

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

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

BLACKLINE COPY OF SECTIONS IMPACTED BY ADOPTION INTO IDPC RULES

When adopted into the Investment Dealer and Partially Consolidated Rules, Sections 5725, 5776 and 5790 will be amended to replace “IIROC” with “the Corporation” as follows:

5725. Hedged option positions

- (1) No margin is required for the following *exchange-traded option* and collateral position combinations held in *equivalent quantities* in a *Dealer Member* inventory or client account:

	Exchange-traded option position		Acceptable collateral
(i)	Short <i>call option</i> with an equity, <i>index</i> , <i>index participation unit</i> , debt or currency <i>underlying interest</i>	and	<i>escrow receipt</i> evidencing the deposit of the <i>underlying security</i>
(ii)	Short <i>put option</i> with an equity, <i>index</i> , <i>index participation unit</i> , debt or currency <i>underlying interest</i>	and	<i>escrow receipt</i> evidencing the deposit of government securities
(iii)	Short <i>put option</i> with an equity, <i>index</i> , <i>index participation unit</i> , debt or currency <i>underlying interest</i>	and	letter of <i>guarantee</i>

provided the conditions in subsections 5725(2) and 5725(3) are met.

- (2) For an *escrow receipt* to be acceptable collateral in subsection 5725(1):
- (i) the issuer of the *escrow receipt* must be a financial institution approved by the *recognized option clearing corporation*,
- and
- (ii) all *recognized option clearing corporation* agreements must be signed and delivered to the *recognized option clearing corporation* and available for inspection by ~~IIROC~~[the Corporation](#) on request,
- and
- (iii) in the case of an *escrow receipt* evidencing the deposit of government securities, the securities must:
- (a) be acceptable forms of *recognized option clearing corporation* margin,
- (b) mature within one year of their deposit, and

- (c) have a *market value* of greater than 110% of the *aggregate exercise value* of the short *put option*.
- (3) For a letter of *guarantee* to be acceptable collateral in subsection 5725(1):
- (i) the issuer must be:
 - (a) a financial institution approved by the *recognized option clearing corporation* to issue *escrow receipts*,
 - and
 - (b) a *chartered bank*, a Québec savings bank or a trust company licensed to do business in Canada, with a minimum paid-up capital and surplus of \$5,000,000,
 - and
 - (ii) the letter must certify that the bank or trust company:
 - (a) holds on deposit for the client's account cash equal to the full *aggregate exercise value* of the *put option* and that amount will be paid to the *recognized option clearing corporation* against delivery of the *underlying interest* hedged by the *put option*,
 - or
 - (b) unconditionally and irrevocably guarantees to pay the *recognized option clearing corporation* the full amount of the *aggregate exercise value* of the *put option* against delivery of the *underlying interest* hedged by the *put option*,
 - and
 - (iii) the *Dealer Member* must deliver it to the *recognized option clearing corporation* and the *recognized option clearing corporation* must accept it as margin.

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5776. Optional use of the Standard Portfolio Analysis methodology

- (1) For a *Dealer Member* inventory account constituted exclusively of positions in *derivatives* listed at the Bourse de Montréal, the margin required may be the one calculated by the Standard Portfolio Analysis methodology using the margin interval calculated and the assumptions used by the Canadian Derivatives Clearing Corporation.

- (2) For client accounts subject to the *domestic gross customer margin model* constituted exclusively of positions in *derivatives* listed at the Bourse de Montréal, the margin required may be the one calculated by the Standard Portfolio Analysis methodology using the margin interval calculated and the assumptions used by the Canadian Derivatives Clearing Corporation.
 - (3) If the *Dealer Member* selects the Standard Portfolio Analysis methodology, the margin requirements calculated under this methodology will supersede the requirements stipulated in these Rules.
 - (4) ~~HROC~~[The Corporation](#) may restrict the application of this section 5776, if it considers continued use of the Standard Portfolio Analysis methodology to be inappropriate for *Dealer Member* or client margin requirements.
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FUTURES CONTRACTS AND FUTURES CONTRACT OPTIONS

5790. Minimum margin requirements

- (1) Where a *Dealer Member* inventory or client account contains positions and offsets in *futures contracts* or *futures contract options*, the margin required is the greatest of:
 - (i) the margin required by the futures exchange on which the contract is entered into,
 - (ii) the margin required by the clearing corporation, and
 - (iii) the margin required by the *Dealer Member's* clearing broker, where applicable.
- (2) Where a client in subsections 5790(1) or 5776(2) is an *acceptable institution*, *acceptable counterparty* or *regulated entity*, the *Dealer Member* must include the margin deficiency in the margin on client or brokers and dealers accounts when calculating its *risk adjusted capital*, as of the date the deficiency occurs, where the *Dealer Member*:
 - (i) does not promptly call for margin, or
 - (ii) has promptly made a call for margin, but has not received the required margin by the end of the next trading day after the date the deficiency occurs.

- (3) Where a *Dealer Member* or a client, owns a commodity and also has a short position in a *futures contract* in the same commodity, the two positions may be offset and the required margin shall be computed with respect to the net long or net short position where:
 - (i) ownership of the commodity is evidenced by warehouse receipts or comparable documentation, and
 - (ii) the *futures contract* position is not subject to the *domestic gross customer margin model*.
- (4) Where a futures exchange or its clearing corporation prescribes margin requirements based on initial and maintenance rates, the margin required at the time the contract is entered shall be based on the prescribed initial rate. When subsequent adverse price movements in the value of the contracts reduce the margin on deposit to an amount below the maintenance level, a further amount to restore the margin on deposit to the initial rate amount shall be required. The *Dealer Member* may, in addition, require such further margin or deposit against liability as it may consider necessary as a result of fluctuations in market prices from time to time.
- (5) Where client trades are executed through an omnibus account, the *Dealer Member* shall require margin from each of its clients as though the trades were executed in separate fully disclosed accounts.
- (6) Where spread margins are permitted in a client account, the *Dealer Member* shall note this in the margin records for this account.
- (7) Where a *Dealer Member's* inventory account holds inter-commodity spreads in Government of Canada bond *futures contracts* and U.S. treasury bond *futures contracts* traded on a futures exchange in Canada and the United States and *equivalent quantities* of each position in the spread are held, the margin required is the greater of the margin required on either the long side or the short side only. For this purpose, the foregoing spreads shall be on the basis of \$1.00 Canadian for each \$1.00 U.S. of the contract size of the relevant *futures contracts*. With respect to the United States side of the above inter-commodity spreads, such positions must be maintained on a contract market as designated pursuant to the United States Commodity Exchange Act.
- (8) ~~HRQC~~ [The Corporation](#) may prescribe, in its discretion, higher or lower margin requirements for any account or *person* that holds positions in *futures contracts* or *futures contract options*.

Form 1

When adopted into the Investment Dealer and Partially Consolidated Rules, Note 1 of the Schedule 4 Notes and Instructions and Note 7 of the Schedule 5 Notes and Instructions in Form 1 will be amended to replace “IIROC” with “the Corporation” as follows:

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~~[the Corporation](#).

Form 1, Part II – Schedule 5

Notes and instructions

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- (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~~[the Corporation](#) 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.