

# IIROC NOTICE

## **Rules Notice Notice of Approval / Implementation**

Dealer Member Rules

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**09-0156**  
**May 25, 2009**

## **Margin Requirements for Precious Metals – Amendments to IIROC Dealer Member Rules 100.2, 100.20, and 400.4, and Dealer Member Form 1**

The IIROC Board of Directors have approved and confirmed the amendments to IIROC Dealer Member Rules 100.2, 100.20, 400.4, and Dealer Member Form 1, which were approved by the IDA Board of Directors on January 30, 2008. The amendments are divided into two parts. The first part of the amendments is attached and these amendments are effective June 1, 2009.

The main purpose of the amendments is to allow gold and silver precious metals bullion to be margined like their respective certificates. In addition, the amendments will increase the margin requirements for gold, silver, and platinum precious metal certificates to 20 percent of their market value. Please note that at the request of one of the securities commissions, IIROC



staff will bring forward a proposed amendment shortly to increase the margin requirement for platinum precious metal certificates to 25 percent of their market value.

The amendments address a number of risk concerns in allowing gold and silver precious metals bullion to be margined. These concerns and their respective amendments are as follows:

- Authenticity and Liquidity – addressed by the amendments to Dealer Member Rule 100.2(i)
- Storage, Control, and Segregation – addressed by the amendments to Dealer Member Form 1, the definition of acceptable securities locations
- Concentration – addressed by the amendments to Dealer Member Rule 100.20 and Dealer Member Form 1, Schedule 9
- Insurance – addressed by the amendments to Dealer Member Rule 400.4 and Dealer Member Form 1, Schedule 10. Furthermore, Dealer Members dealing in gold and silver precious metals bullion must supplement their Financial Institution Bond (FIB) policies with a rider to cover these precious metals bullion.

The second part of the amendments will be implemented at a later date, following the implementation of the new methodology for margining equity securities (also called the Equity Margin Project). In the second part of the amendments the margin requirements for gold, silver, and platinum precious metal certificates and bullion will be based on each metal's calculated basic margin rate instead of the fixed 20 percent.



**INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA**  
**MARGIN REQUIREMENTS FOR PRECIOUS METALS – DEALER MEMBER RULES 100.2, 100.20, AND 400.4, AND FORM 1**

**1. Subsection 100.2(i) of Dealer Member Rule 100**

**(i) Precious Metal Certificates and Bullion**

(i) Precious Metal Certificates

On negotiable certificates issued by Canadian chartered banks and trust companies authorized to do business in Canada evidencing an interest in precious metals:

Gold: ~~10%~~ 20% of market value

Platinum ~~and silver~~: ~~15%~~ 20% of market value

Silver: 20% of market value

~~On silver certificates approved by Intermarket Services Inc. held by a Dealer Member, margin shall be 25% of market value.~~

(ii) On bullion purchased by a Dealer Member, for its inventory or on behalf of the client, from the Royal Canadian Mint or a Canadian chartered bank that is a market making member or ordinary member of the London Bullion Market Association (LBMA) for which a written representation is provided to the Dealer Member from the Royal Canadian Mint or the Canadian chartered bank stating that the bullion purchased are LBMA good delivery bars:

Gold: 20% of market value

Silver: 20% of market value

**2. Section 100.20 of Dealer Member Rule 100**

**100.20 Concentration of Securities**

(a) For the purposes of this paragraph:

(i) "Amount Loaned" includes:

(A) In respect of long positions:

1. The loan value of long securities and precious metals in margin accounts on settlement date;
2. The loan value of long securities and precious metals in a regular settlement cash account when any portion of the account is outstanding after settlement date;
3. The loan value of long securities and precious metals in a delivery against payment cash account when such securities and precious metals are outstanding after settlement date;
4. The loan value of long inventory positions on trade date; and
5. The loan value of new issues carried in inventory 20 business days after new issue settlement date.

(B) In respect of short positions:



1. The market value of short positions in margin accounts on settlement date;
  2. The market value of short positions in a regular settlement cash account when any portion of the account is outstanding after settlement date;
  3. The market value of short positions in a delivery against payment cash account when such securities are outstanding after settlement date; and
  4. The market value of short inventory securities on trade date.
- (ii) "Security" includes:
- (A) all long and short positions in equity and convertible securities of an issuer; and
  - (B) all long and short positions in debt or other securities, other than debt securities with a margin requirement of 10% or less.
- (iii) "Precious metal" includes:
- (A) long positions in certificates evidencing an interest in gold, platinum or silver that are acceptable for margin purposes as defined in Dealer Member Rule 100.2(i)(i); and
  - (B) long positions in London Bullion Market Association (LBMA) gold or silver good delivery bars that are acceptable for margin purposes as defined in Dealer Member Rule 100.2(i)(ii).
- (iii) "Risk Adjusted Capital" means a Dealer Member's risk adjusted capital as calculated before the securities concentration charge (Statement B, Line 25 on Form 1) plus minimum capital (Statement B, Line 6 of Form 1).
- (b) For the purposes of calculating the amount loaned:
- (i) Security positions that qualify for margin offsets pursuant to Rule 100, as applicable, may be netted;
  - (ii) Separate calculations must be made for long security positions and short security positions. The greater of the long or short position must be used in the calculations below;
  - (iii) In calculating the total amount loaned for each customer on long (or short) positions on any one security, there may be deducted from the loan value (market value) of the long (or short) position:
    - (A) Any excess margin in the customer's account; and
    - (B) 25% of the market value of long positions in any non-marginable securities in the account provided such securities are carried in readily saleable quantities only.
  - (iv) In calculating the amount loaned on long positions for a customer, where such customer (the "guarantor" has guaranteed another customer account (the "guaranteed account"), any securities and precious metal in the guarantor's account which are used to reduce margin required in the guaranteed account in accordance with Rule 100.14, shall be included in calculating the amount loaned on each security and precious metal for the purposes of the guarantor's account;
  - (v) The values of trades made with acceptable institutions, acceptable counterparties and regulated entities that are outstanding 10 business days past settlement date and are:
    - (A) Not confirmed for clearing through a recognized clearing corporation; or



- (B) Not confirmed by the acceptable institution, acceptable counterparty or a regulated entity,  
Must be included in the calculation below in the same manner as delivery against payment cash accounts; and
- (vi) The value of trades made with a financial institution that is not an acceptable institution, acceptable counterparty or regulated entity, outstanding less than 10 business days past settlement date, may be excluded from the calculation below if each such trade was confirmed on or before settlement date with a settlement agent that is an acceptable institution or acceptable counterparty.
- (c)
  - (i) Subject to subclause (ii) below, where the total amount loaned by a Dealer Member on any one security or precious metal for all customers and/or inventory accounts, as calculated hereunder, exceeds an amount equal to two-thirds of the sum of the Dealer Member's risk adjusted capital, before securities concentration charge and minimum capital, as most recently calculated for more than five business days, an amount equal to 150% of the excess of the amount loaned over two-thirds of the sum of the Dealer Member's risk adjusted capital, before securities concentration charge and minimum capital (Statement B, Line 6 of Form 1), shall be deducted from the risk adjusted capital of the Dealer Member. For long positions, the concentration charge as calculated herein shall not exceed the loan value of the security or precious metal for which the charge is incurred.
  - (ii) Notwithstanding subclause (i) above, where the loaned security issued by
    - (A) The Dealer Member, or
    - (B) A company, where the accounts of a Dealer Member are included in the consolidated financial statements and where the assets and revenues of the Dealer Member constitute more than 50% of the consolidated assets and 50% of the consolidated revenue, respectively, the company, based on the amounts shown in the audited consolidated financial statements of the company and the Dealer Member for the preceding fiscal year,  
  
And the total amount loaned by the Dealer Member on any one such security, as calculated hereunder, exceeds an amount equal to one third of the Dealer Member's risk adjusted capital before securities concentration charge plus minimum capital as most recently calculated for more than five business days, an amount equal to 150% of the excess of the amount loaned over one-third of the sum of the Dealer Member's risk adjusted capital before securities concentration charge and minimum capital shall be deducted from the risk adjusted capital of the Dealer Member.
- (d) Where the total amount loaned by a Dealer Member on any one security or precious metal for all customers and/or inventory accounts as calculated hereunder exceeds an amount equal to one half of the sum of the Dealer Member's risk adjusted capital before securities concentration charge and minimum capital as most recently calculated, and the amount loaned on any other security or precious metal which is being carried by a Dealer Member for all customers and/or inventory accounts as calculated hereunder, exceeds an amount equal to one-half of the sum of the Dealer Member's risk adjusted capital before securities concentration charge and minimum capital as most recently calculated for more than five business days, an amount equal to 150% of the excess of the amount loaned on the other security or precious metal over one-half of the Dealer Member's risk adjusted capital shall be deducted from the risk adjusted capital of the Dealer Member. For long



positions, the concentration charge as calculated herein shall not exceed the loan value of the security or precious metal for which the charge is incurred.

- (e) For the purposes of calculating the concentration charges as required by paragraphs (c) and (d) above, such calculations shall be performed for the first five securities and precious metals in which there is a concentration.
- (f) Where the capital charges described in subsections (c) and (d) would result in a capital deficiency or a violation of the rule permitting designation in early warning pursuant to Rule 30, the Dealer Member must report the over-concentration situation to the appropriate Joint Regulatory Bodies on the date the over-concentration first occurs.

### 3. Subsection 400.4(i) of Dealer Member Rule 400

400.4. Amounts Required - The minimum amount of insurance to be maintained for each Clause under Rule 400.2 shall be the greater of:

- (a) \$500,000, or, in the case of an Introducing Type 1 arrangement, \$200,000; and
- (b) 1% of the base amount (as defined herein), or in the case of Introducing Types 1 and 2 arrangements, ½% of the base amount;

provided that for each Clause such minimum amount need not exceed \$25,000,000.

For the purposes of this Rule 400, the term "base amount" shall mean the greater of:

- (i) The aggregate of net equity for each customer determined as the total value of cash ~~and securities~~ securities, and other acceptable property (as defined in Schedule 10 of Form 1) owed to the customers by the Dealer Member less the total value of cash ~~and securities~~ securities, and other acceptable property (as defined in Schedule 10 of Form 1) owed by the customers to the Dealer Member; and
- (ii) The aggregate of total liquid assets and total other allowable assets of the Dealer Member determined in accordance with Statement A of Form 1.

### 4. The General Notes and Definitions to Form 1

- (d) "**acceptable securities locations**" means those entities considered suitable to hold securities on behalf of a Member, for both inventory and client positions, without capital penalty, given that the locations meet the requirements outlined in the segregation bylaws, rules or regulations of the Joint Regulatory Bodies including, but not limited to, the requirement for a written custody agreement outlining the terms upon which such securities are deposited and including provisions that no use or disposition of the securities shall be made without the prior written consent of the Member and the securities can be delivered to the Member promptly on demand.

For London Bullion Market Association (LBMA) gold and silver good delivery bars, means those entities considered suitable to hold these bars on behalf of a Member, for both inventory and client positions, without capital penalty. These entities must:

- be a market making member, ordinary member or associate member of the LBMA;
- be on the SROs list of entities considered suitable to hold LBMA gold and silver good delivery bars; and
- have executed a written precious metals storage agreement with the Member, outlining the terms upon which such LBMA good delivery bars are deposited. The terms must include



provisions that no use or disposition of these bars shall be made without the written prior consent of the Member, and these bars can be delivered to the Member promptly on demand. The precious metals storage agreement must provide equivalent rights and protection to the Member as the standard securities custodial agreement.

The entities are as follows:

1. Depositories and Clearing Agencies

Any securities depositories or clearing agency operating a central system for handling securities or equivalent book-based entries or for clearing of securities or derivatives transactions that is subject to legislation and oversight by a central or regional government authority in the country of operation. The legislation or oversight regime must provide for or recognize the securities depository's or clearing agency's powers of compliance and enforcement over its members or participants. The Joint Regulatory Bodies will maintain and regularly update a list of those depositories and clearing agencies that comply with these criteria.

2. (a) Acceptable Institutions which in their normal course of business offer custodial security services; or

(b) Subsidiaries of Acceptable Institutions provided that each such subsidiary, together with the Acceptable Institution, has entered into a custodial agreement with the member containing a legally enforceable indemnity by the Acceptable Institution in favour of the Member covering all losses, claims, damages, costs and liabilities in respect of securities and other property held for the Member and its clients at the subsidiary's location.

3. Acceptable Counterparties - with respect to security positions maintained as a book entry of securities issued by the Acceptable Counterparty and for which the Acceptable Counterparty is unconditionally responsible.

4. Banks and Trust Companies otherwise classified as Acceptable Counterparties - with respect to securities for which they act as transfer agent and for which custody services are not being provided (in such case, a written custody agreement is not required).

5. Mutual Funds or their Agents - with respect to security positions maintained as a book entry of securities issued by the mutual fund and for which the mutual fund is unconditionally responsible.

6. Regulated entities.

7. Foreign institutions and securities dealers that satisfy the following criteria:

(a) the paid-up capital and surplus according to its most recent audited balance sheet is in excess of Cdn. \$150 million as evidenced by the audited financial statements of such entity;

(b) in respect of which a foreign custodian certificate has been completed and signed in the prescribed form by the Member's board of directors or authorized committee thereof;

provided that:

(c) a formal application in respect of each such foreign location is made by the Member to the relevant joint regulatory authority in the form of a letter enclosing the financial statements and certificate described above; and

(d) the Member reviews each such foreign location annually and files a foreign custodian certificate with the appropriate joint regulatory authority annually.



and such other locations which have been approved as acceptable securities locations by the Joint Regulatory Body having prime jurisdiction over the Member.

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(g) "**market value of securities**" means:

1. for listed securities, the last bid price of a long security and, correspondingly, the last ask price of a short security, as shown on the exchange quotation sheets as of the close of business on the relevant date or last trading date prior to the relevant date, as the case may be, subject to an appropriate adjustment where an unusually large or unusually small quantity of securities is being valued. If not available, the last sale price of a board lot may be used. Where not readily marketable, no market value shall be assigned.
2. for unlisted and debt securities, and precious metals bullion, 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.
3. for commodity futures contracts, the settlement price on the relevant date or last trading day prior to the relevant date.
4. for money market fixed date repurchases (no borrower call feature), the market price is the price determined by applying the current yield for the security to the term of maturity from the repurchase date. This will permit calculation of any profit or loss based on the market conditions at the reporting date. Exposure due to future changes in market conditions is covered by the margin rate.
5. for money market open repurchases (no borrower call feature), prices are to be determined as of the reporting date or the date the commitment first becomes open, whichever is the later. Market price is to be determined as in 4. and commitment price is to be determined in the same manner using the yield stated in the repurchase commitment.
6. for money market repurchases with borrower call features, the market price is the borrower call price.

## 5. The Notes and Instructions to Schedule 9 of Form 1

### SCHEDULE 9

#### NOTES AND INSTRUCTIONS

##### General

1. The purpose of this schedule is to disclose the largest ten issuer positions and precious metal positions that are being relied upon for loan value whether or not a concentration charge applies. **If there are more than ten issuer positions and precious metal positions where a concentration exposure exists, then all such ~~issuer~~ positions must be listed on the schedule.**
2. For the purpose of this schedule, an issuer position must include all classes of securities for an issuer (i.e. all long and short positions in equity, convertibles, debt or other securities of an issuer other





than debt securities with a normal margin requirement of 10% or less), a precious metal position must include all certificates and bullion of the particular precious metal (gold, platinum or silver) where:

- loan value is being extended in a margin account, cash account, delivery against payment account, receipt against payment account; or
  - an inventory position is being held.
3. Securities and precious metals that are required to be in segregation or safekeeping should not be included in the issuer position or precious metal position. Securities and precious metals that have been segregated, but are not required to be, can still be relied on by the Member for loan value, and must be included in the issuer position and precious metal position.
4. For the purpose of this schedule, an amount loaned exposure to “broad based index” (as defined in the General Notes and Definitions) positions may be treated as an amount loaned exposure to each of the individual securities comprising the index basket. These amount loaned exposures may be reported by breaking down the broad based index position into its constituent security positions and adding these constituent security positions to other amount loaned exposures for the same issuer to arrive at the combined amount loaned exposure.

To calculate the combined amount loaned exposure for each index constituent security position held, sum

- a. the individual security positions held, and
- b. the constituent security position held.

[For example, if ABC security has a 7.3% weighting in a broad based index, the number of securities that represents 7.3% of the value of the broad based index position shall be reported as the constituent security position.]

5. For the purpose of this schedule only, stripped coupons and residuals, [if they are held on a book based system, and are in respect of federal and provincial debt instruments], should be margined at the same rate as the underlying security.
6. For short positions, the loan value is the market value of the short position.

### **Client position**

7. (a) Client positions are to be reported on a settlement date basis for client accounts including positions in margin accounts, regular cash accounts [when any transaction in the account is outstanding after settlement date] and delivery against payment and receipt against payment accounts [when any transaction in the account is outstanding after settlement date]. Within each client account, security positions and precious metal positions that qualify for a margin offset may be eliminated.

(b) Positions in delivery against payment and receipt against payment accounts with Acceptable Institutions, Acceptable Counterparties, or Regulated Entities resulting from transactions that are outstanding less than ten business days past settlement date are not to be included in the positions reported. If the transaction has been outstanding ten business days or more past settlement **and** is not confirmed for clearing through an Acceptable Clearing Corporation or not confirmed by the Acceptable Institution, Acceptable Counterparty or Regulated Entity, then the position must be included in the position reported.



### **Firm's own position**

8. (a) Firm's own inventory positions are to be reported on a trade date basis, including new issue positions carried in inventory twenty business days after new issue settlement date. All security positions that qualify for a margin offset may be eliminated.
- (b) The amount reported must include uncovered stock positions in market-maker accounts.

### **Amount Loaned**

9. The client and firm's own positions reported are to be determined based on the combined client/firm's own long or short position that results in the largest amount loaned exposure.
  - (a) To calculate the combined amount loaned on the long position exposure, combine:
    - the loan value of the gross long client position (if any) contained within client margin accounts;
    - the weighted market value (calculated pursuant to the weighted market value calculation set out in Schedule 4, Note 9, Cash Accounts Instruction (a)) and/or loan value (calculated pursuant to the loan value calculation set out in Schedule 4, Note 9, Cash Accounts Instruction (b)) of the gross long client position (if any) contained within client cash accounts;
    - the market value (calculated pursuant to the market value calculation set out in Schedule 4, Note 9, DAP and RAP Accounts Instruction (a)) and/or loan value (calculated pursuant to the loan value calculation set out in Schedule 4, Note 9, DAP and RAP Accounts Instruction (b)) of the gross long client position (if any) contained within client delivery against payment accounts; and
    - the loan value (calculated pursuant to the Notes and Instructions to Schedule 2) of the net long firm's own position (if any).
  - (b) To calculate the combined amount loaned on the short position exposure, combine
    - the market value of the gross short client position (if any) contained within client margin, cash and receipt against payment accounts; and
    - the market value of the net short firm's own position (if any).
  - (c) If the loan value of an issuer position [or a precious metal position](#) (net of issuer securities [or precious metal position](#) required to be in segregation/safekeeping) does not exceed one-half (one-third in the case of an issuer position [or precious metal position](#) which qualifies under either Note 10(a) or 10(b) below) of the sum of the Member's Risk Adjusted Capital before securities concentration charge and minimum capital (Stmt. B, line 4) as most recently calculated, the completion of the column titled "Adjustments in arriving at Amount Loaned" is optional. However, nil should be reflected for the concentration charge.
  - (d) In determining the amount loaned on either a long, or short position exposure, the following adjustments may be made:
    - (i) Security positions [and precious metal positions](#) that qualify for a margin offset may be excluded, as previously discussed in notes 7(a) and 8(a);
    - (ii) Security positions [and precious metal positions](#) that represent excess margin in the client's account may be excluded. (Note if the starting point of the calculations is securities [or precious metal positions](#) not required to be in segregation/safekeeping, this deduction has already been included in the loan value calculation of Column 6.);



- (iii) In the case of margin accounts, 25% of the market value of long positions in any: (a) non-marginable securities or, (b) securities with a margin rate of 100%, in the account may be deducted from the amount loaned calculation, provided that such securities are carried in readily saleable quantities only;
  - (iv) In the case of cash accounts, 25% of the market value of long positions in any securities whose market value weighting is 0.000 (pursuant to Schedule 4, Note 9, Cash Accounts Instruction (a)) in the account may be deducted from the amount loaned calculation, provided that such securities are carried in readily saleable quantities only;
  - (v) The amount loaned values of trades made with financial institutions that are not Acceptable Institutions, Acceptable Counterparties or Regulated Entities, if the trades are outstanding less than 10 business days past settlement date, and the trades were confirmed on or before settlement date with a settlement agent that is an Acceptable Institution may be deducted from the amount loaned calculation; and
  - (vi) Any security positions [or precious metal positions](#) in the client's (the "Guarantor") account, which are used to reduce the margin required in another account pursuant to the terms of a guarantee agreement, shall be included in calculating the amount loaned on each security for the purposes of the Guarantor's account.
- (e) Amount Loaned is the position exposure (either long or short) with the largest calculated amount loaned.

### **Concentration Charge**

10. (a) Where the Amount Loaned reported relates to securities issued by
- (i) the Member, or
  - (ii) a company, where the accounts of a Member are included in the consolidated financial statements and where the assets and revenue of the Member constitute more than 50% of the consolidated assets and 50% of the consolidated revenue, respectively, of the company, based on the amounts shown in the audited consolidated financial statements of the company and the Member for the preceding fiscal year and the total Amount Loaned by a Member on such issuer securities exceeds one-third of the sum of the Member's Risk Adjusted Capital before securities concentration charge and minimum capital (Stmt. B, line 4), as most recently calculated, a concentration charge of an amount equal to 150% of the excess of the Amount Loaned over one-third of the sum of the Member's Risk Adjusted Capital before securities concentration charge and minimum capital (Stmt. B, line 4) is required unless the excess is cleared within five business days of the date it first occurs. For long positions, the concentration charge as calculated herein shall not exceed the loan value of the issuer security(ies) for which such charge is incurred.
- (b) Where the Amount Loaned reported relates to non-marginable securities of an issuer held in a cash account(s), where loan value has been extended pursuant to the weighted market value calculation set out in Schedule 4, Note 9, and the total Amount Loaned by a Member on such issuer securities exceeds one-third of the sum of the Member's Risk Adjusted Capital before securities concentration charge and minimum capital (Stmt. B, line 4), as most recently calculated, a concentration charge of an amount equal to 150% of the excess of the Amount Loaned over one-third of the sum of the Member's Risk Adjusted Capital before securities concentration charge and minimum capital (Stmt. B, line 4) is required unless the excess is cleared within five business days of the date it first occurs. For long positions, the concentration charge as calculated herein shall not exceed the loan value of the issuer security(ies) for which such charge is incurred.



- (c) Where the Amount Loaned reported relates to arm's length marginable securities of an issuer (i.e., securities other than those described in note 10(a), or 10(b)) or a precious metal position, and the total Amount Loaned by a Member on such issuer securities or precious metal position exceeds two-thirds of the sum of the Member's Risk Adjusted Capital before securities concentration charge and minimum capital (Stmt. B, line 4), as most recently calculated, a concentration charge of an amount equal to 150% of the excess of the Amount Loaned over two-thirds of the sum of the Member's Risk Adjusted Capital before securities concentration charge and minimum capital (Stmt. B, line 4) is required unless the excess is cleared within five business days of the date it first occurs. For long positions, the concentration charge as calculated herein shall not exceed the loan value of the issuer security(ies) or precious metal position for which such charge is incurred.
- (d) Where:
- (i) The Member has incurred a concentration charge for an issuer position under either note 10(a) or 10(b) or 10(c); or
  - (ii) The Amount Loaned by a Member on any one issuer (other than issuers whose securities may be subject to a concentration charge under either Note 10(a) or 10(b) above) or a precious metal position exceeds one-half of the sum of the Member's Risk Adjusted Capital before securities concentration charge and minimum capital (Stmt. B, line 4), as most recently calculated; **and**
  - (iii) The Amount Loaned on any **other issuer** or precious metal position exceeds one-half (one-third in the case of issuers whose securities may be subject to a concentration charge under either Note 10(a) or 10(b) above) of the sum of Risk Adjusted Capital before securities concentration charge and minimum capital (Stmt. B, line 4); **then**
  - (iv) A concentration charge on such other issuer position or precious metal position of an amount equal to 150% of the excess of the Amount Loaned on the **other issuer** or precious metal position over one-half (one-third in the case of issuers whose securities may be subject to a concentration charge under either Note 10(a) or 10(b) above) of the sum of the Member's Risk Adjusted Capital before securities concentration charge and minimum capital (Stmt. B, line 4) is required unless the excess is cleared within five business days of the date it first occurs. For long positions, the concentration charge as calculated herein shall not exceed the loan value of the security(ies) or precious metal position for which such charge is incurred.
- (e) For the purpose of calculating the concentration charges as required by notes 10(a), 10(b), 10(c) and 10(d) above, such calculations shall be performed for the largest five issuer positions and precious metal positions by Amount Loaned in which there is a concentration exposure.

#### **Other**

11. (a) Where there is an over exposure in a security or a precious metal position and the concentration charge as referred to above would produce either a capital deficiency or a violation of the Early Warning Rule, the Member must report the over exposure situation to the appropriate Joint Regulatory Body on the date the over exposure first occurs.
- (b) A measure of discretion is left with the Joint Regulatory Bodies in dealing with the resolution of concentration situations, particularly as regards to time requirements for correcting any over exposure, as well as whether securities or precious metal positions are carried in "readily saleable quantities".



**6. Note 3 of the Notes and Instructions to Schedule 10 of Form 1**

3. Net equity for each client is the total value of cash, ~~and securities~~ securities, and other acceptable property owed to the client by the Member less the value of cash, ~~and securities~~ securities, and other acceptable property owed by the client to the Member. In determining net equity, accounts of a client such as cash, margin, short sale, options, futures, foreign currency and Quebec Stock Savings Plans are combined and treated as one account. Accounts such as RRSP, RRIF, RESP, Joint accounts are not combined with other accounts and are treated as separate accounts. Other acceptable property means London Bullion Market Association good delivery bars of gold and silver bullion that are acceptable for margin purposes as defined in Dealer Member Rule 100.2(i)(ii).

Net equity is determined on a client by client basis on either a settlement date basis or trade date basis. Schedule 10 Part A line 1(a) is the aggregate net equity for each client. Negative client net equity, (i.e. total deficiency in net equity owed to the Member by the client) is not included in the aggregate.

For Schedule 10, guarantee/guarantor agreements should not be considered in the calculation of net equity.

The Client Net Equity calculation should include all retail and institutional client accounts, as well as accounts of broker dealers, repos, loan post, broker syndicates, affiliates and other similar accounts.