

**INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA**

**AMENDMENTS TO IIROC RULES AND FORM 1 RELATING TO THE FUTURES SEGREGATION AND PORTABILITY CUSTOMER  
PROTECTION REGIME**

**CLEAN COPY OF FORM 1**

**Form 1, Part II – Schedule 4**

\_\_\_\_\_  
Dealer Member's name

\_\_\_\_\_  
Date

**Analysis of clients' trading accounts long and short**

Category	Balances		Amount required to fully margin C\$000's
	Debit C\$000's	Credit C\$000's	
1. <i>Acceptable institutions</i>	_____	_____	_____
2. <i>Acceptable counterparties</i>	_____	_____	_____
3. Other clients:			
(a) Margin accounts	_____	_____	_____
(b) Cash accounts	_____	_____	_____
(c) Unsecured debits and shorts	_____	N/A	_____
4. Futures accounts	_____	_____	_____
5. Margin on extended settlements	N/A	N/A	_____
6. Free credits	N/A	D-Sec. A-2	N/A
6. (a) Free credits, pending trades [if applicable]	N/A		N/A
7. RRSP and other similar accounts	_____	_____	_____
8. <b>Less</b> - allowance for bad debts	_____	_____	_____
9. Total	A-9	A-53	B-12
10. <b>Supplementary disclosure:</b>			
(a) Name of RRSP trustee(s)			
1. _____			
2. _____			
3. _____			
(b) Total margin reductions from offsets against IA reserves and PDO guarantees			_____

## Form 1, Part II – Schedule 4

### Notes and instructions

- (1) A *Dealer Member* must obtain from and maintain for each of its clients, minimum margin in the amount and manner prescribed by *IIROC*.
- (2) **Lines 1 to 4** - Balances including *extended settlement date* transactions should be reported on these lines. However, the margin related to such extended settlements should be calculated as described in note 12 and reported on Line 5.
- (3) **Line 1** - No mark to market or margin is required on accounts with *acceptable institutions* in the case of either *regular* or *extended settlement date* transactions except
  - (i) any transaction which has not been confirmed by an *acceptable institution* within 15 *business days* of the trade date,
  - (ii) futures positions, which are margined as prescribed in subsections 5790 (1) and (2).This line is to include all trading balances with *acceptable institutions* except *free credit balances* and futures accounts. *Free credit balances* should be included on Line 6. Futures accounts should be included on Line 4.
- (4) **Line 2** - In the case of a *regular settlement date* transaction in the account of an *acceptable counterparty*, other than futures positions, which are margined as prescribed in subsections 5790 (1) and (2), the amount of margin to be provided, commencing on *regular settlement date*, shall be the equity deficiency calculated by determining the difference between (i) the net *market value* of all settlement date security positions in the customer's account(s) and (ii) the net money balance on a settlement date basis in the same account(s).

Any transaction, which has not been confirmed by an *acceptable counterparty* within 15 *business days* of the trade date, shall be margined.

This line is to include all trading balances with *acceptable counterparties* except *free credit balances* and futures accounts. *Free credit balances* should be included on Line 6. Futures accounts should be included on Line 4.
- (5) **Line 3(a) - "margin accounts"** means accounts which operate according to the following rules:
  - (i) Settlement of each transaction in a margin account of a customer shall be made on or before the settlement date by payment of the amount required to complete the transaction or by delivery of the required securities, as the case may be.
  - (ii) Payment by a customer in respect of any margin account transaction may be by:
    - (a) cash or other immediately available funds,
    - (b) applying the loan value of securities to be deposited,
    - (c) applying the excess loan value in the account or in a guarantor's account.
  - (iii) Each margin account of a customer, which has become undermargined, shall within 20 *business days* of the account becoming undermargined be restricted only to trades, which reduce the margin deficiency in the account. Such restriction shall apply until the account is fully margined.
  - (iv) Advancing funds or delivering securities from the account of a customer shall not be permitted as long as the account is undermargined or if such advance or delivery would cause the account to become undermargined.
- (6) **Line 3(a)** - In the case of a *regular settlement date* transaction in the margin account of a *person* other than a *regulated entity*, *acceptable counterparty* or *acceptable institution*, the amount of margin to be provided, commencing on *regular settlement date*, shall be the margin deficiency at not less than prescribed rates, if any, that exists.

Trade date margining: For *Dealer Members* determining margin deficiencies for clients on a trade date basis, (i) any amount of margin required to be provided under this subsection shall be determined using money balances and security positions as of trade date, and (ii) the amount referred to in the previous paragraph shall be determined and provided commencing on trade date.
- (7) **Line 3(b) - "cash accounts"** means accounts which operate according to the following rules:
  - (i) Cash accounts  
Settlement of each transaction in a cash account (other than DAP or RAP transactions referred to below) of a customer should be made by payment or delivery on the settlement date. In the event the account does not settle as required, capital will be provided as prescribed in note 8.
  - (ii) Delivery against payment (DAP)

**Form 1, Part II – Schedule 4**  
**Notes and instructions (Continued)**

Settlement of a purchase transaction in an account for which the customer has made arrangements with the *Dealer Member* on or before settlement date for delivery by the *Dealer Member* against payment in full by the customer shall be settled on the later of (a) settlement date or (b) the date on which the *Dealer Member* gives notice to the customer that the securities purchased are available for delivery.

(iii) Receipt against payment (RAP)

Settlement of a sale transaction in an account for which the customer has made arrangements with the *Dealer Member* on or before settlement date for receipt of securities by the *Dealer Member* against payment to the customer shall be settled on the settlement date.

(iv) Payment

Payment by a customer in respect of any cash account transaction may be by:

- (a) cash or other immediately available funds;
- (b) the application of the proceeds of the sale of the same or other securities held long in any cash account of the customer with the *Dealer Member* provided that the equity (trade date brokers include unsettled transactions) in such account exceeds the amount of the transaction;
- (c) the transfer of funds from a margin account of the customer with the *Dealer Member* provided adequate margin is maintained in such account immediately before and after the transfer.

(v) Isolated transactions

A customer shall be permitted in an isolated instance to:

- (a) settle, when the equity (excluding all unsettled transactions) in such account does not exceed the amount of the transaction, a regular or DAP cash account transaction by the sale of the same security in any cash account of the customer with the *Dealer Member*;
- (b) transfer a transaction in a cash account to a margin account prior to payment in full; or
- (c) transfer a transaction in a DAP account to a margin account within 10 *business days* after settlement date.

(vi) Account restrictions

(a) Cash accounts

When any portion of the money balance for a cash account of a customer is outstanding 20 *business days* or more after settlement date the customer shall be restricted from entering into any other transactions (other than liquidating transactions) in any account of the customer with the *Dealer Member*, unless and until (I) payment of any such money balance outstanding for 20 *business days* or more shall have been made, (II) all open and unsettled transactions in any cash account of the customer with the *Dealer Member* have been transferred in accordance with note 7(vii), or (III) the customer has executed a liquidating transaction in the account with the effect that no portion of the money balance in the account is outstanding 20 *business days* or more after settlement date.

(b) DAP accounts

When any portion of the money balance for a DAP account transaction of a customer is outstanding 5 *business days* or more (or, in the case of transactions of customers situated other than in continental North America, 15 *business days*) from the date on which the transaction is required to be settled in accordance with note 7(ii) the customer shall be restricted from entering into any other transaction (other than liquidating transactions) in any other account of the customer with the *Dealer Member*, unless and until (I) such transaction has been settled in full, or (II) all open and unsettled transactions in any cash account of the customer with the *Dealer Member* have been transferred in accordance with note 7(vii).

(vii) Transfer to margin account

The account restrictions in note 7(vi)(a) and (b) shall not apply to the accounts of a customer who (a) do not have a margin account with the *Dealer Member*, and (b) on or after the accounts becoming so restricted, transfers all open and unsettled transactions in any cash account of the customer with the *Dealer Member* to one or more newly established margin accounts of

**Form 1, Part II – Schedule 4**  
**Notes and instructions (Continued)**

the customer with the *Dealer Member*, provided such margin accounts have been properly established by the completion of all necessary documentation and action and adequate margin is maintained in such account(s) immediately after such transfer.

(viii) Acceptable institutions and other

Note 7(vi) does not apply to the accounts of *acceptable institutions, acceptable counterparties, non-Dealer Member* brokers, or *regulated entities*.

(8) **Line 3(b)** - Margin must be provided as follows:

(i) Cash accounts

(a) When any portion of the money balance in a cash account of a *person* other than a *regulated entity, acceptable counterparty* or *acceptable institution* is overdue for a period of less than 6 *business days* past *regular settlement date*, in the case of regular settlement transactions, the amount of margin to be provided, commencing on *regular settlement date*, shall be the equity deficiency, if any, calculated by determining the difference between (a) the net weighted *market value* of all settlement date security positions in the customer's cash account(s) and (b) the net money balance on a settlement date basis in the same account(s).

For the purposes of calculating weighted *market value*, the following weightings will apply:

(I) Securities that currently have a margin rate of 60% or less, are weighted at 1.000

(II) Listed securities with a margin rate greater than 60% are weighted as 0.333

(III) Nasdaq National Market<sup>®</sup> and Nasdaq SmallCap Market<sup>SM</sup> securities with a margin rate of more than 60% are weighted as 0.333

(IV) All other unlisted securities with a margin rate of more than 60% are weighted as 0.000.

(b) Commencing on 6 *business days* or more past *regular settlement date*, the amount of margin to be provided shall be the margin deficiency, if any, that would exist if all of the customer's cash accounts were margin accounts;

(c) The amounts provided in (a) or (b) above may be reduced by the amount of excess margin in the customer's margin accounts and any equity surplus in the customer's DAP and RAP accounts, if any.

(ii) DAP and RAP accounts

(a) When any portion of the money balance in a DAP account or RAP account of a *person* other than a *regulated entity, acceptable counterparty* or *acceptable institution* is overdue for a period of less than 10 *business days* past *regular settlement date*, in the case of regular settlement transactions, the amount of margin to be provided, commencing on *regular settlement date*, shall be the equity deficiency, if any, of (a) the net *market value* of all settlement date security positions in the customer's DAP, or RAP account(s) and (b) the net money balance on a settlement date basis in the same account(s).

(b) For each transaction in a DAP or RAP account which is unsettled, or any money portion in respect of such transaction is outstanding, in either case for a period of 10 *business days* or more past *regular settlement date*, the amount of margin to be provided shall be the margin deficiency calculated in respect of each such transaction as if such transaction was in a margin account.

(c) For a customer whose accounts are restricted, the amount to be provided shall be the margin deficiency, if any, that would exist if all of the customer's DAP and RAP accounts were margin accounts;

(d) The amount to be provided in (a), (b) or (c) above may also be reduced by the amount of excess margin in the customer's margin accounts and any equity surplus in the customer's cash accounts, if any.

(iii) Confirmations and commitment letters

The margin requirements outlined in the previous paragraphs of note 8 do not apply if a customer has provided the *Dealer Member* on or before settlement date with an irrevocable and unconditional confirmation from an *acceptable clearing corporation* or letter of commitment from an *acceptable institution* to the effect that such corporation or institution will accept delivery from the *Dealer Member* and pay for the securities to be delivered, and in such event settlement shall be considered provided for by the customer.

**Form 1, Part II – Schedule 4**  
**Notes and instructions (Continued)**

(iv) Trade date margining

For *Dealer Members* determining margin deficiencies for clients on a trade date basis, the amount of margin required between trade date and settlement date shall be the equity deficiency, if any, calculated by determining the difference between (a) the net *market value* of all trade date security positions in the customer's cash, DAP or RAP account(s) and (b) the trade date net money balance in the same account(s). Commencing on *regular settlement date*, the amount of margin to be provided shall be the margin requirement outlined in the previous paragraphs of note 8.

- (9) Any transactions in open cash accounts at the report date which, subsequent to that date, become in violation of the cash account requirements and have resulted in either a material loss or a material deficit - equity position, must either be fully margined or the total amount to margin such items must be reported as a footnote to Form 1.
- (10) **Line 3(c)** - The amount required to fully margin should be the aggregate of unsecured debits plus the margin required on any short security positions in such accounts or in accounts with no money balance. Any account that is partly secured should be included on Line 3(a) - Margin Accounts.
- (11) **Line 4** – This line is to include balances for client accounts containing positions and offsets in *futures contracts* or *futures contract options*. These accounts should be margined in accordance with subsection 5790(1). Where a margin deficiency exists in a futures account of an *acceptable counterparty* or an *acceptable institution*, the margin deficiency should be reported on this line in accordance with subsection 5790(2).

Excess margin in a client account subject to a *futures segregation and portability customer protection regime* may not be used to reduce margin requirements in the client's account that is not subject to *futures segregation and portability customer protection regime* and vice versa.

*Free credit balances* should be included on Line 5.

- (12) **Line 5** - Report only the margin related to extended settlements in cash, DAP, RAP or margin accounts on this line. In the case of an extended settlement transaction between a *Dealer Member* and either an *acceptable counterparty* or any other counterparty (other than an *acceptable institution* (see note 3) or *regulated entity* (see Schedule 5)), the position shall be margined as follows, commencing on *regular settlement date*:

Calendar days after regular settlement <sup>1</sup>		
Counterparty	30 days or less	Greater than 30 days
<i>Acceptable counterparty</i>	Market value deficiency <sup>2</sup>	Margin
Other	Margin	200% of margin (to a maximum of the <i>market value</i> of the underlying securities)

<sup>1</sup> Calendar days refers to the original term of the extended settlement transaction.

<sup>2</sup> Any transaction which has not been confirmed by an *acceptable counterparty* within 15 *business days* of the trade shall be margined.

- (13) **Line 6** - *Free credit balances* in all accounts except RRSP and other similar accounts should be included. *Dealer Members* margining on a trade date basis will generally calculate *free credit balances* on a trade date basis and should report this trade date figure on Line 6. However, for those *Dealer Members* margining on a settlement date basis, their *free credit balances* will generally be calculated on a settlement date basis and this settlement date figure should be reported on Line 6. Note that a consistent basis of calculating *free credit balances* must be used from month to month.
- (14) **Line 6(a)** - For those *Dealer Members* reporting *free credit balances* on a settlement date basis on Line 6, report the *free credit balances* arising as a result of pending trades on this line.
- (15) **Line 8** - Deduct the allowance for bad debts recorded in the accounts in order that the totals in Line 9 are shown "net".
- (16) **Line 10(b)** - Include margin reductions from offsets against IA reserves only to the extent there is a written agreement between the *Dealer Member* and the IA permitting the *Dealer Member* to recover the unsecured balances of the IA's client accounts from the IA reserve account. Include margin reductions arising from *guarantees* relating to customers' accounts by Partners, *Directors*, and

**Form 1, Part II – Schedule 4**  
**Notes and instructions (Continued)**

*Officers of the Dealer Member (PDO Guarantees).* Include margin reductions arising from offsets against non-specific allowances of the *Dealer Member*.

**Form 1, Part II – Schedule 5**  
**Notes and instructions**

- (1) This schedule is only to include ordinary security trading transactions. All security borrowing or lending transactions should be disclosed on Schedules 1 or 7.
- (2) **Lines 1, 2, 3 and 4 where applicable** - Balances may be reported on a “net” basis (broker by broker) or on a “gross” basis. Balances with a broker or dealer must not be netted against those with its *affiliated* company.
- (3) **Line 1** - For definition, see general notes and definitions.

Margin on such balances should be provided as follows:

- (i) Trades settling through a net settlement system should be treated as if the other party to the trade was an *acceptable institution*. For example, CNS balances with *CDS*, and CNS balances with National Securities Clearing Corporation.
- (ii) All transactions done through *CDS* outside of the CNS system should be treated as if with a single counterparty to be classified as an *acceptable counterparty* (even if some or all of the other parties qualify as an *acceptable institution*).
- (iii) Other trades settling on a transaction by transaction basis should be treated as if they were to be settled directly with the other party to the trade. For example, balances arising from trades settled through National Securities Clearing Corporation’s Netted Balance Order or Trade-for-Trade Services, and balances arising from trades settled through Euroclear and Cedel.
- (4) **Line 2** - This line is not to include non-arms’ length transactions which are to be reported on Line 3. Margin on balances with *regulated entities*, except futures accounts, must be provided as follows:
- (i) In the case of a *regular settlement date* transaction in the account of a *regulated entity* the amount of margin to be provided, commencing on *regular settlement date*, shall be the equity deficiency of (a) the net *market value* of all settlement date security positions in the broker’s accounts, and (b) the net money balance on a settlement date basis in the same accounts. In the case of an *extended settlement date* transaction between a *Member* and a *regulated entity*, commencing on *regular settlement date* the position shall be marked to market if the original term of the extended settlement transaction is 30 days or less, otherwise the position should be margined at applicable rates.
- (ii) Any transaction which has not been confirmed by a *regulated entity* within 15 *business days* of the trade date shall be margined.

Futures accounts with *regulated entities* containing positions and offsets in *futures contracts* or *futures contract options* are to be margined in accordance with subsection 5790(1) and margin deficiencies are to be reported on this line in accordance with subsection 5790(2).

- (5) **Line 3(a)** - Margin must be provided as outlined for *regulated entities* in note 4 above.
- (6) **Line 3(b)** - If the *affiliated/related company* qualifies as a *regulated entity*, then margin must be provided as outlined for *regulated entities* in note 4 above.

If the *affiliated/related company* qualifies as an *acceptable counterparty*, then margin must be provided in the manner outlined in the notes and instructions to Schedule 4 for *acceptable counterparties*.

If neither of the above, then margin must be provided in the manner outlined for other clients (clients other than *regulated entities*, *acceptable counterparties* and *acceptable institutions*) in the notes and instructions to Schedule 4.

- (7) **Line 4(a)** - All balances must be margined in the same way as accounts of *acceptable counterparties* (see notes and instructions to Schedule 4). Balances, or portions thereof, arising from trading transactions such as *futures contracts*, *options* and short sale deposits should also be reported on this line. This line should also include balances with approved *inter-dealer bond brokers*. Approved *inter-dealer bond brokers* are those inter-dealer bond dealers that are approved by *IIROC* and the Bourse de Montréal Inc. The list of approved *inter-dealer bond brokers* will be published from time to time through the issuance of a regulatory notice.
- (8) **Line 4(b)** - All balances must be margined in the same way as regular clients’ accounts (see notes and instructions to Schedule 4). Balances, or portions thereof, arising from trading transactions such as *futures contracts*, *options* and short sale deposits should also be reported on this line. This line should also include balances with *inter-dealer bond brokers* which are not on the list of approved *inter-dealer bond brokers*.

**Form 1, Part II – Schedule 5**  
**Notes and instructions** (Continued)

- (9) **Line 5** - This line is to include balances arising from mutual fund redemptions or purchase transactions. All balances must be margined in the same way as accounts of *acceptable counterparties*, or as regular client accounts.