the holder's option, 20% of the normal margin required ~~margin otherwise required~~ on the underlying common shares.

**5652. Offset involving long capital share, long split share preferred share and short underlying common share positions**

- (1) Where a *Dealer Member* or a client holds a long *capital share* position, a long *split share preferred share* position and a short underlying common share position and *equivalent quantities* of all positions are held, the three positions may be offset and the minimum margin required for all positions may be computed as the sum of:

- (i) lesser of:
  - (a) the *combined conversion loss*, if any, and
  - (b) the *normal margin required* on the underlying common shares,

and

- (ii) if the *capital shares* cannot be delivered to the *split share company* for retraction directly into the *underlying security* at the holder's option, 20% of the normal margin required ~~margin otherwise required~~ on the underlying common shares.

**5653. Offset involving short capital share and long underlying common share positions**

- (1) Where a *Dealer Member* or a client holds a short *capital share* position and a long underlying common share position and *equivalent quantities* of both positions are held, the two positions may be offset and the minimum margin required for both positions may be computed as the sum of:

- (i) lesser of:
  - (a) the sum of:
    - (I) the *capital share conversion loss*, if any, and
    - (II) the *normal margin required* on the *equivalent quantity of split share preferred shares*,

and

- (b) the *normal margin required* on the underlying common shares,

and

- (ii) 40% of the *normal margin required* on the underlying common shares.

**5654. Offset involving short capital share, short split share preferred share and long underlying common share positions**

- (1) Where a *Dealer Member* or a client holds a short *capital share* position, a short *split share preferred share* position and a long underlying common share position and *equivalent quantities* of all positions are held, the three positions may be offset and the minimum margin required for all positions may be computed as the sum of:

- (i) lesser of:
  - (a) the *combined conversion loss*, if any, and
  - (b) the *normal margin required* on the underlying common shares,

and

(ii) 40% of the *normal margin required* on the underlying common shares.

**5655. Offset involving long capital share and short call option contract positions**

(1) Where a *Dealer Member* or a client holds a long *capital share* position and a short *call option* contract position expiring on or before the redemption date of the *capital shares* and *equivalent quantities* of both positions are held, the two positions may be offset and the minimum margin required for both positions may be computed as the sum of:

(i) lesser of:

(a) the *normal margin required* on the *capital share* position less the *market value* of the *call option* contract position, provided that the net amount may not be less than zero,

and

(b) any excess of the *market value* of the underlying common shares over the *aggregate exercise value* of the *call option* contract position,

and

(ii) the *capital share conversion loss*, if any,

and

(iii) if the *capital shares* cannot be delivered to the *split share company* for retraction directly into the *underlying security* at the holder's option, 20% of the *normal margin required* on the underlying common shares.

**5656. - 5659. Reserved.**

## OFFSETS INVOLVING WARRANTS, RIGHTS, INSTALLMENT RECEIPTS AND OTHER EXERCISABLE SECURITIES

### 5660. Summary reference tables

- (1) The following reference table summarizes the basic reduced margin offset strategies available for *exercisable securities*:

	Short exercisable security	Short underlying security
Long exercisable security	<i>currently exercisable</i> -offset available for long and short positions in same security	<i>currently exercisable</i> -offset available where: <ul style="list-style-type: none"> <li>• <i>exercisable security</i> can be exercised into <i>underlying security</i>                -5661(1)(i) and 5661(1)(ii)</li> <li>• <i>exercisable security</i> can be exercised into cash equivalent of unit value of <i>underlying security</i>                -5661(1)(i) through 5661(1)(iii)</li> </ul>
	<i>not currently exercisable</i> -offset available for long and short positions in same security	<i>not currently exercisable</i> -5662(1)
Long underlying security	offset available -5663(1)	offset available for long and short positions in same security

### 5661. Offset where exercisable security is held long and is currently exercisable

- (1) Where a *Dealer Member* or a client holds a long position in an *exercisable security* which is *currently exercisable* and a short position in the *underlying security* and *equivalent quantities* of both positions are held, the two positions may be offset and the minimum margin required for both positions may be computed as the sum of:
- (i) the *exercise loss*, if any,
  - and
  - (ii) for client account positions, the amount of the exercise or subscription payment,
  - and
  - (iii) if the *exercisable security* cannot be converted directly into the *underlying security* at the holder's option, 20% of the *normal margin required* on the *underlying securities*.

### 5662. Offset where exercisable security is held long and is not currently exercisable

- (1) Where a *Dealer Member* or a client holds a long position in an *exercisable security* which is *not currently exercisable* and a short position in the *underlying security* and *equivalent*

*quantities* of both positions are held, the two positions may be offset and the minimum margin required for both positions may be computed as the sum of:

- (i) the *exercise loss*, if any,
- and
- (ii) for client account positions, the amount of the exercise or subscription payment,
- and
- (iii) 40% of the normal margin required ~~margin otherwise required~~ on the *underlying securities*.

**5663. Offset where exercisable security is held short**

- (1) Where a *Dealer Member* or a client holds a long position in the *underlying security* and a short position in an *exercisable security* and *equivalent quantities* of both positions are held, the two positions may be offset and the minimum margin required for both positions may be computed as the sum of:
  - (i) the *exercise loss*, if any,
  - and
  - (ii) for client account positions, the amount of the exercise or subscription payment,
  - and
  - (iii) 40% of the normal margin required ~~margin otherwise required~~ on the *underlying securities*.

**5664. - 5669. Reserved.**

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

**DEBT SECURITIES**

**5670. Offsets involving callable, extendible and retractable debt securities**

- (1) Where a *Dealer Member* holds a position in *callable, extendible or retractable debt securities* they may elect to use a different maturity date for reduced margin offset purposes than the original maturity date of the security if the applicable conditions in the chart below are met:

Security	Condition	Maturity date election
(i) <i>Callable debt security</i>	Market value of security at or below 101% of call value	Original maturity date
	Market value of security greater than 101% of the call value	First <i>business day</i> after expiry date of <i>call protection period</i>
(ii) <i>Extendible debt security</i>	<i>Extension election period</i> has not expired and security is trading at or below the:  <i>extension factor</i> x current principal amount	Original maturity date

Security	Condition	Maturity date election
	<i>Extension election period</i> has not expired and security is trading above the: <i>extension factor</i> x current principal amount	Extension maturity date
	<i>Extension election period</i> has expired	Original maturity date
(iii) <i>Retractable debt security</i>	<i>Retraction election period</i> has not expired and security is trading at or above the: <i>retraction factor</i> x current principal amount	Original maturity date
	<i>Retraction election period</i> has not expired and security is trading below the: <i>retraction factor</i> x current principal amount	Retraction maturity date
	<i>Retraction election period</i> has expired	Original maturity date

**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.

**5672. – 5679. Reserved.**

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

**SWAP POSITIONS**

**5680. Offset involving two interest rate swap positions**

- (1) Where a *Dealer Member* inventory account contains the following pairing:
- (i) a position in one or more *interest rate swaps* requiring it to pay (or entitling it to receive) Canadian dollar or United States dollar fixed (or floating) interest rate amounts,
- and
- (ii) another position in one or more *interest rate swaps* entitling it to receive (or requiring it to pay) a fixed (or floating) interest rate amount denominated in the

same currency and within the same *maturity band* for margin purposes as the *interest rate swap* or swaps referred to in clause 5680(1)(i), the two positions in clauses 5680(1)(i) and 5680(1)(ii) may be offset and the minimum margin required for both positions may be computed as the net of the *normal margin required* for each position, provided that the *normal margin required* on the *fixed interest rate* payment (or receipt) component position may only be offset against the *normal margin required* on the *fixed interest rate* receipt (or payment) component position, and the *normal margin required* on the *floating interest rate* payment (or receipt) component position may only be offset against the *normal margin required* on the *floating interest rate* receipt (or payment) component position.

**5681. Offsets involving interest rate swaps and federal government debt security positions**

(1) **Offset involving fixed interest rate swap component and federal government debt security positions** - Where a *Dealer Member* inventory account contains the following pairing:

- (i) a position in one or more *interest rate swaps* requiring it to pay (or entitling it to receive) Canadian dollar or United States dollar *fixed interest rate* amounts, and
- (ii) a long (or short) position in *Canada debt securities*, *United States debt securities*, or any other *debt securities* described in category (i) of subsection 5210(1) denominated in the same currency as the *interest rate swap* or swaps and with a *term to maturity* that is within the same *maturity band* for margin purposes as the *interest rate swap* or swaps,

the two positions in clauses 5681(1)(i) and 5681(1)(ii) may be offset and the minimum margin required for both positions may be computed as the net of the *normal margin required* for each position. Any margin requirement calculated for the separate *floating interest rate* receipt (or payment) component position will continue to be required unless that position separately qualifies for the offset set out in subsection 5681(2).

(2) **Offset involving floating interest rate swap component and federal government debt security positions** - Where a *Dealer Member* inventory account contains the following pairing:

- (i) a position in one or more *interest rate swaps* requiring it to pay (or entitling it to receive) Canadian dollar or United States dollar *floating interest rate* amounts, and
- (ii) a long (or short) position in *Canada debt securities*, *United States debt securities*, or any other *debt securities* described in category (i) of subsection 5210(1) denominated in the same currency as the *interest rate swap* or swaps and maturing within one year,

the two positions in clauses 5681(2)(i) and 5681(2)(ii) may be offset and the minimum margin required for both positions may be computed as the net of the *normal margin required* in respect of the positions. Any margin requirement calculated for the separate *fixed interest rate* receipt (or payment) component position will continue to be required unless that position qualifies for the offset set out in subsection 5681(1).

**5682. Offset involving two total performance swap positions**

- (1) Where a *Dealer Member* inventory account contains the following pairing:
- (i) a position in one or more *total performance swaps* requiring it to pay (or entitling it to receive) Canadian dollar or United States dollar amounts calculated based on the performance of a stipulated *underlying security* or basket of securities,
- and
- (ii) another position in one or more *total performance swaps* entitling it to receive (or requiring it to pay) amounts calculated based on the performance of the same *underlying security* or basket of securities and denominated in the same currency,
- the two positions in clauses 5682(1)(i) and 5682(1)(ii) may be offset and the minimum margin required for both positions may be computed as the net of the *normal margin required* for each position, provided that the *normal margin required* on the performance payment (or receipt) component position may only be offset against the *normal margin required* on the performance receipt (or payment) component position, and the *normal margin required* on the *floating interest rate* payment (or receipt) component position may only be offset against the *normal margin required* on the *floating interest rate* receipt (or payment) component position.

**5683. Offsets involving total performance swaps and underlying security positions**

- (1) **Offset involving short total performance swap component and long underlying security positions** - Where a *Dealer Member* inventory account contains the following pairing:
- (i) a short position in one or more *total performance swaps*,
- and
- (ii) a long position in the same *underlying security* or basket of securities,
- the two positions in clauses 5683(1)(i) and 5683(1)(ii) may be offset and the minimum margin required for both positions may be computed as either:
- (iii) where it can be demonstrated that sell-out risk relating to the offset has been mitigated:
    - (a) through the inclusion of a *realization clause* in the *total performance swap*, which allows the *Dealer Member* to close out the swap using the sell-out price for the long position in the *underlying security* or basket of securities, or
    - (b) since, due to the features inherent in the long position in the *underlying security* or basket of securities or the market on which the *underlying security* or basket of securities trades, the realization value of the long position in the *underlying security* or basket of securities is determinable at the time the *total performance swap* is to expire and this value will be used as the closeout price for the swap,

the net of the *normal margin required* for each position.
- or

- (iv**b**) where sell-out risk relating to the offset has not been mitigated, the net of the *normal margin required* for each position plus 20% of the *normal margin required* on the hedged portion of the long position in the *underlying security* or basket of securities.
- (2) **Offset involving long total performance swap component and short underlying security positions** - Where a *Dealer Member* inventory account contains the following pairing:
- (i) a long position in one or more *total performance swaps*,  
and
- (ii) a short position in the same *underlying security* or basket of securities,  
the two positions in clauses 5682(3)(i) and 5682(3)(ii) may be offset and the minimum margin required for both positions may be computed as either:
- (iii**a**) where it can be demonstrated that buy-in risk relating to the offset has been mitigated:
- (a**i**) through the inclusion of a *realization clause* in the *total performance swap*, which allows the *Dealer Member* to close out the swap using the buy-in price for the short position in the *underlying security* or basket of securities, or
- (b**ii**) since, due to the features inherent in the short position in the *underlying security* or basket of securities or the market on which the *underlying security* or basket of securities trades, the realization value of the short position in the *underlying security* or basket of securities is determinable at the time the *total performance swap* is to expire and this value will be used as the closeout price for the swap,  
the net of the *normal margin required* for each position.
- or
- (iv**b**) where buy-in risk relating to the offset has not been mitigated, the net of the *normal margin required* for each position plus 20% of the *normal margin required* on the hedged portion of the short position in the *underlying security* or basket of securities.

**5684. – 5699. Reserved.**

## RULE 5700 | MARGIN REQUIREMENTS FOR OFFSET STRATEGIES INVOLVING DERIVATIVE PRODUCTS

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### 5701. Introduction

- (1) Rule 5700 addresses the margin treatment of *derivative* product positions that comprise reduced-risk offset strategies. The margin requirements for these strategies are generally less than if the positions are margined separately. Reduced margin in some cases is available for both *Dealer Member* inventory and client account offset strategies and in other cases is available for only *Dealer Member* inventory offset strategies. The *derivative* products covered in Rule 5700 include *exchange-traded options* whose underlying interests include:
- equities
  - indexes
  - *index participation units*
  - debt
  - currencies
- and *over-the-counter options, futures contracts and futures contract options*.
- (2) The order of subjects in Rule 5700 is:
- (i) general requirements and summary reference tables [sections 5710 through 5715],
  - (ii) *exchange-traded options*,
    - (a) unhedged *option* positions [sections 5720 through 5721],
    - (b) hedged *option* positions [section 5725],
    - (c) *option* spreads and combinations [sections 5730 through 5740],
    - (d) security and *option* combinations and conversions [sections 5750 through 5755], and
    - (e) futures and *options* combinations and conversions [sections 5760 through 5765], and
  - (~~f~~iii) basket, participation unit and futures combinations [sections 5770 through 5772], ~~and~~
  - (~~g~~iv) cross index offsets and the optional use of the Standard Portfolio Analysis methodology [sections 5775 and 5776],
  - (~~h~~iv) *over-the-counter options* [section 5780], and
  - (~~i~~v) *futures contracts and futures contract options* [section 5790].

5702. - 5709. Reserved.

### GENERAL REQUIREMENTS AND SUMMARY REFERENCE TABLES

#### 5710. Agreement and account requirements

- (1) A *Dealer Member* writing *exchange-traded options* on behalf of a client must:
- (i) do so in a margin account and must have and maintain a written margin account agreement, or

- (ii) for registered accounts that may engage in certain trades involving *exchange-traded options*, have and maintain a written account agreement defining the rights and obligations between them relating to transacting in *exchange-traded options*.
- (2) A *Dealer Member* writing *over-the-counter options* on behalf of a client must do so in a margin account.
- (3) A *Dealer Member* writing and issuing or guaranteeing *over-the-counter options* on behalf of a client must either:
  - (i) have and maintain with that client a separate written margin agreement defining the rights and obligations between them relating to transacting in *over-the-counter options*, or
  - (ii) have and maintain with that client a supplementary *over-the-counter options* agreement defining the rights and obligations between them relating to transacting in *over-the-counter options*.

**5711. Requirement to calculate and obtain margin from clients**

- (1) A *Dealer Member* must calculate and obtain minimum *client margin* from clients with *option* positions according to the following:
  - (i) all open written transactions and resulting short positions must be carried in a margin account,
  - (ii) each *option* must be margined separately and:
    - (a) for equity, *index participation unit*, debt or currency *options*, any difference between the market price of the *underlying interest*, or
    - (b) for *index options*, any difference between the current value of the *index*, and the *exercise price* of the *option* has value only in providing the amount of margin required on that particular *option*.

**5712. Requirements for option offset strategies**

- (1) For all client account *option* offset strategies involving both short *option* and long *option* positions, the short *option* position must expire on or before the date of expiry of the long *option* position.
- (2) For *Dealer Member* account *option* offset strategies involving *index option* and *index participation unit option* combinations included in subsection 5730(1), the short *option* position must expire on or before the date of expiry of the long *option* position.

**5713. Imposition of special margin requirements**

- (1) The *Corporation* may impose special margin requirements on particular *options* or *options* positions.

**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.

**5715. Summary reference tables of common strategies**

- (1) The following reference list summarizes the margin requirements for unhedged positions in *exchange-traded options*:
- (i) long *call option* - 5720,
  - (ii) long *put option* - 5720,
  - (iii) short *call option* - 5721, and
  - (iv) short *put option* - 5721.
- (2) The following reference table summarizes the most common reduced margin offset strategies available involving *exchange-traded options*:

	Short underlying interest	Short call option	Long put option	Short call option and long put option
Long underlying interest	offset available for long and short positions in same security	long <i>underlying interest</i> / short <i>call</i> combination -5750(1)(i)	long <i>underlying interest</i> / long <i>put option</i> contract combination -5751(1)(i)	conversion or long <i>tripo</i> -5754(1)(i)
Long call option	short <i>underlying interest</i> / long <i>call option</i> contract combination -5752(1)(i)	<i>call option</i> spread -5730(1)(i)	long <i>call option</i> / long <i>put option</i> spread -5732(1)(i)	long <i>call option</i> / short <i>call option</i> / long <i>put option</i> combination -5733(1)(i)
Short put option	short <i>underlying interest</i> / short <i>put</i> combination -5753(1)(i)	short <i>call option</i> / short <i>put option</i> spread -5731(1)(i)	<i>put option</i> spread -5730(1)(i)	
Long call option and short put option	reconversion or short <i>tripo</i> -5755(1)(i)			

- (3) Other reduced margin offset strategies available involving *exchange-traded options* are as follows:
- (i) *option* positions hedged by *escrow receipts* or letters of *guarantee* - 5725,
  - (ii) long *warrant* - short *call* offset - 5734,
  - (iii) *box spread* - 5735, and
  - (iv) *butterfly*, *iron butterfly* and *iron condor* spreads - 5736 through 5740.

(4) The following reference table summarizes additional reduced margin offset strategies available involving *qualifying baskets of index securities, index participation units, index options and index participation unit options*:

	<b>Short qualifying basket of index securities</b>	<b>Short index participation units</b>	<b>Short index or index participation unit call options</b>	<b>Long index or index participation unit put options</b>	<b>Short and long respectively index or index participation unit call and put options</b>
<b>Long qualifying basket of index securities</b>	offset available for long and short positions in same index product	long basket - short <i>index participation units</i>  - 5770(1)(i)	long basket - short call combination  - 5750(1)(ii) and 5750(1)(iii)	long basket - long put combination  - 5751(1)(ii) and 5751(1)(iii)	long tripo or conversion  - 5754(1)(ii) and 5754(1)(iii)
<b>Long index participation units</b>	short basket - long <i>index participation units</i>  - 5771(1)(i)	offset available for long and short positions in same index product	long <i>index participation units</i> - short call combination  - 5750(1)(iv) and 5750(1)(v)	long <i>index participation units</i> - long put combination  - 5751(1)(iv) and 5751(1)(v)	long tripo or conversion  - 5754(1)(iv) and 5754(1)(v)
<b>Long index or index participation unit call options</b>	short basket - long call combination  - 5752(1)(ii) and 5752(1)(iii)	short <i>index participation unit</i> - long call combination  - 5752(1)(iv) and 5752(1)(v)	<b>Refer to table in subsection 5715(2)</b>		
<b>Short index or index participation unit put options</b>	short basket - short put combination  - 5753(1)(ii) and 5753(1)(iii)	short <i>index participation unit</i> - short put combination  - 5753(1)(iv) and 5753(1)(v)			

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	Short qualifying basket of index securities	Short index participation units	Short index or index participation unit call options	Long index or index participation unit put options	Short and long respectively index or index participation unit call and put options
Long and short respectively index or index participation unit call and put options	short tripo or reconversion  - 5755(1)(ii) and 5755(1)(iii)	short tripo or reconversion  - 5755(1)(iv) and 5755(1)(v)			

- (5) The following reference table summarizes additional reduced margin offset strategies available involving *index futures contracts*, *index options* and *index participation unit options*:

	Short index futures contract	Short index or index participation unit call options	Long index or index participation unit put options	Short and long respectively index or index participation unit call and put options
Long index futures contract	same contract month - margin computed in respect to the net long or net short position only  different contract months - refer to requirements on exchange on which the contract trades	Short calls - long <i>index futures contracts</i> -5760(1)(i) and 5760(1)(ii)	Long puts - long <i>index futures contracts</i> -5761(1)(i) and 5761(1)(ii)	Futures conversion or long tripo  - 5764(1)(i) ) and 5764(1)(ii)
Long index or index participation unit call options	Long calls - short <i>index futures contracts</i>	Refer to table in subsection 5715(2)		

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	Short index futures contract	Short index or index participation unit call options	Long index or index participation unit put options	Short and long respectively index or index participation unit call and put options
	- 5762(1)(i) and 5762(1)(ii)			
Short index or index participation unit put options	Short puts - short <i>index futures contracts</i> - 5763(1)(i) and 5763(1)(ii)			
Long and short respectively index or index participation unit call and put options	Futures reconversion or short trip - 5765(1)(i) and 5765(1)(ii)			

(6) The following reference table summarizes additional reduced margin offset strategies available involving *index futures contracts*, *qualifying baskets of index securities* and *index participation units*:

	Short qualifying basket of index securities	Short index participation units	Short index futures contracts
Long qualifying basket of index securities	Refer to table in subsection 5715(4)		Long <i>qualifying basket of index securities</i> - Short <i>index futures contracts</i> - 5772(1)(i)
Long index participation units			Long <i>index participation units</i> - short <i>index futures contracts</i> - 5772(1)(ii)
Long index futures contracts	Short <i>qualifying basket of index securities</i> - long <i>index futures contracts</i> - 5772(1)(i)	Short <i>index participation units</i> - long <i>index futures contracts</i> - 5772(1)(ii)	Refer to table in subsection 5715(5)

- (7) Other reduced margin offset strategies available involving any combination of *qualifying baskets of index securities, index participation units, index options, index participation unit options* and *index futures contracts* are as follows:
- (i) long *qualifying basket of index securities* - short *index participation unit call options* - commitment to purchase *index participation units (Dealer Member only)* - 5550,
  - (ii) long *qualifying basket of index securities* - long *index participation unit put options* - commitment to purchase *index participation units (Dealer Member only)* - 5551, and
  - (iii) long *qualifying basket of index securities* - short *index participation units* - commitment to purchase *index participation units (Dealer Member only)* - 5552.

**5716. - 5719. Reserved.**

#### EXCHANGE-TRADED OPTIONS - UNHEDGED OPTION POSITIONS

##### 5720. Long option positions

- (1) Subject to subsection 5720(2), the minimum *Dealer Member inventory margin* and *client account margin* required for long *exchange-traded option* positions is the sum of:
- (i) the lesser of:
    - (a) a percentage of the *market value* of the *underlying interest* determined using the following percentages:
      - (I) for *equity options*, the margin rate used for the *underlying interest* as determined in section 5311,
      - (II) for *index options* or *index participation unit options*, the published *floating margin rate* for the *index* or *index participation unit* calculated according to the formula set out in section 5360,
      - (III) for *debt options*, the margin rate used for the *underlying interest* as determined in section 5210,
      - (IV) for *currency options*, the *Corporation's* published spot risk margin rate for the *currency* calculated according to the formula set out in subsection 5460(1),
    - and
    - (b) the *option's in-the-money* amount, if any,
  - plus
  - (ii) where the period to expiry is greater or equal to nine months, 50% of the *option's time value*, 100% of the *option's time value* otherwise.
- (2) If the position in subsection 5720(1) is a long *call option* on an equity that is the subject of a legal and binding cash take-over bid for which all conditions have been met, the margin required on that *call option* is:
- (i) the *market value* of the *call option*,
  - minus
  - (ii) the excess, if any, of the amount offered over the *exercise value* of the *call option*.

If the take-over bid is made for less than 100% of the issued and outstanding securities, the margin requirement must be applied pro rata in the same proportion as the offer, and subsection 5720(1) applies to the balance.

#### 5721. Short option positions

- (1) Subject to subsection 5721(2), the minimum *Dealer Member inventory margin* and *client account margin* required for short *exchange-traded option* positions is:
  - (i) a percentage of the *market value* of the *underlying interest* determined using the following percentages:
    - (a) for *equity options*, the margin rate used for the *underlying interest* as determined in section 5311,
    - (b) for *index options* or *index participation unit options*, the published *floating margin rate* for the *index* or *index participation unit* calculated according to the formula set out in section 5360,
    - (c) for *debt options*, the margin rate used for the *underlying interest* as determined in section 5210,
    - (d) for *currency options*, the *Corporation's* published spot risk margin rate for the currency calculated according to the formula set out in subsection 5460(1),

minus

- (ii) any *out-of-the-money* amount associated with the *option*.
- (2) Subsection 5721(1) notwithstanding, the minimum *client account margin* required for short *exchange-traded option* positions shall be the amount determined by multiplying:
  - (i) in the case of a short *call option* position, the *market value* of the *underlying interest*,
  - (ii) in the case of a short *put option* position, the *aggregate exercise value* of the *option*,
 by
  - (iii) one of the following percentages:
    - (a) for *equity options*, 5.00%,
    - (b) for *index options* or *index participation unit options*, 2.00%,
    - (c) for *debt options*, 1.00%,
    - (d) for *currency options*, 0.75%.

5722. - 5724. Reserved.

#### EXCHANGE-TRADED OPTIONS - HEDGED OPTION POSITIONS

##### 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> , and <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> , and <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> , and <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 the *Corporation* 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.

**5726. - 5729. Reserved.**

**5730. Call option spreads and put option spreads**

- (1) Where a *Dealer Member* inventory or client account contains one of the following *exchange-traded option spread pairings*:

<b>Long (short) option position</b>		<b>Short (long) option position</b>
(i) <i>call option</i> with an equity, <i>index</i> , <i>index participation unit</i> , debt or currency <i>underlying interest</i>	and	<i>call option</i> with the same <i>underlying interest</i>
(ii) <i>put option</i> with an equity, <i>index</i> , <i>index participation unit</i> , debt or currency <i>underlying interest</i>	and	<i>put option</i> with the same <i>underlying interest</i>
(iii) <i>index call option</i>	and	<i>index participation unit call option</i> based on the same <i>index</i>
(iv) <i>index put option</i>	and	<i>index participation unit put option</i> based on the same <i>index</i>

and *equivalent quantities* of each position in the pairing are held, the minimum margin required for the spread pairing is calculated in accordance with subsection 5730(2).

- (2) Provided the condition in subsection 5730(1) is met, the minimum margin required is the lesser of:
- (i) the margin required on the short *option* position determined pursuant to section 5721,
  - or
  - (ii) the greater of:
    - (a) the spread loss amount, if any, that would result if both *options* were exercised,
    - and
    - (b) where the spread involves an *index option* position and an *index participation unit option* position, the published *tracking error margin rate* for the spread between the *index* and the related *index participation units*, multiplied by the *market value* of the *index participation units* underlying the *index participation unit option* position.

**5731. Short call option - short put option spread**

- (1) Where a *Dealer Member* inventory or client account contains one of the following *exchange-traded option* spread pairings:

<b>Short option position</b>	and	<b>Short option position</b>
(i) <i>call option</i> with an equity, <i>index</i> , <i>index participation unit</i> , debt or currency <i>underlying interest</i>		<i>put option</i> with the same <i>underlying interest</i>
(ii) <i>index call option</i>		<i>index participation unit put option</i> based on the same <i>index</i>
(iii) <i>index participation unit call option</i>		<i>index put option</i> based on the same <i>index</i>

and *equivalent quantities* of each position in the pairing are held, the minimum margin required for the spread pairing is calculated in accordance with subsection 5731(2).

- (2) The minimum margin required is the greatest of:

- (i) the greater of:
- (a) the margin required on the *call option* position,
  - or
  - (b) the margin required on the *put option* position,

and

- (ii) the excess of the *aggregate exercise value* of the *put option* position over the *aggregate exercise value* of the *call option* position,

and

- (iii) where the spread involves an *index option* position and an *index participation unit option* position, the published *tracking error margin rate* for the spread between the *index* and the related *index participation units*, multiplied by the *market value* of the *index participation units* underlying the *index participation unit option* position.

**5732. Long call option - long put option spread**

- (1) Where a *Dealer Member* inventory or client account contains one of the following *exchange-traded option* spread pairings:

<b>Long option position</b>	and	<b>Long option position</b>
(i) <i>call option</i> with an equity, <i>index</i> , <i>index participation unit</i> , debt or currency <i>underlying interest</i>		<i>put option</i> with the same <i>underlying interest</i>
(ii) <i>index call option</i>		<i>index participation unit put option</i> based on the same <i>index</i>

- (iii) *index participation unit call option* and *index put option* based on the same *index*

and *equivalent quantities* of each position in the pairing are held, the minimum margin required for the spread pairing is calculated in accordance with subsection 5732(2).

(2) The minimum margin required is the lesser of:

(i) the sum of:

- (a) the margin required for the long *call option* position,  
plus  
(b) the margin required for the long *put option* position,

or

(ii) the sum of:

- (a) 100% of the *market value* of the long *call option*,  
plus  
(b) 100% of the *market value* of the long *put option*,  
minus  
(c) the amount by which the *aggregate exercise value* of the *put option* exceeds the *aggregate exercise value* of the *call option*.

### 5733. Long call option - short call option - long put option

(1) Where a *Dealer Member* inventory or client account contains long *call option*, short *call option* and long *put option* positions in *exchange-traded options* on the same *underlying interest* and *equivalent quantities* of each position in the combination are held, the minimum margin required is:

(i) 100% of the *market value* of the long *call option*,

plus

(ii) 100% of the *market value* of the long *put option*,

minus

(iii) 100% of the *market value* of the short *call option*,

plus

(iv) the greater of:

- (a) any excess of the *aggregate exercise value* of the long *call option* over the *aggregate exercise value* of the short *call option*, and  
(b) any excess of the *aggregate exercise value* of the long *call option* over the *aggregate exercise value* of the long *put option*.

Where the amount calculated in clause 5733(1)(iv) is negative, this amount may be applied against the margin charge.

**5734. Long warrant - short call option**

- (1) Where a *Dealer Member* inventory or client account contains long warrant and short call *exchange-traded option* positions on the same *underlying interest* and *equivalent quantities* of each position in the pairing are held, the minimum margin required is the sum of:
- (i) the lesser of:
    - (a) a percentage of the *market value* of the *underlying interest* determined using the following percentages:
      - (I) for *equity options*, the margin rate used for the *underlying interest* as determined in section 5311,
      - (II) for *index options* or *index participation unit options*, the published *floating margin rate* for the *index* or *index participation unit* calculated according to the formula set out in section 5360,
      - (III) for *debt options*, the margin rate used for the *underlying interest* as determined in section 5210,
      - (IV) for *currency options*, the *Corporation's* published spot risk margin rate for the currency calculated according to the formula set out in subsection 5460(1),
    - or
    - (b) the spread loss amount, if any, that would result if both the *option* and the warrant were exercised,
- and
- (ii) the excess of the *market value* of the warrant over the *in-the-money* value of the warrant multiplied by 25%,
- and
- (iii) the *in-the-money* value of the warrant, multiplied by:
    - (a) 50%, where the expiration date of the warrant is 9 months or more away, or
    - (b) 100%, where the expiration date of the warrant is fewer than 9 months away.

**5735. Box spread**

- (1) **Client account requirement** - Where a client account contains a box spread combination on the same *underlying interest* with all *exchange-traded options* expiring at the same time, such that the client holds a long and short *call option* and a long and short *put option* and where the long *call option* and short *put option*, and short *call option* and long *put option* have the same *exercise price*, the minimum *client account margin* required is the lesser of:
- (i) the greater of the margin requirements calculated for the component call and put spreads pursuant to subsection 5730(2), and

- (ii) the greater of the *out-of-the-money* amounts calculated for the component call and put spreads.
- (2) **Dealer Member inventory account requirement** - Where a *Dealer Member* inventory account contains a box spread *exchange-traded option* combination on the same *underlying interest* with all *options* expiring at the same time, such that the *Dealer Member* holds a long and short *call option* and a long and short *put option* and where the long *call option* and short *put option*, and short *call option* and long *put option* have the same *exercise price*, the minimum *Dealer Member inventory margin* required is the sum of:
- (i) the difference, plus or minus, between the *aggregate exercise value* of the long *call options* and the *aggregate exercise value* of the long *put options*, and
  - (ii) the net *market value* of the *options*.

**5736. Long butterfly spread**

- (1) Where a *Dealer Member* inventory or client account contains a long butterfly spread combination on the same *underlying interest* with all *exchange-traded options* expiring at the same time, such that short positions in two *call options* (or *put options*) are held and the short *call options* (or short *put options*) are at a middle *exercise price* and are flanked on either side by a long *call option* (or long *put option*) having a lower and higher *exercise price* respectively, and the interval between the *exercise prices* is equal, the minimum margin required is the net *market value* of the short and long *call options* (or *put options*).

**5737. Short butterfly spread**

- (1) Where a *Dealer Member* inventory or client account contains a short butterfly spread combination on the same *underlying interest* with all *exchange-traded options* expiring at the same time, such that long positions in two *call options* (or *put options*) are held and the long *call options* (or long *put options*) are at a middle *exercise price* and are flanked on either side by a short *call option* (or short *put option*) having a lower and higher *exercise price* respectively, and the interval between the *exercise prices* is equal, the minimum margin required is the amount, if any, by which the exercise value of the long *call options* (or long *put options*) exceeds the exercise value of the short *call options* (or short *put options*).

**5738. Long condor spread**

- (1) Where a *Dealer Member* inventory or client account contains a long condor spread combination on the same *underlying interest* with all *exchange-traded options* expiring at the same time, such that four separate *options* series are held wherein the *exercise prices* of the *options* are in ascending order and the interval between the *exercise prices* is equal, comprising a short position in two *call options* (or *put options*) and the short *call options* (or short *put options*) are flanked on either side by a long *call option* (or long *put option*)

having a lower and higher *exercise price* respectively, the minimum margin required is the net market value of the short and long *call options* (or *put options*).

#### 5739. Short iron butterfly spread

- (1) Where a *Dealer Member* inventory or client account contains a short iron butterfly spread combination on the same *underlying interest* with all *exchange-traded options* expiring at the same time, such that four separate *options* series are held wherein the *exercise prices* of the *options* are in ascending order, and the interval between the *exercise prices* is equal, comprising short positions in a *call option* and a *put option* with the same *exercise price* and the short *options* are flanked on either side by a long *put option* and a long *call option* having a lower and higher *exercise price* respectively, the minimum margin required shall equal the *exercise price* interval multiplied by the *unit of trading*.

#### 5740. Short iron condor spread

- (1) Where a *Dealer Member inventory or* client account contains a short iron condor spread combination on the same *underlying interest* with all *exchange-traded options* expiring at the same time, such that ~~a client holds~~ four separate *options* series wherein the *exercise prices* of the *options* are in ascending order, and the interval between the *exercise prices* is equal, comprising short positions in a *call option* and a *put option* and the short *options* are flanked on either side by a long *put option* and a long *call option* having a lower and higher *exercise price* respectively, the minimum margin required shall equal the *exercise price* interval multiplied by the *unit of trading*.

#### 5741. - 5749. Reserved.

### EXCHANGE-TRADED OPTIONS - SECURITY AND OPTION COMBINATIONS AND CONVERSIONS

#### 5750. Long underlying interest or convertible security - short call option combination

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

Long position			Short option position	
(i)	<i>underlying interest</i> or <i>currently convertible security</i>	and	<i>call option</i> with the same <i>underlying interest</i>	
(ii)	<i>qualifying basket of index securities</i>	and	<i>index call option</i> based on the same <i>index</i>	
(iii)	<i>qualifying basket of index securities</i>	and	<i>index participation unit call option</i> based on the same <i>index</i>	
(iv)	<i>index participation unit</i>	and	<i>index participation unit call option</i> based on the same <i>index</i>	
(v)	<i>index participation unit</i>	and	<i>index call option</i> based on the same <i>index</i>	

and *equivalent quantities* of each position in the combination are held, the minimum margin required for the combination is calculated in accordance with subsection 5750(2).

- (2) Subject to additional margin requirements set out in subsections 5750(3) through 5750(5), the minimum margin required is the lesser of:
- (i) the *normal margin required* on the *underlying interest, index basket or index participation unit* position,
  - and
  - (ii) any excess of the *aggregate exercise value* of the *call options* over the *normal loan value* of the *underlying interest, index basket or index participation unit* position.
- (3) Where the combination involves a *currently convertible security* position, additional margin is required to be provided in the amount of the *conversion loss*.
- (4) Where the combination involves a *qualifying basket of index securities* and the basket is imperfect, additional margin is required to be provided in the amount of the calculated *incremental basket margin rate* for the basket multiplied by the *market value* of the basket.
- (5) Where the combination involves either:
- (i) a *qualifying basket of index securities* and an *index participation unit option* position, or
  - (ii) an *index participation unit* position and an *index option* position,
- additional margin is required to be provided in the amount of the published *tracking error margin rate* for the spread between the *index* and the related *index participation units*, multiplied by the *market value* of the *index participation units* underlying the *index participation unit option* position or *index participation unit* position held.

#### 5751. Long underlying interest - long put option combination

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

<b>Long position</b>		<b>Long option position</b>
(i) <i>underlying interest</i>	and	<i>put option</i> with the same <i>underlying interest</i>
(ii) <i>qualifying basket of index securities</i>	and	<i>index put option</i> based on the same <i>index</i>
(iii) <i>qualifying basket of index securities</i>	and	<i>index participation unit put option</i> based on the same <i>index</i>
(iv) <i>index participation unit</i>	and	<i>index participation unit put option</i> based on the same <i>index</i>
(v) <i>index participation unit</i>	and	<i>index put option</i> based on the same <i>index</i>

and *equivalent quantities* of each position in the combination are held, the minimum margin required for the combination is calculated in accordance with subsection 5751(2).

- (2) Subject to additional margin requirements set out in subsection 5751(3), the minimum margin required is the greater of:
- (i) lesser of:
    - (a) the *normal margin required* on the *underlying interest*,
    - or
    - (b) the excess of the combined *market value* of the *underlying interest* and the *put option* over the *aggregate exercise value* of the *put option*,
  - (ii) where the combination involves:
    - (a) a *qualifying basket of index securities* and an *index participation unit option* position,
    - or
    - (b) an *index participation unit* position and an *index option* position,

the published *tracking error margin rate* for the spread between the *index* and the related *index participation units*, multiplied by the *market value* of the *index participation units* underlying the *index participation unit option* position or *index participation unit* position held.

- (3) Where the combination involves a *qualifying basket of index securities* and the basket is imperfect, additional margin is required to be provided in the amount of the calculated *incremental basket margin rate* for the basket multiplied by the *market value* of the basket.

#### 5752. Short underlying interest - long call option combination

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

<b>Short position</b>	and	<b>Long option position</b>
(i) <i>underlying interest</i>	and	<i>call option</i> with the same <i>underlying interest</i>
(ii) <i>qualifying basket of index securities</i>	and	<i>index call option</i> based on the same <i>index</i>
(iii) <i>qualifying basket of index securities</i>	and	<i>index participation unit call option</i> based on the same <i>index</i>
(iv) <i>index participation unit</i>	and	<i>index participation unit call option</i> based on the same <i>index</i>
(v) <i>index participation unit</i>	and	<i>index call option</i> based on the same <i>index</i>

and *equivalent quantities* of each position in the combination are held, the minimum margin required for the combination is calculated in accordance with subsection 5752(2).

- (2) Subject to additional margin requirements set out in subsection 5752(3), the minimum margin required is the sum of:

- (i) 100% of the *market value* of the long *call option*,  
plus
- (ii) the greater of:
- (a) the lesser of:
- (I) any *out-of-the-money* value associated with the *call option*,  
or
- (II) the *normal margin required* on the *underlying interest*,
- (b) where the combination involves:
- (I) a *qualifying basket of index securities* and an *index participation unit option* position,  
or
- (II) an *index participation unit* position and an *index option* position,

the published *tracking error margin rate* for the spread between the *index* and the related *index participation units*, multiplied by the *market value* of the *index participation units* underlying the *index participation unit option* position or *index participation unit* position held,

minus

- (iii) where the *call option* is *in-the-money*, the *in-the-money* value, provided the overall margin requirement cannot be reduced to less than zero.

- (3) Where the combination involves a *qualifying basket of index securities* and the basket is imperfect, additional margin is required to be provided in the amount of the calculated *incremental basket margin rate* multiplied by the *market value* of the basket.

### 5753. Short underlying interest - short put option combination

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

<b>Short position</b>	and	<b>Short option position</b>
(i) <i>underlying interest</i>		<i>put option</i> with the same <i>underlying interest</i>
(ii) <i>qualifying basket of index securities</i>		<i>index put option</i> based on the same <i>index</i>

- (iii) *qualifying basket of index securities* and *index participation unit put option based on the same index*
- (iv) *index participation unit* and *index participation unit put option based on the same index*
- (v) *index participation unit* and *index put option based on the same index*

and *equivalent quantities* of each position in the combination are held, the minimum margin required for the combination is calculated in accordance with subsection 5753(2).

- (2) Subject to additional margin requirements set out in subsection 5753(3), the minimum margin required is the greater of:

- (i) the lesser of:

- (a) the *normal margin required* on the *underlying interest, index basket or index participation unit* position, and
- (b) any excess of the *normal margin required* on the *underlying interest, index basket or index participation unit* position over the *in-the-money* value, if any, of the *put options*,

- (ii) where the combination involves:

- (a) a *qualifying basket of index securities* and an *index participation unit option* position,

or

- (b) an *index participation unit* position and an *index option* position, the published *tracking error margin rate* for the spread between the *index* and the related *index participation units*, multiplied by the *market value* of the *index participation units* underlying the *index participation unit option* position or *index participation unit* position held.

- (3) Where the combination involves a *qualifying basket of index securities* and the basket is imperfect, additional margin is required to be provided in the amount of the calculated *incremental basket margin rate* for the basket multiplied by the *market value* of the basket.

**5754. Conversion or long tripo combination**

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

<b>Long position</b>	<b>and</b>	<b>Long option position</b>	<b>and</b>	<b>Short option position</b>
(i) <i>underlying interest</i>	and	<i>put option with the same underlying interest</i>	and	<i>call option with the same underlying interest</i>

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- |       |  |     |  |     |   |
|-------|--|-----|--|-----|---|
| (ii)  | <i>qualifying basket of index securities</i> | and | <i>index put option based on the same index</i>                    | and | <i>index call option based on the same index</i>                    |
| (iii) | <i>qualifying basket of index securities</i> | and | <i>index participation unit put option based on the same index</i> | and | <i>index participation unit call option based on the same index</i> |
| (iv)  | <i>index participation unit</i>              | and | <i>index participation unit put option based on the same index</i> | and | <i>index participation unit call option based on the same index</i> |
| (v)   | <i>index participation unit</i>              | and | <i>index put option based on the same index</i>                    | and | <i>index call option based on the same index</i>                    |

and *equivalent quantities* of each position in the combination are held, the minimum margin required for the combination is calculated in accordance with subsection 5754(2).

- (2) Subject to additional margin requirements set out in subsection 5754(3), the minimum margin required is the greater of:
- (i) the sum of:
    - (a) 100% of the *market value* of the long *put options*, minus
    - (b) 100% of the *market value* of the short *call options*, plus
    - (c) the difference, plus or minus, between the *market value* of the *underlying interest*, *qualifying basket of index securities* or *index participation unit* position and the *aggregate exercise value* of the long *put options* or short *call options*, whichever is lower,
- and
- (ii) where the combination involves:
    - (a) a *qualifying basket of index securities* and an *index participation unit option* position,
    - or
    - (b) an *index participation unit* position and an *index option* position, the published *tracking error margin rate* for the spread between the *index* and the related *index participation units*, multiplied by the *market value* of the *index participation units* underlying the *index participation unit option* position or *index participation unit* position held.
- (3) Where the combination involves a *qualifying basket of index securities* and the basket is imperfect, additional margin is required to be provided in the amount of the calculated

*incremental basket margin rate* for the basket multiplied by the *market value* of the basket.

#### 5755. Reconversion or short tripo combination

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

	<b>Short position</b>		<b>Long option position</b>		<b>Short option position</b>
(i)	<i>underlying interest</i>	and	<i>call option</i> with the same <i>underlying interest</i>	and	<i>put option</i> with the same <i>underlying interest</i>
(ii)	<i>qualifying basket of index securities</i>	and	<i>index call option</i> based on the same <i>index</i>	and	<i>index put option</i> based on the same <i>index</i>
(iii)	<i>qualifying basket of index securities</i>	and	<i>index participation unit call option</i> based on the same <i>index</i>	and	<i>index participation unit put option</i> based on the same <i>index</i>
(iv)	<i>index participation unit</i>	and	<i>index participation unit call option</i> based on the same <i>index</i>	and	<i>index participation unit put option</i> based on the same <i>index</i>
(v)	<i>index participation unit</i>	and	<i>index call option</i> based on the same <i>index</i>	and	<i>index put option</i> based on the same <i>index</i>

and *equivalent quantities* of each position in the combination are held, the minimum margin required for the combination is calculated in accordance with subsection 5755(2).

- (2) Subject to additional margin requirements set out in subsection 5755(3), the minimum margin required is the greater of:

- (i) the sum of:
- (a) 100% of the *market value* of the long *call options*, minus
  - (b) 100% of the *market value* of the short *put options*, plus
  - (c) the difference, plus or minus, between the *aggregate exercise value* of the long *call options* or short *put options*, whichever is higher and the *market value* of the *underlying interest*, *qualifying basket of index securities* or *index participation unit* position,

and

- (ii) where the combination involves:
- (a) a *qualifying basket of index securities* and an *index participation unit option* position,

or

(b) an *index participation unit* position and an *index option* position, the published *tracking error margin rate* for the spread between the *index* and the related *index participation units*, multiplied by the *market value* of the *index participation units* underlying the *index participation unit option* position or *index participation unit* position held.

- (3) Where the combination involves a *qualifying basket of index securities* and the basket is imperfect, additional margin is required to be provided in the amount of the calculated *incremental basket margin rate* for the basket multiplied by the *market value* of the basket.

**5756. - 5759. Reserved.**

### 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).

- (2) The minimum margin required is the greater of:
- (i) (a) the *normal margin required* on the *index futures contract* position, minus
- (b) the *aggregate market value* of the *short call options*,
- and
- (ii) the published *tracking error margin rate* for the spread between the *index futures contracts* and the related *index* or the *index futures contracts* and the related *index participation units*, multiplied by the *market value* of the *qualifying basket of index securities* underlying the *index option* position or the *index participation units* underlying the *index participation unit option* position.
- (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).

- (2) Where the *put option* position is *out-of-the-money*, the minimum margin required is the greater of:

- (i) the sum of:
- (a) the *aggregate market value* of the long *put options* plus
  - (b) the lesser of:
    - (I) (A) the daily settlement value of the *index futures contract* position, minus
    - (B) the *aggregate exercise value* of the long *put options*,
    - (II) the margin required on the long *futures contract* position,

and

- (ii) the published *tracking error margin rate* for the spread between the *index futures contracts* and the related *index* or the *index futures contracts* and the related *index participation units*, multiplied by the *market value* of the *qualifying basket of index securities* underlying the *index option* position or the *index participation units* underlying the *index participation unit option* position.

- (3) Where the *put option* position is *in-the-money* or *at-the-money*, the minimum margin required is the greater of:

- (i) any excess of the *aggregate market value* of the long *put options* over the *aggregate in-the-money* amount of the long *put options*,

and

- (ii) the published *tracking error margin rate* for the spread between the *index futures contracts* and the related *index* or the *index futures contracts* and the related *index*

*participation units*, multiplied by the *market value* of the underlying *qualifying basket of index securities* or the *index participation units*.

- (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).

- (2) Where the *call option* position is *out-of-the-money*, the minimum margin required is the greater of:
- (i) the sum of:
    - (a) the *aggregate market value* of the long *call options* plus
    - (b) the lesser of:
      - (I) (A) the *aggregate exercise value* of the long *call options*, minus
      - (B) the daily settlement value of the *index futures contract* position,
      - (II) the margin required on the short *futures contract* position,
  - and
  - (ii) the published *tracking error margin rate* for the spread between the *index* future contracts and the related *index* or the *index* future contracts and the related *index participation units*, multiplied by the *market value* of the *qualifying basket of index securities* underlying the *index option* position or the *index participation units* underlying the *index participation unit option* position.
- (3) Where the *call option* position is *in-the-money* or *at-the-money*, the minimum margin required is the greater of:

- (i) any excess of the *aggregate market value* of the long *call options* over the *aggregate in-the-money* amount of the long *call options*,
  - and
  - (ii) the published *tracking error margin rate* for the spread between the *index futures contracts* and the related *index* or the *index futures contracts* and the related *index participation units*, multiplied by the *market value* of the underlying *qualifying basket of index securities* or the *index participation units*.
- (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).

- (2) The minimum margin required is the greater of:
- (i) (a) the *normal margin required* on the *index futures contract* position,  
minus
  - (b) the *aggregate market value* of the short *put options*,
  - and
  - (ii) the published *tracking error margin rate* for the spread between the *index futures contracts* and the related *index* or the *index futures contracts* and the related *index participation units*, multiplied by the *market value* of the *qualifying basket of index securities* underlying the *index option* position or the *index participation units* underlying the *index participation unit option* position.
- (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 based on the same index</i>	and	<i>index call option based on the same index</i>
(ii)	<i>index futures contracts</i>	and	<i>index participation unit put option based on the same index</i>	and	<i>index participation unit call 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 5764(2).

- (2) The minimum margin required is the greater of:
- (i) the sum of:
    - (a) the *aggregate market value* of the long *call options*, minus
    - (b) the *aggregate market value* of the short *put options*, plus
    - (c) the difference, plus or minus, between the daily settlement value of the long *futures contracts* and the *aggregate exercise value* of the long *put options* or the short *call options*, whichever is lower,
 and
  - (ii) the published *tracking error margin rate* for the spread between the *index futures contracts* and the related *index* or the *index futures contracts* and the related *index participation units*, multiplied by the *market value* of the *qualifying basket of index securities* underlying the *index option* position or the *index participation units* underlying the *index participation unit option* position.
- (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).

- (2) The minimum margin required is the greater of:
- (i) the sum of:
    - (a) 100% of the *market value* of the long *call options*, minus
    - (b) 100% of the *market value* of the short *put options*, plus
    - (c) the difference, plus or minus, between the *aggregate exercise value* of the long *call options* or short *put options*, whichever is higher, and the daily settlement value of the short *futures contracts*,
 and
  - (ii) the published *tracking error margin rate* for the spread between the *index futures contracts* and the related *index* or the *index futures contracts* and the related *index participation units*, multiplied by the *market value* of the *qualifying basket of index securities* underlying the *index option* position or the *index participation units* underlying the *index participation unit option* position.
- (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.**

#### ~~EXCHANGE-TRADED OPTIONS~~ – BASKET, PARTICIPATION UNIT AND FUTURES COMBINATIONS

##### **5770. Long qualifying basket of index securities - short index participation units**

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

**Long position**

- (i) *qualifying basket of index securities* and *index participation units* based on the same *index*

**Short position**

and *equivalent quantities* of each position in the combination are held, the minimum margin is calculated in accordance with subsection 5770(2).

- (2) The minimum margin required shall be the sum of:
- (i) the published *tracking error margin rate*,
- plus
- (ii) the calculated *incremental basket margin rate* for the *qualifying basket of index securities*,
- multiplied by the *market value* of the *index participation units*.

**5771. Long index participation units - short qualifying basket of index securities**

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

**Long position**

- (i) *index participation units* and *qualifying basket of index securities* of the same *index*

**Short position**

and *equivalent quantities* of each position in the combination are held, the minimum margin is calculated in accordance with subsection 5771(2).

- (2) The minimum margin required shall be the sum of:
- (i) the published *tracking error margin rate*, unless the long *index participation units* position is of size sufficient to be converted into a basket of *index securities* or a multiple thereof,
- plus
- (ii) the calculated *incremental basket margin rate* for the *qualifying basket of index securities*, multiplied by the *market value* of the *index participation units*.

**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:

**Long (short) futures position**

- (i) *index futures contracts* and *qualifying basket of index securities* of the same *index*
- (ii) *index futures contracts* and *index participation units* based on the same *index*

**Short (long) position**

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

- (2) Subject to additional margin requirements set out in subsection 5772(3), the minimum margin required shall be the published *tracking error margin rate* for the spread between the *index futures contracts* and the related *index* or the *index futures contracts* and the

related *index participation units*, multiplied by the *market value* of the *qualifying basket of index securities* or the *index participation units* held.

- (3) Where the combination involves a *qualifying basket of index securities* and the basket is imperfect, additional margin is required to be provided in the amount of the calculated *incremental basket margin rate* for the basket multiplied by the *market value* of the basket.
- (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*.

**5773. - 5774. Reserved.**

#### ~~EXCHANGE TRADED OPTIONS~~—CROSS INDEX OFFSETS AND THE OPTIONAL USE OF THE STANDARD PORTFOLIO ANALYSIS METHODOLOGY

##### **5775. Cross index offset combinations involving index products**

- (1) Offsets involving products based on two different indices are permitted provided:
  - (i) both indices qualify as an *index* as defined in subsection 5130(910),
  - (ii) there is significant performance correlation between the indices, and
  - (iii) the *Corporation* has made available a published *tracking error margin rate* for cross *index* offsets involving the two indices.

Where offsets involving products based on two different indices are permitted the margin requirements set out in sections 5730 through 5772 may be used provided that any margin requirement calculated shall be no less than the published *tracking error margin rate* for cross *index* offsets involving the two indices.

##### **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) The *Corporation* 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.

5777. - 5779. Reserved.

## OVER-THE-COUNTER OPTIONS

### 5780. Long option positions

- (1) The minimum *Dealer Member inventory margin* required for long *over-the-counter option* positions is:
  - (i) where the option's market price is less than \$1.00, the *market value* of the option,
  - (ii) where the option's market price is \$1.00 or more, and:
    - (a) the option is a *call option*, the *market value* of the *call option* less 50% of any excess of the *market value* of the *underlying interest* over the *aggregate exercise value* of the *call option*, or
    - (b) the option is a *put option*, the *market value* of the *put option* less 50% of any excess of the *aggregate exercise value* of the *put option* over the *market value* of the *underlying interest*.
- (2) The minimum *client account margin* required for long *over-the-counter option* positions is the *market value* of the option.

### 5781. Short option positions

- (1) Subject to subsection 5781(2), the minimum *Dealer Member inventory margin* and *client account margin* required for short *over-the-counter option* positions is:
  - (i) a percentage of the *market value* of the *underlying interest* determined using the following percentages:
    - (a) for *debt options*, the margin rate used for the *underlying interest* as determined in sections 5210 through 5241,
    - (b) for *equity options*, the margin rate used for the *underlying interest* as determined in section 5310 through 5315,
    - (c) for *index options* or *index participation unit options*, the published *floating margin rate* for the *index* or *index participation unit* calculated according to the formula set out in section 5360,
    - (d) for *currency options*, the *Corporation's* published spot risk margin rate for the currency calculated according to the formula set out in section 5460 through 5469,

minus

    - (ii) any *out-of-the-money* amount associated with the option.
- (2) Subsection 5781(1) notwithstanding, the minimum *client account margin* required for short *over-the-counter option* positions shall be no less than the amount determined by multiplying:
  - (i) in the case of a short *call option* position, the *market value* of the *underlying interest*,
  - (ii) in the case of a short *put option* position, the *aggregate exercise value* of the option, by 25% of the margin rate used for the *underlying interest*.

**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, index participation unit, debt</i> or currency <i>underlying interest</i>	and <i>escrow receipt</i> evidencing the deposit of the <i>underlying security</i>
(ii) Short <i>call option</i> with an equity, <i>index, index participation unit, debt</i> or currency <i>underlying interest</i>	and <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*.
- (3) The requirements of this section 5782 apply, regardless of any otherwise available margin reduction or margin offset, in the following circumstance:
- (i) where an *over-the-counter option* is written by a client that is not an *acceptable institution, acceptable counterparty* or *regulated entity*,
  - (ii) where the terms of the *over-the-counter option* require settlement by physical delivery of the *underlying interest*, and
  - (iii) where a margin rate less than 100% for the *underlying interest* has not been established under the *Corporation requirements*.

**5783. Option spreads and combinations**

- (1) Except as otherwise provided in this section 5783, the same reduced margin offsets are permitted for *over-the-counter options* as are provided in sections 5730 through 5772 for *exchange-traded options*, provided that the *underlying interest* is the same.
- (2) In the case of spreads involving European exercise *over-the-counter options*:
- (i) a margin offset is permitted where the spread consists of long and short European exercise option contracts with the same expiration date, and
  - (ii) a margin offset is permitted where the spread consists of a short European exercise option and long American exercise option, however
  - (iii) a margin offset is not permitted where the spread consists of a long European exercise option and a short American exercise option.

**5784. Confirmation, delivery and exercise**

- (1) The *Dealer Member* must confirm every *over-the-counter option* transaction in writing, by mail or delivery, on trade date.
- (2) *Over-the-counter option* contract payments, settlement, exercise and delivery must be made according to the terms of the *over-the-counter option* contract.

5785. - 5789. Reserved.

## 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) The *Corporation* 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.**

RULE 5800 | ACCOUNT RELATED AGREEMENTS

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**5801. Introduction**

- (1) Rule 5800 sets out the specific *Corporation requirements* for the following account related agreements:
  - (i) the *Corporation* standard agreements [section 5810],
  - (ii) account *guarantee* agreements [sections 5820 through 5825],
  - (iii) hedge agreements [section 5830],
  - (iv) cash and securities loan agreements [section 5840], and
  - (v) *repurchase agreements* and *reverse repurchase agreements* [section 5850].

**5802. - 5809. Reserved.****5810. Corporation standard agreements**

- (1) The *Corporation* prescribes certain contents for and has developed standard forms of, agreements that a *Dealer Member* must use in order to obtain favourable margin treatment, or avoid capital penalties, under Rules 5200 through 5900. These agreements are described in sections 5820 through 5850 below and, in the case of the standard form *new issue letter*, in section 5530. The standard agreements posted on the *Corporation's* website are provided as agreement forms acceptable to the *Corporation*.

**5811. - 5819. Reserved.****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 at least quarterly,
  - (v) where the guarantor does not object, the guarantor is sent, ~~at least quarterly,~~ the guaranteed client's account statements at least quarterly,

- (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.

**5821. Requirements for account guarantees by shareholders, Registered Representatives or employees**

- (1) Section 5820 notwithstanding, a *Dealer Member* may only permit clients who are shareholders, *Registered Representatives* or *employees* of the *Dealer Member* to *guarantee* the accounts of another client:
- (i) if:
    - (a) the *Corporation* expressly approves the *guarantee* arrangement in writing,
    - (b) the *guarantee* agreement can only be cancelled with the *Corporation's* written approval,
    - (c) the guarantor is not permitted to transfer cash, securities or any other property from the accounts of the guarantor without written approval from the *Corporation*,
    - (d) the provisions of Schedule 4 of ~~Form 1~~ [Investment Dealer Form 1](#) continue to apply to the guaranteed client accounts regardless of the *guarantee*. Specifically, if the account has been restricted and subsequently fully margined, the *Dealer Member* will not conduct any trading in the account without the *Corporation* approving the release of the *guarantee*,
- or
- (ii) if, in the case of a shareholder *guarantee*:
    - (a) there is public ownership of the *Dealer Member* or *holding company* securities held by the shareholder,
    - (b) the shareholder is not an *employee*, *Registered Representative* or *Executive* of the *Dealer Member*, and
    - (c) the shareholder does not hold a *significant equity interest* (defined in clause 2102(1)) of the *Dealer Member* or its *holding company*.

**5822. Prohibited account guarantee arrangements**

- (1) A *Dealer Member* will not permit relief for *guarantees* in respect of accounts of *Executives*, *Directors*, shareholders, *Registered Representatives* or *employees*, by clients of the *Dealer Member*.

**5823. Exception for immediate family**

- (1) Sections 5821 and 5822 do not apply to *guarantees* by members of the immediate family of the guaranteed account holder.

**5824. Margin relief for guarantee agreements**

- (1) For account *guarantee* agreements entered into in compliance with the requirements of sections 5820 and 5821, the margin required for a client account that is guaranteed by another client may be reduced by any aggregate excess margin in the account of the guarantor.
- (2) Subsection 5824(1) notwithstanding, a *Dealer Member* may only use a client *guarantee* for margin relief with respect to client accounts directly guaranteed by the guarantor.
- (3) Subsection 5824(1) notwithstanding, margin relief is not permitted where a *guarantee* agreement is not confirmed by the guarantor in response to an annual audit confirmation request in accordance with the requirements set out in subsection 4185(1).

**5825. Account guarantee agreement minimum terms**

- (1) An approved written agreement must contain the following minimum terms:
  - (i) the guarantor is jointly and severally liable for the client's obligations in the identified accounts and unconditionally guarantees, on an absolute and continuing basis, the prompt payment on demand of all the client's present and future liabilities in those accounts to the *Dealer Member*,
  - (ii) the *guarantee's* termination requires written notice to the *Dealer Member* and the termination does not affect the *guarantee* of any obligations incurred prior to it,
  - (iii) the *Dealer Member* is not required to demand from, or proceed or exhaust its remedies against, a client or any other *person*, or any security held to secure payment of the obligations, before making demand or proceeding under the *guarantee*,
  - (iv) the guarantor's liability shall not be released, discharged, reduced, limited or otherwise affected by:
    - (a) any right of set-off, counterclaim, appropriation, application or other demand or right the client or guarantor may have,
    - (b) any irregularity, defect, or informality in any obligation, document or transaction relating to the client or its accounts,
    - (c) any acts done, omitted, suffered or permitted by the *Dealer Member* in connection with the client, its accounts, the guaranteed obligations or any other *guarantees* or security held including any renewals, extensions, waivers, releases, amendments, compromises or indulgences agreed to by the *Dealer Member* and including the *Dealer Member* providing the client's account statements to the guarantor as permitted in clause 5820(1)(iv), or
    - (d) the death, incapacity, bankruptcy or other fundamental change of or affecting the client,but if the guarantor is released from the *guarantee*, it must remain liable as principal debtor of the guaranteed obligations,
  - (v) the guarantor must:
    - (a) agree that the accounts as settled or stated between the *Dealer Member* and the client are conclusive as to the amounts owing, and

- (b) agree not to exercise any rights of subrogation until all guaranteed obligations are paid in full, and
- (vi) all securities, monies, *futures contracts* and *futures contract options*, foreign exchange contracts and other property held or carried by the *Dealer Member* for the guarantor must be pledged or a security interest granted in them to secure payment of the guaranteed obligations. The *Dealer Member* must be able to deal with those assets at any time, before or after demand under the *guarantee*, to satisfy payment.

**5826. - 5829. Reserved.**

**5830. Hedge agreements**

- (1) In determining the margin relief available for a guaranteed client account pursuant to subsection 5824(1), a *Dealer Member* may exclude the following offsetting position hedges from the margin calculation:

**Long position**

**Short position**

- |  |            |   |
|--|------------|---|
| <ul style="list-style-type: none"> <li>(i) a long security position (other than an <i>option</i>, <i>futures contract</i> or foreign exchange contract position) held in the account of a guarantor that <i>guarantees</i> an account of another client of a <i>Dealer Member</i> in accordance with sections 5820 through 5825.</li> <li>(ii) a long <i>convertible security</i> position (including warrants, rights, shares and <i>installment receipts</i>) held in the account of a guarantor that <i>guarantees</i> an account of another client of a <i>Dealer Member</i> in accordance with sections 5820 through 5825.</li> </ul> | <p>and</p> | <ul style="list-style-type: none"> <li>a short position in the same security, held in the guaranteed client account.</li> <li>a short position in the <i>underlying security</i>, held in the guaranteed client account.</li> </ul> |
|--|------------|---|
- (2) A *Dealer Member* must not accept a client account hedge for the purposes of subsection 5830(1), unless it obtains a written hedge agreement from the guarantor, in a form acceptable to the *Corporation*, that:
- (i) authorizes the *Dealer Member* to use any and all securities, other than *options*, *futures contracts* or foreign exchange contracts, held in long positions in the guarantor's account to hedge any and all short positions in the guaranteed client account to eliminate the margin required on those securities in the client account,
  - (ii) provides that if a security position that hedges a short position is sold and creates a margin deficiency in the guaranteed account, the guarantor agrees that the *Dealer Member* may restrict the guarantor's ability to withdraw cash or securities from its account or otherwise restrict the guarantor's ability to enter into transactions in that account until the deficiency has been rectified, and
  - (iii) provides that the guarantor agrees that the terms of the hedge agreement must remain in effect as long as any hedge positions between the two accounts remain in effect.

**5831. - 5839. Reserved.****5840. Cash and securities loan agreements**

- (1) A cash and securities loan is the lending of securities for cash collateral or vice versa, other than an overnight cash loan.
- (2) To avoid the margin penalties in [Form 1 Investment Dealer Form 1](#) for cash and securities loan transactions, a *Dealer Member* must be party to a written agreement that contains the minimum terms set out in subsection 5840(3).
- (3) This *written cash and securities loan agreement* must:
  - (i) set out the rights of each party to retain and realize on the securities delivered to it by the other party under the agreement if the other party defaults. These rights are in addition to other remedies in the agreement or available at law,
  - (ii) set out events of default,
  - (iii) provide for treatment of the securities or collateral value held by the non-defaulting party that is over the amount owed by the defaulting party, and
  - (iv) either:
    - (a) give the parties the right to set off their mutual debts, or
    - (b) enable the parties to effect a secured loan and provide that the lender must continuously segregate agreement collateral securities.
- (4) If the parties agree to a secured loan as provided in sub-clause 5840(3)(iv)(b), and there is more than one method for the lender to perfect its security interest in the collateral, the lender must choose the method to achieve the highest priority in a default situation.
- (5) Whether the parties rely on set off or agree to a secured loan as provided in clause 5840(3)(iv), the *written cash and securities loan agreement* must provide for the securities borrowed and loaned to be free and clear of any trading restrictions under *applicable laws*, and signed for transfer.

**5841. - 5849. Reserved.****5850. Repurchase agreements and reverse repurchase agreements**

- (1) To avoid the margin penalties in [Form 1 Investment Dealer Form 1](#) for *repurchase agreement* and *reverse repurchase agreement* transactions, a *Dealer Member* must be party to a written agreement that contains the minimum terms set out in subsection 5850(2).
- (2) A written agreement for *repurchase agreement* transaction/*reverse repurchase agreement* transaction must:
  - (i) set out the rights of each party to retain and realize on the securities delivered to it by the other party under the agreement if the other party defaults. These rights are in addition to other remedies in the agreement or available at law,
  - (ii) set out events of default,
  - (iii) provide for treatment of the securities or collateral value held by the non-defaulting party that is over the amount owed by the defaulting party, and
  - (iv) either:

- (a) give the parties the right to set off their mutual debts, or
  - (b) enable the parties to effect a secured loan and provide that the lender must continuously segregate agreement collateral securities.
- (3) If the parties agree to the agreement as provided in sub-clause 5850(2)(iv)(b), and there is more than one method for the lender to perfect its security interest in the collateral, the lender must choose the method to achieve the highest priority in a default situation.
- (4) Whether the parties rely on set off or agree to a secured loan as provided in clause 5850(2)(iv), the written agreement for *repurchase agreement* transaction/*reverse repurchase agreement* transaction must provide for the sold or purchased securities to be free and clear of any trading restrictions under *applicable laws*, and signed for transfer.

**5851. - 5899. Reserved.**

## RULE 5900 | AGREEMENT RELATED MARGIN REQUIREMENTS

## 5901. Introduction

- (1) The general margin requirements for call loan, cash and securities loan, *repurchase agreements* and *reverse repurchase agreements* that are entered into between a *Dealer Member* and a counterparty client are set out in ~~Form 1~~ [Investment Dealer Form 1](#). Rule 5900 sets out specific margin requirements that apply to securities loan, *repurchase agreements* and *reverse repurchase agreements* where, amongst other things, the compensation, price differential, fee, commission or other financing charge to be paid in connection with the agreement is calculated according to a fixed rate.

## 5902. Definitions

- (1) The following term has the meaning set out below when used in the Rule:

<p>“fixed rate” <a href="#">« taux fixe »</a></p>	<p>A rate expressed as a price, decimal, or percentage per year or expressed in another manner that does not vary until the termination of the relevant agreement.</p>
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## 5903. Margin requirements for securities loan, repurchase agreements, and reverse repurchase agreements with term risk

- (1) Despite any margin requirement set out in ~~Form 1~~ [Investment Dealer Form 1](#) regarding a securities loan, *repurchase agreement* or *reverse repurchase agreement*, if the special conditions set out in the chart below are met, the minimum *Dealer Member inventory margin* requirement for unhedged agreement positions is as follows:

Position	Special conditions	Margin required
<b>Unhedged position</b>		
<p>Securities loan, <i>repurchase agreement</i>, or <i>reverse repurchase agreement</i></p>	<ul style="list-style-type: none"> <li>▪ the obligation to repurchase, resell or terminate the loan is outstanding for more than five <i>business days</i>,</li> <li>▪ the date of repurchase, resale, or termination of a loan is decided at the time of entering into the transaction,</li> <li>▪ the amount of any compensation, price differential, fee, commission, or other financing charge to be paid in connection with the repurchase, resale, or loan is calculated according to a <i>fixed rate</i>, and</li> <li>▪ the <i>Dealer Member</i> must perform the calculations</li> </ul>	<p>The minimum <i>Dealer Member inventory margin</i> required for any unhedged term risk shall be determined by multiplying:</p> <p>(i) the relevant margin rate for a Government of Canada <i>debt security</i> with a term to maturity that is equal to the remaining term of the loan / agreement, as set out in section 5210(1)(i),</p> <p>by</p> <p>(ii) the loan / agreement market value.</p>

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Position	Special conditions	Margin required
<b>Unhedged position</b>		
	daily and make full provision for any principal and return of capital then payable, and for all accrued interest, dividends, or other distributions on securities used as collateral.	

- (2) Despite any margin requirement set out in [Form 1 Investment Dealer Form 1](#) regarding a securities loan, *repurchase agreement* or *reverse repurchase agreement*, if the special conditions set out in the chart below are met, the minimum *Dealer Member inventory margin* requirements for offsets involving agreement positions is as follows:

Position	Special conditions	Margin required
<b>Offsetting positions</b>		
Securities loan versus <i>securities loan</i> <a href="#">securities loan</a> or <i>Repurchase agreement</i> versus <i>reverse repurchase agreement</i>	<ul style="list-style-type: none"> <li>▪ the date of repurchase, resale, or termination of a loan is <b>less than one year</b> away for each of the offsetting positions,</li> <li>▪ the offsetting positions are denominated in the same currency, and</li> <li>▪ the offsetting positions meet the special conditions set out in subsection 5903(1) for unhedged positions.</li> </ul>	The minimum <i>Dealer Member inventory margin</i> required for any residual offset term risk is the difference between the unhedged margin calculated for the two loan / agreement positions pursuant to subsection 5903(1)
Securities loan versus <i>securities loan</i> <a href="#">securities loan</a> or <i>Repurchase agreement</i> versus <i>reverse repurchase agreement</i>	<ul style="list-style-type: none"> <li>▪ the date of repurchase, resale, or termination of a loan is <b>greater than or equal to one year</b> away for each of the offsetting positions,</li> <li>▪ the offsetting positions are in the same maturity band for margin purposes and are denominated in the same currency, and</li> <li>▪ the offsetting positions meet the special conditions set out in subsection 5903(1) for unhedged positions.</li> </ul>	The minimum <i>Dealer Member inventory margin</i> required for any residual offset term risk shall be determined by multiplying: <ul style="list-style-type: none"> <li>(i) the relevant margin rate for a Government of Canada <i>debt security</i> with a term to maturity that is equal to the remaining terms of the loans / agreements, as set out in section 5210(1)(i),</li> </ul> by <ul style="list-style-type: none"> <li>(ii) the net market value of the two loans / agreements.</li> </ul>

5904. - 5999. Reserved.

6000. - 6999. Reserved.

**SERIES 7000 | DEBT MARKETS AND INTER-DEALER BOND BROKERS RULES****RULE 7100 | DEBT MARKETS**

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**7101. Introduction**

- (1) Rule 7100 establishes trading and settlement practices to promote fair and efficient *debt securities* markets. Unless expressly indicated, Rule 7100 makes no distinction between institutional and retail markets.
- (2) For greater certainty, the provisions set forth in Rule 7100 shall not be construed to abrogate or derogate from any other provision of general applicability found elsewhere within *Corporation requirements*.
- (3) Rule 7100 is divided into the following parts:
  - Part A - General
    - [sections 7102 and 7103]
  - Part B - Debt market trading
    - [sections 7104 through 7113]

**PART A - GENERAL****7102. General requirements**

- (1) A *Dealer Member* must ensure that its trading in the *debt securities* markets does not contravene any *applicable laws*, regulation, direction, or requirement, whether or not such requirement is binding or has the force of law, including without limitation the directions or requirements of the Bank of Canada or the Department of Finance (Canada).
- (2) A *Dealer Member* must not condone or knowingly facilitate conduct by its *affiliates*, clients, or counterparties that contravenes Rule 7100.

**7103. Policies and procedures**

- (1) A *Dealer Member's* policies and procedures must specifically address trading and conduct in the *debt securities* market to provide reasonable assurance of compliance with *securities laws* and *Corporation requirements*.
- (2) A *Dealer Member's* policies and procedures must specifically address the following items for the *debt securities* markets:
  - (i) restrictions of, and *controls* over, trading in *non-client accounts*,
  - (ii) a prohibition on the use of inside information,
  - (iii) a prohibition of front-running,
  - (iv) standards for fair allocation of new issues among clients,
  - (v) standards for prompt and accurate disclosure to clients and counterparties if any conflict of interest arises, and
  - (vi) for *retail client* accounts:

- (a) written policies or guidelines issued to its *Registered Representatives* on the *Dealer Member's* mark-ups, mark-downs and commissions on *debt securities* sold to clients or purchased from clients, and
  - (b) reasonable monitoring procedures to detect mark-ups, mark-downs or commissions that exceed the maximums specified by the *Dealer Member*, and to ensure any deviation is justified.
- (3) An *Executive* responsible for the appropriate business group of the *Dealer Member* must approve the policies, procedures and *internal controls* referred to in section 7103.
  - (4) A *Dealer Member* must regularly review its policies and procedures to ensure they are appropriate for the size, nature, and complexity of the *Dealer Member's* business.

## PART B - DEBT MARKET TRADING

### 7104. Trading personnel

- (1) A *Dealer Member* must ensure that all personnel trading in the *debt securities* markets are:
  - (i) properly qualified and trained, and
  - (ii) aware of *Corporation requirements* and *applicable laws* relating to *debt securities* market trading.
- (2) A *Dealer Member* must ensure that its personnel use clear and unambiguous language in their trading activities.
- (3) A *Dealer Member's* personnel must be familiar with the appropriate trading terminology and conventions.
- (4) A *Supervisor* in the appropriate business group of the *Dealer Member* must supervise its trading activities.

### 7105. Confidentiality

- (1) Except with the express permission of the party concerned or as required by *applicable laws*, a *Dealer Member*:
  - (i) must ensure that its dealings with clients and counterparties are confidential,
  - (ii) must not disclose or discuss, or request that others disclose or discuss, any client's or counterparty's participation in the *debt securities* markets or the terms of any trading or anticipated trading, and
  - (iii) must ensure on a pre-trade basis that its own trading activities and planning strategies are kept confidential for market integrity purposes.
- (2) A *Dealer Member's* policies and procedures relating to *debt securities* must specifically address:
  - (i) restricting access to confidential information to the personnel that require it for their jobs,
  - (ii) confining trading by designated personnel to restricted-access office areas, and
  - (iii) using secure forms of communications and technology.
- (3) A *Dealer Member* that is a *Government Securities Distributor* (defined in section 7202) must comply with requests for information from the Bank of Canada.

**7106. Resources and systems**

- (1) A *Dealer Member* must have sufficient capital, liquidity support, and personnel to support its trading activities.
- (2) A *Dealer Member* must have comprehensive operating systems, including all aspects of risk management, transaction valuation, technology, and financial reporting to ensure full support for trading.

**7107. Conflicts of interest**

- (1) A *Dealer Member* must ensure that its dealings in *debt securities* markets are fair and transparent.
- (2) A *Dealer Member* must fulfill its duties to clients before its own interests or those of its personnel.

**7108. Duty to deal fairly**

- (1) A *Dealer Member* must observe high standards of ethics and conduct in transacting business to maintain investor confidence in the *debt securities* markets.
- (2) A *Dealer Member* must prohibit any business conduct or practice that is unbecoming or detrimental to the public interest.
- (3) A *Dealer Member* must act fairly, honestly, and in good faith when marketing, entering into, carrying out, and administering trades in the *debt securities* markets.

**7109. Manipulative and deceptive practices in the debt markets**

- (1) In its trading activities in the *debt securities* markets, a *Dealer Member* must not, directly or indirectly, engage or participate in any act, method or practice it knows or ought reasonably to know is manipulative or deceptive.
- (2) Without limiting the conduct prohibited by Rule 7100, the following are manipulative or deceptive practices:
  - (i) carrying out trades intended to artificially increase trading volumes,
  - (ii) carrying out trades intended to artificially change trading prices,
  - (iii) participating in or tacitly consenting to spreading rumours or information about issuers that are known, or ought reasonably to be known, to be false or misleading,
  - (iv) disseminating any information that falsely states or implies governmental approval of any institution or trading, or
  - (v) conspiring or colluding with another market participant to manipulate or unfairly deal in the *debt securities* markets.

**7110. Taking unfair advantage**

- (1) A *Dealer Member* must not engage in trading practices that take unfair advantage of clients or counterparties by:
  - (i) acting on knowledge of a new issue or client order to unfairly profit from the expected market movement or distorted market levels,

- (ii) carrying out proprietary trades ahead of client orders on the same side of the market without first disclosing to the client the intention to do so and obtaining the client's approval,
- (iii) profiting unfairly by using proprietary information that if released could reasonably be expected to affect market prices,
- (iv) using material non-public information,
- (v) abusing market procedures or conventions to obtain an unfair advantage over, or unfairly prejudice, its counterparties or clients, or
- (vi) completing a trade when the price is clearly outside of the prevailing market and proposed or agreed to as a result of a manifest error.

**7111. Derivatives trading**

- (1) The prohibitions in sections 7109 and 7110 apply to trading in *derivatives of debt securities*.

**7112. Prohibited practices**

- (1) A *Dealer Member* must not accept any order or carry out any trade where the *Dealer Member* knows, or has reasonable grounds to believe, the result would contravene *Corporation requirements* or any *applicable laws*.
- (2) An *Approved Person* or *employee* of a *Dealer Member* must not accept any material consideration, including *remuneration*, gratuity or benefit, from any *person* other than the *Dealer Member* for any activities conducted on behalf of a client.
- (3) A *Dealer Member* must not offer any consideration, including *remuneration*, gratuity, or benefit, to any partner, director, officer, employee, agent or shareholder of a client or any *associate* of such *persons*, unless the prior written consent of the client has been obtained.
- (4) Consideration that is non-monetary, of minimal value and infrequent such that it will not cause a reasonable person to question whether it created a conflict of interest is not consideration under subsections 7112(2) and 7112(3).

**7113. Surveillance and reporting**

- (1) A *Dealer Member* must monitor the trading and conduct of its *employees* and *agents* in the *debt securities* markets.
- (2) A *Dealer Member* must promptly report to the *Corporation* or other authority having jurisdiction, including the Bank of Canada:
  - (i) any breaches of *Corporation requirements*, or
  - (ii) suspicious or irregular market conduct.
- (3) When requested by the *Corporation* or the Bank of Canada (with respect to Government of Canada securities), a *Dealer Member* and any *related company* must disclose, on a confidential basis, the respective par value of each of its holdings in certain specified assets, in the form prescribed by the Bank of Canada (also known as a "Net Position Report"). On request, a *Dealer Member* must also provide any other information to identify large holdings that would permit a participant to have undue influence over the *debt securities* markets.

7114. – 7199. Reserved.

## RULE 7200 | TRANSACTION REPORTING FOR DEBT SECURITIES

## 7201. Introduction

- (1) Rule 7200 requires Investment Dealer Members to report information about each of their transactions (and the transactions of any *affiliate* that is a *Government Securities Distributor* (defined in section 7202)) in *debt securities* to the *Corporation* through a system maintained by the *Corporation*.
- (2) The reported transaction data required by Rule 7200 is used in the *Corporation's* surveillance of the *debt securities* market to identify potential market abuses such as violations of the fair pricing requirements of section 3125, insider trading and market manipulation. It also supports the *Corporation's* general inspection and enforcement activities, rulemaking, and other regulatory functions. The trade data received pursuant to Rule 7200 enables appropriate oversight to ensure the integrity of over-the-counter *debt securities* market trading and strengthen standards of investor protection.
- (3) For the purposes of Rule 7200, fact that a security was issued in another country or denominated in a foreign currency does not disqualify it from being a *debt security*.

## 7202. Definitions

- (1) The following terms have the meaning set out below when used in Rule 7200:

“authorized agent” <u>(mandataire autorisé)</u>	<u>An Investment Dealer Member</u> or other business entity that has successfully enrolled with the <i>Corporation</i> under section 7205 to submit debt securities transaction reports on behalf of <u>Investment Dealer Members</u> .
“CUSIP” <u>(CUSIP)</u>	Committee on Uniform Securities Identification Procedures.
“file receipt” <u>(reçu de fichier)</u>	An electronic acknowledgement that confirms the transaction reporting data file has been successfully transmitted.
“Government Securities Distributor” <u>(distributeur de titres d’État)</u>	An entity that has been given notice of its status as such by the Bank of Canada and applies to those bidders eligible to participate directly in the tender process at Government of Canada auctions.
“ISIN” <u>(ISIN)</u>	International Securities Identification Number.
“MTRS 2.0” <u>(SEROM 2.0)</u>	The Market Trade Reporting System operated by the <i>Corporation</i> for reporting <i>debt securities</i> transactions.
“MTRS 2.0 Enrollment Form” <u>(formulaire d’adhésion au SEROM 2.0)</u>	The form filed by <u>an Investment Dealer Member</u> with the <i>Corporation</i> to supply contact and other information that may be needed by the <i>Corporation</i> in connection with the <u>Investment Dealer Member's</u> reporting of <i>debt securities</i>

	<p>transactions. An MTRS 2.0 Enrollment Form must also be filed by any party seeking to act as an <i>authorized agent</i> for <a href="#">an <u>Investment Dealer Member</u></a> in reporting transaction data to MTRS 2.0.</p>
<p>“riskless principal trade” <a href="#">(opération pour compte propre sans risque)</a></p>	<p>A trade in a <i>debt security</i> that involves two offsetting orders (buy and sell) that are filled through transactions executed against <a href="#">an <u>Investment Dealer Member</u></a>’s trading or other proprietary account, with the execution of one of the orders dependent upon the receipt or execution of the other. A riskless principal trade results in two offsetting principal transactions on the <a href="#">Investment Dealer Member</a>’s books, rather than one agency transaction. <del>A</del> <a href="#">An <u>Investment Dealer Member</u></a> typically performs a riskless principal trade to fill a client order with an offsetting transaction in the market or with another client.</p>
<p>“special condition indicator” <a href="#">(indicateur de condition spéciale)</a></p>	<p>A code used on a transaction report to indicate that the transaction has certain attributes. Among other uses, the special condition indicator helps to identify transactions that may be priced differently than other transactions in the same issue (for instance, a primary market transaction subject to a fixed price offering agreement). Special condition indicators are also used to identify <i>repurchase agreement</i> transactions, transactions that involve parties related to the <a href="#">Investment Dealer Member</a> executing the transaction, and certain other conditions that may apply to a transaction and that are relevant to the regulatory and market surveillance purposes of Rule 7200.</p>

### 7203. Reporting requirements

- (1) Every [Investment Dealer Member](#) must report each of its transactions in *debt securities* (including *repurchase agreement* transactions or *reverse repurchase agreement* transactions) and the transactions in *debt securities* (including *repurchase agreement* transactions or *reverse repurchase agreement* transactions) of any *affiliate* that is a *Government Securities Distributor*, to the *Corporation* within the timeframes and in the manner specified in Rule 7200, subject to the exceptions stated below in subsection 7203(2).
- (2) The following must not be reported under subsection 7203(1):
  - (i) a transaction in *debt securities* that have no *ISIN* or *CUSIP* number assigned on the date of trade execution, except that, if that transaction is a new issue of a *debt security*, it shall be reported within the timeframe stated in clause 7204(1)(ii),

- (ii) a transaction in exchange listed *debt securities* executed on a *Marketplace* that transmits to the *Corporation* trade information required under National Instrument 23-101,
  - (iii) a transaction between two separate business units or profit centres within the reporting *Investment Dealer Member* where there is no change in *beneficial ownership*,
  - (iv) a *repurchase agreement* transaction or *reverse repurchase agreement* transaction executed by *an Investment Dealer Member* that is not a *Government Securities Distributor*,
  - (v) a transaction in which the Bank of Canada or the Bank of Canada on behalf of the Government of Canada is the counterparty, and
  - (vi) a transaction, other than a *repurchase agreement* transaction or *reverse repurchase agreement* transaction, executed by an *affiliate* that is a *Government Securities Distributor* only for Government of Canada treasury bills, in a *debt security* with an original term to maturity of greater than one year.
- (3) Reporting responsibilities in the most common situations are as follows:
- (i) in a transaction between *an Investment Dealer Member* and a client or non-client, the *Investment Dealer Member* reports,
  - (ii) in a transaction between *an Investment Dealer Member* and an *inter-dealer bond broker* or issuer, the *Investment Dealer Member* reports, and
  - (iii) in a transaction between *an Investment Dealer Member* and an Alternative Trading System, the *Investment Dealer Member* must report. In a transaction between an Alternative Trading System and a client, the Alternative Trading System reports.
- (4) *An Investment Dealer Member* may use an *authorized agent* to submit transactions to MTRS 2.0. *An Investment Dealer Member* utilizing an *authorized agent* for transaction reporting remains responsible for compliance with Rule 7200.
- (5) *An Investment Dealer Member* is required to obtain a *Legal Entity Identifier* and must comply with all applicable requirements imposed by the *Global Legal Entity Identifier System*.
- (6) Transaction reports made under subsection 7203(1) must accurately and completely reflect the reported transaction and must contain the following data elements relevant to a bond or *repurchase agreement* transaction or *reverse repurchase agreement* transaction, as applicable:

No.	Data	Description
1.	SECURITY IDENTIFIER	The <i>ISIN</i> number or <i>CUSIP</i> number assigned to the securities in the transaction
2.	SECURITY IDENTIFIER TYPE	The type of identifier that was submitted, <i>ISIN</i> or <i>CUSIP</i>
3.	TRADE IDENTIFIER	Unique identifier assigned to the transaction by the reporting <u><i>Investment Dealer Member</i></u>

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No.	Data	Description
4.	ORIGINAL TRADE IDENTIFIER	Included on trade cancelations or corrections
5.	TRANSACTION TYPE	Indicates whether the transaction is new, a cancelation, or a correction
6.	EXECUTION DATE	The day the transaction was executed
7.	EXECUTION TIME	The time at which the transaction was executed, either as recorded by an electronic trading system or time of entry into a trade booking system
8.	SETTLEMENT DATE	The date the transaction is reported to settle
9.	TRADER IDENTIFIER	Assigned by reporting <a href="#">Investment Dealer Member</a> to identify the <i>individual/desk</i> responsible for the transaction
10.	REPORTING DEALER IDENTIFIER	The <i>Legal Entity Identifier</i> of the reporting <a href="#">Investment Dealer Member</a>
11.	COUNTERPARTY TYPE	Indicates whether the counterparty was a client, non-client, <a href="#">an Investment Dealer Member</a> , <a href="#">an Investment Dealer Member</a> acting as an Alternative Trading System, an <i>inter-dealer bond broker</i> (IDBB), an issuer or a bank
12.	COUNTERPARTY IDENTIFIER	The <i>Legal Entity Identifier</i> of the counterparty, when the counterparty is <a href="#">an Investment Dealer Member</a> , bank, <i>inter-dealer bond broker</i> (IDBB), or Alternative Trading System. Bank trades are defined as trades with <a href="#">a Schedule I-chartered banks and Canadian offices of Schedule, II chartered banks or III Bank.</a>
13.	CLIENT ACCOUNT TYPE	Indicates whether the client is a <i>retail client</i> or an <i>institutional client</i> . This field must be populated if the counterparty type is 'client'
14.	CLIENT LEI	The <i>Legal Entity Identifier</i> of the client supervised as an <i>institutional client</i> .
15.	CLIENT ACCOUNT IDENTIFIER	The account number of the client supervised as a <i>retail client</i> .

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No.	Data	Description
16.	INTRODUCING/ CARRYING DEALER INDICATOR	Indicates whether the reporting <i>Investment Dealer Member</i> acted in the capacity of an <i>introducing broker or carrying broker</i>
17.	ELECTRONIC EXECUTION INDICATOR	Indicates if the transaction was executed on or facilitated through an electronic trading venue
18.	TRADING VENUE IDENTIFIER	The <i>Legal Entity Identifier</i> of the electronic trading venue
<u>19.</u>	<u>SIDE</u>	<u>All transactions are to be reported from the counterparty's perspective</u>
<del>19.</del>	<del>SIDE</del>	<del>Indicates whether the reporting <i>Dealer Member</i> was a buyer or seller</del>
20.	QUANTITY	Par value of securities
21.	PRICE	The price at which the transaction was executed, including any mark-ups or mark-downs or commission
22.	BENCHMARK SECURITY IDENTIFIER	The <i>ISIN</i> or <i>CUSIP</i> of the bond used as pricing benchmark (if any)
23.	BENCHMARK SECURITY IDENTIFIER TYPE	The type of identifier that was submitted, <i>ISIN</i> or <i>CUSIP</i>
24.	YIELD	The yield as stated on the client confirmation
25.	COMMISSION	For <i>retail client</i> transactions, the total amount of any mark-up or mark-down, commission or other services charges as stated on the client confirmation
26.	CAPACITY	Indicates whether the <i>Investment Dealer Member</i> acted as principal or agent ( <i>riskless principal trades</i> reported as principal)
27.	PRIMARY MARKET	<i>Special condition indicator</i> to indicate that the transaction is being submitted by an underwriter of a new issue of <i>debt securities</i> and that, at the time of the transaction, the securities were subject to a fixed price offering agreement. "Take-down" allocations from a syndicate manager to syndicate members are included in this designation as well as customer allocations by any member of the

DEALER AND CONSOLIDATED RULES

No.	Data	Description
		underwriting group subject to a fixed price offering agreement at the time of trade
28.	RELATED PARTY INDICATOR	<i>Special condition indicator</i> to indicate that the counterparty is an <i>affiliate</i> of the <a href="#">Investment Dealer Member</a>
29.	NON RESIDENT INDICATOR	<i>Special condition indicator</i> to indicate that the transaction is one with a non-resident counterparty
30.	FEE BASED ACCOUNT INDICATOR	<i>Special condition indicator</i> to indicate that the transaction is for a <i>retail client</i> account paying non-transaction-based fees as partial or full <i>remuneration</i> for the <a href="#">Investment Dealer Member's</a> transaction execution services
Elements specific to <i>repurchase agreement</i> transactions or <i>reverse repurchase agreement</i> transactions:		
No.	Data	Description
31.	REPO AGREEMENT IDENTIFIER	Unique identifier assigned to the <i>repurchase agreement transaction or reverse repurchase agreement</i> transaction by the reporting <a href="#">Investment Dealer Member</a>
<del>32.</del>	<del>TRANSACTION TYPE</del>	<del>Indicates whether the Repo is new, a cancelation, a correction, an update, or a fail</del>
<del>32-33</del>	REPO TYPE	Indicates whether the transaction was conducted as part of a <i>repurchase agreement</i> , a <i>reverse repurchase agreement</i> , a sell/buy-back, or a buy/sellback. <a href="#">Repo Type is reported from the Investment Dealer Member's perspective</a>
<del>33-34</del>	REPO TERM	Indicates whether the <i>repurchase agreement transaction or reverse repurchase agreement</i> transaction has fixed term or is an open term <i>repurchase agreement transaction or reverse repurchase agreement</i> transaction.  May indicate whether <i>repurchase agreement transaction or reverse repurchase agreement</i> <a href="#">the</a> transaction is evergreen or extendable. <del>Optional values</del>

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No.	Data	Description
<del>34</del> . <del>35</del> ±	REPO MATURITY DATE	The maturity date if the <del>repurchase agreement transaction or reverse repurchase agreement</del> transaction has a <u>fixed</u> term
<del>35</del> . <del>36</del> ±	CURRENCY OF REPO	The currency denomination of the cash payment used for the initial purchase of the security in a <del>repurchase agreement or reverse repurchase agreement</del>
<del>36</del> . <del>37</del> ±	REPO RATE	The <del>repurchase agreement or reverse repurchase agreement</del> <u>transaction</u> interest rate. If the interest rate is not a term of the contract, then it is the interest rate implied by the difference between the sale (purchase) price and its repurchase (resale) price
<del>37</del> . <del>38</del> ±	REPO HAIRCUT	The <del>repurchase agreement or reverse repurchase agreement</del> haircut <u>applied to the transaction</u> . If the haircut is not a term of the contract, then it is the haircut implied by the disparity between the purchase price and the <i>market value</i> of the security at the time of initial purchase
<del>38</del> . <del>39</del> ±	REPO COLLATERAL SECURITY TYPE	Where the <u>Investment Dealer Member</u> is aware of the collateral being used, indicates the type of identifier that was submitted for a single security, ( <i>ISIN</i> or <i>CUSIP</i> ), or if <del>the repurchase agreement transaction or reverse repurchase agreement</del> transaction is for multiple securities. Where the <u>Investment Dealer Member</u> is not aware of the collateral being used, indicates general <u>collateral</u> .
<del>39</del> . <del>40</del> ±	REPO COLLATERAL SECURITY IDENTIFER	The <i>ISIN</i> or <i>CUSIP</i> number of the security underlying a <del>repurchase agreement transaction or reverse repurchase agreement</del> transaction at the beginning of the agreement if a single security is used as collateral
<del>40</del> . <del>41</del> ±	CLEARING HOUSE	If the <del>repurchase agreement transaction or reverse repurchase agreement</del> transaction was centrally cleared, the <i>Legal Entity Identifier</i> of the central clearing house

No.	Data	Description
<del>41.42</del> 42	TRI-PARTY REPO INDICATOR	Indicates whether the <del>repurchase agreement transaction or reverse repurchase agreement</del> transaction is a tri-party repo.

- (7) The reporting Investment Dealer Member must ensure that the registration status of its *Legal Entity Identifier* has not lapsed.

#### 7204. Reporting timeframes

- (1) ~~A~~ An Investment Dealer Member must ensure that a transaction report for which the Investment Dealer Member is responsible is received by the *Corporation* in proper form and with complete and accurate information within the following timeframes:
- (i) for transactions in *debt securities* with *ISIN* or *CUSIP* Numbers assigned on the date of trade execution:
    - (a) if the date of trade execution is a *business day* and the time of transaction execution is no later than 4:00 p.m., the report must be made no later than 10:00 p.m. on the same *business day* as the date of trade execution,
    - (b) if the date of trade execution is a *business day* and the time of transaction execution is after 4:00 p.m., the report:
      - (I) may be made by 10:00 p.m. on the same *business day* as the date of the transaction execution, and
      - (II) must be made no later than 10:00 p.m. on the first *business day* following the date of trade execution, and
    - (c) for all other transactions, including those executed on a Saturday, Sunday, or any officially recognized Federal or Provincial statutory holiday on which the system is closed, the report must be made no later than 10:00 p.m. on the first *business day* following the date of trade execution,
- provided, however, that:
- (ii) for transactions in new issue *debt securities* with no *ISIN* or *CUSIP* number assigned, a transaction report required under clause 7203(2)(i) must be made:
    - (a) where the *ISIN* or *CUSIP* is assigned before 4:00 p.m., no later than 10:00 p.m. on the same *business day* that the *ISIN* or *CUSIP* number is assigned,
    - (b) where the *ISIN* or *CUSIP* is assigned after 4:00 p.m., no later than 10:00 p.m. on the first *business day* following the day that the *ISIN* or *CUSIP* was assigned.
- (2) Upon a successful submission and receipt by the *Corporation* of transaction reports, *MTRS 2.0* provides the submitter with *file receipts*, which must be retained by the Investment Dealer Member:
- (i) in a central, readily accessible place for a period of two years from the date of each *file receipt*, and
  - (ii) in any location from which the *File Receipts* may be retrieved within a reasonable period of time for a period of seven years from the date of each *file receipt*.

**7205. Enrollment requirements**

- (1) ~~A~~An Investment Dealer Member or authorized agent that will submit *debt securities* transaction reports to *MTRS 2.0* must enroll in *MTRS 2.0* and receive file submission credentials from the *Corporation* by completing the *MTRS 2.0 Enrollment Form* with all required information, including technical and business contact points.
- (2) Once enrolled, Investment Dealer Members remain responsible for keeping all information on the *MTRS 2.0 Enrollment Form* up to date.

**7206. – 7299. Reserved.**

## RULE 7300 | INTER-DEALER BOND BROKERS

**7301. Introduction**

- (1) Rule 7300 describes *Corporation requirements for inter-dealer bond brokers* used by [Investment Dealer Members](#). Its purposes are to ensure the financial viability of *inter-dealer bond brokers* and make the *debt securities* market more efficient.
- (2) Rule 7300 is divided into the following parts:
- Part A - General requirements  
[section 7303]
- Part B - Requirements for inter-dealer bond broker approval and continued approval  
[sections 7304 and 7305]
- Part C - Changes to Corporation requirements for inter-dealer bond brokers  
[section 7306]

**7302. Definitions**

- (1) The following terms have the meaning set out below when used in Rule 7300:

“domestic debt securities” <a href="#">(titres de créance canadiens)</a>	Canadian dollar denominated <i>debt securities</i> issued or primarily traded in Canadian markets, whether issued by the Government of Canada, a province, a municipality, a crown corporation, or a private sector corporation, and includes securities being traded on a "when issued" basis. Eurodollar <i>debt securities</i> are not <i>domestic debt securities</i> .
“inter-dealer bond broker client” <a href="#">(participant du courtier intermédiaire en obligations)</a>	A <i>person</i> permitted by an <i>inter-dealer bond broker</i> to use its services to trade <i>domestic debt securities</i> .
“inter-dealer bond broker trader” <a href="#">(négociateur par courtier intermédiaire en obligations)</a>	An <i>individual</i> supervised or controlled by an <i>inter-dealer bond broker client</i> , either through an employee or other similar relationship, who is authorized by the <i>inter-dealer bond broker client</i> to use the <i>inter-dealer bond broker</i> to buy or sell <i>domestic debt securities</i> for that <i>inter-dealer bond broker client</i> .
“information processor” <a href="#">(agence de traitement de l'information)</a>	Any <i>person</i> that receives and provides information under National Instrument 21-101 and has filed a 21-101F5 and, in Québec, that is a recognized information processor.

## PART A - GENERAL REQUIREMENTS

7303. Investment Dealer Members must trade through a Corporation approved inter-dealer bond broker

- (1) ~~A Dealer~~ An Investment Dealer Member that trades domestic debt securities through the facilities of an inter-dealer bond broker must do so through a Corporation approved inter-dealer bond broker. Trades must comply with the inter-dealer bond broker's operating procedures and Corporation requirements.

## PART B - REQUIREMENTS FOR INTER-DEALER BOND BROKER APPROVAL AND CONTINUED APPROVAL

## 7304. Eligibility of inter-dealer bond broker for Corporation approval

- (1) An applicant for Corporation approval as an inter-dealer bond broker must:
  - (i) be registered or licensed in each province or territory where it requires registration or licensing,
  - (ii) comply with securities laws and requirements of any securities regulatory authority having jurisdiction over the applicant, and
  - (iii) comply with the standards and conditions of approval described in section 7305.
- (2) An applicant for approval as an inter-dealer bond broker must submit its application to the Corporation together with any information required by Corporation requirements.

## 7305. Corporation requirements for inter-dealer bond broker approval and continued approval

- (1) An inter-dealer bond broker must comply with the requirements in section 7305 to be approved by the Corporation and to retain its approval.
- (2) An inter-dealer bond broker must have and maintain at least \$500,000 of shareholders' equity, or have a parent corporation with at least \$500,000 of shareholders' equity irrevocably guarantee that amount.
- (3) An inter-dealer bond broker must:
  - (i) provide evidence to the Corporation that all of its inter-dealer bond broker clients are and will continue to be:
    - (a) Investment Dealer Members,
    - (b) Canadian chartered banks or other organizations described in clause 7305(4)(iii) below, or
    - (c) any other Corporation approved financial institution,
  - (ii) require each new inter-dealer bond broker client, other than ~~an~~ an Investment Dealer Member or Canadian chartered bank, to provide it with recent financial statements or other evidence of financial condition and a favourable reference letter from a participant in a Corporation approved inter-dealer bond broker, and
  - (iii) provide evidence to the Corporation that all of the inter-dealer bond broker traders for its inter-dealer bond broker clients will be located in Canada.

- (4) Clause 7305(3)(iii) does not apply to an *inter-dealer bond broker trader* trading for an *inter-dealer bond broker client* that:
- (i) is a Schedule I *chartered bank* or its *affiliate* (other than an *affiliate*, or its *subsidiary*, whose business is mainly securities),
  - (ii) is a Schedule II *chartered bank* or its *subsidiary* of such a bank whose primary business is not securities (this exception does not apply to *inter-dealer bond broker traders* of other *affiliates* of *chartered banks*), or
  - (iii)
    - (a) is [e<sup>an</sup> Investment Dealer Member](#) or branch office member,
    - (b) is [e<sup>an</sup> Investment Dealer Member's affiliate](#) that has entered into an agreement as subsection 7305(7) describes and that either is regulated by the United States Financial Industry Regulatory Authority or is a member of any other self-regulatory organization or regulatory authority, or
    - (c) has entered into an agreement as subsection 7305(7) describes and:
      - (I) is not [e<sup>an</sup> Investment Dealer Member's affiliate](#),
      - (II) is regulated by the United States Financial Industry Regulatory Authority or is a member of any other self-regulatory organization or regulatory authority, and
      - (III) gives the *Corporation* a satisfactory legal opinion stating that the *inter-dealer bond broker client* does not contravene the registration requirements of *securities laws*.
- (5) The *inter-dealer bond broker* must only deal in *domestic debt securities* as agent on behalf of its *inter-dealer bond broker clients* and must not act as principal, either directly or indirectly.
- (6) The *inter-dealer bond broker* must provide accurate and timely information regarding details of orders and trades for *domestic debt securities* to the *information processor*, as required by National Instrument 21-101.
- (7) *Inter-dealer bond broker clients* outside Canada must sign an agreement under sub-clauses 7305(4)(iii)(b) and 7305(4)(iii)(c) that complies with the following provisions:
- (i) the parties to the agreement must include the *Corporation*, the *inter-dealer bond broker client* outside Canada and, if applicable, the *inter-dealer bond broker client's* affiliated [Investment Dealer Member](#),
  - (ii) an *inter-dealer bond broker client* outside Canada must state that it is carrying out its trading:
    - (a) in a jurisdiction in which it either is regulated by the United States Financial Industry Regulatory Authority or is a member of any other self-regulatory organization or regulatory authority, or
    - (b) from a jurisdiction in which the *Corporation* is satisfied that one of the self-regulatory organizations specified in sub-clause 7305(7)(ii)(a) has jurisdiction over its trading activities,
  - (iii) an *inter-dealer bond broker client* outside of Canada must agree to give [e<sup>an</sup> Investment Dealer Member](#) its *domestic debt securities* trading activity information

so that the Investment Dealer Member can regularly report its aggregated trading to the Corporation under Corporation requirements,

- (iv) if the Corporation requests this information for a specific inquiry about *domestic debt securities* trading, the *inter-dealer bond broker client* outside Canada must agree to give it, subject to appropriate confidentiality provisions, additional information, and
  - (v) the agreement must adapt the requirements in clauses 7305(7)(i) through 7305(7)(iv) to the circumstances of the *inter-dealer bond broker client*.
- (8) Commission schedule requirements:
- (i) An *inter-dealer bond broker* must publish a commission schedule showing commissions charged for a trade.
  - (ii) An *inter-dealer bond broker* must not charge a commission greater than those listed in its commission schedule.
  - (iii) A change to an *inter-dealer bond broker's* commission schedule may be effective from the date the *inter-dealer bond broker* gives written notice to all its *inter-dealer bond broker clients*.
- (9) Operating procedures manual and other requirements:
- (i) An *inter-dealer bond broker* must have a current operating procedures manual and appropriate enforcement or compliance procedures to ensure its provisions are observed.
  - (ii) The *inter-dealer bond broker's* operating procedures manual must:
    - (a) have a code of ethics that includes the following:
      - (I) the *inter-dealer bond broker* will keep confidential all information received from or about its *inter-dealer bond broker clients* or their activities, unless that information must be disclosed for regulatory or compliance reasons,
      - (II) all *inter-dealer bond broker clients* will receive fair treatment, and
      - (III) the *inter-dealer bond broker* will not give to an *inter-dealer bond broker client's* partner, director, officer, employee, agent or shareholder or any *associate* of such persons any gift or other incentive to do business unless it is non-monetary, of minimal value and infrequent such that it will not cause a reasonable person to question whether it created a conflict of interest,
    - and
    - (b) describe the minimum capital requirements for its *inter-dealer bond broker clients* and the procedure to establish the requirements.
  - (iii) An approved *inter-dealer bond broker* must provide a copy of its operating procedures manual to each *inter-dealer bond broker client*.
  - (iv) The *inter-dealer bond broker* must give its *inter-dealer bond broker clients* two weeks prior written notice of any amendment to its operating procedures manual, unless the Corporation approves a shorter notice period.

- (10) An *inter-dealer bond broker* must give each of its *inter-dealer bond broker clients* a daily report that describes the net amount of outstanding deliveries and the total amount of outstanding deliveries that the *inter-dealer bond broker clients* had with every other *inter-dealer bond broker client* at the previous day's close of business in each of the following categories:
- (i) *domestic debt securities*, with 10 years or less to maturity, issued or guaranteed by the Government of Canada or by a Canadian province or municipality,
  - (ii) *domestic debt securities* with more than 10 years to maturity, issued or guaranteed by the Government of Canada or a Canadian province or municipality,
  - (iii) *domestic debt securities* issued by a corporation, and
  - (iv) other *debt securities*, including *domestic debt securities* not in another category.
- (11) An *inter-dealer bond broker* must file with the *Corporation*:
- (i) within 140 days of its financial year end, summary statement of financial position information and an auditor's report, prepared in accordance with generally accepted accounting principles, and
  - (ii) within 60 days of the interim-period date, interim semi-annual statement of financial position information prepared in accordance with generally accepted accounting principles.
- (12) An *inter-dealer bond broker* must have its auditor confirm to the *Corporation*, at least annually, that the *inter-dealer bond broker* has met *Corporation requirements* for continued approval under Rule 7300. At a minimum, the confirmation must state the following:
- “In the course of our audit, nothing came to our attention that caused us to believe that the company held a position in securities for its own account or dealt with any person that is not eligible to be an *inter-dealer bond broker client* of the company under Rule 7300.”
- (13) The parties to an *inter-dealer bond broker client* agreement must agree that any disagreement between *inter-dealer bond broker clients*, or between an *inter-dealer bond broker client* and the *inter-dealer bond broker*, about who is responsible for a financial loss of less than \$100,000 must go to arbitration under the Arbitrations Act (Ontario). The parties must agree that the following provisions govern any arbitration:
- (i) Three arbitrators must resolve the disagreement. The arbitrators must be selected as follows:
    - (a) one arbitrator must be the Chair of the *Corporation* Fixed Income Committee or, if the Chair is involved in the disagreement, the Chair's designate,
    - (b) the parties to the disagreement must unanimously agree on the selection of one arbitrator from among all the *Corporation* approved *inter-dealer bond brokers* and their *inter-dealer bond broker clients*, and
    - (c) the parties must unanimously agree on the selection of one arbitrator who is unconnected to either an *inter-dealer bond broker client* or an *inter-dealer bond broker*. If the parties cannot unanimously agree, then a party may apply to have a judge select one or both arbitrators.

- (ii) Subject to co-operation from the parties, the arbitrators must make their decision within two weeks of being notified in writing of their appointment. However, the parties may agree on a later notification date.
- (iii) The parties may not appeal the arbitrators' award under the Arbitrations Act (Ontario).

**PART C - CHANGES TO ~~Corporation~~CORPORATION REQUIREMENTS FOR INTER-DEALER BOND BROKERS**

**7306. Committee review**

- (1) The *Corporation* must consult a committee comprised of representatives of parties to which Rule 7300 applies, including Investment Dealer Members, *inter-dealer bond broker clients* outside of Canada, and approved *inter-dealer bond brokers*, before the *Corporation* amends Rule 7300 or changes its interpretation of Rule 7300.

**7307. – 7999. Reserved.**