

Simplified Example – Calculation of a weighted average risk-weight adjustment factor

Table 2 – Concentrated issuer exposure with multiple debt issues with different DRO issue ratings¹

Concentration risk-weighting and maximum concentration charge - Issuer "ABC"										
Pre-concentration RAC	\$3,000,000									
Concentration threshold as a percentage of pre-concentration RAC	66.67%									
Concentration threshold	\$2,000,000									
Possible concentrated position (s) exposure details	1. Exposure amount	2. Normal margin requirement	3. Amount loaned	4. Risk-weighting adjustment factor	5. Percentage of exposure amount subject to concentration test	6. Risk-weighted amount loaned	7. Normal margin	8. Concentration margin	9. Total margin on exposure	10. Total margin as a percentage of market value
Schedule 9B debt exposure:										
Exposure amount in low / unrated debt securities										
Maturity within 1 year	\$200,000.00	3.00%	\$194,000.00	80.00%	77.60%	\$155,200.00	\$6,000.00			
Maturity over 1 year to 3 years	\$200,000.00	6.00%	\$188,000.00	80.00%	75.20%	\$150,400.00	\$12,000.00			
Maturity over 3 years to 7 years	\$200,000.00	7.00%	\$186,000.00	80.00%	74.40%	\$148,800.00	\$14,000.00			
Maturity over 7 years to 11 years	\$200,000.00	10.00%	\$180,000.00	80.00%	72.00%	\$144,000.00	\$20,000.00			
Maturity over 11 years	\$200,000.00	10.00%	\$180,000.00	80.00%	72.00%	\$144,000.00	\$20,000.00			
Exposure amount in BBB rated debt securities										
Maturity within 1 year	\$200,000.00	3.00%	\$194,000.00	60.00%	58.20%	\$116,400.00	\$6,000.00			
Maturity over 1 year to 3 years	\$200,000.00	6.00%	\$188,000.00	60.00%	56.40%	\$112,800.00	\$12,000.00			
Maturity over 3 years to 7 years	\$200,000.00	7.00%	\$186,000.00	60.00%	55.80%	\$111,600.00	\$14,000.00			
Maturity over 7 years to 11 years	\$200,000.00	10.00%	\$180,000.00	60.00%	54.00%	\$108,000.00	\$20,000.00			
Maturity over 11 years	\$200,000.00	10.00%	\$180,000.00	60.00%	54.00%	\$108,000.00	\$20,000.00			
Exposure amount in A to AA rated debt securities										
Maturity within 1 year	\$200,000.00	3.00%	\$194,000.00	50.00%	48.50%	\$97,000.00	\$6,000.00			
Maturity over 1 year to 3 years	\$200,000.00	6.00%	\$188,000.00	50.00%	47.00%	\$94,000.00	\$12,000.00			
Maturity over 3 years to 7 years	\$200,000.00	7.00%	\$186,000.00	50.00%	46.50%	\$93,000.00	\$14,000.00			
Maturity over 7 years to 11 years	\$200,000.00	10.00%	\$180,000.00	50.00%	45.00%	\$90,000.00	\$20,000.00			
Maturity over 11 years	\$200,000.00	10.00%	\$180,000.00	50.00%	45.00%	\$90,000.00	\$20,000.00			
Exposure amount in AAA rated debt securities										
Maturity within 1 year	\$200,000.00	3.00%	\$194,000.00	40.00%	38.80%	\$77,600.00	\$6,000.00			
Maturity over 1 year to 3 years	\$200,000.00	6.00%	\$188,000.00	40.00%	37.60%	\$75,200.00	\$12,000.00			
Maturity over 3 years to 7 years	\$200,000.00	7.00%	\$186,000.00	40.00%	37.20%	\$74,400.00	\$14,000.00			
Maturity over 7 years to 11 years	\$200,000.00	10.00%	\$180,000.00	40.00%	36.00%	\$72,000.00	\$20,000.00			
Maturity over 11 years	\$200,000.00	10.00%	\$180,000.00	40.00%	36.00%	\$72,000.00	\$20,000.00			
Weighted average risk-weighted loan value exposure amount	\$4,000,000.00		\$3,712,000.00			\$2,134,400.00	\$288,000.00	\$201,600.00	\$489,600.00	12.24%
Weighted average risk-weight	57.50%									

¹ For information purposes only. Table does not conform to exact reporting requirements of proposed Schedule 9B. Simplifying assumptions: only long-term DRO ratings used (assumes 1 DRO); maturities within 1 year assume no fractional weightings; does not include any additional Schedule 9 adjustments (Note 7(d)) to amount loaned; does not provide detail on client versus inventory exposures.

Appendix C

IIROC Notice 19-0154 – Rules Notice – Request for Comment – Republication of Proposed Amendments to Dealer Member Rules and Form 1 regarding the securities concentration test and designated rating organizations

Simplified Example – Calculation of a weighted average risk-weight adjustment factor

Table 3 – Simplified view of Table 2 using 2-step concentration test methodology

Step 1	
Instruction	Calculation
Measure an aggregated debt issuer, amount loaned exposure according to the highest determined risk-weighting for all debt issue exposures held for that issuer	= (3,712,000) x .80 = \$2,969,600
Concentration charge calculation (risk-weighted amount loaned – concentration threshold) x 150%	= (2,969,600 – 2,000,000) x 150% = \$1,454,400 concentration charge
Or	
Step 2	
Instruction	Calculation
Measure aggregated debt issuer, amount loaned exposure according to the weighted average risk-weighting for all debt issue exposures held for that issuer	<u>Identify the weights of each exposure</u> Low/Unrated weight = .25 (928,000/3,712,000) BBB rated weight = .25 (928,000/3,712,000) A to AA rated weight = .25 (928,000/3,712,000) AAA rated weight = .25 (928,000/3,712,000) <u>Calculate weighted average risk-weight</u> = (.25 x .80) + (.25 x .60) + (.25 x .50) + (.25 x .40) = .575 <u>Calculate debt issuer exposure according to the weighted average risk weighting</u> = (3,712,000) x .575 = \$2,134,400
Concentration charge calculation (risk-weighted amount loaned – concentration threshold) x 150%	= (2,134,400 – 2,000,000) x 150% = \$201,600 concentration charge

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