

Canadian Investment Regulatory Organization

Republication of proposed amendments regarding margin requirements for structured products

Blackline copy of the Proposed Amendments to the 2021 proposed amendments

Amendment #1 – The proposed definitions in IDPC Rule section 5130 are amended as follows:

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, has the meaning defined or used in Form 1.
- (2) For all positions subject to margin, the term:

<p>“underlying interest” or “underlying security” or “underlying basket of securities”</p>	<p>In the case of:</p> <ul style="list-style-type: none"> (i) a <i>convertible security</i>, the security to be received upon invoking the conversion or exchange feature, (ii) an <i>exercisable security</i>, the security to be received upon invoking the exercise feature, (iii) an <i>index participation unit</i>, the basket of securities to be received upon invoking the conversion or exchange feature, (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>, (v) residual debt securities and strip debt securities, the <i>debt security</i> used to create the residual debt securities and strip debt securities, (vi) <i>currency options</i>, the currency referenced by the <i>option</i>, (vii) <i>equity, index participation unit</i> and <i>debt options</i>, the security referenced by the <i>option</i>, (viii) <i>index options</i>, the <i>index</i> referenced by the <i>option</i>, and (ix) a <i>total performance swap</i>, the security or basket of securities on which the swap is based, <u>and</u> (x) a <i>structured product</i>, the security or basket of securities on which the performance of the <i>structured product</i> is based.
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- (8) For structured product positions ~~in and offsets involving structured product exposures~~, the term:

“structured product”	An unlisted <u>A</u> financial instrument issued by an acceptable institution where the return is linked to the performance of a specified <i>underlying security</i> or <i>underlying basket of securities</i> . <u>Structured products include:</u> <u>(i) principal at risk notes, and</u> <u>(ii) principal protected notes.</u>
“principal at risk note”	A financial instrument where the return is linked to the performance of a <u>specified underlying security or underlying basket of securities</u> and the investor carries a risk of losing part or all of the initial amount invested.
“principal protected note”	A financial instrument where the return is linked to the performance of a <u>specified underlying security or underlying basket of securities</u> and at maturity the investor receives as a minimum, the initial amount invested.

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

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

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Amendment #2 – The proposed IDPC Rule sections 5455 and 5456 are amended as follows:

5451. - 5454. Reserved.

STRUCTURED PRODUCTS

5455. Margin requirements for structured products

- (1) ~~The minimum Dealer Member inventory margin and client account margin requirements for structured products is 70% of the market value of the~~ A ~~structured product is eligible to be margined~~ provided:
 - (i) ~~the issuer of the structured product is qualified by prospectus for sale in any province in Canada or is guaranteed by~~ a Canadian financial institution as defined in securities laws, which qualifies as an acceptable institution,
 - (ii) ~~the~~ at the time of issuance, the structured product's ~~underlying security or underlying basket of securities is~~ 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 ~~related~~ 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 ~~a guaranteed return~~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 ~~clauses~~section 5455(1)~~(i), (ii) and (iii)~~ are met.

5457. - 5459. Reserved.