**Appendix B**

**Table 1 – Overview of Schedule 9 requirements – current and proposed**

| Schedule 9 | Requirements | Notable Exemptions |
|---|---|---|
| 1. Current Schedule 9 overview | IIROC Rules identify securities concentrations, subject to capital charges, in issuer positions and precious metals positions that exceed the defined percentage of Risk Adjusted Capital (**RAC**) in Schedule 9. (IIROC Form 1, Schedule 9).<br>Positions tested are equity securities, convertibles, debt and other securities with a normal margin rate greater than 10% and precious metal positions, including all certificates and bullion of the particular precious metal.<br>Concentration charges must be calculated for the largest five issuer positions and precious metal positions by amount loaned in which there is a concentration exposure. | • Securities required to be in segregation or safekeeping<br>• Debt securities with a normal margin rate of 10% or less.<br>• Stripped coupons and residuals if they are held on a book based system and are in respect of federal and provincial debt instruments. |
| 2. Proposed Schedule 9 overview | IIROC Rules identify securities concentrations, subject to capital charges, in issuer positions and precious metals positions that exceed the defined percentage of RAC in Schedule 9.<br>Schedule 9 is divided into three sections:<br>• Schedule 9 – Summary Sheet<br>• Schedule 9A – General Security Test (current Schedule 9)<br>• Schedule 9B – Debt Security Test.<br>Proposed Schedule 9B introduces debt securities with a normal margin rate of 10% or less into the securities concentration test framework.<br>Concentration charges must be calculated for the largest three issuer positions and precious metal positions originating from Schedule 9A and the largest three issuer positions originating from Schedule 9B ranked by final adjusted amount loaned in which there is a concentration exposure.<br><u>Key features of Schedule 9B:</u><br>• designated rating organization (DRO) risk-weighting methodology<br>• the reported amount loaned may be reduced by a risk-weighting adjustment factor <80%, if the debt security meets the minimum current credit requirement from a DRO | • Securities required to be in segregation or safekeeping,<br>• Stripped coupons and residuals if they are held on a book based system and are in respect of federal and provincial debt instruments<br>• Non-commercial debt securities with a normal margin rate of less than 10% issued or guaranteed by the following:<br>  ◦ national governments of Canada, United Kingdom, and United States<br>  ◦ Canadian provincial governments<br>  ◦ the International Bank for Reconstruction and Development<br>  ◦ Canadian and United Kingdom municipal corporations<br>• Other non-commercial debt securities with a normal margin rate of 10% or less (minimum DRO rating requirement)<br>• Debt obligations and other evidences of indebtedness with an original maturity of 1 year or less, issued or guaranteed by the following:<br>  ◦ a Canadian financial institution qualifying as an acceptable institution (minimum DRO rating requirement)<br>  ◦ a foreign financial institution qualifying as an acceptable institution (minimum DRO rating requirement). |

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|---|---|---|
| | • 2-step concentration test methodology:<br>  ◦ Step 1 - calculate a debt issuer exposure according to the highest determined risk-weighting adjustment factor for all debt issue exposures held for an issuer. If the risk-weighted amount loaned does not exceed any thresholds no additional action is required.<br>  ◦ Step 2, - option to calculate a weighted average risk-weight adjustment factor, including the lower risk-weights for higher DRO rated debt<br>• any use of an adjustment factor <80% must be supported by a DRO rating<br>• Dealers must use the chosen DRO(s) and rating(s) consistently for both Schedule 9B and their risk management purposes. Dealers must not "cherry-pick" the credit ratings provided by different DROs and arbitrarily change the use of DROs.[1]<br>• Dealers must follow the multiple DRO methodology, when applying an adjustment factor <80% if their risk management relies on multiple DRO ratings.<br>• additional netting allowances are provided subject to the defined seniority relationship<br>• maximum concentration margin charge capped at risk-weighted loan value for long and short debt positions. | |

[1] See Section 3.6.2.2 Multiple assessments, Capital Adequacy Requirements (CAR), Chapter 3 – Credit Risk – Standardized Approach, Office of the Superintendent of Financial Institutions (OSFI), paragraph 126, and 128-130.