

IIROC NOTICE

Rules Notice Notice of Approval/ Implementation

Dealer Member Rules

Please distribute internally to:

Credit
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Legal and Compliance
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Swap Arrangements involving Regulated Entities

The IIROC Board of Directors have approved and confirmed the attached amendments to *Dealer Member Rules 100.2, 100.2(j) – Interest Rate Swaps* and *100.2(k) – Total Performance Swaps*, which were approved by the IDA Board of Directors on December 12, 2007. The amendments are effective September 8, 2008.

The purpose of the amendments is to clarify the margin requirements for swap agreements where the counterparty is a regulated entity, because they were not explicitly stated in Dealer Member Rules 100.2(j) and 100.2(k). Instead, these margin requirements were implied based on the margin requirements for regulated entities in *Schedule 1 – Analysis of Loans Receivable, Securities Borrowed and Resale Agreements* and *Schedule 7 – Analysis of Overdrafts, Loans, Securities Loaned and Repurchase Agreements* to Form 1, where the market value deficiency calculated relating to the position(s) applies.

Additionally, the reference to Rule 17.13 in the first paragraph of *Dealer Member Rule 100.2* was circular and therefore not necessary and is removed.



INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

AMENDMENTS TO DEALER MEMBER RULES 100.2, 100.2(J) AND 100.2(K)

“100.2. For the purpose of ~~Rule 17.13~~ and this Rule 100 the following margin requirements are hereby prescribed:

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(j) Interest Rate Swaps

For the purposes of this regulation, a "**fixed interest rate**" is an interest rate, which is not reset at least every 90 days and a "**floating interest rate**" is an interest rate, which is not a fixed interest rate. On interest rate swap agreements where payments are calculated with reference to a notional amount, the obligation to pay and the entitlement to receive shall each be margined as separate components as follows:

- (i) Where a component is a payment calculated according to a fixed interest rate, the margin required shall be the margin rate specified in Rule 100.2(a)(i) for a security with the same term to maturity as the outstanding term of the swap, multiplied by 125% and in turn multiplied by the notional amount of the swap;
- (ii) Where a component is a payment calculated according to a floating interest rate, the margin required shall be the margin rate specified in Rule 100.2(a)(i) for a security with the same term to maturity as the remaining term to the swap reset date, multiplied by the notional amount of the swap.

The counterparty to the interest rate swap agreement shall be considered the Dealer Member's customer. No margin is required for an interest rate swap entered into with a customer, which is an acceptable institution. The margin requirement for customers, which are acceptable counterparties or regulated entities, shall be any market value deficiency calculated relating to the interest rate swap agreement. The margin requirement for customers which are other counterparties shall be any loan value deficiency calculated relating to the interest rate swap agreement, determined by using the same margin requirements for each swap component as calculated in clauses (i) and (ii) above.

(k) Total Performance Swaps

On total performance swap agreements, the obligation to pay and the entitlement to receive shall each be margined as separate components as follows:

- (i) Where a component is a payment calculated based on the performance of a stipulated underlying security or basket of securities, with reference to a notional amount, the margin requirement shall be the normal margin required for the underlying security or basket of securities relating to this component, based on the market value of the underlying security or basket of securities;
- (ii) Where a component is a payment calculated according to a floating interest rate, the margin required shall be the margin rate specified in Rule 100.2(a)(i) for a security with



the same term to maturity as the remaining term to the swap reset date, multiplied by the notional amount of the swap.

The counterparty to the total performance swap agreement shall be considered the Dealer Member's customer. No margin is required for a total performance swap entered into with a customer, which is an acceptable institution. The margin requirement for customers, which are acceptable counterparties or regulated entities, shall be any market value deficiency calculated relating to the total performance swap agreement. The margin requirement for customers which are other counterparties shall be any loan value deficiency calculated relating to total performance rate swap agreement, determined by using the same margin requirements for each swap component as calculated in clauses (i) and (ii) above."