

# IIROC NOTICE

## **Rule Notice Guidance Note**

Dealer Member Rules

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## **Third-Party ABCP Exchanged into MAV and Tracking Notes**

The purpose of this notice is to provide guidance to Dealer Members on balance sheet classification, valuation and margining of the exchange of restructured notes for affected Third-Party (non-bank) asset-backed commercial paper (ABCP).

The proposed restructuring of the underlying pool of assets for all of the 20 affected ABCP conduits will result in the creation of three new Master Asset Vehicles (MAV) that will have various classes of notes issued in exchange for all outstanding ABCP notes. The exchanged MAV and tracking notes will be based on the settlement value of each ABCP note as of issue date.



## **Financial Instrument – Recognition and Measurement**

In reference to MR Notice 0431, the prescribed regulatory accounting method for financial instruments held by a Dealer Member is to designate them as financial assets and financial liabilities “held for trading”. This requires that initial and subsequent measurement of the financial asset and liabilities be recorded at fair value and any gains and losses be recognized immediately in net income.

The exchange of ABCP into MAV notes must continue to be accounted for by Dealer Members as financial assets and financial liabilities held for trading on the balance sheet. This will require that the exchanged MAV and tracking notes be subsequently recorded at fair value on the date of exchange and any gains or losses immediately recognized into income.

## **Fair Value Determination**

For purposes of regulatory accounting and reporting, fair value should represent the “market value” of the security as defined for debt instruments in the General Notes and Definitions to Form 1. Specifically, fair value will be “a value determined as reasonable from published market reports or inter-dealer quotation sheets on the relevant date or last trading day prior to the relevant date, or based on a reasonable yield rate. Where not readily marketable, no market value shall be assigned”.

For customer holdings of the new MAV and tracking notes, to the extent that the securities are determined not to be readily marketable, it will be permissible to record them on customer statements and report “no price available”. IIROC will provide further guidance following the first days of trading.

For purposes of inventory holdings, the CICA Accounting Standards Board (AcSB) has further provided guidance in its commentary dated April 18, 2008 for estimating fair value. Dealer Members and their panel auditors are advised to refer to the section entitled “Estimating Fair Value of ABCP as at March 31, 2008 and thereafter”. A copy of AcSB commentary is provided in [Appendix A](#).

Where and when applicable, Dealer Members should also refer to MR Notice 0159 dated September 4, 2002 for guidance on determining appropriate market values, where there is an illiquid market and the firm holds significant value of positions. It is permissible to adjust the margin rate of the security to provide an additional capital charge under this situation. The Dealer Member must be able to provide an assessment of the margin adjustments based on their position holdings relative to the traded market volume.



## **Applicable Margin Rates**

IIROC Dealer Member Rule 100.2 sets out the prescribed margin rates for debt securities. As these new MAV notes represent medium term floating rate notes, paragraph 100.2(a)(v) applies as follows:

Commercial and corporate bonds, debentures and notes (not in default) maturing:

<u>Term to Maturity</u>	<u>Margin Rate</u>
within 1 year	3% of market value
over 1 year to 3 years	6% of market value
over 3 years to 7 years	7% of market value
over 7 years to 11 years	10% of market value
over 11 years	10% of market value

## **Special Weekly Filing**

In order for IIROC to issue further industry guidance on the valuation of the restructured notes, IIROC will require that all Dealer Members report their weekly traded volume and prices for the restructured notes. This reporting is expected to be for a limited time period, as IIROC monitors the development of a traded market for these restructured securities.

Dealer Members will be further provided with a reporting template as to the weekly traded information for MAV and tracking notes in due course.