

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

PROPOSED MARGIN REQUIREMENTS FOR STRUCTURED PRODUCTS

BLACKLINE COPY OF THE PROPOSED AMENDMENTS TO IIROC RULES

Amendment #1 - IIROC Rule section 5130 is 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) currency <i>options</i>, the currency referenced by the <i>option</i>, (vii) equity, <i>index participation unit</i> and debt <i>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>(x) a structured product, the security or basket of securities on which the performance of the structured product is based.</u>
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(8) For positions in and offsets involving structured product exposures, the term:

<p><u>“structured product”</u></p>	<p><u>An unlisted financial instrument issued by an acceptable institution where the return is linked to the performance of a specified underlying security or underlying basket of securities.</u></p>
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(89) For positions in and offsets involving foreign exchange exposures, the term:

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

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Amendment #2 - IIROC Rule section 5401 is amended as follows:

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], ~~and~~
 - (vi) structured products [section 5455 through 5456], and
 - (vii) foreign exchange positions [sections 5460 through 5469].

Amendment #3 - IIROC Rule sections 5455 and 5456 are added 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 structured product provided:
- (i) 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

(ii) the underlying security or underlying basket of securities is eligible for margin under Rule 5200, 5300 or 5400

(iii) the issuer of the structured product or related affiliate is actively providing a secondary market.

5456. Alternative calculation approach for structured products

(1) For structured products with a guaranteed return 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 5455(1)(i), (ii) and (iii) are met.

5457. - 5459. Reserved.